



كلية دبي للإدارة الحكومية  
DUBAI SCHOOL OF GOVERNMENT

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**How Domestic and External Factors Have Shaped the Privatization  
Process and Outcomes**

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November 2011

Working Paper Series

No. 11-05



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## **Introduction**

This chapter examines the political economy of privatization in Algeria, Morocco and Tunisia. It uses these three countries as cases to test how political history, macroeconomic considerations and the role of International Development Agencies (IDAs) influenced the privatization process. Its theoretical framework is based on the arguments of Pollitt (1995, 2004) and Haque (2000) that these three factors significantly affect the privatization policy making and implementation. Algeria, Morocco and Tunisia have experienced similar developmental, economic and, to some extent, political paths. Internal and external political and economic factors have been pivotal in determining the result of liberalization of their economies and their outcomes. This chapter focuses on privatization as one of the main pillars of these economic reforms, and traces its evolution from the 1980s till 2007. It will answer these questions: What were the underlying political-economic factors behind the implementation of the privatization process? How instrumental and successful was it in achieving the promised economic growth, efficiency and equity?

The structure of this chapter is as follows: The first section starts with a brief overview of privatization, especially in the context of developing countries. The second section is divided into subsections. The first subsection justifies the rationale behind the selection of these three countries in particular, and how the above mentioned contextual factors led to different outcomes of the privatization program despite the socio-economic and historical similarities that have shaped these countries for many years. The second subsection analyzes in detail the contextual factors of each country separately, and the process of privatization and its outcomes. A discussion and lessons learned section then follows to demonstrate the positive or negative effects of contextual factors, and how they determined the fate of the privatization processes in each of the three countries.

## **Privatization: An Overview**

### **Definition and historical development**

Hughes (2002) argues that privatization means many things; it could be defined as returning publically owned assets to the private sector or the reduction of government involvement in general as reduction in production and provision, subsidies, regulation or these four elements all together. Jackson and Price's (1994) definition of privatization is more precise and comprehensive; they argue that the menu of activities that constitute the definition of privatization ranges from the sale of public assets, deregulation, opening up state monopolies to greater competition, contracting out and the private provision of public services. The first waves of privatization emerged in the UK during the 1980s as a component of the NPM package and quickly reached both the developed and developing countries. It has been widely adopted for its positive effects which are believed to be to increase business efficiency, expose companies to market forces and competition which substantially enhance the quality of products and decrease their prices, reduce both government spending and the Public Sector Borrowing Requirements (Hughes 2002). For the purpose of this paper, privatization stands for the sale of all or part of a government's equity in state owned enterprises (SOEs) to the private sector, or the

replacement of SOEs under private management through leases and management contracts (Vuylsteke 1988).

Developing countries caught up with the privatization trend which had been prevalent in the developed countries during the 1990s for a variety of reasons which to some extent were similar to those in the developed countries. Firstly, they were persuaded that their economic inefficiency which was caused by the low operating state enterprises, could be improved by enhancing competition (Cook and Kirpatrick 2003) and introducing new managerial methods. Second, privatization was considered a solution to reduce the persistent losses incurred from poorly performing state enterprises which cost governments heavy subsidies. Therefore, privatization was considered a means to generate revenues to alleviate fiscal burden and also to increase the share of the private sector involvement in the economy (Cook and Kirpatrick 2003).

Empirical evidence suggests that privatization has had significant positive impacts on the economies of developing countries in terms of ownership performance, macro-micro level performance and social impact of privatization (Cook and Kirpatrick 2003). The assessment of previously stated objectives like expanding the share of the private sector, improving micro-macroeconomic performance and financial profitability mostly shows positive indicators. Shirley and Walsh (2001) conducted a comprehensive review of 52 studies that looked at the performance of publicly owned enterprises before and after privatization and they found that 61 percent of these studies (32) conclude that the performance of these firms improved significantly after they were privatized. In contrast, at the macro-level, a World Bank study (1995) found that there was no significant decline of government spending as share of GDP after privatization during the period from 1987-1991. In addition, a growing body of literature discusses the adverse impact of privatization in developing countries where it was implemented without insuring the existence of prior political and economic imperatives to implement a successful privatization program. Haque (2000) warns that privatization, if not implemented correctly could lead to increasing poverty rates, unemployment rates and social inequalities. Moreover, privatization could result in depriving citizens from basic services that were once provided by the state.

