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Part 1: Office of the Quartet (OQ) Mandate and Role

Mandate

In 2007 the Office of the Quartet Representative (OQR) was established to implement the Mandate of the Quartet Representative, to:

- a. Mobilize international assistance to the Palestinians.
- b. Help identify and secure international support in order to address the institutional governance needs of the Palestinian State, focusing as a matter of urgency on the rule of law.
- c. Develop plans to promote Palestinian economic development including private sector partnerships, especially concerning access and freedom of movement.¹

This Mandate is intended to “help the Palestinians as they build the institutions and economy of a viable Palestinian State that is able to take its place as a peaceful and prosperous partner, at peace with Israel and its other neighbors.” In accordance with Quartet statements, the Mandate has evolved over time to include matters concerning “significantly greater independence and sovereignty for the Palestinian Authority over its affairs.”²

In June 2015 the OQR will transition to the Office of the Quartet (OQ), reporting directly to the Quartet Envoys. The Mandate of the Office remains unchanged. OQ’s work will continue to focus on the Quartet objectives of Palestinian economic and institutional development and empowerment, thereby helping to advance the Palestinian-Israeli political process in support of a viable and peaceful two-state solution.

¹ UN Secretary General, August 22, 2007.
² Quartet Statement, September 23, 2011.
Role of OQ

OQ’s mission statement is “Building the State, Empowering the Economy”. This mission statement encapsulates the focus of OQ on issues of Palestinian institutional and economic growth and empowerment, in line with the Mandate.

Within the terms of the Mandate, OQ will assist the Palestinians in five high-impact areas. These activities are designed to underpin the fundamentals of the economic and institutional development necessary for a viable state. They will help lay the foundations for a two-state solution.

The five high-impact areas that form the five strategic pillars of the Mandate are:

1. **Effective Government**: To support the building of state institutions through boosting governmental capacity and reforms in the justice and security sectors.
2. **Movement and Trade**: To encourage increased trade and access for people and goods through improving border crossings and removing restrictions.
3. **Unlocking the Value of Land**: To facilitate Palestinian access to land and leverage untapped economic potential.
4. **Reliable Infrastructure**: To support the construction of sustainable, reliable, and cost-effective energy and water infrastructure.
5. **Investment Promotion**: To attract major new investment (both domestic and foreign) in Palestinian enterprise to create jobs and GDP growth.

The five strategic pillars provide the focus for OQ’s priorities. They are appraised in detail in **Part 2** of this document. The five pillars encompass the full Mandate of OQ and incorporate all the major work streams OQ has previously engaged with – and that it will continue to play a significant role in – including, Movement and Access, Rule of Law, and the Initiative for the Palestinian Economy (IPE). The five strategic pillars thus form the framework OQ will use to develop the long-term potential of the Palestinian economy and institutions of state.

OQ’s role is to help ensure the progress of the various projects within the five pillars. It seeks to do so in the following ways:

- **Identify Solutions**: OQ’s objective is to identify solutions to a cross-section of the top issues impacting Palestinian economic and institutional growth – solutions which are technically, financially and legally feasible.
- **Facilitate Progress**: OQ recognizes that making significant progress requires cooperation and buy-in. To this end, it networks with key stakeholders across the PA, GoI, international community, and domestic and international private sector. OQ’s role is in convening, informing and mobilizing the relevant stakeholders (at both the working level and, when appropriate, the political level) to facilitate meaningful progress towards the Mandate’s desired goals.
• **Bridge Divides:** OQ desires to enter into dialogue with all parties as a trusted partner. It recognizes that it is essential for it to be viewed as a credible and independent party. To this end, it seeks to bridge the political divide by respecting both Palestinian and Israeli needs and concerns.

To achieve this, OQ makes significant investment in human capital to ensure expertise in all five pillars. OQ’s staff currently includes international, Palestinian, and Israeli experts in the fields of investment, finance, development, engineering, law, politics and governance.
Part 2: Situation and Analysis 2015 – 16

Introduction: Fifteen Years of Lost Economic Growth

Between 1995 – 2000, a period when the Palestinian-Israeli political horizon was positive and expectations of a peaceful final status agreement were at their peak, the Palestinian economy enjoyed a GDP per capita comparable to Jordan. Major Palestinian economic indicators rose steadily. During this period over USD 1 billion was added to annual GDP, with an average compound annual growth rate of 5.6 percent. The proportion of the labor force in full-time employment jumped from 61 to 81 percent; Palestinian household consumption levels grew accordingly by USD 780 million. Sustained economic growth fueled Palestinian income, consumption, exports, and purchasing power, and contributed to higher PA tax revenues and a balanced budget. 3

The positive political environment succeeded in buoying the investment decisions of Palestinian households and the Palestinian business community. Expectations of independence put the Palestinian government and economy onto a path of relative economic viability and fiscal sustainability. However, in 2000 the political horizon clouded. The Oslo peace process stalled, and with the outbreak of the Second Intifada the previous economic confidence shown by Palestinian businesses and households disappeared.

With the onset of security restrictions, and increasing isolation from its neighbors, the Palestinian economy was both heavily disrupted and cut off from the wider regional changes – such as major financial flows from the Gulf – which contributed to the growth of neighboring countries over the next fifteen years. From 2000 to 2002 Palestinian GDP contracted by nearly 18 percent, before recovering to its previous level by 2005. During this same period 2000-05 Palestinian income (GNI) per capita was almost stagnant, with a compound annual growth rate of only 1 percent; compared to 2.5 percent in Israel, 6.8 percent in Jordan, and a MENA average of 6.6 percent. 4 Between 2000 and 2009 the growth rate (CAGR) for Palestinian GDP was 6 percent, but this was only half Jordan’s at 12 percent. Similarly, the growth rate (CAGR) for Palestinian household consumption levels was 7 percent, compared to a much higher rate in Jordan at 11 percent. 5

Two indicators tell an especially important story about lost Palestinian growth: the growth rates for exports and for gross fixed capital formation. Between 2000-09 Palestinian export growth was very low at only 3 percent, and gross fixed capital formation actually contracted by minus 3 percent (CAGRs). 6 By comparison, Jordan experienced 13 percent export growth

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3 Source: PCBS (all data).
4 Source: World Bank data.
5 Source: PCBS, Jordanian DOS. Data is only for 2000-09 due to limited availability of Jordanian data for later years.
6 Source: PCBS, 2000-09.
and 14 percent gross fixed capital formation growth (CAGRs) during this same period.\textsuperscript{7} While Palestinian GDP and GNI data give the impression the economy recovered after 2005, Palestinian exports continue to suffer today from a large and widening trade imbalance (of negative USD 4.7 billion), and investment levels as a proportion of GDP are nearly half what they were in 2000, having fallen from a peak of 43 percent in 1999 to only 22 percent in 2013. Most importantly, since 2000, Palestinian investment in plant and machinery – essential for refreshing and updating equipment in order to maintain business viability in the years ahead – has fallen from nearly 11 percent to under 5 percent in 2013. This is below replacement value, and unlike in Palestinian exports or other forms of investment there is as yet little sign of any recovery.\textsuperscript{8}

The fifteen years 2000-15 should therefore be characterized as ones of lost Palestinian investment, economic growth, and opportunity. Two simple conclusions can be drawn from the data: Palestinians have stopped investing in their future, and without this, the growth potential of the Palestinian economy – and its institutions – is increasingly at risk.

