



Office of the
Quartet

OFFICE OF THE QUARTET (OQ)

Report to the *Ad Hoc* Liaison Committee

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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
BOQs – Bill of Quantities
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
EUR- Euro
G4G – Gas for Gaza (project)
GABC – The Palestinian General Administration for Borders and Crossings
GDP – Gross Domestic Product
GCDP & AW – Gaza Central Desalination Plant and Associated Works
GEDCO – Gaza Electricity Distribution Company
GoI – Government of Israel
GoJ – Government of Jordan
GPP – Gaza Power Plant
IDF – Israel Defense Forces
ICA – Israeli Civil Administration
IEC – Israel Electric Corporation
IMF – International Monetary Fund
IPR- Intellectual Property Rights
IsDB – Islamic Development Bank
ITIL – Information Technology Infrastructure Library
ITU – International Telecommunications Union
JDECO – Jerusalem District Electricity Company
JPP – Jenin Power Plant
JWC – Joint Water Committee
KAS – Karem Abu Salem / Kerem Shalom
KFW- German State-Owned Development Bank
l/c/d- Liter per capita per day
MCM – Million cubic meters
MoC – Israeli Ministry of Communications
MoF – Ministry of Finance
Mol – Ministry of Interior
MTIT – Palestinian Ministry of Telecommunication and Information Technology
MW – Megawatt
NGEST—Northern Gaza Emergency Sewage Treatment
NWC – National Water Company
O&M – Operation and Maintenance
OQ – Office of the Quartet

PA – Palestinian Authority
PASF – Palestinian Authority Security Forces
PDMP – Palestinian Market Development Programme (joint DFID/EU program)
PENRA – Palestinian Energy and Natural Resources Authority
PETL – Palestinian Electricity Transmission Company Ltd.
PIF – Palestine Investment Fund
PMO – Palestinian Prime Minister’s Office
PPA – Power Purchase Agreement
PPGC – Palestinian Power Generation Company
PSA – Power Sales Agreement
PV – Photovoltaics
PWA – Palestinian Water Authority
RSDS – Red Sea-Dead Sea Agreement
SDI – Spatial Data Infrastructure initiative
STLV – Short-Term Low-Volume Desalination Plant
UNCTAD – United Nations Convention on Trade and Development
UNDP – United Nations Development Programme
UNFCCC – United Nations Framework Convention on Climate Change
USAID – United States Agency for International Development
USD – United State Dollars
USG – United States Government
USSC – United States Security Coordinator
VAT – Value-added Tax (goods and services tax)
WB – World Bank
WWTP – Wastewater Treatment Plant

Foreword

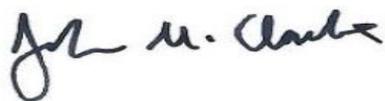
This report was originally prepared in advance of what was to be the 1 April 2020 meeting of the *Ad Hoc* Liaison Committee (AHLC) hosted by the European Union in Brussels. That meeting was postponed as a result of the coronavirus pandemic, which has brought global disruption, grief, financial hardship and an increased sense of uncertainty to all of our lives. In the absence of that meeting, Norwegian Foreign Minister Ine Eriksen Sørreide, Chair of the AHLC, issued a statement on 3 April which provided an update on the Palestinian response to the coronavirus as well as a series of recommendations for donors and the parties.

While addressing the immediate health and humanitarian impacts of the crisis sits outside of the Office of the Quartet's core role, we have sought to prioritise those areas of our work which can contribute to supporting the 'frontline' response. These include ensuring the continued provision of clearance revenue, prioritising water and energy work that can help ensure the continued delivery of critical services and thereby public health, and seeking to support the Palestinian Authority (PA) in their efforts to mitigate and respond to the economic impact of COVID-19, including the provision of surge capacity in key PA institutions.

Beyond our efforts to contribute to the immediate response, many have also come to understand that in the medium term, the sectors in which we work – movement and trade, rule of law, energy, water and telecommunications – will be central in supporting both public health and economic recovery, and will therefore be critical in ameliorating the worst medium-term effects of the crisis. It is for that reason, and following consultation with Norway, the Chair of the AHLC, that we have decided to issue this report without major alterations to the main body, but with this explanatory foreword intended to provide the necessary context for what follows.

While the COVID-19 pandemic has only added to the daily challenges faced by both parties, we must ensure that we continue to aim not only to support Palestinians in their efforts to recover from the current situation, but indeed to better their lives in a sustainable manner. This report therefore represents an attempt to continue and accelerate progress in critical medium to long-term work that will support the parties and the international community in achieving that objective.

John N. Clarke



Head of Mission

Office of the Quartet

Executive Summary

This report focuses on identifying progress achieved since the September 2019 report to the *Ad Hoc* Liaison Committee (AHLC) and the critical next steps required in order to achieve the short, medium and long-term objectives which, in combination, have the potential to result in the transformational change that is needed in both the West Bank and Gaza. This report covers the period up to mid-March 2020, although more recent significant developments are detailed where appropriate.

In the water sector, funding for the Gaza Central Desalination Plant and Associated Works Program (GCDP & AW) has been fully secured, and donors continue disbursing pledges. This marks an important step in the realization of the program, which will provide 55 million cubic metres (MCM) of potable water to Gaza by 2025. Construction of the Associated Works continued over this reporting period, though some delays were experienced in material entry. The procurement process for the desalination plant is underway. Further, progress was seen with the completion of construction of the Gaza and Middle Area Wastewater Treatment Plant (WWTP) and construction has advanced in the expansion of the Southern Short-Term Low Volume Desalination Plant (STLV), albeit with an anticipated delay in completion. Operations continue at differing levels for the remaining WWTPs and STLVs in Gaza. Progress was made in the implementation of Prime Minister Shtayyeh's decision to energize these facilities, with the conclusion of two Memoranda of Understanding (MoU) for energizing the Gaza City STLV and the Khan Younis WWTP. Nonetheless, challenges continue in securing sufficient energy supplies for these facilities and recovering costs to enable their full operation. Progress was realized in advancing transitional governance measures in Gaza towards the establishment of a Bulk Water Supply Unit, which is an important step in ensuring a more sustainable water sector. Further governance measures are needed to ensure longer-term commercial viability of the sector. In the short-term, financial support is needed for the operation and maintenance costs for WWTPs and STLV facilities in Gaza until cost-recovery efforts reach their full potential (see Annex A). In the West Bank, while some progress was realized on a few wastewater projects, the Palestinian Water Authority (PWA) delayed the timeline for implementation of their Water and Wastewater Packages due to a significant funding shortfall of 468 million USD, acquiring the needed approvals from the Government of Israel (GoI), and the PA fiscal crisis. Extensive details were provided on the required efforts in the West Bank in the [OQ's report to the AHLC in September 2019](#). Again, efforts to improve the commercial viability of the sector are essential for sustaining services in the West Bank. In this regard, the PA cabinet advanced a decision to transfer property tax and transportation fees to service providers who pay water and electricity bills. No further progress was achieved in this reporting period on Red Sea-Dead Sea discussions. The parties are commended on their commitment to participating in the Trilateral discussions and subsequent technical discussions on Palestinian groundwater utilization, water supply, infrastructure development, and transboundary wastewater management. No increases in water supply to the West Bank were realised with supply falling further behind demand.

In the energy sector, the Gaza for Gaza project (G4G), a central component of the broader structural solution for Gaza, continued to make progress and will support the planned expansion of the power plant to 600 MW, while leaving additional supply for other users. Bids for the detailed design of the pipeline in Gaza were received and a request for proposals for the Environmental and Social Impact Assessment was recently issued. Reaching commercial agreements and securing financing remain essential next steps to ensure that gas can be supplied in 2023. In the medium term, the construction of a 161 kV line from Israel to Gaza could add approximately 100 MW to Gaza's power supply. Rehabilitation of the Egyptian lines would allow the 27 MW supply to resume, while future upgrades could enable imports of up to 100 MW. In addition, an agreement was signed in January 2020 that will

enable a total of 80 MW of electricity imports from Jordan to the West Bank. These initiatives will help improve the electricity sector's financial sustainability by displacing medium voltage imports with high voltage imports that have a lower tariff and lower system losses. The Office of the Quartet (OQ), in cooperation with the PA, completed a pre-feasibility study of five potential solar photovoltaic (PV) sites at three separate locations in Gaza in 2019. Based on this work, initial funding from Norway will allow the development of the first phase of a solar PV facility with a capacity of 1.3 MW at a site adjacent to the Khan Younis WWTP, supporting the plant's electricity requirements. To support progress on the remaining solar sites, the OQ has been working with the relevant PA ministries to identify and secure approval from the landowners for project development. In the West Bank, despite the January 2020 debt repayment of 670 million NIS from JDECO to the Israel Electric Corporation (IEC), the energization of three substations continues to be delayed. Once energized, this will increase the share of high voltage supply and reduce the accrual of additional electricity debt.

In telecom, the Joint Technical Committee (JTC) reconvened several times in the last quarter of 2019 and the first quarter of 2020, which is a welcome development. Progress was realized with the parties' exchange of proposals for Palestinian development of 4G and 5G spectrum and the revision and passage of Resolution 12 during the International Radiocommunications Conference in November 2019. The timely agreement between the parties on the allocation and timeline for implementation of 4G and 5G frequencies for Palestinian operators is encouraged, considering the timeline for the shortly anticipated award of the 5G bid in Israel.

