

*Meeting of the Ad-Hoc Liaison Committee (AHLC)*

*VTC, 23 February 2021*

*Chair: Minister of Foreign Affairs of Norway Ms Ine Eriksen Sjøreide*

*Co-Host: EU High Representative Mr Josep Borrell Fontelles*

## **CHAIR'S SUMMARY**

The AHLC met via videoconference on 23 February 2021.

The AHLC was established to promote cooperation between the parties and the donor community in support of the two-state solution, development of the Palestinian economy, and institution-building for a Palestinian state. While the parties were far apart during the last AHLC meeting, this meeting demonstrated a renewed commitment to enhanced cooperation by the parties. The donor community – to include the United States – expressed their support for the AHLC agenda and the shared objectives of advancing freedom, security, and prosperity for the Palestinian people.

The immediate necessity is to combat the Covid-19 pandemic. The concerted and largely successful efforts of both parties to contain the spread of the pandemic gives ground for hope. Israel has started an impressive campaign to vaccinate all its citizens, as well as Palestinians in East Jerusalem. The PA has started the vaccination of health personnel and vulnerable groups in the West Bank and Gaza. When both Palestinians and Israelis are vaccinated, normal economic activity and interaction can resume. The immediate priority of donors should be to alleviate the burden on the affected population, strengthen the Palestinian public health system, and stimulate economic recovery.

Last year was extraordinarily challenging for the Palestinian economy. The Covid-19 pandemic contributed to an estimated 10-12 percent negative growth. The PA will face a demanding fiscal situation again this year with a projected USD 1,2 billion budget deficit, due to factors like additional expenses to vaccination, elections and restored payments of salaries to Gaza staff at their normal levels. The level of external budget support is projected to be as low as USD 300 million.

Since the last AHLC meeting, it is encouraging to see advancements on important projects financed by the donors within energy, water, and other sectors in both the West Bank and in Gaza. Donors have also provided significant assistance to the fight against the pandemic, and pledged more today. However, little progress has been achieved in the discussions between the parties regarding the fiscal files and the much-needed revisions to the Paris Protocol.

Structural constraints for a sustainable development of the Palestinian economy remain. Resolving the fiscal issues under discussion is vital to stabilise the PA's economy. The dialogue between the

parties should be resumed to substantially increase the revenues to the PA. The priority of the parties and the donors should be to promote measures to build trust, finalize infrastructure projects, to facilitate production and trade, as well as to stimulate private sector growth.

Against this backdrop, which is elaborated in the meeting reports submitted by UNSCO, the World Bank and the Office of the Quartet, the donors expressed support for a set of recommendations:

For the donor community and development partners:

- to support the PA in acquiring and rolling out a safe, rapid and nationwide Covid-19 vaccination programme, and with priority for health workers and vulnerable populations.
- to continue strengthening the Palestinian public health system and provision of humanitarian support, including cash-for-work programmes across Palestine.
- to support the Palestinian socio-economic recovery with a focus on social protection, the private sector, and trade facilitation, in line with PA priorities.
- to increase and frontload their budget assistance to the PA.
- to cover outstanding funding gaps for ongoing, critical infrastructure projects.
- to finance the Gaza Reconstruction Mechanism for entry of critical materials for projects and private sector development, and
- to support and coordinate with the relevant UN bodies.

Furthermore, calls were made to the parties:

- to continue coordinating their efforts to combat the pandemic and on Israel to facilitate the delivery and availability of vaccines and other essential materials to the PA.
- to replace the paper-based VAT mechanism with an electronic system.
- to restart talks on outstanding fiscal files related to the Paris Protocol with particular focus on the handling fee, exemption of excise tax from Palestinian fuel purchased from Israel, improved customs processes including bonded warehouses and transfer of customs authority.
- to agree on outstanding telecommunication issues and the allocation of adequate 4G/5G frequencies for Palestinian operators.
- to finalise outstanding and important agreements, including with donors, within the energy and water sectors, including Gas for Gaza, Central Gaza Desalination Plant, the overall Power Purchasing Agreement, as well as measures to facilitate movement and trade.

- to advance the new mechanism for corresponding banking relations, with support from development partners.
- to resume meeting in all technical committees relevant for making progress on projects, and the 'Joint Economic Committee'.
- to the PA to strengthen its collection of domestic revenues and cost recovery for services and amenities, and to continue its prudent management of the budget.
- to avoid all unilateral actions on the ground that undermine the prospects for resuming negotiations and the two-state solution.

Donors also expressed concern regarding the insufficient funding of the UNRWA. They recalled the importance of the services provided by UNRWA, while acknowledging the needs for continued focus on reform and ensuring neutrality in its implementation of its mandate, according to the values of the UN. The donor community welcomed the decision by the PA to carry out general elections and asked all relevant actors to contribute to their success.

The Palestinian economy cannot reach its full potential before the Palestinians get full access to their land and resources, and they can move and trade inside and outside their own territory. Therefore, the international donor community urges the parties to demonstrate, through policies and actions, a genuine commitment to the two-state solution and to create a path back to meaningful negotiations on a comprehensive political settlement.

The AHLC will review progress in all these issues at its next meeting, which is scheduled for September this year.