**Effective Government**

A sovereign state must be able to exert control over its territory and population through effective governance structures and an empowering legal framework. Since its establishment, the PA has made great strides in building institutional capacity and enacting reforms, notwithstanding periodic setbacks. The courts have seen dramatic progress. Since 2008, for example, the number of new cases filed each year in the first instance courts has more than tripled, to more than 8,000 in 2014.\textsuperscript{9} This reflects both growing public confidence in the Palestinian judiciary (demonstrated by a doubling in new civil suits filed) and an improvement in law enforcement (reflected by a significant increase in new criminal cases). This dramatic growth in numbers has been accompanied by growth in productivity, with the Palestinian courts achieving case clearance rates that match the most efficient court systems worldwide.

The PA is also tackling corruption: recent business surveys show that 7 percent of Palestinian firms say they experience requests for bribes. This is not only lower the MENA average of 27 percent, but well below the global average of 17 percent.\textsuperscript{10}

The existing state of affairs provides a strong foundation upon which to build. Nonetheless, there are still large gaps. Government institutions need to be made yet more effective, laws and regulations need to be improved, physical access needs to be expanded (especially for police and security personnel), and the PA needs to gain fuller control over its economic affairs. Resolving these challenges is central to empowering Palestinians and to building an

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\textsuperscript{7} Source: Jordanian DOS, 2000-09.
\textsuperscript{8} Source: All data PCBS.
\textsuperscript{9} Source: Higher Judicial Council.
\textsuperscript{10} Source: Transparency International, World Bank and IFC Enterprise Surveys.
effective government that provides services, protects rights, and promotes economic development.

A longstanding challenge for the PA is the resolution of ambiguities in the mandates and responsibilities of existing institutions, which create conflicts and major inefficiencies. The overall performance of the justice sector in particular continues to be seriously hampered, both by a lack of coordination and by the failure to address critical issues regarding the separation of powers and institutional responsibilities. The same applies to policing: while the police force is a professional, well-trained and cohesive organization, the overall governance of the security sector remains fragmented, opaque, and in many cases outside civilian control. In addition, various gaps in capacity, for example in relation to the military justice system and security-related crimes, compromise law enforcement and the delivery of the rule of law.

The problems facing the PA in Gaza are more severe. Regardless of the potential for reconciliation between Fatah and Hamas, the emergence of dual institutions and parallel civil services (and judicial bodies and security organizations) presents tremendous challenges for the PA, ones that it is making efforts to address. It is critical that this process is successfully moved forward, as it is not only a necessary pre-condition for restoring unity, but is fundamental to the recovery of the Gaza economy and for the well-being of the population as a whole.

Another key challenge involves the ability of the PA to access and deliver effective law enforcement services to the public. In recent years, Palestinian police and security forces have had free movement on only 40 percent of roads in the West Bank, while access to over 300,000 people has been prohibited or severely restricted. Inability to operate effectively has hampered public order, safety, and economic development. Although this situation has improved recently, continuing work is needed to strengthen and upgrade the ability of the Palestinian police and security forces to operate more effectively.

Alongside these immense challenges, the PA’s task is to build upon its current progress by further improving regulations to support Palestinian economic growth in general and private sector needs in particular. Recent legislation has encouraged domestic and foreign investment in Palestinian businesses, attracting new investors with tax incentives and other benefits (such as the Encouragement of Investment in Palestine Law). The impact of this upon the economic climate was seen in the West Bank and Gaza Strip climbing 39 places in 2013-14 in the world rankings for starting a new business: West Bank and Gaza were, for a time, ranked higher than Argentina, China, and India.

There is still a very long way to go, however. Though the prospects for starting a new business temporarily improved in the 2013-14 period, they have since fallen, and the West Bank and Gaza Strip are in 2015 ranked 143rd out of 189 in terms of the overall ease of doing
business.\textsuperscript{11} Government legislation and regulations need to be better tailored to the specific market needs of each of the key Palestinian economic sectors. This will make it easier for Palestinians to start new businesses, to compete against regional competitors and to attract new investment.

At the macro-economic level, issues regarding PA control over its economic and trade policy are likely to be central in the coming period. This is at the heart of instituting effective government. The significant trade imbalance that has emerged over the past fifteen years urgently needs to be addressed. Between 2000-13 the net export of Palestinian goods and services steadily worsened, falling by over USD 2.7 billion in this period, resulting in a current annual trade imbalance of nearly USD 5 billion. Palestinian imports now exceed exports by a ratio of more than 3:1. The level of this trade deficit is both undesirable and unsustainable.

During this period, Palestinian trade has become increasingly dependent upon Israel. Over 85 percent of Palestinian trade is now directly with Israel: in total 97 percent of imports and 89 percent of exports are made to, from, or through Israel.\textsuperscript{12} Despite existing trade agreements with the EU, the US and GAFTA, the lack of Palestinian exports to other countries is striking.

The PA’s trade and economic regime has, since its inception, been governed by Annex 5 of the Interim Agreement (known as the ‘Paris Protocol’). It was originally intended to apply only for the interim period, expected to last five years, between the creation of the PA and the conclusion of a political permanent status agreement: yet continues until today. As implemented, this regime places far-reaching structural restrictions on Palestinian trade and economic policy. Improved implementation and enhancement of the economic and trade agreement with Israel is necessary not only to increase the PA’s control over its economic and trade policy, but also to prevent continued economic decline.

**Movement and Trade**

Trade is critical to the Palestinian economy: imports currently total USD 6.8 billion and exports USD 2.1 billion annually in an economy with a GDP of USD 12.5 billion.\textsuperscript{13} Future growth relies on expanding low-cost exports. It is critical that the PA, along with the governments of Israel, Jordan, and Egypt, take steps to remove barriers to movement and trade and reduce the costs to trade to ensure that Palestinian firms can be competitive.

