The Occupation Corrupts?
Quantitative Analysis of Corruption in the Palestinian Authority

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This Working Paper is the Master of Public Policy thesis which Dan Sobovitz defended at the Hertie School of Governance in May 2010. It investigates the level of corruption in the Palestinian Authority (PA) in comparative perspective. Contrary to the expectations of many observers, the author finds that once several of the most important theoretical determinants of corruption are controlled for, the degree of corruption in the Palestinian Authority is unexceptional. The thesis is based on time-series cross-section data collected between 1998 and 2008 from a broad sample of countries and territories, including the PA. The data enables the author to estimate predicted level of corruption in each country-year based on a regression of a perceived control-of-corruption measure on theoretically identified covariates. The deviation of each PA observation from the predicted fit is then measured, showing that corruption levels in the PA are less than a standard deviation away from the predicted level. In short, perceived corruption in the Palestinian Authority does not deviate much from what one would expect, given its circumstances as measured on the independent variables. Once this is determined, the paper moves on to a qualitative analysis to explain the deviations that did emerge, especially for the year 2004.

This thesis is exemplary in its methods and in its original findings; it is clearly written and demonstrates the mastery of a broad literature. It has produced original knowledge and it offers important policy insights.

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Quantitative Analysis of Corruption in the Palestinian Authority

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*Berlin, April 2010*
“Corruption hampers economic growth, burdens the poor disproportionately, and undermines the effectiveness of investment and aid.”
James D. Wolfensohn, World Bank President 1995-2005

ABSTRACT

Recognition of the far-reaching hazardous implications of corruption has induced the development of new scientific tools for cross-country measurement, quantification, and comparison of corruption. The Palestinian Authority (PA) is one of the best-known cases in which corruption impedes economic and political development, thus troubling the state-building process. This paper implements quantitative tools on indices of global governance in order to analyze corruption within the PA and the way it compares with that of other countries. Specifically, it explores the extent to which theory and practical knowledge on corruption can be applied to the case of the PA, or whether the Palestinian case stands alone as an exception due to its unique circumstances.

A cross-section time-series panel of countries was assembled in which each case was allocated with the World Bank’s annual Control of Corruption score. Based on these data, a regression model was estimated, using independent variables as proxies for sixteen theories of (global) causes of corruption. The model was subsequently used for comparing the PA’s predicted and observed levels of corruption for the years 1998-2008. In all years other than 2004, the PA showed higher levels of corruption than predicted by the model. Divergence was relatively low with an average of 0.65 units of standard deviation below the regression line. Particularities of the Palestinian case, which are exogenous to the model, were sought for explaining the PA’s higher than predicted level of corruption. Suggested explanations include the conflict with Israel, lack of territorial integrity, the Fatah-Hamas rivalry, weakness of the legislative branch, lack of sovereignty, and the rapid social changes undergone by Palestinian society. The perception of better performance in 2004 might be associated with optimism following extensive administrative reforms announced by the PA in September and the death of President Yasser Arafat in November of that year.

1 Wamey, 1999: 1
2 Excluding the years 1999 and 2001.
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<table>
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<th>Description</th>
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<tr>
<td>BEEPS</td>
<td>Business Environment and Enterprise Performance Survey</td>
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<tr>
<td>CC</td>
<td>Control of Corruption</td>
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<tr>
<td>CIA</td>
<td>Central Intelligence Agency of the United States of America</td>
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<td>CPI</td>
<td>Corruption Perception Index</td>
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<tr>
<td>DIE</td>
<td>Deutsches Institut für Entwicklungspolitik/ German Development Institute</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GLS</td>
<td>General Least Squares</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
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<td>IDP</td>
<td>Institutional Profiles Database</td>
</tr>
<tr>
<td>MCC</td>
<td>Millennium Challenge Corporation</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>OLS</td>
<td>Ordinary Least Squares</td>
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<tr>
<td>OPEC</td>
<td>Organisation of the Petroleum Exporting Countries</td>
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<tr>
<td>PA</td>
<td>Palestinian Authority (also known as Palestinian National Authority)</td>
</tr>
<tr>
<td>PASSIA</td>
<td>Palestinian Academic Society for the Study of International Affairs</td>
</tr>
<tr>
<td>PCSE</td>
<td>Panel-Corrected Standard Errors</td>
</tr>
<tr>
<td>PLC</td>
<td>Palestinian Legislative Council</td>
</tr>
<tr>
<td>PLO</td>
<td>Palestine Liberation Organisation</td>
</tr>
<tr>
<td>PSR</td>
<td>Palestinian Center for Policy and Survey Research</td>
</tr>
<tr>
<td>TI</td>
<td>Transparency International</td>
</tr>
<tr>
<td>TSCS</td>
<td>Time-Series Cross-Section</td>
</tr>
<tr>
<td>UK</td>
<td>The United Kingdom of Great Britain and Northern Ireland</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>VIF</td>
<td>Variance Inflation Factor</td>
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<td>WBI</td>
<td>World Bank Institute</td>
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<td>WDI</td>
<td>World Development Indicators</td>
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INTRODUCTION

All of the funds which foreign countries had donated to the Palestinian Authority, a total of five billion USD "have gone down the drain, and we don't know to where." 

Mohammad Dahlan, Former Minister of Interior at the Palestinian Authority

In its short period of existence as a product of the 1993 Oslo Accords, the Palestinian Authority (PA) has known great challenges and threats, both endogenous and exogenous to its own society. Although its effective control over the Gaza Strip was lost in 2007, the PA has survived as the political entity which governs the autonomous parts of the West Bank. Being the sole representative of the Palestinian people which is officially recognized by the international community, it is the PA which is anticipated to evolve into the government of the future Palestinian state once the peace process with Israel has been concluded. Understanding what generates corruption in Palestine is thus an imperative part of promoting a healthy Palestinian state-building process.

Clearly, not only in the context of the PA has corruption drawn the attention of scholars, civil society and international organisations. In fact, corruption is believed to deter foreign investment and aid (Mauro, 2002), and is thus held responsible for the failures of certain countries to develop (Wamuy, 1999). Consequently, it is perceived as one of the main obstacles to consolidating democratic institutions and an open market economy (Treisman, 2000). It is thus no wonder that corruption within the PA has raised the concern of stake-holders and those seeking to build a viable and independent Palestinian state. Such agents, both local and foreign, are troubled by the notion that corruption hinders the political-economic development of the Palestinian state. Furthermore, the perception of the Fatah-led Palestinian government as highly corrupt played into the hands of Hamas, the party's radical Islamist opponent, and helped it win the 2006 elections (El-din Aysha, 2009; Loewe, 2010). This further isolated the PA and challenging its legitimacy to assume further responsibilities towards achieving full statehood.

For these reasons, Palestinian corruption has been extensively addressed by academia, non-governmental organisations (NGOs), and the media. Public opinion polls of the

3 Urquhart, 2004: webpage.
4 The isolation of the PA has since decreased due to the exclusion of Hamas from the PA institutions following the Hamas military coup in Gaza the following year. This resulted in a political schism between the Hamas-controlled Gaza Strip and the PA administration in the West Bank which will be discussed later in detail.
Palestinian population also show that a vast majority is aware of the problem\(^5\) (PSR, 2009). It has now become common knowledge that political and economic developments of the PA are heavily burdened, inter alia, by: favouritism; ’Wasta’\(^6\); nepotism; misuse of public position; waste of public money; bribery; and money laundering (Aman, 2009).

Recent studies of corruption can be divided into two main approaches: country-specific and global comparisons. The former is the traditional case study, qualitatively assessing governmental performance of a specific country, often explicitly refraining from cross-country evaluations. The latter addresses corruption as a global phenomenon, exploring variations and determinants of corruption on a world scale. Measurements and indices of corruption have been developed over the past two decades by some prominent international organisations, allowing such analyses to make use of quantitative tools in assessing theories of causes of corruption (Arnd and Oman, 2008).

The debate around Palestinian corruption has been dominated by the first approach, namely, depictions of the high level of corruption in the PA (only). Conversely, the purpose of this study is not to reiterate the accusations of bad governance which have now become clear. Instead, the paper in hand will offer a synergy of the two approaches described above, allowing a dual-level analysis on both the global and the national\(^7\) scale. First, using governance indices, corruption can be explained on a global level using a cross-national regression model which explains variation in levels of corruption. Deduction to the particular case of the PA will then be made by measuring the PA on the estimated global model. This innovative approach allows quantitatively measuring the level of Palestinian corruption while controlling for independent determinants which explain variance in corruption globally.

In other words, once identifying the appropriate societal, political and economic indicators which explain corruption across countries, one can compare the observed level of corruption in the PA to the one predicted by these indicators in the model. If the two are somewhat equal, it may be concluded that determinants of corruption in the PA and their respective effects are similar in the PA to those in the rest of the world. A gap between the

\(^5\) In 2009 65.6 per cent of interviewees found their government to be corrupt. This figure did not decrease below 50 per cent at any point between 1998 and 2008 (covered by this paper) and at times reached above 90 per cent.

\(^6\) The Arabic expression of Wasta (واسطة) loosely translates to ‘whom you know’ or ‘clout’ and refers to using one’s influence to access administrative resources such as quick renewal of a passport, waiving of traffic fines, and even garnering prestigious jobs.

\(^7\) Although non-independent, the word ‘national’ is used as the qualitative part of this paper treats the PA as a country like all others. The impact of the lack of sovereignty or the occupation will be addressed in the last section when exploring the particularities of Palestinian case.
predicted and observed levels would conversely imply that corruption in the PA is uniquely driven, and is thus below or above the model’s predicted level. The hypothesis of this study is that corruption is driven by similar causes across borders, cultures, and political settings. Thus, when controlling for such determinants, the PA would no longer appear as an exceptional case due to its high corruption but rather as behaving ‘normally’ and in accordance with conventional theory. If proven right, the regression model could accurately specify how an adjustment of one indicator would affect the level of corruption in the PA\(^8\). This may offer new prescriptive insights for better addressing the PA’s corruption in the future.

Chapter I of the paper discusses state-of-the-art theories on causes of corruption. The data used and the methodology are presented in Chapter II. Chapter III illustrates the regression model which was subsequently estimated, as well as the comparison between the predicted and observed scores of the PA. Finally, Chapter IV offers a quantitative interpretation of the findings.