### **Why these three countries in particular?**

Algeria, Morocco and Tunisia are challenging as cases for cross-country analysis. Although they have a number of important characteristics in common, the outcomes of the same reform instrument are markedly different. As background information, the three countries share borders and occupy the same geographical space located in North Africa and both face the Mediterranean Sea and constitute a bridge between the African and European continents. Given this geographical feature, the three countries share a rich historical heritage influenced by the Roman occupation of the whole North Africa, and the more recently French colonization from early 1900s till 1956 when Morocco and Tunisia got their independence and Algeria in 1962. However, independence did not translate into real liberation, but only allowed the apparatus of power to be transferred from the hands of colonial forces to the local authoritative regimes that prevented the countries from establishing modern models of democracies. The three countries have Islam as their official religion and a mixture of both majority Arab, and minority of indigenous *Amazigh* populations. They looked

at least as much towards Europe as towards the Middle East to define their identities and their geopolitical roles (Mednicoff 2003). All three countries consider Europe their primary trade partner on which they heavily depend for the export of raw materials and agricultural products, and light manufacturing as a valuable source of foreign currency.

## **Privatization in Algeria**

The Algeria's political history differs significantly from its two North African neighbors. The country was colonized by the French for 150 years, which is the longest colonization period compared to the other two countries. Independence was not gained through intense diplomatic negotiations between the leaders of the resistance movements and the French authorities as was the case in Morocco and Tunisia, but through severe violent confrontations between the Algerian fighters and the French army (Chourou 2002).

When the war with France ended and Algeria got independence in 1962, there were very few civilian politicians in the country and the standing of the army was higher and stronger. There were only two political institutions: the Front de Liberation National (FLN) and the Provisional Government of the Algerian Republic (PGAR). Both parties were formed in 1985 and were made up of members of the National Liberation Army. The members of each party were in disagreement about who should run the country and actual fights took place between them,. FLN under the leadership of Ben Bella managed to rule the country only for 2 years before it was overthrown by Boumediene who was then the Minister of Defense (Chourou 2002). For 30 years, the state held firm control over its populations till 1988 when violent demonstrations took place and succeeded to break the tradition of one party state and several political parties were founded. However, political instability, the absence of rule of law would make the country the most scattered and fragmented in North Africa. The army in Algeria, with the different aspirations and interests of its generals, constitutes the kernel of the government, its ultimate power and the main decision making mechanism (Cavatorta 2001).

Since independence, the Algerian economy went through various stages of formation; each stage completely different from the other and with repercussions that the national economy would have to bear for long. In 1962, the country's first President Ben Bella defined the country's economic policy, implementing a self-management model (*Auto-gestion*) in agriculture and industry. The proclaimed objective of this policy was to remove the economic heritage of the French occupation and reliance on its administration and to prepare the country for handling its own economic interests. However, his regime and policy did not last for long. Boumediene conducted a military coup in 1965 overthrowing the regime of Ben Bella and ending his short lived economic policy which was replaced by a socialist policy or rather statist (Ayubi 1995). This policy focused on establishing large state enterprises and investing heavily in the public sector while not allowing for any significant role for the private sector. This gives the Algerian economy of that time the label of "Algerian socialism" or "Algerian social-statism" (Boukaraoun 1991). The private sector was held as a scapegoat for the ills of the Algerian economy and this attitude was not revisited until the country run into major economic turbulences that left the government with no choice but to liberalize. As in other natural resource-

based economies, long lasting reliance on the public sector was the result of nationalization of foreign oil companies, in 1967 in the case of Algeria, predominance of oil revenues and the availability of foreign lending to the state. Hence, the lack of domestic private capital, the lack of a culture that promotes entrepreneurialism and coherent national economic policies that guide the development process made the public sector the main player in the Algerian economic arena. As a result, the share of the private sector fell from 153.71 percent in 1965 to about 11 percent in 1974 (Boukaraoun 1991). The ensuing economic failure led Algeria to question the relevance of the socialist system and switch to a drastically different approach to stabilize the economy and ensure long term growth.