Palestinian firms currently face highly prohibitive costs compared to their competitors. This is true both for exports and for imports. A Palestinian firm pays the equivalent of USD 1,750 to export a container, the process taking an average of 23 days. By comparison, in MENA the

\textsuperscript{12} Source: All figures PCBS.
\textsuperscript{13} Source: 2013 current prices, PCBS.
average cost is around two-thirds this, at USD 1,166 and takes 20 days. The Israeli average of USD 620 is almost a third that of Palestinian firms, and the process takes half the time, at 10 days.\textsuperscript{14}

A similar situation is seen in imports. A Palestinian firm pays USD 1,425 to import a container, a process that takes 38 days. The MENA average cost is fairly similar at USD 1,307, but the process takes an average of less than two-thirds the time, at 24 days. The Israeli firm pays almost a third that of the Palestinian ones, at USD 565, and sees the process completed in 10 days, almost one-quarter the time faced by Palestinian companies.\textsuperscript{15} The cost of trade at points where container trade is not permitted is likely to be even higher than these figures. In short, Palestinian imports and exports cost significantly more and take significantly longer than their immediate competitors. Furthermore, the unpredictability of processing times for imports and exports make ‘just-in-time’ deliveries impossible to undertake.

During 2015-16, to reduce trade costs and times, and improve reliability, the PA and GoI need to prioritize upgrading the infrastructure, procedures, and processes on two critical Palestinian trade routes. The first of these is the Jordan Valley trade route between the West Bank and Jordan, which traverses the Allenby Bridge (also known as King Hussein Bridge) border crossing. This route is the gateway for all Palestinian trade with Jordan, the Gulf, and further east; 3 percent of Palestinian exports and 11 percent of Palestinian imports cross here.\textsuperscript{16} The second is the Kerem Abu Salem border crossing (also known as Kerem Shalom) between the Gaza Strip and Israel, located at the Gaza Strip’s southern tip. All trade in and out of Gaza traverses this route, including all movement of goods between the Gaza Strip and the West Bank.

Both Allenby Bridge and Kerem Abu Salem are currently candidates for major containerization and conveyor developments. Some of these projects could potentially be operational in as little as a year. This will produce a radical transformation in trade, being the first use of shipping containers, universally recognized as the single most important logistical innovation for increasing overall trade volumes and trade efficiency at border crossings,\textsuperscript{17} at either Allenby Bridge or Kerem Abu Salem. While the former currently lacks any containerization infrastructure whatsoever (on either side of the river), Kerem Abu Salem does possess a container-capable scanner – yet is currently used only for non-containerized goods. At Kerem Abu Salem containerization is not yet permitted, necessary

\textsuperscript{16} Source: PCBS.
supporting infrastructure is not present, and processes not yet developed to bring it into full use.

Neither crossing is currently equipped with the conveyors required for transferring bulk quantities of aggregates and building materials (such as sand) across the borders. The installation of conveyors at these crossings will enable faster, cheaper, import of essential construction inputs. This is of especial importance at Kerem Abu Salem in order to support the ongoing reconstruction efforts in the Gaza Strip.¹⁸

Both the GoI and PA (and in the case of Allenby Bridge, the GoJ) have in the past year either committed to or taken significant steps toward bringing about these changes at both crossings, opening the door to fundamental improvement in trade costs and trade times for Palestinian enterprises. It is critical that the work required to bring these developments to a successful conclusion, as well as to help Palestinian firms develop the new business practices and trade links that are necessary for their effective use, is completed during 2015-16. Improving other procedures at these border crossings, such as extending opening hours, will also be of real importance.

As well as making improvements to the border crossing infrastructure, it is important to find points of agreement with the Government of Israel in removing or reducing restrictions on Palestinian movement, trade, and access in order to secure Palestinian trade growth. Improvements can be made both by reducing actual regulatory restrictions and by increasing the transparency, efficiency and reliability of the bureaucratic processes involved.

Nowhere is the easing of restrictions more important than in the Gaza Strip. Enduring Israeli restrictions on access to raw materials and technical equipment, very severe restrictions impacting Gazan exports (in 2014 Gazan exports and trade with the West Bank amounted to 0.02 percent of imports by volume), and limits on business travel in and out of Gaza, have all contributed directly to the collapse of the Gazan productive sectors (including agriculture and manufacturing). The low level of trade directly impacts Gaza’s unemployment figures, which rose to 44 percent in 2014 (68 percent for young people, aged 15 – 24), and is also seen in 39 percent of its population living below the poverty line.¹⁹ Working with GoI to lift or ease these restrictions is essential. In parallel, agreement with the Government of Egypt should be sought to restore normal operations at the Rafah crossing between the Gaza Strip and Egypt, to allow for the movement of both people and goods across this border.

Securing greater freedom for the movement of people remains a priority, in both the Gaza Strip and West Bank. Restrictions on visas for investors and business travelers – particularly those from Gulf and other Arab states – severely impacts Palestinian business and trade. Restrictions on the movement of people between the Gaza Strip and West Bank impedes domestic economic growth, by separating potential customers from internal markets. And

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¹⁸ In the wake of the conflict of July-August 2014.
¹⁹ Source: PCBS, 2014.
the absence of normal operations at the Rafah crossing prevents the movement of business people into and out of the Gaza Strip.

GoI restrictions on Palestinian economic activity in the Gaza Strip and the West Bank remain a fundamental major impediment to Palestinian economic growth. Working directly with the GoI to remove or limit the impact of these restrictions in both locations by addressing Israeli security needs in new and less restrictive ways, or by identifying instances when restrictions are out-of-date or create disproportionate harm, will continue to be vitally important to the prospects for Palestinian economic growth in the coming period. In parallel, working with the Government of Egypt to restore normal operations at the Rafah crossing is of real importance to Gazan economic growth prospects.

**Unlocking the Value of Land**

Limited access to land remains one of the major obstacles for the development of the Palestinian economy. In the West Bank over 60 percent of Palestinian land is classified as Area C – that is, land under near exclusive Israeli control. In the Gaza Strip, though all land is under Palestinian control, there is very significant overcrowding: population density exceeds 4,400 persons/km², compared to just 460 persons/km² in the West Bank. The PA is governing a territory that is both fragmented and, in the West Bank, lacks internal contiguous. The shortage of land for development, together with the lack of registered land, is the root cause of high land prices in areas under PA control, and has widespread knock-on consequences for the wider Palestinian economy.

Area C includes prime land for economic development. Much of Area C land is suitable for construction, and would be of significant value to the housing, real estate, manufacturing, and infrastructure sectors if permitted. Under the present regulations, although ~20 percent of Area C is judged to be of high agricultural value Palestinian farmers are not permitted to put it to agricultural use. In addition, an estimated 100+ marble and stone quarries are believed to operate in Area C: these are unregistered businesses and would be of greater value if licensed and brought into the formal economy. Crucially, the geographical layout of Area C is such that it surrounds and hems in PA-controlled areas. This makes it impossible for the Palestinian urban centres to expand into their urban peripheries, in order to meet the needs of a growing population and economy.

This problem is compounded in the West Bank by the PA’s lack of efficient land management processes for the land it does control (Areas A and B). Only ~35 percent of land in Areas A and B is formally registered: there are no title deeds to the unregistered land. Without title deeds, it is impossible for landowners to use land as collateral to access finance, which inhibits the ability of Palestinians to leverage the financial value of their land and transact their property. The inadequate level of land registration also results in the PA losing potential revenue from land fees and taxes: full West Bank land registration would
raise the PA’s revenues from around USD 25 million USD to ~USD 75 million annually.\(^{20}\) The current land registration efforts are inadequate and will not effectively tackle this problem.

