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PRIVATIZATION

Note by the Executive Secretary

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INTRODUCTION

Even though practical instances of privatization in the ESCWA countries are still extremely limited, the call for such a policy is often dependent on the success of policies or projects of economic adjustment and reform, which most of the developing countries, including the ESCWA countries, have been striving to implement for many years in order to cope with their economic and financial problems. Throughout the Arab world, study and discussion of this topic is subject to a diversity of opinions on such matters as the exact definition of the English term "privatization", the reasons for privatization, its future, the forms that practical applications of such a policy might take and its economic, financial, social and political implications. Similarly, the move to privatize (some) public enterprises, in the context of the clearly liberal tendencies of the general economic policies of the ESCWA countries, has given rise to a debate as lively and earnest as that over the economic, financial and monetary problems faced in varying degrees by the ESCWA countries. Still, privatization is no more than a means to deal with (or a reaction to) the relative drop in the economic and financial efficiency of public enterprises and the constant expansion and extension of the public sector in general. The importance of the subject is not diminished by the fact that the results of the limited experience of privatization have not yet ripened into a stable economic policy and that they are still in need of evaluation because of the nature of the prevailing economic and financial conditions and problems in these countries.

This paper seeks to provoke discussion in an attempt to determine the effectiveness of this policy and to define its true status within the framework of the appropriate policies of economic and structural adjustment and reform for the ESCWA countries, in both the short and the long term, by conducting a realistic and methodical general review of the subject of privatization and noting the circumstances of the ESCWA countries and their limited experience in this field. For this reason, the paper will be confined to indicating the general implications of this policy and determining whether they are of a temporary or a permanent nature by demonstrating their link with market economy conditions and the price system on the one hand, and the role of public enterprises in development on the other hand.

It is unrealistic to attempt to arrive at a unified or conciliatory view of privatization that would suit the conditions of all the ESCWA countries, because of the differences in the conditions in those countries and their requirements for growth and development. However, the attempt to shed light on the reciprocal impact of privatization and economic, financial and monetary policies on the one hand, and their relationship with the requirements of growth and development on the other, will doubtless promote general familiarity with this policy, help people to appreciate its importance and to determine how it should develop in the future, as well as to pave the way for evaluating it at the country level on the basis of detailed data and information at a later date.

I. INTERNATIONAL AND REGIONAL ECONOMIC DEVELOPMENTS AND POLICIES OF ECONOMIC ADJUSTMENT AND REFORM IN ESCWA COUNTRIES

The international economic, financial and monetary developments since the beginning of this decade have imposed a serious and comprehensive critical revision of economic and financial policies in the developing countries in general, including the ESCWA countries. The slow growth rates in the advanced industrial economies, the low prices of exports of crude oil and raw materials, the weakness of international financial and monetary arrangements designed to strengthen economic co-operation and to broaden regional and international trade, the instability of the exchange rates of the main currencies, the growth of external debt and the corresponding burden on developing countries have all contributed to the breakdown of the policies of economic expansion followed by most of the developing countries, including ESCWA countries, since the 1960s and especially after the great increases in oil export (and import) prices from the end of 1973 up to the beginning of this decade. This necessitates a reappraisal of those policies, their impact on the conditions of economic growth, the requirements for development under such conditions and adjustment to them in the medium and long term. It also makes it necessary to ensure general internal and external economic stability and at the same time to overcome the effects of short-term imbalances. Notwithstanding the differences in the analyses and opinions put forward to diagnose the basic factors for current developments, it is agreed that they are the result of the interaction of a group of national, regional and international economic factors and policies by virtue of the strong interconnection between the economies of the various countries of the world. These analyses and opinions also stress the importance of the role played by national economic policies in the developing countries in general, and ESCWA countries in particular, in adjusting to these developments and overcoming their negative effects. These developments have prompted the Governments of ESCWA countries to attempt to adjust their general economic, financial and monetary policies to cope with the result of imbalances in those policies in the short term; they have also once again called for economic structural reform in those countries in the medium and long term.^{1/} Such a call shows the importance of the traditional debate on problems of growth and development, and, if only in a practical way, satisfies the need to identify the practical economic and financial policies and measures necessary as an alternative to the general theoretical economic, political and social analyses or presentations such as those current in the 1950s and 1960s.