The outbreak of the COVID-19 pandemic has further focused attention on the need to resolve the outstanding financial files between the parties. The PA Ministry of Finance (MoF) is projecting a budget deficit of 1.4 billion USD, which will result primarily from a 35-45 per cent projected decrease in the clearance revenue transfers that make up almost 60 per cent of the PA's total budget. We encourage the current dialogue between the PA and Gol that will, upon completion, allow the PA to ensure a fiscal floor of 500 million NIS per month for the clearance revenue budgetary portion. While the fiscal floor will add stability to the PA fiscal management (i.e. increased certainty in meeting its minimum financial obligations in the coming period), it will not solve the fiscal crisis. To maintain current levels of revenues, three elements need to be addressed in the immediate term. First, outstanding monies that are due to the PA should be released, including, *inter alia*, VAT on goods imported to Gaza and Allenby Bridge crossing exit fees. Second, the 3 per cent handling fee should be waived or at a minimum significantly reduced, and PA fuel purchases should be exempted from excise and other taxes. Third, in parallel, discussions on a number of long-standing fiscal files which including E-VAT and labour deductions should continue in accordance with an established agenda and timetable to expedite their resolution. In addition, there is a need to finalise the draft agreement on the transfer of customs authority to the PA. Following a renewed commitment by the Gol in the September 2019 AHLC meeting to the transfer of customs authority to the PA, January 2020 saw the parties renew discussions with the aim of concluding an agreement.

In the security sector, the level of security cooperation between the parties increased to face the COVID-19 pandemic, as demonstrated by faster coordination between the sides and access of PA security to areas affected by the pandemic. Further effort is now needed to improve law enforcement in areas such as the suburbs of Jerusalem outside the separation wall.

Economic growth and job creation in the Palestinian market requires the expansion and facilitation of trade, both locally and internationally. In this vein, and to improve the cost-effective movement of goods, the door-to-door (D2D) program between the West Bank and Israel has continued to expand and efforts are now underway to create a similar type of program for trade with and via Jordan. A D2D-type procedure at Allenby/King Hussein bridge (A/KHB), especially for bulk material such as

cement and plastics, has the potential to significantly increase the competitiveness of Palestinian products and with it the export potential to third markets. In addition, standards-related import impediments and associated delays at Israeli ports continue to add avoidable costs to productive inputs and outputs thereby reducing the competitiveness of Palestinian goods. The parties continue to work to address this issue, and next steps can build on the improved capacity of the Palestinian Standards Institute (PSI) to carry out relevant inspections and testing functions. The operation of A/KHB for 24-hours/five days a week is benefitting Palestinians, especially those travelling onwards via Amman Airport. Processing at A/KHB, as well as other international gateways, would be further enhanced by Israel enabling the PA to issue biometrically-enabled travel documents. While the situation in Gaza remains dire and the restoration of private sector activity challenging, the progress made in facilitating the export of processed foods from Gaza is an encouraging step that can be expanded upon. Additionally, significant progress was made towards the funding of the Karem Abu Salem/Karem Shalom (KAS) upgrading project. The project, which is expected to reduce costs for Palestinian businesses and improve the quality of perishable goods entering and exiting Gaza, is now almost fully funded and may conceivably commence before the end of this year.

Introduction

1. Realizing progress on the ground now will benefit Palestinians and Israelis and has the potential to support, but never supplant, final status negotiations which aim to achieve an enduring peace agreement. This report focuses on identifying progress achieved and the critical next steps required in order to achieve the short, medium and long-term objectives which, in combination, have the potential to result in the transformational change that is needed in both the West Bank and Gaza. In the immediate term, addressing urgent humanitarian needs, particularly in the Gaza Strip, remains essential, while work continues to achieve longer-term structural progress. In parallel, addressing longer-term issues related to the transfer of Palestinian clearance revenue from Israel remains critical if the PA is to maintain fiscal stability.
2. The OQ's work is outlined in its Strategy 2018-2020, which has benefited from consultation with the parties, Quartet members as well as the donors to the Office (the Kingdom of the Netherlands, the United Kingdom, the European Union, the United States of America, Canada, New Zealand and Japan). At the time of writing, the Office was in the process of developing its three-year strategy for 2021-2023.
3. This report provides updates in each of the OQ's areas of work: water, energy, telecom, governance and rule of law, movement and trade, as well as economic mapping. In general, it covers the period up to mid-March 2020, although more recent significant developments are also detailed where appropriate.

Water

4. Access to water is an essential humanitarian need and a foundation for economic development. Water supply in the West Bank and Gaza remains far below demand, adversely impacting critical sectors such as agriculture and health, as well as the livelihoods of Palestinians. Updates on the status of the sector, and areas where progress has been achieved or regrettably delayed, are outlined in the section below.

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

5. The reporting period has seen ongoing progress in the GCDP & AW program, which will provide 55 million cubic meters (MCM) of potable water to Gaza by 2025. In particular:
 - a. The funding required for the GCDP & AW has been fully secured.¹ Further, the World Bank approved the disbursement of funds in February 2020, and the Islamic Development Bank (IDB) created a Trust Fund and requested the Arab countries to replenish their pledges. Both steps are welcome milestones for the program. **Donors are encouraged to continue to disburse these funds to enable further progress in tendering and construction.**
 - b. Progress continues in the construction of the first component of the AW,² funded by the Government of Kuwait, including construction of a connection point which will

¹ The funding gap was closed following the European Union's willingness to bridge the remaining funding gap (as announced in September 2019 by former High Representative Mogherini, European Commission). The door remains open for others to join.

² Additional Water Supply Network Improvement Works - Middle + Khan Younis

immediately enable the supply of an additional 5 MCM of potable water.³ Construction has seen considerable progress, although due to some delays in material entry, construction completion is now delayed to December 2020. While most of the needed materials have been approved, the approval of critical chemicals and an additional list of ‘dual-use’ materials remains pending. **The Gol is encouraged to issue the remaining approvals for the entry of the program’s materials and communicate the outstanding donation number⁴ to enable completion of this infrastructure.** Due to tendering challenges with the Southern Main Carrier system covering Rafah and Khan Younis (also Kuwaiti funded), the PWA is preparing to retender this package. Furthermore, the PWA is finalizing the financing arrangements with both the World Bank and KfW to enable launching the procurement process of two more components of the AW, which would enable construction to begin by autumn 2020 and early 2021, respectively.⁵ Meanwhile, procurement for the desalination plant is currently underway, and it is expected that two bidders will be selected in Q4 2020 to develop a detailed design for this infrastructure as part of the *Alliance Approach* for tendering.⁶

- c. The GCDP Task Force met on 5 March 2020, where progress in the discussions was realized.⁷ The Coordination of Government Activities in the Territories (CoGAT) confirmed its approval of all telecommunication materials for the AW. Once procurement of these materials begins, coordination for import can be finalized. Furthermore, the parties signed meeting minutes from the 13 June 2019 meeting which identify arrangements that ensure an effective and transparent mechanism for material entry and monitoring for the program and reached an agreed draft of the 5 March 2020 meeting minutes. **The parties are encouraged to sign the 5 March 2020 meeting minutes.** Arrangements to enable material entry and works in the sea have yet to be finalised, although the Gol’s communication of a draft letter to the PWA is welcome. **The Gol is encouraged to finalize this letter and communicate it with the members of the GCDP Task Force.**

³ The total capacity of the connection point that is currently under construction is 15 MCM, which will enable the absorption of the existing 5 MCM of supply from Mekorot and 5 MCM of Red Sea Dead Sea (RSDS) quantities. It will also enable the supply of additional quantities (5 MCM) from Mekorot, if the PWA’s request for additional quantities is approved by Gol. In a letter from August 2018, the Coordinator of Government Activities in the Territories (CoGAT) confirmed that construction on the Israeli side will be complete once the works in Gaza are finalized and also confirmed its readiness to immediately supply 5 MCM as soon as the connection is ready.

⁴ A donation number is required for customs and tax exemptions for materials imported to the Ashdod Port. This donation number needs to be communicated to Gol’s Tax Authority in order to release materials and equipment from the port, once imported.

⁵ KfW will fund the Water Distribution Network Reconfiguration - (Gaza & North Gov.); the World Bank will fund the Water Distribution Network Reconfiguration (Middle and South).

⁶ The *Alliance Approach* for tendering would enable two short-listed candidates to submit bid offers inclusive of detailed designs and Bill of Quantities (BOQs). This approach envisions a consultative process with the relevant authorities in the Government of Israel (Gol) in order to ensure that at the conclusion of the procurement process, the selected contractor will be able to acquire the approvals required from Gol.

⁷ The Task Force for the Gaza Central Desalination Plant and Associated Works, facilitated by the Office of the Quartet (OQ), includes the following permanent members: Palestinian Water Authority (PWA), Coordinator of Government Activities in the Territories (CoGAT), the World Bank, the European Union, and the OQ. The Task Force is the primary platform for sharing information, advancing approvals for material entry, and discussing challenges relevant to the Program’s implementation.

