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PRIVATIZATION: OBJECTIVES AND OBSTACLES

BY

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AN ABSTRACT OF THE RESEARCH PROJECT OF

Nehman Frangieh for Maters of Business Administration

Title: Privatization: Objectives and Obstacles

The research is a study of privatization: concepts and types.

Also, it explains deeply the rationale behind privatization and the conditions for the success of the process.

After this, it comes to some examples of privatization in different countries and cultures: Industrial Countries, Western Economies, Economies in Transitions, Developing Counties, Central and Eastern Europe, and especially in Lebanon.

This project may not have all the answers to our existing problems. However, it gives ideas and recommendations that could be useful in any country especially Lebanon.

INTRODUCTION

THE TOPIC

Over the last three decades, especially with the failure of the socialist system, there has been an increasingly growing western attack against the economic role of the government around the world. The traditional role of state-led economies and enterprises is gradually replaced and transformed towards privatization. This transformation from the public to the private sector has been achieved under the predominating ideology of the market economy and private enterprises. There has been a tendency, among the advocates of privatization to rest all the deficiencies, mismanagement, bureaucracy and failure of state control on the State Owned Enterprises (SOE).

Experience shows that privatization programs are sophisticated, lengthy, costly, and contentious. To be successful, privatization programs should have clear objectives, sound strategy, well-defined plan, good management, and strong commitment. Those requirements are easier said than done or found in many developing countries such as: Tunisia, Bangladesh, and Poland...

The public sector is the subject matter of privatization. A large public sector with diversified activities offers many opportunities for privatization. When the sector is composed of large number of independent enterprises of different sizes, they even appeal more to the private investors.

The experience with the public enterprises performance, in both the developed and the developing countries, has shown a substantial failure with respect to management, services, and continuity. This failure made the state owned enterprises a great burden on the economy worldwide, triggering especially serious budget deficit.

This fact caused many states to develop privatization programs aiming at transferring the inefficient public enterprises into productive entities led by the private sector.

Privatization has been defined and perceived in several ways by different authors. It is usually defined as a " policy process whereby a government reduces its role as an owner and a manager of business enterprise in favor of other actors such as individuals or private corporations".

It is often occurred in conjunction with liberalization measures aimed at opening the economy for foreign investment, and encouraging private entrepreneurs. Privatization should be understood "as a transfer of assets from the state to the private sector accompanied by a reallocation of productive resources, restructuring of the introduction of new methods of corporate governance freed from any kind of political interference.

Privatization as the " transfer of ownership and control from the public to the private sector with particular reference to asset sales". More generally, it means dematronalization, deregulation, and contracting-out. It also denotes "marketization or bringing the enterprise under the discipline of the market".

From these and other definitions and concepts describing the policy initiative of privatization, the term could mean the following:

- First, a reduction in the ownership base of the state entity through a change of ownership, partial or full, from public to private sectors, and liquidation.
- Second a reduction in the level of activities of the public enterprise by transferring the provisions of goods and services to the private sector.

- Third, creation of enabling environment for the private sector to augment its role and functions in the national economy.

The first two initiatives are direct, immediate, and deal with the current state of affairs or structural imbalances and therefore reflect state disengagement from above. However, the last initiative is a more indirect, long term, gradual, and reflects state disengagement from below.

Privatization is based on two main objectives of improving the efficiency of the enterprise by changing its ownership and of improving the public sector finance by the sale of SOEs. Other objectives of privatization include the contribution to the development of capital markets, the improvement of wealth distribution, and external debt reduction through debt-equity swaps involving SOEs.

After a political commitment to privatization is made and all other legal prerequisites are met, the operational aspects of privatization programs are the next logical step. These aspects are reflected in three operational fundamentals each constitute a seperate phase in the program:

1- Institutional set-up.

2- Strategy and planning.

3- Execution and monitoring.

Institutional set-up is related to specify who is going to take charge of the program in its various phases. The possibilities include: structure, level, and function. The structure of privatization organ within the state bureaucracy could be centralized or decentralized, its level could be ministerial; and its function and responsibility could be comprehensive or partial.

Strategy and planning phase is the backbone of the program and it deals with the evaluation and classification of various SOEs covered by the program. This phase identifies and classifies firms in four groups: not to be privatized, to be privatized, to be restructured to make them viable for privatization, and to be liquidated. Execution and monitoring phase deals with the practical and procedural matters to make sure that the operation is done within the boundaries set by the program.

Chapter One

The concept of Privatization

Types of Privatization

The concept of privatization has become a central component of the economic policies of many developed and developing countries around the world. As previously elaborated, privatization could be viewed as the denationalization or selling of state owned assets, deregulation or liberalization and competitive markets. So, privatization is the process of partially or totally transferring the ownership of state - owned enterprises from the public to the private sector. This process implies permanent transfer of control, whether as a consequence of a transfer of ownership from a government agency to one or more private entities.

Privatization can take the form of a transfer of management from the hands of the public sector to that of the private, or the leasing of various publicly owned entities operating them at a loss for the purpose of making them achieve a productive management and competitive performance. The formulation of special management contracts is also another form of privatization. Privatization does not necessitate that all public entities be transferred to the public sector, but it could aim at improving efficiency in specific sectors of the economy. Therefore, privatization refers to a policy process through which the government reduces its role as an owner and manager of the state owned enterprises in the interest of the private sectors represented by corporations or relatively smaller private organizations. This strategy or process of privatization can take one of three types:

- Privatization of ownership
- Privatization of management

- Privatization of Enterprise Discipline.

1. Privatization of ownership:

The first form of privatization, also called divestiture or ownership change, is the transfer of ownership, control and operating authority of a state owned enterprise from being a public entity to a private enterprise. Divestiture can take several forms. The enterprise could be transferred to the private owners through full sale, partial sale, or liquidation.

Full and partial divestiture can be accomplished through trade sale, management employee buyout or public floatation on the stock exchange. Trade sale, used by British companies in 1983 and 1985, is the quickest method of full divestiture where the enterprise is sold to a local or overseas company, regardless of the past performance of the company to be sold. In this case, the buyers are interested in future profits and take the opportunity to enter a closed market. The disadvantage of such an option is that political problems may occur as a result of the entrance of foreign companies into the national market.

Management employee buyout suggests the sale of the public enterprise to its management and employees who will be granted credit facilities to buy shares (Cowan, p. 50).

Concerning the public floatation, it is most widely used method where shares of the public enterprise are offered to the public at a fixed or at a tender price. To be successful, a track record of the company must be prepared and a long-term planned preparation is required.

On the other hand, whenever a public enterprise has performed too poorly to merit continuity, liquidation is regarded as the final solution (Ramanadham, p. 122).

2. Privatization of management:

The second type of privatization, organizational changes or privatization of management, is contract management where the operations of the enterprise are privatized, but the ownership remains for the public sector. There are three organizational devices; the first one is a lease arrangement where ownership is transferred to the private sector for a specific period of time. This kind of agreement may give the government time to decide on divestiture and help the enterprise to establish its comparative advantage in terms of constant revenues. The second one is management contracts where change in management occurs.,i.e, "while certain management tasks are removed by contract others are created." Thus, it focuses "on who manages rather than who owns" and its aim is to achieve a flexible firm.
Sometimes, the new management requires a declaration from the government, even though it is the owner, not to interfere with the commercial decision of the enterprise. (Ibid, p. 9) The third option is contracting-out; this policy is "a legally binding agreement between a government contracting agency and a contractor in which the contractor provides care of services to clients of the government contracting agency in exchange for funds or other resources." (Richardson, p. 177) Therefore, it is concerned with the supply of services usually undertaken by the central or local government, such as securities and garbage collection, by private contractors, (B. Dick, p. 5)

3. Privatization of operations:

The last type of privatization, operational changes, privatization of operations or also privatization of enterprise discipline, concentrates on reforming and improving the performance of the state owned enterprise. It requires a change in managerial behavior and acting similarly to private companies. The enterprise would, for instance, set targets to be achieved in a certain period of time, change investment criteria to improve its profitability and performance, or induce a public enterprise to get to the market for capital funds. It could also set incentive rewards to increase efficiency. Another option is the encouragement of management to acquire inputs across the market rather than producing them internally. One operational method used while privatizing the British Telecom, was "ARMOR" (Achieving Results through Management and Operational Reform). This program was shaped to improve and control operations of the management through setting objectives for management, achieving segregation of activities, and establishing some targets to be achieved in a certain period of time (Richardson, p. 66).

Privatization of management and of enterprise can work as a necessary step toward full privatization (Ramanadham, p.398).

CHAPTER TWO

THE RATIONALE BEHIND PRIVATIZATION

The failure of the public sectors to achieve allocative efficiency, to reduce the intervention of the government in state Owned Enterprises (SOE), and to reduce costs was the main reason for introducing the concept of privatization in many countries, such as the United Kingdom. There are other objectives that a country may seek and fulfill through the selling of State Owned Enterprises. These may be grouped into two major categories, the first being the political, and the second, the economic one.

A. The political rationale for privatization

Many economists believe that government ownership result in economic inefficiency due to the politicization of economic decision marking. Do politics matter and does ownership really matter?

According to Raymond Duch, there is a relationship between political control and the performance of the public enterprise; the greater the control by the government , the lower the performance of SOE . He believes that government intervention may be essential in the pre-construction period where the need for financial funds and planning exists, and whenever the industry becomes well developed, the intervention of the government must decline and the penetration of the private sector must occur. (Duch, pp.3&59) As the role of the private sector increases, the performance improves and the political influence also decreases .The question that should be asked is " Why would politicians seek privatization if they can use the SOE to further their interests?"

The main objectives for politicians, as the case in the United kingdom demonstrates, were to "promote a kind of popular capitalism through wider share ownership "and to decrease the trade union power in the public sector. (Kay, p.19) Moreover, one critical political purpose for the implementation of privatization was to reduce the role of socialism in the United Kingdom and to increase the role of democracy .In other words, the motives of the conservatives were no less political in denationalizing than were those of socialists in their nationalization.

Political motive of SOE can be attributed to three main reasons: the subordination of commercial to political objectives, the fact that survival is not dependent on success, and the failure to harems the power of self-interest (Moore, p.117).

The first cause of SOEs poor performance is the conflict between political and commercial objective .The priorities of elected politicians are usually different from the priorities of successful businessmen. In SOEs, political reasons override in the decision making process. Politicians may overrule economic judgments in order to construct a new factory in an area where many voters are unemployed, or they may refuse to liquidate an unprofitable plant. Political decisions are usually preferred to give short-term benefits even at the expense of long-term welfare just for the politician to keep a good image in the minds of the voters.

B. The economic rationale behind privatization

Economists pleated for privatization for four main reasons, namely, increase in profit, enhance efficiency, ensure inflow of cash for the government and improve the comparative advantage of a public enterprise.

First, they view privatization as a tool reduce inefficiency of the public enterprise through exposing it to market forces, reducing the political intervention in managerial exposing it to market forces, reducing the political intervention in managerial decision-making and allowing managers shareholders to regain their autonomy. Managers will thus have the incentive to maximize their performance and profits for two reasons :

- They will be released from government intervention; and
- They will be offered better remuneration and emoluments.

