Privatization in Tunisia

Jamal Saghir
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ABSTRACT

This paper is an attempt to provide a comprehensive overview of the privatization experience in Tunisia to date, focusing upon the respective roles of the public and private sectors, the relationship between them, and how this has changed over time.

First, a historical background is presented to give perspective on the rationale for and the specific difficulties encountered in privatization in Tunisia. Issues discussed include key factors accounting for the growth of public sector enterprises which took place during the 1960s and 1970s, the country's overall economic performance and problems, the debt crisis and decline in the terms of trade during the 1980s, and the need for structural adjustment of the Tunisian economy.

Tunisia's current account deficit reached 109% of GDP in 1984 while agriculture declined from 22% of GDP in 1965 to 14% in 1989. To set the stage for renewed growth, the Government of Tunisia embarked on a major economic structural adjustment program in 1986. In this context, reducing the role of the public sector became a specific government objective. This paper details how this was accomplished through a multi-phased program for economic and social development. Specific objectives of the deficit reduction program are noted, as well as the government's strategies for achieving them, including restructuring and privatizing the public sector.

To create an environment in which substantial reforms could be introduced, legal and organizational changes were necessary. The paper discusses the relevant laws passed by the Government of Tunisia in support of the privatization effort, demonstrating the vital role that the government played in promoting the transition from public to private ownership. Law 89-9 created a privatization commission under the leadership of the Prime Minister, giving it clear direction as to its role and responsibilities, and providing an efficient organizational vehicle to implement the privatization program.

The process of privatization in Tunisia is a complex one, involving eight steps which are discussed in the report. The Government's success in implementing these steps has been evaluated. Detailed analyses are presented on such aspects as current status, costs of restructuring, marketing campaign, sales process, labor issues, broadening ownership participation, incentives, and use of privatization proceeds.

So far, privatization has taken place on a case by case basis and covered only small and medium-size enterprises. To deepen the program, the government will need to draw up and publish a comprehensive annual privatization plan. This is essential, considering several key constraints confronting the privatization program: private sector attitudes, concentration of capital, taxation and labor issues, and capital market development. Each of these constraints is examined in detail.

Finally, the paper examines the major factors affecting the success of the privatization process in Tunisia and identifies lessons that can be applied to other countries. Paramount among these is the sustained commitment to privatization at the highest levels of government that was undertaken in Tunisia. Although Tunisia has successfully achieved the privatization of small and medium enterprises, this program will now have to tackle large enterprises and the utilities sector whose privatizations pose more complex problems.
ACKNOWLEDGMENTS

The author gratefully acknowledges comments and suggestions received from the following staff at the World Bank Group: Messrs. Sven Kjellstrom, John Nellis, Robert Taylor, and Fares Zaki; and Mmes. Antoinette Burnham and Paula Donavan.
FOREWORD

As a central department, one of CFS' most important functions is to act as a clearinghouse on worldwide experiences in the areas of privatization and private sector finance and development. CFS Management has therefore undertaken this Discussion Paper Series to provide a forum for Bank staff to present their recent study findings and operational work in these areas. The series will disseminate such information across the Bank as quickly as possible, assuring that staff who are engaged in similar tasks can benefit from these lessons learned.

Because the topics under consideration are relatively new both for the Bank and for our member countries, CFS management believes that it is important to build up an inventory of best practice case studies and to share this information as widely as possible within the Bank. Current topics in privatization and private sector development address the increase in private sector participation in sectors that were once reserved exclusively for state ownership throughout the developing world—such as power, telecommunications and other infrastructure concerns. Bank staff are engaged in facilitating this transition, which involves a host of complex regulatory and financial issues. The sharing of country and sectoral experiences through tools such as the CFS Discussion Paper Series will be critical for building up skills to accomplish these complex tasks.

All Bank staff are encouraged to submit appropriate material to the Managing Editor for the CFS Discussion Paper Series.

Shyamadas Banerji
Managing Editor,
CFS Discussion Paper Series

Inder Sud
Director,
CFS
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Chapter One

Introduction

After several years of steady progress, the Tunisian Privatization Program (TPP) has moved into a new phase. First begun under President Habib Bourguiba in 1987, the restructuring and privatization of the public enterprise (PE) sector in Tunisia has benefited from support at the highest echelons of government, continuing into the Ben Ali Presidency. The first phase of the TPP was characterized by small- and medium-sized divestitures of enterprises in the tradable sector. The target audience was mainly Tunisian investors. The second phase of the TPP will involve larger and more complex transactions, which will test public support in the face of such factors as increased unemployment and the public’s willingness to invest in a growing private sector.

The government of Tunisia (GOT) will privatize larger and healthier PEs through a variety of tools developed in the course of the first phase of the public sector reform program. These tools include employee stock ownership plans (ESOPs), employee-management buy-outs (EMBOs), private placement, and the sale of shares on the still-emerging Tunis Stock Exchange (Bourse des Valeurs Mobilières de Tunis or TSE). TSE sales are designed to replace private sales of assets to single owners or families, which characterized the first years of the TPP. Second phase transactions will be more complicated and will require greater sophistication, as GOT must mobilize adequate capital through private placements while expanding the ownership base by encouraging wider participation and attracting foreign investors.

The Public Enterprise Sector

The PE sector in Tunisia dates from independence in 1956, when government intervention helped to preserve the companies inherited from the colonial private sector and set the foundations for future economic development. Several contemporary factors prompted the creation of the PE sector, including insufficient national private managerial expertise, undeveloped capital markets, and the need to expand the range of domestic economic activities.

After 1956, GOT inherited control of key sectors of the economy—such as utilities, mining, transportation, and banking—and used them to develop the country’s natural resources, notably phosphates and petroleum. GOT also developed the agricultural sector and successfully established new sectors in tourism and textiles. The PE sector was able to undertake enterprises that were beyond the scope of the post-independence private sector, including regional industrial development and construction of important capital-intensive projects in sectors such as cement and oil refining. The PE sector also had the power to pursue significant socioeconomic goals relating to employment, purchasing power, and income distribution.

From inception through the 1960s, the public sector continued to grow, accounting for 55 to 60

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1. Privatization is defined in this report as the transfer of ownership, entirely or in part, from the public to the private sector, accompanied by a corresponding change in control and management.
percent of all investment in Tunisia. In the 1970s, development of the private sector was encouraged through a series of incentives and exemptions, but the number of PEs was also augmented through the creation of affiliates.

As late as 1985, the PE sector absorbed nearly 40 percent of all investment in the Tunisian economy and—at its peak in 1983—the PE sector’s total employment reached 174,000, or 30 percent of formal sector employment. While it is important to note the variability in definitions and therefore official numbers of PEs, as of 1990 GOT identified 189 PEs.

Reducing the Role of the Public Sector

Reducing the role of the public sector in Tunisia became a GOT objective as the costs of maintaining the PEs in the 1970s began to outweigh the economic and social benefits derived from government intervention in competitive sectors. In addition, the debt crisis and decline in the terms of trade during the 1980s rapidly reduced the resources available to the government for new investment and for financial rehabilitation of existing PEs. The GOT found itself financially squeezed by reduced petroleum prices while the demands of PEs on the budget continued to grow. Massive public investment through the 1960s and 1970s had preserved and expanded sectors of the economy, created large numbers of jobs, and promoted technology inflows, but decades of poor financial performance on the part of the PEs ultimately resulted in unsustainable fiscal burdens for the GOT and a reduction in the country’s private sector growth and activity.

The GOT VIth Plan for Economic and Social Development (1982–1986) proposed reductions in the public investment rate and the establishment of a PE restructuring program that identified the limits of state participation and intervention. Significant movement toward such a public sector reform program began to take place in 1984, when the GOT established the Interministerial Commission (CIM) to target state-owned enterprises particularly in need of restructuring. The CIM’s mandate was an outgrowth of the failure of short-term financial remedies to rehabilitate the PEs in the 1970s, and a recognition of the structural problems of the PE sector. The CIM also examined the issue of privatization, but took no concrete actions. More progress was made when the GOT formally announced its Structural Adjustment Program (SAP) in 1986–87, an integral component of which was a parallel approach to public sector reform based on the restructuring and privatization of the PEs.

Start of Privatization

The first phase of the TPP involved a number of transactions that were initiated before the finalization and announcement of the restructuring program. These preparatory steps resulted in some significant successes, despite delays in formulating a privatization strategy.

The first companies to undergo divestiture and restructuring were in the tourism (SHTT: initial privatization transaction completed 1/1/86), textile (SOGITEX: sale date 4/88), and construction materials (SOTIMACO: sale date 8/1/89) sectors. These were companies whose restructuring and privatization took place on a case by case basis before the current legal and organizational framework was in place.

The VIIth Plan (1987–1991) and other succeeding legislation clarified Tunisian privatization policy, as well as the strategy by which it would be implemented. The VIIth Plan established objectives for diminishing the role of the public sector and restructuring incentives to promote growth in the private sector. It also supported reforms to make the economy more outwardly-oriented through reduction of administrative controls, reform of the tax system, elimination of quotas, reducing tariffs, and improvements to the efficiency of financial intermediation.

This GOT commitment to structural adjustment received significant support from the World Bank, the International Monetary Fund (IMF), and other multilateral and bilateral development agencies. A determined and consistent high level of support, a flexible approach, and the evolution of

4. Bouaouaja, ibid, pp. 242–244.
an effective public sector framework for reform have been the key elements in Tunisia's steady progress in the privatization of the PEs, reducing the burden they place upon Tunisia's budget. The restructuring and rationalization of enterprises such as the SNCFT (the state railway) and Compagnie des Phosphates de Gafsa (CPG) have also reduced their losses and decreased GOT transfers to these key industrial enterprises.

