

# *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*

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## ***Acronyms***

ACC	Anti-Corruption Commission
AHLC	Ad Hoc Liaison Committee
ASYCUDA	Automated SYstem for CUstoms DAta
CU	Customs Union
FTA	Free Trade Agreement
GDP	Gross Domestic Product
ICA	Investment Climate Assessment
NDTP	Non-Discriminatory Trade Policy
NIS	New Israeli Shekels
OECD	Organization for Economic Co-operation and Development
PA	Palestinian Authority
PACE	Palestinian Authority Customs and Excise
PCBS	Palestinian Central Bureau of Statistics
PFM	Public financial management
PRDP	Palestinian Reform and Development Plan
TVET	Technical and vocational education and training
USAID	United States Agency for International Development
WB&G	West Bank and Gaza
WTO	World Trade Organization

## 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 (AHLC) 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 AHLC 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.

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<sup>1</sup> 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.

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.

## **B. Introduction**

1. **The PA continues to strengthen its institutions, delivering public services and promoting reforms that many existing states struggle with.** Recent years have witnessed considerable improvement in the quality of PFM, spanning all its aspects. Trust in the justice system has increased, as witnessed by the increase in new cases registered at courts<sup>2</sup>. Service delivery in WB&G, in particular in health and education, compares favorably to countries in the region as well as middle income countries in general. Moving forward, and though the building blocks of a sound PFM system are now in place, the PA's focus will need to be on institutionalizing these blocks and strengthening their use in various ministries and agencies to extract better value for money from government expenditure. As mentioned, education and health indicators for WB&G are impressive and reflect extensive coverage of the population, but a focus on improving the quality of these services remains warranted. In addition, East Jerusalem continues to lack on the order of 1,000 classrooms for its student body<sup>3</sup>, and some aspects of the health situation in Gaza are showing decline since the Israeli-imposed closure<sup>4</sup>. Therefore, this report will document the PA's achievements as well as pointing to potential further improvements.

2. **The economic growth observed in WB&G is arguably donor-driven, and sustainable growth remains hampered by Israeli restrictions on access to land, water, a range of raw materials, and export markets, to name a few<sup>5</sup>.** WB&G has experienced growth for the third year in a row, including a recent reduction in unemployment. It must be kept in mind, however, that the economy is rebounding from a low base, particularly in Gaza. In addition, the growth is mostly confined to the non-tradable sector and reflects the importance of donor aid in driving the Palestinian economy – though recent easing of restrictions by the Government of Israel has probably had a positive impact as well. Sustainable growth will require the unleashing of the private sector's potential, including its ability to trade. And while unemployment has declined recently, it remains very high, especially for the youth – a fact inexorably tied with the stifled private sector.

3. **In order to lay the basis for future sustainable economic growth, the PA stands to benefit from a focus on its trade regime and infrastructure as well as the readiness of its human capital.** Developing the legal, institutional, and physical infrastructure required to manage a sophisticated trade regime will take time and considerable resources, so it is important that the PA begin immediately. Similarly, education investments take time to mature. While the PA is already implementing an education sector plan that highlights the

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<sup>2</sup> Governance Strategy Group. 2010. *Achievements and Challenges in Governance, a Compendium of Sector Working Group Reports to the Governance Strategy Group*, page 3.

<sup>3</sup> The Association for Human Rights in Israel. 2010. *Human Rights in East Jerusalem: Facts and Figures*, page 47.

<sup>4</sup> World Bank. Forthcoming. *Coping with Conflict? Poverty and Inclusion in the West Bank and Gaza*, page 92.

<sup>5</sup> For further details, see 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*.

importance of improving the quality of education<sup>6</sup>, the relevance of graduates' skills remains an area requiring further attention. This report will therefore reflect on recent growth trends but also on the future trade regime and employability of the WB&G labor force.

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<sup>6</sup> Ministry of Education and Higher Education Palestine. July 2008. *Education Development Strategic Plan 2008-2012, Towards Quality Education for Development.*



## **C. Sustainable Economic Growth**

4. **This section reviews recent economic and fiscal developments in WB&G, noting the importance of increased trade and improved labor market outcomes for the sustainability of economic growth.** Though WB&G has experienced growth in recent years, the economy is rebounding from a low base, particularly in Gaza. In addition, the growth is mostly confined to the non-tradable sector and probably reflects the importance of donor aid in driving the Palestinian economy. However, as a small open economy, the future Palestinian state is likely to depend upon increasing trade and especially the export of high value added goods and services that exploit its comparative advantage arising from a workforce with low wages relative to its high level of education. In order for the full human capital potential to be realized, however, the current system of education will need to increase its relevance to meet the modern demands on the workforce.

### **C.I. Recent Economic and Fiscal Developments**

5. **Real economic growth in WB&G is estimated to have reached 9.3 percent of gross domestic product (GDP) in 2010, exceeding the PA's budget projection of 8 percent<sup>7</sup>.** The Gaza economy appears to have rebounded sharply with the opening of the crossings to more goods and initial estimates suggest that real growth was nearly 15 percent of GDP in 2010, albeit from a very low base. In the West Bank, growth reached about 7.6 percent of GDP (see Figure 1). The fastest growing sectors in WB&G included agriculture, and hotels and restaurants, which grew by 22.8 and 46.3 percent, respectively. Construction grew by an impressive 35 percent, and public administration and defense continued to expand, growing by 6.4 percent in 2010. By contrast, initial estimates indicate that manufacturing output fell by nearly 6 percent and it remains more than 10 percent below its 1999 level.

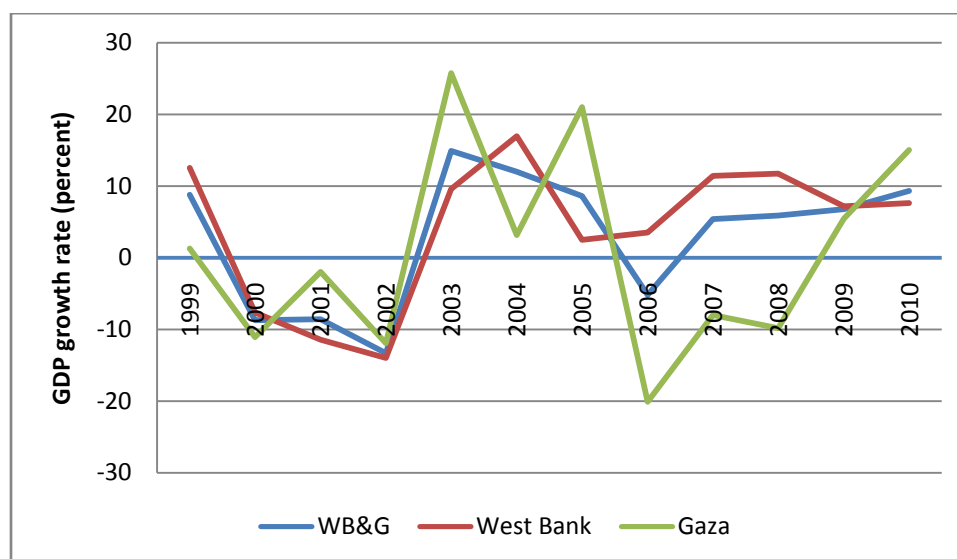
6. **The patterns of growth were similar in the West Bank and Gaza.** Though firms in Gaza report that most needed inputs are now available, the increase in imports from Israel combined with the lack of exports appears to have led to a fall in manufacturing by nearly 4 percent. The loosening of restrictions on the import of agricultural inputs along with limited agricultural exports led the agriculture sector in Gaza to grow by almost a third in 2010. But the highest growth levels were seen in the construction, and hotels and restaurants sectors. Though construction material is still banned for most uses, projects by international organizations are permitted. In addition, there are increasing imports of construction material through the tunnels to Egypt. Thus, output in the construction sector in Gaza more than doubled in 2010.

