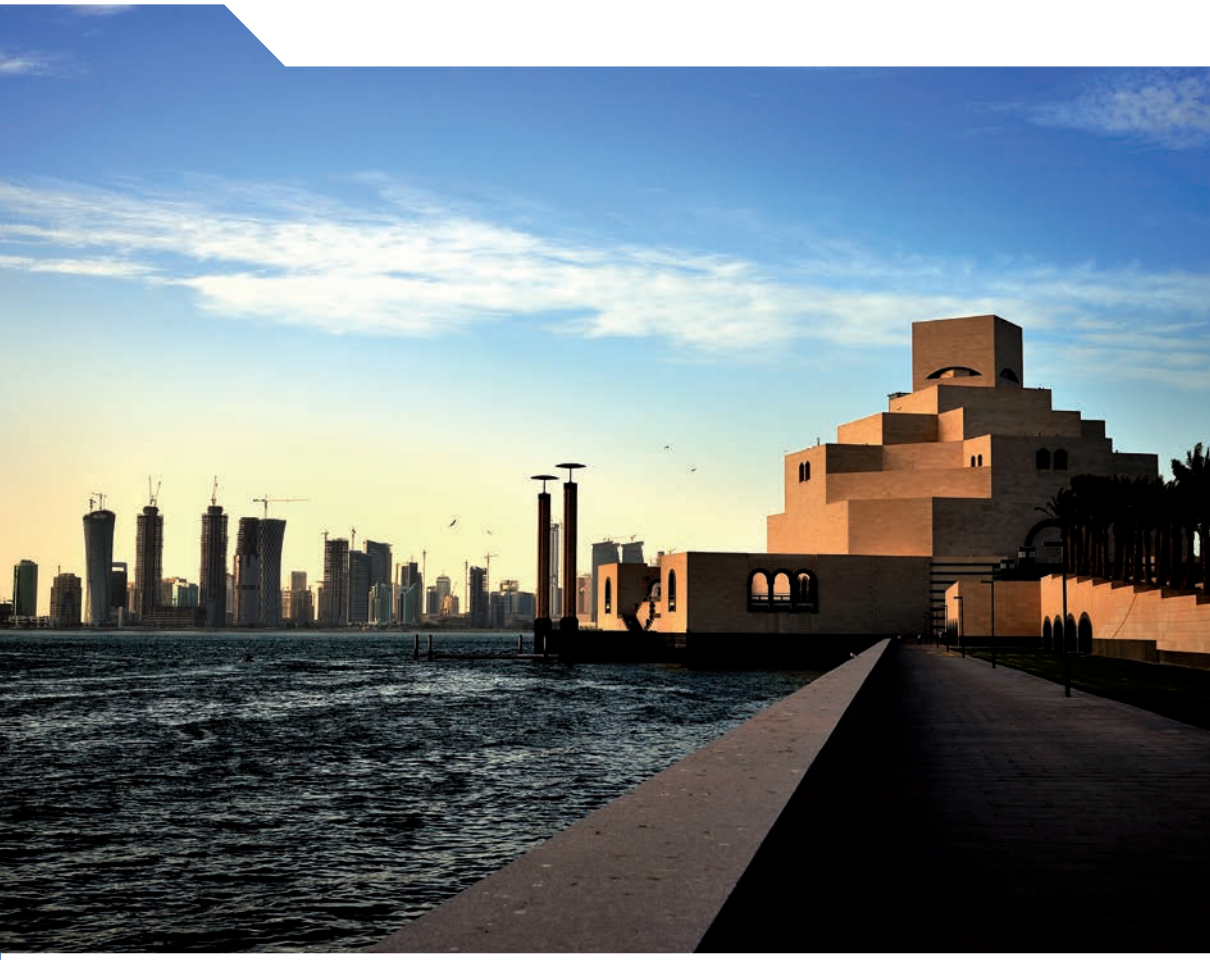
State-Owned Enterprises in the Middle East and North Africa

ENGINES OF DEVELOPMENT AND COMPETITIVENESS?



OECD

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Please cite this publication as:
OECD (2013), *State-Owned Enterprises in the Middle East and North Africa: Engines of Development and Competitiveness?*, OECD Publishing.
http://dx.doi.org/10.1787/9789264202979-en

ISBN 978-92-64-20296-2 (print)
ISBN 978-92-64-20297-9 (PDF)

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Foreword

State-owned enterprises (SOEs) are an important feature of the economic landscape in the Middle East and North Africa (MENA) region and yet, their contribution to the local economies has not been subject to a systematic investigation. SOEs in the region are generally perceived as inefficient and subject to sub-optimal governance arrangements but at the same time, and somewhat paradoxically, they are often charged developmental mandates that typically go beyond their stated commercial objectives. This phenomenon owes to the historically prominent role of the state in the economic development in the region and the recently renewed interest in using select SOEs as anchors of national industrialisation and competitiveness strategies.

This publication seeks to accomplish two objectives. First, it contributes to the limited existing literature on the role of SOEs in the economic development by examining the contribution of MENA SOEs to industrial development, diversification, poverty elimination and the provision of goods and services to the public more generally. Second, it provides an overview of the diverse mandates and roles of MENA SOEs and assesses the costs of these obligations with a view to isolate ownership and governance practices that have contributed to the success of some companies and poor performance of others. Recommendations to policy makers as well as management and boards of SOEs are made based on these observations at the end of the publication.

This publication was prepared for publication by Alissa Amico, Project Manager of OECD's work on corporate governance in the MENA region and Steffen Hertog, a Senior Lecturer at the London School of Economics and Political Science (LSE). The authors would like to thank members of the OECD Taskforce on Corporate Governance of SOEs in the MENA region as well as members of the OECD Secretariat who have provided valuable comments. This publication was prepared with research assistance of Moritz Schmoll, a graduate student at the London School of Economics. This book, including the recommendations contained in the concluding chapter, were presented and discussed during the 5th annual OECD Taskforce meeting on corporate governance of MENA SOEs held in July 2013 in Istanbul, Turkey.

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Executive summary

State-owned enterprises (SOEs) constitute an integral feature of almost all economies in the Middle East and North Africa (MENA) region, and yet, unlike family-owned or listed companies, they have for the most part not been subject to systematic research, either in a regional or in a country-specific context. The OECD publication of country case studies of SOE sector reform in the MENA region entitled *Towards New Ownership Arrangements in the Middle East and North Africa* aimed to address this gap, highlighting the progress made and the challenges tackled by governments in recent years in privatising SOEs and upgrading the regulatory frameworks for companies remaining under state control.

This second publication aims to further the understanding of state intervention in MENA economies by providing a holistic perspective of the economic, social and developmental roles of MENA state-owned enterprises. In so doing, it investigates the key social and economic objectives fulfilled by SOEs, including provision of specific goods and services, employment generation, developing housing for the poor, attracting tourism, or encouraging the formation of sectoral clusters. It also explores the direct and indirect costs associated with the non-commercial objectives assigned to SOEs and investigates how governments and companies can deal with these multiple mandates and obligations.

There is a longstanding debate over whether SOEs should be used as an instrument of developmental and industrial policies. This publication aims to contribute to this debate by highlighting how and in what regulatory and political economy environments governments have been successful in harnessing SOEs as a motor of economic competitiveness and development. This exercise is important given the widely variable performance of SOEs in the MENA region, even within individual countries. Considering that the size of the SOE sectors in the region is unlikely to decline significantly, an evaluation of the effectiveness of these companies is necessary to assess the efficiency of the state in the marketplace.

A multitude of other policy reasons to examine the contribution of SOEs to MENA economies exist, not least to determine whether government companies are indeed best positioned to fulfil the tasks they are charged with, how efficient they have been in fulfilling them, how transparently they are

compensated for provision of extra-commercial services, and ultimately how this affects the competition between state-owned and private companies. In particular, the question of competitive neutrality is timely to address in the region, considering that in a number of sectors such as in telecommunications, state incumbents are now facing competition from private sector providers.

The need to pose these "new" questions also reflects the fact that the role of the state in the region's economies has evolved significantly in the past few decades. A number of strategically important SOEs were established by governments in the region decades ago, often as part of the nation-building process. These SOEs were often accorded privileges and exemptions that enabled them to become national, and indeed in some cases, international champions. In that sense, these companies have been able to successfully fulfil their mandate. And yet, as MENA economies become more integrated globally and exposed to international competition, as some sectors are being liberalised, and as some SOEs operate beyond national boundaries, their role has evolved.

Whether SOEs are indeed best positioned to deliver on certain public policy outcomes is debatable and as highlighted by case studies included in this book, depends on a host of factors. It is undisputable that some SOEs in the region have played a positive role in industrial development, poverty reduction and infrastructure development. The success of these companies has hinged on the explicit identification of extra-commercial objectives and the creation of transparent compensation mechanisms. In addition, the risk of overburdening successful companies with multiple objectives that might distract management from core functions also needs to be considered.

An important policy priority for MENA governments is to maintain a level playing field between SOEs and their private sector competitors. Competition law and policy is emerging in the region and recent years have seen the establishment of competition authorities, though few investigations into non-competitive behaviour by SOEs have been conducted so far. In order to create competitive neutrality, competition authorities should be given the authority to conduct investigations and the division of regulatory responsibilities between competition authorities and sectoral regulators should be delineated.

Explicit accounting for the cost of non-commercial mandates of SOEs coupled with clear and transparent mechanisms of subsidisation are also important for ensuring a level playing field. The ad-hoc imposition of developmental objectives on SOEs has negatively affected their performance and also raised the fiscal risk for governments since SOEs can require fiscal injections in a way that is not predictable and transparent. Explicit or implicit subsidies to SOEs be identified and re-evaluated with a view to determine whether they are the most economically efficient means of attaining set social objectives.

Transparency is also needed around employment by SOEs in the region, as indeed by the public sector at large. In most MENA countries, SOEs remain a key source of employment and in a number of instances restructuring of these companies have been stalled due to social concerns. In the past, the requirement that SOE employees can retain their posts for an indefinite period after the privatisation has raised the cost of privatisation and in many cases resulted in governments deciding not to divest. Experiences in mechanisms of re-allocating and training SOE employees and providing a social security net for them need to be examined further.

In the wake of recent events in the region, the public is demanding better transparency around government ownership of companies. A growing number of MENA countries are demonstrating an interest in issuing a code on governance specific to SOEs, following the example of Egypt and Morocco. To facilitate better disclosure by SOEs, ministries exercising ownership rights in SOEs should introduce governance codes and/or guidelines for disclosure and provide incentives for companies to provide better quality reporting on financial and non-financial performance

To further strengthen SOE transparency, it is suggested that all SOEs be made subject to procurement legislation and should publish tender offers for all transactions exceeding a certain threshold. To address other risks of impropriety and corruption in SOEs, examples of which have been reported in recent years, it is advised that state audit bodies should be given the power to conduct audits of SOEs and publish the results publicly or, at the minimum, report them to the relevant branches of the executive. All these and other measures mentioned in the publication should go a long way to strengthening the efficiency of SOEs in the Arab world.

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Chapter 1

Introduction to state capitalism in the MENA region

The purpose of this introductory chapter is to provide a context to the emergence and the ongoing development of state capitalism in the Middle East and North Africa region. This chapter presents the factors leading to the establishment of state-owned enterprises in the region and examines diverse considerations such as industrialisation objectives, emergence of sovereign wealth vehicles, and the slowdown in privatisation that have resulted in the constant and important role of MENA governments as owners of commercial assets. The chapter also comments on the clarity of the scope of MENA SOE sectors which has been improving in some jurisdictions but still needs to be clarified in order to allow for a more informed discussion of the options for improving SOE performance and efficiency.

State capitalism in the Middle East

The rise of state capitalism has been a popular theme of public and academic debate and the role of state-owned enterprises (SOEs) as the main vehicle of this rise has increasingly come into focus in recent years. While in the 1980s and 1990s – in the days of the "Washington Consensus" – attention was largely fixed on reducing the role of the state in the economy, this economic "orthodoxy" is less prominent in the public debate today, where counties as diverse as Norway, Egypt, Singapore and a number of European transition economies continue to have relatively large SOE sectors. Globally, it is estimated that 28 out of the 100 largest companies in emerging markets have a government stake (*Economist*, 2012) and that state participation in the marketplace has generally not seen any significant retreat, except in a few countries with a heavy socialist legacy.

At the outset, the creation of state-owned enterprises has generally been motivated by challenges such as high natural barriers to entry in certain sectors, capital markets failure, and the lack of incentives for the private sector to perform certain activities. In emerging markets in particular, SOEs have been and continue to be utilised as a motor for industrial development, provision of key goods and services, generation of employment and a variety of other objectives, some purely commercial, others social in nature. In recent years, this growth in the functions SOEs are charged with reflects a level of disappointment with laissez-faire approaches on the one hand, and the success of some economies such as Singapore or China in using SOEs as a motor of capital markets development, sectoral policies, infrastructure provision and even poverty reduction on the other.

In the Middle East and North Africa,[1] the role of state-owned enterprises in the economy has not received much, if any attention until recently. This is paradoxical since state-owned enterprises played an important role in the process of state formation in the Middle East, having been charged with supporting industrial and social development. Along with companies formed by large merchant families, SOEs are some of the oldest enterprises in the region. And yet, for decades, the operation and governance of key state-owned companies in the region was clouded in secrecy and while the regulatory frameworks for private companies, especially listed enterprises, have evolved rapidly over the past decade, governments have been reluctant to impose similar standards on enterprises under their ownership.

As a result, the majority of state-owned companies in the region remain "elephants among gazelles", often suffering from lower productivity and facing difficulty competing with private sector incumbents (Amico, 2012). At the same time, research has highlighted the existence of "islands of excellence" among MENA SOEs: companies, which demonstrate a level of economic performance and sophistication in governance and strategy that is remarkable, even by private sector standards (Hertog, 2010). In a number but not in all cases, this success owes to the special privileges and exemptions from regulations that SOEs have profited from, either on an ad-hoc or on a continuous basis. This is especially the case for Gulf-based SOEs that have historically benefitted from subsidised inputs and that have been exempt from some aspects of national regulations – privileges whose justification might in some cases have been stronger at the inception than once industries where SOEs operate in have matured.

At the same time, the original vision of the role of SOEs has changed over the years as governments, having achieved higher levels of economic development, no longer view them as a mechanism of nation-building and infant industries protection, but as a source of competitiveness. In addition to being overseen by their line ministries or sectoral regulators, SOEs in a number of countries are now also affected by policies and plans of governmental organs charged with developing a broader economic strategy for their country. For instance, in the UAE, the Emirates Competitiveness Council addresses in its work issues related to optimising the efficiency and governance of SOEs, recognising that while some over-indebted SOEs can be a source of fiscal burden, others can be a source of economic competitiveness.

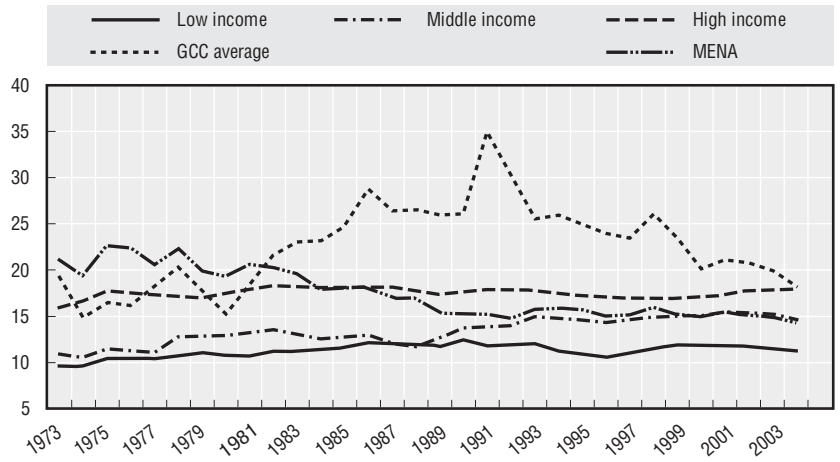
Continued attention to SOEs is warranted due to the fact that their ongoing contribution to Arab economies is both significant and in some cases growing not only in purely economic terms but also in terms of their non-commercial mandates. This growth is not unintentional but part of a carefully designed economic development strategies. As will be explored in this report, MENA SOEs perform a number of functions and fulfil a number of strategic objectives that make their success, not only in purely economic terms – but also in a broader sense – crucial for the ongoing economic development of the region. On the other hand, as explored below, the costs associated with under-performing SOEs can be tremendous, not purely in terms of the impact of subsidies on the public purse but also in terms of the quality of service delivery and government accountability towards the citizens.

Size of SOE sectors not declining

The fairly far-flung presence of MENA SOEs is both a legacy of "late development" and, in some countries of the region, a legacy of anti-colonial

struggle that ushered in nationalisations and state-oriented development thinking in the early phase of independence. Even compared with the rest of the developing world, the MENA region has a fairly statist legacy. As Figure 1.1 below demonstrates, it has been shedding this legacy in terms of the general share of government in GDP. This has involved not only general reductions in state spending – as evidenced in the figure – but also targeted privatisation and SOE downsizing programs.[2] Nonetheless, public enterprise retains a vestigial presence across MENA economies that is probably larger than in other regions – and in some cases, such as in the Gulf Co-operation Council (GCC) countries – has in fact started to expand again as an indirect result of the spikes in oil revenues.

Figure 1.1. **General government final consumption expenditure (as a % of GDP)**



Source: World Bank Development Indicators (2013), *http://data.worldbank.org/data-catalog/world-development-indicators*. Accessed March 2013; Amman Stock Exchange (2013), Privatization in Jordan, *www.ase.com.jo/en/privatization-jordan*.

State-owned enterprises in the region play an important role in national economies and development strategies and will continue to do so, at least in the foreseeable future. This observation is supported by a number of important trends. First, the privatisation process in the region has come to a virtual halt with few sizeable privatisations in the pipeline either in the Gulf, where a number of companies with lower strategic importance have already been partially or fully sold off, or in North Africa, where significant privatisation transactions have already been carried out (with the exception of Algeria and Libya), or in the Levant where SOEs are not dominant (with the exception of Syria).

In recent years, Egypt, Tunisia and Morocco have led the way in terms of privatisation transactions. The current political climate where governments are under pressure to provide public sector employment and where criticism of past privatisation deals is often heard,[3] is not conductive to further privatisation activity, regardless of its economic merits. In Egypt, where the Mubarak-led government pursued an aggressive privatisation strategy, privatisation activity has stalled and in other countries of the region that have experienced revolutions, privatisation is now clearly "out of fashion", despite fiscal pressures.

Tunisia is the only country in the region considering privatisation as a viable policy alternative for restructuring its SOE sector. For instance, the sale of a 25% government stake in the country's top mobile carrier is planned and efforts are currently underway to restructure the remaining three public banks, which are currently loss making. In addition, the government is planning to divest its stake in over 100 companies in which the former regime had stakes identified as illegitimate. In Iraq, large privatisation transactions are also being conducted in 2012-13 as part of the licensing agreement of the 3 telecom operators that previewed a 25% sale in each of the companies through an IPO. Although these transactions are anticipated to significantly increase the size of the local stock exchange,[4] but will have a limited impact on the overall size of the SOE sector in Iraq.

The divestments planned by the Moroccan government in the next few years are not significant, compared to previous transactions such as the sale of Maroc Telecom in 2004 that provided a major impetus for the development of the Casablanca Stock Exchange. Indeed, the slowdown in privatisation poses a significant challenge for regional stock exchanges that used to rely on IPOs of SOEs as a major source of local and foreign investor interest. The slowdown in privatisations, coupled with a generally difficult economic climate, has resulted in minimal equity raised on the regional markets in 2011-12, as highlighted in the Table 1.1 below.

In the GCC countries, smaller scale privatisations are being considered but with regard to large transactions such as the long awaited sale of Kuwait Airlines, governments have been careful and slow to decide. In Saudi Arabia, some IPOs have been conducted in 2011-12, but these are not large transactions compared with past deals such as the telecom privatisations of the 2000s. Kuwait and Oman are currently considering privatisation as a means of restructuring some underperforming SOEs and developing capital markets, but no specific plans have so far been formulated. Only one privatisation transaction via an IPO was conducted in the region in 2012 – of the Saudi Airlines Catering Company – raising over 350 million USD. No major privatisations through IPOs have been announced for 2013-14, with the

Table 1.1. **MENA IPO activity by market, 2010-2012, in million USD**

	Stock exchange	2010		2011		2012	
		Number	Value	Number	Value	Number	Value
Saudi Arabia	Tadawul	9	1 019	4	416	7	1 419
Morocco	Bourse de Casablanca	2	166	3	49	1	3
Syria	Damascus Stock Exchange	3	7	1	3	–	–
Oman	Muscat Securities Market	1	474	1	63	2	264
Tunisia	Bourse de Tunis	1	5	1	8	2	7
UAE	Abu Dhabi Securities Exchange	–	–	3	269	–	–
Egypt	Egyptian Stock Exchange	2	376	–	–	–	–
Algeria	Bourse d'Algiers	1	20	–	–	–	–
Jordan	Amman Stock Exchange	–	–	1	3	–	–
Bahrain	Bahrain Bourse	1	389	–	–	–	–
Qatar	Doha Securities Market	1	144	–	–	–	–
Palestinian National Authority	Palestine Securities Exchange	1	50	–	–	–	–

Source: MEED, 2012, *www.meed.com/sectors/markets/capital-markets/middle-east-flotations-bounce-back-in-2012/3163055.article*.

exception of the mandated telecom divestments in Iraq and potentially some divestments in Tunisia mentioned above.

The lack of interest in divestments through IPOs is due to the slowdown in privatisation activity in general, reflecting unfavourable market conditions, but also the fact that partial IPOs or even bond issues require substantial efforts in terms of improved public disclosure. Public reporting being a particularly weak point in the governance of MENA SOEs, disclosure considerations act as a break on SOE equity or bond issues, even though SOEs sometimes benefit from softer disclosure requirements as opposed to other listed companies.

While refraining from divesting stakes in public enterprises through IPOs, some MENA governments have resorted to innovative means of using sovereign assets to increase the size and activity in the local capital markets. For instance, the government of Qatar has in February 2013 announced its decision to list a subsidiary of Qatar Holding to which it will transfer 3 billion USD to be matched by the same amount to be raised on the local capital market. Gulf-based sovereign wealth funds (SWFs) have already issued debt instruments in the past (i.e. Mubadala's bond issue on the London Stock Exchange), however this transaction marks the first listing of SWF equity on the national stock exchange.

New SOEs continue to be established with the mandate to develop specific sectors of interest to the government. For example, the UAE's Mubadala Development Company established Masdar in 2006 to develop renewable energy and sustainable technologies industries and is also the

holding company for ATIC, a new state-owned semiconductor manufacturer. In Qatar, new entities have been created to invest in solar energy and real estate. This is not a trend contained to the Gulf, and the creation of state-owned enterprises continues, both in countries with a socialist legacy like Algeria, where foreign ownership is limited to 49%, and in countries oriented towards private sector growth such as Morocco, where the state now has a less fundamental role in the economy. Between 2001 and 2010, the government of Morocco established 350 SOEs, not all of which are of commercial nature (OECD, 2012a).

In Tunisia as well, due to the nationalisation of a number of companies in which members of the disposed government held illegitimate stakes, the role of the SOE sector has grown. Consensus as to how it might be restructured and what the residual role of the state as the owner of commercial assets might be has not yet emerged. Since the change of the government in Tunisia, the importance attached to transparency around the ownership of SOEs has grown and Tunisia is now one of the two countries in the region (the other one being Morocco) with a complete registry of state-owned enterprises under its ownership, classified by governorate and by enterprise function and accessible publicly.[5]

Scope of the SOE sector clearer

In Tunisia and elsewhere in the region, governments are moving to delineate more clearly the remit of what can be considered as a state-owned enterprise. Only a few years ago, the term "government-related entity" (GRE) was in common use and creditors to these companies assumed that in providing funding to large GREs, they would benefit from a blanket state guarantee. In the UAE, GREs were not provided with such a guarantee; instead the government tried to insinuate to the market which SOEs were "essential" and hence would be saved from bankruptcy. In October 2012, the government of Abu Dhabi issued a new decree requiring state-owned enterprises to apply for an explicit sovereign guarantee prior to issuing debt. Such initiatives are expected to help clarify the scope of state participation in Arab economies, the extent of which is still officially unknown except for a handful of countries.[6]

Despite improved information on individual companies, the degree of state participation in MENA economies remains covered in secrecy, making policy discussions and recommendations difficult. A key challenge in this regard is that statistical offices across the region do not collect (or, at least, do not disseminate) information on state-owned companies. In the absence of single or coordinated ownership, this poses problems that go beyond the mere absence of an accurate statistics on the SOE sector. Governments in the region generally do not receive consolidated information on the performance of

SOEs, which would improve the efficiency of their decision making, enabling them to better understand, for example, the extent and impact of subsidies provided to or investments made in national SOEs.

Consolidated reporting to the appropriate decision-making and accountability organs is impeded by a number of factors, primarily the fractured ownership of SOEs in most MENA countries, but also by the fact that companies do not provide the requisite reporting to the relevant ministries. For instance, in Lebanon, the Ministry of Finance does not receive the annual accounts of SOEs that it is charged with overseeing. In part, this lack of reporting is a consequence of the perception that SOEs are already part of the government and therefore do not need to be accountable to other government organs, and in part due to the lack of mechanisms that would enable SOE owners to demand adequate reporting. That said, some countries of the region, notably Morocco, Tunisia, and the UAE have made important advances in this regard in recent years, although they are still far from the quality of the consolidated reporting that has been seen in a growing number of OECD countries.

In most economies of the region, only partial information on the SOE sector can be obtained. The Egyptian Ministry of Investment (dissolved after the revolution and eventually re-established in 2012) oversees approximately 150 SOEs in a variety of sectors, but does not possess any information about companies overseen by the Defence, Transport or other ministries or the military which is estimated to control a large number of companies in a variety of sectors. In some countries such as Lebanon, the collection of aggregated data on SOEs is impeded by the fragmentation of ownership among line ministries, in others such as the United Arab Emirates, SOEs are held by different holding companies and ministries, making it difficult to obtain consolidated information at the level of the individual emirates, and by consequence, at the federal level.

Re-balancing of SWFs

The attribution of SOE ownership to commercially-oriented holding companies has spread in recent years, especially in the Gulf. Indeed, the scope and nature of SOE ownership has been clarified by the growing role of SWFs as owners of SOEs. Although exact figures are unavailable, recent reports indicate that SWFs' capital allocations have in recent years been re-oriented towards domestic policy objectives, to some extent at the expense of international investments (Invesco, 2012). This marked shift towards domestic investment in part reflects the need for SWFs to support local capital markets and their related "social obligation" as large investors to invest and create liquidity in local markets, which have seen low turnover in recent years.

SWFs' ownership of SOEs may contribute to reforming the latter's performance and governance arrangements to bring them in line with other investments, as has been done by other sovereign vehicles such as Singapore's Temasek Holdings. Their growing role, as owners of SOEs, reflects the fact that local policy makers see SWFs' financial and management expertise as useful for restructuring or privatisation of state assets. For example, ownership rights in a number of state-owned companies were transferred from the Bahraini government to Mumtalakat, especially when its expertise as an equity investor was considered useful to facilitate IPOs of SOEs (e.g. the IPO of Aluminium Bahrain in 2010). Mumtalakat's experience was also considered useful in the restructuring of loss-making Gulf Air. Similarly, in Kuwait, the Kuwait Investment Authority's stewardship of Kuwait Airlines is intended to support the planned privatisation of the unprofitable carrier.