From the end of 1987 through September of 1991, 23 public sector enterprises underwent total or partial privatization—including 83 operations involving sales of assets—for a total amount of US$104 million. Most of these enterprises were hotels, fishing companies, industrial companies, and businesses producing construction materials. Moreover, another 10 PEs were privatized entirely or in part through the sale of shares, totaling US$30 million. Most of the enterprises sold by shares were in the tourism sector or in the production of construction materials. In a few additional cases, privatization has taken the form of liquidations, mergers, and the opening of share capital to private partners.

Total sales proceeds realized so far amount to about US$134 million, with these receipts used to make severance payments and to pay outstanding social security contributions. Consequently, no revenue accrued to the budget from these sales.

The level of leadership and participation by the government in developing and expediting the public sector reform policy has been high. The President and Prime Minister are key players and the driving force behind this overall reform. The second, more challenging, phase of the TPP, which will involve larger PEs, presupposes the continuation, if not the strengthening, of the government's commitment to the program.

Future Privatization

The VIIIth Economic and Social Plan (1992-1996) specifies further improvements in the implementation of the TPP, including the generalized use of performance contracts to rationalize enterprise management and enterprise-state relations in the course of restructuring. The main objectives of the VIIIth Plan include income growth targets, unemployment and poverty reduction, and an improved education and training structure.

GOT will continue to encourage decreased government intervention and increased private sector involvement in the economic development of Tunisia. It also envisions labor law reforms that will foster productivity incentives, encouraging private investment in former PEs. Investment incentives that target an increase in private investment from the 1991 level of US$226 million to a 1996 goal of US$415 million are planned. GOT also intends to gradually reduce its holdings in sectors where its dominance is regarded as monopolistic, such as public utilities.

Structure of this Case Study

The following chapters will explore the structure, evolution, and future of Tunisia's public enterprise privatization program in depth. These detailed discussions of the TPP are structured around the following main themes:

- Role and size of the public sector
- Overall objectives and scope for privatization
- Organizational framework for privatization
- Implementation of the TPP
- Constraints to privatization
- Lessons learned
Chapter Two

Role and Size of the Public Sector

Background

Tunisia is a small country of approximately 7.8 million people which achieved a per capita income of US$1,260 in 1989, and with a limited resource base composed of declining petroleum reserves, phosphates, and natural gas. Although one of the most modern of the Arab states, Tunisia’s economy has traditionally been based on agriculture—largely concentrated in cereals, olives, and grapes.

From 1881 to 1956, Tunisia was a French protectorate, and French influence molded the country’s elites, institutions, and economic development. Under French direction, considerable attention was paid to infrastructure investments and legal reforms that facilitated European commercial operations and provided Tunisia with a relatively modern economic and social service infrastructure. Domestic tax revenues financed development of railroads, port facilities, a modern agricultural sector, sanitation projects, hospitals, and schools. However, the companies which built these facilities and that benefited disproportionately from the income generated were generally French.

Before the protectorate, French companies had invested heavily in Tunisian land, establishing a significant economic role predating formal political control. These holdings were modern, capital-intensive agricultural operations specializing in olive and grape production for export, and generating limited domestic benefits for the Tunisian population in terms of employment, income generation, or reinvested profits.

The exploitation of Tunisia’s natural resources of agricultural land, mineral, and energy resources has shaped the country’s economic development. Phosphates were discovered in Tunisia in 1885, and the CPG was founded in 1897 especially to mine this resource. Through the 1920s, Tunisia enjoyed a near monopoly on phosphate production. In the 1930s, phosphate mines were developed in the United States, the former USSR, and Morocco, the latter possessing higher quality phosphate deposits than Tunisia. Tunisian phosphate production was 3.3 million tons in 1930, but by the mid-1950s had declined to 2.2 million tons and accounted for only one-sixth of the total value of Tunisian exports. By 1988, Tunisia was producing only 1.2 million tons of phosphates for export, although an additional 5 million tons were sold on the domestic market. Currently, the phosphate and fertilizer sector PEs are a focus of GOT’s public sector reform efforts because of the high levels of government expenditures required to maintain these central industries.

As in many Arab countries, the Tunisian PE sector was established at the time of independence in 1956. With the exodus of most French colonists and the absence of adequate domestic managerial expertise and investment capital, GOT believed it necessary to establish control over Tunisia’s natural

resources and key economic activities in order to preserve them. Through nationalization, GOT gained control of most businesses in the transport, mining, and energy sectors. By 1961, GOT had decided on a socialist model for its plans to develop the economy and implement government policy. The government’s high levels of public sector investment were intended to establish tourism and other new sectors, promote industrial and regional development, carry out capital-intensive projects that could not otherwise take place in the embryonic Tunisian capital markets, and support an extensive list of social and distributional objectives.

During the following decade, GOT’s socialist experimentation involving government ownership and control of agricultural and commercial operations was forced to give way to a more market-oriented economic policy. This transition was marked by abrupt reversals of policy. For example, President Bourguiba announced the nationalization without indemnity of 275,000 hectares of farmland owned by foreign companies and nationals in 1964—and incorporated these holdings into the agricultural cooperative movement that GOT had established in 1956—and nationalized and cooperativized all privately held lands and agricultural and commercial establishments in 1969. By late 1969, however, this accelerated policy was quickly reversed as the impact of popular unrest, a dismal harvest, and production decreases caused by the nationalizations were felt. A liberal economic policy was quickly instituted, and GOT returned many commercial operations to their owners. By the 1970s, GOT had decided to move from a socialist approach to a policy of promoting private enterprise in a mixed economy. In a conflicting fashion, however, GOT allowed continued development of the PE sector and granted it such powers as the ability to set wages and below cost price levels.

Changes in the level of oil revenues played an important role in the pace and timing of eventual PE reform in Tunisia. The first Tunisian crude oil field, El Borma, came into production in 1966, with additional oil fields coming into production in 1968 and 1972. From the late 1960s until the oil price declines of the mid-1980s, petroleum was a major source of Tunisian export earnings, accounting for 55 percent of all exports through the 1970s; annual gross domestic product (GDP) growth averaged 7.4 percent in real terms for the same period. High levels of foreign investment in Tunisia in the 1970s allowed it to finance an average current account deficit of 5 to 6 percent of GDP with little difficulty. Growth supported by the oil boom and high levels of foreign investment; also cushioned the PE sector in Tunisia through most of the 1970s. GOT budgets were able to meet or finance PE losses despite their poor management and operating inefficiencies. In parallel, announced GOT objectives to promote private sector development and limit government intervention made little progress before the early 1980s, when net oil revenues began to decline.

8. Nelson, ibid, p. 54.

Table 1:
Tunisia—PE Sector Macroeconomic Indicators
(Tunisian Dinar millions)

<table>
<thead>
<tr>
<th></th>
<th>1983</th>
<th>1984</th>
<th>1985</th>
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<tbody>
<tr>
<td><strong>A. GDP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE share of total</td>
<td>31.0%</td>
<td>31.2%</td>
<td>31.4%</td>
</tr>
<tr>
<td>Total Economy</td>
<td>10,270.5</td>
<td>11,899.7</td>
<td>12,852.0</td>
</tr>
<tr>
<td>PE share of total</td>
<td>33.7%</td>
<td>34.4%</td>
<td>39.4%</td>
</tr>
<tr>
<td><strong>B. Investment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE share of total</td>
<td>37.9%</td>
<td>37.6%</td>
<td>35.8%</td>
</tr>
<tr>
<td>Total Economy</td>
<td>2,711.9</td>
<td>3,284.0</td>
<td>3,774.0</td>
</tr>
<tr>
<td><strong>C. Domestic Credit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE share of total</td>
<td>37.9%</td>
<td>37.6%</td>
<td>35.8%</td>
</tr>
<tr>
<td>Total Economy</td>
<td>2,711.9</td>
<td>3,284.0</td>
<td>3,774.0</td>
</tr>
<tr>
<td><strong>D. External Debt (US$)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE share of total</td>
<td>30.8%</td>
<td>28.9%</td>
<td>27.3%</td>
</tr>
<tr>
<td>Total Economy</td>
<td>3,800.8</td>
<td>3,752.0</td>
<td>4,380.1</td>
</tr>
<tr>
<td><strong>E. Employment (workers)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE share of total</td>
<td>37.9%</td>
<td>37.6%</td>
<td>35.8%</td>
</tr>
<tr>
<td>Total formal sector</td>
<td>590,342</td>
<td>na</td>
<td>na</td>
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Sources: Institute National de Statistiques (Tunisia)
External Debt: World Bank Debtor Reporting System
Domestic Credit: Central Bank (Tunisia)
Privatization in Tunisia

Rather than shrinking as the market-based policy adopted in the 1970s would have dictated, the PE sector grew during the oil boom years with the establishment of new PEs and the creation of PE affiliates. During the 1970s and early 1980s, the PE sector accounted for roughly 30 percent of GDP (see Table 1). Overall PE investment represented 57 percent of total investment in the industrial sector during the VIIth plan, with the sector's share in total investment in the economy increasing from 33 percent in 1983 to nearly 40 percent by 1985. At the same time, budgetary transfers to the 40 major PEs, including subventions (operating and investment), equity, loans, and debt/equity conversion, rose from TD17.3 million in 1972, to TD108 in 1982 and TD135 in 1985 (see Table 2).