This argument can be applied to some enterprise and countries, such as industrial ones. The question remains whether it is applicable to less developed countries, such as Lebanon.

Second, privatization is seen as a tool to increase productive efficiency since the private sector has a greater incentive to respond to consumer demands. Being afraid of the take-over process, a private enterprise will always seek profit and efficiency, unlike the public enterprise, which may operate at a loss without going bankrupt as the government is always there to boil it out, and in the process, unnecessarily increase the burden on the public sector.

The third argument advanced by economists in favor of privatization is that it reduces the needs of SOE to borrow from the public sector, in addition to bringing in cash with the liquidation of the assets, as was the case in the United Kingdom Between the years 1977 and 1988, for instance, the sales of SOE to private British companies brought in GBP 25 million and the sale to other companies, management or employees resulted in a GBP 1 million further liquidity. The contribution of the SOE to gross Domestic products declined from 9% to 5 % at the end of this period. (Veljanovski,p.191) Economists believe that the sale proceeds may be used to fill the budget deficit, to finance new budget expenditures, or to repay public debt. Therefore, the liquidation of assets may help in reducing government debt and the borrowing requirements.

The final argument why SOE must be privatized is that it has lost its comparative advantage in terms of cost and revenues .The main debatable issue in developing countries is which one should be privatized first, a profitable SOE or a loss-marking one? According to V. Ramanadham, a shift to the private sector is needed whenever the public enterprise loses its comparative advantage in terms of both financial and social returns. He believes that even if a SOE is making profits and its comparative advantage has declined, it has to be privatized since its net benefits to the rational economy will be higher (Ramanadham, p.402)

The broad rationale behind privatization could be viewed as the improvement of the overall economic welfare of the nation. The rationales for privatization are studied as follows (Molz, p. 35):

<u>Efficiency</u>:

Empirical studies show that privatized enterprises offer greater efficiency and consequently better use of scarce economic resources. Employees may benefit from privatization particularly when they are given ownership options. In fact, the new owners grow so concerned about profitability that during wage renegotiations they actually pressed their unions to lower their wage demands. When people have a personal stake in something, they work hard to make it prosper (Molz, p.32). Therefore, private owners have stronger incentives than government-appointed employees to maximize profits because they own equity and bear the financial consequences of their decisions.

<u>Change in political culture</u>:

Privatization causes changes in political culture in terms of government intervention by transforming the voters into stockholders. The new stockholders are eager to receive dividend shares of their enterprise, and therefore favor political support to the economic objectives of the establishment. Thus, electorates are most likely to vote for the politicians seeking to reduce the size and role of the government.

Reduction of Government Debt:

The government can decrease its deficit by liquidating its valuable assets. In the United States, for example, the Conrail sale presented the largest initial public offering of approximately US $ 1.65 billion. Some of such SOEs had contributed greatly to huge deficits reduction. The social objective of improving national pride and maintaining significant levels of employment became secondary to economic objectives and budget deficit reduction.

Success of the Enterprises:

The success of some SOEs is another cause of privatization. The Conrail of the United States and Singapore Airlines were both perfect candidates for privatization due to their high market value which is based on discounted future cash flows.

Technological competence:

Many SOEs are unable to fund significant technological research or technological modernization of production facilities. This was the case with Japan Airlines, Canadair where the sale of those SOEs to the private sector will secure enough funds to finance investment and development.

Reducing the size of the government:

The sale of public entities to the private sector would relieve the taxpayers since governmental subsidies decline. Customers also benefit since competition leads to a better quality of goods and services at lower prices.

Conversion of debt to equity:

International agencies had exerted extensive pressure on governments around the world to solve the problem of public debt as an effective policy to ensure potential economic welfare.

C- The different objectives brought into relief

From the above discussion, it is clear that objectives for privatization depend on the perspective, political, economic or even, from which the concept is approached .It implies that approaching this subject poses a multiplicity of objectives.

The opponents of privatization believe that competition does not occur under privatization. Privatization is merely a vehicle to transfers the public monopoly into a private one, and market imperfection is, therefore, expected to occur. They argue that managers who usually operate a public enterprise are the same in the private sector, so the abilities and experiences of the management are the same; only opportunities and constraints will change. (Ibid, p. 19) They also recognize that full divestiture may be painful since it may involve a rise in prices, a reduction in jobs and other and other macroeconomic problems.

Advocates of privatization, on the other hand, advance several arguments in its favor. These may be summarized as follows:

* To reduce the role of socialism and introduce the concept of democracy

* To reduce political intervention and improve managerial incentives

* To raise finance, reduce borrowing requirement, and/or reduce taxation

(Rose, pp.8-15)

* To increase competition through deregulation

* To improve and allocate efficiency

* To help employees to own some shares in the company they work in
* To deepen the capital market
* To increase the level of share ownership
* To achieve social objectives, such as the creation of employment and the redistribution of income (Kikeri, p. 48)

CHAPTER THREE

CONDITIONS FOR THE SUCCESS OF PRIVATIZATION

The successful implementation of privatization programs requires several conditions or success factors.

A- Country conditions

Privatization of both competitive and non competitive state-owned enterprises is easier to launch and more likely to be profitable if the country:

Encourages entry and free trade,

Offers stability in the investment environment,

And, has a relatively well-developed legal environment.

This refers to basic laws and regulations relating to the operations of enterprises, their entry and exit, as well as laws governing matters such as foreign capital, foreign exchange, taxation, monopoly practices, prices, wages and employment (Ramanadham, p.6).

B- Market conditions

The macroeconomic framework in which a privatization program is undertaken is a major factor in its success and in the success of privatized enterprises. A framework of price and exchange rate stability, among other such as efficient capital markets and active employment growth, can facilitate the privatization process by affecting factors as the price obtained for an enterprise and the case with which labor surplus is absorbed (Mishkin, p. 213).

Privatization constitutes part of a process of macroeconomic reforms undertaken with the primary objectives of reducing imbalances in the external and internal accounts and stabilizing monetary conditions.

In many countries, chronic fiscal deficits have been identified as key factors underlying both inflation and external imbalances (Mishkin, p. 14).

Privatization of loss-making enterprises has been seen as necessary to help regain fiscal control, and as an essential element of macroeconomic reform.

Another condition for privatization success is develop capital markets and making them more attractive to both domestic and foreign investors. Developing the country's capital market assists in reducing macroeconomic imbalances by raising the level of savings and reducing dependence on foreign borrowings (El-Naggar, p. 122).

C- Capital market constraints

There are many ways of transferring the ownership of SOE's; however, there are also severe constraints, especially in countries where there is only a vestigial capital market and weak financial markets. For example, post offices and bank offices can be involved in functioning as places where intending applicants for shares may go, fill in the forms, and deposit the application.

Jamaica and some Eastern European countries adopted this method. Some initial success in terms of divestiture may be there; but the lack for secondary trading will begin to operate as a dampening factor as time passes and as share owners find it difficult to dispose of their shares or exchange them for different shares. As a result a well functioning capital markets are needed, especially when the government desires wide spread ownership of divested shares (Ramanadham, p.9). Since privatization cannot take without thriving and deep capital markets, a wider and deeper geographical and functional development of capital and financial markets in less developed countries is needed.

D- Legislation conditions

Moreover, implementing successfully a privatization program requires changing or adapting relevant legislations. Legislations related to privatization may include the promulgation of specific legislation for particular targeted institutions to be privatized, the establishment of a legal framework conductive to growth and private sector development, ... (United Nations Trade Conference, p. 42).

In many developing countries, privatization laws often entail fundamental systematic changes and usually form part of whole legal reform. In such cases, the aim is to create a legal environment for business development. This usually requires the widespread liberalization of several areas of the economy. The economic liberalization should be coupled with a political one ensuring the economic stability and the protection of the social groups' rights.

The government should also assume an effective control and supervision role aiming at the protection of consumers' rights. This could be achieved through antitrust laws that control the potential monopoly of the private sector.

Other techniques employed to ensure privatization success include the transparency in running the privatized enterprises, the introduction of the "golden share" concept in the case of mixed ownership, the encouragement of competition through widening the ownership base.

E- Infrastructural services

Privatization is under serious constraint in a country whose physical infrastructure, transport, telephone, electricity, water and communications, is weak.

This constraint is particularly important when foreign capital is expected to be the main engine to mobilize divestitures. In such a case, the government should formulate proper sequencing of privatization activities to which the development of infrastructure services is effectively geared.

F- Information facilities

Divestitures undertaken with limited transparency, as in the case of a negotiated sale or sale to other than the highest tendered, arouse suspicion and create disbelief in the fairness of the transactions (Ramanadham, p.22). Thus, transparency and the disclosure of relevant financial information are necessary to build investors' confidence and attract foreign capital.

G- Concerns Associated with the privatization process

Although privatization as it is argued improves efficiency, it can also have negative impacts. The impacts of privatization on employment are undoubtedly the most widely recognized concerns all countries. They can be analyzed as follows :
Where an enterprise has surplus labor, privatization aimed at improving efficiency is likely to lead to some lay-off.

Privatization might stimulate the new owners to introduce a new production function involving capital-intensive technologies .The average cost of operations would decline as well as wages and the level of employment.

Pushed by the motive of profit maximization and given the level of competition it is facing, the privatization enterprise may induce some restrictions in output. This has a corresponding effect on employment (Ramanadham, p.36).

A large portion of the labor force in SOEs is a national. These are likely to lose their jobs with privatization, since privatized firms would want to hire more foreigners who are likely to accept lower salaries and who face convenient laws, concerning hiring and firing (Azzam,p.9)

Solutions to this problem include using the proceeds from privatization to retain the national workforce and to absorb the excessive workforce, or to provide for early retirement, unemployment benefits, and job search assistance.

Second, privatization action has impacts on the social benefits which an enterprise, while in the public sector, was yielding .The simplest definition of social benefits is " that they are the benefits that one enjoys either by paying less than what due costs imply or by receiving more than what is due to be received on commercial criteria" (Ramanadham, p.51) .By placing the operations on market basis, privatization tends to minimize, if not eliminate, the flow of social benefits. As a result, the following distributional disadvantages take place:

Low and stable prices in respect of certain commodities and services, which have the characteristics of basic needs, might give away to profit maximizing prices policies. To prevent this, the government can retain minority shares privatized SOEs.

The production of certain outputs may be reduced commercial reasons, whereas its availability might be considered socially desirable. Examples include telephone call boxes, food supplies in all seasons, and drinkable water in all inhabited areas.

Operations and expansions will be limited regions where profits are likely to be low. As a result, the prospects of economic activity, income and employment in those regions are affected (Ibid,p.p.51-52).

A third impact of privatization is the loss of future revenues for the government (Azzam, p.9). Where the enterprises concerned are profit making, transferring them to the corresponding private sector will have the effect of transferring the profit incomes minus the interest charges to the private investors. Other concerns include lower stock prices arising from a higher supply of shares. According to some estimates, forty million persons are stockholders in Russia (chublais,p.61).This is why expanding the number of owners need not be a priority task.

