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Article

Understanding the historical processes of privatization policies in North Africa: Lessons from the cases of Algeria, Morocco and Tunisia

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Abstract: This paper provides a concise historical analysis of the political economy of privatization in Algeria, Morocco, and Tunisia from the 1980s to 2007, a period that witnessed the emergence of privatization as a primary policy tool to reform the public sector. The paper examines the influence of political history, macroeconomic considerations, and International Development Agencies (IDAs) on the early privatization processes in these North African countries. Despite shared developmental trajectories, internal and external factors had a significant impact on the outcomes of economic liberalization. The paper aims to answer the following key questions: What were the underlying political-economic factors driving privatization, and how successful was it in achieving the promised economic growth? Through a focused analysis of each country's contextual factors, privatization processes, and outcomes, the paper contributes valuable insights into the nuanced dynamics shaping privatization in developing countries.

Keywords: privatization; public sector modernization; contextual factors; Middle East; Algeria; Morocco; Tunisia

1. Introduction

This paper offers a short historical account of 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 early privatization process in these countries. Its theoretical framework is based mainly on the arguments of Pollitt (1995, 2004) and Haque (2000) that these were the three factors significantly affecting privatization policy making and implementation. Algeria, Morocco and Tunisia have experienced similar developmental, economic and, to some extent, political paths that have been pivotal in determining the outcomes of reforms of their economies. The paper focuses on privatization as one of the main pillars of these reforms and traces its evolution from the 1980s till 2007. It will answer these questions: 1) What were the underlying political and economic factors behind the implementation of the privatization process? 2) How instrumental and successful was it in achieving the promise of economic growth and efficiency?

The structure of this paper 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 and how 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, as well as 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 in determining the fate of the privatization processes in each of the three countries.

2. Theoretical frameworks

2.1. Definition and historical development of privatization

Hughes (2002) argues that privatization means many things. It could be defined as transferring publicly owned assets to the private sector, or the reduction of government involvement in general; it might refer to reductions in production and provision, subsidies, regulation, or all four elements together. Jackson and Price's (1994) definition of privatization is both more precise and comprehensive. The menu of activities that constitute the definition of privatization in their view incorporates indicators such as the sale of public assets, deregulation, opening state monopolies to greater competition, contracting out, and the private provision of public services.

Tracing the history and beginning of privatization goes back to the Roman Republic. Sobel (1999) provides an excellent study about the changing relationship between business and government and how it developed by focusing on the Roman Republic. He states that in the Empire "Publicani" (private individuals and companies) performed virtually the state's entire economic requirement. The state contracted out for "tax collection, supplying the army, providing for religious sacrifices… and construction" (Sobel, 1999, p. 21). Moreover, he states that almost all goods, both the ones contracted for by the state or by the private parties, were produced by the private sector. However, the advance of the Roman Empire resulted in an immense increase in the state's involvement in the provision of goods and services. Sobel presumes that the high costs of the Roman Empire's bureaucratic system were one of the reasons behind its weakening and ultimately its fall.

The ownership of the means of production has historically moved between the state and the private sector. Capitalism's emergence from the Tudor states sales of monopoly rights required the dismantling of these state monopolies as a first step in the creation of markets (McCullough & Shannon, 2013). During modern times, ownership of the means of production has shifted between the state and the private sector, depending on crises and prevailing political ideologies. Through the lens that these offered, circumstances could be

interpreted to prove that either the state or the private sector was not performing to the standards expected. For instance, the Great Depression of the 1930s was proof enough that capitalism was failing; the warfare states of the combatants in the Second World War required a command economy. Moreover, post-war reconstruction of the economic structure of those developed countries whose material fabric was destroyed during the war was led by the state (Megginson and Netter, 2003, p. 27). There was a significant nationalization of previously privately owned companies and essential services as markets were accused of not working well, of not providing sufficient goods of adequate quality or quantity, at reasonable prices. These wartime economies, which had been run at full capacity, all desired to retain a commitment to full employment in the post-war era (Megginson and Netter, 2003, p. 29).

The first waves of contemporary privatization emerged in the UK during the 1980s as a component of the new public management (NPM) package. These were ideas that were 'translated' and 'travelled globally' (Czarniawska & Sevón, 2005). They were quickly translated into both developed and developing countries, where they were widely adopted for the positive effects with which they were associated. It became widely believed that adopting NPM policies would both increase public sector efficiency by exposing its organizations to market forces and competition, as well creatively transforming private sector organizations and substantially enhancing the quality of products and decrease their prices. For government, it was claimed that it would reduce both government spending and Public Sector Borrowing Requirements (Hughes, 2002).

The Economist describes privatization as the "greatest exchange ever between private citizens and their governments" (Economist, 1985, p. 71). Some forms of privatization involve the sale of government owned assets to the public, whether through a share floatation, as is the case in most OECD countries that have adequate capital markets, or to existing companies "trade sales", as it is the case in developing countries, which lack reliable capital markets, capital, and technology. Privatization, in the context of this paper, stands for the sale of all or part of a government's equity in state owned enterprises (SOEs) to the private sector, or placing SOEs under private management through leases and management contracts (Vuylsteke, 1988, p. 8). The new organizations which emerge from the privatization process might be fully owned by the private sector or government could maintain a 'golden share' to retain the possibility of veto over any proposed ownership changes (Robinson, 2003, p. 45).