On this basis, general economic, financial and monetary policies of most ESCWA countries proceeded to curb public consumer and investment spending and to attempt to increase public revenue and to curtail imports; they also attempted to use political, financial and monetary instruments such as taxes, interest rates and exchange rates in order to influence general economic activity and thus to alleviate short-term economic and financial problems.

^{1/} For the nature of the international and regional economic, financial and monetary developments and their impact on the economy and on general economic, financial and monetary policies and the influence of these on the future of development in a number of ESCWA countries, one may consult the study published by the secretariat entitled Policies of Economic Adjustment and Structural Reform in a Selected Group of ESCWA Countries (E/ESCWA/DPD/89/1) (Arabic only).

Notwithstanding the effectiveness of these policies and measures in improving general economic and financial conditions, the question of the present and future of the public sector, the level of state intervention, the effectiveness of central planning in the economy in general as against the importance of the private sector and the effectiveness of the market and prices in boosting economic growth, occupies a special place in the economic and political policies and concerns at various levels and among the numerous problems these countries face, the most important of which is the need to maintain a general level of economic activity, to broaden production capacity, to increase employment rates and to correct the price structure, including the rate of exchange, as well as to deal with foreign debt in the indebted countries, to curb high prices and the rising cost of living in the majority of ESCWA countries. The public sector still occupies an important place in the economies in question in terms of its relative contribution to the gross domestic product (GDP), the volume of effective investments or fixed capital formation, the amount of labour it employs, especially if we take into consideration the decisive role of the crude oil extracting and exporting sector in financing public expenditure on investment and consumption and in covering the growing foreign currency requirements for imports in countries of the ESCWA region, as well as the indirect impact of oil revenues on the economic and financial situation of other countries. The economic and financial performance levels of public sector enterprises and their true efficiency under recent conditions, seen against a background of optimism about private sector capabilities and the belief in the effectiveness of the market economy in providing maximum mobilization and optimum allocation of a country's economic and financial resources, are thus a question which occupies a prominent place in programmes and policies of economic adjustment and reform in the countries in question, especially as the general economic characteristics of these countries do not so much point to the spread of competition between the public and private sectors as they do to the need to increase the contribution of the private sector to economic activity and the importance of developing the economic and financial efficiency of the public sector at the same time.

To be more precise, current economic and financial conditions in the ESCWA countries again underline the importance of studying how dynamic economic growth can be achieved and what the requirements for development are, in the light of the lengthy experience of these countries, the development of their economic and financial policies and the general methods of economic management that were applied from the 1960s up to the first half of this decade. However, for a successful expansion of the market economy, there is a need to prepare for competition and freedom of production and to determine which investment opportunities will promote the entrepreneurship and potential of the private sector. However, this move, on which the policy of privatizing (some) public enterprises is based, still needs further explanation, clarification and justification. The results of the privatization of certain public enterprises in some ESCWA countries are still an insufficient basis on which to judge the importance of privatization or to determine its economic

future.^{1/} Similarly, the factors conditioning the move towards privatization, which vary in importance in each ESCWA country, are not only connected with the efficiency of the private sector and the desire of the Governments to create a stable institutional framework for the market economy, to ensure the mobility of goods and factors of production, to refrain from intervening in the price system or to curb government intervention aimed at directly and indirectly influencing investment, production, consumption, import and export decisions at various levels; they are also connected with the fact of state ownership rather than private ownership of the general economic and financial resources which play a basic role in the general economic activity of the country, such as oil resources and loans granted to national Governments by other countries. Against this is the patent need to establish economic and social infrastructures as well as enterprises in costly strategic production sectors.