Finally, another factor is the proper valuation of public shares. This requires transparency and careful study of each case .In order to escape privatization management usually give improper financial data privatization is associated with new owners which will result in new management .As a result the disclosure of relevant financial information is very crucial since it improves the valuation of shares.

CHAPTER FOUR

PRIVATIZATION : IMPLEMENTATION AND PROCESSES

A. Privatization in Western Economies and in Economies in Transition

1-privatization in western economies

Privatization in Western Economies aims at rebalancing the power between the public and private sector. Privatization in economies in transitions is part of a move from a centrally planned communist system to a market economy. The above statements have both a quantitative and a qualitative dimension.

- Quantitatively, Western-type privatization implies a reduction of the public sector by only a small percentage. However, in transitional economies, privatization aims at a reduction of the public sector by two-digit percentages.
- Qualitatively, privatization in the west is part of the market economic system. In post communist countries, privatization signals the change of a system (Borensztein, p.97). The qualitative difference is the reason why privatization in capitalist countries must be seen from a different perspective than privatization in post-communist countries. In capitaliste countries there is a given environment characterized with a convertible currency, well-established stock exchange, technologies, skilled labor. In post-communist countries all of these features must be established as part of the transition. It improves very difficult to establish the elements of a western type framework in post-communist countries. Best known are the problems in establishing stock exchange (Ibid, p.97).

Post-communist countries distinguish between small privatization and the

privatization of key-sector enterprises. Privatization of public utilities is not on the agenda. Small privatization refers to shops, cinemas, restaurants, small hotels, etc. The privatization is a relatively easy task unless problems of property right interfere.
The privatization of key-sector enterprises refers to industry, transportation , mining, newspapers,etc. Their privatization is more difficult and time-consuming. The fastest privatization took place in East Germany, where 35% of the key-sectorsenterprises were fully privatized within 21 month of German unification. Equally impressive in the Czechoslovakian figure, where the first wave of privatization (which ended Dec 1992) comprised 44% of SOEs.
Poland and Hungary, however, lag behind; their number of full privatizations can be expressed in tens and hundreds, not in thousands as in East Germany and in Czech Republic (Barclay, p.371).

Most privatization in terms of number and value of sales was mainly taking place in the industrialized countries and a small number of developing countries. Prominent in the first category were UK, Canada, Spaina and Italy; in the latter group the main countries were Chile, Jamaica, and malaysia (Cook, p.5).
The most important example is that of the UK where Mrs. Tatcher has attacted the most attention with her program "to roll back the frontiersof the state". One major motivation of privatization is provided by the fact that many state industries have acquired monopoly positions that could promote ineffuiciency, and decrease the urge to innovate. Conversely, it could argued that replacing a government monopoly with a private company monopoly would probably not improve the situation.The British government has attempted to encounter this criticism with a number of measures pertaining to market liberalization and the regulation of monopolies. On the one hand,

comprtition must be encouraged with state companies that are about to be privatized. For example, in the midst of its denationalization process, British Telecom-a big telecomunications service-had to compete in one small area with Mercury Communications. On the other hand, there must be regulations to prevent theprivate monopoly from abusing its powerful position in the market. In the case of British Telecom, the public Office of Telecomunication (Oftel), has to supervise in this regard and ensure that prices of Telecommunications services not subject to effective competition do not rise faster than inflation (Kent, p.163).

Other moyives for denationalization are the continuing political intervention in state businesses that makes profitability impossible, and the fact that labor unions can achieve higher wages than in the private sector.

Finally, the British government also hoped that privatization would help spread share ownership among more people, thereby making it more difficult for a future government to renationalize the industry.

Every privatization case in the UK has been considered unique with a separate approach to its situation, and around twenty-two techniques have been used to take full account of the political and social problems of the public sector, as well as its economic shortenings (Ibid, p.164).

2-Privatization in Economies in Transition

To a great extent the drive towards privatization in Central and Eastern Europe revolves around three basic assumptions:

First, ther is a presumption that privatization will inject life into the inert traditional system. The main drawback of central planning and state ownership has been its inability to respond to changes whether in technology, domestic demand, or world trade opportunuties. As a result, privatization will enhance productivity, and will lead to the provision of more diversified and sophisticated services since competition will force private firms to innovate and apply state-of-art technology.

Second, privatization is bound to weaken the opportunity for political interference in economic life, especially in those economies still dominated by the Communist party.

Third, privatization of enterprises and commercial banks will help ease the deficit as the losses incurred by these enterprises are so longer ansorbed by automatic grants from the state budget (Clarke, p.374).

Following the collapse of the communist system during the period 1989-1990, there was a concensus among Central and Eastern European countries that a traditional system (i.e. free market) had had to be reestablished. The term "transition" was introduced, denoting the path of return to the political and economic system prevailing in the west. There were three steps for that transition . The first one was the liberalization of markets (i.e. elimination of state control of domestic prices as well as obstacles to foreign trade). The second step was stabilization since a high rate of inflation appeared in the last stages of many communist economies. Finally, reintroducing private economic ownership became th ethird pillar of the transitional program (Dubravcic, p.309).

B- Privatization in Industrial Countries: The United Kingdom

The concept of privatization was introduced by politicians during the 1970s and the 1980s to reduce the intervention of the government and to increase that of the private sectorby giving power to the people; consequently, the implementation of democracy has become easier. Prior to 1979, state-owned enterprises contributed over 10% of the country's GDP; however, their performance, as in the case of other countries, was disappointing. The need for reform and restructuring was essential.

After the election of mrs. Tatcher, privatization came into action and became a key concept. (Richardson, p.3-4).

Britain was considered "the pioneer" in implementing this policy, and the success it has achieved has given other developed and less developed countries the incentive to adopt it. Although the need for divestiture was political since it was seen as a shift from socialism to dimocracy, there were other key factors that have given intencive to embark on such a program. The main targets were to improve efficiency through competition and deregulation, toraise finance and reduce borrowing, to reduce taxation, to encourage employees to own shares in the enterprise they work in, to widen share ownership, and to strengthen the capital market. (Ibid, p.6)

The process of implementation of this concept is divided into three terms and can be summarized as follows:

1. The first conservative term (1979-1984): Before 1979, nationalization was the symbol of socialism in britain for the British labor party. However, the failure of the labor and conservative governments to improve British economy forced politicians to recognize the limits of the government's influence. Hence, in 1979, the Prime minister, Mrs. Margaret Tatcher, introduced the concept of privatization which was based on the following argument: " The business of the government is not the government business." (Rose, p.10).

In February 1979, the first public offering took place; part of the British Petroleum was offered for sale as shares, to the private sector. Between 1981 and 1983, more public offerings, such as Cable & wireless (49%), Britoil (51%), Amersham International (100%), and Associated British Ports (51.5%), took place. By the end of 1983, British Rail Hotels and International Aerodio were sold to private investors through trade sales. (Ibid, pp. 10-15).

2. The second conservative term (1984-1987): Some of the preceding sales continued through tender offers, and new public enterprises were offered for sale, such as those of the British Telecom (51%), Sealink, and NBC. Although deregulation has been a main goal in the new system, new forms of regulation were introduced to secure public interest, and new government bodies, such as OFTEL (Office of Telecomunication), OFTGAS (Office of Gas Supply), and others, were founded with the objective of overseeing the work of the new industries. (Ibid, p. 12).
3. The third conservative term (1987-1992): During this phase, a large number of public enterprises were fully sold. Nevertheless, GDP 250 billion still remained in the state's hands. Two interesting questions arise, " Is the government willing to shift more functions to the private sector? Will the people accept to have all the power in the hands of the private sector?"

The primary success achieved in Britain as a result of privatization can be summarized by the following:

i) A large inflow of money was brought to the exchequer, for instance, over 25 billion shares were sold to the private sector, and almost one million jobs were transferred from the public sector to the private one.

ii) A decrease in the intervention of the politicians in the performance of the enterprises, and a decline in the contribution of the public enterprise in GDP from 11.5% to 7.5% were observed.

iii) The base of share and property ownership was broadened.

iv) The managers of SOE had more incentive to ameliorate their performance and increase efficiency due to change of ownership, and ti their status of autonomy.

One of the most successful privatized industries in Britain was British Airport Authority. In July 28, 1987, trading in BAA shares started in the London Stock Exchange. Before privatization took place, some organizational changes were completed. First, British Airports was converted from a public corporation into a limited liability (Barclay, p.8). Second, each individual airport was settled as a limited liability company and the whole was owned by BAA. Third, a business development department was held in each airport. (Richardson, pp. 96-97). The government decided to sell it as a single group for several reasons; the most common reason is that airports, by nature, are of a monopoly type, and if separation of ownership takes place, then the flexibility of the administration will be reduced. (Ibid, p.98) To prevent BAA and the private monopoly firms, such as Telecommunication, from "extracting unwarranted profits by virtue of the monopoly granted by the state," the government set new regulations. (Rose, p.12).

In the case of BAA, operational activities, trading conditions, prices, and accounts condition were subject to investigation by Monopolies & Mergers Commission (MMC) and Civil Aviation Authority (CAA). The regulations and restrictions imposed by the government of the United Kingdom can be considered desirable for a private monopoly to prevent it from acting contrary to public interest. The experience of privatization in the UK may be considered successful, especially that the sale of BAA has improved efficiency and has resulted in fiscal benefits for the country. Are other countries ready to sell the airport to the private sector even though it is publicly known as "a major gateway for trade and tourism and itself earner of foreign exchange?" (Ramanadham, pp.180-89) Most governments may be willing to privatize but may also be unwilling to sell such assets to foreign investors and thus lose their influence on such services.

The success of BAA privatization was due to the effects at the marco level such as political backing, strong and effective leadership, and at the micro level like good communication between the managers and the staff, good planning, and the effort made by the top executive. It should be noted that the government, during its implementation of privatization, took into consideration the public benefiys and tried to widen ownership as much as possible through selling shares in the market. Moreover, government had the right to own "special shares", called "Golden Shares", having no voting right but that can be activated in case violation of limits occurs (Ramanadham, p. 414) These shares may be used to prevent a take over bids, or acquisition of a company by a foreign firm or government.

Another industry that was privatized was the British Airways (BA). Civil aviation accounted, in 1982, for the 65% of the total UK aviation industry. It is controlled by the Civil Aviation Authority (CAA) created in 1972 to regulate and control tariffs and route entry of this industry. (Richardson, p.93) The performance of BA, especially during 1982-1983, was not encouraging due to its in solvency; thus, privatizing was impossible. (Barclay, p.8) In December 1983, the government decided to privatize BA and consequently requested the CAA to review the structure of the UK Civil Aviation industry, and the consequences of competition policy on such a sector. (Richardson, p.95) The first step done was the conversion from a public corporation into a limited liability company whose shares were held by the secretary of state for trade. The second step was the merger exercised between BA and British Caledonian, as proposed by the MCC, that has enhanced the BA position (barclay, p.8) In addition to the above, regulations were imposed, as the case in other privatized state-owned enterprises, to examine distortions the privatization program may create. Therefore, a scheme of regulations was devised to facilitate the performance of BA and to enable it to have a successful floatation.

The most common example of British privatization operation is British Telecom (BT), which was privatized in 1984 through public offering. The main goals for divestiture of BT were to develop the UK telecommunications quickly to benefit UK people, to extend share ownership, and to provide BT with a source of finance independent from Treasury control.

