



**OFFICE OF THE QUARTET REPRESENTATIVE
(OQR)**

**Report for the Meeting of the Ad-Hoc Liaison Committee
on Action in Support of Palestinian State-Building**

22 September, New York

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AHLC Report – 22 September 2014

This report provides an update on the work of the Quartet Representative (QR) Tony Blair and the Office of the Quartet Representative (OQR) in support of Palestinian economic growth and institution building since the previous Ad-Hoc Liaison Committee (AHLC) meeting in September 2013.

1. Message from the Quartet Representative, Tony Blair

This meeting comes at a time when the international community is concerned more than ever over the prospects of the two-state solution. The last year has been among the most difficult this region has seen. The list of troubling events is long: from the suspension of political negotiations between Israel and the Palestinians; the kidnapping and murder of three Israeli teenagers and an extensive Israeli army operation in the West Bank; the kidnapping and murder of a Palestinian teenager in East Jerusalem and the ensuing unrest; to this summer's conflict in Gaza which left widespread devastation and displacement, many innocents dead or injured, and undermined the security of ordinary Israelis.

The pre-conflict economy in Gaza was in a fragile state, and the Palestinian economy as a whole saw a sharp decline in 2013-14. The question we face now is how to best aid the recovery efforts in Gaza, while ensuring that the Palestinian Authority – as the rightful authority – returns to Gaza, and support unity between the West Bank and Gaza. There is near-universal agreement that there needs to be a new approach to Gaza – by the international community, by Israel, and by the Palestinian Authority. In addition, the recovery plan must include improving the economy of the West Bank, East Jerusalem and Gaza, which should be seen as a single economic unit.

The political, security and economic situation in the West Bank, including East Jerusalem, is also suffering, requiring continued attention and support from all parties. The international community must continue to invest in the capacity of the PA, so that it can properly administer the West Bank while managing a major humanitarian, reconstruction and redevelopment effort in Gaza. It is therefore imperative that all stakeholders work towards securing a comprehensive, sustainable and long-term approach for all the Palestinian Territories. This would also entail providing a credible prospect for the resumption of diplomatic negotiations.

The precarious situation in Gaza and southern Israel, the danger that violence could flare up again at any point, are precisely the reason to move as quickly as possible on the short-term and long-term recovery efforts. The longer recovery takes, the closer we could find ourselves to yet another round of bloody conflict.

This is not about putting the pieces back together in Gaza and going back to the situation that existed at the beginning of July, before the start of Operation Protective Edge. This is about making substantive, lasting change, uniting Gaza and the West Bank and opening Gaza back up to the world. This long-term approach needs to free Gazans from violence of all kinds and provide them with hope for the future; and give Israel real and permanent security from rocket attacks, tunnels and terrorism. A durable approach for Gaza requires a leading role from the PA, cooperation from Israel, support from Egypt, and the full backing of the international community. This is an opportunity for the consensus government to show that it is committed to upholding the commitments set out by President Abbas, including abiding by the Quartet Principles, effectively taking charge of the Gaza Strip and working towards ending the internal division between Gaza and the West Bank. Hamas must end its extremist, destructive stance.

The Palestinian government will need to lead on restoration of rule of law and the economic recovery by developing unified structures of governance, reunified systems of justice and legislation, and eventually establish sovereign power over all armed forces.

In order to be empowered to move forward on this reunification process, the PA needs to be in as secure a financial position as possible. It will need assistance in developing the necessary technical capacities and will need ongoing and firm international support.

Before this summer's conflict, the OQR was deeply involved in promoting measures that would enhance the Palestinian economy through private sector-led investment, both within specific sectors and through enabling measures that cut across the whole economy. In the current environment, we have repositioned this plan to support the PA; support economic restoration in Gaza, the West Bank and East Jerusalem; and proposed guidelines for re-integrating governance, rule of law and security in the Palestinian territories.

While emergency support and rebuilding in Gaza is the most urgent need, of equal importance are the steps toward economic recovery because only through the provision of reliable and sustainable livelihoods will future stability and security be assured.

This report to the AHLC demonstrates the value of the economic planning and ensuing work carried out by the OQR in 2013-4 (summarised under the Initiative for the Palestinian Economy or IPE) as a significant guide and mechanism for bridging the emergency response and recovery phase, to a full rebuild of the Palestinian economy. The IPE can help ensure that the Palestinian people have an economy that can support statehood – and that is in the interest of all stakeholders.

We have all invested much time, energy, political and financial capital in trying to create the best possible conditions for the two-state solution to come to fruition. With trust and confidence at an all-new low, it is understandable that the sides need to pause and re-evaluate: the danger is that the longer we leave this, the more difficult it will become to get back to the negotiating table, and negotiation is the only way that we can ensure an independent, viable Palestinian state, alongside a safe and secure Israel.

The coming year will be critical for the continued prospects of the two-state solution. No one wants to see a repeat of this summer's violence, and we all have a role to play in creating a more stable and peaceful period for Palestinians and Israelis. This will ultimately bolster their leaders to take the practical steps towards making the two-state solution to which they are committed, a reality.

2. Overview

Planning for the development of the Palestinian economy has been a major priority of the Office of the Quartet Representative (OQR) over the last year, as set out in the September 2013 AHLC meeting and the Initiative for the Palestinian Economy (IPE). Alongside its efforts to support growth and development in key economic sectors, the OQR continues to dedicate significant resources to improving the rule of law and movement and access for people and goods. Work on these issues remains particularly relevant as they affect Palestinian economic development and support Palestinian state-building efforts.