In other words, current economic and financial conditions, which tend to promote the participation of the private sector in national development efforts, drawing on market forces and competition to help to mobilize national resources and to reap maximum benefit from them, also make it necessary, in view of the state ownership and control of the national economic wealth, to organize and allocate these resources to investment projects which aim to achieve particular economic and social objectives, within an institutional

^{1/} Public enterprises that have been privatized in ESCWA countries cover a wide range which includes tourist hotels, processing industries such as textiles, foodstuffs, construction, fertilizers, petrochemicals, agro-industries such as the production of poultry and eggs and certain crops. The studies presented at the Seminar on Privatization and Structural Adjustment in the Arab Countries, held at Abu Dhabi in the United Arab Emirates from 5 to 7 December 1988, organized jointly by the Arab Monetary Fund, the United Nations Development Programme, ESCWA and the International Monetary Fund, provide preliminary general indications of the kinds of enterprises that have been privatized in some of the Arab countries; they also give a general review of the reasons underlying this policy, factors hindering it and preliminary analyses of its contents at the theoretical and practical levels. Among the studies were:

Ibrahim Hulmi Abdurrahman and Sultan Abu Ali, "The role of the public and private sectors, with particular reference to privatization - the case of Egypt" (in Arabic);

Jawad al Anani and Rima Khalaf, "Privatization in the Hashemite Kingdom of Jordan" (in Arabic);

Peter S. Heller and Christian Schiller, "The fiscal impact of privatization with some examples from Arab countries".

framework which is subject to public control and which operates with public authorization, namely, public enterprises.^{1/}

Theoretical analysis reveals the well-known opposition between the market economy and free competition on the one hand and comprehensive central economic and social planning in mobilizing and allocating national economic resources on the other. Nevertheless, practical considerations make it necessary to find a formula, if only a temporary one, to get maximum benefit out of the market forces and the potential of the private sector, as well as to help public enterprises to increase economic growth and to accelerate development. There is a need to integrate and reconcile economic, financial and monetary policies, with the requirements of economic structural reform. A policy for privatizing (some) public enterprises needs to be drawn up, with the aim, first and foremost, of increasing production and productivity and overcoming general economic problems, rather than promoting incomes redistribution, simply getting rid of idle production capacity (fixed assets) or even just realizing financial gains for the Governments; such gains can always be ensured by raising the prices of products without increasing production efficiency through reducing costs or changing rates of utilization of factors and prerequisites of production. There is also a need to re-evaluate the viability of public enterprises in accordance with the requisite policies of economic adjustment and reform.

^{1/} We define a public enterprise as one which is between 51 and 100 per cent state-owned and produces goods or services with a well-defined framework for marketing this production. Its objectives are economic, social or political; strategic or phased; specific or general. Consequently, this implies a certain concept of investments used to establish it and of returns derived from its activities; management and decision-making come under the public authorities; it is subject to public control in order to follow up and evaluate its various activities.

II. THE IMPORTANCE OF THE PUBLIC SECTOR FOR NATIONAL DEVELOPMENT EFFORTS IN ESCWA COUNTRIES

As is the case in most developing countries, the ESCWA countries have made vigorous efforts to accelerate overall economic and social growth, resulting in clear progress in terms of the growth rates achieved and the raising of living standards. For numerous economic, political and social reasons, state economic planning institutions and bodies have played a fundamental role in such efforts. As is also the case in most developing countries, development programmes and plans in the ESCWA countries, with all their general political goals, their means and their practical measures, have evolved with the experience and continued economic, social and political development of the last three decades. It has become possible to distinguish between the effectiveness of the various economic and financial systems, policies and measures in achieving general development objectives in these countries. Notwithstanding the implications of the concepts of development programmes or plans which have been gaining currency at the official and popular levels in countries of the region since the middle of this century, in terms of their relative affinity to either policies and institutions of the market economy and competition or comprehensive state planning of the national economy and general development, nevertheless the economic role of Governments and public-sector institutions has greatly expanded and their influence has become decisive in comparison with the comparatively limited importance of the private sector for economic development. The increase in the economic and financial potential of the State on the one hand, and the need to increase economic growth and to control long-term development tendencies on the other, have expanded the scope of state economic intervention from mere current annual expenditure on the activities of administrative institutions and bodies and the search for sources of finance, as reflected in the Government's annual budget, and price fixing through the expanded control of foreign trade, to greatly increased overall investment, not only in order to finance economic and social infrastructure projects such as roads, dams, agricultural land reclamation, ports, education, health, housing and town planning, but also to establish enterprises for the production of strategic or costly goods such as petrochemicals, oil refineries and enterprises for iron, steel, cement and fertilizer production. This expansion in investment has included in a number of cases the setting up of medium-sized industrial enterprises or relatively small agro-industrial enterprises such as sugar refineries, poultry farms and consumer goods enterprises. Similarly, a number of agricultural enterprises have been set up with state finance. The expansion of the role of the State in development and investment has been accompanied by the establishment of numerous public institutions and bodies to manage the various services, to supervise the activities of the various sectors and to follow up the organizational measures and the policies that have accompanied the rapid economic and social developments in the countries of the region. The importance of public institutions in respect of expenditure and employment has increased. This has been aided by the availability of state funds, especially during the 1970s.