If it were possible to open up Area C land to Palestinian development, this would be one of the fastest ways to grow GDP and employment in the Palestinian economy. While the prevailing political climate may be challenging in terms of Area C access, investments and development should be pursued where these are likely to have a high and quantifiable impact on Palestinian development. This could be achieved for certain projects on a case-by-case basis.

The most promising area for development during 2015-16, however, will undoubtedly be in maximising the value of land already under PA control. In the West Bank, the PA’s management of land can be improved and supported, not only by promoting land registration but also by creating the regulatory environment that encourages private-sector led – and PA-supported – use of land for high-value projects.

One such area for high-value land development is affordable housing. There is a major mismatch between housing supply and demand in the West Bank. Affordable housing – defined as units in the USD 40-60,000 range, a price that is affordable for around 60 percent of the Palestinian population – is scarce, making it difficult for large segments of the population to purchase a home.\(^{21}\) Demand is estimated at approximately 15,000 housing units annually, yet only 5,700 construction permits are actually issued, resulting in a large unmet housing demand of nearly 10,000 units per year. Part of the problem is that developers in the West Bank commonly focus on building high-end units, priced at USD 100,000 upwards. The imbalance in supply and demand has led to substantial overcrowding: an average of 5.6 people live in each housing unit in the West Bank, compared to an average of 3.4 persons in Israel.\(^{22}\) In the West Bank, efforts need to be made to solve the housing shortage. Creating the regulatory environment that encourages the Palestinian private sector to independently develop large-scale, affordable, housing projects, supported by strengthening the nascent Palestinian mortgage market through improved financial literacy and new financial products, will provide a major boost to the entire economy, as well as to employment, while improving the quality of life for Palestinian citizens.

Similarly, efforts to develop major new industrial-zone projects – such as the Jenin Industrial Free Zone being developed by the Turkish company TOBB-BIS, and plans for an industrial zone in Hebron – have the potential to create tens of thousands of new jobs and boost manufacturing, GDP and exports. By taking advantage of strategic locations, with good access to trade routes, export-oriented businesses can be attracted. Industrial zones will provide integrated infrastructure in one location and provide incentives and facilities that


\(^{21}\) Source: Office of the Quartet, Effective Demand Survey, 2014.

\(^{22}\) Source: PCBS, 2012; Israeli CBS, 2011.
would help with cutting costs, improving inventory efficiency and facilitating entry to foreign markets.

In the Gaza Strip, reconstruction efforts remain the most important step to be taken in the 2015-16 period, to unlock the value of land and support redevelopment of the Gazan economy. These efforts are led by the PA and the UN. Initiatives which support these efforts, such as the development of improved rubble recycling techniques and other ways to use building materials more effectively, will also be of value.

In both the West Bank and Gaza Strip, efforts can be supported by improving PA capacity and processes on land issues. The development of an economic mapping tool, to help decision-makers and stakeholders make better-informed decisions on land-related investments, thereby putting capital to more productive use, will be of use to many developments. Similarly, building the PA’s spatial planning, regulatory, and permitting abilities will also be of broad value. Collectively, these steps can drive growth in GDP and employment and will strengthen Palestinian governance. They will do so directly, by improving institutions and land capacity and, indirectly, by increasing government revenues and by strengthening the PA’s economic self-sufficiency in the West Bank and Gaza Strip.

**Reliable Infrastructure**

Insufficient build-out of planned large-scale infrastructure remains a serious problem throughout both the West Bank and Gaza Strip. Yet while developments in the West Bank will be important during the 2015-16 period, those in the Gaza Strip are at a critical point.

The inadequacy of water and energy infrastructure in the Gaza Strip is such that, without immediate and dramatic intervention, the existing humanitarian crisis is likely to worsen substantially in the coming period. If left unresolved, this crisis may lead to additional loss of life. Gaza’s primary water supply – the Coastal Aquifer, which provides 98 percent of Gaza’s drinking water – has become increasingly contaminated. Some 96 percent of extracted groundwater is unsuitable for human consumption according to WHO standards. Years of over-extraction have depleted groundwater reserves and caused the intrusion of both seawater and sewage. If over-extraction continues, the UN predicts that the aquifer will be unusable by 2016, and irreversibly damaged by 2020. The health and wellbeing of 1.8

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24 “Unusable”: 100% of the “fresh” water extracted from the aquifer could fail WHO standards, and should normally be considered unusable for human consumption, however a number of immediate remedial actions may be taken to allow the groundwater to slowly improve, with the prospect that the aquifer will be able to provide an increasing percentage of water of potable quality in the long-term. “Irreversibly damaged”: seawater intrusion and sewage infiltration into the aquifer occurs to the extent that no remedial actions can be taken to rehabilitate the aquifer which experts would consider then damaged beyond the point of recovery. Source: ‘Gaza in 2020: A Liveable Place?’, UN Country Team, 2012.
13 million Gazans and the viability of water-dependent sectors of the Gazan economy (such as agriculture, which accounts for 9 percent of employment, 23 percent of female employment, and 6.8 percent of Gazan GDP) are all at stake.

The PA and the international community have been searching for a solution. A wealth of studies have identified large-scale desalination plants as the answer, supplemented by a wastewater treatment program to provide reclaimed water for agriculture. A major desalination and wastewater program would reduce aquifer extraction to a sustainable 55 million cubic meters (MCM) per year, take important steps towards meeting current demand for upwards of 200 MCM per year for domestic and agricultural use, and dramatically reduce the quantity of untreated waste currently being disposed of into the Mediterranean. Pollution knows no borders: around 90,000 m$^3$ of Gaza’s untreated waste flows daily into the Mediterranean (33 MCM per year). This is creating a significant public health hazard and is reducing the productivity of the local fishing industry along the length of the coastline – a problem shared by Gazans, Israelis, and Egyptians alike.

Much needs to be accomplished to break through the various political, financial, and regulatory hurdles facing the implementation of such an initiative. One problem looms particularly large: to function, the desalination plant requires considerable, uninterrupted supply of electricity. Gaza is in the grip of a long-term electricity crisis. For years, ordinary Gazans have suffered a large electricity deficit: supply is around 200 MW against an estimated requirement of 450 MW. The July-August 2014 conflict between Hamas and Israel, which resulted in extensive damage to Gaza’s energy infrastructure, only exacerbated matters: much damaged infrastructure remains unfixed. As a result of the electricity deficit, the majority of Gazans suffer power cuts that average 12 hours a day or more.

There are severe consequences for operating without access to a reliable and sufficient electricity supply for Gaza’s industry. Businesses are either forced to rely upon expensive diesel generators, which drive up costs significantly, to operate only during those hours when electricity from the grid is available, the timing of which is unpredictable (and often only available at night), to restrict themselves to activities that do not require electricity or, in many cases, to go out of business altogether.

