



Project no. CIT5-CT-2005-028647

Project acronym: UPP

Project title: “Understanding Privatisation Policy: Political Economy and Welfare Effects”

Instrument: SPECIFIC TARGETED RESEARCH PROJECT

Thematic Priority:7- “Citizens and governance in a Knowledge-based society”

Deliverable: D.3.1

“Report on privatization and regulatory reform in the MEDA region”

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Due date of deliverable: 31 December 2006

Actual submission date: 22 January 2007

Start date of project: 01/02/2006

Duration: 2 years

Organisation name of lead contractor for this deliverable:
Fondazione Eni Enrico Mattei (FEEM)

Revision: draft 1

Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)		
Dissemination Level		
PU	Public	x
PP	Restricted to other programme participants (including the Commission Services)	
RE	Restricted to a group specified by the consortium (including the Commission Services)	
CO	Confidential, only for members of the consortium (including the Commission Services)	

Privatization and Economic Opening under Political Control in the Middle East and North Africa: The Limits to *Forced Freedom*

Boyan Belev

1. Introduction

The Middle East and North Africa (MENA) rarely remains untouched by the major issues on the global policy agenda. Privatization is one of these issues – initially conceived and applied in the United Kingdom under Margaret Thatcher’s conservative government in the 1980s, it spread to practically all countries in the world. The different political and economic context in those countries did not prevent both local and foreign analysts from believing in its universality as a panacea against the ills of a crisis-laden national economy, especially those of an excessively expanded public sector under the welfare state in Western Europe or the nationalist experiments in the Third World in the 1950-1970s. Privatization became a symbol of market-oriented reforms after the demise of state-led socialism in Central and Eastern Europe (CEE) and the former USSR which seemed to provide the final historical justification of a liberal economic and social order. As captured by the title of an influential book published at the end of the 1980s, it was seen as a big promise, although it was hardly clear at the time what exactly it would bring in the long run.¹

Privatization was initially accepted by the general public as a symbol of market-oriented policies. Appropriate symbolism can be instrumental for the initial acceptance of reform measures by the masses regardless of the possibly different content of the term when used by different people. For most of the experts professionally involved in this process it meant an activity, in which the claims on the ownership of state-owned assets were transferred to private persons. A more inclusive meaning of the term is the one synonymous to liberalization, marketization, or movement on the continuum from the state to the private individual as the focus of business activity – this is the sense, in which the term has been more often used by a larger number of people for whom symbols may have been more important than strict content. The use of the term “privatization” in this paper is based on the former of the two definitions mentioned above – in addition to meaning a mere transfer of assets it is used to signify activities carried out by the state involving a restructuring of the public sector and resulting in a change of the public/private balance in the economy. Privatization represents thus just an element, although a very important one, of the more general process of liberalization or movement toward the market as a regulator of human interaction in society.

Political control has been an important feature of the process of privatization in numerous developing countries, including most of MENA. I would argue that such control has its merits, the main one among which is the possibility to bring life to a process, representing an important element of a market reform package, in a situation, in which anti-reform interests are much

¹ Vernon, Raymond, ed. (1987). *The Promise of Privatization: A Challenge for US Policy*. New York: Council for Foreign Relations.

stronger than any pro-reform constituency.² I would also argue, however, that politically controlled privatization has its limitations. Such privatization depends to a smaller extent on the internal logic of reform itself than on the will and discretion of the political leadership. As a consequence, such privatization may not be fully coherent with the other reform measures, or its progress may not necessarily contribute to a genuine liberalization, especially in the absence of matching steps toward a political opening.³

This paper offers a continuation of the study of “forced freedom”, or politically controlled privatization in MENA.⁴ It revisits some of the conclusions, formulated on the basis of the experience of two typical country cases - Egypt and Tunisia, up to the mid-1990s. It also provides further explanation of the phenomenon of politically controlled economic opening and with a reference to the general outcomes of public sector reform in another region - CEE, and critically evaluates the role of privatization as an element of market-oriented reforms. The paper attempts to throw light on the logic of two decades of privatization in MENA and from this perspective to assess the importance of privatization in the market reform package as a whole. A final objective of this study is a better understanding of privatization’s limitations and formulation of the next steps necessary to undertake in order to promote further market-oriented reform as well as outline some implications for further study of reform and theory building.

As it has been shown in the past on the basis of the experience of various developing countries, politically controlled privatization can be successful if debates on economic policy are restricted regardless of the generally participatory nature of the regime in order to limit the opportunities for potential opponents to create roadblocks. Progress on the major indicators of privatization is usually linked with the existence of institutional arrangements in which limited segments of the executive enjoy special powers in policy making and implementation and apply such methods of divestiture, which lead to clear and simple forms of post-privatization ownership and governance structures, design such compensatory mechanisms which address very specific negative consequences of privatization (for instance, labor layoffs) rather than seeking relief within the efforts to find solutions to related general socio-economic problems, such as unemployment and poverty.

The time elapsed since the introduction of this policy allows us now to look for further generalizations about how politics influences economic reform. To assess the limitations of political control in this paper, first, I have shown that the existing literature on politics of economic reform in MENA has not managed to provide answers to important questions arising from the two decades of privatization experience; next, I have summarized the privatization experience of Egypt and Tunisia to show how exactly the programs in these countries were designed to work. To explore the incentives of the major actors involved and the capacity of the specific institutional arrangements I have considered the issue of stability of privatization-

² See Haggard, Stephan and Robert Kaufman, eds. (1992) *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State*. Princeton University Press, Introduction.

³ See Joel Hellman (1998). *Winners Take All: The Politics of Partial Reform in Postcommunist Transitions* // *World Politics*, 50 / 2, p. 203-234, and Hector Schamis (1999), *Distributional Coalitions and the Politics of Economic Reform in Latin America* // *World Politics*, 51 / 2, p. 236-268.

⁴ See Belev, Boyan (2000). *Forcing Freedom: Political Control of Privatization and Economic Opening in Egypt and Tunisia*. Latham, MD: University Press of America.

related institutions; with regard to the process of privatization itself I have focused on the issues of efficiency and effectiveness of privatization under political control in order to show its *pros* and *cons* for attaining the ultimate reform objectives.

2. How Well Have We Followed Privatization in MENA?

An attempt for a comparison of the progress of the privatization programs in most MENA countries in general and those in Egypt and Tunisia in particular would face a number of difficulties. First, privatization statistics published by the governments of these countries are not uniform. A researcher could try crunching numbers but given the lack of explanation of the assumptions behind these numbers he/she would run the risk of ending up comparing apples and oranges. This could be avoided if from the very beginning the countries had a comprehensive list of companies-candidates for divestiture and if implementation to the very end was consistent with initial plans. In Egypt, for instance, the initial list included the 314 companies; on the basis of discretion other companies, initially designed as “strategic” or “untouchable”, as well as joint ventures with a state-owned share, were also offered for privatization. The difficulties in accounting for the process in Tunisia are similar – the specific definition of the term “public enterprise” made it possible to limit the initial list of SOEs designed for divestiture but later report as accomplished transactions with companies which were not on this list but in which the state held a stake in one way or another. The second problem of accounting for the privatization outcomes stems from the parallel sale and restructuring of SOEs – it has not been made clear how the published list of public enterprises changed as a result of “asset unbundling” and the sale of integral parts of SOEs, although each transaction was reported as a separate successful deal. As information about the details of SOE splits is hardly available, quantitative macro analysis of the results of privatization based on the number of transactions or generated revenue cannot be accurate.