The shifting focus of MENA SWFs towards local capital markets and SOEs is important for a number of reasons beyond their role in restructuring SOEs. First, SWFs are already estimated to account for 88% of existing investible assets in the GCC and 74% of new assets (Invesco, 2012). Their growing orientation towards local markets, coupled with the transfer of SOE ownership to them naturally contributes to their growth. This renders them even more powerful financial players, especially in an economic context generally characterised by declining profitability of other investment vehicles.

Taken together, these trends could be taken to indicate that SWFs will be in a strong position to establish or support existing public and private companies in strategic sectors, including those related to increasingly important renewable energies, as well as in more traditional niches such as real estate investment. At the same time, this concentration of economic power in SWFs exposes them to higher political risk. For instance, Mumtalakat has announced a loss of 718 million USD for 2011, mainly due to losses linked to its ownership of Gulf Air. This raises concerns around the responsibility and accountability of SWFs to their owners when they are no longer act as "selective" investors but more as holding companies with national development mandates.

Notes

1. For the purposes of this report, the MENA region includes: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Tunisia, Turkey, Saudi Arabia, United Arab Emirates and Yemen. Djibouti and Mauritania are not addressed due to a lack of information and the Palestinian National Authority is not included in the scope since its SOE sector is small.
2. This Figure provides only the general weight of the government in the economy, not the weight of SOEs in MENA economies since such data is not publicly available.

3. Refer, for instance, to the report of the Tunisian Anti-Corruption Commission published in 2011, which details a number of crony privatisation transactions carried out prior to the fall of the Ben Ali government.
4. Already, the sale of a 25% stake of Asiacell in early 2013 had raised over 1.3 billion USD, essentially doubling the size of the local stock market.
5. See the site of the Presidency: *www.pm.gov.tn/pm/entreprise/listetablissement.php?lang=fr*.
6. In the Gulf in particular, this opacity poses a challenge not only to better understanding the nature of government participation in the economy, but to gauging SOEs' overall economic performance, considering the significant economic contribution of state-owned hydrocarbon companies to national value-added.

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Chapter 2

Objectives and roles of MENA state-owned enterprises

A number of arguments have traditionally been put forward as a justification for state ownership. This chapter provides an overview of these arguments, with a particular focus on how they have been employed in the MENA region. The objective of this section is to provide an overview of the sectoral distribution of MENA SOEs and to discuss the performance of SOEs operating in service, minerals, hydrocarbon and industrial sectors. A variable performance of SOEs operating in each of these sectors is noted and illustrated via company case studies. Factors leading to the positive performance of some SOEs operating in each of these sectors are highlighted and will be further explored in the concluding section of the report.

Theoretical background

A number of arguments have traditionally been made for state ownership. Most generally, development economists in the post-WWII era have argued that the state needs to take a leading role in capital accumulation and infrastructure investment as only the government could provide sufficient scale and capital to compete internationally and "catch up" with advanced countries. Local private sectors were perceived as weak and short-term oriented, interested in catering to consumer demand rather than engaging in long-term investment and driving countries to higher value-added production. Given the weak legacies of private sector development in most of the region, and the anti-bourgeois bias in the nationalist, anti-colonial republics, the argument – today perhaps most famously associated with Harvard economist Alexander Gerschenkron – was taken up with enthusiasm in the region (Gerschenkron, 1962).

More recent arguments for a direct state presence in strategic sectors include coordination failures and "externalities" in private production. Certain types of production benefit the whole economy – for example, by providing strategic infrastructure, inputs, technology and innovation, or skills to national development – and private actors tend to invest less in them than would be socially optimal (Rodrik, 2008). The state may solve such problems by taking a "social rate of return" into account in planning and coordinating its own investment decisions. It can, in principle, also have a longer-time planning horizon and better deal better with uncertainties and risks.

The state can also take non-commercial objectives of equity and public access to strategic goods and services (such as education, health and utilities) into account in its investments. Finally, there are often specific politico-strategic considerations that lead to state control or nationalisation of critical sectors and assets, be they security-related as in the case of Egypt's Suez Canal and the military industries in various MENA countries, or tied to domestic political considerations as is the case with the widespread state ownership of the press and other media in the region.

MENA public sectors show the legacies of the different developmental schools of thought that were dominant in the region's formative decades from the 1950s to the 1980s. Most of the region's countries emerged as independent nations in a period of statist development thinking, which even typically pro-business, monarchical economies which built or retained control over

strategic assets not only in the utilities sectors, but also in transport, heavy industry and banking sectors, were affected by. In a number of other countries such as Egypt and Algeria, major SOEs emerged as a result of nationalisations.

In many cases, optimistic arguments about the state as a disinterested, far-sighted driver of development in whose footsteps local capitalists would dutifully follow turned out to have been overly optimistic. Public sectors have often turned out to be overstretched, politicised and less efficient than hoped for. And yet, in some specific cases, especially in GCC countries, all of the above arguments have proven valid and specific SOEs have turned out to be agents of national development, performing strategic functions that the local private sector would or could not fulfil. In this, the region's experience is not unlike East Asian "tigers" such as Korea, Chinese Taipei and particularly Singapore, which have successfully leveraged state-owned enterprises to propel rapid industrialisation (Wade, 2003; Evans, 1995).

Performance of MENA SOEs

Data on the aggregate performance of SOEs in most MENA countries is not available, but it is well known that many of them suffer from inefficiency, over-staffing and in some cases corruption problems (Celasun, 2001). The limited available information on profits, state subsidies and employment for SOEs, especially outside of the GCC countries, indicate that many SOEs have become a drain on states' fiscal resources and operate with considerably larger personnel than would be required, as will be explored in the latter sections of this report. What explains such mixed performance? Literature and regional experience point to a number of factors.

First, one widespread argument is that governments tend to produce only diffuse oversight over SOEs, as ownership is dispersed throughout the state apparatus. SOE management often has to negotiate with several principals – including regulators, sectoral ministry, treasury, presidency or ruler's court and, where applicable, parliament or ruling party – thereby vitiating clear accountability, incentive structures, and agenda setting (Vernon, 1984; Lawson, 1994). In this context, managers and public officials sometimes use their pivotal position to maximize their own power, budgets, and hiring discretion. Recent efforts to centralise the ownership function and separate ownership from regulation has brought limited improvements in some cases, but the legacy of weak oversight and conflicting principals continues to weigh on many SOEs (Amico, 2012).

Closely related, different from private companies, SOEs tend to have multiple missions, often being asked to: promote industrialisation, develop underdeveloped areas, build infrastructure, generate employment, provide goods and services at low prices, generate surpluses for the treasury, acquire

or develop technologies, and compete internationally (Waterbury, 1993; Boycko, Shleifer, and Vishny, 1996). These objectives can be conflicting and yet are seldom quantified or weighed against each other in a systematic fashion.

Ambiguous objectives and fragmented oversight can make SOEs easy prey for non-commercial and sometimes overtly political operatives. Their political principals can effectively use them for patronage by allocating jobs and subsidised output to select groups of the population (i.e. Électricité du Liban). Despite SOEs' de jure autonomy, boards staffed with administrative and political elites that are not nominated through a structured process by the state can arbitrarily intervene in management decisions due to high centralisation of bureaucratic power. Politicisation of SOEs is especially prevalent in Arab countries with a history of political mobilisation in which parties and state-controlled unions have played a role in SOE governance.

All of the above can and does undermine the profitability of SOEs. The commercial underperformance of SOEs is often prolonged and exacerbated by "soft budget constraints" under which they operate. SOEs, especially large ones, are seldom allowed to fail and hence there is no "exit" for companies that accumulate losses and no binding incentive to improve their performance (Kornai, 1979). In addition, bankruptcy frameworks in the region often explicitly exclude SOEs and state-owned banks are used as a mechanism of channelling cheap capital to industrial SOEs.

The above issues characterise an important, possibly dominant faction of MENA SOEs. The region also contains some important exceptions however from which wider lessons can be drawn. The following sections will provide a more detailed, if still selective, overview of strategic SOEs' experiences in the three pivotal areas of services, hydrocarbons and manufacturing. The latter section will focus on the few cases of successful state-led industrialisation, investigating in particular on how existing successful models have been exported to other sectors and countries.

Sectoral distribution

SOEs in the region can be found in a variety of economic sectors, both in for-profit activities such as hydrocarbons and electricity, but also in activities that are typically operated on a not-for-profit basis such as hospitals. The legal and governance arrangements of these entities vary significantly, reflecting their diverse objectives. Often, SOEs but also other semi-administrative entities are generally referred to as "government related entities", a term that fails to differentiate between commercially-oriented companies and other entities of administrative nature (authorities with regulatory or public good-oriented mandates). This failure to separate administrative and public service entities from commercial entities stems in part from the reality of the

ownership and regulatory arrangements in the region whereby commercial SOEs are "owned" by administrative entities with regulatory responsibilities, and non-corporatised entities may perform commercial functions.

The present publication is concerned with commercially oriented companies, where the state has a sufficient stake to influence corporate affairs. What might constitute such a stake varies significantly on the ownership structure of a given SOE and its other governance particularities. For example, in a dispersed ownership model, a 15% governmental stake or a single golden share may provide governments with such influence. The focus on commercial SOEs also allows us to concentrate the discussion on the role of the state in the business sphere, where its presence could impact private sector development via employment or competition channels.

It is commonly assumed that key commercial SOEs in the region are concentrated in hydrocarbons, manufacturing, financial services and heavy manufacturing. While companies operating in these sectors may indeed be considered strategic from the perspective of their contribution to the GDP, the scope of what can be considered "strategic" in the region is in fact much broader. Some state-owned companies are important for governments due to their role in fostering employment (e.g. cotton and weaving companies in Egypt), others due to their ability to provide goods and services at subsidised prices (e.g. supermarkets in Algeria).

The report nonetheless includes entities that have non-commercial mandates that go beyond their (notional or real) profit orientation, be it to foster employment, provide goods and services at low prices or to spearhead the development of new economic sectors. What is a strategic SOE in the region needs to be re-considered in light of these imperatives and the continued pressure that governments face in the wake of the Arab Spring. This publication hence takes a broader definition of what is a "strategic SOE", examining for example the experience of governmental companies in housing development in Morocco and Egypt, which may in principle not be economically significant but which are entrusted with the important social objective to provide housing with a view to reduce slums.

Taking such a broad perspective of what constitutes a "strategic" SOE, Annex A provides an overview of large and socially and economically important commercial SOEs across the region. This work, based on primary research, represents a first attempt at identifying the extent of the involvement of MENA governments in commercial or quasi-commercial activities. It is an incomplete list owing to the fact that the degree of accessibility and completeness of information on state holdings in the countries included vary. Further refining of this list will be necessary in order to obtain a complete picture of the role of the state in the marketplace. This

exercise also needs to be expanded to include information on government ownership stakes, mechanisms for taking such stakes, the level of public listings of SOEs in the different countries and the presence of SOEs in particular sectors.

One notable feature of many SOEs comprising the list in Annex A is that they perform functions that may go significantly beyond their commercial mandates, in some cases as a counterweight to their ability to operate in monopolistic or quasi-monopolistic industries or enjoy state protection or subsidies, whether formal or informal. In a number of cases, SOEs are expected to nurture or develop talent in their supply chain but also act as centres of excellence more broadly, which may be perceived as an unusual function for state-owned enterprises to perform, but which some of them carry out successfully (e.g. Saudi Aramco).

This data-gathering exercise has revealed that the presence of the state in specific sectors tends to be similar, especially within the three sub-regions (i.e. Mashreq, Maghreb, and the Gulf). The broad range of sectors in which SOEs are present owes both to earlier development approaches, relying on import substitution and the state as a provider of key goods and services, and, more recently, to the use of SOEs and SWFs as key levers of industrial competitiveness and diversification, especially in the Gulf. Overall, the stocktaking exercise has highlighted that the state retains a strong presence in the region in:

- *service sectors*, most notably utilities (especially electricity and water), capital-intensive modes of transport (aviation, railways, shipping and ports), banking, and telecoms. The range of ownership in these sectors varies.[1] That said, in all countries, governments hold at least minority shares in large companies in all of these areas;
- *minerals and hydrocarbons sectors*, which in a sub-set of Arab countries is the main source of government revenue and is usually state-controlled, with the local private sector having almost no role and foreign investors typically owning minority stakes in specific projects;
- *industrial sectors*, in particular heavy industry operations such as refining, steel and cement, which historically were seen as "industrialising industries" that required large-scale, capital-intensive investments and would open opportunities for lighter downstream industries.

In all of these sectors, there have been partial sell-offs or licensing of private competitors during the last two decades, but nowhere has the state disappeared altogether. There are other, less strategic sectors such as light industries, wholesale and retail, road transport, tourism, which were also state-controlled in some of the MENA countries, but they are now mostly in private hands.

Services

Many MENA SOEs in utility sectors like electricity, water and telecommunications are considered as inefficient by commercial standards. That said, it also needs to be recognised that they have played a crucial role in the large-scale roll-out of such services to low- to mid-income populations in countries with often widely dispersed populations – a feat that private providers might not have accomplished, or had been interested in accomplishing, at the same pace. Generic indicators of public service provision in the MENA region are fairly reasonable if the region's levels of income are taken into account,[2] faring better than most of sub-Saharan Africa and much of South Asia.

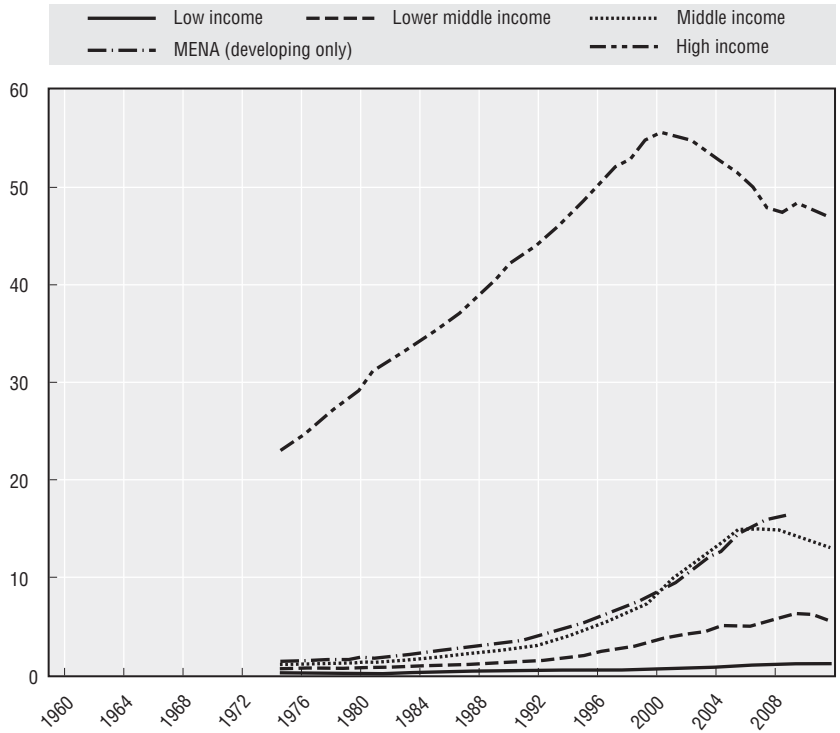
Figures 2.1, 2.2 and 2.3 illustrate the quality of service provision in the telecommunication, electricity and water sectors. While private competition has been introduced to the majority of MENA utility sectors, SOEs remain dominant in most of them and competition is not always regulated transparently. There is no credible "exit" option for state utilities, meaning they effectively operate under soft budget constraints. Privatisation has not often proven to be an optimal solution. For instance, in the case of water sector, it is in the age of state retreat that services stagnated in the MENA region while continuing to improve in other world regions.

At the same time, problems of efficiency are significant for many public sector service companies in the region. Utilities often run at a loss or only manage to make profits because they are supplied with subsidised public credit or oil and gas below market prices, and are forced to sell their output at regulated low prices due to social and political considerations. Low prices in turn have led to energy-intensive and inefficient production structures in local private sectors, undermining technology-based diversification (IMF [a], 2013).

The performance of SOEs in other service areas is more heterogeneous. Some of the telecom SOEs, notably GCC-based ones, have turned themselves into multinational enterprises providing mobile phone services in a wide range of MENA, African and Asian countries. Although their ventures abroad have not always met with unqualified success, there is no doubt that "commercialisation" and partial IPOs have improved the efficiency of companies such as the Saudi Telecom Group, the UAE's Etisalat or Qatar's Qtel. In other countries such as Syria or Libya, landline telecommunication services remain state-controlled, comparatively inefficient, sometimes tied up with political patronage of senior regime players, and entirely focused on local service provision.

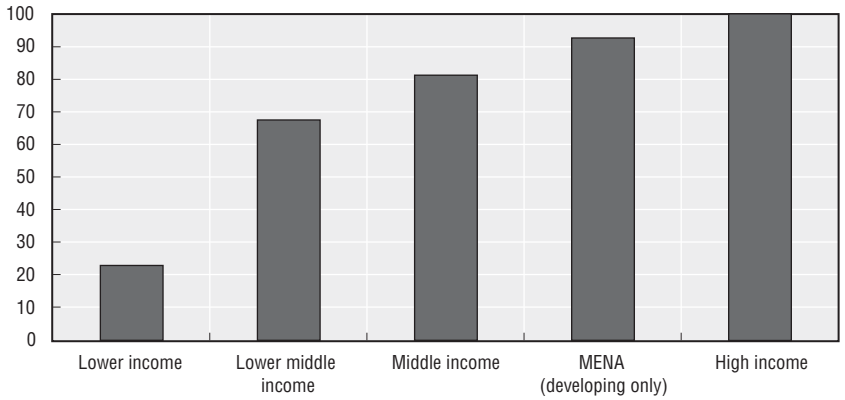
Similarly, the performance of fully or partially owned government banks also covers a broad spectrum. Some of the public sector banks in Algeria, Egypt and Syria continue to struggle with non-performing loans, as their

Figure 2.1. **Phone connections per 100 people in different country groups**



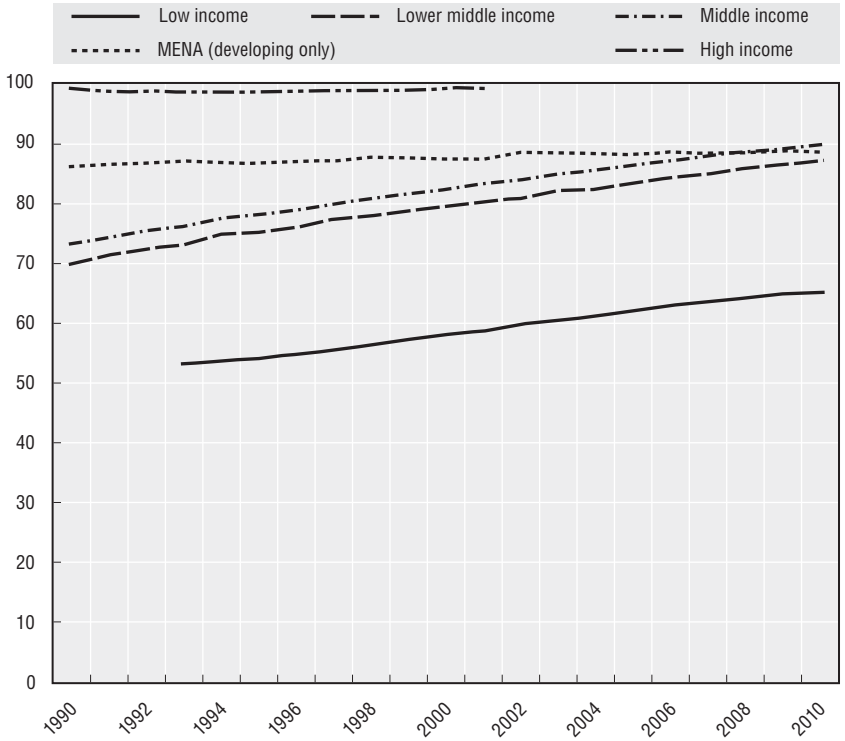
Source: World Bank Development Indicators (2013), *http://data.worldbank.org/data-catalog/world-development-indicators*, accessed March 2013.

Figure 2.2. **Access to electricity in different country groups (% of population)**



Source: World Bank Development Indicators (2013), *http://data.worldbank.org/data-catalog/world-development-indicators*, accessed March 2013.

Figure 2.3. **Percentage of population with access to an improved water source**



Source: World Bank Development Indicators (2013), *http://data.worldbank.org/data-catalog/world-development-indicators*, accessed March 2013.

lending has been subject to industrial and social policy constraints – even if some of the banks, notably in Egypt, have somewhat improved their balance sheets during recent years (World Bank, 2009). Non-performing loans in the state-dominated Algerian banking system amounted to an estimated 35% of total loans in 2007. The use of SOE banks to provide loans on non-market terms to other SOEs is much to blame for the current situation in Algeria but also in Egypt.

On the other side of the spectrum, state-owned banks, like National Bank of Abu Dhabi or the National Commercial Bank in Saudi Arabia operate largely according to commercial criteria and are organised similarly to their private sector rivals. While giving social and industrial policy missions to public banks should not be dismissed out of hand, it is clear that the ad-hoc way in which these have been implemented in many MENA countries have led to commercial underperformance, high levels of non-performing loans, and unsustainable balance sheets.[3]

Similarly, there is a wide range in performance among government-owned airlines from consistently profitable Emirates, to consistently loss-making carriers like Gulf Air and Kuwait Airways, to carriers with mixed performance like Egypt Air. State ownership per se does not appear to be a good predictor of airline efficiency; rather, this is determined by the institutional environment in which it operates, notably the degree of operational autonomy of management and board, the extent to which it has a clear commercial mandate and whether supervision of its operations is concentrated in the hands of a powerful governmental entity or individual. The case of Kuwait Airways, analysed in Box 2.1, illustrates the potentially negative consequences when neither is the case.

Box 2.1. **Kuwait Airways: National champion under fire**

Kuwait Airways (KAC) is an SOE whose long history illustrates many of the issues of politicisation, lack of managerial autonomy and non-commercial objectives alluded to above. It is generally admitted to be in a problematic state: the company incurred losses of more than 275 million USD in FY 2010-11 and around 180 million USD the year before. Losses in 2012-13 are again expected to amount to close to 300 million USD. The company has managed one year of profit after the destruction of much of its equipment during the Iraqi invasion of Kuwait in 1990. As no new planes have been acquired in a long time, most of the costs are maintenance, fuel and labour-related.

Different from the national airlines of other GCC countries, the fleet of KAC has an average age of approximately 18 years and most of its 17 planes are in need of replacement – most of the time, only 10-12 are operational. The company's inability to procure new equipment is related to a broader problem it has been suffering from: a management which is caught between different principals, notably the Kuwait Investment Authority as its formal owner, the Cabinet, and the Ministry of Communications which appoints the board, the Kuwaiti parliament and, to a lesser extent, the KAC trade union.

Diffuse supervision by several actors with often diverse motives has constrained autonomous management but at the same time undermined effective monitoring. Most of all, however, KAC has been affected by disputes between the government and the previous parliaments, which have refused to approve the financial accounts of KAC since 2004, thereby preventing the government from directly covering its losses and forcing the company to borrow from local banks, incurring significant and costly debt. Parliament has also blocked KAC's re-fleeting efforts in 2007, and has issued allegations regarding corruption at the airline. It has in turn been blamed for influencing hiring decisions at KAC and other SOEs, leading to over-employment and individual influence-peddling.

Box 2.1. **Kuwait Airways: National champion under fire** *(cont.)*

KAC's labour union, for its part, has claimed that there is a "hidden agenda" to weaken the company so that powerful interests can take over a privatised KAC at a cheap price. The union itself has been instrumental in vetoing the restructuring of redundant employment at the company and grounded the airline with a strike in spring 2012, further reducing its attractiveness for private investors. In its role, the KAC union is not dissimilar to the public sector unions in formerly socialist-oriented Arab countries.

Experts contend that KAC is being used for local employment and that human resources are not deployed effectively. The airline employs a staff of about 5 000 for only 10-12 operational aircraft (among whom approximately 2 000 Kuwaiti nationals). In comparison, Kuwait's private Jazeera Airways, with a fleet of 7 much younger A320s, employs less than 500 staff. Despite the large workforce, Kuwait Airways has reported shortages of trained technical personnel as it struggles to keep its fleet operational.

Various privatisation schemes for the airline have been prepared since the mid-1990s, but have been repeatedly derailed. The most recent reincarnation of the privatisation process scheme was launched in 2008. In late 2010, the Kuwaiti government brought in outside advisors (Citigroup, Ernst & Young and aviation services firm Seabury) to help with the restructuring and sale of KAC. Realising the problematic state of the airline (some of the valuations of the company came in negative) the privatisation was again suspended in October 2011 to focus instead on addressing a "number of operational and structural issues".

The privatisation process was revived in 2012 with a law passed in May. The law envisages 35% of shares to be sold via auction to private or foreign investors, while 40% are to be allocated to Kuwaiti nationals through an initial public offering (IPO), 20% are to be retained by the state and 5% be distributed to KAC employees. The current privatisation committee is led by KIA, which has continued to contend with a number of technical issues. Among other things, the law mandated the restructuring and privatisation of KAC in one go, which made a profitable sale difficult. The law also envisaged that all existing entitlements to subsidised kerosene, landing rights and airport space were to be transferred to the privatised company without any time limit, thereby locking in a skewed playing field.

The privatisation rules also guarantee that national employees will either be re-assigned to similar government positions of equivalent seniority or receive generous indemnities; staff who remain employed in the private airline will receive an employment guarantee for 5 years. It appears that a large share of Kuwaiti employees have already chosen to be transferred to other government entities due to worries over their long-term job security; some of them also expect to be re-hired on potentially better conditions, and other employees have tried to ask for a ten-year job guarantee.

Box 2.1. **Kuwait Airways: National champion under fire** *(cont.)*

After the dissolution of an opposition-dominated parliament in September 2012, the privatisation plan seems to have accelerated again. In October, KAC was declared a shareholding company through decree No. 22, which in turn amended law No. 6 of 2008. In December, the retirement of over 1 200 employees who served the airline for more than 25 years was announced, with some of them receiving payments of more than 600 000 USD in addition to five years extra in social insurance.

The new, rather pro-government parliament has affirmed the October decree in January 2013. The legislation also made it possible for the government to pay for all the losses posted by KAC, and the company has announced plans to buy 20 new planes over the coming two years – a shift towards restructuring the company before the eventual sale. Previous estimates by Seaberry indicated that a restructuring of the fleet to 24 planes could cost at least 2 billion USD, indicating further large costs before eventual divestment.

Many of the elements for the eventual privatisation of KAC seem to have fallen into place, albeit at great fiscal cost due to employment guarantees, golden handshakes and the assumption of company debts by the government. Kuwaiti experts admit that the costs lie considerably above those entailed in a potential liquidation of KAC, but it appears that not having a dedicated national airline is unpalatable.

The privatisation process remains hostage to the ongoing debate within the Kuwaiti government. If pro-government assemblies continue to prevail over the coming years, a privatised KAC could eventually see the light. In this, it would part ways from Bahrain's Gulf Air, whose decades-old privatisation plans have been abandoned for the time being.

Source: Cornock, Oliver (2013), "KAC Privatisation Lift-Off Nears – Carrier Intends To Replace Current Fleet", *Arab Times*, 7 February; AMEinfo.com (2012), *Kuwait Airways launches Phase I of staff retirement plan*, 17 December; Centre for Aviation (2013), Kuwait aviation poised to deliver at last, but Kuwait Airways restructure, airport upgrade essential, 5 February, *http://centreforaviation.com*; Kuwait Times (2013), "Assembly approves law to privatise Kuwait Airways – Carrier to buy 20 new planes – Corporate law passed", 24 January.

