

PRIVATIZATION IN YEMEN: POLICY AND PERFORMANCE

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ABSTRACT

Komponen utama dalam reformasi ekonomi termasuk kerajaan menarik diri daripada sektor perusahaan dan perkhidmatan melalui penswastaaan sektor-sektor tersebut. Cabaran utama yang dihadapi oleh kerajaan Yemen, selepas tamatnya konflik yang berakhir dengan penyatuan Yemen Utara dan Yemen Selatan, adalah untuk meningkatkan kembali pertumbuhan ekonomi. Oleh sebab kerajaan Yemen masih baru, ia masih lagi mempunyai saki-baki sistem kerajaan lama yang mana sektor awamnya sangat terpusat. Peraturan dan monopoli yang tidak cekap dalam syarikat awam menghadkan banyak aktiviti sektor swasta.

Sebagai salah satu usaha untuk memperbaiki ekonomi secara menyeluruh, kerajaan Yemen telah melaksanakan program penswastaaan sejak awal tahun 1995 untuk menyusun semula sektor perusahaan agar menjadi lebih cekap, menguntungkan, dan berdaya saing. Objektif kajian ini adalah untuk mengenal pasti kaedah penswastaaan yang sesuai, masalah dan halangan yang dihadapi oleh Yemen; menentukan motif dan matlamat penswastaaan di Yemen; menilai kesan penswastaaan terhadap firma-firma di Yemen dari segi keberuntungan, kecekapan operasi, perbelanjaan modal, output dan pekerjaan; mengenalpasti halangan utama yang dihadapi ketika tempoh peralihan penswastaaan; dan mengenalpasti langkah-langkah penstrukturan utama selepas penswastaaan. Walaupun terdapat peningkatan dalam beberapa pembolehubah ekonomi yang diguna pakai, prestasi sektor perusahaan selepas penswastaaan masih lagi tidak banyak berubah dalam tiga syarikat yang dikaji. Tiga penunjuk pembolehubah keberuntungan iaitu pulangan atas jualan, pulangan atas aset, dan pulangan atas ekuiti didapati tidak signifikan. Penunjuk kecekapan pendapatan bersih (kecekapan operasi) juga tidak signifikan. Purata perbezaan antara tahun asas dan tahun ketiga selepas penswastaaan bagi nisbah perbelanjaan modal terhadap jualan dan nisbah perbelanjaan modal terhadap aset juga menunjukkan tiada peningkatan yang signifikan. Walau bagaimanapun, dari segi kecekapan operasi untuk jualan, jualan output dan jumlah pekerjaan menunjukkan peningkatan yang signifikan. Kesimpulannya, hasil dapatan kajian ini menunjukkan penswastaaan di kalangan syarikat terpilih yang dikaji secara khususnya dan secara umumnya di Yemen tidak mendatangkan kejayaan.

ABSTRACT

A major component of economic reform includes the government's withdrawal from the production and service sectors of the economy, including privatization of most public sector enterprises. The main challenge that the government of Yemen faced after a conflict and unification period was to increase the economic growth at the time that government of Yemen inherited the over-centralized public sector. Therefore, an inefficient monopoly and over regulation appeared in public enterprises and restricted many private sector activities.

As part of comprehensive economic reforms, the Government of Yemen initiated a privatization program in early 1995 to restructure enterprises towards more efficiency, profitability, and competency. The objectives are to identify privatization methods, problems and obstacles that Yemen faced; to determine the motives and goals of privatization in Yemen; to assess how privatization affects firms' profitability, operation efficiency, capital expenditure, output, and employment; and to assess the major problems and constraints the target enterprises encountered at the time-of-handover and explore the major post-privatization restructuring measures adopted. In spite of the presence of some increase in the measured variables, the performance of these enterprises after the privatization process was not better than before the privatization process in the three enterprises examined. The tests of the three profitability variables (return on sale, return on assets, and return on equity) were found to be not significant. The net income efficiency (operating efficiency) indicator was also not significant. The mean difference between the baseline and three years after the follow up privatization for both the capital expenditure to sale, and capital expenditure to assets recorded no significant increase respectively. However, in terms of operating efficiency for sale, the output sale and employment indicators each recorded a significant increase respectively. In conclusion, the findings of this study demonstrate the privatization of these selected enterprises specifically and generally in Yemen was not successful.

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CHAPTER ONE: INTRODUCTION

1.1. Introduction to Privatization

During the 1970s, a specific transformation was observed in the economic problems. The focus was more on the direction of open-mindedness and the contribution of the private sector as a means of economic restructuring. The United Kingdom and the US were the trendsetters in this regard, and, subsequently, the majority of the countries around the world followed the road of privatization to resolve the economic issues. Such issues entailed properly stated documents showing bad performance and the inability of the public sector organizations, along with the benefits obtained from an accepted privatization policy as a means of making it better (Megginson, 2005). Currently, following the failure of the state-owned organizations in past decades the privatization regime can be found throughout the world (Bienen and Waterbury, 1989).

The problem of privatization is among the most significant international problems. This problem has both economic and managerial dimensions in the current scenario in which all countries are experiencing an economic meltdown. This is seen in the condition of developing countries in the form of stagflation, and is exacerbated by the tendency of the first world countries to collaborate with each other together with the reinforcement of the economic well-being of the global agreements like the Basel Convention on Banking Supervision and General Agreement on Tariffs and Trade (GATT). Both of which create international markets for trading goods from the developed countries and the condition of the ISO standards for developing countries to trade the factory-made items out of their countries to America and the European countries (Dayoub, 2006).

