

OFFICE OF THE QUARTET REPRESENTATIVE (OQR)

Report for the Meeting of the Ad Hoc Liaison Committee

Brussels, 19 March 2013

Table of Contents

MESSAGE FROM QUARTET REPRESENTATIVE TONY BLAIR	3
SUMMARY OF KEY OQR ACHIEVEMENTS	6
OQR WORK PROGRAMME: LOOKING AHEAD	
STRATEGY AND STAKEHOLDERS	9
OQR PRIORITIES	
1. OPENING UP AND RECONSTRUCTING THE GAZA STRIP	10
2. FACILITATING TRADE AND PRIVATE SECTOR DEVELOPMENT	11
3. PROMOTING SOCIO-ECONOMIC DEVELOPMENT IN AREA C	13
4. FURTHERING SOCIO-ECONOMIC DEVELOPMENT IN EAST JERUSALEM	14
5. ADVANCING THE RULE OF LAW	15
CONCLUSION	17
ANNEX 1: OQR ACHIEVEMENTS SINCE SEPTEMBER 2012	18

AHLC REPORT 19 March 2013

This report provides an update on the work of the Quartet Representative (QR), Tony Blair, the Office of the Quartet Representative (OQR) and other partners in support of Palestinian economic growth and institution-building since the previous Ad Hoc Liaison Committee (AHLC) meeting in September 2012.

Message of the Quartet Representative Tony Blair

More than ever, this AHLC meeting comes at a profoundly important time for the Palestinian Authority. The unprecedented and deepening fiscal crisis, aggravated by a slowing economy, reduced investment, growing unemployment and an unpredictable political and economic environment, puts Prime Minister Salam Fayyad's policy reforms and statehood agenda at increased risk. During the past 6 months, socio-economic conditions on the ground deteriorated. The escalation of hostilities in Gaza and southern Israel, in November 2012, dampened prospects for economic recovery, adding further misery to the already dire socio-economic conditions in the Strip.

During the past five years, I have advocated a broad set of interrelated measures to boost the development priorities of the Palestinian Authority. I have also emphasized the importance of connecting the development agenda on the ground with progress on the political front, which are mutually reinforcing. For the first time in a long while, I am cautiously optimistic about the prospects for a resumption of the political track. However, history has taught us that its chances of success will to a large extent depend on tangible improvement in the living conditions of the people involved.

Radical measures to reverse these negative trends and bring about transformative change, are urgently required. Building a sustainable Palestinian economy, widely seen as the cornerstone of the future Palestinian State requires an enabling environment, in which normal access and movement arrangements, adequate physical, social and financial infrastructure, and supportive policies and institutions, most notably on the Rule of Law, are in place. All parties must act decisively and immediately to bolster the Palestinian economy by empowering the private sector and PA institutions.

Going forward, a set of immediate measures are needed to address the increasingly grim situation. As a matter of urgency, the predictability of PA revenues must be assured, meaning that Palestinian tax clearance revenues must be transferred automatically and on a

regular basis. Further efforts to enhance Palestinian revenues, including joint actions by the Israeli and Palestinian Ministers of Finance, should be implemented without delay. Simultaneously, the Palestinian Authority must actively consider ways to rationalise its expenditures. More – and more immediate - donor assistance is needed to balance the PA's 2013 budget and help meet its growing development needs, in Gaza as well as the West Bank, including East-Jerusalem.

For Gaza, it is vitally important to empower the private sector and support the economy, in addition to facilitating the delivery of basic social services such as water, sewage systems and energy. This requires, inter alia, agreement to enable Palestinian telecom companies to introduce 3G and 4G technologies and roll-out networks; approval to allow Gazan products (i.e. furniture, textiles and all fruits and vegetables) to be sold in their natural markets in the West Bank and in Israel; a substantial revision of the controlled items dual use list for Gaza, allowing for unrestricted entry of construction material for the legitimate private sector and fuel into the Gaza Strip; an increase of the height limit from 1 meter to 2 meter for exports from Gaza to Kerem Shalom; expansion of the fishing limit off the coast of Gaza Strip to 20 nautical miles as agreed in the Oslo accords; an agreement to allow Palestinian students from Gaza to study in West Bank Universities; and agreement to increase the daily quota of traders permitted to enter Israel from Gaza from 100 to 150.