The case of Kuwait Airways contrasts with that of Emirates Airlines, which – although not run in line with conventionally recommended SOE governance arrangements – has by most accounts produced impressive commercial results. It has also contributed significantly to Dubai's broader tourism and logistics development strategy and has strongly boosted the emirate's international "brand", demonstrating the potential externalities of deploying SOEs in strategic sectors in a coordinated fashion.

Box 2.2. **Emirates Airlines: The crown jewel of the Dubai government**

One of the region's most impressive non-industrial SOE is Dubai's fully government-owned airline – Emirates. The company has been consistently profitable since its creation in 1985, most recently generating annual net profits of 620 million USD in 2012-13. It has expanded rapidly to become the second largest airline in the world in 2013, with almost 200 planes flying to more than 130 destinations.

Emirates has benefited from Dubai's strategic location, low-tax environment and the availability of cheap international labour. Equally importantly, it has benefited from a strategic coordination of its own corporate strategy with the Emirate's tourism, airport service and infrastructure strategy, creating synergies with other SOEs in these sectors and with Dubai's private sector more broadly. It is one of the few cases in which a national development strategy has captured the developmental externalities and network effects that are so much discussed in the literature and so frequently missed in practice.

Emirates has enjoyed significant managerial autonomy and a clear commercial mandate. Its local social agenda is limited. In addition, it is not used as a source of employment generation or training of local staff. In 2011, the company employed a total of only about 1 300 Emiratis among a total staff of almost 39 000.

On the governance front, it is noteworthy that the company publishes audited accounts but has no corporate board per se. Its Chairman is also the Chairman of the Board of a competing low cost airline Fly Dubai. These observations might be indicative of the fact that adoption of conventional recipes of corporate governance is not necessarily the determining factor of SOE success in the relationship-based economies of the GCC.

Abu Dhabi and Qatar aspire to replicating the Emirates model with their own national airlines, which are rapidly expanding; Abu Dhabi's Etihad has reported profits since 2011. Perhaps more important, private investors have followed into the aviation sector, and the Gulf is now home to several budget airlines that are fully privately owned but would hardly have come into being had Emirates not demonstrated the feasibility of profitable aviation in the region.

Source: Emirates Airlines (2012), "Airlines and Subsidy: Our Position", *www.emirates.com*; interviews with Emirates management, 2011, Hertog, 2012.

Indeed, the performance of SOEs in aviation sector in the region has been extremely variable from the consistently profitable Emirates, Etihad, and Qatar Airways (all countries where airports are currently nearing their capacity), to less successful cases such as Gulf Air and Egypt Air. It is

noteworthy that Turkey too has built up Turkish Airways, which continues to be almost 50% government-owned, as a national and regional champion that has generated considerable profits and is now the world's 15th largest airline. A number of airline companies in the region have been listed (i.e. Morocco, Jordan, Turkey) and by all accounts their restructuring and listing appears to have improved their governance and performance (refer to Box 4.6). In Jordan for example, the restructuring and listing of Royal Jordanian was motivated by its drain on the Treasury. In other cases, such as in the case of Royal Air Maroc, it was also motivated by capital market development objectives.

SOEs like Dubai's Emaar or Qatar's Diar have also generated significant profits in real estate and tourism sectors. Though this again is also a result of privileged access to land and infrastructure, similar feats have not been accomplished outside of the Arabian Peninsula. The success of Gulf-based telecom SOEs, which are increasingly venturing beyond their national borders, has already been mentioned above. Expansion abroad has also been undertaken by banks and logistics companies like DP World, which is now international not only in its scope of operations but also in its sources of funding (by virtue of being listed on the London Stock Exchange).

Successful Gulf SOEs can fulfil a strategic developmental role not only in developing sectors into which private investors do not dare to tread, but can also be leveraged to develop the national workforce, introduce new standards (notably labour, building and environmental standards), introduce e-government processes, engage in broader research and development, provide critical services and infrastructure support for the local private sector and procure support services locally – but all with profitability remaining their main aim and the precondition for any such further objectives. SOEs also sometimes coordinate to make mutual use of their services and products to create economies of scale in new markets, as was the case recently with the use of Pearl gas-to-liquid fuels by Qatar Airlines.

All of these tasks are meant to address externalities and market failures that a fairly young and sometimes short-term oriented private sector might be unlikely to tackle by itself. That said, these "original" developmental objectives put in front of SOEs make more sense at early phases of economic development when considerations of level playing field do not apply because private competition is nonexistent or weak. At a later stage, competitive neutrality might become an issue, and as the growth process becomes dependent on a few "national champions", governments might decide whether the benefit of continued favouritism outstrips the value of a level playing field. In cases where the government wishes to support certain economic activities in which private players are already engaged, the bar for proving effectiveness and efficiency of SOEs – relative to other options like direct support of the private sector – is set higher.

Hydrocarbons

A strategic area in which state ownership remains particularly widespread is the upstream hydrocarbons sector. Globally, the 13 largest oil firms which have control of three quarters of world's oil reserves are state backed (*Economist*, 2012). Hydrocarbon SOEs have played an unusually large role in the region's development, both directly in the producing countries and indirectly through investment and aid in oil importing countries. Five of the world's ten largest oil producers are located in the MENA region and Saudi Arabia alone accounts for almost one fifth of the world's proven oil resources. Gas is another major source of export revenues with Qatar being the largest gas exporter in the region, with gas revenues exceeding its oil revenues in recent years.

It is typical for oil- and gas- exporting countries to aspire to a high degree of operational control over hydrocarbons production, especially when they are major producers whose economic well being depends on the sector. The MENA region is not exceptional in that regard and even experts on the region rarely advise the granting of full concessions to foreign companies. To the extent that foreign firms have been invited into production sharing agreements or have been granted concessions for exploration in new areas, this is because national oil companies (NOCs) lack the capacity to engage in technically more demanding forms of production; even then, NOCs usually act as joint venture partners.

Levels of efficiency and capacity among NOCs in the region vary widely. In cases of underperformance, the reasons are in line with the arguments presented above: conflicting principals, unclear objectives, politicisation and lack of operational autonomy. In countries like Iraq and Libya, the capacity of NOCs is so low that much of the exploration and production is conducted by foreign partners. In both regimes, the NOC has lacked managerial autonomy. Although there is an imperative to maintain minimal efficiency so as to guarantee continued hydrocarbons production, the scale of rents produced in the sector at the same time creates strong temptations for abuse. The region has witnessed a series of corruption scandals related to the hydrocarbons sector, most recently involving Algeria's NOC Sonatrach.

On the other hand, Saudi Aramco is widely recognised for its efficiency and its positive overall contribution to the local economy. Box 2.3 further explores the contributions of Saudi Aramco to the local economy. As highlighted in this Box, it is often informal governance arrangements rather than differences in the formal institutional framework that determine whether MENA NOCs are truly autonomous and commercially-focused in their operations. The extent of NOC efficiency in the region seems to correlate with the political legacies of different regimes. Those with a history of

Box 2.3. **Saudi Aramco: National oil company and national development agency**

Saudi Aramco by most accounts well run and enjoys high operational (if not strategic) autonomy. A product of a largely consensual process of nationalisation conducted in the 1970s, it has retained the managerial structures and culture of its former US parent companies and is governed in a hands-off fashion by the country's Supreme Petroleum Council, which includes senior members of the Saudi royal family and ministers. Saudi Aramco has been able to operate the national oil sector without having to invite any foreign joint venture partners, whereas countries that underwent more confrontational nationalisation have had to re-invite foreign partners to explore new acreage and maintain production in declining fields.

Due to its high levels of efficiency, Saudi Aramco has become a de facto national development agency that has in recent years been called upon to undertake a number of projects outside of its core expertise, including the build-up of a new high-profile university (King Abdullah University of Science and Technology), the building of a football stadium in Jeddah, the provision of SME support programmes, research in non-upstream energy technology, and the development of an industrial city in the Kingdom's south (built around an oil refinery for which the government did not find private investors). Former Aramco managers have also taken up senior positions in other parts of government such as the General Investment Authority and the Saudi Railways Organization.

While the leveraging of Aramco's project implementation capacity might seem rational in the short run, there is a concern in some quarters that the company's objectives might become diluted, which in the worst case could be a first step towards Aramco's politicisation. At a minimum, the company will need a clear strategy to prioritize and put a shadow price on its development tasks. A recent case of (relatively minor) corruption involving bribes paid by Tyco Valves & Controls to an Aramco employee was followed by public criticism of Aramco's "fortress mentality", which means that the company might not be able to stay above politics forever.

Source: Al-Harbi, Khalaf (2012a), "Cracks in the Fortress Wall", *Saudi Gazette*, 21 October; author interviews with Aramco management.

nationalist, anti-colonial struggle and stronger popular mobilisation have typically ended up with more politicised and less autonomous NOCs that are more frequently used as tools of patronage. The pattern in other sectors is often similar if less pronounced.

Industrial sectors

Perhaps more than in other regions, MENA governments have a strong historical presence in industrial sectors. Public assets in manufacturing were

either acquired through nationalisation or, more frequently, were created from scratch as part of national industrialisation strategies. In the latter context, particular focus was put on heavy industries that are scale-dependent, capital- and energy-intensive. The presence of most MENA governments in manufacturing remains extensive, although there have been significant privatisations in a number of countries like Algeria, Morocco, and Egypt. The government of Jordan also retains minority stakes in strategic assets like Arab Potash, Jordan Phosphate Mines, Jordan Cement Factories and Jordan Petroleum Refinery.

The fate of state heavy industry has varied greatly from country to country and company to company. In some cases, industries struggle due to over-centralisation of decision-making, price controls, weak coordination between different state-controlled industries and overstaffing. The hoped-for backward and forward linkages that were supposed to drive more diffuse industrialisation in related sectors and, in many cases, private sector involvement, often did not materialise. In other cases, particularly in the GCC and on a smaller scale in Jordan, individual companies were granted significant operational autonomy, a clear commercial mandate and leeway to hire and price in line with their own needs. Some, but not all of these companies have emerged as efficient players whose model has been imitated by local private sector firms.

Countries with a legacy of ambitious industrialisation agendas like Syria, Algeria, or Egypt have encountered the largest challenges in making their industries viable – not only due to the scale of their ambitions, but also because administrative control over industries has tended to be tighter and non-commercial objectives have tended to be more prominent in countries that have gone through a socialist-oriented phase after independence. Algeria is perhaps the MENA country that has embarked on the most ambitious industrialisation programme beginning in the 1960s, with specific focus on heavy industry and import substitution. It has encountered significant obstacles along the road: SOEs are operating at high cost and below capacity and have failed to generate the non-oil exports that the regime had hoped for. In 2011, 98.5% of Algerian exports came from the hydrocarbons sector.

In the late 1990s, Algerian SOEs accounted for 75% of total formal industrial employment, but the sector was not competitive, operating at an estimated 35% of full capacity (IMF, 2013b). Algerian public firms have operated under soft budget constraints, under high levels of subsidisation, and have served as employment vehicles. Between 1986 and 1996, Algerian industrial production halved, but the workforce stayed the same (Ruppert, 1999). It has since been downsized and some privatisations have happened, but the sector remains large and subsidies to state-owned companies still amounted to 13% of the national budget in 2011 (ibid.).

The reform ambitions of some policy makers have reportedly been delayed by disagreements within the government. Most of Algerian heavy industry is now in search of foreign joint venture partners or strategic investors to revamp production and make it profitable. The situation in countries like Syria or Egypt is comparable, if less pronounced, and Egypt has conducted more partial privatisations and downsizing of SOEs, albeit at the cost of significant contribution to unemployment. Both Egypt and Syria continue to hold on to large assets also in light manufacturing, most notably perhaps in the textile sector in Egypt. Indeed, the Egyptian textile firms are illustrative of the dilemma that MENA governments face in restructuring and privatising underperforming SOEs.

The cotton-ginning sector in Egypt is dominated by 5 firms, 4 of which are state-owned. In this sector, theexisting technology is considered to be labour-intensive and inefficient (Harvard Business School, 2012). The requirements for large capital investments to update equipment – some of which is subject to steep import tariffs – have prevented successful privatisation and are a legacy of an era when the sector was treated as a generator of employment rather than primarily a commercial asset. Attempts at restructuring and privatisation of companies in this sector have led to labour strikes, notably at Misr Spinning and Weaving Company which alone employs a staff of 27 000 (ibid).

In December 2011, an Egyptian court overturned a ten-year plan to privatise half of the Nile Cotton Ginning Company (which controls 17% of the gins in Egypt), alleging that the sale undervalued the firm's assets (Harvard Business School, 2012). This decision is indicative of the tension between employment and welfare considerations on one hand and commercial ones on the other. Social welfare considerations are a key reason for why before the uprising in 2011 the Syrian government did not consider privatisation but instead tried to make its state-owned manufacturing sector more commercially viable – an approach that brought mixed results.

Tunisia went through a similar statist economic phase in the 1960s, but has shed the resulting legacy earlier and more decisively than the region's other countries, resulting in a slimmer public sector that more closely resembles that of Morocco and Jordan, where public ownership in manufacturing is generally limited to heavy industry. Tunisia has privatised assets in telecommunications, banking, insurance, manufacturing, and petroleum distribution, among others, although in a fashion that now is often seen as "crony capitalist" and that might have contributed to the fall of the Ben Ali government.

Countries with a more focused industrialisation agenda in which the local private sector has been accorded a relatively larger role, and where the mandate of SOEs has been more commercially focused, have generally fared better with their relatively smaller public industries. The most impressive successes in state-owned manufacturing are concentrated in the Gulf countries,

although the Jordanian state also has minority shares in a number of profitable heavy industry operations and the Moroccan government controls highly profitable phosphate mining operations to which significant and rapidly expanding fertilizer production is attached.

The leading SOEs in MENA heavy industry however are Gulf-based. For instance, the Saudi Basic Industries Corporation (SABIC), the largest listed company on Tadawul, has converted the comparative advantage of cheap gas feedstock into a highly profitable and by now multinational industrial conglomerate (refer to Box 2.4).

Box 2.4. **SABIC: A "Pocket of Efficiency" in Gulf industry**

SABIC is the Gulf SOE with the longest successful track record, and by some accounts the most impressive company in the MENA region. Its genesis, structure, strategy, and relationship to governing elites are in many ways representative of the leading GCC SOEs. SABIC came into being in 1976 through a royal decree and was developed and staffed by a small number of young administrators and engineers who had been recruited selectively by the country's then Crown Prince and later king Fahd. The Saudi government's industrialising ambitions resulted in two pivotal entities: the Royal Commission for the Industrial Cities of Jubail and Yanbu (RCJY), chaired by Prince Fahd, and SABIC, which was chaired by Minister of Industry and Electricity Ghazi al-Gosaibi. SABIC's first CEO was similarly young Abdulaziz Al-Zamil, a U.S.-trained engineer.

SABIC became the main agent of heavy industrialisation in Saudi Arabia, taking the responsibility for petrochemicals as well as steel and fertilizer projects away from the General Organization of Petroleum and Minerals (Petromin). Petromin had been established in 1962 under the Ministry of Petroleum and Minerals as a would-be future national oil and heavy industry company. The organisation had a history of delayed and cancelled projects as well as a reputation for disorganisation and over-employment. Reduced to refining and mining operations after 1976, but still growing in scale until the mid-1980s, it was gradually dismantled after 1988, when Saudi Aramco took over, dissolved, or rehabilitated its largest assets.

Like Petromin, SABIC was founded as a 100% state-owned entity. But in contrast to Petromin, it was incorporated as a company. The state supported SABIC through soft loans from the Public Investment Fund, but SABIC's core mandate had always been to generate commercial returns. With an authorised capital of about 3 billion USD, it operated on a scale that was clearly beyond the means of the local private sector at the time. SABIC's initial management team was small, and corporate expansion proceeded only after several years of careful project studies. Its political principals reportedly insisted on SABIC operating like a private company with fully autonomous management.

Box 2.4. **SABIC: A "Pocket of Efficiency" in Gulf industry** *(cont.)*

Several multinational petrochemical companies rated SABIC's profit outlook as questionable. After extensive negotiations, Dow abandoned its planned Petrokemya joint venture with SABIC, which SABIC then converted into a 100% Saudi-owned project. SABIC and the Ministry of Industry went on to plan a range of further import substitution projects in chemicals, plastics, and building materials. In the meantime, the RCJY was tasked with setting up two world-scale enclaves of industrial infrastructure to host SABIC and private industry. Reporting directly to the Crown Prince, the RCJY could avoid lengthy interactions with the rest of the national administration, rapidly issue international construction contracts, and circumvent the sometimes overburdened line agencies responsible for water, electricity, and roads.

Between 1979 and 1981, SABIC started construction on a number of large-scale petrochemical projects, the majority of which were joint ventures with multinationals. By the mid-1980s, most of the large plants at Jubail and Yanbu were coming on stream, including Petrokemya. 25% of SABIC shares were sold off to the Saudi public and to GCC investors in 1983, while a parallel plan to privatise Petromin never got off the ground, as the organization proved impossible to value.

SABIC is perceived as an institutional "fortress" that has defended itself successfully against bureaucratic encroachments or rent-seeking. This has to do both with the direct involvement of political elites in keeping SABIC functional and, relatedly, with the protection afforded the company by successive Ministers of Industry and Ministers of Finance. Different from most of the national administration, SABIC has had autonomous control over its competitively rated recruitment. Although it appears to have been to some extent overstaffed, admission requires significantly better qualifications than for other government posts, and the company seems to maintain internal meritocracy. Its senior management still consists mainly of managers who joined the company in 1976.

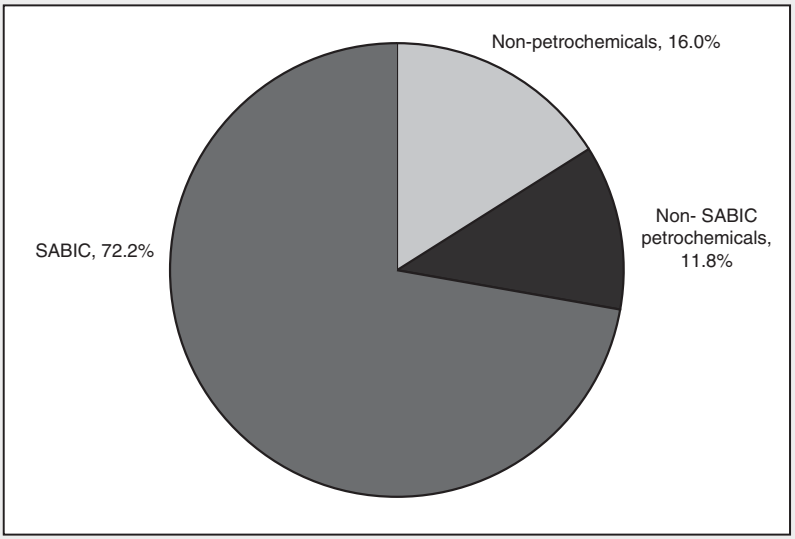
SABIC has had some disagreements with the local private sector over the availability of local feedstock and over who would get to develop more profitable chemicals. The government then compelled SABIC to sell some of its feedstock locally to enable industrial development. At the same time, however, SABIC has offered local investors shares in several of its large-scale projects, including the 1984 Ibn Hayyan plastics venture and the 1993 Ibn Rushd Industrial Fibers project; both are undertakings without any foreign equity. SABIC feedstock has also allowed a large and wholly private Saudi plastics industry to emerge, with more than 800 companies active in the sector. Although it is a rival to large private investors, SABIC has also blazed the trail for large-scale petrochemicals ventures in the GCC, which local businesses would have been unlikely to engage in without a clear paradigm to follow.

Box 2.4. **SABIC: A "Pocket of Efficiency" in Gulf industry** *(cont.)*

Although SABIC's market entry coincided with a phase of depressed global petrochemicals prices, it has been consistently profitable since its large plants came on stream. It did not incur the losses that other international petrochemicals companies incurred in the early 1990s, and its output has increased dramatically from 13 million tons in 1992 to 69 million tons in 2012, aiming at 130 million tons by 2020. Its 2012 net income amounted to almost 11 billion USD. This stands in contrast to petrochemicals producers in other oil exporters in the region such as Iran, Algeria and Libya, which have often run below capacity and at considerable deficit.

85% of SABIC's Saudi-based employees are Saudi nationals and its workforce relative to its sales volume is considerably smaller than that of its international rivals. Although this likely has to do with SABIC's stronger focus on capital-intensive basic chemicals, it is difficult to argue that the company's payroll is excessively bloated. SABIC has also built up considerable in-house expertise and pursues domestic projects without foreign partners, either on its own or with the local private sector. While other rentier states are compelled to open their obsolete heavy industry sectors to foreign investors, SABIC, like Saudi Aramco, has increased its technological autonomy over the years. As the graph below shows, the company dominates Saudi non-oil exports.

Saudi exports, 2011



Box 2.4. **SABIC: A "Pocket of Efficiency" in Gulf industry** *(cont.)*

Reversing its role *vis-à-vis* international industry, SABIC has pursued a global expansion strategy since 2002, acquiring aging European assets such as the Dutch DSM Petrochemicals (2.2 billion euros in 2002) and the UK's Huntsman Petrochemicals (700 USD million in 2006). In 2007, SABIC moved downstream with its 11.6 USD billion acquisition of GE Plastics. Although SABIC's statute demands the sale of 75% of its shares to the public, it is still 70% state-owned and will likely remain so for the time being.

Although some elements of SABIC's history are specific to its Saudi context and its specific role as an early player in heavy industry, others are reminiscent of the successful SOEs in other Gulf states. Factors such as the support of senior political principals, special dispensations to circumvent cumbersome procedures, targeted state support coupled with a clear mandate to generate returns, meritocratic recruitment and substantial managerial autonomy are all characteristic of other successful SOEs in the Gulf – and the few smaller-scale successes outside of the region.

Source: Jadwa Investment, interviews with SABIC management by author Steffen Hertog.

SABIC-style heavy industry corporations have been created in other GCC countries: They include Bahrain's Alba, Dubai's Dubal, Industries Qatar and Abu Dhabi's General Holding Company, which aims to increase the share of manufacturing in the local economy to 25% by 2030. All of these have been consistently export-oriented, profitable, have enjoyed considerable managerial autonomy and remained comparatively unburdened by local social obligations. This model continues to spread particularly in the aluminium sector, which has witnessed the creation of Dubai-Abu Dhabi joint venture EMAL, as well as new public aluminium ventures in Oman and Qatar involving foreign joint venture partners. GCC aluminium production is set to reach 5 million tons in 2013, accounting for over 13% of the world's production (Al Riyadh, 2011). While the local downstream linkages of some forms of Gulf heavy industry remain weak in the face of a generally narrow private sector, they tend to be successful in their own right.

The success of heavy industry in the region relies on a combination of state capital injections, sovereign guarantees and cheap energy, and hence is not easily exportable to energy importing MENA countries. Capital and natural endowments might be necessary, but by no means sufficient preconditions of success, as other oil-rich MENA countries such as Libya, Algeria, Iraq or Iran have failed to build viable, world-scale heavy industries. Core conditions of success in the GCC include formal and informal governance structures that have protected Gulf SOEs' managerial autonomy, focused accountability in a

small set of principals and allowed for clear commercial mandates. At the same time, a number of Gulf based SOEs display unorthodox governance practices in terms of disclosure, board independence, and other parameters.

As we have seen, the above model of successful, administratively insulated SOEs first developed in industry has more recently been deployed also in non-industry sectors, notably in telecoms, aviation, and tourism – usually involving ventures for which the private sector did not have the requisite scale, managerial capacity and appetite for risk. Some Gulf countries now seem to be moving towards a "third generation" of SOEs – different from heavy industry, telecoms, aviation or real estate champions – that draw on no obvious comparative or geographic advantage, notably in the aerospace industry, semiconductor manufacturing, media and renewable energy technology. The leader in this regard appears to be Abu Dhabi's Mubadala Development Company.

Mubadala, a holding entity established in 2002, owns a wide variety of local and international assets, the only common denominator of which is that they are expected to contribute to the diversification and technological development of Abu Dhabi's economy. Mubadala now is invested in fields as diverse as gas trade, aluminium, real estate, semiconductors, healthcare, renewable energy and aerospace manufacturing. It has also been used as a tool to temporarily acquire struggling private companies. It owns shares in General Electric, chip maker AMD, commodities company EBX, and private equity company The Carlyle Group. Mubadala's reports its total assets to be valued at more than 50 billion USD and has created 10 000 jobs in Abu Dhabi in the past decade.

Mubadala continues to rely on regular capital injections from the government, however and although it has reported profits for most recent years, these appear to be largely driven by its "Dolphin Energy" daughter company which imports cheap gas from Qatar under a long-term supply contract. The commercial viability of it ventures into semiconductors and renewable energy remains yet to be proven and has come under some criticism from sectoral experts. The sustainability of its success is also sometimes questioned since it relies heavily on foreign expertise. Whatever the eventual fate of Mubadala's ventures might be, it is an alternative model to the more narrowly focused, gradual and methodical build-up that companies such as SABIC witnessed already from the 1970s onwards.

Notes

1. For instance, banks in Algeria are still 90% public (IMF [a], 2012), while they are more than 90% private in Lebanon (La Porta et al., 2002).
2. The same could be said about basic services like health or education which remain state-provided in most developing countries

3. These factors have, in turn, led to difficulties in privatising them in some cases. In 2007, the government of Egypt had cancelled its plan to sell at 67% stake in the Banque du Caire to the National Bank of Greece whose bid was the highest at over 2 billion USD, considering that the bid was too low. The Banque of Caire did not go through the restructuring that Bank of Alexandria, privatised earlier, was subjected to.

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Chapter 3

The role of state-owned enterprises in MENA development and competitiveness

This chapter is focused on exploring the role of MENA SOEs as engines of economic development and industrial competitiveness. It highlights the variable use of SOEs to achieve established socio-economic outcomes such as urban development, creation of housing for the poor, development of sectoral clusters and other socially beneficial outcomes. More generally, this analysis looks at SOEs as one mechanism for subsidisation of basic goods and services, on which the social contract in most MENA countries relies, at least partially. Examples of commercial companies which are also mandated to fulfill certain social objectives and how they are compensated for their extra-commercial objectives are also provided.

National differences

SOEs all over the world, whether structured as monopolies or functioning in a competitive environment, operate in sectors where they are charged with providing essential goods and services such as electricity, water, transport, or health. In the MENA region, in addition to being present in finance and network industries, SOEs are heavily involved in producing other basic goods and services, especially in countries such as Egypt, Syria and Algeria which feature a socialist economic legacy. In these countries, SOEs are present in a broader range of sectors including agriculture, banking, construction, defence, petroleum, light and heavy industry among others.

In Egypt for instance, state-owned enterprises operate in all of the above sectors. In Algeria, the foreign investment regulations requiring majority local ownership for all foreign ventures perpetuate the legacy of already heavy state involvement in the economy through a myriad of sovereign investment vehicles such as the Revenue Regulation Fund which co-invests alongside foreign investors. Even among the few companies listed on the Bourse d'Algiers, none are entirely privately held. In Syria, SOEs also operate across all sectors, inspired by the Soviet model of state ownership, including in activities such as food distribution that in other countries of the region are owned by private operators.

As a result of the dominance of SOEs and the nature of goods and services they provide, their performance directly impacts the quality of life of wide segments of populations of MENA countries. Whether electricity is available at an affordable price and whether food staples are provided at subsidised rates are "bread and butter" economic issues that governments, particularly in less wealthy countries of the region, cannot afford to ignore. In countries touched by political turmoil over the last two years, SOEs have in fact found themselves at the front line of governments' response strategies as pressures to provide at least basic goods and services have grown. Indeed, the developments of the past two years have put pressure on governments to continue using SOEs as a provider of basic services at subsidised prices.

