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ATTITUDES OF ACADEMICS VERSUS BUSINESS EXECUTIVES TOWARD PRIVATIZATION IN LEBANON

by

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A thesis
submitted in partial fulfillment of the requirements for the degree of
Master of Economics in the Faculty of Business Administration and
Economics

August 25, 1995

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ACKNOWLEDGEMENTS

I would like to thank Dr. Hratch Hadjetian who directed my thesis, Dr. Abdulrazzak Charbagi for his valuable assistance in my thesis analysis, and Dr. Raymond Mallat for his continous support during my two years of graduate studies . On the other hand, I would like to thank Messrs. OLCCJI, namely Mr. Adnan Abdel Sater and Mr. Majid Abdel Sater, who assisted me in my questionnaires' distribution through various Lebanese regions. Finally, I would like to thank very much Mr. Nazih Khalil for his unforgettable computer assistance and organization of my thesis statistical data and information.

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CHAPTER I

General Background

Should we have privatization in Lebanon? This is a subject which has been discussed by political leaders, businessmen, academics, and union leaders since the 1970's. Some of these people claimed that privatization would have negative effects on the Lebanese economy, while others believed that the positive effects would outweigh the negative effects.

The privatization issue was first raised by the Lebanese government in Summer 1992. It believed that restructuring and reforming public enterprises would require huge funds that could not be provided by the Lebanese Treasury alone without multiplying the already huge public debt. Thus, the government proposed partial privatization as a possible means to minimize the growth of public debt. In 1993, the Lebanese government presented to the Parliament a project law relating to possible privatization of certain public enterprises (PEs). The project allowed for the formation of mixed enterprises where the private and the public sectors would own and manage some PEs (Al Nahar, 1993 9).

In addition to the requirement of huge funds to renovate the PEs, there was another major concern by the government, namely the issue of the efficiency of PEs. The performance of the Lebanese public sector has always been a debatable issue regarding its contribution to the Lebanese economy. Before 1975, the role of the public sector was restricted to the provision of security, transport, telecommunication services, and other public services, where public expenditures accounted for only 8% to 14% of GNP.

Although the public sector has most often been characterized by its imperfection and passivity, it was able to establish a good infrastructure during the period before 1975. After 15 years of civil war, however, the performance of the public sector deteriorated due to 1) huge physical losses, 2) absence of good management, 3) lack of governmental supervision, and 4) scarcity of resources (Issa 12).

In early 1994, the Council for Development and Reconstruction (CDR) presented a project called "Plan 2000" to the Council of Ministry, whose objective was to reconstruct and develop the Lebanese infrastructure within the coming years (Associations Des Banques 33). This project estimated an investment program for the public sector at 10.212 billion dollars for the period ending in the year 2002, and an additional one billion dollars for credits to the housing sector. Thus, the total funds were estimated at 11.212 billion dollars (Le Commerce du Levant 15).

Theoretically, funds for such projects can be obtained 1) from external sources such as donations, external loans, and commercial credits, and 2) through borrowing from the local private sector, and 3) through private sector investment.

Facing such a situation, the government did not have any choice except borrowing to finance its rehabilitation programme, thus increasing the public debt to alarming levels. The question here is that will the government be able to settle its debts plus interests? If yes, then under what conditions? This issue has resulted in a big debate between the majority of the members of the Parliament on the one hand, and the government on the other. There is a fear that the government will increase tax rates, print additional needed money, and/or rely on deficit financing to be able to settle its debts.*

Given the huge increase in public debt, the government sought a possible solution to rely to a large extent on the private sector as a potential source of funds for the rehabilitation program (Al Diyar, 1993, 11). The main public entities subject to privatization are: 1) electricity, 2) water, 3) transport, 4) telecommunications, and 5) solid wastes' gathering.

Electricity

The shortage of electricity does not need any elaboration as it is a problem for almost every family. However, the attempts to rehabilitate the electrical networks are noteworthy, especially after 15 years of war which resulted in huge physical damages to Electricité du Liban (EDL). These damages caused a decrease in electrical power supply, thereby resulting in a gap between power supply and demand. In 1992, the monthly average electrical power supply ranged between 500 Megawatt (MGW) and 600 MGW, while demand reached 1000 MGW (Abi Saleh 102). The rehabilitation program for

* BANQUE du LIBAN's monthly bulletin No. 11, issued on April 30,1995, shows that the net total domestic debt reached LL 8,909 billion in April 1995, as compared to LL 8,563 in March, 1995. On the other hand, external debts reached $813.4 million in April 1995, against $811.4 million at the end of March 1995, $800 million in February and $772 million at the end of 1994. As for the balance of payments, it showed a deficit amounting to $77.5 million at the end of April 1995.

electrical networks, according to "Plan 2000", required about US $1800 million. Thus, some policy-makers argued that privatization of this public utility could be a solution in the absence of government funds (Al Diyar, 1992, 12). In 1993, the first main objective in the electricity sector was the completion of the $265.4 million rehabilitation programmes by May 1995. For this reason, several contracts were signed between EDL and Electricité de France International, ESBI (Irish), Ansaldo (Italy), Hyundai (Korea), Clemessy, Bouygues, M. ELEC (France), and Laceco. The objectives behind these contracts were as follows:

1. Helping EDL to plan and manage the investment programme for the electricity sector.
2. Supervising the rehabilitation contracts of all electrical sectors.
3. Helping EDL to reorganise and develop new business procedures, notably for customer accounting.
4. Rehabilitation of power generation, transmission, and distribution.
5. Rehabilitation of two important sub-stations on the high voltage network in Jamhour and Bsalim.
6. Construction of two combined cycle power stations of 450 MGW each, in Beddawi and Zahrani power stations.
7. Supplying electrical materials for street lighting.

Funds for these projects were supplied by:

1. European Community.
2. France.
3. Lebanon, Arab Fund, Kuwait Fund, and Italy.

4. World Bank, European Investment Bank.

5. Saudi Fund for Development (CDR, January 1994, 13-15).

Table 1 shows the production of electricity between 1993 and April 1995:

Electricity Production	Millions of Kwh
Monthly average for 1993	347
September 1994	277
October 1994	374
November 1994	390
December 1994	434
January 1995	386
February 1995	383
March 1995	371 *
April 1995	341**

Sources: * BDL. Monthly Bulletin. Issue No. 10, Choueiry Press, Beirut: March 1995, p. 3.

** Al Nahar. June 7 issue, Beirut: 1995, p. 9.

Given that demand is constantly increasing and that the rehabilitation of the existing facilities will only be sufficient to meet part of the demand, and that the installation of additional power generation and transmission capacity will take a relatively long period to implement, what is required towards obtaining 24 hours/per day electricity supply is the timely expansion of the generation and transmission capacity (CDR, January 1995, 6). Could this be implemented without the private sector's contribution?

Water and Waste Water

The rehabilitation program for the water sector has been designed with a view to optimize water supply to users in terms of both quality and quantity. To achieve these objectives, priorities have been set to deal first with the existing installations, like spring, boreholes, treatment and pumping stations, distribution and supply networks, and water towers. In addition, studies have been launched for the modernization of existing installations, taking into account the population increase and urban expansion, and for the increase of available resources to cope with summer shortages and future needs. It was estimated at the end of 1994, according to a CDR progress report, that about only 50% of the population is served by the existing network. In addition, feasibility studies have been launched in various areas to identify the sources and areas of pollution, and to define the work needed for the treatment of effluents before their release into the environment (CDR, May 1994, 23).

To fulfill these objectives, several contracts were signed between the Ministry of Hydraulic and Electric Resources (MHER) and the Ministry of the Environment (MOE) on the one hand, and many consultants and contractors on the other. Total funds required were estimated at about $75 million, oriented toward rehabilitation works. The projects implemented were as follows:

1. A three-year consultancy mission to assist MHER and MOE to plan and control the investment programme, as well as technical management including improvement of business procedures and efficiency of customer billing. The starting date of the contract was January 1994.
2. Extension of the treatment capacity of Dbayé's plant to increase the water supply of Beirut by 270,000 cubic meters per day, starting in December 1992.
3. Engineering and supervision of Ain-ed-Delbé water supply, starting January 1994.
4. Infrastructure consultancy regarding works required to serve the displaced peoples' villages, and hence allow their return, starting in November 1993.
5. Updating of previous studies to provide a supplementary source of water supply for Greater Beirut, starting in December 1993.
6. Contract packages for the rehabilitation of water sources, reservoirs, pumping stations, treatment plants, and distribution networks, starting in February 1994.
7. Contract packages for sewerage rehabilitation, starting February 1994.
8. Consultancy project regarding the development of the studies and preparation of tender documents for the execution of Bisri dam, starting February 1994.
9. Project for the completion of Ghadir treatment plan for the pre-treatment of effluent work from the Southern part of Beirut City and the Southern suburbs, starting December 1993.

10. A water supply project for Ehden and Beit Eddine, approved by MHER but the starting date is still under negotiation.
11. Consultancy for the preparation of water sewerage contracts outside Greater Beirut for 1995-1996, starting in May 1994.
12. Consultancy for Water Project in Beirut areas, starting in May 1994 (CDR, January 1994, 18-21)..

Funds for the water supply rehabilitation programme were supplied by:

1. European Commission.
2. France.
3. Italy.
4. Kuwait Fund for Arab Economic Development.
5. Saudi Fund for Development.
6. European Investment Bank.
7. World Bank.
8. Lebanon.
9. KFW (Germany).

The major consultants are:

1. Lyonnaise des Eaux-Dumez (France).
2. Dar Al Handasah (Nazih Taleb and Partners).
3. Cadres (Ziad Hajjar-Lebanon).

4. Montgomery Watson-Engico.

5. Hydea, ENB, BTD, BTUTP, Liban Consult, Geti, Jouzy.

6. ACE -Lebanon- (CDR, January 1994, 18-21).

Transport

Roads

The network of roads suffered great deterioration from lack of maintenance rather then from direct war damage. Severe capacity problems were identified in and around Beirut, along the coast, and on the road to Damascus. Consequently, a programme for rehabilitation of international, primary, and secondary roads was implemented.

Rehabilitation of the roads and networks in the northern and southern suburbs of Beirut is also being implemented. CEGP is monitoring the construction of the remaining part of the coastal highway as well as a toll system for the Beirut-Damascus highway (CDR, May 1994, 31).

The Sector Implementation Unit and Public Works were appointed under a three-year contract ending 1998, to provide technical assistance to the Directorate of Roads and the Directorate of Buildings.

The joint venture of Team International, SOFRETU and Iaurif launched a study regarding transportation in Greater Beirut. They have recently completed a household survey to assist them in this task. This study is due for completion in mid-1995 (CDR, January 1995, 19).