For the West Bank, including East-Jerusalem, immediate measures include approval to allow the Telecom sector to operate under the same conditions as Israeli companies in Israel; East Jerusalem hospitals to procure pharmaceutical products from West Bank suppliers; approval of an additional 15,000 permits for Palestinian workers; the expansion of Palestinian legal footprint / public order activities in Area B, particularly with respect to policing, criminal investigations, transport of detainees and evidence collection; and agreement to increase the quota for family reunification for Palestinians abroad to September 2000 levels.

In Area C, pursuant to changes at the policy level, agreement to fast-track and approve all 32 submitted community-driven master plans in Area C is urgently needed. Other immediate measures needed include the freeze of all demolition orders of structures and projects, built to meet the basic needs of Palestinian inhabitants; an agreement to accelerate the process of permit issuance for existing and new quarries; agreement to allow the PA to build and maintain public service facilities; agreement to allow the development of Palestinian-owned land for industrial, tourism, agricultural, water and transport projects; agreement on measures to significantly advance the facilitation of internationally funded projects in Area C and Gaza, including schools, clinics and waste-water treatment, sewage treatment and

desalination plants and electricity supply; and the speedy implementation of water projects that have been approved by the Joint Water Committee but lack construction.

Moreover, structural measures are needed that would allow the Palestinian economy to expand. These include the lifting of restrictions on access and movement for goods and people, re-designation of land in the West Bank and, in parallel, measures to facilitate the development of Palestinian-owned land for industrial, tourism, agricultural, water and transport purposes. Recognition of the importance of East Jerusalem to the Palestinian economy must be translated into concrete measures that enable the private sector, alleviate constraints and improve livelihoods, including access to basic social services and affordable housing.

We stand at the crossroads. The two state solution, though far from dead, has been on life support for too long. I call upon all parties to seize today's opportunities with both hands and build a better future. The alternative – a decline of the PA and a collapse of the peace process – is not an option.

SUMMARY OF KEY OQR ACHIEVEMENTS

Since September 2012 the OQR has continued to work towards key outputs for promoting economic growth and job creation in the West Bank and the Gaza Strip, and supporting the institution-building agenda of the Palestinian Authority (PA). OQR advisers continued to lead portfolios under the following priority areas:

1. Fostering private sector development, facilitating trade, and critical infrastructure development;
2. Promoting accelerated development in the Gaza Strip, Area C and East Jerusalem; and
3. Promoting institution-building and donor assistance to the PA.

A summary of progress under each portfolio is attached at Annex 1. Key achievements are highlighted below:

East Jerusalem Business Development Forum: In close cooperation and coordination with local private sector leaders, and with support from the international community including the EU, Germany and the UK, OQR helped to organise the *East Jerusalem Business Development Forum*, securing funding, facilitating entry to Jerusalem for investors, and supporting the Forum Steering Committee including its work to hold promotional road shows. It was the first such forum to be held in the city in the last 45 years and generated promising investment opportunities for the private sector worth a total US\$500 million for tourism infrastructure, real estate and ICT. The Forum was intended to match local businesspeople with potential regional and international investors, initiating direct business-to-business meetings so that these partnerships could translate into action. It was attended by more than 200 Palestinian, Arab and international investors and marks an important step forward in efforts to promote sustainable economic development and to improve living conditions in East Jerusalem.

Mortgage financing: In addition to Israeli restrictions, lack of adequate financing schemes has limited the ability of Palestinian private sector investors to respond to the estimated shortage of 45,000 adequate housing units in East Jerusalem. OQR has worked with local Palestinian banks, the Palestinian private sector, Islamic Development Bank and other donors to develop a scheme that would encourage local banks to provide mortgages to households in East Jerusalem. One Palestinian bank is now in the process of entering the

city's mortgage finance market and OQR is working closely with other banks to encourage them to follow suit.

Containerisation of trade: Very good progress has been made toward containerisation at the Allenby/King Hussein Bridge between the West Bank and Jordan. All parties – Government of Jordan (GOJ), Government of Israel (GOI) and the PA – have reached the relevant agreements and technical discussions are underway. The tendering process for the container scanner, donated by the Government of the Netherlands, is now complete and tenders for major infrastructure work to house the scanner and support container operations, planned and financed by GOI agencies (to the tune of more than 30 million NIS), are about to be published. OQR is holding discussions with relevant GOJ Ministries on improvements needed to facilities east of the river, complementing work undertaken on the western side. The Palestinian private sector is very positive about the initiative, given its potential value. Exporters, importers and all government parties are impatient for site work to start and for the launch of container operations. The scale of the undertaking means that the project is likely to be completed by autumn 2014.

