OFFICE OF THE QUARTET (OQ)

Report to the Ad Hoc Liaison Committee

September 27 2018, New York

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LIST OF ACRONYMS

AEO – Authorized Economic Operator
AHLC – Ad Hoc Liaison Committee
AfD – Agence Française de Développement
AW – Associated Works
CLA – Israeli Coordination Liaison Administration (CLA
CMWU – Coastal Municipalities Water Utility
EIB – European Investment Bank
EU – European Union
G4G – Gas for Gaza (initiative)
GCDP – Gaza Central Desalination Plant
GDP – gross domestic product
GEDCO – Gaza Electricity Distribution Company
GoI – Government of Israel
GPP – Gaza Power Plant
GRM – Gaza Reconstruction Mechanism
IACO – International Air Carriers Organization
ICA – Israeli Civil Administration
IDF – Israel Defense Forces
IEC – Israel Electric Corporation
IFI – International Financing Institutions
IMF – International Monetary Fund
IWA – Israeli Water Authority
JTC – Joint Technical Committee
JWC – Joint Water Committee
kV – kilo Volt
MCM – million cubic meters
MoF – Ministry of Finance
MoU – Memorandum of Understanding
MW – megawatt
NGEST—Northern Gaza Emergency Sewage Treatment
O&M – operation and maintenance
OQ – Office of the Quartet
PA – Palestinian Authority
PASF – Palestinian Authority Security Forces
PENRA – Palestinian Energy and Natural Resources Authority
PETL – Palestinian Electricity Transmission Company Ltd.
PPA – Power Purchase Agreement
PV – Solar photovoltaics
PWA – Palestinian Water Authority
RSDS – Red Sea – Dead Sea Project
STLV – short term low volume
USAID – United States Agency for International Development
VAT – Value-added Tax (goods and services tax)

EXECUTIVE SUMMARY

Realizing progress on the ground now will benefit Palestinians (and Israelis), and has the potential to support, but never supplant final status negotiations, aiming to achieve an enduring peace agreement. This report provides an update on progress achieved as well as the critical next steps required in order to realize previously identified short, medium, and long-term objectives in the sectors in which the Office of the Quartet (OQ) works (energy, water, telecom, rule of law, movement and trade as well as economic mapping). This strategic focus, however, must be accompanied by efforts to urgently address continuing humanitarian needs, particularly in the Gaza Strip. In the immediate term this, combined with efforts to inject liquidity into the Gaza strip, represents the most direct and immediate means of improving the lives of Palestinians. A balanced approach is therefore necessary, to address immediate needs, while also working towards the transformational change that is now more needed than ever before.

In the energy sector the implementation of the September 2016 Electricity Agreement has progressed including the construction of all four substations and the signing of a temporary Power Purchase Agreement (PPA) which resulted in power supply to the north of the West Bank via the Jenin substation. Preliminary understandings have been reached between the Palestinian Electricity Transmission Limited Company (PETL) and the Israel Electric Corporation (IEC); unfortunately, the full agreement has not, as yet, been signed. Progress therefore requires that the parties finalize a sustainable and implementable PPA.

Gaza continues to suffer from a chronic energy deficit with a maximum of five hours of electricity available each day. Immediate measures to improve the situation include the provision of fuel (on a tax-free basis) to the power plant and the restoration of the up to 27 MW of electricity from Egyptian feeder lines, which have not been operational since February 2018. In the medium term, the upgrade these lines has the potential to double the provision of electricity to 50 MW, while the establishment of the 161 kv line has the potential to provide up to 100 MW within 3-4 years. The GOI is encouraged to find an interim solution to address the electricity requirements for the water sector projects that would emerge in the next 12 months. The parties are encouraged to finalize the arrangements necessary in order to finally proceed.

Connecting Gaza to natural gas is the central solution to the ongoing energy crisis and basis for economic growth. By facilitating a significant increase in domestic electricity generation on a cost-efficient basis, a natural gas supply will improve the reliability and affordability of electricity for consumers and generate substantial savings for the sector. The Gas for Gaza (G4G) project has continued to progress over the reporting period, including new engagement from the European Union (EU); growing interest from a number of International Financial Institutions (IFIs) in providing financing for the project; and progress in the permitting process on the Israeli side. The key next steps include the PA concluding the commercial structure for the project, including putting in place the gas buyer and gas purchase arrangements, concluding commercial arrangements on the PPA for Gaza, and securing further financial support from donors to meet the 80 million USD required to complete the pipeline.

Addressing cost recovery is critical to establish the commercial viability of the energy sector in the Palestinian territory. Specifically, ensuring a sufficient and regular transfer of electricity fees from Gaza will help to ensure that electricity consumption costs can be met and to ensure that the necessary investment can be made for energy infrastructure. Finally, the parties are encouraged to increase the scale of renewable energy available and to ensure the Gaza Marine gas field finally moves into development.

While there has been progress in the water sector, it remains short of addressing existing, let alone projected needs in both the West Bank and Gaza strip. Though challenges remain, the Gaza Central Desalination Plant & Associated Works program, which in its first phase will provide 55 MCM/annum of desalinated water has seen progress, including a successful pledging conference. At that conference pledges were made for an estimated 488 million USD out of the total 674 million USD required, leaving a gap of 186 million USD which donors are encouraged to meet. The Kuwaiti Fund financing the southern component of the Associated Works, which also enables the supply of the Red Sea Dead Sea (RSDS) bulk water supply in southern Gaza, was formalized. In addition, the Palestinian Water Authority (PWA) initiated both the bidders' prequalification process for the southern infrastructure and the tendering for the Mekorot connections points. The PWA and donors are therefore encouraged to secure the rest of the funding pledges as well as the mechanism for their disbursement, agree on the program's priority components, and disburse funding accordingly as soon as possible. Discussions between the parties and the program's stakeholders on entry of materials are ongoing, and the parties are encouraged to finalize these parameters in order to allow the project to proceed.

The North Gaza Emergency Sewage Treatment Facility (NGEST) is now operating at full capacity, treating an average of 34,000m^3/day of wastewater, which is enabled by the 22 hours per day of electricity supplied to it. Donors are encouraged to meet the funding gap of 16.8 million USD for Operations and Maintenance costs**.** Operations in the two Short-Term Low Volume (STLV) desalination plants and two central wastewater treatment plants will begin in the upcoming nine months. Securing electricity for these facilities remains one of the top priorities for Gaza.

Progress in finalizing the Red Sea Dead Sea (RSDS) Agreement has been slower than hoped for. Recent meetings between the parties, aimed at finalizing this, are welcome and the parties are urged to finalize a reliable agreement, based on international practices, to ensure the introduction of the immediate supply of agreed quantities. There has been progress toward the development of relevant infrastructure. In addition to the steps towards constructing the southern infrastructure in Gaza with Kuwaiti funding, the EU has indicated an interest in funding the construction of the Al Montar water mixing facility (mixing desalinated water with ground water) in the north of Gaza. Moreover, the EU and Agence Française de Dévelopement have shown strong interest to support funding of approximately 58% of the cost of the RSDS water systems in the West Bank. This leaves a 22 million USD gap in funding which donors are encouraged to bridge. The GoI is also encouraged to provide the necessary clearances for the construction of infrastructure in Area C based on the detailed designs developed.