Privatization programs flourished in developed countries such as the UK during the 1980s and 1990s but slowed from the early 2000s as so much had already been sold. After 1990, the pace of privatization increased significantly, reaching annual revenues of $100 billion in 1996. Subsequently, governments

raised up to $140 billion each year but by early 2000, the privatization "bandwagon" started to slow down in the developed world (Megginson, 2005, p. 20). As Megginson (2005) states, this was mainly caused by the sharp decline in the value of stocks that occurred in the America's NASDAQ in March 2000. Therefore, in 2001, the revenues from privatization programs in OECD countries reached $52 billion (CHART).

In developing countries privatizations also started during the late 1980s and continued into the 21st century (Megginson, 2005, p. 17). Developing countries adoption of the privatization trend for a variety of reasons similar to those in developed countries. First, they were persuaded that their economic shortcomings were caused by inefficient state enterprises and could be improved by enhancing competition (Cook and Kirpatrick, 2003) and through introducing new managerial methods from the private sector. Second, for reducing the persistent losses incurred from underperforming state enterprises requiring considerable subsidies, privatization was a solution. Therefore, privatization was considered a means of generating revenues that would not only alleviate fiscal burdens but also increase the share of private sector involvement in the economy (Cook and Kirpatrick, 2003).

Empirical evidence suggests that privatization of ownership has had significant positive impacts on the economies of developing countries in terms of both macroeconomic as well as microeconomic performance and its general social impact (Cook and Kirpatrick, 2003). Objectives such as expanding the share of the private sector and its financial profitability have been rewarded with 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) concluded that the performance of these firms improved significantly after they were privatized. By contrast, an early World Bank study (1995) at the macro-level found that there was no significant decline of government spending as a share of GDP after privatization during the period from 1987–1991, a trend that has been maintained. In addition, the adverse impact of privatization have been frequently noted in developing countries lacking political and economic imperatives for successful privatization. In the ex-Soviet Union, state monopolies were replaced by 'gangster capitalism' (Volkov, 2016, Belokurova, 2018). Haque (2000) warned privatization would increase poverty, unemployment and inequalities.

2.2. Impact of contextual factors on privatization: Role of political dynamics, macro-economic considerations and international development agencies

Privatization, as a complex phenomenon, demands a nuanced theoretical framework that integrates political, economic, and global perspectives. The

present account synthesises rich insights from Pollitt (1995, 2004) and Haque (2000) to provide a comprehensive understanding of how political history, macroeconomic considerations, and the influence of International Development Agencies (IDAs) collectively shaped the outcomes of privatization initiatives.

Pollitt (1995, 2004) and Haque (2000) stress the centrality of political factors in privatization. Political will, ideology, and historical legacies become crucial determinants. The trajectory of privatization in any context is deeply intertwined with the political history of a nation. Political decisions, driven by ideologies and historical narratives, significantly influence the direction, pace, and success of privatization initiatives (Alford, 1993). In countries with a legacy of socialism or state-led economic models, the transition towards privatization may face resistance or challenges due to entrenched political ideologies or be captured by apparatchiks becoming oligarchs (Markus & Charnysh, 2017, Puglisi, 2003). In regions with a more liberal economic history, privatization might be embraced by the populace with greater enthusiasm (Maxim et al., 1996). The political lens proposed by Pollitt allows for a nuanced analysis of how the political landscape shapes the course of privatization.

Pollitt (2004) and Haque (2000) also incorporate economic rationality into the analysis. The economic considerations include cost-benefit analyses, aligning privatization objectives with broader economic goals and rational decision-making. This lens provides a deeper understanding of how macroeconomic factors contribute to the success or failure of privatization initiatives. Economic stability, fiscal policies, and the overall health of national economies become crucial determinants (Gong et al., 2022). For instance, during economic downturns, the urgency of demands for privatization may intensify as governments seek to alleviate fiscal pressures. Conversely, in times of economic prosperity, the rationale for privatization may shift towards strategic goals rather than immediate fiscal needs. Pollitt's lens prompts an exploration of the intricate interplay between macroeconomic variables and privatization decisions.

Haque (2000) extends the analysis beyond national borders, introducing the critical role of IDAs in shaping privatization policies. The external influence, conditions, and conditionalities set by these agencies become central components. This perspective broadens the scope, emphasizing the global economic forces that impact privatization trajectories. IDAs not only provide financial support but also contribute to policy advice and technical expertise. Haque's framework encourages a critical assessment of the conditions attached to external support and their compatibility with national objectives. This lens offers insights into how global economic trends, international market conditions, and the advice of external actors shape the feasibility and success of privatization.