The Algerian economy, thus, suffered under the dominance of the public sector from misdirected public investments undertaken especially in the 1970s when the country benefited from a sharp rise in oil revenues. The reversal of oil and gas prices in 1986 made the situation even worse. The state-owned industrial sector remained a heavy burden for the government because of its low productivity and lack of competitiveness while the private sector faced difficulties to cope with the implications of the economic reforms embarked on since the late 1980s (Joffe 2002). Even though imports were sharply cut to alleviate the balance of external accounts and services, foreign debt continued to climb to reach \$12.5 billion in 1984 and \$23.8 billion in 1989 (Boukaraoun 1991). This negatively affected the daily lives of Algerians as food supplies, which were mostly imported, substantially shrunk, causing inflation to rise to an average of 15 percent. In October 1988, the shortages in food supplies, skyrocketing prices and fewer jobs led to riots in the main Algerian towns. More than 500 people were killed and 1,000 injured (Addi 2006). Between 1985 and 1993 unemployment rose to alarmingly high rates while the purchasing power fell by 20 percent between 1989 and 1995. By 1998, 40 percent of the population was living under the poverty line (Joffe 2002). Under these troublesome and shaky political and economic atmospheres, privatization was introduced, or rather imposed on the country in early 1980s by the IMF, as a policy that would rescue the country from its financial crisis and enhance the efficiency and accountability of the state owned companies, once they become privatized (Addi 2006).

Algeria had no choice but to commence implementing the seeds for economic liberalization that would be carried out by: 1) encouraging the private sector, 2) applying severe austerity programs and 3), launching privatization programs (Boukaraoun 1991). Yet, plans for economic liberalization were characterized by fragmentations and strong divisions within the political elite (Dillman 2002). The main objectives behind the privatization process as they were outlined in the 1982 Domestic Private Investment Act were: 1) employment creation, 2) participation in the enlargement of national productive initiatives, 3) complementing the public sector in the transformation of industry and subcontracting activities, and 4) filling the gap in regional development (Boukaroun 1991). The privatization process; however, was marked by confusion and arbitrariness (Dillman 1998), and has been hindered by legislative and administrative confusion as well as strong resistance from the ruling class and civil society. In fact, conflicts emerged between ministries like the "Conseil National de Participation de l'Etat" (CNPE) and the "Conseil National de Privatisation" (CNP) because it was unclear how many companies were part of the privatization program and who their buyers were (Dillman 2002). Furthermore, there

were no clear administrative and legislative rules that would define how the process would be carried out and who would evaluate its performance. More importantly, the forces that opposed privatization outweighed those who supported it. In the Parliament, the majority of political parties were opposing privatization, something which blatantly explains the reason behind the slowness of passing privatization laws. Only one of the political parties, the Modernist Islamist Party (MSP), backed by some small entrepreneurs and businessmen with Islamist “leanings” backed the privatization process outside the hydrocarbon and public service sectors (Werenfels 2002). Resistance also came from elites and workers, public sector managers who united in the National Union of Public Entrepreneurs (UNEP) and fiercely opposed privatization (Dahmani 1999 as cited in Werenfels 2002), part of the private sector and civil society. In 2003, the latter managed to force the government to suspend the “Fuel Act” which aimed to provide partial privatization of the giant governmental SONTRAC Company. As Werenfels (2002) rightly argues, the only players that seemed to be pushing the process of privatization without hesitation were the external institutions such as the IMF, the World Bank and the Clubs of Paris.