Finally, the PWA has developed a list of priority water and wastewater projects which would enable an increase in domestic water supply by 67.5 MCM in the West Bank and 78 MCM in Gaza. The PWA is therefore encouraged to continue its consultations with donors regarding these priority projects to secure the funding necessary and the GoI is encouraged to provide an *in-principle* approval for relevant construction in Area C. The Joint Water Committee's (JWC) approval is also needed for key interventions that require rehabilitating or drilling new wells in the West Bank.

In telecommunications, the successful introduction of 2G in Gaza and 3G in the West Bank, is fundamental for the sustainability of the sector. The GoI is encouraged to continue the allocation of additional spectrum and to facilitate the entry of materials to the West Bank and Gaza relevant to this. In the immediate term, GOI is encouraged to respond to the PA's request for the introduction of 3G technology in Gaza provided it is implemented within 2018 or early 2019, as vendors' technical support for 3G will terminate in 2022. Moreover, the parties are encouraged to begin discussions on deployment of the 4G/5G in the West Bank begin.

Improvements in the fiscal and financial framework for the Palestinian economy and in the implementation of existing agreements, particularly those that have been discussed between the Palestinian and Israeli Minister of Finance, can help the PA achieve fiscal sustainability. During this reporting period, the parties have continued discussions on several issues that fall under the Interim Agreement and Paris Protocol, including the expansion of the A1 list. While progress has been slow since 2012 when discussions began on fiscal leakages and the customs envelope, the last year has seen an exchange of documents, and greater engagement by both parties towards a future agreement on customs transfer. The parties are therefore encouraged to finalize the agreement on a framework for the transfer of customs authorities to the PA, which includes establishing bonded warehouses on the Palestinian side, along with a sequenced implementation plan that donors can consider supporting. To reduce potential fraud and tax evasion, the parties are encouraged to shift from the current paper-based process for reconciliation of Value-added Tax (VAT) invoices to an electronic clearance system, as provided for in the Paris Protocol.

Finally, the parties are encouraged to resolve the longstanding issue of the handling fee charged at the crossings. Parties discussed possible arrangements that would allow partial reduction on the current 3% fees, until such a permanent agreement can be reached, a proposal for the reduction of fees is a welcome provisional step that would support the PA's financial stability.

Following a successful pilot phase, the 'door to door' trade facilitation program for moving goods between the West Bank to Israel is now being expanded to include more companies across the West Bank. This eases the movement of low risk goods manufactured at secure factories in the West Bank, allowing them to proceed directly from the Palestinian factory through an Israeli checkpoint with minimal inspection and to move on to its destination in Israel or beyond. Work is currently underway to expand this program to the eligible users of the Sha'ar Ephraim Crossing and to companies manufacturing at the Bethlehem Industrial Estate. The GoI is therefore encouraged to identify an alternative crossing, such as Mazmouria or the tunnels to facilitate the transport of low risk goods originating in Bethlehem into Jerusalem. This process also has potential application to the Allenby crossing – which would allow for export of goods, including those that require the maintenance of a cold chain, to maximise shelf life and thereby enhance competitiveness.

The extension of hours of service at the crossing during these peak periods to 24 hours a day, five days a week has alleviated much of the previous congestion. Work also continues to improve the movement of passengers through the Allenby/King Hussein Crossing. Recent commitments by the GoI to work toward a biometrically facilitated mechanism of passenger processing through the Allenby crossing are welcome. This represents a step towards the issuance of biometrically enabled passports for Palestinians, consistent with international guidelines, as established by the International Air Carriers Organization. The GoI is encouraged to proceed with the remaining measures required to enable the issuance of biometrically enabled Palestinian passports.

Gaza's economic situation has deteriorated markedly in the last months, with an unemployment rate at 49.1% (Q1-2018), and a staggering 60% unemployment for youth between the ages of 15 and 29. Increasing economic growth requires the ability to increase commercial transfers to the West Bank and exports to Israel and beyond. Current discussion on expanding the categories of goods allowed to be transferred from Gaza to the West Bank to include processed foods should be accelerated, with the aim of securing GoI approval by the fourth quarter of 2018. Furthermore, the development of potential mechanisms to enable the entry of dual use material should be pursued by the parties with a view to implementation in advance of the next AHLC meeting. Ultimately, export led growth will require both local and international demand for the products. International community support for the generation of greatly needed demand for Gazan products is of critical importance and has the potential to significantly impact the Gazan economy.

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 previously identified short, medium and long term objectives in each of the key sectors in which the Office of the Quartet (OQ) works. As in previous reports, the energy and water sectors, both of which are of central importance in both the West Bank and Gaza, are addressed at length. Given that a functioning and sustainable Palestinian Authority (PA) and a strengthened economy are pre-requisites to making long-term change, the report also focuses attention on the rule of law, including the customs envelope, as well as the changes in movement and trade that have potential to increase economic growth.
2. This strategic focus, however, must be accompanied by efforts to urgently address continuing humanitarian needs, particularly in the Gaza Strip. In the immediate term this, combined with efforts to inject liquidity into the Gaza strip, represents the most direct and immediate means of improving the lives of Palestinians. A balance is therefore necessary, to address immediate needs, while also working towards the transformational change that is so badly needed.
3. The OQ's work is outlined in its Strategy 2018-2020 which has benefited from consultation with the parties, Quartet members (the United States, the European Union (EU), the United Nations and Russia) as well as the main donors to the office, each of which have been able to align behind the strategic objectives identified therein. The work of the office is supported by a core group of donors including the Kingdom of the Netherlands and the United States as well as the United Kingdom, the European Union, Canada and New Zealand. This report complements those of the World Bank, the International Monetary Fund and the United Nations. It covers the period up to 1 September, 2018.

ENERGY

1. Establishing a unified and economically viable Palestinian energy industry requires engagement throughout the generation-transmission-distribution value chain. This report therefore pays

particular attention to a number of key areas: the implementation of the September 2016 Electricity Agreement, the Gas for Gaza (G4G) project and initiatives to increase the power supply to Gaza via connections from Israel and Egypt.

2. While implementation of the **September 2016 Electricity Agreement** (hereafter the Electricity Agreement) has progressed over the reporting period, it has been slower than planned. Key milestones such as the energization of additional substations in the West Bank and the transfer of infrastructure to the Palestinian Authority (PA) are still pending due to insufficient funding and the absence of a signed sustainable Power Purchase Agreement (PPA). Despite this, some milestones of the Electricity Agreement have been reached including the construction of all four substations and the signing of a temporary PPA which resulted in power supply to the north of the West Bank via the Jenin substation[1]. In addition, on May 1st 2018, Palestinian Electricity Transmission Limited (PETL) and the Israel Electric Corporation (IEC) reached a preliminary understanding on many outstanding issues and initialed the PPA. This was a welcome step as it demonstrates the parties' commitment and willingness to conclude the commercial terms of a long-term agreement.

3. The OQ has supported the Palestinian Energy and Natural Resources Authority (PENRA) in developing a paper[2] outlining the steps that must be taken for the Electricity Agreement to be fully implemented once the PPA is signed. This includes payment of connection fees, energization of the three remaining substations, transfer of assets, construction of remaining feeder lines and the repayment of outstanding debt.

