“Partial Statehood” and Local Fiscal Capacity in the West Bank *

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Abstract

This paper takes advantage of the overlapping geographies of Israeli military and Palestinian civil authority in the West Bank to examine the association between “partial”, or “fragmented”, statehood at the national level and the fiscal capacity of local governments. The main empirical finding is that local governments in areas of the West Bank that operate under shared Israeli-Palestinian control raise less revenue than those that operate under areas of full Palestinian control. When looking at total revenue per capita, this can be explained largely by underlying differences in economic development. When looking at a specific revenue source (fees from building and construction permits) that requires local government enforcement effort and popular compliance, it is suggested that the difference has to do with the specific institutional arrangements of the occupation and “partial statehood.” The first half of the paper explains the unique Palestinian context and tries to relate it to existing conceptual frameworks on autonomy/devolution and direct versus indirect rule, and the second half of the paper presents the initial empirical findings and an abbreviated discussion of potential causal mechanisms.

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1 Introduction

Unlike processes of state formation defined by decisive military victory, state formation today is often defined by protracted periods of conflict, contestation and negotiation. Just as scholarship on democratization has spawned a variety of terms to describe regime types that fall short of the ideal, scholars of state formation and state building have introduced new labels such as “quasi-state,” “phantom state,” “partial state” or “de facto state” to describe the set of states who lack full internal and/or external sovereignty, e.g. Kosovo, Somaliland, South Ossetia, Nagorno-Karabakh, Aceh, northern Mali, and Palestine. While decolonization following World War II resulted in unambiguous outcomes of self-determination for many former colonies, the absence of such a historical moment today means that a number of struggles over statehood and sovereignty remain frozen. How do such contexts of “partial” statehood at the national level affect the capacity of local governments to raise revenue? This paper aims to advance this discussion with a close analysis of the West Bank in the Palestinian Territories, where state authority is divided between the Palestinian Authority (PA) and Israel, and the nature of these divisions vary at the local level.

While Palestinian demands for national self-determination have taken various forms, following Israel’s seizure of the West Bank, East Jerusalem, and the Gaza Strip in 1967, the fate of the “occupied territories” has been central. 1994 marked a turning point with the creation of the PA following the signing of the Oslo Accords. The PA, defined as an “interim” entity, was created to take over many of the functions of governing the West Bank and Gaza until Israelis and Palestinians reached a final agreement on the status of the territories. Originally intended to last for a period of five years, the PA continues to exist today, following two Palestinian Intifadas (1987-1993; 2000-2005), the splitting of the Palestinian government in two, with one government in the West Bank and another in the Gaza Strip (2007), the failure of multiple rounds of peace talks, multiple rounds of conflict between Israel and the Hamas government in Gaza (2008, 2009, 2012, 2014), and the continued growth of Israeli settlements in the West Bank. More recently, the State of Palestine has sought and obtained upgraded status at the United Nations, and has been bilaterally recognized by 135 UN member states. Yet, among a host of other obstacles, the territorial and functional restrictions on the PA’s authority in the West Bank – restrictions defined in the Oslo Accords and described below – have circumscribed future possibilities for statehood or full sovereignty for the PA.

This paper focuses on local governance in the West Bank before and after the creation of the Palestinian Authority to ask: how does formal military occupation affect the fiscal
capacity of local governments? The critical aspect of the Oslo Accords studied here is the division of the West Bank into three types of areas (Areas “A”, “B” and “C”), defined by the degree of authority granted to the Palestinian and Israeli governments, respectively. The main assertion of this paper is that the context of “partial statehood” embodied in the Oslo Accords has generated divergent outcomes for local governments in the West Bank. Revenue mobilization – in particular for those types of revenue that require enforcement by the government and compliance by the population – is lower in those areas of the West Bank that fall under joint Palestinian and Israeli jurisdiction when compared to those that fall under full Palestinian jurisdiction. In areas of joint jurisdiction, the presence of the Israeli military occupation is more pervasive. I suggest at the end of the paper that this may affect the tax effort of local governments, and thus overall revenue generation, via several possible mechanisms. Future research will be needed to distinguish between them.

While the policy community offers numerous studies of how the territorial and functional restrictions on the Palestinian Authority have affected social and economic development in the West Bank, less research has been done on how this context has influenced the practices of local governments. The Oslo Accords’ division of West Bank into Areas “A”, “B” and “C”, while in no way random, provide an opportunity to understand how transitional institutional arrangements affect the size and capacity of local governments.

2 The Palestinian Context of “Partial Statehood”

Israel captured the West Bank and East Jerusalem from Jordan, and the Gaza Strip from Egypt, following their victory in the 1967 war. With that, they suddenly acquired roughly 600,000 residents of the West Bank, 350,000 residents of the Gaza Strip, and tens of thousands of East Jerusalemites. Israel maintained direct rule over the territories until the creation of the Palestinian Authority (PA) in 1994, which granted the Palestinians limited self-rule in the West Bank and Gaza Strip.

Figure 1. Historical Timeline of Governments in the West Bank.