Since the first privatization law was passed in 1995, only the tourist sector underwent the divestiture of few companies. Moreover, although four joint ventures with foreign companies were created, they only resulted in the breaking up of one thousand small public companies and the loss of 450,000 jobs, reducing the number of public sector employees in the non oil sector by half. By 1998, the process of privatization threw an additional 180,000 people out of their jobs and intensified the economic crisis of the country while benefiting the interests of the Algerian commercial shady interests (Joffe 2002).

From 2000 to 2007, Algeria managed to earn only \$1.5 billion dollars from privatizing its state owned companies which is very insignificant (Privatization data base 2011). Demonstrating the lack of interest by foreign capital, CNP head Abderrahmane Mebtoul estimated the rate of successful privatization of local public enterprises at less than 25 percent, as the private sector was very reluctant to buy companies due to lack of information, high bureaucratic measures, high risk, lack of bank loans and lack of a fiscal amnesty. This poor performance and achievement of the privatization program can be attributed to a myriad of factors. Joffe (2002) argues that foreign trade and the pharmaceutical sectors have become a major scandal over the way in which privatization was carried out as it created an oligopoly in which businessmen close to the army were the main beneficiaries. Moreover, foreign investors were discouraged to buy shares from the privatizable deals since they involved bribing officials who controlled the decision making process. The role of the army and members of the elite who did not want to lose state sector rents was considerable in blocking the privatization plan.

## **Privatization in Morocco**

Morocco is usually described by Moroccan authorities and legislative documents as a “constitutional monarchy”. Yet, close observation of the King’s influence over the decision making processes will reveal different realities. The king, the head of the state and the Supreme Representative of the Nation, appoints the Cabinet members, the Prime Minister, and has the authority to dismiss them and even dissolve the legislature on his own personal initiative. The government consists of a bicameral

Parliament with a lower house and Chamber of Representatives along with a Chamber of Advisors. Despite this structure of government, which tries to mask itself as a constitutional monarchy, all the decisions are made by the King and the Government literally does nothing but to approve them. Desrues and Moyano (2001) stress that although Morocco has a multi-party system, the political parties are marginalized and assigned subordinate positions allowing the King, instead of the Parliament, to be the only representative of the nation who monopolizes the relations between all the interest groups. Hence, the monarchy becomes “an institution above the constitution” which is a blatant feature of an authoritative regime (Desrues and Moyano, 2001).

Morocco's public portfolio was established by the French Protectorate during 1912 to 1956 to achieve two goals: to control natural resources and to provide needed social and institutional infrastructure to the French settlers (Saulniers 1993a). After independence in 1956, Morocco was one of the few newly independent states to embark on market economy (Maghraoui 2002). In fact, as Owen 1992 argues, unlike other MENA countries, Morocco never adopted the fully state-dominated developmental paradigm. The private sector always existed in the country. The Moroccan economy benefits from a great deal of natural resources: it has fertile agricultural land, significant phosphate reserves and minerals (Morocco is the biggest exporter of phosphate in the world) and fisheries . Morocco is a country where numerous and significant structural reforms have been undertaken since 1980s in the financial sector, in trade, in the fiscal sphere, infrastructure and in the stock exchange (Ben Ali and Cherkaoui (2007)) .

The combination of various reasons led the country to adopt privatization as a response to severe economic difficulties. During the 1970s, Morocco was the world's leading exporter of phosphates, accounting for almost 30 percent of total exports (Saulniers 1993b). More importantly, phosphate's prices increased by 41 percent in the period 1973-1977 which brought massive income to the country and encouraged the government to invest more in public enterprises. However, this did not last long. The prices of phosphate dropped significantly and abruptly in 1978 and the state enterprises did not generate the expected outcomes. These two main reasons lead the country into a sharp economic recession. The repercussions were devastating for the short lived economic prosperity the country experienced in the previous years. From 1983 and 1984 investment as a percentage of GDP fell from 25 percent to 20 percent (Pfeifer 1999) and the country had to raise taxes, reduce government spending and curtail imports. Moreover, unemployment increased significantly and economic growth and living standards fell at the same time. Moreover, the capital intensive nature of state investment in the public sector did not result in the expected number of manufacturing jobs (Pfeifer 1999).