Strategically important large-scale infrastructure projects in Gaza: In the water and sanitation sector, OQR has supported preparatory work by the Palestinian Water Authority (PWA) and the Union for the Mediterranean ahead of planned regional seawater desalination projects and the rehabilitation of the water transmission network. On energy, OQR has advocated for the improvement of electricity lines coming from Egypt into Gaza, including the extension of the regional grid. The provision of additional electricity is crucial not only for making energy-intensive desalination technology viable for Gaza but also to enable economic development. OQR has highlighted this issue directly with Egyptian Government representatives in Cairo. For all large-scale water, sanitation and energy sector infrastructure projects (for example the North Gaza Emergency Sanitation Project and Gaza Electricity Distribution Company), OQR is facilitating the entry of equipment and building materials to enable construction to take place.

Basic Social and Economic Infrastructure in Area C: There has been further progress in the implementation of social infrastructure works advanced by the OQR in coordination with other representatives of the international community. The majority of the priority health and education projects identified by the PA for which 'fast-tracked' permits were obtained have now been completed. A further set of works advanced by the US Government and the UN have received notional approval but are pending further funding to commence implementation. Important to address in parallel to social sector works is the infrastructure that will promote economic development in Area C, for example the agricultural sector. To

this end the UN and OQR, with expertise from the Food and Agriculture Organization (FAO), have formulated a pilot set of agriculturally relevant works.

Improvements in the Justice Sector: OQR has continued to provide incisive and timely advice and analysis to the PA justice sector, including: monitoring the impact of the fiscal crisis on the functioning of justice sector institutions; analysing recent proposals for justice sector reform and conducting in-depth consultations with a wide range of PA stakeholders and international donors; examining the expanding backlog of court judgments awaiting execution, putting forward potential approaches to address the issue; continuing to provide advice and to facilitate the implementation of a project supported by the UK Government and EUPOL COPPS for addressing the long-term strategy and mandate of the PA Ministry of Justice; and examining the work and needs of the Anti-Corruption Court.

Mapping Current Police Presence and Operations in Area B: OQR has produced an initial set of GIS-based maps showing PA police presence and access for each town and community station in the West Bank. Together with the Palestinian Civilian Police and EUPOL COPPS, OQR is examining the obstacles to greater Palestinian operational presence and effectiveness in Area B.

Palestinian-Israeli Legal Cooperation: OQR has continued to work with the PA and the GOI to strengthen cooperation including assisting the work of the Joint Legal Committee and urging new steps to advance mutual cooperation in criminal cases. In January, the Council of Ministers issued a decision to re-organize and appoint the Palestinian members of the Joint Legal Committee, with representation from nine PA agencies under the chairmanship of the Ministry of Justice.

PA-Israeli Revenue Arrangement: A July 2012 arrangement agreed between the PA and GOI to minimize fiscal leakage in revenue clearance system received high-level support from OQR. An information sharing arrangement between both parties was agreed in September 2012 and OQR has participated in subsequent technical discussions with the PA – support that we will continue to provide. Discussions are on hold as a result of recent political developments.

OQR WORK PROGRAMME: LOOKING AHEAD

Strategy and Stakeholders

The combination of various trends, including the global economic crisis, the continuation of the Gaza blockade and corresponding insecurity (culminating in yet another war in 2012), and the gradual weakening of PA capacity, has impacted negatively on the ability of OQR and the international community to achieve results on the economic development and institution building agenda. Notwithstanding the intensity of the work on the ground and continuous high-level QR engagement, movement and access restrictions for goods and people in and out of the Gaza Strip and a difficult environment for economic and private sector development and the provision of basic services, particularly in Area C, prevailed. Consequently, progress towards key deliverables has been slow.

At this critical juncture for the sustainability of the two-state solution, meaningful actions are needed to sustain the viability and credibility of the PA. In order to be successful those actions, in the form of **transformative and tangible on-the-ground change**, must also be politically coherent and intrinsically linked to the 'end game' of a viable and contiguous Palestinian state, living side by side in peace and security with Israel.

OQR has a clear role and added value in helping to define and further such an agenda. As the political context develops, OQR will provide:

- **Strategic focus**, defining the transformative economic and institution-building deliverables that contribute to the viability of the Palestinian state.
- **Coordination**, actively responding to an appropriate and growing demand for OQR to coordinate stakeholder positions and drive progress on key issues such as movement and access, the rule of law, and support to key economic growth sectors in Gaza, Area C and East Jerusalem.
- **Expertise and technical support**, focusing increasingly on the production and dissemination of high-quality policy notes, position papers and in-depth studies as a means to help shape the agenda and prioritise effectively.

