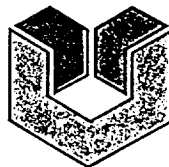


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مؤسسة فريدريش نارمان
FRIEDRICH-NAUMANN-STIFTUNG

REPORT OF THE
EXPERT GROUP MEETING ON INSTITUTIONAL
ASPECTS OF PRIVATIZATION IN THE ESCWA REGION
BEIRUT, 1-3 DECEMBER 1997

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I. ORGANIZATION OF WORK

1. The Expert Group Meeting on Institutional Aspects of Privatization in the ESCWA Region was organized jointly by the United Nations Economic and Social Commission for Western Asia (ESCWA), the Friedrich Naumann Foundation of Germany and the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon. The Meeting took place in Beirut from 1 to 3 December 1997.
2. The Meeting addressed four institutional aspects of privatization. These included institutional aspects of applications of privatization; the role of the State and the efficiency of the institutions in charge of privatization; the employment aspects of privatization; and the role of financial institutions in the privatization process. These issues were addressed by specific studies prepared for the Meeting. Several case studies dealing with the experiences of Egypt, Jordan and Oman were developed specifically for the Meeting, and a comparative analysis was also conducted to review the recent experience of Turkey in the privatization process.
3. The participants included a large number of representatives from the private sector in the region, as well as from academia, Government departments concerned with privatization, representatives of non-governmental organizations (NGOs), banks, chambers of commerce, ministries and research institutes. Also present were representatives of regional and international agencies, including the United Nations Conference on Trade and Development (UNCTAD), the International Labour Organization (ILO), the World Bank, the Arab Monetary Fund (AMF), the Department of Economic and Social Affairs (DESA) of the United Nations Secretariat, and members of the press.
4. The participants in the Meeting formulated a number of recommendations for policy makers to assist them in determining the future course of the privatization process. The Meeting urged the national, regional, and international organizations present to continue supporting efforts in the region to achieve efficiency in the process of privatization.
5. The main discussion points of the Meeting are summarized below, followed by the policy recommendations formulated by the participants. The proceedings of the Meeting are a joint publication of ESCWA and The Friedrich Naumann Foundation. The documents presented at the Meeting, listed in annex I of this report, are available from ESCWA upon request.

II. ACCOUNT OF PROCEEDINGS

A. ISSUES, CONCEPTS AND TRENDS IN THE ROLE OF THE STATE

6. The Meeting began with the presentation of a conceptual framework for the process of privatization, placing this process in the context of the State's disengagement from direct intervention in the market place as producer and trader. The key functions of the State were reviewed, showing that from a historical perspective two trends had been at play. The first of these concerned the evolution of the role of the State, which, in a process that began in the sixteenth century, expanded beyond the use of power and coercion for protection of territory (external security) and property (internal security) into the areas of social justice and economic growth. The second trend concerned the emergence of the State's role as arbitrator and referee in the market place. Key factors in the transition from socialist models of development to a reliance on free market mechanisms were identified as the technological revolutions in production and communications, leading up to the process of globalization. It was stated that globalization reflected in the accelerated growth in trade and capital flows and in the speed with which information needs to be accessed and processed for competitive decisions to be made by producers, traders, financiers and managers. Several implications for the role of the State were identified in a globalized economy.

(a) The State could no longer afford to insulate the national economy from the global market without risking total marginalization;

(b) The State had a much greater responsibility for regulating markets, providing an institutional framework that is enabling, and reducing transaction costs. As a result of technological change, and at the expense of the direct cost of production, transaction costs had been shown to account for an increasing share of Gross Domestic Product (GDP) across all countries;

(c) The State must allow greater participation of interest groups and the institutions of civil society in economic, political and social decisions in order to ensure balance and an appropriate division of responsibilities among the various actors. It was stated that democratization of the political process was the best option to raise the level of efficiency of State services, as well as to increase the degree of transparency, accountability and credibility;

(d) Privatization could not be considered as the simple transfer of ownership assets from public to private management; it must encompass a comprehensive reform of all those institutions that bear directly and indirectly on the behavior of the actors in the market place.