Operationalization of water and wastewater infrastructure

6. Over the reporting period, there has been some progress in the construction and energization of a number of key water and wastewater facilities in Gaza, although in other cases there has been less progress than expected:
- a. The Northern Gaza Emergency Sewage Treatment Plant (NGEST) continues to operate with an average of 22 hours/day from the electricity grid and two hours/day from diesel generation. The funding pledged from IrishAid through Agence Française de Développement (AfD) for a 7.6 MW renewable energy scheme, which is currently under tendering preparation, is welcome, as is CoGAT's approval for the use of the Access Restricted Area (ARA) for this purpose. Meanwhile, the tender for the first phase of the facility's reuse scheme was published in January 2020 and is expected to conclude in May 2020 following the funding contribution by the Green Climate Fund for this program through AfD. **The PWA, AfD and the Green Climate Fund's commitment to advancing this reuse scheme is welcome and presents an opportunity to demonstrate the feasibility of utilizing non-conventional water resources for irrigation across Gaza and the West Bank.**
 - b. Construction of the Gaza and Middle Area Wastewater Treatment Plant (WWTP), which was expected to be completed by December 2019, was delayed due to challenges with the entry of critical materials. Construction was completed in mid-March 2020, which is a welcome achievement for the sector. The start of the plant's commissioning period, which was expected to take place in March 2020, has been delayed until travel restrictions amidst the COVID-19 crisis are lifted for international experts who are needed to launch commissioning. Once this facility is complete it will be energized from the electricity grid for the first six months, based on technical arrangements between PWA and GEDCO, after which it will be fully supplied by renewable energy.
 - c. The Khan Younis WWTP has been operating with electricity supply of 24 hours/day since September 2019; however, the facility is not yet operating at full capacity. This is because the main sewage pumping station requires upgrading in order to pump the collected water from Khan Younis and Beni Sohaila and there are a limited number of household wastewater connections in the area.⁸ The MoU signed between the Palestinian Energy and Natural Resources Authority (PENRA) and the PWA to enable energization of the facility is welcome, as is Norway's commitment of 2.3 million USD to fund a 1.3 MW solar photovoltaic (PV) system for the facility. The United Nations Development Programme (UNDP) released a request for proposals to design an estimated 7 MW PV system for the Khan Younis WWTP on 20 February 2020. **Donors are encouraged to contribute the outstanding funding gap of approximately 5 million USD to enable the expansion of this PV plant by a further 5.7 MW, allowing the WWTP to operate on renewable energy. In particular, the Kuwaiti Fund for Development is encouraged to consider reallocating the remaining funds from their contribution to the construction of the WWTP towards this solar PV plant, as well as towards increasing wastewater network connections in the Khan Younis area.**
 - d. Construction of the Phase II and III expansions of the Southern Short-Term Low-Volume (STLV) desalination plant are underway with some delays extending the expected completion date to early 2021. The existing Southern STLV facility continues to operate

⁸ As of 15 March 2020, the facility is treating 13,000 m³/day.

for eight hours/day on the electricity grid cycle in line with the 2017 agreement between GEDCO and the PWA. A dedicated electricity line is under construction to enable 24-hour electricity supply.

- e. Since August 2019, the Gaza City STLV desalination plant has been operating for two hours/day on diesel generators due to contractor-related delays in the construction of an electricity line for the facility. The line was successfully completed and tested in January 2020. While the line currently operates for eight hours/day, it could provide 24 hours/day of electricity supply to the facility once an agreement is reached between PENRA and the PWA.
 - f. The Deir al-Balah (Phase I) STLV is operating for six-to-eight hours/day based on the electricity grid cycle and the expansion (Phase II) of the facility is only operated manually for two hours/day due to ongoing challenges with the Programmable Logic Control (PLC) system. **Donors are encouraged to contribute funding of 100,000 USD in order to assess and resolve challenges with the PLC system to enable automatic operation of the facility based on grid-supplied electricity.**
 - g. The PWA is currently exploring the possibility of developing solar PV in the ARA in the north of Gaza to serve water and wastewater facilities across the Gaza Strip. **CoGAT is encouraged to provide the approval for the use of the ARA for these purposes. The PWA, PENRA, and GEDCO are encouraged to advance arrangements to secure reliable and sufficient energy supplies to ensure full operation of all STLVs. Donors are also encouraged to consider supporting the development of renewable energy facilities for water and wastewater facilities in Gaza.**
7. Operation of all six of these facilities requires both securing adequate funds to cover costs as well as effective governance structures to oversee sustainable operations. Extensive analysis on the cost estimates for operating these facilities was developed by the PWA, the Coastal Municipality Water Utility (CMWU) and the OQ as a basis for discussion in the Gaza Water Thematic Group.⁹ **Donors are encouraged to bridge the outstanding gap to enable the operation of these facilities in the short-term, as identified in Annex A.** The funding gap for operation and maintenance (O&M) is particularly concerning considering that full operation of water facilities could triple the availability of potable water in Gaza immediately if fully energized from the grid, as at least two of these facilities have been underutilized for an average of two years. With the COVID-19 crisis, the PWA prioritized the operation of these facilities in its emergency response plan. The PWA included the core component of STLV operational costs and chemical materials as amongst the emergency items needed in Gaza's emergency funding request.
- a. Most urgently, additional financial support is needed for NGEST as funding from AfD for operational costs ended in February 2020. The facility has since been operating using chemicals in storage which will be enough to operate the facility through mid-May. The World Bank's interest in supporting O&M, which could begin in July 2020, is welcome. Nonetheless, **donors are urgently encouraged to contribute to the operation of this facility in the short-term, until the World Bank funding becomes available.**

⁹ The Gaza Water Thematic Group of the Water Sector Working Group was established to improve coordination and harmonization of efforts between PWA and international development partners in relation to the implementation of water sector strategic and humanitarian plans in Gaza. Members of the working group include: PWA, World Bank, AFD, NRO, KFW, EU, OQ, UNOPS, UNICEF, ADA, DFID, CMWU, and LACS.

- b. **Until the funding from the World Bank and KfW is available for O&M of STLVs in 2021, donors are encouraged to bridge the critical funding gap of 952,000 USD for these facilities in 2020. This is the minimum amount needed to enable operations of these facilities at approximately 50 per cent capacity until funding for O&M, plans for cost-recovery, and full energization of the facilities are in place.**
 - c. **Further, efforts to advance municipalities' contributions to the operation of five of these facilities is encouraged.**¹⁰ In this regard, Khan Younis Municipality's expressed willingness to contribute six support staff to the operation of the Khan Younis WWTP as part of a cost-settlement between the municipality and CMWU is welcome. **Both CMWU and Khan Younis Municipality are encouraged to deploy the required staff to the facility in order to receive training from the contractor.**
8. In parallel to the analysis on O&M costs (paragraph 6), the PWA developed an action plan that identifies the steps needed to enable proper and timely operationalization of these facilities. The plan highlights the necessary governance arrangements required to enable full operationalization, mapped out over the immediate, medium and long-term. In addition, it identifies key requirements including the need to secure immediate funds and the need to progress commercial and energization enablers to achieve full cost recovery by 2024. The plan was presented to the Gaza Water Thematic Group in January 2020. It is a living document that will be updated regularly and aims to identify needed interventions and implementation partners. As one of the immediate governance measures to enable full operationalization, the PWA and CMWU signed an agreement on 6 February 2020 whereby CMWU was delegated responsibility to manage and operate the three STLVS and distribute water to beneficiaries as a transitional arrangement until the Bulk Water Supply Unit (BWSU) is established. This temporary arrangement is welcome. The establishment of the BWSU is expected to be realized within the World Bank's Water Security Development program, announced in February 2020. **The advancement of such a program is welcome and the PWA is encouraged to continue making progress towards establishing the BWSU which will operate all bulk supply facilities by 2021 and will be the core of the National Water Company in Gaza.**¹¹
9. Advancing the water sector reform agenda is an opportunity to address critical issues related to maintaining sustainable financial revenues to allow service providers to operate. As water and sanitation revenues form a large portion of municipal revenues, they are often used to fund other municipal services. In addition, many service providers do not pay their bulk water bills, which exacerbates cost recovery challenges in the sector. Furthermore, the PA's Ministry of Finance (MoF) currently collects property tax and transportation fees on behalf of municipalities. This revenue is often partially or fully withheld by the MoF to settle accrued municipal debts. The combination of low cost-recovery and the failure to ring-fence water revenues results in a 70 million USD annual burden on the PA's finances.¹² In November 2019, the PA Cabinet issued a decision to transfer the full amount of property tax and transportation fees collected by the MoF to municipalities in exchange for commitments by municipalities to improve internal water-related accounting and management systems and timely water and energy bill payments. This

¹⁰ As illustrated in Table 1, funding for the Gaza Middle WWTP is not needed until after 2023.

¹¹ The 2014 Water Law, which sets out arrangements to enable Palestinian water sector reform, calls for the establishment of a National Water Company, Regional Water Utilities, and Water Sector Regulatory Council, while continuing the involvement of the Palestinian Water Authority as the policy-making institution.