4. Moreover, the OQ is working with the PA to update the 2017 Electricity Agreement Implementation Plan. This exercise will take account of recent sector developments and support the PA in prioritizing their implementation efforts over the coming years. The updated Implementation Plan will be completed before the end of the year and outputs will be presented to the international community and sector stakeholders. The following next steps are required in order to realize progress in implementation:
   a. **the parties are encouraged to finalize a sustainable PPA;**
   b. **the Government of Israel is encouraged to provide the PA with the necessary permits for the construction of electricity feeder lines to allow the full utilization of West Bank substations;**
   c. **donors are encouraged to provide the outstanding funding for the implementation of the Electricity Agreement (~ 24 million USD).**

5. Gaza continues to suffer from a chronic energy deficit with a maximum of five hours of electricity available each day. Over the reporting period, the 120 megawatt (MW) supplied from Israel has remained the only reliable source of supply. Power lines from Egypt, which have in the past provided up to 27 MW of electricity, have not been operational since February 2018. The Gaza Power Plant

[1] Power supply from Jenin substation has recently increased from 40MW to 60MW following the construction of an additional feeder line.
[2] Electricity Agreement Implementation: Power Purchase Agreement "Day After" Paper

(GPP) has been operating on an intermittent basis, generating a maximum of 25 MW since early this year. These limited operations are primarily due to insufficient funding available to purchase diesel fuel.[3]

6. Immediate interventions are needed to mitigate the energy crisis and other medium-term measures must be pursued in parallel to address the crisis and to meet the growing demand for power in Gaza.[4] A holistic approach to the sector is required if all aspects of the generation, transmission and distribution value chain are to be addressed, in support of the PA's 2018-2023 Power Sector Development Plan for Gaza.

7. The most immediate increase in power for Gaza would result from an increase in generation via the GPP which continues to function far below capacity and is using expensive diesel fuel. A Gaza Electricity Distribution Company (GEDCO) decision to transfer collected electricity fees to the PA and a PA decision to waive taxes on fuel imported from Israel would increase the reliability, affordability and level of generation at the GPP until alternative supplies are available. In addition, reconstructing the fuel storage tank at the GPP would allow for the buildup of diesel reserves, reducing the impact of fuel supply disruptions within Gaza.

8. The resumption of imports of up to 27 MW of electricity from Egypt would provide an immediate improvement in the system, while upgrading this connection could increase capacity to 50 MW within one year, and according to PENRA estimates, up to 100 MW in the medium term. **The Egyptians are encouraged to agree on resumption of supply and upgrading the electricity infrastructure from Egypt to Gaza.**

9. In the medium term, establishing **a high-voltage 161 kilo Volt (kV)** line from Israel will help meet growing demand in Gaza by delivering an additional 100 MW in 3-4 years. PENRA estimates that the cost of the line is 45m USD. The 161 kV line would improve the commercial viability of the sector as bulk electricity would be purchased at the less costly high-voltage tariff and technical losses would be reduced. Since the last report no meaningful progress has been achieved. **The parties are encouraged to agree on the next steps to establish the 161 kV line, including the preparation of an implementation road map to agree costs, commercial arrangements, timelines and technical requirements.**

10. Connecting Gaza to natural gas is the central solution to the ongoing energy crisis. By facilitating a significant increase in domestic electricity generation on a cost-efficient basis, a natural gas supply will improve the reliability and affordability of electricity for consumers and generate substantial

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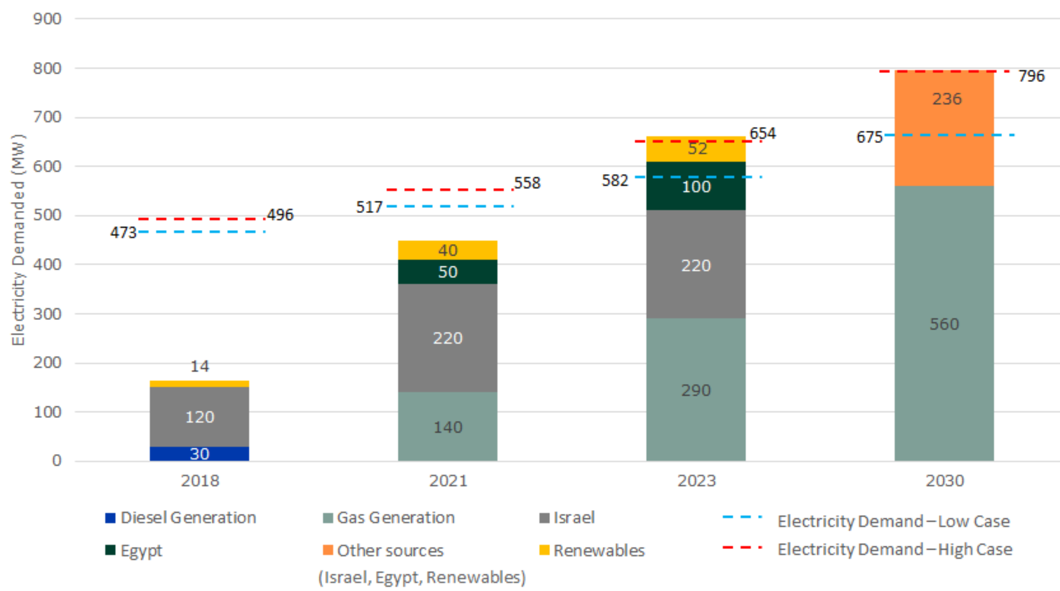
[3] Until mid-2017, diesel fuel for the GPP was procured and supplied by the PA from Israeli sources. GEDCO has since been purchasing low-quality fuel from Egypt following a dispute with the PA over fuel taxation and electricity collection payments, which has been available on an ad-hoc basis, according to the availability of funds from collected electricity revenues.

[4] See supply – demand graph in figure 1

savings for the sector. Furthermore, without access to natural gas, growing electricity demand in Gaza will not be met, as illustrated in Figure 1.

11. Electricity generation at the GPP based on natural gas, rather than diesel, could alone generate savings of approximately 460m NIS annually.[5] When combined with improvements to the collection of electricity revenues and reduced system losses, this would allow the sector to become self-sustaining. In addition, a natural gas supply to Gaza will support the viability of other industries and sectors, including the water sector where it would greatly reduce operating costs for the Gaza Central Desalination Plant (GCDP).



Note:
- Electricity demand projections are provided by the World Bank. PENRA's estimations are in line with the World Bank's high-case estimations.
- In the longer-term, any demand unmet from local sources, could be supplied by imported electricity from Egypt and Israel. Quantity imported will depend on demand and local generation levels, considering that locally generated power on gas is cheaper than imported electricity.

Figure 1: Projected electricity demand and planned sources of electricity supply in Gaza from 2018 to 2030

12. The **G4G** project continues to progress through the OQ-chaired Task Force.[6] Progress has been realized in developing the project's commercial structure over the reporting period. A 'Draft Proposal' outlining key contractual and financing arrangements has been prepared in coordination with legal and commercial advisors. Detailed discussions are now underway with the various commercial parties, lenders, donors and other relevant counterparties. Rapid progress is necessary to capitalize on the strong interest from donors and International Financial Institutions (IFIs) in order for work-

[5] Based on full utilization of the GPPs 140 MW capacity, and other assumptions around CAPEX and OPEX associated with domestic electricity generation based on natural gas.