B. PRIVATIZATION, STABILIZATION AND STRUCTURAL ADJUSTMENT

7. A number of questions were raised concerning the relationship between macroeconomic policy and privatization. These included:

- (a) The nature of the linkages between privatization and structural adjustment;
- (b) Private sector versus public sector ownership;
- (c) The role of privatization in improving efficiency in the performance of enterprises;
- (d) The method of evaluation of the success of a privatization programme;
- (e) Privatization versus structural adjustment: effects on unemployment;
- (f) Prediction of short-term and long-term effects of privatization;
- (g) The relationship between privatization and the development of stock markets.

8. It was agreed that the objectives of privatization were consistent with the overall objectives of macroeconomic liberalization and an outward orientation of the economies of the ESCWA region. These objectives were identified as:

- (a) Breaking up state-owned monopolies and increasing competition;
- (b) Dynamizing emerging financial and stock markets;
- (c) Mobilizing savings and investments;
- (d) Reducing the burden on current and capital budget accounts;
- (e) Hardening the budget constraints on enterprises.

9. The view was expressed that as a consequence of the negative impact that political and social conditions have had on the financial performance of state-owned enterprises in the ESCWA region, divestiture can imply a real savings in budgetary resources. Given an appropriate institutional/regulatory framework, greater autonomy is conducive to improvement in the allocation of resources.

10. In addition, it was reported that for every component of a macroeconomic adjustment programme a clear distinction existed between the policy measures and the institutional measures that needed to be introduced. Policy measures had been relatively easier to implement than institutional measures. In the ESCWA member countries that had implemented adjustment programmes, a lag in completing institutional reforms, such as in the trade regime, investment regime or financial sector, could be observed. It was stated that the introduction of rationalized, clear and transparent legislation, simple regulations and regulatory and enforcement procedures was needed, and that implementation bodies and organizations should be kept to a minimum. Full autonomy for such institutions as the judiciary and the central bank was important in monitoring the banking sector and monetary and exchange rate policies. It was stated that in order to avoid the exploitation of consumers, it was of equal importance to guarantee the independence of regulatory bodies established to supervise privatized monopolies or oligopolies.

11. It was reported that evidence from Egypt and Jordan was inconclusive on the question of whether privatization would increase unemployment. Privatized enterprises had had limited problems of redundant labour; unemployment was much more closely linked with the short-term, necessary impact of the fiscal and monetary restraints contained in reform packages. However, strategic planning for redeployment of labour was of paramount importance for the success of privatization programmes. At the political level, trade unions could be a constraint and source of effective resistance to privatization. At the economic level, it was necessary to establish institutions and programmes to build entrepreneurial spirit and reduce reliance on Government and public enterprise as the employers of first resort. Finally, at the social level, preparing the ground for privatization was essential for social stability and social justice.

12. The following methods of resolving employment issues were proposed:

(a) Raise the level of attrition by freezing recruitment and offering early retirement plans. If implemented alone, this could be a very slow process;

(b) Offer attractive and fair severance pay schemes with a clear and early warning of the necessary lay-offs. The distribution of shares at preferential rates to workers could be incorporated in this second group of measures;

(c) Design measures to increase the mobility of the labour force, including vocational training and job-creation schemes: to provide extension services in business and management; and to ensure the availability of credit, especially for microenterprises.

Comparisons with other experiences of privatization in the region revealed that Egypt had applied the measures in items (a) and (c) with reasonable success. In its first phase of privatization, Egypt had also chosen to privatize those firms that were more profitable, thereby reducing redundancy in the labour supply.

13. The nature of the links between privatization and financial sector reform was reviewed. A two-way positive relationship between successful privatization and capital market development was shown to exist. It was stated that:

(a) Privatization could provide one of the most effective ways of vitalizing stock markets in the ESCWA member countries;

(b) Properly-functioning stock markets represented one of the best mechanisms for valuing and selling the shares of public sector enterprises. These stock markets could also provide a transparent environment where the performance of enterprises would be under the direct influence of market forces, promoting accountability and efficiency.