OQR Priorities for 2013

1. Opening Up and Reconstructing the Gaza Strip

Strengthening and revitalizing the Gazan economy, rebuilding the required infrastructure and lifting restrictions on movement and access for goods and people to reconnect Gaza to the West Bank, are essential for reaching a final two-state solution. OQR's primary objective remains the total and immediate lifting of the siege and we have been working on the ground daily in the Gaza Strip, and alongside partners in the West Bank, GOI and Government of Egypt, to address the most pressing issues. Given the importance of stimulating the Gazan economy and the positive spill-over effect on Palestinian livelihoods there, OQR will prioritise driving progress on the key issues, including critical infrastructure, private sector development and movement and access. OQR will be:

- **Pressing for West Bank and Israeli markets to be opened up** to all Gazan products and produce, as well as permission for increasing numbers of materials, machinery and equipment to enter Gaza for the development of the private sector. Banking relations between Israeli and Palestinian bank branches in Gaza must also be normalised.
- **Advocating a more permissive movement and access regime for Gaza**, shoring up the development of the Palestinian economy, with the ultimate aim of a full lifting of the Gaza blockade. In the first instance, there is mounting concern about the way in which the 'dual-use' system is applied. OQR will continue to press hard over the next 6 months for a significant and serious review of both the content of the multiple 'dual-use' lists and the process by which the Civil Administration and CLA apply them.
- **Continuing to push the strategically important Gaza Marine gas field project**, working hard to reach a conclusion between the parties that will enable the developer to begin exploitation soon. In the coming months, OQR will support the PA in their efforts to further prepare the way for the project, as well as reaching out to international community actors and to the GOI to generate the necessary financial and political support.
- **Facilitating progress on much needed infrastructure projects** to provide basic social services and improve economic opportunity for the people of the Gaza Strip.

2. Facilitating Trade and Private Sector Development

Unlocking the potential of accelerated private-sector development is essential to reverse the current slowdown in the Palestinian economy, and will be the key driver of Palestinian economic growth in the future. In addition, the restricted freedom of movement for Palestinian people and goods severely impacts livelihoods and economic development at all levels. Improvements in some areas, for example within the West Bank inside the barrier, are outweighed by constrained access to land, water and other resources. To facilitate private sector development and thereby maximise revenues to the cash-strapped PA, including via movement and access enablers, OQR will prioritise the following:

- **Promoting opportunities and a better climate for investment.** OQR will work closely with the Palestine Investment Promotion Agency (PIPA) and other key stakeholders, considering development of policies and strategies to improve the business environment in the Palestinian territories. This will include the establishment of industrial estates, working with the GOI and PIPA to institutionalise and implement agreed procedures for Arab and Palestinian diaspora investors, and continuing to provide technical assistance to the PA for developing pro-business and pro-trade legislation that paves the way for Palestinian observer status at the WTO.
- **Supporting development of key economic growth sectors: (i) telecommunications.** To enable growth in the telecommunications sector, OQR is committed first and foremost to helping resolve outstanding issues on allocation of spectrum frequencies, and the installation of related technology and hardware in Area C and Gaza. As well as benefitting the private sector, this will ensure access for all Palestinians in the West Bank and Gaza to high quality and affordable telecommunication services. Looking ahead, OQR will work to encourage and facilitate the establishment and growth of new IT-enabled industries and services which capitalize on abundant and talented Palestinian human resources.
- **Supporting development of key economic growth sectors: (ii) travel and tourism.** OQR will support strategic PA objectives for tourism that expand into new areas of the West Bank and help to accelerate further the annual growth seen in the industry in recent years. OQR's focus will include working to reduce Israeli movement and access restrictions for Palestinian tour guides to work in Jerusalem and Israel and for tourists between Israel and the West Bank; advocating Israeli cooperation for the rehabilitation and development of important heritage sites and tourist attractions in the West Bank, coordinating closely with active donors, investors and NGOs; helping

to channel resources in support of private sector initiatives in the tourism industry; and institutional capacity building of key stakeholders.