Keeping in mind the part played by the above-mentioned agreements in the progress of the global economy, it is often observed that the developing nations only have the role of supplying the raw materials and buying the finished goods coming in from the developed countries. Such a condition imposes a burden on the developing nations in terms of a shortfall in the budget, the accrual of external loans, slow progress in the imports and exports and increasing unemployment, making the conditions perfect for privatization to take place. In addition, some standards have been set by the World Bank and International Monetary Fund as a means to streamline the process of loan consistent with the principles set by the London Club and Paris Club (Dayoub, 2006). This also pertains to the international solutions provided to create a balance in the financial structures and to increase the degree of performance and effectiveness, as implemented in many countries, irrespective of the degree of economic progress and the different systems being used. Irrespective of the real progress in terms of social and economic aspects or the transformation of the managerial progress, the procedure of privatization still remains a difficult task that cannot be carried out speedily (Dayoub, 2006).

The procedure is complicated and has some economic, legal, social and political aspects attached to it. Moreover, the national conditions and ecological variables should be taken into account while chalking out a strategy for privatization and advancing privatization policymaking. However, it is an established fact that the international instances of privatization cannot be replicated in other countries so it is advisable to keep such instances as examples, learn from the mistakes and use them as a guideline for regulating and leading the privatization ventures in the years to come.

The following section of the research will elaborate on the definition of privatization, and reasons for its adoption by developing countries as part of their development strategies.

1.2. Definition of privatization

As it is in the case with many political concepts, the concept of privatization came in multiple meanings. Concept of privatization in general sense is refers to the increasing role of the private sector in economic activities represented by contributing in the production and investment of resources as well as reduce and minimize the role played by governments and public authorities played in economics.

A general often indicates term for privatization is to transfer total or partial of the ownership from the public sector to the private sector (Beishem, 2012).

Also, privatization concepts comes in other meaning as “But it can also be done by arranging for governments to purchase goods and services from private suppliers or by turning over the use or financing of assets or delivery of services to private actors through licences, permits, franchises, leases or concession contracts, even when ownership remains legally in public hands There are even cases such as ‘build-operate-transfer’ contracts, where the private sector creates an asset, operates it for a certain length of time, and then transfers it into public ownership.” (Beishem, 2012).

Since many different authors give the definition of privatization as we can see in table 1.1 from different perspectives, there is no clear definition or consensus on one definition. Therefore, different commonly accepted and used definitions of privatization are given in the following paragraphs.

Table 1.1 Definitions of Privatization		
No	Author	Definition
1	Cowan, 1990:6;Suleiman and Waterbury, 1990:4	Transfer (sale) of public assets, including enterprise, to the private sector. It may be a complete or partial divestiture.
2	same	Transition to private law legal form, as when formal separation from the public administration is accomplished.
3	Hanke, 1978: ix)	Transfer of public production tasks to private firms (i.g: contracting out)
4	same	Transition of state corporations to private business management, in the sense of profit – oriented management
5	same	Extension of the margin of autonomy for the management of public enterprises
6	same	Debureaucratizaion in the sense of freeing formal provisions and administrative instructions.
7	same	Decentralization (less in the geographical sense, more in the general sense of delegation of authority to decide, plan, and act)
8	Ramanadhan, 1991: 232-3	Marketization or submission of public enterprises to the same conditions under which private firms operate or marketization.
9	Key and Silberston, 1984:8-16)	Promotion of competition by market process with goods supplied by public enterprises.
10	Heald and Steel, 1986: 282	Dismantling “ natural” state monopolies by allowing more than one enterprises in the industry
11	same	Adaption of wages and working and employment conditions to those of the private sector
12	Starr,1989	Unilateral reduction of the nature and scope of public services
13	same	Privatization of public resources, meaning the use without payment of without covering costs of the productive forces of the SOE (e.g. free supply of know-how created by the SOE to profit-oriented producers in the private sector).
14	same	Privatization of public revenue (e.g. providing incentives of any king to business activities)
15	same	Denationalization, meaning (a) to submit domestic state firms to the participation of domestic public firms in the foreign market or (b) to permit the take-over of state firms by foreign capital.

Djamhari (1997)

The privatization concept was illustrated by Adam Smith while discussing famous companies of that time, such as the Dutch East Indies Company and the British South Africa Company. As a new concept, privatization was defined by Adam Smith as an activity, function or organization transfer to the private sector from the public sector (Cowan, 1990).

According to Starr (1988), the term privatization did not gain wide circulation in politics until the late 1970s and early 1980s. With the rise of conservative governments in Great Britain, the United States, and France, privatization has come primarily to mean two things: (1) any shift of activities or functions from the state to the private sector; and, more specifically, (2) any shift of the production of goods and services from public to private. The first, broader definition of privatization includes all reductions in the regulatory and spending activity of the state. The second, more specific definition of privatization excludes deregulation and spending cuts except when they result in a shift from public to private in the production of goods and services.

Starr (1988) argued that four types of government policies can bring about such a shift. First, the cessation of public programs and disengagement of government from specific kinds of responsibilities represent an implicit form of privatization. At a less drastic level, the restriction of publicly produced services in volume, availability, or quality may lead to a shift by consumers toward privately produced and purchased substitutes (called "privatization by attrition" when a government lets public services run down). Second, privatization may take the explicit form of transfers of public assets to private ownership, through sale or lease of public land, infrastructure, and enterprises. Third, instead of directly producing some service, the government may finance private

services, for example, through contracting out or vouchers. Finally, privatization may result from the deregulation of entry into activities previously treated as public monopolies. These forms of privatization vary in the extent to which they move ownership, finance, and accountability out of the public sector. The spectrum of alternatives runs from total privatization (as in government disengagement from some policy domain) to partial privatization (as in contracting-out or vouchers) Starr (1988).