A logical consequence of the inadequacy of raw data is the insufficiency of primary analysis of various aspects of government policy. In theory, judgement on the success or failure of a privatization program should be passed after a careful consideration of before and after comparisons of separate companies and whole sectors of the economy. Such comparisons are quite rare in the literature on privatization in general; they are difficult to make given the lack of data on the pre-privatization performance of SOEs and the fact that data on post-privatization performance may be available only on companies which began trading on the stock exchange. With regard to the chosen country cases an exception to this rule represents a study by Mohammed Omran⁵ whose analysis questions the benefit of privatization for firm performance while admitting at the same time that there might be positive spill-overs from this process, as well as a survey and empirical analysis of a team of IBM consultants,⁶ although experts in the field consider their conclusions as highly questionable.

Analyses of particular industrial sectors before and after privatization are also rare – as a rule, the existing work focuses on more or less advanced technological sectors (e.g. telecoms), in

⁵ Omran, Mohammed (2004). The Performance of State-Owned Enterprises and Newly Privatized Firms: Does Privatization Really Matter? // *World Development*. Oxford: June, Vol.32, Iss. 6.

⁶ King, David, Bruce McQueen and Mack Ott (2004). *The Costs of Not Privatizing: A Assessment for Egypt*. Summary Study. IBM Consulting, Global Economic Development, Submitted to USAID – Cairo. March.

which it is not easy to separate the impact of a dynamic national and international business environment from the transfer of ownership as factors for the change in performance. The rare primary analysis of privatization in MENA has generally appeared thanks to the involvement of foreign actors in the process, for instance, USAID and its subcontracted consultants in Egypt as well as the European Commission in Tunisia. Other relevant studies are the publications on certain regulations and their impact for the process - for instance, the work of Bahaa El-Dean⁷ and Dupret⁸ who focus on the respective legal framework in Egypt. Nevertheless, this work is by far insufficient for drawing a comprehensive picture of the process of public sector reform.

Given the existing difficulties in collecting and assessing data it is no wonder that scholarly analysis of privatization in MENA has been a rare exercise – as a matter of fact, the political economy of MENA in general has not been among the preferred subjects on social scientists' research agenda lately. The publications relevant to privatization in this region for the last 10 years have represented either mechanical deductive applications of generalizations formulated on the basis of in-depth study of the process in other regions, journalistic accounts of completed transactions, or studies of certain societal implication of the process. It is worth mentioning, however, the attempts to move beyond conventional explanations of the “winners” and “losers” of privatization done by Stephen Hydemann and his collaborators, particularly the contributions by John Stefanakis, Ulrich Wurzel, Beatrice Hibou and Jean-Pierre Cassarino, who launched a discussion on the importance of networks, both formal and informal, for the reform process.⁹ From a wider perspective, Raymond Hinnebusch and Emma Murphy's contributions to the edited volume by Hakimian and Moshaver¹⁰ have been instrumental in better placing the debate on privatization in Egypt and Tunisia in the more general context of economic reform and the particular role the state has played in it. Merih Celasun et al.¹¹ who offer a more generalized picture of the state of privatization in the region have also helped understand the logic of this process in MENA. The broader political context of this reform has been very well presented in the volume edited by Thomas Carothers and Marina Ottaway¹² as well as that by Eberhard Kienle et al.¹³

Still, the mentioned studies of privatization and related subjects are insufficient for achieving a sufficient understanding of the process in MENA. In most cases when thinking about

⁷ El-Dean, Bahaa Ali (2002). *Privatization and the Creation of a Market-Based Legal System: The Case of Egypt*. Brill: Leiden, Boston, Koln.

⁸ Dupret, Baudouin (2003). *A Liberal Interpretation of a Socialist Constitution: The Egyptian Supreme Constitutional Court and Privatization of the Public Sector* // Kienle, Eberhard (ed.). *Politics from Above, Politics from Below: The Middle East in the Age of Economic Reform*. Saqi. London.

⁹ See Hydemann, Steven, ed. (2004). *Networks of Privilege in the Middle East: The Politics of Economic Reform Revisited*. New York and Houndmills, Basingstoke, Hampshire, England: Palgrave MacMillan.

¹⁰ Hakimian, Hassan and Ziba Moshaver, eds. (2001). *The State and Global Change: The Political Economy of Transition in the Middle East and North Africa*. Curson. Richmond, Surrey, UK.

¹¹ Celasun, Merih, ed. (2001). *State-Owned Enterprises in the Middle East and North Africa: Privatization, Performance and Reform*. London and New York: Routledge.

¹² Carothers, Thomas and Marina Ottaway, eds. (2005). *Unchartered Journey: Promoting Democracy in the Middle East*. Washington, DC: Carnegie Endowment for International Peace.

¹³ Kienle, Eberhard, ed. (2003). *Politics from Above, Politics from Below: The Middle East in the Age of Economic Reform*. London: Saqi.

privatization in this specific context we have to rely on generalizations drawn on the basis of in-depth case studies from other regions, namely, Latin America and CEE. In comparison with that on MENA the literature on privatization from these two regions has been quite extensive not just by the sheer number of books and journal articles but especially by the scope of the inquiry and the analytical depth in the treatment of the subject matter. The privatization experience in no country in MENA has enjoyed an interest such as that of the Czech Republic, Poland or Russia.¹⁴ Research on privatization in Latin America has produced unparalleled cross-country comparisons and studies of specific industrial sectors which enriched our understanding of the public sector reform as well as important linkages between the various aspects of economic reform in general and its political dimensions.¹⁵ Regardless of the possible criticism on the way privatization in CEE and Latin America has been presented in the literature, on the quality of the data or the correctness of the major conclusions drawn, on the lack of good “before and after” comparisons of individual companies, of studies of the externalities brought about by privatization as well as of specific implications for societal arrangements and the state-society interaction, the scholars studying MENA are still waited to produce comprehensive analyses of privatization in the region or accumulate a critical mass of research, on the basis of which important generalizations in the political economy of the region could be made.¹⁶

Given the constraints outlined above, it is clear that this paper cannot produce a breakthrough in our understanding of privatization in MENA or even in the chosen two country cases. Nevertheless, its ambition is to give a better macro picture of the process in the region in spite of the limitations of the qualitative research methods used - generally work with available documents and interviews with representatives of the major actors involved in public sector reform (annexes I and II). Drawing this picture starts with a brief overview of the privatization efforts.

3. Privatization Outcomes in Egypt and Tunisia: Two Decades of “Forced Freedom”

The outcomes of the process of privatization on a global scale for the past two decades have been mixed. It has been successful if judged by the numbers of privatized state-owned enterprises (SOEs), the amount of assets under management transferred from public to private hands, or a general shift in the public/private balance in many countries’ economies (figure 1). This kind of data is made more or less readily available by the governments undertaking privatization programs. Critics of privatization from various perspectives, however, note that social costs can be too large or that privatization programs in a number of countries, for

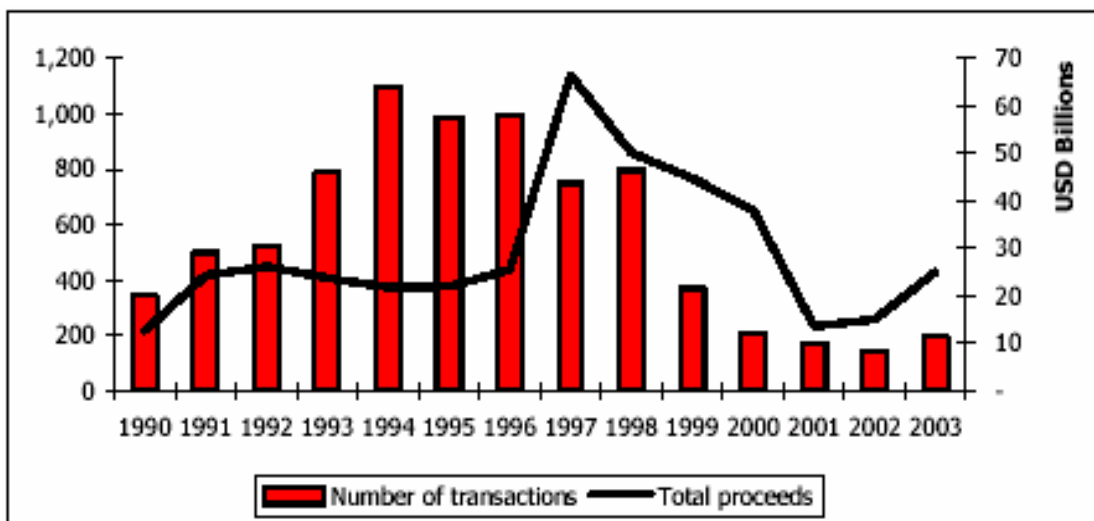
¹⁴ One should mention here the work of numerous academics and policy analysts, for instance, Andrei Schleifer, John Nellis, Ira Liberman, David Stark, Roman Frydman, Andrzej Rapaczynski and many others.