The impact of privatization of BT was double-edged:

1. Managemantstyle changed, marketing style became more aggrissive, the organization became more oriented, overheads were reduced, and the enterprises was free from bureacratic constraints.
2. The internal climate of BT witnessed some tension since management has been accused by trade unions of moving from a "representative orthodoxy" to "a punitive structure"; thus, low trust relations were revealed. Moreover, trade unions also claimed that privatization of BT was done in favor of business users at the expense of low income consumers.

Despite all the criticism directed at the company for its monopolistic status, it was able to gain shares in the external market and to become one of the most advanced Telecom companies in the world. For instance, in 1987, BT acquired 22% holding in Mc Caw Communicatioms (a commanding presence in the American Cellular Sector), and in 1989, it entered the lucrative cable TV market in Hong Kong. (Richardson, p.68)

Assessment of the British Experience:

The objectives set by the Thatcherian policies were broad; one may argue that these targets were not all attained, and some were sacrificed for others. Being the engine of efficiency, privatization's main objective was to increase competition by reducing the number of monolithic enterprises. However, one can notice that in case of British Gas, British Telecom, and BAA, only a transfer of ownership from public to private monopoly has occurred, and new regulations have been imposed to control the disadvantage that may occur from the absence of competition in these companies. However, it can be argued that the privatization process has succeeded in widening ownership; for instance, 9 million out of a population 57 million are holding shares now. (Ramanadham, pp. 249-250) The consequences can better be observed in the next decade.

C. Privatization in Central & Eastern Europe

Central & Eastern Europe as well as the developing countries have been undergoing the privatization experience.

The collapse of communism in the Soviet Union and the countries that formed the Soviet bloc has resulted in the creation of a number of new countries.

The former Soviet Union now consists of 15 countries including Russia. The German domestic republic has been reunited with West Germany. Czechoslovakia has split into two countries, the Czech & Slovak republics, and Poland, Hungary, Romania and Bulgaria have retained their identities, as well as others. For these countries the end of communism required some economic reforms to help them join the European Union. New laws, new institutions are being shaped that look like continental European ones, for example the Warsaw Stock exchange is modeled on the Lyon stock exchange.

In one way these countries have not changed. Although democratic institutions have been introduced, most are run by former communists. In Poland & Hungary they have returned to power in free elections, while in Romania they have never left power. In part they are back in power because there was a gap between expectations and reality on the part of the population. Democracy & economic reforms were expected to create the good life immediately. This did not occur, living standards fell for many people and unemployment increased. So former communists have been able to get elected by playing to continue moving toward the creation of market economies while reducing the pair of transition. Transition was performed in the first place trough privatization. Let us talk about the process followed in the Czech republic, first:

1- Czech Republic:

It was a rapid process, restructuring was done by the private owners and a new legal framework was built only when extremely needed. The privatization procedure was possible through:

- Restitution:

Either in kind or financial, it meant returning back to old owners confiscated property. This required a legal entity to govern the process. Small scale privatization was possible without delay, but some problems emerged mainly with large scale entities.

- Small-scale privatization:

Like its name meant, it involved small enterprises privatized through public auction. Sometimes long-term contracts concluded before the privatization act entered into force, made some transitions impossible or difficult. The problem was that the proceeds were not used for budgetary purposes instead it was transformed into an idle asset, not used when even needed.

This stage was not without problems:

a- The new ownership rights of new leaders was donated by the public.

b- Foreigners were not able to participate in the first round of auctions of mainly properties in touristic areas. A second round was specialized for them after a successful first one.

c- Fraud was taking place just to avoid privatization.

So small-scale privatization has not significantly contributed to the emergence of capitalism in the Czech Republic. Only 20% of property has been transferred to new owners, whereas the value distributed through the voucher scheme was almost 70%.

- Large-scale privatization:

This made it possible for the privatization process to touch all branches of the economy. But also made foreign investment three times as much as it was, mainly through direct sales.

This triggered the active popular participation made possible through voucher privatization hence prevented ownership concentration and reintroduced the risk-profit trade-off at the assessment tool.

The voucher privatization was initiated in the Czech Republic. Prices of the stocks were very symbolic to encourage people to take part in the process. But the government did not wisely used its resources in the sense that this low price of the stock offering, even if it increased and widened the range of participants it did not bring a large seem to the government's funds. So budgetary deficits were not covered. But it made the weaker social class feel important and a part of the process, not just an inactive witness. No ceilings or limits for the participation was put.

Privatization was gradual just in the sense of being approached at two levels:

- The first wave brought $8.2 billion mostly through vouchers so we should have expected much more. Oversubscription was very common since stocks, mainly vouchers, were being priced more than fairly. But just of some small-scale enterprises attractive to foreigners as to the large enterprises they were not that attractive. This could brings us to the conclusion that small scale privatization was much more successful than the large scale one.

- The second wave was not as successful or appealing. But most of the approvals were in industry and agriculture.

The Czech Republic was well aware of the necessity of encouraging the capital market, that is why the Investment Privatization Funds (IPFs) were popular and they played the role of active market players assuring with this the continuity, efficiency and transparency availability, to complete the task in developing the financial markets. This is a very important step and the government was well aware of the long run vital rule that these markets will have to play to assure the success of the process. Indeed a large demand over the services of these IPFs was witnessed.

Some rules however were imposed in order to safeguard the well functioning of these agencies.

* The IPFs could invest only up to 10% in one enterprise.

* With its affiliate IPF invests only up to 40% in an enterprise.

* Diversification imposed at least over 10 different stocks to decrease risks.

* The funds do not play the role of commercial or investment banks.

* They are not directly organized by the government.

In the Czech Republic vouchers were very popular but not the only option for participation. Auctions, tenders and direct sales were legal. Auctions were preferred over the two other methods while tenders were preferred over direct sales.

Some problems:

1- The flow of information in the Czech Republic after privatization was not 100% accurate because the IPFs did not keep perfectly reliable tracks. But there regulations were to be imposed on the IPFs which made a lot of them vulnerable because they couldn't meet the requirements.

2- No sound secondary markets existed so liquidity was a problem.

3- Since not all the population consists of sophisticated investors and since the experience was quite new for the public since communism rarely permits personal ownership. This left shareholders at the mercy of managers.

4- Even with the encouraging pricing of the vouchers which helped in promoting capitalism quite rapidly, it did not help the government to collect enough funds from the process.

5- The banking sector requires major restructuring, to decrease the level of risky loans granted even to previous SOEs.

6- Voucher privatization was a loophole to standard procedures because financial markets are not very developed.

Finally, in the Czech Republic things are expected to get better with the increase in the purchasing power.

2- Hungary:

* Privatization here is a 4 years-plan to be able to reach macro-economic stability.

* Large enterprises were kept under government control with a 50% ownership.

* Competition is aimed to increase.

* Sales of 50% were restricted before, for non-loosing enterprises.

* Foreigners were aimed to find attractive opportunities.

As to the stages followed, they are:

- Spontaneous Privatization:

* The enterprise's owners, management or workers usually get the right to control the enterprise which decreased the ability of using privatization as a source of funds to decrease debts.

* A debate over how to privatize was developed.

Old communists with probably more chances & wealth, permitting them to buy the assets of the government were encouraging sales, while liberals promoted spontaneity to make state control very minimum.

* Spontaneous privatization was highly unregulated requiring the development of the following step.

- State Privatization Agency (SPA)

* This agency had many aims including most importantly a reduction in monopoly, increased employment and restructuring at least at the managerial level.

* Some enterprises privatized through SPAs were transformed into joint-stock companies but that 100% owned some others were state run (a total of 44%) which did not decrease state intervention enough.

* It encouraged internally initiated privatizations, the application of international standards as well as the reflection of fair prices.

* It was expected to initiate its own programs to attract new investors and improve the coordination with state and company interests.

* The SPA did overprice some stocks just to avoid the accusations of messing with SOE's.

* The recession caused some of those stocks to become overpriced.

* Consultancy was not very accurate nor efficient, making the flow of information mediocre.

* The SPA had the hard task of dealing with Shell enterprises, where the state has been left with just great amounts of debts even though the state was receiving dividends, but this income goes to service debts and not to increase spending or reduce debts.

- Self-privatization:

* A special case of spontaneous privatization that could decrease bureaucracy and encourage market oriented transformation.

- Preprivatization:

* The parameters for the sale is set by the SPA, mainly the price, while the sale is organized by other institutions.

* This process could create concepts mainly with the leasing contracts because this process involves mainly retail trade, catering and consumer services where usually managers act as if the business is theirs.

* The SPA, to decrease the problems with this process, has decided to compensate the management or the contractual business, if it did not win the bid, in a relatively short period (8 days).

- Investor Initiated Process:

* Initiated to speed up the process, the offers for the purchase are made directly to the SPA.

* This did lead to joint ventures with domestic and foreign partners.

The Hungarian experience was not without problems:

* Many considered that only or mostly foreigners were the real winners.

* Spontaneous privatization led to many financial problems like: Managers or workers could become owners without paying a fair price which decreases the revenues of the government.

* Other problems were at the economic level: resource allocation in the 1st place was not expected to become more equitable or efficient. Further worker ownership of profitable enterprises is well but this couldn't be said if the SOEs incurred losses.

* As to the organization level, expertise couldn't be kept out of new ownership just for the lack of financial resources.

* The SPA had also a time lag to discover the true balance skeet & ownership rights which make the information flow very slow & uneven.

* The SPA developed bureaucratic control, decentralization was not given its full credit.

* The investment capacities were quite low mainly with domestic investors. This emphasizes the problem of low saving and unsound credit policies, which would decrease the capacity of medium and small enterprises of being integrated in the market just for the lack of funds.

* The capital market, highly undeveloped, created a problem with a not well-functioning banking system, where approximately no chances of trade for the privatized stock ownership existed.

* The government had to face two difficult possibilities either to let a high number of enterprises go bankrupt or restructure them with assuming all their financial problems, hence diffusing a lot of money into these enterprises, hence decrease the level of potential unemployment.

* Some of these problems could be solved if foreign capital that is freely channeled thanks to the market system, is efficiently managed. Mainly because

foreigners already have the managerial know-how and they require a fair level of innovation still inexperienced in these previously communist countries.

The conflict over control was very hot in Hungary, the Ministry of Finance wanted to privatize in order to decrease the debt levels and fulfill the requirements of the IMF, while the Ministry of Industry wanted to maintain control. Finally we could say that the cross ownership has been a serious obstacle against privatization, applying a clear financial discipline, developing partnership with foreigners, reducing subsidies and improving resources allocation being the objectives of Hungary. That is why the government is planning to use the voucher system.

3- Poland:

The private sector in Poland has been growing but this did not prevent the economy from suffering from the different outcomes of private ownership like increased unemployment. But this was a risk to undertake if operations in the public enterprises were to be rationalized. Privatization in the Polish society took the following forms:

- Spontaneous Privatization:

This method transferred control to the communist elites. Insiders ended up with easy access through manipulating offering at low prices.

This should have been illegal, but it shows that the legal system was not tailored to fit the new requirements.