- **Improving access for Palestinian products and labour.** In 2012 OQR successfully negotiated a further 5000 permits for Palestinians to work in Israel, but to make a real difference for the labour market we will continue to push for significantly more. As part of our work to get greater access for Palestinian goods into Israeli and international markets, OQR will continue to facilitate the entry of Palestinian goods into East Jerusalem as well as pressing for a permissive environment for exporting Palestinian products to international markets.
- **Driving progress on containerisation at the Allenby/King Hussein Bridge.** Completion of the project (likely in the second-half of 2014) is expected to bring a significant boost to Palestinian trade. Now that tendering for the scanner at Allenby is completed and Israeli funding for the requisite infrastructure has been approved and allocated, OQR will work in particular to support Jordanian agencies and ministries to simultaneously enhance capacity on their side of the border crossing.

3. Promoting Socio-Economic Development in Area C

The restrictive planning and permitting regime in Area C, constraining both domestic and international investment and development of local Palestinian communities, prevents the development of the Palestinian economy in these resource-rich areas, so essential to a viable Palestinian state. Land in these areas is highly relevant to the sustainability of the Palestinian economy. Addressing permit-related obstacles to the cultivation of arable lands at scale and the rehabilitation and development of existing stone and marble quarries in Area C is bound to make a significant contribution to the Palestinian economy. Tourism related development if enabled, such as around the Dead Sea, is also expected to generate significant economic benefits. In the coming months OQR will be:

- **Following up on implementation of outstanding social infrastructure projects** (schools and clinics) in Area C and working to enable the development of agricultural and other economic projects. OQR will work with others to advance a planning and permitting system that is predictable, transparent and efficient, for both social infrastructure and economically relevant works.
- **Specifically advancing economic development in Area C.** Delivering vital production and employment opportunities for Palestinians in Area C will require interventions at scale, with direct involvement of the private sector. OQR will continue to advocate that permitting timelines of 4-6 months established during previous works are both shortened and afforded to a wider spectrum of actors, including private and commercial. The OQR will also continue to support the PA in its elaboration of national sector strategies that address economic opportunities in Area C and help guide international community investment.
- **Continuing to advocate for a transparent framework for community-driven master-planning and seeking an effective moratorium on demolitions.** OQR will engage the Israeli authorities on recently developed master plans for locations destined for the relocation of Bedouin communities, in particular from the E1 area. The plans, as they are reported, are expected to pose insurmountable challenges to the respective communities in maintaining their socio-economic/traditional lifestyle and would undermine the community-based approach so fundamental to the validity of the planning effort. It is imperative that the option of remaining in their current locations is afforded to these and other communities.

4. Furthering Socio-Economic Development in East Jerusalem

Around three quarters of Palestinian residents in East Jerusalem (approximately 170,000 people) live under the Israeli poverty line and reside in fragmented city neighborhoods. There is an acute shortage of appropriate housing, a deepening crisis in the education sector and settlement activity has served to threaten the contiguity of Palestinian neighbourhoods. The separation of East Jerusalem from its natural business environs in the West Bank has also negatively impacted economic activity in the city. In the coming months OQR will be:

- **Furthering initiatives such as the East Jerusalem Business Development Forum.** OQR will work to follow up on the successful forum, helping to advance deals already signed, drive interest behind investment proposals still on the table, and to maintain momentum behind this and other such initiatives.
- **Supporting development of mortgage financing schemes.** Now that one Palestinian bank is in the process of entering the city's mortgage finance market, OQR will work closely with other banks to encourage them to follow suit.
- **Facilitating the improvement of the movement and access regime and re-opening of Palestinian institutions,** including the Arab Chamber of Commerce. This would enable the unrestricted access of Palestinian goods and people to and from the city and entry of Arab and foreign potential investors, particularly to support the sustainable development of the tourism and real estate sectors that will be vital to the prosperity of East Jerusalem, and allowing re-integration of the East Jerusalem market with the remaining parts of the West Bank and Gaza.
- **Accelerating and facilitating the approval of plans and permits** for the construction of residential, educational, health and commercial structures, in particular in existing open spaces in the city. This would help to address the current tension between a growing East Jerusalem population and lack of infrastructure and basic services.

5. Advancing the Rule of Law

Progress on rule of law continues to be impeded by disputes over the respective mandates of the various justice-sector institutions, lack of law reform (due to the absence of a legislative process), and Israeli restrictions on PA law-enforcement operations. The recent fiscal crisis, including non-payment of salaries, has created further strain with administrative staff staggered in shifts, and judges and prosecutors struggling to absorb the costs involved in traveling to assignments far from their location of residence. Against this background, OQR and its partners continue to help consolidate institutional reforms and the professionalization of the Palestinian justice and security sectors. OQR will be:

- **Working to help expand PA law-enforcement access and operations** within and between areas currently under PA jurisdiction, particularly with respect to policing, criminal investigations, transport of detainees and evidence. In addition, OQR will cooperate with the Palestinian civil police to further refine the GIS police presence mapping tool, incorporating data on police access and movement for each road, to support PA planning and operational needs, and to facilitate PA-GOI discussion of access issues.
- **Working closely with all PA justice sector partners**, including on the long-awaited implementation of the PA decision to activate the judicial police and to improve the system for executing court judgments. As a priority we will facilitate the continuation of research into the impact of Israeli restrictions on the effective functioning of the PA justice system, providing for the first time empirical data and analysis to inform discussion, notably in the Joint Legal Committee.
- **Continuing to monitor and advise** on proposals to reform the justice sector; efforts to revise the current legal framework of the military-justice system and to develop the capacity needed to carry out its functions; measures needed to enable the courts and prosecution to effectively process cases referred by the military courts; appropriate steps to improve the performance of the Family (Sharia) Courts and their integration within the wider judicial system; and available options for much-needed law reform in the absence of a reconvened Palestinian Legislative Council.
- **Continuing to support Israeli-Palestinian cooperation**, including the work of the Joint Legal Committee, enhancing the capacity of the PA institutions represented and their effectiveness; and cooperation in the investigation and prosecution of crimes that cross areas of operation, and in the mutual enforcement of judgments.

- **Continuing to support the international community's efforts** to assist the PA and civil society in establishing an effective and transparent rule of law system, including through support to effective coordination mechanisms such as the Justice Sector working group.

CONCLUSION

The structural unsustainability of the PA in its current form, including the adverse social effects resulting from the growing fiscal and economic crisis and combined with the absence of any qualitative improvement in PA-Israeli relations, has created a situation of inertia among all stakeholders in the MEPP. The efforts of OQR and the international community to make progress on important issues for Palestinian economic development and the institutional capacity and strength of the PA have been constrained in recent years.

2013 has been called a crunch year for the two-state solution. It is also a year of real potential opportunities for making progress.

While it remains the case that the two-state solution can only be cemented by a negotiated agreement (top-down), it is vital that parallel bottom-up initiatives underpin any movement on the political track. **Transformative and tangible on-the-ground measures** to sustain the viability and credibility of the PA are both necessary and possible for furthering the prospects of a two-state solution.

This report has identified key areas of focus and important objectives that are politically coherent and that can be directly linked on a path towards the 'end game' of a viable and contiguous Palestinian state, living side by side in peace and security with Israel.

OQR is uniquely positioned to work alongside both parties and with the international community to define and further the on-the-ground agenda. OQR is committed to building on and discussing this agenda in close coordination with partners and stakeholders, providing expertise and technical support, and taking a strategic approach in response to political and diplomatic efforts as they evolve.

Annex 1: OQR Achievements since September 2012

<p>Private Sector Development</p>	<p>East Jerusalem Business Development Forum: This was the first such forum to be held in the city in the last 45 years and was hugely successful, presenting promising investment opportunities for the private sector worth a total US\$500 million for tourism infrastructure, real estate and ICT. OQR’s coordination with local private sector leaders, supported by the international community, facilitated direct business-to-business meetings and attendance by more than 200 Palestinian, Arab and international investors. It is now imperative to maintain the momentum and widely felt optimism, monitoring next steps on deals struck and keeping the initiative alive.</p>
	<p>Telecommunications: Growth in the telecommunications market is of huge importance to the Palestinian economy, both directly and indirectly. In view of Israeli security considerations, OQR has worked hard to facilitate effective Israeli-Palestinian dialogue to address in particular: (1) additional allocation of 2G frequencies to meet current and short term needs; (2) allocation of 3G/4G spectrum; (3) expediting imports of modern network hardware for Palestinian providers; (4) facilitating rapid approvals for required infrastructure in Area C; and (5) solutions to commercially damaging signal spill-over from Israeli companies operating in the West Bank. OQR has held separate meetings with the PA, GOI and international community representatives, which will be followed by a discussion between all parties to determine concrete next steps for resolving these issues.</p>