¹⁵ Among the authors of recent books and articles one should note Alberto Chong, Florencio López-de-Silanes, Luigi Manzetti, Hector Schamis, Victoria Murillo and others.

¹⁶ Studies like, for instance, Schelifer, Andrei and Robert Vishny (1998). *The Grabbing Hand: Government Pathologies and Their Cures*. Cambridge, MA and London, England: Harvard University Press; Hough, Jerry (2001). *The Logic of Economic Reform in Russia*. Washington, DC: Brookings Institution Press; Nellis, John and Nancy Birdsall (2005). *Reality Check: The Distributional Impact of Privatization in Developing Countries*. Washington, DC: Center for Global Development; Krueger, Anne, ed. (2000). *Economic Policy Reform: The Second Stage*. Chicago and London: University of Chicago Press.

instance, in the countries of MENA, including those in Egypt and Tunisia, were not so successful by spirit, i.e. in bringing meaningful competition and greater efficiency. They also note that the specific manner, in which privatization programs were carried out, has deprived them of liberal content and led to a situation, in which the interest groups mostly responsible for pre-adjustment crisis have managed to benefit from the reform process.¹⁷ Naturally, such claims have been harder to substantiate through quantitative methods – access to the necessary data, if this data is available at all, is generally controlled by those who may not benefit from its analysis.

Figure 1. Worldwide Privatization Proceeds and Transactions, 1990-2003¹⁸



Taking into account the general context of privatization worldwide, analysts of the process in MENA are expected to provide answers to questions on its progress and implications, such as to what extent privatization has met the expectations of the various actors involved, how it has interacted with other elements of market-oriented reform, to what extent the privatization experience of MENA can be generalized in the effort to help explain privatization or reform outcomes in other regions. I would argue that privatization in this region has had the same parameters as in the majority of countries outside Western Europe and North America. The factors of success or failure have had the same impact, although the supply of these factors has varied and this accounts for the different privatization outcomes. I argue that privatization in MENA was designed as a strategy to introduce a certain amount of change, but not a lot – just enough to solve medium-term governance problems but at the same time to allow the governing elites to remain in control and preserve the major parameters of the state-society relations. To the extent that privatization was not threatening the *status quo* pragmatically-minded governments were willing to go opt for it. Materializing the liberal spirit that goes with the idea of going private, bringing the process to a successful end and within a reasonable period of

¹⁷ See, for instance, See Hydemann, Steven, op. cit. With regard to Latin America, similar views on privatization outcomes in Argentina, Brazil and Peru, especially those for rule and law and post-privatization regulation, have been formulated in Manzetti, Luigi (1999). *Privatization South American Style*. Oxford University Press.

¹⁸ Source - Kikeri, Sunita and Aishetu Fatima Kolo (2005). *Privatization: Trends and Recent Developments*. World Bank Policy Research Working Paper 3765, November, p. 6.

time, however, would require radical measures which incumbent elites were not prepared to undertake – this is what accounts for the ups and downs in the process as well as for some of its seemingly illogical policy choices and outcomes. It is exactly the efforts to carry out privatization in such a way that I earlier called “forcing freedom” - in a context in which the potential beneficiaries of the process were too weak and the potential losers of privatization - too strong, the government took the leadership in the design and implementation of the privatization program. The following paragraphs present the privatization experience of Egypt and Tunisia since the mid-1990s with the aim to help further explore the logic of politically controlled economic opening.

Privatization in **Egypt** started as an element of a structural adjustment program which the government had to undertake in the midst of the economic crisis of the 1980s in an effort to move away from state-sponsored socialism and a state-sponsored type of capitalism. The first phase (roughly 1990-1995)¹⁹ could be considered as the initiation phase during which the idea of privatization gained legality. The major milestone of this phase was Law 203 (1991) on the public business sector which permitted for the first time the sale of public sector assets, separated SOE ownership from management and paved the way for the corporatization of public sector entities. The constitutionality of privatization was confirmed, thus objections based on the constitutional provision that the public sector belonged to all people and that the government was responsible for the national economy were ruled out. The institutional structure of the public business sector was created - the SOEs targeted for privatization (314 SOEs called affiliated companies) were placed under the authority of 17 holding companies. The government launched an awareness raising campaign for all constituencies (workers, media, academics, parliamentarians) and studied the experience of countries in Latin America and Central Europe (Chile, Argentina, the Czech Republic, etc.). The regulatory and institutional infrastructure for a privatized economy was set up, including capital markets (the Cairo and Alexandria stock exchanges), brokerage houses, investment funds, clearance and depository institutions, etc. Various methods of privatization were tested - small share packages of SOEs (5 to 15 percent in 15 affiliated companies) in various industries (cement, paints, general chemicals, pharmaceuticals, etc.) were offered for sale in order to create a common language between the public sector and the market (for instance, to establish major financial ratios). In 10 affiliated companies (mainly in the Holding Company for Public Works) Employee Stock Ownership Plans (ESOPs) were registered; the first sales to strategic investors were completed (Pepsi, Coca Cola, Nasr Boilers). A comprehensive analysis of the state of each of the 314 affiliated companies, on which the government could base its choice of specific privatization techniques and sequencing decisions, was carried out.

In the second phase (1996 - mid-1997) privatization practically took off. Following a change of government a large number of transactions took place; the stock market became the center stage with numerous initial public offerings (IPOs), 30 of which led to a majority divestiture. Progress in restructuring the public sector was the major reason for the write-off of about four billion dollars of the Egyptian sovereign debt by the Paris Club in October 1996. The easiness, with which the deals were carried out, however, made expectations of investors and investment intermediaries, both national and foreign, overly optimistic. Demand for shares grew out of proportion and oversubscription in IPOs reached 100 times; herd mentality inflated asset prices and in mid-1997 the stock market collapsed. Nevertheless, in spite of the bitter experience for a number of people, this phase moved privatization forward - in addition to the physical transfer

¹⁹ The idea of such phases in the Egyptian public sector reform belongs to Mohammed Hassouna – senior privatization official at the Ministry of Investment.

of ownership in a large number of enterprises important lessons were learned though the trial-and-error method. For the private owners of stock these lessons included a better understanding of the perils of the market; for the government - the risks of market failure in case of excessive reliance on one particular method of privatization (for instance, IPO).

The third phase of Egyptian public sector reform lasted from mid-1997 to 2004. Easy privatization had been over and the government needed to come up with alternative strategies for pushing the program forward - it turned to anchor investors and tried to increase the number of ESOPs, particularly in rice mills and the transportation sector. Another important measure was asset unbundling as part of the process of restructuring and preparing SOEs for sale – thus, attractive parts (factories, production lines, etc.) were sold separately if there was no interest in the SOEs as a whole; the remaining unattractive assets underwent liquidation. The deals executed in this period, however, were much smaller than those in the previous one. Regardless of the large number of transactions, the generated revenue was low; in addition, toward 2001 the government ran out of individual companies or unbundled assets which could be considered as *cash cows* and sold without serious effort. Externalities played a role too – September 11, 2001 and the following recession in the industrialized world produced a general slowdown in privatization worldwide which did not bypass Egypt. Government's attention in the next couple of years focused to a greater extent on short-term measures aiming at attenuation of the effects of the recession rather than on radical restructuring of the public sector in preparation for further divestiture.