- Equity Transformation:

Successful large SOEs are first transformed into joined-stock companies with equity temporarily held by the National Treasury, which sells the shares through public offering at prefixed prices. This could be done either independently or within a mass privatization program. No rules were imposed on foreigners, besides a 10% ceiling. The failure of this procedure was due to the reluctance of the Polish government which made foreigners with the necessary know-how loose interest. Employees where not encouraged to invest into heavily indebted companies which obliged the ministry to restructure the businesses before seeking new investors.

- Liquidation:

Consists of sales or leases, usually easily conditioned, not needing a previous commercialization of the companies.

* The advantages of this method is the capacity of the enterprise to directly have access to the funds.

* 20% of these companies are to be offered to employees first.

- Mass-Privatization:

* Very similar to what the Czech Republic applied. Transforming the SOEs into joint-stocks and the ownership is divided as following:

NIFs	60% (their investment in each enterprise shouldn't exceed 33%)
Employees	10%
State treasury	30%

* The shares were priced at 5 to 10% of the average monthly earnings, the ownership certificates are tradable which require at least a primitive form of financial markets. But this method haven't been widely accepted.

- Sectoral Privatization:

* Created as an attempt of coordination of efforts.

* Benefits are:

- Up to date information are provided which makes the transparency issue more possible and would develop the decision making process.

- Lead to more consistent efforts within one industry.

- Makes "Cross-Company" more easily understood.

* Expected to be more widely accepted.

- Reprivatization:

* The legal environment is not developed, this made illegal ownership possible.

* Very small claims are possibly satisfied.

- Obstacles:

1- Macro-Economic level:

* Unavailable financial resources.

* High inflation rate.

* Low individual savings.

2- Micro-Economic level:

* Need for restructuring before undertaking the work at very extensive levels.

* The need for layoffs because the SOEs are overstaffed.

* Need to divest some assets unnecessary for the continuation of work.

* No purchasing capacity of local investors and this would decrease as large-scale privatization starts.

* Foreign investors are not filling the gap due to highly indebted enterprises and unstable environments.

3- Weak infrastructure:

Sometimes, even if high debts are to be incurred, an advanced infrastructure is to be build and the weak infrastructure would be a restrain in the front of developed markets. Weak local consultancy is at the base of this failure. The lack of developed capital markets and investment banks made the IPO deemed to fail. The lack of local expertise and the lack of incentives to encourage foreign expertise would, no doubt, lead to the failure or at least to the delay of the process. As long as political loyalties would prevail, the free market process would not be reached. The new laws initiated have proven to be serving the interests of the communist elite in order to retain control over the SOEs. Unless this is changed, privatization could fail.

D. Privatization in developing countries

Now let us consider the case of some less developed countries.

1- Jamaica:

The fiscal deficit was as much as 18% of GDP. The motives for privatization are practically the same for all countries, including:

* Decrease the crowding-out effects and decrease the fiscal deficits.

* Democracy of ownership and increase the private investments.

* Improve the economic growth; development of local markets.

* Exchange rate reform, and tax reform.

* Separation of the fiscal and the monetary authorities.

* Reduction of both internal and external debts.

a- Privatization of the NCB (National Commercial Banks):

* Started out as a political conflict between the two ruling parties.

* Motivated by what's previously mentioned.

* Was characterized by a wide marketing campaign, to inform the public about what a share is and what is implied by owning one.

* External assistance was provided.

* The prime-minister tried to write a program that would have a high chance to succeed so he made it possible that renationalization would never occur. Wide ownership and no concentration should have been reached, through providing small investors with all their requests while large investors receive only 9% of these. Finally employees benefited from a special program.

* A distribution channel was developed.

* The pricing of the shares has been very difficult, oversubscription resulted, providing evidence that the program succeeded. The price of the shares was increased after increased demand. The low prices, relatively, were not due only to internal causes, but also to the world wide recession, and to the spread of information to the public.

b- Privatization of the C.C.C.(Corporate Communication Company):

* Unlike the NCB this company was successful part for 1 year, it incurred high losses then was improving again after bilateral partnerships. The same procedures were followed but the results were not as good. The price was very fair, warrants were distributed to encourage people.

* The price of the share decreased, it was said to be due to an overpricing and to political pressures.

* Some objectives were realized like democratization of ownership and improvement of the capital market.

2- Bangladesh:

a- The BTMC (Bangladesh Tele Communication Company):

* It was a privatization program of high speed, to avoid failure due to political pressures.

* Former owners were offered these original shares plus some other shares, so that they jointly own 51% of the total stocks.

* The privatized companies performed better in terms of production, sales, administration and finance.

* Management flexibility has been reached.

* These private enterprises were not able to expand or to use developed technologies due to the lack of funds this makes us wonder about, why didn't the government anticipate such problems, the credit policy, the saving rate as well as others.

* Failure was also rooted in the high debt levels and the lack of skilled and professional management mainly in the presence of family interests.

* Owner families were favored in terms of the distribution of the revenues from privatization while the government lost because the privatized mills did not reach enough proceeds to cover their debts and due to tax evasion.

* The capacities and financial capabilities of the private sector were not assessed accurately.

b- The National Commercial Banks:

* Shares were oversubscribed, the management transfer helped to achieve the success of the program. 15 to 20% of shares were offered to the employees.

* The proceeds were not rechanneled to revitalize the economy.

* The results were not as wished for.

3- Tunis:

* The public sector in Tunis was successful in what it did before the privatization from 1981-1986. 75% of the losing public sector was privatized in order to reach a wide restructuring program in order to improve the performance of SOEs.

* The proceeds, unlike in Bangladesh, were rechanneled in the market.

* The privatization was possible through IPOs, private sales, liquidations or sales.

* The objectives are the same as for other countries but more especially, mobilizing both local saving and external capital.

* Commissions were created to make the program successful. The planning, implementation and controlling were done each by an organization.

* Some obstacles were to be overcome:

- Restructuring was necessary.

- Determination of the price of the offering making it 70% close to the valuation price.

- Sales were done through public sale of shares, sales of assets, employee management buy-outs, mergers or liquidation.

- Employment compensations were found to decrease labor complaints.

- Without broadening participation the government wanted to develop domestic capital markets and have some distributional goals.

- Barriers to entry were removed.

* The proceeds were used for the employment compensation, development of information and training.

* Support of cooperation between international agencies.

In the case of Jamaica, it has been proven that profitable enterprises are also more profitable in the case of privatization, but if backed with the appropriate marketing strategies and other devices opposition and pressures could be reduced because results could be more easily attained.

As to the Bangladesh case successful IPOs do not mean successful privatization because not only ownership transfer is required but rather management development as well as performance improvement, when a minority shareholders can influence management's decision, failure is certain. The proceeds should be wisely used, what could be said is that the reduction of barriers is essential. As to the Tunisian experience, it was well organized unlike those of Bangladesh and Jamaica. It was slow but constant and future seems rosy.

It is not to forget that a legal framework, favorable investment environment, having independent and different commissions, external help organizing public awareness campaigns, transparency, wise use of proceeds, infrastructure development, are all tools to success.

To conclude, on one hand rapid privatization jeopardizes L.R economic gains. On the other hand a slow and carefully thought-out program designed for L.R economic gains jeopardizes the implementation of that policy. So managerial reforms are the solution. But it could be said that no factor is a key factor to provide success of privatization because no quantitative analysis can identify the right price and the market demand in the absence of a well-developed capital market. The example of transition of Germany was successful because East Germany had West Germany to rely on, to provide ready resources, and since the people of the East and West share the same social backgrounds and cultural ones, the social costs were very low making it possible to overcome the financial costs. The case of Germany is very unique and couldn't be used as a prototype to follow while designing policies even for other European countries.

In the absence of market makers every financial market will fail since stability will not be reached.

Increased demand will not be met by increased supply, and prices will keep on changing due to imbalances only.

The privatization topic is very sensitive because it deals with the equity and efficiency trade-offs. People could say that SOEs, are the property of all people, how are they going to be distributed in order not to misrepresent any of the parties.

The problem becomes deeper, in case the public mistrusts the government to debate becomes more philosophical dealing with fairness, based on economic.

E. Privatization in Lebanon

The huge losses that the war left in Lebanon were more than the government was able to cover and repair. Basic infrastructure such as electrical power, roads, water, telecommunication, schools and many others, were either partially or totally destroyed. So the government needed the help of the private sector for restoration or reconstruction, and in order to minimize external debt. When total privatization was not possible, the formation of mixed enterprises was the way out. The reason for such loophole would be to make sure that the objectives set by the government would be respected.

In the less developed countries and more specifically in Lebanon, the market used to seek the help of the government not because it wanted to change the economy nor the political system, but because the financial markets were not developed enough, expertise lacked and the need to expand economic activities. But in Lebanon, this trend did not reach the level of full nationalization, unlike the Arab countries surroundings us where the choice was more likely motivated by political incidences.

Even in times when Lebanon prospered the most, the lack of continuous planning and controlling was considered to be a threat for the future. Due to the chaotic conditions, internal public debt increased, inflation reached its highest scores as well as unemployment and emigration due to lower wages paid.

Corruption has most of the times characterized the performance of the different Lebanese governments. So their contributions to the economy were questionable, however, they were able to secure a good infrastructure basis. Lebanon profited from its infrastructure mainly in the 60s. By that time the poor result hadn't shown yet. Then came the war that destroyed what little had built the different governments.

But even by that time the government permitted some joint-ventures, used to cover up for the inefficiencies of their relative industries and enterprises. Chaos still ruled because unlike Britain, such transformation was not organized through a legislative or economic framework.

Further, throughout a long time from before till after the war, the private sector was not able to provide more than 8% of the net income. So not only the performance of the SOEs but also of the private sector was weak. But the weakness of the private sector was especially due to the restriction of its domain of work. So the reconstruction of Beirut, which requires huge financing was a possibility for the private enterprises to cover the deficit over and above the government's capacities and to share a larger role in the economy.

At this point new questions were raised: Is the private sector willing to increase its commitments? What sectors will it choose to participate in? How to control it? How to avoid private monopolies?...

Privatization in England for example had the following objectives: Raise revenues for the state, promote efficiency, reduce government interference in the economy, promote wider share ownership, provide the opportunity to introduce competition and expose the SOEs to market discipline. Whereas in Lebanon, privatization was explained by the following: SOEs had high costs reflecting inefficiencies as well as poor performance, so the private sector could, like during the war, avoid any possible total disturbances. Second, capital in Lebanon was scarce and in order to attract the foreign resources, privatization was needed to be the organizational pattern.

Third as in the U.K. the privatization process would bring in cash for the treasury and reduce the government's need to overinvest or overspend.

Fourth, Lebanon always called for administrative decentralization and privatization could provide it. This is also a common goal like in the U.K. Fifth, competition and efficiency would be promoted, an aim seeked by both Lebanon and the U.K.

As to objections to privatization, they include a fair reasoning regarding the need to give the public sector some time more to prove its efficiency, mainly because it was hindered by the war. But I could argue that even in the most obvious times, when the government did well enough, risks were always present because the government did not used to set objectives clear enough according to which it implemented and controlled the activities of the differnet enterprises. Second labor unions were afraid from monopolies at a result of some fierce takeovers that could happen when the private sector starts controlling the activities in the market. But here also we could say that takeovers could increase efficiency in the market but the government was to play the role of guidance of legislation.