The status of the various contracts for the rehabilitation and upgrading of roads and services in Greater Beirut, namely southern suburbs, under the supervision of the consultant BTUTP, is as follows:

1. The works in Chiyah Boulevard, Saida el Kadima will be finished before July 1995. The contract value is $11.3 million.
2. The works in Tahwita, Al Morajeh and Al Radouf must be finished before end of April 1995. The contract value is $3.4 million.
3. The works in Tahwita, Kassis, Ghobeiry will be finished before the end of September 1995. The contract value is $10.9 million.

Contracts for rehabilitation and upgrading of roads and services in the northern suburbs of Beirut, under the supervision of the consultant ACE, are as follows:

1. Bourj Hammoud Project will be finished before the end of 1995. The contract value is $14.7 million.
2. Cleaning of drains in Bourj Hammoud. Work must have been finished before the end of January 1995. The contract value is $1.5 million.
3. Cleaning of culverts and outfalls in Bourj Hammoud were supposed to finish by the end of January 1995. The contract value is $0.4 million.

4. Rehabilitation and upgrading of roads and services in Nahr el Maout is due for completion in November 1995. The contract value is $6.9 million.

5. Rehabilitation and upgrading of roads and services in Bourj Hammoud, Nahr el Maout, and Nahr Antelias is due to be finished by the end of October 1995. The contract value is $4.9 million (CDR, January 1994, 20).

Funds for these contracts were supplied by Lebanon, European Investment Bank, Italy, European Commission, Conseil Régional de l'Ile de France & Ministère des Affaires Etrangères (France). The Saudi Fund for Development has also supplied funds, in cooperation with CDR, for the completion of the Chekka-Bohsas and Damour-Jieh sections of coastal expressway (CDR, January 1994, 22-26).

Public Transport and Railways

The bus service is seriously defective. Thus a bidding process was under way for the financing and purchase of 140 busses for the Greater Beirut area, at the end of 1994. This must, hopefully, lead to a solution for traffic congestion. On the other hand, no railway service is currently operated (CDR, May 1994, 31). Prequalification of contractors for the rehabilitation of the 170km coastal railway between Tripoli and Tyre had been under way in 1994, and was completed in 1995. Thus, tender documents have been produced for a dual track system with electric traction. Implementation have not yet started for this project (CDR, January 1995, 20).

Posts and Telecommunications

The national telecommunications system was devastated during the war. Toward the end of 1994, 375,000 lines were only connected, and 30% of subscribers were still without service.

The rehabilitation and modernization of this sector is vital for the recovery of all productive sectors of the economy.

The national strategy for telecommunications was to reconstruct the system introducing modern technology, such as digital switching and fibre-optic transmission. The government programme embodied the rehabilitation of the existing lines and a further expansion of the network to a capacity of 1,000,000 lines.

In addition to the public investment programme, private sector participation was introduced into mobile telecommunications in the framework of a 250,000 cellular lines (GSM) capacity network (CDR, May 1994, 17).

Currently, Norconsult is the engineering consultant entrusted for supervising the rehabilitation and expansion of the telephone system and of the GSM (cellular) system which is also in progress, while Cable & Wireless has recently started a management contract for the overall system. The following large contracts are currently being executed by the ministry:

1. **Telephone exchanges** (contractors: Alcatel, Ericsson, and Siemens; total value of the three contracts is $78 million). These contracts were let for the supply of new digital telephone exchanges with the main aim of both replacing all existing electromechanical exchanges and providing the increased number of available lines. Alcatel is supplying and installing 271,000 exchange lines, Ericsson 284,000, and Siemens 421,000 lines, to be spread throughout the country resulting in a total exchange capacity of 1.2 million lines. Work started in October 1993, and is due to be completed in 1996.

2. **Telephone network rehabilitation and upgrading** (contractors: Alcatel, Ericsson, and Siemens; total value of the three contracts is $431 million). These contracts, let by the ministry, are for the rehabilitation and extension of the transmission network (including new high capacity fibre-optic cables), the outside plant (local and junction networks), two satellite earth stations, ancillary buildings -- including new telephone exchange buildings, and civil works and training. The contractors started to design the architecture of the network in mid-1994, and began work on site in October 1994. Work is currently going on in Tripoli, Saida, Zahlé, and Hamra and Achrafieh in Beirut district. The work is expected to be completed in 1996, except for 25% of the outside plant which is due to be finished in 1997 (CDR, January 1995, 8,9).

3. Contracts have also been let for the reinstatement and improvement of the **international telephone connections**, in addition to the earth stations being installed as part of the network contracts mentioned above. These provide for a new optical fibre cable between Lebanon and Cyprus and new micro-wave links with Syria, both of which are due to be completed in the autumn of 1995. On the other hand, steps are being taken to provide a high quality **mobile telecommunication service** throughout Lebanon. This is being provided through a new digital (GSM) system installed by two competing companies on a Build-Operate-Transfer (BOT) basis. Under this arrangement the investments were made by the companies themselves who have a 10 year concession (optionally extendible to 12 years) to operate the systems, at the end of which they will be reverted to the Lebanese authorities. The government will also share the revenue during the concession period.

The two competing systems are being provided by **a)** France Telecom Mobile Liban, a company in which a majority share holding (66.67%) is owned by France Mobile International, and **b)** Libancell, a company in which 14% of the shares is held by Telecom Finland Internationl (CDR, January 1995, 9).

Funds for the rehabilitation and expansion of the telecommunications network are supplied by Lebanon, France, World Bank, and the Lebanese private sector (CDR, January 1994, 30,31).

Solid Waste

Solid waste was being disposed off between residential areas, and transported to uncontrolled dumping grounds, thereby creating serious environmental problems. This called for a rehabilitation programme for this sector aiming at protecting the environment, with priority being given to coastal areas and water resources in the Bekaa valley (CDR, May 1994, 27). Moreover, rehabilitation of the existing composting and incineration plants was put into action, assisted by the **Sector Implementation Unit** in the Ministry of the Environment (CDR, January 1995, 16).

The position regarding current contracts is as follows:

1. **Supply of garbage containers** (Contract value is $0.9 million, funded by the World Bank). Accordingly, 2790 garbage containers were delivered in October 1994, with 860 containers to the authorities in Greater Beirut, and 1,930 to other municipalities throughout the country.

2. **Rehabilitation and supply of compactor trucks** (Contract value is $5.6 million, funded by the World Bank). This contract called for the rehabilitation of 32 already existing trucks and the supply of 76 new ones (CDR, January 1995, 16).

3. **Rehabilitation of Quarantina compost plant** (Contract value is $3.9 million, funded by the World Bank). The work was supposed to be completed in January 1995, but it was delayed because it was found out that more work was needed than originally envisaged. However, when the work is over, the plant will be able to process 500 tonnes of waste per day. Moreover, it is intended to **a)** sell 220 tonnes of compost per day as fertilizers, **b)** recycle the re-usable materials, and **c)** incinerate the remainder.

4. **Operation of Amroussieh incinerator** (Contract value is $6.75 million for 5 years, funded by the World Bank for the first year at $1.35 million, and by Lebanon for the remaining four years). Work started in April 1993.

5. **Garbage collection in Greater Beirut** (Contract value is $10.8 million, funded by the World bank for the first year at $3.6 million, and by Lebanon for the remaining two years). Operations started in July 1994 (CDR, January 1995, 16).

6. **Consultancy services for landfill sites** (Contract value is $1.526 million, funded by the World Bank). Work had started in December 1993 and should have finished by December 1994. Unfortunately, there were some delays owing to difficulties in securing the availability of the necessary land. Anyhow, the contract called for the development and design of landfill sites and the preparation of tender documents. The new sites will constitute an environmental improvement in the Lebanese regions. The landfill works were estimated at $11 million (CDR, January 1994, 28).

In summary, it can be noted that due to its inability to provide the necessary funds needed to finance the rehabilitation programmes, the government relied on borrowing. This has created a burden through an increase in public debt. If private companies would come, invest, and take over all the rehabilitation works needed, wouldn't this help the government not to increase the public debt and create a burden to our economy?

General Statement of Problem and Hypothesis

There is an urgent need to reconstruct the country's infrastructure and make it more efficient. Given the already high and increasing public debt, however, should the government alone assume the responsibility of rehabilitation? Questions were raised whether to give the private sector a share to improve the economic situation. Thus, there are three opinions regarding this issue:

a) Total privatization of PEs;

b) Partial privatization of PEs;

c) No privatization of PEs.

The research hypothesis is that academics and business executives differ in opinions regarding the privatization issue in Lebanon.

Limitation of the Study

This research is limited to the opinions of a sample of Lebanese academics and business executives, chosen from different Lebanese regions, excluding the South due to security problems. The questionnaires received and analyzed were 201 out of 400 questionnaires distributed. The collection of questionnaires ended during February 1995. However, it would have been preferable that more questionnaires were received and analyzed to have a more reliable study.

CHAPTER II

Review of Literature & Recent Privatization Programs in Selected Countries

Privatization is defined as "transfer of ownership and control from the public to the private sector. It may mean reducing all forms of state control over resource allocation. Privatization refers to the sale or leasing of assets in which the state has a majority interest, and the contracting out of publicly-provided services" (Hemming, and Mansoor 1).

Just as the 1960's and 1970's were characterized by rapid expansion of direct state intervention to redress perceived failures in the operation of private markets in the developing world, the 1980's witnessed widespread attempts by policy makers to curtail the state's economic role. Divestiture, or privatization, of public enterprises has featured prominently in these attempts.

Privatization first gained prominence in Great Britain under the leadership of Margaret Tatcher's government. However, it quickly spread to the developing world. This move was encouraged and supported by the international donor community, the need to cut government expenditures in the face of fiscal crises after the oil shocks of the 1970's, and an intellectual and ideological climate increasingly hostile to state intervention in economic activities. A recent study estimates at some 1,400 the number of privatization efforts underway. Over 80 developing countries are involved in these efforts, including countries like China, Tanzania and Algeria, which have traditionally favored a prominent role for the state in economic activities (Van de Walle 1).

Between 1980 and 1991, nearly 7000 state enterprises were privatized, most of them in eastern states of Germany (4500) and formerly centrally planned economies. Only around 1400 were in developing countries, of which 59% in Latin America, 27% in Africa, 9% in Asia and 4% in the Arab States (Human Development Report, 1993 48).

The Rise and the Fall of Public Enterprises

Between the mid-1960s and early 1980s, thousands of large and small public enterprises (PEs) were created in the developing countries. On the average, they accounted for over a quarter of gross fixed capital formation in those countries in the early 1980s. These enterprises were created for complex and different reasons. First, it was widely thought that PEs in general would provide governments with the much needed funds. Second, the ideological climate was such that the private sector was held in low esteem and a large public role in the economy was seen as necessary for rapid and sustained development. Third, local private entrepreneurs were in short supply, and did not have access to adequate levels of capital, or were linked to unpopular minorities and foreign powers. Fourth, in political terms, PEs constituted important resources for state elites to be developed and harnessed in the form of potential rents, jobs, and the servicing of constituencies. In sum, regulating or controlling certain markets was a major objective of the creation of PEs and nationalization of private enterprises. Improving market efficiency was not a major preoccupation, and PEs were rarely created to handle market failure, as is sometimes implicitly argued on their behalf today. There may well be efficiency arguments for PEs, but there is little evidence that these weighted heavily on decision-making in developing countries (Rees 21). The performance of these PEs, however, is generally considered to be unsatisfactory, albeit with important exception. They lose money, or do not make as much money as they should, despite the fact that they often benefit from privileged access to capital, various subsidies and protection from domestic and foreign competition. The reasons for their unsatisfactory performance are: unclear, multiple or contradictory objectives, bureaucratic meddling, overly centralized decision making, inadequate capitalization, lack of managerial skills, excessive personnel costs and high labor turnover (Millward 24).