¹² Palestine Ministry of Finance, 2016 in "Towards Water Security for Palestinians, WB & Gaza WASH poverty diagnostic" World Bank, May 2017

decision, which encourages municipalities to decrease their accumulated debts while increasing their collection rates and water services-related revenues, is a welcome step. **The PWA, in coordination with adjacent authorities and institutions, is encouraged to advance efforts to implement this cabinet decision by identifying a selection of service providers or a group of service providers to utilize such incentives. Donors are encouraged to support the PWA in these efforts which will build towards the establishment of Regional Water Utilities.**

Red Sea Dead Sea (RSDS) agreement

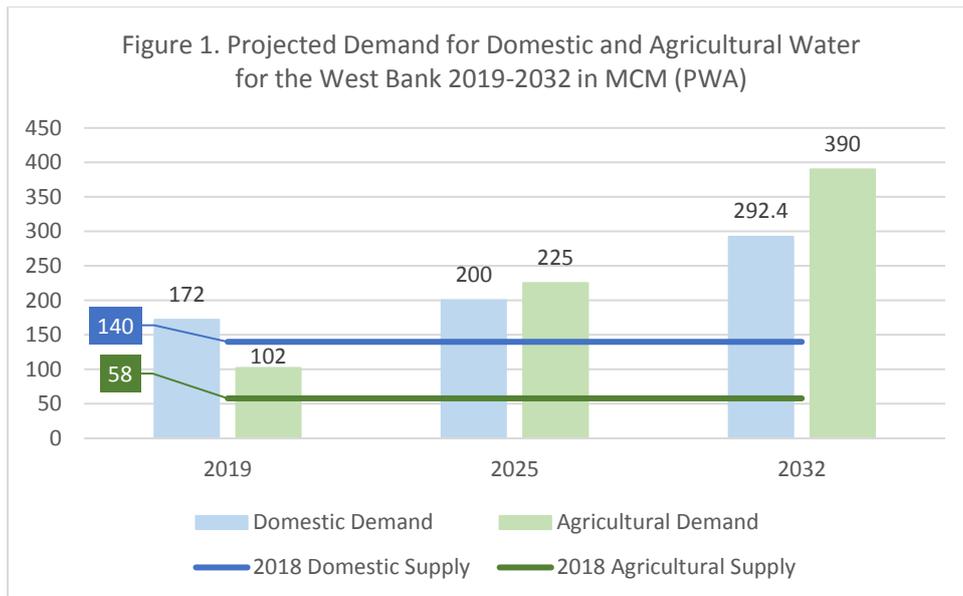
10. Progress in advancing the RSDS agreement has unfortunately been frozen since April 2019 when the GoI agreed to develop a new draft of the agreement based on the issues bridged at the time and the PWA agreed to propose new options for the outstanding issues. **The parties are encouraged to finalize a reliable agreement based on international practice in order to introduce the immediate supply of agreed quantities of potable water to the West Bank and Gaza.**
11. In the West Bank, a number of donors have stepped in to fund the design and construction of relevant works to supply the RSDS quantities, as follows:
 - a. The Ramallah (Aboud) connection point is fully funded with contributions from the European Union (EU) and AfD. AfD's further contribution of 10 million EUR of the 23 million EUR needed for the Jenin connection points is welcome. **Donors are encouraged to bridge the outstanding gap of 13 million EUR for the Jenin connection point.**
 - b. In Gaza, two of the AW packages will have the capacity to absorb the current water supply to Gaza from Mekorot as well as the additional quantities within the RSDS agreement.¹³ **Stakeholders are encouraged to continue making progress in the tendering for Al Montar mixing reservoir and distribution system and construction of the Middle and Khan Younis works, which will enable the supply of 10 MCM from the RSDS agreement and 10 MCM of additional quantities from Mekorot (5 MCM to each connection point) once the GoI provides approval for these additional quantities requested by the PWA.**

West Bank: Water and Wastewater Packages

12. Since the creation of the PWA's Water and Wastewater Packages in November 2017, little progress has been made in advancing priority infrastructure in the West Bank. As a result, in November 2019, the PWA decided to extend the period for implementation of this infrastructure program to 2020-2025. These packages will enable an increase in domestic water supply of 67.1 MCM and will treat an additional 31.6 MCM of wastewater in the West Bank, part of which will be available for reuse by 2025.¹⁴ Such interventions are urgently needed to enhance the water supply for both domestic and agricultural sectors in order to meet demand, as illustrated in Figure 1 below.

¹³ These two packages include: the Kuwaiti-funded 'Additional Water Supply Network Improvement Works in Middle Area and Khan Younis' package as well as the EU-funded 'Additional Water Supply Network Improvements Works in North Gaza' package (Al Montar)

¹⁴ The PWA's Water Package in the West Bank includes 28.1 MCM from additional groundwater development, 22 MCM from the RSDS Agreement, and 17 MCM of additional quantities from Mekorot. Wastewater projects will treat 11.2 MCM in the north, 9.4 MCM in the center, and 11 MCM in the south of the West Bank.



13. The implementation of the Water and Wastewater Packages was delayed due to three primary challenges: securing required funding from donors, acquiring the needed approvals from the GoI, and the PA fiscal crisis. There is a funding gap of approximately 468 million USD for the Water and Wastewater Packages in the West Bank. Annex C of the OQ's September 2019 report to the AHLC provided a summary of these projects and an update on their status. The following progress has been achieved in the Wastewater Package for the West Bank over the reporting period:

- a. The Wadi Saman Trunk Line and Reuse Scheme, a critical project prioritized by the PA as part of the Transboundary Wastewater Cabinet Decision in December 2017, is making noteworthy progress, particularly considering the PA's disbursement of an initial 30 million NIS for this project. Tendering is in the final stages and construction is expected to begin once a contractor is selected.
- b. The Ein Jariot WWTP has acquired approvals from both the Joint Water Committee (JWC) and the Israeli Civil Administration (ICA) and is still in the land acquisition phase. Construction is expected to begin in 2021 with funding support provided by KfW.
- c. A feasibility study for the North East Ramallah Sewage Project (Birzeit Cluster), funded by the European Investment Bank (EIB), is ongoing and expected to be complete in Q2 2020. The EIB's intention to partially contribute to the financing of this project, once viability is confirmed and subject to adequate financing arrangements, is welcome. **Donors are encouraged to bridge the outstanding costs once identified.**
- d. Construction of the expansion of the Jericho wastewater collection network continues as planned, funded by the Representative Office of Japan and the PA. Once complete (planned in Q2 2020), two components of these works will increase the flow to the WWTP by an additional 800m³/day, bringing the total WWTP inflow to 2,100 m³/day. A third component of the network expansion (second phase of Aqbat Jabr sewage network), which received funding over this reporting period by Japan through UNRWA, will increase inflow to 3,000m³/day and will be completed in February 2021. This progress is welcome. Funds remain outstanding for the works on Jericho's internal wastewater network, which were suspended following cuts to USAID funding, and **donors are encouraged to contribute the 3 million USD required to complete this project.**

- e. AfD's funding of a feasibility study for the Wadi Nar (East Bethlehem) Sewage Project was cancelled. Meanwhile, for the Wadi Nar (South Jerusalem, Abu Dis, and Al Azarieh) Sewage Project, the PWA has completed a design for the network and pipelines; however, the PA's funding of the feasibility study for the treatment plant is on hold due to the PA fiscal crisis.
 - f. The Kingdom of the Netherlands' commitment of 4.5 million EUR and UNICEF's commitment of 200,000 USD to complete the major water network enhancement works in Yatta Municipality, which were suspended following cuts to USAID funding, are welcome contributions.
 - g. Approvals remain outstanding for the import of needed equipment for wind turbines, which would provide renewable energy for two wells in Tubas as part of the AfD and EU-funded Nexus North program. **The GoI is encouraged to communicate these approvals.**
14. As part of the revised Water Package, 30 potential groundwater wells were prioritized for development between 2020-2025. These wells would supply an additional 28.1 MCM of potable water in the West Bank. Information on these wells (along with the full water and wastewater packages) was shared by the PWA with the GoI in the Trilateral discussions facilitated by the Kingdom of the Netherlands in December 2019 and discussed again in the Trilateral discussions held in February 2020. The parties are to be commended on the productive discussions and progress achieved in this period, including their commitment to continue discussions in the months between the two Trilaterals, where three meetings of the Technical Committee of the JWC were held. The meetings discussed outstanding issues including, *inter alia*, projected demand for water in the West Bank and possible new connection points for increasing imports from Mekorot. Meetings to discuss the PWA's list of wells (all previously submitted to JWC) were postponed for various reasons in this reporting period, although the parties are still planning to meet in the coming months to discuss the list. **The parties are encouraged to continue advancing discussions to ensure timely approval of groundwater wells and infrastructure with components in Area C from the Water and Wastewater Package and advance commitments agreed in the Trilateral discussions of December and February.**
15. Further, five wells from the Water Package are already approved by JWC (in 2009) and do not need additional approvals from the GoI. As such, securing funding for these five critical wells would enable immediate construction. These investments include equipping the existing No. 17 well in East Bethlehem, drilling and equipping substitute wells in Bala'a, Anabta, and Azzun in Tulkarem and Qalqilia, as well as drilling and equipping a new well in Janzur in Jenin. Together, these wells would provide approximately 4 MCM of additional groundwater to the West Bank. **Donors are encouraged to consider contributing the 18 million USD needed to fund these five wells which would make an immediate and tangible difference for residents in the area.**
16. Some progress was noted in this reporting period with respect to transboundary wastewater management, whereby the GoI shared with the PWA data from the period of July 2017 to September 2019 concerning the flows and costs of treating wastewater flowing from the West Bank into Israeli WWTPs. Further, in the JWC discussions over transboundary wastewater deductions in February, the parties reached an in-principle agreement that the GoI will share details on the billing breakdown for transboundary wastewater treatment on a monthly basis. Further, the parties agreed to a series of follow up meetings to discuss the estimated quantities, price calculations, and the installation of flow monitoring stations. Such meetings are still on the agenda, despite emerging delays amidst the COVID 19 crisis. **This progress is welcome. The parties**

are encouraged to implement these arrangements and agree on principles for management of transboundary wastewater flows as well as a tariff for transboundary wastewater treatment. Further, the GoI is encouraged to provide an in-principle approval of the wastewater infrastructure priorities included in the West Bank Wastewater package, particularly those in the Transboundary Wastewater Cabinet decision, which would significantly reduce flows of waste into transboundary streams. Donors are also encouraged to support through funding the priority wastewater facilities in the West Bank which require approximately 330.5 million USD.¹⁵

