

Meeting of the Ad Hoc Liaison Committee
Brussels, 13 April 2011
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.

Over the last two years, the donors have provided assistance to the Palestinian Authority (PA) in its implementation of the Programme for the 13th Government for completing the task of building a viable Palestinian state, with regard to institution building and the development of a sustainable Palestinian economy. In this meeting in Brussels, the AHLC reviewed progress based on reports and recommendations from the parties, the UN, the World Bank, the IMF and the Quartet Representative.

The donors welcomed that the economic recovery was sustained for 2010. Prime Minister Salam Fayyad stated that the government's reform agenda that was launched in 2009 was near completion and that state readiness has been achieved. PA's fiscal performance was as budgeted for 2010. Significant progress was made in mobilizing domestic revenue. The meeting welcomed substantial improvement in the public financial management of the PA, and noted that the strong fiscal performance had resulted in a substantial reduction in aid dependency. The growth was estimated at 9 percent, 8 percent for the West Bank and 15 percent in Gaza. There was modest reduction in unemployment. For 2011, the projected need for extraordinary budget assistance is US\$967 millions or 11 percent of the GDP, and implies a further reduction of the donor dependency from the level of 28 percent in 2008.

According to the reports to this meeting from the World Bank, the IMF and the UN, the PA is above the threshold for a functioning state in the key sectors they studied. In September last year, the World Bank reported to the AHLC meeting that "if the PA maintains its performance in institution-building and delivery of public services, it is well-positioned for the establishment of a state at any point in the near future". Since then, the PA has continued to strengthen its institutions, delivering public services and promoting reforms. The World Bank reports that the PA's achievements in key state functions posited by the OECD as strategically important for state-building bode well for the future. The UN concurs in stating that in the six areas where the UN is most engaged, governmental functions are now sufficient for a functioning of a state. The IMF staff reports that it considers that the PA is now able to conduct the sound economic policies expected of a future well-functioning Palestinian state. Furthermore, the quality, transparency and timeliness of the data produced today by the Palestinian Bureau of Statistics, Ministry of Finance, and the Palestine Monetary Authority compare favourably with those of IMF member countries that maintain high data management and dissemination standards. While significant work lies ahead, they are similar to those facing other middle income countries.

Challenges remain in creating conditions for sustainable and private sector-led economic growth. The West Bank's strong performance since 2008 has been enabled by the PA's sound economic management and reforms supported by donor aid, as well as easing of Israeli internal barriers. The growth is bound to wane, especially with continued fiscal retrenchment and declining aid. Exports from the West Bank and Gaza to Israel contracted sharply during 2008-09, and imports declined. The recent upticks of trade and modest growth in permits for traders and workers have not compensated for the reduction of trade within the manufacturing and agricultural sectors. Private sector growth and trade will not be enabled without a strong stimulus from further substantial easing of Israeli restrictions on economic activities and further reforms by the PA. The donors welcomed the work of the Quartet Representative and the Government of Israel (GoI) to facilitate private sector investment. They also welcomed the information in the PA report of a clear increase in foreign investments in particular in the West Bank.

The AHLC expressed strong concern for the situation in the Gaza Strip and reiterated its full commitment to the UN Security Council resolution 1860, taking into consideration the security concern for all civilian populations. It welcomed the positive steps taken by GoI in increasing the volumes of consumer goods allowed into Gaza and the readiness for international efforts in reconstruction. However, more is needed for a fundamental change of the situation in the Gaza Strip. The surge in Gaza's output in 2010 was mainly a catch-up from a very low level. Still, the GDP in the Gaza Strip is 20 percent lower than in 2005. Unemployment remains at staggering 38 percent. A lasting recovery will require a removal of the ban on exports and private sector imports of investment inputs, as well as lifting restrictions on the legitimate passage of people. In this context, the AHLC welcomes the EU's comprehensive package for Gaza, in close cooperation with the PA and the GoI, which focuses on private sector support, the improvement of the Keren Shalom infrastructure, as well as provision of equipment and the training of PA officials. The AHLC also welcomed the spirit of cooperation of the parties on tackling the water challenges, particularly in Gaza.

On this basis the AHLC:

- welcomes the assessment of the World Bank, the IMF, and the UN that the PA is above the threshold for a functioning state in the key sectors they studied, and that Palestinian institutions compare favourably with those in established states;
- calls on donors to contribute throughout 2011, and make available sufficient assistance to meet the recurrent financing requirements, with due regard to equitable burden sharing, and urges the PA to continue reform efforts and fiscal discipline as advised by the World Bank and the IMF;
- while welcoming measures already undertaken by GoI, calls on all parties to continue to facilitate sustainable growth of the Palestinian economy – one that is underpinned by a vibrant private sector – by taking further steps to dismantle restrictions and measures to promote development and trade including in area C, and adopt a coherent trade strategy and institution of an appropriate border management and customs systems;
- urged the GOI and the PA to identify and implement measures to further enhance collection of clearance revenues for the PA, including increased presence of the PA at crossings;

- calls for continued increase in building material for infrastructure development and housing in Gaza, as well as a shift for the private sector to produce and export products from Gaza to international markets and the West Bank;
- welcomes ongoing cooperation on water issues and calls on the parties to establish production capacity for medium-term water supply to Gaza, and recommends that planning documents be presented to the Paris donor conference for the long-term and sustainable production capacity of water supply to Gaza;
- recommends PA to develop long-term trade strategies, trade related institution-building, and, in order to build up and strengthen the framework for export-led economic growth, to seek observership to the WTO;
- calls on all international supporters to make use of the existing land crossings to channel their support to Gaza, and abstain from provocations;
- expresses deep concern for the escalation of violence in and around Gaza, emphasized that broader development efforts in Gaza cannot be achieved unless there is calm and security for all civilian populations;
- welcomes the PA National Development Plan for 2011-2013 and the donor conference in Paris scheduled for June this year, and agrees to reconvene in New York in September 2011 in conjunction with the UN General Assembly.