The synergy between Pollitt's and Haque's arguments creates a powerful analytical tool for examining privatization. The political, economic, and institutional considerations highlighted by Pollitt interact seamlessly with the external influences, conditions, and global economic forces outlined by Haque. This synthesis allows for a holistic analysis that captures the complexities of privatization, recognizing the intricate interplay between domestic political contexts, economic rationality, and the global landscape. The synthesis of Pollitt (1995, 2004) and Haque (2000) offers a robust theoretical framework for unraveling the dynamics of privatization. This integrated approach provides a nuanced understanding of how political history, macroeconomic considerations, and the influence of IDAs collectively shape the outcomes of privatization initiatives. As scholars and policymakers navigate the evolving landscape of privatization, this theoretical foundation offers a macro-level lens to inform research, analysis, and decision-making processes and understand the mechanisms that affect outcomes of privatization programs.

2.3. Balancing the objectives and outcomes of privatization programs

The theoretical foundation for understanding privatization is enriched by the synthesis of various perspectives, as we have argued. Hearn (2014) expands our understanding of privatization's institutional impact, specifically examining the expropriation of private benefits of control in North Africa. Kay and Thompson (1986) critically evaluated the rationale behind privatization, questioning its policy foundations and stimulating a thoughtful reflection on the motivations driving this economic strategy. More recently, Gong et al. (2022) contributed a contemporary dimension by exploring the impact of fiscal pressure on public-private partnership investments in Chinese cities, providing valuable insights into the economic considerations influencing privatization initiatives. Together, these works form a multifaceted theoretical framework that enhances our grasp of privatization dynamics, considering economic, institutional, and policy dimensions (Kay and Thompson, 1986).

The theoretical framework proposed by Boycko et al., (1996) provides an insightful lens for dissecting the intricate dynamics of privatized statutory bodies. Boycko, et al., (1996), in their seminal work "A Theory of Privatisation," offer a comprehensive analytical model that investigates the dynamics of privatization, emphasizing the role of government subsidy and the intricate interplay between political and managerial objectives (Breen and Doyle, 2013). Their analytical economic model, focusing on entities subject to shareholding by both politicians and managers, offers a nuanced understanding of decision-making processes, particularly in the realm of employment decisions. The essence of Boycko et al.'s theoretical framework lies in recognizing and navigating the dual stakeholder nature inherent in privatized statutory bodies (Boycko et al., 1995). On the one hand, politicians are driven by public policy

objectives, aiming to fulfill societal needs, such as full employment (Breen and Doyle, 2013). On the other hand, managers are motivated by the imperative to maximize shareholder wealth. This dual framework sets the stage for a complex negotiation of objectives, in which decisions must strike a delicate balance between often conflicting objectives to achieve optimal outcomes (Bachiller, 2017).

Boycko et al., (1995) model employment decisions in terms of two distinct states: high and low employment. The high employment state aligns with public policy goals, intending to achieve full employment for societal welfare. In contrast, the low employment state satisfies the manager's goal of maximizing shareholder wealth, possibly at the expense of public policy objectives. The modelling provides a structured understanding of the tensions that can pervade managerial decision-making within privatized entities. A level of government subsidy is a necessary incentive to induce managers to choose the high employment state (Cragg and Dyck, 2003). In the absence of such subsidy, managers' decisions may prioritize shareholder wealth maximization over public policy goals (Kay and Thompson, 1986). Subsidization by government emerges as a strategic lever, influencing the decision-making landscape and potentially reconciling the conflicting objectives of both stakeholders (Estrin and Pelletier, 2018). State actions frame managerial choices within privatized entities (Boycko et al., 1995).

3. How contextual factors shaped privatization experiences in the three countries

3.1. Why these three countries in particular?

Algeria, Morocco and Tunisia are challenging as cases for cross-country analysis. Although they have several important characteristics in common, the outcomes of privatization reforms 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 of North Africa, and the more recent French colonization from the early 1900s till 1956 when Morocco and Tunisia gained their independence, while Algeria only gained it in 1962 after a war of national liberation. However, these countries' independence did not translate into real liberation so much as allowing the apparatus of power to be transferred from the hands of colonial forces to local regimes that prevented the countries from establishing modern models of democracies. The three countries have Islam as their official religion and are a mixture of both majority Arab and minority indigenous *Amazigh* populations.

As a result of their history as colonial subjects these nations 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 still consider Europe their primary trade partner even post-colonially. They depend on the export of raw materials and agricultural products as well as light manufacturing for export, providing valuable sources of foreign currency.

3.2. Privatization in Algeria

Algeria's political history differs significantly from its two North African neighbors. The country was colonized by the French for 150 years, far longer than 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 violent confrontations between Algerian liberation fighters and the French army (Chourou, 2002).