Energy

17. Securing access to reliable, affordable and sustainable energy in the West Bank and Gaza is central to improving the lives of Palestinians and to creating the conditions under which economic growth can be realized.
18. In the West Bank, electricity demand has grown to 930 MW.¹⁶ Ninety-five per cent of this supply is provided by imports from Israel, although contributions from Jordanian imports and renewables are growing. Following discussions between the PA and the Jordanian government, an agreement was signed in January 2020 to increase import capacity from Jordan from 26 MW to 80 MW.¹⁷ In addition, the West Bank continues to diversify its energy supply with over 200 MW of solar PV planned, for example, by the Palestinian Investment Fund (PIF). As part of this initiative, a 7.5 MW facility near Jericho – the first of three utility-scale solar PV plants – was commissioned in June 2019.
19. Electricity demand in the West Bank is expected to increase by over 270 MW between now and 2030.¹⁸ Meeting this demand will require continued investment in new generation, diversification of imports and improved financial sustainability of the sector. The planned Jenin Power Plant, new solar PV plants and increased electricity imports from Jordan will help meet this growing demand.
20. In Gaza, demand routinely exceeds 500 MW while supply remains at approximately 200 MW. This results in an average electricity availability of ten hours per day. Gaza receives 120 MW of electricity from Israel,¹⁹ while the Gaza Power Plant (GPP) generates approximately 70 MW with Qatari-funded diesel.²⁰ The electricity generated from the GPP with the Qatari-funded diesel has helped improve the situation in the short term, but the provision of natural gas to the GPP through a gas pipeline (the Gas for Gaza project or G4G) remains an essential component of a broader structural solution.²¹
21. Several of the energy initiatives in this report enable decarbonization through lower carbon fuels and renewable resources. For example, the G4G project enables a transition away from diesel to

¹⁵ A further breakdown of costs for the PWA's water and wastewater package is Annexed to the OQ's September 2019 Report to the AHLC.

¹⁶ PENRA, Sustainable Energy Policy in Palestine, ESCWA – Cairo, May 2017.

¹⁷ Long term, this connection has the potential to increase to 160 MW.

¹⁸ World Bank, Securing Energy for Development in the West Bank and Gaza, June 2017.

¹⁹ Paid for through deductions to PA clearance revenues.

²⁰ A Qatari-funded diesel storage day tank was recently commissioned to provide additional storage capacity. Capacity will be increased further with a 10 million litre tank being funded by the Norwegian government.

²¹ And eventually the launch and implementation of additional bulk supply through the establishment of 161 kV line.

natural gas²² which has a significantly lower carbon intensity. This transition will reduce Palestinian carbon emissions by 6 per cent.²³ In addition, increased reliance on solar PV, including those initiatives described in this report, will assist in reducing the carbon intensity of Gaza's energy mix.

2016 Electricity Agreement implementation

22. Implementation of the September 2016 Electricity Agreement has progressed slowly, primarily due to delays with the signing of the Power Purchase Agreement (PPA) between Palestinian Electricity Transmission Limited (PETL) and the Israel Electric Corporation (IEC). Signing of the PPA will allow PETL to be the single buyer of electricity from the IEC, transfer ownership, operation and maintenance of key electrical infrastructure (e.g. transmission lines, substations, feeders, etc.) in the West Bank to PETL, and trigger the scheduled payment of the remainder of the debt to the IEC.
23. In December 2019, Jerusalem District Electricity Company (JDECO) signed an MoU with a consortium of eight Arab banks to receive a loan of 670 million NIS, with support from the Prime Minister's Office, the PA MoF and PENRA. This enabled JDECO to pay a portion of its debt by transferring a total 920 million NIS to the IEC.²⁴
24. Following the debt repayment, technical staff from PENRA and PETL visited the three recently-constructed West Bank substations – in Ramallah, Nablus and Tarqumia – in order to confirm their operability. The three substations are yet to be energised. **The OQ encourages the GoI to take the necessary measures, including providing access where needed for PETL staff, to enable the Palestinians to energise the three new substations in the West Bank, fully energise the Jenin substation and transfer the West Bank electricity infrastructure to PETL. In parallel, the parties are encouraged to sign the PPA and agree to bulk supply tariffs.**
25. As noted in previous reports, the OQ has supported the PA in updating the Electricity Agreement Implementation Plan (EAIP). The update of the EAIP took account of recent sector developments and recommended donor interventions for the period 2019 to 2023. Full implementation of the Electricity Agreement remains contingent on signing of the PPA and securing an estimated 19 million USD for infrastructure investments (i.e. substations and connection points) and capacity building. **Donors are encouraged to contribute to the 19 million USD funding requirement to progress implementation of the Electricity Agreement.**

West Bank electricity imports from Jordan

26. In January 2020, following discussions between the PA and the Jordanian government, JDECO and the Jordanian National Energy Company signed an agreement to improve their cross-border electrical transmission infrastructure. The project, expected to be complete within a year, will increase electricity supply to Jericho, Jerusalem and surrounding areas. Once completed, electricity imports from Jordan to the West Bank will increase from 26 MW to 80 MW, with a

²² Natural gas is intended as a transitional fuel, which although significantly greener than diesel-based electricity generation, should be eventually phased out to renewable energy sources in the coming two decades in line with global trends to fight climate change.

²³ G4G will reduce carbon dioxide emissions by 280 thousand tonnes in its first year of operation. This equates to 6 per cent of Palestine's 2016 emissions of 4.6 million tonnes of carbon dioxide equivalent per the PCBS.

²⁴JDECO transferred 740 million NIS to the IEC as part of its accumulated debt since 2016. In addition, 180 million NIS was transferred previously.

potential future expansion to 160 MW. This will diversify electricity imports, reduce the West Bank's dependence on IEC and promote regional cooperation.

Gaza electricity imports

27. There are currently three 22 kV lines (Gaza 1, Gaza 2 and Palestine) connecting Egypt and Gaza but there have been no electricity imports from Egypt since February 2018. Restoring Egyptian supplies via these lines would provide approximately 17 MW of electricity to Gaza, while rehabilitation of the lines would allow up to 27-30 MW of supply. Further upgrades to the lines could deliver 50 MW in the medium term and 100 MW in the long term. Several donors have shown interest in supporting these restorations and upgrades. **The relevant parties are encouraged to work together to restore the electricity supply from Egypt to Gaza in the near term and to increase the supply in the medium term.**

28. The construction of a 161 kV line from Israel could add approximately 100 MW to Gaza's power supply.²⁵ Such a line could reduce energy costs through a lower bulk tariff and lower system losses compared to the existing medium voltage supply from Israel. Progress on this initiative has been limited. **The PA, Israel and donors are encouraged to continue working together on the 161 kV line project by agreeing on project costs, timelines, commercial arrangements and technical requirements as soon as possible.**

Solar PV in Gaza and the West Bank

29. The provision of solar PV has the potential to supplement large baseload electricity supply sources in a manner that will enhance the overall sustainability of the energy sector. As noted in the September 2019 AHLC report, the OQ, in support of the PA, is investigating the potential for utility-scale solar PV opportunities in Gaza and has undertaken pre-feasibility studies at five separate locations. In addition to pursuing solar developments in Gaza, there is strong potential for the development of solar PV in the West Bank (with a number of projects already underway).

30. A project to develop the first phase of a solar PV plant adjacent to the Khan Younis WWTP in Gaza is now progressing to implementation based on pre-feasibility work completed by the OQ in support of the PA. Initial funding support from Norway will allow the development of a first phase with a capacity of 1.3 MW. Further donor contributions would allow expansion of this first phase development to 7 MW and would further improve the self-sufficiency of the WWTP's energy supply. Additional information on the Khan Younis WWTP is included in the Water section of this report.

31. At the other identified sites, the OQ has been working with the relevant PA Ministries to identify and secure approval from landowners for project development. This process is ongoing. As previously noted, the GoI has approved a number of the identified sites for development, including in the ARA. Once landowner support is obtained, the next stage in the project will be to undertake full feasibility studies and/or grid assessment studies for selected sites and to secure donor support.