In Syria for instance, state-owned supermarkets – product of the 1960s nationalisation programme – were reported to be recently gaining in popularity due to their ability to offer basic stuffs at subsidised prices, which have in fact been lowered on governmental orders. This strategy has certainly had an impact on the performance and competitiveness of these companies,

but has also reduced the "distance" between SOEs and the state. Even prior to the conflict that has engulfed Syria since 2011, the relationship between the state and SOEs was not sufficiently arm's length, with the result that the government was reported to interfere in the day-to-day operations of SOEs.

As alluded to above, in GCC countries, the role of SOEs in supplying basic goods and services is less wide-ranging than elsewhere in the region. The most important "public service" obligation of GCC SOE sectors is arguably the provision of cheap energy in the shape of transport fuel and electricity (Stevens, 2011). GCC-based SOEs can also act as incubators of entire ecosystems of companies and in a more general sense, their success is instrumental to the economic performance of all Gulf countries. This is not only because they can demonstrate the commercial viability of new activities, but also because their outputs serve as key inputs to the production processes of other companies. For instance, the outputs of the petrochemical SOEs – almost entirely state-owned – are used as inputs in important downstream industries, including ones operated by other SOEs, thereby enabling diversification into new activities.

Compared to the Levant or Maghreb however, SOEs in the Gulf are not usually present in low value-added sectors such as agriculture or cotton production.[1] That said, some of the activities that are state-controlled in the Gulf represent some relatively unorthodox examples of state ownership. For instance, the recent construction of Dubai's metro was executed and overseen by the Dubai Roads and Transports Authority (RTA), which also operates the state-owned taxi service, inter-city transport, bus services and undertakes the necessary construction works. This is a relatively unusual arrangement in the MENA region, with the UAE being the only country in the MENA region where taxi services are offered by a governmental entity.

The Dubai Taxi Corporation is a profitable enterprise, which operates essentially as a monopoly, facing minimal competition from services provided by hotels. It is organised as a subsidiary of the RTA, which in principle is meant to operate as a sectoral regulator. This example highlights that government involvement in low value-added activities can motivated by the lucrative nature of certain sectors and the possibility to cross subsidise other activities. In this instance, the revenues generated by the RTAfrom taxi and other profitable services are used to cross-subsidise its other services, notably the Dubai Metro, whose construction costs are estimated at 30 billion dirhams (8.2 billion USD).

SOEs as a mechanism for subsidisation

In oil-importing and exporting countries alike, key incumbents in sectors such as air transport, electricity, oil and gas are typically state-owned and

often subsidised. Indeed, the social pact in many countries of the region has in fact relied heavily on the provision of basic products and services by the state below cost. The proof of this is that in the past, announcements of price increases for staples have been followed by wide-scale public protests. In November 2012, the announcement of price increases on gas and cooking oil resulted in wide protests in Jordan. At the height of the food crisis in 2008, similar events transpired in Egypt, where food price inflation has been significant and where successive governments heavily subsidise staples such as flour and cooking oil, despite the criticism of the inefficiency of these subsidies in reaching the poor.

Across the region, especially in oil-importing countries, governments are aware that political stability is contingent on being able to deliver food stables and energy to disenfranchised segments of the population. Despite the deep fiscal crisis witnessed in Egypt following the revolution, the government has asked the parliament to allocate LE 114 billion (approximately 18 billion USD) in 2012 in subsidies for petroleum products, bringing fuel costs below those in oil-producing Saudi Arabia (Bloomberg, 2013). In Tunisia, a spike in international food and fuel prices has also increased subsidy costs, which are estimated to amount to 8% of Tunisia's GDP. In Morocco, food and energy subsidies have reportedly increased from 2.7 billion euros in 2010 to 4.76 billion euros in 2013 as a result of social policies enacted in late 2011 (Oxford Business Group, 2013). Across the region, and despite visible resistance by Central Banks, ministries of finance and the donor community to the use of limited fiscal space on subsidies, governments have not been willing to curtail them.

In particular, petroleum prices all over the region have been and continue to be subsidised, in both oil-exporting and importing countries alike. This has been an important burden on the fiscal budgets of MENA governments, considering the heavy consumption of hydrocarbons. According to a recent IMF report, increasing gasoline prices to their opportunity cost in MENA countries would mean an almost doubling of the retail price of gasoline, resulting in a reduction of energy demand of 27-41% in the long term (IMF [a], 2012). Even in wealthy, oil-producing countries such as Kuwait, the removal of subsidies risks generating public unrest considering that increasing the gasoline price to its opportunity cost would imply a 183% raise in its retail price (IMF (b), 2012).[2]

In addition to petroleum, most countries of the region (as indeed elsewhere) resort to price controls on electricity, water and other basic goods, which are often provided by SOEs. The opportunity costs of runaway energy consumption growth are considerable even in the GCC. Saudi Arabia now consumes more energy domestically than Germany, a country with three times its population and six times its GDP. Creating the additional production capacity to satisfy these needs is proving increasingly costly. Some experts

estimate the cost of subsidised energy in Saudi Arabia at 10% of its GDP although estimates of the magnitude of the cost of energy subsidisation are hard to make due to the lack of available data.

As the counterweight of subsidies or soft loans, governments in the region have often imposed price controls on goods and services provided by SOEs. Even in countries such as Jordan where such price controls generally do not exist, the government retains the prerogative to apply price controls temporarily by decree. Compensating SOEs operating in competitive sectors for their social obligations, either through direct transfers or other less explicit and transparent means such as subsidised loans or goods (e.g. gas, oil and other feedstock) provided below international prices is a common practice in the region.

The capping of prices also effectively amounts to a built-in subsidy/fiscal transfer of certain services or goods considered of value to the general public. The current use of SOEs as a source of fiscal transfers may not be ultimately efficient means of subsidising certain activities. When transfers are made on an ad hoc basis, based on the need for urgent capital injections, this can undermine fiscal planning. For example, transfers to the Lebanese national electricity company often vary significantly, with the transfers in 2012 increasing by at least 25% over 2011 (Byblos Bank, 2012).

Although some variation between planned and actual cash injections may be beyond the control of SOE management, accurate and transparent accounting for such obligations is necessary. The OECD recommends that such obligations be funded from the state budget, using mechanisms to avoid market distortions. Special obligation is typically a requirement for an SOE to provide a product or a service at an affordable or unified price below its effective cost. To be qualified as a "special obligation": it must be specifically required by the government, it must not be undertaken on the basis of a commercial decision, and it should achieve a social or policy benefit. Special obligations do not usually include all loss making operations or philanthropy (OECD, 2010).

The OECD's *Accountability and Transparency Guide for State Ownership* notes that identifying SOEs' special obligations and costing them allows for an informed public debate about their relevance, budgetary implications and distributional consequences (OECD, 2011a). In a number of OECD countries, these obligations are identified through a systematic exercise and discussed between the owner and SOEs. The consequences of not costing these obligations are highlighted in Box 3.1 which considers the example of Électricité du Liban.

Reforms in countries such as Morocco and Jordan, which are also importers of energy, demonstrate the value of restructuring and unbundling

Box 3.1. **Électricité du Liban: Fiscal burden on the state**

Électricité du Liban (EDL) is a public institution holding the monopoly on all electricity generation, transmission and distribution activities in Lebanon and is the country's one state-owned enterprise whose activities are subject to constant public debate. EDL was created in 1960 from a fragmented system of local and regional electricity concessions and suffered deterioration in management and infrastructure as a result of the Lebanese civil war and subsequent political instability.

The provision of services by the Électricité du Liban is overshadowed by the sectarian nature of Lebanese politics. The rate of non-technical electricity losses in Lebanon is estimated to be close to 20%, resulting from illegal use of the electricity grid by some groups of the population. At the same time, the amount of government transfers to the EDL continues to increase and is reported to reach, according to some estimates, up to 20% of the state budget, representing the second largest budget item after debt servicing.

EDL has not been profitable for decades and continues to rely on government subsidies to continue its operations. Despite growing amounts of subsidies, Lebanese citizens experience blackouts averaging 6 hours a day. As a result, many Lebanese towns and homes are forced to rely on private electricity generators which are estimated to cost up to 1.3 billion USD annually.

Over the years, a number of measures were proposed, and some adopted, to address EDL's poor performance and its inability to keep up with demand. In the 1990s, when the political climate favoured the liberalisation of the Lebanese economy, EDL was included on the list of enterprises to be privatised, a measure which was meant to be accompanied by the creation of an independent regulatory body. These plans did not materialise and reform measures advocated in over 60 reports commissioned to address EDL's situation (including the 2010 Policy Paper for Electricity Reform), were not implemented.

EDL continues to operate as a public institution as per its founding decree of 1972, overseen by its Director General who is also a Chairman of the Board (and the Acting Managing Director of the Directorate of Petroleum at the Ministry of Energy), along with the 7 other board members appointed by the Council of Ministers. The governance practices of EDL highlight important conflicts of interest that negatively affect the company.

Recent strikes by contract workers of the EDL demanding full time employment and salary increases have essentially brought the company's operations to a halt. The company still suffers from the absence of a clear political mandate for reform. There are ongoing disagreements within the government regarding corporatisation, unbundling and potential private sector participation in its capital. Recent discussions regarding the appointment of a new board of directors did not result in any concrete changes. The creation of the Electricity Regulatory Authority is pending as per the Electricity Act adopted in October 2011.

Box 3.1. **Électricité du Liban: Fiscal burden on the state** *(cont.)*

Poor delivery of vital services to Lebanese citizens and growing government subsidies are two results of the political stalemate regarding the reform of the company. The unpredictability of the subsidies that need to be provided to EDL, in part due to fluctuating energy prices, creates a further challenge to the budgeting process managed by the Ministry of Finance.

Source: Hasbani, Katarina Uherova (2011), *Electricity Sector Reform in Lebanon, Political Consensus in Waiting*, Working Paper prepared for the Safadi Foundation; The Daily Star, (2012), "EDL Full Time Workers to Strike over Attack on Senior Employee", 25 July; IMF (2007), "Lebanon: 2007 Article IV Consultation – Staff Statement", *IMF Country Report*, No. 07/382, December.

generation from distribution activities. For example, the Jordan Power Electricity Company, no longer holds a monopoly in the market, supplying about 65% of the market (Electricity Regulatory Commission, 2013). It competes and operates in the same value chain as other state-owned incumbents. Saudi Arabia has also introduced private capital into the utilities sector through a variety of independent water and power projects, although the bulk of electricity continues to be produced by state-owned Saudi Electricity Company.

Diverse social objectives of SOEs

Beyond providing basic goods and services such as water or electricity, SOEs are often charged with a number of social and developmental mandates. These mandates touch on economically and socially diverse objectives such as contributing to industrial development, acting as incubators for other companies in the value chain, providing housing for the poor, territorial development and support of youth or women. In many instances, these mandates relate to the political promises made by governments, reflected in the social contract between the state and the public.

While Gulf-based construction companies like Nakheel are charged with developing the tourism and hospitality sectors, in other parts of the region, and in the Maghreb in particular, SOEs are often involved in building housing for civil servants or the poor. In Egypt, the military, through state-owned companies, has historically been the engine behind the construction of cheap housing for the security forces, a mandate which has recently grown to the provision of social housing more generally.[3] A key question, raised throughout this report, is how transparently SOEs are compensated for fulfilling these objectives.

For instance, when Emaar, the UAE's biggest government owned real estate developer listed on the DFM (30% owned by Dubai government) is tasked with constructing an opera house at the request of the government,

how should it be compensated and how should private investors be treated in this situation? Likewise, when Saudi Aramco is asked to oversee the construction of a football stadium, how should it be compensated and should it indeed be tasked with such "non-core" activities?

Few examples in the region can be highlighted as mechanisms for transparent compensation of SOEs by governments for extra commercial duties. Establishing such mechanisms is important given the scale and diversity of developmental objectives placed upon SOEs in the region. Furthermore, it is plausible to argue that the scope of such developmental objectives placed on SOEs is poised to increase across the region, especially in situations where SOEs are "trusted" to deliver goods and services more efficiently than private sector incumbents.

These examples highlight the risk of a certain "mission creep" on successful SOEs, as highlighted in the case of Saudi Aramco explored above. Discussion with SOEs in the region (even those with private shareholders) highlight that they might not be in position to refuse certain unprofitable missions when they are assigned by the regulator or the government. For example, the Emirati telecom operator, Du, the partially state-owned telecom company in Dubai, has offered to make some investments in infrastructure for the government and then rent them back to the government in order to avoid delivering these services at no charge as originally asked. In some cases, the line between what services should be compensated for and which are inherent in the business model of the company or its industry may be difficult to draw. For instance, the government of Kuwait compensates Kuwait Airlines for the loss of revenue on commercial flights caused by seats reserved for security personnel.

A few successful examples of SOEs being compensated for their non-commercial objectives can be highlighted. In Morocco, the state owned holding company Al Omrane is often cited as a success story behind the Moroccan *Cities Without Slums Programme*, which aims to build affordable housing for the poor. Box 3.2 further highlights how the company cross-subsidises its activities in order remain profitable while engaging in socially-oriented projects. The reduction of slums in Morocco is therefore achieved in part through subsidies and in part through the company's ability to cross subsidise certain unprofitable activities.

The construction of decent housing and the elimination of slums is a common objective in the countries of the Maghreb and to a slightly lesser extent in the Levant. For instance, the provision of decent housing, particularly in overcrowded urban centres, is a major challenge in Egypt, where it is estimated that slums constitute around 40% of urban areas around Egypt (Al Ahram, 2012). The experience of the Egyptian state-owned housing

Box 3.2. **Cities Without Slums Project: Al Omrane's involvement**

The Al Omrane Group was established in 2004 as a real estate SOE through a merger of ANHI (National Shelter Upgrading Agency), Attacharouk Company and SNEC (National Company for Equipment and Construction). At the same time, the Moroccan government adopted the Cities Without Slums Programme by royal decree.

The company was placed under the supervision of the Ministry of Housing and Urban Planning and was given as its main objective the battle against substandard living conditions. Specifically, Al Omrane's goal was to eliminate slums in 83 cities and urban centres in the 2004-12 period. The projects were delivered under a specific contractual framework linking state, local governments and the public operators.

In order to realise its objectives, the Programme planned to mobilise investment to the order of 3 billion USD, including a state subsidy of 1.2 billion USD obtained through the general budget and the Solidarity Fund for Housing. The remainder of the funds came from contributions from beneficiary households (30% of the cost), contributions of the Al Omrane group through a cross-subsidy (from margins made on the sale of housing units to upper-income householders) and the mobilisation of international funding.

To bridge the urban divide, the hosting cites are designed to promote social diversity. In the allocation of housing products, the priority is given to the most disadvantaged populations and succeeded in giving the poor property titles, which in turn allow for better access to credit and business opportunities. Intervention was undertaken principally through 3 principal mechanisms: 1) relocation of slum households on equipped land parcels for the auto-construction of their houses (80% of cases), 2) re-housing via access to low-cost housing units, intended in priority for vulnerable populations, 3) restructuring and in situ upgrading.

The Al Omrane group participated in the acquisition of land, technical aspects of operations, collection of beneficiary's contributions, preparation of sale contracts and delivery of individual property titles. The Ministry of Housing and Urban Development, working with Al Omrane, reports to have improved or eliminated 46% of the country's slums, previously home to 1.6 million people. The final cost of the Programme (approximately 2.8 billion USD) was in line with the budget and the government's contribution amounted to 1.1 billion USD. According to UN Habitat, the Moroccan slum reduction programme is considered one of the best in Africa and has inspired efforts in the neighbouring Tunisia and Egypt.

Source: United Nations Habitat (2010), *Al Omrane: Leading Actor for Settlements Upgrading*, July.

companies in eliminating such slums has not been as positive as the Moroccan experience outlined above and clearly demonstrates the challenge in mobilising SOEs for the promotion of developmental objectives in Egypt.

The experiences of Moroccan SOEs are of interest and are already being studied by policy makers looking to leverage SOEs to promote social development. Al Omrane is not the only SOE in Morocco charged with important social objectives. The national electricity company (l'Office National de l'Électricité et de l'Eau Potable) is an example of another Moroccan SOE which actively contributes to urban development of the country. The first 15-year rural electrification programme was launched in 1996 and by 2011, it reportedly allowed the electrification of 920 villages or almost 2 million households (Office National de l'Électricité et de l'Eau Potable, 2013).

The national highways construction company (Autoroutes du Maroc) has also significantly contributed to regional development in Morocco, connecting rural areas to urban centres. Box 3.3 explores in detail the case of Autoroutes du Maroc and its contribution to the rural development of the country, and the effect that the construction of additional highways and routes has had on the overall economic development of the country.

Box 3.3. **The role of Autoroutes du Maroc in rural development**

Highways Morocco (Autoroutes du Maroc) is a Moroccan public company created in 1989. ADM is responsible for monitoring the construction, operation and maintenance of completed routes. With a workforce of 570, it currently operates a network of 1 400 kilometers, with plans to bring it to 1 800 km by 2015. ADM has distinguished itself as a public company seeking to achieve greater efficiency through the adoption of a variety of international standards (e.g. ISO 9001, IFRS, etc.)

ADM's activities have had a positive effect on a number of sectors. Notably, the construction of new routes has had a positive effect of boosting regional economic centres by creating North-South and East-West connections, as well as facilitating regional integration for connecting the Maghreb with Europe. Its activity has also made possible the development of new business opportunities in logistics, tourism, and the development of the telecom broadband network.

Today, ADM holds an exclusive right to the construction and operation of highways in Morocco. Attempts to introduce private concessions have failed because of the low risk appetite among potential candidates and high guarantees they required. ADM's funding model is based primarily on debt whose repayment is enabled through toll revenue. ADM uses the national and international markets to access finance, including through bond issues and loans guaranteed by the state.

Box 3.3. **The role of Autoroutes du Maroc in rural development** *(cont.)*

The company respects the prevailing legislation on procurement in Morocco. Each new development is subject to international bidding. The company is subject to the same tax requirements as any private sector company in Morocco. In addition, as a public company, it is subject to transparency and budget requirements, including the control by the state through the Ministry of Finance as well as by the state audit body (Cour des Comptes).

In some cases, the company cross-subsidises development activities in new areas through revenues from older and profitable routes. These extra-commercial obligations of the ADM are subject to a contract with the state, originally initiated in 2004 and renewed in 2008 (until 2015). This allows ADM to access multi-year funding from the Treasury, while permitting the State to have clear and measurable targets to track the implementation of agreed-upon programmes. That said, such programme contacts are sometimes criticized because they are not systematically revised to reflect changes in government position or policies.

Source: Contribution from Kamal Daoudi, Senior Magistrate, Court of Audit of Morocco.

Not all experiences of SOEs charged with urban development objectives appear to have been positive, even if they technically fulfil the social mandates set out for them. There are for example some question marks over the economic viability of some of the new "economic cities" promoted by Saudi Arabia's General Investment Authority in peripheral regions of the kingdom. The responsibility for developing one of them – the Jizan Economic City – has been transferred to Saudi Aramco after no private investors for the city's infrastructure and planned refinery were found. Indeed, the development of far off zones or centers through SOEs has proven challenging elsewhere, not least in countries such as Russia where SOEs operate in remote areas with little other business presence and hence few potential sources of re-employment post SOE dissolution or restructuring.

Notes

1. GCC governments pursue aggressive acquisition policies of agricultural land abroad in order to ensure the security of their food supplies in the long term.
2. For a more detailed discussion on energy subsidies in the Arab world, please refer to Bassam Fattouh and Laura El-Katiri (2012).
3. In October 2011, General Tantawi announced the allocation of a large plot of army controlled land for a civilian residential building in Assiout and then decreed a contribution of 333 million USD of army funds for the construction of social

housing for the poor. For more information on the role of the Supreme Council of Armed Forces role in commercial activities in Egypt, refer to MERIP, 2012: Egypt's Generals and Transnational Capital.

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Chapter 4

Implications of the diverse objectives of MENA state-owned enterprises

Extra-commercial objectives pursued by SOEs have a number of implications on MENA economies. First, SOEs, much as the overall public sector, are often forced to create employment opportunities in order to absorb excess labour force, in detriment to their productivity. Secondly, SOEs' social objectives and the manner in which they are compensated for fulfilling them, have serious implications for the emergence of a level-playing field between state-owned and private sector incumbents. Third, the lack of transparency and accountability in some SOEs has led to the emergence of allegations, and in some instances evidence, of corruption in these companies. Taken together, these trends have created a situation where many SOEs are either unprofitable or loss-making, weighing heavily on government budgets which are under significant strain in recent years in most countries of the region. Good corporate governance for SOEs is increasingly seen as part of the solution to the corruption and even performance-related challenges faced by SOEs.

The characteristics of MENA SOEs discussed in the foregoing sections of this report – including non-commercial objectives, privileged and strategic status, diffuse governance, and often mixed commercial outcomes – raise a number of strategic policy issues. The second half of this report focuses on the consequences that MENA SOEs' broad objectives have for local labour markets, government budgets, competition, and the quality of governance and anti-corruption agenda in the region.

Labour market implications of MENA SOEs

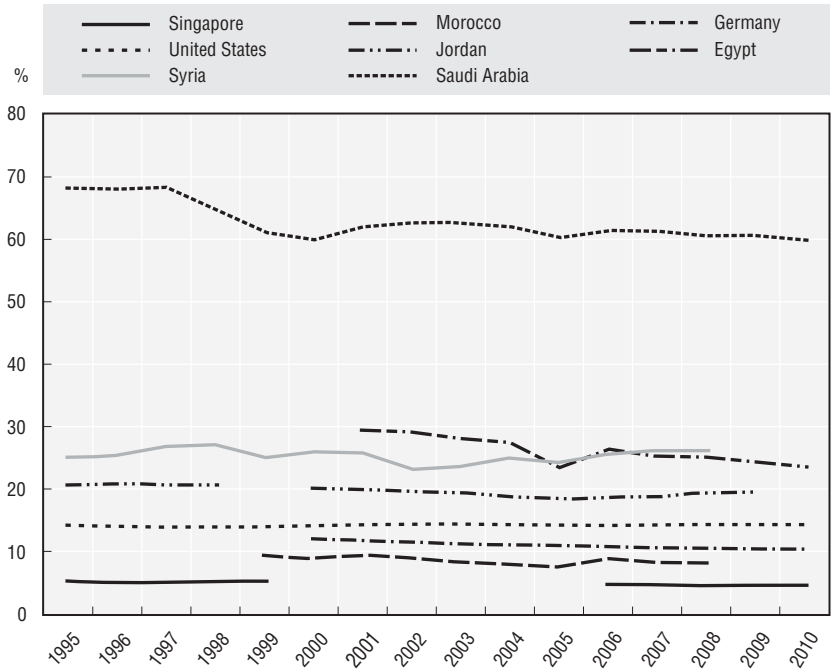
In addition to contributing to social objectives as outlined above, SOEs are in some cases charged with labour force development objectives and in some countries are forced to over-employ in order to absorb excess labour not able to find employment in the private sector. Reform of large SOEs, especially those located in remote locations, can be contentious since it may result in layoffs which may be socially and hence politically unacceptable, particularly when alternative employment opportunities are difficult to find and where entire families are dependent on a single breadwinner. Maintaining employment through SOEs is not an uncommon strategy across the region, regardless whether this employment is productive or not.

The full extent of employment by SOEs across the region cannot be established due to the lack of reliable statistics, although figures regarding the size of the overall public sector employment are telling. In Kuwait – a country with a particularly large public sector (relative to the size of its economy) – it is reported to employ 76% of the national labour force.[1] This figure includes a variety of state owned enterprises, notably in the petroleum sector which accounts for over 90% of Kuwait's exports. Likewise, in Saudi Arabia, Egypt, Algeria and Syria, the state remains one of the largest employers, although generally in the GCC, over-employment tends to be more prevalent in the ministries than in SOEs.

In Saudi Arabia, the salary and benefits bill for the entire public sector is more than double that of the private sector (Central Department of Statistics & Information, 2013), even before the 2011 decision of the King to provide a 15% salary increase for all public sector workers as well as an additional two months' salary. The IMF estimates that the MENA region has the highest central government wage bill in the world, at close to 10% of the GDP, as opposed to just over 5% globally (IMF [b], 2012).

This reflects both the size of the public sector and the fact that public sector wages are on average 30% higher than those in the private sector (whereas in the world in general, private sector wages are 20% higher on average than public sector wages) (ibid.). This is particularly so in select SOEs which are considered as strategic and where the imperative to attract high calibre staff facilitates their exemption from remuneration scales that may apply to other SOEs or the public sector at large. That said, the job creation from companies operating in strategic sectors such as petrochemicals is often low.

Figure 4.1. **Share of government employees in economically active national population**



Source: World Bank, ILO, Saudi labour force survey, SAMA.

We do not have up-to-date aggregate and comparable employment figures for most MENA SOE sectors. Company-level information in many cases however points to over-staffing and conflicts between efficiency objectives and welfare state prerequisites. Welfare objectives are not only factored into output pricing but also in staffing decisions. With lagging growth, unemployment typically well above 10% and with local private sectors creating few well-paid and attractive jobs, SOEs have been an important employment generator, much like the rest of the public sector (World Economic Forum, 2012).

For instance, while Emirates employs a staff of about 40 000 and operates almost 200 planes, Kuwait Airways employs a staff of 5 000 while operating only about 10 functioning planes, a staff-to-plane ratio that is about three times as high. Job security for existing staff has been one of the main stumbling blocks in the negotiations over Kuwait Airways' privatisation. Over-employment in the mostly state-run Egyptian textile sector, which employs a total of 400 000 workers, is well-documented (El-Haddad, 2012). In Syria, extensive over-employment has been documented, and throughout the late 1990s and 2000s, wage growth in SOEs exceeded productivity growth. At the same time, salary scales aim to create socialist style egalitarianism in that a worker with 20 years on the job can receive a salary equivalent to that of a freshly appointed general director.[2] Redundancies almost never happen and there is no effective performance monitoring.

According to World Bank research, over-employment in Algerian SOEs has been endemic, with levels of employment unrelated to performance. SOE social services obligations for workers and their families have historically been extensive, and wages, by and large, have followed the general – more egalitarian – public sector pay grid, despite formal autonomy to deviate from it. Employment has been given preferably to veterans of the independence struggle and their descendants. Reflecting its populist ideological origins, the government has given a prominent political role to state-controlled unions which have defended public sector workers' entitlements.

As mentioned above, a halving of the industrial production between 1986 and 1996 in Algeria was not accompanied by any cuts in the workforce. While the SOE sector has been gradually slimmed down since then, it has by and large not reached private sector efficiency levels. In 2004, 690 000 workers were employed in public transport and service sectors, more than 100 000 in Sonatrach and its affiliates (IMF, 2006), while 370 000 Algerians worked in more than 1 000 other SOEs (IMF [a], 2008). Likewise, in Iraq over employment by SOEs is dominant. In 2004, some 500 000 individuals were employed in SOEs (World Bank, 2004). Used as a tool of employment generation in an age of high oil prices and precarious domestic politics, the sector consisting of some 200 entities has since expanded to an estimated 600 000 employees in 2012 (Wing, 2013) Complaints of low skill levels, political employment, lack of competitiveness and over-staffing are widespread: by some estimates, 60% of staff are unneeded.

Morocco, a country with a population that is somewhat larger than the Iraq and comparable to Algeria, has considerably smaller SOE employment. As of 2008, the SOE sector included 716 public enterprises, which generated 12% of total added value in the Moroccan economy, invested twice as much as the central government, but only employed 125 000 individuals (IMF, 2010). SOEs have clearly been much less extensively used as employer of last resort.