In recent years, governments' attitude toward PEs has changed, as economic conditions have worsened and fiscal crises have become endemic in the developing world. In addition, the ideological climate has changed and turned against the public sector, in the kind of policy described by Hemming & Mansoor (Hemming, and Mansoor 13). Some developing countries had changed their policies much earlier. The Egyptian experience is a good example. The open-door policy --commonly known as "Infitah"-- launched by President Sadat in the mid-seventies was in essence one of incremental privatization. It represents a major departure from the socialist philosophy of the sixties. Its purpose was avowedly to reduce the role of the public sector by assigning a greater role to the private sector (Ikram 26).

According to the October Working Paper which laid the foundation of the open-door policy, it was stated that the public sector had played a crucial role in Egypt's past development, but experience had revealed some shortcomings. In particular, the public sector suffered from excess bureaucracy, and some of the activities that had been annexed were not compatible with the public sector. Reorientation was required to rid the public sector of obstruction and increase its efficiency. In other words, priority was henceforth to be given to the private sector through inducements and incentives without privatization of existing public enterprises. Thus, the results of the open-door policy were a sort of incremental privatization, and this policy was able to attract a certain flow of Arab and foreign private investments and to encourage the establishment of a number of joint ventures in Egypt (Ikram 26).

Benefits of Privatization

Privatization is seen primarily as a means of improving the efficiency of public enterprises. It is believed that it limits or eliminates political interference in decision making, increases managerial incentives and motivation by making managers responsible to shareholders, who will monitor their performance better than governments, and imposes the financial discipline of private capital markets. All these are believed to improve the efficiency of the PEs. There are other benefits that are claimed to be related to privatization. Through privatization an enterprise can gain access to private sector financing, and private owners may bring access to new markets. If the sale of public sector assets could be made attractive to small investors, this would broaden share ownership which is considered desirable. Privatization may also spur the development of domestic capital markets, and, it has been argued, lead to a reduction in public sector deficits, especially if the government could dispose of loss- making enterprises. In addition, it may disarm public sector trade unions that abuse their monopoly position. Advocates of privatization also tend to associate it with increased competition and hence improvements in allocative efficiency (Hemming, and Mansoor 6).

Privatization may also benefit enterprises that remain within the public sector. For these enterprises, increased efficiency will result principally from improvements to existing incentive and control mechanisms. If a significant number of public enterprises can be transferred to the private sector, the government should be better placed to focus on the objectives, conduct, and performance of those enterprises that it remains responsible for (Hemming, and Mansoor 6).

Privatization Techniques

The term "privatization" has been used to refer to any shift in activity from the public to the private sector. This could involve no more than the introduction of private capital or management expertise into a public sector activity. Regarding the transfer of ownership from public to private sector, this can happen in a variety of ways. First, an enterprise may be sold in its entirety to a buyer in private industry, engaged in a similar activity or seeking to diversify. Second, an enterprise may be sold to the management and employees, or to the public through a share issue. Third, a part of the whole may be sold, probably to a private buyer with related interest. This may be appropriate where the enterprise as a whole is not attractive to a private buyer, but where other activities can be separated from the whole and run independently. Where salable parts cannot be identified, a proportion of the whole can be sold, the exact percentage depending upon how much control the government wishes to retain over the enterprise (Berg 11).

A change in ownership need not involve a sale. An enterprise can be privatized by handing over ownership by means of, for example, a nominal sale to a private individual, to a private concern, or to a particular interest group, most likely the management or employees of an enterprise. Such a "giveaway" may be appropriate where heavy losses, massive debts, or a history of labor troubles make an enterprise unattractive to a specified buyer or to the wider public. As a final resort, an enterprise can simply be liquidated, and its plant and equipment sold off to the private sector (Berg 11).

Problems of implementation

UK experience shows that even in a sophisticated financial environment, where shares are routinely traded in large volume and high quality advice can be readily obtained, it is difficult to establish the market value of an enterprise before its sale. A number of factors contribute to this difficulty:

1- The size of the enterprise being sold.

2- The uncertainty regarding the structure of the market in which an enterprise will operate.

3- The impact of any regulatory control that will accompany privatization.

4- The extent to which the private sector sees opportunities to improve the efficiency of privatized enterprises that the public sector ignores (Yarrow 325).

Undervaluation of assets can be costly. In the case of enterprises that are too small to market in parts, or where an enterprise will be sold directly to a single buyer, valuation will remain difficult. However, one possibility would be to yield control while selling in several phases, with the sale being structured so that long- term financial performance forms the basis for a final valuation, while an interim sale price is based on short term performance. This would certainly make it easier to sell loss-making enterprises, since no initial sale price need be stated at the time of change in management, and the ultimate price could take into account any turnaround in performance under private management. If such an arrangement is attractive, there is in fact no need to contemplate changing ownership until an enterprise has spent an extended period under private management. For example, a government could enter a management contract with the private sector for a number of years prior to sale (Yarrow 326).

Valuation problems are compounded in developing countries. In many cases neither the private sector of the economy nor the capital market is sufficiently developed to yield an approximate valuation. While international markets could help in this respect, the restrictions that are often placed on the involvement of foreigners and non resident nationals limit this possibility. And even where a market value can be established, the thinness of domestic capital markets necessarily places limits on the ability to finance privatization from domestic resources. In the United Kingdom and other industrial countries, there are large, well- established capital markets. Many developing countries, particularly in Africa, do not have a stock market, and where they do exist, they are often very small. In Peru, for example, the privatization program was never implemented because the planned asset sales were too large in relation to available private sector resources (Yarrow 327).

If the domestic capital market cannot be sufficiently developed, other alternatives will have to be explored. For example, an often neglected source of finance is the work-force of an enterprise. A privatization package could be set up allowing workers to receive shares in an enterprise in return for agreeing to repay the government, or to relinquish a claim against it. In practice, this could mean that a share of wages would go to the government for a specified period. In effect, the government would be bearing part of the operating risk even after privatization - it would not receive full payment if the enterprise failed - and this could be seen as a way of compensating for informational inadequacies. Alternatively, workers could give up their termination benefits or part of their accrued pension rights, which in many cases would be greater than if they had worked in the private sector (Yarrow 327).

Debt-to-equity conversions also offer a potential source of finance. A number of Latin American countries, most notably Argentine, Brazil, Chile and Mexico, are allowing foreign banks to exchange debt for equity. Typically, the foreign creditor will sell debt to a third party seeking an equity position in the country concerned. The debt is sold at a discount in the secondary market. The debtor government will convert the debt into domestic currency as long as the proceeds are used to finance approved local investment; this will directly serve growth and other development objectives. Such a procedure also reduces a country's external debt burden without drawing on scarce foreign exchange. The investor, often a multinational company, also benefits from the reduced effective exchange rate at which local assets are acquired. These advantages, which may or may not wholly materialize, combined with the fact that public enterprise debt forms a large share of total external debt in developing countries, can facilitate the privatization process (Yarrow 327).

Many developing countries wish to limit participation to particular groups of shareholders and, to this end, exclude potential buyers. In addition to foreigners and non-resident nationals, ownership by certain ethnic or social groups is often unacceptable. This may be a principal reason why privatization in many countries is proceeding so slowly (Yarrow 328).

Fiscal Impact of Privatization

Asset Sales in Government Accounts

Generally, the proceeds from asset sales to the private sector are treated either as a capital revenue or a loan repayment accounts. If the government sells fixed assets previously held for its own use, like land or intangible assets, the sale proceeds are recorded as capital revenue. If the government sells part or all of its interest in a public enterprise, the transaction is treated as a sale of equity and the proceeds are recorded as a loan repayment.

In an accounting sense, the immediate fiscal impact of an asset sale is straightforward. If there are no other budgetary changes, the overall deficit of the government will be reduced by an amount equal to the sale proceeds. This means that, in general, assets would tend to lead to a reduction in the overall public deficit unless the sale price was less than income that would have accrued to the government (Mansoor 20).

The overall deficit provides a guide to a number of aspects of the relationship between government activities and the economy as a whole. Most importantly, since the deficit measures the difference between government expenditures and government revenues, changes in the overall deficit, after suitable adjustments, are often regarded as indicating changes in the government's fiscal stance, and especially whether demand management policy has become more expansionary or contractionary. In addition, since the government must borrow to finance the overall deficit, its size has monetary and associated financial policy implications. The size of the overall deficit, and the way in which it is financed, also has balance of payments consequences (Mansoor 21).

Asset Sales and Their Financial Implications

When a public enterprise is sold to a private buyer at a fair market price, such a price is usually defined as being equal to the present value of the discounted stream of after- tax net earnings of the enterprise, assuming that tax abilities are the same both in the public and private sector.

If an asset sale is used to reduce the overall deficit, while other revenues and expenditures are held constant, there will be no financial impact in the medium term, provided the asset is sold at market value. Selling an asset is equivalent to borrowing against its future income stream. However, if a government sells a bond, it is also borrowing against its future income. In both cases, the government is accepting an obligation to raise taxes in the future, in the first case to replace a foregone income stream, and, in the second case, to survive debt repayments. When the sale proceeds are used to increase current expenditure or reduce taxation, bond financing and asset sales are also equivalent, and in this case future revenues have to be converted from the private to the public sector to pay for current expenditure increases or tax reductions (Barro 1105).

Asset Sales and the Balance of Payments

The sale of a public sector asset to the private sector cannot, by itself, affect the current account of the balance of payments. The public and private sectors will have simply exchanged assets and this alone cannot influence economic activity. But, if privatization raises the overall productivity of the economy, net exports should increase, and thus, this increase will be reflected by a positive balance in the current account. Also, privatization may induce foreign investment, and this will be represented by an inflow of capital in the balance of payments' capital account. If the savings and investment behavior of the private sector is adjusted in response to privatization, then the economy will be affected. However, unless privatization programs are large, the impact of asset sales on the current account is likely to be marginal (Mayer, and Shirley 49).