When the war with France ended and the country gained independence in 1962, there were very few civilian politicians in the country. The dominant institution was the army. There were only two political institutions: the Front de Liberation National (FLN) and the Provisional Government of the Algerian Republic (PGAR). Both were formed in 1985 and comprised members of the National Liberation Army. The members of each institution were in disagreement about who should run the country and conflicts occurred between them. FLN, under the leadership of Ben Bella, managed to rule the country for only 2 years before it was overthrown by Boumediene, who was then the Minister of Defense (Chourou, 2002). For 30 years, a one-party state held firm control over the population till 1988, when violent demonstrations occurred, which succeeded in breaking the tradition of the one-party state and several political parties were founded. Subsequent political instability and the absence of rule of law made the country the most fragmented in North Africa. In this context, the army in Algeria remained the dominant institution. The different aspirations and interests of its generals constituted the kernel of government, simply because this institution was the ultimate power and main decision-making mechanism in a state of imperfect pluralism (Cavatorta, 2001).

Since independence, the Algerian economy went through various stages of formation; each stage differing from the other, with repercussions that shaped the national economy. 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. The aim was to prepare the country so that it could manage its economic interests. Neither the regime nor the policy lasted for long. Boumediene initiated a military coup in 1965, overthrowing the

regime of Ben Bella, ending his short-lived economic policy, to replace it with a socialist or rather, statist, policy (Ayubi, 1995) focused on establishing large state enterprises and investing heavily in the public sector. A significant role for the private sector was not allowed in a model of "Algerian socialism" or "Algerian social-statism" (Boukaraoun, 1991).

In 1967, as in many other natural resource-based economies, the nationalization of foreign oil companies, led to a long-lasting reliance on the public sector. The private sector, often seen politically through a post-colonial lens (Maamri, 2015; Tlemcani and Hansen, 1989), became regarded as a scapegoat for the ills of the Algerian economy. Until the country run into major economic turbulence, which left the government with no choice but to liberalize, this remained the dominant ideology (Abercrombie et al., 1980). The predominance of oil revenues and the availability of foreign lending to the state maintained the dominance of the publically owned sector into the late 1960s despite the lack of either domestic private capital, a culture that promoted entrepreneurialism or of coherent national economic policies to guide the development process. As a result, the share of the private sector only constituted about 11 percent in of the national economy 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 suffered from the dominance of the public sector, especially in terms of misdirected public investments undertaken in the 1970s when the country benefited from a sharp rise in oil revenues because of OPEC's policies. The reversal of oil and gas prices in 1986 exacerbated the situation. The state-owned industrial sector remained a heavy burden for the government because of its low productivity and lack of competitiveness. The economic reforms embarked on since the late 1980s (Joffe, 2002) created inflationary difficulties for the private sector. 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). The daily lives of Algerians were negatively affected as imports of food supplies, which were largely imported, shrank substantially, causing inflation to rise on average by 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 purchasing power fell by 20 percent between 1989 and 1995. By 1998, 40 percent of the population was living beneath the poverty line (Joffe, 2002). It was in the context of this unstable political and economic atmosphere that privatization was imposed on the country in the early 1980s by the IMF. Cutting public expenditure became the standard IMF monetarist policy for

rescuing a country from financial crisis; for instance, the UK's fiscal crisis of 1976 had been the harbinger of the privatizations that the Thatcher government launched in the 1980s. Mimetically, international policy agencies, such as the IMF, promoted the efficiency and accountability of state-owned companies once they become privatized (Addi, 2006) and this policy was urged on Alegria.

Algeria commenced implementing economic liberalization by encouraging the private sector, applying severe austerity programs and launching privatization programs (Boukaraoun, 1991). The main objectives behind the privatization process as they were outlined in the 1982 Domestic Private Investment Act were: 1) employment creation, 2) 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). These plans for economic liberalization were characterized by fragmentation created by strong divisions within the ruling political elites (Dillman, 2002). The privatization process was marked by confusion and arbitrariness (Dillman, 1998), hindered by legislative and administrative confusion as well as strong resistance from the ruling class and civil society. Conflicts emerged between ministries such as 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 opposed privatization, which explains the delays in privatization laws being enacted. Outside the hydrocarbon and public service sectors only one of the political parties was pro-privatization, the Modernist Islamist Party (MSP), which was backed by some small entrepreneurs and businessmen with Islamist "leanings" (Werenfels, 2002). Resistance also came from public sector managers who united in the National Union of Public Entrepreneurs (UNEP) to oppose privatization (Dahmani 1999, as cited in Werenfels, 2002). In 2003, ivil society pressures 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) argues, the only players that seemed to be pushing the process of privatization without hesitation were external institutions such as the IMF, the World Bank and the Club de Paris.

The first privatization law was passed in 1995, in which a few companies in the tourist sector underwent divestiture. Four joint ventures with foreign companies were created, resulting 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 on to the labor market, intensifying the economic crisis of the country. Joffe (2002) argues that the way in which privatization was carried out created an oligopoly in which businessmen close to the army were the main beneficiaries. Foreign investors were discouraged from buying shares bcause to do so involved bribing officials who controlled the decision-making process. Elites in the army and elsewhere that did not want to lose state sector rents blocked privatization planning.