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1 East Jerusalem was de facto annexed by Israel and the Palestinian Authority exercises no power there.
Before the creation of the PA, local governments in the West Bank functioned under direct Israeli rule. While they were responsible for providing basic services, their role in zoning, planning and development was seriously curtailed. For the analysis below that compares municipalities based on how they were classified in the Oslo Accords, it is important to understand whether there were sources of variation in municipal government capacity that predated the PA. Drawing on interviews with Palestinian political elites and secondary sources, it seems that the Israeli military occupation was applied fairly uniformly across the West Bank before the eruption of the First Intifada in 1987. In section 4.2 below, I conduct some initial analysis with Israeli data on municipal government financing during the 1980s and early 1990s, and I am continuing to review interview transcripts and secondary sources to understand the varied legacies of local governments during this period.

Local level political mobilization reached a turning point of sorts in 1976, when the Israeli government allowed local elections and many Palestinian nationalist candidates affiliated with the Palestinian Liberation Organization (PLO) swept into victory, advocating resistance against the Israeli occupation and continued struggle for national self-determination. Several of these elected mayors were targeted for with assassination attempts by the Jewish Underground in 1980. By 1982, all elected mayors were replaced by appointed leaders amid a climate of increasing Israeli repression of Palestinian nationalists. Israel also attempted to divide the rural Palestinian population from the urban nationalists with the creation of the “Village Leagues” in the early 1980s, yet these puppet leaderships were largely seen as a failure. Tessler (1994) writes:

“According to Israeli theory, the leagues were supposed to speak for rural Palestinians, who were said to be resentful of neglect and discrimination on the part of urban-based nationalist politicians. In practice, however, the village leagues were unable to strike roots; aside from gaining the support of some members of their immediate families and clans, the leagues could not claim any substantial constituency,” (p. 552).

Amidst an environment of increasing frustration, and growing Israeli settlement activity in the West Bank, the First Intifada broke out in 1987, and included widespread, grass-roots resistance against Israeli rule, largely through nonviolent strategies.²

In 1993, the first agreement as part of the Oslo Accords was signed between Israel and the PLO: the Declaration of Principles, consecrated with a handshake between Israeli Prime Minister Yitzhak Rabin and PLO Chairman Yasser Arafat on the White House lawn. The

²Of special interest due to this paper’s focus on taxation were the tax protests that began in Beit Sahour, a Palestinian city in the Bethlehem area.
Interim Agreement (Oslo II) followed in 1994, stipulating more details about the Palestinian “interim” authority to be created in the territories. Oslo II contains 31 articles and 7 annexes detailing myriad aspects of the roles and responsibilities of the Israeli military and civil administration and the new Palestinian Authority. Among other things, Oslo II divided the West Bank into three types of areas, described briefly below (and in more detail in the Appendix):

- “Area A”, which was to fall under full Palestinian civil and security jurisdiction;
- “Area B”, which was to fall under full Palestinian civil jurisdiction but for which security-related authority was to be shared by Israel and the Palestinian Authority; and
- “Area C” which was to fall under full Israeli civil and security-related jurisdiction until additional land transfers could take place.

Area A contained all of the largest Palestinian cities, while Area B contained many of the surrounding towns and hamlets. Finally, Area C was sparsely populated, but contained most of the existing and soon-to-be existing Israeli settlements.\(^3\) Thus, the divisions were highly strategic and non-random, however, critically, I posit that there was some randomness for small- and medium-sized Palestinian towns as to whether they ended up in Area A or Area B. More details on this are provided when I describe my data below.

\(^3\)International and local organizations have conducted extensive research on the effect of the restrictions on Area C – whose land and resources are essentially off-limits for Palestinian development – on the Palestinian economy. See, for example, [Kadman (2013)](#), [World Bank (2013)](#). This is an area of enormous policy importance, however because no major Palestinian population centers are located in Area C, it is not an area of focus for the current study.
3 Relevant Literature: What is the West Bank a Case Of?

Despite the unique circumstances of the Israeli-Palestinian conflict and the geographic and functional governance arrangements it has produced, the “treatment” represented by the Oslo Accords can be linked to existing concepts such as devolution, direct versus indirect
rule, and internal versus external sovereignty.

3.1 Forms of Rule under Occupation and Colonialism

The context of limited Palestinian self-rule in the West Bank may best fit within a diverse body of literature on forms of local, or native, rule under occupation or colonialism. One way to understand the dimension along which the regions of the West Bank vary is in terms of degree of devolution of power – those areas that were designated to fall under full Palestinian Authority in the Oslo Accords (Area A) are where authority is more fully devolved to the Palestinians, and thus the PA is more autonomous in its policies, whereas those that are under joint Palestinian-Israeli jurisdiction are less devolved and less autonomous (Areas B and C). Recent research on the devolution of power under occupation includes Ferwerda and Miller (2014), who examine how the degree of devolution to native rule under foreign occupation affects the likelihood of resistance using a “natural experiment” in Vichy- and German-occupied regions of World War II France. They find that more devolution generally leads to less resistance because devolution allows for greater political cooptation of native elites.