It was stated that for privatization to proceed smoothly and speedily, it would be essential to introduce a comprehensive set of institutions that governed as well as promoted financial market development.

C. THE INSTITUTIONAL ENVIRONMENT NECESSARY FOR PRIVATIZATION

14. In evaluating the environment in which a privatization programme was to be undertaken, it was proposed that the following key questions should be taken into consideration:

- (a) The criteria used to measure the efficiency of institutions;
- (b) The status of institutional efficiency in the ESCWA member countries;
- (c) The identification of institutions that have outlived their usefulness and need to be discarded;
- (d) Proof of the ESCWA members' commitment to institutional reform, and identification of the sources of resistance to reform;
- (e) Elements of the institutional environment that would be constraints to private sector dynamism;
- (f) Elements of the institutional environment that must be revised to meet the challenge of globalization (harmonization and standardization in trade, finance and investment regulatory frameworks);
- (g) The specific institutional measures that impacted on the process of privatization.

15. The Meeting proposed that the overall institutional environment should be regarded as one comprehensive package, as working piecemeal on problems in one sector rather than in all sectors had been observed to be ineffective. It was also reported that some ESCWA member countries had made significant progress in rationalizing and modernizing their legislative frameworks, but that much work was still needed. The following reforms were proposed: introducing a competition policy (antitrust laws and regulations); making the bureaucracy more accountable for its performance; streamlining the institutional framework by eliminating the remaining pockets of public sector monopoly; and reducing administrative discretion as well as excessively centralized decision-making and inconsistency among laws and regulations. It was proposed that the objective should be to revise both the decision-making process and implementation procedures in order to maximize transparency and minimize the cost of transactions.

III. RECOMMENDATIONS TO THE ESCWA MEMBER COUNTRIES

16. The Expert Group Meeting on Institutional Aspects of Privatization in the ESCWA Region submitted the following recommendations:

- (a) Legal framework. The legal mandate should be secured in the form of a privatization law, decree or appropriate legislative cover;
- (b) Decision-making apparatus. The Government(s) should develop a high-level decision-making body to ensure that decisions are made in a transparent manner, representing the interests of all sectors of the economy and all stakeholders;

(c) Implementation capacity. Governments should form centralized implementation agencies to ensure that privatization policy is implemented in an efficient and transparent manner. Firms designated for privatization should be studied carefully, and plans should be thoroughly prepared before undertaking privatization. Ministries and firms should coordinate their plans and endeavour to follow the best-practice approach to implementation. Emphasis should be placed on transparency/disclosure and accountability;

(d) Regulatory framework. Governments are advised that a key institutional element is the regulation of privatized firms and the protection of consumer interests, especially in the case of monopolies. Regulatory agencies should receive Government support in the allocation and provision of resources, appointment of staff and the setting-up of information systems;

(e) Effective public information. All efforts should be made to communicate to the public the goals, objectives, benefits and methods used for privatization. Public information should be targeted at the general public as well as at the main stakeholders, elected representatives, intellectuals, labour and NGOs;

(f) Adherence to commitments. Once a programme of privatization is undertaken, Governments should state their political commitment to its goals and targets. They should respect their commitments to the public and where departures are necessary, the rationale behind the changes should be carefully explained;

(g) Emphasis on investment. Governments should emphasize the role of investment as a vehicle for job creation, promoting an environment that is favourable to investment as well as to a free capital market;

(h) Creation of a social safety net. Governments should establish a social safety net to help alleviate some of the short-term costs of privatization;

(i) The limitations of privatization. Governments should recognize that there is a need to create complementarity between privatization and other economic reform policies, such as antitrust measures and the preservation of intellectual property rights;

(j) Properly functioning, deep financial markets. Such markets are a prerequisite to the success of privatization programmes in the region;

(k) Biennial meetings. The ESCWA member countries should schedule joint meetings between representatives of the private sector and their Governments once every two years in order to assess their respective experiences in the area of privatization;

(l) The role of ESCWA. ESCWA was requested to assist in the organization of these meetings and in enabling the Government departments concerned to carry out the privatization process successfully.