In cases of partial privatization, the government may continue to finance but not to operate services, or it may continue to own but not to manage assets. Privatization may dilute government control and accountability without eliminating them. Where governments pay for privately produced services, they must continue to collect taxes. Privatization in this sense diminishes the operational but not the fiscal or functional sphere of government action. By putting the delivery of services into the hands of a third party, governments may divert claims and complaints to private organizations, but they also risk seeing those third parties become powerful claimants themselves. Whether this sort of partial privatization achieves any reduction in government spending or deficits must necessarily be a practical, empirical question Starr (1988).

Savas (1987) provided another definition of privatization as any change that takes place over the ownership or activity of the assets that decreases the role of government in it and increases the role of private owners. This definition was seconded by Steve H. Hanks (1987) and Van de Walle (1989) who considered privatization as a service, control or ownership change from the public sector to the private. There are many other definitions of privatization based on the same concept.

The concept of privatization spread rapidly globally and was adopted by many countries. However, the reason behind this widespread adoption is still unanswered. In order to determine the answer, the advantages of privatization need to be evaluated. In addition, the companies involved with privatization need to understand its objectives and the motives behind its adoption.

Djamhari (1997) stated that privatization needs to be established on reasonable motives and objectives that all the concerned parties clearly understand, instead of treating it as a dogma, which is not always the motive. This statement presents the need to explore the reasons behind the privatization decisions, as Djamhari (1997) proposed that understanding the motives behind privatization can add valuable insight for the privatization of SOEs, the objectives to be followed, the adoption of methods and the expectation of the results.

There are many reasons for opting for the policy of privatization, such as the potential benefits that may come as part of the policy as well as the macroeconomic reform package that it offers along with other stimulating components for a country's economy in the form of improved products and services, investment, increase in capital or access to foreign markets. According to Kikeri et al. (1992), privatization is considered as a strong policy that can bring more improvements compared to the SOEs, such as removing excess labor and thus increasing economic competition. The authors also cite that the reason governments pursue privatization is because of international lending and/or international agency persuasion or pressure, which, if the governments follow, may allow them to increase the international funding or get new loans (Leeds, 1991).

In addition, Poole (1988) provides another reason for opting for privatization in that the governments become too big to handle the activities, which leads to bureaucracy and lowers the efficiency. In evidence, Poole provided the example of England and the USA in which because of the tax revolt in various USA States, the need for privatization occurred to deliver the needs of people at less cost. The reason given for privatization in England was the increasing costs of the Government, which after the adoption of the privatization concept were seen to decrease. Thus, Poole viewed privatization as a means of lowering the costs as well as increasing economic efficiency, which is the main difference between public sector motivation and private sector motivation not just in theory but also in practice, as evident from different countries including the USA, Australia, Japan, Singapore, Canada, England, Malaysia, France and so on (Poole, 1988).

Kikeri and Shirley come to result that the ownership of an enterprise is a vital component in the activity of the enterprise in the developed and developing countries. The SOE's experience of the profitable activities is difficult to achieve because of the political interference, financial crisis and SOE's high budget, which caused these countries to adopt privatization as part of their solution (Kikeri et al., July 1992).

According to the study of the Development Research and Policy Analysis Division (2001), there are many reasons that encouraged governments but restricted SOEs to choose privatization. First, the enterprises operating under the privatization flag will ultimately cause an increase in the social welfare status of the country. Second, the SOEs financial problem can be resolved. Third, the crisis of the 1980s was a major concern globally, which led to the opting for privatization. In addition, another reason for the adoption of privatization is given as the pressure by the World Bank and IMF on

the developing countries to improve their political and technological situation, especially in the socialist communities. Lastly, the ideological perspective of privatization on which it operates is assumed to enhance the efficiency compared to SOEs. In a study conducted by Arin and Ulubasoglu (2005), they stated, with evidence from Turkey, that the concurrence of the evolution of privatization and its growth provide major reasons behind the adoption of privatization, such as growth in jobs, economic efficiency and so on. Even though many reasons are given for the adoption of privatization in various countries, there is a consensus among all of them regarding the efficiency of privatization to resolve the economic problems faced by them.

1.3. Privatization in developing countries

Privatization has proved to be an important component of the state policies in the developing nations since the 1980s. By means of these privatization schemes, the state intends to increase the performance of the SOE sector, reduce the financial load on the SOEs and to make the capital markets dynamic. Depending on the particular targets set by the state, the privatization procedure has adopted various forms, differing from one country to the other. Although the case of every country is different, some of the common features that are present in all privatization schemes include ways of privatization and the prevalence of incomplete divestiture and slow or declining sales. Various other characteristics of the privatization schemes in third world countries include the restrictions with regard to the ethnic balance and the state of the capital markets. Each of these factors alters the process of privatization in a specific manner. The perceived sequence in the privatization schemes of the third world countries will be discussed next.

1.3.1. Preparation of privatization

Initially, there appears to be a prevalence of incomplete privatization. Undeniably, some countries (like Mexico and Chile) carried out a complete privatization scheme on a wider scale. The other prominent features of privatization, either complete or incomplete, is that it took place in most of the countries having slow or declining sales in the cases where consecutive stakes of the state ownership are put on sale. Two propositions were developed by Perotti and Guney (1993) to describe these slow sales:

- (1) A restricted capability of the capital market
- (2) A tactic for maintaining the reputation of the government, which is selling an enterprise wherein there is a readiness to preserve a marginal stake and to tolerate the remaining risk.