The situation in Jordan and the GCC is similar. There is generally a more effective separation of (generous) surplus employment in the public sector from more performance-oriented employment in strategic SOEs, which offer better salary scales, but can also be more selective in their recruitment. Saudi Aramco, a far larger hydrocarbons producer than Algeria's Sonatrach, had a mere 56 000 employees in 2011. The exception to this rule appears to be Kuwait, where SOEs are generally subject to the same problems of overstaffing and less selective recruitment as the public sector at large. Over-employment and lack of performance management in SOEs can be even more detrimental to development than in the rest of the state apparatus if the goods and services at stake are strategic, if their production requires particular skills, and if they are meant to drive economic diversification and set a benchmark for the private sector.

Perhaps more important from a welfare perspective, SOE employment is an inefficient, and quite likely unfair, way of redistribution. It is discretionary, potentially subject to political manipulation and "lumpy" – while some citizens benefit from it, many others are altogether excluded from it. Not only do MENA public sector wages, although low outside of the GCC, on average still lie above those in the private sector, job security is also higher and work effort required often lower (IMF, 2006).[3] This creates potentially counterproductive incentives to acquire education that will maximize job acquisition and safety in the public sector rather than productivity in the private labour market, and siphons potentially good human resources out of the private economy where they might be most productive.

The latter problem is particularly acute in countries with small populations like the UAE. A number of Abu Dhabi based SOEs are reported to have engaged in bidding wars that have driven up salaries for nationals and further reduced incentives to seek private employment. In lower-income MENA countries, moreover, SOE employment has by and large been insufficient to provide for decent livelihood, forcing many employees to take secondary employment.

The distortive nature of SOE employment in the region has been increasingly recognised by governments, however the challenge of transitioning to fairer ways of providing social security has not yet been satisfactorily resolved. An approach that was been tried in Egypt entailed privatising SOEs and/or gradually allow them to wither away (a strategy of "reform by stealth") by not investing in their capital infrastructure and not replacing retired workers. Pursued in isolation, this strategy however has proved economically and politically costly.

During the privatisations of the early 2000s, many Egyptian SOEs were offered for sale before their restructuring was completed, resulting in a low

sale price that reflected the need for the buyer to invest in the company and assume its liabilities, including its workforce. As a result, the total stock of employees in SOEs has been reduced drastically from 1.3 million workers to 400 000 since the privatisation process began in 1991 until the mid-2000s (IMF [a], 2005). In combination with sometimes opaque privatization practices, this strategy has however often led to asset stripping in privatised companies and the destruction of employment – disappearing public sector jobs were not replaced by equivalent or more attractive private jobs.

The downsizing of the SOE sector in Egypt was not accompanied by the creation of a sufficient social security net that could have cushioned the disappearance of unproductive, but by Egyptian standards relatively well-paid employment, and could have guided dismissed employees into the acquisition of new skills. Uncompensated downsizing of SOEs in Egypt was arguably one of the factors contributing to the great unrest of 2011.

The relatively privileged status of SOE employment is one of the reasons that restructuring and privatisation of state-owned companies tends to be so fiercely protested in the labour force. The human resource implications of SOE restructuring are considerable and need to be addressed to allow for successful restructuring of underperforming state-owned companies in the MENA region. In this regard, the example of the social support measures introduced by the Turkish Privatisation Administration during the implementation of the privatisation programme, described in Box 4.1, are highly relevant. Further discussion on how to address this challenge in the region is a priority to render SOEs more competitive and to enable the restructuring of SOEs more generally.

Box 4.1. **Turkish Privatisation Social Support Project**

Turkey's privatisation process began in the mid-1980s and gathered speed in the 1990s. The government of Turkey has established the Privatisation Administration in 1994 as the entity responsible for executing its privatisation plans, designed as an element of a broader liberalisation drive. Since its establishment in 1984, progress in privatisation has been impressive, with the sale of state shares in 270 companies, 104 establishments, 22 plants, 8 toll motorways, 6 sea ports, 2 bridges, 1 service unit and 524 real estate lots.

In early 2000, it became clear that in order to guarantee the success of the privatisation plans, the risk of social unrest in the wake of further reform would need to be addressed. To this end, the Turkish government with the support of the World Bank designed the Privatisation Social Support Project with the objective of mitigating the negative social and economic impact of privatisation. The first phase of the project took place over the 2000-05 period.

Box 4.1. **Turkish Privatisation Social Support Project** *(cont.)*

The key components of the project included job loss compensation whereby displaced workers received severance payments, a labour redeployment programme aimed at offering a range of services to workers seeking alternative jobs, and a component focusing on evaluating the social impact of the reform programme (e.g. surveys to monitor the impact of privatisation in select communities, coping strategies by displaced workers, etc.). The project components were designed so as to provide comprehensive social support to workers.

Support was provided indirectly through a World Bank loan made to the Privatisation Administration that had significant budget constraints at that time, given that the Turkish economy experienced an economic crisis that culminated in 2001. Displaced workers received job loss compensation either in the form of regular severance or of targeted payments to encourage early retirement and to discourage workers from taking employment in other governmental entities.

Labour redeployment services included job counselling, on the job training, institutional training, temporary community involvement, and small business start-up counselling. A particular feature of labour redeployment is that labour unions have agreed to participate in the advisory committee to the programme. Another innovative feature was that funding was allocated in part based on territorial parameters such as the level of layoffs and general unemployment in a province and the poverty index in the province.

The programme was implemented in a difficult economic climate, where – not unlike in the MENA region – job creation was slow, population growth outpaced economic growth and labour regulations reduced the incentives to hire new workers. Nonetheless, it was widely perceived to be successful in reducing inefficiency of SOEs, facilitating the privatisation process and avoiding the possible resistance of labour to the latter. As a result, a second programme of similar nature was implemented by the Privatisation Administration from 2005-2010.

Source: World Bank (2006 and 2010), *Implementation Completion Report*, Privatisation Social Support Project, Human Development Sector Unit, Turkey Country Unit, Europe and Central Asia Region.

Examples of measures implemented as part of the Turkish Privatisation Social Support Project but also policy solutions from other privatisations should be considered by MENA governments dealing with employment concerns during privatisations. For instance, in Jordan, the privatisation of Royal Jordanian and the Jordan Phosphates Mining Company was also accompanied by voluntary retirement packages and schemes that allowed

workers to purchase shares in privatised companies at a discount and on credit (Mako, forthcoming).

There is great need for creative thinking on how to create and finance modern social safety nets and active labour market policies that can make SOE restructuring socially acceptable, be they unemployment assistance, unemployment insurance, cash grants or wage subsidies tied to private employment. International donors could play an important role in both technical assistance and funding of transitional arrangements in the post-revolutionary MENA countries.

The fiscal consequences of inefficient SOEs

Against the background of weak supervision, constrained management, public service and employment obligations mentioned above, it should come as no surprise that many MENA SOEs generate weak or negative revenues. The imposition of non-commercial objectives or price controls make profits hard to attain, while "soft" budget constraints can reduce managerial incentives to aim for profitability in the first place. It is therefore of little surprise that historically, public enterprise sectors, especially outside of the GCC, have by and large been an aggregate drain on the state fiscal resources. That being said, an evaluation of their fiscal impact is difficult to make as they are many quasi-fiscal channels of SOE support that go beyond direct fiscal transfers and do not directly show up in company balance sheets – and conversely, SOE activities can have positive developmental and economic externalities that are difficult to measure and not visible when looking at individual companies or the SOE sector in isolation.

Case studies and IMF country reports highlight that SOE losses as well as the resulting costs to governments have typically been higher on average in MENA than in other world regions. That being said, the World Bank's "Bureaucrats in Business" data base indicates that governments' net fiscal contribution to SOEs has tended to decrease from the early 1980s on, if only because of the shrinking size of the sector in many economies.

The World Bank data end in 1991, and further information is patchy and not easily comparable across countries. But even if aggregate, comparable profitability data on MENA SOE sectors was available, it would have to be treated with caution, as the real cost that SOEs impose on the government and national economy are not always obvious, and often not featured on either company books or in national budget figures. For a variety of reasons, there can be a huge difference between a company balance sheet and a company's net fiscal and macro-economic impact. These differences can be relatively clear when SOEs are directly subsidised through transfers from government, which is the most straightforward and easiest to detect indicator of fiscal costs.

However, there are several channels through which hidden costs to the government budget and the national economy can occur. For instance, SOEs are often provided loans from public banks that are often not repaid and eventually have to be forgiven to repair these banks' balance sheets (sometimes in preparation of privatisation, as was the case in Egypt). These loans are often provided to SOEs at below-market rates. For instance, the Saudi Public Investment Fund provides large, low-cost loans to public enterprises for strategic projects. In countries where public banks play a significant role in the total financial system, preferential lending to SOEs has led to crowding out of lending to private enterprises, with negative macro-economic effects.

Loans to SOEs can also be indirectly subsidised through implicit or explicit sovereign backing of SOEs, a mechanism through which SOEs in the Gulf often achieve very low yields even with private banks that lie below the rates that large, well-established private groups are provided with. Sovereign guarantees however can be a burden on the fiscal credibility of a government (thereby increasing its borrowing costs) and, in case of default, can create a direct liability (an issue that Dubai had to contend with in the wake of its financial crises in 2009-10). They can also crowd out private sector lending even in countries with large private banking systems, such as the UAE, where SOE credit needs have been sizeable.

SOEs can also incur debt to other SOEs that goes uncollected, as has been the case with Bahrain's loss-making Gulf Air, which had incurred debt of 173 million USD to Bahrain's national oil company BAPCO by summer 2012. In the Iraqi case, SOEs have apparently also been ordered to preferentially transact with other SOEs, which can amount to a quasi-subsidy of potentially large fiscal importance (Wing, 2013). In addition to subsidised or free credit, SOEs can receive indirect subsidies through state purchasing of their goods and services at above-market prices. For instance, the Kuwaiti government is obliged to procure all business flight tickets for its staff only through Kuwait Airways, which are paid at full fare.

Other quasi-fiscal subsidies include inputs provided to SOEs below market prices, which can impose high opportunity costs on governments and national economies. Notable examples include the provision of cheap kerosene for national airlines (e.g. Kuwait Air and Saudi Airlines) and the supply of cheap gas and electricity for industrial companies (especially in heavy industry). In resource-rich countries, these inputs are themselves often provided by other SOEs, whose reduced profit in turn impacts government revenue. Preferential inputs also include free or low-price land, real estate and in some cases – notably that of military-operated SOEs in Egypt – the provision of free labour by military conscripts.

The above processes make coherent accounting of the fiscal impact of SOEs very difficult – all the more so when prices are controlled and inputs (including loans and capital) rationed through non-market mechanisms. We are not aware of any coherent, consolidated attempt in the region to achieve such accounting. We do however believe that such processes explain some of the questionable figures provided in national sources – such as the publicly reported claims that the (non-oil) Syrian public enterprise sector from 2003 to 2007 has consistently generated revenues that are at least three times higher than the state transfers to the sector (IMF, 2007), amounting to 10-25% of total government income as compared to transfers amounting to 4-10% (still a substantial share when compared to the 1-2% common in Morocco, a country with a smaller SOE sector) (IMF, 2003; IMF, 2004; IMF [b], 2005).[4]

Direct transfers are generally preferable to indirect support through quasi-fiscal operations such as subsidised inputs or concessionary loans. To make clear cost accounting easier, Algeria announced a plan to partially replace public bank loans to SOEs with government subsidies in 2005, a step welcomed by the IMF as it was expected to free credit for the private sector (IMF [c], 2005). Total credit to public enterprises declined during 2005-2006; the share of credit to the private sector increased from 43% in 2003 to 53% in 2006 (IMF [b], 2008). After the global financial crisis, however, Algeria again stepped up its support for SOEs, with subsidies to SOEs increasing from 13% of total spending in 2009 to an expected 18% in 2013, corresponding to an increase by 120% in absolute terms (IMF [b], 2013).[5]

Credit statistics for Syria look similar to the Algerian ones, with private sector loans overtaking SOE loans in the mid-2000s, but SOE loans (mostly provided by public banks) nonetheless continuing to grow at a rapid pace until the end of the decade. On the other hand, the picture in Jordan is drastically different. Credit to SOE constitutes a very small share of total credit, which in any case is mostly provided by private banks.[6]

Similarly, SOE debt in Morocco amounted to between 13 and 18% of GDP in 2006-08 (of which some share was probably held internationally), while total domestic credit to the economy reached between 57% and 78% of GDP (IMF [b], 2005; IMF, 2010; IMF [b], 2011). Even in the Gulf, the sheer scale of SOE investments can lead to macro-economic distortions and large quasi-fiscal burdens, as Box 4.2 illustrates.

The scale of the SOE sector is relatively smaller in other GCC countries, but operations such as the provision of free or very cheap utility services, cheap loans, sovereign (quasi-) guarantees and inter-SOE transactions at non-market prices are nonetheless significant. Individual companies can incur significant losses. For example, Bahrain's Gulf Air has been incurring heavy losses, amounting to 2.5% of the country's GDP and about 9% of total

Box 4.2. **Emirati SOEs and the financial crisis**

In Dubai, home to some very successful SOEs that have defined the economic landscape of the Emirate, direct government revenue from SOE profits has fluctuated between 4 and 14% of total government revenue over the years. Annual SOE dividends to the government have never exceeded a total of 800 million USD, while Dubai World's debt alone amounted to 59 billion USD in 2009, forcing the Dubai government to borrow 10 billion USD from Abu Dhabi. This has substantially increased Dubai's international financing costs due to widening credit spreads.

While Abu Dhabi never defaulted on any debt, Fitch estimates that continuing budget support to local SOEs averaged over 10% of GDP in 2009-11 (and more than 15% of non-oil GDP) – possibly a bigger share than anywhere else in the region, with Mubadala probably accounting for a significant part. In 2012, Abu Dhabi declared officially which government-related entities enjoy sovereign backing and which do not, contributing to transparency but not necessarily alleviating distortions in the credit market. According to the IMF, in March 2012 the overall debt of UAE SOEs stood at 185 billion USD, or 51% of the country's 2011 GDP, with Abu Dhabi accounting for over 54% of the total.

While the indirect benefits of Dubai's SOE strategy for the country's broader economic development are beyond dispute, even in this paragon of success, the direct contribution of SOEs to state income has been comparatively modest and the fiscal costs at times of crisis potentially huge. In part to address this issue, the government of Abu Dhabi has decided to require all local SOEs to seek explicit sovereign backing from the Executive Council before issuing debt. A number of UAE based SOEs have issued conventional debt and sukuk in recent months and the shift towards bond based as opposed to equity based financing by SOEs is poised to continue.

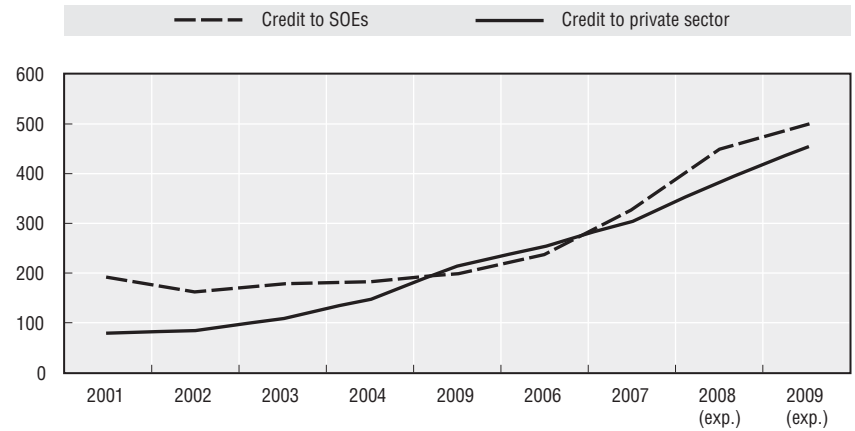
Source: Various IMF Article IV reports on the UAE, Fitch country reports.

government spending in 2009, the year of its worst performance (Centre for Aviation, 2010, 2012; IMF [d], 2012).

The opportunity cost of Saudi Arabia's provision of cheap gas, water and transport fuel through various public enterprises has been estimated at 10% of the country's GDP (Hodson, 2011). Most economists concur that the current subsidisation of petrochemical products in Saudi Arabia and other Gulf countries is economically sub-optimal and that more targeted subsidies are needed to reach the poor. A number of policy alternatives can be considered to better target or phase out existing subsidies, including for example selling feedstock at closer to world prices and using incremental revenues to support SME development.

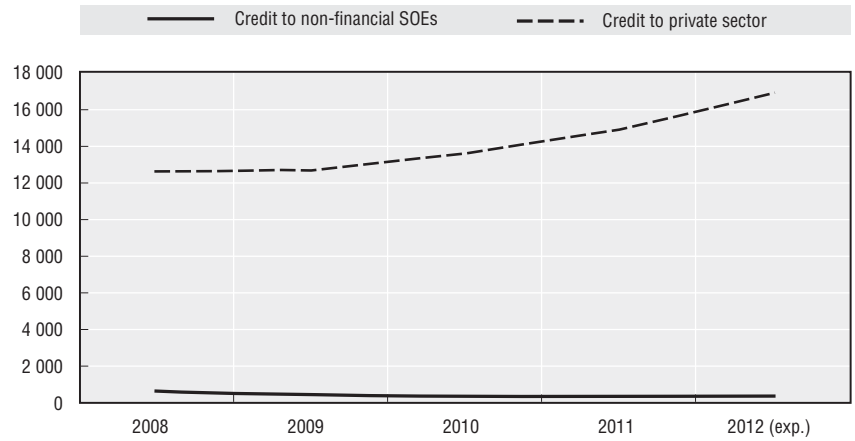
SOEs weigh especially heavily on budgets of governments in oil-importing countries. In Lebanon, years of under-investment and governance problems in the national electricity company (EDL) have cost the government over 1.5 billion USD in subsidies annually and have in addition affected the competitiveness of the overall economy, especially the energy-intensive manufacturing sector (IMF, 2012). In Turkey, the government continues to fiscally support its SOE sector, but on a relatively modest scale of around 0.5% of GDP (albeit up from around 0.3% before the global financial crisis). At the same time, the sector has produced aggregate profits for most of the last decade, indicating that the government, at least in aggregate, is not throwing "good money after bad" (refer to Figure 4.2).

Figure 4.2. **Syrian bank claims (in billion Syrian pounds)**



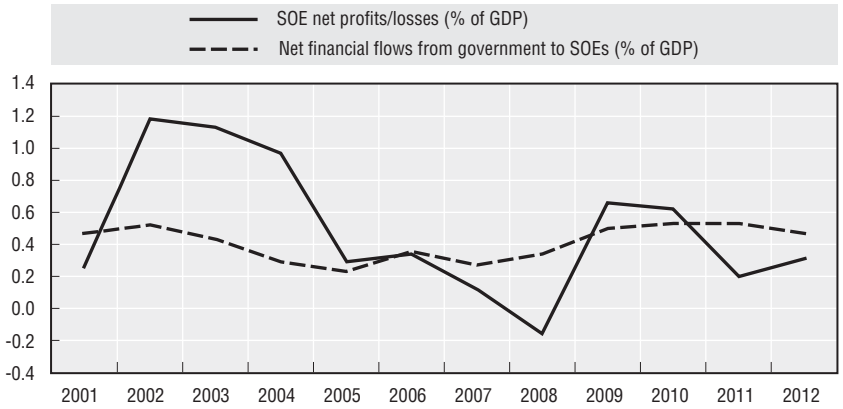
Source: IMF, Article IV reports on Syria.

Figure 4.3. **Jordanian bank claims (in million Jordanian dinars)**



Source: IMF, various Article IV country reports on Jordan.

Figure 4.4. **Aggregate profits of and fiscal support for the Turkish SOE sector**



Source: Turkish Treasury.

The challenges of putting a price on SOEs' non-fiscal contributions

Except for few isolated cases, the fiscal contribution of non-hydrocarbon SOEs in the MENA region is modest. On the other hand, SOEs have been a fiscal burden for many, if not all governments of the region. In preceding sections, this report has analysed many factors that can cause SOEs to make losses: fragmented and ineffectual public supervision, lack of managerial autonomy, soft budget constraints and a wide variety of non-commercial objectives, including employment generation and the provision of cheap goods and services to strategic clients or the general public – the latter of which are often categorized as "quasi-fiscal activities" as they function analogous to subsidies.

All the above can negatively impact the balance sheets of SOEs – but these are often not the best guide to their net fiscal effect of SOE operations. We have reviewed a variety of mechanisms through which governments can support SOEs without engaging in direct fiscal transfers, which can decrease losses (or increase profits) of SOEs but in turn generate negative fiscal effects for governments. Such indirect losses might in many cases be significantly larger than the direct SOE losses recorded in company accounts and are much harder to measure.

Some of the losses of SOEs as well as their indirect fiscal costs might be justified by broader developmental, social and strategic objectives pursued through their activities, however such positive externalities are not reflected in company balance sheets. In that case, objectives that are not directly related to the commercial well-being of a given SOE need to be made explicit

and their value determined to allow for clearer accounting and cost-benefit estimations. Perhaps imposing non-commercial objectives on specific SOEs is indeed the cheapest way to deliver on employment generation, public service provision or regional development. At times, SOEs are needed to provide critical services and develop infrastructure.

At a minimum, a concrete price needs to be put on these objectives and alternative ways of achieving them need to be explicitly considered. In some cases for example, a "least subsidy tender" that makes fiscal costs explicit and allows for competition between private providers in delivering a specific public service might deliver better results than a public monopoly. Governments in the region have yet to undertake a systematic determination of the total value of SOE outputs and their indirect costs. With budgets in oil-importing MENA countries under great stress, and social demands growing in the wake of recent unrest in the region, this issue is more relevant than ever. Governments need to seek the most effective way to deliver on their social objectives, at the same time generating public awareness of the direct and indirect cost of "business as usual". In many ways, the region needs a more equitable social contract, and making fiscal costs and benefits of service delivery through SOEs more explicit is an important prerequisite for the negotiation of this contract.

SOEs and effective competition

Context

Owing to government interference in SOE activities, they may not compete on a level-playing field with private companies. Given that they operate in a range of key sectors where their operations may have an important socio-economic impact, this is a pressing issue. *The OECD Guidelines on Corporate Governance of SOEs* recommend that all obligations placed on government companies must be clearly prescribed by legislation or regulation and that these companies must operate on a level playing field, including with respect to access to finance.

That said, the Guidelines recognise that in some cases, SOEs are expected to fulfil special responsibilities and obligations for social and public policy purposes that may well go beyond the generally accepted norm in commercial activities (OECD, 2006). The case studies above have illustrated a variety of circumstances where the activities of commercial SOEs exceed their stated objectives. In the majority of cases, SOEs are compensated for this directly or indirectly, which is in line with practices in other regions. In a minority of countries, public services are funded through user charges that are directly factored into the cost structure.

While the practice of compensating SOEs for unprofitable public service obligations is common, the structure of this compensation needs to ensure that it does not negatively affect competitive neutrality, including finance, tax, regulatory, and debt neutrality (OECD, 2012b). In most countries, elements of competitive neutrality have been dealt with through competition law and policies (OECD, 2011c). In case of EU member states, specific provisions of EU law bearing on competitive neutrality apply to all undertakings regardless of ownership, including private companies entrusted with public service obligations and companies benefitting from exclusive rights.

Despite the fact that many SOEs in the MENA region operate in commercial sectors, they have historically not been subject to level-playing field competition from the private sector and have often enjoyed implicit or explicit support from the government. As explored by Steffen Hertog, in a number of instances, government support to SOEs was essential to the establishment of heavy industry or other enterprises of a scale too significant for the private sector to undertake alone (OECD, 2012a). However, in an effort to encourage competition in order to improve the provision of services to the public, a number of sectors and, by corollary, SOEs operating in monopolistic or oligopolistic frameworks, have been reformed.

Attaining competitive neutrality is an important policy objective in the MENA region not only to improve economic efficiency and fairness of competition between SOEs and private companies, but also for the future development of the private sector. Insofar as key SOEs operate in sectors with relatively high barriers to entry, they face competition only from large local conglomerates/merchant families and potentially other large SOEs or foreign competitors. In this context, it is clear that fair competition is instrumental both to developing the local private sector and to attracting foreign investment to the region.

Competition frameworks

The field of competition law in the MENA region has only recently begun to develop. Jordan is the first Arab country to have adopted competition legislation in 2002. In other countries such as Syria and Algeria, competition legislation and authorities were introduced very recently, and there are still a number of countries in the region such as Oman[7] with no competition law (although elements are addressed tangentially in other decrees and regulations). In other countries such as Saudi Arabia, a competition commission exists but is relatively inactive. As a result of this nascent level of legal and institutional development in the area of competition, little is known about the frameworks within which state-owned enterprises contend with private sector entities.

Even where competition is regulated, not all SOEs are included in the remit of the relevant laws and sometimes they are even explicitly excluded. In some instances, the relevant authorities are prevented from launching investigations into SOE practices because some companies or sectors are explicitly not subject to the competition legislation. In Egypt, for example, public utilities managed by the state are not subject to the Competition Law, while private utilities may apply to the Egyptian Competition Authority for total or a partial exemption (OECD, 2011b).[8]

SOEs are explicitly not addressed by competition frameworks in Gulf countries although some of these countries are reported to be in the process of introducing competition legislation. In addition, some SOEs organised as statutory corporations by virtue of a special decree of the government can be made explicitly exempt from the competition law, even if other SOEs are technically subject to it. This may have limited implications in reality since companies in strategic sectors such as hydrocarbons and defence operate in monopolistic sectors with no plans to change this structure.

That said, even in jurisdictions where SOEs are covered by the relevant competition law, competition authorities are usually only empowered to prevent price gauging, cartel formation and deal with market access issues. It is rare for the competition law to include provisions covering issues such as artificially low pricing by SOEs, except where manifest predatory strategies can be proven. Furthermore, even in sectors where competition legislation formally applies, investigation of SOEs may be practically difficult to orchestrate.

The difficulty of enforcing competition laws on SOEs in the MENA region is manifold. First, the authority for opening an investigation into an SOE's behaviour often lies with parties that might have little incentive to investigate anti-competitive practices of government enterprises. In Egypt, a ministerial request is often required for the Competition Authority to launch an investigation and ministers, who are also in most cases official "owners" of SOEs, arguably do not face strong incentives to ensure that these companies compete with their private competitors on a level playing field.[9] Other complications arise from lack of clarity in the legislation. For instance, the nature of state aids is not commonly addressed in detail, making the application of legislation challenging for the regulator.

A more fundamental issue perhaps is that competition authorities are relatively new (or still absent in some countries[10]) and hence their experience in investigating SOEs is often limited. Furthermore, the delineation of oversight authority between competition authorities and sectoral regulators has not always been made clear, resulting in lacking or slow investigations and prosecutions. To address this challenge, the Egyptian Competition Authority filed a claim before the State Council in order to settle a dispute regarding the scope of authority

between itself and the National Telecommunication Regulatory Authority (OECD, 2011b). Generally speaking, entities with formal responsibility for many sectors have struggled to establish their authority in MENA countries since their work has tended to encroach on jurisdictions of line agencies and sectoral regulators.

The signing of MOUs between competition regulators and sectoral regulators, as is the case in the telecom sector in Egypt but also in Jordan, appears to have improved enforcement more generally and in cases involving SOEs more specifically. Alternatively, the competition regulator can be explicitly mandated to deal with competition issues in all sectors as it is the case in Algeria. This is technically more straightforward in industries that do not have sectoral regulators. Indeed, few countries in the region have established sectoral regulators beyond aviation, banking, telecommunications and securities trading industries. Morocco stands out as a positive example as it also has authorities dealing with regulation of audio-visual communication, insurance and other sectors, although only one of them has the exclusive right to deal with competition issues in the sector (World Trade Organisation, 2009).[11]

Private and public monopolies

A number of strategic SOEs in the region operate in monopolistic sectors and the appetite to introduce competition in some sectors such as electricity or oil production has been limited. In addition, given that a number of SOEs provide direct services to the population and often at below market price or even below cost, their privatisation has been contested by the public. As a result of these and other considerations, policy makers in the region have recently demonstrated more interest in PPPs as opposed to outright privatisations. PPPs attract the interest of policy makers due their cost-sharing approach, the ability to access technical expertise, and the option for governments to "outsource" performance-related responsibilities.