In general, the criteria of feasibility adopted in selecting these public enterprises have not been restricted to the direct financial return, such as the commercial profit or the increase in production. Rather, and perhaps more importantly, the indirect economic and social yields, such as the increase in employment rates, the expansion of external economies, regional development and incomes redistribution have also been factors justifying the establishment

of these schemes. Moreover, social considerations have also been present in the decision to set up some public enterprises.

The experience of some ESCWA countries shows that the criteria for setting up public enterprises and assessing their actual achievements has long been subject to discussion and revision with an eye to evaluating their contribution to the attainment of general economic objectives. However, the great interest in assessing their economic and financial viability only arose clearly after the economic and financial burden that they represented had increased in a number of ESCWA countries, bringing with it an urgent need to increase the economic and financial surpluses of these enterprises since the beginning of this decade. Although this interest was confined to evaluating the economic and financial management efficiency of public enterprises, with a view to improving it, the increasing economic and financial pressures on the State led to the move to privatize (some) public enterprises as a method of rationalizing the public sector, concentrating its role in accordance with well-defined priorities, increasing the efficiency of public enterprises which the State wants to maintain, and giving people an opportunity to participate directly in the management of the enterprises and to invest in new ones, and moreover mobilize their savings, potential and capacities in order to achieve growth characterized by the full participation of individuals and institutions in backing these enterprises and benefiting from their achievements.

It may be seen from this development that, for the first time, there is less justification for interest in public enterprises; similarly, since the beginning of this decade, interest has slackened in development planning on the broad scale practised in the 1950s and 1960s. Therefore, it appears logical to expect an increase in the role and importance of the private sector for development in coming years. In fact, policies of and programmes for economic and financial adjustment in a number of ESCWA countries implicitly or explicitly presuppose a reappraisal of public sector activity and a curtailment of its expansion in all directions, as well as encouragement and development of private sector initiatives. This makes it necessary to open up to a certain extent the domain of market economy institutions and of competition, which would mean more freedom of decision for producers, investors and consumers, untrammelled by state policies and measures designed to curb the flow of goods and factors of production and the freedom of prices, which consequently reduce opportunities and potential for long-term growth and development. The important question in this respect is whether objective conditions in the countries of the region would actually permit the intended development where the main economic role would be played by the private sector. If not, where is the problem with the public sector?

It is clearly not possible to make use of conclusions or opinions derived from actual experience in order to answer this question and to apply the answer to all the ESCWA countries. Analyses and conclusions relating to each country remain the basis for evaluating the importance of the public sector and its future role in the intended growth and development of that country. However, this does not preclude pointing out the following general economic truths:

1. Most ESCWA countries have general wealth and resources of great economic and financial importance, and the State, as represented by its Government and public institutions, controls this wealth, such as oil and mineral resources. All the ESCWA countries need to increase economic growth and to improve living standards in the long term. Means of benefiting from these resources range from establishing the economic and social infrastructure to setting up strategic or high-cost projects and production enterprises in order to expand production capacity and diversify sources of income. This means that public enterprises will remain the general framework through which the State controls general economic resources and allocates them to various purposes, and that consequently such enterprises will continue to be important as long as there is public ownership of national resources.

2. The varying levels of economic, social, political and technological development of the ESCWA countries and their current economic and financial circumstances make it necessary for the State and its institutions to intervene broadly in the country's economic activities. This is reflected in various economic and financial phenomena which range from fixing certain prices (such as exchange rates and the prices of basic commodities), restricting investment outflows and the need to mobilize foreign currency resources and to provide greater opportunities for investments in kind in the face of limitations in material and human resources, to the socio-economic importance of dealing with unemployment and rapidly raising the standard of living, and a change in the population structure. Such intervention cannot be divorced from the functions of public enterprises and the need for public institutions since they are the instruments which can influence and help to change these phenomena. This means that however far the Government goes in expanding the role of the private sector and releasing market forces in the organization of economic activity, there are basic areas where sufficient government supervision, orientation and experience should be retained; this implies maintaining a certain volume of public enterprises and institutions. This volume will differ from country to country according to prevailing economic, social and political conditions and expected developments.

