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**The World Bank**

**Ad Hoc Liaison Committee Meeting**  
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Your excellencies, distinguished colleagues, good afternoon.

Let me start by saying how pleased I am to be representing the World Bank at today's meeting of the *Ad Hoc* Liaison Committee. This, for me, is a return to issues of a region where I have been fortunate to work in the past. Although I don't officially take up my position as the World Bank's Vice President for the Middle East and North Africa Region until tomorrow, I wanted to join today's meeting to reinforce the commitment and support of the World Bank to the Palestinians, and particularly to recognize the substantial achievements of the Palestinian Authority under the leadership of Prime Minister Fayyad.

I hope that many of you will have had the opportunity to read the report the World Bank has prepared for this meeting – a report that reviews in some detail the institution-building achievements of the Palestinian Authority over the last several years. These achievements are to be commended – and all the more so given the significant political, security, and financial challenges that have faced the Authority. It is encouraging that the reform agenda continues to be followed even in these difficult times.

I will focus my remarks today on two issues – firstly how we can act together, in the short term, to shore up and continue to build on the very substantial progress made by the Palestinian Authority to date; secondly to highlight important areas where action is essential to enhance the sustainability of the considerable investments made by both the Palestinian Authority, as well as the donor community.

As we all know, the PA is facing an increasingly difficult fiscal situation: revenues were below budget projections, as was spending, but the resulting deficit is larger than projected. Meanwhile, external aid was lower than anticipated at the beginning of the year. The PA has therefore had to increase domestic borrowing and may be very close to the limit on such borrowing. It has also had to accrue large arrears to its suppliers, which in turn hurts business confidence. The fiscal crisis has meant that the PA is now struggling to meet its wage payment obligations. Previous World Bank reports have noted that economic growth in the West Bank and Gaza in recent years was unsustainable -- and driven primarily by donor aid. Under these conditions, lower-than-expected aid flows this year had an immediate impact on the Palestinian economy. Real GDP growth, previously projected to be at 9 percent in 2011 in West Bank and Gaza, has now been revised down to 7 percent.

There are a number of factors contributing to this serious situation but I would contend that given the substantial achievements to date – such as the commendable standards on service delivery, development of a well targeted safety net, substantial improvements in financial management among others, we need to ensure collectively, across the international community, that we maintain our support to the Palestinian Authority. For some the provision of budget support can

be difficult – particularly in capitals that are facing their own budget constraints. Yet the results in the West Bank and Gaza demonstrate how, when used effectively and in support of a robust reform program, these funds make a difference. Speaking for the World Bank I can confirm that we intend to provide US\$40 million to the budget in the coming months. Since 1993, the World Bank Group has contributed \$900 million to Palestinian development – indeed earlier this year we were able to increase our commitment for this year by 40% with additional funds dedicated to improving infrastructure in Gaza. We believe this to be a valuable use of development assistance that can contribute to achievements in those areas where government effectiveness matters most – security and justice; revenue and expenditure management; economic development; and service delivery – and where Palestinian public institutions compare favorably to other countries in the region and beyond.

However, this cannot only be a story about continued donor assistance, important as it is. We are acutely aware of the challenges of sustainability that need to be addressed. Going forward, for the PA, this will mean tight control of recurrent and capital spending coupled with an increased focus on strategic priorities. Yet even with such measures we believe that no curtailment of spending is sufficient to bridge the budget gap in the absence of increased domestic revenues. Those increased revenues require a larger tax base that emanates from economic growth, which in turn requires the unleashing of the private sector's potential.

And here is where bold moves are needed to realize the potential of the Palestinian private sector. As we have reported in the past, the Palestinian private sector remains hemmed in by Israeli restrictions on access to natural resources and markets, while investors are deterred by the increased costs of business associated with the closure regime. It is only through substantial changes to this situation that we will see the necessary expansion of revenues to support the budget, absorb the large numbers of unemployed and create a better future for Palestinians – and particularly young Palestinians. Moves by the Government of Israel to allow greater private sector growth -- such as through access to Area C, exports from Gaza, and freer access including to markets in East Jerusalem -- will in turn allow the PA to sustain the reform momentum. This would allow the tax base to grow, gradually reducing dependence on external assistance, and making inroads to the PA's fiscal sustainability.

Excellencies and colleagues, the region is going through unprecedented changes that will likely mean we are coping with uncertainty for some time to come – this is not a time for us to falter on our support to the Palestinians. Indeed, it is important that the international community take a shared responsibility to maintain support for the Authority and at a level commensurate with achievements; that the Palestinian Authority deepen the reform agenda; and that the Government of Israel take bold steps and specific actions to allow real private sector led growth.

Excellencies, ladies & gentlemen: On behalf of the Bank, I extend our thanks to Foreign Minister Støre for Norway's leadership and to the Quartet Representative and the UN, our hosts, as well as to all other partners who have supported the progress to date. Much has been achieved thus far and much lies ahead. The World Bank will remain a steady partner in pursuing sound economic development.