

**Meeting of the Ad Hoc Liaison Committee**

**Brussels, 27 May 2015**

**Chair's Summary**

AHLC members and other major donor countries met in Brussels today, at a meeting hosted by EU High Representative Federica Mogherini. The chair, Norwegian Foreign Minister Børge Brende, welcomed Prime Minister Hamdallah and commended the parties, the UN, the World Bank, the IMF and the Quartet Representative for their reports and contributions.

The AHLC convened in a situation with considerable uncertainty about the prospects for resuming the negotiations for a two-state solution to end the conflict. The AHLC reaffirmed its commitment to an independent, democratic and sovereign state of Palestine, living side by side with Israel in peace and security. The financial assistance aims to underpin the political process by supporting the building of sustainable institutions for a Palestinian state. The donors emphasised that it is urgent to take steps to rebuild trust and help create the conditions necessary for resuming future negotiations.

The reports from the UN, the World Bank and the IMF described how the financial situation of the Palestinian Authority has deteriorated. The Gaza war, ongoing constraints on the Palestinian economy in the West Bank, East Jerusalem, and Gaza, the lack of political progress, the withholding of Palestinian clearance revenues, as well as insufficient contributions from donors have resulted in a contraction of the Palestinian economy.

In 2014, the real GDP declined by 0.4 percent. The GDP contracted by 15 percent in Gaza and grew by 5 percent in the West Bank. Unemployment in Gaza rocketed to 43 percent at the end of the year and stood at 17 percent in the West Bank. Thanks to strong revenues and modest increase in expenditure, the Palestinian Government reduced the deficit from 12.6 to 11.9 percent. Budget support amounted to USD 1 billion, which was lower than expected.

For 2015, the reports project a mild economic recovery of 2.5 percent. They warn that considerable uncertainties, including pending lawsuits against the PA, may put the viability of the PA at risk. Business and social indicators remain weak.

Reaffirming their assessment of 2011 of the Palestinian Authority's readiness for statehood, the donors welcomed that the Hamdallah Government managed the challenging first quarter

of 2015 with acceptable marks by the IMF and the World Bank. They took note of this government's commitment to continue a strict fiscal discipline, to expand its revenues and to reduce net lending. The donors expressed that they will support Prime Minister Hamdallah's efforts to reintegrate the governance framework under a single authority, which can function as the legitimate and responsible authority and recipient of all assistance.

Donors took note of recent steps of the Government of Israel to allow exports from Gaza to both the West Bank and Israel. They concurred with the report from the Office of the Quartet Representative in that the Palestinian private sector could respond effectively once restrictions on movement and access are lifted. The full economic potential can be unleashed only when access is assured for Palestinian activity also in Area C.

The slow pace of the reconstruction of Gaza leaves the population in Gaza in serious distress and challenges. The import mechanism for materials is functioning, but the scale of reconstruction is still insufficient. Rapid implementation of major house reconstruction and infrastructure projects is needed. Such projects will mobilize the private sector and create jobs.

Seven months after the Cairo conference, donor contributions to reconstruct Gaza have exceeded USD 951 million or 27 percent of the three-year pledges for Gaza.

The donors took note of Israeli efforts to increase the volume of materials into Gaza. They welcomed the readiness expressed for further increasing the volumes even if this involves raised security risks. Access to the Gaza Strip for materials, financing and persons is a necessary condition for the full reconstruction of Gaza. Protection of the lives and security of all civilian populations must be assured.

The AHLC concluded that the Palestinians will need high levels of budget assistance during the coming years, and called on the donors to respond to this need. Assistance should not be diverted from the West Bank towards the reconstruction of Gaza, and assistance to Gaza should be channelled through the PA. Without a resumption of the political process to end the occupation, however, the PA's financial situation will become unmanageable.

On this basis the AHLC:

- Calls on the parties to take steps to rebuild trust and help create the conditions necessary for resuming future negotiations; and reaffirms its readiness to continue its support for building and consolidating the institutions needed for a Palestinian state;
- Calls on donors to increase their assistance to meet the budget needs of the Palestinian Authority for 2015, as well as for the reconstruction and reintegration of Gaza – with due regard to burden sharing;
- Reiterates the need for substantial and sustained removal of obstacles to the movement of people and goods, as well as obstacles to development, trade and exports in the West Bank and Gaza, including in Area C and East Jerusalem; and welcomes the announcement by Israel of further steps in this direction;
- With reference to the Paris Protocol, calls on the parties to strengthen the dialogue on all economic issues including clearance revenues; and reminds of the obligation to transfer the revenues in a predictable, unconditional and transparent manner;
- Welcomes the commitment of the Palestinian Authority to sustain their fiscal restraint and reforms, to reduce the deficit, and to further enhance the business environment in line with the recommendations of the World Bank and the IMF;
- Urges all Palestinian factions to facilitate the resumption of governance over Gaza by the Palestinian Authority, calls on the PA to display the necessary leadership, and reaffirms its readiness to assist in making this happen;
- Agrees to reconvene in New York in September of 2015 in the margins of the UN General Assembly.