3. The performance of public enterprises should be judged not only on the efficiency of their technical, economic and financial management. Examples of slackness, incompetence and bureaucracy in the management of some public enterprises should not be taken as a general rule. Rather, the rapid and far-reaching changes in general objective conditions - some of which are due to the economic, financial and monetary policies of the Governments themselves, while others can be ascribed to international and regional economic and financial developments - greatly affect their achievement levels. Similarly, in reappraising public enterprises it would be wrong to ignore the criteria of benefit on the basis of which they were set up, for in doing so there would be a risk of confusing the general economic, social and political problems with the need to adopt the appropriate criteria for investments and the concomitant need for public enterprises to provide an institutional and technical framework for concretizing such criteria and putting them into practice. This would lead to a blurring of the clear boundaries between the role of Governments and public institutions and the private sector at a time when current economic, social, political and technological conditions make it necessary to mobilize the constructive, harmonious and integrated participation of all these parties in the national economic effort.

III. THE PRIVATE SECTOR AND THE MARKET ECONOMY IN ESCWA COUNTRIES

The experience of development in the ESCWA countries affords the opportunity of studying and analysing various policies and positions with regard to the role of the private sector and the extent of its contribution to achieving economic growth and accelerating development. The actual results of this experience are no doubt more important than the theoretical analyses and general economic opinions dealing with the effectiveness of the market mechanism and the role of competition in mobilizing and allocating economic resources, compared with the necessity and efficiency of central planning and broad state intervention in a country's economic affairs. Perhaps this understanding of the results of the economic experience of the past three decades is what impels most of the Governments of the countries concerned to take a pragmatic stance in dealing with their current economic and financial problems, and prompts officials to prepare the economic and institutional groundwork for the development of the market economy and competition so that the private sector may play a pioneering role in boosting economic growth and accelerating development. However, experience also shows that the mere call to activate the market economy, provide investment opportunities for the private sector and expand the use of the instruments of financial and monetary policy is not sufficient to ensure an increase in economic growth. Rather, it is necessary to provide appropriate economic, social, political, institutional, legal and administrative conditions if these attempts are to succeed at the economic level. Some experiments show that the private sector, despite official sponsorship and the suitability of the economic system, in the form of the market economy, and despite the availability of financial resources and foreign currency, has not played an important part in creating and expanding the production capacities needed to build the national economy and diversify sources of income, which are the goals of development efforts. In yet other cases, the private sector has not been able to contribute effectively to increasing production and exports to levels sufficient to keep the country's economic and financial problems from getting worse, despite the Government's attempt to meet its requirements. In other cases, despite the economic, financial and technological opportunities available, the private sector has not been willing to launch industrial activities, not only by reason of the State's economic, financial and administrative policies and measures and the expansion of the public sector, but also because it has basically lacked the entrepreneurial spirit and has been strongly inclined towards easier economic activities by reason of the prevailing conditions of general development.

In judging the effect of applying, in some ESCWA countries, certain economic, financial and monetary policies which presuppose suitable conditions for the market economy and private sector initiatives, one may conclude that their effectiveness remains limited because these presuppositions are unrealistic. Interest rates have had limited influence in boosting national savings (investments) in a number of ESCWA countries which believe in the importance of market factors and the role of the private sector. Limited administrative changes in the rate of exchange of the national currency and restrictions on external transfers are prime examples of the unsuitability of general conditions for absolute freedom of transfer of investments according to the criteria of the private sector. It should also be noted that the relative price structure of most ESCWA countries is in general not conducive to the economic efficiency of decisions concerning investment, production and consumption, including decisions made by the private sector. This reflects

the continuing need to take the necessary steps to free prices from administrative restrictions, on the one hand, and to counter the negative effects of rising prices on production and productivity, on the other. There is also a need to deal with general legal and administrative problems that hamper the development of private sector institutions and activities.