Annex I*

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Annex II

LIST OF DOCUMENTS

Role of Financial Markets in Privatization in the ESCWA Region	E/ESCWA/ED/1997/3
Private sector views and experiences on privatization and institutions in the ESCWA member countries	E/ESCWA/ED/1997/WG.2/2
Social aspects of privatization	E/ESCWA/ED/1997/WG.2/3 (not used)
Institutional aspects of privatization: a comparative approach in the ESCWA region	E/ESCWA/ED/1997/WG.2/4
Economic transformations: the role of social organizations within the context of privatization	E/ESCWA/ED/1997/WG.2/5
The impact of privatization on unemployment in Egypt: 1997	E/ESCWA/ED/1997/WG.2/6
Employment issues in privatization: case study of Jordan	E/ESCWA/ED/1997/WG.2/7
Project financing and risk analysis	E/ESCWA/ED/1997/WG.2/9
The role of the State in economic activity: basic premises	E/ESCWA/ED/1997/WG.2/10
Privatization and employment in the ESCWA region a comparative study of Egypt and Jordan	E/ESCWA/ED/1997/WG.2/11
Fiscal and monetary policies and capital market development	E/ESCWA/ED/1997/WG.2/12
Efficiency of institutions and the privatization process: the Turkish Privatization Administration in the critical perspective	
Notes on the privatization of Jordan Hotels and Tourism Company	

Annex III

PROGRAMME OF MEETINGS

Monday, 1 December 1997

10.00 – 10.00 a.m. Registration
10.30 – 11.30 a.m. Opening Ceremony

Chair: Mr. Zeki Fattah, Chief of the Economic Development Issues and Policies
Division of ESCWA

First Session

Statements:

Mr. Ulrich Vogt, Representative to Lebanon of the Friedrich Naumann
Foundation

Mr. Adnan Kassar, President of the Chamber of Commerce, Industry and
Agriculture of Beirut and Mount Lebanon (Speech presented by Mr. Robert Dabas,
Deputy President)

Mr. Hazem El-Bablawi, the Executive Secretary of ESCWA

His Excellency, Mr. Fouad Siniora, Minister of State of Lebanon for Finance

11.30 a.m. – noon Break

Noon – 12.45 p.m. Institutional aspects of privatization: a comparative approach in the ESCWA
Region (Mr. Mohamed Radwan)

12.45 – 1.15 p.m. Discussion

1.15 – 2.15 Lunch

Second Session

Chair: Mr. Zeki Fattah

2.15 – 2.45 p.m. Efficiency of institutions and the privatization process: the Turkish Privatization
Administration in critical perspective (Mr. Metin Ercan)

2.45 – 3.00 p.m. Comment by Mr. Basil Al-Bustani, Professor, Applied Science University, Amman

3.00 – 3.30 p.m. Discussion

3.30 – 3.45 p.m. Break

Monday, 1 December 1997 (continued)

- 3.45 – 4.15 p.m. The role of the state in economic activity: basic premises (Mr. Hazem El-Beblawi)
- 4:15 – 4.30 p.m. Comment by Ms. Heba Handoussa, Managing Director of the Economic Research Forum for the Arab countries, Iran and Turkey
- 4.30 – 5.00 p.m. Discussion
- 5.00 – 5.15 p.m. Break
- 5.15 – 6.05 p.m. Privatization and employment in the ESCWA region: a comparative study of Egypt and Jordan (Mr. Ibrahim Awad)
- 6.05 – 6.25 p.m. Comment by Mr. Gunther Fischer, Economic Affairs Officer, Division on Investment, Technology and Enterprise Development of the United Nations Conference on Trade and Development (UNCTAD)
- 6.30 – 7.00 p.m. Reception, hosted by the Friedrich Naumann Foundation