[6] The Task Force is led with the ongoing support of the Government of the Netherlands and in March 2018, the EU announced its formal support to the project. G4G is a medium-term initiative, scheduled for completion in 2021.

streams to proceed. Grant financing will be critical to successfully address the project's financing requirements. In early September, two important G4G Task Force meetings took place:

- The first, the G4G Task Force Finance Committee meeting was hosted by the PA in Ramallah. This meeting allowed for the IFIs and donors to specify their requirements for project financing (including importantly the need to secure the flow of revenue from electricity fees in Gaza). The stakeholders mapped out the next steps on the form of each party's possible contribution to the project's financing arrangements to the project.
- The second, a full G4G Task Force meeting was held at the OQ a day later. This provided an opportunity for the relevant parties to share updates on G4G, including:
  - progress with the Israeli statutory planning process as well as the detailed design of the Israeli section of the pipeline, which can commence in the coming months;
  - the planning work that has been undertaken for the Gaza section of the pipeline;
  - welcoming the EU as a new member of the Task Force; and
  - agreement on next steps, particularly with respect to the project's commercial structure (including the need to put in place the Palestinian gas buyer).

In order to achieve progress with G4G, it is necessary for the PA to conclude the commercial structure for the project (including importantly putting in place the gas buyer, concluding commercial arrangements on the PPA for Gaza, gas purchase arrangements, etc.). Donors are encouraged to financially support the 80 million USD pipeline project.

13. In parallel, progress is needed on a number of ancillary work-streams to ensure the long-term sustainability of G4G and other infrastructure projects in Gaza:
    a. Addressing and resolving cost-recovery issues.
    b. Improvements to the commercial viability of the sector, through the immediate rollout of additional pre-paid/smart meters. This will result in an increase in collection rates. **The PA and donors are encouraged to support the roll-out of pre-paid/smart meters.**
    c. Upgrades to the electricity network, which is a necessary element to deliver the additional supply of electricity from domestic and imported sources. This will also reduce system losses, further improving the commercial viability of the sector.

14. The development of **renewables**, particularly solar photovoltaics (PV), has strong potential as a meaningful supplement to the generation/import strategies outlined above. There are currently a number of renewable energy initiatives in the Palestinian territory supported by the international community, including solar PV installations for water infrastructure, hospitals, health clinics and schools. For Gaza in particular, these initiatives are important to increase the resilience of local communities when power supply drops. The development of renewables can play an important role in expanding generating capacity, diversifying the supply mix and increasing Palestinian energy

independence. The OQ, in cooperation with partners in support of the PA, is currently examining the potential for utility scale solar PV projects in Gaza.

15. Palestinian access to the offshore Gaza Marine gas field would significantly support the development of the Palestinian energy sector. While progress to date has been slow, renewed discussions and recent developments in the ownership of the field are encouraging as a basis for commencing development. Developing Gaza Marine would significantly enhance energy independence and generate revenues for the Palestinians of up to 2.5 billion USD over its 25-year production lifespan. **The parties are therefore encouraged to conclude arrangements to enable the development of the Gaza Marine gas field.**

WATER

16. There have been a number of areas of progress, including advances in the Gaza Central Desalination Plant and its Associated Works (GCDP & AW), securing the operational viability of the Northern Gaza Emergency Sewage Treatment Plant (NGEST), the Southern Short Term Low Volume (STLV) desalination plant, and other water and wastewater infrastructure projects in Gaza, finalizing and implementing the Red Sea Dead Sea Agreement, advancing priority water and wastewater packages in the West Bank and Gaza, as well as mitigating challenges related to transboundary wastewater flows.

17. The situation in Gaza continues to deteriorate, which has added urgency to resolving the water crisis and exacerbated the key challenges to securing a sustainable and commercially viable sector. With a demand for domestic water supply of 114 million cubic meters (MCM) in 2017, only 15.5 MCM of potable supply was produced from local desalination and import.[7] The worsening economic situation has further limited the ability of residents to financially contribute to the sector in the form of bill payment, which increases the dependency on donor aid to support capital and operational costs of water and wastewater infrastructure. While progress towards securing agreed energy supplies for NGEST is welcome, the decline in overall energy availability, including fuel[8] in Gaza threatens the viability of planned water and wastewater infrastructure projects, some of which are already under construction or in the tendering phase (discussed in paragraph 19). The West Bank is also suffering

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[7] A PWA –OQ analysis of the current and projected supply and demand gap in Gaza's water sector is included as an Annex in the OQ's March 2018 Report to the AHLC

[8] According to UN OCHA, as of September 17, 2018 until the end of the year, there is a funding gap of 2 million USD for fuel supply to secure basic operations of the most critical health, water and wastewater facilities in Gaza.

from a shortage in water availability, where the domestic consumption is approximately 20% below the international standards. [9]

18. Despite these challenges, the reporting period has seen progress towards the establishment of the GCDP & AW, which, in its first phase, will provide 55 MCM per year of desalinated water to the residents of Gaza. The program aims to transform Gaza's water sector to significantly reduce the gap in supply and demand for potable water. Progress made in this reporting period is detailed below.
    - **a.** Following a pledging conference held in Brussels in March 2018, and a subsequent stakeholder meeting held in Barcelona in June 2018, ~ 408 million EUR (~ 488 million USD) has now been pledged for the GCDP & AW. **Donors are encouraged to meet the funding gap of 155 million EUR (~ 186 million USD).**

      In the June 2018 stakeholder meeting, priority components of the GCDP & AW were identified and a timeframe for implementation was developed and disseminated to determine the funding disbursement options. It was agreed that the basic premise for prioritization should be to ensure availability of initial funding for the GCDP, the North-South Carrier, and central elements that would enable the energy supply. The PWA reached out to most of the pledging countries to prepare the Memorandums of Understanding/agreements in order to formalize the pledged funding. **The donors are encouraged to formalize funding pledges with the PWA as well as define the mechanism for their disbursement, identify the program's priority components, and disburse funding accordingly as soon as possible.**
    - **b.** An Invitation for Prequalification for the Southern main carrier system of the Associated Works was published on August 6, 2018. An Invitation for Bid for the South Mekorot Connection was issued on September 10, 2018. Both packages are financed by Kuwaiti Fund. Further details on these components are included in paragraph 24a.
    - c. The European Investment Bank (EIB) is currently working on finalizing the terms of reference for a Management Support Consultant. In coordination with Fichtner,[10] the EIB is working to finalize a contract amendment for the GCDP tender, based on the decision to advance the Alliance Approach[11] for tendering. **Stakeholders are encouraged to move forward in accordance with the timeline to publish the tenders by the end of 2018.**
    - d. Building on the existing Gaza Reconstruction Mechanism (GRM), parties have identified additional parameters for the GRM that would ensure a more predictable, accountable, and transparent process for the entry of materials for the GCDP & AW. **Discussions among the**

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[9] Based on data from the PWA, non-agricultural consumption in 2016 was 81.3 MCM in the West Bank. For a population of 3,008,700, the liters/capita/day of non-agricultural water consumed was 74. According to international standards, 100 l/c/d is the minimum required daily for meeting basic water needs.