The officials in charge of the Egyptian privatization program believe that a new phase has started in 2004. It began with a change of government which introduced changes in the mechanism of privatization governance. The success of divestiture was to be judged in a more general context, in which progress had to account for the restructuring of SOEs and the introduction of sound corporate governance standards. As the easy privatization of Law 203 affiliated companies was over, the government decided to offer for sale its shares in joint ventures which were not initially supposed for privatization. It also accepted the possibility of privatization of companies and sectors which were previously considered as strategic, i.e. "untouchable" – for instance, in the petrochemical sector, construction, fertilizer production and banking. Particularly important was the decision to withdraw from ownership in seven joint-venture banks and offer public sector banks for sale. As a result, ten transactions took place in the period 2004-2006, including some of the largest banks in the country (Commercial International Bank, Misr International Bank, Bank of Alexandria, etc.). Telecommunications represented another important sector which was later open to divestiture – one of the largest deals in Egyptian privatization so far has been that of Egypt Telecom - over 20 percent of the generated revenue in this transaction (LE 9.7 billion) came from foreign investment.²⁰ On the flip side, the obvious progress in privatization since 2004 led to a revival of anti-privatization sentiments in society, although not to the magnitude, in which they were during the initial phase.

Table 1. Number and Type of Privatizations until 2004 in Egypt²¹

²⁰ The data on individual privatization transactions quoted in this paper is courtesy of the Egyptian Ministry of Investment.

²¹ Source – Privatization in Egypt. Quarterly Overview January-March 2004. Privatization Implementation Project, IBM/USAID, Cairo, p. 8.

Year	Majority Privatization (>51% sold)				Partial Privatization & Leases				
	Anchor Investor	Majority IPO	ESA	Liquidation	Majority Total	Minority IPO	Asset Sales	Leases	Partial Total
1991				4	4				
1992				1	1				
1993				1	1				
1994	3		7	2	12	1			1
1995		1	3	2	6	6			6
1996	3	14		1	18	6	1		7
1997	3	14	3	3	23	2	1	2	5
1998	2	8	12	6	28	1	3		4
1999	9		5	7	21		4	8	12
2000	5	1		3	9		6	8	14
2001	3		2	2	7		3	1	4
2002	1		2	1	4		4		4
2003							6	3	9
2004*		1			1	2		2	4
Total	29	39	34	33	135	18	28	24	70

Privatization in **Tunisia** started practically at the same time as it did in Egypt - also as part of a structural adjustment package. It was designed as a remedy to a bloated public sector which drained cash from the national budget and at the same time produced inefficiencies leading to a decrease of public support for the government. As in other MENA countries, the pace of divestiture in Tunisia has not been even. During the first phase of the process (1987-1994) as a result of reorganization and change of the definition of “public enterprise” the number of public sector companies shrank from an initial number of about 400 to a half. No particular plans and lists of candidates for divestiture were published and discussions on policy-related issues were minimal. Law N° 89-9 of February 1, 1989, relative to public sector participations, enterprises and establishments, laid the foundations of the regulatory framework for privatization. The government started with the sale of companies which were easy to privatize (for instance, hotels and commercial companies - mainly money-losing ones), and later moved to the textile and foodstuffs industry, transportation, construction materials, the chemical industry and the production of mechanical and electric appliances. Most of the deals involved sales of unbundled assets, i.e. of separate operating units. The authorities tried to attract attention to the program through negotiations with individual investors.

In the second phase (1994-1997) the Tunisian government turned to the sale of profitable enterprises. The regulatory framework of privatization became more sophisticated and allowed for different methods of divestiture. At this stage IPOs at the stock exchange and the sale of majority shares on the basis of tender offers became the preferred methods of privatization. Securities markets enjoyed a boom and as a result of the surging demand for shares the stock exchange indices reached a peak, which, unlike in Egypt, was not followed by a crash.

The third and current phase of privatization is considered to have started in 1998 with the sale of some of the largest companies in Tunisia, such as cement plants and power stations. As easy privatization was over, additional methods, including concessions and BOO (Build, Own & Operate) schemes, were explored – for instance, the concession for the second national GSM network. It is worth noting that from the very beginning the government was very cautious in

the use of the term “privatization” when talking about public sector reform – it preferred terms, such as participation and restructuring. At this third stage of the reform the authorities were no longer shy to use the term “privatization”, although attaching a different meaning to it - not only divestiture but also providing stimuli for private enterprise in specific sectors. Table 2 shows the results of the privatization effort of the Tunisian government until the summer of 2006.

Table 2. Privatization of SOEs in Tunisia from December 31, 1987 to July 10, 2006²²

Method of Privatization and/or Restructuring	Number of enterprises	in % of total
Total Privatization	99	49
Partial Privatization	39	19
Opening of capital by public offer	12	6
Concession	5	2
Liquidation	40	20
Others	6	3
Total	201	100

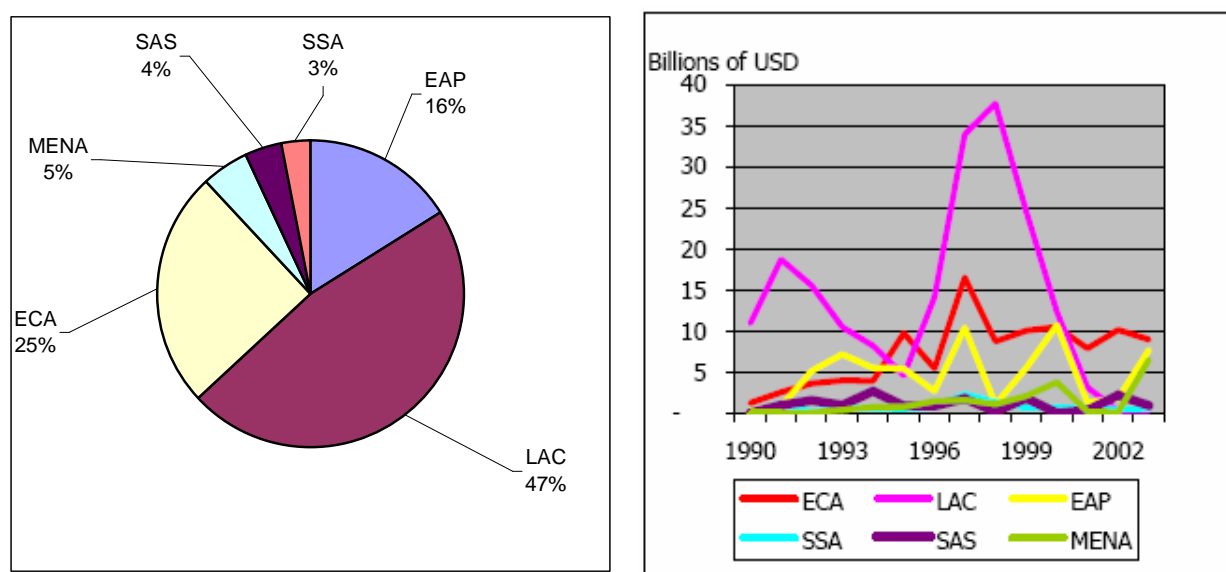
Compared to other regions, the process of privatization in MENA in general from the beginning of the 1990s to the mid-2000s has been both slower and less successful (figure 2). “The bulk of the transactions (worldwide) were concentrated in Europe and Central Asia where the early years of transition involved a massive transfer of small-scale firms to the private sector, followed by Latin America and Sub-Saharan Africa.”²³ No country in MENA has ever been among the global top ten countries generating revenue from privatization; none of the deals in Egypt or Tunisia have been even close to the ten largest transactions in the world in any of the last twenty years. Only two MENA countries have been among the top ten privatizers by generated revenue for any of the first four years of the 21st century – Saudi Arabia and Morocco following privatization respectively in the telecom and tobacco production sectors. Of the global proceeds from privatization for the period 2000-2003 5 percent came from MENA while 47 percent – from Latin America, 25 percent – from Europe and Central Asia, and 16 percent – from East Asia and the Pacific. In a nutshell, the region of MENA has been a laggard in the global trend toward privatization.