Third, anti privatization voters argued that it could lead to private monopolies, but here also, if the government succeeds to play its legislative role, regulations could be reached to decrease any negative effects.

Fourth, industrialists argued that privatization should be a tool not an end result. And since privatization is only present in the capitalist systems, so in a class society where income inequalities are reached, we could argue that socialist egalitarian economies were not able to overcome the difficulties of these times while capitalist economies had a higher endurance capacity. When equal opportunities are available the performance of each group will depend upon its ability. At this point, one could argue about what is fair, equal opportunities or equal income, because we know that economic qualifications will increase the power of each group. But philosophical debates would not solve the problems. What could be said is that governmental control over resources and powers did not solve for inefficiency and inequalities. There were no losers but also no winners. Whereas in societies where the government would play in full terms its guidance role, winners could increase and losers could be minimized and privatization is definitely a way to reach there.

As to the compromise group it decided that the private sector could be unwilling to assume the full responsibilities in the economy so a mixture of control between the government and the private sector could provide for the efficiency needed from the private sector and the control of the public one.

In Lebanon political desirability and feasibility were overcome as to credibility, it was hard to reach, hence the public was reluctant. These were considered to be conditions for success. One of the candidates for privatization was EDL (Electicite du Liban). The government wanted to reach a stage where; capital and operating costs would be optimized, shortages would be eliminated, solvency was also an aim, as well as environmental awareness.

We could say that as of year 2000, filters were still not used and most of the aims were not reached.

But if the environmentally friendly techniques were used in all the power plants, the market would be contestable and would be able to make the market more ready to sign long-term contracts. So the price of oil needed would be provided by these resources from the contracts. So debt issued would be used to finance purchase of plants; the channel of resources would provide for a low risk, low cost resources.

The privatization of the EDL would end up to transform the company into a Mixed Enterprise (ME). The techniques and the reasons why this is the case would be developed later. The selection of the government's partner would be done through:

* Public information campaign.

* Announcement in international press to seek proposals.

* Prequalification and release of bidding documents.

* Bid evaluation.

* Contract negotiation.

External consultants and expertise would be sought as to government subsidies they should have stopped by 1999.

Tariffs have been reviewed to cover operating costs, debt service and to enable EDL to self support itself. At low levels wheeling prices were still subsidized. By 1996 EDL was expected to be able to pay 30% of the price of its fuel needed for the year and 60% of energy losses were expected to be attained.

As of 1998 energy conservation was to be made public and attractive. A tariff system could be created for this purpose. In that year, revenue collection has been contracted to private companies which increased its collection revenues. But the tariff structure was not all good since EDL still have lost 20% from the total number of its losses due to that system, power theft was 40% as to the distribution it was still inefficient. By 1997 cross debts were to be closed, also in the same year the formula for fuel was to be reviewed as well as the tariff system to become adjustable to the changes in fuel prices. So as to make the full burden of price changes borne by the consumers.

In the case of EDL, even after partial privatization competition was still best priced because only one contractor had the right to control high voltage transmission, the candidates hence compete just to acquire the right to become a monopolist.

But in the case of electrical power, monopoly is mutual since the set up costs are extremely high and with generation as the number of applicants increase average fixed cost will decrease and will constitute the majority of the average total cost. Since AFC is usually downward sloping so will the ATC. When the monopolist will produce at MR=MC increasing inefficiencies, the government after the privatization will regulate production in terms as to decrease inefficiency without making the contractor or the private sector loose hence it will oblige him the produce at the level where MR=ATC. But this regulated natural monopoly is very difficult to be attained without inducing fraudulent behavior in the most developed countries, let alone in a country long known for its corruption at the administrative level in both the public and the private sector.

That is why at EDL franchise bidding is not applied because it is a close form private regulated monopolies. On the other hand concession-type arrangements were used including management contracts for Jieh, Zouk, Baalbeck and Tyre. So the private party can manage the facility for a given fee. The government will not receive a fixed amount each year, will be responsible for fixed investment, would have majority ownership. At this level efficiency is reached because information a symmetry is decreased due to competition.

Performance would determine rewardsom penalties. Finally commitment from both the contractor and the owner would be increased.

It is for a long period of time including renewal possibilities.

As to Zahrani and Badawi they were controlled under a leasing contract. The contractor is hence responsible for everything and has to bear all the risks for a given period, but he wouldn't share the benefits with anyone in return for the leasing fee. It is for a shorter time than management contracts, as it is usually the case the leassor usually buys the leased property at an encouraging price.

These two forms of contracts grant the public sector authority but mainly it could provide it with the ability to return from its decision when the contract expires and it does not want to renew it.

The regulating body has a great importance. It could either be left to the market forces or else self regulation would take over the responsibility.

The concession contracts are a loophole, providing a flexible solution mainly when the sale of the asset doesn't fetch the "right price". And because such contracts are deeply negotiated they could make sure that the interests of all 3 parties involved, the government, the lessor and the public are maintained. That's why there is no unique from for the contract. It is always a special case.

But the contracts leave some monopolistic natures. To reduce their inefficiencies they shouldn't be built around the acceptance of the prime minister. When any change in the policy is needed or else it will turn out to be a refined form centralization, only in this way would the government prove that it has the public and the investor's interests above anything.

Most consumers would think that efficiency is reached only if prices are decreased but real efficiency is reached when subsidies are removed and they need to be replaced by a more balanced form of tariffs. Transmission at EDL has to solve 2 problems.

1- Charges for access.

2- Charges for use.

And this would only be reached in the long-run if least cost choices in plant types are provided. As to the independent power producers, as it was the aim to reach, different contracts were built to decrease costs:

1- Must run or take-or-pay contract, it is not highly efficient because it eliminates the competitive pressures through a guarantee of the sale of a certain amount of power.

2- Economic dispatch; economic ranking is the basis for energy dispatched. But costs that are the basis for price offering are historical and not based on market value. Thus they could reduce price competition.

3- Generator trading: Actual costs are used and generators could buy from each others at the price basis. Hence, if there is enough generators to create a market, efficiencies could be reached.

4- Competitive pool: Bid prices are used and competition is over reaching the lowest price, could only be applied in mature markets. But the bids could sometimes not reflect the real costs so instead of being subsidized by the government, the private sector artificially subsidizes prices in the way as to stop any competition or prices could even be set higher than costs if competition is low and the bidder is strong enough to impose its power.

The contracts could eliminate cross-subsidies but they do not affect all consumers because the contractors can pass the cost to the consumers according to what they want.

We notice a detailed look at prices that either historical or marginal or even market prices could be used. Each method has its advantages and disadvantages.

The EDL partial privatization has developed two techniques but in Lebanon other techniques have also been used.

1- BOT: The private sector's capacities are used to rehabilitate the SOEs. Those private companies, to maintain their profits before handling back the public enterprises, would resort to either fraudulent behavior or to charge high prices. But this method permits close governmental control and regulation. The assets when returned could not be 100% depreciated.

2- BOO: This is a full divestiture where the private sector retains control and ownership of assets till obsolescence or Price – Acc. Depreciation = zero.

3- Contracting-out of social services: Like the one used with Sukleen. The government is in total control because the private party needs to negotiate all parts of the contract and only the government could decide whether or not to continue the privatization.

4- Joint-Ventures: It represents pure cooperation between the government and the private sector. It is an alternative created instead of sharedealing (sales and purchases) because markets are insufficient. They are totally or partially managed by the public sector. Through this technique the government is still a partner and it could control easily the other part.

The government has regulated the MEs' organization through a decree legalizing among other a state participation in cash or in kind, hence through donations, loans or legal services. All this was done just to legalize and formalize the creation of enterprises that will satisfy the government's needs, since the government doesn't have enough resources to complete the modernization process.

Mixed ownership had different advantages since it encourages the cooperation between the private and the public sector. It is also a sure source of capital that depends upon the share's size, that pertaining to the government, while he is willing to loose control over.

When ME are able to reach their aims, a continuous cash flow could be earned by the government from the management of its share. Here the government has two choices, either put the proceeds in the vaults of the treasury or use them in rehabilitation programs which will usually have positive effects. If the enterprise was making losses the government would be released from part of the burden.

As to the disadvantages, they include:

The price of the share of the joint-ventures are lower than other shares because investors are usually reluctant to become partners with the government because it is supposed that it will continuously interfere in decision making.

In case the management was profit seeker, the private shareholder would be negatively affected since management would sometimes undertake irrational actions for the aim of increasing short-term profits. Even when shareholders are influential persons, the government would not be able to stop them from creating a form of cartel so could not prevent the maximization of their personal interests at the expense of the public interests.

It is to note that not all joint-ventures are complete mixed ownership because the later happens on a national level whereas the first on a regional basis. The lack of resources in Lebanon could increase the pressures faced by the government in order to let it accept doubtful foreign participation.

Whether the aim is to increase private ownership or to limit the participation of some institutions, it is not specified.

But nothing also regarding the level of governmental participation was specified, neither regarding the usage of the proceeds.

Privatization is not easily made successful, many barriers exist. In Lebanon the barriers were technical, political or social and economic.

1- Technical barriers:

When capital markets are absent so will wide share ownership as the restriction of ownership would be the result of private placement that would substitute capital stock offering, making the pricing process, information publication, the provision of necessary resource to private investors is becoming more difficult with the absence of a stock exchange.

The absence of a well developed infrastructure is also a drawback to any privatization.

As to the technical problems faced by enterprises of eastern and central Europe were also present mainly for large enterprises with obsolete capital stock and a usage of obsolete technologies hence reducing demand over their stocks which is reflected negatively on prices.

To overcome the problem of the lack of capital market, the Czeck Republic as well as Poland used voucher privatization which increased the problems already available because they do not provide for sufficient resources, even though it could solve for the valuation issue and the lack of purchasing power.

The banking system is considered as the basis of infrastructure so in the absence of the support of a banking system inefficiencies resulted from the centralization of powers.

The national banks in the previously socialist European countries had no knowledge of real soundness of their clients; that is why lending was not based on reliable practices. The problem is that with a centrally planned interest rate only the state enterprises, even of doubtful performance, were able to get loans at the contrary with the private sector.

Another technical difficulty in Central Europe was the limited size of private savings. That is why sales of share was not possible, to privatize, because those who had money were restricted to few power holders. Added to the lack of the financial markets ownership would never be divided in a socially acceptable way.

Russia, like Lebanon had greatly suffered from the lack of a secondary market. All other countries did suffer but at various degrees. This lack of a secondary market made stabilization very difficult mainly at the monetary level, it also created problems for some firms that were as a result unable to generate enough money when needed to cover debts. It also permitted the unfavorable distribution of profit among insiders and managers.

Another technical problem faced by European countries was the inability to valuate the firm since cross endebtness was a common practice. Further, neither comparative nor trend analysis were effected which made evaluation a lot more difficult.

