

Brussels, 21 March 2012

Meeting of the Ad Hoc Liaison Committee, Chair's summary

AHLC members and other major donor countries met in Brussels today. The meeting was hosted by the EU High Representative Catherine Ashton. The Chair, Norwegian Foreign Minister Jonas Gahr Støre, 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 Brussels, 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, and revival of hope for the people, the Palestinian Authority experienced a slow-down in 2011. The economy grew at a slower rate, which 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.

At the beginning of 2012, the Palestinian Authority experienced a severe fiscal crisis, which threatens to become protracted given the recent and projected declines in donor assistance. The Palestinian Authority is making a concerted effort to strengthen its fiscal position, including taking steps to raise domestic revenues and control expenditures. However, these efforts will not be successful unless they are supported by actions of the Government of Israel and the donors.

Donors recognized that the Palestinian Authority simply cannot succeed in reducing the projected recurrent deficit to the currently expected levels of aid through solely its own actions. Therefore, in the short-term, it is imperative that additional donor funding be identified and transferred immediately to reverse the crisis before it becomes totally unmanageable.

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 both by (1) relaxing Israeli restrictions on access to land, water, a range of raw materials, and export markets, and by (2) improvements by the Palestinian Authority in its business environment and ability to attract needed investment. Donors also expressed their concern about access to economic activity in the Area C, which constitutes the major land area for the Palestinians, and emphasised 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 welcomed that sustained recovery and high levels of growth in Gaza translate into higher employment and improved living conditions – even if the figures indicate, in part, the low base from which the growth started. 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 ensure the contribution of 1 billion USD in assistance to meet the recurrent financing requirements for the PA in 2012 with due regard to burden sharing, and to commit to continuing provision of adequate and predictable funding for recurrent costs through the transitional period;
- welcomes the PA's decision to persevere with the structural reforms, widening of the tax base and maintaining fiscal discipline as an orderly path to self-reliance;
- welcomes the ongoing talks to make the clearance revenue mechanism more efficient and transparent, and urges for a swift conclusion and implementation of improvements needed, as well as calls on the GoI to ensure monthly transfers to the PA in a predictable manner;
- calls on GOI to facilitate sustainable growth of the Palestinian economy – one that is underpinned by a vibrant private sector – by taking further 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;
- while welcoming the increase in building materials for infrastructure development and housing allowed into Gaza, calls for increased efforts, including implementation of long-term solutions to the water issues and finalization of plans for establishing production capacity for the medium-term water supply;
- calls on the Joint Liaison Committee to intensify its efforts to facilitate tripartite coordination locally with a view to ensuring effective progress on the ground; and
- agrees to reconvene in New York in September 2012 in conjunction with the UN General Assembly, and welcomes the invitation by the EU to reconvene in Brussels in the spring of 2013.