

Chair's Summary of the Ad Hoc Liaison Committee (AHLC)

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New York, 19 September 2016

The members of the AHLC met today in New York, to take stock of the Palestinian state building process, and to discuss ways to improve and sustain the Palestinian economy in its effort to maintain the viability of the two-state solution.

The AHLC welcomed the parties for their cooperative spirit, and the reports provided by the UN, the World Bank, IMF and the Office of the Quartet to the meeting.

The AHLC commended the Palestinian government for its serious efforts to reduce the fiscal deficit in a very precarious financial situation that have emerged from a sharp decline in budget support by the donors, and stressed the importance of reducing the fiscal risks to safeguard the two-state solution.

The AHLC congratulated the Palestinian and Israeli authorities for their leadership in reaching an agreement that rationalizes the financial relationship between the parties on electricity debts, and transfers authority to the Palestinian government for the management of energy infrastructure. It welcomed too, the decision by Israel to transfer health stamps and equalization levy tax to the Palestinian government. Once implemented, these agreements will have the potential to generate new sources of revenues, and are important achievements with respect to economic cooperation between the parties.

The AHLC expressed hope that the agreement on electricity debts will lead to even stronger cooperation between the parties. In this respect, the AHLC encouraged both sides to close other remaining fiscal files of importance, and to agree on infrastructural projects that are critical to the viability of a future Palestinian state. It noted that Israel has given its approval, in principle, for a series of such projects, including increased delivery of water, electricity, and trade facilitation.

The AHLC called on the parties to make significant progress on these issues before the next AHLC-meeting, and, cognizant of the Palestinian national development priorities and budget constraints, emphasized that these projects will require swift support by the donors in order to advance implementation.

The AHLC welcomed the deepening economic dialogue between the two Finance Ministries, and encouraged both sides to continue their constructive cooperation to resolve outstanding fiscal issues in order to increase revenues.

To help addressing the critical fiscal situation of the Palestinian government, with the financing gap likely to reach USD 600 million for 2016, the AHLC emphasized the critical importance of increased budget support by the donors in the short term, and the need for further easing of restrictions. In this regard, as mentioned by the Report of the Middle East Quartet of 1 July, Israel should take all necessary steps to enable the process of developing a sustainable Palestinian economy.

The AHLC welcomed the progress made by the Palestinian government in developing a longer-term policy vision through its National Policy Agenda (NPA) for 2017-22, complemented the consultative nature of the process, and expressed support for its implementation.

In its efforts to strengthen the Palestinian economy and to sustain the viability of a future Palestinian state, the AHLC agreed on the following set of action points, and emphasized the importance of implementation before the next AHLC-meeting in Brussels, 2017:

1. Reaffirms its support to the two-state solution, and stresses that economic development cannot be a substitute for an agreed resolution of the conflict, while reaffirming its support in developing a sustainable Palestinian economy as a crucial step for becoming a viable, independent, contiguous and sovereign state;
2. Emphasizes the strategic importance of economic cooperation between the parties to resolve outstanding issues through effective implementation of the Paris Protocol and the Interim Agreement, and in this respect, calls on the parties to resolve other outstanding files, including closing fiscal leakages;

3. Urges the parties to reach agreements on priority measures that can sustain the viability of the Palestinian economy, such as major infrastructure projects, including energy and water supply to Gaza and the West Bank, and calls on the donors to provide necessary support in this regard;
4. Warns that donor support, in particular budget support, is crucial to address the precarious financing gap in the short term, and to avoid a fiscal crisis leading to wider economic problems, and calls on donors to contribute as alternative options are limited; Fiscal sustainability
5. Encourages the Palestinian government to continue its effort to increase revenue collection and resist spending pressures, particularly on the wage bill;
6. Underscores the need to work towards a more sustainable and growth-friendly fiscal position of the PA over the medium term, and the importance of supporting this goal through deeper fiscal structural reforms, including the finalization of the new Public Financial Management Strategy by the year-end, and enhanced focus on the delivery of quality services to citizens;
7. Notes the importance of integrating the National Policy Agenda with the 2017 budget to ensure that the NPA achieves its objectives; Economic development
8. Stresses that restrictions in Area C are an obstacle to economic growth, and detrimental to the two-state solution, calls on Israel to open Area C for more Palestinian economic activity, in order to enable economic development;
9. Calls on Israel to establish a planning regime for Area C, which will enable Palestinians to develop their industrial base;
10. Emphasizes the need for further reforms by the Palestinian government to improve the economic conditions, with particular attention to competitiveness and business climate;
11. With regard to financial sector development and stability, welcomes efforts to bring the Anti Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime in line with international standards, supports their continuation and emphasizes the need for effective implementation; Gaza reconstruction and recovery

12. Calls for increased efforts to accelerate reconstruction and recovery in Gaza, particularly with respect to infrastructure, energy, water and housing, while urging donors to fast-track disbursement of pledges made in Cairo 2014, and to make funding available for priority areas without further delay;

13. Urges an increase in the transmission of construction materials to Gaza through the GRM to facilitate much needed reconstruction, recovery and development and to reinvigorate the private sector in Gaza.

14. Expresses concerns about the diversion and abuse of construction material and other goods entering Gaza, stressing that these actions are harmful to the reconstruction efforts in Gaza, and calls on Israel to publish official guidelines for the import of dual use materials, and outlines procedures for application and approval, in order to ensure consistent, predictable access to importing these materials in a transparent way;