\(^8\)Some but not all independent variables of the model are adjustable.
I. THEORETICAL BACKGROUND

Before addressing what causes corruption, the object of this analysis needs to be clearly defined. Doig and Theobald (2003: 6) identify corruption as "the public official, appointed or elected, who uses his/her authority illegitimately or illegally to advance his/her own interests". The working definition of the United Nations (UN) adds that "abuses of public office to secure unjust advantage may include any planned, attempted, requested or successful transfer of a benefit as a result of unjust exploitation of an official position" (Vlassis, 2005: 126).

Political Scientists and economists have attempted to explain this phenomenon, and particularly the large variance in the level of corruption, carried out by officials in different countries. In this endeavour a variety of economic, political and social factors have been looked at examining which of them may affect the expected costs and benefits of a corrupt act in a given country. In this chapter, some determinants which enjoy substantive theoretical support will be explored. In the next chapter, these arguments will be retested in order to build an up-to-date regression model.

BRITISH HERITAGE

Weighed against the individual’s prospect of personal gain from a corrupt act, the most obvious cost is the risk of being caught and punished by law. La Porta et al. (1999) have compared the way in which different legal systems address corrupt crimes. They claim that a common law system, found mainly in the United Kingdom (UK) and its former colonies, differs from the civil law system of continental Europe and its respective former colonies. As opposed to civil law which is codified by the sovereign ruler, common law is developed by judges through their precedential rulings, in alliance with the property-owning elite, against the royalty. La Porta et al. argued that the extensive protection of property rights produces better governmental performance, including in the fight against corruption. Triesman (2000) finds another reason to support this argument, namely, the higher flexibility of the common law system in incrementally incorporating aspects of customary law. This is to foster lesser dissonance between the written law and the prevailing moral norms in a given country, which would improve the legitimacy of the legal system and the subsequent adherence to it. In this respect Triesman adds a cultural aspect in which the British have left a legacy of treating procedures as

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9 Several theories are based on a similar quantitative analysis, undertaken by Daniel Triesman (2000) in which he used data from the 1980’s and 1990s.
'sacred rituals' even at the expense of the hierarchy and the authority in office. Thus, although the correlation between British colonial history and a common law system is not perfect, countries with a history of British rule are expected to be currently less corrupt than countries which have not experience such influence.

RELIGION

Following the same line of reasoning which focuses on cultures, Triesman (ibid.) finds that countries of various prominent religions show different societal attitudes towards hierarchy, which translate to their susceptibility to corruption. Triesman, as well as La Porta et al. (1997) make a distinction between 'hierarchical religions' such as Catholicism, Eastern Orthodoxy, and Islam; and more "egalitarian or individualistic religions" such as Protestantism. In countries dominated by religions of the first group, they argue, citizens are less likely to challenge their officeholders. They also place the Protestant and the Muslim traditions on the two opposite ends of the scale when it comes to the relationship between church and state. While Protestantism arose in many cases as dissenting sects opposed to the state-sponsored religion, in the case of Islam, state and church are still closely intertwined in most cases. For that reason, institutions of the Protestant religion have a higher tendency to playing a role in denouncing abuses by state officials, a role which Muslim institutions seem more reluctant to assume.

It should be noted that this argument attempts to isolate the dominant 'religious culture' or heritage, and not necessarily the level of religious practice or belief of the population. However, in many countries, especially in the post-Communist countries of Eastern Europe, large portions of the population define themselves as 'atheist' or 'non-religious'. Assuming such non-religious citizens are still part of the dominant 'religious culture' (despite their lack of practice or belief) makes the religious culture more difficult to capture.

DEMOCRATIC RULE

Freedom of association and freedom of the press, expected to be found in democratic countries, allow reporters and public interest groups to expose illegal abuses of public positions-holders. Exposure of a crime is thus likelier the more open and democratic the political system is. Furthermore, political competition associated with democratic institutions means that leaders routinely experience a distinctively high risk of being replaced. The electoral process is meant to ensure the possibility of alternation in public-office holders and thus increase a politician's associated costs which were described earlier. Opposing candidates
increase each other’s costs as they have an incentive of revealing any misuses of office, undertaken by an incumbent official or even by her or his opponent in the opposition, and making those public. The more (less) democratic a country is, the higher (lower) the subset of the population engaged in the process of leadership selection and the higher (lower) the expected caution of politicians from being perceived as corrupt (Triesman, 2000).

Montinola and Jackman (2002) as well as Mungiu-Pippidi (2006) offer a more nuanced and complex version of the relationship between democratisation and corruption. Dictatorships, they argue, are less corrupt than ‘semi-democratic’ countries. It is only once a certain threshold of political competition has been passed that corruption begins to decrease. Mungiu-Pippidi built a scale of political regimes from a pre-modern patrimonial society all the way to the western liberal democracy. Socio-political characteristics vary along the spectrum, thus explaining the fluctuation in the level of corruption (see Appendix A). The relationship between corruption and democratisation can thus be illustrated in the following way:

![Figure: Evolution of Corruption by Regime Type](image_url)


**Economic Development**

Economic development can be used as a proxy for many different phenomena. For instance, citizens of highly developed economies tend to enjoy better education, marginal levels of illiteracy, and depersonalized relationships from their public officials. Triesman (ibid.) argues that each of those raises the odds that an abuse will not go unnoticed or unpunished.

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10 Variables used in this analysis are described in detail in the next chapter. It should be noted, however, that both variables were scaled reversely to the ones in Mungiu-Pippidi’s model. The expected parabola is thus convex rather than concave as in the example above.
country's wealth can also indicate higher levels of wages in the public sector. These, according to Mantilona and Jackman (ibid.), are expected to lower the incidence of corruption by reducing its marginal utility. In poor countries, temptation for public officials to supplement their low salaries with bribe money is higher and the associated costs of losing such jobs are lower. Their argument is based on the premise that despite large income disparities (especially among poor countries), on average wages are higher in wealthier countries.

**Political Stability**

As mentioned, one of the potential costs associated with corruption (other than legal prosecution), lies in the risk of a public official of being caught and losing one’s position, whether by recall if elected or by dismissal if appointed. Excluding the social damages in reputation and status, and focusing on materialistic losses only at this point, the cost depends upon the benefits provided by the job at stake, multiplied by the time remaining that a law-abiding official is expected to stay in office. The longer the professional horizon of a bureaucrat and her or his chances of promotion, the more she or he can potentially lose by committing a crime of corruption. The stability of the system thus plays a role in the cost-effectiveness calculation of a corrupt act (Rauch and Evans, 2000).

**Federalism**

Several opposing theories exist in regards to the way decentralized federal states compare with those with a unitary central government when it comes to prevalence of corrupt bureaucratic conduct. Certain scholars have argued federal states create competition between their sub-jurisdictions (Weingast, 1995) or even between the central government and the local authority (Breton, 1997) over services for which a public official could draw personal gain, thus reducing their price to a non-efficient level. Federal states are thus expected to be better governed and less corrupt as they Others, as Shleifer and Vishny (1993) see the rent market as more efficient when a balance exists between the national and the sub-national levels, thus allowing corrupt officials to require higher bribes for their services. Wolfinger (1974) argues that a decentralized political system is more prone to corruption because it typically holds less central anti-corruption and good governance mechanisms. It is also possible that in a federal state, corruption would be higher on the sub-national level than in the central government, due

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11 Economic development serves as a proxy for estimating the level of wages because adequate data of the latter are not available.
to the personal and intimate relationships and close interactions of citizens with their public officials (Tanzi, 1995; Prud'homme 1995).

FOREIGN DEVELOPMENT AID

Having significantly increased in volume over the years, foreign development aid reached 9.52 per cent of recipient countries’ Gross Domestic Product (GDP) in the 1990’s (Tavares, 2001). It has thus also provoked a lively scholarly debate over the effect of foreign aid on the quality of governance and control of corruption. The common position, shared by the World Bank (Pradhan et al., 2000), seems to be that foreign aid can induce corruption. This phenomenon becomes even more severe when developing countries reach aid dependency which, according to Knack (2001: abstract), can potentially:

...undermine the quality of governance and public sector institutions by weakening accountability, encouraging rent-seeking, fomenting conflict over control of aid funds, siphoning off scarce talent from the bureaucracy, and alleviating pressures to reform inefficient policies and institutions.

Yet, if donors explicitly prioritise less corrupt countries in their funds allocation, aid should be creating an incentive to reduce corruption. Indeed, “the extent of corruption in developing and transitional economies... [is] undermining public support for overseas aid” according to James D. Wolfensohn, former World Bank President12 (Doig and Theobald, ibid.: 9). The argument that the donors select their beneficiaries by the quality of their governance is rejected by Svensson (2000) who finds no evidence of such systematic preference. Instead, the donor community is often more interested in the business climate, and thus in some cases it tolerates quite blatant corruption if the elite rapidly puts into place market-friendly policy changes (Hanlon, 2004).

Tavares claims a problem of causality exists in the argument that aid promotes corruption. He argues that corruption induces poverty and poor countries rely more on foreign aid rather than the other way around. He also refers back to the argument of Alesina and Dollar (1998), namely that the amount of aid is weakly correlated to the recipient country’s economic performance and strongly related to cultural and historic proximities between donors and recipient countries. Thus, controlling for such political interests, he claims to have statistically shown that foreign aid actually decreases the level of corruption.

12 The fact that most donor countries are democratic makes them more sensitive to public opinion on the question of how to best spend tax-money on development aid.
OIL PRODUCING & EXPORTING COUNTRIES

In their research, Montinola and Jackman (ibid.) attempt to explain levels of corruption by the size of governments, hypothesising that larger ones are more prone to corruption. While they fail to statistically prove that countries with larger public sectors are significantly more corrupt, they do find a consistent corruption-enhancing effect in membership in the Organization of the Petroleum Exporting Countries (OPEC), also known for their high levels of state intervention. This, they argue, indicates that state control of all aspects of a dominant sector of an economy increases the opportunities for rent seeking and corruption. Petroleum is the mainstay source of export revenues for each of the OPEC member states, in which the government acquires, owns and disposes of all oil revenues. The ability of politicians in such countries to substitute direct taxation with oil revenues significantly reduces their political and economic constraints and incentivises them to engage in politics of patronage. Such a political atmosphere, rare in non-OPEC countries, is an environment in which corruption flourishes.

