

Doing privatization right in Lebanon

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Privatization is critical to structural reform in most countries. It refers to the shift from government provision of functions and services to provision by the private sector. As the debate on privatization of public utilities is engaging, Lebanon should learn from the extensive worldwide experience in this area by (1) identifying the underlying objectives to be served; (2) striking the right balance between regulation, privatization and liberalization of a public service; and (3) laying down transparent institutional, regulatory and procurement processes.

A recent interesting study by Albert Kostanian assessed the benefits and risks associated with the privatization of selected state-owned enterprises in Lebanon and quantified the value of selected SOEs. The gross revenue potential for the government from privatizations could range between \$6 billion considering a realistic privatization program and \$13 billion in a comprehensive scenario.

Helping governments design and implement privatization programs has been a major activity of the World Bank and other international organizations for the last three decades. For many years, observing the immense difficulties in many countries of reforming public enterprises without changing ownership, the World Bank emphasized privatization and divestiture as a means of locking in the gains from reforms.

As former director of the World Bank involved in designing and implementing privatization programs for over two decades across the planet, I have witnessed first-hand privatization issues, what works, should be done at scale and of course the bad experiences of many cases of privatization. While the fiscal impact of privatization is important, in my opinion privatization is primarily about increasing efficiency and improving service quality to the citizens at an affordable cost. Privatization is not an end in itself. It should be part of a comprehensive reform program.

The main underlying lesson from privatization worldwide is the need to focus on doing privatization right by: ensuring transparent and rigorous process and due diligence; clear bidding and evaluation criteria, and independent evaluators; and evaluation processes account for bidders' technical and managerial capabilities rather than price alone. Another lesson learned is that where there are structural barriers to entry or conditions of natural monopoly in some SOEs, a fair regulation and regulatory setup are needed to ensure reasonable terms and to guard in some cases against abuses of monopoly power.

Suffering from significant deficiencies in provision of key basic infrastructure services, SOEs in Lebanon provide a market where competition is weak or non-existent. As a result of the low public investment in SOEs and inefficiencies over the years, the services provided by these SOEs and quality have deteriorated, particularly in electricity, water supply, waste management, transport, as well as basic services important for the population's well-being. In fact, out of 137 countries, Lebanon ranks 130 in quality of overall infrastructure, with quality of electricity supply at 134, quality of roads at 120, and quality of mobile-cellular telephone subscriptions at 104

The current regulation of infrastructure and SOEs in Lebanon is concerned mainly with setting service prices, controlling entry, and setting standards of operations. These are regulated by the respective sector ministries. Pricing policies are formulated by the ministries based on political, not economic consideration and approved by the Cabinet.

As part of the privatization program, the government of Lebanon should aim for development of a clear and transparent regulatory framework. The primary objectives of such regulation would foster a competitive environment that encourages potential investors and private sector involvement, and maintain financial viability of privatized SOEs. Moreover, it will regulate prices and provide adequate control over the utility to protect consumers.

Lebanon's economic hardships will not vanish on their own. If necessary reforms including privatization are not adopted, economic policies will continue to suffer and the citizen will continue to pay the price. If reforms are to succeed, they have to be incorporated in a consistent political discourse, if anything was learnt from past worldwide experience.

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