It is no surprise that labor productivity in Gaza is lower than in the West Bank, at USD 11,500 per employed person versus USD 15,500. The lack of an adequate and reliable electricity supply is identified by Palestinian businesses as one of the top three most significant impediments to economic growth (along with political instability and the lack of

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28 Labor productivity calculated as GDP per employed person in 2012, at current prices. Source: PCBS.
Solving the energy crisis is pivotal to improving the prospects for Gazan economic development and reconstruction, as well as being essential to the future of Gazan water desalination and wastewater treatment plant projects.

The only long-term solution lies offshore, in the numerous natural gas fields of the eastern Mediterranean. The gas fields of the Eastern Mediterranean are estimated to contain well in excess of 30 trillion cubic feet of natural gas. The presence of these resources ensures that the West Bank and Gaza Strip will no longer be entirely dependent upon expensive fuel imports for power generation. Access to natural gas will ensure locally produced, cost-effective electricity.

The presence of natural gas has the potential to transform living standards for the Gazan populace and restore the Gazan economy to a productive state. If the sole existing power plant in Gaza were converted from diesel to natural gas, this could reduce fuel costs to as little as 25 percent their current levels. This would also enable the output to be expanded from 140 MW to 560 MW (over a period of several years), thus meeting Gaza’s current energy needs and much of its future ones. This, in turn, would enable Palestinian industries that are heavy users of energy to generate their own electricity on a cost-efficient basis, resulting in considerable savings. The provision of a reliable and uninterrupted supply of electricity would also make the proposed desalination and wastewater infrastructure viable.

The relevant commercial parties are already engaged on the issue, considering opportunities that could make bringing gas to Gaza possible. The vision of a Gaza Strip with a sufficient supply of energy and water to meet the needs of its populace and its economy is not as far off as the poor conditions on the ground might suggest. Tackling both foundational infrastructure challenges, water and power supply, at one and the same time has the potential to transform the economic prospects of ordinary Gazans, create new business, and improve trade and government revenues.

Water desalination and natural gas in Gaza are not a panacea for all Palestinian infrastructure problems – the water and energy situation in the West Bank is far from ideal, the Gazan electricity grid needs repair and expansion, and other infrastructure sectors such need help too. Reliable telecommunications infrastructure remains vital to the development of a modern economy, including allocation of spectrum to Palestinian companies for 3G / 4G technologies, and release of 2G equipment necessary to build Wataniya’s network in Gaza. Efforts to develop other Palestinian infrastructure in parallel to the above water and energy projects are needed, and cannot be ignored. However for the 2015-16 period water desalination and natural gas developments in the Gaza Strip are going to have a greater long-term impact than any other infrastructure project, and must be the priority for development within this pillar.

Investment Promotion

The Palestinian economy suffers from a steady decline in investment. Over the past fifteen years, investment in plant and equipment has more than halved as a share of GDP – falling from nearly 13 percent in 1999 to under 5 percent in 2013. At present there is little sign of this rate increasing. Today’s investment levels are not sufficient for Palestinian businesses to maintain and replace existing equipment. If the trend is not reversed, businesses could see a decrease in productivity and output over the coming years, losing ground to their competitors in Israel, Jordan, Egypt, and the Gulf. Palestinian GDP and employment, already insufficient, is likely to decrease even further as a result.

The years 1999 to 2011 also saw a steady and prolonged drop in gross capital formation levels – the overall measure of all types of investment in an economy, excluding land – from 43 percent to only 18 percent of GDP. Though the levels have recovered somewhat in recent years (to 22 percent), they are nonetheless around half the rate that could be anticipated from the levels achieved in 1995-2000. Clearly, a deficit in investment is constraining economic growth.

This investment shortfall has many causes. Undoubtedly, the adverse political context is a key factor: surveys of Palestinian businesses identify political instability as one of the top three constraints affecting new investment. Other structural factors impair the financial flexibility of the private sector. Restrictions on movement and access of materials and equipment result in the need for businesses to carry heavy levels of inventory. In addition, persistently high levels of receivables with the PA translate into a corresponding need to fund working capital that could otherwise be invested in expanding operating capacity and employment.

Financial flexibility is further impaired by limitations on access to credit. Small and medium sized enterprises (SMEs) represent the vast majority of Palestinian businesses. SMEs identify access to credit as the number one constraint preventing them from investing. Without sufficient credit, firms are unable to develop the people and processes they require in order to grow. Since 2006, the number of Palestinian firms investing in improved production has fallen from 45 percent to 21 percent, while investing in training has fallen from 23 percent to 10 percent. These are strong indicators that access to finance has become a fundamental problem for Palestinian firms.

Many Palestinian businesses find bank financing either inaccessible altogether or to have prohibitive terms and conditions in the form of collateral or personal guarantee requirements. In addition, amortization schedules and high interest rates on loans put the cost of debt service out of reach for many Palestinian businesses.

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30 Source: PCBS.
33 Source: World Bank Investment Climate Assessment.
The Palestinian banking sector is in many ways a success story, consisting of well-run, capitalized and regulated institutions that conform to international banking guidelines. The banks have the capacity to lend but data indicates that the sector has become a net exporter of capital. Palestinian customer bank deposits have increased by USD 4.7 billion since 2007, but domestic credit has expanded by only USD 1.7 billion with the remaining USD 3 billion having been invested offshore.\(^{34}\) In total, some 32 percent of Palestinian banking assets are invested abroad, about three times the level of benchmark economies.\(^{35}\) The capital adequacy ratio, a measure of a bank’s relative conservatism, is 18 percent – twice the optimum ratio suggested by the Bank of International Settlements.\(^{36}\) and the risk-adjusted returns of the existing loan portfolios appear to be healthy as evidenced by the rate of non-performing loans (3 percent), which is half that of Jordan.\(^{37}\) All this suggests that the Palestinian banking system, while liquid and well-developed, could do more to support the growth potential of Palestinian businesses by making a more dedicated effort to expand domestic lending activities. The banks do appear willing but they themselves are businesses. What they require of prospective borrowers is well-prepared business plans with credible growth strategies. Improving SMEs’ access to bank finance and also other sources of capital will go a long way to addressing one of the main structural causes now inhibiting investment.

In contrast to the challenge facing SMEs, access to capital is not a primary constraint for international investors or large Palestinian businesses. There are relatively few large Palestinian businesses – only 137 Palestinian companies employ more than 100 people, and only one percent of companies employ more than 20 people (compared to 35 percent in benchmark economies).\(^{38}\) Publicly-listed companies generated nearly USD 223 million in after-tax profits and USD 150 million in dividends in 2014.\(^{39}\) Large Palestinian companies are typically able to support their own investment needs without external support. Similarly, international investors interested in investing in the Palestinian economy are not constrained by capital concerns. Large Palestinian companies and international investors are able to invest – they need business investment opportunities that present sufficiently attractive risk adjusted returns.