In other words, the experience of the ESCWA countries and the policies of their Governments aimed at spurring private sector activity have not brought to light any important practical role (with the exception of trade and services) which this sector could play, in one way or another, in national development efforts. This is reflected in the current economic and financial indicators which still confirm that all these countries need medium- and long-term structural economic modifications. Except for most of the oil-producing countries, they also need integrated programmes and policies of economic adjustment in order to cope with short-term economic, financial and monetary imbalances which are liable to aggravate their basic problems and lower living standards.

The limited effectiveness of the private sector is not due solely to the low level of entrepreneurial spirit, the limited nature of its own financial and technical capacities, or the influence of government economic, financial and monetary policies and measures. It is of the utmost importance to grasp that it is the nature of economic, social, political and technological development which imposes these objective and narrow limits on the effectiveness of the private sector. This general conclusion tallies with the rationale for the move to privatize (certain) public enterprises, in view of the fact that privatization constitutes a practical means of broadening the scope of the market economy and underpins the economic interest of the private sector. However, the most important and conspicuous thing is that the activity of the private sector and the effectiveness of the market mechanism do not merely ensure the private ownership of fixed assets such as installations, buildings, machines and tools; a private enterprise is a productive and economic activity that works in a social and political environment regulated by institutional, legal and administrative guidelines which guarantee its freedom of investment, production and the use of factors of production and their prerequisites. Therefore the effectiveness of a policy of expanding and developing the role of the private sector, and hence privatization, will remain subject to the capacity to expand the prevailing objective economic, political and social limits and this is what prompts us to proceed to discuss the objectives, strategies and policies of economic and social development within a framework of macro-economic analyses.

A cursory review of the experience of most ESCWA countries reveals that their economic, financial and technological negotiating capacity does not fully permit free economic and financial relations with other countries. Protection, be it limited, is desirable for the development of national industries and the safeguarding of their wealth and general economic interests. The experience of some of the ESCWA member countries has shown that freeing the hands of the private sector to set up and manage enterprises does not automatically guarantee efficient management and productivity, especially in the case of large-scale or joint-stock companies. The interests of a limited number of large shareholders may coincide in the running of the company's business and ride roughshod over the interest of small shareholders

in realizing a reasonable return on their investments. This means that the Government's role should not stop at privatizing some public enterprises, but should at least extend to continuous follow-up and assessment of the operation of large enterprises, in order to take the appropriate steps to guarantee shareholders' interests and to provide an appropriate investment climate for members of the public.

IV. WHY PRIVATIZE?

It is not easy to simplify the general analyses made of the relationship between the requirements for growth and development and general economic, financial and monetary policies, on the one hand, and the reasons for the existence and predominance of the public sector and the need to develop the private sector, on the other, and to reduce them to a practical criterion which gives a concise answer to the question "why privatize?", and which helps to make a policy decision concerning privatization. The interrelations and contradictions between the two sides of the question cannot be summed up simply by considering the private sector and its (theoretical) efficiency in managing economic resources as a logical alternative to public enterprises which constitute a financial burden on the State and are unable to alleviate general economic and financial problems. On the other hand, the study of the expected financial and economic impact of the policy of privatization may help to lay the foundations for this policy and to answer this question.

It is generally believed in most developing countries that the effect of privatization is to curtail administrative and political intervention in the productive, economic and financial activity of the enterprise on the part of institutions and organs of government administration, and then to make the new private managers clearly responsible for making a profit, rather than striving to achieve vague general objectives which are difficult to quantify, and that this should lead to the realization of financial gains for the Governments concerned.^{1/} Such a result should help to alleviate general financial and economic problems and improve the general economic climate. Although one may expect an improvement in the financial efficiency of the enterprise after privatization through a relative reduction in production costs, its financial performance does not automatically continue to improve, but depends on many objective economic factors affecting the enterprise, even if we were to ignore for the time being the social and political considerations connected with the

