Source: World Bank 23 October 2008

The World Bank

Social and Economic Development Group
Finance and Private Sector Development
Middle East and North Africa Region

West Bank and Gaza

The Economic Effects of Restricted Access to Land in the West Bank

Table of Contents

/...

EXECUTIVE SUMMARY

In developing countries, land is of fundamental importance to economic activity and development: it is often the most common means of storing wealth and a powerful economic asset; it provides a foundation for economic activity in sectors as varied as agriculture, industries, housing and tourism; it is also a key factor in the functioning of market (e.g. credit), and non-market institutions (e.g. local governments). In the West Bank, land takes on a particular significance, as economic activity has been stifled by the ongoing conflict; and as much of the land area is inaccessible due to Israeli restrictions on movement of people and access to natural resources. This policy note aims at analyzing the channels through which land access restrictions and market distortions constrain productive and public sector investment, and trace their effects on the development of key economic sectors.

The 1995 Oslo interim agreement split the West Bank and Gaza into three Areas A, B, and C, with different security and administrative arrangements and authorities.[1] This note focuses on the West Bank, where this territorial fragmentation continues to have developmental implications. The land area controlled by the Palestinians (Area A corresponding to all major population centers and Area B encompassing most rural centers) is fragmented into a multitude of enclaves, with a regime of movement restrictions between them. These enclaves are surrounded by Area C, which covers the entire remaining area and is the only contiguous area of the West Bank. Area C is under full control of the Israeli military for both security and civilian affairs related to territory, including land administration and planning. It is sparsely populated and underutilized (except by Israeli settlements and reserves), and holds the majority of the land (approximately 59%). East Jerusalem was not classified as Area A, B or C in the Oslo interim agreement and its status was to be resolved in final status negotiations.

This allocation, which establishes the Palestinian administration over most of the populated areas and gives it limited control over natural resources and agricultural lands, was meant to be only transitory, with the Palestinian Authority expected to assume control over an increasingly larger share of Area C. However little territory has been transferred to PA control since the signing of the Oslo interim agreement, and this process has been completely frozen since 2000. As the Palestinian population grows and its resource and development needs increase, this long-lasting situation has become an increasingly severe constraint to economic activity.

The effects on the Palestinian economy of the current territorial distribution extend much beyond its most obvious manifestations. The physical access restrictions are the most visible, with 38% of the land area reserved by the Government of Israel to serve settlements and security objectives and a system of checkpoints, road closures, the Separation Barrier, and permit requirements for access that constrain movement of people and goods within and out of the West Bank. Recurrent destruction of trees, private homes and public infrastructure, as well as settlers' encroachments on private land create a permanent state of insecurity that deters Palestinian investment in Area C. At the same time, the land use and planning regulations in effect in Area C have less obvious consequences but are no less detrimental to Palestinian economic development. These regulations tend to limit development within the confines of existing villages, with too little suitable space for demographic growth, causing irrational land use and unsound environmental management. The construction permit system slows down or halts altogether most construction. And the land administration system does not adequately protect the property rights of the Palestinian people, a source of uncertainty incompatible with investments and growth.

Predictably, economic activity in Area C is limited primarily to low intensity agriculture. High intensity agricultural, industrial, housing, tourism, and other investments are hindered by the difficulty in obtaining construction permits from the Israeli authorities and the limited amount of titled land available due to the cessation of systematic land registration since 1967. Land development is constrained by the application of archaic regional plans dating back to the British Mandate. Where village master plans are available, they are prepared by the Israeli Civil Administration without community participation and limit development primarily to filling in existing developed areas. Building permits are rare and difficult to obtain, with only a handful approved by the Israeli authorities annually for the past several years. In the meantime, unlicensed construction continues due to the needs of an expanding population despite a demolition rate that far outpaces building approvals by the Israeli authorities.

Today, only a fraction of the Palestinian population resides in Area C, where the incentive framework and the lack of legal recourse are not conducive for people to stay. Area C dwellers are mainly farmers and herders, who tend to fare worse than the general population in terms of social indicators, being underserved in public services and infrastructure, and being denied permits to upgrade their homes or invest in agriculture and other businesses. The comparison is even less favorable with other Area C residents, namely Israeli settlers, who face more flexible planning and building regulations and have more legal remedies.

The consequences of the territorial distribution are no less significant for the areas under the administrative control of the Palestinian Authority (PA), where most of the Palestinian people reside today. At the time of the Oslo Accords, the limits of Area A and B were drawn around urban and rural population centers, and were not intended to accommodate long-term demographic growth and related economic and social infrastructure development. While this may have been acceptable under an interim scenario of progressively larger devolution of land to Areas A and B, which according to the Oslo interim agreement should have been concluded within eighteen months, after thirteen years with minimal Israeli redeployments from Area C the situation has now become untenable[2]. Land transfer from C to A/B has not kept pace with population growth, and roads reserved for settlers constitute additional barriers for Palestinians. Reserved roads, to which Palestinian access is restricted, coupled with the development of settlements often in close proximity, or directly adjacent to Palestinian towns, have fragmented the Palestinian space even further. This has reduced the accessibility and hence the value of some vacant land in Area B and A now separated from the centers of economic life.