The Impact of the Sale of an Enterprise on its Expected Income Stream

One of the strongest arguments used to support privatization is that an enterprise's income stream will improve if ownership is transferred to the private sector because of increases in efficiency. Moreover, one of the reasons why governments tend to underprice assets may be that the private sector sees opportunities to improve efficiency that the public sector ignores. These potential improvements in efficiency should, however, be viewed cautiously. They do not arise simply from a transfer in ownership but from concrete actions that raises the productivity of the enterprise or reduce unit costs. Such actions can in principle be taken in either the public or the private sector, and when they occur in the public sector they will directly benefit government and public sector finances. When efficiency gains are judged to be feasible only under private ownership, government and public sector finances will benefit to the extent that the government can share in these gains by setting asset prices to reflect at least part of the improvement in performance and by taxing the higher profits that result. Indeed, in budgetary terms, this should be the whole point of the privatization exercise (Atkinson, and Stiglitz 19).

Difference between Advanced Industrial and Developing Nations Privatization

Privatization in LDCs, conceived as a part of the broader process of structural adjustment, will emerge as a policy issue in a predictable sequence in which, initially, efforts are made to reform public enterprise performance, and when these efforts fail to produce the desired efficiency gains, liquidation and privatization of specific enterprises are contemplated. In some countries, policy makers have concluded that public enterprise is beyond reform. In others, such as Mexico, the process of improving public enterprise performance goes hand in hand with privatization. The same could be said for advanced industrial economies as well. But are there fundamental differences between developed and developing countries in terms of the context in which privatization is pursued? In a general sense, negative rather than positive incentives have driven the process in LDCs. Reduction of deficits and high rates of inflation have played a determining role in LDCs, whereas in France and Britain revenue generated from the sale of public assets has been a major consideration. Shedding costly redistributive programs is an important objective in LDCs, even at the expense of alienating traditional sources of political support, while in France and the United Kingdom privatization offers an opportunity to build "popular capitalism" and middle class electoral support (Bienen, and Gerovitz 728).

Furthermore, LDCs typically have large external debts relative to their GDP, with heavy servicing requirements. It is crucial that they maintain their creditworthiness and access to external capital. Budget deficit reduction may be the quickest and most direct route to improving public finances and reducing inflation. Inflation reduction will help efforts to expand exports through currency devaluation, and export expansion may be the measure of international creditworthiness. Public enterprise deficits thus take on a peculiar significance in the adjustment process in LDCs.

Another difference between the two sets of countries is the relative size of the middle-income strata. The narrowness of these strata in most LDCs makes difficult privatization based on the small shareholders and popular capitalism. In contrast, in highly developed countries, like France and US, through their privatization programs, they have added millions of new investors to their private sectors. This same narrowness contributes to the "thinness" of capital markets in LDCs. More important in this respect, however, is the fact that in many LDCs, private enterprises raise capital through the banking system rather than by directly selling shares in capital markets (Bienen, and Gerovitz 729).

By and large, it can be concluded that the stock market is not likely to be a major vehicle for the implementation of privatization in LDCs. Like the capital markets, the medium and large-scale private sectors in most LDCs tend to be thin. This was one reason that many LDCs initiated public sector enterprises in the first place. The problem appears to be most acute in Africa and in the Middle East, leaving policy makers with three distasteful options: maintenance of the status quo, sales to foreign or local minority interests, or liquidation. In LDCs, where the private sector is deep and more diversified, there may be viable private purchasers of publicly-owned assets, but they often will be popularly viewed as oligopolists who should not be allowed to expand their empires through privatization (Bienen, and Gerovitz 730).

In LDCs, adjustment and privatization are liable to become entangled in deep-seated regional and ethnic conflicts to a degree uncommon in advanced industrial societies. Often private interests that might be able to purchase public assets are drawn from minorities such as Chinese throughout Southeast Asia, or the Indians and Syro-Lebanese in Africa. Thus, when we look at ruling coalitions and sectoral interests, we must see the extent to which they cut across or overlap with ethnic, regional and religious interests (Benin, and Gerovitz 730).

Privatization and Structural Adjustment

Just like there are differences in the timing, sequence and structure of the expansion of the public sector within and between industrial and developing countries, similarly there are, and will be, differences in the timing, sequence and structure of privatization reforms. The timing and sequence issues refer not only to the pace and scope of privatization , but also to the timing of the privatization of certain enterprises that will be undertaken within the gamut of structural adjustment and stabilization reforms.

Stabilization reforms are usually associated with International Monetary Fund (IMF) conditionality programs and refer to currency devaluation, credit contraction, and reduction of public sector deficits. In so far as selling or eliminating public enterprises may reduce fiscal pressures, privatization measures are discussed as part of stabilization programs. Privatization offers funds to the government as a way of moving toward fiscal balance instead of increasing public debt or increasing taxes. However, privatization and public sector reforms are usually discussed under two different headings: neoconservative transformation and structural adjustment. A "neoconservative transformation" is one in which a political leadership decides to fundamentally reorganize social, political, and economic agreements. The aim is a direct and quick change in the pattern of political and social power in a country rather than a slow by-product of economic change. For example, in Chile, under General Pinochet, union activities were restricted, public enterprises sold and various social programs dismantled. Obviously, the aim was not to achieve a limited balance-of-payment solution, which is what IMF stabilization programs are designed to accomplish (Foxley 26).

Lying between IMF stabilization packages and neoconservative transformations in terms of scope are the structural adjustment programs associated with the World Bank and the Reagan administration's aid policies. Here, loans, investments, and aid are conditioned on the design and implementation of a certain set of reforms. These reforms include: trade liberalization; getting domestic prices in line with world market prices; improving revenues by widening tax bases and reforming the administration of taxes; diminishing government deficits by lowering public expenditures, especially subsidies. In the first instance, reducing government deficits is seen as essential to lower inflation and to allow for new domestic and foreign investment.

It is believed that privatization is usually seen as part of the package of structural adjustment reforms. Government expenditures can be lowered by cutting public wage bill. This can be done by lowering real wages by delinking them from inflation. If wages are sticky, public employees can be fired. It may be easier to sell public enterprises, or completely eliminate them, than to fire some workers. Typically, investment is frozen in public sector enterprises, forcing them to self-finance or driving them to the commercial banking sector, as has occurred in Turkey, India and Egypt (Foxley 27).

On the other hand, there are other ways to cut public expenditures. First, consumer subsidies on goods and services can be reduced or eliminated. Second, military spending can be cut. Each of these policy measures provides economic gains and costs to different constituencies. Each carries its own risks for political stability. Moreover, while the policy packages can be thought of separately for analytical purposes, they are usually interrelated. Privatization of state enterprises is likely to have implications for the trade liberalization. The success or failure of one set of measures in economic terms will have implications for the economic utility of other measures. For example, if political resistance to, say, a cut in consumer subsidies of foodstuffs is very great, the government must spend more on repression or its legitimacy weakens (Bienen, and Gerovitz 740, 741).

An IMF stabilization program is aimed at changing prices of final goods, intermediate inputs and factors of production. These changes can affect different people and different sectors in different ways. Some sectors, or some factor owners gain, while others lose. The political consequences of those programs, such as ethnic and regional balances, should also be taken into account. A large body of economic theory allows systematic analysis of the effects of structural adjustment and stabilization programs on the incomes of different owners of factors of production (Bienen, and Gerovitz 770).

Privatization of government assets might not change relationship among factors of production. If the public sector simply eliminates enterprises rather than selling them to private owners, rival firms will benefit as competition will reduce. Regarding the impact of privatization on unemployment, it depends on several factors: factor mobility, wage flexibility, pace and type of privatization, and union power. It is believed that in the short run it will generate unemployment (Hank 49).

However, there is relatively little consensus on the determinants of the assumed wage and price rigidities that lead to unemployment. Different macroeconomic analysts would stress such factors as price and wage expectations that are slow to adjust, explicit wage contracts with fixed horizons that are not coordinated among employers, implicit contracts between employers and employees that favor layoffs over wage cuts, or mechanisms for job search. No theory of labor markets can predict with confidence the extent and duration of unemployment that would accompany privatization programs. Without good data on labor markets, it is difficult to give precise answers about who is unemployed and for how long (Azariadas, and Stiglitz 6).

The Potential in Infrastructure Privatization

A wave of infrastructure privatizations swept across Chile, New Zealand and the United Kingdom in the 1980's and is now sweeping the globe, driven by disenchantment with state solutions, precarious government finances and technical change. Whether the current fashion leads to lasting welfare gains or is just part of the often observed historical cycle of privatization and nationalization depends on governments' ability to find competitive solutions for infrastructure services.

Sustainable privatization of natural monopolies in infrastructure is feasible, but requires a regulatory system sharing rents efficiently and fairly. This is seldom achieved. Competitive solutions are preferable to improving regulatory intervention and state solutions. The best hope to subject inescapable natural monopolies to competition lies in repeated franchise bidding, under which monopoly service franchises are auctioned off from time to time and awarded to the firm offering acceptable service on the best terms, for example, at the lowest price. Successful franchise bidding relies on firms having an interest in maintaining good reputation and not exploiting their franchise after the award. The incentive to maintain good reputation will be strongest for large firms operating in many jurisdictions and competing continuously for franchises. Over a hundred years of experience with private franchises in the French water industry provide hope that practical solutions can be found (O'Brien 43).

If policy-makers use the current fashion to promote private competitive franchises throughout the world, the emerging international infrastructure industry will grow. In its wake, private cross-border flows of financing infrastructure will increase from about US $10 billion to several hundred billion dollars annually.

This new wave of infrastructure privatization began in the 1970s when the United States started deregulating natural gas, power and airlines. During the 1980s, Chile, New Zealand and the United Kingdom implemented far-reaching deregulation and privatization of almost all infrastructure sectors. Since the late 1980s, at least 145 companies in 30 countries have been privatized and at least 146 new projects in 34 countries with significant private participation started in power, natural gas, telecommunications, roads and water. Many more initiatives have been undertaken in sectors where privatization is easier, such as waste management, airlines and surface transport services. Currently, more than one thousand new private infrastructure projects are under consideration world-wide (O' Brien 44).

Table 2 shows infrastructure firms in selected countries:

Table 2 Selected International Infrastructure Firms

Company	Country of Origin	Sector	Countries of Activity
AT&T	United States	Telecom	Argentina, China, New Zealand, Peru
British Gas	United Kingdom	Natural Gas	Argentina, Germany, United Kingdom United States
Electricité de France	France	Power	China, Germany, Ivory Coast, Portugal, Spain, United Kingdom
Enron Power Development Corporation	United States	Power	Colombia, India, Philippines, Guatemala, United Kingdom
Hopewell Holdings	Hong Kong	Power	China, Philippines
		Transport	China, Thailand
Lyonnaise des Eaux-Dumez	France	Transport	France, Thailand, United Kingdom, United States
		Waste Management	Belgium, Spain, United Kingdom
		Water	Argentina, Australia, China, Czech Republic, Germany, Lithuania, Macao, Malaysia, Mexico, United States, United Kingdom
Trafalgar House	United Kingdom	Transport	Indonesia, Malaysia, United Kingdom
		Water	Mexico

Source: O'Brien, R.. Finance and the International Economy. Oxford University Press, New York: 1994, p. 55.