[10] Consultancy company, which developed the feasibility study for the GCDP among other studies.

[11] The Alliance Approach is the tendering process for the GCDP which was agreed by the stakeholders of the GCDP&AW program, which allows two bidders to develop a detailed design for the GCDP before selecting one contractor.

program's stakeholders and parties are ongoing, and the parties are encouraged to finalize these parameters in advance of the AHLC.

19. As of the beginning of July 2018, **NGEST** is now operating at full capacity, treating an average of 33,000m^3/day. Based on the MOU signed between the GEDCO and the PWA on January 27, 2018, between 20-22 hours/day has been supplied to the facility. However, while the quantity in supply is a welcome progress, the facility suffered from frequent interruptions (~ 6 times per day), caused by cutting and connecting the surrounding areas to NGEST, a practice that was needed to maintain the 20-22 hour/day supply.[12] The continuation of these electricity cuts would shorten the lifetime of key equipment for the biological treatment process and the onsite power generators. With financial support from the World Bank, the PWA has now modified the connection to the grid in order to decrease interruptions to two per day; however, this has resulted in a considerable deviation in the voltage of the electricity supplied, which may also damage vital equipment and instruments. The OQ welcomes the implementation of PWA's commitment to contribute to the operation and maintenance (O&M) costs for NGEST, by covering energy costs in the first two years of operation. The cost of fuel and electricity is the highest expense in NGEST's O&M. **Donors are therefore encouraged to help bridge the funding gap of 16.8 million USD for NGEST's O&M plan, which includes 5.8 million USD for the non-revenue water interventions required at the municipality level to enable greater cost recovery. This funding gap could be minimized to 13 million USD if the PA provides a tax exemption for fuel investment in solar energy for NGEST would significantly reduce O&M costs and provide a reliable supply of energy for the plant. The GoI is encouraged to provide approvals for building an additional solar field in the access restricted area adjacent to NGEST. The PA and potential donors are encouraged to formalize interests and commitments to advance solar energy for NGEST.**

20. The PA's provision of 1.5 MW required to operate the **Southern Short-Term Low Volume (STLV)** desalination plant will enable the plant to operate 22 hours a day and provide potable water to 75,000 residents of Rafah and Khan Younis. **GEDCO is encouraged to advance the necessary upgrades to the electricity grid in order to secure this supply**. The expansion of the Southern STLV to its second and third phases is being tendered while construction is expected to begin by the end of 2018 for completion by 2020.

21. The progress made with NGEST has given renewed momentum to the water sector, with **four additional projects** expected to be operational within the next 12 months in Gaza. These projects include the Gaza City STLV desalination plant and Deir al Balah STLV[13] as well as the Khan Yunis and

[12] There is a schedule of electricity distribution in Gaza, where different neighborhoods are supplied electricity at different hours. NGEST is connected to electricity supply of the surrounding neighborhoods in order to maintain the 20-22 hour/day supply needed for operation. Cutting electricity supply in one neighborhood and connecting a different neighborhood, based on the schedule, causes temporary interruptions in supply for NGEST.
[13] Operations are expected to begin at the end of October 2018

Gaza/Middle Area wastewater treatment plants. Each project will require financial support to cover operational costs, including for the energy supplies required to operate them. Solar and biogas energy facilities will be constructed for the Gaza Wastewater Treatment Plant; electricity supply from the grid will only be needed to operate the plant at night for a transitional period until sufficient biogas is produced. The other projects will require continuous power supply from the grid which will be supplemented with renewable energy once developed. The wastewater treatment plants will require further funding for the development of wastewater reuse schemes. **Donors are encouraged to support the provision of energy for existing facilities while also planning for the energy and O&M-related funding needs of future planned water and wastewater infrastructure in Gaza**. **Moreover, GoI is encouraged to provide all the clearances needed for the entry of materials to ensure that the construction of these facilitates can advance according to their timelines. As can be noted, all water and wastewater facilities will suffer from the lack of electricity during their operation, therefore, the parties are encouraged to proceed with increasing the electricity bulk supply in Gaza including implementing the 161 kV line as outlined in the Energy section of this report.**

22. Progress in finalizing the **Red Sea Dead Sea (RSDS) Agreement** is slower than had initially been hoped. However, the recent meeting of May 31, 2018, in which the PWA and GoI discussed outstanding issues in the finalization of the agreement, is a welcome development. A new draft merging the first Israeli and Palestinian drafts, shared in August 2017 and February 2018 respectively, was prepared by GoI and shared with the PWA on 26 June 2018. **Parties are urged to finalize a reliable agreement, based on international practice, in order to introduce the immediate supply of agreed quantities.** In Gaza, starting the supply of agreed RSDS quantities requires concluding the agreement, finishing the construction of a pipeline on the Israeli side, and advancing the infrastructure upgrades in the south of Gaza including the blending reservoirs**.**
    a. The PWA started the tendering process for the Southern Components of the AW, which will support the distribution of RSDS water. The Kuwaiti Fund's transfer of the committed funding is an important measure to realize the construction of the majority of the infrastructure in the south. **Donors are encouraged to advance the transfer of funds to enable the construction of the remainder of the Associated Works.** Lists of materials and numbers of trucks needed for import for these components were modified and sent to the Israeli Coordination Liaison Administration (CLA) in March 2018. As of September 2018, the PWA hired an international supervision company, which will be responsible for uploading the GRM with materials for the AW beside its supervisory role. The **GoI is encouraged to provide immediately an *in-principle* approval for the entry of materials and full approval for all materials in accordance with the timeline set in MG Yoav Mordechai's letter of September 12, 2017.**
    b. The construction of the infrastructure on the Israeli side is continuing and should be concluded in next few months. Connecting this infrastructure to the infrastructure in Gaza is pending the development of the connection points on the Palestinian side, as clarified in paragraph 24a.
    c. Furthermore, the construction of the Al Montar mixing facility will enable Gaza to double supplies (5 MCM based on the regional RSDS agreement, available to supply now, and 5MCM

based on a bilateral arrangement between the PA and GoI for Additional Supply) of bulk water in the north of Gaza, for which detailed designs are now ready. Al Montar mixing facility is included as one of the seven components of the Associated Works of GCDP. **The European Union (EU) is strongly interested in funding 8 million USD to enable the construction of this facility.**

d. To support the supply of the RSDS water to the West Bank, U.S. Agency for International Development (USAID) is close to completing the detailed designs and tendering documents for the needed infrastructure in the Ramallah area and 30% of detailed design of infrastructure in the Jenin area**.** Agence Française de Développement (AFD) is working to establish a trust fund to help secure the funding for the infrastructure relevant to the RSDS. It is estimated that 50 million USD is needed to enable the completion of the detailed design for the required infrastructure in the Jenin area, (which USAID is partially developing), and ultimately, the construction of needed infrastructure in both Ramallah and Jenin areas. **While the AFD) and the EU are strongly interested in contributing with approximately 28 million USD, other donors are encouraged to provide further financial support to meet the remaining gap.** USAID will continue, to the extent possible, to provide its technical support to other donors as they take over efforts formerly handled by USAID. **The GoI is encouraged to provide clearances for the construction of infrastructure in Area C based on the developed detailed design**.

