

# **Private sector assessment of PNA economic policy**

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# PNA Economic Policy

- PNA declared policy: open, export-oriented, privately-led, market economy
- In practice, many of PNA economic practices and commercial activities indicated the opposite.
- These practices and activities have drawn much criticisms and accusations of clientelism, favouritism, rent seeking and corruption.
- Criticism came from various groups, including the private sector.

# Criticism focused on:

A) PNA business practices and intervention in the market place, mainly:

- (1) establishing public import monopolies (cement, fuel, etc.),
- (2) getting into partnership with private enterprises,
- (3) granting monopoly concessions to private investors on personal basis and favoritism, and without proper legal framework.

B) Good governance, including:

- (1) lack of transparency and accountability,
- (2) unnecessary duplication and fragmentation of ministries and agencies dealing with various aspects of the economy,
- (3) undisclosed commercial dealings by public servants and
- (4) privileged access for private actors to the award of contracts, licenses, and exclusive dealerships.

# According to the Private Sector

PNA's economic policy and practices have resulted in

- competitive relationship between the PNA and the private sector,
- Crowding out private investment,
- weakened the investment environment in the Palestinian territories,
- Encouraging rent seeking behavior,
- Corruption,
- Etc.

# Political and economic constraints

- This argument ignores the political, security and economic circumstances and the constraints, especially
  - Inherited distortions
  - Constraints imposed by Paris Protocol,
  - High dependence on Israel
  - High dependence on donors' assistance,
  - High political uncertainty,
  - Weak private sector
  - Inadequate legal framework.
  - absence of sound and strong institutions,
  - Lack of experience
- This is not an environment that is attractive to private investment.

# Explaining PNA Business Practices:

## Granting monopoly concessions

- Given these distortions and constraints, much of PNA practices and rent-generating activities can be explained.
- For example, private sector was reluctant to invest due to the above severely hostile conditions.
- Granting monopoly concessions to private investors were necessary to induce them to invest in large projects, especially infrastructure (such as telecommunications and electricity)
- Such large projects would not have been established had the PNA not given exclusive rights and other concessions to private investors.

# Partnerships with Private Sector

- Partnerships with private sector can also be explained in terms of political and economic constraints facing PNA.
  - Approximately 70 percent of PNA's revenues come from/through Israel.
  - Concern that Israel may use revenues as weapon to get political concessions.
  - Official public budget is subject to the scrutiny of many groups, especially PLC, donors, Israel, etc.
  - Some of off-budget activities may be politically sensitive.
- To overcome these constraints, the PNA undertakes various types of off-budget activities, including investments in private operations.

# PNA's Public Monopolies

- Paris Protocol requires clearance bills to collect tax revenue.
- Private business may be discouraged to deliver clearance bills to the PNA (MoF)
  - income taxes evasion,
  - complexity of clearance procedure
- This may cost PNA treasury millions of dollars every year.
- PNA-owned monopolies would minimize losses and ensure delivery of clearance bills
- Plus: a source of off-budget revenue.

# The position of the Private Sector

- The private sector
  - acknowledged importance of granting privileges in some fields for limited periods,
  - expressed opposition to the emergence of monopolies without economic or national justifications;
  - in this case, the laws and regulations should be completed.
- Government companies cannot be justified,
  - and hence PNA should privatize government companies and sell its shares in private companies to private sector.
- In addition, the conference demanded that private sector
  - should participate in the formulation of laws,
  - express opinion in negotiations, especially in economic issues,
  - participate in missions to other countries.

# Impact of the Private Sector

- Government has been open and receptive to suggestions and criticisms from the private sector.
- However, there are many factors that limit the capacity of private sector to influence the decision-making process:
  - The bulk of the private sector consists of small scale, family business firms.
  - The mandate of those private sector institutions is not clear and the legal framework is not complete.
  - Most of these institutions are captured by large interest.
  - There are too much politics, manipulation of power and corruption within the private sectors.
  - Some private sectors representatives in the board of directors of public institutions are appointed by government and they usually support almost all government decisions.
  - Some private firms are benefiting from existing economic policy because they have been granted monopolistic position without proper regulation, which enabled them to extend their monopoly to other sectors (e.g. Paltel)