They regard that their casual assessment of the evidence seems better than the next explanation. Perotti (1995) built a model according to which privatization sales must be slow (while acquiring quick control transfer) in order to take full advantage of the shareholders' trust on the state policy risk. It is claimed by Jones, Megginson et al. (1999), that privatization will be carried out in phases if the first obvious worth of SOE, depending on its previous performance, is less as compared to its intrinsic worth.

1.3.2. What method should be adopted

When talking about the ways to carry out privatization, they are generally decided by the goals of the state and the specific requirement of the country.

Privatization has been carried out in various methods by different countries. For example, Chile, South Korea and Singapore achieved it through making dealings and

sales of their shares to the public so that they acquire a wider range of their ownership. However, in the case of countries like Malaysia, the privatization of investors is gained through the properties and shares of SOEs being sold to them. This results in the production of various forms of ownership structure.

Sader (1993) highlighted the great increment in the value of direct sales by 58% and 80% in terms of the transactions made. This result was observed between 1988 and 1993 due to the high rate of privatization going on at that time. As an example, this direct sales' trend is highly observed in sub-Saharan Africa, which is their major means of privatization. This trend in this area showed the following outcomes:

- Less worth of assets and properties
- Local capital market remained underdeveloped
- Downsizing and closing of organization and sold assets resulting in a high rate of privatization.

However, in some circumstances the joint venture of private sales and public offerings are observed. For example, Latin America and Turkey offer their shares, to be sold, to both main investors and public. Similarly, *Bumiputras* in Malaysia perform these sales to public along with social groups. Another trend is seen among African governments who enhance the performance of their SOEs through privatizing their management rather than spreading their ownership. Several African government do so by privatizing contracts, leases and concessions of their organization. This contracts' privatization is mostly popular in Africa and the hotel industry, as depicted by the World Bank (1995). Concisely, it is observed that different and a wide-range of types of privatization are adopted by various governments.

1.3.3. What should be privatized?

Galal et al. (1994) argue on the sales of assets or market shares and rather imposed on the sales of competitive enterprises. According to them, competitive enterprises are of less importance and small compared to domestic sales or imports. By doing so, the following two factors can be avoided:

1. Sales of those enterprises cannot exploit the market power.
2. There will be no difficulties regarding post divestiture regulation.

Competitive bidding is viable because, as compared to the factor market, they are small. In addition, the problems of setting the prices and dialogues can be circumvented. Frequent alterations in performance are also likely because of their absolute small size.

Most of the developing countries, except Chile and South-East Asian counties executed these policies at the start of their privatization process. Malaysia, Thailand, Singapore considered ports, utilities, airlines, etc., to be privatized at first. Public utilities and other public services, in many other countries, have been categorized in the strategic category. As a result, their strategic enterprises have either been not included in the privatization programs (as in Tunisia) or private investors are given permission to own shares in these firms while the state keeps the voting control to itself (as in Brazil). It has also been observed that in some countries (like in Turkey), minority shareholdings are being sold. These are the firms in which the government does not hold most of the shares. This is one method of generating more revenue while at the same time reducing the stake in the company.

Most of governments in Africa benefit from privatization by shutting down enterprises that are making losses and by generating profits in the short-term. This is why only those enterprises and sectors that are not earning a good profit that would require huge downsizing are considered for privatization in Africa and why the majority of the countries have only privatized minimal or SOEs that are not politically noteworthy. SOEs that are small and medium sized in manufacturing and services are most likely for privatization (Tanyi, 1997).

1.3.4. Capital markets development

It can also be judged by the development of the capital markets in a country which privatization methods can be implemented, for example, in thin stock markets the customary public offering of shares is not practicable. Private sales of SOEs to local and foreign investors, in such a case, become the main method of divestiture (Berg and Shirley, 1987). Privatization assists in the development of capital markets, which has actually been seen in countries like Chile, Jamaica and South Korea. These countries, because of privatization, increased their number of shareholders and total market capitalization. For countries whose capacity to absorb is frail compared to the size of the privatization sales, it has also resulted in delays and new private share issues starting to crowd out. In the case of developing countries that have weak capital markets and the application of regulations is poor, the privatization history shows that in such a case the sales of stock market are not a good option (Kikeri et al., July 1992).

In sub-Saharan African countries, the issue of limited and nonexistent capital markets is big. Some of the countries have been developing their capital markets, which obstructs voluntary private market financing and private sector development. Factors,

such as unfavorable macroeconomic conditions, the poor supervisory environment and the unwarranted government intrusion in the private sector activity, increases decision-making incompetence. This is why Africa's private sector is so volatile, and why investors have less wealth, which makes them more prone to risk and so they hold short-term deposits instead of investing in corporate securities. They become less prone to risk when per capita income and investor's wealth increase, and then they want to branch out their assets (Tanyi, 1997).

1.3.5. Ownership structures

Privatization decisions heavily rely on ownership structures in the case of several developing countries. The government's objective for controlling groups with a strong economy might not be linked with the actual concentration of entrepreneurial expertise and domestic private capital. These economically strong groups comprise the urban elite class, political groups, economic dynasties and some ethnic groups consisting of Indian Africans and Chinese Malays. Ethnic groups are sometimes excluded, or, at the time, favored for taking part in privatization by several governments. Some countries, like the Philippines and Mexico refrain from engaging foreign investors due to certain social and political reasons. This, however, deprives the countries from gaining immense technology, market, and new capital from foreign ownership. Therefore, in countries like Mexico and India, such restrictions on foreign investment have been lifted in many cases and only made applicable in certain firms, as in Nigeria and Jamaica. The SOEs that are relatively large in size and possess a large domestic capital market were generally allowed for foreign participation in privatization (Galal et al., 1994).