And because interest rates are determined by the government they could not be used as an appropriate discount rate for valuation tools, which had to rely as a result, upon guesses and led to many noise trading incidences due to informational differentials. This is the case, in Lebanon, of banks and insurance companies that could to the contrary of other investors get in hand with a lot of valuable information to base upon, their investment decisions. That is why voucher privatization was needed, to avoid the valuation process.

Further, the quality of government services was questionable.

2- Political barriers:

A second type of problems would be the result of political barriers in the form of:

First induce by security threats, second resistance from interest groups. And privatization is likely to get a lot of political resistance because it is about to change the whole ownership system. It could come from labor force afraid of loosing their jobs, and mainly from political parties.

In Central European countries that undertook the privatization process and in order to avoid the political resistance hasty privatization was used.

3- Social and economic barriers:

A third type of problems would be in the form of social and economic barriers. They are usually the result of an absent legal framework. In Lebanon we still lack this condition, which could lead to monopolistic control over prices. And in Lebanon where ethnic conflicts are still highly present, the purchase of one property by one ethnic group would create a civil war. The solution would be the creation of a legal constraint making it only possible to acquire a public property, by a group of persons from different ethnicity. This issue could be subject to further study, but in an underdeveloped society it could be a fair compromise.

This kind of problems was not about in European countries. But they were restricted to fears from unemployment. That is why the labor force tried to construct policies around the possibility that these enterprises remain state owned for some time.

So a company has to be directed by an independent executive board and later would be transformed into a joint-stock or limited liability. While this solution could solve for the problem of labor fear but it is lengthy enough to permit the political opposition to build its defenses. Further it doesn't solve for the problem of large corporation and would leave shareholders at the mercy of management.

Another social problem would be the use of share distribution technique permitting shares to flow from the risk avoider (poor) to the risk seeker (rich). To avoid this, only underpricing could solve the problem encouraging the poor but making the government loose a lot of resources.

As to the employee's share technique, it is unfair because it will entitle the labor of successful enterprises to get in hand with cheep shares of highly performing enterprises, thus having an advantage over workers in unprofitable organizations.

So the former became owners without paying a fair price. And one could say that there is no reason to believe that turning over assets to those who ran these facilities poorly when they were still SOEs will improve resource allocation.

Finally when a SOE is sold by a state bureaucrat there is always the problem of corruption, crime, and ties with mafia groups. Therefore, direct sales should be prohibited instead voucher privatization could avoid this social problem.

Before providing results of empirical evidences about the issue of privatization, some recommendations would be listed, developed to avoid different possible problems, to close up the subject.

To start with the electricity issue:

When we talked about the pricing techniques we said that a market value pricing technique could be used.

As to England, another system is under application, spot pricing, that is why there are continuous bids and long run contracts.

In the absence of balance between demand and supply. This method usually encourages foreign investors to increase their investment locally. Lebanon, like all other developing countries, suffers from low ratings making financing a little difficult to be found requiring if available governmental guarantees. The repeated bidding and long term contracts could also solve for this problem.

As well as the issue of increasing costs due to high risks. Like this the cost is settled before hand and the supplier is tied up with the idea of a long-term obligation.

1- First the continuous bidding would provide the market with correct signals and could create a personal awareness regarding the issue of applying personal control techniques over consumption, which will in one hand decrease the level of subsidy needed or remove it once and for all which would increase the real income of poor people since the social cost is decreased making the private cost equal to the full burden.

2- On a second place the functions of the ministries should at no stage intermingle with that of the board of directors.

3- Third, discrimination should be abolished mainly in terms of transmission and distribution among suppliers.

4- Fourth the market approach should be at the basis of every decision making related to expansion for a more accurate assessment of risks and costs as well as for a clear distribution of the burdens of the costs.

5- In order to prevent large suppliers or genration plans from becoming just large monopolies, a cost-size equilibrium should be worked upon.

6- Managers locally are either really difficult to be found with the appropriate qualifications or are very few in numbers. So expertise from abroad should be brought to deal with the lack of capacities.

7- Red-tape should be decreased or else individuals would never be enthusiastic about investing in Lebanon, so the way to get a license for example should become a lot easier and should entail a shorter process.

8- We have talked about spot pricing as the method used in England and which give accurate signals but another method could also be used represented in the Parity Pricing which is securing efficiency in a neutral way and which is easier to be applied and less complex especially in a country like Lebanon, where:

Utilitiy's delivered price = transmission price + generation's cost

and having:

Entrant's minimum electricity price = Parity transmission price + the entrant's incremental generation.

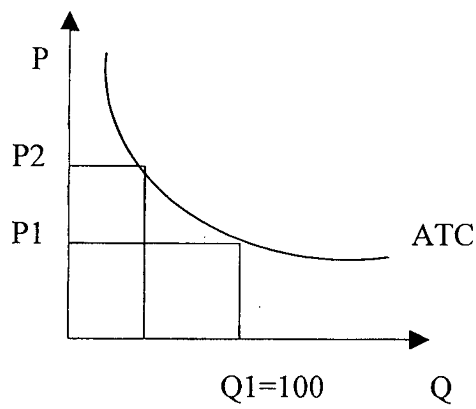
Having the end product's price different from the utility's delivered price only by the generation cost. So this is what is called neutral competition.

9- Companies in generation and transmission could use the dispatch contracts added to a minimum take guarantee since they provide for a low risk demand for investors compensating for the political risks and other, mainly because they induce efficiency due to the usage of the bonuses and penalties system, leading to competition.

10- In Lebanon we have so far been using the management contracts and leasing, but these should not come from nowhere, meaning they should be part from a serie of contracts having their initial form as supply and civil works contracts and ending up ultimately with BOT, BOO, divestiture by licensing, successively to reach full divestiture, like this only the competent power producer would be enduced to escalate like this with the contracts and elimination of distortion could be reached to provide the best alternative and prevent inefficiency in the market.

11- Restructuring of the EDL should be accompanied by a restructuring of the different regulation as explained earlier, because the need to provide for help in financing the company's projects at an acceptable cost, as well as to provide incentives for efficiencies, innovations and investments what is needed is the separation of the competitive parts and to regulate the natural monopolies, like high voltage distribution of EDL and as newbury said: "Experience suggests that efficiency depends more on the form of regulation of a firm, than on the form of ownership".

12- Starting the suggestion of Newbury we could say that natural monopoly is tolerated when regulated.



It follows that if one firm produces Q_1 it will provide it $P_1 < P_2$ if the same quantity is divided between 2 producers given this form of ATC, which is due to the fact that electricity generation is a natural monopoly, generation price would be higher (P_2).

Now if we want to talk about privatization in general, few recommendations are needed to secure an efficient process and outcome.

1- Privatization requires a complete infrastructure set up to encourage investors to come to Lebanon.

2- We have long talked about the capital and financial markets' development to provide for additional and easier sources of capital; but financial markets require a high level of transparency.

3- Even the tax collection should be improved in order to give incentive to the government not to increase its rates to cover for the loss of revenues.

4- The role of the government should be restructured into supervision and regulation like establishment of anti-trust laws. But it has to lower its interference in the market to protect it from the short sighted objectives that could usually characterize political advises and implementation.

5- If we go from the will to privatize all the way till the golden share passing through: objectives, capital market, selection of the SOEs to be privatized based on productivity, public services providing for penalties and correction of corrupt employees, creation of a commission to surprise decision-making, getting the help of external parties with enough experience in the field, creating a marketing campaign to make the public aware and receptive to such an idea, providing for efficiency in the form of transparency, to get to the golden share, we could say that the main ingredients for privatization are provided. From here we could continue till full privatization's phase, passing through additional steps including, decrease of the burden felt by employees, creating a good and environment for competition, decrease government intervention and convincing the public of so good usage of the proceeds, legalization of the process, all these would finally lead to a proper private sector unless we would like to achieve the same goal but through passing through many other formal contracts we previously mentioned.

6- Let the banking sector be part of the privatization process, since usually banks control excessively their affiliates providing for efficiency in order to secure the bank's objectives. In this way a selection of firms promising good prospects would be given facilities and it would be avoided to do so to inefficient firms.

7- In the case banks are permitted ownership in the different companies to be privatized, we could say that first of all the banking sector should be structured to fill in the requirements of the new stage. Credit access is essential to permit efficient allocation of resources. In this way the financial risk would not be the burden of the public sector anymore.

8- For privatization to be successful, only those firms with demanded services and not sovereign functions to the state should be privatized, or else the demand to invest in such firms would be very low, jeopardizing the whole future of the privatization program.

9- If privatization was initiated after a political decision, it should not be controlled by politics because inefficiencies instead of being decreased would increase. Renationalization should be clearly stated in the contract when national defense conditions require such, not at any other circumstance.

10- Before starting the privatization program, the government should start with restructuring the administration of SOEs in this way the hidden unemployment issue would dealt with, and the task of private management would become easier. Mainly because the removal of unproductive labor force by the government, would eliminate the problem of diminishing marginal productivity, and since in a competitive economy Wage = Marginal Product x Price, hence in the long-run wages of the remaining force would increase, further, training should become a requirement in the new private enterprise to avoid all problems related to insufficient skills.

11- Only natural monopolies should be permitted this concentration of power (in the form of a monopoly), but otherwise the government should be careful in the sense of avoiding the concentration of ownership in the hand of few large investors. So the shares should be affordable to the majority of potential investors, and shares offering should be based upon the absorptive capacity of the market. In Lebanon, since the market lacks informed investors, leasing and contracting out is the only way to avoid the failure of privatization programs.

12- Management usually would like to avoid agency problems, that is why it would normally be organized in a way to provide all shareholders with some representation in the board of directors, or else if it fails to assure some fair representation, the government should seek the representation of all in order to avoid the control of the stake of all shareholders by just a minority of influential shareholders.

B- employers encouragement and incentive procurement is a good strategy to be followed to ensure full productivity, shares offering to employers of the privatized firms is a way to induce them to increase their productivity in the firm they are now owners of.

14- Usually countries which start privatization program lack the needed capital for development and modernization. So foreign investors should be encouraged to participate in the privatization process, at least to cover for the deficit so far these countries suffered from.

15- A division of the public into the neutral, the pro, and the opposed to privatization in just as dividing the market into risk neutral, takers and avoiders.so what us as investors work upon are the risk avoiders, hence the opposers to privatization, to encourage them to go on in the process and not to cause its failure.

F. Privatization from Empirical evidences

Finally, to back the recommendations to the strengthen the privatization program, we could say that empirical evidences proved the efficiencies of the privatization processes.

There has been a global shift away from state socialism towards entrepreneurial capitalism. Governments faced this trend with great enthusiasm and started to sell their SOC, to weep away their unsatisfactory performance. The U.K. has witnessed the most profound of these transformations, while other countries were not as profoundly attained with the process. What is certain is that the private sector did grow in power and responsibilities.

According to a study for the world bank, it was clear that 80 countries have started their privatization programs, by 1992.

A report by good man & love man showed that by 1990 the value of world wide sales of state enterprises had topped 185billion & there is no sign of decrease.

What is important to point to has that each of these programs was not based on statistical reports showing the benefits of privatization.

Empirical studies used to present restructured & particular cases.

But they showed that the increased competitive environment as well as the managerial accountability are more important than the program itself.