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<sup>7</sup> These initial estimates are mostly based on labor surveys and may be revised when more data, such as on trade, are available.

The hotels and restaurant sector grew by more than 65 percent with the increase in access to the territory.

**Figure 1: Real GDP growth rate, 1999-2010**



Source: Palestinian Central Bureau of Statistics

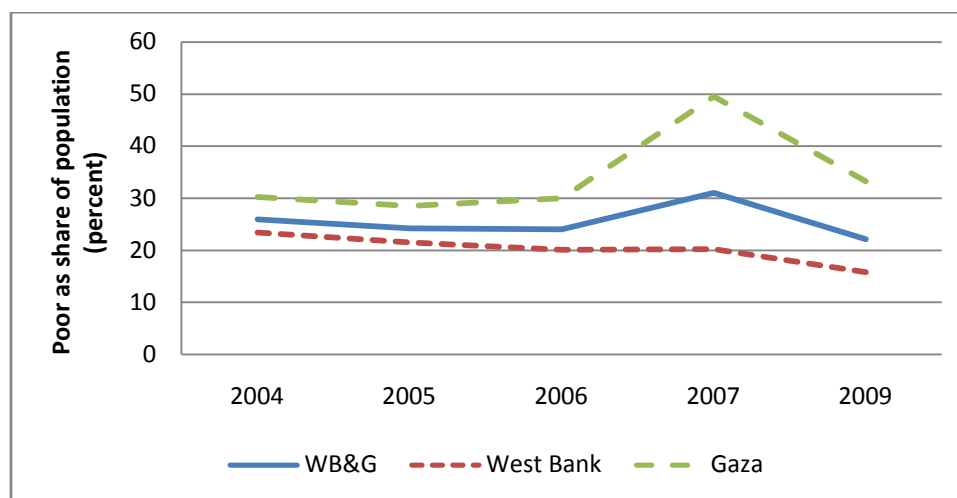
7. **Thus, growth is mostly confined to the non-tradable sector and probably reflects the importance of donor aid in driving the Palestinian economy.** Israel remains WB&G’s largest trading partner, yet in the first three quarters of 2010, exports of goods and services to Israel were only about US\$480 million in nominal terms. This is only 6 percent higher than in the same period in 2009 and nearly 22 percent lower than in 2008. Since Gaza has been closed since mid-2007, these figures are not affected by the situation there. Consequently, the fact that growth has taken place recently despite the slowdown in exports to Israel probably reflects the importance of aid in driving growth.

8. **In 2009, roughly 22 percent of the Palestinian population lived in poverty, a nearly 4 percentage point improvement compared to 2004 (see Figure 2)<sup>8</sup>.** However, all of the improvement took place in the West Bank, where the poverty rate fell from 23 percent in 2004 to 16 percent in 2009. In Gaza, the rate increased from 30 to 33 percent during the same period. While the poverty rate in the West Bank has steadily declined, it has fluctuated dramatically in Gaza. In 2007, the poverty rate in Gaza spiked to nearly 50 percent during the initial days of the complete closure of the territory before falling back to about a third of the population. Not only has the number of people living in poverty in Gaza increased over the past

<sup>8</sup> The poverty data provided here are from a forthcoming World Bank report entitled “Coping with Conflict? Poverty and Inclusion in the West Bank and Gaza”.

five years, but the severity of poverty has increased. The poverty gap, which measures how far below the poverty line the poor are on average, has increased from 7.5 to 8.1 percent, i.e. the poor are getting poorer in Gaza.

**Figure 2: Poverty incidence in West Bank and Gaza**



Source: World Bank. Forthcoming. *Coping with Conflict? Poverty and Inclusion in the West Bank and Gaza*, page xii.

9. **The fall in poverty in the West Bank can be attributed to the increased economic growth spurred by recent reforms, increased donor aid, and some easing of Israeli restrictions -- but the improvement in Gaza between 2007 and 2009 is almost certainly due to vastly increased donor-funded assistance to the poor.** By 2009, a staggering 71 percent of the Gaza population benefited from at least one form of social assistance. The reliance on social assistance means that even those households that are currently above the poverty line remain highly vulnerable, i.e. at high risk of falling into poverty. In 2009, 13 percent of the population in the West Bank and 16 percent of the population in Gaza consumed no more than 1.2 times the poverty line. Thus, any economic shock could have a profound effect on poverty rates and a 20 percent decline in income is well within the realm of possibility if aid flows falter or the security situation deteriorates. In fact, in 2007, the average per capita expenditure in Gaza fell by more than 20 percent.

10. **In 2010, the PA made significant progress in mobilizing domestic revenue and reducing its recurrent budget deficit.** The 2010 recurrent budget deficit was about US\$1.15 billion, almost 8 percent below the 2010 budget target. Total expenditures and net lending were more than 3 percent below budget projections and 8.4 percent below 2009 expenditures<sup>9</sup>. Total net

<sup>9</sup> In 2009, the PA added US\$300 million to the budget to respond to the emergency in Gaza. The Ministry of Finance reports that about US\$100million has been permanently built into the budget in the form of increased

revenue hit the budget target and was about 15 percent higher than in 2009. External budget support, helped by a fourth quarter surge of US\$494 million, reached US\$1.147 billion, i.e. almost exactly what was needed to cover the recurrent deficit, albeit less than the US\$1.243 billion anticipated in the budget<sup>10</sup>. Development financing was only about US\$130 million, less than half of the PA's nearly US\$300 million development expenditures.

**11. Because of the need to fund development projects for which designated aid was not received, the PA was forced to increase bank borrowing and accumulate arrears at an unsustainable rate.** Net domestic bank financing increased by about US\$84 million, with gross borrowing of US\$200 million, so that at the end of 2010, total domestic debt stood at about US\$840 million, which may be close to the PA's borrowing limits. In 2010, the PA paid close to US\$23 million in arrears in net lending, but it accumulated another US\$144 million in new arrears. While most of this was to the pension system, about US\$50 million was in non-wage and development spending. This suggests that some private providers of goods and services to the PA may be facing delayed payments.

**12. In 2010, the PA made considerable progress in mobilizing domestic resources and was able to fund nearly 63 percent of its recurrent budget.** Domestic tax revenues rose by nearly 50 percent compared to 2009 and exceeded 2010 budget projections by nearly 26 percent. In 2010, domestic tax revenues were equal to more than 15 percent of total spending, up from about 9 percent in 2009. The PA reports that the increased tax revenues have resulted from increased enforcement and stronger efforts of collection. Despite a nearly US\$40 million dividend from the Palestine Investment Fund, non-tax revenues were 18 percent below budget target and 8 percent below 2009 non-tax revenues. The PA reports that it has agreed to return US\$70 million, paid by the largest telecommunications company for a license renewal that it no longer wants. This will reduce the cash available to finance government operations.

**13. The 2010 wage bill was about 4 percent higher than budgeted and net new hiring exceeded the numbers foreseen in the Palestinian Reform and Development Plan (PRDP).** The PRDP calls for the PA to restrict net new hiring to 3,000 new employees per year, mostly in the health and education sectors. This was the number estimated to be needed to provide services to the growing population in both Gaza and the West Bank. In 2010, the PA kept net hiring to 3,317, but all of the increase took place in the West Bank, where net employment rose by 3,584 (i.e. more than estimated to be needed for both Gaza and the West Bank). The current PA payroll is just over 150,000.

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transfers. Thus, some of the reduction in spending between 2009 and 2010 is due to the absence of the Gaza emergency aid.

<sup>10</sup> Since budget support is generally received in US\$ and the budget is in New Israeli Shekels (NIS), this report discusses external support in US\$ and all other expenditures and revenues in terms of NIS. Borrowing is also usually done in US\$ and is therefore reported as such.