23. **A priority list of water and wastewater projects** from the period 2018-2022, developed as packages by the PWA in November 2017, will enable an increase in domestic water supply by 67.5 MCM[14] in the West Bank and 78 MCM[15] in Gaza. Beside the significant environmental impact of the identified wastewater infrastructure interventions, the wastewater package will also produce 41 MCM and 44.3 MCM of recycled water for agriculture in the West Bank and Gaza respectively. Excluding the GCDP & AW, a funding gap of ~ 61.5 million USD (not including the funding gap for the construction of the RSDS water systems in the West Bank.) for the water package and approximately 365 million USD for the wastewater package remains outstanding (in both West Bank and Gaza). **The PWA is therefore encouraged to continue consultations with donors regarding these priority projects to secure funding and the GoI is encouraged to provide an *in-principle* approval for relevant construction in Area C.** Joint Water Committee (**JWC) approval is also needed for key interventions that require rehabilitating or drilling new wells in the West Bank. In Gaza, the GoI is encouraged to provide approvals for the entry of materials for relevant infrastructure projects identified in the packages.**

24. Further to the PA Cabinet's commitment on December 12, 2017 to allocate 55 million NIS a year for the next five years for wastewater projects that will minimize the flows of transboundary wastewater, there has been no significant progress in the discussions on **transboundary wastewater flows** over this reporting period. An expression of interest was published by the PWA for a design and feasibility

[14] 22MCM RSDS, 25MCM additional supplies from Israel, and 21.5MCM abstraction from groundwater
[15] 68MCM from local desalination (GCDP and STLVs) and 10MCM from RSDS

study of the projects identified in the PA Cabinet decision, for which the PWA is currently evaluating applicants. **The PWA is encouraged to respond to the draft wastewater protocol shared by the Israeli Water Authority (IWA) on December 4, 2017. The IWA is also encouraged to respond to the template for sharing monthly data on transboundary wastewater flows, developed and shared by the PWA on March 28, 2018.**

TELECOMMUNICATIONS

25. Further to the March 2018 AHLC report, the successful implementation of 2G in Gaza and 3G in the West Bank is a welcomed achievement particularly seeing the positive impact it has on the local economy. Although it is yet too early to quantify exact figures relating to the larger economic impact, initial estimations have been obtained and continue to be explored. However, it is established that the mobile data technology market has been growing in line with the two telecom companies' forecasts i.e. as of September 1, over 30% of Jawwal customers in the West Bank are using mobile data services, while Wataniya has witnessed a 58% increase in its subscriber's base.

26. These services allowed for significant sources of revenue for the Palestinian Authority (PA). This included for example, revenues of approximately 266 million USD in Jawwal's licenses and approximately 1.4 million USD increase in VAT paid by Wataniya to the PA. Furthermore, it allowed for improved financial performance for both operators, where for instance, in comparison to the previous year, Wataniya's revenues increased by 21% in the first half of 2018. Finally, large-scale investments, such as Jawwal's 41 million USD in 3G sites and equipment as well as 9 million USD towards contracts with local vendors disbursed annually continue to stimulate local economic growth. As predicted, deployment of the 3G and 2G fostered the creation of many new business ventures such as startups using mobile applications and so on. In Wataniya's sales channels alone, this created approximately 150 direct and 1000 indirect employment opportunities.

27. To enable the introduction of mobile data services in Gaza, the PA confirmed that it would support the introduction of **3G technology** so long as the project can be implemented within 2018 or early 2019, as vendors' technical support for 3G will finish in 2022. The Ministry of Telecom and Information Technology (MoTIT) has, since December 2017, communicated several requests to the GoI for the allocation of 3G spectrum and type approvals for equipment. Should approval of 3G technology not be forthcoming by October 2018 there is a danger that this technology will no longer be viable, possibly requiring a shift to discussion on the deployment of 4G in Gaza. **The GoI is therefore encouraged to enable the deployment of 3G technology in Gaza immediately. If no approvals are granted and no further progress is made, the parties through the Joint Technical Committee (JTC) should advance discussions to enable the deployment of 4G in Gaza where a timeline for allocating the 4G spectrum and for giving the type approval for 4G equipment should be communicated. To address the demand for higher speed and capacity as well as lower prices of mobile data technology in the West Bank, the JTC is encouraged to engage in discussions for the allocation of spectrum for 4G/5G data technology.**

RULE OF LAW

28. The ability to exercise legal authority, ensure coherent and effective governance structures, guarantee security, and enforce a legal system that protects the rights of citizens and meets the needs of a modern economy, are pillars for prosperity and economic development. In this context, the efforts to advance rule of law in particular on interconnected issues, such as the strengthening of the legal framework for the Palestinian economy, the improvement of trade regimes, and expansion of the capacity and scope of the PA justice and security sectors are of significant strategic importance.

29. At a time of declining international donor support, improvements in the fiscal and financial framework **for the Palestinian economy and in the implementation of existing agreements**, particularly those that have been included as components of the discussions between the respective Ministries of Finance (MoF to MoF), can help the PA achieve fiscal sustainability. During this reporting period, the parties have continued discussion on a number of issues that fall under the Interim Agreement and Paris Protocol. Addressing these issues requires a holistic approach which combines policy level engagement with technical level analysis, to facilitate agreement between the parties and to ensure that any resulting agreement can be implemented effectively and efficiently.

30. Positive progress toward the **transfer of customs authorities** could promote trade if both sides work under the principles of reducing the costs and handling times faced by Palestinian importers, facilitating the smooth movement of goods, improving inventory management, creating investment opportunities and, potentially, reducing the leakage of customs revenue. While progress has been slow since 2012 when discussions began, the last year has seen an exchange of documents, and greater engagement by both parties towards a future agreement. While no arrangements have been finalized, a draft Memorandum of Understanding (MoU) remains under discussion by the parties. The parties are encouraged to finalize the MOU in the next two months, detailing the specific authorities and functions to be transferred to the PA, those functions to be retained by the PA, the number and location of customs clearance points, and the specific arrangements and processes to be implemented for the movement and clearance of goods. The international community has also shown strong interest in supporting the PA in developing its capacity to manage customs collection and clearance once an agreement is reached. Details on the specific functions to be transferred and a timeline for the same will be needed in order for donors to be able to determine the nature of technical assistance and infrastructure required.

31. For the process of the transfer of customs authority to move forward smoothly, several key issues must be analyzed and addressed first, with appropriate roadmaps outlined for the resolution of each issue and the development of new capacities where relevant. These include the legal framework for PA customs, the adequacy of the PA's existing electronic customs system and its ability to exchange data with the new Israeli system, the chain of current customs processing of goods, and the capacity and needs of PA customs to assume the new functions to be transferred. Three studies have been launched to examine the above issues and to outline the upcoming steps to be taken by the PA in order to prepare for the assumption of new customs authorities. **The parties are encouraged to**

finalize the agreement on a framework for the transfer of customs authorities to the PA, which includes establishing bonded warehouses on the Palestinian side, along with a sequenced implementation plan that donors can consider supporting. At the same time, commitments from the international donor community should be forthcoming to assure the PA will have the resources and capacity to effectively fulfill the new responsibilities it is assuming.