To address the issues described above, a number of interventions are necessary to better match users to providers of capital. On the supply side, there is scope to work with international financial institutions and the donor community to provide advice on gaps that exist in the market, be they in debt facilities, guarantees, risk insurance or equity products. This requires experienced and credible advocacy for areas where credit can be extended to

\(^{34}\) Source: PMA  
\(^{35}\) Source: PMA  
\(^{36}\) This rate is partially (though not fully) explained by the significant direct and indirect exposure of Palestinian banks to the PA and its employees. Source: PMA Financial Stability Report 2013.  
\(^{38}\) Source: PCBS Establishment Census 2012  
\(^{39}\) Source: PEX. After tax profit data is for 2014. Dividend data is for 2013 (2014 data not available).
the benefit of both lender and borrower. The cultivation of international, and in particular, Palestinian diaspora investors who are looking for ways to invest in the Palestinian economy will be a priority. On the demand side, there is a need to identify businesses that are candidates for expansion and provide advice to them in developing their business expansion plans. This requires the effective convention of stakeholders around a particular issue, to allow for a better relationship between users and providers of capital. Regarding candidates for expansion, though there are credible investment opportunities in most Palestinian economic sectors, two, in particular, stand out as most attractive in the short term: Agribusiness and Information Technology. Investment in other sectors have longer investment horizons and will continue to be pursued but, for the 2015-16 period, efforts to generate near-term investments should be focused, albeit not exclusively, on promoting investment in these two sectors.

The various investment opportunities in the Agribusiness sector lie not only in the introduction of high value-crops, including for export, but in opportunities for processing which allows for a greater capture of the value chain. In the ICT sector, the opportunities lie in the introduction of e-government services, business process outsourcing by international firms to Palestinian firms, and software development. In the final analysis, the Palestinian economy is less constrained by capital that it is with actionable investment-ready ideas.
Part 3: OQ Strategy and Projects 2015 – 16

Strategy

OQ’s primary resources are those of human and intellectual capital. In order to maximize its contribution to the wider international effort, OQ’s strategy is to identify and concentrate its resources on a select number of high-impact projects within the framework of the five strategic pillars.

The projects are selected according to a number of key criteria: these include the project’s impact, feasibility, likelihood of meaningful progress, and, crucially, whether or not OQ has the ability to add significant value to the project. The prioritization criteria and the chosen priority projects for 2015-16 are outlined below.

Although prospects for Palestinian economic and institutional progress are greatest when there is an ongoing Palestinian-Israeli political dialogue, the criteria used by OQ are not dependent upon this being the case. OQ focuses its energy and resources on high-impact projects that are able to make meaningful progress regardless of whether or not the overall political environment is positive. This requires selecting projects that meet the priorities of the PA but that do not require political settlement for them to be realized.

OQ recognizes that to achieve results it must partner with all governments and organizations that share OQ’s objectives and have the capability to advance shared goals. OQ’s 2015 strategy review process included consultation with supporters who suggested that OQ could be more effective in its efforts to reach out and work in partnership with other international agencies. This has been well received and OQ is raising its commitment to working hand-in-hand – inclusively and transparently – with all key stakeholders.

Above all, OQ is committed to working directly and closely with the PA on all its projects, to ensure that the work undertaken by OQ continues to support the highest economic and institutional priorities of the Palestinian Government.
Project Criteria

OQ conducted its review of potential projects on which to concentrate its efforts in 2015-16 in the context of resource scarcity, political uncertainty, and with rigorous focus on delivery. The chosen projects have been identified as bringing benefits across all five strategic pillars. They have been assessed using six criteria below: the criteria are designed to meet OQ’s Mandate and role, while balancing the project’s likely impact against its probability of success.

1. Contributes directly to effective Palestinian state and institution building and/or economic development.
2. Aligned with the priorities of the Palestinian Authority.
3. Likelihood of tangible project impact over an 18 month time horizon, with clear milestones and objectives, backed by a plan.
4. Practical and feasible given the realities on the ground and the resources and capabilities of OQ.
5. Supported by an influential champion who welcomes and needs the impact of and partnership with OQ.
6. Potential synergies with other international organizations for achieving shared goals.

Priority Projects

Based upon these criteria eleven projects have been selected as OQ’s priority projects for 2015-16. The eleven priority projects of are the primary focus for OQ efforts and resources during the period 2015-16.

These projects represent OQ’s direct response to challenges identified in Part 2 of this document. The completion of each project will represent a major step towards strengthening the corresponding strategic pillar, thereby facilitating Palestinian economic and institutional development. Since the projects are chosen with regard to their potential synergies, their completion will strengthen other strategic pillars.

A second tranche of projects (not detailed herein) will also receive attention during the current period. The projects in this group comprise those that are currently at a very early stage of development but which might receive consideration as priorities during the period from 2017 onwards, as well as those that are currently of lower priority and do not demand significant resources during the period 2015-16.
OQ’s eleven priority projects are:

1. Governance Enhancement and Legal Reform

A sovereign Palestinian state must be able to exert control over its territory and population through effective governance structures and an empowering legal framework. While the PA has made great strides in building institutional capacity and enacting reforms in the last decade (a clear example of which are the qualitative improvement in performance of the courts and access to justice), there remain serious institutional, legal, and physical access impediments along the path to becoming an effective government that provides services, protects rights, and promotes economic development.

OQ’s objective is to work with the PA and partners to enhance Palestinian governance and reform Palestinian laws and regulations, with coherent institutions working together, a modern legal and regulatory framework, and an improved ability to impose elements of sovereignty on territory under its control. To do this OQ’s Rule of Law team will progress workstreams in three broad areas:

1. Effective Institutions: OQ has identified and will progress specific and actionable measures to develop and/or improve: a) clarity on respective mandates of justice sector institutions; b) an effective mechanism for dealing with security crimes; c) a professional military court system; and d) a functioning channel for PA-GOI cooperation on legal matters.

2. Legal Reform: OQ will help develop laws and regulations that meet the needs of a modern Palestinian economy. The current legal regime regulating financial and commercial matters is outdated and insufficient to attract investment or promote economic development projects. OQ will help to progress needed commercial and financial reforms, including regulation of PPPs, SMEs, and a new tenancy law.

3. Law Enforcement Access: OQ will work to improve the freedom of movement and access of security forces in PA areas. Restrictions on the movement of security forces, uncertainty regarding access rules, and inefficiencies in the communications chain to coordinate such movement have hampered public order, safety, rule of law and economic development. OQ has identified and will deliver specific and actionable measures which can improve this situation.