**14. As a small open economy, the future Palestinian state will depend upon increasing trade, especially the export of high value added goods and services that exploit its comparative advantage arising from a relatively low wage but well educated workforce.**

Increasing trade and integration into the international markets will provide consumers access to a wider range of products at lower prices, while producers will benefit from higher prices found on the world market. The Palestinian market's small size means that, without access to the world market, Palestinian producers will not be able to achieve minimum efficient scale. In addition, becoming competitive on the export market will force Palestinian producers to improve their productivity, thereby increasing employment, raising wages, and lowering poverty. Since 1967, trade in WB&G has been overwhelmingly oriented towards Israel. As of 2008, Israel accounted for nearly 89 percent of WB&G's exports and 81 percent of imports. The majority of exports were for low value added goods that required a minimal level of processing. In order to achieve sustainable growth, the WB&G economy must increase overall trade, expand trade beyond the Israeli market, and increase the value added in exports. To do this, an appropriate trade policy regime must be in place, including the necessary institutional, regulatory, and physical infrastructure that will facilitate trade.

**15. Globally speaking, the last 60 years have witnessed a significant drop in transportation costs, matched by a similar increase in international trade -- yet remarkably, much of the growth has been in the trade of similar products between neighboring countries<sup>11</sup>.** Indeed, the largest growth has been in intermediate inputs. This has been a key factor in the recent growth of many economies as it has allowed them to specialize and take advantage of increasing returns at an earlier stage. This type of trade provides an important opportunity for a future Palestinian state, located as it is close to both the highly developed Israeli and European economies. However, transportation costs are critical. A 10 percent increase in trade costs has been estimated to reduce trade volumes by as much as 20 percent, and intermediate goods are even more sensitive to transportation costs. While distance is important in determining trade costs, the impermeability of borders and differences in regulations and currencies have been shown to be more important. Thus, to take full advantage of the opportunities provided by international trade and integration, the PA will need to focus on the institutional arrangements that will lower trade costs.

**16. As a first step, the PA has to determine what kind of trade regime is optimal for a future state.** There is no clear answer to this question as it greatly depends upon what assumptions are made about the reaction of trade partners. However, what is clear is that the PA needs to publicly establish goals and principles now so that investors in the private sector can begin to prepare and make investments that will prosper and not be untenable under the trade regime of a future state. Determining the shape of a future trade regime now will also

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<sup>11</sup> All information in this paragraph is drawn from the World Bank's 2009 *World Development Report: Reshaping Economic Geography*.

help guide the PA in its current efforts to develop its agencies, services, and trade facilitation infrastructure.

17. **The future Palestinian state has three basic choices of trade regimes: a customs union (CU) with Israel, a non-discriminatory trade policy (NDTP), and a free trade agreement (FTA).** In many ways, a CU with Israel is a continuation of the current state of affairs. However, in this case it must be assumed that the security situation has improved and that the CU is fully implemented. In the case of the NDTP, the new state applies most favored nation tariffs to all trading partners without exception. The third option is to enter into an FTA with Israel and other countries. It is not possible to conduct a full analysis of the different options here. Indeed, this has been done in a number of other places. Instead, this report merely seeks to reiterate the importance of addressing the issue of the trade regime even before the PA is in a position to implement an independent trade policy.

18. **Whichever trade policy the PA chooses, how the policy is implemented will determine its success and also growth in the Palestinian economy.** The policy must be set to facilitate trade, not to raise government revenues, redistribute resources, or favor one sector over another. Tariffs must be low and there should be no quantitative restrictions or other non-tariff barriers to trade. Given the vital importance of trade, the government of a future Palestinian state might consider eventually moving to a policy of free trade as Estonia, Hong Kong, and Singapore have done. Above all, trade policy must be transparent and not captured by special interest groups. Keeping it simple and anchored in international agreements, such as those of the World Trade Organization (WTO), will help the government resist pressure and should be a key part of the strategy.

### **C.II.a. Trade Infrastructure**

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19. **Once the PA has decided what type of trade regime it envisions for a future state, it must move speedily to develop the legal, institutional, and physical infrastructure required to implement it.** Developing the infrastructure required to manage a sophisticated trade regime will take time and considerable resources, so it is important that the PA begin immediately. As in so many other areas, much work took place previously until it was derailed by adverse political developments. The PA's challenge is to reinvigorate its efforts to build a trade infrastructure and lower the cost of trade. Admittedly, the PA has limited resources and must carefully choose where it will focus its efforts. However, the overall growth of the economy will depend upon increasing trade, so that establishing an efficient trade infrastructure should take precedence and be given a similar level of attention as other critical areas have received, e.g. the security sector.

20. **Before the government of a future state can implement an independent trade policy, it must have the basic legal framework in place to support it.** If it opts for a very simple and transparent policy as advocated above, then the required legislation will also be relatively simple. The legislation for the most part could be a *de facto* implementation of WTO rules,

which will make eventual accession easier and also provide the benefits of a stable rule-based system. Areas where legislation is needed include: customs, indirect taxes, health and safety standards, competition policy, trade in services, and protection of foreign investment.

**21. Along with the necessary legislation, the Palestinian government must have the institutional ability to implement its trade policy.** Controlling borders is the most immediate issue. The General Administration for Borders and Crossings is assigned overall authority to manage borders, the Customs and Excise Department in the Ministry of Finance is designated to collect taxes, while the Border Police provide security. However, since the closures of Karni and Rafah crossings in Gaza, the PA has had no opportunity to manage any borders or crossings. Palestinian Customs was previously working at Allenby Bridge with Israeli counterparts but they were removed by the Israeli government in 2001. It is therefore essential that the PA modernize its border management system and develop its capabilities if it wants to be prepared to implement an independent trade policy.

**22. The PA must first decide what type of presence it wants at the border.** While ensuring security and sovereignty is important, the goal of facilitating trade should be paramount. The PA could aim to create a civil integrated border agency to manage the flow of goods and people at border crossings. A well-functioning border agency would promote certainty, predictability, and security of the international movement of goods and people by establishing clear, practical, and precise standards for movement across borders. In addition, it should aim to eliminate duplication and delays in international supply chains, such as multiple reporting requirements and inspections. Border authorities should gather information and pass cargo and people as quickly as possible, with most checks done away from the borders in order to facilitate movement. Above all, it is essential that the border authorities cooperate as closely as possible with their counterparts on the other side of the border.

**23. Developing customs administration is another key area for building the capacity to implement an independent trade policy.** Currently, the PA Customs and Excise (PACE) is small and under-resourced and consequently inefficient. Since it has no presence at the borders or crossings, and receives limited data from Israel Customs, its activities are limited to entering paper-based submissions from local traders into ASYCUDA<sup>12</sup> and performing post-clearance revaluation of declarations. The customs police operate random checkpoints on the side of the road inside the PA-controlled areas to check traders for proper customs documents. While increased enforcement has led to increased government revenues, it has come at the cost of additional delays in shipping and a perception that customs enforcement is random and unfair. Thus, it is necessary for PACE to significantly increase compliance, facilitation, and enforcement capacity not only to allow the implementation of a future independent trade policy but also to facilitate trade and encourage compliance in businesses. Such a policy will increase overall government revenues since growth in trade will lead to increased collections of direct and indirect taxes as the economy grows. Increased enforcement must be accompanied by a dispute resolution mechanism and a strong enforcement system. The PA is in the process of

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<sup>12</sup> ASYCUDA is the Automated SYstem for CUstoms DAta.

establishing customs courts, where traders can both be prosecuted for violations and seek redress from customs decisions.