Experiences with Privatization

Public enterprises are being privatized mainly because of the belief that, in manufacturing and other productive sectors, private enterprises can deliver better results. But the final nail in the coffin of most public enterprises has been their demonstrable inefficiency, and above all, their enormous financial losses, which have drained the public purse of funds that could have been put to better use elsewhere.

Not all public enterprises lose money, and not all are always less efficient than private sector firms. A recent study in Kenya found a number of public enterprise manufacturing companies performing better on a number of indicators than private sector firms. The state-owned steel industry in the Republic of Korea is among the most efficient in the world. But in some countries, a high proportion of state enterprises do make losses. In China in 1991, despite substantial reforms, about a third of state enterprises were still operating at a loss. In Tanzania during the 1980s, about half the state-owned enterprises persistently made losses.

Such losses --equal to more than 3% of GDP in Bangladesh and Mexico in the 1980s, 4% in Turkey, 5% in Sub-Saharan Africa and 9% in Argentina and Poland-- had to be covered by government subsidies. In Sri Lanka, those subsidies have accounted for 20% of government expenditure and 60% of budget deficit. In Cameroon, the losses of state enterprises often exceeded the government's total revenue from oil (Human Development Report, 1993 48).

The social opportunity cost has been staggering. If governments did not have to finance such losses, total expenditure on health and education in Bangladesh and Poland could have been doubled, and in Argentina almost tripled. According to the finance minister of Mexico, a small fraction of the $10 billion in losses of the state-owned steel complex could have brought drinking water, sewerage, hospitals and education facilities to an entire region of his country.

Privatization should thus be seen not as an end, but as means to higher levels of human development. The speed of privatization must also be a concern. Building a suitable framework of institutions and regulations takes time, so privatizations should not be rushed, even when there is pressure from financial institutions during structural adjustment programmes. And it may be better to gain experience by starting with smaller enterprises--as is done in Chile, Jamaica, Mexico, Poland and Togo did-- before moving on to larger ones.

Governments should also be realistic about the revenues that privatization can generate. In Malaysia, Papua New Guinea and Sri Lanka, privatizations in an average year produced less than 1% of GDP. Indeed, the taxes paid by the newly privatized enterprises have often generated more revenue than the original sale of the assets (Human Development Report, 1993 48,49).

One of the most important issues--and the one usually given least attention--is what the impact of privatization will be on people. It is usually taken for granted that privatization has to be accompanied by unemployment, but this need not be so. With a better sequence of policy measures, much unemployment could be avoided.

Restructuring most of the enterprises before they are privatized and making prior efforts to develop alternative employment in the private sector would be much more rational. And if layoffs are inevitable, governments should carry them out before the privatization. This would help insure that workers get suitable compensation, with possible retraining or access to credit if they want to start their own enterprises.

What must be kept also in mind is that privatization may not be the only--or even the best-- way to reduce losses from public enterprises. In Trindad and Tobago between 1982 and 1988, reforms in state-owned enterprises reduced cumulative transfers to the state-owned sector over the period by more than 10% of GDP, compared with cumulative privatization receipts of only 2.3%. Similarly, in Sri Lanka between 1982 and 1988, reforms of state-owned enterprises reduced transfers by more than 6% of GDP, compared with privatization receipts of 0.2%. There can be competition among public enterprises as well as between public and private ones which keeps the public enterprise on its toes (Human Development Report, 1993 49).

Recent Privatization Programs in Selected Countries

Argentina

Argentina has adopted the most far-reaching privatization program, designed to create competitive conditions in the economy. All major infrastructure service providers were privatized between 1989 and 1993, and the activities were unbundled to foster competition. 51 small and big companies were privatized, including one of the telephone companies and an iron and steel company, raising about $5.6 billion. In the electric power sector, generation, transmission, and distribution were separated; two telecommunications franchises were awarded to serve the north and the south; railways were separated along different lines of business.

Although privatization has occurred rapidly, the capacity for regulatory oversight has lagged. The absence of regulatory oversight has not been an impediment so far; however, where market forces do not provide adequate discipline, efficient functioning will require regulation. Antitrust regulations will need particular attention in view of the heavy concentration of ownership.

Privatizations and greater economic stability have attracted a large inflow of foreign investment. These capital inflows have financed the balance of payments deficit on the current account and helped build up international reserves (Human Development Report, 1994 65).

Argentina's liberalization programme is relatively recent, but it does seem to be having a positive impact on the economy, with growth driven largely by an increased demand for private sector goods and services. In the long term, this should help increase levels of human development. But liberalization has yet to improve urban employment: in early 1992, unemployment in greater Buenos Aires was still more than 6.5%, and in other cities it was more than 10% (Human Development Report, 1994 65).

Philippines

In the Philippine power sector, private provision was based entirely on the entry of new generators. Opening generation to new providers required the elimination of the monopoly enjoyed by the National Power Corporation, a government-owned utility that has not been privatized.

These reforms came in response to an almost crippling power shortage. The urgency was so great that new entry had to be based on contractual agreements between the government and private generators, since reform of the Electricity Regulation Board would have taken too long. By August 1993, seven new projects with a combined capacity of 800 megawatts had been completed, and five additional generators were placed under private contracts for rehabilitation and operation. Fifteen more projects (2000 megawatts capacity) were under negotiation. During this process, new laws and administrative procedures have also been put in place (Human Development Report, 1994 66).

Malaysia

Privatization of the infrastructure sector has progressed rapidly in Malaysia since the mid-1980s. Utilities have been gradually privatized, and new entry has been allowed in electric power and water. In all cases, the government department or statutory body that was previously supplying the services has assumed the statutory role of regulating the privatized supplier. For example, the Kelang Port Authority is now the regulatory agency supervising the two private operating companies at the port, and the Telecommunications Department is the regulator of the telecommunications sector.

Significant government equity ownership in formerly privatized enterprises and the mechanism of the "golden share" also play a role akin to regulation. Equity ownership by the government and the golden share are intended to ensure that the policies of the privatized firm are in conformity with government policies and national objectives.

Regulation in Malaysia has really meant the supervision of tariffs and the maintenance of service standards. The scope of regulatory action in Malaysia, however, is fairly rudimentary. For instance, no clear link exists between the functions of the regulatory agencies and the creation of incentives for the privatized supplier of infrastructure services to achieve efficiency (Human Development Report, 1994 68).

Although regulatory agencies exist, the respective ministers still appear to have considerable influence over the policies of the privatized suppliers of infrastructure services. Rate revisions, for example, are not completely a matter for the regulatory agency to decide and almost appear to require ministerial sanction. There is also a distinct possibility that industry might "capture" the regulatory agency in some cases. At present, considerable ambiguity exists about the independence of the regulatory agencies from ministerial or political interference.

Although still evolving, the regulatory mechanism does not appear to have limited new entry and investment. The lesson from the Malaysian experience is that moves toward privatization and private sector provision of infrastructure services need not wait for the formal creation of a comprehensive regulatory framework (Human Development Report, 1994 68).

Venezuela

When Venezuela privatized its state-owned telephone company (CANTV) in December 1991, it had 1.6 million lines in service (8.2 lines per 100 people as compared with 35 lines per 100 people in Korea). An eight-year wait for a new telephone was common, and completion rates for international calls were less than 20 percent (Human Development Report, 1994 66).

The government sought to expand and improve basic service rapidly by turning the company over to a private operator with first-class international experience. Although it recognized the need to increase local rates substantially, the government was concerned with the potential political fallout from "rate shock". Consequently, it decided to phase the rate rebalancing over nine years. During this period the new operator was granted an exclusive franchise for local, long distance and international service. The profits from international service would be used to cross-subsidize local service and finance the desired network expansion. The concession contract included annual obligations to expand and improve basic service (including the installation of 3.6 million additional lines over the nine years) and a cap on the increase in prices for telephone services. All other services were open to competition--including cellular service, private lines, information services, and equipment. This model resembled telecom privatizations in Mexico and Argentina, where the privatized operators were granted a limited monopoly on basic service (six years in Mexico; seven years, extendible to ten, in Argentina).

In the two years following privatization, CANTV invested more than $1.1 billion and installed 850,000 new and replacement lines, far exceeding its obligations under the concession contract. Virtually all service improvement targets were met.

Several lessons have emerged from the Venezuelan experience. Even without a fully defined legislative framework, telecom privatization can provide immediate benefits from increased investment. Although some rebalancing of tariffs has occurred, sustained tariff increases will be needed. With rapidly changing technology, monopoly rights granted to maintain cross-subsidies and to promote service expansion will prove increasingly difficult to define and enforce (Human Development Report, 1994 66).

Ivory Coast

An excellent example of a private company providing public services in West Africa is Ivory Coast's SODECI. SODECI is an Ivorian company with a capital of $15 million. 52 percent of its capital is owned by local interests, 46 percent by Saur (the French water distributor), and 2 percent by a government investment fund. It started operations with the Abidjan water supply system in 1964 and now manages more than 300 piped water supply systems across the national territory. Until recently, SODECI operated under concession contract for water production in Abidjan, the capital city. It was under lease contract for water production and distribution in all other urban centers, for water distribution in Abidjan, and for management of the Abidjan sewerage system (Human Development Report, 1994 63).

To deal with the financial troubles caused by government policies in the 1980s regarding sectoral investment and tariffs, the urban water sector was reorganized. SODECI's contract for urban water supply services was transformed into a concession contract for the entire country, with SODECI taking responsibility for both operations and investments. Today the company has 300,000 individual connections that serve some 70 percent of Ivory Coast's 4.5 million urban residents--2 million in Abidjan. Under a policy to provide low-income households with direct access to water, 75 percent of

SODECI's domestic connections have been provided with no direct connection charge. The number of connections is growing between 5 and 6 percent a year.

Since the early 1970s, full cost recovery has been the rule, and revenues from water sales have fully covered capital and operation and maintenance costs. During the 1980s, unaccounted-for water has never exceeded 15 percent, and collection from private consumers has never fallen below 98 percent. Moreover, despite the dispersion of operations, there are only four staff per thousand connections, reflecting best-practice standards. The company has also succeeded in reducing expatriate staff while expanding operations.

SODECI retains part of the rates collected to cover its operating costs, depreciate its assets, extend and rehabilitate distribution networks, and pay dividends to shareholders. It also pays the government a rental fee to service the debt attached to earlier projects financed by the government.

SODECI provides service close to the standards of industrial countries. Yet the cost to consumers is no higher than in neighboring countries in similar economic conditions, where tariffs rarely cover capital and operation and maintenance costs, and service lags behind. Private Ivorian interests own a majority of SOCEDI's shares. Its bonds are one of the main items traded on Abidjan's financial market, and it has distributed dividends to its shareholders. The company has also paid taxes since its inception (Human Development Report, 1994 63).

Brazil

Brazil has about 159 public enterprises, some of them well-run and efficient. But on the average they are less efficient than those in the private sector and often make losses. The operating deficit of public sector enterprises between 1986 and 1988 was about 3% of GDP, more than half the budget deficit. The state-owned enterprises hold about half of Brazil's total external debt. Broad support for privatization has developed.