2. Economic Empowerment

A recent OQ report “Palestinian – Israeli Economic Relations: Trade and Economic Regime” (published jointly with PIBF and NIR; May 2015) demonstrates that the insufficient implementation of Palestinian – Israeli agreements on economic and trade affairs has resulted in lost Palestinian GDP of USD 15 billion p.a., and that Palestinian – Israeli economic relations are unsustainable, having reached an impasse requiring immediate action.
The current political setting offers an opportunity to move forward with an agenda of reform. As a first step to reforming Palestinian–Israeli economic relations, OQ has identified a range of specific and feasible measures for more effective implementation of the Paris Protocol. In addition, certain amendments and updates to the Protocol are envisaged that would address its key shortfalls and deficiencies. The aim of this process is to deliver an immediate boost to the PA’s economic and trade performance, help maintain the viability of the two-state solution until the right conditions are in place for the resumption of political negotiations, and promote efficiency and stability in PA-Gol day-to-day relations.

Ultimately, once conditions are ripe for negotiating a new regime, an alternative trade regime based on a Free Trade Agreement (FTA) model, as developed and proposed in the OQ / PIBF / NIR report, would qualitatively transform Palestinian economic and trade relations. Such a regime can be negotiated and implemented even in the absence of a permanent status agreement.

In the immediate term, until the political situation makes it possible for the parties to start negotiating an alternative regime, OQ will progress a range of specific and feasible actions and amendments to the Protocol to address its main shortfalls and allow for a smooth transition to a new FTA based regime in the future.

3. Jordan Valley Trade Route

Increased trade diversification as well as increased trade volume will strengthen the Palestinian economy. At present 3% of imports and 11% of total Palestinian exports (2013 figures, by value) cross the Jordan River at Allenby/King Hussein Bridge (A/KHB). All other trade goes to, from, or through Israel, making the Palestinian economy vulnerable to any negative changes with this single, relatively large trading partner.

OQ will address the capacity and efficiency of trade across the Jordan River at A/KHB. A major constraint on this trade route is that no shipping containers are allowed at A/KHB and no infrastructure exists to support container trade. Universally, containerization is the single logistic factor that can most increase trade efficiency. As a result of this constraint most Palestinian businesses have limited preparedness for trading, especially exporting, with those markets. Other improvements are also needed, including: installation of a bulk goods conveyor; improvement of passenger crossing efficiency; and the simplification and increased transparency of regulatory, dual-use, and investor visa processes.

OQ will cooperate with all key stakeholders to work toward significantly improved access to and from markets in Jordan and further to the east through:

a. Development of the use of containers for both export and import.
b. Supporting the construction and operation of a conveyor for bulk goods at A/KHB.
c. Working to support efficiency improvements for passenger flow at A/KHB.
d. Working with PA and GoI to improve the parts of the regulatory import and export controls that are in their individual responsibility, and for them to liaise more closely to improve those areas where their roles overlap including dual-use and standards processes, and ‘one-window’ electronic processing of documentation for trade.

e. Ensuring GoI and PA establish a reliable and accessible system of long-term access (permits or visas) for significant investors.

f. Working with PA and GoI to work jointly toward redeployment of Palestinian Customs officers to work effectively with their GoI counterparts at A/KHB, thus increasing transparency and smooth operation of Customs processes.

g. Improving access to markets by increasing direct links between Palestinian businesses and their potential partners in markets to the east for both imports and exports.

4. Gaza Industry and Trade

Industry and trade in Gaza is in a seriously de-developed state resulting in extremely high unemployment. This is due to enduring restrictions on access to raw materials and technical equipment; limited access to export markets; the limited ability of business and technical people to move in and out of Gaza; and the direct and indirect damage in repeated conflicts. The burden of cost, unpredictability and inefficiency of the route for goods into and out of Gaza creates a trade barrier. The split in Palestinian politics and governance leaves Gazan businesses at a disadvantage due to the lack of many normal functions of government that should create a positive business environment.

The following issues need to be addressed to improve the overall situation facing Gazan industry and trade:

a. Efficiency of good flows, and reduced cost of movement of goods, at crossings between Gaza and Israel, including the use of containers for goods transfer, and a conveyor for bulk goods;

b. Access to markets by increasing direct and effective links between Palestinian businesses and their partners in Israel, the region, and wider markets;

c. Reduction of regulatory barriers to trade for imports and for trade to the West Bank and Israel;

d. Increase in ‘on-shore’ value-adding manufacturing and processing activities, and import substitution activities, to create new businesses/ jobs within Gaza, reduce import dependence, and to increase profitability of existing businesses;

e. Create business efficiencies and savings through concentration of businesses in a modern and well-equipped industrial zone;

f. Increase trade income and employment through increased trade (goods & services) with all markets.
To progress these, OQ will:

1. Cooperate and coordinate with local and international efforts and resources toward containerization of goods movement, and implementation of a bulk good conveyor at Kerem Shalom.
2. Work with other key international groups to progress proposals with Israeli authorities for improved access for industrial inputs and for exports.
3. Support Israeli and Palestinian interlocutors to improve Gazan access to markets in Israel, the West Bank, and third countries.
4. Identify opportunities for and facilitate further development of the Karni Industrial Zone.
5. Provide advice, expertise, and business connections to improve the market readiness of Gaza businesses.

5. Affordable Housing Pilot Projects

There is a mismatch of housing supply and demand in the West Bank. According to OQ’s Effective Demand survey findings, affordable housing (defined as USD 40-60K/unit, affordable to ~60% of the population) is very scarce, making it difficult for large segments of the population to purchase a home. Developers in the West Bank are skeptical of end-user interest in purchasing smaller, cheaper homes and instead commonly focus on building high-end units, priced at USD 100K+. The high costs of land, as well as a limited supply of registered land, inefficient regulations, and limited access to finance contribute to a lack of affordable housing the West Bank and hesitation from both developers and end-users to shift towards more affordable housing.

Since very little affordable housing (smaller sizes, using more efficient construction techniques, at a lower price point) has been developed to date, OQ aims to unlock this new market segment by facilitating a “proof of concept” that is attractive in the market – a smaller housing unit priced at USD 40-60K.

OQ will identify one or several potential affordable housing pilot projects, recommend priorities, and help stakeholders to develop and implement the projects. Once a pilot has been delivered successfully and end-user interest has been demonstrated, the affordable housing market is expected to gain traction and expand relatively quickly, providing considerable opportunities for jobs and GDP growth.

6. Jenin Industrial Free Zone

The Jenin Industrial Free Zone (JIFZ), being developed by Turkish Industrial and Technology Parks Development and Management Company (TOBB-BIS), is a major industrial zone development anticipated to bring up to 10,000 direct jobs and 15,000 indirect jobs to the northern West Bank over time. The JIFZ will offer access to a skilled and semi-skilled Palestinian labor at competitive rates, but with the lower risks associated with an industrial
zone (secure on-site infrastructure, enhanced movement and trade arrangements, lower political risks etc.). The JIFZ also benefits from a strategic location and access to trade routes attractive to export-oriented businesses. The JIFZ is expected to have a significant impact on the Palestinian economy by attracting new investment, increasing GDP and employment, increasing Palestinian exports, and providing tax and other revenues for the PA.