At the same time, the implementation record of PPPs in the Middle East has been uneven at best. A key challenge in this regard is that the know-how in negotiating such contracts in the public sector is still developing and governments have stalled in introducing PPP regulatory frameworks. In Lebanon for example, while the government has delayed the introduction of a PPP law, considerable controversy has surrounded existing PPPs, including the contract to operate the famous Jeita Grotto and a waste disposal plant in Saida.

Even when properly structured, private sector participation has not always helped to address the provision of essential services. For instance, in the water sector, private sector participation is significant in a number of countries (e.g. Algeria, Morocco, Tunisia and Saudi Arabia).[12] Despite this, steady access to drinking water remains a source of contention, even in

wealthier countries of the region such as Saudi Arabia. The understanding of how public sector involvement can successfully co-exist with PPP arrangements to address needs for essential services is still evolving.

While PPPs might not have enabled governments to disassociate themselves from performance-related issues, they have to some extent been successful in insulating them for backlash resulting from price increases on basic services. However, the success of this strategy in the post-Arab Spring Middle East is doubtful. In addition, experts express apprehension that full or partial transfer of key state assets to the private sector, whether in the form of PPPs (which are typically structured as long term arrangements) or outright privatisations raises the risk of creating private monopolies to replace public ones.

While private monopolies may technically be dealt with more effectively by competition regulators for reasons that will be explored below, a common view in the region is that they are more dangerous for the public good that state-operated monopolies. While private monopolies could in principle be "protected" by high level principals much like public ones, they may be freer to define their strategy (i.e. price, distribution, etc.) without the oversight of regulatory or state audit bodies. This is an especially valid concern for companies that are not listed and hence not subject to public disclosure requirements, independent audit and other accountability mechanisms. The efficiency of public monopolies also remains an issue to be addressed from competition and public service delivery angles.

The role of sectoral regulators

The telecommunications, banking, transport and electricity sectors are examples of industries where the establishment of a sectoral regulator has allowed the separation of regulatory from commercial activities. In these sectors, even in the absence of powerful competition authorities, sectoral regulators have been relatively successful in establishing frameworks that promote fair competition. The telecommunications sector in particular provides a number of positive examples of thriving competition between state-owned, private and foreign competitors (the latter in turn also being both private and state-owned).[13]

Countries with more advanced telecom regimes in the region such as Jordan or Morocco have started reforming their SOE sectors in the mid-1990s by reviewing regulatory frameworks and allowing for greater competition. Consumers were the direct beneficiaries of these measures, owing to the emergence of a choice of providers, which exerted a downward pressure on prices and resulted in impressive increases in the penetration of mobile services. For example, Morocco's mobile penetration increased from just over 1% in 1999 to over 40% in 2005 (El-Darwiche et al., 2007).[14] In Bahrain, where the telecommunications sectoral regulator was established a decade ago,

competition between the local SOE (Batelco) and its competitors has been intensive (see Box 4.3).

Box 4.3. **The role of TRA in creating competition in Bahrain**

The government of Bahrain established the national telecommunications company (BATELCO) in 1981 as the sole provider of national telecommunication services, with the state as the principal shareholder. For the next two decades, BATELCO held a complete monopoly on the local telecommunications market. Starting in 2000, the government began liberalising a number of economic sectors, the first of which was the telecommunications sector. The Telecommunications Regulatory Authority (TRA) was established in 2002 and rapidly worked to introduce greater competition in the sector, awarding new licenses to other providers (MTC-Vodafone, Zain, Viva Bahrain and Mena Telecom). The TRA is headed by a board of directors appointed by royal decree for a four year term based on a proposal from the Council of Ministers.

BATELCO remains majority state-owned by the Mumtalakat (Bahrain's sovereign wealth fund) and the Social Security Organisation , while the nature of other shareholders is not entirely clear (i.e. a 20% stake is owned through a Cayman Islands entity, as per Batelco's annual report). The government hence has a direct stake in the profitability of the company and might theoretically not be motivated to ensure that a level playing field with foreign competitors exists. In practice, the TRA is one of the most transparent sectoral regulators in the region, with true mandate to create a level playing field in the sector.

The TRA conducts public consultations where it solicits comments of all operators on the existence of a level playing field and seeks to ensure that no incumbent benefits from its position (see for example, Strategic and Retail Market Overview conducted in 2007). It extensively circulates drafts of new regulations. In addition, the regulator has on occasion taken action against the interest of BATELCO. For example, the TRA issued a decision against the interests of BATELCO in September 2009 concerning its dominance in the broadband market.

When benchmarked with governance practices of other Bahraini SOEs or those of its competitors, BATELCO practices and processes compare positively. Its board has adopted its own corporate governance guidelines based on the recommendations of the Central Bank and the Ministry of Industry and Commerce and the board of BATELCO are responsible for their review every two years. The annual report of the company provides extensive details on the structure and operations of its board, board evaluations and details of AGM decisions and policies on related party transactions which seem to indicate practices which remain relatively rare in other SOEs in the GCC and the MENA region more generally.

Box 4.3. **The role of TRA in enforcing competition in Bahrain** *(cont.)*

One interesting question to consider is to what extent the advanced governance practices of BATELCO are due to the regulations of the sectoral regulator and to what extent they mirror other developments such as the need to remain competitive with private sector incumbents. In addition, the role of Mumtalakat in improving its governance practices also merits further analysis. Mumtalakat has been at the forefront of promoting good governance practices in its investee companies, including more recently the publication of a manual for the directors it nominates on boards.

Source: Batelco and TRA websites.

In Bahrain, and also in Qatar, telecom regulators have issued decisions against the interest of state-owned companies. In Qatar, the Supreme Council for Information and Communications Technology has for example issued a ruling in 2010 against the partially state-owned Qtel when Vodaphone Qatar lodged a complaint against the former for misleading advertising (OECD, 2012a). Not all telecom regulators in the Gulf have been as active in encouraging the liberalisation of and competition within the sector. Indeed, a recent WTO review of the UAE noted that competition in the telecoms sector remains limited and prices of services remain high, despite the introduction of a sectoral regulator and the admission of a second telecoms operator (i.e. Du) to the market in 2006. Considering that both Etisalat and Du are state-owned (with 60% and 40% ownership, respectively) and pay significant royalties to the government, the state may not have the incentive to admit private sector operators to the market.

Ultimately, the determining factor to the success and the relative power of sectoral and competition regulators is their operational and financial independence. For instance, in Tunisia, the budget of the Competition Council is approved by the Parliament as opposed to a line ministry, and the Council submits its annual report to the President, unlike other countries where competition regulators report to a line minister. The budgetary independence of sectoral regulators is lacking in some countries such as Morocco, Lebanon and Jordan,[15] with the result that their effectiveness has also suffered. Box 4.4 explores the example of the Lebanese Telecommunications Regulatory Authority and its role in ensuring effective competition in the sector.

Due to the lack of budgetary independence of competition and sectoral authorities in many countries of the region, competition enforcement is reportedly characterized by political interference, with final decisions often rendered by a Minister (Mehta, Udai S. and Rijit Sengupta, 2012). Even where decisions reside with senior staff of the competition regulator, this only

Box 4.4. **Towards an independent sectoral telecom regulator in Lebanon**

The Lebanese Telecommunications Regulatory Agency (TRA) has been operational since 2007 (officially created by law in 2002), but it remains financially and operationally dependent on the Minister of Telecommunications and is reported to suffer from political interference in its operations. Despite longstanding discussions about liberalising the telecommunications sector and opening it up to competition, the structure of the industry remains largely unchanged.

Ogero, the state-owned fixed line operator, is managed directly by the Ministry of Telecoms, which is the same body that issues contracts to it. At the same time, the creation of a joint stock company Liban Telecom which would effectively corporatise services currently performed directly by the Ministry and which could be eventually privatised, has not materialised.

This arrangement effectively puts the regulator, which is not independent from the Ministry, in a position where it has to regulate services provided by the Ministry. Political stalemate between the two entities reached its peak when the Ministry kept the regulator's staff unpaid for four months in 2011.

The Ministry is reported to have the powers to issue permits for all equipment imports and selling Internet capacity in partnership with the state-owned Ogero, thereby putting private operators at a clear competitive disadvantage. It is reported that the Ministry purchases 2 Mbps for less than 30 USD and sells it to private service providers for 3 000 USD. Such practices have resulted in a competitive advantage for Ogero which has gained 80% of the DSL market. A similar situation has developed in the mobile telecom sector whereby Alfa and MTC (both state-owned operators) are provided advantages in the form of subsidised antenna rental space, electricity costs and lower taxes.

This clearly impacts the emergence of a healthy competition in the telecom sector in Lebanon and ultimately explains why telecommunications services (i.e. mobile, Internet, etc.) are among the most expensive and lowest quality in the region. Indeed, the prices of mobile telecommunications in Lebanon are reported to be the highest in the MENA region and the coverage is poor. To address the poor quality of the network, it is not uncommon for subscribers to have contracts with both providers. Given income levels in Lebanon, this implies that the cost of mobile communications remains prohibitive for a large segment of the population.

Source: Tarabay, Imad (2010), "Seeking A Fair Deal for Private Sector Providers for 3G Services", *Executive Magazine*, March; author interviews.

partially alleviates the political pressure since the appointment of senior representatives of these entities is often made by the relevant minister. The growing independence of state audit bodies for example could serve as a positive model that might be leveraged as a conceptual framework for future development of competition and sectoral regulators in the region.

Subsidies and enforcement

Due to the abovementioned constrains, the record of enforcement by sectoral regulators or competition authorities against SOEs is limited, even though it is generally recognised that competition problems often arise in sectors where SOEs are present. For instance, the OECD competition policy review of Egypt noted that competition-related problems were most pronounced in sectors where there is strong state control and not much scope for the Competition Authority to act (OECD, 2011b). Although detailed country data on this issue is not available, Table 4.1 highlights cases known to the authors of competition-related investigations against SOEs.

Due to the low quality of disclosure by some SOEs, especially those that are not listed, it is often difficult to determine if SOEs indeed benefit from direct and indirect subsidies. This is exacerbated by the fact that subsidies are not generally budgeted, instead occurring through ad hoc government transfers.[16] The only possible exception to this is the Moroccan contractualisation programme whereby SOE social objectives and their estimated cost are agreed upon in advance and hence do not occur through irregular budgeting procedures (OECD, 2012a). This mechanism allows for SOEs to be compensated for their extra-commercial functions and hence compete on a level playing field against their competitors.

For SOEs not compensated through direct transfers, proving that they benefit from favourable treatment may be much more difficult given the multitude of ways that they can be indirectly subsidised or excused from the application of requirements that apply to private companies. Such exemptions might be especially sensitive if applied to national SOEs operating in an international context, where national governments may have an interest in supporting a local incumbent "against" a foreign or state-owned competitor. The airline industry in the Gulf is perhaps the most evident example of this, in which a number of countries have sought to establish their state-owned companies as prime choice for transport to the Gulf and on long-range routes transiting through the Gulf.

While the Kuwaiti and Saudi governments may be eventually looking to privatise their non-performing national carriers, for the governments of Dubai, Abu Dhabi and Qatar, the success of national airline carriers are pivotal for their ability to position themselves as a hub for international transport and

Table 4.1. **Investigations into anti-competitive behaviour by MENA SOEs**

	Date	Nature of case	Outcome
Algeria	2003	Abuse of dominance by Algérie Télécom	The Authority for the Regulation of Post and Telecommunications forced Algérie Télécom to end discriminatory practices against Orascom Telecom
Algeria	2000	Abuse of dominance by the Algerian Company of Trade Shows and Expositions (SAFEX)	The Competition Council reached an agreement with SAFEX which required the company to cease its anti-competitive business practices
Bahrain	2009	Abuse of dominance by Bahrain Telecommunications Company (Batelco)	The Telecommunications Regulatory Authority fined Batelco for failing to allow other operators equal access to cable systems. The fine was reduced in 2012 after a long litigation process
Egypt	2011	Abuse of dominance by Alexandria Portland Cement Company	The Egyptian Competition Authority found that the company did not have a dominant position in the market
Egypt	2009	Abuse of dominant position by Sinai Manganese Company and Gipsina	The Egyptian Competition Authority found that despite high market share, these companies did not have sufficiently dominant position in the market to affect production volumes and price levels
Egypt	2009	Abuse of dominant position by Eastern Company (tobacco)	The Egyptian Competition Authority did not find a violation of the competition law and closed the file
Egypt	2008	Participation of National Cement Company in a price-fixing cartel in the cement market	The Egyptian Competition Authority referred the case to the courts where 20 defendants (managers of private cement companies and state-owned National Cement Company) were fined 10 million Egyptian Pounds each
Jordan	2007	Alliance of Royal Jordanian Airlines with four foreign companies with the objective of coordinating market practices	The Competition Directorate recommended that the case should remain under scrutiny to ensure that competition law is respected
Tunisia	2010-11	Abuse of dominant position by Tunisie Télécom	Decision not available
Tunisia	2004-05	Participation of all Tunisian banks (including state-owned banks) in a price fixing cartel	The Competition Board ordered the practice of fixing cheque commissions to be halted and imposed penalties
Morocco	2001	Abuse of dominant position by Maroc Telecom	The National Agency for the Regulation of Telecommunications ruled that favouring customers calling on phones of their mobile phone operator was an abuse of a dominant position and forced Maroc Telecom to end the scheme
Qatar	2011	Abuse of dominant position by Qtel	The telecom regulator has ordered Qtel to shut down its mobile telephony services provided through Virgin Mobile, amongst others due to anti-competitive conduct

Source: Moritz Schmoll, based on review of competition agencies websites and newspaper articles.

tourism. As a result of intense competition between them and also with European and North American carriers, there has been an intense debate about the supposed subsidisation of these companies, an allegation strongly

denied. Box 4.5 explores the allegations and counter-arguments of Emirates regarding the existence of a level playing field between the airline and its foreign competitors.

Box 4.5. **Emirates Airlines: A level playing field?**

Emirates Airlines was established in 1985 with the support of the Dubai royal family, at first as a reaction to the lack of services by regional airline Gulf Air to and from Dubai. At that time, the airline received 10 million USD in start-up seed capital and benefitted from 88 million USD in infrastructure. Since then, it has expanded rapidly, owing to aggressive marketing and the positioning of Dubai as a hub for long haul travel, similarly to the model adopted by Singapore. It now reaches 128 destinations and has been consistently profitable since its inception, achieving profits of 630 million USD in 2011.

Considering the rapid growth of Emirates Airlines, concerns that its international expansion is supported by generous subsidies or other benefits accorded by the Dubai government have been voiced by Emirates' competitors. Responding to these allegations, Emirates has recently publicly outlined its position on the issue. Emirates disputes the view that it benefits from market distorting subsidies either in terms of preferential fuel cost, landing and airport usage fees, or cheap labour.

Fuel costs accounted for over 34% if Emirates' total operating costs – similar to the share for other international airlines – and the company argues that it does not benefit from subsidies. That said, despite the fact that Dubai is not a large oil producer per se, fuel prices in the Gulf are significantly lower than those of European or American carriers where taxes on fuel significantly increase its cost. Foreign airlines refueling in Dubai benefit from the same price but pay a higher price when refueling in Europe or other destinations where fuel costs are higher.

Emirates also confirms that its funding, totaling some 26 billion USD over the past 15 years, was accessed on a commercial basis and that the company does not benefit from additional funding from the government of Dubai or its entities. It points out that although it is not publicly traded, it publishes annual financial reports in accordance with IFRS, which are audited by an independent auditor according to the IAS.

The company argues that its labour costs are substantial as a result of generous compensation packages and relocation allowances. The fact that labour is unionised in other airlines with which Emirates competes may indeed put the latter in a unfavourable position vis-à-vis carriers whose labour force is not unionised. Further, the fact that local companies in the UAE do not have to pay corporate taxes would seem to put Emirates in favourable position as compared with its competitors, at least in this respect.

Source: Emirates Airlines (2012), "Airlines and Subsidy: Our Position", *www.emirates.com*.

The case study of Emirates Airlines highlights some of the key reasons for the establishment of SOEs in the Gulf and their ability to contribute to the overall economic competitiveness strategy of local economies. Especially in the Gulf, state ownership was initially seen as necessary to undertake the scale of capital investments needed. It continued given that in many cases the companies in question became profitable and strategic for the overall economic development. The prevailing concern with these SOEs, which now often operate as multinational companies, is that that they may be operating at a real or perceived competitive advantage to other private operators and hence may face growing protectionism.

The story of the development of Turkish Airlines, described below, highlights the difference in approaches of governments trying to attain the same objective: establishing a national air carrier that would contribute to image building and attract business commuters and tourists. Unlike Emirates, which is fully government-owned and whose governance arrangements remain quite opaque as discussed above (unlike its financial reporting), governance reforms realised through partial privatisation of Turkish Airlines are a key factor explaining the success of the company, which is now subject to rigorous competition on both national and international routes.

Since its shares are listed on the local stock market, Turkish Airlines has been subject to the rules of the Capital Markets Board of Turkey. These require it to publish, as any other public company, a corporate governance compliance report as a part of its annual report and provide disclosure to investors through the Public Disclosure Platform which allows them to obtain up-to-date information about the company on a timely basis. Since its listing, Turkish Airlines has had to make significant changes to its governance structure such as separating the positions of board chairman and CEO. These changes are seen as having contributed to its success in recent years, as explored in Box 4.6.

Box 4.6. **Turkish Airlines: Competitiveness through better governance**

The Turkish Airlines Corporation (THY), founded in 1933 under the name State Airlines Enterprise to promote the aviation sector in Turkey, is still the national air carrier. In 1984, the company was re-organized as a state-owned enterprise (SOE) and included in the country's privatisation programme. Between 1990 and 2006, THY was partly privatised through public offerings and as of December 2012, the state's share in the company declined to 49%, although it still keeps a golden share which grants it special management and approval rights in order to protect Turkey's interests related to national security and the economy.

Box 4.6. **Turkish Airlines: Competitiveness through better governance** *(cont.)*

Initially, Turkish Airlines operated as a monopoly in the domestic market, while competing with foreign airlines in the international market. Though the liberalisation of the civil aviation sector started in 1983, THY continued to operate as a monopoly in domestic market for decades until the private sector accumulated enough financial sources. In 2003, the Ministry of Transport gave permission to privately owned airlines to operate in the domestic market and soon private sector participation increased substantially.

As a result of the liberalisation of the sector, the influx of private capital and improvements in THY, the number of destinations increased, prices declined and market growth rates reached unprecedented levels. The total number of passengers for both domestic and international flights increased from 34 million in 2003 to 62 million in 2006 and 117 million in 2011. The total number of domestic registered aircrafts increased from 150 in 2003 to 250 in 2006 and 347 in 2011. Also, the total number of destinations increased from 103 in 2003 to 131 in 2006 and 200 in 2011. With the effect of intensified competition, the market share of THY had fallen in 2011 to 50% in the domestic passenger market and 30% in the international market.

In this new competitive environment, THY has adjusted its strategies and objectives. Its mission was redefined to be a leading European airline and an active global player. As of December 2012, with 202 aircrafts in the fleet and flying more than 200 destinations, THY offers one of the most extensive flight networks in the world. Moreover, THY has become a good example for implementing corporate governance principles in a publicly owned company. Since its shares are listed in the stock market, THY has been following the rules of the Capital Markets Board of Turkey which are based on international corporate governance principles, transparency and accountability.

As a result of these achievements, the gross sales of the company reached 12 billion TL in 2011 (6.6 billion USD), up from 4 billion TL in 2006 (2.8 billion USD) and 2.5 billion TL in 2003 (1.8 billion USD), and THY remained profitable despite the global economic crisis. THY has recently received several industry awards and, as a Star Alliance member, the company has acquired a market share of 8.7% for the number of passengers in Europe. THY has also sought to contribute to the Turkish economy in other ways such as by helping to "nation-brand" Turkey and to improve the country's image.

Source: Undersecretariat of Turkish Treasury (2013), Turkish Airlines Case Study.

As highlighted by this example, the listing of state-owned enterprises has brought significant improvements in their governance arrangements, including in their board practices and disclosure standards. In most

jurisdictions except the UAE where SOEs are exempt from the application of the domestic "comply or explain" corporate governance code, SOEs – even majority owned ones – are made subject to capital market regulations applicable to other listed companies. For example, the listing of Saudi Telecom in 2003, resulting in a 30% dilution in government ownership of the company, has introduced significant improvements in the governance arrangements of the company. Today, in accordance with the regulations of the Saudi Capital Markets Authority, one-third of the company board is composed of independent directors and compensation statistics for the board and management are published. In many ways, the company is seen as leading in terms of its governance practices in the local market.

Examples of listing of other companies such as DP World demonstrate similar benefits. The company's governance arrangements evolved gradually since its establishment in 1992 as a fully state-owned company, with the issuance of sukuk on NASDAQ Dubai in 2011 and its 2012 listing on the London Stock Exchange where a 20% stake in the company was sold to international investors. In compliance with the prevailing regime in London, DP World has a board composed of half independent directors and the company has adopted a number of leading governance practices in terms of addressing related party transactions (DP is a part of a group) and dealing with price-sensitive information.

Although these examples demonstrate the benefits of SOE listing to improving their governance arrangements, the listing of minority stakes in SOEs might risk creating an unstable structure, especially in instances where governments have social objectives. In such circumstances, trade sales may be a more stable structure but would not provide similar improvements in accountability and disclosure as IPOs. From this perspective, debt listings may be an intermediary solution that increases the quality of disclosure to the public, without introducing significant tensions in the shareholder base. Indeed, in recent years, debt issues by SOEs in the region have by far outpaced equity issues.

SOEs and irregular practices

Risks of corruption in SOEs

A criticism often levied against SOEs in the region, and indeed in other jurisdictions, is that they act as a conduit of corrupt practices. This is a serious allegation especially considering that SOEs can be considered as an extension of the public sector. Bribing a public official is in most jurisdictions penalised more harshly than commercial corruption. Moreover, corruption within these companies may imply a lack of adequate oversight or possibly misconduct within the public sector at large. For instance, fraud within Tunisian SOEs

perpetrated during the Ben Ali regime was indicative of the malfeasance within the executive branch of the government. Box 4.7 provides further details of instances of the corruption in the Tunisian SOE sector, uncovered in the aftermath of the regime change by the Tunisian Anti-corruption Commission.

Box 4.7. **Irregular practices in Tunisian SOEs**

The Tunisian Anti-Corruption Commission (La Commission Nationale d'Investigation sur la Corruption et la Malversation) was created the day after the Tunisian revolution. In January 2011, the president of the Commission was nominated and he selected other members of the Commission to investigate various charges of corruption and malfeasance. After having seized the archives of the former president of the Republic, the Commission immediately started investigations in 500 cases (out of 11 000 complaints received by the organisation). Of these, 400 cases were passed to the courts by end of 2011 for further investigation and prosecution.

The 2011 report of The Commission summarises its investigations, which have touched upon in a number of important respects on the operation and governance of state-owned enterprises under the previous regime. Notably, the Commission has shed light on a number of cases where serious abuses of procurement regulations, sale of government land and privatisation of SOEs benefitted members of the Ben Ali family or his partners. The Commission highlighted a number of factors that have led to the abuses by the executive, notably lack of controls and concentration of powers in the executive branch.

The character of cases highlighted by the Commission included declassification of public property to private and its attribution to members associated with the "ruling regime", the attribution of concessions and public procurement to parties that did not meet the selection criteria, the privatisation of SOEs to parties which did not submit best bids, as well as the issuance of licenses on highly lucrative activities (such as imports of automobiles) to individuals associated with the former regime.

For instance, in one of the cases uncovered by the Commission, the national company for distribution of petroleum launched a public procurement offer for the realisation of works and the purchase of equipment to store liquid carburant in the industrial zone Gabès. In this case, the procurement resulted in four bids by national and foreign competitors, some of which were within the budget of 65 million Tunisian dinars allocated to this project. One of the advisors to the President intervened in this case, forcing the company to select one particular bidder, which was not the lowest and the most attractive one.

Box 4.7. **Irregular practices in Tunisian SOEs** *(cont.)*

In another case, Tunisie Télécom was found to have accorded a number of large advertising contracts to a private company for a total amount of 48 million Tunisian dinars, without following either the public procurement procedures or the internal approval processes. The board never approved the contracts and the contracts were drafted in such a way as to absolve the advertising agency of any penalties that would normally be included in similar contracts (i.e. penalties for delays, etc.). The fees charged by the said advertising agency were excessive and the advances paid to the company were contradictory to Tunisian legislation. This case was also forwarded to the public prosecutor.

In yet another case, the privatisation of Ennakl, launched in 2004, was conducted to profit members of the Ben Ali Family. In this case, the offer to sell the company was limited to Tunisian companies only. The company was evaluated by an accounting expert, resulting in a low valuation that was later discovered not to truly reflect the prospects of the firm. The company was purchased below its market value by Princess Holding, a company controlled by the ex-president's family.

In addition, Ennakl did not pay dividends, amounting to 10 million Tunisian dinars to its shareholders (prior to the change of ownership). Following the transfer of ownership, the quotas of importation of automobiles increased almost four-fold, significantly improving the profitability of the company. 40% of the company's capital was sold through an IPO in 2009, for 53 million Tunisian of dinars, whereas the company was purchased by Princess Holding 3 years earlier for 22 million dinars. In all of these cases, and many others mentioned in the report, the Commission forwarded the files for prosecution to the relevant authorities. Further investigations are currently ongoing. New anti corruption legislation was adopted in 2011, following the proposal by the Anti-corruption Commission.

Source: Tunisian Anti-Corruption Commission (2012), Investigative Report on Corruption and Malfeasance, available in French and Arabic.

The cost of the mistrust in the public sector that can be created through corrupt hiring, procurement or sales practices adopted by SOEs can be significant and can have a wide-ranging impact on the quality of services provided by SOEs and the financial demands that these companies make on the public purse. While corruption in listed companies is dangerous in the sense that it can reduce shareholder wealth and undermine the trust of investors in public markets, corruption in state-owned companies can potentially affect a wider range of stakeholders, including employees, customers, suppliers and of course the state as the owner of SOEs.

Entities exercising ownership rights in SOEs (whether SWFs or Ministries), as well as the state audit bodies, the private sector and, finally, employees and consumers of SOEs' services have much at stake in ensuring that they are not seen as corrupt, if only to preserve the image of the state as credible and transparent. In the case of large and strategic SOEs, notably in the hydrocarbons sector, corruption or the perception thereof can have a wide-ranging systemic impact on the national economy, as is illustrated with the case of Algeria's Sonatrach in Box 4.8.

Box 4.8. **Bribery allegations around Algeria's Sonatrach**

In 2010, the head of Sonatrach, three of its vice presidents and the energy minister were all dismissed in the wake of a corruption investigation run by a powerful intelligence agency. While there might have been misdemeanour, many observers perceived the investigation as part of a political conflict within the Algerian political elite; many of the dismissed technocrats were reported to be close associates of the president.

In February 2013, a former Sonatrach Vice President published a letter in which he accused the leader of the intelligence service of harbouring a political agenda and requested that he investigate new bribery scandals involving Sonatrach and Italian and Canadian companies that have recently come to light due to lawsuits in courts outside Algeria.