Figure 2. Proceeds from Privatization by Regions²⁴

²² Source - Government of Tunisia, Prime Ministry, Directorate General on Privatization (<http://www.privatisation.gov.tn/www/en/doc.asp?mcat=1&mrub=49&msrub=4&dev=true>).

²³ Kikeri, Sunita and Aishetu Fatima Kolo (2005). *Privatization: Trends and Recent Developments*. World Bank Policy Research Working Paper 3765, November, p. 5.

²⁴ *Ibid.*, p. 9.



Having done this brief presentation of the privatization process in the two country cases as well as that of the general privatization outcomes in MENA, we can further proceed with the analysis of these outcomes.

4. Politically Controlled Privatization: Why Would the Government Opt for It?

As it was already mentioned, the push toward privatization in MENA was initiated by those who seemed to be on the losing side of this policy in the short run, i.e. by the incumbent state elites who had benefited from the large public sector. At the same time, in a long-term perspective, privatization was supposed to bring substantial gains for parts of these elites - mainly for those whose power depended on the efficiency of government regardless of its scope. Reform was expected to benefit large masses of the population too through raising the efficiency of the national economy, providing business opportunities and jobs, creating conditions for avoiding state failures in the future. From a political point of view, privatization also plays the role of a safety valve in society - a mechanism through which possible political protest against a politically illiberal rule could be directed toward other targets. Thus, the incumbent elites concede to a certain loss of power resources in exchange for avoiding societal turmoil and receiving political credit for the adjustment to the changing domestic and international economic and political environment.

Politically controlled privatization in Egypt and Tunisia offers a clear illustration of the so-called “orthodox paradox” – the observation that in many developing countries progress in market-oriented reforms happens in parallel with and is contingent upon strengthening of the state and its control over economic activities.²⁵ Most of the privatization-related decisions –

²⁵ For details on “the orthodox paradox” see Kahler, Miles (1990). *Orthodoxy and Its Alternatives: Explaining Approaches to Stabilization and Adjustment*, in Nelson, Joan, ed. *The Politics of Economic Adjustment in Developing Nations*. Princeton: Princeton University Press, p. 33-62, and Callaghy, Thomas (1989). *Toward State Capability and Embedded Liberalism in*

from the overall program design, through the choice of specific methods of divestiture, to the timing of the execution of important transactions – have been made in such a fashion that important stakeholders in the process were not properly consulted or their participation has been closely monitored and kept in check.

Politically controlled privatization in MENA has been possible as governments operate in a domestic and international environment which has not provided significant pressures for a different kind of economic opening. On the domestic front, the nature of the political regimes has precluded the existence of a genuine opposition to the government. Even if we agree that since the beginning of the economic opening in the 1970s and 1980s in both Egypt and Tunisia no restrictions of the freedom of speech on economic reform matters have been practiced, formulation of meaningful alternatives to the policies of the government, especially those on such a sensitive issue as transferring public assets into private hands, and amassing public support for these alternatives requires such capacity of political parties and relevant interest groups which would take decades to achieve given the current nature of the relationship government-opposition.

From this perspective, if we compare of the public sector reform in MENA with that in CEE we cannot help noting the different context, in which privatization has been taking place, which accounts for the different incentives of the individual actors and the ultimate outcomes of the process. Public sector reform in CEE was happening parallel to a process of democratic transition - it was ideologically motivated as practically all actors involved had accepted the need for a market-based economy and a minimal state ownership. Privatization in this region, however, could not be politically controlled as in the 1990s none of the incumbents in government could expect to stay in office too long. Leaders in both MENA and CEE had a pragmatic attitude toward divestiture of SOEs but if for those in MENA pragmatism meant exercising control over privatization for the sake of remaining in office, for those in CEE it meant possibly manipulating privatization outcomes in their own favour, so that upon leaving office their political power could be substituted by economic power. After the end of the 1980s incumbent politicians in CEE have had shorter time horizons; their counterparts in MENA have had much longer time horizons which could, in theory, provide opportunities for a privatization, in which transfer of ownership would not destroy but create value. The social and political context of public sector reform in these countries, however, made this hard to achieve.

The external environment, in which reform in MENA has been taking place, has not been any more favorable for a different kind of public sector reform. The impact of this environment is usually associated with the practice of conditionality by IFIs and donor countries from Western Europe and North America in support for government's measures against the economic crisis. Multiple studies, however, have shown the limitations of such conditionality.²⁶ Unfortunately, there hasn't been significant work done on the relationship of Egypt and Tunisia with the IMF and the World Bank, for instance, but are no indications that this relationship has been able to produce an impact significant enough for a different kind of privatization. The conclusions from recent work on other countries in MENA and other regions generally go in this direction. Thus, on Turkey, for instance, Ziya Onis has noted that IMF sponsorship for the economic reform has

the Third World: Lessons for Economic Adjustment, in Nelson, Joan, ed. *Fragile Coalitions: The Politics of Economic Adjustment*. New Brunswick: Transaction Books, pp. 115-138.

²⁶ A review of such studies was done in Kahler, Miles (1989). *International Financial Institutions and the Politics of Adjustment*, in Nelson, Joan, ed. *Fragile Coalitions: The Politics of Economic Adjustment*. New Brunswick: Transaction Books, p. 139-159.

not played a significant role²⁷; Covadonga Meseguer has also shown that international pressures have not been very relevant in public sector reform in Latin America²⁸. According to Onis external pressures may have had an impact with regard to Turkey but only if they came from EC following the country's bid for accession to the union. These pressures, however, put Turkey in a context different from that in MENA and closer to that of CEE – a context allowing for much less autonomy in economic reform in the face of the strict EU requirements for policy harmonization.

In any case, this comparison brings a contribution to the discussion on sequencing of economic and political liberalization. Taking into account the experience of a number of countries in Asia, Latin America and CEE parallel reform has not been considered as a good strategy on behalf of developmentally-minded governments since the end of the 1980s. Most of the analysts who took part in the debates on this subject have expressed preferences for an earlier economic liberalization and a later political liberalization. The comparison of public sector reform in CEE and MENA has shown, however, that the process in CEE has remained an element of the overall effort toward radical liberalization and parallel to a genuine regime change while it happened in MENA exactly in order to avoid radical liberalization. Thus, in spite of the possible criticism on the pitfalls of parallel political and economic liberalization this comparison has convincingly demonstrated that the progress in each of these complementary processes can serve as a guarantee against policy reversal.