If one were to situate the Israeli occupation of the West Bank in a colonial framework, Areas A and B in the West Bank can also be thought of as experiments with “indirect” and more “direct” forms of rule, respectively. Some research has shown that direct colonial rule led to weaker social and economic outcomes (Iyer, 2010). However, other studies have been less sanguine about indirect methods of rule, with Mamdani (1999) arguing:

“[i]n spite of its claims to being a more benign form of rule, one that tended to reproduce ‘native custom’ in a permissive fashion, indirect rule was the more hegemonic assertion of colonial power. Unlike direct rule, it aimed at changing the preferences of the mass of the colonized, not just of a narrow elite,” (p. 862).

Further, Myers (2013) demonstrates the linkages between indirect rule in South Africa and Apartheid policies.

While my findings below are preliminary and are meant to motivate future research, the takeaway is that the less devolved – or more directly ruled – regions of the West Bank are not developing as much fiscal capacity at the local level. While neither framework of “devolution” nor “direct” versus “indirect” rule applies perfectly to the Palestinian case, we still might expect the designation of authority structures in the West Bank to have
consequences for the operation of local government within those zones. If the Israeli-Palestinian conflict persists in its current form, we might expect long-run consequences in governance and fiscal capacity to obtain. In this light, a study of the current climate in the Palestinian Territories, sadly, may feed into a large existing literature on the long-term consequences of colonial institutions on development.

3.2 Quasi- or “Phantom” States

Despite the attempt (mentioned in the introduction) to create an analytic category of “quasi-” states, it is worth emphasizing that each case is quite unique. For some, the quasi-state is clearly a weaker performing version of the full, “empirical” state, and is upheld by international norms of self-determination and juridical statehood (Jackson, 1993; Jackson and Rosberg, 1986). In effect, these states turn out to project power weakly, may exhibit corruption, and under-provide for their populations. Byman and King (2012) offer a contrasting definition of a “phantom state” as a country that exhibits many of the trappings of statehood within its borders but lacks external sovereignty.

However, the PA and the context of overlapping authority in the West Bank does not fit the mold of either Jackson (1993)’s quasi-state or Byman and King (2012)’s “phantom state.” While the PA is indeed “propped up” by the international community financially and diplomatically – fitting with Jackson (1993)’s description – yet its external sovereignty is in no way guaranteed; Israeli forces can freely patrol much of the territory, including the roads connecting fully Palestinian (“Area A”) jurisdictions. For the PA to qualify as a “phantom state,” it would need to exercise internal sovereignty, exhibiting “a functioning state apparatus which exercises de facto control over a distinct territory with a population, with the capacity to organize and distribute resources within that territory, including military force.” (Byman and King, 2012) p. 45. Byman and King (2012) characterize the Gaza Strip following its takeover by the Hamas government as a “phantom” state – presumably because the Gaza Strip comprises a contiguous piece of territory and Hamas has the capacity to engage in acts of force against Israel – however they are notably mute on the West Bank.

The way that authority in the Palestinian Territories is functionally and geographically fragmented does not find clear parallels elsewhere in the world, yet the idea of a “phantom state” that has built a certain degree of state capacity but lacks external recognition of its sovereignty is perhaps closest. Perhaps some of the “frozen conflicts” of former Soviet Union: i.e. South Ossetia, Abkhazia, Crimea, and eastern Ukraine can be informative comparison cases.
4 Exploring Empirical Patterns

Below, I use two sources of data on local government budgets in the West Bank in the pre- and post-Palestinian Authority periods to examine whether and how revenue collection varies across Area A and Area B municipalities. I use this initial exploration to generate some expectations, described in section 5 of this paper, which I can then refine and test on additional data.

For data on local governments prior to the PA period, I consult the Israel Central Bureau of Statistics’ *Judea, Samaria and Gaza Area Statistics* (JSGAS) publications from 1983 to 1995. These publications were released either annually or biannually during the period mentioned, and each year one volume of JSGAS would contain an appendix titled “Financing of local authorities,” that provided detailed budget data for 25 West Bank municipalities, including total revenues and revenues by source. Hard copies of the JSGAS publications were acquired from the CBS office in Jerusalem. The tables on local government financing are in Hebrew and were translated with the help of a native speaker.

For data on the post-PA period, I use data from a 2010 World Bank report: “West Bank and Gaza: Municipal Finance and Service Provision.” The report relies on data from three questionnaires disseminated to 132 municipal governments in the West Bank and Gaza Strip on their revenues, expenditures, and services provided in the 2007 and 2008 fiscal (calendar) years. Detailed data on revenues, including total revenues and revenues by source, is available for the 81 municipalities in the West Bank that returned the revenue questionnaire.