Although privatization started in the 1980s, the current programme is the first to show any real results. Between 1990 and 1992, the government privatized 17 enterprises, with smaller shareholders, including employees, buying most of the shares (foreigners bought very few). The revenue from future sales is unlikely to be significant in national terms. In 1990, the total market value of public enterprises was $25 billion, about 6% of annual GDP.

Privatization is slow in Brazil. Enterpreneurial activity remains stifled by numerous rules and regulations, and companies are uncertain about the direction of future government policies. The government has yet to make such progress in dismantling monopolies. In telecommunications, it still monopolizes both local and long-distance services (Human Development Report, 1993 55).

Egypt

In 1991, the Egyptian government adopted its Economic Reform and Structural Adjustment Programme. The aims of this programme were to move away from a reliance on the public sector, develop a stronger market economy and create more opportunities for the private sector. One of the measures to achieve these aims was to overhaul the public enterprises and privatization. The other measures were: a) Free interest rates; b) Floating foreign exchange system; c) Reducing subsidies on a wide range of items; d) Curbing the growth in the money supply.

The public sector has dominated Egypt's economy since the 1960s, with large holding companies for textiles, food processing, electronics, chemicals, metals and engineering. In addition, the four public sector banks hold around 80% of all deposits and are major shareholders in companies run as joint ventures with the private sector. Public enterprises employ about 1.3 million people and account for about 70% of the industrial sector and 80% of exports. However, many operate at a loss.

During the year 1993, the government started seeking to privatize more than 70 state enterprises. Pilot programmes in the tourist industry have auctioned off two hotels, and another hotel company was to be floated on the stock market for about $300 million. In addition, a stake in one of the highly profitable joint venture banks was sold to its employees. The first major privatization programmes were scheduled for early 1993, with a batch of ten companies for sale in January, and another batch of ten in March.

Statistical data show that the private share of Egyptian investment was 42% in 1991 (Human Development Report, 1993 57).

One major problem for privatization is the small Cairo stock market, dormant since the 1960s. In 1990, it listed 500 companies, with shares traded in only around 20 companies a day. It is being revamped to make share-trading easier and more responsive to market fluctuations. The privatization programme is expected to increase Egypt's already high unemployment. It is estimated that 80,000 to 100,000 workers may have to move from the public to the private sector.

Egypt's reforms are a very promising step towards sustained economic growth and employment creation in the medium and long term. In the short term, however, they are likely to create several pressures for its people. The price of food and other basic goods is rising, and social services are deteriorating. Unemployment is still rising, particularly among youths and women. In response, the government has, with the assistance of such external donors as the World bank and UNDP, established a Social Fund for Development to protect the most vulnerable groups, including displaced public enterprise workers, unemployed youth, Gulf crisis returnees and women-headed households (Human Development Report, 1993 57).

Ghana

Public enterprises in Ghana have had low productivity and suffered substantial losses. In 1984, they had 28% of formal sector employment. As part of the structural adjustment programme, the government was aiming to improve the efficiency of many state enterprises and divest itself of others. From 1987 to 1992, it disposed off 80 enterprises, through partial or total privatization or liquidation (26 cases). In the initial stages, almost all these enterprises were small (fewer than 60 employees), but larger enterprises have been privatized more recently. Delays in the implementation of the programme were partially due to technical matters in preparing for the sales. In 1992, the government still owned around 200 enterprises. Up till 1983, the divestiture programme had not yet been a financial success, and privatization had not yet adequately stimulated the local capital market or attracted the interest of domestic and foreign investors to the extent expected (Human Development Report, 1993 58).

India

Public enterprises account for about one-fifth of India's non-agricultural GDP and supply crucial inputs for the rest of the economy. They dominate the energy and financial sectors as well as the steel and fertilizers industries.

The privatization process in India is likely to be spread over about years. The first phase started in 1991, when the government sold shares in 31 state enterprises to mutual funds. In the second phase, in 1992, it started selling company shares through open auctions. Although the government intended to dispose of loss-making enterprises first, the pressure to earn revenues has caused it also to start selling some of the more profitable companies. Since the privatization process is still in its early stages, it is too soon to assess its impact.

On the positive side, capital has started to return to India. After the budget was announced in February 1992, the flow of private funds into India in the following weeks was estimated at $50 million a day. There are also signs of improved industrial efficiency, as privatization has encouraged foreign investment and permitted the import of higher levels of technology. The electronics industry, for example, has received a major boost from the liberalization of technology and component imports, as well as from declining and cuts in excise duties. In addition, wider range of foreign goods--often of better quality than local goods--is now competing on the domestic market. The private share of total investment in India was 50% in 1991 (Human Development Report, 1993 59).

Kenya

The government in Kenya has frequently expressed its intention to increase the private sector's role in the economy. But private investment has declined as a proportion of GDP, from 14% in 1970 to 10% in 1991, as total investment stayed at around 20% of GDP (except for a few years around 1980, when it was 25%).

Kenya is thought to be the African country likely to benefit most from privatization. It has relatively well- developed capital market, with a level of savings about twice as high as the average for Sub-Saharan Africa. In addition, some of the markets in which public enterprises operate are quite competitive, though progress has been very limited. Indeed, between 1980 and 1990, only one enterprise was privatized. The problems seem to have been mainly political, with concerns that the assets, like much of Kenya's other commercial, financial and managerial capital, would be taken up by foreigners, and particularly privileged or enterprising ethnic groups. But the privatization programme has recently been revived, with the announcement in mid-1992 of the full or partial sale of 207 companies.

Even though privatization has been slow, the reforms in public enterprises and the threat of privatization have prevented the creation of more state enterprises. If privatization does proceed, it is likely to lead to layoffs, which could cause considerable hardship, given Kenya's already high unemployment and underemployment. The government has already pledged to introduce redeployment programs and social safety nets. The private share of total investment in Kenya was 55% in 1991 (Human Development Report, 1993 60).

Poland

In the autumn of 1989, the Polish government inherited a catastrophic situation: declining output, widespread shortages and price increases close to hyperinflation. The government acted quickly to stabilize the economy. At the beginning of 1990, it took the following measures:

1. Made drastic cuts in the budget, including reductions in consumer subsidies;
2. Increased interest rates to restrict credit growth;
3. Fixed the exchange rate to the US dollar;
4. Fully liberalized foreign trade;

External donors supported this package with a $1 billion stabilization loan and later wrote off a substantial part of Poland's external debt.

This "shock therapy" was the beginning of the transition towards a market economy. It brought a number of immediate benefits--significantly reducing inflation, eliminating shortages and stimulating an increase in exports to Western Europe and North America.

The Polish government has managed to build the infrastructure and legal framework for a market economy remarkably quickly. It has introduced laws to govern private property rights (in areas ranging from agricultural land transfer to urban land taxation) and developed bankruptcy legislation. But much still needs to be done to improve the financial system and the telecommunications infrastructure. Moreover, environmental standards are still low; for example, Polish industry is extremely inefficient in energy use (Human Development Report, 1993 62).

Most of the privatization was initially concentrated on wholesale and retail trade. Lately, however, privatization has been carried out in other areas, including manufacturing. By the end of 1992, around 97% of all shops were in private hands. In addition, the availability of goods and the quality of services have increased dramatically.

The privatization process has generally been slower than expected. Most privatizations so far have been through liquidation methods, generally involving small and medium- size enterprises. About 50 enterprises have been privatized through capitalization methods (public offerings, trade employee buyouts). The basic scheme for the Mass Privatization Program has also been developed, but it has run into political obstacles.

The urban private sector is growing rapidly under its own steam--particularly in services. By mid-1991, there were around 1.3 million individual private businesses in Poland, 96% of which had fewer than five employees. During 1991- 92, the number of domestic private companies rose by more than 20%. Moreover, about 58% of the employed workforce was in the private sector, including family farming.

In human development terms, most people are better off nowadays than in the disastrous final days of central planning. But the gains have not been equally distributed. Most of the private sector growth has been in the big cities, where the younger and better-educated people have benefited most. Smaller towns have done less well, and in many agricultural regions unemployment is more than 20% (Human Development Report, 1993 62).

Russsia

The first serious attempt to open Russia's centrally planned economy to market forces was in 1987, when the former Soviet Union gave state-owned enterprises greater independence and more incentives to improve efficiency.

Thus, the government pursued an ambitious privatization program, starting with smaller enterprises, such as municipally owned shops. In the first half of 1992, nearly half the shops in Moscow and St. Petersburg were privatized. In 1993, it is moving on to larger undertakings. Moreover, the government was planning in 1993 to sell 5,000 large enterprises. To achieve this, it distributed vouchers free to all citizens, who could sell them if they preferred cash in their hands, or use them to buy privatized assets. Private farming was increasing in 1993, but it still accounts for only about 3% of agricultural production (Human Development Report, 1993 63).

CHAPTER III

Procedures and Methodology

Population

From the population of Lebanese academics and business executives, the researcher selected a random sample from each group to test the hypothesis stated in chapter one. For this study, 400 questionnaires were distributed to academics and top business executives, out of which 201 questionnaires were received and analyzed. The study involved asking them about their opinions regarding different aspects of privatization. The field study covers private and public academic institutions, like the Lebanese University, American University of Beirut, Lebanese American University, Notre Dame University, and Balamand.

Variables and their measurement

Based on a review of literature, interview with experts, and logical basis, a questionnaire was prepared. It contains seven parts. The first six parts constitute the dependent variables of the instrument (questionnaire). The first part contains three questions, and is designed to test opinions regarding the justification for direct state intervention in the economy. The second part is a follow-up of the first , and consists of three questions to test opinions regarding the state's failure in its intervention in the economy. The third part that includes four questions, aims at testing opinions regarding reasons associated with successful public enterprise reform. The fourth part includes three questions, and is designed to test opinions about the reasons associated with successful economic reform. The fifth part includes five questions, and is designed to test opinions regarding reasons associated with successful privatization. Finally, the sixth part includes two questions, and aims at testing opinions regarding privatization's social consequences. On the other hand, the seventh part contains the independent variables that are used to measure the demographic characteristics of the selected sample of the study. It includes seven questions regarding 1) age, 2) place of education, 3) place of current employment, 4) place of previous employment, 5) current occupation, 6) degrees obtained, and 7) region of employment.

For the first six parts, each question was measured on a five-point Likert type scale, ranging from zero to five. As for the questions in the seventh part, each respondent was assigned different codes, such as "1" if he/she was a member of a given category, "2" if he/she belonged to another category, etc....[*] The number of vectors for specific membership categories was equal to the number of categories minus one.

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[*] See attached questionnaire at the end.

Conceptual framework for analyzing data

To describe the major characteristics of the selected group of academics and business executives, a tabular presentation of the data from the questionnaire was prepared in a percentage form. The item analysis was used to establish the reliability of the instrument used. The relationship between the independent and dependent variables were analyzed using the process of elaboration. Elaboration of variables was limited to the cross-tabulation of two variables at a time because of the sample size. Finally, no attempt was made to introduce one or more test factors because the sample size is not very big.