From 2000 to 2007, Algeria managed to earn only $1.5 billion dollars from privatizing its state-owned companies (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. 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.

3.3. 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 reveals a different reality. The King, as the head of the state and the Supreme Representative of the Nation, appoints and can dismiss Cabinet members, as well as the Prime Minister, and has the authority to dissolve the legislature as he wishes. The government consists of a bicameral Parliament with a lower house and Chamber of Representatives along with a Chamber of Advisors. All major decisions are made by the King and the Government approves 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 monopolize brokering relations between all the interest groups. Hence, the monarchy is "an institution above the constitution", a hallmark of authoritarianism (Desrues and Moyano, 2001).

The French Protectorate established Morocco's public portfolio during 1912 to 1956 to establish ownership and control of natural resources and to provide a social and institutional infrastructure for French settlers (Saulniers, 1993a). After independence in 1956, Morocco retained a market economy (Maghraoui, 2002). Owen (1992) argues that Morocco never adopted a fully state-dominated developmental paradigm. The private sector continued to flourish on the bounty of natural resources. Fertile agricultural land, significant phosphate and mineral reserves, as well as fisheries, were major sources of income. Morocco undertook numerous and significant structural reforms since

1980s of the financial sector, trade, the fiscal sphere, infrastructure and the stock exchange (Ben Ali and Cherkaoui, 2007).

Phosphates were central to Morocco's export-led economy. During the 1970s, Morocco was the world's leading exporter of phosphates, accounting for almost 30 percent of total exports (Saulniers, 1993b). Phosphate prices increased by 41 percent in the period 1973–1977 massively increasing the ntional income, encouraging the government to invest more in public enterprises. However, phosphate prices dropped precipitously in 1978, leading to a sharp economic recession. The repercussions were devastating. By fiscal years 1983 and 1984 investment as a percentage of GDP had fallen from 25 percent to 20 percent (Pfeifer, 1999). The response was to raise taxes, reduce government spending and curtail imports. Unemployment increased significantly while economic growth and living standards fell and state investment in the public sector did not result in the projected manufacturing jobs (Pfeifer, 1999). Morocco had to seek further IMF and World Bank support.

Nine interventions were made by the IMF between 1980 and 1993, six official debt rescheduling operations were mandated by Club de Paris, while three commercial debt rescheduling operations were organized through the London Committee. Only in the early 2000s did external debt start to diminish (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 to 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 reforms were presented as being carefully considered in regard of their processes and likely effects as part of a longer term strategy. The King's speech demonstrated strong national political will. The strategy planned first, to generate income to reduce government's debt and fiscal deficit; second it planned to create a vibrant private sector and foster employment. It would do this by attracting foreign investment and reducing inequality in the distribution of wealth as well as by empower new socio-economic entrepreneurship within Morocco (Khosrowshahi, 1997).

The King's seering saw the Moroccan Parliament authorize privatization

on 11 December 1989 and the privatization law, providing the framework for the program, established a Ministry of Privatization. Its role was to facilitate the privatization process and insure transparency of privatization while securing cash flows to the government budget (Khosrowshahi, 1997). In July 1991, the King proclaimed the Valuation Authority to oversee the propriety of the evaluation process and set prices for privatizations on the basis of independent evaluations (Slaunders, 1993b). In September 1991, the King established the Inter-ministerial Transfer Commission, completing the establishment of the privatization structure (Slaunders, 1993b).

The privatization process was faster and deeper in Morocco than in Algeria. From 1993 to 2005, Morocco accumulated more than $6.3 billion, with the "bulk of privatization" being achieved after 2000, producing 78 percent of revenues from the privatization program (Naceur et al., 2007). Between 2000 and 2007 different sectors, ranging from telecommunication, infrastructure to finance, were privatized. The Moroccan government transferred 35 percent of the capital of Maroc Telecom to Vivendi Universal in 2000 for $2.1 billion, a large success by international standards (Privatization data base, 2011). In 2004, 14.9 percent of the capital of Maroc Telecom sold on the Stock Exchange for $800 million, followed by a subsequent sale of 16 percent to Vivendi Universal for $1.2 billion (Privatization data base, 2011).

Elite cliques and cabals are never far from profitable transactions in the Arab world, as elsewhere in states that underwent rapid privatization. The Fassi elite traditionally held strong connections with the Alaouit royal family (Joffe, 2009; Khosrowshahi, 1997) and several state-owned companies were acquired by them. As Hibou (2005) argues, the privatization process in Morocco did not pose any challenge to the *Makhzan* elite. On the contrary, privatization served their interests and strengthened the ties between the monarchy and related 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." (Hibou, 2005, p, 87). Implementation of the privatization program was appropriated by specific elite groups. The socio-economic objectives that were announced at the outset of the process turned out to be largely for popular political consumption (Najem, 2001).