32. **To reduce potential fraud and tax evasion the parties are encouraged to shift from the paper-based process for reconciliation of Value-added Tax (VAT) invoices to an electronic clearance system, as provided in the Paris Protocol.** The establishment of an integrated e-system would provide Israel and the PA with a transparent, accountable, and accurate accounting system. It would also provide the PA with the information needed to prevent the loss of VAT income from fraudulent and undeclared invoices and invoices not under its jurisdiction (e.g. sales to Gaza, sales through Area C). In addition, the e-system would also enable the Palestinian Authority to identify and tax undeclared Palestinian business income. At the same time, it should be noted that the introduction and recent expansion of the large dealers reporting system has regularized the collection and payment of a significant portion of VAT transfers from Israel to the PA.

33. Discussions on the shift to an electronic VAT clearance system have yet to yield results and differences remain on the approach to implementation. **Progress in this important area will require that the parties address the following issues:**
    a. **Finding a suitable resolution to the question of whether VAT transfers will be triggered at point of sale or by the movement of goods through transfer points.**
    b. **The sharing of information between the GoI and the PA regarding those traders who do not submit VAT invoices to the PA will enable both parties to take action against the non-compliant traders and reduce the VAT leakage.**
    c. **In Gaza, where the movement of goods are tightly controlled and more easily tracked, a move to electronic clearance and recording of VAT on all goods. More immediately, a system should be put in place for collection of VAT invoices on goods moving through Kerem Shalom.**

34. In relation to trade, the Interim Agreement provides that the PA can set its own import policy with respect to specified commodities on **the "A1 list" of goods** imported from Jordan and Egypt. The items and quantities specified on the list were supposed to be reviewed and updated on a regular basis by a sub-committee of experts based on the changing needs of the Palestinian population and economy. However, the list has not been significantly revised or updated in over twenty years. The Wye River Economic Committee recommendations of June 2000 proposed a dramatic expansion of the A1 list, but it was never implemented. The Kingdom of Jordan, the GoI and the PA have shown much interest in promoting trade between Jordan and the Palestinian territory. An expansion of the A1 list would enable the importation of lower-cost goods from Jordan and produce savings for Palestinian consumers while potentially increasing revenue to the PA. By setting their own import and customs policy, aligned with national economic strategies, the PA can generate greater revenue while also increasing the competitiveness of Palestinian industries. A detailed analysis with recommendations for the expansion of the A1 list has just been completed. **Following review by the PA, the GoI, Jordan,**

the Palestinian private sector and relevant partners within the international community, the parties are encouraged to engage in discussions to agree on an expanded A1 list.

35. There is a need for greater clarity of data in the transfer of clearance revenues, with details provided with respect to the basis of calculations of revenues and deductions, as well as an improved arrangement for verification and reconciliation of the data. **The GoI has indicated a willingness to explore how to improve the information provided with respect to revenue transfers; the parties are urged to find a means to ensure the continued, predictable transfer of revenues to the PA**.

36. With respect to **Allenby Bridge exit fees**, the GoI unilaterally raised the fee from US $26 to $45 in 2008, without increasing the share transferred to the PA, and has claimed that the additional revenue has been applied to upgrades at the Allenby facility. **The parties have established a committee to address this issue, but no progress has been achieved in the past several months; they are encouraged to resolve both the dispute over ten years of retained fees, and the apportionment of exit fee revenues going forward.**

37. While the Paris Protocol provides that the GoI will deduct a 3% **handling fee** to cover its administrative costs in collection and management of revenues for transfer to the PA, the Palestinian Authority and World Bank have suggested that the fee no longer reflects actual administrative costs given the substantial increase in Palestinian imports since the time of the Paris Protocol. The World Bank has proposed that the fee be revised to 0.6%, "commensurate with the share of Palestinian imports in total imports handled by the Israeli customs and VAT department," which would reduce the fee by ~ $50 million. The PA has also argued that the handling fee should not apply to taxes on fuel. The parties have exchanged ideas to address this issue. While there have been continued discussions on this issue, with proposals ranging from one-time transfers to temporary reductions, to a mutual development fund, no agreement has been reached. **The parties are encouraged to find a solution – ideally a long-term one – to resolve the issue in a manner that produces a mutually agreed reduction in the fee. This is a sensible step in the foreseeable future, bearing in mind also the anticipated handover of customs authorities to the PA. However, until such an agreement can be reached, a proposal for the reduction of fees is a welcome provisional step that would support the PA's financial stability.**

38. Under the terms of the Paris Protocol, the GOI has **deducted funds for pension insurance** from the wages of Palestinians employed in Israel and retained these funds pending the establishment of the relevant Palestinian institution. Following the enactment of a new law, the PA has announced that the Social Security Fund will begin operations in July 2018. **The PA and GOI are encouraged to come to an agreement, based on the records of collections and disbursements of these fund, on the amount to be transferred from the GOI to the new fund for the benefit of Palestinian workers**.

39. **Improving the rule of law and ensuring effective governance structures** are two pillars of the PA's National Policy Agenda and the sectoral strategies adopted by the PA. In a positive development since the March AHLC, some noteworthy legal reforms have been adopted by the PA. These include amendments to the cybercrimes law and to the law on the High Criminal Court, as well as revision of the Penal Code to strengthen the penalties for honor crimes and crimes against women and children.

Notwithstanding such efforts to strengthen the rule of law, the conflict in the mandates of the various justice institutions and the lack of clarity in the law governing the judicial system continue to pose significant challenges for genuine progress. Concerns have been raised within the international donor community, Palestinian civil society and by various actors within the Palestinian legal system that the significant progress that was achieved in recent years in the justice sector has stalled. In response, a special committee was appointed by President Abbas on 9 September 2017 to develop a vision for the justice sector that addresses these challenges. **The committee finalized its mandate and has adopted important recommendations that, if implemented, would empower the justice sector, increase the efficiency of the court system and ensure the independence of the Palestinian judiciary. The PA is encouraged to fully implement these recommendations and establish an independent committee to translate these recommendations into draft amendments to the Judicial Authority Law and other laws that would ensure fair trial and justice. Also, the PA is encouraged to continue to involve the CSIs in any future endeavor to amend judicial related laws. The international community is encouraged to provide technical support to implement of the recommendations.**

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

MOVEMENT AND TRADE

41. Regrettably, the last year has seen declining economic growth of 2.5% (from 2.7% in 2017), with particularly low levels in the Gaza strip.[16] While the Palestinian Territory will only reach its full economic potential with the realization of a final status agreement, in the current environment it is still possible to increase economic growth and thereby improve people's lives, by enabling greater freedom of movement and access for goods and people, fostering a business-friendly environment, enabling efficient transportation systems and strong policies to allow businesses to respond to market demand. Existing processes need to be streamlined to strengthen Palestinian economy. Furthermore, reducing the costs of production through improved trade facilitation and increased access to a variety of raw materials will help increase the competitiveness of Palestinian products and thereby drive export led economic growth.

