Privatization of State-Owned Enterprises (SOEs) in Libya: An Evaluation of the Policies, Procedures and Experience

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The 4th Annual conference of Economic Forum of Entrepreneurship & International Business

Venue: London University Institute in Paris

January 31st, 2014

Organized by: ECO-ENA: Economics & ECO-Engineering Associate, Inc., Canada

Preface and Purpose of Study

- **Preface:** Privatisation of SOEs has emerged to be one of the key issues that have dominated governments' economic planning for many developing countries. The success of such policy depends on the specific situation of the state of the economy, politics and the sector that is involved in the process.
- **Purpose:** This study seeks to review the privatisation program of SOEs in Libya, highlighting the major tools and mechanisms employed, and the achievements and constraints faced by the authorities in privatizing of Libyan Arab Airlines (LAA).

Design/Methodology/approach

A research conceptual framework has been developed to investigate the specific aspects of the privatisation process in the air transport industry in Libya. The conceptual framework was developed based on Ramamurti (2000)'s multi level of privatisation. Moreover, the research followed a case study method with a single unit of enquiry that has in turn several sub-units of enquiry. The unit of enquiry is the privatisation process in the air transport industry in Libya, while the sub-units are the elements of the air transport industry that were privatised.

Prior Studies

- Beh and Alameer, 2012; Bell,1995; Beyer et al, 1999; Kikeri et al., 2005; Megginson et al., 2004; Ramady, 2006.
- Although, there is theoretical and empirical evidences on the privatisation process at country level, little attention given to the privatisation process at firm level. De Castro and Uhlenbruck (1997) argue that research on privatisation from a firm- level perspective is clearly lacking a theoretical and an empirical basis. This research shows how the privatisation process is carried out and how the privatisation process phenomenon is observed at firm level. The research will contribute empirical evidence to the studies of privatisation in developing countries.

Privatisation in North Africa and the Middle-East Regions

- Little (2011) indicated that the Middle East and North Africa (MENA) accounted for only 7% of the total value of privatisation transactions in developing countries in the period (2000-2008). Moreover, it stated that two countries, namely Egypt and Morocco, account for more than 60 % of the total value and number of privatization transactions in this period. In the other words, privatisation so far has almost been non-existent in most of the Middle East and North Africa regions (for example, in Libya it is only, 1%), and most of it has taken place outside "strategic" sectors such as energy and financials.
- These figures were confirmed by Beh and Alameer (2012), who found that privatisation of SOEs in the Middle East and has been slow relative to other regions, especially Latin America, East Asia and South-east Asia.

Privatisation in Libya (1)

Initially, as a response to the drop in the oil market in the mid-1980s, the Libyan government adopted its first economic reform program. It introduced the concept of *Tashrukiyya*, collective ownership that allowed for the creation of cooperatives to which some partners contribute labour and capital (Vandewalle, 1998). The *Tashrukiyya* system allowed limited private investments in Libya for the first time since 1977. The aim was to encourage the private sector to participate in the service and light industries as a means of overcoming their inefficiency (Altunisik, 1996).

Privatisation in Libya (2)

The second wave of privatisation which began in 1992 was still in response to the drop in the oil market prices in early 1990s and the poor financial performance of many public sector firms in terms of low productivity. The government proceeded with another economic reform program. However this time, the government introduced the concept of *Sharika Musahima*, joint-stock company. It was an effort to surpass the previous privatisation experience and share the state burden with the private sector (Vandewalle, 1998). The program aimed to liberalise the wholesale trade and attract foreign investments in response to the international sanctions related to the Pan Am bombing over Lockerbie, Scotland, in 1988 (Otman and Karlberg, 2007).

Privatisation in Libya (3)

In 2003, the Libyan government announced a large-scale privatisation program which introduced the third privatisation wave, *Al Tamleek*. It was described as a program of broadening the ownership base through encouraging residents to own the public firms to avoid concentrated ownership (Alfourjani, 2005). The program aimed to restructure the Libyan economy towards building popular capitalism through spreading share ownership more widely (Alsouia, 2005). It also aimed to transfer the role of the state from the owner to encourager of the economic activities (Shernna and Alfourjani, 2007). The program also aimed to make the country eligible for World Trade Organisation (WTO) membership (Aboujdiryha, 2011; Kamaruddin and Abokaresh, 2012).

Privatisation in Libya (4)

The Privatisation Investment Board (PIB) (2013) outlined the barriers that may limited the growth of private sector in Libya as following:

- Lack of proper infrastructure.
- Lack of managerial efficiency.
- Excessive and unfair tax charges and customs fees.
- Lack of transparency and freedom of information exchange.
- The lack of protection of local products.
- Lack of visibility study for the privatised firms.
- Lack of legal framework for evaluation of privatised firms prior to its privatisation led to price discrimination.
- The ideal number of employees was never taken into consideration, nor were their experience and qualifications considered.
- The firms' operation and efficiency fell below standards due to lack of availability of the required equipment and spare parts.
- The lack of internal bye-laws to ensure partnership compliance.
- The new owners of these firms did not maintain full insurance on their privatised assets.

Privatisation in Libya (5)

However, to gain more insight into the privatisation processes in the context of Libya this study seeks to review the privatisation program of SOEs in Libya, highlighting the major tools and mechanisms employed, and the achievements and constraints faced by the authorities in privatising of Libyan Arab Airlines (LAA).

The Findings (Cross-Case Analysis)

- Managerial behavior,
- Exposing company to capital market,
- Introduction to new technology,
- Differences in share distribution,
- Downsizing (employment), and
- Corporate governance.

(Conclusion)

Airline / Issues	Kenya Airways	Royal Jordanian Airlines	Libyan Arab Airlines
Date of Privatisation	1996	2001	2005
Government will	Strong	Strong	Weak
Clear statement and determination from the government to privatize	Yes. Throughout the whole process	Yes. Throughout the whole process	Not clear statement
Method of privatisation	Initial Public Offering (IPO)	Initial Public Offering (IPO)	Trade sale
Ownership structure	23% Gov. 77% Private	29% Gov. 71% Private	60% Gov. 40% Private
International institutions involved in the privatisation process	World Bank through the IFC	IMF World-Bank through the IFC	None
Airline alliances	Sky-Team	One World Alliance	No
Access to stock market	Yes	Yes	No

Research Limitations

While the Ramamurti (2000)'s model is characterized by flexibility and multi-level viewpoints (Firm-level, industry-level and country-level), this study limits itself with firm-level only. The other levels could be an area for further research.

Originality/Value

The research contributed to the body of knowledge perspective in different ways. Primary, it is the further investigation and analysis that carried out at firm level by exploring the impact of privatisation on certain elements, which were considered in our analysis of the research conceptual framework. Furthermore, our findings shall contribute into the existing theory in the areas of privatisation process at firm-level by providing insights into the process in the specific situation of air transport industry in Libya; a developing country in transition.

Thank you so much for your attention