24. **In the short term, PACE should move quickly to expand its system of direct trader input, which allows large traders to directly input information about shipments into the ASYCUDA system.** This information will enable customs to speed processing and enable businesses to more quickly finalize their tax liabilities. It will also enable PACE to develop its post clearance audit and risk management systems. These developments are needed to facilitate trade so that PACE can keep compliance efforts at the borders to a minimum: all but high risk cargo should be allowed to quickly cross and then compliance with customs requirements can be enforced through post clearance audits at the shipper's place of business. The PA is currently developing this capacity but efforts need to be strengthened. A critical component is for the PACE to receive current and historical data for Palestinian traders from Israeli Customs. This will allow the PACE to develop a risk management strategy that checks only high risk cargo instead of delaying all cargo. The PA's ASYCUDA system is ready to accept these data and PACE is working with Israeli Customs to build an interface and transfer it.

25. **To implement a modern customs regime, PACE must significantly upgrade its capabilities.** It is necessary to develop a clear staffing structure, including specific job descriptions and grades for all staff. Customs staff also needs more training and experience in modern customs techniques, including how to conduct more complex forms of valuations and investigations, and implement post clearance audits. One helpful step will be for the PA to continue to work with its Israeli counterparts to try and return Palestinian customs personnel to the Allenby Bridge where they can once again work alongside Israeli Customs and practice actual customs border procedures and gain needed experience. Developing the capacity of PACE will take time and significant resources. The PA should accord this a high priority, not only because it is essential to managing the trade policy of a future state, but in the short term improving customs administration will help increase badly needed revenues for the PA.

26. **One of the most harmful aspects of the current Israeli security regime is the uncertainty it causes traders.** Procedures are unclear and often change, which makes it difficult for shippers to plan. The PA border management and customs system should avoid adding to that uncertainty by ensuring that procedures are transparent and all traders are aware of them. If shippers have provided the correct information before they arrive at the border and are fully prepared, crossings will be quicker and the PA's risk management system will work smoothly. Thus, it is imperative that the PA accelerate its current efforts to develop, implement, and publish all of its procedures and educate traders on how to properly comply with customs requirements. A modern trade facilitation infrastructure will take years to fully develop. Consequently, the PA must focus its efforts on this area now so it will not only be ready when it does take control of its borders, but will reap the benefits of improved trade facilitation now.



27. **Unemployment in WB&G has been amongst the highest in the world this past decade, and sustainable, productive, and investment-led growth would go hand in hand with improved labor market outcomes.** Peaking above 30 percent in 2002, the rate of unemployment was still well above 20 percent in 2009<sup>13</sup>. Even these stratospheric unemployment rates understate the true degree to which Palestinians lack work, since those who have jobs increasingly report being underemployed during the work week. Another worrying trend is a disproportionate and steady decline in youth employment: in 2000, the youth unemployment rate was 4 percentage points higher than the average unemployment rate, and by 2009, this gap had risen to 10 percentage points.

28. **Coupled with economic growth, unemployment fell during 2010, albeit only slightly.** In the fourth quarter of 2010, unemployment for WB&G was 23.4 percent, compared to 24.8 percent in the fourth quarter of 2009 (see Table 1). In the West Bank, unemployment declined from 18.1 to 16.9 percent quarter on quarter, and in Gaza it fell from 39.3 to 37.4 percent. Furthermore, the high unemployment rates only tell a part of the story, as labor force participation rates remain low -- 44.5 and 36.3 percent in West Bank and Gaza, respectively -- pointing to the likelihood of considerable numbers of discouraged potential labor force participants. As in most Middle Eastern countries, youth unemployment is a concern in WB&G. In the fourth quarter of 2010, unemployment among those aged 15-29 years was 25.8 percent in the West Bank and 52.8 percent in Gaza. Unemployment is high even though youth labor force participation is relatively low: 63 percent of the youth population in the West Bank is outside the labor force while the figure is nearly 71 percent in Gaza. Israel and its settlements remains an important employer of Palestinian labor, employing nearly 79,000 Palestinians<sup>14</sup> from the West Bank in the fourth quarter of 2010, up from about 72,000 in the fourth quarter of 2009.

29. **However, longer-term trends in key indicators such as unemployment and the composition of employment suggest that conflict and the Israeli closure regime have had a deep adverse impact on the Palestinian labor market.** As Figure 3 shows, despite some lessening of mobility restrictions in recent years, there is little yet to suggest a sustained improvement in joblessness: the unemployment rate in 2009, for instance, was as high as it was in 2005. In the face of shrinking regular private sector employment, government jobs have become increasingly important absorbers of the labor force. As depicted in Figure 4, the share of the government in total employment rose from 17 to 26 percent between 1999 and 2009, while that of private sector jobs fell from 47 to 38 percent<sup>15</sup>.

<sup>13</sup> This section draws extensively from World Bank. 2011. *Mobility Restrictions and Labor Market Dynamics in Conflict Affected West Bank and Gaza*. This report analyzes principally the data from the quarterly Palestine Labor Force Surveys administered by the Palestinian Central Bureau of Statistics between 1999 and 2009.

<sup>14</sup> Data from the 2010 Palestine Labor Force Survey conducted by the Palestinian Central Bureau of Statistics.

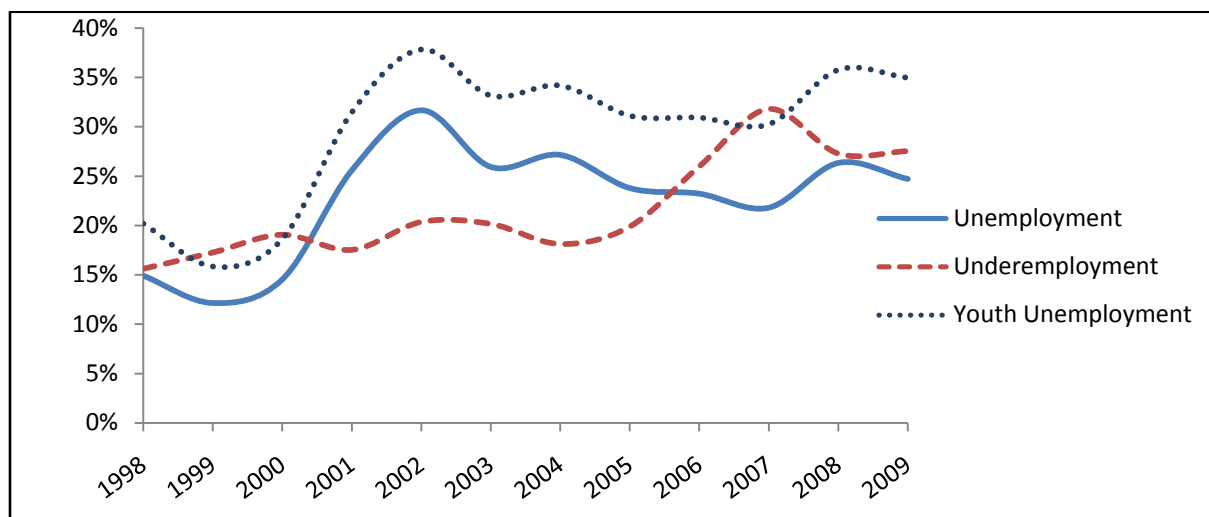
<sup>15</sup> Note that post-2005 government employment figures include both PA employment in the West Bank and Hamas employment in Gaza.