Recolonization has made the participation of foreign investors in Africa to be a crucial and sensitive issue. The governments are reluctant to deploy privatization policies due to the reason that privatization has already altered the dynamics of wealth. Privatization can worsen patronage on the basis of ethnicity, which will further lead to socioeconomic inequalities across the population (Dinavo, 1995). The ruling elite or ethnic groups who tend to be the potential buyer in newly privatized firms are the core factor slackening the use of privatization. For example, the economically strong yet politically disadvantaged religious or ethnic groups comprising of Senegalese, Indians and Lebanese rule the western part of Africa while Indians in East Africa form a disproportionate group of potential buyers (Dinavo, 1995).

The workers who have gained benefit from the employee stock ownership scheme in Taiwan, Malaysia, South Korea, Portugal, Mexico, Chile, etc. form another recurrent participative group in the ownership structure of the majority of privatized firms. The research study by Galal, et al. (1994) shows that considering forced retirements and layoffs in divested firms, their workers are not that much worse off. In order to ensure support for privatization policy, foster its productivity and cater for the less favored with wealth and incentives, most of the governments allocate shares ranging from 5 to 20 percent on easy credit terms and reduced prices for the employees.

1.4. Privatization in MENA countries

In order to improve the pace of investment within the private sector, MENA countries (Middle Eastern and North Africa countries) relied upon deploying privatization programs. However, compared to East Asia and Latin America, privatization of SOEs in MENA has taken place at a slow pace although the region's major economies were

provided with privatization programs since the early 1990s. This can be attributed to the fear of job losses and low interest involved. Moreover, the issue tends to be due to the inconsistent and slow implementation of reforms. MENA possessed less than a 3% share in the privatization transactions of developing countries during the period of 1990 to 1998. Not only this, the region has also been left behind in catering for new projects relating to the private provision of infrastructure (PPI) and MENA, which only had 4% of all the PPI projects spread around the world by the end of 1998.

Morocco, Kuwait and Egypt took drastic initiatives for deploying privatization in the 1990s. Their footsteps were also followed by MENA countries; however, they were unable to accomplish privatizations comparable to the level defined by their potential capabilities. The governments' intentions pertaining to privatization methods, sale conditions and types of enterprise for sale were considerably affected by the failure and success of these initiatives in specific countries and is becoming a burning issue for them (Page 2003).

The majority of the Arab nationals possess valuable assets and are interested in investing them in Arab states as they are closer to their homes. This is a major driving force in making privatization programs successful in MENA States compared to other developing regions of the world. The assets possessed by the Arab national tend to be more valuable to the people outside the region. Not only this, in some countries, the savings of the nationals exceed their GDP as well. The recent spike in prices of oil manifests private investment to be more resourceful as MENA States are engaging in private capital from GCC nationals. The FDI and non-Arab investment also helps (Page 2003). Reforms need to be much more focused and consistent and must be introduced at an accelerated pace for making MENA States compatible in the global economy (Mitha,

2007). The reduction of political and institutional barriers and deregulation can be instrumental in attracting private investment in MENA States and making MENA States more focused towards privatization (Sala and Artadi, 2003).

Although current privatization initiatives are aimed at integrating private firms and industries in the whole economic rehabilitation process, private firms have a great potential for taking the progress to the next level by refining the effectiveness of the region and providing an ample amount of jobs in the future to ensure an augmented work strength. This is actually something that government agencies like MENA can never do.

The Gulf States are largely dependent upon their oil exports; however, they have some of the most competitive private sectors in the world that can be quite helpful for other Arab countries to follow. For example, the United Arab Emirates embraced significant development through non-oil trade that accounted for 70 percent of GDP in 2000 and preserves the lowest redundancy ratio in the whole region, which is about 2.3 percent (Yousef, 2004). The primary reasons why these simulations from the Gulf States are not easily replicated in the other parts of the Middle East are the slow speed of policy designing, discouraging atmosphere for the business that undermines the enterprise system, governmental restrictions on investment, the complications in the process of conforming to guidelines, fragile execution of property rights and mistreatment (Yousef, 2004). Furthermore, government banks rule the financial reforms agenda, which, in general, supports nationalized enterprises, superior industrialized organizations and offshore enterprises; which, resultantly, makes it problematic for entrepreneurs to invest easily and secure their start-up capital (Yousef, 2004).

The member States of MENA are working closely towards modifying the rules of engagement to create an investment friendly environment to motivate more FDI entries. Some of the latest reforms include new or restructured investment legislation, incentives, such as tax and custom obligation disruptions, comfortable limitations on foreign possession restrictions, denationalization and capital market restructuring (Cornelius and Warner, 2003). Nearly every Arab State approved and designed some sort of reformed shape of corporate and investment law to encourage foreign investment in the country in 1990s.

Saudi Arabia, Qatar, and Kuwait went for a change in legislation process by uplifting the ban and restrictions on overseas possessions (Cornelius and Warner, 2003).