42. The recent establishment of the **'door to door' trade facilitation program** for moving goods between the West Bank and Israel represents one positive step to streamlining existing procedures. This eases the movement of low risk goods manufactured at secure factories in the West Bank, allowing them to

[16] Palestine's economic outlook 2018, World bank

proceed directly from the Palestinian factory through an Israeli checkpoint with minimal inspection and move on to its destination in Israel or beyond. Almost 600 shipments per month are now facilitated in this manner, without the use of the costly and cumbersome back to back process, mandatory scanning, and the associated offloading, inspection and re-loading onto an Israeli truck before onward transit to the destination in Israel. The door to door process removes about 26-28 of the ~ 350 trucks per day that move through the Tarqumiya crossing from the queue. It is anticipated that upcoming expansion plans to add four more companies that currently use the Tarqumiya crossing will increase this number to 1000 per month. **Work is currently underway to expand this program to the eligible users of the Sha'ar Ephraim Crossing and to companies manufacturing at the Bethlehem Industrial Estate. The GoI is encouraged to identify an alternative crossing, such as Mazmouria or the tunnels to facilitate the transport of low risk goods originating in Bethlehem into Jerusalem.**

43. Building on the process outlined in the preceding paragraph, it is possible to realize similar improvements to the process of export to Jordan and beyond. The parties are therefore encouraged to work with the Government of Jordan, to consider the establishment of a limited Authorized Economic Operator (AEO) pilot program to allow empty Jordanian refrigerated trucks to enter into Area C via Route 90 (~ 10 minutes outside the gates of the Allenby Bridge) to pick up produce, fresh herbs and dates grown in the Jordan Valley, destined for Jordan and the Gulf states. This will extend the benefits of a door to door type program to the international arena and will have the benefit of establishing and maintaining a cold chain for these sensitive commodities, thus ensuring the quality and shelf life of the produce is maximized to enhance competitiveness.

44. **The Allenby/King Hussein Bridge Crossing** is the only consistently available international gateway for almost all Palestinians with an average of ~ 11,000-12,000 passengers per day crossing during the peak summer travel season in 2017. The extension of hours of service at the crossing during these peak periods to 24 hours a day, five days a week has alleviated much of the previous congestion and has provided increased access to more same day flights for Palestinian travelers using the Queen Alia Airport in Amman for travel beyond Jordan. From January-June 2018, passenger traffic at Allenby increased by another 10% when compared to 2017. It is important to continue to further streamline these processes, emphasizing an increased reliance on modern border management technology and already established biometric processes which have the potential to significantly improve both processing speed and passenger throughput. **Recent commitments by the GoI to work toward a biometrically facilitated mechanism of passenger processing through the Allenby crossing are therefore welcomed; they represent a step towards the issuance of biometrically enabled passports for Palestinians, consistent with international guidelines, as established by the International Air Carriers Organization. The GoI is encouraged to proceed with the remaining measures required to enable the issuance of biometrically enabled Palestinian passports.**

45. The availability of the new cargo scanner at the Allenby cargo processing facility has enabled cargo to enter the West Bank from Jordan and beyond significantly more quickly than in the past. Whereas cargo destined for West Bank locations had on some occasions been delayed overnight in Jordan, the scanner has enabled all cargo to enter the West Bank by ~ 3 pm each afternoon. Additional efforts are underway to work with the Palestinian private sector importers and exporters who utilize the Allenby crossing to identify additional efficiency improvements.

46. **Gaza's economic situation** has deteriorated markedly in the last months, with an unemployment rate at 49.1% (Q1-2018)[17], and a staggering 60% unemployment for youth between 15 and 29. Increasing economic growth requires *inter alia* changes that will improve the entry of productive imports to the Gaza Strip, changes in the categories of commercial transfers to the West Bank and increased export possibilities to Israel and other countries**. Current discussion on expanding the categories of goods allowed to be transferred from Gaza to the West Bank to include processed foods should be accelerated, with a view to securing GoI approval of the proposed transfer by the fourth quarter of 2018. Furthermore, the development of potential mechanisms to enable the entry of dual use material – including the possible creation of a Monitored Industrial Zone – should be pursued by the parties with a view to implementation in advance of the next AHLC meeting.** Ultimately, however, export led growth will require both local and international demand for the products. **International community support for the generation of badly needed demand for Gazan products is of critical importance and has the potential to significantly impact the Gazan economy**.

47. Recent discussions regarding the possible establishment of a seaport to facilitate entry of goods into Gaza are welcomed. Current cargo processing procedures at Karem Shalom/Karam Abu Salam, including the double "back-to-back" are cumbersome, time consuming and expensive. The identification of possible alternatives, such as the establishment of a seaport, should be explored. The security of shipments involving sea transport is enhanced because of layered cargo security measures utilized by the shipping industry to further assure the security of maritime shipments. Security measures in place in the maritime environment such as the ability to target and scan potentially high-risk shipments prior to loading, secure handling procedures, use of electronic tracking mechanisms and e-seals have the potential to enhance the security of shipments entering Gaza far beyond what is currently possible in a land crossing environment such as Kerem Shalom.

ECONOMIC MAPPING

48. Initially conceptualized to support private enterprise development in the West Bank and Gaza through geographic information systems, the Economic Mapping project has since evolved due to the value these systems offer to the Palestinian economy and public sector. The web-based platform pMaps.io allows three tiers of stakeholders to visualize spatial data to fill information gaps in key sectors, including agriculture, energy, water, IT, tourism, and light manufacturing. Business intelligence dashboards, infographics, maps, and spatial analysis tools are leveraged by business leaders in the Palestinian private sector to identify optimal locations for growth through a holistic understanding of restrictions, land ownership, infrastructure, etc. For the international community, the platform offers a high-level perspective on the interconnections between development priorities such as the crucial Water-Energy-Food nexus. Software integrations with the platform enable the PA to seamlessly share data across the ministries, leading to informed policy and investment decisions.

[17] Palestinian Central Bureau of Statistics

49. It is sought to further maximize the economic advantages of employing geospatial data through technical capacity building and secondments in the following institutions:
    - The Palestinian Central Bureau of Statistics is supported in developing a web-app, indicators.ps, tailored to publishing census data. A combination of historical data, statistical algorithms, and machine learning techniques are employed to discover emerging patterns and trends. The initial application has been completed to publish the 2017 census data, and the second phase is underway.
    - In collaboration with the Ministry of Agriculture, a farmer's registry web-app will be developed to increase the Ministry's capacity to collect accurate data about the vital Palestinian agricultural sector and offer services to local farmers. This app will undergo pilot testing in April 2019 with local agronomists in preparation for use in conjunction with the 2020 Agricultural census.
    - Together with the GeoMoLG team, a technical and legal framework for the dissemination of spatial data is being designed. The National Spatial Data Infrastructure initiative aligns local geospatial data practices with international norms and enhances the PA's capacity to regulate spatial data production and management. To this extent, support to the Ministry of Local Governance will continue through the end of 2019.

    The sustained utilization of these tools will enable the PA to fill information gaps and increase accountability by promoting sound investment and planning policies while communicating evidence-based strategies to stakeholders and the public alike.