OQ will support TOBB-BIS to develop this project with advice and practical assistance on a range of issues relating to movement and access, infrastructure, finance, and Palestinian legislation and regulations. As the project develops, OQ will assist in attracting Palestinian companies and investors to establish businesses in the industrial zone.

7. GIS Economic Mapping

Spatial information for the West Bank and Gaza Strip is scarce; key data is scattered among Palestinian ministries, other government agencies, and within the private sector. The lack of holistic spatial information is a real problem for economic operators both in the PA, international community, and private sector.

OQ has already developed valuable geospatial data in a previous project, and is well-placed to move into other sectors and produce a GIS tool that can fill the information gap. OQ will gather GIS data and create a dynamic mapping tool, with data layers concerning access to infrastructure, planning, status of land, political and security factors, economic and other parameters. This mapping tool will be used by OQ to help decision-makers and stakeholders in the PA, international community, and private sector to make better investment and planning decisions. This is expected to have a direct impact on the economy by putting Palestinian capital and land to more productive use.

8. Water Desalination Facility for the Gaza Strip

The Gaza Strip is experiencing an ongoing humanitarian, environmental, and economic crisis caused by the collapse of Gaza’s only source of fresh water – the Coastal Aquifer. The aquifer provides up to 98 percent of Gaza’s current water supply, but years of over-extraction (at rates almost three times higher than sustainable levels) have depleted Gaza’s groundwater reserves and caused the widespread intrusion of seawater, sewage and other contaminants. An estimated 96 percent of aquifer water is now unfit for human consumption according to World Health Organization (WHO) standards. Such high levels of water contamination are likely to have severe and long-term public health consequences for many of Gaza’s 1.8 million population.

The Water Desalination Facility for the Gaza Strip project is a critical planned intervention to solve the existing water crisis in the Gaza Strip, through the construction of a 55 MCM reverse osmosis desalination plant and associated infrastructure (a north-south water carrier, a non-revenue water improvement program, and energy infrastructure). It is anticipated this will have a major humanitarian, environmental, and economic dividend for
the Gazan population, as well as being a key intervention towards effective Palestinian state building. The Desalination project is owned by the Palestinian Water Authority (PWA), with funding and technical support from key members of the international community.

OQ will advance the Water Desalination Facility for the Gaza Strip project using its political and technical experience and connections to address several issues specifically highlighted by both the PWA and potential donors, as well as further encourage committed donors to allocate initial funds to begin first phase activities under the project components. OQ will help advance the overall project by engage with all stakeholders, especially the Government of Israel and the PA, by working to create an enabling environment for the financial and technical aspects of the project to progress.

9. Gas for Gaza (G4G)

Gaza is suffering from an acute energy crisis. This is manifest in up to 12+ hours of electricity cuts daily. The Gaza Strip has ~200 MW of electricity available out of some ~450 MW currently required for 1.8 million people. This major power deficit perpetuates the humanitarian crisis in critical areas including clean water provision (there is insufficient electricity to pump water from the wells, let alone support any long term comprehensive desalination solution to Gaza’s water crisis), heating, lighting and basic electrical machinery (including in hospitals). There can be no major rehabilitation, let alone meaningful economic development in Gaza, until and unless there is a cost efficient energy supply available.

OQ’s Gas for Gaza (G4G) project will launch the process for solving this energy crisis in the medium to long term, bringing partners together to coordinate the 1) planning (and eventual construction) of a natural gas pipeline to Gaza from Israel, 2) the conclusion of natural gas supply contracts and 3) the gradual expansion and conversion of the existing Gaza Power Plant to natural gas, thus improving its electricity generating capacity.

This project will achieve a cost efficient fuel supply solution for Gaza by making natural gas available for:

a. Power generation at the Gaza Power Plant (which would be expanded to up to four times the current capacity from 140 MW Capacity to ~560 MW);

b. Water infrastructure projects such as the above major desalination project;

c. Heavy industry.

This will provide Gaza with a reliable and sustainable fuel supply, entail major cost savings (diesel fuel is at least four times more expensive than natural gas), and will provide employment opportunities related to the construction of the pipeline itself and in the fields of operations and maintenance.
10. Agriculture

The Palestinian agriculture sector has seen a dramatic decrease in its share of contribution to GDP – from 11.4 percent in 1994 to 4.1 percent in 2013 – but remains important at 14 percent of the Palestinian workforce. Growth has, and will continue to, come from the introduction of new high-value crops grown primarily for export (especially to destinations with existing trade agreements) and the introduction of technologies for processing allowing the capture of a greater part of the value chain. Palestinian farmers can also benefit in export markets by making use of the strong Palestinian brand and, where possible, the elimination of international intermediaries who prevent farmers and food sellers from understanding effective end-market demand.

OQ will help expand economic activity by working with agriculture industry entrepreneurs and other stakeholders to attract investment for new food processing and agribusiness operations, as well as the expansion of existing ones. This will entail two primary outputs: (i) investment in processing of existing fruit and vegetable crop types; and (ii) investment in the production and processing of new, high-value crops.

11. IT Ecosystem Pilot Projects

Palestinian universities produce over 2500 IT graduates annually, but few are able to find jobs in the sector due to lack of specialization in human resource supply and low demand for IT goods and services. Yet the Palestinian IT sector does not suffer from constraints such as movement and access that face other industries, and benefits from competitive salaries compared to Israel, Europe, North America, and elsewhere in the Middle East, making the Palestinian IT sector attractive to both local and multi-national companies. The planned roll-out of Palestinian e-government services is also anticipated to drive Palestinian IT sector growth in coming years. There is a significant opportunity to build the sector if a robust comprehensive approach to the IT ecosystem is developed.

OQ will develop the Palestinian IT ecosystem by implementing three pilot projects:

1. Help the Palestinian Government to start the roll-out selected e-government services (Government to Citizens – G2C) which would be the catalyst for:
   a. Developing local demand for IT goods and services;
   b. Developing the supply of specialized human resources;
   c. Attracting high tech multinational companies to the country;
   d. Building local products and expertise that could be exported.
2. Grow the industry and increase the number of jobs either through attracting at least two international IT companies to Palestine (through establishing their own presence or by contracting with Palestinian IT companies), or by growing the business of companies already located in the West Bank or Gaza Strip.
3. Develop IT education at one Palestinian university. This would help bridge the gap between education and required qualifications for work.
Further Details

Further details of OQ’s funding, supporters, and staff, work program, previous publications including the Initiative for the Palestinian Economy (IPE), as well as details of Quartet members and previous Quartet statements, are available on OQ’s website: http://www.quartetrep.org

For any queries, please contact OQ by completing the ‘Contact Us’ form, available by clicking on the ‘Contact’ section of the website.

Further details of OQ’s work are also available on Twitter: @QuartetRep