This summer's conflict in Gaza, and the ensuing challenges over how to rebuild, redevelop and ensure sound governance in Gaza as an integral part of the Palestinian Territories, further illustrates the relevance of continued work on the full spectrum of the OQR's mandate. A stable and growing Palestinian economy that relinks Gaza and the West Bank, supported by effective governance by the Palestinian Authority in all of the Palestinian territories, and improved movement and access opportunities for both people and goods will create an environment much more conducive to restarting the political process. This will help ensure that the Palestinian people have an economy and a government that can maintain stability and support statehood – and that is in the interest of all stakeholders.

3. Progress Review

Advancing the rule of law

OQR continues its role of advising Palestinian Authority (PA) institutions and donor governments on measures to strengthen the rule of law, including by identifying key priorities for reform in the justice and security sectors.

- **Support efforts to reunify Gaza and the West Bank:** As part of the international community's efforts to enable the PA to redeploy in Gaza, OQR has been advising the PA on strategy for institutional unification and integration in the justice sector and the security sector, including redeployment and reactivation of staff in Gaza, as well as liaising with the Israeli government and the international community to facilitate implementation of the PA's efforts.
- **Strengthening the justice sector:** OQR monitors and advises the relevant stakeholders, in both the PA and the donor community, on a range of issues pertaining to the strengthening of the justice sector. Among its activities, OQR: (i) identified key priorities for justice sector reform and worked with PA officials and

donors on a proposed mechanism for comprehensive reform; (ii) analysed court caseload trends; (iii) provided strategic guidance and technical assistance for the development of the Justice Sector Strategic Plan for 2014-16, as well as provided technical assistance for the development of the Judicial Training Institute Strategic Plan 2014-16; (iv) reviewed reform proposals related to the judiciary, and the Diwan al Fatwa Wa Tashri' (the Bureau of Legal Counsel and Legislation); (v) advised on steps to advance the institutionalisation of the Ministry of Justice; (vi) reviewed and analysed the legislative process in the absence of the Palestinian Legislative Council; and (viii) conducted a review of the law schools in the West Bank and advised on the design of a donor intervention to reform legal education.

- **Expanding PA law enforcement access and capacity:** In cooperation with the Palestinian Civilian Police (PCP), OQR conducted extensive fieldwork to further refine its mapping tool on police presence, incorporating data on police access and movement for all roads throughout the West Bank. This work has been carried out with the assistance of the EU Co-ordinating Office for Palestinian Police Support (EUPOL COPPS) and the United States Security Coordinator for Israel and the Palestinian Authority (USSC). OQR also provided training to the PCP to enable their adoption and integration of the mapping system.
- Moreover, OQR worked closely with the PCP to develop options to **expand and facilitate PCP access in the West Bank**, in addition to more efficient distribution of PCP stations and resources. The plans are now being reviewed by PCP and District Coordination Offices (DCO) leadership for adoption.
- In addition, OQR continued to promote the **allocation of adequate resources and personnel** to the newly activated Judicial Police. OQR also reviewed and provided input on the Security Sector Strategic Plan.
- **Improving military justice:** OQR contributed to the drafting of a package of legislation to govern the Palestinian military justice system, and at the request of the Ministry of Interior, is currently represented on a committee appointed to review and finalise these draft laws for submission to the Council of Ministers. In addition, with the transfer of jurisdiction over all civilian cases from the military courts to the civilian justice system, OQR analysed and advised on steps needed to strengthen the capacity of the civilian system to investigate and prosecute security-related cases.
- **Supporting Palestinian-Israeli legal cooperation:** OQR continued its efforts to facilitate this cooperation, including: the work of the Joint Legal Committee – enhancing the capacity of the PA institutions represented and their effectiveness; cooperation in the investigation and prosecution of crimes that cross areas of operation; and in the mutual enforcement of judgments.

Movement and access

Increasing Palestinian movement and access is vital to improving the daily lives of Palestinians. Movement and access restrictions, both physical and regulatory, hinder economic development in the West Bank and the Gaza Strip and affect nearly all aspects of Palestinian life.

Issues linked to movement and access remain a major priority for OQR, and the focus this year has included:

- **Trade from Gaza to the West Bank and Israel:** This is the single largest access improvement OQR has been seeking, and is one that will have the biggest impact on the Palestinian economy at all levels. Since December 2013, the container-capable scanner at the Kerem Shalom crossing, donated by the Dutch government to the PA and controlled by the Israeli authorities, has been operational. It is used for checking both goods going into Gaza and the very small volume of goods coming out destined for third countries. Given that the Government of Israel (GoI) allows goods from Gaza to transit its territories and ports for export to Europe and the U.S., it is clear that the process at the crossing satisfies the Israeli security authorities. In the face of such evidence, OQR continues to call for trade between Gaza and the West Bank and Gaza and Israel, which will be beneficial to the economy in Gaza, as well as to the West Bank and Israel.
- Continuing the process of **establishing container trade at Allenby/King Hussein Bridge**, including discussions with relevant authorities in Israel, Jordan and the PA. The GoI has committed funds for infrastructure in the operating area at the western end of the bridge and tenders have been issued for the design and build contract of a container operating area. This will house the container-capable scanner donated by the Netherlands to the PA which will be brought on site as soon as the supporting infrastructure in the operating area is completed. The Government of Jordan (GoJ) has continued to work on developing an engineering concept and design for a facility that will provide an equivalent capacity on their side. GoJ authorities have developed a phased approach to this development that will ensure container capability on both sides of the bridge as soon as the development is completed on the West Bank side. OQR visited Aqaba Port to examine the chain for container trade up to and beyond that point. Aqaba is a modern and efficient facility that provides opportunities of moving large volumes of trade to or from the West Bank and Gaza.
- Expedited **access for business people from Jordan and other Arab states** to enter the West Bank to examine investment opportunities and to maintain investment if they are undertaken. GoI has agreed to a system – which has also been published on the website of the Coordinator of Government Activities in the Territories (CoGAT). However, we are yet to see the full implementation of the procedure and so OQR continues to work with GoI, including on the need to clearly identify and empower

one responsible Israeli agency. Ideally this will result in business people being able to receive more than a one-month, single entry permit. In addition, OQR suggested to the Palestinian Civil Affairs Commission that it develops a clear and transparent process to act as the visible address for investors' access to the West Bank and Gaza.