Table 1.2 IPO transactions and values in the Middle East and North Africa, 2000-2007 (US\$Million)									
Number of countries with privatization					12				
Total number of transactions					107				
Total amount (US\$)					28,262				
								Total	
Economy (US\$ millions)	2000	2001	2002	2003	2004	2005	2006	2007	2000 - 2007
Middle East & North Africa	3,243	666	339	2,084	3,338	4,155	11,047	3,390	28,262
Algeria	7	369		360	421	223		161	1,541
Egypt	308	207			52	2,171	7,582	310	10,630
Iran						350			350
Iraq								1,250	1,250
Jordan	568	20	112	173	2	55	319	556	1,805
Lebanon						236			236
Libya								205	205
Morocco	2,110			1,551	2,616	147	650	847	7,921
Oman						852			852
Syria		70							70
Tunisia	230	227			247	121	2,282	61	3,168
Yemen	20						214		234

Source: Steytler 2009

Qatar approved a new law in 2000 agreeing 100 percent foreign share proprietorship in nominated sections, such as agriculture, industry, health, education and tourism, which has increased from the preceding cap of 49 percent (Cornelius and Warner, 2003). This allowed the foreigners to own the bulk of stock in the more profitable sectors of the economy that will also appeal to investment that was quite absent in the MENA States, courtesy of these legal limitations. Other nations, like Bahrain, Egypt, Lebanon, Jordan, Morocco and the United Arab Emirates offered quite handsome inducements for foreign investors, which included free-trade regions along with the introduction of special privileges for the overseas investors (Cornelius and Warner, 2003).

Most of these States also introduced a new version of the law that uplifted any previous ban on any firm from operating in there. Out of those countries, Morocco and Lebanon were the forerunning States with almost zero restriction on external investment in the country, native content, local jobs and capital deportation (Cornelius and Warner, 2003). GCC States have some national labor requirements and land possession limitations to GCC residents only, but there is no local version of the law that imposes any restriction on capital deportation for outsiders (Cornelius and Warner 2003). Other than that, Tunisia and Egypt have some native legal framework necessities to given sectors and there are also capital return limitations; however, there is no difficulty in managing it. This is totally the opposite to the case of Syria as there are extremely compelling deportation limitations while local content and labor laws are almost absent. (Cornelius and Warner, 2003).

In recent years, there have been extensive reforms in the stock markets in Morocco and by transferring its stock market; it has regained its status of being the most dynamic country in the Arab nation (Cornelius and Warner, 2003). Other less active capital and stock markets can be found in Tunisia, Jordan, Lebanon, Egypt and GCC States while Syria is scheduling to have its stock market operative in 2007 (Cornelius and Warner, 2003). North Africa is moving ahead of the rest of the Arab States by executing the legal provisions concerning the creation of new financial tools, such as undertaking capital and private equity reserves (Cornelius and Warner, 2003).

These reforms and the changed set of rules can play a vital role in not only developing local capital markets but will also provide an essential legal framework in the establishment of competitive institutions that are the need of the hour for MENA States. They need to strengthen such institutes to accelerate economic activity, create new jobs and regularize the local capital and financial market while encouraging global community to invest in the system, (Cornelius and Warner, 2003).

The other side of the story is that from 2000-2007, the Middle Eastern and North African countries generated over \$28.3 billion privatization capital in 12 countries involving 107 deals. In the regional privatization capital, Libya and Egypt grabbed 28 and 38 percent, respectively, while Algeria and Tunisia generated, 5 and 11, percent correspondingly. According to table 1.2, the overall value of the region depreciated by 70% and came down to \$3.4 billion. Additionally, the transactions came down to 33 in 2006 and 20 in 2007. The year 2007 was quite interesting as two new countries were inducted into the privatization; Iraq came with \$1.25 billion through selling a 15-year telecom license and Libya with the sale of the Sahara Bank worth \$205 million.

In the privatization game, Egypt was the forerunner in the number game by making 48 deals. On the other hand, Tunisia and Jordan made 14 deals each in the same period that came under consideration. At the start of 2000-2002, the privatization activities went down; however, in 2006, the campaign again was kicked off to reach the level of \$11 billion. The major contributor in whole privatization process, the Arab Republic of Egypt faced a serious financial setback owing to its internal problems as its value shrank from United States dollar \$7.6 billion to just US \$310 million by 2007. It was primarily owing to the public resistance to the program that the government had to stop it (Steytler, 2009).

CHAPTER TWO: PRIVATIZATION IN YEMEN

2.1. INTRODUCTION

Mohd. Nur (2003) stated that over the last four decades, the developing countries have faced many economic problems due to the policy of privatization, which has been widely adopted by the said countries to solve the economic issues. Privatization has been given high importance because it is assumed that the policies of privatization cause improvement in the performance of the organizations.

The topic of privatization is discussed for the improvement of the public sector and reforming perspective in developing countries, and, especially, in the Republic of Yemen, specifically, in the role of establishment and corrective action to the state.

The structures of this chapter are; Yemeni studies of privatization, background of Yemen which will discuss the macroeconomic, policy of Yemen with specific to policy of privatization, reasons behind privatization in Yemen, privatization process, status of privatization process, problem statement, objective of study, scope of study, and limitation of study.

2.2. Yemeni studies of privatization

Some studies discussed the privatization in Yemen highlighted the experience of developing countries compared to the experience of Yemen in the area of privatization. Many recent studies (al-Sayani, 1996; Ismail, 1998; Al-Saidi, 2002; Habtoor, 1997; and Al-Rubaie, 2001) choose and follow secondary sources in data collection and primary data also used. This section will give a brief discussion of these studies.