Tunisia's economic performance during the 1980s declined sharply, especially compared with the more prosperous years of the 1970s. External factors added to the legacy of years of expansionary public sector investment policies. The poor 1986 agricultural season, accompanied by a decline in tourism and a substantial decrease in world oil prices, only worsened the deteriorating economic situation. Over 1980-85 the current account deficit averaged 7.9 percent of GDP, while the budget deficit averaged 5.6 percent.

Policy Reversal

To set the stage for renewed growth, GOT embarked on a major Structural Adjustment Program (SAP) in 1986. Its objectives were reduced public expenditures; phased removal of controls on prices, imports, and investment; devaluation of the Tunisian Dinar (TD); and privatization of many of the PEs. These policies were followed in 1987 by the VIIth Plan, which purposely promoted an outward-oriented strategy of increased trade, price liberalization, removal of foreign and local investment restrictions, and fiscal reforms. Some of the results of the VIIth Plans have already been realized, with PEs experiencing tariff reductions and diminished budgetary transfers. By restoring a market-oriented economy, GOT has sought to encourage the private sector to develop new areas of economic growth and to improve efficiency, while decreasing its own fiscal burden.

Size of the PE Sector

From inception through the 1960s, the public sector continued to grow, accounting for 55 percent to 60 percent of all investment in Tunisia. The 40 largest PEs show a sharp deterioration in profitability (aggregate net profits of TD 39 million, or US$43 million) to 1986 (aggregate net losses of TD 168 million, or US$187 million) with their total debt increasing from TD 1.67 billion to TD3.17 billion, or US$1.85 billion, US$3.52 billion (see Table 2). Total assets accounts reached US$18

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Table 2:
Aggregate Data on 40 Major PEs (Tunisian Dinar millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment (workers)</th>
<th>Value Added</th>
<th>Revenue</th>
<th>Exports</th>
<th>Net Profit (Loss)</th>
<th>Excluding Oil PEs</th>
<th>Cash Flow</th>
<th>Total Debt</th>
<th>Short-term debt</th>
<th>Long-term debt</th>
<th>Investment</th>
<th>Transfers to PEs</th>
<th>Taxes/Duties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>104,057</td>
<td>554.8</td>
<td>1,198.8</td>
<td>299.3</td>
<td>39.3</td>
<td>(11.9)</td>
<td>176.5</td>
<td>1,676.8</td>
<td>858.1</td>
<td>818.7</td>
<td>267.9</td>
<td>88.8</td>
<td>71.5</td>
</tr>
<tr>
<td>1982</td>
<td>107,004</td>
<td>570.2</td>
<td>1,388.4</td>
<td>332.3</td>
<td>(12.2)</td>
<td>(71.1)</td>
<td>138.3</td>
<td>2,037.3</td>
<td>1,029.4</td>
<td>1,007.9</td>
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<td>702.2</td>
<td>1,672.8</td>
<td>373.4</td>
<td>(50.2)</td>
<td>(103.2)</td>
<td>124.5</td>
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<td>1,200.4</td>
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<td>1984</td>
<td>109,408</td>
<td>816.6</td>
<td>1,842.2</td>
<td>411.1</td>
<td>(6.8)</td>
<td>(84.8)</td>
<td>200.5</td>
<td>2,722.4</td>
<td>1,438.4</td>
<td>1,284.0</td>
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<td>1,984.8</td>
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<td>(31.6)</td>
<td>(122.5)</td>
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<td>397.2</td>
<td>(168.3)</td>
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<td>1,402.8</td>
<td>279.9</td>
<td>117.3</td>
<td>111.9</td>
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</table>

Source: Ministry of Plan and Finance

Notes:
1. Subventions, loans, and equity.
billion and employment in the PE sector peaked at 174,266 in 1983, accounting for some 30 percent of total estimated formal sector employment in the country (see Table 1).

Nonproductive Activities of the PE Sector: Job creation and income distribution have always been key objectives of the PE sector in Tunisia. As previously noted, the PEs accounted for more than 10 percent of Tunisian employment and played a significant role in fighting chronic unemployment by diminishing the impact of population growth. According to 1990 figures, the PE sector is overstaffed by approximately 20 percent, or approximately 30,000 of 150,000 workers.10

In general, the PEs are also widely perceived as providing low-priced consumer goods that benefit the poor. It is clear that the PE sector has played a role in subsidizing both consumer goods and public services. In cases such as that of CPG, large PEs have also provided housing, hospitals, schools, and other services in the communities in which they operate.

While the cost of these non-production-oriented functions has contributed to the structural inefficiency and the high expense of maintaining the PEs, they have fulfilled many social functions. Because of popular resistance to the privatization program, careful consideration was given to employment issues in the formulation of the privatization policy and the negotiation of individual transactions.

Changing Definitions of the PE Sector: Changing definitions of the public sector have progressively reduced the number of PEs under GOT control from approximately 500 during the period before 1985, when 10 percent state ownership was the criteria, to 307 under Act 85-72, passed in February 1989. Under the latter act, the definition of PEs was based on state ownership of 34 percent or more of the capital of a company, or a combined ownership of 50 percent or more through direct or indirect means.

Act 85-72 in particular played an essential role in organizing GOT’s PE portfolio. The law was enacted in an environment of growing dissatisfaction with the performance of the PEs and represents an early effort in the restructuring of the PE sector. However, according to this law, companies defined as PEs were subject to a variety of legal and administrative controls, including government supervisory requirements and conditions placed on the signing of contracts. Because of these operational constraints, the financial performance of these PEs did not improve. It became obvious that further attention needed to be directed to the privatization process and that further legislative action was required.

Like earlier legislation, Law 89-9 of February 1989 subsequently reduced the numbers of PEs that were subject to state control by requiring state ownership of at least 50 percent of their capital before such control could be exercised. Public participation was also defined under Law 89-9 as shares or equity owned by GOT, statutory bodies, or enterprises controlled completely by the state. Under Law 89-9, a PE was defined by fulfilling one or more of the following classifications:

- Statutory public bodies not of an administrative nature;
- Corporate bodies whose stocks are entirely owned by the government;
- Corporate bodies, local government, statutory bodies, and corporate bodies (individually or jointly) 50 percent of whose stocks is controlled by the government.

Under the strict application of these standards, GOT officially identified 175 PEs in 1989. However, Law 89-9 also identified certain “strategic” PEs, in which GOT was allowed to remain a minority shareholder pending the restructuring of their capital. This loophole raised the official number of Tunisian PEs to 189.

Structure and Activity of the Public Enterprise Sector

Among the 189 designated PEs, 140 are enterprises of a commercial nature, including utilities, railways and other public transportation systems, oil and phosphate industries, and numerous manufacturing and assembly plants. The balance are offices and agencies that are extensions of public administration activities. GOT is also a minority shareholder in several hundred other enterprises.

Of the 189 PEs, more than 75 percent are under the supervision (tutelle) of five GOT ministries:

- Economy and Finance: 68
- Agriculture: 26
- Transport: 26
- Equipment: 13
- Tourism and Handicraft: 10
- Other ministries: 46

TOTAL: 189

10. Villemain, ibid, p. 34.
Chapter Three

Overall Objectives and Scope for Privatization

Objectives and Scope of the Program

The TPP was an important part of the SAP announced in 1986. SAP's objectives included the restructuring and privatization of publicly owned enterprises; the reduction in public expenditures; the phased removal of controls on prices, imports, and investment; and the devaluation of the TD. To address these objectives, the government stated its intentions to progressively divest itself of all PEs in competitive sectors where the private sector was capable of assuming its role, to promote transparency and orientation to market mechanisms in these sectors, and to ensure the efficiency of natural or public service PE monopolies. Such divestiture was not limited to enterprises in which the state is majority owner, but also included those in which GOT was a minority shareholder. Hence, the importance of dealing with the minority cases as well.

The main components of the TPP included legal reforms, such as those described in Law 89-9 that identified PEs, clarified their administration, and streamlined the restructuring and divestiture process. Furthermore, institutional reforms permitted a rationalization of supervisory agencies and improved accountability of PE management. Budgetary reforms were also directed toward increasing discipline in allocations to PEs and instituting an approval process for all significant transfers to commercially-oriented PEs.

The program of divestiture and restructuring was designed to address factors limiting the momentum of the TPP. It developed realistic and flexible sales terms for PE assets, allowing for a range of divestiture modalities (sale of assets and shares, ESOPs, EMBOs, lease-to-buy arrangements, etc.) Social concerns, such as staff redeployment, were also deliberately integrated into the process. A social fund Fonds de Restructuration des Entreprises Publiques (FREP) was established to cover worker redeployment and/or compensation costs, settlement of outstanding PE liabilities not covered by sale proceeds (notably to the social security organizations), and technical assistance necessary to effectively implement the program.

The GOT strategy of privatization of nonstrategic PEs operating in a competitive environment has come to incorporate three major elements:
- Sale of assets of small- and medium-scale enterprises experiencing difficulties, either components of enterprises or whole enterprises;
- Privatization of government shareholdings in public and joint stock companies; and
- Privatization of larger nonstrategic PEs operating in competitive markets.

