

# **Gaza:** Opportunities for Reconstruction and Economic Development



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## 2014 conflict has worsened an already desperate situation

Prior to July 2014 Palestinian residents of the Gaza Strip were facing an enormous humanitarian and development challenge, with one of the highest population densities in the world, high poverty and unemployment rates, a chronic lack of potable water, electricity shortages, and longstanding economic restrictions severely impeding everyday life.

**The July / August 2014 conflict has exacerbated an already desperate situation.** In addition to the tragic loss of life, injury, and internal displacement of civilians, UN estimates indicate that a range of essential infrastructure was severely damaged or destroyed:<sup>1</sup>

- ~18,000 housing units destroyed or severely damaged (5% entire housing stock); 44,300 housing units damaged (13% entire housing stock).
- ~20–30% of the water and sewage network damaged.
- Gaza Power Plant out of service; internal electricity grid damaged; electricity deficit of over 60% (~150MW available vs over 400MW demand).
- Extensive damage to telecommunications and internet infrastructure.
- Extensive damage and destruction of factories and commercial buildings.

**After three significant, intense conflicts in just five years, the Gaza Strip is in need more than ever of a long-term strategy that leads to sustainable change**

## Critical need for strategy which integrates immediate reconstruction efforts with long-term economic needs

Gaza is in urgent need of the essential humanitarian and reconstruction efforts currently being led by the UN and PA.

However, sustainable change will only be achieved through combining these efforts with **a long-term strategy focussed on addressing the underlying economic causes of conflict in Gaza.**

To deliver transformative change in Gaza, to prevent a return to the cycle of conflict, and thereby to support the peace process, any long-term economic strategy must address both economic and political issues including:

- **Private sector:** The Gazan private sector need to be involved in reconstruction and long-term economic development processes at every stage.
- **Investment:** Major new international investment is needed to drive both the recovery and long-term development of the Gazan economy.
- **Borders:** Restrictions on the movement of people and goods into and out of Gaza must be lifted to enable major catch-up economic growth.
- **Governance:** Operationalisation of the Palestinian Consensus Government in Gaza is essential to create a single legal and economic Palestinian entity, necessary for new business and new investment in Gaza.
- **Security:** Legitimate security concerns in Gaza must be met and resolved with agreement and cooperation from all sides, to facilitate other economic enablers.

## IPE in Gaza: A strategy prioritising Gaza's immediate and long-term economic needs

The **Initiative for the Palestinian Economy (IPE)** is an ambitious plan designed to effect transformative change and substantial growth in the Palestinian economy and create hundreds of thousands of new jobs across both the West Bank, including East Jerusalem, and the Gaza Strip.

**The IPE compliments current UN and PA humanitarian and reconstruction efforts in Gaza.** The IPE situates these efforts in the context of greatest overall value to the Gazan economy, ensuring that redevelopment efforts are sustainable and meet Gaza's long-term needs. The IPE prioritises:

- **8 Economic Sectors:** The IPE sets out sector strategies and specific project proposals for 8 key economic sectors in Gaza, designed to attract major new investment and generate private sector-led growth in Agriculture, Building Materials, Construction, Energy, ICT, Light Manufacturing, Tourism, and Water.
- **Cross Cutting Enablers:** The IPE identifies a series of cross-cutting enablers in Gaza capable of effecting major transformative change across the economy and catalysing multi-sector growth. The IPE provides a framework and specific proposals for reforms (e.g. legal, policy, security) in order to realise these enablers and effect this change.

## **IPE in Gaza: Integrating the Palestinian private sector in reconstruction and redevelopment efforts**

**The IPE identifies that the Palestinian private sector is vital to the success of reconstruction efforts and the long-term economic development of Gaza.** Recovery and reconstruction efforts cannot happen in isolation; the Palestinian private sector must be fully involved at the outset if these initiatives are to be successful over the long-term.

Private sector-led growth is the most reliable way to ensure that economic developments are both viable and sustainable. The IPE's initiatives are designed to maximise new investment in the Gazan private sector, to open new markets to Gazan businesses, and improve business profitability, whilst ensuring that Gazan and Palestinian businesses remain the drivers for new growth and new development.