3.4. Privatization in Tunisia

Since gaining independence in 1956, President Bourguiba, a key figure in national liberation, ruled 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). 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 initially showed determination to transform Tunisia into a democratic country, yet his regime gradually became more repressive than that overthrown, a source of grave disappointment to most Tunisians as well as the international community. In 1994 opposition parties entered the Parliament for the first time since the country's independence, the result of a Presidential decision to allocate 20 percent of the seats to the "opposition" in an empty ceremonial ritual of politics as real power emanated from the Presidency.

The highly centralized form of the Tunisian polity shaped macro-economic orientations, policies and direction. In 1956 Tunisia embarked on a process of decolonization and transfer of French private companies to the state (Saghir, 1993; Ayubi, 1995). The government acquired infrastructure including including transportation, ports, telecommunications and banking. The state assumed a dominant role in the economy by transforming colonial acquisitions to the public sector in an interventionist policy known as *"dirigisme planifié*" in which the private sector was confined to small scale services (Al-Mahjub 1989, as stated in Ayubi 1995). Under Bourgeba, the state owned and controlled phosphates and hydrocarbons, finance and banking and invested in tourism, textiles and even agriculture (Saghir, 1993; Pfeifer, 1999).

Tunisia entered a phase of crisis similar to its neighbors (Pfeifer, 1999). One of the main factors behind this declining performance from 1977 to 1981 was the inefficiency of the public sector, resulting in significant losses reaching 20 percent of government outlays (Grissa, 1991). A poor agricultural season in 1986 and a sharp decline in tourism added more pressure to an ailing economy, compounded by the adverse effects of Western European recession on Tunisia's exports, deepened by high interest rates for borrowing from international financial markets and financial institutions. The prices of oil and phosphate declined sharply ata time when petroleum was a major source of export earnings.

The ailing economy and the increasing budget deficit and external debt forced the government to change economic policies and accept tutelage through a standby agreement in 1986 from the IMF and then from the World Bank through a structural adjustment program. The remedies were monetarist prescriptions: reducing public expenditures in order to curtail the budget deficit, the gradual removal of trade barriers and the 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.

According to Pfeifer (1999), the structural adjustment programs led to three significant changes in the Tunisian economic model: 1) an unequal distribution of costs and benefits, 2) Tunisian access to external finance and 3), higher exposure of the Tunisian economy to the systems of international trade

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. At that time viable alternatives were unavailable and the situation would 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 budgets. The privatization program was initially decentralized but in its later years became more centralized. 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 privatization and 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, 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 in buying shares in privatized companies and that their rights would be protected in case they were made redundant. By 1989, out of the 7,509 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), determined by length service and ranging from one to three month's salary for each twelve months served in the public sector. However, only 103 employees 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 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). Tunisia had a weak entrepreneurial community and a culture where the independent private sector lacked financial capacity and a significant role in the national economy. Not surprisingly, in 1987, several privatized companies went bankrupt or were shut down due to their incapability to survive in the new business environment in which the public sector no longer provided subsidies (Ayubi, 1999; Saghir, 1993). Lack of skilled managerial staff who was a major factor in the failings of the privatization program; administrators of subsidized bureaucracy were not easily transformed into able managers. Tunisia had the smallest stock exchange market in the region, preventing systematic and successful transfer of shares from public ownership to private investors and stakeholders. Another obstacle was the patronage that had existed under which the "state bourgeoisie" avoided market risks, preferring to profit from opportunities provided by publicly owned companies. According to a Price Waterhouse report (1989), Tunisian business owners were not risk takers and strongly preferred dealing with extended family members or business associates and did not invest with strangers, a major barrier in strengthening the role of private sector entities. **Table 1** provides a summary of the three cases.

Table 1. Impact of contextual factors on privatization experiences of each country.

Contextual factors	Algeria	Morocco	Tunisia
Political History	Colonized by the French for 150 years, violent nationalist struggle secured independence in 1962.	Post-French Protectorate status, gained independence in 1956.	Ruled by Bourguiba, later Bin Ali, until the 2011 uprising.
Political Structure	FLN and PGAR initially; later political instability; army's dominance.	Constitutional monarchy; King's influence over decision-making.	Centralized governance under Bourguiba and later Bin Ali.
Economic Policies	Ben Bella's self-management; later socialist policies; state-controlled sectors.	Had a historic private sector; enjoyed a phosphate boom; shifted to market economy.	Interventionist policy; state control of key sectors; "dirigisme planifié."
Privatization Objectives	Introduced in the early 1980s by the IMF; aimed at rescuing the country from financial crisis; enhancing efficiency and accountability.	Introduced by King Hassan II; modernize the economy; regional development; attract foreign investment.	Part of IMF and World Bank-supported structural adjustment; reduce government debt and fiscal deficit; create private sector opportunities.
Privatization Drivers	Economic troubles, IMF-imposed liberalization in the 1980s.	Economic difficulties post-phosphate boom; King Hassan II's role.	Economic crisis, IMF support, structural adjustments in the 1980s.
Social and Economic Objectives	Encourage the private sector; employment creation; enlarge national productive initiatives; regional development.	Generate income; foster employment; attract foreign investment; reduce wealth inequality.	Enhance efficiency, profitability, and productivity; alleviate burden on government budget; protect employee rights.
Government Involvement	Legislative and administrative confusion; resistance within the Parliament; external institutions such as the IMF and World Bank pushed for privatization.	King Hassan II actively supported privatization; establishment of institutions for oversight; centralized approach.	Centralized privatization under the Ministry of Planning and Regional Development; role of labor unions.