TRADE

Another market characteristic which arguably affects variation in levels of corruption is the openness of the economy. Trade in general and high imports in particular are directly correlated with the ability of state officials to interfere in the economy, and thus to manipulate the market in favour of a particular agent. The more (less) foreign companies compete in the local market, the less (more) influence over the market is left in the hands of decision-makers and bureaucrats. Such influence, when illegally exploited, translates into the supply side of corrupt services offered by bureaucrats in return for bribe or any other form of benefit. That is the premise on which Ades and Di Tella (1996) state that countries that are more open to foreign trade tend to be less corrupt.

Another way to understand the manner in which openness of the economy deters corruption is the fact that in a perfectly competitive market, there is no room for rents to be appropriated. As put by Larraín and Tavares (1999: 4):

For a bribe to be undertaken it needs to alter the profits accrued to all bribing parties. In perfectly competitive markets, economic profits are exogenously determined and equal to zero. Since outcomes are not subject to manipulation by market players, there is no scope for corruption.
As opposed to Ades and Di Tella, Treiman (ibid.) sees the level of imports (as a percentage of GDP) as a better indicator of the level of corruption than the aggregate volume of trade (imports and exports combined).

**REGIONALISM**

In the way their data are analysed and presented, some of the most prominent perception of corruption indices, including those of the World Bank and Transparency International, divide the world into geographic regions. Development programmes of international organisations often adopt a similar approach, prescribing uniform policies for entire regions. With regards to measurements of corruption and anti-corruption schemes, proponents of the regional approach argue that corruption can be better addressed when measured per region due to the tendency of countries in the same region to manifest similar forms and levels of corruption. This can be explained through the cultural reasoning described earlier, or simply by mutual cross-border influence.

Arguing against this approach, anti-regionalists consider it superficial, sometimes orientalist in the sense that Western scholars paint the (non-Western) world in reference to their own culture, ignorant of cross-regional nuances. While attractive for its analytic simplicity and convenient one-size-fits-all practice, they argue that such an approach fails to recognize the uniqueness of each particular case and thus inadequately addresses the challenges faced by different countries.

Whether or not regionalisation can contribute to the prediction of levels of corruption, controlling for different regions has an added value in a cross-country analysis, such as the one in hand. Corruption indices aggregate various sources of responses on corruption in different countries. Some sources base their ranking on their own country-experts, others on surveys. What they all seem to have in common is that most respondents are only aware of the situation in one or few other (often neighbouring) countries. It is thus nearly impossible to verify the consistency of the scale on a global level, especially given differences in the way corruption is perceived and defined across cultures and regions (Loewe, 2010; Paolo, 2002). Controlling for regions is thus worthwhile not only because of the hypothesis presented above of regional governmental behaviour. It also serves as a mechanism for neutralising the cultural-regional subjectivity bias. In this analysis certain, but not all, geographic regions have been deemed worth testing and controlling for their effect, as will be described in the next chapter.

13 The exception are OECD countries which tend to be formed in a separate group despite not being located in the same geographic region.
II. METHODOLOGY

As mentioned earlier, this analysis divides into three main phases, each depending on its predecessor and setting the grounds for its successor. First, a cross-section cross-country model predicting levels of corruption needs to be estimated, based on the theories presented above. Second, levels of corruption in the PA are compared to its predicted values, thus assessing the ‘normality’ or ‘exceptionality’ of the Palestinian case. Finally, comparison’s outcome can be quantitatively interpreted. This chapter is dedicated mainly to the first task of building the regression model. The comparison between the regression line and the case of the PA will be based on the same data and thus its methodology will be self-explanatory. The interpretation of the findings with regards to the PA will be based on a set of public reports on the state of corruption in the PA as well as interviews with field researchers and regional experts. The methodology presented here was chosen as it was believed adequate for addressing the research questions of this paper. Nonetheless, certain concerns did arise and needed to be addressed, mainly with regards to limitations of the corruption index. Methodological gaps and research constraints will thus be listed in the end of this chapter, in addition to the way they were each dealt with.

REGRESSION MODEL

An indicator or a proxy was needed for measuring each of the suggested social, political and/or economic phenomena of the theories above. Then, a linear model can be estimated, placing the proxy for corruption on the left side of the equation as its dependent variable and proxies of the explanatory theories on the right-hand side as the model’s independent variables.

Some of the theoretical hypotheses described earlier may be correlated to one another. For instance, richer countries tend to be those with more open economies or with a higher percentage of Protestant believers. An array of separate bivariate regressions of each indicator would thus not suffice in predicting corruption. Instead, all the different variables are added into a multivariate model which allows each of the indicators to control for all others. In the example above, the relationship between economic development and corruption will be measured when holding openness of the economy and the percentage of Protestant believers constant. In other words, the regression methodology allows testing each of the theories ceteris paribus.
The data used in this analysis are time-series cross-section (TSCS), consisting of observations for 212 countries and territories which reappear nine times for each of the years of 1998-2008, excluding 1999 and 2001. The temporal and spatial properties of TSCS make the use of ordinary least squares (OLS) problematic as models on such data often allow for temporally and spatially correlated errors, as well as heteroscedasticity. In some other analyses this can be easily solved using a fixed-effects model. However, in order to test the theories elaborated above, some of the desired independent variables are fixed as well and do not change over the eleven-year period\(^\text{14}\), e.g., dominant religion, colonial history, region, and regime type. A fix-effects model would automatically eliminate the effect of such independent variables, and is thus inadequate here. The general least squares (GLS) method which presumes to address this issue has been proven flawed for producing inaccurate standard errors (Beck and Katz, 1995) and thus also cannot solve the problem. Instead, this analysis will retain the OLS parameter estimates, yet, in order to avoid inaccurate standard errors, the OLS standard errors will be replaced with panel-corrected standard errors (PCSE). These new estimates of sampling variability, as argued by Beck and Katz, are very accurate, even when dealing with complicated panel error structures.

**DEPENDENT VARIABLE**

As mentioned earlier, analysis of the performance of governments around the world has been conducted in recent years by a growing number of institutions which now include: surveying companies, commercial risk rating agencies, non-governmental organisations, multilateral aid agencies, public sector organisations, and even individuals. Major obstacles arise when attempting to measure corruption in a comparable and quantifiable manner as they are all prone to subjectivity and differences in culture and perceptions across regions and countries (Paolo 2002). Yet, despite the different techniques and methodologies that are used by different cross-country rating organisations, it is striking to find that their results are very highly correlated. This implies a low chance of bias or imprecision in the method of the indexation (Triesman, 2000).

Furthermore, while it is possible that the entire array of ranking schemes suffers from the same inherent subjectivity bias, it remains crucial to understand variation in subjective perception of corruption which by itself appears to influence investment decisions, growth, and the political behaviour of agents (Kaufman, Kraay, and Mastruzzi, 2009; Paolo 1995). In other words, this analysis uses perception of corruption as a proxy for the actual level of corruption.

\(^\text{14}\) Observations for nine years are used for covering an eleven-year period.
However, even under the assumption that perception is distorted and that indices fail to capture corruption per se, perception has a value of its own. Just like in economics, theories and models have a psychological effect on the object of their studies and may thus create self-fulfilling prophecies. When it comes to corruption, perception is also capable in changing the political and economic situation on the ground. According to Arndt and Oman (ibid.), various private and public agents base their decisions on the kind of governance indicators used here. First, investors' business decisions are increasingly shaped by governance indicators. Similarly, international donors who (allegedly) attempt to identify and reward developing countries that are improving their governance, and ‘punish’ others, tend to use governance indices in order to make such distinctions. Many development agencies make their dependence on governance indices public in order to increase their own transparency and defend the consistency of their criteria in determining recipients’ aid eligibility. Finally, the risk of turning to objective or fact-based data (when such are available) is that the latter tend to rely on de jure law, rather than the de facto reality on the ground which is what we are interested in (Kauffman, Kraay and Mastruzzi, 2009).

This analysis uses an aggregate index of several dozen data sources and organisations from around the world, thereby reducing the risk of a subjectivity bias. Aggregating significantly increases the number of observations in the data set thus helping in reducing the margins of error of each country’s score. The three global aggregate indices which dominate the ‘market’ are Institutional Profiles Database (IPD) of the French Ministry of Economy, the Corruption Perception Index (CPI) of Transparency International (TI), and the Control of Corruption index (CC) of the World Bank Institute (WBI). However, of the three, the latter is the only one that includes the PA in its listings. IPD is the newest of the three, currently covering 123 countries only, excluding the PA. TI, as well, chose to omit the PA from its aggregate index due to the relatively low number of sources covering the PA which it has access to. The CC index was thus selected as the dependent variable of this analysis as it is the only available aggregate index of corruption for measuring the PA on a global scale.

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15 The US Millennium Challenge Corporation (MCC) and the World Bank’s International Development Association each year allocate billions of dollars of aid on the basis of governance indicators.

16 Other sources offer region-limited indicators or incomplete global coverage such as the Asian Barometer, Business Environment and Enterprise Performance Survey (BEEPS), and the Global Integrity Index.

17 TI has two sources covering the PA, while it requires a minimum of three in order to rank a country in the CPI (Internet Center for Corruption Research, 2010).
The CC index is one of six indices of the Governance Matters series, each covering a different quality of governance\textsuperscript{18}. It reflects the statistical compilation\textsuperscript{19} of responses from a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organisations, and international organisations. Scores from the various sources are divided into six different fields of governance and used for the six indices of the Governance Matters series accordingly. In each field, the data are aggregated into one index in a uniform scale which ranges from -2.5 for the worst performance to 2.5 for the best one. Accordingly, a high (low) score on the ‘Control of Corruption’ index indicates positive (negative) governmental performance in elimination or lack of corruption.

The database of this analysis contains some non-sovereign countries which enjoy a distinct level of autonomy or which are recognized by some but not all countries\textsuperscript{20}. These observations were not omitted from the database due to the fact that the object of this study, namely, the PA, shares a similar status as a non-fully-sovereign political entity. Excluding missing values, the dataset consists of 1818 observations for 212 countries and territories in nine non-consecutive years.

**Independent Variables**

When selecting independent variables which would serve as proxies for the theoretical arguments made earlier, several major challenges arose. First, indicators were to fully and exclusively capture the phenomenon of each suggested theory. Second, reliable data which cover the entire scope of this analysis (in terms of both time and geography) are fairly scarce. Third, the choice was again limited by the fact that the available data come in all sorts and formats and needed to be standardized and merged into one comparable set of figures. The following table describes each of the independent variables used:

---

\textsuperscript{18}The other five being: Voice and Accountability (VA), Political Stability and Absence of Violence (PV), Government Effectiveness (GE), Regulatory Quality (RQ), and Rule of Law (RL).