The IPE therefore provides a framework to link the private sector in Gaza to a range of business opportunities presented by reconstruction initiatives, to ensure such initiatives meet both the immediate and long-term needs of the Gazan, and wider Palestinian, private sector and economy.

**We are working closely with the Palestinian private sector to link Gazan businesses to new opportunities and new investment**

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# IPE in Gaza: Agriculture

## Damages

- **Damages to sector estimated at US \$550M<sup>1</sup>**
- At least **40,000 people employed in sector directly affected** through damage to agricultural lands and death / loss of animals<sup>2</sup>
- Food insecurity or vulnerability affected **72% of households<sup>2</sup>**
- **220 agricultural wells** destroyed or badly damaged<sup>3</sup>
- Approximately **55,000 livestock heads are in need of animal feed and water tanks** to avoid loss of livestock and erosion of productive assets<sup>4</sup>

## Immediate steps towards recovery

- **UN Gaza Crisis Appeal** seeks US \$32M to rapidly protect and restore sector livelihoods, through initiatives including land rehabilitation, land cultivation, repair of irrigation networks and wells, provision of equipment and supplies to herders and fishers
- **Removal of unexploded ordnance (UXO)** activities led by UNMAS critical to agricultural land recovery
- **Facilitate private sector opportunities for export of produce** using existing export and agro-processing infrastructure

## Strategic economic interventions

- **Negotiate access to agricultural land in the Israeli 'exclusion zone' area**, to significantly increase the area of agricultural land available to Gazan farmers
- **Return former farmland to agricultural use** by:
  - **Reopening local markets** for fresh produce in Israel and the West Bank
  - **Increasing access to offshore markets** for high-quality high-value produce in the Gulf and Europe
  - **Increasing irrigation** using treated wastewater from treatment plants (existing, under construction, or new construction)
- **Construct processing plants** in Gaza for processing vegetables and dairy products to bring added value on-shore, allow for export flexibility, and provide import substitution
- **Establish poultry meat value chain** (breeding, growing, slaughtering, marketing) as most efficient way to turn grain into meat, to maximise production given natural limitations of Gaza Strip (requires relatively small volumes of water and a small physical footprint), and to provide import substitution



# IPE in Gaza: Building materials

## Damages

- **Building materials are urgently required in response to extensive destruction and damage to buildings across all economic sectors of the Gaza Strip, including:**
  - Estimated 18,000 housing units destroyed or severely damaged, and 44,300 housing units damaged<sup>1</sup>
  - 26 schools destroyed, 122 damaged<sup>1</sup>
  - 15 hospitals and 45 primary health centres damaged<sup>1</sup>
  - 247 factories and 300 commercial establishments fully or partially destroyed<sup>2</sup>

## Immediate steps towards recovery

- **Negotiate bulk import of aggregate, steel bars and cement with Israel**, to support immediate and urgent reconstruction initiatives.
- **Introduce rubble reclamation technologies** that enable re-use of rubble from damaged and destroyed buildings in reconstruction efforts, and reduce need for cement imports.

## Strategic economic interventions

- **Enable bulk imports of cement** to reduce current reliance on individual bags of cement (which are expensive and inefficient) thereby reducing construction costs, and allowing for a better standard of end-user verification
- **Build ready mix concrete plants** to increase the availability of concrete in Gaza and reduce construction costs
- **Build clinker mill** to reduce Gazan dependence on imports of cement and significantly reducing construction costs
- **Develop end-user verification system** which meets needs of all parties (Israel, Egypt, PA, Palestinian private sector, and international community)
- **Negotiate removal or significant easing of dual-use list** to allow for increased import of essential building materials into Gaza

# IPE in Gaza: Construction

## Damages

- **Extensive destruction and damage to buildings across all economic sectors of the Gaza Strip**
- Housing crisis a particular concern:
  - Estimated **18,000 housing units destroyed or severely damaged**<sup>1</sup>
  - Estimated **44,300 housing units damaged** requiring repair<sup>1</sup>
  - Estimated **108,000 Palestinians long-term displaced** as homes uninhabitable<sup>1</sup>
  - This is in addition to **pre-crisis deficit of 71,000 housing units**<sup>1</sup>

## Immediate steps towards recovery

- **Prefabricated modular housing project** to meet immediate housing demand whilst using construction technique requiring only minimal access to dual-use building materials
- **Identify state owned land for major affordable housing project(s)**. Initial planning and development phases of affordable housing project can only begin once state land has been identified.