- **Improving access for tourists:** Tourism is a major sector for the Palestinian economy. Improved access to Bethlehem has been maintained, and there is now increased access to the northern West Bank for tourists – opening up this route for groups of Christian pilgrims, and others. OQR continues to work with the GoI to improve access for tourists from Islamic and Arab countries.

Economic development and the Initiative for the Palestinian Economy

The strategy and actions for economic development are summarised in the Initiative for the Palestinian Economy (IPE), as first unveiled at last year's AHLC meeting. The objective of this plan is to catalyse private sector-led growth in the West Bank, Gaza and East Jerusalem. To reiterate the essence of the plan, the IPE:

- Is a multi-year program covering eight key sectors: agriculture, building materials, construction, energy, information and communication technology (ICT), light manufacturing, tourism, and water;
- Aims to achieve a meaningful reduction in unemployment, improvements in average Palestinian household income, increased investment flows – both domestic and foreign – and a decline in PA reliance on direct budgetary assistance;
- Is underpinned by in-depth sector analyses and project proposals, which include mechanisms to deliver and finance the projects;
- Is tied to a clear set of political enablers, as well as regulatory and economic enablers that are pre-requisites to the success of the economic plan;
- Takes into account the interdependency of the different sectors (e.g. water and agriculture), requiring thoughtful coordination to execute successfully;
- Seeks to leverage the resources of the local and international private sector, as well as the international community, to finance the economic plan.

The success of this plan is contingent on four important factors:

- Broad-based commitment by Israel to enable the proposed sector strategies;
- Boosted PA capacity to provide the necessary policy and regulatory framework to help grow the private sector;
- Investment appetite for Palestinian private sector projects under the current political and economic climate;
- Donor assistance to help fund the public financing aspects of the plan as well as to support risk and financing vehicles that create incentives for private sector investors.

Enablers

The IPE sets out a series of political, legislative and technical enablers that the Palestinian Authority and the Government of Israel will need to take so that the full potential of the Palestinian economy can be unlocked.

A primary stakeholder and close partner in this initiative is the Palestinian Authority itself. The PA contributed to the development of IPE and has incorporated the sector strategies in its Palestinian National Development Plan (PNDP) for 2014-2016.

The Palestinian key enablers are primarily associated with the PA legislative and institution-building agenda. There have been several positive legislative reforms by the PA, such as the Investment Promotion Law and the law on liens on movable property along with the newly adopted Water Law (all issued by executive decree). Further progress is necessary in other legal areas, including finalising and enacting a Palestinian Land Law; developing and enacting new mortgage and foreclosure laws; establishing a new “Planning and Zoning Committee” for national infrastructure projects; finalising discussions of the planned Telecommunication Regulatory Commission; and developing and enacting a new Public Private Partnership (PPP) Law. The OQR team will continue to work with the PA on these and other areas.

OQR maintains a dialogue with the Government of Israel at all levels, including Prime Minister Benjamin Netanyahu and his team, the Ministry for Foreign Affairs, the Finance Ministry, CoGAT, the Ministry for Regional Cooperation and others. Israel has been fully briefed on IPE priority projects and key enablers. During the nine-month period of diplomatic negotiations, there was little movement on enablers. In the current context of a suspended peace process and the aftermath of the Gaza conflict, achieving real progress on the enablers for both the West Bank and Gaza is more pressing than ever and is an ongoing priority for Quartet Representative Tony Blair and OQR staff.

The enablers required of Israel essentially remain the same, although the need for enabling measures required for the rebuilding and redevelopment of Gaza have become even more urgent than before. Key examples include: restoring two-way commercial relations between the West Bank and Gaza; providing additional water and energy resources, particularly to Gaza; expediting the implementation of critical infrastructure in the water and energy sectors in the West Bank and Gaza; allowing increased access to land in Area C, in particular to create business opportunities in the agriculture, building materials, and housing sectors; facilitating greater Palestinian investment in the agriculture, tourism, manufacturing, and housing sectors in the West Bank, including Area C and East Jerusalem; allowing the Palestinian telecommunications sector greater access to electromagnetic spectrum and roll out of 3G and 4G networks.

The Quartet Representative and OQR also continued to work with the donor community, as well as potential investors through a range of outreach activities with stakeholders. This included, for example, a major conference in Prague in March 2014, which was a joint venture between OQR, the Aspen Institute's Partners for a New Beginning (PNB), the U.S. Chamber of Commerce and the U.S. State Department where representatives of, mostly American, multi-nationals gathered for two days with Palestinian business people for working sessions on the IPE. OQR has engaged with various organisations that can serve to mitigate the risk of foreign investors through the provision of political risk insurance and guarantees. This includes the Overseas Private Investment Committee (OPIC), the political risk insurance and guarantee arm of the U.S. Government; the Multilateral Investment Guarantee Agency (MIGA), a similarly focused group and a member of the World Bank family; the Arab Investment and Export Credit Guarantee Corporation DHAMAN; and Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC).

