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**STARTING UP A PRIVATIZATION PROGRAMME:
THE TUNISIAN CASE***

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* The views expressed in this document are those of the authors and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been formally edited.

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Introduction

The Tunisian experience clearly demonstrates that privatization can be successfully implemented by a Government and widely accepted by the public provided that the philosophical commitment is reinforced by appropriate, effective actions. This case history demonstrates the process. It covers organizational procedures, enactment of legislation, and sequential steps taken in the orderly transfer of assets to the private sector. While some aspects of Tunisia's program are unique to its particular infrastructure, many of the lessons learned can be applied to other countries embarking on ventures in privatization and divestiture.

The Will to Privatize

The grandfather of Tunisian politics, President Habib Bourguiba, first identified privatization in 1986 as crucial to the reinvigoration of the economy. Under his regime, legislation (Law No. 87-47 of August 2, 1987) was enacted that formally established conditions for restructuring public enterprises and prepared for private participation in their ownership and management. When President Ben Ali assumed office in November 1987, he appointed Mr. Hedi Baccouche as Prime Minister with a mandate to bolster the nation's economy by making it more market-responsive and less centrally planned. Thus, from concept to reality Tunisia's will to privatize was promoted and supported from the top echelons of Government.

Description of the State Directed Economy

State control of the economy is widespread in Tunisia, with almost 70 percent of the non-agricultural gross domestic product owned by the State. This figure represents 205 enterprises in which the State owned at least 50 percent. In addition, the State has minority holdings in approximately 300 other industries. Apart from utilities and other public services, the State had traditionally started up enterprises, or bought into or expropriated existing entities. Each company is supervised on an individual basis, rather than being held in a combined asset trust as is the case in many other countries. Another significant factor in the Tunisian economy is the powerful role of labor unions. Even medium-sized industries are unionized. Labor is well-organized and vocal and thus constitutes a very significant interest group.

Early Actions

Prior to the establishment of the legislative foundation for privatization in August 1987, certain introductory actions had already been undertaken.

1. Early Privatizations

In 1986 six state-owned entities were sold to private investors, and one was sold in 1987. All but one involved cash sales of government-owned hotels or restaurants to Tunisian banks or individuals. (According to the consultants' experience, the hotel/restaurant industry is an excellent starting point for first privatizations. Prospects for success are relatively predictable, local buyers are likely to be attracted, and the management of hotels is more straightforward than in other manufacturing or service entities.) The 1986 sales totaled only 7.6 million dinars (\$US8.1 million at present exchange rates). The 1987 transaction, to an individual, was more significant, accounting for 12.5 million dinars (\$US13.5 million).

2. Public Awareness Campaign

Opposition to new ideas, such as privatization, frequently causes conflict, and Tunisia was no exception to this rule. The Government recognized that there were many interest groups overtly or

potentially against privatization; and, therefore, it undertook a public awareness campaign, which was unique at the time but has since been instituted by other countries seeking to privatize. In April 1987 the first of a series of conferences was held. Its theme was "Why Privatize?" The session received extensive media publicity, and representatives of labor and other groups likely to be affected were encouraged to attend and air their views. During several days, a lively exchange of ideas took place. At the close of the conference, the Minister of Agriculture announced that privatization would proceed, taking into account the suggestions and criticisms raised during the open discussion.

Progress in 1988

1. Privatizations

In 1988 eight transactions took place, only two of which were hotels. Not all transferred majority ownership. Included in the 22.5 million dinar (\$US24.3 million) sales were two separate offerings of twelve percent and five percent of the shares in SITEX, a large government-owned textile conglomerate. These sales and partial divestiture of three industrial concerns were marketed through the Tunis Stock Exchange which, though small, is well organized and efficient. While previously negotiated private transactions showed that privatization could be effected without a stock exchange, it should be noted that the Tunisian exchange added a new dimension to the privatization program.

2. Subsequent Phases of the Public Awareness Campaign

In April 1988 another conference was held. This time the topic was "How to Privatize," and once again it generated considerable interest and participation, helping more precisely to define goals and strategies.

Later, in May 1989, a special conference was held on employee and management buyouts. This engendered great interest, especially among labor union members, whose support of and participation in the privatization program is vital to its success.

3. Decision to Seek Outside Assistance

The Government of Tunisia, like most other less developed countries initiating privatization programs, enhanced its capabilities by obtaining technical assistance from the industrial nations. Because various donor agencies, including the United States Government, were willing to finance expert consultants, the Tunisian Government negotiated a Memorandum of Understanding with the United States Agency for International Development Mission in Tunisia to obtain the services of two specialists in the field. A contract was then signed through The Scientex Corporation, a private United States firm whose Center for Privatization has successfully performed similar tasks in over 50 countries world-wide. Two long-term advisors arrived in Tunis in December 1988, and this date can be considered the starting point of Tunisia's systematic, organized privatization program.

