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## Meeting of the Ad Hoc Liaison Committee New York, 18 September 2011 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 Lynn Pascoe. 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.

The efforts to build robust state institutions and revive the Palestinian economy stand out as a remarkable international success story. In its meeting in Brussels in April this year, the donors welcomed the assessment of the World Bank, the IMF and the UN that the PA was above the threshold for a functioning state in the key sectors they studied, and that Palestinian institutions compared favourably with those in established states.

In recent years, we have witnessed unprecedented 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. Concerted action of Palestinians, Israelis and donors made this achievement possible. The PA significantly reduced its dependency on external financing for covering recurrent cost. Donors covered the budget deficit. The Government of Israel took measures to ease restrictions on access and movement.

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 PA regarding the institutions studied, and focused their further discussions on PA's fiscal sustainability and economic viability.

The Palestinian economy is facing increased risks after a strong performance in the West Bank from 2008 to 2010. In the first half of 2011, the growth declined to 4 percent, with an unemployment rate unchanged at 16 percent since the mid-2010. The slowdown is due to continued fiscal retrenchment, declining aid from donors and a consequent liquidity crisis. There was no major easing of Israeli restrictions in the West Bank including East-Jerusalem over the past year. Gaza's output continued to recover from a highly repressed level following the easing of import controls in mid-2010, with growth attaining 28 percent in the first half of 2011 and unemployment declining to 28 percent. The World Bank warns that the acute fiscal crisis accompanied by declining economic growth may undermine the gains in institution-building made painstakingly over the past years.

The AHLC discussed how to address this situation. Prime Minister Fayyad stated that the PA finds itself compelled to accelerate the pace of an already strong fiscal adjustment effort. To assist in implementing an orderly transition to economic self-reliance without undermining the progress achieved over the last years, donors and the Government of Israel should cooperate with the PA in implementing the following measures:

First, the revenues should be increased by a widening of the tax base and improved tax collection. This includes an efficient, transparent and predictable clearance revenue collection by Israel on behalf of the PA. Second, the private sector should be bolstered through further dismantling of restrictions on economic activity in the West Bank and Gaza. Third, the donors should provide assistance for recurrent costs for the transitional period.

The AHLC expressed strong concern for the situation in the Gaza Strip and the recent escalations of violence in the area. It reiterated its full commitment to the UN Security Council resolution 1860, taking into consideration the security concern for all civilian populations. AHLC welcomed the positive developments in increasing the volumes of consumer goods and materials for reconstruction allowed into Gaza. A lasting recovery in Gaza will require a removal of constraints and restrictions on exports and private sector imports of investment inputs, as well as lifting restrictions on the legitimate passage of people. All international supporters should make use of the existing land crossings to channel their support to Gaza.

On this basis the AHLC:

- calls on donors to make available, without delay, sufficient assistance to meet the recurrent financing requirements for the PA in 2011 with due regard to burden sharing;
- calls on donors to provide adequate and predictable funding for recurrent costs through the transitional period with a fair burden sharing;
- calls on donors together with the PA to address the issue of tax evasion, and, for those donors who can do so in accord with national laws, to explore modalities for accepting VAT-taxation on donor-financed projects;
- 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 technical work done by the GOI and the PA to identify means to make the clearance revenue collection by Israel on behalf of the PA more efficient and transparent, and calls on the GOI to implement those measures to ensure predictable monthly transfers to the PA;
- 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 dismantle restrictions on access and movement, on development and on trade and exports in the West Bank and Gaza, including to continue to open for more economic activity in area C;
- while welcoming the increase in building material for infrastructure development and housing allowed into Gaza, calls for increased efforts, including to implement long term solutions to the water issues including finalization of plans for establishing production capacity for medium-term water supply in Gaza;
- agrees to reconvene in the spring 2012 in Europe, and emphasizes the need for a donors conference in Paris when appropriate.