## Strategic economic interventions

- **Entry of building materials essential** to all construction initiatives (see Building Materials section).
- **Major affordable housing project(s)** are essential to meet severe housing deficit, likely as government-led PPP initiatives. Units should be priced in US \$35 – 50K range to be affordable.

# IPE in Gaza: Energy

## Damages

- **Electricity deficit of over 60%**, only ~150MW available versus over 400MW demand<sup>1</sup>
- **Gaza Power Plant (GPP) out of service** due to major damage inflicted during fighting and shortage of fuel
- **Widespread damage to electricity lines**, electricity feeder lines from Israel damaged during conflict but now repaired, many internal electricity lines still damaged

## Immediate steps towards recovery

- **Repair of internal electricity lines**, with Israeli support for necessary imports and financial support from international community
- **Repair and supply of fuel to the GPP**, with Israeli support for necessary imports and solving funding issues for repair and fuel supply
- **Source additional emergency sources of power generation**, to temporarily increase generation capacity for Gaza over the short term
- **Increase supply of electricity from Israel and Egypt**, through upgrading existing infrastructure and adding new infrastructure

## Strategic economic interventions

- **Develop Gaza Marine gas field** to provide long term cost effective gas supply to Palestinian IPPs and industry as well as revenue for the PA from gas exports
- **Secure long-term fuel supply for the GPP and Gazan industry through a gas pipeline from Israel** to decrease energy costs in Gaza and promote affordability
- **Convert and expand the GPP to gas operations** to enable the GPP to run more efficiently and generate more electricity
- **Complete construction of the 161 kv electricity line** to import greater quantities of electricity from Israel
- **Upgrade and expansion of internal Gazan electricity grid**

# IPE in Gaza: Information communication technology

## Damages

- **Widespread damage to range of landline, mobile, and internet infrastructure** including destruction of switches, fixed line network, cellular stations, copper network and cables, and HQs of companies<sup>1</sup>
- **Widespread disruption and losses to ICT businesses**, including BPO and software outsourcing centres (loss of existing contracts and partially approved future contracts)
- **Combined losses of at least US \$34M**, of which 96% are to communications companies and internet service providers operating in Gaza<sup>1</sup>

## Immediate steps towards recovery

- **Support commercial ICT companies in reconstruction efforts** by securing Israeli support for necessary imports and movement of essential personnel
- **New mobile network launch** is possible within 6 months and should be prioritised to create new jobs and services over short-term; enabled by securing Israeli support for entry of civil works (cement, steel, etc.)
- **Facilitate the development of donor incentives** for commercial cooperation between foreign companies and Gaza companies

## Strategic economic interventions

- **Promote Gazan outsourcing opportunities to Western and Gulf companies** needing software and Business Process Outsourcing (BPO) services provided by a range of Gazan IT companies and call centres
- **Secure release of 3G and 4G spectrum from Israel to Palestinian ICT companies** to create essential new business opportunities, services and jobs throughout sector
- **Facilitate new mobile network launch and roll-out in Gaza** to create new business, jobs and services, requiring approval from Israel for imports and movement of key technical personnel
- **Begin roll out of Palestinian e-government services** to create new government contracts for Gazan ICT businesses
- **Secure increased access for ICT personnel and equipment to move into Gaza** to create a normalised environment for commercial development
- **Develop and implement a national agenda for capacity building** in the Palestinian IT sector and for marketing and promoting the IT industry
- **Promote and facilitate subcontracting between companies in the West Bank and the Gaza Strip** to develop a reliable model for back up during crises times and in cases of overload and to benefit from the relations that some of the West Bank companies have with MNCs
- **Facilitate the development of reliable and affordable infrastructure, including** secured offices, electricity supply and access to internet. One model could be through the development of an ICT hub.

Source: 1 PITA report for losses in Gaza After the War.