Catalysing growth through key sectors

The eight sectors included in the IPE were chosen based on their private sector orientation, relative contribution to GDP and employment, their potential for economic growth and their importance as enablers for other sectors (such as building materials, energy and water). Since September 2013, OQR has expanded its team to bring in experts in the individual sectors to work with partners and stakeholders on the initiative.

OQR's work on the specific sectors over the last year has included the following:

Agriculture

The key elements of the strategy for the agriculture sector include: integration of productive units through forming farmer cooperatives and through leasing of land; intensification of production through moving to high value, higher yielding production; bringing the added value of food processing "on-shore"; and through that, driving vertical integration of the value chain.

- Ongoing **consultations with Multi-National Companies (MNCs)** in the area of vegetable and fruit processing in order to introduce them to the local context, potential local partners, and the regional market scene. One company has already been in the field and is set to return for a second mission when conditions allow. Another large MNC has completed a business study. Further contacts are being developed in this area. Palestinian agriculture (particularly in Gaza) is notable for having well-established cooperatives, farmers trained in international production

standards, and the potential for profitable access to regional markets using free trade agreements.

- OQR staff is working on improving the capacity of the public sector and private businesses to **produce and process agricultural products to international standards** through work with the PA and a number of international organisations and donors. This includes working towards sanitary and phyto-sanitary standards and systems that meet the World Trade Organisation's expectations, for which the UN's Food and Agricultural Organisation (FAO) has launched a PA capacity building program with support of the Government of the Netherlands; assisting farmers to integrate production by forming companies and cooperatives; and improving the efficiency of the various ministries involved in exports.

Building materials

The strategic importance of expanding this sector is that it will help unlock the economic potential of other sectors, with a focus on increasing domestic production capacity, diversifying import sources and improving capabilities.

- Import of dual-use **building materials into Gaza for construction**: OQR urged Israel on several opportunities over the last year to allow materials into Gaza for construction work. The summer conflict has aggravated an already pressing need for materials, and we will continue to work with Israel, the UN and the international community on urgent implementation of the entry mechanism.
- **Feasibility study on development and construction of a cement mill** in the West Bank. There is currently no domestic production of cement in the West Bank – all cement is imported, which creates security of supply chain risk. Work on the study has begun and it should be completed within 3-6 months. The study will explore, inter alia, opportunities to provide assistance on movement and access issues, especially for quarries and geological reserves.
- In addition, OQR supports a number of other **smaller-scale initiatives** in the building materials sector, including development of Area C quarries, training programmes, and possible concrete factory developments.

Construction

Expanding construction in housing is a central part of the initiative as the IPE aims to better meet the huge demand for affordable housing.

- OQR staff is working on identifying suitable locations for **affordable housing projects** in the Palestinian territories. This includes using the results of an **effective demand**

survey (of 631 households, providing a representative sample of Palestinian families in the West Bank) on affordable housing, to guide implementation of housing strategy, including choice of locations.

- The OQR is supporting the delivery of **housing units aimed at low- and mid-income households**, including attracting the necessary investment, expertise, and infrastructure requirements. Working together with relevant PA institutions, especially the Palestinian Ministry of Public Works and Housing, and the private sector, the objective is both to build as a pilot **an affordable housing project**, with units for sale in the range of \$40,000 to \$60,000, and develop the structures, methods, and procedures to roll out affordable housing across the Palestinian territories.
- OQR is also working with the World Bank and UN Habitat to drive **capacity building** at the Ministry of Public Works and Housing, in support of affordable housing.
- In addition, OQR is facilitating strengthening affordability and ease of access criteria, with a view to **extending mortgages** to a greater number of Palestinians by supporting the ongoing re-design of the AMAL mortgage scheme.
- Moreover, **access to land and improved land registration** are necessary conditions for economic development in general and housing in particular in the Palestinian territories. Only about 30-35 percent of the West Bank is currently registered. Without title deed (“tabu”), access to mortgage finance with land as collateral is highly constrained. This limits the supply of land available for development and housing, thus driving up land prices and preventing the construction of affordable housing. Registering land is also important in ensuring the protection of owners’ rights, enabling real estate transactions, and enhancing revenue collection from land and property-related fees and taxes. The OQR therefore engages actively with the Palestinian Lands Authority, World Bank, Finland, and other relevant stakeholders on the issue of acceleration of land registration work in the West Bank.

Energy

Reliable energy supply is critical for all sectors of the Palestinian economy. Under the IPE, the OQR works on projects involving, amongst others, exploitation of natural resources, power generation, supporting the PA on energy planning as well as on urgent energy needs as a result of the recent conflict.

- **Gaza Marine gas field:** The OQR has been engaged with this offshore Gaza gas project from the very beginning and continues to work with the various parties including the Gaza Marine license holders, the Gol, the PA and potential purchasers to move this project forward. In addition to commercial agreements that will need to

be in place so that the gas field can be developed, the support of the Gol is crucial so that this project can progress.

- **Jenin Power Plant:** The OQR has worked on this power generation project from its inception and continues to work with the various parties including the project company PPGC, the Gol, the PA and other stakeholders including international financial institutions. In addition to commercial agreements which will need to be in place so that the plant can be constructed and become operational, the support of the Gol is vital, especially in relation to the approvals for the gas pipeline infrastructure required to supply the gas to the plant from the Israeli gas network system.
- **Gaza Power Plant:** OQR has been supporting the efforts to ensure a constant and adequate supply of fuel to the power plant and has worked with all relevant parties in this regard.
- **Debt to Israel Electric Corporation (IEC):** OQR is engaging with the various parties, especially the Gol, the PA and the IEC in order to facilitate progress between the parties to settle the IEC debt issue and to secure a new commercial agreement for the supply of electricity from the IEC to the Palestinian Territories.
- **Responding to the energy needs of Gaza during and after the conflict:** This included: (a) repair of damaged power lines - OQR advisers were in constant contact with Israeli authorities to repair damaged Israeli electrical supply lines to Gaza during the summer conflict; and (b) Gaza Power Plant - OQR has been working with all relevant players to facilitate bringing this plant (which has been out of service as a result of damage sustained during the conflict) back online.