Tunisia's Privatization Organization

Once the decision had been taken to go forward with privatization and once the enabling legislation had passed, inevitable debate over the administration of the program took place. At one point there was a move to have a privatization component within each ministry and, at another, there was a proposal for three distinct privatization commissions to be formed within the Government. First, a decision was taken to consolidate privatization in a single central authority, then there was disagreement regarding its location with both the Finance Ministry and the Central Bank under consideration. Finally, Prime Minister Baccouche personally directed that his office would have responsibility for the program, thus ending jurisdictional rivalries. (This decision to centralize privatization authority and locate it organizationally high up in the Government is thoroughly in line with current thinking and successful practice on the subject.)

The Role of the Director-General of Public Enterprises (DGEP)

The Director-General of Public Enterprises (DGEP) is the civil servant selected to be specifically responsible for the privatization program. He reports to the General Secretary of Government, a minister without portfolio named by the President who reports directly to the Prime Minister on economic and administrative matters. Responsibility was also assigned to each ministry to appoint an official to coordinate privatization ventures and report in a staff capacity to the DGEP. The long term consultants serve as advisors within the DGEP's office.

The DGEP initiates the administrative steps of privatization in classic sequence. The first task was inventorying industries in which the Government held financial interest. The usual problems of inadequate accounting records and difficulties in identifying subsidiary minority holdings were encountered. An early communication from the DGEP enclosed a questionnaire requiring each enterprise to list particulars of all its subsidiary holdings and reply within two weeks. Although 300 replies were received, many were so incomplete or inaccurate that additional investigations had to be conducted. Criteria of relative importance were developed and applied, and a greatly reduced new list was then prepared for consideration. The criteria included such factors as size of the entity, status (legal, financial, and other), significance to the national economy, and competitive or monopolistic operational environment.

1. Privatization Policy Committee

Like most countries embarking on an ambitious privatization program, Tunisia announced the formation of a policy committee composed of ministers or designated deputies. The committee sets privatization strategies, determines priorities, decides what state-owned enterprises (SOEs) are to be offered for sale, sets forth conditions of the sales, and authorizes final sales agreements. It is then up to the Director of Public Enterprises and his colleagues within individual ministries to implement actual transactions.

Tunisia's privatization policy committee has been legally constituted first by the August 1987 legislation and its role more clearly defined in legislation dated February 1, 1989. Officially named the Commission for Restructuring Public Enterprises (CAREP), it is chaired by the Prime Minister who has ultimate decision-making authority.

Parallel to the formation of CAREP, a Technical Commission for Restructuring Public Enterprises (CTAREP) was established. CTAREP reviews company profiles and prepares candidate dossiers for privatization. It is the working group that creates the foundation upon which CAREP decisions are made. The DGEP, in addition to reporting to the Prime Minister, serves as Chairman of CTAREP.

Experience in other countries confirms the effectiveness of this Tunisian organization. Policy cannot be put into effect unless it is supported by a technical group to do the homework and provide the nuts and bolts information that facilitates responsible decision-making.

2. How the Privatization Organization Functions

Implementation of the Tunisian program was more or less typical; a spurt of activity in the early days was followed by a period of limited, sporadic progress before systematic programming actually began. As has been stated, the arrival of American advisors signaled the functional inception of privatization efforts. The roles of CAREP and CTAREP, formally commissioned by the law of February 1, 1989, were defined and codified by a document prepared by the DGEP and issued by the Prime Minister on June 21, 1989. The decree describes the privatization mission of the Government, explains the selection of targets settled upon by CAREP and announced by the Prime Minister, and specifies implementation procedures.

Targets

The Prime Minister and CAREP are currently in the process of taking action on the recommendations of CTAREP and the DGEP that specified numbers of state majority-owned and partially owned enterprises be earmarked for privatization. From January through June 1989, CAREP decided 36 cases, and nine privatization transactions have been completed. The long-term advisors estimate that five more privatizations will have been completed by the close of 1989 and that some of the large, complex cases will be acted upon during the first half of 1990.

Procedures

CTAREP meets twice weekly with each session lasting between three and four hours. On average, two successful candidate companies are forwarded to CAREP per session, while others are rejected or deferred following careful review. A full dossier is prepared on each company considered. In addition, CTAREP follows up on the status of enterprises presented to CAREP on which no action has been taken.

CAREP meets approximately once a month. At each meeting the DGEP presents the CTAREP recommendations. (To satisfy protocol requirements, the presentation is officially made by the General Secretary of Government, who holds cabinet rank, while the DGEP does not.) Generally, the CAREP decision-making process takes from three to six months and may require at least one but usually not more than three comprehensive reviews.

