

Meeting of the Ad Hoc Liaison Committee
New York, 23 September 2012
Chair's Summary

AHLC members and other major donor countries met in New York today. The meeting was hosted by the UN and Under-Secretary General Jeffrey Feltman. The Chair, Norwegian Foreign Minister Espen Barth Eide, commended the participants, in particular the Palestinians and the Israelis, for their spirit of cooperation and their positive contributions to the deliberations.

The AHLC reaffirmed its long-standing commitment to the vision of an independent, democratic and sovereign state of Palestine living side by side with Israel in peace and security, as well as their strong support for negotiations to end the Israeli-Palestinian conflict in full compliance with Road Map obligations.

Based on reports and recommendations from the parties, the UN, the World Bank, the IMF and the Quartet Representative to this meeting in New York, the donors reconfirmed their assessment of the state readiness of the Palestinian Authority regarding the institutions studied, and focused their further discussions on the Palestinian Authority's fiscal sustainability and economic viability.

After three consecutive years of progress in the quality and functioning of the institutions, high levels of growth, improved living conditions and security in the West Bank, the economy grew at a slower rate. This slow-down can be attributed to falling donor support combined with the uncertainty caused by the Palestinian Authority's fiscal crisis, as well as insufficient easing of Israeli restrictions. The reports to this meeting show that the economic benefits from reforms alone are reaching their potential.

During 2012, the Palestinian Authority is experiencing a severe fiscal crisis, due to shortfalls in domestic revenues, tax income, and donor contributions. It may face a financing gap of at least USD 400 million at the end of the year. Donors welcomed the Palestinian Authority's efforts to strengthen its fiscal position, including taking the steps to raise domestic revenues

and control expenditures. They noted the urgent need for additional support from donors to be disbursed immediately.

The donors also acknowledged the Israeli efforts to help alleviate the situation as outlined in the Israeli report, including by advancing transfers of clearance revenues. They welcomed the understanding reached between Israel and the Palestinian Authority on enhancing trade and clearance revenue collection.

Donors recognized that the Palestinian Authority cannot succeed in reducing the projected recurrent deficit to the currently expected levels of aid solely through its own actions. The reports to this meeting note that restrictions to the Palestinian economy are limiting the prospects for reaching sustainability.

Progress in strengthening the Palestinian Economy depends on further removal of obstacles to trade and market access in support of private sector development. In addition, it is important that all available Palestinian resources are further mobilized in a transparent, accountable and responsible way in order to overcome the current crisis.

Ultimately, sustainable economic growth and an end to the fiscal crisis will require greater realization of the Palestinian private sector's potential. This can be achieved by relaxing Israeli restrictions on access to land, water, a range of raw materials, and export markets, and by further improvements by the Palestinian Authority in its business environment and ability to attract needed investment. Donors expressed their concern about access to economic activity in Area C, which constitutes the major land area for the Palestinians, and emphasized that greater economic potential will be achieved when access is assured.

The AHLC expressed concern for the situation in the Gaza Strip and reiterated its full commitment to the UN Security Council resolution 1860, including for the need for security for all civil populations. It took note of the predictions that the high levels of economic growth may come to an end soon. A lasting recovery in Gaza will require a further increase in exports and private sector imports of investment inputs, as well as lifting restrictions on the legitimate passage of people.

On this basis the AHLC:

- calls on donors to address the short-term fiscal crisis of the PA by disbursing outstanding commitments, and to increase their contributions for 2012 to match the need;
- calls on donors to remain committed to our vision of a future two-state solution, and to continue providing assistance to meet the recurrent financing requirements for the PA to help make the transition towards economic independence for a Palestinian state, with due regard to burden sharing;
- welcomes the PA's decision to continue to reform and improve its institutions, so as to align revenues and disbursements and further enhance the business environment ,as an orderly path to future self-reliance;
- welcomes the understanding on enhancing the trade and clearance collection, calls on the parties for a swift implementation of the improvements needed, and expresses its readiness to assist in supporting this implementation;
- calls on the GOI to facilitate sustainable growth of the Palestinian economy – one that is underpinned by a vibrant private sector – by taking further and broader steps to improve movement of people and goods, development, and trade and exports in the West Bank and Gaza, including in Area C and East-Jerusalem;
- welcoming the increase in building materials for infrastructure development and housing allowed into Gaza, calls for increased efforts, including implementation of medium and long-term solutions to the water supply;
- calls on the Joint Liaison Committee to resume efforts to facilitate coordination locally with a view to ensuring effective progress on the ground; and
- agrees to reconvene in Brussels in March 2013 on invitation by the EU.