The two dependent variables examined below are total revenue per capita (trpc) and building revenue per capita (brpc). The first measure takes the municipality’s reported total revenue and divides it by the municipality’s population. The second dependent variable, brpc, does the same thing with each municipality’s reported revenue obtained from the sale of building and construction permits. For the pre-PA period, trpc and brpc are averages of each municipality’s reported values from 1983 to 1994. This is only done for initial comparisons; clearly, this obscures variation over time, which may be something to examine in future analysis. For the post-PA period, trpc and brpc are averages of each municipality’s reported values for 2007 and 2008.

Some clarification is required on the population estimates, or the denominators used for trpc and brpc. For the post-PA period, I use the municipal population estimates that are provided in the World Bank report. It is not clear if these population estimates were provided by the municipal governments in the returned questionnaires or if the World Bank
provided them itself. For the pre-PA period, I do not currently have access to reliable population estimates by municipality. Thus, I use a rough approximation in which I take the earliest data available from the Palestinian Central Bureau of Statistics (PCBS) 1997 census and interpolate population values back in time for the 25 municipalities contained in the JSGAS dataset from by assuming a constant 4.5% annual population growth rate for the years available in the JSGAS dataset (1982 to 1994). This is the estimated annual population growth rate provided in the World Bank World Development Indicators for the West Bank and Gaza for 1991 to 1997 (the earliest data available).

Municipalities generate revenues from a variety of sources, including user fees for services such as electricity and water, transfers from the central government, and other fees collected by the local governments themselves (see Table 1). On the World Bank questionnaires, responding municipalities also reported who was responsible for collecting each type of fee: the central government or the municipality. Building revenues (brpc) were selected for analysis in this paper for several reasons. First, they were the fee that the highest number of West Bank municipalities reported that they collected at the municipal level (75 municipalities reported this). Building revenues are also an attractive measure to analyze because they are not tied to a particular service, so while payment of the fee provides the payer with the permission to build, they are closer to a tax in some ways than a user fee. Unlike some of the user fees, they are not “pre-paid” or deducted “at source”, thus their collection depends on compliance by the public and enforcement by the local government.

In a variable called area, I code each of the West Bank municipalities in the World Bank dataset for whether most of their territory falls within “Area A” (area = 1) or “Area B” (area = 2). This coding is approximate and is based on a detailed, online map constructed by the Israeli organization B’Tselem. In Figure 3 below, I show examples of four municipalities. The darkest shade of brown merely represents a Palestinian populated area. The second darkest shade of brown indicates Area A, while the next darkest shade (a yellowish color) indicates Area B. Finally, the light yellow indicates Area C. In the examples provided, Rawabi and Bal’a are coded as falling mostly in Area A (area = 0), while Atara and Deir al-Ghusun are coded as falling mostly in Area B (area = 1). Thus, a movement of area by one point can be interpreted as a change from an Area A to an Area B town.

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4The Palestinian Central Bureau of Statistics (PCBS) conducted a census in the Palestinian Territories in 2007, and PCBS provides its own estimates of population by locality by year-end of 2007 in its 2008 governorate yearbooks, which are ostensibly based on projections from the census data. These do not precisely match the values provided in the World Bank report, so I am in the process of re-running the analysis below with these population figures.

5No municipalities have most of their land in Area C.
Table 1: Revenue source as share of total revenue

<table>
<thead>
<tr>
<th>Source</th>
<th>Mean share of tot rev (07)</th>
<th>Mean share of tot rev (08)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity fees</td>
<td>58.6%</td>
<td>61.4%</td>
</tr>
<tr>
<td>Water &amp; solid waste fees</td>
<td>21.4%</td>
<td>25.2%</td>
</tr>
<tr>
<td>Transfers/grants/loans</td>
<td>36.2%</td>
<td>27.7%</td>
</tr>
<tr>
<td>Building permit fees</td>
<td>6.72%</td>
<td>6.17%</td>
</tr>
<tr>
<td>Educ/property/land taxes</td>
<td>3.83%</td>
<td>4.58%</td>
</tr>
<tr>
<td>Other</td>
<td>7.07%</td>
<td>7.83%</td>
</tr>
</tbody>
</table>

Note: Columns 2 & 3 don’t sum to 100 percent because each source as a share of total revenue is averaged across the 81 reporting municipalities.

Figure 3. Examples of Area A and Area B municipalities using BT’Selem map.

The process I follow for designating municipalities as “mostly” Area A or Area B is rough; it is based on which area the concentrated, populated areas of each town are located, and it does not take into account the official municipal boundaries of each town as defined by the PA. This means that a municipality may have an extended, less densely inhabited part of its territory that falls in Area B or C which I do not account for, since I am only examining the main “center” of the town, as defined by where the population is located. Thus, if one were interested in the share of each municipality’s territory in Area A versus B rather than the share of the town's population, then it is possible that I underestimate the number of towns that would qualify as mostly falling within Area B (or even C). Ideally, I will obtain data on the municipal boundaries in the future that will allow me to conduct a robustness check using an alternative measure of area that is based on territory.
4.1 2007-2008 Budget Data (World Bank)

I begin with the more current data, and ask whether the mostly Area A municipalities raise more total revenue than mostly Area B municipalities. The Area A average is 513 NIS ($1,971), while the Area B average is 246.85 NIS ($950), a difference that is statistically significant according to a Welch two sample t-test ($p = 0.01$).