5. Two Decades of “Forced Freedom”: Continuity of Strategies and Institutions

I would argue that the process of privatization in MENA has demonstrated a significant degree of continuity since its beginning at the end of the 1980s. As the cases of Egypt and Tunisia have shown, the important elements of the privatization strategies and institutions underwent little change in the second decade of public sector reform and produced results generally expected by the incumbent elites. The previous explanations of the various aspects of privatization in MENA have kept their validity until present time.²⁹

The first aspect of this continuity can be found in the *stability of objectives*. Privatization as a step toward economic liberalization should be carried out in a generally non-liberal political environment. In the minds of the architects of public sector reform it was not supposed to lead to a completely liberalized economic and social environment but to serve pragmatic goals – to provide additional flow of cash for the government, to lower the welfare expectations of the public from the state, to shed a significant part of the responsibility for domestic developments from the ruling elites, to reconstruct the coalitions of support for the government and adjust

²⁷ Ziya Onis (2006). Beyond the 2001 Financial Crisis: The Political Economy of the New Phase of Neo-Liberal Restructuring in Turkey. Paper presented at the ISA Annual Convention, San Diego, CA, March 22-25, 2006, p. 13-14.

²⁸ Meseguer, Covadonga (2004). What Role for Learning? The Diffusion of Privatization in Industrial and Latin American Countries // *Journal of Public Policy*, 24 (3), p. 239.

²⁹ For instance, Harik, Ilya and Denis Sullivan, eds. (1992). *Privatization and Liberalization in the Middle East*. Bloomington: Indiana University Press; Waterbury, John. (1993) *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey*. Cambridge, England, New York: Cambridge University Press; Ercan, Metin and Ziya Onis (2001). Turkish Privatization: Institutions and Dilemmas // *Turkish Studies*, Vol.2, No.1; Belev, Boyan. *Forcing Freedom*, etc.

these coalitions to the changing project of the incumbent elites. A liberal economic environment usually goes together with a liberal political regime but the latter is exactly what the ruling elites in MENA have been trying to avoid – that is why from the very beginning privatization as an element of the liberalization agenda has been carefully measured, checked and balanced.

The governments in Egypt and Tunisia have generally succeeded in this the pursuit of these particular objectives. The privatization programs in the two countries provided significant flows of cash for the past two decades. For the period 1993 (the year of the first sales) - 2004 the total privatization proceeds in Egypt amounted to 17,297 Egyptian Pounds. For the period 1988 – mid-2006 the total proceeds from privatization in Tunisia were 2,483 million Tunisian Dinars. These are not insignificant figures for countries with revenue parts of the national budgets respectively 20 billion and 7.3 billion USD for 2005.³⁰ After two decades of debating privatization the masses are definitely less likely to put the blame for economic hardship on the political authorities only; welfare commitments have decreased without obvious risks for the government. The overall stability in the unemployment rates (respectively 9.5 and 14.2 percent of the total population in 2005), which has been observed for decades after government stopped priding itself in providing close to full employment shows that the government is neither capable to bring change, nor feels responsible for this situation. Unlike the situation in the 1960s and 1970s, when important pillars of the regimes were the urban middle classes and the masses of small agricultural producers, the new coalitions of support for the incumbent elites currently include representatives of big private business, which has consolidated over the years of economic opening with the help of the state. What is more important - the new coalitions of support do not have to be based on class or clear interest group identification. They are built instead on privileged clientelistic networks which extract rents and “capture a disproportionate share of the benefits of reform” thanks to access to those managing privatization.³¹ Although the objectives of increased productive efficiency and bringing competition to the economies have always been present in various government declarations, the authorities have been continuously inconsistent in the pursuit of these objectives.

Another feature of the process of privatization showing policy continuity is the *limited involvement of relevant domestic actors* in the process of decision-making and implementation. On the one hand, the two country cases offer probably the best examples in MENA of consultation of privatization-related decisions with representatives of the labor unions, although by the standards of mature market economies there is hardly a meaningful dialogue. On the other hand, the bulk of private business feels bypassed by the opportunities that usually go with privatization and criticizes the governments for designing the major privatization transactions in such a way as to pass large value at discount prices to specially picked client-investors. The special bodies in the executive in charge of managing privatization continue to enjoy a high degree of autonomy quite unusual for the rest of the state administration. The involvement of the Parliaments has been negligible after the adoption of the privatization-related legislation at the beginning of the 1990s. There have been no high profile cases, in which local courts have been required to make judgments on particular privatization transactions.

³⁰ At the end of year 2006 the exchange rate was 1 LE = 0.1751 USD and 1 TD = 0.7691 USD. This paper does not attempt to provide an exact evaluation of the importance of the cash flow from privatization for Egypt and Tunisia. One should take into consideration, however, that for the last twenty years both the Egyptian Pound and the Tunisian Dinar have depreciated against major convertible currencies by over 100 percent, i.e. the actual value in current US dollars should be greater than the nominal revenues based on the current exchange rate.

³¹ See Hydemann, Stephen, op. cit., p. 8.

Discretionary decision-making has remained as another important feature of politically controlled privatization in most of the developing world, including MENA.³² Egypt and Tunisia, for instance, have consistently applied a top-down approach in governing public sector reform – individual policy decisions to a greater extent follow the political agenda of the government than an internal logic of the process laid out in coherent programs for a period of 3-5 years at least. This was true at the end of 1980s – the beginning of the 1990s: in Tunisia no list of SOEs-candidates for divestiture was published and the government randomly picked the companies to be sold; in Egypt the government determined the scope of privatization - the 314 affiliated companies, drafted a list of about two dozens of them to undergo privatization in each of the following three years, but never went beyond that. This has also been true in the first years of the new millennium – in both countries the government has become more open with regard to its plans for future divestiture but the so-called companies of strategic importance are still subject of discretionary decisions as to whether and when to privatize. There has been no explanation, for instance, why the “strategic” sectors of telecommunications and banking were opened to divestiture but not that of petrochemicals. Another confirmation of the scale of discretionary decision-making was the obvious paradox that in 1996 privatization picked up speed after Kamal al-Ghazouli became Egypt’s Prime Minister, although he had been previously known as a strong defender of the public sector in his previous position as Minister of Planning.³³ The use of discretion allows the authorities to present the ups and downs in the process not as policy inconsistencies but as steps in the right direction, steps satisfying the claims of various, often opposing, constituencies, for which the government was always happy to take the credit.

Another clear sign of continuity in both Egypt and Tunisia has been the *persistence of the institutional structure* designed to carry out public sector reform. The agencies set up for this purpose at the end of 1980s - the beginning of 1990s have generally kept their shape and functions. In Egypt the SOEs supposed for privatization have remained within the 17 holding companies under the Ministry of the Public Business Sector, which was responsible for their management and preparation for divestiture. With the progress of privatization the number of ACs was supposed to shrink; the HCs would have accomplished their ultimate goal when all of their ACs have gone private. Although from the very beginning this structure of the public business sector obviously created disincentives for the HCs to actively push for privatization, it still exists. The operational management of privatization was initially exercised by the Public Enterprise Office (PEO) within the same ministry. After the reorganization of administration following the change of government in 2004 the Ministry of Investment replaced the Ministry of Public Business Sector to include two more portfolios (investment *per se* and non-banking financial services); the PEO was renamed as “Asset Management” but the bulk of its functions remaining unchanged. The procedures that an AC had to go through in the process of divestiture have not undergone significant changes either.

The mechanisms through which privatization in Tunisia has been carried out also underwent little change. From the very beginning the Commission for the Adjustment and the Restructuring of Enterprises with Public Participation (CAREPP) has been the decision-making body; it was assisted by a technical commission which included experts from the relevant

³² See Waterbury, John, op. cit., p. 21-22.

³³ Sullivan, Denis (1992) *Extra-State Actors and Privatization in Egypt*, in Harik, Ilya and Denis Sullivan, eds. *Privatization and Liberalization in the Middle East*. Bloomington: Indiana University Press, p. 37.

ministries and other government bodies. The fact that the Prime Minister chairs CAREPP as well as the fact that the Minister of the Interior holds a seat on this commission underlies the commission's political role in the governance of the process. From the very beginning the operational management of privatization has been carried out by a directorate general within the administration of the Prime Minister while individual sector ministries have been responsible for the activities involved in the preparation of the individual transactions. As in the Egyptian case, the procedures, through which individual transactions were executed, did not undergo significant changes either. This stability of privatization institutions and strategies may have generally contributed to better coherence and lower transaction costs in the implementation of the reform measures, but at the same time it was instrumental for strengthening the political control over time.