Given the government's ongoing involvement in industry, the generally poor performance of the PEs, and the social implications, the privatization process has been implemented gradually. To date, GOT's privatization program has focused on the first elements of the strategy: most of the small- and medium-scale PEs have been privatized. These PEs were largely sold free of liabilities and almost exclusively to Tunisian purchasers. The revenues from these sales equaled approximately half of the total liabilities of the PEs. The other half was paid off by
FREP and through cancellation or conversion of debt to equity. The second element of the privatization strategy has also been increasingly used and is due to continue in the years to come. The third phase of the privatization process will date from 1992 on. It will generally be applied to the larger PEs—such as cement plants, food manufacturers, shipbuilding industries and construction materials businesses—for which international buyers will be the target group in many cases. It is predicted that these PEs will be sold with both their assets and liabilities and will result in net sales revenue, unlike the sale of the PEs during the privatization’s first phase.

Strategic PEs: A number of PEs have been designated “strategic,” and therefore are not targeted for privatization. Despite the understanding that GOT participation in competitive sectors in general is no longer justifiable, GOT has stated that it will neither forego its role in activities that deal with public utilities nor separate itself from sectors that are crucial to the economic safety of the country. While embracing privatization, GOT policy also states that a number of enterprises are, de facto and de jure, of a monopolistic nature, preventing their transfer to the private sector under current conditions. The GOT has stated its intention to carry out privatization of these state-owned enterprises over time. It will institute a process of demonopolization in which it will authorize and encourage the emergence of private enterprises in these sectors (including, for example, transportation).

Role of the PE Sector in the VIIth and VIIIth Plans: The VIIth Plan for Economic and Social Development (1987–1991) incorporated the issue of the reform of the PE sector as a key element of the ongoing GOT SAP. In setting GOT policies and priorities for the upcoming five-year period, the VIIth Plan emphasized the need to reform PEs, reduce the size of the public sector in favor of the private sector, and remove distortions in incentives in order for an active and efficient private sector to emerge.

The VIIth Plan explicitly supported competitiveness and the efficient allocation of scarce resources, while recognizing the special role of the PE sector in the Tunisian economy. Disengagement or divestment of PEs was an essential element of the GOT strategy. It was obvious that the historically poor performance of the PE sector would inhibit these enterprises’ viability if they were privatized immediately, and that the social and political impact of these enterprises would continue to be significant. The plan stated that “the unique character of the State as shareholder makes certain other considerations necessary to understand the relationship of these enterprises with the State as well as the latter’s disengagement from certain sectors.” Therefore, GOT included consideration of the following points in its approach to the goals of the VIIth Plan with respect to PEs:

- Relations between the state and the PEs: Giving enterprises more autonomy (but with accountability) by reconsidering their relations with the state;
- Internal control of the management of the PEs: Restructuring internal organization, information systems, and methods of cost analysis to improve the viability of the PEs;
- Productivity in PEs: Improving the effectiveness and productivity of the PEs by making decisions based on the evaluation of their economic and social profitability, thereby helping to ensure the success of investments; and
- Restructuring the PEs: Restructuring those PEs in competitive sectors that often suffer from financial difficulties and require special attention before the disengagement process can be successfully undertaken.

The VIIth Plan was designed for a progressive but very definite GOT disengagement from PEs in competitive, nonstrategic sectors.

The VIIth Plan was designed for a progressive but very definite GOT disengagement from the PEs in competitive, nonstrategic sectors, with substantial attention paid throughout the process to the economic, financial, and social effects of divestiture. Restructuring the PEs into viable private sector businesses is an integral part of this transition. The GOT also is undertaking the rationalization and reform of those strategic enterprises in which it will continue to maintain control. According to the VIIth plan, the GOT’s main goals in the area of restructuring and privatizing the PE sector are as follows:

- Assuring greater management autonomy in these enterprises;
- Guarding against the great rigidity that has characterized the management of the PEs;

• Encouraging shareholding by employees in the PEs for which they work, as well as encouraging growth in the numbers of small shareholders;
• Making financial markets more dynamic through a broad diffusion of capital to the public; and
• Mobilizing both local savings and external capital to boost the capital markets.

The VIIIth Plan (1992–1996) intends to pursue the restructuring and privatization of the PEs as a key element of an ambitious growth program that targets the annual GDP growth of 6 percent. This larger program includes the reform of consumer subsidies, labor laws, and exchange controls.

The Legal Framework for Privatization

Tunisia's first step toward a privatization policy was the creation in 1984 of an Interministerial Committee charged with identifying PEs as candidates for privatization. At that time, however, no framework for restructuring and privatizing the PEs was in place. Additional legislation and the development of an effective organizational framework were needed before the privatization could be implemented.

In 1985, GOT renewed its efforts to identify and organize its PE portfolio through legislation (see Law 85-72 above). Meanwhile, the dissatisfaction with the performance of the PE sector and movement toward public sector reform and privatization continued to gain momentum. As GOT launched the SAP in 1986–87, it began to build a legal framework for the restructuring and privatization of the PE sector.

The Will to Privatize: Law 87-47: The government passed Law 87-47 in August 1987, during the last months of the Bourguiba presidency. It created a legal framework for the first steps in the design and development of a program for the restructuring and privatizing of the PE sector. This law provided for the creation of three commissions:
• An interministerial commission, whose purpose was to choose the enterprises to be privatized,
• A restructuring/privatization commission intended to undertake the required analyses and structure the privatization deals, and
• A follow-up commission, whose role was to carry out the actual privatization transactions.

After the law was passed, however, it rapidly became clear that the implementation design was too complex and lengthy. Administration of the process through these three commissions as dictated by law was deliberately complicated because of GOT concerns that withdrawal of the state from the public sector could temporarily have a negative impact on public welfare and might provoke the creation of private monopolies. The intricate structure of Law 87-47 proved inflexible and was never completely implemented. As a result, few divestiture operations took place under it.

A Framework for Privatization: Law 89-9: When President Ben Ali assumed office in November 1987, the government was given a mandate to bolster the nation's economy by making it more market responsive and less centrally planned. The president was eager to encourage and accelerate the restructuring and privatization process. Divestiture therefore continued as a priority of the new administration.

The dissolution of the three commissions created under the earlier privatization law and their replacement with a single body—the Commission for the Restructuring of Public Enterprises (CAREPP), which is chaired by the prime minister—was an early action of the Ben Ali government. When Law 89-9 was approved by the National Assembly in 1989, it provided further clarification, setting up a framework institutionalizing privatization and retaining responsibility for the program at the higher levels of the government.

Law 89-9's most significant features included a detailed and precise definition of a PE, and the processes for the restructuring, divestiture, and liquidation of the PEs. The law also specified that the prime minister—on the proposals made by CAREPP—was responsible for making all of the decisions related to the privatization and restructuring of the PEs. For political and social reasons, the law does not use the term "privatization," but indicates that the government is authorized to sell some PEs operating in competitive sectors by means of sales of shares or assets through public auction.

13. Interministerial Committee (CIM), March 29, 1984.
The law also expressed clearly three objectives: development of a larger number of small shareholders, development of the TSE, and intent to sell shares of the PEs to employees. Finally, Law 89-9 specified some fiscal and other incentives to facilitate and accelerate the whole process of privatization.

In March 1989, Law No. 89-49 followed, with its primary objective being the stimulation of the TSE and the channeling of private savings into investments in the productive sectors. This law provided for the restructuring of the TSE and a redefinition of its functions; the description of the role of financial intermediaries; a framework for the sale of securities; and an allocation of authority to the TSE over the issue, sale, and distribution of securities. The intent of this legislation was to broaden the framework of privatization by creating a legal framework for capital market development and the mobilization of local savings.
Chapter Four

Organizational Framework for Privatization

Institutional Framework

The TPP has proven stable and transparent, but slow. The key to the implementation of the privatizations lies in the prime minister’s personal responsibility for the program and his ultimate decision making authority in each divestiture transaction, coupled with consistent GOT commitment to the program.

Role of the Prime Minister: Law 89-9 places the power to make decisions on all matters relating to privatization, divestiture, restructuring, and financial incentives with the prime minister on the recommendation or proposal of the CAREPP. The Parliament does not have any specific role in this process. The prime minister therefore has a powerful role in both guiding and advocating the overall TPP and retaining responsibility for the individual transaction decisions. The Prime Minister and CAREPP have been the driving force toward privatization.

CAREPP: Decree 89-377 established the CAREPP in March 1989 as a consultative body made up of the ministers of National Economy and Finance, Plan and Regional Development, Interior, and Social Affairs; the governor of the Central Bank; designated high-level civil servants; and the secretary general of the government. Observers regularly participate in CAREPP meetings, often including the president of the TSE, the general director of PEs in the prime ministry (DGEP), and some advisors to the president and the prime minister. CAREPP meets monthly and is always chaired by the prime minister.

CAREPP proposes opportunities and methods for divestiture to the prime minister, according to his powers under Law 89-9. CAREPP also has the power to propose financial incentives that can be granted to stimulate the privatization of PEs. Advice concerning the selection of buyers and the allocation of the proceeds of privatization on an ad hoc and case by case basis are also the responsibility of CAREPP.

CTAREPP: Parallel in status to CAREPP, the Technical Commission for Restructuring PEs (CTAREPP) was established to set privatization strategies. Its responsibilities include determining divestiture priorities, reviewing company profiles (financial and operational), setting forth conditions for the sale of PEs to ensure that acceptable proposals are prepared by enterprises and their sectoral ministries, and coordinating the dossiers of PEs that may be eligible for restructuring or privatization. In reality, CTAREPP acts as a technical working group that provides the foundation for CAREPP’s recommendations, which provide the basis for the prime minister’s eventual decisions.