Other than the effects of the functional restrictions on sovereignty that the Oslo Accords imposed, there are a number of reasons that Area A municipalities might mobilize more revenue than their Area B counterparts. First, all of the largest cities in the West Bank are designated as Area A, thus we would expect them to be more economically developed. Although our dependent variables are measured on a per capita basis, we still may expect larger and more developed cities to have a higher tax take per person, just as richer and more developed countries do (Besley and Persson 2011). This could be due to Wagner’s law, whereby richer municipalities have larger governments, or higher levels of state capacity (measured here at the level of local government) allowing them to enforce tax and fee payment more effectively. To assess this, I collect a series of covariates on the municipalities as follows: pop, the population of the municipality as provided in the World Bank report; munemp, the number of municipal government employees per 1,000 residents, also provided in the World Bank report, as a proxy for municipal government capacity; emp, the share of the population employed in the private sector, with the total number of employed persons in the private sector coming from the PCBS 2009 governorate yearbooks and using the same World Bank population figures; est, the “number of establishments in operation” (i.e. businesses) per thousand residents, also provided from the PCBS governorate yearbooks and the World Bank’s population figures. I find emp and est are highly correlated ($r = 0.87$) and can serve as substitute proxies for level of economic development in the town or city. Table 2 summarizes the average values of these variables for Area A and Area B municipalities.

A series of OLS regressions are estimated of $\log(trpc)$ on relevant municipal characteristics demonstrate that “Area A” municipalities do tend to generate more revenue than “Area B” (Table 3), but, when either emp or est are included (models 3 & 4), the coefficient on area is no longer significant. This suggests that the underlying level of economic development has more explanatory power than area in explaining the overall fiscal capacity of the town or city. Yet, these models do not take into account the sources of revenue or the way they are mobilized. The total revenue measure used above captures many different types of revenues: electricity and water provision, for example, comprise a large share of total

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Table 2: Average values of covariates for Area A and B municipalities.

<table>
<thead>
<tr>
<th></th>
<th>Area A</th>
<th>Area B</th>
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<tr>
<td>pop</td>
<td>22,102</td>
<td>7,650</td>
</tr>
<tr>
<td>munemp</td>
<td>3.1</td>
<td>2.5</td>
</tr>
<tr>
<td>emp</td>
<td>0.11</td>
<td>0.07</td>
</tr>
<tr>
<td>est</td>
<td>39.0</td>
<td>31.15</td>
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Table 3: OLS log(trpc) on area and covariates.

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Intercept)</td>
<td>6.25***</td>
<td>5.56***</td>
<td>5.39***</td>
<td>4.83***</td>
</tr>
<tr>
<td></td>
<td>(0.37)</td>
<td>(0.45)</td>
<td>(0.46)</td>
<td>(0.46)</td>
</tr>
<tr>
<td>area</td>
<td>−0.53*</td>
<td>−0.44*</td>
<td>−0.32</td>
<td>−0.30</td>
</tr>
<tr>
<td></td>
<td>(0.21)</td>
<td>(0.21)</td>
<td>(0.22)</td>
<td>(0.21)</td>
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<td>(0.00)</td>
<td>(0.00)</td>
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<td>munemp</td>
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<td>0.14°</td>
<td>0.11°</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.06)</td>
<td>(0.07)</td>
<td>(0.06)</td>
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</tr>
<tr>
<td>emp</td>
<td>3.07*</td>
<td></td>
<td></td>
<td>0.03***</td>
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<tr>
<td></td>
<td>(1.41)</td>
<td></td>
<td></td>
<td>(0.01)</td>
</tr>
</tbody>
</table>

|        | 0.11    | 0.25    | 0.28    | 0.37    |
| R²     | Adj. R² | Num. obs. | 81      | 70      | 61      | 61      |

*** p < 0.001, ** p < 0.01, * p < 0.05, p < 0.1
revenues. In addition, certain taxes, such as the property and education taxes, are transferred to municipalities from the central government. If the division of municipalities into Areas A and B affected the capacity of local governments to enforce tax and fee collection, we might expect to see the strongest relationship in a measure of a particular revenue source that relies on enforcement. Indeed, when we restrict our attention to one form of revenue – building revenue – Area A municipalities raise significantly more than Area B municipalities, even when controlling for relevant characteristics. In Table 4 below, we begin with the number of establishments per thousand residents as the first control variable. Although it is not entirely clear what is meant by “establishments,” earlier I described it as the number of operating business locations in the town or city. The bivariate correlation between \( brpc \) and \( est \) is 0.69, thus we might be able to consider this as a rough proxy for the number of physical buildings in the town or city.