Privatization Work Accomplished - First Half of 1989

As has been mentioned previously, 36 candidate cases were examined during the first half of 1989. Nine privatization actions ensued, and these are projected to yield 41 million dinars (\$US44 million) to the Government. Some comments on the nine privatizations follow:

- o Seven were sales of government majority ownerships. Two were sales of partial government ownership, although one of these was a third transaction (SITEX) in which majority control was relinquished.
- o Seven were private sales that followed a bidding auction. One transaction was conducted through the stock exchange.
- o Three were hotels or restaurants. The rest were industrial activities. One was a joint venture and another an employee-management buyout.
- o Three sales were of subsidiaries.
- o Several sales were for a'l cash. All sales involving credit were to Tunisians.
- o Five transactions were to Tunisian buyers. Two were to foreigners (there are no restrictions on sales to foreigners). Two were to employees.
- o Prices realized were consistently within reasonable range of the valuation placed on them and within CAREP's guidelines established on this point.
- o In two instances, the Government did not sell to the highest bidder because the latter would not agree to pledges on retaining employees.

The 36 decisions taken were as follows:

- o Four enterprises to be restructured
- o Twenty-one to be privatized
- o Four to be partially privatized
- o Five to be liquidated
- o Two to be merged with another SOE

Some of the 21 proposed privatizations contained elements other than straightforward sale. In several cases, it was recommended that some of the company assets be privatized, with the balance (or the holding company) liquidated. In others, privatization referred to sale of government shares in joint venture undertakings. In several other cases, the Government decided to divest its holdings in successive transactions. In two instances (one a stock market transaction, the other not), the final price was actually higher than had been originally targeted.

Lessons Learned

Looking back on this early history of Tunisia's privatization, we remark on concepts confirmed, progress made, and new ideas introduced. Some of the highlights of the initial Tunisian experience are presented below.

1. From the very top of the Government down, the will to privatize must be determined and consistent. Privatization must have firm support in the ministerial ranks and influential advocates elsewhere. The early support of the Central Bank was crucial in Tunisia's case.
2. Public awareness campaigns, when skillfully conceived and conducted, can overcome opposition. Thus, it is no coincidence that there has been no measurable outcry that valuations lower than book rates represent a "giving away of the national patrimony."
3. Public conferences should progress from the theoretical premises of "Why Privatize" to the action-oriented specifics of doing so as rapidly as possible. When the concept of privatization is accepted, it is necessary to move to the specifics of the practical problems that arise and deal with these expeditiously.
4. Tunisia has reaffirmed the principle that early establishment of legal groundwork and of an operational privatization organization is essential to ongoing smooth progress.
5. The most successful privatization programs are those in which privatization proceeds concurrent with general policy reform in the direction of liberalization. A favorable investment climate can only be created if entrepreneurs are convinced that economic transactions are being facilitated by the Government. Otherwise, a domestic capital pool is not activated and "flight capital" is not attracted back.

6. An important consideration for all government privatization programs is "transparency." This term refers to open public records on how transactions were developed and why they are justified. Too little transparency may mean rapid early progress, but may also lead to a later backlash of political recrimination. Too much transparency may slow down the program to a point that it risks failure. Tunisia appears to have struck an adequate balance by following a system of accepting buyout bids at public auction, then conducting the final transactions in private negotiations.

7. Tunisia has only one privatization commission, while other countries have as many as three. Establishing an effective relationship among CTAREP, the high decision-making body, CTAREP, the necessary technical review group, and the DGEP, the actual working office, took a great deal of time and effort. The constructive, cooperative interaction that followed, however, stresses the necessity of advance planning and coordination.

8. Conventional wisdom states that first privatizations be of low visibility and complexity and apply to enterprises with good prospects for success. The Tunisian case reaffirms this thinking.

9. Privatization operated under a mixed timetable that was moving forward on several fronts simultaneously. These actions were a mixture of policy matters, of setting procedures, and actually effecting the transactions. Some transactions occurred before procedures were systemized. It was only in the second quarter of 1989 when the privatization program was well underway that the Prime Minister's office officially requested that a written governmental privatization strategy be prepared.

10. The work of the long-term consultants was greatly facilitated by the harmonious working relationship between the USAID Mission in Tunis and the privatization arms of the Tunisian Government.

11. Good working relationships among donor agencies are advantageous. With regard to Tunisian affairs, USAID and the World Bank work together exceptionally well, both in Tunisia and in Washington.

12. Tunisia confirms the belief that if a promising enterprise is offered for sale at a realistic and attractive price, candidate buyers will appear. Many of the bidders, including successful bidders, were Tunisian nationals.

13. A final, overall conclusion is that Tunisia reaffirms that there is an emerging science of privatization. Although each country is unique and each has vastly different problems to overcome, there is now a framework of international experience applicable across national boundaries. Thus, we have reached a point that each country's privatization experience can be truly helpful to others embarking on the same path.