The following statistical measurements were used for data analysis:

1. Percentage frequency analysis to measure the major characteristics of the selected sample.
2. Item analysis to establish the validity and reliability of the instrument used.
3. Elaboration of variables to test the relation between variables.

Chapter IV

Findings of the study

The aim of this chapter is 1) to analyze the major characteristics of the sample study, 2) to test the reliability of the instrument, and 3) to use elaboration of variables, in order to prove whether a difference in opinions exists between academics and business executives with respect to privatization.

Major Characteristics of the Sample Study

The researcher studied 201 questionnaires, and used the tabular representation of data in the form of percentage frequency to describe the following variables:

1. Age.
2. Sector of employment (Public or Private).
3. Educational level.
4. Location.
5. Job occupation.
6. Place of work.

1. Regarding the respondents' ages, they were divided into three categories. See Table 1.

Table 1

Value Label	**Frequency**	**Percent**	**Valid percent**	**Cumulative Percent**
< 33	69	34.3	34.3	34.3
33-40	59	29.4	29.4	63.7
> 40	73	36.3	36.3	100.0

- Table 1 shows that respondents were approximately evenly distributed among the age categories.

2. Regarding the respondents' current sector of employment, they were divided into public, private, or both sectors. See Table 2.

Table 2

Value Label	**Frequency**	**Percent**	**Valid percent**	**Cumulative Percent**
Public	40	19.9	19.9	19.9
Private	130	64.7	64.7	84.6
Both	31	15.4	15.4	100.0

- Table 2 shows that almost two third of the respondents work for the private sector.

3. Regarding the respondents' level of education, they were divided into seven categories. See Table 3.

Table 3

Value Label	Frequency	Percent	Valid percent	Cumulative Percent
High school	1	0.49	0.49	0.49
Vocational school	3	1.49	1.49	1.98
Some university	14	6.96	6.96	8.94
B.S. degree	49	24.37	24.37	33.31
M.B.A. degree	61	30.34	30.34	63.65
Ph. D.	66	32.83	32.83	96.48
D.E.S.S.	7	3.52	3.52	100.00

- Table 3 shows that about 90% of the respondents hold university degrees with the majority holding M.B.A. and higher degrees.

4. Regarding the respondents' location (place of living), they were divided into four areas. See table 4.

Table 4

Value Label	Frequency	Percent	Valid percent	Cumulative Percent
Bekaa	14	7.0	7.0	7.0
Maten	21	10.4	10.4	17.4
Keserwan	23	11.5	11.5	28.9
North	68	33.8	33.8	62.7
West Beirut	75	37.3	37.3	100.0

- Table 4 shows that about two third of the respondents live in the North and West Beirut, and are almost evenly distributed, whereas the remaining one third live in Bekaa, Maten and Keserwan.

5. Regarding the respondents' occupation, they were divided into two categories. See Table 5.

Table 5

Value Label	Frequency	Percent	Valid percent	Cumulative Percent
Academics	80	0.40	0.40	0.40
Businessmen	121	0.60	0.60	100.00

- Table 5 shows that the respondents are 60% business executives and 40% academics. However, there are 23 respondents included among business executives who teach at universities as part timers. Therefore they cannot be considered fully devoted to teaching, but rather they are classified as business executives.

6. Regarding the respondents' place of work, they were divided into six categories. See Table 6.

Table 6

Value Label	Frequency	Percent	Valid percent	Cumulative Percent
Lebanese University	38	18.9	18.9	18.9
A.U.B.	17	8.4	8.4	27.3
L.A.U.	9	4.5	4.5	31.8
Arab University (Beirut)	9	4.5	4.5	36.3
N.D.U	15	7.5	7.5	43.8
Balamand	15	7.5	7.5	51.3
Companies & Banks	98	48.7	48.7	100.0

- Table 6 shows that a relative proportion of academics (18.9%) teach at the Lebanese University, while the rest were distributed among other universities. As for business executives, they were chosen from 98 different companies and banks. Therefore one can either work in a company or in bank.

Reliability of the Instrument

To test the reliability of the instrument, the researcher used the item analysis to calculate the mean, variance, and standard deviation for each question, in order to determine the reliability coefficients through the value of alpha. Thus the reliability analyses were as follows:

A- For the first question regarding the justifications for direct state involvement in the economy, the reliability analysis was as follows:

Question	Mean	Standard Deviation	Cases
1 A	2.9040	1.2848	198
1 B	1.8838	1.0431	198
1 C	2.4394	1.0917	198

Reliability Coefficients:

Number of items = 3

Number of cases = 198

Alpha = 0.7653

- The value of alpha indicates that the first category of questions were reliable since the value of alpha is greater than 0.5.

B- For the second category of questions regarding the reasons behind the failure of the state's involvement in the economy, the reliability analysis was as follows:

Question	**Mean**	**Standard Deviation**	**Cases**
2 A	2.2908	0.8956	196
2 B	2.3673	0.9434	196
2 C	2.6582	1.0028	196

Reliability Coefficients:

Number of items = 3

Number of cases = 196

Alpha = 0.4399

- The value of alpha indicates that the second category of questions were almost reliable. This occurs 1) whenever the number of questions regarding a specific issue is relatively small, and 2) whenever the respondents are hesitant and refuse to answer.

C- For the third category of questions regarding the reasons associated with successful public enterprise reform, the reliability analysis was as follows:

Question	**Mean**	**Standard Deviation**	**Cases**
3 A	2.105	0.9894	200
3 B	2.805	0.9335	200
3 C	1.790	0.8774	200
3 D	1.875	0.9454	200

Reliability Coefficients:

Number of items = 4

Number of cases = 200

Alpha = 0.7146

- The value of alpha indicates that the third category of questions were reliable since the value of alpha is greater than 0.5.

D- For the fourth category of questions regarding the reasons associated with successful economic reform, the reliability analysis was as follows:

Question	**Mean**	**Standard Deviation**	**Cases**
4 A	2.0102	0.9948	197
4 B	2.1472	0.9708	197
4 C	1.6548	0.7303	197

Reliability Coefficients:

Number of items = 3

Number of cases = 197

Alpha = 0.4341

- The value of alpha indicates that the fourth category of questions were almost reliable, due to the same reasons mentioned for the second category.

E- For the fifth category of questions regarding the reasons associated with successful privatization, the reliability analysis was as follows:

Question	**Mean**	**Standard Deviation**	**Cases**
5 A	2.1508	1.1666	199
5 B	3.5930	1.0964	199
5 C	2.0251	1.0610	199
5 D	2.2513	1.1043	199
5 E	2.6281	1.1859	199

Reliability Coefficients:

Number of items = 5

Number of cases = 199

Alpha = 0.5933

- The value of alpha indicates that the fifth category of questions were reliable since the value of alpha is greater than 0.5.

F- For the sixth category of questions regarding the social issues of privatization, the reliability analysis was as follows:

Question	**Mean**	**Standard Deviation**	**Cases**
6 A	3.160	1.0196	200
6 B	3.220	0.9932	200

Reliability Coefficients:

Number of items = 2

Number of cases = 200

Alpha = 0.7948

- The value of alpha indicates that the sixth category of question were reliable since the value of alpha is greater than 0.5.

Elaboration of Variables

With respect to this statistical method, the researcher used the cross-tabulation method to determine the relationship between variables. Consequently, this method came up with six significant tables as follows:

In testing the relation between occupation (Academics & Businessmen) and attitudes toward state's failure in its involvement in the economy, it was found that most of those who agree that the state fails in its involvement because bureaucracy fails to respond to technology are academics (73.1%) as compared to business executives (53.7%). See table 1.

Table 1

Q2_A	Count / Col Pct	OCCUPATION: Bus. Ex. .00	OCCUPATION: Academics 1.00	Row Total
Strongly Agree	1	20 16.5	18 23.1	38 19.1
Agree	2	45 37.2	39 50.0	84 42.2
Uncertain	3	48 39.7	10 12.8	58 29.1
Disagree	4	8 6.6	10 12.8	18 9.0
Strongly Disagree	5		1 1.3	1 .5
	Column Total	121 60.8	78 39.2	199 100.0

The Chi-Square test was significant at the 5% level indicating that the relation between the variables occupation and attitudes toward the failure of the state's involvement in the economy, due to bureaucracy's failure to respond to changes in technology, is statistically significant. It was found that there exists a difference in opinions between academics and business executuves regarding this issue.

In testing the relation between the respondents' occupation and their attitudes toward reasons associated with successful privatization, namely that successful privatization will be associated with contracting out activities of the public sector to the private sector, it was found that more of the business executives (84.3%) than academics (54.5%) agree that successful privatization is associated with contracting activities of public sector to the private sector. See table 2.

Table 2

Q5_A	Count / Col Pct	OCCUPATION: Bus. Ex. .00	Academics 1.00	Row Total
Strongly Agree	1	55 45.5	13 16.5	68 34.0
Agree	2	47 38.8	30 38.0	77 38.5
Uncertain	3	8 6.6	15 19.0	23 11.5
Disagree	4	6 5.0	15 19.0	21 10.5
Strongly Disagree	5	5 4.1	6 7.6	11 5.5
	Column Total	121 60.5	79 39.5	200 100.0

The Chi-Square test was significant at the 5% level indicating that the relation between the variables occupation and the attitudes toward reasons associated with successful privatization, namely the contracting out of activities of the public sector to the private sector, is statistically significant. The Chi-Square test shows that a difference in opinions exists between business executives and academics regarding contracting out activities of the public to the private sector as a reason associated with successful privatization.

In testing the relation between the respondents' occupation and their attitudes toward the reasons associated with successful privatization, namely that successful privatization will be associated with municipalities having to issue lease contracts to private companies to clean streets and gather garbage, it was found that more of the business executives (80.1%) than academics (73.4%) believe that privatization will be associated with municipalities having to issue lease contracts to private companies to clean streets and gather garbage. See table 3.

TABLE 3

Q5_C	Count / Col Pct	OCCUPATION: Bus. Ex. .00	Academics 1.00	Row Total
Strongly Agree	1	54 44.6	18 22.8	72 36.0
Agree	2	43 35.5	40 50.6	83 41.5
Uncertain	3	10 8.3	8 10.1	18 9.0
Disagree	4	13 10.7	9 11.4	22 11.0
Strongly Disagree	5	1 .8	4 5.1	5 2.5
	Column Total	121 60.5	79 39.5	200 100.0

The Chi-Square test was significant at the 5% level indicating that the relation between the variables occupation and attitude toward municipalities issuing lease contracts to private companies to clean streets and gather garbage, as a reason associated with successful privatization, is statistically significant. This test shows that a difference in opinions exists between business executives and academics regarding this specific reason for successful privatization.