Note that the coefficient on \( area \) remains negative and significant in the first two specifications of Table 4 (Models 1 & 2) when the ten largest cities (all Area A) are dropped from the sample, however the coefficient loses its significance in Models 3 & 4 when the number of municipal employees per thousand residents (\( munemp \)) is included. Additionally, one can see across all specifications in Tables 3 and 4, the coefficient on \( pop \) is very small and rounded down to zero. When we include \( \log(pop) \) instead, the coefficients on \( area \) remain negative and significant except in models 3 and 4 of Table 4, when they are negative but lose their significance. In all cases, the coefficient on \( area \) remains negative.

### 4.2 1983 to 1994 Budget Data (JSGAS)

One question we might have is whether there are other underlying differences between Area A and B municipalities that predate their 1994 designation. In general, there was a massive proliferation of municipal units with the creation of the PA and, since all of the major West Bank cities were already functioning municipalities, many of these were small towns that were created as “Area B.” Thus, we do not have much by way of public finance data for these new Area B towns.

To look at pre-existing characteristics, we use the Israel Central Bureau of Statistics “Judea, Samaria and Gaza Area Statistics” (JSGAS) reports from 1983 to 1994. Detailed budget data is available annually during the time range indicated for 25 municipalities that were recognized as such under Israeli rule. Of these, four evolved into mostly “Area B” municipalities after 1994: Birzeit, Deir Dibwan, and Silwad in the Ramallah governorate and Ya’bad in the Jenin governorate.
Table 4: OLS log(brpc) on area and covariates.

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
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<td>1.95**</td>
<td>2.29***</td>
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<td>(0.49)</td>
<td>(0.59)</td>
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<td>0.02*</td>
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<td>6.02***</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>(1.54)</td>
</tr>
<tr>
<td>R²</td>
<td>0.33</td>
<td>0.34</td>
<td>0.33</td>
<td>0.41</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.31</td>
<td>0.31</td>
<td>0.28</td>
<td>0.37</td>
</tr>
<tr>
<td>Num. obs.</td>
<td>71</td>
<td>71</td>
<td>60</td>
<td>60</td>
</tr>
</tbody>
</table>

*** p < 0.001, ** p < 0.01, * p < 0.05, ◦ p < 0.1
A Welch two-sample t-test cannot reject the null hypothesis that mean total revenue per capita is the same across the 21 Area A and the four Area B municipalities: Area A is 158.37 NIS and Area B is 106.6 NIS (p=0.16). For building revenue per capita, we find the same: the Area A average is 11.93 and Area B is in fact slightly higher, 12.47 (p=0.89), thus we cannot reject that these two sets of towns have the same average building revenue per capita in the period prior to the PA’s creation. In fact, The four Area B cities, on average, raised more building revenue per capita than the Area A cities. These findings should be read as descriptive, since we do not presently have covariates at the municipal level for the years contained in the earlier set of data so are unable to specify and estimate regression models.

Of course, one might be concerned that the four Area B towns for which the earlier data is available are not representative of the whole population of Area B towns post-1994. In short, this is probably true, however we can take a quick look at the 2008 data again to see how these towns compare. The World Bank received completed revenue questionnaires from three of these towns: Birzeit, Silwad, and Ya’bad. When we compare these to the Area A towns in the 2008 sample, we once again find that their average total revenues per capita are lower (318 NIS compared to the 513 NIS we saw earlier for the Area A towns) and their building revenues per capita are slightly lower (23.5 NIS compared to 25.5 NIS for the Area A towns). Thus, something appears to have changed between the earlier, pre-PA and the later, post-PA period. Of course, the time period between our datasets (1995 to 2006) included many ground-shifting events and processes – for example, the creation of the PA brought in a massive amount of foreign aid, and there is reason to believe that Area A cities may have benefitted more. Further, critical events like the second Intifada and the split of the West Bank and Gaza governments certainly had strong economic effects. However, there is no a priori reason to believe these “shocks” affected Area A and Area B towns in the West Bank differently.

5 Discussion

Above, I demonstrated that local governments in areas of less autonomy or devolvement – or areas of more “direct” rule by the Israeli occupying power – were likely to raise less revenue than those in areas of more autonomy/“indirect” rule. This finding appears to be more robust when attention is focused on revenue sources over which the local government has direct control.

What does autonomy mean, in this context? Local governments for towns that fall mostly
within Area A are required to coordinate less with the Israeli military than those governments that fall mostly within Area B, in accordance with the conditions of the Oslo Accords. Although the Israeli military can effectively abrogate the Accords and enter Area A when it deems it necessary to do so, raids, military action, checkpoints, arrests, and surveillance in coordination with Palestinian policing units are far more frequent in Areas B and C.\footnote{SOURCE}

For those revenues for which the local government has full authority to assess, collect, and enforce payment, less autonomy may lead to lower revenue mobilization for one or more of the following reasons:

- **Lower building revenue collection in Area B due to higher barriers to construction and development in Area B.** This hypothesis suggests that the result observed above with $brpc$ is a result that is specific to the dependent variable chosen, and it is simply due to the fact that it is more difficult for Palestinian individuals and private actors to build in Area B than in Area A. As mentioned previously, there is a vast amount of documentation of the effects of the restrictions in Area C, but not as much attention has been paid to how Israeli surveillance and authority may be affecting incentives to, or possibilities for, development in Area B. This is a possibility I must consider before attributing these findings to either lower local government enforcement or lower public compliance with revenue collection. While I included the imperfect control ($est$) in my regressions, it would be ideal to have data on new construction starts by municipality, which would be a more appropriate measure of the local market for building and construction.