32. **The PA is encouraged to continue to work with the OQ in identifying and obtaining support from landowners at the relevant Gaza solar sites and to enable commercial agreements between the solar PV producers and the electricity buyers. Donors are encouraged to support solar PV**

²⁵ Eventually increasing in excess of 200 MW upon the cancellation of the 120 MW medium voltage lines. This would result in a net increase to Gaza of over 100 MW.

projects in the West Bank and Gaza, including supporting additional phases of the solar project supplying the Khan Younis WWTP.

Gas for Gaza (G4G)

33. Using natural gas to generate electricity at the GPP is the most cost-efficient and – given the scale – cleanest means of generation in the Gaza strip. The construction of a gas pipeline through the G4G project will allow for the transmission of gas from Israel to the power plant and other consumers in Gaza. The project will enable the conversion and operation of the GPP to natural gas and provide the basis for economic development through affordable, reliable and sustainable electricity generation. The significant increase in electricity supply from the G4G project will also provide energy for critical infrastructure in Gaza, such as the GCDP. Currently, the GPP generates approximately 70 MW using diesel, which is both costly and emissions intensive. The transition to natural gas will significantly reduce dependence on imported electricity while reducing carbon emissions.
34. Recent milestones on the G4G project include receiving bids for the detailed design and issuing the request for proposals for the Environmental and Social Impact Assessment (ESIA), all in Gaza. The ongoing support from the Government of the Kingdom of the Netherlands, the interest from the EU in possibly funding pipeline infrastructure in Gaza, and the recent engagement of the Qatari government, all remain essential for the project.²⁶
35. To maintain project progress and to have Gaza connected to natural gas by 2023, it is critical to establish the commercial structure and gas sales purchase agreement (GSPA). The GSPA will be critical for securing part of the financing for the construction phase. **The relevant parties are encouraged to reach an agreement on the commercial arrangements for the project with the necessary support from the other stakeholders.**

Gaza grid development

36. Power grid upgrades in Gaza are essential for enabling increased electricity delivery. The World Bank, in conjunction with PENRA, presented the Gaza Electricity Masterplan (2017-2035) in December 2019. The plan outlined a vision to 2035 with proposed upgrades to electricity generation, transmission and distribution in Gaza. The plan considers increased power imports from high voltage connections with Egypt and Israel (161 kV) as well as increased electricity supply enabled by G4G and solar PV production within Gaza. Specific recommendations include the construction of a new high-voltage grid backbone and new substations. These upgrades will reduce technical losses, improve power distribution and support increased renewable capacity.²⁷ The OQ will continue to support the PA and other stakeholders working to upgrade the grid in Gaza.

Cost recovery

37. Bulk electricity supplies, such as those enabled principally by the G4G project, will improve the financial viability of the energy sector by significantly reducing the average electricity cost. Once implemented, the G4G project will provide a lower cost bulk electricity supply by facilitating domestic generation from the GPP using a significantly cheaper source of fuel and without paying margins to non-Palestinian electricity suppliers. Such cost-efficient projects are critical given that

²⁶ These and other milestones will be discussed further at the next OQ Chaired G4G Task Force in Q-3 2020.

²⁷ For more details, see PENRA Gaza Electricity Mater Plan (2017-2035) which lays out the plans for upgrading and rehabilitating the grid.

cost recovery will remain a challenge in Gaza for some time to come. In addition, the cost of imports from the proposed 161 kV line would be lower than the existing 120 MW medium voltage supply as the 161 kV line will import electricity at a high voltage bulk tariff. Further, the energization of the substations in the West Bank will allow for electricity to be purchased from Israel at bulk rates, thereby improving the financial situation of the Palestinian electricity sector.

38. The OQ continues to work with core stakeholders on the financial structures, financial guarantees and investment strategies needed to deliver the projects described in this report. To ensure the economic sustainability of these projects, the OQ continues to engage with the relevant parties to address the broader issue of cost recovery. This includes the EU-led efforts for the audit of GEDCO and improving electricity revenue collections to support a more financially sustainable energy sector in Gaza. **The relevant parties are encouraged to support PENRA with the EU-led audit of GEDCO and any follow up actions.**

Gaza Marine

39. Developing the Gaza Marine gas field would significantly boost Palestinian energy independence and would generate revenues of 2.5 billion USD over its 25-year lifespan. Once Gaza Marine is developed, the G4G and Jenin pipeline projects will enable Gaza Marine reserves (directly or via swaps) to reach Palestinian power plants and heavy industry. This will contribute to Palestinian energy independence through the use of its own energy resources. **The relevant parties are encouraged to progress with the development of Gaza Marine as soon as possible.**

Telecom

40. The introduction of mobile services competition in Gaza and the launch of 3G services in the West Bank in 2018 marked significant milestones in the development of the telecommunication sector. However, in order to maintain this positive trend, it is necessary to upgrade existing technologies to enable advanced mobile data services in the West Bank and Gaza.
41. After not meeting for over a year, the Joint Technical Committee (JTC) reconvened several times in the in the last quarter of 2019 and the first quarter of 2020, a welcome development. The parties discussed the Palestinian requests for 4G and 5G spectrum, the Israeli plans for spectrum re-farming, and the outstanding elements from the November 2015 agreement.²⁸ **The parties are commended on current engagement processes and are encouraged to continue convening the JTC meetings and exchanging written communications with the intent of finalizing all outstanding agenda items.**
42. In the JTC meeting held in October 2019, the Palestinian Ministry of Telecommunication and Information Technology (MTIT) resubmitted its request with further details to enable the immediate deployment of 4G and future deployment of 5G in the West Bank and Gaza.²⁹ A proposal that included portions of 4G and 5G spectrum was made by the Israeli Ministry of Communications (MoC) to the MTIT during a JTC meeting in March 2020, along with an approved list of microwave links that can be utilized immediately by the Palestinian operators. The Palestinian MTIT promised to study the proposal and provide feedback, while requesting that the MoC provide a timeline for the allocation of the proposed 4G and 5G spectrum. **Timely agreement between the parties for the allocation of adequate 4G and 5G spectrum to the Palestinians is**

²⁸ Agreement between the PA and Gol on “Principles for Assignment of Frequencies in the 2100MHz Band for the Palestinian Cellular Operators”.

²⁹ MTIT has been submitting requests for the JTC for the allocation of 4G spectrum since at least 2010.

encouraged considering the timeline for the soon anticipated award of the 5G bid in Israel, in which the call for bids closed in February 2020. The PA is concerned that allocating the 5G-tendered spectrum to Israeli operators without saving spectrum for Palestinians use will make it technically and commercially challenging to deploy Palestinian 4G and 5G services. Further, the Israeli MoC informed the MTIT in both the October and December 2019 JTC meetings that it plans to conduct spectrum re-farming and that the process might extend for three years. This is another concern on the PA side as it could delay the allocation of spectrum for Palestinian use.³⁰ **The OQ welcomes the progress made by the parties to date and encourages them to continue discussions to agree on adequate and sufficient 4G and 5G spectrum for Palestinian operators' use and a timeline for its' allocation, in accordance with the ITU recommendations for Region 1 and the Interim Agreement.**

43. During the ITU's Radiocommunications Conference held in November 2019 in Sharm Al Sheikh, Resolution 12, relevant to Palestinian telecom affairs, was revised and passed with the consensus of all member states. The resolution primarily built on the bilateral discussions of the October 2019 JTC meeting. It called for the establishment of a clear and reasonable timeframe for the allocation of adequate 4G and 5G frequencies for Palestinian operators, facilitation of a process to enable deployment of 3G technology in Gaza consistent with the November 2015 agreement,³¹ and facilitation of the arrangements for the import and deployment of equipment. **The MoC and MTIT are encouraged to advance ITU Resolution 12 towards the implementation of advanced mobile data technologies in the West Bank and Gaza.**
44. Key elements of the November 2015 agreement, which enabled 3G operations in the West Bank, remain outstanding. These elements include granting Palestinian operators passive access to their core equipment (currently managed by an Israeli company). **The parties are encouraged to advance the discussions and finalize written arrangements to conclude the implementation of the 3G agreement in the West Bank.**

Governance and Rule of Law

45. In his speech to the General Assembly of the United Nations in September 2019, President Mahmoud Abbas pledged to hold Parliamentary elections, followed by presidential elections in the Palestinian territory. However, following the emergence of COVID-19, PA priorities have changed to focus on containing the pandemic and mitigating its socio-economic impact. Holding elections would have a significant impact on rule of law and governance in the Palestinian territory. **The PA is encouraged to move forward with elections when public health and safety permit, and the Gol is encouraged to facilitate such elections in keeping with prior agreements.**
46. While the PA has struggled over the years to maintain delivery of certain public services, the justice sector, in particular, witnessed a sharp decline in performance, including a slowing of institution-building efforts. This resulted, in part, from political interference in the sector, as well as from a significant decline in the level of resources dedicated by the international community to institution-building and reform.

³⁰ Spectrum re-farming is internationally done to govern the repurposing of radio frequency that has been used for older technologies to be used for new or more efficient technologies.