By September 1983, Morocco failed to secure the financing of its budget deficit through borrowing from the international financial markets and had to seek further IMF and World Bank support. However, the economic reform process was not an easy one. It required nine interventions by the IMF between 1980 and 1993 and six official debt rescheduling through Paris Club and extra three commercial debt rescheduling operations through the London Committee. Actually, it was not till early 2000s that external debt started to fall; between 1980 and early 1990s it rose from \$20 to \$48.9 billion and in 2006 it went all the way down to \$16.63 billion (IMF

2008). As a percentage to GDP, it fell from 125 percent to 80 percent in 1993 and to 53.6 percent in 2007 (IMF 2008). As Joffe (2010) explains, liberalizing the economy through privatization contributed significantly to the reduction of external debt and was also a major player in making the Moroccan economy “one of the most open economies in the region.”

King Hassan II's role was instrumental in introducing the privatization program and steering it. In the 1988 spring parliamentary session, he dedicated his entire speech to privatization, stressing that privatization “could modernize the economy, help regional development, increase the well being of people, unleash an entrepreneurial spirit barred by public enterprises and open the economy to the international market” (Saulniers 1993a). The King later emphasized in a speech in front of the Parliament that: “the decision to transfer to the private sector important parts of state owned enterprises does not stem from a short term vision or imported ideas” (Younis 1996). The conclusions that could be drawn from the Kings' speech are: first of all, the reform was carefully considered and its perspective results had been envisioned; secondly, it had a long vision and long term aspirations and it was not just a prescription to cure the economy temporarily; thirdly, the willingness to implement it comes from strong political will and was not imposed by external factors.

More precisely, the announced objectives behind the implementation of privatization in Morocco were: 1) Generate income to reduce government's debt and fiscal deficit, 2) Create a vibrant private sector and foster employment 3) Attract foreign investment, 4) reduce inequality in the distribution of wealth and empower new socio-economic groups within the Moroccan society (Khosrowshahi 1997). The King took steps to establish a strong political basis for the success of privatization process. The Moroccan Parliament authorized privatization on 11 December 1989 and the privatization law, which provided the framework for the program, was enacted and the government established the Ministry of privatization. Its role was both a facilitator of the privatization process and a watchdog to secure the transparency of the privatization operations and a safe transfer of earned money to government budget (Khosrowshahi 1997). On July 1991, the King named the Valuation Authority whose role was to oversee the propriety of the evaluation process and set prices for privatizations on the basis of independent evaluations of company's activities (Slaunders 1993b). In September 1991, the King named the Inter-ministerial Transfer Commission whose role was to provide greater transparency by associating those ministries concerned with the transfer in each case in all decisions relating to the transfer (Slaunders 1993b). The appointment of this commission completed the privatization structure.

Generally speaking, privatization process was faster and deeper in Morocco than in Algeria, as witnessed by the large proceeds for government budget. From 1993 to 2005, Morocco accumulated more than \$6.3 billion. Naceur et al (2007) argues that the “bulk of privatization” in Morocco was achieved after 2000 as it produced 78 percent of revenues from the privatization program. From the year 2000 to 2007, massive privatization actions took place in different sectors ranging from telecommunication, infrastructure to finance. In 2000, the Moroccan government transferred 35 percent of the capital of Maroc Telecom to Vivendi Universal and gained \$2.1 billion, which was considered a large success by international standards (Privatization data base 2011). In 2004, 14.9 percent of the capital of the same

company was sold on the Stock Exchange for \$800 million, followed by another sale of a 16 percent share again to Vivendi Universal for \$1.2 billion (Privatization data base 2011).