- **Lower enforcement of revenue collection in Area B due to fewer demands for resource allocation and distribution.** One hypothesis suggests that the transaction costs of governing will be higher for local governments based in Area B versus those in Area A due to the requirement to coordinate government actions with Israeli authorities and the higher likelihood of delays due to checkpoints and other forms of surveillance. These higher transaction costs may mean that governments are able to produce less output, which would be reflected in their expenditures, and thus require less enforcement of revenue collection.

However, we could imagine this being a problem for Area B governments if their populations expect just as much in terms of goods and services as their Area A counterparts. However, Area B populations may have also adjusted to this setting and engage in more bottom-up collective organizing and relies less on local govern-
ment to provide goods and services. Following Bodea and LeBas (pted), we might also expect lower expressed support for voluntary compliance with taxation in such settings.

- **Lower enforcement of revenue collection in Area B due to lower legitimacy in the context of occupation.** According to this argument, the government chooses not to enforce revenue collection not because of lower demand for goods and services, but because of lower perceived legitimacy among the public. In Area B, local governments are seen as “collaborators” more than in Area A because, in effect, they are.

- **Lower expectation of enforcement by would-be taxpayers, thus more shirking and non-compliance.** This is simply the predicted equilibrium response of would-be taxpayers to either of the low enforcement conditions above.

The expectations above deserve to be tested on an alternative dataset. A recently acquired dataset with all municipal and village council budgets in the West Bank from 2006 to 2014 will provide more fine-grained data than the World Bank dataset used here. This is also an improvement over the World Bank questionnaire, as the latter may have been subject to non-random non-response by municipalities. In addition, data from interviews and public opinion data may allow me to adjudicate between some of these hypothesized mechanisms regarding would-be taxpayers’ propensity to comply, or discover new ones.

**Thanks for reading! More discussion to follow once I have (hopefully) stronger and more robust empirical findings...**

**References**


Appendix: Language from the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip


ARTICLE XIII
Security

1. The Council [the Palestinian Authority] will, upon completion of the redeployment of Israeli military forces in each district, as set out in Appendix 1 to Annex I, assume the powers and responsibilities for internal security and public order in Area A in that district.

2. a. There will be a complete redeployment of Israeli military forces from Area B. Israel will transfer to the Council and the Council will assume responsibility for public order for Palestinians. Israel shall have the overriding responsibility for security for the purpose of protecting Israelis and confronting the threat of terrorism.

b. In Area B the Palestinian Police shall assume the responsibility for public order for Palestinians and shall be deployed in order to accommodate the Palestinian needs and requirements in the following manner:

   (1) The Palestinian Police shall establish 25 police stations and posts in towns, villages, and other places listed in Appendix 2 to Annex I and as delineated on map No. 3. The West Bank RSC [Joint Regional Security Committees] may agree on the establishment of additional police stations and posts, if required.

   (2) The Palestinian Police shall be responsible for handling public order incidents in which only Palestinians are involved.

   (3) The Palestinian Police shall operate freely in populated places where police stations and posts are located, as set out in paragraph b(1) above.

   (4) While the movement of uniformed Palestinian policemen in Area B outside places where there is a Palestinian police station or post will be carried out after coordination and confirmation through the relevant DCO [Joint District Coordination Office], three months after the completion of redeployment from Area B, the DCOs may decide that movement of Palestinian policemen from the police stations in Area B to Palestinian towns and villages in Area B on roads that are used only by Palestinian traffic will take place after
notifying the DCO.

(5) The coordination of such planned movement prior to confirmation through the relevant DCO shall include a scheduled plan, including the number of policemen, as well as the type and number of weapons and vehicles intended to take part. It shall also include details of arrangements for ensuring continued coordination through appropriate communication links, the exact schedule of movement to the area of the planned operation, including the destination and routes thereto, its proposed duration and the schedule for returning to the police station or post.

The Israeli side of the DCO will provide the Palestinian side with its response, following a request for movement of policemen in accordance with this paragraph, in normal or routine cases within one day and in emergency cases no later than 2 hours.

(6) The Palestinian Police and the Israeli military forces will conduct joint security activities on the main roads as set out in Annex I.

(7) The Palestinian Police will notify the West Bank RSC of the names of the policemen, number plates of police vehicles and serial numbers of weapons, with respect to each police station and post in Area B.

(8) Further redeployments from Area C and transfer of internal security responsibility to the Palestinian Police in Areas B and C will be carried out in three phases, each to take place after an interval of six months, to be completed 18 months after the inauguration of the Council, except for the issues of permanent status negotiations and of Israel’s overall responsibility for Israelis and borders.