³¹ The November 2015 Agreement sets the principles for assigning frequencies on the 2100MHz band; a band that could be utilized for the deployment of 3G and 4G technologies.

47. In July 2019, the PA established an Interim High Judicial Council with a 12 to 18-month mandate to reform the justice sector, focusing in particular on the court system. The international community has been waiting for the PA to take steps to empower the court system. It is imperative that the Interim High Judicial Council is provided with the needed human and logistical support in a timely manner to pursue the necessary reforms on the basis of established constitutional principles, notably access to justice and independence of the judiciary. It is also crucial that the PA government amend the laws related to the judiciary through a transparent process that ensures robust public consultation.

Fiscal update

48. The impact of the COVID-19 pandemic on the financial situation of the PA is likely to be severe. The PA MoF is projecting a budget deficit of between 1.8 billion USD to 2.4 billion USD for the 2020 fiscal year. This deficit will result primarily from a 35-45 per cent projected drop in the clearance revenue transfers that make up almost 60 per cent of the PA's total budget. The economic slowdown is projected to nearly double unemployment levels in the West Bank to 30 per cent (from 17.6 per cent prior to the COVID-19 pandemic), its highest in 10 years. This, combined with the PA announcement to pay only 50 per cent of government employee salaries starting from April, is likely to create enormous pressure on the Palestinian banking sector with risks of serious liquidity shortages. In the immediate term, maintaining current levels of revenues is essential to bridge the projected financial gap; to that end, the parties are encouraged to implement the measures outlined below:

- a. Support the parties to fulfil the Palestinian request **to establish a minimum level of clearance revenue to be transferred** between them, beyond any political or economic considerations. The parties have had constructive discussions recently on a potential monthly floor of 500 million NIS and are now working to finalize a loan agreement amounting to 800 million NIS over four months. Once concluded, this will enhance PA fiscal stability and predictability and allow the PA to undertake more effective preparation and emergency action in response to the COVID-19 pandemic. However, this measure should be accompanied by those below, which would provide much needed additional revenue for the PA.
- b. The recent release of 120 million NIS is welcomed; the Gol is encouraged to release outstanding monies that remain due to the PA.
- c. **Transfer withheld VAT on goods imported by Gaza. To resolve this outstanding fiscal issue and increase VAT collection** at the Karem Abu Salem/Kerem Shalom crossing point, the parties should agree on a mutually acceptable company or individual hired by the PA to collect the special VAT invoices for goods moving through the crossing. This could potentially result in an increase in revenue of approximately 83 million NIS per year by reducing the current VAT leakage.
- d. **Waive or at a minimum significantly reduce the 3 per cent handling fee, and exempt PA fuel purchases from excise and other taxes:** As it makes up almost 220 million NIS annually, waiving or significantly reducing the handling fee will result in additional financial resources to the PA and improve its ability to mitigate the impact of the pandemic. Exempting PA fuel purchases from excise tax will maintain financial liquidity of

the PA; this adjustment was discussed at length between the parties, but ultimately was applied on a one-off basis to a single transfer of revenue during the 2019 fiscal crisis.

- e. **Transfer the accumulated Allenby Bridge crossing exit fees to the PA.** The GoI has unilaterally raised the exit fee from 26 USD to 43 USD per passenger without consultations with the PA or transferring the difference.

49. Measures that have an immediate impact on the monthly clearance revenues transfer or which can offset the fiscal losses sustained by the PA should be agreed upon by the parties to help alleviate the socio-economic impact of the pandemic. The parties are encouraged to undertake these measures without prejudice to the resolution of the long-standing fiscal files, including those outlined below.

Transfer deductions made by the GoI from Palestinian labor salaries

50. While the Paris Protocol stipulates that pension fund deduction transfers made from Palestinian labor salaries are contingent upon the PA establishing a “pension insurance institution” to administer these funds, other deductions from worker salaries are not, and the GoI is encouraged to transfer these sums to the PA. These include, *inter alia*, the equalization levy, the health stamp, sick day leave and the workers disability deductions. **The GoI is encouraged to transfer these sums to the PA as stipulated in the signed agreements.**

Financial set-off deductions

51. In addition to the “prisoner payment” deductions, the GoI deducts from the clearance revenues, on a monthly basis, amounts for the set-off of financial obligations of the PA. The GoI claims that these deductions are to pay for goods and services the PA received but for which it failed to pay the respective Israeli service provider. In 2019, the GoI deducted a total of 1.6 billion NIS to offset amounts due for electricity, water, sewage treatment and health care. In December 2019, for example, the deductions totalled 125 million NIS: 74 million NIS for electricity, 35 million NIS for water, 10 million NIS for sewage treatment and 6 million NIS for health care. Introducing a mechanism that ensures transparency in how these deductions are calculated and made is very important. Although the Paris Protocol stipulates that the sides will establish a procedure for the set-off of financial obligations between them, no agreement was ever reached, and unaudited unilateral deductions continue. **It is imperative that the parties discuss and agree on a procedure that governs the payment for services by the PA and that ensures Israeli service providers receive their due payment whilst maintaining full transparency and allowing the PA to exercise more scrutiny over the process.**

Customs transfer

52. Following a renewed commitment by the Government of Israel in the September 2019 AHLC to the transfer of customs authority to the PA, January 2020 saw the parties renew discussions with the aim of concluding an agreement. The discussions have been focusing on key elements necessary to implement the transfer including, *inter alia*, the nature and scope of the transferred authority, the type of goods, security inspection, intellectual property rights examinations, and electronic exchange of information. **The OQ welcomes the resumption of discussions and is committed to assisting the parties to finalize the aforementioned agreement in a sustainable manner.**

53. To enable the transfer of customs authority, efforts have intensified to develop the capacity of the PA to assume new customs-related responsibilities. These efforts include upgrading the current PA legal framework on customs. The OQ, in partnership with the EU and the United Kingdom Department for International Development (DFID), has been heavily engaged with the PA Ministry of Finance to produce the necessary legal amendments ahead of the transfer. A committee of technical and legal experts has been established at the PA Ministry of Finance to develop policy guidance on future customs regulation and to advise on legal amendments and/or new laws to address gaps or shortcomings in the existing framework. An initial draft of the amendments has been produced with a focus on customs formalities, valuation, classification, origin, bonded warehouses, customs brokers, customs court and penalties.

VAT clearance mechanism

54. 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 battle and 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. To improve the clearance mechanism and reduce evasion, the parties are encouraged to introduce changes that lead to resolution of some of the outstanding issues. **In the first instance, the parties are encouraged to increase the exchange of information between them to enable effective control over traders by the tax authorities.**

55. Expanding the large dealers program will allow participating dealers to be exempt from submitting the paper-based special invoice as provided in Article VI of the Paris Protocol. Instead, dealers can submit an electronic summary of the transactions with dealers registered with the other side's VAT administrations to their respective tax administration. This mechanism will serve as a temporary replacement for an interconnected computer system for tax rebates to dealers and for VAT clearance between the two sides until such a system is operational. **To that end, we encourage the parties to agree to the expansion of the large dealers program in order to enhance control of the VAT process and thereby reduce evasion and mark the first step towards the computerization of the VAT clearance mechanism.**

56. The exchange of information is a recognized tool that enables greater enforcement in tax law compliance. Exchange of information between the sides has the potential to minimize the leakage caused by a lack of submission of invoices and to deter dealers from concealing invoices or trading fraudulent invoices. **To that end, the parties are encouraged to increase the exchange of information on specific dealers and specific transactions for the purpose of verification of the authenticity of a given transaction.**

Security Sector

57. In the security sector, the level of cooperation between the parties increased to combat the spread of COVID-19, as demonstrated by faster coordination between the sides and access of PA security to areas affected by the pandemic. The parties are encouraged to maintain the same level of security cooperation. They are also urged to address the need to provide improved law enforcement services to areas such as the suburbs of Jerusalem outside the separation wall, a need that became more evident in the context of the COVID-19 outbreak. In addition, the Israeli

and Palestinian District Coordination Offices are encouraged to undertake additional steps that would further improve communications, accelerate police response time and enable effective delivery of police services to Palestinian communities. These measures, if implemented, will enable the PASF to more effectively expand the rule of law, implement court decisions, and maintain public order and security for Palestinian communities throughout the West Bank.

58. A review of the current mandate of the Palestinian Customs Police in light of international best practice, including the relationship of the Customs Police with PA partner institutions, resulted in the development of a series of recommendations that, if adopted, will enhance the Customs Police's effectiveness. Improved organization and operations of the Customs Police, including enhanced movement and access in Area C, will produce important benefits for the Palestinian economy (and indirectly for the Israeli market as well) as the Customs Police carries out its role of protecting against smuggling and reducing evasion of customs and taxes. In addition to a range of proposed internal reforms to the Customs Police's mandate, this effort has resulted in recommendations to enhance movement and access of the Customs Police in Area C, identified as vital to its effectiveness.
59. Two studies were conducted during this reporting period to analyze the ability of the Palestinian Judicial Police to deliver and execute decisions of the PA family courts in presently underserved communities, with a focus on the Jerusalem suburbs, the H2 area and the Jordan Valley. Responsibility for execution of these rulings shifted three years ago from the civil courts to the family courts but several steps remain to develop the capacity of both the family courts and the Judicial Police to carry out this function. The current lack of capacity has a disproportionate negative impact on women and children in these areas. On this issue as well, one obstacle to effective execution of judgments identified by the review is the need to improve the access of the Judicial Police in these areas. The OQ will provide a series of recommendations to the relevant parties and institutions for discussion.