**Table 1: Labor force statistics, 4th quarter 2010**

(in percentage terms)	West Bank & Gaza	West Bank	Gaza
Unemployment rate			
-- Overall	23.4	16.9	37.4
-- Youth	34.6	25.8	52.8
Labor force participation rate			
-- Overall	41.5	44.5	36.3
-- Youth	34.1	37.1	29.3

Source: Palestinian Central Bureau of Statistics, Palestine Labor Force Survey 2010

**Figure 3: Unemployment and underemployment in West Bank and Gaza, 1998-2009**



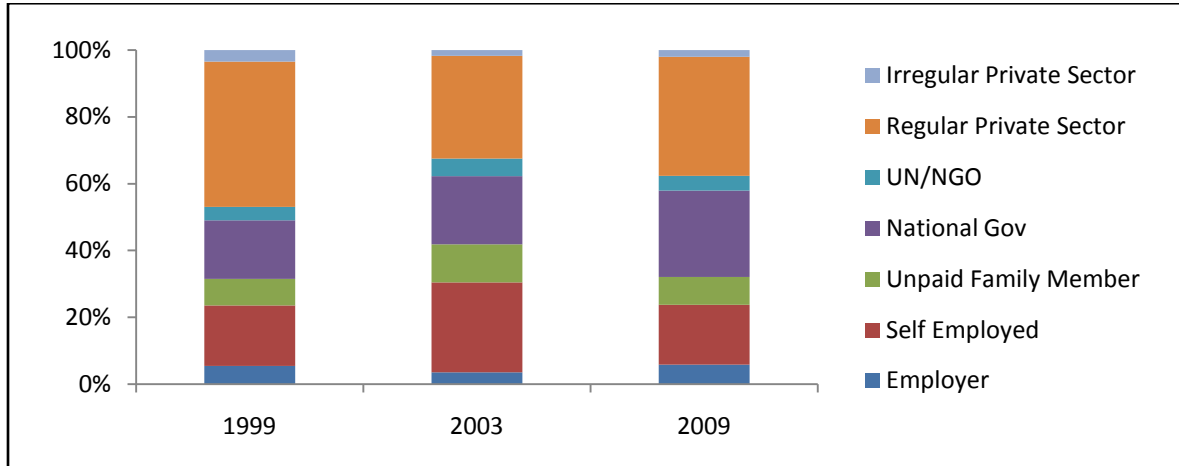
Source: World Bank. 2011. *Mobility Restrictions and Labor Market Dynamics in Conflict Affected West Bank and Gaza*, page 1.

30. Trends in the composition of youth employment are largely similar, with the share of the private sector falling and that of the government sector rising (see Figure 5). However, regular private sector employment<sup>16</sup> has always been more common among younger workers, and these workers are also less likely to be in government employment. Whether out of choice or compulsion, this concentration of the young in the private sector could be a reason for the disproportionate increase in youth unemployment in the last decade. Another worrying

<sup>16</sup> The Palestine Labor Force Survey classifies employees as being either in the public sector, i.e. UN/NGO or government, or private sector (including regular and irregular private sector). Other than employees, the categories for employed persons are unpaid family member, self-employed, and employer.

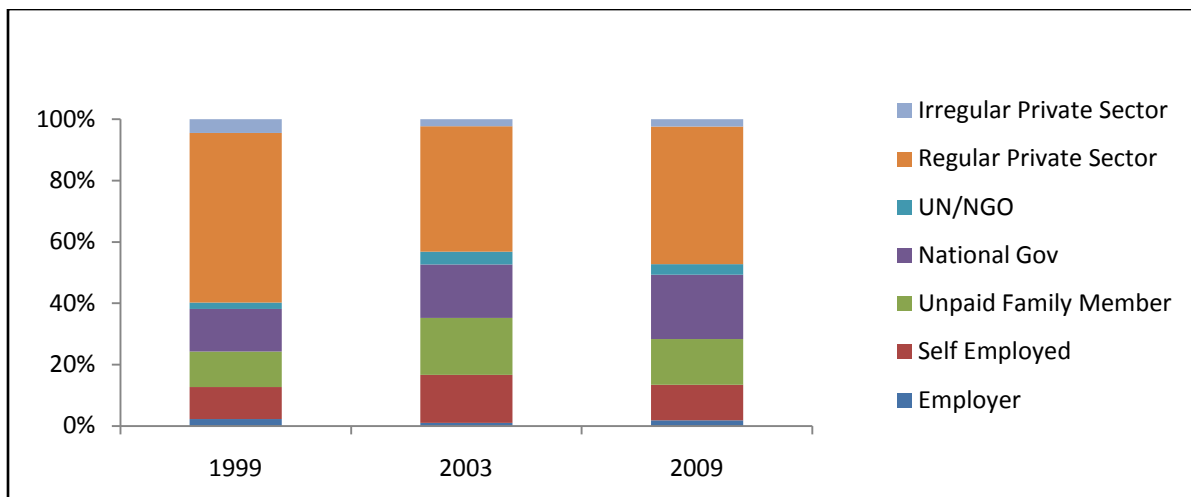
pattern in Figure 5 is the large and increasing incidence of youth who work as ‘unpaid family member’, with the share of such work in youth employment rising from 11 percent in 1999 to 15 percent in 2009.

**Figure 4: Employment by sector in West Bank and Gaza, all working age individuals (15-64 years old)**



Source: World Bank. 2011. *Mobility Restrictions and Labor Market Dynamics in Conflict Affected West Bank and Gaza*, page 4.

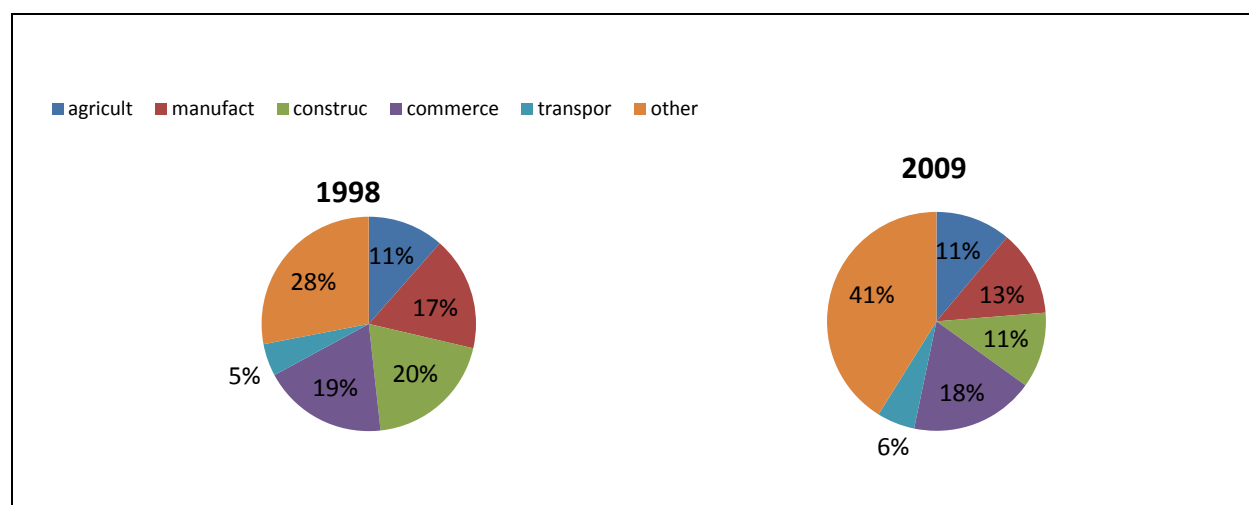
**Figure 5: Employment by sector in West Bank and Gaza, youth (15-29 years old)**



Source: World Bank. 2011. *Mobility Restrictions and Labor Market Dynamics in Conflict Affected West Bank and Gaza*, page 4.

31. **The West Bank and Gaza economies have experienced marked de-industrialization, with the share of manufacturing and construction in total employment falling from 37 percent in 1998 to 24 percent in 2009 (see Figure 6).** During this period, the services sector (other than commerce) expanded its share of employment from 28 to 41 percent. There is evidence that the de-industrialization continued even as the economy started to recover from the worst post-intifada years: national accounts data from the Palestinian Central Bureau of Statistics (PBBS) show that value added in manufacturing fell by about 20 percent between 2004 and 2007.

