

## ***Building the Palestinian State: Sustaining Growth, Institutions, and Service Delivery***

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### *Economic Monitoring Report to the Ad Hoc Liaison Committee*

*April 13, 2011*



The World Bank

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#### **A. Executive Summary**

- a. Strong institutions and sustainable economic growth remain the underpinnings of the future Palestinian state.
- b. The World Bank has noted in previous reports to meetings of the Ad Hoc Liaison Committee (AHLIC) that if the Palestinian Authority (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<sup>1</sup>.
- c. **Since the last AHLIC meeting, the PA has continued to strengthen its institutions, delivering public services and promoting reforms that many existing states struggle with.** The quality of its public financial management (PFM) has further improved. 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. For example, enrollment in secondary education is roughly 20 percentage points higher than the rate in the average middle income country, and levels of malnutrition are 7 times lower. **Significant reforms still lie ahead for the PA – but no more than those facing other middle income countries.**
- d. Real economic growth in WB&G is estimated to have reached 9.3 percent in 2010, exceeding the PA's budget projection of 8 percent. **Growth does not, however, appear sustainable. It reflects recovery from the very low base reached during the second intifada and is still mainly confined to the non-tradable sector and primarily donor-driven.** Unemployment in WB&G has been amongst the highest in the world this past decade, and though it has declined slightly recently, it remains at 16.9 percent for the West Bank and 37.4 percent for Gaza.
- e. In 2009, a little over a fifth of the Palestinian population of WB&G lived in poverty – a 4 percentage point reduction compared to 2004. Social assistance played a crucial role in reducing poverty in Gaza in particular, with a staggering 71 percent of the Gazan population benefiting from such assistance in 2009.
- f. **Ultimately, sustainable economic growth in WB&G can only be underpinned by a vibrant private sector. The latter will not rebound significantly 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.
- g. **There is much, however, that the PA can do at the current juncture in order to enable private sector growth when the Palestinian state is established.** Adoption of a coherent trade strategy and institution of an appropriate border management and customs system are a priority. In addition, the Palestinian labor market will greatly benefit from closer ties between educational institutions and private enterprises.

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World Bank. September 22, 2009. *A Palestinian State in Two Years: Institutions for Economic Revival, Economic Monitoring Report to the Ad Hoc Liaison Committee*, page 6, and World Bank. September 21, 2010. *The Underpinnings of the Future Palestinian State: Sustainable Growth and Institutions, Economic Monitoring Report to the Ad Hoc Liaison Committee*, page 4.

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