6. Efficiency of Privatization: The *Pros* of Political Control

I would argue that political control over privatization has the potential to bring greater efficiency to the reform process. This efficiency can be measured by the amount of time necessary to carry out a specific privatization transaction or by the resources necessary to commit for its successful execution. Management of a privatization program involves transaction costs which can be larger or smaller depending on the possible obstacles coming from the opposition of potential "losers" or interests entrenched in the *status quo*. If a developmentally-minded government has a long-term time horizon it may be able to bring these costs down by undercutting opponents' ability to voice protest or by disregarding their action in the pursuit of specific privatization objectives. It can opt for such a model of privatization, which would bring greater benefits in the long run, concentrate resources on critical avenues of public sector reform for optimal results, focus on the choice of the most appropriate methods of divestiture and timing for each particular transaction, correct past mistakes without significant risks or waste of resources.³⁴ I would argue that most of the countries in MENA achieved a high degree of such efficiency, although there were variations, including differences between our two country cases.

A more strictly controlled privatization is likely to be carried out through methods leading to more concentrated forms of ownership. The comparison of the Egyptian and the Tunisian experience until mid-1990s has confirmed this hypothesis. In Egypt, where political control over privatization was weaker, the government more often opted for methods, such as ESOPs and sales of shares on the stock exchange, which led to a more dispersed post-privatization stock ownership.³⁵ The next decade of privatization experience has confirmed that if the government does not have sufficient motivation for greater economic liberalization and the potential beneficiaries of privatization are not strong enough to push for a radical public sector reform, the choice of methods leading to dispersed ownership could create major roadblocks on the way to successful privatization.

In Egypt ESOPs were among the preferred methods of privatization in the early 1990s (28 until 1999, 4 in the years to follow – see table 1). This method of divestiture was a response to populist pressures on the government and an attempt to calm down fears that privatization

³⁴ Similar argument has been formulated in the literature on the developmental state by Stephan Haggard, Robert Kaufman, Peter Evans and others.

³⁵ See Chapter 6. Choice of Specific Privatization Strategies: Overcoming Resistance and Adding Momentum, in Belev, Boyan, op. cit.

would result in massive layoffs, so there seemed to be a wide public acceptance of the transformation of SOEs into companies owned by the management and the employees. Gradually, however, the post-privatization performance of these companies started to deteriorate. As the state ceased to create demand and provide subsidies, quite a few of them started to face difficulties. A number of these companies had been created in the past in disregard of the business environment and the real demand for their output. As after divestiture the management was not able to find solutions to demand problems at the beginning of the 2000s a number of ESOPs came up with the idea of renationalization. A situation in which the new private owners propose that the state take back divested assets should be a clear sign of policy failure caused by the government's decision to opt for more participatory methods of divestiture. Thus, toward 2005-2006 the government admitted to the necessity to bail some of the new private owners out and proceeded with renationalization of four such companies.³⁶ From a different perspective, this act could be interpreted as a step in the right direction – a correction of past mistakes. Such a correction would be politically very costly and hardly possible if the government's grip on the management of privatization was weaker. In similar circumstances in CEE, for instance, unsuccessful privatizations through ESO plans led in most cases to bankruptcies due to the government's general inability and lack of will to undertake radical corrective action.

The greater risks associated with privatization through IPOs on the stock exchange also became evident in Egypt where government's control was weaker than in Tunisia. When privatization picked up speed in 1996 a large number of private investors purchased shares on the stock market; the newly created investment funds also contributed to the increase of public involvement, although indirect, in the process. Given the immaturity of Egyptian financial markets, in particular, the weak regulatory framework, the market participants and market intermediaries with insufficient experience, on the one hand, and the decreased capability of the government to influence trading activity involving privatized shares and the increased pressure of speculative demand, on the other hand, the stock market could not escape a collapse due to inflated asset prices. As a result, interest in further participation in privatization decreased sharply following the significant losses incurred by numerous investors. Similarly, in another country of the region – Turkey – privatization through IPO caused problems too as the excessive enthusiasm resulted in a collapse of the share prices right after the first offerings were launched in 1988, which postponed further sale of public assets on the stock exchange for a significant period of time.³⁷ Such a development was avoided in Tunisia, however and a stock market collapse in similar circumstances in the mid-1990s was avoided due to the stricter control on practically all aspects of the program and the more balanced choice of privatization instruments, including the lower number of privatizations through IPOs. Thus, the total amount of IPOs in Egypt was 57 while in Tunisia the respective number was only 12; at the same time the absorptive capacity of the Tunisian capital market was much higher than that of the Egyptian capital market – for the years from the mid-1990s to 2005 the stock exchange capitalization in Tunis was close to 10 percent of GDP while the respective numbers for Egypt since the mid-1990s were always above 25 percent of GDP.³⁸

³⁶ Interview with a privatization official in Egypt.

³⁷ See Onis, Ziya. (1991). The Evolution of Privatization in Turkey: The Institutional Context of Public Enterprise Reform // *International Journal of Middle East Studies*, Vol. 23, 1991, p. 167-168.

³⁸ Sources: Egypt Capital Market Annual Report, 2001, p. 6 (http://www.cma.gov.eg/cma/content/english/about_cma_en/cma_reports_en.htm); Bourse de

Thus, the comparison between Egypt and Tunisia shows that greater government control can be instrumental for greater efficiency of the process. A comparison with the experience of CEE further confirms this conclusion. First, most of the countries in CEE, where political control over policy choices in the course of the economic reform was weaker, opted for “mass privatization” – a scheme, through which adult citizens could receive small packages of shares of individual companies. Most of the mass privatization campaigns were admittedly failures, mainly for reasons of lack of a regulatory framework guaranteeing sound post-privatization corporate governance.³⁹ Second, in CEE privatization through ESOPs was also a preferred method of divestiture. A few years later, however, the bulk of these companies faced bankruptcy; in most cases this was a result of deliberate asset stripping by the management. The fact that this happened on a massive scale in CEE and the former USSR allowed critics of privatization in these countries to argue that the government had abdicated from its political responsibility for managing privatization and practically caused the failure of whole segments of the former public sector.

7. Effectiveness of Privatization: Routinization of the Process or the *Cons* of Political Control

I would argue that political control of privatization brings lower effectiveness to the process, i.e. lower likelihood of success in building capacity of the individual actors to function according to the rules of a market economy and adequate transformation of the business environment. Public sector reform in a number of MENA countries started as an element of the structural adjustment package negotiated with the IFIs. Structural adjustment, however, happens within a certain temporal framework.⁴⁰ Its first stage, associated with economic and financial stabilization, usually takes place within a short period of time (months) while the second stage, associated with incentive changes at a micro-level in the economy, including privatization, should last a few years at most. In a number of MENA countries, including Egypt and Tunisia, however, this temporal dimension of reform was lost and privatization became a more or less permanent state of affairs. Private companies are supposed to seek profit maximization and for this purpose to look for adequate opportunities on the market; SOEs are supposed to pursue certain social objectives and sometimes disregard possible opportunities for profit maximization. During the prolonged co-existence of both privatized and non-privatized companies, practically operating in the same economic environment but under different rules, major incentives for doing business were distorted and neither of these two sectors could function in the best possible way. Obvious results of such coexistence can be shortages of essential products, drain on public finances, creation of parallel markets for the same products, siphoning off resources from SOEs and externalization of liabilities by related private companies.