Dr. Mohammad Abdullah Al-Sayani from Yemen carried out a research by the name of "Privatization as a policy to curtail the role of the state and the transition

towards a market economy" in which he dealt with the problem of economic systems and privatization for a market economy from an economic point of view. A separate section was devoted to the progress in the economy of Yemen; demonstration and investigation and the assessment of the state-owned organizations and the issues they are encountering. He came to the conclusion that there is a need to follow the process of privatization by means of careful and slow steps and then carry on with the evaluation of the conditions of the organizations that have been privatized and look for the dedication of the new heads of those organizations in performing the duties that have been decided upon (al-Sayani, 1996).

Mohamed Ahmed Sayani's research by the name of "Accounting evaluation of enterprises to be transferred to the private sector", lays emphasis on the privatization from the viewpoint of accounting by selecting the best manner to evaluate the assets of the organization, which were to undergo privatization. The research emphasized numerous valuable findings that are helpful in assessing the worth of the organization (Alsayani, 1996).

The research by Ahmed Osman Ismail by the name of "The economic impact of the experience of specialization in Yemen", focused on two field studies – the clean-up project of Al-Thawra General Hospital and the clean-up project of Sana'a. The research indicated the pros and cons faced after the privatization of these projects. The results show that progress is seen in the working of these projects followed by the privatization process and the unfavorable factors arising from the dismissal and demobilization of the work (Ismail, 1998).

The research by Mohammed Yahya al-Saidi having the title "Administrative perspective of privatization and the extent of his success in the Republic of Yemen",

lays emphasis on the cases identified in relation to the privatization of several state-owned tourism companies, which were privatized in Yemen. It centered on the supposition that effectiveness of administration and its influence on the wide-ranging achievement of the privatization program is closely linked. Moreover, he debated the part played by the Legislators in offering effective solutions for the majority of the issues. He came to the conclusion that the state-owned companies suffer from low productivity and capacity in administration along with the failure of the administration to accomplish the goals set for the project. Nonetheless, according to Al-Saidi, this exhibits a certain visible advancement in the administration, working and service (Al-Saidi, 2002).

The study conducted by Dr. Saleh Bin Habtoor entitled "Managing the privatization process and its impact on the economies of the Arab World" emphasized the methods of handling privatization and the methods for applying it. He considered it mandatory to work hard in order to reinforce the ability of States to effectively handle the procedure of privatization. For this reason, an appropriate organization should be selected, which requires restructuring, handling of complicated business dealings, appropriate choice of techniques for execution, recognize partners for the private industries and an assessment following the process of privatization. The researcher later studied the instances of various Arab countries in the context of privatization and the impact of executing such policies. The research identified that the effect of privatization was quite visible on the Arab economies but differed between countries. The research concluded that not all the influences of privatization on Arab economies could be recorded as the research did not deal with all the aspects (Habtoor, 1997).

A research conducted by Abdo Mohamed al-Rubaie, having the title "Privatization and its impact on development in developing countries (concerning reference to the

experience of Yemen)", debated the instances of privatization in several developing nations and highlighted their favorable and unfavorable instances. He came to the conclusion that as a result of privatization, the debt of certain developing countries (like Yemen and Egypt) has diminished but the debt of several developing nations is still on the rise. The research identified that privatization presents one of the most significant aspects of globalization in which multinational companies regarded privatization as a tool to penetrate the markets in the developing nations opening a gateway for investing their finances in the privatization. The research also came to the conclusion that the privatization rule has resulted in greater joblessness and an ever-increasing progression of poverty in developing countries (Al-Rubaie, 2001).

The principles of capitalism socialize the open economy, which was introduced by privatization policies. The collapse of other economic systems and the backbone of this system allow completion of provision positively, which is essential in setting capitalism to rule the world and international financial institutions to execute as a system to develop and carry out the rules and tactics for capitalist countries.

This study favors a broad structure to enlarge the control of multinational companies that becomes weak in the features of rising countries and societies, traditions, customs and beliefs to succeed on a comprehensive world power and slowly show the way to be missing from the institutions and international organizations decentralized to single national authorities and local government, which is legally needed to choose an appropriate direction for the completion of plans in the investment and then manage economies of developing countries through globalization by the help of capitalist ideological globalization.

2.3. Background of Yemen

2.3.1. Macroeconomic Review

Yemen's successful development took place due to the unification of the country in 1990. North Yemen or the Yemen Arab Republic operating under capitalism became a lower middle-income country by 1990. The Yemen Arab Republic derived a gross domestic product (GDP) of seven times larger, with a population almost four times the size and almost 50% greater GDP per capita than the People's Democratic Republic of Yemen (South Yemen). Before the unification of Yemen in 1990, the smaller and inferior South Yemen had its power in better health, education and gender outcomes due to the 23 years of socialism. The weak foundation of south Yemen before its unification is the main reason for some of the key problems. Legacies of the socialist period of South Yemen caused major issues in the claiming of lands. Comparatively, the northern part of Yemen suffers more from the issues in improving health and gender outcomes. Yemen effectively suppressed a civil war after unification in 1994, which was managed with the return of 800,000 Yemenis working in other countries. They also battled different economic upsets, such as interrupted flows of payments, unstable oil prices and deferral of foreign aid. Internal security problems are always a risk for Yemen (Al-Asaly, 2001).