Tuesday, 2 December 1997

Third Session

Chair: Mr. Ulrich Vogt

- 9.15 – 10.05 a.m. The impact on privatization on unemployment in Egypt (Mr. Dan Tschirgi, Egypt; Mr. Riad Al Khouri, Jordan)
- 10.05 – 10.25 a.m. Comments by Mr. Kamal Shehadi, Research Director of the Lebanese Center for Policy Studies (LCPS)
- 10.25 – 10.50 a.m. Discussion
- 10.50 – 11.05 a.m. Break
- 11.05 – 11.35 a.m. Presentation by Mr. Abdul Hafeez Shaikh, Representative of the World Bank in Saudi Arabia, on privatization and unemployment in the ESCWA region
- 11.35 – 11.50 a.m. Comment by Mr. Yusuf Mansur of the Ministry of Planning of Jordan
- 11.50 a.m.- 12.20 p.m. Discussion
- 12.20 – 12.50 p.m. Economic transformations : the role of social organizations within the context of privatization (Mr. Basil Al-Bustany)
- 12.50 – 1.05 p.m. Fiscal and monetary policies and capital market development (Mr. Ashraf Shamseldin; presented by Mr. Mohammad Quotah)
- 1.05 – 1.35 p.m. Discussion
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Tuesday, 2 December 1997 (continued)

1.35 – 3.15 p.m. Working lunch

Fourth Session

Chair: Mr. Najib Mikati, Chairman of the Economic Commission of the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon

3.15 – 3.45 p.m. Role of financial markets in privatization in the ESCWA region (Mr. Taher Musa)

3.45 – 4.00 p.m. Comment by Mr. Samir Makdisi, Deputy President of the American University of Beirut

4.00 – 4.30 p.m. Discussion

4.30 – 4.45 p.m. Break

4.45 – 5.30 p.m. Presentation by Mr. Najib Mikati and Mr. Samir Makdisi on the performance of the Lebanese economy and its readiness for privatization

5.30 – 6.00 p.m. Discussion

6.00 – 6.15 p.m. Break

6.15 – 6.45 p.m. Project financing and risk analysis (Mr. Riad Dahel; presented by Mr. Basil Al-Bustani)

6.45 – 7.00 p.m. Comment by Mr. Adli Kandah, Senior Researcher of the Executive Privatization Unit, Office of the Prime Minister of Jordan

7.00 – 7.30 p.m. Presentation on the experience in agriculture and services, by Mr. Fouad Al-Dahwi, Chairman of the Board of the Investment Bank of Iraq

Wednesday, 3 December 1997

Fifth Session

Chair: Mr. Zeki Fattah

9.15 – 9.45 a.m. The World Trade Organization and Privatization, by Mr. Mohsen Helal, Regional Advisor for ESCWA on WTO (GATT)

9.45 – 10.00 a.m. Comment by Mr. Yusuf Mansur of the Ministry of Planning of Jordan

10.00 – 10.30 a.m. Discussion

10.30 – 10.45 a.m. Break

Wednesday, 3 December 1997 (continued)

10.45 – 11.45 a.m. Presentation by His Excellency, Mr. Bishara Mirhej, Minister of State of Lebanon for Administrative Reforms, on the significance of privatization in the context of the Lebanese economy

His Excellency Mr. Yasin Jaber, Minister of the National Economy of Lebanon
(Presented by Mr. Helmi Ghandour, Advisor to the Minister)

Panel discussion on privatization and institutions: views from the private sector by Mr. Fouad Al-Dahwi; Chairman of the SCORE Group (Egypt); Mr. Alwalid Elshafei, and Mr. Hilal Abuzeid, Regional Manager, Research and Investment Management Department, Cairo Amman Bank

11.45 – noon Break

Closing Session

Chair: Mr. Hazen El-Beblawi

Noon – 12.20 p.m. Summary by Ms. Heba Handoussa

12.20 – 1.30 p.m. Recommendations and evaluation

1.30 – 1.35 p.m. Closing remarks by Mr. Zeki Fattah