(9) The procedures detailed in this paragraph will be reviewed within six months of the completion of the first phase of redeployment...

ANNEX I: Protocol Concerning Redeployment and Security Arrangements
Article V
Security Arrangements in the West Bank

1. Coordination and Cooperation in the West Bank
As shown on map No. 4, eight DCOs will function in the West Bank, as follows:
a. a DCO for the Jenin District, located at the Quabatiya junction or in its vicinity;
b. a DCO for the Nablus District, located at the Hawara Junction;
c. a DCO for the Tulkarm District, located at the Kaddouri Junction;
d. a DCO for the Qalqilya District located at Tsufin Junction;
e. a DCO for the Ramallah District, located at the Beth El junction or in its vicinity;
f. a DCO for the Bethlehem District, located at the Panorama Hills in Beit Jala;
g. a DCO for the Hebron District, located at Har Manoakh (Jabal Manoah); and
h. a DCO for the Jericho District, located at Vered Yericho, that will maintain a subordinate Joint Liaison Bureau in the Allenby Terminal.

2. Area A

a. The Council will, upon completion of the redeployment of Israeli military forces in each district, as set out in Appendix 1 to this Annex, assume the powers and responsibilities for internal security and public order in Area A in that district.

b. Jewish Holy Sites

(1) The following provisions will apply with respect to the security arrangements in Jewish holy sites in Area A which are listed in Appendix 4 to this Annex:

(a) While the protection of these sites, as well as of persons visiting them, will be under the responsibility of the Palestinian Police, a JMU shall function in the vicinity of, and on the access routes to, each such site, as directed by the relevant DCO.

(b) The functions of each such JMU shall be as follows:

(i) to ensure free, unimpeded and secure access to the relevant Jewish holy site; and

(ii) to ensure the peaceful use of such site, to prevent any potential instances of disorder and to respond to any incident.

(c) Given the Jewish religious nature of such sites, Israeli plainclothes guards may be present inside such sites.

(2) The present situation and the existing religious practices shall be preserved.

c. Clarifications Concerning the Jericho Area

With regard to the definition of the Jericho Area, as delineated on attached map No. 1, it is hereby clarified that Route No. 90 crossing Auja from South to North and the East-West road connecting Route No. 90 with Yitav, and their adjacent sides, shall remain
under Israeli authority. For the purpose of this Article, the width of each such road and its adjacent sides, as shown on attached map No. 1, shall extend at least 12 meters on each side measured from its center.

3. Areas B and C

a. There will be a complete redeployment of Israeli military forces from Area B. Israel will transfer to the Council and the Council will assume responsibility for public order for Palestinians. Israel shall have the overriding responsibility for security for the purpose of protecting Israelis and confronting the threat of terrorism.

b. In Area B the Palestinian Police shall assume the responsibility for public order for Palestinians and shall be deployed in order to accommodate the Palestinian needs and requirements in the following manner:

   (1) The Palestinian Police shall establish 25 police stations and posts in towns, villages, and other places listed in Appendix 3 to this Annex and as delineated on map No. 3. The West Bank RSC may agree on the establishment of additional police stations and posts, if required.

   (2) The Palestinian Police shall be responsible for handling public order incidents in which only Palestinians are involved.

   (3) The Palestinian Police shall operate freely in populated places where police stations and posts are located, as set out in paragraph b.1 above.

   (4) While the movement of uniformed Palestinian policemen in Area B outside places where there is a Palestinian police station or post will be carried out after coordination and confirmation through the relevant DCO, three months after the completion of redeployment from Area B, the DCOs may decide that movement of Palestinian policemen from the police stations in Area B to Palestinian towns and villages in Area B on roads that are used only by Palestinian traffic will take place after notifying the DCO.

   (5) The coordination of such planned movement prior to confirmation through the relevant DCO shall include a scheduled plan, including the number of policemen, as well as the type and number of weapons and vehicles intended to take part. It shall also include details of arrangements for ensuring continued coordination through appropriate communication links, the exact schedule of movement to the area of the planned operation, including the destination and routes thereto, its proposed duration and the schedule for returning to the police station or post. The Israeli side of the DCO will provide the Palestinian side with its response, following a request for movement of policemen in accordance with this paragraph, in normal or routine cases within one day and in emergency cases no later than
2 hours.

(6) The Palestinian Police and the Israeli military forces will conduct joint security activities on the main roads as set out in this Annex.

(7) The Palestinian Police will notify the West Bank RSC of the names of the policemen, number plates of police vehicles and serial numbers of weapons, with respect to each police station and post in Area B.

(8) Further redeployments from Area C and transfer of internal security responsibility to the Palestinian Police in Areas B and C will be carried out in three phases, each to take place after an interval of six months, to be completed 18 months after the inauguration of the Council, except for the issues of permanent status negotiations and of Israel’s overall responsibility for Israelis and borders.

(9) The procedures detailed in this paragraph will be reviewed within six months of the completion of the first phase of redeployment...