Yet, in terms of the political economy and social impact of the privatization process, the government, headed by the King, favored and enforced the involvement of the domestic Fassi elite which traditionally held strong connections with the Alaouit royal family (Joffe 2009, Khosrowshahi 1997). Several state owned companies ended up in the hands of those who had strong ties with the palace and had access to the needed funds. As Hibou (2005) argues, the privatization process in Morocco did not pose any challenge to the *Makhzan*, on the contrary it served its interests and strengthened the ties between the monarchy and its loyal elites: "In Morocco, the privatization of state run companies has reinforced the *Makhzanian* modes of government in the economic domain, which entail the manipulation of vagueness and uncertainty between rules and incompatible conflicting norms." (p, 87). Implementation of the privatization program was therefore biased towards specific interest groups while the socio-economic objectives that were announced at the outset of the process turned out to be only political consumption (Najem 2001).

## Tunisia

Since gaining independence in 1956, the country had been ruled by President Bourguiba. He was a key figure in gaining independence from the French, but ended up as an enlightened dictator. He implemented a highly centralized and personalized system of governance where he appointed himself President for life and amended the Tunisian constitution to give him this right (Mednicoff 2003). However, in 1987, Zine 'Abidin Bin Ali, a military figure, overthrew Bourguiba in a "medical-military coup" and remained the absolute ruler until the popular uprising and *Jasmine* revolution of January 2011. Bin Ali showed initially good will and determination to transform Tunisia into a democratic country, yet few years after his ruling, his governance model started to take a different path. His regime gradually became more repressive than the previous one which caused grave disappointment to all the Tunisians and to the International community as well. The Parliament is plural but its role in the political system is merely cosmetic. The year 1994 witnessed the entrance of opposition parties to the Parliament for the first time since the country's independence, which was a result of the President's decision to allocate 20 percent of the seats to the "opposition." However, this was just in form as in reality the opposition parties had no say in the decision making process which was strictly monopolized by the President.

The centralized form of the Tunisian political structure would be reflected on its macro-economic orientation, policies and direction. The Tunisian public sector dates back to independence in 1956 when Tunisia embarked on a process of decolonization and transfer of the French private companies to the state (Saghir 1993 and Ayubi 1995). This allowed the government to inherit and acquire facilities of the infrastructure like transportation, railways, ports, telecommunications and banking. The dominant role of the state in guiding the economy and fostering the role of the public sector would be the result of this process of transformation from the colonial acquisitions to the state. Tunisia adopted an interventionist policy known as "*dirigisme planifié*" whereby the central role is given to the public sector and the role

of the private sector is confined to small scale services (AL-Mahjub 1989 as stated in Ayubi 1995). Under Bourgeba, the state took control of natural sources, notably phosphates and hydrocarbons, finance and banking before it started investing in tourism, textiles and even agriculture (Saghir 1993, Pfeifer 1999).

However, the years of positive economic performance would end as Tunisia entered a phase of crisis similar to its neighbors due to both internal and external reasons (Pfeifer 1999). The inefficiency of the public sector was one of the main factors behind this declining performance. From 1977 to 1981 the public sector made significant losses that reached 20 percent of government outlays, could not meet its tax payments and social security obligations (Grissa 1991). Moreover, the poor agricultural season of 1986 and the sharp decline in tourism added more pressure to the already ailing economy. The difficulties were compounded by the adverse effects of the recession that was taking place in Western Europe on Tunisia's exports and the very stringent conditions and high interest rates of borrowing from the international financial markets and financial institutions. Added to these unfavorable international developments were the sharp declines in the prices of oil and phosphate. Petroleum was then a major source of export earnings, accounting for about 55 percent of all exports during the 1970s.

The ailing economy and the increasing budget deficit and external debt forced the government to change economic policies. IMF was the destination of Tunisia for a standby agreement in 1986 and then to the World Bank as well for a structural adjustment program. The remedies were reducing public expenditures in order to curtail the budget deficit, gradual removal of trade barriers and privatization of state owned companies. These objectives were spelled out in the VIIth five-year Plan (1987-1991) which stipulated the liberalization of external trade, the removal of investment restrictions and the promotion of the private sector. Yet, according to Pfeifer (1999), the structural adjustment programs led problematically to three significant changes in the Tunisian economic model: 1) an unequal distribution of costs and benefits, 2) access of Tunisia to external finance and 3) higher exposure of the Tunisian economy to the international trade system and markets. A significant feature of the adjustment was the sharp reduction in government subsidies and public spending. Another significant effect was the rise in unemployment which reached 15 percent of the labor force in 1990. However, one could argue that the government did not have at that time viable alternatives and that the situation could have been worse had these programs not been undertaken.