Experience in other countries confirms the important role of bodies such as CTAREPP, because policy cannot be put into effect unless it is supported by a technical group capable of providing the “nuts and bolts” guidelines for restructuring and privatization. The General Director for PEs (DGEP), in addition to his responsibility to report to the Secretary General of the government and the prime minister’s office, serves as chairman of CTAREPP.
General Director for PEs (DGEP): The DGEP is a civil servant selected by the prime minister to carry out comprehensive analyses of the PE sector, make recommendations on overall restructuring and privatization strategy, coordinate the TPP, and monitor the effectiveness and consistency of sector ministry supervision of the PEs (performance contracts, nomination of board members, etc.) The DGEP and his Directorate also provide the Secretariat to CAREPP and CTAREPP, and follow up on the implementation of the prime minister's decisions. The DGEP reports to the general secretary of the government, who is a minister without portfolio named by the president, reporting directly to the prime minister on economic and administrative matters. In the process of prepara-
tion of the overall program on long-term privatization, an expert financed by U.S. Agency for International Development (USAID) served from 1988-1990 as advisor to CAREPP within the DGEP’s office, and as a non-official member of CTAREPP.

The Role of the Sector Ministries: The sector ministries participate in the privatization process by initially examining the PEs they supervise and by cooperating with the PEs’ boards of directors in identifying opportunities and strategies for divestiture. The sector ministries then advise CAREPP on appropriate sales of PEs and strategies for the privatization of PE assets. The sector ministries are responsible for the implementation and follow-up of those proposed PE sales that have received CAREPP’s recommendation and the prime minister’s approval.

Participation by PE Boards of Directors: The 89-9 Law which now governs the PE sector specifies the roles and responsibilities of PE Boards of Directors, the sectoral “tutelle” ministries, and reporting requirements of the PEs. The PE boards—which are composed mainly of insiders—play a meaningful role in establishing and approving enterprises, objectives and strategy and supervising management. The DGEP has established a Management Information System to monitor the functioning of PE Boards of Directors, who are indeed parties in the divestiture and privatization process. The boards are required to submit to their sector ministry appropriate scenarios for the sale of individual PEs, as well as suggested methods for accomplishing the sale. Although in some cases certain managers of the PEs and sectoral ministries have not agreed with decisions to privatize and/or the procedure to be undertaken, in general they have not obstructed the process.

Public Enterprises’ Responsibilities: The managers of the PEs, in cooperation with the concerned sector ministry, study the opportunities for privatizing the individual PEs. The sector ministry and then the PEs propose scenarios for their privatization to CTAREPP and CAREPP. If the prime minister makes the decision to sell the PE on the recommendation of CAREPP, the requests for proposals for enterprise valuation and bids are prepared at the PE and by officials at the ministry level. The PEs undertake all of the necessary marketing and publicity for these sales. The PE itself, and, in some complex cases, the ministry involved, close the deal after the prime minister’s final decisions regarding the specific transaction are taken. Although managers of PEs and sector ministries in some cases have opposed the privatization of selected PEs, so far—in general—they have cooperated extremely well.

The Interdepartmental Commission: The Interdepartmental Commission is chaired by the general director of State Participation in the Ministry of Finance, and is made up of representatives of the prime minister, the Ministry of Planning, and the Central Bank. Representatives from the sector ministry and the PE involved in transactions under consideration are also members.

At the time of each sale of assets, the Interdepartmental Commission opens sealed bids, evaluates the offers, and presents a report of each sale to CAREPP. CAREPP then makes a recommendation to the prime minister to accept or reject the bids. In the case of a sale through the TSE, the Interdepartmental Commission is responsible for determining the procedures such as the introductory market value of the shares.

The Divestiture Process

Government Circular 33 of June 21, 1989: Government Circular 33 describes the implementation procedures for privatization in detail. The roles of CAREPP and DGEP, which had been formally spelled out by Law 89-9 in early 1989 and Decree 89-377, were further defined and codified in Government Circular 33, which was prepared by the DGEP and issued by the prime minister. This circular defines the list of 189 enterprises considered public and outlines the different requirements related to the total reform program for these PEs. Modifications were introduced as to the functioning of the boards, nomination of members and management, submission of monthly statements of liquidity, and so forth.

The Process of Privatization: The process of privatization involves eight phases:

i. The PE and the Sector Ministry undertake a study of the opportunities for restructuring or privatizing the enterprise;

ii. The initial decision on the opportunity to sell is made by the PE Board of Directors. Thereafter the proposal is presented to CAREPP for review and the prime minister for final decision;
iii. The valuation of the enterprise or the assets to be divested is prepared by specialized public agencies or local independent valuers selected by the enterprises;

iv. The mode of privatization is then determined, from various choices, including the following:

- Sale of shares by private or public offering
- Sale of assets through public tendering
- EMBO
- Merger
- Liquidation;

v. The prime minister exercises authority for final approval of the method of privatization and the conditions of sale;

vi. Marketing of the assets or enterprise for sale takes place, including the collection of bids, negotiation, and deal closure;

vii. Decisions on the allocation of the revenue from the TPP transaction are made by the prime minister on an ad-hoc and case by case basis; and

viii. Post-privatization assessments and follow-up analyses are performed by sector ministries and CTAREPP, with particular attention given to the viability of the divested enterprises, success in addressing goals such as broadening ownership and growth of competition, and the lessons learned for future privatizations.

Chart 2: Privatization Process: Tunisia
Chapter Five

Implementation of the Tunisian Privatization Program

Initiated in early 1987, the TPP will continue for the next few years. This chapter discusses the implementation and covers overall program status; the actual results of the TPP; and the implementation of the different phases of privatization, including financial restructuring, valuation, marketing, sales processes, and the impact on employees.

Overall Status

Between December 1987 and the end of June 1990, CAREPP examined 74 enterprises as candidates for privatization or restructuring. CAREPP's decisions on these PEs were as follows:

- 6 were to be liquidated,
- 2 were to be merged with other PEs,
- 4 were to be financially restructured,
- 11 were to be financially restructured with a partial privatization of equity or certain activities,
- 37 were to be privatized via total or partial sale of assets, which represented almost 73 sales operations, and
- 14 were to be privatized by the sale of shares via the TSE.

In some of the decisions, elements from more than one of the strategies were present. For example, some of the companies' assets were earmarked for privatization, while others were slated for liquidation. Also, in several instances, the government decided to dispose of its holdings in successive transactions, which was the case for PEs such as Sitex (textile), SHTT (hotels), and ONP (fishing).

Beginning with the government of Tunisia's earliest divestiture transactions in 1986 through all of the privatization transactions until September 1991, the results realized include the total or partial privatization of 23 enterprises—involving 83 operations of sale of assets—for a total amount of US$104 million. Moreover, another 10 PEs have been privatized—entirely or in part—through sales of shares, for a total amount of US$30 million. Total sales proceeds realized so far amount to about US$134 million. However, this is equivalent to no more than slightly over 1 percent of the book value of the approximately 200 PEs at the end of 1987. The sale proceeds were used to make severance payments and outstanding social security contributions for employees. These privatizations can be further characterized as follows:

- Six of the transactions involved the sale of shares through the TSE. One transaction reduced government shareholding while issuing new shares to the private sector. The remaining transactions were private sales of assets following an open bidding process. In a few cases, privatization has taken the form of liquidations, mergers, or the opening of share capital to private partners.
- In terms of sector concentration of privatization, nine operations involved the privatization of hotels. The remaining privatization

transactions involved industrial and commercial companies in textiles, construction materials, foodstuffs, metallic packing, fishing, printing, and flour processing.

- Concerning the nationalities of buyers of assets or shares, three sales were to foreigners, one sale was to a Tunisian-French group, and the remaining sales were to Tunisian nationals.
- The sale of state interests and equity in PEs via the TSE accounted for 22 percent of all privatization proceeds (US$30 million).
- Privatization has so far been a marginal phenomenon that in no significant way has reduced the extensive role of the state in the production of goods and services. The share of PE value added in total GDP remains at about 30 percent.

Since the end of 1990, however, the pace of privatization has been slowing. Two significant factors have contributed to this: (i) the degree of difficulty associated with privatizing the PEs that still remain in the public domain; and (ii) the destabilizing impact of the Gulf War on the Tunisian economy, slowing Tunisia's overall rate of growth and the pace of the GOT reform program.

**Labor Issues and Use of the FREP**

The social costs of the TPP are being addressed through the redeployment of excess staff, or appropriate compensation if alternative employment opportunities cannot be found. The Public Enterprise Restructuring Fund (Fond de Restructuration des Entreprises Publiques or FREP) was established in 1987 by GOT to finance the following:

- Worker compensation packages due to workforce reductions;
- Liabilities linked to privatization, such as accumulated arrears to the social security system, pension funds, or third-party liabilities; and
- Technical assistance in the areas of accounting, organizational and managerial development, and the auditing of the PEs, as well as advisors associated with individual privatization transactions.

To ensure adequate funding, GOT made periodic allocations to the FREP. As of July 15, 1991, commitments from the FREP totaled US$80 million, allocated for the payment of the following:

- Severance packages: US$35 million
- Pension liabilities: US$9.8 million
- Outstanding debts: US$35.2 million

**Implementation**

**Cost of Restructuring:** As noted earlier, most of the public sector companies had become overburdened with debt or were technically insolvent and legally subject to liquidation. Therefore, CAREPP priorities were heavily influenced by these constraints. Cancellation or conversion of debt to equity, debt consolidation, and restructuring were the key tools to render these assets unencumbered of liabilities and liens and available for sale. Hence, the total cost of the financial restructuring of the PEs under the domain of CAREPP from 1987 until June 1990 was TD260 million or US$290 million. The GOT, banks and other governmental organizations assumed US$197 million, US$29 million, and US$64 million, respectively in debt management and consolidation.