# IPE in Gaza: Light manufacturing

## Damages

- **247 factories and 300 commercial establishments have been fully or partially destroyed<sup>1</sup>**, including:
  - 69 factories involved in construction materials
  - 47 factories for wood and furniture products
  - 21 factories for food and beverage
- Estimated losses as a result of halted operations exceed US \$47M
- **2,695 factories employing 30,700 workers closed for 20 working days** (July 8 – Aug 5)
- Damages to Karni Industrial Estate estimated at US \$5M

## Immediate steps towards recovery

- **Assessment survey** to understand the degree of damage to the industrial sector
- **Factory reconstruction** driven by international investors, donor funding and the Palestinian private sector
  - The owners of the Gaza Industrial Estate have committed to re-building 20-25 factories within 6 months
  - Additional \$5M needed for infrastructure and \$6.25M for factory construction
- **Donor outreach** to encourage immediate support to bring factories back online

## Strategic economic interventions

- End or significantly **ease Israel’s closure of Gaza.**
- **Re-strengthen links between West Bank and Gaza** markets in both directions.
- **Improve market access** / restore lost markets for Gaza factories .
- Attract investors to establish businesses in the **Gaza Industrial Estate** (GIE) with reduced risk and accelerated guarantees for funding.
- Obtain and apply **proper security and logistics arrangements** that will facilitate the entry of raw materials and exports of goods.
- Develop **new and innovative manufacturing** methods particularly through the use of recycled products.
- **Improve the capacity and increase training** to develop skills of available human resources for the job market.
- **Modernize the industrial sector** by strengthening know-how, quality standards, and technology transfer.
- Strengthen **private sector institutional platforms** and activate the role of governmental institutions in Gaza.

Source: 1. Palestinian Federation of Industries (PFI) information as of 13 August 2014.

# IPE in Gaza: Tourism

## Damages

- A number of tourist sites have suffered heavy or partial damage, or been partially destroyed. **These include sites of Potential Outstanding Value**, and sites being considered for application to UNESCO World Heritage status<sup>1</sup>
- **Estimated cost of repair and rehabilitation of sites is US \$18M<sup>1</sup>**
- Major damage to public infrastructure on which tourism relies<sup>1</sup>
- Hotel facilities sustained minor damage<sup>1</sup>

## Immediate steps towards recovery

- **Rehabilitate damaged historical sites**
- **Temporary payroll support for hotels** to help retain staff throughout duration of business disruption and prevent closure
- **Removal of unexploded ordnance (UXO)** activities led by UNMAS critical to resumption of domestic tourism at beaches and tourist sites

## Strategic economic interventions

- **Initiative to clean Gaza's beaches and improve treatment of sewage** to attract increased domestic tourism over the short-term, and in line with long-term vision of Gaza as a domestic and international seaside resort
- **Train industry staff** and roll out international tourism standards in Gazan tourism and hospitality facilities (in cooperation with Bethlehem University)
- **Facilitate removal of travel restrictions between Gaza and the West Bank** to enable increases in domestic tourism revenues
- **Develop direct transport links between Gaza and the West Bank** to enable significant increases in domestic tourism revenues
- **Develop access to Gaza for Arab and Muslim tourists** as a medium-term measure to increase international tourism revenues in Gaza
- **Develop long-term access to Gaza for international tourism** to realise long-term vision for Gaza as high-end seaside resort and family vacation destination for both domestic and international tourists

## IPE in Gaza: Water

### Damages

- **~20 – 30% of the water and sewage network damaged<sup>1</sup>**
- **~450,000 people without access to municipal water<sup>1</sup>**
- Desalination plant in Deir El Balah damaged and in need of urgent repairs
- Severe lack of electricity to power range of essential water facilities throughout Gaza

### Immediate steps towards recovery

- **Increase imports of Mekorot water into Gaza** from 5MCM to at least 17MCM

### Strategic economic interventions

- **Facilitate construction of large water desalination plant** through mobilisation of donor financial and technical assistance, and identification of a sustainable electricity supply
- **Facilitate construction of up to 5 wastewater treatment plants** through mobilisation of donor financial and technical assistance, and identification of a sustainable electricity supply
- **Negotiate removal of Israeli restrictions** on import of equipment needed for construction of water desalination and treatment plants, and on travel of technical staff into Gaza
- **Reduce aquifer use to sustainable levels** through construction of new water infrastructure and negotiation with relevant parties to decrease use

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## Governance in Gaza: Reinstating effective PA governance

In April 2014 an agreement was reached aiming to end the political separation between the West Bank and Gaza Strip.