Movement and Trade

60. Economic growth and job creation in the Palestinian market requires the expansion and facilitation of trade, both locally and internationally. While the continued expansion of the door-to-door (D2D) program between the West Bank and Israel contributes to this objective, a similar program to facilitate trade with and via Jordan is emerging as increasingly important, especially for the industrial sector. Addressing standards-related import impediments and delays is also emerging as a private sector priority and has the potential to reduce costs significantly, especially for production inputs.
61. While the situation in Gaza continues to pose significant challenges to the restoration of private sector activity, progress in facilitating the export of non-sensitive processed foods from Gaza is encouraging. Mobilization of international community interest and support for the upgrading works at the KAS commercial crossing is another positive development and should allow the project to be commenced this year.
62. As of 2 June 2019, travel for Palestinians through Allenby/King Hussein Bridge (A/KHB) has benefitted from 24-hours/five days a week operation of the bridge, significantly facilitating onward travel via Amman Airport. Travel time and overall processing at A/KHB as well as other

international gateways can be further facilitated by Israel enabling the adoption of biometrically-enabled passports by the PA.

63. Expanding Palestinian trade with the international market, in particular East Asian countries, remains a focus of the private sector and continues to be supported through relationships facilitated by the Conference on Cooperation among East Asian Countries for Palestinian Development (CEAPAD) trade initiative.

D2D and trade facilitation

64. The D2D program continues to generate significant savings and cost reductions for participating companies from the south and the north of the West Bank, including from sectors such as marble and stone, plastic products, glass products, dairy products and household items. Since the program's initiation in March 2018, around 14,000 truckloads were delivered using D2D, resulting in direct cost savings of around 2.5 million USD.

Trade facilitation with Jordan

65. The economic benefit from a more efficient import and export process at A/KHB is increasingly important, in particular for the Palestinian industrial sector which is dependent in large part on raw materials such as plastics imported via Jordan. A D2D-type procedure at A/KHB, especially for bulk material such as cement and plastics, will significantly increase the competitiveness of Palestinian products and with it the export potential to third markets, including Israel. While trade between the Palestinian territory and Jordan reached 250 million USD in 2019, this figure is expected to increase substantially if costs incurred due to the currently-applied back-to-back process at A/KHB are reduced through the adoption of a D2D-type process.

Standards-related trade impediments and costs

66. Addressing cost increases and time delays incurred during the import process at Israeli gateways arising from standards-related issues is increasingly urgent as trade-related costs are increasingly affecting the competitiveness, and in some cases the viability, of Palestinian traders, especially producers. The PA, with support from the international community, has recently placed significant attention on improving the capacity of the Palestinian Standards Institute (PSI) to carry out relevant inspection and testing functions. This is creating potential for improved collaboration between the parties on addressing standards-related issues and reducing costs to Palestinian importers. These efforts should be encouraged and supported.

Biometrically-enabled Palestinian passports

67. The adoption of biometrically enabled passports will allow for expedited movement of Palestinian travellers at international gateways as well as reduced risks associated with tampered documents. The necessary equipment for the production of such passports has arrived at Ashdod port in February 2019 and remains held by Israeli customs, accruing some 200,000 USD in storage fees to date. The parties are encouraged to agree to the quick release of the equipment so as to avert further delays and costs. In the absence of a resolution and in order to safeguard the equipment from damage, the PA is contemplating returning the equipment to the vendor in France or alternatively storing it in Jordan.

Sustainable economic development in Gaza

Exports of processed foods

68. Dutch authorities received a pilot shipment of Gazan-produced processed foods in mid-February and issued the required certification for sale in the EU market. This phase built upon the effort of a number of companies in Gaza to obtain the ISO 22000 certification. A recall process arranged between the Israeli and Palestinian Ministries of Health will now be required as a prerequisite for the transfer of a pilot shipment to the West Bank.

Demand assessment for an additional commercial crossing serving Gaza

69. As KAS crossing is currently the only operational commercial crossing between Gaza and Israel, it poses a particular risk to maintaining an open crossing in cases of emergencies or crises. In addition, the location of KAS at the southernmost part of Gaza generates some logistical disadvantages. A study is currently underway to evaluate the utility of a second commercial crossing at Erez and the potential savings achievable as a result. The study is expected to serve as the basis for future discussions between the PA and the GoI in order to produce a joint masterplan for a commercial crossing at Erez. **The parties are encouraged to assist with the effective conclusion of the study.**

Economic Mapping

70. The OQ continues to support the PA's capacity to acquire and analyse reliable data as a tool to support effective planning and policy making. This work has involved a number of different dimensions, including mobilizing numerous relevant actors to establish reliable data systems, establishing a proper legal framework for data collection responsibilities, creating interoperable systems to promote data sharing across line ministries, and having clear verification and validation mechanisms to determine data accuracy. By October 2020, the established systems will be housed in the PMO and key line ministries.

71. Most recently, the OQ supported the Ministry of Agriculture to establish a farmer's registry (mzr3ty.ps) which will acquire and analyse data relevant to this sector. This is of practical use for planners and agronomists within the PA. Overlaying this data set with geo-referenced data on water, topography and trade routes will help improve analysis, thereby enhancing the efficiency and sustainability of the sector. An initial version of the tool was handed over to the Ministry in March for continued development and to allow a pilot test in vulnerable communities of farmers in the Jordan Valley. Secondly, the OQ has developed a data portal (indicators.ps) for researchers and academics to visualize multi-dimensional Palestinian data, and which is set to be handed over to the Palestinian Central Bureau of Statistics (PCBS). Lastly, within the framework of PCBS's collaboration with the PMO and UN Agencies in establishing a cluster-based development atlas, the OQ will integrate the above two projects and other data sources to allow a holistic approach to identifying opportunities in the respective clusters.

Annex A: Bridging the Gap in Operation and Maintenance of Water and Wastewater Facilities in Gaza

Operation and maintenance (O&M) of the six major water and wastewater facilities in Gaza requires securing adequate funds to cover costs. Extensive analysis on the cost estimates for operating these facilities was developed by the Palestinian Water Authority (PWA), the Coastal Municipality Water Utility (CMWU) and the Office of the Quartet (OQ) as a basis for discussion in the Gaza Water Thematic Group. As of January 2020, the outstanding funding gap for operation of these facilities over the period 2020-2024 is 8.35 million USD.³² The funding gap O&M is particularly concerning considering that full operation of water facilities could triple the availability of potable water in Gaza immediately, as at least two of these facilities have been underutilized for an average of two years. Further information on the O&M needs can be found in Table 1.

Facility		Total O&M USD 2020-2023	2020					2021					2022					2023				
			Cost recovery	PA subsidy	Pledged funding	Gap	O&M Cost	Cost recovery	PA subsidy	Pledged funding	Gap	O&M Cost	Cost recovery	PA subsidy	Pledged funding	Gap	O&M Cost	Cost recovery	PA subsidy	Pledged funding	Gap	O&M Cost
Desalination	Gaza STLV ¹	14.44	0.69	2.05	0	0.87	3.61	1.08	2.05	0.48	0	3.61	1.62	1.98	-	0	3.61	1.8	1.8	-	0	3.61
	Deir al Balah STLV ²	8.52	0.41	1.15	0	0.58	2.13	0.64	1.15	0.34	0	2.13	0.96	1.15	0.02	0	2.13	1.07	1.07	-	0	2.13
	Southern STLV ³	24.96	0.79	2.28	0	1.08	4.14	2.08	3.93	0.93	0	6.94	3.12	3.82	-	0	6.94	3.47	3.47	-	0	6.94
Wastewater	NGEST ⁴	8.21	0.51	0.93	0.08	1.17	2.7	0.62	0.31	0	1.13	2.05	0.78	0	0	0.95	1.73	0.87	0	0	0.87	1.73
	Khan Younis WWTP ⁵	8.9	0.36	0.89	0	0.62	1.87	0.63	1.03	0	0.44	2.11	1.05	1.18	0	0.11	2.34	1.29	1.29	-	0	2.58
	Gaza Middle WWTP ⁶	9.72	0	0	3.17	0	3.17	0.44	0	1.76	0	2.2	0.87	0	1.3	0	2.17	1.31	0	0.87	0	2.18

1. KfW contributions to begin in Jan 2021
2. World Bank contributions to begin in Jan 2021
3. World Bank contributions to begin in Jan 2021
4. AfD contributions through the end of Feb 2020. World Bank funding pledged, although not confirmed, will tentatively begin in July 2020.
5. No funding pledged to bridge the funding gap to date
6. KfW contract for construction of the facility included a sliding subsidy for O&M

³² The total anticipated O&M costs for the six major water and wastewater facilities in Gaza from 2019-2023 is 80.3 million USD, of which, 29.1 is expected to be recovered from consumers, 36.1 will be provided from a PA electricity subsidy, and 6.42 have already been committed by donors (KfW, World Bank, and AfD).