Similar to the other two countries, objectives of privatization in Tunisia were to enhance the efficiency, profitability and productivity of ill-performing public entities and to alleviate the burden on government budget. The privatization program was decentralized at its beginning and was centralized in its later years of implementation. As Belev (2001) argues, during 1987-1989, there were three commissions responsible for privatization process: 1) an inter-ministerial commission called "*Commission d'Assainissement et de Restructuration des Entreprises à Participation Publique*", chaired by the Prime Minister. Its main function was to approve the proposed privatizable companies. 2) an inter-departmental commission which was headed by the 'Director General of Participations' and included representatives of the Prime Ministry. Its function was to coordinate the activities of the agencies involved in the privatization program. 3) a technical commission

headed by high level government officials who had the responsibility to advise on privatizable companies and to assess the social and economic risks involving each transaction. However, all this organizational structure did not result in the desired outcomes. Its complex nature made it difficult to coordinate and to put the process into motion as it was time consuming, and bureaucratically demanding. Hence, in 1993, the Ministry of Planning and Regional Development was assigned to manage the implementation of the privatization program as a whole. (Belev 2001).

The government faced strong resistance from many sources, especially from labor unions. The Minister of Social Affairs and the General Inspectorate of Labor played a significant role in alleviating the consequences of privatization on labor, especially of the shedding of redundant workers (Grissa 1991, Saghi 1993). The Tunisian government stressed that employees of State owned enterprises would have the priority to buy shares from the privatized companies and their rights would be protected in case they had to be laid off. Hence, by 1989, out of the 7,509 of employees in the privatized state owned companies, 3,039 kept their jobs (around 40 percent), 2,102 were transferred to other state owned companies and 324 received severance payments (four percent) which were determined by the length of the employee's work period within the organization. They ranged from one month to three months salary for each twelve months served in the public sector. In the end, only 103 were laid off (1.5 percent) which was the result of the active role of the trade unions in Tunisia (Belev 2001).

The process of privatization started with the divestiture from loss making companies especially in tourism, transport, food and construction sectors. The state made around \$134 million from 1987 to 1994 by selling 48 state owned companies and a share of 20 percent in its air company, *Tunisair*. In 1998 privatization of large and profitable companies started. From the year 2000 till 2008, the main transaction that took place was the sale of *Tunisie Telecom* (35 percent of its shares) to a United Arab Emirates company (Privatization data base 2011). The slow results could be explained by many factors; resistance from workers and labor union was not a destabilizing element as were others that will be further explained in this paper. In fact, Tunisia had a weak entrepreneurial community and a culture where the independent private sector did not have the required financial capacity nor was it allowed to play a significant role in the national economy. Its reliance on the government and its subsidies can be justified by the fact that in 1987, several privatized companies went bankrupt or had to shut down due to their incapability to survive in the new business environment where the public sector no longer provided subsidies (Ayubi 1999 and Saghir 1993). Lack of skilled staff who could take over the public companies and manage them was a major holding back factor for the success of the privatization program. Moreover, Tunisia had the smallest stock exchange market in the region and in developing countries; an element that prevented systematic and successful transfer of shares from the public ownership to the hands of private investors and stakeholders. Another obstacle was the issue of patronage and the "state bourgeoisie" who tried to stay away from taking market risks and preferred to profit from the opportunities provided by publicly owned companies. According to Price Waterhouse report (1989), Tunisian business owners were not risk takers and strongly prefer to deal with their family members or business associates and do not invest with strangers, which was a major barrier towards strengthening the role of private sector entities.