In January 2013, Italian prosecutors announced an investigation into Italy's NOC Eni and its subsidiary Saipem for allegedly paying 197 million euros in bribes to secure an 11 billion euro contract with Sonatrach. The former vice president estimated that the country was losing between 3 billion and 6 billion USD annually to corruption just in the oil sector. His letter, as well as the bribery allegations, were widely discussed in the Algerian media.

Independent of the actual extent of bribery and of who exactly might be involved in it, it is clear that Sonatrach's image has been damaged and that the company enjoys limited political autonomy and operates under multiple political principals, which arguably undermines its operational efficiency.

Academic observers have described a rivalry between lower-level technocrats in Sonatrach and political elites that goes back for decades, as well as a well-organized union that has historically acted as a veto player on reforms. Although employment with Sonatrach is prestigious, it appears to lack managerial autonomy. The company's travails have probably contributed to Algeria's recent loss of market share in the global oil and gas markets. Sonatrach cannot be cited as an example of the more efficient NOCs in the MENA region.

Source: Schemm, P. (2013), "Algerians outraged over latest corruption accusations against state oil and gas behemoth", Fox News via Associated Press, 3 March.

A number of factors, including the lack of a centralised state ownership or oversight function, the loose accountability arrangements referred to in the first section of this report, as well as the lack of standardisation in hiring and procurement practices, raise the risk of corruption in SOEs. While listed companies in the region are overseen by securities authorities and to some extent by stock exchanges, the same is not true of state-owned companies, unless they have listed debt or equity. Instead, SOEs are typically overseen by state audit bodies, sectoral regulators and line ministries which exercise ownership stakes in them, but given the limited reporting they provide, the challenge of detecting corrupt practices may be potentially greater.

The nature of corrupt behaviours in SOEs is perhaps slightly different than in private firms. However, the range of governance mechanisms to fight corruption in state-owned companies is similar to those in private companies. Internal and external audit, rigorous board appointment and evaluation procedures, disclosure to the owners are all tools that improve the quality of governance arrangements in SOEs and at the same time minimise the risk of corruption. The nuances of how these procedures are implemented in SOEs merits further attention. For instance, in SOEs the lack of rigorous board nomination procedures can result in appointment of high-level public officials on SOE boards, which may find themselves hostage to political motives contradictory to the best interest of the company.

Considering that unlisted SOEs provide less reporting to the public and sometimes to their owners, these types of activities, and even outright embezzlement of funds, may go unnoticed more easily than in private companies where key shareholders are vigilant of the bottom line. As a result, particular attention is warranted to reduce the risk of corruption in SOEs and to optimise their performance more generally, including through steps such as setting specific performance targets for individual companies, streamlining board nomination procedures and ensuring that board appointments are reviewed by a central entity, introducing internal audit expertise and ensuring regular reporting to their owners and bodies which could potentially hold them accountable such as the parliament.

There is a growing recognition of the need to improve the general transparency and disclosure of unlisted SOEs and indeed the public sector at large, but concrete measures to improve the quality of disclosure by SOEs have been limited. The listing of debt of a number of large Gulf-based companies such as Emirates is anticipated to further improve the disclosure of SOEs (especially considering that the UAE intends to bring its debt prospectus rules in line with the European Prospectus Directive). For unlisted SOEs, gaps in disclosure and lack of independent audit, implies that very little is known about the incidence of corruption beyond anecdotal evidence.

Interest in anti-corruption growing

At the same time, the interest in the propriety of SOEs has grown in recent years as part of the general debate on public transparency encouraged by the events of the Arab Spring. For instance, as a result of these calls for greater public transparency and accountability, there is a growing focus on how MENA countries are ranked by Transparency International's annual rankings. These rankings highlight a significant variance in the positioning of MENA countries: Qatar and the UAE are ranked in a respectable 27th position (out of 174 counties ranked), while difficulties in containing corruption are visible in Egypt (118th place), Lebanon (128th), Syria (144th), Yemen (156th) and Iraq (169th).

Although the role of SOEs in this somewhat mixed picture is not known, it is potentially substantial, and there is a growing interest in the region as to how good corporate governance in SOEs could help them become not only more transparent and accountable but also "cleaner". This challenge is now being addressed by state audit bodies (SAIs) and national anti-corruption commissions. While state audit bodies in most countries (except Morocco and Oman) only a few years ago had no particular mandate or powers to oversee the efficiency and integrity of SOEs, this is starting to change. As a general rule, state audit bodies in the region now have the right to review companies where the state has at least a 25% stake. For these companies, SAIs are increasingly empowered to conduct operation audits and pre-audits, in addition to more conventional audits of the use of state funds and compliance with the relevant laws and regulations (e.g. Oman and Kuwait).

Table 4.2 provides an overview of powers of SAIs and anti-corruption entities in overseeing the dealings of SOEs.[17] The audit performed by SAIs is complementary to the external audit imposed on some but not large SOEs in the region. While SAIs typically have formal mandates to oversee SOEs and request information from management of these companies, the role of anti-corruption commissions is more limited in this regard. Some organisations such as the Lebanese Transparency Association (a chapter of the global TI), have been recently working on improving corporate governance practices with a view to limiting corruption and improving the efficiency and transparency of SOEs. However, most anti-corruption entities in the region are not given any formal mandate to work on issues related to transparency and accountability of SOEs, though discussions with these bodies indicate their interest to work on this subject.

An interesting trend is that some SAIs now also review the corporate governance practices of SOEs. In Morocco, for example, the State Auditor (Cour des Comptes) makes observations on any problems it sees with regard to the frequency of board meetings, the profile of board members and the quality of

Table 4.2. **Institutional oversight of SOEs in the MENA region**

	State Audit Institution	Anti-corruption commission/entity[1]
Algeria	Court of Accounts	Central Office Dealing With Corruption
Bahrain	National Audit Court	N/A
Egypt	Central Auditing Organisation	Transparency and Integrity Committee
Iraq	Board of Supreme Audit	Anti-corruption Commission
Jordan	Audit Bureau	Anti-Corruption Commission
Saudi Arabia	General Auditing Bureau	National Anti-Corruption Commission
Kuwait	State Audit Bureau	Authority for Integrity
Lebanon	Audit Court	Lebanese Transparency Association
Libya	Audit Court	N/A
Morocco	Court of Auditors	Central Authority for the Prevention of Corruption
Oman	State Audit and Administrative Institution	N/A
Qatar	State Audit Bureau	Administrative Control and Transparency Authority
Syria	Central Organisation of Financial Control	N/A
Tunisia	Court of Accounts	Anti-Corruption Commission
United Arab Emirates	State Audit Institutions (at the emirate level)	N/A
Yemen	Central Organisation for Control and Auditing	Supreme National Authority for Combating Corruption

1. The column referring to anti-corruption commissions in the region includes some government established and supported organisations and those which are civil society based.

Source: Moritz Schmoll.

disclosure provided. The Moroccan SAI is planning to issue a special report on SOEs in 2013.[18] In the Gulf, where state audit bodies were historically not mandated to review SOE performance (except Oman and Kuwait), they are also becoming more empowered to look into internal processes and procedures in SOEs. The case study of the Abu Dhabi Accountability Authority in Box 4.9 highlights the progress made by this entity in ensuring the propriety of domestic SOEs.[19]

Other SAIs in the region have been able to initiate and succeed in actions against fraudulent or improper practices in key SOEs. In Iraq, three managers of state-owned banks were arrested in 2010 following an investigation by the Anti-Corruption Commission that revealed that 360 million USD were missing from the Rafidain bank and the Agricultural Bank (Kami, 2010). SAIs in other countries may also be taking a stance against corruption in SOEs, but considering the limited reporting they provide to the public, the extent of this is currently unknown.

Public reporting of SAIs' activities is improving, although there is still a certain reluctance to publicise negative findings or prosecutions against SOEs or their agents for fear of backlash in public opinion. In particular, there is a concern that any information published by SAIs on remuneration of management or board members may be taken out of context in the public debate, despite the fact that by international standards they can be quite low.

Box 4.9. **Oversight of SOEs by Abu Dhabi Accountability Authority**

The Abu Dhabi Accountability Authority (ADAA) was established in December 2008, replacing the Audit Authority, with a similar mandate as other SAIs in the region. The Authority's main objectives are to ensure that public entities' resources are managed, collected and expended efficiently, effectively and economically; to ensure the accuracy of the financial reports and compliance of the public entities with the relevant laws, rules and regulations and governance guidelines; and to promote accountability and transparency principles at the public entities.

The scope of ADAA's work includes government departments, local authorities, institutions, companies and projects in which the government's share is not less than 50% and also the subsidiaries of these institutions, companies and projects. It therefore has the right to audit the 21 key local SOEs and their subsidiaries, estimated at 160 companies. In addition to the audit of companies' financial statements, the ADAA may provide recommendations to entities under its purview and conduct investigations into complaints referred to it, based on a set of criteria such as materiality, complexity of operations, performance challenges, and any concerns raised by stakeholders.

As can be witnessed from its 2012 annual report, ADAA has developed its competencies quite rapidly. Today, the entity has the capacity to conduct a variety of reviews, including service and outputs reviews, capital project reviews, procurement reviews, internal audit assessments and fraud risk reviews. ADAA can provide advice to entities it oversees upon an official request from the latter and with the approval of its chairman. As a result of its audits, ADAA has issued close to 700 comments, about 200 of which were considered requiring immediate attention of management.

ADAA was recently involved in investigating high-profile corruption cases, including a instance of embezzlement of nearly Dh 300 million (81 million USD) from the Abu Dhabi Water and Electricity Authority, which were given as bribes by companies in exchange for contracts. In another case, an SOE director was found to have awarded a tender worth Dh 900 000 (243 million USD) to a company owned by a close family member. In these cases, ADAA has taken active action as a plaintiff and has notified the Public Prosecutor to take further legal action.

Source: Abu Dhabi Accountability Authority Annual Report 2012; the National.

However, lack of disclosure of investigations by SAIs is not necessarily indicative of their weakness: some of them (e.g. Kuwaiti and Omani SAIs) have wide powers although they do not provide much public reporting. In Kuwait in particular, the State Audit Body can appoint its representative to supervise

company operations on site as long as government ownership exceeds a quarter of the capital (OECD, 2012a).

Although clear progress can be seen in the development of SAIs as "guardians" of state assets, one potential issue in the operation of SAIs in the region is that not all SOEs fall under their scope. In Egypt for instance, the Administrative Monitoring Authority, established to combat corruption in the country, can investigate any entity in the government, including state-owned enterprises, except for those controlled by the military (Sayigh, 2012). This is despite existing legislation that considers any improper dealings in SOEs "theft of public assets", which carries heavy criminal sanctions. In other countries such as Lebanon, even though the SAI theoretically can investigate SOEs, in practice it does not do so due to a lack of political support. The efficacy of SAIs, including vis-a-vis SOEs, lies in their reporting relationship with the executive, their political backing and the scope of their mandate.

The mandate of anti-corruption commissions in the region also enables them to play a role in monitoring and reporting any incidence of impropriety in local SOEs. This is so especially since anti-corruption commissions or bodies are becoming more widespread in the region, including the recently established Saudi National Anti-Corruption Commission, Kuwait's Authority for Integrity, and the Moroccan Anti-Corruption Commission. In Saudi Arabia for example, legislation defining the structure of the new Commission was adopted in 2011, enabling it to oversee all state-owned companies in which the state has a stake exceeding 25%. The commission was given the status of an independent legal entity, and its chairman given the status of minister reporting directly to the King.

Corruption in procurement

It is crucial that SAIs and anti-corruption commissions have the mandate and the resources to examine various sources of nepotism, corruption and theft that may occur in public enterprises and to forward such cases to the public prosecutor. Apart from a higher incidence of nepotism, global experience highlights that SOEs are particularly prone to financial risks arising from inefficient or insufficiently transparent and structured procurement procedures. Considering that large SOEs are active as contractors for a variety of goods and services, any inefficiency or improper selection of bidders can have a serious impact on the public purse. Box 4.10 provides further information on OECD instruments that can provide assistance to governments looking to structure their procurement process with a view to improve its transparency and efficiency.

A number of MENA countries have reviewed their procurement procedures, inter alia, to ensure that SOEs are subject to the same standards

Box 4.10. **OECD instruments promoting integrity in public procurement**

Public procurement is estimated at 10-15% of global GDP and bribery is estimated to add 10-20% to total contract costs. The OECD Principles on Public Procurement were developed in 2009 to provide policy guidance to governments on measures that can help them prevent waste, fraud and corruption in public procurement. This document consists of ten key principles to help eliminate corrupt practices of all forms – nepotism, clientelism, kickbacks, theft of resources, collusion, abuse and manipulation of information, discriminatory treatment, waste of organisational resources and also conflicts of interest in public service and in post-public employment.

The Principles are based on four key pillars, including transparency in the procurement process, professional management of the process, prevention of misconduct, and ensuring accountability and control. The Checklist for Enhancing Integrity in Public Procurement provides a practical tool for detecting corruption at all stages of the procurement cycle, including pre-tendering, tendering, post-tendering.

In addition, the OECD Guidelines for Fighting Bid Rigging in Public Procurement address specifically the risks of bid rigging (or collusive tendering) whereby competitors in a particular tender offer would collude in order to illegitimately maximize profits. Bid rigging can take a number of forms (i.e. cover bidding, bid suppression, bid rotation, market allocation), but ultimately it impedes the efforts of public organisations to obtain goods and services at the lowest price.

The Guidelines provide advice on measures that can be adopted in order to reduce the risk of big rigging in public (but also private) procurement. For instance, the Guidelines recommend that the procuring entity coordinate with other public sector clients who have recently purchased similar products or services in order to improve market understanding. The Guidelines also recommend avoiding unnecessary restrictions that might reduce the number of qualified bidders and streamlining the tendering process.

Indeed, this latter recommendation is important in the region since such restrictions have in the past been utilised in order to skew results of procurement processes. In Tunisia, it is reported that under the previous regime, the executive commonly interfered directly in the public procurement process, including by SOEs, in order to ensure that selected elites win large public tenders. At times, companies participating in public tenders were "asked" to withdraw their offer in order to allow a less attractive bid to win the tender; in other instances, the Director Generals of Ministries or executives in companies were "asked" to select a given bid due to undisclosed strategic considerations.

Source: OECD Principles for Integrity in Public Procurement, 2009; *OECD Guidelines for Fighting Bid Rigging in Public Procurement*, 2012; The Checklist for Enhancing Integrity in Public Procurement, 2008; Tunisian Anti-Corruption Commission (2012), *Investigative Report on Corruption and Malfeasance*, available in French and Arabic.

that apply to the public sector more generally. For example, in Oman all fully state-owned enterprises (but not those with mixed ownership) are required to issue tenders and government procurement is supervised by a high-level Tender Board, which is an independent entity not attached to any other government entity (World Trade Organisation, 2008). In other countries of the region however, the SOE sector generally or some SOEs specifically, are exempt from procurement rules that apply to the public sector at large.

In Kuwait for instance, procurement by SOEs is not subject to the regulations applying to general government procurement and is thus not supervised by the Central Tenders Committee (World Trade Organisation, 2012).[20] In Morocco, procurement by SOEs, as by other public entities, is decentralised and subject to ministerial approval.[21] The new procurement decree adopted in 2007 only applies to one category of SOEs – public establishments (établissements publiques) – and recent WTO reviews demonstrate that they do not always apply it. In other countries of the region such as Libya and Lebanon, procurement regulations are loose and therefore arrangements whereby SOEs procure services from companies owned by Ministers or other high level officials can be found.[22] Box 4.11 demonstrates that even in an environment where legislation may allow a diversity of approaches, some companies take a leading role in addressing the risk of corruption, including in procurement.

Box 4.11. **Anti-corruption drive at the Moroccan National Electricity Company**

The Moroccan National Electricity Company (Office National de l'Électricité) is one of the largest SOEs in the country, with almost 4.5 million customers. It is a public establishment focused on the production, transportation and distribution of electricity. After the government itself, it is the largest investor in the country and hence its procurement activities are supervised by the Court of Accounts, the Directorate of State-Owned Enterprises and Public Establishments and the Parliament (through specific parliamentary committees). In order to minimise the risk of corruption, the National Electricity Board has taken a proactive stance to strengthen the integrity of its procedures.

It has established an Ethics Committee in 2007 that includes the main private sector body (i.e. CGEM) and staff representatives. The remit of this Committee is to propose binding ethical rules and procedures for both staff and other stakeholders, including suppliers. Its first task was to develop a code of ethics. In the consultation process for preparing the code, a representative sample that included not only managers but also operational staff were involved. Adherence to the code has been made voluntary, as a means of encouraging all staff to sign on willingly. The next task will be to evaluate conflict of interest risks within the firm.

Box 4.11. **Anti-corruption drive at the Moroccan National Electricity Company** *(cont.)*

The company is also using new technologies to strengthen transparency and accountability in procurement. It published invitations to tender on its website even before the 2007 decree made this mandatory. It also maintains a database not only for storing information on calls for tender but, more generally, to keep records of decisions taken in the procurement process. Information on suppliers is centralised and classified to facilitate evaluations on the basis of objective parameters such as price and timeliness of delivery.

The practices adopted by the Electricity Company are considered in line with the regulations introduced in Morocco in 2007 that established a comprehensive framework for public procurement. However, the 2007 decree applies only to the central government and local authorities, whereby public enterprises can adopt their own regulations provided that they comply with the general regulations on competition and transparency. The need to harmonise the existing regulations for all public enterprises with the provisions of the 2007 decree was noted by the OECD review of the public procurement framework of Morocco.

Source: Office National de L'Électricité, 2012; *OECD Principles for Public Procurement*, 2012, interview, Kamal Daoudi, State Audit of Morocco; OECD (2009), *Enhancing Integrity in Public Procurement: A Joint Learning Study on Morocco*, Paris, France.

The lack of streamlined procedures for public procurement in some MENA countries has led to allegations of impropriety which – even if proven to be unfounded – can stain the reputation of SOEs and governments as their owners. Considering suspicious incidents are not always investigated and the findings of investigations are usually rendered public, the perception that dealings by SOEs' are often corrupt is no uncommon in the region. Box 4.12 explores some of the allegations made against the state-owned Casino du Liban, one of the largest government-owned companies in Lebanon. This case study highlights that good governance at the level of the management and the board is directly related the transparency of procurement procedures. It also demonstrates that in SOEs, much as in listed companies, good governance is also about setting the tone at the top.

Box 4.12. **Corruption allegations at Casino du Liban**

Casino Liban is one of the largest state-owned enterprises in Lebanon and is one of the key tourist attractions in Lebanon. Over half of its outstanding shares, which but trade over the counter on the Beirut Stock Exchange, are held by Intra Investment Company, the government-controlled investment firm. The remaining capital is held by Abela Group (17%), Bank Audi (7%), and by individual investors. The Intra Investment Company fell under the ownership of the Lebanese government in 1966.

Box 4.12. **Corruption allegations at Casino du Liban** *(cont.)*

About half of the capital of Intra Investment Company is owned by the Central Bank and the Ministry of Finance, and although plans to sell the stake were discussed in 2006, the sale did not materialise. Today, the ownership of the company remains unchanged and therefore, it remains majority owned by the Lebanese state.

Under a 30-year contract between the government and the Casino entered into in 1995, 30% of its gross revenues are to be transferred to the Ministry of Finance in the first ten years, increasing to 40% and eventually to 50% subsequent years. The management of the Casino claims that it transferred the required sums, in addition to 141 million USD in 2010-11 in taxes paid to the Treasury.

In November 2009, the general assembly of the company elected a new board of directors for a three-year term. Since then, the over-the-counter value of the shares of the company has increased significantly, from approximately 360 USD per share to 580 USD per share today. Unlike other Lebanese SOEs mentioned in this report, the company has remained profitable (its 2012 profits are projected to reach over 30 million USD).

Nonetheless, its governance arrangements continue to raise public concerns on several fronts. In November 2012, allegations of corruption, political favouritism and embezzlement at Casino Liban were made in the local press. Among the claims made against company management is that it tends to provide full time employment only to those who are affiliated with the administration. The company is estimated to employ 260 contract workers, who much like contract workers at other state-owned enterprises in Lebanon, have protested against their employment status, which they believe to be unjust.

The Casino has a contract with Abela, which also owns a significant stake in the company, to operate gambling machines and this represents a conflict of interest in procurement procedures. No public tender for this service was issued. The part time workers of the Casino argue that the company could save up to 4 million USD annually if they were offered full time jobs and if the contract with Abela was revoked. The Casino has not undertaken a cost-benefit study of this option.

In addition, reports in the media have surfaced earlier in 2012 alleging that the management of the company has purchased 10 million USD in slot machines, while similar machines were stored in the company depot (unauthorised by the Ministry of Finance because they targeted low to middle income earners). Local press reported that two board members of the company travelled to Monaco to arrange for the purchase of the machines through an intermediary, and not directly from the manufacturers as was commonly done before.

Box 4.12. **Corruption allegations at Casino du Liban** *(cont.)*

No tender offer was issued and no bids were considered for this purchase, which raised suspicions that company insiders might have received kickbacks in this sale. Moreover, the board has allegedly not asked the approval of the Ministry of Finance, which is a major shareholder. The company has not held any general assembly meetings in five years, and a result, shareholders have not had a discussion about the allegations of unjust hiring and procurement practices which, if proven, could have had a negative impact on its performance.

Source: LBC; The Daily Star, Banque Libano-Francaise; Alakhbar English; Byblos Bank.

Ownership arrangements and anti-corruption

In addition to ownership and disclosure frameworks that might make SOEs especially prone to corruption, the process of privatisation can also be tainted by corruption. The Arab Spring has highlighted that the process of transfer of ownership from state to private hands is fraught with risks of corruption. In Egypt in particular, allegations were made that state-owned assets were often transferred at a fraction of their market value to parties affiliated with the government. Likewise, in Tunisia, evidence has emerged that some companies were privatised in ways that encouraged the emergence of crony capitalism. Even some of the largest privatisation transactions, such as the sale of a 35% stake in Tunisie Télécom, were subject to serious violations in the candidate selection procedures and a number of smaller SOEs were sold to companies owned by members of the Ben Ali family (Tunisian Anti-Corruption Commission, 2011). Although some of these sales were conducted through direct negotiation with a strategic buyer, in some cases open tender processes were manipulated to result in an outcome desired by the regime.

These allegations highlight the need for the privatisation process to be handled by a high level governmental entity with utmost public integrity. The establishment of entities explicitly charged with privatising SOEs such as the executive privatisation councils in Jordan, Oman and Kuwait may be effective not only in centralising privatisation expertise within the public administration, but also may help to improve the integrity of the privatisation process itself, assuming such entities enjoy the necessary operational independence. A number of privatisation entities in the region already appear to enjoy such autonomy. In Jordan, the Executive Privatisation Commission is financially and administratively independent and the decision to hire or dispose of its Chairman is made by the Prime Minister subject to approval by the Cabinet of Ministers. The new Privatisation Council established in Kuwait in 2012 operates with an independent budget, though most of its members are ministers.

Centralisation or at least co-ordination of procedures regarding privatisation and more generally operation of SOEs appears to have had a positive impact on the transparency and integrity of SOEs. Hiring policies are one area where progress remains to be made: so far, no MENA country has introduced requirements for the selection of management and board candidates, instead leaving it up to the individual ownership entities and even companies to decide on appropriate policies. While this "laissez-faire" approach may be beneficial considering the variety of sectors where SOEs operate, the risk of nepotism is amplified in this context.

Some countries such as Egypt have codified the nomination procedures for boards of SOEs (through the Business Public Law), but generally, board nomination procedures and selection for managerial posts in the region remains relatively ad-hoc. One of the reasons for this is that the flexibility in hiring practices allows for key posts to be held by political nominees. In addition to line ministries which may have an interest to promote political appointees in certain posts, other entities may wish to influence this process. For instance, in Egypt, it is reported that the Supreme Council of Armed Forces (SCAF) continues to appoint retired generals and other high ranking officials on boards of SOEs, including companies outside of the military establishment (Abul-Magd, 2012).[23]

One Lebanese ex-minister admitted that his total remuneration was lower compare with some of his senior staff due to the fact that they cumulated posts as board members in SOEs in which his ministry exercised ownership rights. These individuals were not necessarily appointed by the state in order to maximise the effectiveness of its representation on the board, but to provide them with a means to supplement their public sector salary. A similar situation also prevails in other MENA countries where civil servants seek to complement their civil service salaries with board fees, a practice which is almost certain to create conflicts of interest.[24] Accumulation of board positions is particularly prevalent in smaller GCC countries where technocratic elites are small and the appointment of independent directors with specialised expertise is still rare.

Anti-corruption and corporate governance

Increasingly, anti-corruption and good corporate governance in the region are seen as two sides of the same coin. The need to render SOEs more transparent and accountable, while at the same ensuring that they operate in a context of robust regulatory framework designed to ensure their efficiency and profitability, has resulted in a growing interest of policy makers in good governance of SOEs. Realising that governance failures such as inadequate risk management procedures or ineffective boards have real and significant

repercussions, policy makers in the region are now looking at solutions to make companies under their ownership more accountable and competitive.

A first clear sign of a political will to bring state-owned companies to a higher standard of governance emanated from Egypt, which introduced a code of corporate governance for SOEs already in 2006. This initiative was followed by similar initiatives in Morocco in 2008 and other MENA countries since (see Table 4.3). In addition, listed SOEs are subject to corporate governance requirements imposed by the securities law and regulations (with the exception of the UAE).

Table 4.3. **Corporate governance guidelines for SOEs in the MENA region**

	General corporate governance code			Guidelines on corporate governance of SOEs		
	Date of issue	Issuing organisation	Status	Date of issue	Issuing organisation	Status
Egypt	2005	Egyptian Institute of Directors	Voluntary	2006[1]	Egyptian Institute of Directors	Voluntary but application encouraged by the Ministry of Investment
Morocco	2008	Moroccan Corporate Governance Commission	Voluntary although companies encouraged to comply-or-explain	2011	Moroccan Corporate Governance Commission	Voluntary although companies encouraged to comply-or-explain
Lebanon	2006	Lebanese Transparency Association	Voluntary	2012 (issued as draft)	Lebanese Transparency Association	Voluntary
Bahrain	2010	National Corporate Governance Committee	Voluntary	2012	Mumtalakat	Voluntary[2]
Dubai	2007	Emirates Securities and Commodities Authority	Comply-or- explain	Under preparation[3]	Executive Council	–
Abu Dhabi		Emirates Securities and Commodities Authority	Comply-or- explain	Under preparation	Executive Council	–

1. Complemented by the Public Companies Law outlining the governance requirements for the sectoral holding companies and the individual SOEs.
2. The scope addresses only the governance of enterprises where Bahrain's SWF Mumtalakat has ownership.
3. In addition, sectoral guidelines for real estate developers have been developed.

Source: OECD Secretariat research, based on review on national codes and discussions with MENA SOE Taskforce members.

In addition to these requirements, state-owned banks are often governed by the regulations issued by central banks. While in most cases pre-dating general corporate governance codes and guidelines, CB regulations are being

amended to take into consideration lessons learned from the financial crisis, and in the case of come countries, to address the gaps discovered after political transitions. For example, in the case of Tunisia, the Central Bank issued new regulations for banks (and indeed all credit establishments) following the revolution to address weaknesses in the corporate governance of these establishments, aiming to promote the role of the board and address related borrowing concerns.

In the UAE, the central bank in 2012 required local financial institutions to limit their exposure to the governments of the seven-member UAE federation and related entities to a maximum of 100% of their capital base, and exposure to individual public sector borrowers to 25%. This measure was adopted as a reaction to the Dubai crisis which saw defaults on loans by several large state-owned companies, which created significant liquidity issues in the local banking market. The fact that many UAE banks are themselves partially state-owned – sometimes through holding entities that are related to the SOEs they lend to – exacerbated the situation.