\textsuperscript{19}A statistical methodology known as an unobserved components model is used for constructing aggregate indicators from individual measures

\textsuperscript{20}Examples include: Hong Kong, Kosovo, American Samoa and many overseas territories of European countries.
<table>
<thead>
<tr>
<th>Variable Name</th>
<th>Type</th>
<th>Source</th>
<th>Description</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is British</td>
<td>Boolean</td>
<td>CIA World Factbook</td>
<td>Equals 1 for all observations of the UK and of countries which were subject to British rule for a significant amount of time, 0 for all other observations. For countries which experienced different colonizers throughout their history, the latest or most significant one (in terms of period of time) was the determinant one.</td>
<td></td>
</tr>
<tr>
<td>Protestant Majority</td>
<td>Boolean</td>
<td>CIA World Factbook</td>
<td>Equals 1 for observations of countries of which the majority of the population adheres to any Christian church which is neither Roman Catholic, nor Eastern Orthodox. Respectively, it equals 0 for all others. For various reasons, many countries do not take an official census of their population. Among those who do, different levels of practice are used when considering membership to a given religion. For this reason, rather than using the exact percentage of adherents of each religion in the population, this variable tests whether the religious community officially constitutes over 50%. This allows isolating the most dominant religion of each country despite some inaccuracies in the official figures.</td>
<td></td>
</tr>
<tr>
<td>Muslim Majority</td>
<td>Boolean</td>
<td>CIA World Factbook</td>
<td>Equals 1 for observations of countries with a Muslim majority and 0 for all others</td>
<td></td>
</tr>
<tr>
<td>Political Rights/Political Rights Squared</td>
<td>Numeric</td>
<td>Freedom House</td>
<td>Each observation is allocated with the annual Freedom House index for political rights for the respective country and year. Scores are on a scale of 1 to 7 in which 1 represents the most free and 7 represents the least free countries. Although Freedom House uses different terminology, this index will be used as a proxy for the level of democratic political competition. In order to test the parabolic effect of democratisation on corruption, this indicator is used twice in the model: first with its original values and then with the square of the original value. This allows testing for a quadratic variable.</td>
<td></td>
</tr>
</tbody>
</table>
## Variable Name | Type | Source | Description | Comments
---|---|---|---|---
GNI Per Capita | Numeric | World Bank - World Development Indicators (WDI) | Presented in thousands of US dollars, each observation is allocated with the figure of the annual gross national income (GNI) for the respective country and year, divided by its population. In this context, the GNI per capita indicator serves as a proxy for economic development. | No data on the PA in years 2006-2008 were available during the writing of this paper. |
Political Stability/ No Violence | Numeric | World Bank Institute/ Governance Matters | Each observation is allocated with the aggregate perception index on the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. | Part of the same Governance Matters series, this index is constructed similarly to the Control of Corruption, with a scale range of -2.5 to 2.5 (the higher the score the more stable and less violent). |
Federal | Boolean | Triesman, 2000: 73-74 | Equals 1 for observations of countries with a federal government and 0 for those of a single central government | Fixed indicator; for each country it has the same value for all years between 1998-2008. |
Official Development Aid | Numeric | OECD | Presented in units of billions of US dollars, each observation is allocated with the sum of grants, capital subscriptions and net loans (loans extended minus repayments of loan principal and offsetting entries for debt relief) made available to the respective country and in a given year. | No available data on any country until the year 2002 (i.e. 1998, and 2000 missing). |
<table>
<thead>
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<tr>
<td>Official Development Aid/ GDP</td>
<td>Numeric</td>
<td>OECD/ World Bank - WDI</td>
<td>Percentage (on a scale of 0 to 1) of the figure from the previous indicator out of the total GDP of the recipient country on the same year. Aid as a percentage of GDP serves as a proxy for the country's dependence on aid (as opposed to the absolute amounts of aid).</td>
<td>No available data on ODA for any country until the year 2002 (1998, and 2000 missing) and no data on the GDP of the PA for years 2006-2008.</td>
</tr>
<tr>
<td>OPEC</td>
<td>Boolean</td>
<td>OPEC</td>
<td>Equals 1 for observations of the twelve member-states of OPEC for each of the years covered in this study. Equals 0 for all others.</td>
<td>Fixed indicator; for each country it has the same value for all years. Although Angola and Ecuador only (re)joined the organisation in 2007, they are treated as members throughout the entire period, based on the assumption that the nature of their industry did not change as a result of the accession to the organisation.</td>
</tr>
<tr>
<td>Trade</td>
<td>Numeric</td>
<td>World Bank - WDI</td>
<td>For each observation, the variable equals the percentage (on a scale of 0 to 1) of imported goods and services out of the total GDP + percentage (same scale) of exported goods and services out of the total GDP.</td>
<td>No available data on the PA for years: 2006, 2007, and 2008.</td>
</tr>
<tr>
<td>Imports</td>
<td>Numeric</td>
<td>World Bank - WDI</td>
<td>For each observation, the variable equals only the percentage (same scale) of imported goods and services out of the total GDP.</td>
<td>No available data on the PA for years: 2006, 2007, and 2008.</td>
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<tr>
<td>Is Middle East</td>
<td>Boolean</td>
<td></td>
<td>Equals 1 for observations of every Arabic speaking country of the Middle East and North Africa, 0 for all other observations.</td>
<td>Since the variable attempts to capture a cultural effect rather than arbitrary geographic definitions, countries such as Israel, Turkey, and Iran were not defined as Middle Eastern.</td>
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"The Occupation Corrupts"? Quantitative Analysis of Corruption in the Palestinian Authority

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</tr>
</tbody>
</table>
### Variable Name | Type | Source | Description | Comments
--- | --- | --- | --- | ---
Is Sub-Saharan Africa | Boolean | | Equals 1 for all observations of countries in the geographic region of Sub-Saharan Africa, 0 for all others. | |
Is Latin America | Boolean | | Equals 1 for all observations of Latin countries in the Americas and the Caribbean islands. Equals 0 for observations of all others. | |
Is Eastern Europe | Boolean | | Equals 1 for all observations of countries of the former USSR and the communist bloc, 0 for all other observations. | |
Is East Asia | Boolean | | Equals 1 for all observations of countries of East Asia (excluding those of South Asia as India, Pakistan, Afghanistan, etc). | |

It should be noted that not all regions were used for building the regression model. This serves two purposes. First, by definition, when using dummy variables, at least one dummy value needs to be left out in order to allow the model to test the effect of all others. Second, the region variable is meant to test the cultural effect or inter-state influence. This argument is applicable to some parts of the world more than it is to others. The model thus includes only those areas which were deemed worthy of testing their regional effect.
**Methodological Gaps**

Quantitative indices should be handled with a high level of caution when measuring social phenomena such as corruption. While the CC index aggregates a high level of sources, as described earlier, not all sources are available for every country (or territory) and for every year. This creates several problems. First, the aggregated scores are not compounded using the same sources for all observations, which challenges the consistency of their scale. Second, the CC index uses relatively wide confidence intervals (see Appendix B), making their precise scores less accurate. Furthermore, most of the sources are based on their experts’ opinions rather than on household surveys. Third, while the CC index aggregates on average eleven sources for each of its country observations, certain countries are covered by a significantly less. The case of the PA is one of them, ranked by one source in the years 1998 and 2000, two sources in 2002 and 2003, and three sources in each year of 2004-2008. The CC index ‘compensates’ for its low number of sources covering the PA with even wider confidence intervals (see Appendix C). It is imperative to bear in mind the constraints of the index in general and for the PA in particular. Yet, being highly influential as the World Bank’s corruption measurement, as well as standing as the only index which allows assessing the level of corruption within the PA on a global scale, the CC index is still valuable.

A second constraint one must be aware of when dealing with ranking of the Palestinian government is the fact that since the 2007 military coup in Gaza, the PA no longer controls what was one of its two territories, home of over one third of the Palestinian population (PASSIA, 2010). Two Palestinian governments are now de facto in power: a Fatah-led PA administration in the West Bank; and a Hamas rule of the Gaza Strip. The governmental schism has led to the isolation of the Gaza Strip by most governments and international organisations and to a lack of credible data on the situation in Gaza. This analysis is only concerned with the evaluation of the PA, however, the CC index refers to the Palestinian territory during all its years of coverage as ‘West Bank and Gaza’. It does not make a distinction between the two regimes or specify which is/are actually being evaluated in its scores from

---

21 This is due to the fact that cross country comparable household surveys are expensive and there are few opportunities to exploit the data commercially (Arndt and Oman, 2008).

22 This count does not refer to the administrative composition of the PA which divides into sixteen electoral governorates but merely to the geographic distinction between the two main regions.

23 1,873,476 in the West Bank versus 1,022,207 in the Gaza Strip in 2009.

24 This is due to the fact that at this moment, the PA seems to be the only political institution which is entrusted by the international community and Israel. It is thus highly unlikely that the future government of the independent Palestinian state will not be some variation of the PA.
2007 to present. It is even possible that the various aggregated sources define their object of analysis differently when ranking 'West Bank and Gaza'. Scores of years 2007 and 2008 could thus be interpreted in different ways.

Thirdly, it is important to note the WBI’s definition of corruption as it is captured by the CC index, namely "the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests" (Kaufmann, Kraay and Mastruzzi, 2009: 6). The bundling of the different types under one category will make the interpretation of the quantitative findings more challenging as it may not always be self-explanatory to which type the corruption rankings are referring.