## Lessons Learned

The main objective of this paper is to analyze the effects of various contextual factors, political history, party politics, macroeconomic consideration and role of IDAs, on the success or failure of the implementation of privatization in Algeria, Morocco and Tunisia. The question this paper addressed is not whether or not privatization was the right tool to rescue the ill functioning economy of these three countries, but whether these countries had the political, economic and developmental requirements to reap the benefits of privatization programs. Privatization proved to be both successful and unsuccessful; its outcome is primarily contingent on the availability of political will, processes and careful implementation and auditing of the whole process. The first question that comes to mind after the presentation of the achievements of the privatization programs under the political, economic and foreign factors is: Was the Maghreb region ready and mature enough to implement a privatization program? Did it have the needed pre-requisites to operate successfully? It is undeniable that the period of 1960s and 1970s was that of *etatisme* and bureaucratic expansion while that of the 1980s and 90s was one of liberalization and privatization, although the transition from one to the other did not take a smooth and slow pattern. It was heavily influenced by the burden of financial difficulties and urged by external players, mainly the World Bank and the IMF.

The analysis undertaken in this paper supports the decisive role of these factors and their effect on any reform initiative. At the time of introducing privatization in Algeria, the political spectrum was characterized by fragmentation, instability, conflicts and constant disruptions. These aspects made any attempt of change impossible as there were many influential figures and vested interests in the decision making process ranging from the military, to the state and civil service. Each of these actors had its own agenda and list of priorities it wanted to protect for its own sake. When privatization was pushed by the IMF and the World Bank, the army generals, who had strong presence and influence in the country, were the first to resist the change as it would prevent them from the rents they got from the public companies. The absence of strong political leadership hindered the process of privatization in the country. Public officers in Algeria and the army generals had a high stake in the rents derived from oil and gas revenues. Therefore, privatization would constitute a threat towards securing the continuity of these substantial incomes and profits.

In Morocco, the political history had been characterized by the authoritative rule of the King and his centralized use of power, but the country enjoyed substantial political stability in the region. The strong political leadership embodied in the person of the King and his strong hold on the political parties, enabled the implementation of fast and deep privatization. However, despite the substantial financial gains of the privatization process, its outcomes served mainly the loyal elites of the Palace rather than benefiting the overall population of Morocco. Thus, it is hard to prove that the program contributed to empowering the middle class and giving them equal opportunities and gains from the program.

Similarly, privatization in Tunisia was supported by the President and his government. The business environment, however, was not sufficient financially, nor able to operate without the support of the public sector and its subsidies. Hence,

none of these countries, in fact, can be considered as a success story in harvesting the financial and economic gains that a successful privatization program provides as the case in some developed countries. The political landscape in these three countries was headed by leaders who were strongly tied to their close elite families and were more concerned about serving their vested interests rather than that of society at large. Moreover, the macroeconomic conditions that urged for privatization of the public sector entities made the program as an end rather than a means of improving the efficiency and performance of these companies. Hence, the main objective was to sell the companies and not to make sure that the transition from the public to private sector was well monitored and scrutinized to avoid adverse repercussions on both the companies and their employees. Also, the role of the IDAs was an important factor behind these results of the privatization program. Their familiarity with the complexity of the social and economic landscapes of these countries was limited and their main target was to cut public spending and transfer companies to the hands of the private sector. They failed to look closely at the process and ascertain that transparency, equal opportunities and the benefits of privatization are shared by the whole population not just by few influential political and military figures as was the case mainly with Morocco and Algeria.

The main lesson that can be learned from the experience of privatization in the Maghreb region is that before embarking on any privatization reform, it is imperative to examine its conformity with the existing contextual factors. Understanding the context, its strengths and weaknesses would at least make policy makers aware of the challenges they need to address when they implement a novel policy. In the case of Algeria, Morocco and Tunisia, the different points where the three countries initiated their reforms could not be better expressed than by Pollitt (2004): "...countries start from different places with different capacities and implement changes that may not suit their contextual setting" (p 8). The significance of the contextual factors is also emphasized by Pollitt (1995) and Hauque (2000) when they argued that the success of such reforms is mainly determined by the "characteristics of the political and administrative systems in place."

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