^{1/} Peter Heller, Chief of the Government Expenditure Analysis Division, and Christian Schiller, an economist in the General Financial Affairs Department of the International Money Fund, in their study referred to in note (1), page 4, present extensive theoretical financial analyses of the expected financial impact of privatization. In essence, these analyses claim that the financial impact comprises the resulting net change in government revenue before and after privatization, in addition to change in net government wealth, i.e. the change in the Government's financial assets after the sale. These define the financial interactions resulting from the activities of the enterprise after privatization as the amount of net income realized from taxes and from transfers of profit and net transfers or external support for the public enterprise and the change in capital transfers and net loans from the Government.

activity of the enterprise.^{1/} Thus, there can be no improvement in production efficiency, which is usually linked to investment expansion and improved technology, without the appropriate general economic and political conditions and sufficient flexibility in general economic, financial and monetary policies to ensure free prices and competition and guarantee the free transfer of factors of production and the freeing of trade. In addition, there should be financial markets which help to strengthen competition between enterprises and prompt them to raise their efficiency.

The experience of some ESCWA countries shows that the policy of privatization faces difficulties connected with the economic stagnation and the prevailing financial problems which gave rise to this policy, as well as the unsuitability of the political climate in these countries, and other factors connected with the effects of protectionist trends at the regional and international level. It should be noted that the general economic, financial and monetary policies aimed at structural adjustment and reform in some ESCWA countries also work, if only at certain stages, in directions that are not compatible with the policy of privatization, by virtue of the general economic, financial and political circumstances.

Introducing the second half of the policy of privatization, we find that while it is objectively impossible on the one hand to isolate this policy from its socio-political content of expanding the economic interests of the private sector and granting that sector broader opportunities to participate in and influence the trends of the national economic effort, and on the other hand to ignore the social considerations connected with providing goods and services produced at reasonable prices - even if only temporarily - and similarly, employing the labour force - even if only with low productivity - nevertheless the economic thrust of the policy of privatization resides in the continuous and growing need to benefit more from national economic, material, human and financial resources through maximum mobilization and rationalization of their allocation to various uses. In other words, privatization should aim first and last to increase returns on resources used in their productive and economic activities. This well-known truth contains two implicit assumptions: the first is that the economic, financial and monetary management of the public enterprise to be sold off is unable to adapt to new economic and financial conditions, either because of its own limited capacity, due to the administrative and political restrictions imposed by high-level official bodies, because of its need for supplementary investments or modernization in order to increase its capacity to produce and compete in the prevailing market conditions, or perhaps as a result of many accumulated financial losses which

^{1/} It is well known that freeing the prices of the output of privatized enterprises can achieve great increases in profits, but such a result may not imply an improvement in the financial or productive efficiency of the enterprise. Experience shows that the private sector sometimes aims, through acquisition, to benefit from the policy of free prices and the shake-up in relative price structure by increasing profits without making any major changes in the production operations of the enterprise. This would explain the choosiness displayed by the private sector towards public enterprises offered for sale.

the Government cannot cover. The second implicit assumption is that the new economic and financial conditions in the country make it necessary to change the criteria for viability of existing public enterprises, including enterprises that enjoy a monopoly or have strategic economic or political value.

Hence the economic significance of the policy of privatization hinges on two interdependent questions which determine its chances of success. The first has to do with the existence of market conditions and competition and the ability of the private sector to assume a pioneering role in contributing to the development of the economies of the countries in question, as witnessed by the experience of some developing countries at present. The second question has to do with the nature of the objective economic and financial conditions that affect the public enterprise to be sold off and how to determine the responsibility of general economic, financial and monetary policies for sanctioning or changing them, as well as internal reasons which lead to a fall in the economic, financial, administrative and technical performance of the management of the enterprise, and the responsibility of the high-level administrative and government authorities for creating this internal weakness.

It is clear that analysing the criteria of viability of public enterprises and reappraising them in the light of new economic, financial and technological conditions can help greatly in judging the feasibility of privatizing (some) public enterprises. This task does not simply consist in agreeing to introduce "commercial profit" as the sole indicator of the viability of the enterprise. It is necessary to assess the policies at the macro-economic level in order to ensure conditions which guarantee the basic objective of the policy of privatization.