**Valuation:** Article 28 of the Privatization Law 89-9 specifies that valuation of shares or assets should always occur prior to privatization. In the case of a sale of assets, the valuation can be prepared by specialized public agencies or local independent valuers. Banks may also perform the valuation of shares that are to be sold. However, in most cases of the sale of assets some bids are solicited without a minimum acceptable price.

Conventional methods of valuation—such as adjusted book value, liquidation value, and the discounted cash flow method—were used and a recommended base price was usually taken into consideration by the Interdepartmental Commission. This commission, as noted earlier, has the responsibility for opening sealed bids on assets and making recommendations on each transaction to CAREPP. Based on the valuation, the commission also fixes the introduction price on shares when the transaction is carried out via the TSE.

In general, the valuations prepared by independent valuers or public agencies were satisfactory and, in most cases, the actual transaction price closely approximated the valuation by an average of 70 percent. In certain cases where the proposed price was significantly below the valuation, the low offers were rejected and the process of sale recommenced. Because of the relative success of the valuation efforts to date, the political debate on over- or undervaluation—which is common to many privatization programs—was limited in Tunisia. The absence of such controversy helped to

popularize and strengthen the support of GOT's commitment to structural reform.

Marketing: Government Circular 33 on Privatization clearly indicates that an extensive marketing campaign and a maximum amount of publicity always should be organized prior to each divestiture in order to inform the population and potential investors of the upcoming sale(s).

The key players in the marketing process are the PEs themselves and the TSE in cases of sales of shares. Announcements of all sales should appear in the national press before the privatizations.

No large scale public awareness campaign was organized by the GOT or CAREPP to communicate the importance of the TPP and its future impact on the Tunisian economy. However, initial publicity efforts and a series of seminars organized in 1987 and 1988 that were titled "Why Privatize" and "How to Privatize" had an important role in explaining privatization to the civil servants and the Tunisian business community. To interest foreign investors in particular in the TPP, GOT needs to organize international awareness campaigns in the near future.

Sales Process: Privatization Law 89-9 and Government Circular 33 defined the manner in which PEs could be sold. In Chapter 4, the process of privatization and the role of each of the key players were explained. All sales were to be accomplished, in a transparent way, through one of five methods: public sale of shares, sale of assets, EMBOs, merger, or liquidation. In practice, the sales procedure as articulated has been efficient and the application of these methods has worked well so far.

In general, the requests for proposals and/or prospectuses are well organized. They identify minimum acceptable conditions set by GOT (e.g., personnel situation or the terms of sale) and also realistically reflect the condition of the PEs. The Interdepartmental Commission—which opens, examines, and makes recommendations on the bids—is performing its functions well. Most of the privatizations follow a bidding process. All bids are submitted in sealed envelopes and opened by the Interdepartmental Commission. The negotiations are usually undertaken by the sector ministries.

If, in some cases, the bidding process does not result in a wholly satisfactory offer, the prime minister may decide that it is in the best interests of the state to proceed with direct negotiations between GOT and either those parties making offers or only those making the highest bid(s). For example, the latter was the case in the privatization of the refrigerator company Confort SA. The general rule is that the negotiation strategy, which is always based on the technical valuation, and the terms of sale are prepared well before the offering.

Once the sale price and other terms have been agreed on, the attorneys for the PEs (or the sector ministry) and the buyers work together to prepare deeds transferring the assets. In most cases, the financial cleanup is completed, the assets are free and clear of liens, and the personnel problems are resolved prior to the closing of the transaction.

Labor Issues: The question of personnel remains one of the principal preoccupations of the government in the implementation of the PE reform program, and CAREPP focuses special attention on labor issues involved in each privatization transaction. The Minister of Social Affairs and the General Inspectorate of Labor—who are members of CAREPP—play crucial roles in dealing with these concerns. The prime minister is also in regular contact with the unions to inform them of the impact of privatization decisions on the workers. To lessen this impact, ESOPs and EMBOs are encouraged, which in turn have positive affects by supporting the broadening of ownership in privatized PEs.

Until 1990, employees released because of privatization received severance payments, which were usually based on one month's pay for each year of service up to 12 months of pay, and a bonus of approximately 30 percent of the total amount. Depending on the number of employees and the length of their service, these severance payments were substantial. However, in 1991 GOT changed the formula to a unified 1.5 month's pay per year of service, with no limit.

According to an estimate by CTAREPP, the average percentage of redundant employees with PEs in Tunisia is in the vicinity of 20 percent. Out of the 77 enterprises examined by CAREPP through June 1990, 26 of the PEs were confronting the need to release personnel. Thirty percent of their employees (6,583 workers) were affected by restructuring or privatization of companies, with a total of 21,206 employees involved. CAREPP handled the reduction of a total of 6,483 employees (see Table 3).

Broadening Participation: In the VIIth plan, the GOT established expanding share ownership as a central objective. Highly desirable redistributional goals and the development of domestic capital markets are behind this policy, yet practical problems impede the attainability of these goals. Efforts have been made to encourage ESOPs and EMBOs to aid
in the redistribution of shares, in addition to their ability to lessen the impact of the TPP on labor.

The availability of funds to purchase shares is likely to be less of a problem in Tunisia. According to the Central Bank of Tunisia, there is a surplus of liquidity in the financial system. For example, in 1989 savings accounts totaled TD1.45 billion (US$1.7 billion). However, the capital markets are new and small and no domestic precedent exists for dealing in securities. The reforms of the TSE instituted in 1989 and 1990 will encourage the investors to give greater consideration to the TSE in order to diversify their sources of financing. However, consumers may opt to invest in instruments that may offer a higher rate of return than the interest rate on savings. In any case, cultural biases against TSE are apparent. Family holdings are reluctant to dilute ownership and control.

As a result of proper educational efforts, honest accounting practices, competitive rates of return on investments, and appropriate protection for small shareholders against manipulation and fraud, some individual savings may be channeled into securities. The privatization of some big and well-known PEs (e.g., Tunis Air) through the public offering of shares will also contribute to broadening share ownership and, in a larger sense, to changing traditional patterns of investment in Tunisia.

Incentives: GOT has established an incentive structure for investment, removing most barriers to investment in the Tunisian economy. Law 88-92 of 1988 provides incentives for development of investment companies under the previous Law 69-29 of 1969, which had created two categories of such companies: SICAV (variable capital investment company, open mutual fund) and SICAF (fixed capital investment company, closed mutual fund).

In 1989, a series of new investment, tax, and securities codes (Laws 89-49, Law 89-114, and Decree 89-530) offered customs and tax concessions to both foreign and local investors, targeting export-oriented sectors. Law 89-114 in particular reformed the income tax law and removed taxes from security revenues. Many of the new regulations and incentives took effect in 1990, and—so far—no clear assessment of their impact has been made.

In the privatization arena, Law 89-9 set up incentives to facilitate and accelerate privatization operations. These included the following:

- Tax rebate on company earnings and returns reinvested;
- Remission of sharing fees related to capital impairment;
- Remission of registration fees for transfer operations for real assets and business goodwill; and
- Remission of taxes on corporate earnings over the first five fiscal years of actual operations.

Privatization Proceeds: The proceeds from privatization were, in most cases, allocated on an ad hoc case by case basis, channeled to the FREP and used to pay for severance pay, liabilities, and outstanding social security contributions. In the future some of the proceeds will be treated as budget revenue—the 1992 budget foresees TD 10 million from privatization proceeds. Moreover, the government is contemplating using some of the proceeds for regional development funds to finance infrastructure and training.

Support and Cooperation between International Agencies

The World Bank's involvement in this reform program has been complementary to and coopera-

Table 3: Effect of Privatization on PE Employees

<table>
<thead>
<tr>
<th>Number of workers</th>
<th>% of affected workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer with the new buyer</td>
<td>2,989</td>
</tr>
<tr>
<td>Voluntary departures with severance packages</td>
<td>1,011</td>
</tr>
<tr>
<td>Anticipated retirement</td>
<td>515</td>
</tr>
<tr>
<td>Early retirement</td>
<td>1,241</td>
</tr>
<tr>
<td>Retirement</td>
<td>101</td>
</tr>
<tr>
<td>Transfer to other activities</td>
<td>327</td>
</tr>
<tr>
<td>Layoffs</td>
<td>291</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,483</strong></td>
</tr>
</tbody>
</table>
Privatization in Tunisia

tive with the support provided by a number of other agencies. The Bank is mainly supporting this program through a US$130 million public enterprise reform loan approved in June 1989. USAID is also financing technical assistance to the DGEP for the implementation of this program and to the stock exchange for development of the capital markets. The IMF included the public enterprise reform and privatization as key elements in the structural reform. IFC is playing a key role in privatization of textile companies and attracting foreign investors in other potential privatizations.

UNDP is also involved in financing technical assistance to strengthen capital markets. A Japanese Trust Fund provided funds to finance assistance requirements of priority public enterprises and to privatize cement mills and the dairy sector.

TPP Prospects

The progress of GOT economic reforms toward privatization promises further success during the VIIIth Plan. In the face of adverse circumstances in 1990–1991, the Tunisian authorities undertook strong and appropriate measures to keep the reform process on track, and have received outside support from the World Bank Group, IFC, UNDP, and USAID.