25 My accentuation.
## III. ANALYSIS AND RESULTS

### DESCRIPTIVE STATISTICS

Before the TSCS regression model is estimated and the PA predicted scores are compared to its observed ones, it is imperative to familiarize oneself with the data. As mentioned, the CC index ranges between -2.5 for the worst performance and 2.5 for the best. The dataset of all 1818 observations has an average of 0.00562, a median of -0.246283, and a standard deviation of 1.00118. As for the PA, the following table presents its ‘untouched’ CC scores for the covered years in the way they are presented by WBI, in addition to each score's standard error, percentile on the global ranking for that specific year, and the sources used:

<table>
<thead>
<tr>
<th>Governance Indicator</th>
<th>Sources</th>
<th>Year</th>
<th>Percentile Rank (0-100)</th>
<th>Governance Score (-2.5 to +2.5)</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control of Corruption</td>
<td>3</td>
<td>2008</td>
<td>10.1</td>
<td>-1.13</td>
<td>0.36</td>
</tr>
<tr>
<td>Source</td>
<td></td>
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<td>Source</td>
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<tr>
<td>Gallup World Poll</td>
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<tr>
<td>Global Insight Business Conditions and Risk Indicators</td>
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<tr>
<td>Global Integrity Index</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 ▼ 2007</td>
<td></td>
<td></td>
<td></td>
<td>-0.78</td>
<td>0.23</td>
</tr>
<tr>
<td>Source</td>
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<tr>
<td>Merchant International Group Gray Area Dynamics</td>
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<tr>
<td>3 ▼ 2006</td>
<td></td>
<td></td>
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<tr>
<td>2 ▼ 2003</td>
<td></td>
<td></td>
<td></td>
<td>-0.96</td>
<td>0.32</td>
</tr>
</tbody>
</table>
Excluding 2004, the PA is in the '10th-25th percentile' of the CC index in all years. In other words, in every year other than 2004, 75-90 per cent of countries were ranked less corrupt than the PA. 2004 stands out as the PA’s best year in terms of both its score and its percentile rank, being: -0.49 and 39.8 respectively.

The graph below presents the PA’s progress in control of corruption over the covered years:

As seen above, the CC index peaks in 2004. However, it is important to note that of the three sources aggregated by the World Bank that year; an improvement is only noted by one. This source is the IHS Global Insight Business Conditions and Risk Indicators. Global Insight does not reveal its methodology or the reason for which it considered 2004 a much ‘cleaner’ year in the
PA. Yet, IHS Global Insight seems to enjoy a very good reputation for accuracy, having over 3,800 clients in industry, finance, and government with 25 offices in 14 countries covering all parts of the world (IHS Global Insight, 2010). The argument thus still holds that the way in which corruption is being perceived by some prominent ranking institutions such as IHS Global Insight (and consequently by the World Bank’s CC index) may serve as an agent of change and thus its regressive prediction has a value of its own.

In this respect of presenting the raw data of the World Bank it is also worth mentioning that the CC index does not correlate with public opinion polls taken among the Palestinian population (PSR, 2010). This does not necessarily challenge the accuracy of the CC index as the former does not presume to capture the public’s perception. Instead, it reflects the level of corruption as it is perceived by professional experts, and to some extent donors and investors (who base their decisions according to the index). Moreover, some argue that public opinion polls on corruption in general, and among the Palestinians in particular, are flawed as they often reflect the level of satisfaction with the political-economic situation rather than corruption per se (Loewe, 2010).

**Regression Analysis**

In order to overcome the data availability constraint of some of the independent variables, five models were estimated, differing slightly from one another in their composition of independent variables. The dependent variable remains the same in all models, namely the World Bank’s CC index. Tension exists between the number of variables added in each model and the amount of missing values (for the PA only or for all countries), limiting the number of cases for which the model can later offer predictions. Thus the more (less) variables are included; the better (worse) the model is in assessing the discussed theories but the worse (better) it serves in testing the case of the PA.

---

26 According to its website IHS Global Insights uses “a unique combination of expertise, models, data, and software within a common analytical framework” (IHS Global Insight, 2010). A personal inquiry with the company revealed that those experts in charge of the 2004 score are no longer employed by HIS Global Insight. Therefore, reasoning behind the 2004 score cannot be determined with certainty (Auger, 2010).

27 Each model can only predict values for cases in which full data are available for all variables included.
**Model 1** contains only independent variables for which full data are available for all years and which have no missing values for the case of the PA, namely: Federal, Protestant Majority, Muslim Majority, Political Rights, Political Rights Squared, Is British, Political Stability/Non-Violence, Is Middle East, Is East Asia, Is Sub-Saharan Africa, Is Eastern Europe, Is Latin America, and OPEC. The model is significant with an R squared of 0.54. All independent variables were significant with the exception of Is British and Is Middle East. Variables’ level of Variance Inflation Factor (VIF) was tested in order to assess potential multicolinearity. All variables’ VIF values were lower or equal to 2.7 (see appendix D.1) with the exception of Political Rights and Political Rights Squared which are clearly correlated as one is the square value of the other. The graph below presents the correlation between the observed and the predicted values (or Y and Ŷ), based on Model 1.

A clear trend can be observed along the regression line. Each observation is represented by one dot in the scatterplot above. The PA’s nine observations are the only ones that are labeled in order to show the relationship between its observed and predicted CC values. In this model the PA falls below the regression line. In other words, the PA’s observed CC observations are lower than the predicted ones in all years. This implies that while controlling for all the determinants of corruption which were included in the model, the PA is still more corrupt than expected. See Appendix E.1 for the spread of the model’s residuals around the regression line.
Model 2 includes all the variables of Model 1 and adds three new ones: Trade, Imports, and GNI per capita. All three variables have missing values for the PA in the years 2006, 2007, and 2008. Accordingly, predicting the values of the PA based on the model will only be possible for the years 1998-2005. The variable Trade is the sum of the percentage of imports and the percentage of exports of a country's GDP, while the variable Imports is the percentage of imports only. They were both added into the same model as they measure two different theories. Furthermore, the correlation between the two is fairly low, namely 0.27, indicating that many countries have an uneven imports-exports (or trade) balance. The model is significant with an R squared of 0.67. Of the old variables, taken from Model 1, all were significant except Is Middle East (including Is British). Among the three new, Trade was the only non-significant variable. At 7.64, Trade had also the highest VIF value, excluding Political Rights and Political Rights Squared (see Appendix D.2). The following is the correlation of the predictions, based on Model 2 and the observed CC values:

Consolidation is still apparent around the regression line. The distribution of the residuals can be found in appendix E.2, appearing more normal than Model 1, based on its more extensive

---

28 While it would have been possible to complete the missing data of the PA using other sources, it was decided not to mix different datasets for the same variable as the method of calculation (and thus the values) seems to differ among the various sources.

29 Excluding the years 1999 and 2001 which are not in the original dataset of the CC index.
capture of causes of corruption. In Model 2, again, all predictions of the PA (for years 1998, 2000, 2001, 2002, 2003, 2004, and 2005) fall below the regression line. Model 2, as well as 1, predicted the PA to be less corrupt than measured by the CC index.

**Model 3** builds on Model 1 as well, this time adding Official Development Aid, for which data is available for all countries only starting 2002. The model is significant with an $R^2$ squared of 0.65. All its variables are significant, excluding Is Middle East and the new variable of Official Development Aid. The model is interesting despite the lack of significance of the new variable as it now allows controlling for the amount of development aid when testing for all other variables (which did not 'lose' their significance). VIF values are still below or equal to 2.70 for all variables excluding Political Rights and Political Rights Squared (see Appendix D.3). The following is the correlation graph based on the prediction of Model 3:

![Correlation Graph](image)

The residuals' distribution can be found in appendix E.3. Model 3 is the first one to produce a positive residual of the PA, in the year 2004\(^{30}\). The remaining predicted years (i.e. for the years 2002, 2005, 2006, 2007, and 2008) fall below the regression line.

\(^{30}\)The exact figures will be presented later in this chapter.
Model 4 adds on Model 3 the Official Development Aid/ GDP variable. This time aid is included in the model both in absolute terms and as its percentage of GDP of the recipient country. The model is significant with an R squared of 0.64. All its variables are significant, excluding Is Middle East, and Official Development Aid. The new variable is significant as well, implying that the level of aid can predict corruption, only when measured in relation to the size of the economy. Multicolinearity did not appear in this model as well (VIF of 2.76 or below, see Appendix D.4), with the usual exceptions of Political Rights and Political Rights Squared. The following is the observed values versus predictions, based on Model 4:

![Model 4 Predicted vs. Observed](image)

Distribution of the residuals can be found in Appendix E.4. As in Model 3, the PA remains under the regression line in all observed years, excluding 2004 in which it is above.

Finally, Model 5 includes all the variables available, or the aggregation of Model 2 and Model 4. It is the most inclusive model in terms of the number of variables it incorporates, yet it is the one with the highest number of missing values. Compared to 1522 observations used in Model 1, Model 5 has 894 available observations. Model 5 is significant with the highest R squared, at 0.74. As in its preceding models, Is Middle East, Trade, and Official Development Aid were not significant. However, this time Muslim Majority, Is British, Is Middle East, Imports, and Official Development Aid/ GDP were not significant either. The remaining variables are still significant, namely: Federal, Protestant Majority, Political Rights, Political Rights Squared,
Political Stability/ Non-Violence, Is East Asia, Is Sub-Saharan Africa, Is Eastern Europe, Is Latin America, OPEC, and GNI Per Capita. VIF remained stable with Political Rights and Political Rights Squared being highly correlated. Trade and Imports had the third and fourth highest level of VIF, at 9.76 and 7.89 accordingly (see Appendix D.5). The following is the correlation of observed and predicted values based on Model 5:

Residuals’ distribution can be found in appendix E.5. As in the two previous models, the PA falls below the regression line with observed values being lower than predicted ones in all years except 2004.