V. SUMMARY AND GENERAL RECOMMENDATIONS

Some ESCWA countries have economic characteristics similar to the main features of the developing countries in general; others are characterized by a relative abundance of resources and economic, financial, material and monetary potential. These characteristics impose different requirements for increasing economic growth and overall development in each of the countries, while necessitating in all cases the broad intervention of Governments and their institutions in the country's economic activities. In some countries of the region there is an evident scarcity of financial resources and foreign currency to increase investments and to achieve high rates of production, whereas in other countries we find a relative abundance of these resources, set against their crucial need to find wide-ranging opportunities for investment in kind which would help to restructure their economies by reducing dependence on a single production sector or source of income. Some of these countries combine financial potential with opportunities for rapid economic development, but are nevertheless unable to bring about radical economic changes that will guarantee continued economic growth and rapid development in the long term. This disparity in general economic features increases with the difference in systems of economic management for the mobilization and allocation of economic and financial resources in the countries in question, which in turn leads to a difference in the nature of the general economic, financial and monetary policies in those countries.

In spite of this disparity, the past few years have witnessed a general trend in most ESCWA countries, even if in varying degrees, towards austerity policies which on the one hand aim to cut back public spending, collect more public revenue and reduce the deficit (or boost the surplus) in the balance of payments, under conditions of a growing economic and financial burden on the State owing to the interaction of internal and other factors connected with regional and international developments. On the other hand, these policies have given rise to a desire for and a trend towards promoting the private sector and developing its contribution to economic activities, and to a reappraisal of the efficiency of public enterprises. In order to strengthen this trend, most of the Governments have taken steps to privatize (some) public enterprises, which, if continued, could constitute a clear policy contained in a package of programmes or policies of economic adjustment and reform which would have an important impact on present and future development in these countries. In the light of this experience and some of its indicators, and within the framework of the general economic and financial analyses, it is possible to propose the following:

1. The privatization of public enterprises should not be looked upon simply as the transfer of ownership of the fixed assets of a production enterprise which is owned by the State and is experiencing financial, management or technical difficulties. Nor should the justification for this privatization be merely the need to alleviate the burden of this enterprise on the Government or public institutions. Rather, it should be seen as an integral part of a package or programme of economic, financial and monetary policies and measures which aim at economic adjustment and reform in various time-frames in the light of the current and expected conditions and potential of the countries in question.

2. There is a constant need to make general economic, financial and technical reassessments of public enterprises in order to ensure an increase in their economic surpluses, i.e. production and productivity, and in their financial surpluses, i.e. profits. There is also a need to ensure that they increase their contribution to the requisite programmes of economic adjustment and reform.

3. There is a constant need to take greater advantage of the potential and capacities of the private sector in order to participate in development programmes in the medium and long term and to achieve the goals of policies of short-term economic equilibrium. In spite of the limited character of the objective framework of private sector activities, there is a clear need to make conditions conducive to the freeing of market factors in order to improve the mobilization and allocation of economic resources. Along these lines, it is necessary to abolish elements of monopoly and to take the appropriate economic, administrative, legal and institutional steps to guarantee the mobility of the various factors of production and to allow prices to be set through the free interaction of decisions of producers, consumers and investors.

4. The role of public enterprises will remain important for the desired economic and social development in all ESCWA countries given the need for radical change in the economic structure in the context of comprehensive and long-term economic and social development, and the very great importance of the general economic and financial resources owned and controlled by the State through the Government and its public institutions.

For a deeper understanding of privatization it is necessary to look at the technical details of its existing applications and to study the extent to which the economic goals have been attained. To this end it is necessary to analyse the experience of the countries in question at two levels:

The first is that of the enterprise; a review should be made of its performance indicators after the transfer of ownership to the private sector. It is necessary to compare financial, economic and technical performance indicators before and after privatization, not only in order to reassess existing public enterprises, but also to define criteria for the choice of new public enterprises.

The second level of the study should comprise a macro-economic analysis designed to ascertain the effect of privatization in improving the economic situation in the short run in terms of its actual contribution to reducing the balance-of-payments deficit or to curbing inflation, and also its effect in stimulating long-term development as well as in contributing to increased production, productivity and imports, to employment and to higher income and standards of living.

ESCWA may be of help to countries of the region that wish clarification of various aspects of their economic policies for privatization, whether this is at the level of a particular enterprise or at the macro-economic level. In addition, it should be possible to exchange views and information about the experience of other countries in this field.