ICT

The ICT sector has the potential to boost a range of industries in the Palestinian territories and unlock the talents of a highly educated and enterprising workforce.

- Establishing contacts with companies in key markets including the U.S., the EU, Saudi Arabia and Israel, and working to **facilitate the entry of foreign IT companies** into the Palestinian market (logistical and operational support).
- **Strengthening the capacity of the ICT sector.** This includes: facilitating the development of a regulatory framework in the PA; facilitating the capacity building of the IT department at the Ministry of Telecommunications and Information Technology and establishing a body that will include ministries, the private sector and academics who will lead on strategy and capacity building for Palestinian human capital in IT.
- **Developing the local ICT market.** This is mainly focused on the implementation of the Palestinian E-government initiative through contacts with the Higher Committee for E-government and the various Palestinian ministries.

- OQR also worked with donors to feed into their work plans and cooperate to attract **commercial cooperation between Palestinian ICT companies and companies in the donors' respective countries**. OQR staff has also worked with donors to align the requested enablers by the PA and Government of Israel over the implementation of the ICT component of the IPE.
- OQR also continues its contacts with Gol to allow the commercial launch of a **second cellular network** in the Gaza Strip, as well as the release of spectrum for deployment of **3G and 4G** technologies in the West Bank and the Gaza Strip.

Light manufacturing

The focus on developing the light manufacturing sector aims at creating an environment that will enable private sector development and conditions to attract investment in the Industrial Zones, and in particular, foreign direct investment.

- OQR is leading the coordination efforts with stakeholders to secure the **upgrade of existing industrial zones to special economic zones**. This involves working on the technical aspects of the upgrade and the planning process, including contacts with the PA, Palestinian businesspeople, and representatives of the international community, among them Japan, France and Turkey.
- Providing technical support to strategy preparation and **damage assessment** efforts for the Gaza light manufacturing sector through close work with the relevant parties.
- Outreach efforts with donors and private investors to **mobilise funding for development projects** and attract new investments.
- Facilitating **skills development** as well as physical infrastructure development to increase productivity and facilitate trade.
- Ensuring a **competitive legal environment** for Small and Medium Enterprises (SMEs) and investors.
- Identifying and securing **options for insurance coverage and financial incentives** tailored to MNCs and SMEs, in order to increase the competitiveness of the Palestinian territories for attracting MNCs and encourage growth for existing SMEs.
- **Coordinating marketing efforts** to promote MNC investment in the Palestinian light manufacturing sector and develop a strong Palestinian brand for local and international consumers for this, as well as other, sectors.

Tourism

Tourism is one of the most promising growth sectors for the Palestinian economy: the number of guests and guest nights increased during 2013 by 4 percent and 10 percent

respectively compared with 2012 (according to the PCBS 2013 Hotel Activity Survey) – though the Gaza crisis and regional conflicts are negatively impacting tourism in 2014.

- **Aligning Ministry of Tourism and Antiquities' (MoTA) strategic plan and the IPE** around the development of tourism hubs and the establishment of a Tourism Advisory Board and marketing unit.
- **Developing four geographic tourist hubs** across the West Bank – in Bethlehem, Jericho, Nablus and Jerusalem. This includes organising joint workshops with MoTA, the private sector tourism associations, municipalities, chamber of commerce, governors' offices and the Ministry of Local Government. The objective is to develop a joint vision and plan for each geographic hub that would give direction to the PA, as well as to donors and investors on what developments need to be done and where. The tourism offer for each geographic hub will also be developed into a brand for marketing purposes.
- **Ensuring the development of employable skills** for teams at current and future facilities and services at the tourist hubs. The OQR is working closely with Bethlehem University, the tourism associations and MoTA to develop a state-of-the-art tourism institute that meets the current and future demands and needs of the tourism industry. The OQR's main focus has been around facilitation of the dialogue between Bethlehem University and MoTA, as well as with the private sector associations to develop a public private partnership board to manage the institute. OQR will also work on facilitating dialogue between the university and potential donors.
- Facilitating a **commitment by the UN World Tourism Organisation (UNWTO)** to support marketing tourism to the Palestinian Territories and to provide technical assistance on the development of the tourism advisory board and marketing unit within MoTA. Work on this by an UNWTO expert has already started, and an initial report has been submitted to MoTA.
- Working with **donors on their development plans for tourism** and to attract potential investors from their respective countries.
- Facilitating **inward investment into the tourism sector**. OQR continues to engage with potential foreign investors and to facilitate business-to-business meetings during conferences such as the Prague Conference, as well as in the West Bank.
- Working with the **Gol to allow Arab tourists into the Holy Land** and to issue the necessary entry visas for investors.

Water

To match the growing need for water by Palestinian households and business, major efforts in infrastructure are required to generate new sources of supply.

- Promoting the **development of wastewater treatment facilities** in the West Bank and in Gaza. This is important not only for environmental, health and sanitation reasons, but also to enable the re-use of treated water for agricultural irrigation.
- A major obstacle on water projects remains the fact that **the joint Israeli-Palestinian water committee (JWC)** has not met since 2010 due to an ongoing dispute over the actual remit of the committee. OQR is engaging with both sides about possible ways to resolve the impasse so that the committee can meet to approve vital projects, including urgent projects in Gaza, developing new wells and waste water treatment facilities.
- In addition, OQR works closely with the Palestinian Water Authority (PWA) including on **feasibility studies**, and on the **desalination plant** for Gaza.