This territorial division distorts land markets by creating artificial land shortages. Vacant land is scarce in Area A and only the most accessible parts of Area B are suitable for development, while Area C is not desirable for development purposes due to the difficulties in obtaining construction permits from the Israeli authorities. At the same time, demand is rising rapidly from a growing population who receives public sector salaries and/or remittances, as well as from investors lacking other profitable opportunities. As a result, land prices are shooting up and in certain towns are becoming prohibitive for all but high value commercial activities, or high rise apartment building. Residential development is crowding out other economic activities on scarce plots available for development, yet there remains a housing shortage. Industrial development is handicapped by a combination of trade impediments and unavailability of industrial plots at viable prices. Public investment in infrastructure likewise has nearly ceased, in part due to lack of public funds; but even when donor funds are available, suitable land is mostly in Area C where permits are rarely obtained and even then after long delays. In Areas A and B, there is little municipal land and often resorting to the land market is not an option due to the high prices.

Urban development cannot be planned and implemented in the most rational manner, thereby aggravating, instead of alleviating, the environmental problems caused by high population densities. Overcrowding and land scarcity skew the pattern of urban development towards housing and away from economic activities and basic public infrastructure. For the latter, difficulties are compounded by the need to obtain permits from GOI to locate certain types of polluting infrastructure, such as sewage treatment or landfills away from the population. The inability to obtain such permits leaves Palestinians at risk from health and safety hazards due to obsolete or inadequate installations. The same constraint leads some industries to establish polluting or dangerous plants in towns with similar risks for their population. Finally in Palestinian towns, there is not enough land to provide open spaces for the people to enjoy some greenery.

In the meantime, land administration and registration within the PA controlled areas has been slow and lacking in institutional capacity and resources. The Palestinian Land Authority (PLA), the mandated institution responsible for all aspects of land administration has only been formed in the last few years and has yet to build sufficient capacity to effectively manage public land resources and provide efficient land registration and administration services to the public. An inventory of public lands in Areas A and B, which are under PLA authority, is not yet available. Systematic registration has only just begun and is expected to take decades to complete unless significantly more resources are provided*. Meanwhile, the legislative framework has yet to be reformed to deal with improved registration, reorganization of the PLA, and more transparent public land allocation and management.

* The World Bank and Finland are just completing a Land Administration Project launched in early 2005 with the Palestinian Land Authority and Ministry of Planning which focused on piloting land registration, developing a land administration policy framework, municipal land management, and PLA capacity building.

In the aftermath of the Oslo Accords, the Palestinian economy was expected to enter a period of sustained and rapid growth. Instead, after a few years of growth, starting in 2000, the economy has been in steady decline, with overall GDP and per capita GDP respectively down 14% and 40% from their peak in 1999[3], and poverty on the increase. Meanwhile foreign aid has succeeded in doing little more than slowing down the deterioration of the economy, despite ever larger volumes.

The reversal of the downward economic trend will require stimulating private and public sector investment. This in turn will entail increasing the economic space available for Palestinian urban and rural development in the West Bank, including addressing the increasingly entrenched and expanding impact of Israeli settlement activity on the Palestinian economy, and enabling the use of land through a participatory planning system and land administration policy that foster rather than constrain growth and development and promote the rational use of land resources in the entire West Bank.

In parallel, the PA will need to strengthen its own capacity for planning and land administration. It is not too soon for the PA to improve its governance in all aspects of land management, most importantly land use and development planning and public land allocation and management, while also developing PLA capacity to implement systematic land registration. Recently, the Palestinian Cabinet made an important step with the approval of a new Land Policy Framework, including key measures to reform the land sector. Pending approval of the Action Plan to implement the policy package, donors including the Bank stand ready to support the policy reform and a national land registration program.

In time, increasing the stock of Palestinian land with secure titles will boost private sector activity, and better land records will facilitate land use planning and the acquisition of municipal land for public services. Under present circumstances nonetheless, where constraints on urban development are very serious and induced distortions on land markets are enormous, the economic impact of improved land administration by the PA will have its limit. As long as access and movement restrictions are in place, and the majority of the West Bank remains to a large degree inaccessible for Palestinian economic investments, the investment climate will remain unfavorable and business opportunities much below potential. Yet the conditions for security of property rights and an efficient land market will be in place, and latent investments and growth will be ready to take off once a final resolution is reached, the movement restrictions are lifted, and the land situation becomes more favorable.

____

NOTES

1 The Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip, Washington, D.C. (September 28, 1995), Article XI

2 Article XI of the Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip, Washington, D.C. (September 28, 1995) states: "During the further redeployment phases to be completed within 18 months from the date of the inauguration of the Council, powers and responsibilities relating to territory will be transferred gradually to Palestinian jurisdiction that will cover West Bank and Gaza Strip territory, except for the issues that will be negotiated in the permanent status negotiations." Territorial issues that will be negotiated in the permanent status negotiations are mainly the settlements and Jerusalem.

3 World Bank ,West Bank and Gaza Update, March 2008, page 16.

/...

Full report:

Complete document in PDF format (Requires Acrobat Reader)