**Figure 6: Employment by industry in West Bank and Gaza**



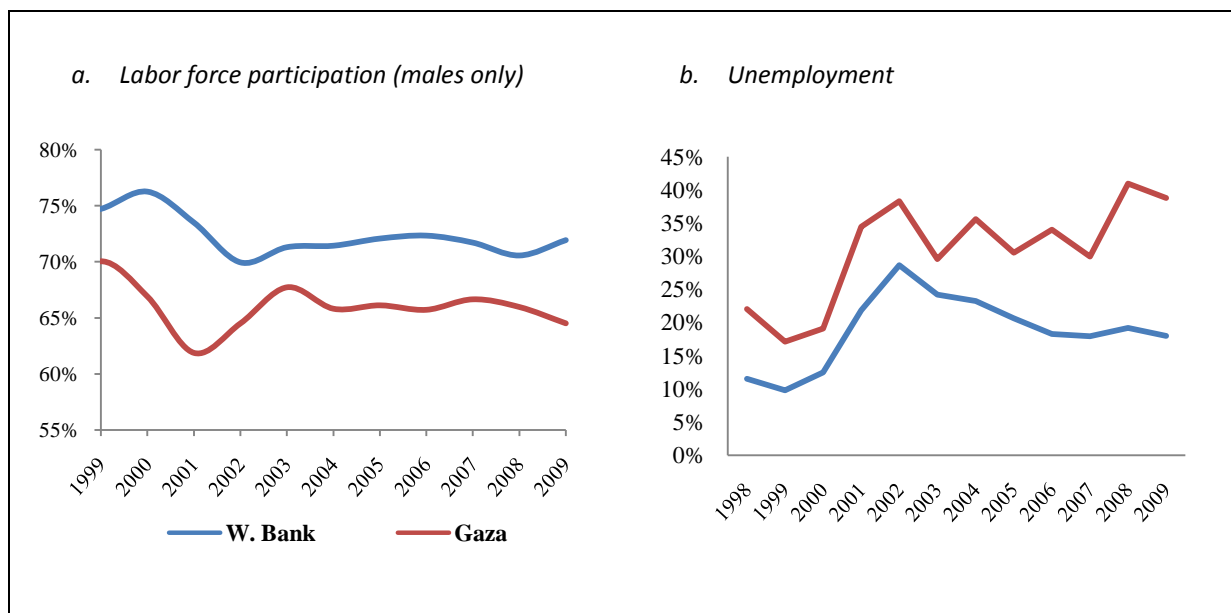
Source: World Bank. 2011. *Mobility Restrictions and Labor Market Dynamics in Conflict Affected West Bank and Gaza*, page 5.

32. **Of course, a decline in manufacturing does not necessarily imply that the economy is not developing, especially if the services sector is doing well.** But in the case of WB&G, what is unusual is that most of the expansion in the services sector is accounted for by health and social work, education and public administration – all of which are essentially in the public sector. Since these sub-sectors contribute primarily to human capital accumulation, their potential to raise long-term growth prospects on their own is limited unless there are growing opportunities for employing human capital, which in turn depends on prospects for growth in other service and manufacturing industries.

33. **In recent years, Gaza has done markedly worse than the West Bank along all measurable labor market dimensions.** This is evident when looking at unemployment for the West Bank and Gaza separately (Figure 7), and when comparing the two regions' labor force participation rates. In Gaza, wages are lower, regular private sector jobs are scarcer than in the West Bank, and those with jobs report high rates of absence from work (mostly due to "temporary stoppages") in recent years. In 2006, about 10 percent of the employed in Gaza

reported having missed at least one full day of work in the past week. By 2009, this proportion was higher than 35 percent. Indicators of labor market ‘discouragement’ are also worsening. In 2006, 16 percent of jobless Gazans who responded to the PCBS labor force survey and said that they were available for work also reported that they had not actively sought work in the past week, largely because they were “discouraged to find a job” or were still awaiting the result of past job applications. By 2009, this rate was at nearly 20 percent.

**Figure 7: Labor force participation and unemployment: West Bank versus Gaza**



Source: World Bank. 2011. *Mobility Restrictions and Labor Market Dynamics in Conflict Affected West Bank and Gaza*, page 6.

### **C.III.a. Labor Force Employability and Skills**

34. **Key complaints from businesses against the current system of education in WB&G concern its relevance to modern demands of the workforce<sup>17</sup>.** According to the private sector, most topics are taught at education institutions through traditional methods of lectures, memorization, and examinations, with less emphasis on critical thinking, problem-solving, and hands-on learning experiences. On the other hand, English is taught widely and comprehensively throughout the West Bank, equipping young Palestinians with a critical advantage for future work in an information-based economy. Notwithstanding the relatively

<sup>17</sup> USAID. 2010. *BizCLIR: For the Palestinian Economy, Commercial Legal and Institutional Reform Diagnostic of the West Bank*, Booz Allen Hamilton under the Business Climate Legal and Institutional Reform (BizCLIR) project, page 59.

advanced state of Palestinian higher education, private sector representatives observe practical gaps between Palestinian graduates and their counterparts in other, more developed settings<sup>18</sup>.

**35. After tenth grade, a relatively small subset of Palestinian students chooses the technical and vocational education and training (TVET) track for the remainder of their secondary schooling.** The major streams for TVET are industrial, agricultural, commercial, and tourism – the latter being an area in which the potential for workforce development seems especially underserved. TVET represents an important alternative to traditional secondary school or university education, and has in recent years embraced more rigorous and professionally oriented curricula. Yet TVET in the West Bank does not begin to reach its potential at this time. First, as in other areas of education, teaching techniques in TVET remain relatively formal and traditional, not yet reflecting the more hands-on, inquiry-based approach to learning that modern programs need. Second, vocational and technical schools are, relative to traditional institutions, expensive to establish and maintain. In particular, technology education is falling behind and students are not yet prepared for the changes in employer demands that will accompany greater access to internet and technology-related services. There is some cooperation between TVET institutions and private enterprise in the West Bank. In certain areas, such as automobile maintenance and hotel management, apprenticeships are organized between schools and TVET students. As part of the continued emergence of TVET, there should be considerable strengthening of internship and apprenticeship opportunities.

**36. In other words, education and business cooperation is not yet institutionalized so it is based on individual endeavors<sup>19</sup>.** Education and business cooperation faces several challenges such as: high fragmentation of representative organizations for the private and academic sectors; the structure of the private sector (mainly family-owned small and medium enterprises); overlapping training programs provided by education institutions; a dispersed education and training system in terms of types of institution, their objectives, and the bodies responsible for them; and a lack of tracer studies that follow graduates as they seek employment. Other challenges include the low motivation of students to follow vocational education and training and the high workload of trainers and teachers. Business can play a crucial role in the identification of skill needs, in the implementation of apprenticeship schemes, and in the design and running of sector-specific training centers. Education institutions should become more proactive in involving business in the various phases of training programming, design, implementation, and evaluation, including participation in the scientific councils.

**37. While all stakeholders consider the lack of job opportunities due to the stifled economic environment to be the top concern, they disagree on other impediments<sup>20</sup>.** Employers regard youth's lack of relevant skills and experience as a serious impediment to employment, whereas parents and youth stress the importance of lack of job security and

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<sup>18</sup> *ibid*, page 60.

<sup>19</sup> Education Training Foundation. 2010. *Education and Business Study, Occupied Palestinian Territory*, page 4.

<sup>20</sup> MercyCorps. 2010. *Palestinian Youth Employment Policy Paper*, page 4.

unresponsiveness of the education system to the labor market needs as the main challenges. Youth have issued a call for training that is practical and tailored to the needs of the market. That would include vocational or on-the-job training such as internships and apprenticeships. However, when asked their opinion of existing institutions that offer such training, most youth are skeptical that current programs will lead to the type of employment they are seeking. A central and paradoxical fact is that employers find it difficult to hire qualified job applicants, despite the large number of unemployed youth. The mismatch between skills offered by a large pool of unemployed youth, including many with university degrees, and those demanded by the labor market, suggests that despite reforms to the educational system, much work remains to be done. Educational programs are not responsive to market needs and employers have indicated that qualified workers with relevant and appropriate skills are in short supply.