<p>Movement and Access</p>	<p>Containerisation of trade at the Allenby/King Hussein Bridge: Very good progress has been made. All parties – Government of Jordan (GOJ), Government of Israel (GOI) and the PA – have reached the relevant agreements and technical discussions are underway. The tendering process for the container scanner, donated by the Government of the Netherlands, is now complete and tenders for major infrastructure work to house the scanner and support container operations, planned and financed by GOI agencies (to the tune of more than 30 million NIS), are about to be published. OQR is holding discussions with relevant GOJ Ministries on improvements needed to facilities east of the river, complementing work undertaken on the western side. The potential value of containerisation continues to resonate in the positive feedback OQR receives from the Palestinian private sector. Exporters, importers and all government parties are impatient for site work to start and for the launch of container operations.</p>
	<p>Gazan access to West Bank and Israeli markets: This is vital for the recovery of the economy in the Gaza Strip. Gazan manufactures and growers have a comparative advantage and have always depended on particular markets in the West Bank and Israel. They can produce items more cheaply and to a different, complementary, seasonal pattern to their West Bank and Israeli counterparts, and they can respond to the demand for small production runs with a quick turnaround. Selling in nearby markets such as Jordan and Egypt is economically difficult, and access to European markets is limited by short seasonal windows for agricultural products and the need for a niche advantage that very few have. OQR has formally outlined the issue at the highest levels with the GOI and Government of Egypt (GOE). We have also liaised closely with the international community, hosting senior meetings in Jerusalem with Egyptian representatives. There is broad recognition of the economic and security benefits that would accrue from greater Gazan access to local markets and OQR will continue to press for change.</p>

	<p>Access for tour operators: Facilitating the movement of tour operators and their clients is an on-going priority. While the past year has seen much improved access to Bethlehem, the ability of tour groups to move around the northern West Bank continues to be unpredictable. OQR has commissioned an experienced research group to survey tour operators and obtain current and reliable data on the range and extent of access for tourists, identifying the issues and clearly defining which localities remain difficult.</p>
<p>Infrastructure</p>	<p>Strategically important large-scale infrastructure projects in Gaza: In the water and sanitation sector, OQR has supported preparatory work by the Palestinian Water Authority (PWA) and the Union for the Mediterranean ahead of planned regional seawater desalination projects and the rehabilitation of the water transmission network. On energy, OQR has advocated for the improvement of electricity lines coming from Egypt into Gaza, including the extension of the regional grid. The provision of additional electricity is crucial not only for making energy-intensive desalination technology viable for Gaza but also to enable economic development. OQR has highlighted this issue directly with Egyptian Government representatives in Cairo. For all large-scale water, sanitation and energy sector infrastructure projects (for example the North Gaza Emergency Sanitation Project and Gaza Electricity Distribution Company), a critical element of OQR work is facilitating the entry of equipment and building materials to enable construction to take place.</p> <p>Development of the Gaza Marine offshore gas field: This project remains a high priority for the PA with potentially significant implications for its fiscal situation, and the promise of a strong positive impact on the Palestinian economy. Once realized, the gas field would provide the PA with a large proportion of its domestic energy requirements. OQR has continued to work closely with the GOI and the PA facilitating discussions on the development of the gas field.</p>

<p>Area C</p>	<p>Basic Social and Economic Infrastructure: There has been further progress in the implementation of social infrastructure works advanced by OQR in coordination with the US Government. The majority of the priority health and education projects identified by the PA for which ‘fast-tracked’ permits were obtained have now been completed. A further set of works advanced by the US Government and the UN have received notional approval but are pending further funding to commence implementation. As a prerequisite for agricultural development in Area C, the UN and OQR, with expertise from the Food and Agriculture Organization (FAO), formulated a pilot set of relevant agricultural infrastructure works.</p>
	<p>Planning Initiatives: Planning to benefit Palestinian communities in Area C continues, actively pursued by the communities themselves and with support from both public and private Palestinian institutions. This is expected to be an effective solution for directly addressing long-standing development needs. OQR, together with partners, has continued to engage the Israeli authorities on the importance of community-based planning that must be made sustainable by adequately addressing future needs and enabling retro-active formalization of unlicensed structures. Unfortunately, none of the more 32 plans submitted to the GOI (ICA) for consideration (some since June 2011) have yet been approved. The protracted absence of tangible progress for the affected communities runs the risk of discrediting the approach, not only for the 32 communities in question but also for the estimated 230 remaining communities wholly or partially located in Area C, whose outstanding planning needs also need addressing.</p>