4. Forward Strategy

With a major humanitarian effort in Gaza to coordinate, coupled with the decline in economic activity that began in 2013 and was further aggravated by the summer's conflict and suspension of diplomatic negotiations, the PA is faced with a formidable task. It is vital that the international community continues its support of the PA – both fiscal and through technical support.

By adopting an overall approach to the post-Gaza crisis situation, and putting in place a joint strategy for fiscal support for Gaza and the West Bank together, the international community can help bolster the PA's efforts to return to Gaza as the rightful authority. For this process to be successful, the PA must be in as secure a financial position as possible.

Among the PA's challenges are restoration of rule of law and economic recovery, which will necessitate developing unified structures of governance, reunified systems of justice and legislation, and eventually establish sovereign power over all armed forces. International assistance should come in the form of developing the necessary technical capacities, as well as fiscal backing. The Quartet Representative, in his work with donor countries, emphasises the need for such ongoing support.

The OQR will continue to promote measures to develop the Palestinian economy through private sector-led investment, along with key enabling measures that cut across the whole economy. Outlined below are planned measures in support of the international development efforts for Gaza, along with development of the Palestinian economy, as well as rule of law and movement access.

Supporting Gaza recovery and redevelopment

This summer's conflict once again resulted in widespread fear, destruction and loss of life, and confirmed the unsustainable nature of the situation in the Gaza Strip. A simple return to the status quo ante is no longer feasible: Gaza needs to be rebuilt and reopened; the suffering and loss of its people needs to be ended; and Israelis need to be able to live free from fear of attack from Gaza. A fresh and durable approach for Gaza will require a leading role from the PA, cooperation from Israel, support from Egypt, and the full backing of the international community.

At least four elements are needed for this renewed approach to Gaza in light of the summer conflict:

- Addressing the most urgent humanitarian and early **recovery** needs inside Gaza.
- **Reconstruction** of Gaza's essential infrastructure, in particular to fulfil Gaza's immediate energy, water and sanitation requirements, as well as provide housing for the thousands of displaced civilians.
- **Redevelopment** of the private sector in Gaza, including reconnecting it with the West Bank and East Jerusalem. This requires reinstating banking relations, importing required building materials and raw materials as well as machinery for the destroyed factories in Gaza, and reopening Gaza for outbound trade and the movement of people from and to the Gaza Strip. Especially for the longer term, the Palestinian private sector has the potential to make a difference in Gaza as a source of capital and expertise, as a driver of progress and as a creator of sustainable jobs.
- Improved and **reinstated governance** by the PA and the consensus government in Gaza through the reintegration and strengthening of Palestinian civil and security institutions, under one authority. This includes addressing the outstanding human resources, fiscal and budgetary issues between Gaza and the West Bank.

The OQR is working with the PA, Israel, regional governments and the international community on long-term and, where relevant, joint strategies for the redevelopment of Gaza. During the conflict, and since, Quartet Representative Tony Blair has maintained continuous contacts with Palestinian, Israeli, Egyptian and international leaders to support the ceasefire efforts, with frequent visits to Jerusalem, Tel Aviv, Ramallah and Cairo.

Following the indefinite ceasefire announced by Egypt on 26 August, efforts are being concentrated on a comprehensive long-term plan for Gaza and for its reconstruction. This must include the effective and efficient reopening and reconnection of Gaza to the outside world, under the sovereign rule of the PA. Such a plan will enable a proper and decent life for the people of Gaza, as well as protect the security of the people of Israel.

The plan summarised in the Initiative for the Palestinian Economy (IPE) provides a framework for immediate recovery as well as medium- and long-term economic

development in Gaza. The Gaza conflict has shown that transformational economic change in Gaza is more important than ever. OQR staff is updating the plan to take into account the major disruptions to economic life caused by the conflict, and see a number of opportunities under this framework to re-link the West Bank and Gazan economies. Recovery and reconstruction projects should favour local providers, particularly those in Gaza, to maximize the positive impact on the overall Palestinian economy. Economic recovery steps that can be initiated at this early stage can form a basis for bridging between the emergency response and a full rebuild of the Palestinian economy. Such steps will help provide sustainable livelihoods and support political stability.

A number of priority economic development projects for Gaza could be launched which would have a great impact on both immediate recovery and the economy:

- Import of dual-use building materials into Gaza for reconstruction.
- Completion and connection of the 161 kv electricity line from Israel to Gaza and the supply of additional electricity from other sources such as an electricity ship, upgrading existing Israeli electricity lines, and a substation to enable additional electricity to be supplied from Israel.
- Import of all necessary items in order to repair and upgrade the Gaza Power Plant.
- Pre-Fabricated housing projects.
- Grant access for Gazan products to agricultural and other markets in West Bank and Israel.
- Launch of second mobile network in Gaza.
- Special Industrial Zone development – particularly at Karni (an existing and operational industrial zone whose critical infrastructure appears to have survived the conflict with minimal damage).
- Modern rubble reclamation and recycling technologies (available internationally) have the potential to be deployed in Gaza to create new building materials.
- Import of additional quantities of water into Gaza purchased from an Israeli water company through existing infrastructure.
- Employment and livelihoods through ICT activities, such a development of an ICT Hub providing borderless business services.

OQR work on Gaza over the coming period will include:

- Assisting the UN and other agencies in offering short-term and longer-term solutions to both the urgent as well as the more structural energy and water crisis in Gaza as a priority. The most urgent humanitarian impact of this energy deficit is on essential water and sanitation provision, medical, and food services, but energy is also an essential cross-cutting issue affecting a range of other humanitarian and recovery needs, and has a significant impact on the likelihood of displaced persons returning to their homes.