Political control is exactly what prevents governments to finish the implementation of the privatization program within a reasonable period of time. If privatization policies are adopted

Tunis. Rapport d'Activite 2004, Annexe Statistiques, p. 2 (<http://www.bvmt.com.tn>); Central Bank of Tunisia (<http://www.bct.gov.tn/j2ee/sitebct/english/indicateurs/comptes.jsp>);

³⁹ The bitter experience of Bulgaria in this regard, for instance, has been analyzed in Belev, Boyan (2003). Institutional Investors in Bulgarian Corporate Governance Reform: Obstacles or Facilitators? // *Journal of World Business*, 38, pp. 361-374.

⁴⁰ See Nelson, Joan, ed. (1990). *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World*. Princeton, NJ: Princeton University Press, p. 7.

for the purpose of raising cash mainly, then their consistency depends on the economic pressures on the government – as soon as these pressures are eased, there is little reason to go on selling SOEs. A large portion of the transactions in Egypt and Tunisia happened exactly because of the need to cover budget deficits - for instance, the sale of 35 percent of Tunisia Telecom to Orascom in 2005 which brought large cash inflows. If privatization is motivated only by an external factor, e.g. IMF or World Bank conditionality, then incentives for consistent privatization may be even lower. A government may accelerate privatization in the expectation of an IMF loan – this was the motivation of the Egyptian government in 1996-1997 when it began offering shares of a large number of companies on the stock exchange. Depending on the specific circumstances, however, the government may find it less difficult to swallow the loss of a tranche of foreign funding than to proceed with privatization of a specific sector or even a SOE.

If we compare the length of the process of privatization in MENA to that in CEE we will see a big difference. In CEE it was generally over within a few years while this did not happen in MENA. In Tunisia, for instance, the government's definition of privatization gradually evolved from "divestiture of assets in the public sector" to "general policies of encouragement of the private sector". With this new understanding of the meaning of privatization any change in the regulation of the public or private sector could be presented as a step in the right direction. It is true that in CEE there were certain state-owned companies which could not be privatized together with the bulk of SOEs as these were large companies in very specific sectors (e.g. utilities, tobacco, energy, telecoms, airlines, etc.) but state ownership over these companies was an exception in a generally privatized economy. As the experience of CEE countries has shown, the longer the governments delayed privatization of these companies, the lower the price they would get and the lower the likelihood that these companies would survive the competition with the growing domestic private business or with foreign companies in the same sectors.

As it was already mentioned, the experience of MENA has shown that the lack of progress toward political reform has made economic liberalization possible only to the extent that it served the preservation of the political *status quo*. Privatization has thus turned into a permanent state of affairs rather than a process happening within a reasonable period of time, an element of the government's public relations strategy designed to show similarities in policy choices in MENA with those in more advanced countries rather than an instrument for bringing competition to the economy and dynamism to society, to liberate private initiative and restrict government intervention to the very limited area, in which the state could be more efficient than the private sector. The existing societal arrangements of the public sector reform have managed so far to achieve a satisfactory depoliticized accommodation of opposing interests and prevent interest group consolidation within a seemingly never ending process of privatization. The important question in this situation is for how long this will continue as it is hardly sustainable for a long time.

8. Conclusion

Two decades of privatization experience in MENA are a period long enough for a judgment on its results and perspectives. My research on the latest ten years of implementation of the privatization programs in MENA has generally confirmed the conclusions drawn earlier on the nature of the process, the facilitating role of depoliticization of economic policy outcomes, the *pros* of a centralized approach in the governance of the program and the importance of the choice of specific strategies and methods of divestiture for post-privatization performance. The

most important feature of privatization in these countries has been the political control which shaped the major parameters of the process from the very beginning. This is what made it possible for the governments to pursue a public sector reform, which is usually seen as the core element of liberalization policies, with the objective of not going too far with liberalization, i.e. to use some of the instruments of change exactly in order to avoid radical change.

A comparison of the privatization experience of the two country cases in the Arab world - Egypt and Tunisia, with that of other regions, CEE for instance, can be instrumental for throwing light on important aspects of the process in MENA. An attempt for such a comparison has been done without focusing on individual country cases from CEE as the outcomes of privatization in this region have generally been quite clear and the extensive literature on public sector reform in CEE since the beginning of the 1990s has reached a common understanding of the dynamics of privatization in that region, including on causes, mechanisms and to a smaller extent on outcomes. Privatization based on discretion and motivated mainly by political considerations cannot be an effective element of market-oriented reform. The conclusions drawn from the comparison of privatization outcomes from MENA and CEE can further feed the debate on the interaction between economic and political liberalization and the role of sequencing in undertaking reform measures. It questions the prevailing belief among analysts at the turn of the century that parallel political and economic liberalization involves too many risks for both and that successful reform is more likely to happen under a less politically liberal, but developmentally-minded government.

My research has shown that politically controlled privatization has its own *pros* – mainly due to the possibility to achieve greater efficiency and lower transaction costs as the government does not need to provide professional justification for all of its steps and does not have to put too much effort in negotiating the parameters of the privatization program with other actors in society. In case the authorities have the motivation to pursue a consistent reform in a specific sector or dispose of a given SOE in the possibly most efficient way they face fewer constraints in choosing the most appropriate method of divestiture. In case of obvious mistakes in the implementation of the program, such as excessive reliance on ESOPs, for instance, they can undertake corrective action, including renationalization of individual companies, without serious political risks or consequences for the future of the program.

On the flip side, politically controlled privatization tends to have low effectiveness. Like in most of the MENA countries, the process in Egypt and Tunisia started for pragmatic reasons, i.e. the governments were looking for a way to deal with an economic crisis. As soon as the pressures coming from the domestic and the international environment were temporarily eased, some of the hard choices in the course of privatization started to look avoidable. Thus, from a means for achieving specific economic objectives within a reasonable period of time, such as market competition, greater economic efficiency, better allocation of resources, etc., public sector reform turned into a permanent state of affairs, an instrument for justification of economic hardship to the public and relieving itself from responsibility for policy outcomes. In spite of the two decades of experience, privatization in these countries is not close to its end as well as the social and economic benefits generally resulting from a public sector reform are not likely to be achieved any time soon.

In the course of the twenty years of history of the process in MENA privatization has evolved from a hot topic for researchers to a routine issue. With regard to CEE analysts can still complain that the long-term implications of privatization, especially those relevant for the configuration in state-society interaction, are understudied mainly due to insufficient data, lack

of willingness to throw light on the recent past and insufficient resources for research. With regard to MENA, however, the mere need to put further effort in studying privatization can be questioned as the process of ownership transfer in its current shape is unlikely to add new momentum to the movement on the continuum from the state to the market at a macro level in a foreseeable future. Furthermore, we can hardly expect interest in important issue areas of the political economy of the region to increase if economic reform measures are undertaken only with the purpose of successful accommodation of the current patterns of governance to the changing domestic and international environment rather than changing these patterns of governance for the sake of successful adaptation of the national policies to the imperatives of a globalized world.

Annex IInterviews with Experts on Privatization in Egypt and Tunisia (July-August 2006)

Essam Montassir – American University in Cairo, Egypt

Mustapha Kamel As-Sayyid – Cairo University / Center for the Study of the Developing Countries, Egypt

Maryse Louis - Economic Research Forum, Egypt

Mohammed Hassouna - Ministry of Investment, Egypt

Odoardo Como – Delegation of the European Commission, Tunisia

Fabian Seiderer – Delegation of the European Commission, Tunisia

Bashir Seid - Director General of Privatization, Prime Ministry, Tunisia

Taieb Zitouni - International Maghreb Merchant Bank

Maher Fki - Union tunisienne de l'industrie, du commerce and de l'artisanat (UTICA), Tunisia

Yann Lepape - financial counsellor, Embassy of the French Republic, Tunisia

Annex II

Selected Documentation on Privatization in Egypt and Tunisia

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