<p>Gaza</p>	<p>Private Sector Development: OQR has worked as a priority on facilitating the transfer of Gazan products and produce to their natural markets in the West Bank and Israel. There has been a slight improvement since September 2012 following the GOI decision, negotiated by OQR, to allow Gazan furniture and garment manufacturers to transfer products to the West Bank to fulfil PA orders. As a result, one local school furniture manufacturer was able to send four trucks into the West Bank for the PA Ministry of Education. However, no further transfers have followed this September shipment. Only a full opening of these natural markets to all Gazan sectors, which we continue to push for, can bring about faster economic growth.</p>
	<p>Cash into Gaza: A further vital enabler for private sector development is the regularized entry and exit of cash into and out of Gaza, as well as the resumption of corresponding relations between Palestinian, Gazan and Israeli bank branches. This would be an important step towards reviving the legitimate banking sector that directly supports all private sector institutions. OQR successfully contributed to an agreement between the parties permitting the entry of US\$100 million cash into Gaza last September, but to really re-legitimise private sector operations it is imperative that banking relations are fully reinstated.</p>

	<p>Movement and Access: Easing the movement of goods and personnel into and out of Gaza is a core part of our work and complements the strengthening of the economy. OQR has continued to urge the GOI to increase the range and volume of goods allowed to enter and leave Gaza through the Kerem Shalom crossing, following up in parallel with the PA and donor colleagues. If current restrictions were eased it would immediately reduce costs and improve Gazan trade with its natural markets and internationally. The movement of people is just as important, particularly access for business people, those with technical skills and the young. Easing access would help to create business opportunities, to stimulate new markets, and encourage the development of an increasingly skilled and better educated labour force. OQR has been and will continue to promote this issue with the GOI in an effort to shift its position.</p>
<p>Rule of Law</p>	<p>Palestinian-Israeli Legal Cooperation: OQR has continued to work with the PA and the GOI to strengthen cooperation including assisting the work of the Joint Legal Committee and urging new steps to advance mutual cooperation in criminal cases. In January, the Council of Ministers issued a decision to re-organize and appoint the Palestinian members of the Joint Legal Committee, with representation from nine PA agencies under the chairmanship of the Ministry of Justice.</p> <p>Mapping Current Police Presence and Operations in Area B: OQR has produced an initial set of GIS-based maps showing PA police presence and access for each town and community station in the West Bank. Together with the Palestinian Civilian Police and EUPOL COPPS, we are examining the obstacles to greater Palestinian operational presence and effectiveness in Area B.</p>

	<p>Improvements in the Justice Sector: OQR has continued to provide incisive and timely advice and analysis to the PA justice sector. These efforts have included: monitoring the impact of the fiscal crisis on the functioning of justice sector institutions; analysing recent proposals for justice sector reform and conducting in-depth consultations with a wide range of PA stakeholders and international donors; examining the expanding backlog of court judgments awaiting execution, putting forward potential approaches to address the issue; advising on a project supported by the UK Government and EUPOL COPPS for addressing the long-term strategy and mandate of the PA Ministry of Justice; and examining the work and needs of the Anti-Corruption Court, the military courts, and the Family (Sharia) Courts.</p>
<p>East Jerusalem</p>	<p>Mortgage Financing Development: In addition to Israeli restrictions, lack of adequate financing schemes has limited the ability of Palestinian private sector investors to respond to the estimated shortage of 45,000 adequate housing units in East Jerusalem. OQR has worked with local Palestinian banks, the Palestinian private sector, Islamic Development Bank and other donors to develop a mortgage financing development scheme that would encourage local banks to provide mortgages to households in East Jerusalem. One Palestinian bank is now in the process of entering the city’s mortgage finance market and OQR is working closely with other banks to encourage them to follow suit.</p>

	<p>East Jerusalem Business Development Forum: In close cooperation and coordination with local private sector leaders, and with support from the international community including the EU, Germany and the UK, OQR helped to organise the <i>East Jerusalem Business Development Forum</i>, securing funding, facilitating entry to Jerusalem for investors, and supporting the Forum Steering Committee including its work to hold promotional road shows. It was the first such forum to be held in the city in the last 45 years and generated promising investment opportunities for the private sector worth a total US\$500 million for tourism infrastructure, real estate and ICT. The Forum was intended to match local businesspeople with potential regional and international investors, initiating direct business-to-business meetings so that these partnerships could translate into action. It was attended by more than 200 Palestinian, Arab and international investors and marks an important step forward in efforts to promote sustainable economic development and to improve living conditions in East Jerusalem.</p>
<p>Financial Support to the PA</p>	<p>PA-GOI Revenue Arrangement: A July 2012 arrangement agreed between the PA and GOI to minimize fiscal leakage in revenue clearance system received high-level support from OQR. An information sharing arrangement between both parties was agreed in September 2012 and OQR has participated in subsequent technical discussions with the PA – support that we will continue to provide. Discussions are on hold as a result of recent political decisions.</p>