Sectoral regulations also in some cases address governance structures and practices of state-owned companies. For example, the Dubai Real Estate Regulatory Agency (RERA) has developed a code of corporate governance for real estate developers in 2011. In doing so, RERA has considered that the peculiarity of the real estate sector, which includes many actors such as developers and promoters, merits specific guidelines. Although these guidelines are not specifically targeted at state-owned companies, the fact that real estate development in Dubai is to an important extent controlled by SOEs such as Nakheel, Emaar and Dubai Properties (a subsidiary of Dubai Holding) implies that SOEs are also addressed by these recommendations.

Last but not least, some standards of governance are imposed by sovereign funds whose stake in companies in the region is reported to have grown significantly over the past 3 years. For example, the Bahraini sovereign wealth fund Mumtalakat, which owns stakes in a number of large SOEs such as Alba and Gulf Air, has issued a *Director's Handbook*. The objective of this *Handbook* is to educate directors that serve on boards of companies it owns of their responsibilities. It specifies that board members have a legal duty to act in the interest of the company and stipulates that while directors should also pay regard to the interests of other stakeholders, their primary concern should be with protecting the interests of shareholders and maximising long-term shareholder value.

All these developments clearly point to a heightened interest of policy makers to improve governance of SOEs. With the exception of a few countries, these initiatives generally reflect a careful and somewhat fragmented approach, indicating a reluctance to impose a new set of standards on highly

strategic companies. These initiatives are primarily aimed at improving transparency of SOEs vis-à-vis the decision-makers and their impact on increasing public accountability and transparency is so far unclear. What is certain, however, is that policy makers are now interested in ensuring that at the minimum, SOEs provide the necessary reporting to them both on their performance and their progress in reforming their governance arrangements.

Notes

1. For further information, please refer to the Public Authority for Civil Information: *www.paci.gov.kw/en/index.php/statistics/statistics-indicators*.
2. Author interviews with Syrian SOE managers, Damascus, summer 2009.
3. In Algeria e.g., the public sector represented 34% of total employment of 7.8 million in 2004, but paid 72% of the national wage bill.
4. Iraq appears to be an intermediate case with subsidies to SOEs amounting to between 1.5 and 4.2% of state spending in 2007-10 (Wing, 2013).
5. A breakdown of SOE and private lending was not available for later years.
6. Direct loans to the Jordanian government are more substantial, but are less than half the size of private sector loans. Some of the private sector loans probably include companies in which the state holds minority shares, but this is unlikely to change the picture substantially.
7. The GCC Secretariat is understood to be preparing a competition law although it is unclear whether it will apply to SOEs as well as private companies.
8. The exemption must be shown to be in the public interest or offer benefits to the consumers that exceed the effects of restricting freedom of competition.
9. Technically, the ECA can start an investigation on its own initiative or as a result of a complaint, but in practice most of the market studies that it has worked on so far were the result of a ministerial request.
10. For example, in Lebanon, a competition law was adopted but no entity to oversee its implementation was created.
11. The Ministry of General Affairs and Governance is in the process of putting together processes allowing better coordination between the Competition Council and other sectoral regulators.
12. Egypt remains somewhat of an outlier in this regard in the sense that all drinking water and sanitation entities are regrouped under a single holding company and the regulatory framework in place with regard to cost recovery and tariffs has so far not been able to attract external financial investment or direct participation.
13. A peculiarity in the Gulf is that in a number of markets, local state-owned operators compete with foreign state-owned operators (e.g. STC and Qtel in Kuwait, Etisalat in Saudi Arabia).
14. This is especially important given that the penetration of mobile telephony in particular enables the poor in rural areas to conduct business remotely thus reducing poverty levels.

15. In Jordan, this is to some extent alleviated by the fact that the competition authority is chaired by the Minister of Industry and Trade, with other board members including officials from the Insurance Commission, the Telecommunications Regulatory Commission, the Public Transport Regulatory Commission, the Jordan Chamber of Commerce and Industry, the Jordan Consumer Protection Society and others.
16. In some cases such as the Saudi one, aggregate figures for subsidies are explicitly listed in national budgets, but the category excludes the most important in-kind subsidies such as the provision of cheap energy and fuels.
17. SOE operations are usually also overseen by the Ministry of Finance and/or the line ministry in charge of the relevant sector.
18. This would be a first effort by a SAI from the region to examine SOEs specifically.
19. These changes reinforce other legislative changes in the Emirate, notably the anticipated issuance of corporate governance guidelines for SOEs and the establishment of the UAE State Audit Court at the federal level.
20. In addition, Kuwaiti government agencies, including unincorporated SOEs, may seek exceptions from the Central Tenders Committee to conduct tenders outside the law; procurement by hydrocarbon companies is also excluded from the Public Tenders Law, although the individual companies have their own regulations.
21. Morocco is not the only country in the region with a decentralised approach to procurement. In the Emirates, procurement at the emirate level is not regulated by the Public Tenders Law, allowing individual government entities freedom to establish their own rules and procedures.
22. For instance, the General Electric Company of Libya hired companies under its control to perform services without conducting public tenders, resulting in a situation where it was at the same time the owner, the contractor and the consultant (Khan, 2012).
23. For instance, the head of strategic companies such as Suez Gas and Red Sea Ports are retired generals. Ex-generals are also on the boards of commercial SOEs organised under the Ministry of Investment (Abul-Magd, 2012).
24. On the other hand, some countries of the region such as Tunisia have low board fees which are same across SOEs, irrespective of their size and complexity. This practice does not encourage the attraction of talented individuals to serve on SOE boards, especially considering the high legal liability. This, in turn, poses problems for long term competitiveness of SOEs, especially in sectors such as banking where board members and executives in the private sector are remunerated in a competitive fashion.

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Chapter 5

Avenues for reform: Towards efficient state-owned enterprises in the MENA region

This last chapter of the book provides policy recommendations stemming from the foregoing analysis of the role and contribution of MENA SOEs to the economic and social development of the region. These policy recommendations are aimed at the ownership entities, state audit bodies, boards and management of SOEs. Suggestions are made to optimise the ownership efficiency, improve the contribution of SOEs to developmental objectives, manage SOEs' impact on fiscal budgets, ensure that SOEs do not negatively affect the level-playing field, as well as address SOEs' role as employers.

A number of policy conclusions can be drawn from the observations and analysis undertaken in this publication. Given that privatissation of SOEs has slowed down in the region in recent years and that governments rely on SOEs as a tool of industrial and social development, effective oversight and good governance of these companies continue to be crucial. This last section of the report aims to draw some policy conclusions and recommendations relevant to the design of oversight and governance frameworks for SOEs as well as to structures that might be effective at the level of individual companies. Drawing on national and company specific experiences highlighted in this report, the following recommendations can be made:

Ownership efficiency

- The term "government related entities" has led to a lack of clarity as to what companies are state-owned. ***Greater precision around what companies are considered government-owned is necessary for stakeholders to understand the nature and the limits of state participation in the economy.*** The risk of default of a number of UAE based entities in the past few years has highlighted the consequences that this lack of clarity might have. In this regard, the example of the guidelines by the government of Abu Dhabi about the need for SOEs to apply for an explicit guarantee from the state before undertaking further borrowing obligations is an interesting example to consider. Likewise, initiatives in the UAE, Morocco and Tunisia to publish consolidated information on the SOE sector are commendable.
- ***The introduction of coordinated or centralised ownership arrangements can help in improving the efficiency of state ownership.*** The consolidation of SOE ownership under sovereign funds in some countries such as Bahrain has already initiated this process. In some countries such as Egypt and Iraq, some centralisation of SOE ownership can already be seen though even in these countries strategic SOEs are placed under the oversight of different ministries. Nonetheless, even this limited degree of centralisation has allowed for some coordination of government policies vis-a-vis SOEs and perhaps more importantly, allowed governments to act as better informed and more enlightened owners.
- ***The financial markets expertise of sovereign wealth funds/holding companies can be useful in restructuring loss-making SOEs and in introducing SOE debt or equity on public markets.*** However, the potential risk facing governments

which decide to transfer, fully or partially, their SOE portfolio to SWFs and hence require them to invest locally, is that these funds can then no longer act as selective investors. As a result, their performance risks being dependent on national economic performance and political stability, which may be contradictory to their objective of profit maximisation. A differentiation between funds investing in local and foreign markets as already present in some jurisdictions such as Oman may be useful to address this challenge.

- Experience highlights that dedicated privatisation departments or entities develop more specialised expertise on the privatisation of SOEs. Privatisation entities currently exist in Jordan, Kuwait, Turkey and other MENA countries. ***The institutional frameworks within which privatisations are conducted merit further analysis to better understand how to improve the transparency and accountability in this process.*** It appears that the model existing in most MENA countries which allows the ownership ministries to decide to whom and under what conditions companies are to be sold may not be optimal in enabling governments to obtain the best value for their assets.

Developmental role of SOEs

- In a number of areas, SOEs in the MENA region have played a positive role in industrial development, elimination of poverty, bridging the urban-rural divide and providing basic goods and services to the public. This report provided some illustrations of when these policies have led to successful results and when burdening SOEs with extra-commercial objectives has not yielded the sought outcomes. ***A number of features distinguish successful case studies, not least the advance and explicit recognition by governments of extra-commercial objectives and the appropriate balancing of commercial and non-commercial activities as highlighted in the Al Omrane case study.*** *The contractualisation programme adopted by the Moroccan government is also a useful example of advance recognition of such objectives.*
- ***At the same time, the risk of a "mission creep" on SOEs charged with non-commercial objectives should be seriously considered.*** While it may be temping for governments to charge SOEs with developmental objectives not strictly related to their core mandate, this may in fact raise the cost to governments in attaining their objectives and may divert company resources away from higher value-added activities. The other risk attached to over-reliance on SOEs to contribute to social objectives of the state is the lack of clarity between socially and politically motivated objectives placed on SOEs.

- ***At a minimum, non-commercial SOE objectives have to be made explicit; their value should be accorded an explicit price which can be related to their opportunity cost in a cost-benefit analysis (see also the following section on subsidies).*** The latter will also help to evaluate whether there might be more cost-effective ways of delivering non-commercial policy outcomes without adding to the objectives of existing SOEs, for example through contracting private providers for specific services. This should be a standard procedure before SOEs are tasked with non-commercial objectives or new SOEs are created to pursue them.
- ***Aggregate and sectoral reporting on SOEs' output, employment, profitability, transfers and loans from government is imperative for assessing their developmental performance.*** A concentration of ownership responsibilities as suggested above can be a useful step to enable such accounting. Aggregate figures would enable a better understanding of the role of MENA SOEs in national economies and allow for improved sectoral comparisons, enabling researchers and policy makers to identify the political and economic frameworks where SOEs can deliver well on their extra-commercial objectives and those where they cannot.

Subsidies and fiscal transparency

- ***Explicit or implicit subsidies to SOEs should be identified and re-evaluated.*** Subsidies to SOEs may take a variety of forms, ranging from explicit subsidies to less visible measures such as concessionary financing, access to cheap resources, land or labour. Regulatory capacity to assess the value of such support policies needs to be built up. For SOEs operating in monopolistic or quasi-monopolistic sectors where they do not face any private sector competition, this might not be an immediate priority. On the other hand, for SOEs actively competing against private sector incumbents, subsidies need to be identified and quantified to ensure fair competition.
- ***It may be useful for governments to consider their role as owners of socially and economically important SOEs and the role of the latter in economic development and competitiveness. To this end, authorities charged with defining national economic strategies should consider how SOEs can contribute to the development of their economies.*** For instance, the Executive Councils of Dubai and Abu Dhabi as well as the Emirates Competitiveness Council consider and integrate the role of SOEs in their broad strategic orientations. In Tunisia, the directorate responsible for overseeing the reform of the SOE sector is located within the cabinet of the Prime Minister, which arguably allows for a more holistic vision of how they can be reformed so as to contribute to the national development strategy.

- ***Explicit accounting for the cost of non-commercial mandates of SOEs would improve the transparency of budgetary processes and potentially improve the targeting of subsidies***. The OECD Transparency and Accountability Guide defines special obligations that can be incorporated into the mandate of SOEs and provides options for costing them. Governments can be advised to consider a variety of subsidisation mechanisms that they have resorted to and evaluate the cost and the impact of these subsidies.

Effective competition

- ***Competition authorities should be given the authority and independence to initiate investigations into SOEs, without the instructions of a minister or the executive.*** Experience from the region demonstrates that competition authorities do not always have a sufficient mandate and/or political banking to initiate investigations into anti-competitive practices by SOEs. For competition authorities or sectoral regulators to establish a level-playing field between state-owned and private incumbents, the head of the competition authority must have wide powers and must be able to resist pressure from ownership ministries which may not support such investigations. This political clout can be created if the competition authority reports directly to the executive and not to another ministry.
- ***The division of responsibilities between competition and sectoral authorities/ regulators should be clearly delineated.*** Experience demonstrates that a lack of clarity in the mandate and the division of regulatory responsibilities between competition authorities and sectoral regulators (e.g. in Egypt) has resulted in slower or otherwise less efficient investigations into anti-competitive behaviour by SOEs. When sectoral regulators and competition authorities sign formal agreements on the division of their responsibilities (i.e. an MOU), the definition of their regulatory mandates is clarified.
- To ensure that SOEs compete with private companies on a level playing field, ***any extra-commercial objectives should be formalised and the mechanisms for compensating these companies should be established.*** The experience of the Moroccan government which introduced a contractualisation programme between SOEs and the state is a good policy practice. The OECD Transparency and Accountability Guide provides a number of practical alternatives that governments can consider in clearly setting and compensating SOEs for extra-commercial objectives. In addition, the OECD Guide on Competitive Neutrality and the OECD's recent publication on National Practices in Competitive Neutrality provide further country illustrations.
- There is a concern that privatisation of SOEs operating in a monopolistic environment will lead to the creation of private monopolies which will use their position in the market to the detriment of the public good.

Governments may wish to give consideration to the sequencing of reforms in terms of corporatisation, the splitting up of SOEs and their subsequent privatisation in order to ensure that privatisation fosters a healthy competitive climate. The example of the privatisation in the Jordanian electricity sector, which started with the creation of multiple companies in the electricity distribution segment, might be an interesting example to examine in this regard.

Transparency and anti-corruption

- An often-heard complaint in the region is that the quality of disclosure by SOEs is poor and that a number of large companies do not disclose any reporting beyond basic company information. In the wake of the Arab Spring, the public is demanding better transparency of the government in terms of the quality of reporting provided. ***The ministry(ies) overseeing or exercising ownership rights SOEs should introduce guidelines for disclosure (accounting standards, periodicity, audit, etc.).*** The Moroccan Code on Corporate Governance of SOEs stipulates elements of disclosure that must be provided by public companies and constitutes a good example.
- ***Frameworks guiding the reporting of SOEs to their owners and the public merit further review to align them with practices in the private sector.*** In a number of jurisdictions, SOEs are not subject to the same accounting standards as private companies and in some cases they are not subject to additional requirements arising from the applicable governance code or other relevant regulation. The growing issuance of corporate debt by SOEs is helping to improve the quality of disclosure by SOEs. In this regard, the proposal by the Dubai government that debt issuance in the Emirate will follow the European Prospectus Directive requirements appears to be a leading practice in the region.
- ***State audit bodies should be given the power to conduct audits of all SOEs and publish the results of their audits publicly or at least report them to the relevant branches of the executive.*** A number of state audit bodies, notably in Morocco, Oman and Kuwait have wide powers to oversee SOEs. These entities have a range of mechanisms at their disposal (i.e. operational, financial, and risk audits) and have the power to ensure that their recommendations are followed. The example of the Abu Dhabi Accountability Authority, which has significantly increased its capacity in recent years, is an interesting example to consider.
- ***All SOEs should be subject to procurement legislation and should publish tender offers for all transactions exceeding a certain legally stipulated minimum amount.*** Current practice in the region still highlights significant flexibility in how procurement by the state and SOEs is conducted; this is an

important issue to examine in order to reduce the risk of corrupt procurement practices. Additional governance mechanisms could be considered to ensure that any procurement transactions and large transactions by SOEs are subject to board approval, as they would be in privately owned companies.

- ***The choice of the privatisation method should be carefully considered to eliminate the risk of corruption.*** The OECD's report on Privatisation in the 21st century highlights the experience of OECD countries with privatisations in recent years. In the MENA region, past privatisations conducted through strategic sales, without a possibility of public bidding, have raised the risk – or at least the perception – that they were tainted by corruption. Even in sales subject to a public bidding process, the executive branch of the government has on occasion been able to intervene (i.e. Tunisia and Egypt). Going forward, it would be important for policy makers to demonstrate that privatisations are conducted in the best interest of the state and that proceeds of these transactions are used to address pressing social and economic challenges.

Employment and human resource policies

- In a number of MENA countries, legislation prevents governments from making redundant the staff of SOEs during the course of full or partial privatisations or restructuring of SOEs, thereby limiting the possibility of effective reorganisation of these companies. In the past, the requirement that SOE employees must be able to retain their posts for an indefinite period after the privatisation has raised the "cost" of privatisation to the state and in many cases has resulted in governments deciding not to divest altogether. ***Experiences in alternative mechanisms of re-allocating and training SOE employees and providing a social safety net for them (e.g. the Turkish Privatisation Administration) might be of interest to MENA policy makers.***
- ***Board appointment processes demonstrate the need of further streamlining.*** Introducing streamlined procedures and criteria for board appointees in SOEs can be useful to ensuring that SOE boards are staffed by highly qualified appointees and to limiting the risk of nepotism. A number of OECD countries have developed processes and procedures for selecting board members. Likewise, guidelines for SOEs board members might be useful if SOEs are not subject to the general corporate governance code or an equivalent instrument. The experience of Bahrain's Mumtalakat that has introduced a Director's Handbook outlining the duties and responsibilities for board members it appoints is useful in this regard.

- ***Governments need to think about creative ways of providing social security and employment through channels other than surplus public sector employment (as well as provision of goods and services below market cost by SOEs)*** – be it through conventional welfare mechanisms like unemployment assistance and insurance or more innovative forms of distribution like conditional and unconditional cash grants deployed in other regions, notably in Latin America. The transition to such a new system could be costly in the short run, but would reduce economic distortions and increase efficiency in the long run. Donor interest in the region in the wake of the Arab uprisings could be leveraged to provide resources and expertise for such transitions.

ANNEX A

Strategic state-owned enterprises in the MENA region

	Telecom	Finance	Electricity	Oil and gas	Transport	Consumer goods	Construction Real Estate	Infrastructure	Other
Algeria	Algérie Télécom	Banque Nationale d'Algérie Banque Extérieure d'Algérie Crédit Populaire d'Algérie Banque de l'Agriculture et du Développement Rural	Sonelgaz	Sonatrach Nafta Sonelgaz Asmidal	Société Nationale des Transports Ferroviaires Agence nationale d'études et de suivi de la réalisation des investissements ferroviaires Entreprise Nationale de Transport Maritime de Voyageurs	Entreprise Nationale des Industries Électroniques Société Nationale des Véhicules Industriels Entreprise Nationale des Industries de l'Électroménager	Entreprise Nationale des Matériels de Travaux Publics	Algérie Poste Algérienne des Eaux	Manadjim El Djazair Office National des Aliments du Bétail
Bahrain	Bahrain Telecommunications Company	National Bank of Bahrain Al Ahli United Bank Securities and Investment Company		Bapco Banagas Bafco Bahrain National Gas Expansion Company Bahrain Lube Base Oil Company Gulf Petrochemical Industry Company Tatweer Petroleum	Gulf Air				Bahrain Tourism Company Aluminium Bahrain
Egypt	Telecom Egypt Vodaphone Egypt Nilesat	National Bank of Egypt Bank of Alexandria Banque Misr Banque du Caire Misr Insurance Holding Company	Egyptian Electricity Holding Company	Egyptian General Petroleum Corporation Enppi GASCO	Egypt Air Egyptian National Railways Suez Canal Authority	Misr Spinning and Weaving	Misr Real Estate Assets	Egypt Post Holding Company for Water and Wastewater	Chemical Industries Holding Company Many strategic enterprises reportedly operated by the military

	Telecom	Finance	Electricity	Oil and gas	Transport	Consumer goods	Construction Real Estate	Infrastructure	Other
Iraq	Iraq Telecommunications Iraqi Broadcasting and Television Establishment	Rasheed Bank National Insurance Company	State Company for Electrical Industries State Organisation for Electricity	Iraqi National Oil Company Central Petroleum Enterprise State Company for Oil Projects State Establishment for Oil Refining and Gas Processing	Iraq Public Railways State Company of Iraq Ports Iraqi Airways	National Company for Food Industries State Organisation for Agricultural Mechanisation and Agricultural Supplies	State Organisation for Building	State Organisation for Roads and Bridges	Electronic Industrial Company Iraqi Cement State Enterprise National Chemical and Plastic Company
Jordan	Jordan Telecom Group		NEPCO		Royal Jordanian Airlines				Jordan Phosphates Mining Company Arab Potash
Kuwait	Mobile Telecommunications Company (Zain) National Mobile Telecommunications Company	Kuwait Finance House Gulf Bank Al Ahli bank of Kuwait		Kuwait Petroleum Al Soor Fuel Marketing Company	Kuwait Airlines Livestock Transport and Trading Company				Kuwait Cement Company
Lebanon	Ogero Alfa	Intra investment company	Électricité du Liban		Middle East Airlines Beirut, Tripoli, Sidon, and Tyre ports		Elyssar Linord Rashid Karami International Fair		Four Water Authorities La Régie des Tabacs et Tombacs Casino du Liban Sport City Center
Libya		Gumhouria Bank Libyan Foreign Bank Wahda Bank		National Oil Company Oil Libya	Libyan Airlines Afriqiyah Airways				

	Telecom	Finance	Electricity	Oil and gas	Transport	Consumer goods	Construction Real Estate	Infrastructure	Other
Morocco	Maroc Telecom Meditelecom Société nationale de radiodiffusion et de télévision Wana	Société Nationale des Investissements Attijariwafa Baque Crédit Immobilier et Hôtelier Crédit Agricole du Maroc	Office National d'Électricité	Office National des Hydrocarbures et des mines	Royal Air Maroc Office National des Chemins de Fer Autoroutes du Maroc		Compagnie Générale Immobilière	Poste Maroc Office National d'Eau Potable	Office Chérifien des Phosphates ONA Holding
Oman	Oman Telecommunication Company	Bank Dhofar National Bank of Oman Bank Sohar	Electricity Holding Company	Oman Petroleum Development Oman Oil Company Oman Gas Company Oman LNG	Oman Air			Oman Post	Raysut Cement Company Oman Cement Company ORPIC
Saudi Arabia	Saudi Telecom	Samba Financial Group Riyadh Bank Al Rajhi Bank Alinma Bank Al Khalij Commercial Bank Saudi Investment Bank Banque Saudi Francis SABB The Company for Cooperative Insurance	Saudi Electricity Company	Yanbu National Petrochemical Company Saudi Kayan Petrochemical Company National Gas and Industrialisation Company Saudi International Petrochemical Company National Petrochemical Company Rabigh Refining and Petrochemical Company	Saudi Public Transport Company The National Shipping Company of Saudi Arabia Saudi Railways Organization		Saudi Real Estate Company	Saudi Post	Saudi Arabian Mining Company Southern Province Cement Company SABIC Saudi Arabian Fertilizer Company National Industrialisation Company Saudi Industrial Investment Group

	Telecom	Finance	Electricity	Oil and gas	Transport	Consumer goods	Construction Real Estate	Infrastructure	Other
Qatar	Qatar Telecom	Qatar National Bank Masraf Al Rayan Al Khalij Commercial Bank	Qatar Electricity and Water Company	Qatar Petroleum Qatargas	Qatar Airways		Barwa Real Estate Company	Q-Post	Gulf International Services Industries Qatar
Syria	Syrian Telecom	Commercial Bank of Syria Agriculture Co-operative Bank Popular Credit Bank Real Estate Bank Industrial Bank		Syrian Petroleum Company Al Furat Petroleum Company	Chemins de Fer Syriens Syrian Arab Airlines				
Tunisia	Tunisie Télécom	Société Tunisienne de Banque Banque de l'Habitat Banque Nationale Agricole Banque de Financement des Petites et Moyennes Entreprises Compagnie Tunisienne pour l'Assurance du Commerce Extérieur Société Tunisienne d'Assurances et de Réassurances	Société Tunisienne de l'Électricité et du Gaz	Entreprise Tunisienne d'actitivés Pétroliers Société Nationale de Distribution de Pétrole Société Tunisienne des Industries de Raffinages Société Tunisienne de l'Électricité et du Gaz Compagnie des Transports par Pipelines au Sahara Compagnie Tunisienne de Forage Société de Transports des Hydrocarbures par Pipelines	Société des Transports de Tunis Société Nationale des Chemins de Fers Tunisiens Compagnie Tunisienne de Navigation Tunis Air Société des Transports du Sahel Société Nationale du Transport Inter-Urbain	Régie Nationale des Tabacs et des Allumettes Manufacture des Tabacs de Kairouan Office des Céréales Office des Terres Domaniales Régie des Alcools Société Tunisienne d'Aviculture Société Tunisienne des Marchés de Gros	Société Générale d'Entreprises de Matériel et de Travaux Société Nationale Immobilière de Tunisie	La Poste Tunisienne Société des Travaux Ferroviaires Tunisie Autoroutes	Groupe Chimique Tunisien Compagnie des Phosphates de Gafsa Société des Industries Pharmaceutiques de Tunisie La Pharmacie Centrale de Tunisie Office National de l'Assainissement Société Nationale d'Exploitation et de Distribution des Eaux Société des Ciments d'Oum El Kélil Société des Ciments de Bézirte Société Promosport El Fouladh (Société Tunisienne de Sidérurgie)

	Telecom	Finance	Electricity	Oil and gas	Transport	Consumer goods	Construction Real Estate	Infrastructure	Other
Yemen	Teleyemen	CAC Bank Yemen Bank for Reconstruction and Development	Yemen Public Electricity	General Company for Oil, Gas and Mineral Resources	Yemenia			Yemen Post	
United Arab Emirates	Emirates Integrated Telecommunications Etisalat	National Bank of Abu Dhabi Abu Dhabi Commercial Bank Union National Bank Dubai Islamic Bank Commercial Bank of Dubai Union National Bank Abu Dhabi National Insurance Company Abu Dhabi National Insurance Company Emirates NBD Tamweel	Dubai Electricity and Water Authority Abu Dhabi Water and Electricity Company Sharjah Electricity and Water Authority	ADNOC Emirates National Oil Company Emarat TAQA	Emirates Etihad Dubai Ports Roads and Transport Authority Sharjah Transport		Nakheel Emaar Properties Arkan Building Materials Company National Corporation for Tourism and Hotels Dubai Public Transport Agency	Emirates Post	Dubai Holding Abu Dhabi Ship Building Company Dubal

Note: The following Table does not include SWFs or subsidiaries of SOEs. The information presented in this table relies on publicly accessible information and hence some omissions may be possible. The selection of companies selected by authors to be included in this Table is subjective and not based on a certain size/revenue threshold. The Table includes only commercially-oriented companies and excludes authorities and governmental entities of a more regulatory or public benefit nature.
Source: Markaz for data on SOEs in GCC countries; Moritz Schmoll, primary research on non-GCC economies.

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OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(26 2013 02 1 P) ISBN 978-92-64-20296-2 – No. 60853 2013

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ENGINES OF DEVELOPMENT AND COMPETITIVENESS?

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ISBN 978-92-64-20296-2
26 2013 02 1 P