The prospects for continued privatization advances are promising. In addition to the 80 privatization transactions that took place between 1986 and 1991, an additional 44 transactions are in progress calling for total or partial privatization, including PEs, subsidiaries, and interest/equity held by GOT. Most of these cases have reached advanced stages in their valuation, publicity, or auction. The second phase of the TPP will concern privatization of larger PEs, such as cement plants, foodstuffs complexes, shipbuilding industries, and construction material companies.

Privatization in Tunisia has progressed so far on a case by case basis, without any published or well-defined privatization program, action plan, timetable, list of candidates for privatization, or list of those PEs excluded from privatization. The GOT is still very reluctant about publishing a comprehensive privatization program. The main reason behind this is the social consequences of such an announcement. At the outset, this approach worked reasonably well, during the period when mainly smaller PEs were being privatized, and while it was important to create momentum to boost the whole process.

However, even with the case by case approach, GOT will have to publish an annual privatization plan— including a concise list of candidates for privatization—to inform the local and international community of upcoming sales. Like countries such as Argentina, Mexico, Venezuela and the Ivory Coast, Tunisia will have to tackle the privatization of utilities, natural monopolies, and the commercial state banks.
Chapter Six

Constraints to Privatization

A variety of obstacles continue to confront the GOT privatization program as it enters its second phase, including private and public sector attitudes, taxation and labor issues, capital market development, and the need to broaden participation. GOT lacks the staff and expertise necessary to cope with the privatization of the large PEs and the increasing diversity and sophistication of the instruments used to complete these transactions. However, GOT has made steady progress to date on all of these issues and may overcome many of these obstacles through consistent pursuit of its private sector reform goals supplemented by outside financial support and technical assistance.

For the GOT to reach its target of divesting itself of all the PEs in competitive sectors and improving Tunisia's competitiveness in the international area, a business environment conducive to privatization will be necessary. This presupposes a stable macroeconomic environment with credible government policies and mutual trust between government and the private sector.

The GOT has already made substantial progress in removing legal, fiscal, and institutional barriers to privatization, and has provided incentives for increased investment and growth. Indications are that the removal of other important obstacles to business operations, such as restrictive labor and currency laws, will occur. However, traditional business practices, cultural biases, and an absence of necessary tools, such as standardized accounting procedures, may delay the effectiveness of these changes. Steps need to be taken to attract entrepreneurs, broaden participation in investment, and familiarize the Tunisian business owners and managers with competitive management practices. The introduction of new practices, investors, and thereby new businesses would bring dynamism and competitiveness into the business environment.

Private Sector Attitudes

Private sector business owners in Tunisia are traditionally risk averse and seek to share ownership only with other family members or close associates, professing discomfort with investment in businesses controlled by strangers. Long-standing incentives have supported business and investment strategies that promote closed ownership and control of enterprises, earning long-term returns through cash flows, and achieving growth through increasing the number of companies under close control.

Other impediments to the promotion of investment in PEs include the availability of low-risk and moderate-return investments encouraged by earlier GOT policies; uncertainties associated with the government's future position on private sector development; the historical absence of experienced Tunisian managers, finance professionals and institutions able to develop strategies for higher returns on investment; and an absence of vital capital markets to mobilize private investment. Most of these factors can be overcome if a successful track

record of viable privatizations, and higher returns on investment, can be achieved.

While issues of higher rates of investment and expanded capital markets are of continued importance in promoting privatization and private sector development in Tunisia, the private sector is also concerned with issues of access to new technologies, management techniques, and other dimensions of competition in the international arena. The PE sector previously led the Tunisian economy in the introduction of new technologies and industries, and these issues represent a new set of responsibilities and uncertainties for the owners and managers in the country's private sector.

The private sector in Tunisia has historically benefited from its monopolistic status and high levels of protectionism. In addition, petroleum exports fueled a boom that cushioned the Tunisian economy until the early 1980s. Issues of production efficiency or modern management were therefore largely ignored, and Tunisian companies did not vigorously implement standard accounting, technological, or marketing practices. Present day Tunisian industrialists have had little experience in responding to market demands. In one demographic profile, Tunisian industrialists appear to be technicians or former government bureaucrats, with stronger political than business skills. The heavily controlled and protected market environments in which they are accustomed to functioning may prove inadequate preparation for the management of businesses that must respond to market signals.17

Concerns about the adaptability of workers may also influence assessments of the TPP. Inappropriate experience, widespread retraining requirements, and issues of attitudes and incentives may consequently hamper the privatization process.

However, small- and medium-sized exporting firms are a source of domestic entrepreneurs, as are the ranks of those returning from work abroad. During the first phase, which emphasized small- and medium-sized PEs, the privatization initiative seems to have enjoyed some success in attracting such entrepreneurs. However, the relatively small size of this group does not allow it to contribute to the broadening—or “democratization”—of capital ownership, which is one of the prime goals of the TPP.

Concentration of Capital

GOT officials are concerned with the concentration of ownership of capital in Tunisia in the hands of a small number of private sector entrepreneurs or families, and wishes to allocate the ownership of the privatized PEs to promote a competitive, non-monopolistic and “equitable” distribution of these assets. In terms of its political dimension, dispersion of capital ownership is also desirable to free GOT and the TPP from the public perception that primarily the wealthy and well-connected benefit from divestiture efforts. The structure of the public sector in Tunisia has been monopolistic and oriented around distributive functions, and therefore the transition to divestment must address the creation of competition where none or little had previously existed while preserving flows of income and wealth throughout the economy. The GOT has identified the widespread distribution of ownership and control of assets as the best means to perform these functions and promote future growth.

Throughout the first phase of the TPP, PE assets were largely sold to a small group of buyers with access to financing, government officials, and relevant information. The nature of Tunisian capital markets, the small size of the enterprises in question, and the unsophisticated “all or nothing” character of early divestitures contributed to ownership of elements of former PEs by those wealthy enough to purchase whole blocks of assets at one time. Traditional business practice in Tunisia has encouraged such owners to maintain close control of these assets, hampering growth of liquid investment instruments or wider participation of private investment.

With the increasing sophistication and size of the deals to be attempted in the second phase of the TPP, the GOT will move away from this simple approach. The government must, however, provide preferences aimed at multiplying ownership, such as preferential arrangements with PE managers and employees, sales of common shares, or public distribution of shares. Until institutions like the TSE are strengthened and effective incentives are established, a wider capital market development will not be achieved.

In step with capital market development, an educational effort must be made to support the goal of broader share ownership. It will be necessary to promote investment in securities to the general public, articulate the role and functioning of financial markets, indicate sources of information and guidance on investing, and publicize regulations which protect small investors. Similar educational

17. Villemain, ibid. p. 35.
projects might be undertaken on the corporate level, explaining the advantages of expanded capital ownership and easing traditional biases toward closely held companies.

**Confidence-Building Measures**

Investor confidence has been supported by GOT policies in all areas involving PE and fiscal reforms in recent years. An essential part of the move to the private sector and market mechanisms has been the liberalization of banking since 1987. Prior authorization requirements for almost all credits have been lifted, and interest rates are free except for caps on sight deposits and a cap on deposit bank lending rates, which can reach 15 percent, compared with an inflation of 6 to 7 percent per annum.

Reform of taxation has replaced distorted and complicated direct and indirect taxes with taxes that are simple and economically rational. Under the program supported by the Bank, a multitude of indirect taxes was gradually grouped around a few tax rates and then, in 1988, replaced by a value-added tax (VAT) on production. The VAT was extended in 1989 to wholesale distribution, with the exception of foodstuffs. The system of direct taxation was replaced in 1989 by new direct taxes that are simple and low on personal incomes and profits—the maximum rate on incomes and profits is 35 percent. In particular, their transparency is ensured by the absence of double taxation: for example, profits at the corporate level and dividends as personal income. Customs duties have also been lowered and simplified; the maximum import duty has been reduced to 43 percent from over 200 percent, while export duties have been removed from all but a handful of items.

Despite the many GOT liberalization and reform efforts and the creation of attractive incentives for investment and private sector development, confidence in GOT’s private sector policies has been relatively slow to build. The evolution of attitudes and confidence in the permanence of the government’s commitment to withdrawal from competitive sectors and to liberalize the economy may require a number of years of consistent policy application. The VIIth Plan’s continuation of many of the structural adjustment policies, commitment to high levels of economic growth, and inclusion of controversial labor and exchange rate reforms will support increased confidence as the reform process moves toward a decade of concrete accomplishments. An overvalued exchange rate, administrative allocation of foreign exchange and hence cumbersome and erratic access to imports cannot but be serious obstacles to privatization, not only with respect to foreign investors. Hence, reducing the discrepancy between the official and parallel exchange rate to a narrow margin is important.

The reforms supported by the Bank’s loan of US$250 million (Economic and Financial Reforms Support Loan) since December 1991 aim to make the private sector more efficient and ensure that it is supported by a sounder, more market-oriented financial system.