- Working with the office of the Deputy Prime Minister (DPM) to inform the PA's economic strategy for Gaza post-recovery. This work will be crucial to ensuring government policy in Gaza promotes Gazan businesses and economic development effectively.
- Encouraging senior Israeli politicians to re-open Gaza. Opening up Gaza to allow for the efficient flow of goods and movement of people to, and especially from, Gaza, and effectively reconnecting Gaza with local, regional and international markets is essential. In particular, this includes reconnecting Gaza with the West Bank, as well as other nearby markets such as (possibly) Israel and the Arab world.
- Promoting international alignment around a comprehensive approach for Gaza which also includes political, governance and Movement and Access issues, to allow for reconstruction to take place in a more conducive environment.
- Exploring a significant expansion of financing and risk mitigation programs that will encourage private sector investment to aid in recovery efforts and to accelerate economic redevelopment over time.

Effective governance and rule of law

An empowered PA consensus government under the leadership of President Abbas should provide effective governance to all of the Palestinian territories, and deliver security and rule of law to all citizens. There are a number of significant challenges following the Gaza crisis, as the PA works to re-enter Gaza.

The OQR's Rule of Law team will focus on the following areas in the coming period:

- Continue the work that has already started on governance issues around reunification of Gaza and the West Bank. This includes advising the PA on strategy for redeployment and reactivation of staff in Gaza and liaising with relevant parties to facilitate implementation of the PA's efforts to return to Gaza.
- Address the current division of the legal systems in the West Bank and Gaza. Building on its analysis to date of the challenges posed by the West Bank/Gaza rift in the justice and security sectors, OQR will work with PA and international partners on the development of a strategy with respect to re-unification, including resolving issues pertaining to relevant institutions, personnel, laws, and past court decisions.
- Examine steps to help improve the legislative process in the event of a re-constituted PLC.
- Work closely with justice sector partners on measures to address the growing backlog in the execution of court judgments.
- Assisting the Palestinian Judicial Institute in developing its strategic plan.

- Continue to work with the police to use the mapping system described above to support PA planning and operational needs, and to facilitate PA-Gol discussion of access issues.
- Continue to monitor and advise on steps to further professionalise the military justice system.
- Develop the legal framework for economic growth: Based on a review of various sectors of the Palestinian economy, OQR compiled an inventory of laws and regulations that will need to be drafted or revised to enable the implementation of the IPE. OQR will work with relevant PA stakeholders and partners in the coming months to facilitate the drafting and adoption of these measures.
- Work with the parties to assist a restoration and improvement of PA-Gol legal cooperation.

Movement and access

Reconstruction and recovery of Gaza will require substantial opening of the crossings to allow for cargo and passenger movement in and out of the Strip. Consideration should therefore be given to improving the flow of people at Rafah crossing between Gaza and Egypt. Moreover, the crossings between Gaza and Israel will need to match the capacity required for both the immediate rebuilding and for economic recovery of Gaza, including the movement of goods and people both ways between the West Bank and Gaza. A proposal for the necessary movement parameters can be found in the Agreement on Movement and Access (AMA) of 2005 which includes parameters on necessary cargo volumes / crossing capacities, the need for redundant systems and crossings, and routes to be used between Gaza and West Bank.

OQR's work on this area for both the West Bank and Gaza will include:

- Helping the PA to develop plans for the operation of the Palestinian side of crossings and entry points in Gaza.
- Advising all parties on design of a possible international border assistance mission mandate to support PA capacity building in managing border crossings.
- Advocating for trade from Gaza to the West Bank and Israel, which could be a key boost for the Palestinian economy that is relatively straightforward and swift to implement.
- Trade facilitation: working to identify the most effective steps that could be taken by the PA and Gol to improve the administrative systems in order to speed up the flow of imports and exports. When this analysis is complete, OQR will engage with the relevant authorities to promote improvements.
- Containerisation at Allenby/King Hussein Bridge is moving forward but progress is slow. OQR will work with all relevant parties to advocate and accelerate progress.

Economic development

Development of the Palestinian economy remains a vital goal for the coming period as reliable and sustainable livelihoods will support future stability and security. OQR has thus repositioned the IPE to further support the PA, including critically through economic restoration in Gaza, the West Bank and East Jerusalem. The goal is to serve as a bridge from the emergency response and recovery phase, to a full rebuild of the Palestinian economy. As increasingly accurate data becomes available on the full cost and timescale required for recovery in Gaza, OQR will continue to adjust some aspects and priorities within the IPE to fit the new reality, for example on energy, water and construction.

Priority areas of action for the West Bank and Gaza over the coming period include:

- **Agriculture:**
 - Urgent rebuilding of the infrastructure for agricultural water in Gaza.
 - Continue working with MNCs on processing Palestinian vegetable and fruit. Given the relatively small scale of the Palestinian agriculture sector, consultations will increasingly focus on medium-sized food processing MNCs.
 - Follow up with the PA and international bodies on establishing conformity with international standards for production and processing of agricultural goods.
 - Explore – with stakeholders – mechanisms for agricultural financing. This is a problematic issue at the moment, with Palestinian banks reluctant to lend to agribusiness or to farmers, while access to finance such as seasonal credit and crop insurance are vital to the agricultural sector. OQR plans to bring stakeholders into a conversation to develop a way forward in this key area.

- **Building materials:**
 - Facilitate entry of building materials into Gaza.
 - Ensure progress on the development of a cement mill in the West Bank.
 - Explore possible Area C quarries to develop.
 - Explore potential investments in ready-mix concrete factories.