The table in the next page presents the coefficient of each of the variables, calculated by each of the five models. Standard errors are in parentheses and stars represent the level of significance:
### “The Occupation Corrupts”? Quantitative Analysis of Corruption in the Palestinian Authority

#### VARIABLES

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
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<td>All-Inclusive</td>
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<td>(0.1067)</td>
<td>(0.1309)</td>
<td>(0.0870)</td>
<td>(0.0949)</td>
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<td>OPEC</td>
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<td>-0.3240***</td>
<td>-0.3257***</td>
<td>-0.1741***</td>
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<td>GNI Per Capita</td>
<td>0.02989***</td>
<td>0.000024***</td>
<td>(4.93e-06)</td>
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<td>(0.00513)</td>
<td></td>
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<tr>
<td>Imports of Goods and Services</td>
<td>0.21095**</td>
<td>-0.04403</td>
<td>(0.08746)</td>
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<td></td>
<td>(0.0865)</td>
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<tr>
<td>Trade (Imports+Exports)</td>
<td>-0.09247</td>
<td>0.1527</td>
<td>(0.2256)</td>
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<td>(0.18522)</td>
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<td>Official Development Aid</td>
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<td>(0.00971)</td>
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<td>(0.01532)</td>
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<td>(0.0539)</td>
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<td>1101</td>
<td>1063</td>
<td>894</td>
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<td>R-squared</td>
<td>0.541</td>
<td>0.666</td>
<td>0.653</td>
<td>0.648</td>
<td>0.743</td>
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</table>

*** p<0.01, ** p<0.05, * p<0.1
The models presented here support some of the theories, reject others, and few remain ambiguous, depending on the composition of other controlling variables in the same model. In all models the following variables were significant in predicting the CC score: Federal, Protestant majority, Political Rights, Political Rights Squared, Political Stability/ Non-Violence, Is East Asia, Is Sub-Saharan Africa, OPEC, and GNI per Capita. Is Middle East and Trade were not significant in any of the variable compositions. The remaining variables came out significant in some but not all models, namely: Muslim Majority, Is British, Imports, and Aid’s percentage in GDP. It remains uncertain, based on this analysis, whether they are causes of corruption or they are proxies of the same phenomena that are explained by different variables (thus their significance fluctuates according to the composition of variables in each model). In any case, for the sake of this paper, it is of secondary importance to prove or refute each the theories. The main use of the five models is in their prediction of the CC level in the PA, in which they control for both the significant and the non-significant independent variables.

Furthermore, despite their different variable composition, predictions of the five models are highly correlated\(^{31}\). The PA, as mentioned below each model, was more corrupt than predicted in the vast majority of cases. The level of divergence from the prediction, however, varied across the years and models. In order to simplify the comparison between the predicted and observed CC scores, the PA’s residuals were normalized, allowing quantifying the PA’s divergence in units of standard deviation. The table below presents the comparisons between the predicted and the observed CC levels according to all models and in all predicted years. Columns 2-5 (from left) are the raw data as they appear in the WB’s dataset\(^{32}\). Columns 6-8 are the predictions according to each of the five models, the residual of the PA, and the residual in a normal distribution (in units of standard deviation):

<table>
<thead>
<tr>
<th>Model</th>
<th>Year</th>
<th>Yearly Rank (percentile)</th>
<th>CC standard Error</th>
<th>CC</th>
<th>No of Sources</th>
<th>Model’s Prediction</th>
<th>Model’s Residual</th>
<th>Model’s Normalized Residual</th>
</tr>
</thead>
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<td>1998</td>
<td>16.01942</td>
<td>0.381465</td>
<td>-0.95802</td>
<td>1</td>
<td>-0.47723</td>
<td>-0.48079</td>
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<td>2000</td>
<td>15.04854</td>
<td>0.395345</td>
<td>-0.96973</td>
<td>1</td>
<td>-0.49019</td>
<td>-0.47954</td>
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<td>15.53398</td>
<td>0.317802</td>
<td>-0.96077</td>
<td>2</td>
<td>-0.47335</td>
<td>-0.48742</td>
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</tr>
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<td></td>
<td>2004</td>
<td>39.80582</td>
<td>0.30241</td>
<td>-0.49117</td>
<td>3</td>
<td>-0.46473</td>
<td>-0.02644</td>
<td>-0.04772</td>
</tr>
</tbody>
</table>

\(^{31}\) The lowest correlation among the five models is 0.9520 (Models 4 and 3) and the highest is 0.9994 (Models 4 and 5).

\(^{32}\) The same data reappear for each of the five models for the sake of convenient comparison.
### "The Occupation Corrupts"? Quantitative Analysis of Corruption in the Palestinian Authority

<table>
<thead>
<tr>
<th>Model</th>
<th>Year</th>
<th>Yearly Rank (percentile)</th>
<th>CC standard Error</th>
<th>CC</th>
<th>No of Sources</th>
<th>Model’s Prediction</th>
<th>Model’s Residual</th>
<th>Model’s Normalized Residual</th>
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<td>2</td>
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Several conclusions can be generated from the table above. First, the PA does not seem to be an absolute outlier when it comes to its perceived level of corruption, in all years and according to all models. Ranking the participating years across the different models is problematic due to the lack of data for certain years in some of the models. It can be stated, however, that 2004 was the PA’s best year according to all models. In the last three models, the year 2004 had even a positive residual, indicating the PA was less corrupt than predicted by the models. In all other years the PA’s residual remained negative, yet always within 1.5 units of standard deviation. Precisely, it ranges from -0.04 units (Model 3, year 2007) to -1.46 (Model 2, year 2005). The PA’s average of normalised residuals for all years (including 2004) is -0.65, placing it two thirds of a standard deviation unit to the left of the normal distribution’s centre. It can thus be concluded, based on the five proposed models, that the PA shows higher levels of corruption than expected when controlling for global determinants of corruption. Yet, its divergence from the models falls relatively close to the centre of a normal distribution of residuals, making it only slightly more corrupt than expected.

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33 The normative judgment is based on the value of the residuals on the CC scale.

34 As described in the previous chapter, 2004 was also the year in which the PA had its highest CC score (before controlling for global determinants of corruption).
IV. INTERPRETATION AND IMPLICATIONS

The models presented in the previous chapter were capable of explaining 54-74 per cent of variance in perceived level of corruption (measured in terms of the model's R squared) based on global determinants of corruption. The remaining 46-36 per cent of variance are thus due to factors not captured by the model, possibly reasons that vary among countries and thus cannot be explained on a global scale. As stated above, in most of the measured years the PA was (perceived) more corrupt than predicted by the models. In order to fully capture causes of corruption within the PA, those determinants that were not captured by the global model will be sought after in the specific context in which the PA operates, setting it apart from other countries. In other words, by investigating its particularities one may find explanations to the fact that the PA is 'behaving' more corruptly than expected when controlling for the global dominants of corruption. A second goal of this chapter is to explore the reasons for which 2004 stood out both in terms of its CC score, and in terms of its residuals in all five models.

THE OCCUPATION

Following Israel's victory in the 1967 Six Day War, the Gaza Strip and the West Bank were conquered from Egypt and Jordan respectively. The 1993 Oslo Accords and the consequent creation of the PA divided the Occupied Territories into three main administrative regions: 'A' areas, subject to both civil and security administration of the PA; 'B' areas, under Israeli security control but autonomous PA civil administration; and 'C' areas, entirely controlled by Israel on both security and civil levels (see Appendix F). This allows the PA to run the parts of the West Bank which are mostly populated by Palestinians, while Israel maintains its rule over Israeli settlements. Although not all the observations used in the model are of fully-sovereign states, the PA is likely to be the only participating case of a government facing military occupation over major parts of what it claims as its territory.

The title of this paper was chosen merely as a pun on words of a famous political slogan of the Israeli left wing35, claiming that the occupation corrupts Israel's society and its respective values. The slogan was thus stripped of its original context, teasingly suggesting the

35 The original version being 'הכיבוש משחית' in Hebrew.
effect of the occupation on the level of corruption on the Palestinian side. However, this argument has also been expressed more seriously, claiming a causal relationship between the level of corruption within the PA and the Israeli occupation of the West Bank. ‘Aman – the Coalition for Accountability and Integrity’, also known as ‘Transparency Palestine’ is a Palestinian NGO based in Ramallah which has been promoting corruption-free governance in the PA, since 2000. In its 2009 report, Aman blames the Israeli occupation for deliberately preventing the formation of Palestinian state institutions. The report further claims “it is a standard policy of the [Israeli] occupation to promote corruption as a tool aiming at weakening of the Palestinian side” (Aman, ibid.: 18). The occupation, according to their report, encouraged lawlessness and obstructed the process of prosecution and trials of Palestinian individuals, charged with corruption, given that the PA’s borders were under Israel’s control. It thus:

hinders the operations of the Palestinian security and law enforcement agencies and has long impeded their roles in uncovering crimes, given the inability of Palestinian agencies to access or arrest criminals since there is no Palestinian sovereignty over areas C, which constitute more than 60 per cent of the occupied Palestinian territories (ibid.).

This could explain the PA’s scores falling below the predicted values in most of the measured years. This argument is also interesting given the Palestinians’ centuries-long history of ‘changing hands’ between foreign occupations and the fact that they had never been subjected to an autonomous Palestinian rule prior to 1994 with the creation of the PA\textsuperscript{36}. As mentioned, prior to the current Israeli rule the Territories were under Egyptian and Jordanian control. (Having conquered the Gaza Strip and the West Bank in 1948 and preserved their rule until 1967, the two countries did not annex the territories to their own respective states). Previous to their occupation, the British were granted a mandate over Greater Palestine\textsuperscript{37} from the League of Nations, in the aftermath of World War I, following long centuries of (foreign) Ottoman rule. The ‘occupation effect’ is thus not a recent one. One could argue for a cumulative influence on the Palestinian political culture for many generations. What makes the current occupation different, however, is the fact that it coexists with a local semi-autonomous regime, aspiring full independence. Up until 1994, the occupiers were the sole responsible body for implementing the rule of law. Now, according to Aman, the competition and conflict between

\textsuperscript{36} In fact, though still under Israeli military occupation, the creation of the PA in 1993 culminated the Palestinian national movement, bringing it a higher state of autonomy than at any point in history.

\textsuperscript{37} Mandatory Palestine encompassed the entire region which now includes Israel, Jordan, and the Palestinian Territories of the Gaza Strip and the West Bank.
the two parallel administrations, namely the Israeli military and the PA, impede the Palestinian internal efforts at fighting corruption.

Markus Loewe (2010) of the German Development Institute (DIE) rejects Aman’s argument on the premise that despite the long-lasting Israeli occupation, the two administrations in power have a common goal of maintaining the rule of law and that it is an Israeli interest to fight corruption within the PA. Loewe suspects that the link between corruption and the occupation that does potentially exist is the fact that Palestinians focus most of their efforts on the external conflict with Israel, attempting to end the occupation and reach statehood. This abridged resources of the internal struggle for good governance. In other words, it is possible that at a time of a struggle against a foreign ‘enemy’, the fight against corruption is considered secondary, a luxury which can wait until full sovereignty has been reached\textsuperscript{38}.