Table 1. (*Continued*).

Contextual factors	Algeria	Morocco	Tunisia
Privatization Approach	Confusion and arbitrariness; conflicts between ministries; lack of clear rules; legislative and administrative challenges.	King's speech emphasized careful planning; establishment of institutions; gradual and systematic approach.	Initially decentralized approach with three commissions; later centralized under the Ministry of Planning.
Privatization Challenges	Resistance from political elite, civil society, and labor unions; legislative and administrative confusion; slow implementation.	Political and social impact; involvement of domestic elite; criticism of the process.	Resistance from labor unions; weak entrepreneurial community; lack of skilled staff; small stock exchange market.
Results and Impact	Slow implementation; conflicts between ministries; limited success; external pressures from IMF.	Faster and deeper privatization; significant proceeds; involvement of domestic elite; varied impact across sectors.	Limited success; obstacles included weak entrepreneurial community, lack of skilled staff, and small stock exchange market.
Impact on employment and jobs	Significant job losses; 180,000 people laid off by 1998; intensified economic crisis.	Job impact varied across sectors; some success in preserving jobs; overall impact on employment.	Efforts to protect employees; priority to buy shares; some laid off; impact on the labor force.
Revenue from Privatization	Limited revenue; Algeria earned only $1.5 billion from 2000 to 2007.	Substantial revenue; Morocco accumulated more than $6.3 billion from 1993 to 2005.	Tunisia made around $134 million from 1987 to 1994; varied success in later years.

Source: Developed by the authors.

4. Discussion and lessons learned

The main questions to consider are whether the Maghreb region was 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. We have analyzed the historical 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 is not whether 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 was primarily contingent on the availability of political will, processes and careful implementation and auditing of the whole process.

At the time of introducing privatization in Algeria, the political spectrum was characterized by fragmentation, instability, conflicts and constant disruptions. Many influential figures and vested interests in decision-making process, ranging from the military, to the state and civil service, had specific agenda and priorities. When privatization was pushed by the IMF and the World Bank, 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

economic rents gained from public companies. The absence of strong political leadership hindered the process of privatization in the country. Public officers in Algeria and army generals had a high stake in the rents derived from oil and gas revenues. Privatization threatened these substantial incomes and profits. As Werenfels (2002) argues, there are three main reasons why Algeria did not acquire the "prerequisites" for a successful privatization program: 1) It is governed by "military clans" whose interests were dominant and had kept public sector organizations from being efficient. The legacy was bad for privatization. 2) Privatization posed a threat to government and military officials benefitting from the distribution of rents from imports and oil revenues. 3) The embedded ideology of etatism in the country meant difficulties in abruptly introducing a new economic model.

In Morocco, political history centered on the authoritative rule of the King's centralized use of power, ensuring substantial political stability in the region. Centralized and authoritarian rule enabled the implementation of fast and deep privatization. However, it also ensured that despite the substantial financial gains of the privatization process, its beneficial outcomes ended uop disproportionately in the accounts of Palace elites rather than benefiting the overall population of Morocco. The program did not contribute much to empowering the middle class and giving them equal opportunities and gains from the program. Belev (2001, p. 98) formulate the following proposition: "The greater the presence of the central government in the formulation, adoption and implementation of the privatization programme and the smaller the scope of involvement of the other relevant actors, then the less likelihood that these actors would be able to push the process in the direction of their own particularistic interest rather than toward the goals of the reform minded government." He saw this as a general rule that applied to the majority of middle-income countries considered nondemocratic. Local elites were well aware that they were unlikely to benefit from public sector reform.

Belev's (2001) argument stresses the role of political leadership in securing a smooth and undisturbed implementation process of privatization. Its absence was evident in Algeria where the fragmentation of the government and the clashing interests of the various players led to an unsatisfactory privatization process. Morocco had the advantage of a highly centralized role monarchy unifying the interests of different political parties and able to impose his political will. Similarly, privatization in Tunisia was steered by the President and government, while the business environment was largely unable to operate without public sector subsidies. None of these countries can be considered as a story of a successful privatization program. **Table 2** below summarizes the forces that were for and against privatization in each of the three countries.

Table 2. Forces for and against privatization in Algeria, Morocco and Tunisia.