**Effective and unified governance is a prerequisite for civic, economic, and political development across the Palestinian Territories.**

An empowered PA consensus government, under the leadership of President Abbas and with a unified remit across both the West Bank and Gaza Strip, would be better able to provide effective governance to the whole of the Palestinian Territories and deliver impartial security and rule of law to all citizens.

Re-establishing effective and unified PA governance in the Gaza Strip is therefore an **essential** step to enable the redevelopment and long-term growth of the Gazan, and wider Palestinian, private sector and economy. The PA consensus government should expand its operations in a manner that reintegrates and reunifies governance structures (both civilian and security) between the West Bank and Gaza.

**The Quartet Representative and OQR are working closely with the PA and international stakeholders to develop a range of essential governance reforms in Gaza designed to promote stability, security, and economic growth**

## Governance in Gaza: Strategic interventions

To successfully foster economic development in Gaza, the process of reinstating effective PA governance can be facilitated by:

- **Empowering the consensus government** (through reconciliation technical committees and otherwise) to oversee the reintegration of civil servants and the public sector into a single unified structure overseen by the PA
- **Integrating ministries and agencies under PA governance** based on the reconciliation framework, the recommendations of these committees, and with technical and logistical support from the international community
- **Securing a mechanism for urgent payments for civil servants** in the Gaza Strip, through coordinating the technical and financial support required to vet officials and compensate active civil servants
- **Capacity building in PA institutions** to improve the human and financial resources needed for the public sector to operate effectively across both Gaza Strip and the West Bank
- **Initiating justice, police and security sector reform** process with all parties to ensure that the rule of law is unified, impartial, trusted, effective and efficient throughout the Gaza Strip and West Bank
- **Lifting restrictions on movement and access** between the Gaza Strip and the West Bank to enable officials to operate throughout the Palestinian Territories

## Movement & Access in Gaza: Reopening the border crossings

**Since 2007, Israel has imposed a strict land, sea and air closure policy on the Gaza Strip, severely limiting the movement of goods and people.** These restrictions were eased in 2010 to allow for the import of some goods, but with continued restrictions on many 'dual use' materials needed for agriculture, construction and industry, as well as on the travel and transit of people. Restrictions imposed on Gaza by Egypt also prevent the movement of goods and people, with very limited exceptions.

**The economic impact of movement restrictions over the past seven years has been severe.** Unemployment and poverty levels are surging and most of the factories, workshops and agriculture projects that were dependent on sales to Israel and the West Bank have shut down. **This situation has been compounded by the recent conflict.**

**Lifting the border restrictions to allow for free movement of people and goods would fundamentally change the political and economic status quo in Gaza, and is the single fastest and most effective means by which to generate rapid economic growth in both the Gaza Strip and across the Palestinian Territories**

## Movement & Access in Gaza: Strategic interventions

To resolve the immediate post-conflict humanitarian crisis, and to successfully implement the IPE in Gaza and facilitate major economic growth quickly, **the process of lifting the restrictions is both necessary and urgent**. This process can be achieved by:

- **Opening the crossings** to allow cargo and passenger movement in and out of the Gaza Strip, via both Israel and Egypt
- **Enabling free movement between the Gaza Strip and West Bank** for both people and goods
- **Developing a trusted end-user verification mechanism** that allows for the efficient import of 'dual use' goods into the Gaza Strip whilst meeting Israel's legitimate security needs
- **Deploying PA personnel**, including police/security and customs personnel, to secure crossings
- **Deploying a new EUBAM / third-party mechanism** to support operations of the crossings, with an increased role in capacity building, training and logistical management
- **Developing international import and export infrastructure**, including a seaport and airport over the long-term, would facilitate major economic growth and open significant new markets to Gazan produce

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