## ***D. Institutions and Service Delivery***

38. **The PA continues to strengthen key institutions as well as providing basic social services that lead to impressive outcomes – accomplishments that previous World Bank reports to the AHLC have highlighted as attributes of a functioning state.** Considerable improvement in PFM quality has occurred in recent years, and enactment of the new public procurement law is expected this year. Private sector representatives perceive an improvement in the security and justice sectors in recent years, with anecdotal evidence from businessmen and lawyers highlighting the judicial performance in particular, specifically in the West Bank. Strong legal and institutional frameworks are also the cornerstones for successful anti-corruption efforts, and the PA has worked to harmonize existing law, and has set forth a number of new initiatives to strengthen the legal framework for combating corruption. Indicators of early childhood nutrition and education enrollment, for example, place WB&G well above average in comparison with middle income countries. These indicators represent impressive achievements in coverage so improvements in the quality of services are still needed, as discussed in the previous section on the labor market. In other words, there certainly remains a significant reform agenda for the PA – but it is certainly not alone amongst states worldwide in its need to continuously seek to improve services for its citizens.

### ***D.I. Public Financial Management***

39. **As mentioned above, the PA made considerable progress in 2010 in mobilizing domestic resources and was able to fund nearly 63 percent of its recurrent budget.** Domestic tax revenues rose by nearly 50 percent compared to 2009 and exceeded 2010 budget projections by nearly 26 percent. The PA reports that the increased tax revenues have resulted from increased enforcement and stronger efforts of collection.

40. **More broadly, considerable improvement in PFM quality has occurred in recent years and that progress has continued since the last AHLC meeting in September 2010.** The improvements span all aspects of PFM but the main areas of progress in the latest period are budget preparation and accounting.

41. **A range of improvements have been made in the course of preparing the 2011 budget.** First, a new budget classification based on the international standard classification developed by the International Monetary Fund was used in presenting the budget for the first time. This change will support improved analysis of the budget as well as facilitating cross country comparisons.

42. **With the change in budget classification, the 2011 budget is also being controlled at the level of budget “program”.** In the past two years there has been a program presentation in the budget, but it has not been used in expenditure control. The move to execute the budget



on the basis of programs has been challenging, and a number of difficulties have emerged with the change. These problems are being addressed and the PA is confident that the reform will in time lead to better links between budget funds and the policies that are being pursued.

43. **While it had been envisaged that the 2011 budget would be completed earlier than in recent years, this was not possible and the budget was only approved in late March.** Looking forward, the recent establishment of a fiscal policy unit within the Ministry of Finance should improve the link between budgeting and fiscal management and allow for a more timely preparation of the budget in future years.

44. **Alongside the improvements in budget presentation, the accounting function of the PA is also being developed.** Since September 2010, the audit of the 2008 financial statements was completed and the 2009 financial statements were prepared by the Ministry of Finance and submitted in January 2011 to the State Audit and Administrative Control Bureau. The audit of the 2008 financial statements was the first time that that had been completed since the 2003 fiscal year. Considerable progress has also been made in preparing the 2010 financial statements as the PA attempts to bring the preparation and audit of the statements closer to the end of the fiscal year.

45. **The PA has also made some progress in improving PFM at the municipal level.** Municipal budgetary guidelines have been prepared and are being used by all municipalities in budget preparation; a Financial Procedures and Policies Manual has been prepared and is under implementation in at least 75 municipalities; and an approach to Fixed Assets Registration and Valuation is being piloted in 4 municipalities.

46. **There has, therefore, been impressive development of the PFM system and the building blocks of a sound system are now in place.** Looking forward, much of the focus will be on embedding some of the changes that have been made, and deepening the financial management capacity within the various ministries and agencies to extract better value for money from government expenditure.

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### ***D.I.a. Public Procurement***

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47. **The process of finalizing the new public procurement law by the designated PA inter-ministerial working group is underway.** The draft law is seen to reflect in large part the essence of internationally recognized good practice, as embodied in particular in the UNCITRAL Model Law on Procurement<sup>21</sup>. Once in its final draft format, the PA would pursue the approval process of the law with Council of Ministers and the PA President as per the regulations applicable at present. Supporting regulations to the new law are being revised on a parallel track. The enactment of the new law and regulations, expected in 2011, will form the basis for a more effective and transparent public procurement function. The PA has further committed

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<sup>21</sup> United Nations Commission On International Trade Law, Model Law on Procurement (1994)

to initiate the implementation of priority reform actions that would follow the enactment of the law. These include: (i) establishment of the Public Procurement Policy Unit and related institutional arrangements; (ii) development of national standard bidding documents that would ensure transparency and efficiency, as well as a manual of procedures covering the entire procurement cycle that would allow for the adoption of modernized public procurement procedures and practices; and (iii) training of the procurement workforce.

## ***D.II. Legal Reform***

### ***D.II.a. Business Environment***

48. **Private sector representatives perceive an improvement in the security and justice sectors in recent years, with anecdotal evidence from businessmen and lawyers highlighting judicial performance in particular, specifically in the West Bank<sup>22</sup>.** This evidence indicates that the court system has improved its efficiency, and improvements in court administration, case management, and the cadre of judges are cited. The World Bank's 2007 Investment Climate Assessment (ICA) has noted that courts, whether they are efficient or not, have not been identified by entrepreneurs and business owners as a major impediment to businesses in WB&G, this despite the fact that the ICA survey showed that 63 percent of business disputes were reportedly taken to court<sup>23</sup>.

49. **However, effectiveness of the judicial system will become a more pressing issue if foreign investment becomes significant and new businessmen without local contacts enter the market.** On this forward looking note, an area in particular need of improvement is enforcement of judgments. While 8 out of 10 of the first-instance courts have departments for enforcing court judgments, the reported rate of enforcement is low<sup>24</sup>. The low enforcement rate is linked to several factors, some related to Israeli movement and access restrictions in the WB&G and limited resources, but others related to inadequate regulations and procedures. The Higher Judicial Council has identified this as a priority reform area, one that would have a positive impact on the business environment in terms of contractual enforcement.

50. **From a business environment perspective, the legal, regulatory, procedural, and institutional gap between the West Bank and Gaza is growing.** In Gaza, many of the judges are

<sup>22</sup> The paragraphs on the business environment draw on a forthcoming World Bank background report entitled "Forward-looking Priorities for Investment Climate Reform in the West Bank and Gaza".

<sup>23</sup> World Bank. 2007. *West Bank and Gaza Investment Climate Assessment: Unlocking the Potential of the Private Sector*.

<sup>24</sup> The first-instance court of Ramallah reportedly only successfully enforced 20 percent of the 2000 cases brought to it for enforcement in 2008. This seemingly conflicts with the 2007 ICA in which a survey of 401 businesses found that judgments were enforced 64 percent of the time. This might be explained by geography, a sample bias, or perception bias.

reportedly less qualified political appointees, resulting in some deterioration in the judicial system there. In addition, the courts there have stopped implementation of some articles of law, such as the law requiring repayment with 9 percent interest on non-payment of contracts, and bank loans with interest rates. As a result, Gaza-based banks have resorted to workarounds, whereby the loan amount is inflated to reflect interest up-front. Any document officially notarized in Gaza since the Hamas takeover is being rejected by PA ministries and other agencies, who state that the official notaries are no longer recognized as legitimate in the West Bank. While the enactment of laws has been limited (specifically to those laws being issued by Presidential decree in Ramallah), ministries in both Ramallah and Gaza have been regularly issuing regulations, procedures, and organizational changes - further widening the gap between the West Bank and Gaza.