This study is focusing on the perception of corruption. Thus, whether or not the occupation really generates corruption, it is interesting to see that Aman’s position is well-engrained in the Palestinian public opinion. In a poll conducted in February 2009, 29.3 per cent stated that the "Israeli occupation plays a role in creating an environment conductive to corruption" (Aman, ibid.: 19; see Appendix G). Although this paper did not refer to the public opinion’s perception of corruption (rather to that of professionals), it is worth mentioning that almost a third of the Palestinians (who overwhelmingly recognize the high level of corruption in their government) do link corruption to the occupation.

\textsuperscript{38} Interestingly, progressive movements in traditional societies of post-colonial developing countries often feel obliged to explicitly express their patriotism in order to refute any allegations of serving as ‘Western’ agents or for betraying the nation’s ‘true values’ (Shohat, 2006). This might explain the difference of views between Aman and Loewe. While the former sees itself as an integral part of Palestinian society, operating from the de-facto capital of the PA in Ramallah, the latter is a foreign researcher, a Middle East expert. According to its website, one of the strategic objectives of Aman is “promoting a popular culture that supports anti-corruption initiative” (Aman, 2010). When addressing Palestinian society, Aman may feel strategically obliged to raise the anti-occupation flag in order to win support of the common people. Conversely, the target audience of the DIE is mainly the German government and the international development community which generates a different type of rhetoric and perhaps even a different line of thinking.
TERRITORIAL INTEGRITY

Another characteristic not captured by the models and setting apart the case of the PA is the lack of territorial integrity between Gaza and the West Bank (see Appendix F). Until 2007, one of the PA's main challenges was effectively controlling the two separate territories while in conflict with Israel. As mentioned before, in June of that year, the PA rule of the Gaza Strip was finally lost to a Hamas-led military coup. Implications of the geographic separation (prior to the creation of two distinct Palestinian administrations) is also worth exploring when addressing the particular factors which generate the PA corruption to be higher than predicted.

The pre-June 2007 PA is not the only case of a political entity which is geographically fragmented. Other famous examples include overseas territories of some European countries, and the US states of Alaska and Hawaii. Yet, the Palestinian lack of territorial integrity seems much more difficult to overcome. First, while remote territories of other countries may have a debatable status, none of their central governments is still struggling for its independence. They are all sovereign countries, economically developed in most cases, which remotely govern parts of their territory. To make things more complicated, between the two territories lays the state of Israel with which the Palestinians have been in an ongoing armed conflict. This means that crossing between the two territories of the PA required going through the 'enemy's land'. An analogy could perhaps be made to West Berlin during the Cold War, though major resources were available and allocated to overcoming the geographic detachment in the case of West Germany.

The administrative challenge of simultaneously governing the Gaza Strip and the West Bank had its implications over the efficiency of the PA's rule. It burdened the flow of information to and from the Ramallah-based government and made governmental orders difficult to implement or follow (Loewe, 2010). These unique settings create an environment in which low-ranking corrupt officials might have felt less likely to be caught in case of a violation of the law. Politicians of the central government may have also considered that the remoteness of (parts of their) electorate would keep their corrupt deeds difficult to disclose.
FATAH-HAMAS RIVALRY

As described in the first chapter of this paper, political competition in general and democratic elections in particular are expected to deter politicians from exploiting their positions, thus reducing the level of corruption in a given country. The opposition typically has an incentive of revealing and publishing any misconduct in the public sector in order to replace the incumbent political party. Indeed, to a large extent it was due to Hamas’ ability to leverage the reputation of Fatah for being corrupt, that the former succeeded in winning the 2006 elections (El-din, Aysha, 2009; Loewe 2010). Yet, the Palestinian case does not seem to follow this model when it comes to the competition between its two prominent parties, Fatah and Hamas.

First, true political competition cannot exist between two parties when one rejects the very essence of democracy and aspires to apply Shari’a39 law, dictated by God rather than by the people. Additionally, rivalry between the two parties was not expressed through the democratic process of political campaigning only. Over the years, it has manifested itself as an open armed conflict, taking the streets of Palestinian cities, until escalating into a military coup which tore away the Gaza Strip from the PA.

Moreover, Hamas’ definition as a terrorist organisation by some of the global and regional powers40 deprived the former of its legitimacy as a political alternative in the eyes of the international community, thus limiting its ability to represent the Palestinians. Realising the nature of Hamas, the Palestinian electorate was quite limited in replacing the incumbent ruling elite of Fatah. In other words, what has become known as a two-party system is in fact slightly more than a one-party system in which Fatah has a significant advantage over Hamas. In that sense, the Palestinian voter had to choose between a rather secular democratic party that is highly corrupt, and its opponent, perceived as clean and caretaking, yet, one which advocates a radical ideology (thus excommunicated by most other countries).

Levels of both violence and freedom of the political competition are endogenous to the regression models presented here. The Hamas-Fatah rivalry should thus not be used to explain the PA’s negative deviation from the models. It is important, however, to point out that to some extent the competition between the PA’s two major parties had the reverse effect of

39 شريعة in Arabic, referring to Islamic law, as interpreted from the book of Qura’an and the Hadith oral traditions.

40 Including the United States, Canada, the European Union, Japan, and Israel as a regional power.
that expected in a healthy political system⁴¹. According to Aman (ibid.: 9), enmity between the two parties and the consequent political separation of the Gaza Strip from the West Bank “created an environment in which accountability process [sic] fell back in regards to both authorities and further weakened the already fragile roles of oversight institutions, the rule of law, and the judiciary”.

PALESTINIAN PARLIAMENT

The Palestinian Legislative Council (PLC) is the PA's unicameral parliament. The first PLC enacted the Palestinian Basic Law according to which the PA is governed. As one of the roles of the legislator is to balance against the executive branch, one would expect the PLC to play a major role in fighting corruption in areas of legislation. The reasons for which the PLC failed in doing so derive from the three particularities of the PA mentioned above: the detention of PLC members by Israel (i.e., the external conflict); the Fatah-Hamas feud over power internally to the Council; and the polarisation and split between the West Bank and Gaza Strip (politically and with regards to non-contiguity). Its disability to function normally and convene its sessions as planned limited its efficacy and weakened the PLC. Aman (ibid.: 21) claims that eventually:

...the PLC lost its capacity for oversight and to holding the executive authority accountable whether in the domain of control of public funds, General Budget, appointment to key public positions, review of reports submitted by the control authorities, or even for the utilization of standard parliamentary control tools such as including questioning of ministers and other public figures and the formation of investigative committees.

The arrest of many Hamas representatives to the PLC in 2006 escalated the situation and brought the PLC, which was the main tool of control of government, into paralysis (Aman, ibid.).

The weakening of the PLC reinforced the already existing problem of instability in the separation of powers, where the growing power of the executive authority has overwhelmed those of the legislative and the judicial authorities combined. This made the identification and persecution of cases of corruption rather difficult. Furthermore, the PLC's attempt to oversight other branches of authority faced resistance of leaders, political parties,

⁴¹ That is, while the two parties were part of the same political system, until 2007.
and social powers within the political system or affiliated to the PA, all of whom feared that restraining the executive branch may setback their own agenda (ibid.; Shuaibi, 1999).

(IN)DEPENDENCE

Throughout the quantitative analysis, the PA was treated as country like all others despite the fact that it is still not fully-independent, nor enjoys recognition or full diplomatic relations with most other countries. Lack of independence is thus exogenous to the models and its effects should be addressed when explaining the PA’s deviation from its predicted values. Aman (ibid.) describes the evolutionary phase of the PA as transitioning from resistance (based on revolutionary legitimacy) to independence and statehood (based on constitutional legitimacy). During this phase, claims the organisation, state institutions are typically weak, some of which are responsible for fighting corruption.

The state-building process, undertaken by the PA over the past sixteen years, has also involved massive recruitment into newly-established PA institutions, which serviced as fertile grounds for corruption. In the words of Aman (ibid.: 12):

...much recruitment that took place lacked professionalism and adherence to the administrative procedures that takes into account specialization, experience and educational attainment level. However, such recruitment has been linked to a host of other factors, including: the individual's political background, their personal relationships with political leaders, and kinship and clan membership. As the individual's capabilities are usually overlooked, the nature of the needed human resources, in terms of size and available posts linked to the institution's objectives and plans were also ignored.

This did not only reduce the quality of labour but also led to an inflation of civil servants in the public sector beyond needs and available resources. Thousands of the newly-appointed personnel never even showed up at their designated place of employment (ibid.).

Due to their lack of independence, the international community has granted the Palestinians very large sums of development aid to assist in their state-building efforts. Aid

42 Earlier, the particularity and implications of the occupation were addressed mainly in the framework of the conflict with Israel. The purpose of this section is to explore the effect of its lack of independence on corruption with regards to the international status of the PA.
money is endogenous to some of the models used (for years and countries for which data were available). However, it should be noted that the PA enjoyed much greater flexibility in allocating its aid dollars, when compared to other recipients of development assistance around the world. In many cases the money was not conditioned or tied to a specific project but was diluted into the PA general budget. Despite the fact that corruption and inefficient allocation of the funds became known, for political reasons donating countries could not afford to stop sponsoring the Palestinians (Loewe, 2010). The combination of high amounts of funds and the low conditionality of them created an environment even more prone to corruption.

'Representing' the Palestinian people vis-à-vis Israel and serving in office of the future state was easily associated with high potential of personal gain. Lack of full sovereignty during the nation-building period thus also made state-capture by avaricious individuals more tempting and somewhat easier to accomplish. Due to regional wars, Palestinian leadership was dispersed throughout the Middle East prior to the creation of the PA in 1993. It thus so happened that it was a group of militants of the Palestine Liberation Organisation (PLO), residing in exile in Tunisia and led by Yasser Arafat, who was recognized by Israel as the Palestinian leadership when signing the Oslo Accords. These men and women were recently described by Fahmi Shabaneh, a former Palestinian intelligence officer who was in charge of investigating corruption in the PA, as follows:

This is a group of people who returned from Tunisia with a few thousand dollars in their pockets. If you take their monthly salary, multiply it by twelve and by the number of years they have been [back] here, you will reach perhaps one million dollars. If we assume they did not spend any money, how do they now have five or ten [million dollars], or in some cases more?43 (Issacharoff, 2010: webpage)

It seems that the state-building process and the vast amounts of money it involved were easily exploited for personal gain.

