

Meeting of the Ad Hoc Liaison Committee**Brussels, 19 March 2013****Chair's summary**

AHLC members, other major donor countries, and the parties met in Brussels today. The meeting was hosted by the EU High Representative Catherine Ashton and chaired by the Norwegian Foreign Minister Espen Barth Eide.

In this meeting, the AHLC emphasized the urgency of resuming the political process to realize the vision of an independent, democratic and sovereign state of Palestine living side by side with Israel in peace and security. Two years ago here in Brussels, based on the reports from the UN, the World Bank, and the IMF, the donors gave their positive assessment of the state readiness of the Palestinian Authority regarding the institutions studied. Since then, the donors have been preoccupied with ensuring the Palestinian Authority's fiscal sustainability and economic viability.

The last two years have been marked by a fading political horizon for ending the conflict through a negotiated two-state solution and by increasing fiscal difficulties for the Palestinian Authority. The economy grew at a slower rate than the three preceding years, which can be attributed to the remaining Israeli restrictions and donor support falling well below programmed levels, combined with the uncertainty caused by the Palestinian Authority's fiscal crisis. In spite of the efforts of the Authority to strengthen its fiscal position during 2012, the economy and public finances have deteriorated further as the economy is hobbled by persisting restrictions and increasing political uncertainty. Irregularities in transfers of Palestinian clearance revenues also contributed to the acute fiscal crisis and donor contributions were insufficient to cover fiscal deficits.

Based on the alarming reports to this meeting, the donors conclude that the economic base for the public finances of the Palestinian Authority is on an unsustainable path. Concerted action by the PA, Israel and the international community is urgently needed to stabilize the fiscal position of the PA and rekindle private sector-led economic growth.

Continued financial support by the donor community and ongoing fiscal discipline and reform efforts by the PA are essential to manage the financing shortfalls of today. They will prove inadequate, however, unless Palestinian clearance revenues are transferred to the Palestinian Authority in a timely, transparent and predictable manner. Donors maintained that the external support to cover the budget deficit cannot be expected to continue at the current levels

indefinitely. Bolder efforts are needed to create the basis for a viable economy and to allow the private sector and trade to prosper. Today's precarious situation calls for increased attention in the coming months to enable a comprehensive discussion of these issues at the next AHLC.

Donors expressed concern for the conditions in the Gaza Strip as well as for East-Jerusalem and Area C in the West Bank.

On Gaza again, and reiterating their full commitment to the UN Security Council resolution 1860, donors expressed concern for the sustainability of the ceasefire and emphasized the need for security for all civilians. They called for further efforts to lift restrictions on access of goods and the legitimate passage of people to and from Gaza.

On this basis the AHLC:

- calls on donors to continue the provision of adequate and predictable assistance to meet the recurrent financing requirements for the PA in 2013, estimated at 1.2 billion USD, with due regard to burden sharing, and to assist in broadening the economic base for Palestinian economic development;
- welcomes the PA's decision to persevere with the structural reforms, widening of the tax base and containing fiscal spending;
- calls for further collaborative efforts to broaden and enhancing the collection of tax and other Palestinian domestic incomes within all the Palestinian territory, including implementing the understanding to improve the clearance revenue mechanism;
- calls on GOI to take bolder steps to facilitate sustainable growth of the Palestinian economy – one that is underpinned by a vibrant private sector – by further removing obstacles to movement of people and goods, to development, and to trade and exports, including in Area C and East-Jerusalem;
- while welcoming the increase in building materials allowed into Gaza, calls for reopening the borders for all legitimate passage of goods and people and for further extension of the fishing limits in accordance with previous agreements; and
- agrees to reconvene in New York in September 2013 in conjunction with the UN General Assembly.