Meaning that if these, under public control, were available, no need for privatization would have risen.

Theoretical studies showed that privatization was motivated by what we already know. And in order not only to decrease the government spending in terms of investment into these corporations but also to cut the "soft budget" of these corporation meaning the brides offered to managers. Empirical studies directed by board man & vining tried to compare the performance of SOC or ME & privately held ones, keeping everything else constant, they found that private enterprise outperformed their peers. Other studies completed for the world bank in 1992, showed that in out of 12 private firms had gains equal to 26 times what they used to gain which they were publicly owned.

Their works also were not worst off.

To make the conclusion more comprehensive a study over 61 companies from 16 countries in 32 different industries plus additional information collected for 9 companies & 2 countries showed that the mean & median profitability real sales, operating efficiency & capital investment spending of these firms increased significantly. Leverage was also decreased while dividends were increased, after the divestiture.

The most surprising in this study was that the employment rate did not fall, as usually is expected. But on the country it was shown that the mean & median employment rate increased.

In more details the study divided the range sample into different sub-samples to study apply to the how much the results they would get for the large sample would apply to the sub-samples which are:

a- Competitive vs. non-competitive industries privatized.

b- Full-vs. partial privatization.

c- Privatization involving firms headquartered in developed countries versus yours developed countries.

And the study included the following different part:

1- Profitability changes:

SOC are usually unprofitable since they emphasize on profit & employment maximization. Privatization is designed to substitute profit maximization. Also, governments almost invariably with draw their guaranties of the SOC debt after privatization. The newly privatized firms are thus exposed to real threats of bankruptcy, which promote greater attention to firm profitability. When ROS, ROA & ROS were neared it was found that both the mean & the median increased after privatization. This result applies to the subsamples also. ROS was significantly increased for non competitive industries.

2- Efficiency changes:

Usually the shareholders in a private company capture most of the benefits of efficiency improvements, but they also suffer most if efficiency is not improved.

3- Changes in capital investment spending:

SOE should invest more than private firms, since they were typically started in part to provide the government with an investment vehicle and because they have the resources and borrowing power of the government supporting them. But SOC were rarely over investing. Instead they had huge quating losses, so internally generated cash flows lacked, borrowing was also decreased since it was already very large.

Privatized firms have now greater access to private debt equity markets, farther they need to increase their investment, in order to spend on becoming more competitive.

Capital expenditures over sales as well as capital expenditures over total assets were calculated, also the mean and the median figures of the sample increased by the results for the sub-samples weren't homogeneous. Firms in competitive industries needed to spend relatively at higher terms, also those who experienced full divestiture and these which had their headquarters in OECD countries.

4- Changes in output:

Governments usually start the privatization program with the hope to see their sales increase after divestiture. Some economists ague that because the governments would no longer emphasize on just increasing their output, so it would decrease after privatization.

Prior to privatization SOEs usually had deflected sales levels, but they increased for the countries considered in the sample. The same happened for the subsamples.

5- Employment changes:

Usually the greatest fear from privatization is the emergence of a new macroeconomic problem of unemployment. But the researches showed that employment actually increased for the sample, after privatization. This raises the question why union leaders oppose denationalization, the answers range from some real evidences showing a decline of employment, or because they anticipate their loss over the full control over different features in the companies. Third privatization's results were often confused with those of regulations which preceded the denationalization process. High pressures imposed on the new-born management from the private sector are just relieved by decreasing production costs through decreasing employment levels.

6- Changes in leverage:

SOEs traditionally have high debt levels either because this was the unique source of capital or because inefficiencies in management and production thus requiring larger resources than the real needs. Leverage after privatization decreased mainly because these 2 reasons were removed. The results apply for the sample and subsamples.

7- Changes in dividend payouts:

Dividends distribution increased for the sample and the subsamples. Regardless of industry structure, privatization method or the stage of national development. This is mainly true because low shares trade increased.

8- Ownership structure changes:

Not only operating or financial features were changed but also management. Overall, the mean of the fraction of the new management of the new BODs formed by old directors was more than the half, was a huge number. 54% meaning that for 46% of the corporations new managements were introduced, which is an excellent figure.

When management was changed profitability, efficiency and others were getting better, as well as a decrease in leverage after privatization. But we could say that the changes in the firms ownerships and control structures, rather than mere government divestiture or cash infusion from share issue, seem to be the driving force in explaining all the results in the study.

9- Government subsidies before and after privatization:

Government subsidies usually decrease when privatization starts to be studied seriously and no significant incidences of subsidies after privatization, exist permitting us to say that these decrease after privatization. Subsidies were used to cover operating losses. When governments usually privatize in order to be relieved from the burden of subsidies it would be irrational to keep up doing so after the program's initiation.

Finally we could say that there is no unique privatization process that would assure complete success for every country and every company. Adjustments should always be performed for each case. But evidences show that the experience is worth the effort. Conditions still exist especially the need to change the management or else the improvement would not be satisfying.

CHAPTER FIVE

RECOMMENDATIONS

One can draw from other countries' experiences and study the steps that should be followed in order to achieve a successful privatization; these steps can be outlined as follows:

1-The Will: the willingness to privatize the government must be firm, as was the case in Jamaica, Tunis and the United Kingdom. Privatization must be viewed by the politicians as a means for reform.

2-Objectives: The primary of the privatization program should be specified by the government before embarking on this project, whether they involve maximizing revenues, widening ownership or increasing efficiency. A clear definition of targets expected from privatization can enhance success.

3-Capital market: A highly-developed market should exist along with a developed infrastructure to accompany the reform process. Moreover, reforming the banking sector should be given proper consideration since it is expected to play an important role in easing the privatization process.

4-Public enterprises: The financial situation of all public enterprises selected for privatization should be studied carefully to allow the government to choose the adequate privatization method for each enterprise, based on its productivity and profitability.

5-Public services: The civil service should be reformed through ending the services of corrupt employees. It is worth mentioning that the current situation, in Lebanon, is characterized by patronage, despite the law forbidding the collision of government officials with political pressure groups. The government must exercise maximum effort to strengthen its positions and restrict such actions.

6-Commission: A privatization commission should be created as the decision-making body, as was the case in Tunis (CAREPP), establishing cooperative relationships among all parties involved in implementing the privatization program.

7-External Assistance: Technical assistance should be provided by specialized agencies having technological, financial and economic backgrounds to carry out studies, and to ease the implementation of privatization. The process of implementation should be the responsibility of the government as well as experts.

8-Marketing Campaign: Marketing campaigns and advertisement should be organized prior to each divestiture in order to inform people and attract investors.

9-Transparency: The transactions must be transparent in all privatization programs, in all countries. Thus, the transactions must be a matter of public record.

10-Golden Shares: The concept of "golden share" can be introduced in the case of mixed-ownership. These special shares are owned by the government and have no voting rights. They are activated whenever any violation of the limits applicable to shareholding occurs (for instance, 15% per individual), or when any other misbehavior takes place.

11-Labor Force: Opposition from employees and management of SOE is likely to occur. Thus, privatization programs are usually accompanied by measures to ease the burden on the labor force. The government should prepare an alternative for qualified employees by offering them special share schemes in the enterprise to be privatized, as was the case in Jamaica, paying compensation or even helping them to find a job to avoid internal opposition.

12-Competition: should be encouraged through widening ownership and decreasing barriers, as was the case in Bangladesh.

13-Government intervention: The government must give convincing assurances that it does not intend to interfere in the day-to-day operations of the enterprises.

14-Proceeds: The proceeds from sales operations should be used for regional development, to finance reconstruction of infrastructure, to pay for social programs, severance, or to be re-invested by privatized companies since the fiscal impact of privatization depends on the way the proceeds are used. For instance, in Bangladesh, where the fiscal impact of privatization was negligible, the proceeds were kept in the Treasury as revenues. In Tunisia, however, they were used for rehabilitation projects and for social programs.

15-Legal Framework: To ensure efficiency, an appropriate legal framework should be developed.

As far as Lebanon is concerned, one can question whether the government is able to accomplish all the above-mentioned requirements at this stage since any minor political change can effect the Lebanese economy. Lebanon, nowadays, is facing two alternative solutions, whether to borrow money and thus increase public debt, or to revitalize the private sectors and depend on internal borrowing.

The first solution may be necessary to finance a small part of the reconstruction. The second solution may be useful to minimize the threat of long-term external debt. Thus, joint ventures, B.O.T, lease contract and contracting can be regarded as a compromise solution for this dilemma. One should note that privatization is only one among various measures which may be taken. The need for government control is still essential to regulate monopoly and to avoid discrimination and inequitable distribution of public utilities.

CHAPTER SIX

CONCLUSIONS

Between 1980 and 1991, more than 7000 state owned enterprises were privatized, 4,500 of which were in Eastern Europe. Moreover, 1400 SOEs were denationalized in developing countries, 59% of which in Latin America, 27% in Africa, 6% in Asia and 4% in the Arab countries. (Al-Hayat Iktissadiyah, August 16, 1993). The results achieved were not similar in all developing countries since each nation had its own objectives. Some were seeking to improve productivity; others wanted to achieve efficiency, and some were eager to increase revenues.

One notices that privatization is the trend of this century. Industrial countries resort to this kind of reform to strengthen the role of the private sector in the economy, and to introduce the concept of democracy. On the other hand, less developed countries, such as Jamaica and Tunisia, seek this method to reduce budget deficit caused by public expenditures on loss-making enterprises, and by the scarcity of resources. However, it is too soon to judge on the success or failure of privatization since the latter aims essentially at encouraging efficiency and productivity. Was this objective attained? It remains to be seen.

Privatization has its merits limitations. On the one hand, it makes the administration of many enterprises more efficient, easy to control, and it avoids bureaucracy and government deficiencies; on the other hand, it may lead to monopoly and may jeopardize public interest due to excessive profit-seeking actions.

As far as Lebanon is concerned, the implementation of privatization is still debatable. Some enterprises can be privatized while others should remain under the government's control to safeguard public interest. Although the government is willing to embark on such a program, there are some obstacles impeding its implementation. Thus, some essential measures should be taken. First, before any reform, the government should ensure political and economic stability, a well-developed capital market, and it should rehabilitate the management and the employees of the SOE. Second, a legal framework, allowing the widening of ownership, preventing concentration of ownership and encouraging competition, must be devised. Third, further work is required to identify all the intricacies and specific problems within each enterprise. Fourth, a group of experts and specialized agencies should be hired to conduct the essential studies on each enterprise. Finally, post-privatization assessments and follow-up are required to avoid any misbehavior or mismanagement.

In Lebanon, operational and organizational changes, such as contracting-out, lease contract and management buy-out, may be good solutions, during the first stage, for the enterprises that are regarded as potential candidates. However, assuming the government were in need of cash to reconstruct the public sector, ownership changes in the form of joint-ventures would seem appropriate. For joint-venture is regarded as mid-way solution that will enable Lebanon to judge whether privatization can be implemented or not in the future.

To conclude, privatization is not necessarily a solution for all publicly owned enterprises. It may be viewed as an appropriate solution for certain enterprises whereas, in other cases, it may not be the best approach. Each case must be determined on its own merits.

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