**Rapid Modernisation**

It has been argued earlier (and included in the model) that corruption peaks during the transition period from dictatorship to democracy, throughout what Montinola and Jackman (ibid.) called 'semi-democracy'. Huntington (2001) links that middle-phase not only to

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43 Original in Hebrew, my translation.
democratisation but to modernisation in general. In traditional societies, he argues, where the lines between public and private are less clearly drawn and where tribute giving is not clearly distinguished from bribery, the social stigma may be lower or non-existent. With modernisation, he argues, comes a change of norms which are now more critical to the same particularistic behaviour which prevailed under traditional rule. Additionally, the new sources of wealth and power, associated with modernisation, create a contest over public goods or state ‘ownership’. Modernisation also expands the political output in the form of legislation and public regulation. While the new system is meant to benefit society as a whole, certain stake-holders will turn to corruption when losing from the new institutionalized system. Huntington’s theory was not presented above or included in the model, due to the difficulty to define, capture and quantify on a scale the level of modernity of a given society. It is nonetheless worthwhile to examine Huntington’s approach when it comes to the particular case of the Palestinians.

Traditional values seemed to prevail both among Palestinians and in the Arab countries of the region (none of which is considered democratic). Yet, the PA is the only case of an Arab government which came into power through open and free elections. This can probably be attributed to the soaring attention by foreign media and international factors to the Israeli-Palestinian conflict. The engagement of western countries or western-led international organisations required the future Palestinian state to be based on democratic values. In that sense the Palestinian society was forced into a relatively speedy process of modernisation, one which has its effects, as described by Huntington above. As expected by Mungiu-Pippidi (ibid.) and Huntington, social acceptability of the new system’s corruption became significantly low (even among supporters of the ruling party) as can be assessed by public opinion polls from 1994 until present (PSR, ibid.).

**THE ‘WONDER’ OF 2004**

The last goal of this paper is explaining the uniqueness of 2004, expressed both in terms of the CC score and with regards to the significantly higher residuals in 2004, measured by all five models. As mentioned earlier, the 2004 peak is due to better ranking by only one of the three organisations which covered the PA during that year. The alleged improvement should thus be dealt with some prudence, though the sudden optimism of experts in the level of Palestinian corruption remains interesting. The better governmental performance assumed in 2004 comes at even a greater surprise when considering the high intensity of the conflict in the midst of the second Palestinian Intifada and the Israeli military operations which followed it.
The following are suggested hypotheses to what might have generated the perception of higher control of corruption in 2004:

**Administrative Reforms:**

In April 2004, the PA Ministry of Finance announced the introduction of salary payments through the banking system to all its security and police services personnel. This, according to the Global Integrity Report (2008), was a significant step toward cracking down on misappropriation of public funds. What might have sent an even stronger message of change was the PA’s proactive approach in the last quartile of the year. In September 2004, the cabinet adopted a one-year reform action plan to adjust the balance of power between the executive and legislative branches and improve government accountability and transparency. The reform consisted of eight main areas including: financial accountability, market economy; judiciary and the rule of law; public administration and the rule of law; local governance; security; and education (Palestinian National Authority, 2004). The launch of such an ambitious plan by the Palestinian government was a strong signal both to the Palestinians and to the outside world. Although the action plan was announced towards the end of 2004, its impact could have been expected to be noticed immediately. This could offer one reason why international ranking organisations would see the year 2004 as a milestone in the fight against corruption. According to this logic, the PA’s return to a rather low ranking in 2005 may signify a disappointment by the action plan which did not deliver the expected results. This should not have come as a surprise as the Arafat administration had made such promises for reform before and then been reluctant to allow the dismantling of its power structure (Urquhart, ibid.).

**Yasser Arafat’s Death**

On 11 November, 2004, PA president and Fatah leader, Yasser Arafat, died in a Paris hospital. As mentioned above, Arafat and his entourage of top officials symbolized the PA’s malaise of bad governance to many, both inside and outside the Palestinian Territories. Tensions remained between the political elite which had remained in the West Bank and the

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44 In fact, only after Arafat’s endorsement of the action plan, Ahmed Qureia, who served as prime minister at the time was willing to retract his resignation (Urquhart, ibid.).

45 Annual scores are only allocated after the ranked year has ended. Events that took place towards the end of the year are thus still taken into consideration in the overall score (Auger, 2010).
one returning from exile of Arafat and his people. In the eyes of many, the former were 'true ideologists', genuinely-attached to Palestinian society. The latter were perceived as opportunists who 'sold' the Palestinian case to Israel, in order to buy themselves positions in their newly-established PA. This view was reinforced when the level of corruption within the Fatah-led PA, and around Arafat personally became known in the years following the establishment of the PA. Harsh allegation of misconduct, undertaken by Arafat and his entourage were at some point even voiced by some of Arafat's own people in the PA. Accusations were made of “an almost feudal regime” in which his appointees grew rich on public funds in return for their loyalty. (Loewe, ibid.; Urquhart, ibid.). It is thus no surprise that the disappearance of Arafat from the Palestinian arena in 2004 seeded hope that a new political culture could finally (re)emerge. Finally, in December 2004, the PA held municipal elections in 26 West Bank localities for the first time in almost three decades. This as well was a positive sign of the PA's ability to progress and ameliorate the quality of its governance in its post-Arafat era.

46 Mohammad Dahlan, one of Arafat's protégés who served as his interior minister gave an interview to the Kuwaiti 'Al Watan' in 2004. In this article he does not only explicitly accuses Arafat for having stolen than five billion US (see top of page 2 of this paper) but for "sitting on the corpses and destruction of the Palestinians” (Urquhart, 2004).
V. CONCLUDING REMARKS

“Corruption...is a serious crime with devastating consequences, a cold, vicious, often violent sacrifice of citizen security, for a narrow, greedy, private, personal profit on the part of a crooked official.”

Al Gore, Former US Vice President, at the 1999 Global Forum for Fighting Corruption

The hazard of corruption and the high price it imposes on economic-political development have created great interest in its research and analysis; and generated the creation of newly-developed indices of governmental performance. The latter supplement the existing theoretical knowledge, allowing new methodological approaches for studies of corruption, such as the one presented here. However, the ‘new technology’ of quantitative analysis also has its price. For instance, while the original ambition of this paper was to measure levels corruption per se, it obliged the use of experts’ perception of corruption as its proxy, despite the possible gap between the two. It was argued, however, that international indices of perception of corruption have a value of their own because they have a strong effect on the political and business climate and seem to influence foreign decision-makers. In comparison with public-opinion polls, professionals’ perceptions have another advantage, namely, their availability as an international standardized index. Finally, while this argument may be (justifiably) considered paternalistic, it has been suggested that the common people are simply not able to accurately measure the level of corruption in their own government. This paper thus measured the causes for an international experts’ perception of corruption, globally, and within the PA in particular.

The use of the WBI CC index in a TSCS multivariate regression model allowed an induction from a large dataset of cases into global cross-country explanations, and back, deducing into the one particular case of the PA. It found that although ranked in the top two deciles of corrupt countries, the PA’s political performance is in fact less unique than what might otherwise be assumed. Due to its particular circumstances, the PA remains above expected levels of corruption even when controlling for global determinants of corruption, during almost all the measured years. Yet, its divergence is surprisingly low, falling not very far

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47 Wamey, ibid.
from the median of the distribution. This finding of the PA’s relative conformity to common theory on corruption may be interesting for decision-makers when prescribing policy for fighting corruption or building institutions in the new Palestinian state. Furthermore, coefficients of the global regression models presented here can help predicting the effect of various anti-corruption schemes for any country including the PA\textsuperscript{48} and thus offer a rather precise prescriptive value.

While questions of measurability, subjectivity, and normativity\textsuperscript{49} are still raised by opponents of governance indices, the later enable new quantitative analyses, not feasible some twenty years ago. Indeed, measurements of governmental quality are still in their developing phase, and suffer from an array of methodological gaps. This is particularly true when it comes to countries that are less commonly studied (thus data are less abundant), such as the case of the PA. Though imperfection of corruption indices should be kept in mind, their contribution should still be recognized for allowing a much more sophisticated and nuanced analysis. Furthermore, with the increase and advancement of governance rating, one can expect amelioration in the quality of aggregated measurements over the upcoming years which would improve and refine the analytic capabilities they offer. Accordingly, future quantitative studies on Palestinian corruption are likely to enjoy better indices of more robust values. In the meantime, this paper attempted to present a new approach to evaluating and understanding corruption in a given country, using the best-available governance indices.

\textsuperscript{48}On the premise of the PA’s relative low deviation from the global model, one can assume the coefficients of the Palestinian case are close to the ones of the model.

\textsuperscript{49}Another line of critique which was not expressed here (as it spans far beyond the methodological debate) is the argument that “good” governance does not positively exist and is merely a matter of cultural interpretation. In other words, anti-corruption organizations are blamed for exporting western values to the developing world.
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ARTICLES:


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APPENDICES

A. Typology of Corruption

<table>
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<tr>
<th>Regime</th>
<th>Power Distribution</th>
<th>“Ownership” of the State</th>
<th>Distribution of Public Goods</th>
<th>Social Acceptability of Corruption</th>
<th>Public/Private Distinction</th>
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<td>Unfair and Unpredictable</td>
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<td>Universalism</td>
<td>Relatively Equal</td>
<td>Autonomous</td>
<td>Fair and predictable</td>
<td>Very low</td>
<td>Sharp</td>
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</table>


B. Confidence Intervals of the CC index

![Control of Corruption](image)
C. Confidence Intervals of the PA

Control of Corruption (2008)


WEST BANK GAZA

Country’s Percentile Rank (0-100)

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WCI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WCI are not used by the World Bank Group to allocate resources.

D. Variance Inflation Factor

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Mean VIF | 11.18
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Mean VIF | 7.27

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Mean VIF | 11.00
E. Normalized Residual Distribution

1. Model 1

2. Model 2

3. Model 3

4. Model 4

5. Model 5
F. Administrative division of the Palestinian Territories

![Map of the Palestinian Territories](image)

G. Public Opinion Polls of the Palestinian Population, Conducted February 2 2009

**Percentage of Respondents on the Factors Underlying the Spread of Corruption in 2008.**

- Absence of rule of the law and accountability: 31.5%
- Weakness of control and oversight institutions: 15.0%
- Insufficient punitive legislations: 12.3%
- Absence of an independent body to fight corruption: 7.8%
- Flow of many external funds in a relatively short period, with participation of international organizations: 4.2%
- Israeli occupation plays a role in creating an environment conducive to corruption: 29.3%