- **Construction:**
 - Identify suitable locations for an affordable housing project that will provide units to low- and mid-income households, as well as potential private sector partners to implement the project.
 - Advise the PA on the development and roll-out of the first Palestinian housing sector Public-Private Partnership (PPP).
 - Help drive progress on land registration projects, including accelerated progress in Dura and capacity building at the PLA headquarters.

- Further improve the mortgage market, including on the AMAL redesign project, as well as potential further financial literacy programmes.
 - Liaise with donors to support off-site infrastructure projects as an enabler for affordable housing schemes.
- **Energy:**
 - Gaza Marine: OQR will continue to engage with the relevant parties in this vital project to ensure development of the field that will constitute a major source of energy for the Palestinians as well as income for the PA.
 - Power generation: OQR will continue to work with various stakeholders to help facilitate bringing new power plants on line (e.g. in Jenin) and repair and upgrade existing power generation capabilities (Gaza Power Plant).
 - Gas supply: OQR is working on plans for gas pipelines to be built which would supply natural gas to both Gaza and the West Bank.
 - PA energy capacity building: The OQR will work closely with the PA to assist in enhancing the energy expertise capacity in the PA so that it has the necessary tools to regulate, supervise and conduct various energy projects.
 - Renewable energy: Support the PA in efforts to establish a comprehensive renewable energy regulatory framework which would stimulate and enable renewable energy projects to constitute part of the energy sources available for the Palestinian economy.
- **ICT:**
 - Quick revival of ICT operation in Gaza, especially in the software development subsector, where direct destruction and unreliable supply of electricity and internet services caused considerable losses. The options being explored by OQR are intended to solve existing problems in Gaza and to strategically develop employment scalability, which is key for promoting the Palestinian Territories as a destination for IT outsourcing.
 - Continue advocacy with the Israel to release 3G and 4G spectrum to the PA and construction of infrastructure to enable proper mobile communication coverage in all of the West bank including in Area C and the deployment of a second mobile network in the Gaza Strip.
 - Develop plan for clustering Palestinian IT companies to enable professional capacity building, branding and B2B activities internationally.
 - Establish a capacity building committee that would identify and lead the agenda for development of ICT curriculums and training programs.
 - Push forward efforts to start the implementation of E-government in the Palestinian territories.
 - Develop with donors incentives and mechanisms for commercial cooperation between Palestinian companies and companies in the donor countries.

- **Light manufacturing:**
 - Facilitate a comprehensive study on transforming the existing Industrial Zones into Special Economic Zones (SEZs). The study will include a plan (and budget) detailing an assessment of current status and the specific actions, policies, incentives and changes that need to be made in order to achieve the desired transformation across all industrial zones. This is contingent on official endorsement from the PA.
 - Work with GoI on special security arrangements for SEZs (similar to those provided to some trusted Palestinian manufacturers), as well as imports of raw material and exports via Allenby Bridge and Israeli ports.
 - Raise interest among MNCs for each of the seven identified sub-sectors to build factories in the SEZs and for additional donors to support infrastructure.

- **Tourism:**
 - Facilitate the Ministry of Tourism and Antiquities' (MoTA) work to recruit experts and finalise tourism master plans for two geographic hubs (Bethlehem and Jericho) and start on two additional draft plans for Nablus and East Jerusalem;
 - In close cooperation with UN World Tourism Organisation, assist MoTA to establish a Tourism Advisory Board and a marketing unit within the ministry to lead on the marketing of the Palestinian territories as a tourism destination;
 - Continue working with the GoI on entry permits for Arab tourists and investors into the West Bank and on the development of key tourism sites in Area C.

- **Water:**
 - Continue contacts with Israel and the PA to find a way to allow the joint Israeli-Palestinian water committee (JWC) to convene.
 - Wastewater treatment plants: Work to accelerate progress in the mobilisation of financial resources as well as advancing the planning phase for a number of planned plants, both in Gaza and the West Bank.
 - Rehabilitation of water wells: Engage the parties to facilitate increased and sustainable water extraction, in particular where wells extraction constitutes the most cost-effective option.
 - Rainwater harvesting: Assist in identification of prospective sites for dams and other catchment systems, with potential to collect an additional 15 MCM annually.

5. Conclusion

The Palestinian Authority is once again facing a formidable challenge, and continued fiscal support for the PA remains critical. Gaza residents' concerns that materials for reconstruction are not entering fast enough must be laid to rest through accelerated recovery efforts, with the hours and physical capacity of crossings extended to match the need. Gazans must be given not just a hope of a better future, but they also need to see concrete measures on the ground that demonstrate change is happening and that there will be an immediate effect on them and their families.

OQR will focus on three main areas under its mandate: economic development – in particular projects that can boost not just the economy in Gaza but also have an impact on the Palestinian economy as a whole; rule of law and improving governance across the Palestinian territories; and movement and access, which is vital to improving the daily lives of Palestinians. OQR is committed to working together with key partners in the Palestinian Authority, the Government of Israel and across the international community to bring about a different, more hopeful reality for the people of Gaza.

No one is under any illusions about the immense task that must be faced when moving ahead. Even before the latest flare up of violence this summer, the situation was fragile and unsustainable. Israel's very real security concerns cannot and will not be ignored under a long-term, durable strategy. Gaza has waited too long for a concerted, fresh and sustainable international approach that will not just help the residents rebuild their lives and livelihoods, but also ensure that the PA is bolstered and can effectively and fully return to Gaza. Progress will not happen overnight. But by working in tandem with the PA, and adopting an approach to funding that takes into account the needs of the Palestinian Territories as a whole, the international community can assist efforts to finally reunite Gaza and the West Bank, including East Jerusalem.

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