### ***D.II.b. Anti-Corruption***

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51. **A strong legal and institutional framework is also the cornerstone for successful anti-corruption efforts, and the PA has worked to harmonize existing laws, and has set forth a number of new initiatives to strengthen the legal framework for corruption**<sup>25</sup>. These include the 2005 Illicit Gains Law, and the 2007 Anti-Money Laundering Law. On the institutional side, the Attorney-General's Office took steps to centralize anti-corruption and economic crime efforts, and the Palestinian Legislative Council established a complaints bureau to handle complaints from the public on a range of matters including corruption. Despite these efforts, the legal and institutional arrangements remain fragmented. Moreover, surveys conducted for a forthcoming World Bank report found that neither Palestinian public officials nor households have faith in the willingness of the government to prosecute corruption cases or enforce rulings. This has made Palestinians reluctant to report corrupt activities.

52. **The 2010 Anti-Corruption Law establishing the Anti-Corruption Commission (ACC) and the Corruption Crimes Court is a major milestone.** It broadens the range of offenses defined as corruption and makes the ACC clearly responsible for public information on corruption, and for investigating and prosecuting corrupt activities. While this is a significant development, the PA needs to ensure that the Commission is equipped to meet its mandate. Agencies that multi-function as police, regulators, educators, and policy advisors are often ineffective, according to several studies designed to measure the efficiency of anti-corruption efforts. Careful consideration needs to be given to the short-term priorities of the ACC. As it stands, its mandate is very broad and the ACC risks trying to do too much too soon. The PA also must establish mechanisms to monitor the extent to which its institutions are fulfilling their anti-corruption responsibilities.

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<sup>25</sup> The paragraphs on anti-corruption efforts draw on a forthcoming World Bank report entitled "West Bank and Gaza: Improving Governance and Reducing Corruption".

53. **Across the years 2004-2009, households in both the West Bank and Gaza have had high and slowly increasing levels of connectivity to amenities such as electricity and water through public networks<sup>26</sup>.** Municipalities in WB&G undertake a range of functions. Three services -- solid waste collection, street maintenance, and water supply -- are provided by 80 percent of municipalities and four additional services -- street lighting, town planning, schools maintenance, and sidewalks -- by at least 60% of municipalities. Further investment in infrastructure and service delivery equipment is required: 26 percent of the water supply network is in need of maintenance; only 48 percent of municipal roads are paved; and municipalities have only 46 percent of required equipment.

54. **In both the West Bank and Gaza, the physical distance to education, health, and public transportation services is fairly low for a majority of the population.** On average, households in Gaza, which has a relatively large population in a small area, face shorter distances than households in the West Bank. For instance, in 2009, about 93 percent of all households in Gaza report having public transportation within one kilometer from their homes, as compared to 84 percent of West Bank households.

55. **In terms of indicators of early childhood nutrition, WB&G is an outstanding performer.** Among children under the age of 5, only 11.5 percent suffer from stunting (low height for age) and a mere 1.4 percent from wasting (low weight for height). In the average middle income country<sup>27</sup>, 3 out of 10 children are stunted, i.e. more than three times the figure for WB&G. Performance in terms of wasting incidence is even more compelling: one in 10 children in a middle income country suffers from wasting, i.e. the rate is 7 times lower in WB&G. Thus, judged by anthropometric outcomes, WB&G performs better than most other countries in the world, irrespective of income. Though this benchmarking exercise does have data availability limitations, it is important to note that the pool of countries in the sample includes a variety of middle income countries from the region, such as Jordan, Turkey, Egypt, and Morocco -- and WB&G fares better than these in terms of early childhood nutrition indicators. In addition, overall incidence rates of stunting and wasting have been relatively stable over time. Looking across territories, the West Bank tends to have lower incidence rates than Gaza. Wasting rates are comparable and show a similar evolution across the two territories over time. Stunting, however, has increased relatively more in Gaza, reaching 14 percent in 2006, which is a concern in light of the economic crisis in Gaza in 2007, a year for which comparable data are not available. Nevertheless, these rates remain very low by international standards.

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<sup>26</sup> This section is drawn largely from the forthcoming World Bank report entitled "Coping with Conflict? Poverty and Inclusion in the West Bank and Gaza." Most of the evidence on human development outcomes discussed in this report comes from utilizing three rounds of the Demographic and Health Survey, collected by PCBS in 2000, 2004, and 2006. An additional round was collected in 2009, but the data were unavailable at the time of the analysis.

<sup>27</sup> In 2011, the World Bank classifies countries with a 2009 gross national income per capita in the range of US\$996-US\$12,195 as middle income.

56. **These outstanding nutrition results for WB&G are consistent with other indicators of child health and nutrition.** For example, almost all children are immunized against diphtheria, pertussis, tetanus, measles, and tuberculosis. Vaccination rates in WB&G exceed those of the average middle-income country. There is also near-universal coverage of prenatal care – every pregnant woman is attended at least once by skilled health personnel.

57. **In terms of education outcomes, the evidence shows that enrollment is consistently high over time and across regions with an average of 90 percent enrollment for the school age population.** Broken down by age and gender, access to basic education is near universal – all children, whether girls or boys, whether in Gaza or West Bank, enroll in school between the ages of 6 to 12. However, differences between girls and boys begin to emerge in the teenage years, especially among late teens: at 17 years of age, rates of enrollment are more than 10 percent higher for girls than for boys. Student absenteeism rates – the proportion of children who miss school days among enrolled children – are consistently higher in Gaza than in West Bank for all ages and gender. Nonetheless, the secondary gross enrollment rate in WB&G is on the order of 20 percentage points higher than the rate in the average middle income country, and 15 percentage points higher than the average rate in the Middle East and North Africa region<sup>28</sup>. Yet access to education does not provide the full story: as was discussed in the labor market section above, improvements in the quality and relevance of education are needed.

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<sup>28</sup> Based on data from the World Bank's EdStats database, available at <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTEDUCATION/EXTDATASTATISTICS/EXTEDSTATS/0,,menuPK:3232818~pagePK:64168427~piPK:64168435~theSitePK:3232764,00.html>

## **E. Conclusion**

58. **While no recipe for building a state exists, the Organization for Economic Co-operation and Development (OECD) has identified certain key functions as strategically important.**

Thus, in its 2011 policy guidance “Supporting Statebuilding in Situations of Conflict and Fragility”, the OECD describes these key functions as security and justice; revenue and expenditure management; economic development, especially job creation; and service delivery<sup>29</sup>. In other words, the OECD finds that several key capabilities are common to all effective states, including providing security, enforcing the law, and protecting citizens; making laws, providing justice, and resolving conflict; raising, prioritizing, and expending revenues effectively, which requires a sound and transparent PFM system; delivering basic services, including equal access to health, education, water, sanitation, communications, and infrastructure; and facilitating economic development and employment by creating an enabling framework for trade, investment, employment, and economic growth<sup>30</sup>.

59. **This report has documented some of the PA’s achievements in the key state functions posited by the OECD – and this despite continued stringent Israeli restrictions on access to resources and markets.** Considerable progress has been made over the years, and this progress must be sustained and bolstered. That will, in turn, require a fundamental improvement in the Palestinians’ access to important resources, notably land. In the meantime, the PA must maintain its reform momentum. It faces challenges familiar to many an existing state and like these states, must navigate and reconcile varying stakeholders in both the West Bank and Gaza. The PA’s performance to date, however, bodes well for the future.

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<sup>29</sup> OECD. 2011. *Supporting Statebuilding in Situations of Conflict and Fragility, Policy Guidance*, DAC Guidelines and Reference Series, page 13.

<sup>30</sup> *Ibid*, pages 33-34.

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