	Morocco	Algeria	Tunisia
Forces for change	• Relatively stable political history. • Strong political leadership embodied in the person of the King. • Stable political parties. • Suitable economic landscape which facilitated the implementation of privatization without significant reductions of stuff and increase in unemployment. • The choice of adopting privatization was supported by the King. • Clear objectives and reasonable expectations from the reform. • Well planned administrative and legislative background to secure the coherent implementation of the reform. • Less intrusion from IDAs which allowed flexibility in implementing privatization. • Less levels of corruption compared to other two countries.	• One political party was for the implementation of privatization: the Modernist Islamist Party (MSP) • IDAs were pushing for the privatization process. • Algerian regime pushed for it to satisfy the requirements and conditionality of IMF and the World Bank.	• Centralized political system. • Strong political leadership under Bin Ali and commitment from the government. • Well-planned and implemented. • Administrative and legal frameworks • Privatization was steered by central government.
Forces against change	• Opposition from the Ministry of Finance against the Privatization Bonds which it regarded as its responsibility not that of the Ministry of Privatization.	• Political history characterized by violence and instability. • very weak political leadership as the country is controlled mostly by the army generals. • Divided and conflicting political parties. • chaotic macroeconomic conditions upon the time of implementation. • Change was enforced by external players like the IMF and WB. • Unclear and unreliable administrative and legislative bases. • Severe conflicts among ministries over who holds responsibility over what in implementing the reform. • All the political parties except one were against the reform. • Civil society and labor unions strongly opposed it. • The military and elite families opposed privatization in fear of losing rent incomes. • Privatization came abruptly and resulted in substantial job losses. • Abrupt shift from socialist to liberal economic models.	• Difficulties in modernizing the • Fiscal system. • Privatization was suggested and • Imposed by IDAs. • Strong opposition from labor • Unions, public sector managers. • Tolerance for tax evasion. • Importance of family business and • Dominance of elite in the economy. • The country did not have mature. • Liberal economic orientation. • Lack of knowledge and expertise.

Source: Developed by the authors.

The three countries were headed by leaders strongly tied to elite families whose vested interests prevailed over those of the larger society. Privatization was exogenously initiated by IDAs. Its main objective as it was translated locally was to sell assets rather than ensuring that the transition from the public to private sector was monitored and orderly. The IDAs lacked familiarity with the complexity of the social and economic landscapes of these countries. Their prescriptions of cutting public spending and transferring assets to the private sector were generic rather than specifically tailored to local circumstances. There was little oversight of the process to ascertain that transparency, equal opportunities and the benefits of privatization were widely shared, which was not the case with Morocco and Algeria.

The main lesson from the experience of privatization in the Maghreb is that before embarking on privatization, it is imperative to examine existing contextual factors. Understanding the context, its strengths and weaknesses would at least make policy makers aware of the challenges of implementing a novel policy. As Pollitt (2004) states, with privatization, "...countries start from different places with different capacities and implement changes that may not suit their contextual setting" (p 8).

Applying Boycko et al.'s (1996) theoretical framework to the cases of Morocco, Algeria, and Tunisia involved examining the privatization dynamics within each country through the lens of dual stakeholder interests, employment decision modelling, and the potential impact of government subsidization. For example, in Morocco, the dual stakeholder framework is evident. Politicians aimed to implement public policy objectives aligned with the King's vision for economic development, while managers of privatized entities prioritize efficiency and profitability. Similarly, in Algeria, the government's push for economic diversification involved dual consideration of public policy objectives and economic efficiency, with managers seeking to navigate these dual goals. Tunisia, with its commitment to economic liberalization, exhibited a dual stakeholder framework in which political leaders pursued economic growth, while managers focused on optimizing shareholder value. Morocco's pursuit of public policy objectives in the privatization process is reflected in decisions aimed at creating employment opportunities and fostering inclusive growth. In Algeria, where the government sought to balance economic efficiency with social welfare, employment decisions were influenced by the tension between these objectives. In Tunisia, the employment modelling reflected efforts to harmonize public policy goals and shareholder interests through strategic privatization choices. Government subsidies had always played a critical role in shaping managerial decisions within what became privatized entities in these North African countries; hence, the managers were more administrators and bureaucrats rather than risk-takers. In Morocco, where the government provided subsidies to encourage employment generation,

managers ended up with inefficient over-staffing of the entities to be privatized. In Algeria, government subsidy was a strategic tool aligning managerial decisions with public policy, distorting economic efficiency. Tunisia, with its focus on economic liberalization, employed subsidies selectively to achieve joint objectives.

5. Conclusion

In conclusion, the incorporation of Boycko et al.'s (1996) theoretical framework with insights from Pollitt (1995, 2004) and Haque (2000) provided a comprehensive lens for examining the intricacies of privatization within the historical contextual nuances of Morocco, Algeria, and Tunisia. The dual stakeholder framework, as illuminated by Boycko et al., accentuated the delicate balance between political leaders' pursuit of public policy goals and privatized managers' aspirations for shareholder wealth maximization.

Before implementing any reform instrument, it is imperative to examine its conformity with the existing contextual factors of any given country. 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. As Pollitt and Summa argue reforms are mainly determined by the "characteristics of the political and administrative systems in place" (Pollitt and Summa 1997, p. 14). Accordingly, it is not surprising that privatization succeeded relatively well in Morocco and failed in Algeria. In Tunisia, strong political support existed, but the country lacked expertise and preconditions for liberal economic foundation.

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