In testing the relation between the respondents' occupation and their attitudes toward giving priorities to the general public in buying shares in the public enterprises, it was found that the proportion of academics who believe in giving these priorities (77.2%) is greater than the proportion of business executives (59.5%). See table 4.

TABLE 4

Q5_D	Count / Col Pct	OCCUPATION Bus. Ex. .00	Academics 1.00	Row Total
Strongly Agree	1	27 22.3	29 36.7	56 28.0
Agree	2	45 37.2	32 40.5	77 38.5
Uncertain	3	29 24.0	9 11.4	38 19.0
Disagree	4	12 9.9	8 10.1	20 10.0
Strongly Disagree	5	8 6.6	1 1.3	9 4.5
	Column Total	121 60.5	79 39.5	200 100.0

The Chi-Square test was significant at the 5% level, indicating that the relation between the variables occupation and attitudes toward giving priorities to the general public in buying public enterprises' shares is statistically significant. This test shows that a difference in opinions exists between business executives and academics regarding this subject.

In testing the relation between the respondents' occupation and their attitudes toward the transfer of management of public enterprises to the private sector, it was found that the percentage of business executives who agree with the transfer of management of public enterprises to the private sector (53.7%) is greater than the percentage of academics (48.1%). See table 5.

TABLE 5

Q5_E	Count / Col Pct	OCCUPATION: Bus. Ex. .00	OCCUPATION: Academics 1.00	Row Total
Strongly Agree	1	26 21.5	11 13.9	37 18.5
Agree	2	39 32.2	27 34.2	66 33.0
Uncertain	3	38 31.4	8 10.1	46 23.0
Disagree	4	14 11.6	23 29.1	37 18.5
Strongly Disagree	5	4 3.3	10 12.7	14 7.0
	Column Total	121 60.5	79 39.5	200 100.0

The Chi-Square test was significant at the 5% level, indicating that the relation between the variables occupation and attitudes toward the transfer of management of public enterprises to the public sector is statistically significant. This test shows that a difference in opinions exists between academics and business executives regarding this issue.

In testing the relation between the respondents' occupation and their attitudes toward the fact that privatization leads to sudden increase in open unemployment, it was found that the proportion of business executives who disagree that privatization leads to sudden increase in open unemployment (42.2%)is less than the proportion of academics (44.3%). See table 6.

TABLE 6

Q6_A	Count / Col Pct	OCCUPATION: Bus. Ex. .00	Academics 1.00	Row Total
Strongly Agree	1		8 10.1	8 4.0
Agree	2	34 28.1	18 22.8	52 26.0
Uncertain	3	36 29.8	18 22.8	54 27.0
Disagree	4	41 33.9	31 39.2	72 36.0
Strongly Disagree	5	10 8.3	4 5.1	14 7.0
	Column Total	121 60.5	79 39.5	200 100.0

The Chi-Square test was significant at the 5% level, indicating that the relation between the variables occupation and attitudes toward privatization as a cause for open unemployment is statistically significant. This test shows that a difference in opinions exists between academics and business executives regarding this isuue.

Chapter V

Conclusions and Recommendations

The difference in opinions pertaining to the implementation of total or partial privatization between Lebanese academics and business executives, during the post-war period necessitated the need for this study. To undergo this study, a questionnaire was used as a statistical tool for data collection. The questionnaire was divided into two parts. The first part included six subdivided questions relating to the changing role of the state, along with public enterprise reform and privatization, thereby giving information relating to the dependent variables of the study. The second part included questions about the respondents themselves, which provided information relating to the independent variables of the study.

Four hundred questionnaires were distributed, out of which two hundred and one were received and analyzed. The researcher used the percentage frequency analysis, item analysis, and elaboration of variables as a conceptual framework for analyzing the data.

The mean age of the respondents was 37 years. The majority were employed in the private sector (56%). In addition, most of them were university graduates (90%).

The item analysis was used to assess the reliability of the instrument. Based on this analysis, the values of alpha ranged between 0.43 and 0.79 for the six questions in the instrument.

The study came up with six significant tables, each pertaining to an opinion regarding privatization and the role of the state.

The major findings of the study were as follows:

1. More academics (73%) believe that the state fails in its involvement in the economy because bureaucracy fails to respond to technology, as compared to non-academics (54%) .

2. Most of the non-academics (84%) believe that successful privatization is associated with contracting activities of the public sector to the private sector, as compared to academics (54.5%).

3. More of the business executives (80%) than academics (73%) believe that privatization will be associated with municipalities having to issue lease contracts to private companies to clean streets and gather garbage.

4. The proportion of academics (77%) who believe in giving priorities to general public in buying shares in the public enterprises, is greater than the proportion of non-academics (59.5%).

5. The percentage of business executives (54%) who agree with the transfer of management of public enterprises to the private sector is greater than the percentage of academics (48%).

6. The proportion of academics (44%) who disagree that privatization leads to sudden increase in open unemployment is greater than the proportion of business executives (42%).

RECOMMENDATIONS

1- Based on the results of our sample, we recommend privatization of government enterprises. Since this might not be feasible due to shortage of capital or due to political factors, we recommend gradual privatization according to priorities, thus avoiding a possible large-scale unemployment and social problems.

2- Since a relatively high percentage of the respondents believe that the inefficiency of government enterprises is due to a lack of up-to-date technology, we recommend modernizing the public enterprises' machinery and management. This could be done by bringing in new machines and establishing training programs for public enterprises' administrators.

3- In case, due to various political reasons, it is not feasible to go into full-scale privatization, we recommend contracting public activities or trusting public enterprises' management to private companies (local or foreign), especially in the areas of gathering and recycling garbage and electricity.

4- As the majority of respondents believe in giving priorities to the general public in buying public shares in case of selling public enterprises, it is recommended that priorities should be given to the Lebanese public to own these shares. This would keep the management of these enterprises under local control. In addition, we would recommend to pass certain laws so that these enterprises would not be monopolized by a few capitalists.

Finally, we think it is necessary to bring up the opinions of various Lebanese groups together regarding the privatization issue, as much as possible. The success of any privatization movement depends on peoples' acceptance of the idea, and on their conviction that the positive effects will outweigh the negative ones. This cannot be done unless there is a consensus regarding this important issue.

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Please answer these questions about the changing role of the state: public enterprise reform and privatization.

الرجاء الاجابة على الاسئلة التالية عن تغير دور الدولة: اصلاح القطاع العام والتخصصية.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

1. The direct involvement of government in the economy is justified on the grounds that:

١. يبرر التدخل المباشر للدولة في الاقتصاد:

- Markets alone will fail to adequately finance lumpy investment projects.

– بأن الاسواق وحدها سوف تفشل في توفير التمويل الكافي للمشروعات الاستثمارية الضخمة.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Government should protect consumers from monopoly exploitation.

– بأنه يتوجب على الحكومة حماية المستهلك من استغلال الاحتكارات

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Government should speed up the process of economic development.

– أن تدخل الدولة يعني الاسراع بعملية التنمية الاقتصادية.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

2. There has been an increasing recognition in recent years that the state, even with good intention can fail in its involvement in the economy:

- Because bureaucracy is unable to respond as quickly and as efficiently as necessary to changes in technology and markets.

٢- في خلال السنوات الاخيرة كان هناك اعتراف متزايد بان الدولة يمكن ان تفشل في تدخلها في الاقتصاد حتى مع توافر النوايا الحسنة، ذلك:

- لان البيروقراطية غير قادرة على الاستجابة بالسرعة والكفاية اللازمة للتغييرات في التكنولوجيا والاسواق.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Because bureaucracy distort incentives and increase transaction costs.

- لان البيروقراطية تؤدي الى تشويه نظام الحوافز وتزيد تكاليف التعامل.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Because public enterprise reform must occur in countries where the magnitude of the rent associated with public enterprise operation is relatively small.

- لان اصلاح القطاع العام يجب ان يتحقق في دول يكون فيها حجم الربح المرتبط بالقطاع العام صغيرا نسبيا.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

3. Successful public enterprise reform will be associated with:

- Increased competition, especially in the markets for goods and capital.

يرتبط النجاح في اصلاح القطاع العام:

- بزيادة المنافسة خاصة في اسواق السلع ورأس المال.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Forcing managers to behave efficiently.

– اجبار المديرين على العمل بكفاءة.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Well developed capital markets.

توافر أسواق مالية متطورة.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Imposing financial discipline on firms.

فرض الانضباط المالي على الشركات.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

4. Successful economic reform will be associated with:
   - Increase competitive pressure on enterprises, public and private.

٤– يرتبط النجاح في الاصلاح الاقتصادي:

– بزيادة ظروف المنافسة بين المشروعات العامة والخاصة.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Regulate private monopoly. ١ -- تنظيم الاحتكارات الخاصة.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Aligned managerial incentives. – اعادة تنظيم الحوافز الادارية.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

5. Successful privatization will be associated with:
   - Contracting activities of public sector to private sector.

٥- يرتبط النجاح في تطبيق التخصصية:

– بتلزيم نشاطات القطاع العام الى القطاع الخاص.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Selling 49% of public sector to foreign companies, and 51% to floating stock market.

– بيع ٤٩٪ من القطاع العام الى الشركات الاجنبية، وبيع ٥١٪ المتبقية في سوق الاسهم والسندات.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Municipalities having to issue lease contracts to private companies to clean streets and gather garbage.

– بتعاقد البلديات مع شركات القطاع الخاص لتنظيف الشوارع وتجميع النفايات.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- The general public should have the priority in buying shares in the public enterprises with foreigners having opportunities to buy later at higher prices.

- اعطاء الاولوية في شراء اسهم القطاع العام الى عامة الشعب ومن ثم يحق للاجانب شراء الاسهم بأسعار أعلى.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Transfer of <u>management</u> of public enterprise to private sector while ownership remains (Management Control).

- بتحويل ادارة القطاع العام الى القطاع الخاص، مع بقاء ملكية القطاع العام للدولة.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

6. Social issues

٦- آثار اجتماعية:

- privatization lead to sudden increase in open unemployment.

- تؤدي التخصصية الى زيادة البطالة.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

- Privatization leads to increased government defecits as employment related expenses increase.

- تؤدي التخصصية الى زيادة عجز الميزانية بسبب ارتفاع نفقات تغطية البطالة.

Strongly Agree أوافقه بشدة	Agree أوافقه	Uncertain غير متأكد	Disagree لا أوافقه	Strongly Disagree لا أوافقه بشدة
☐	☐	☐	☐	☐

Questions about you and your family:

- How old are you? -------- years.

- Did you study abroad?
  Major --------------
  Country -----------

- Are you currently employed in:
  Public sector: ----
  Private sector: ----
  Both: ----

- Have you been previously employed in
  - Public sector
  - Private sector
  - Both

- What is your occupation?
  - Business and professional
  - Salaried and semi professional
  - Academic staff

- Please check the appropriate box to indicate the highest level of education which you have attained:
  - Completed high school
  - Some vocational school
  - Some university
  - Completed vocational or trade school
  - University graduate
  - MBA or MSC
  - Ph.D.