



Remarks to the Meeting of the Ad Hoc Liaison Committee Meeting

Dr. John N. Clarke,

2 June 2020

Excellencies, Ladies and Gentlemen:

We meet in what we hope is the wake of the COVID-19 pandemic which has brought grief, global disruption and financial hardship to many. While the response of both parties has been impressive, increased political uncertainty – already referred to in many of the previous interventions – poses a new challenge which compounds those already emanating from the longer-term impacts of the crisis. The five sectors in which the Office of the Quartet works will be critical in ameliorating the worst medium-term effects of the COVID-19 crisis while also maintaining the viability of the two-state solution.

Prior to the COVID-19 crisis and discussion on annexation, we saw continued progress in the implementation of the Gaza Central Desalination Plant Associated works, and progress towards energising water and waste-water facilities, with a full strategy for meeting operation and maintenance costs outlined in the annex to our report. On Gas for Gaza, the detailed design process is underway and the next critical steps include the completion of a commercial contract for gas purchase and securing the approximately \$100 million required to construct the pipeline. In telecommunications, the conclusion of an agreement between the parties on the allocation and timeline for implementation of 4G and 5G frequencies for Palestinian operators remains the critical next step, while in movement and trade further changes to policies to enable export and streamline import in both the West Bank and Gaza remain critical to increasing trade and thereby economic growth.

In the immediate term, the fiscal sustainability of Prime Minister Shtayyeh's government is of central importance. While the finalisation of a loan arrangement which ensures a 500 million nis monthly clearance revenue floor is welcome, further effort is required to finalise a number of long-discussed fiscal files which have the potential to provide much needed revenue for the PA.

In this regard, three well known elements are of significance. First, while the release of 120 m nis is welcome, any other outstanding monies, including VAT accrued on goods imported to Gaza, should be released while, in parallel, permanent arrangements for Gaza VAT and Allenby Bridge crossing exit fees are finalised. Second, the three per cent handling fee should be re-examined and reduced while PA fuel purchases should be exempted from excise and other taxes in order to ensure liquidity. Third, in parallel, discussions on a number of longer-term files should be finalised, including establishing E-VAT arrangements and the transfer of customs authority to the PA.

The financial and economic slowdown resulting from the COVID-19 crisis has exacerbated challenges in the banking sector, which has seen both an increase in credit default rates (particularly to small-medium enterprises) and deteriorating liquidity, putting banks at greater risk than before. Maintaining a sound banking sector is critical to support a much-needed economic recovery. In particular, for the banking sector to effectively provide affordable loans to Small to Medium enterprises, it is essential that additional liquidity is injected into the sector coupled with donor financed mechanisms to shield it from mounting credit risk.

Finally, and in parallel to the fiscal and banking measures I have referred to, donors are encouraged to continue to provide direct budget support to the PA in order to fill the \$1.5 billion financing gap resulting from the expected reduction in public revenues and additional expenditure demands flowing from the COVID-19 crisis.

Thank you.