
World Bank: Palestinian Institutions Performing; Sustainable Growth Still Absent

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Jerusalem, April 7, 2011 -- The World Bank published today its report to the Ad Hoc Liaison Committee (AHLC), a forum of donors to the Palestinian Authority (PA), which will meet in Brussels on April 13. The report examines two key areas critical to the functioning of a Palestinian state: The strength of PA institutions and the prospects for sustainable Palestinian economic growth.

The authors reaffirm their assessment, conveyed at the previous meeting of the AHLC 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." They report a further improvement in the quality of the PA's public financial management (PFM) and note that education and health in the West Bank and Gaza (WB&G) are highly developed, comparing favorably to the performance of countries in the region as well as globally. They assert that while "significant reforms still lie ahead for the PA" they are no different than "than those facing other middle income countries."

The World Bank's assessment of the sustainability of economic growth in the WB&G remains bleak. The report emphasizes that the estimate of 9.3 percent for 2010 "reflects recovery from the very low base reached during the second intifada, is still mainly confined to the non-tradable sector and is primarily donor-driven." They note that aid is what keeps many Palestinians above the poverty line, particularly in Gaza, where unemployment is still 37.4 percent and a "staggering" 71 percent of the population benefited from some form of social assistance in 2009.

The authors argue that sustainable growth is dependent on a "vibrant" private sector, but that is unlikely to emerge "while Israeli restrictions on access to natural resources and markets remain in place, and as long as investors are deterred by the increased cost of business associated with the closure regime." They urge the PA, however, to continue to lay the infrastructure enabling "private sector growth when the Palestinian state is established", pointing to the need to adopt "a coherent trade strategy" and institute "an appropriate border management and customs system."

"Rebuilding the Palestinian economy's productive capacity is a priority," said Mariam J. Sherman, World Bank Country Director for the West Bank and Gaza. "While we commend the solid performance of Palestinian institutions, we are concerned about the prospect for continued economic growth. Action is required by all parties -- Israel, the PA and the donor community -- but the closure regime remains the most substantial obstacle to Palestinian economic viability."

To access the full report, please visit: www.worldbank.org/ps

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