

***Keynote Speech at the Seminar on
“Privatization in Kuwait”⁽¹⁾***

I am delighted to have been invited to deliver the opening speech of this seminar on privatization.

It is believed that word “privatization” first appeared some thirty years ago. For those who then promoted the concept, it seemed part of a hopeless cause to persuade governments that the interests of their peoples were not best served by state monopolies providing the essential services. The rapid public sector expansion of the 1960’s and early 1970’s had been seen by many as the primary driving force of economic activity and political stability. However, by the mid seventies, opinion had changed, and it was then seen as inflexible, and a drain on increasingly limited public resources. Consequently, the movement towards privatization gathered speed as attitudes began to harden against state involvement in industry and services.

(1) Delivered on December 6, 1992, in Kuwait, on the occasion of the seminar on “Privatization in Kuwait” which was organized by the Strategic Investment Forum Ltd.

Over the past ten years, many governments of the industrialised and developing countries have adopted policies to free their economies from state control. Privatization of state-controlled or state-owned enterprises has been one of the key measures used within this broad framework. This policy has unquestionably had an enormous impact on economies and has changed, perhaps permanently, the way each government approaches the economic problems it faces.

The leader of this movement was the United Kingdom, which instigated, in the early 1980's, an aggressive and wide-ranging privatization program. This lead was taken up by other countries. At present we find Italy selling its banks, France its chemical companies, Spain its tobacco monopoly, and Eastern Europe practically everything. Indeed, within the Soviet Union, the privatization proposal is, as I understand, the most popular part of the entire reform program. The worldwide expansion of this process has been such that it has become a real policy in more than seventy countries, to the point that last year there were close to \$40 billion worth of privatizations worldwide.

Experience in these countries has shown how complex privatization can be, and the need for careful control and planning. Each country, and no doubt each sector, presents its own problems. No one should be under any illusion that because some countries have

been successful the process is easy. There have been many failures in this policy, but these do not get so much publicity. We need to learn from both the successes and the failures, and accept that in Kuwait, the transition, though hopefully challenging and rewarding, will of necessity involve some painful decisions.

We need to clearly define our strategy and objectives for privatization. The Western world has found that in most cases, public sector organizations generally perform less efficiently than their private-sector counterparts. Objectives shared by most countries include the reduction of government control in the economy, attraction of foreign technology and expertise, increased competition and efficiency, and many others. All these are relevant in Kuwait, but perhaps the most important is our need to encourage economic activity and attract local capital for productive use. We would want this to lead to greater efficiency in the services provided in Kuwait, and in turn ensure that government spending is used more efficiently, to the benefit of all in Kuwait.

In Kuwait, state ownership is large, and its growth was accelerated by the problems of the early 1980's. The private sector's share of non-oil GDP dropped from 66.2% in the early eighties to 47.9% by the end of that decade. This continuing trend is of concern to us, as we do not wish to have a fully state-controlled economy. Kuwait started to study the possibilities of privatization prior to the Iraqi

invasion, and offered government-owned financial companies to the public. However, the invasion frustrated these attempts, and of course, it was not until after liberation that we felt able to look at this issue again.

Today our commitment to privatization is firm, as was indicated by His Highness the Amir in his speech of last Ramadan. The Council of Ministers has reacted to this initiative by asking the Minister of Finance to set this in motion. He has formed a committee with representatives from his Ministry, the Central Bank and the KIA, who will advise him on the strategy and time scale to be adopted. Other ministries have already begun preparatory work on their own schemes.

There are many ways in which privatization can be achieved, among which are deregulation of monopolies, sales of assets/services to the private sector, introducing competition with existing state monopolies, etc. No doubt you will be discussing the merits and problems of options such as these today.

The transfer from government to private ownership should improve the efficiency and lower the cost of the privatized enterprise. However, such a move will also result in a series of difficult decisions having to be made. For instance, there could be a loss of a range of privileged relationships and special advantages currently

enjoyed by customers and employees alike. Failure to deal effectively with the transition would damage the chances of a successful transfer of ownership. Not least among these is the question of manpower. In other countries, privatization has often led to a reduction of jobs without full consideration being given to the effect this has on the workforce or the economy. In Kuwait, this problem is particularly relevant, and failure to deal with this aspect could well jeopardise any scheme.

Workforces normally oppose privatization, although other countries' experience has shown them to be the main beneficiaries of the transition. Solutions are possible, but we will need to ensure that they are viable, and generally acceptable to the employees and other interested parties.

Good preparatory work is essential too, as all sides must have confidence in the process. Detailed analysis of the sector to be privatized is necessary, together with realistic assessments of its business potential, financial value and any support it will need in the early years of operation. Equally, there will be areas with a strong national security interest where the government may still wish to exert a monitoring function.

It is vital that we identify the key issues in any such program. These will vary between services and entities, but central to any privatization is, I believe, the need for a thorough and realistic approach. This is not an area where we can ignore reality; a positive public perception of the program is crucial for its success. The people must be convinced that the scheme will work and be of ultimate benefit to them. The fairness of the price is also important, as is confidence that new ownership will provide a better service, preferably reinforced by competition from other private sector entities. If we can attract the public interest, it will hopefully lead to Kuwaitis taking equity in the new organization, encouraged by incentives where necessary. The message we need to get across is that this is a joint venture between the citizen and the government for the mutual long-term benefit of both. If we can achieve this, the details of the scheme will be easier to promote.

Equally, we must not get carried away with the idea that privatization will solve all our problems. Some services or utilities will not be suitable for treatment, and we must first assess, by using hard facts, whether there are real benefits in transferring specific public enterprises into the private sector. Even for those where we can identify advantages, it will be a long and hard transition, as it does not automatically follow that a market-oriented approach provides a better service than the state sector. Experience elsewhere does

show that it is achievable but only with a positive approach by all concerned.

I hope I have managed to set out a broad framework for this subject. As I said earlier, this is not an easy option, and to be successful, privatization will require careful planning and good presentation. However, it is essential that we succeed, for in this scheme lies one of our main hopes to reactivate the economy in Kuwait, as we enter a new phase in our country's history. The value of this policy initiative cannot be understated.