**Capital Market Development**

Shallow capital market development and the lack of access to domestic savings are obstacles to the TPP. The TSE, for example, has been in operation for 20 years but nonetheless possesses an extremely thin trading base. Funds amounting to approximately 1 percent of total private savings deposits have been channeled into the TSE. In addition, it has low trading volumes, increasing from TD3 million in 1971 to TD55 million in 1988 (at the launching of the private sector development initiative), to approximately TD68 million in 1990. Bond trading, which appeals to risk-averse investors and might appeal to a wider range of potential investors in the Tunisian case, totaled less than 1 percent of TSE operations. Until July 1990, the TSE was composed of the Marche Permanent for listed companies and the Marche Occasionnel for unlisted companies. As of November 1991, the TSE covered the Premier Marche, composed of some ten “blue chip” companies, and the Second Marché, made up of smaller, riskier companies, with the intention of fostering their growth.

The development of the TSE has been constrained not only by low trading volume, but by factors of liquidity, the structure of stock ownership, higher levels of taxation for dividend and bond income, and shortages and unreliability of financial reporting information. Liquidity issues have been hampered by historically low or even negative real return on securities, and by TSE trading procedures such as “fixing,” which runs counter to “continuous bidding” practices used in most industrialized countries. Fixing results in the closing of bids on an individual company, blocking further bidding until the next trading session. Issuance of “nominative” stocks, which required registration
and reissuance of stock certificates to new owners, significantly slowed the transfer process because of Tunisian companies' lack of transfer agents.

Financial intermediation services are also undeveloped, with only 17 registered with the TSE as of 1990. Most of these are banks, providing buying or selling services as a courtesy to clients with no incentive (such as commissions or performance-based bonuses) to accelerate Stock Market activity or development. As a service provided to attract depositors rather than a line of business oriented toward facilitating customer investments, banks generated little profit from their financial intermediation activities.

They therefore have few, if any, resources available to perform financial analysis and reporting, conduct market research, or promote investment opportunities. In addition, underwriting, and therefore guarantees of sale of security issues, has not generally been available through these intermediaries. There are virtually no investment banking companies or brokerage firms in Tunisia that can raise and organize capital for clients and GOT on a deal by deal basis.

Other constraints affecting the TPP include a lack of local funds, a limited number of techniques and instruments for project finance, and the difficulty of mobilizing external private financing for divestiture. The eight development banks in which GOT has half ownership are currently operating with the objectives of i) facilitating the financing of projects through their own funds or mobilization of other sources; and ii) identifying and promoting domestic and international partnerships. However, these banks are not equipped to mobilize adequate national and international equity for the successful implementation of the next phase of the TPP.

Labor

Tunisia has strict labor laws, which can act as a disincentive to foreign investors, though these codes are targeted for reform under the VIIIth Plan. The laws restrict enterprises' ability to lay off workers, and render potential investors reticent to take control of PEs and their work forces. These labor laws are not applicable to off-shore enterprises and many domestic firms appear to find a variety of means to circumvent many of their requirements.

Employee resistance to privatization efforts represents one of the most formidable obstacles that privatization initiatives face, as these workers and managers recognize the personal adverse impact of reductions in staffing and liquidation of the PEs. With these justified concerns regarding job loss is also the realization that pay and benefits within the PEs surpass those available in the private sector, resulting in net salary reduction even in the event that individual jobs are preserved.

A case in point is the privatization in 1989 of Confort SA, a manufacturer of refrigerators. During the negotiations for the final sale, the process was complicated by an employee strike and occupation of the premises. GOT resolved the conflict through the inclusion of the union and employees in the negotiations. In the TPP, the GOT has identified and integrated labor concerns at the highest levels of decision making, and as noted earlier, information is shared directly between the Minister of Social Affairs and the unions affected by GOT privatization operations.

A large number of the layoffs of the approximately 3,500 redundant workers affected by privatization decisions to date have been effectively avoided through a variety of measures. These have included incentives to purchasers within the terms of sale to maintain staffing levels, as in the privatization of a GIAB Flour Mill in 1990 (keeping the entire work force of 151) and the Confort SA Refrigerator Unit (retaining 600 of 817 employees).

Experience in many countries has shown that ESOPs and EMBOs are effective means of generating employee support and easing resistance to privatization. These methods of privatization also address issues of broadening capital ownership while assisting in the reorientation of formerly state-owned enterprises toward a market economy. ESOPs, even though a form of participatory ownership, leave a modern, market-oriented and profit-motivated corporate structure in place, while distributing the profits of the corporation more widely to both public/private owners and the enterprise's workers. In addition, ESOPs and EMBOs are a grass roots approach to capital market development and can provide incentives to workers to improve productivity after privatization because they derive direct benefit from such improved performance. ESOP/EMBO financing provides a link between workers, property, and productivity, and is a means to extend the opportunity to own productive assets to a wider range of participants. In Tunisia, successful employee participation plans have taken place in the cases of SOGITEX (textile sector) in 1988 and ONP (fisheries sector) in 1989.
Chapter Seven

Conclusions: Lessons Learned

The TPP is moving slowly but steadily. Much has been accomplished since 1988, and the prospects for the future are promising. Today, the Tunisians with responsibility for privatization within the GOT are familiar with the operational details of the various stages of the privatization process and have mastered the application of several methods for privatizing PEs.

The strategically targeted, cooperative, and coordinated nature of the assistance among the bilateral and multilateral agencies has been a key asset as the GOT pursues its commitment to privatization, with different agencies sponsoring a variety of technical assistance, funding, or other resources based on GOT needs. The World Bank was instrumental in supporting the GOT’s own privatization initiatives; the International Finance Corporation (IFC) provided financing to specific firms; USAID offered strategically placed, on-site and effective technical assistance to the CAREPP and the TSE; and the United Nations Development Programme (UNDP) funded studies and assistance to the TSE.

In the course of the GOT privatization effort, a variety of lessons have been learned that are applicable to privatization programs in a wide range of settings. Despite considerations that are specific to the Tunisian economic, political, and social context, the following general points can be made:

i. The will to privatize must be determined and consistent from the highest echelons of government down. Privatization must be supported by members of the ministerial ranks and influential advocates outside of the ministries as well. In Tunisia, the prime minister’s office has direct responsibility for the TPP, which has been consolidated into a single central authority. Centralizing the program and locating it at a high level defused jurisdictional disputes and rivalries between the Finance Ministry and the Central Bank, and streamlined the process.18

ii. The role of public awareness campaigns can be critical in overcoming opposition, notably among labor organizations, if developed and implemented skillfully. In the Tunisian case, well-organized and publicized seminars such as “Why Privatize” and “How to Privatize” played a significant role in defusing any outcry that GOT was “giving away the national patrimony.”

However, seminars such as “Why Privatize” must quickly progress from theoretical discussions of privatization to action-oriented consideration of the details of the process. Once the divestiture strategy has been accepted, it is necessary to use the initial momentum to deal with specific, practical problems that arise in implementation and to deal with them as rapidly as possible.

iii. Early establishment of a legal framework and of an operational institutional framework is essential to steady progress, as in the consistent implementation of the TPP.

iv. The most successful privatization programs are those in which privatization proceeds in the context of an overall liberalization policy. To create the favorable investment climate necessary to ensure privatization of a wide range of PEs, entrepreneurs must be confident that such transactions are being facilitated by government economic policy. Without this perception, it is difficult to mobilize domestic capital or to attract foreign or “flight” capital.

v. Transparency is an important consideration for all government privatization programs. The development and justification for individual transactions must be a matter of public record. Ensuring that the enterprises are to be run according to the highest standards of accountability may retard early progress and may risk crucial program momentum. However, too little openness may result in political recriminations later. In the Tunisian case, an acceptable middle ground appears to have been identified through a system of accepting buy out bids at public auction, then, if necessary, concluding the final transactions through private negotiations.

vi. Tunisia has only one privatization commission, while other countries have as many as three. Establishing an effective relationship among CAREPP, as the decision making body, CTAREPP, the technical review group, and the DGEP, the actual working office, required a great deal of time and effort. However, the constructive and cooperative interaction that ensued underscores the importance of advance planning and coordination. Also, it is always recommended that the sale be given maximum publicity and that once the decision has been made to sell, the authorities move quickly to prevent loss of employee morale.

vii. The Tunisian case reaffirms traditional thinking that initial privatizations should be undertaken with enterprises that are not highly complex in their organization and possess good prospects for success. Also, privatization should be carried out with a low profile. It is important in working out initial problems in the early privatization process to achieve successes through the divestiture of less complicated and more attractive PEs and to move through the learning curve with a minimum of criticism and opposition. Often these early privatizations concentrate on small to medium-sized firms. It is less costly to make mistakes with the small PEs. Also the government can educate the investing public so that higher prices can be sought for larger PEs at a later stage.

viii. Privatization should operate on a mixed timetable that moves forward on several fronts simultaneously. These progressions should include the settling of policy matters, the setting forth of the procedures, and the actual conclusion of the transactions. In Tunisia, some transactions were able to take place before procedures were made systematic. It was only in the second quarter of 1989—when the TPP was well underway—that the prime minister’s office officially requested that a written governmental privatization program be prepared. However, this program has not yet been approved by GOT.

ix. Good working relationships both between and among the government of Tunisia and bilateral and multilateral aid agencies interested in supporting Tunisia’s plans for privatization have been advantageous to the program. The World Bank, IFC, UNDP, and USAID have coordinated closely, both with the GOT and with one another in supporting a range of GOT privatization initiatives related to privatization.

x. 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 the most successful bidders, have been Tunisian nationals.

xi. The proceeds from privatization were, in most cases, used to pay for severance pay, liabilities and outstanding social security contributions. It is recommended for political and perhaps also fiscal reasons that the net proceeds of privatization be used for regional development funds to finance infrastructure and training and other social programs rather than being amalgamated into the general budget revenue.
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