The high risk of internal disagreement and weak institutions caused major damage to Yemen, and constituted the main issues stopping Yemenis from developing their country. The United Kingdom Department for International Development, which is a vital mutual donor for Yemen, has marked Yemen as a weak State since January 2005, even though Yemen hardly ranked above the group of low-income countries by the World Bank. In a list of failed States compiled by a Foreign Policy magazine,

Yemen ranked eighth in the overall list of 60 countries, which is identified as a weak State, emphasizes its issues in commencing and maintaining sound economic and social policies. A more selective and reforming approach has been suggested to Yemen's development partners because of this difficult working environment (Freeman, Hurlbut & Pereira, 2004).

With major economic growth staggering and democratic institutes slowly finding their footing, it is clear that Yemen's prospects are still questionable. There is a promising new democratic tradition starting in the country, which involves multiple parties. This tradition was helped by the energetic but tightly reigned press (Yemen's press has been rated as the third worst press within the Middle East and North Africa region). Yemen has taken small but steady steps towards democracy by holding three multiparty parliamentary elements (1993, 1997 and 2003) and the first ever direct presidential elections in 1999. Another strong instrument for the decentralization of elected councils at the district and governorate level was passed as local authority law in 2000.

Up to 1984, Yemen's main sources of foreign exchange were worker remittances and foreign aid. It was after discovering oil in 1984 that Yemen's main source of foreign exchange shifted to oil and holds 90 percent of total merchandise exports. However, the fact of the matter is that, given Yemen's current rate of production, their oil sources will be consumed completely within eight years. In the same way, scarce water sources are being grossly overexploited. Yemen's demographics only serve to make the country's natural resources situation more dire. When you combine population increase (3 percent yearly) with high birth rates (six children per woman) and an increasing labor force contribution (particularly rural

women) the Yemen workforce is increasing at the annual rate of 3.8 percent. The harsh reality of the situation is simple; with the impending water crisis on the horizon and when their oil supplies finish, Yemen will not be able to support their present growth rate in the agriculture sector. Unless the non-oil related sectors are encouraged to grow, a brain drain is imminent.

2.3.2. Policy of Privatization in Yemen

It was clear from the beginning, that there was an attempt to establish more liberal political and economic systems. The new constitution, which was rectified in 1992, gave way liberalizing Yemen economic and political systems. In particular, it allowed for establishing political parties labor unions and private enterprises.

Article no. (5) Of the Constitution stated that as follows:

“The political system of the Republic of Yemen is based on political and partisan pluralism in order to achieve a peaceful transformation of power.

The law stipulates rules and procedures required for the formation of political organizations and parties, and the exercise of political activity.

Misuse of governmental posts and public funds for special interest of a specific party or organization is not permitted”.

As result of that, the number of political parties increases dramatically to reach over 40 parties. Two parliament elections were hold in 1993 and in 1997. In additional to that a contested presidential election and local election were preformed in 1999 and 2000 respectively.

The Constitution also primates establishing social organizations and associations. Article (57) states that "In as much as it is not contrary to the Constitution, the citizens may organize themselves along political, professional and union lines. They have the right to form associations in scientific, cultural, social and national organization in a way that serves the goals of the Constitution. The state shall guarantee these rights, and shall take the necessary measures to enable citizens to exercise them. The state shall guarantee freedom for the political, trade, cultural and social organizations".

After unification, the economy became more open. It is stated in the Permanent Constitution "the national economy is based on freedom of economic activity which benefits both the individual and society and which enhances national independence. The national economy should be founded on the following principles:

- a. Islamic social justice in economic relations with aims at developing and promoting production, achieving social integration and equilibrium, providing equal opportunities and promoting higher living standards in society.
- b. Lawful competition between the public, private, cooperative and mixed economic sectors, and realization of equal and just treatment in all sectors.
- c. Protection and respect for private ownership, which cannot be confiscated unless necessary in the public interest, in lieu of fair consideration and in accordance with law." (article, 7)

In addition, Article (10) says, "the state shall sponsor foreign trade and promote internal trade and investment in a way that serves the national economy. The state shall

issue legislation that guarantees protection for producers and consumers, availability of basic commodities, restriction of monopoly and shall promote, according to the law, private capital investment in all socio-economic development fields and in accordance with law". These changes in the Constitution opened the door for privatization especially in the south where most of public enterprises are located. In this environment, the privatization process was born in Yemen. Despite of the adoption of these principles, the economy of the new state inherited almost all economic problems of two formal states as well as new economic problems of new state, which put some constraints on the privatization process. It has moved slowly due to several factors (Al-Asaly, 2001).

The first factor was the high cost of unification, which caused public expenditure to skyrocket tremendously during the period of 1991- 1994. It reached amount of Y119.88 -13824 in 1995 compared to Y44.07 billions in 1991. Some of this expenditure represented the cost of hiring new public employment for political reasons. The Total public employment increased from 182915 employees in 1991 to 304171 employees in 1994. In this environment, it did not make sense to fire public enterprises employees because of privatization process (Al-Asaly, 2001).

In 1994, civil war interrupted which caused a complete cease of privatization process. Moreover, defeating of Yemen Social Party did not result in resuming privatization process as it was expected. The victorious rolling party, GPC, moved cautiously toward privatization fearing of angering the supporters of YSP The third factor was the distortion of new laws after, regulation and institutions during the unification process and followed civil war. The joint committees, which were responsible for drawing the new constitution, laws, and regulations, did not have much

time and enough authority to come up with appropriate and consistence laws and regulations. Therefore, they added the two formal states constitutions, laws and regulations into the new state constitution, laws and regulations.

A decade after the 1990 unification, Yemen was able to reach a good annual GDP growth rate (near 5.2 percent) and a fair 2 percent per capita growth rate. The unification of Yemen (North and South) helped increase the market size. In 1994, fresh oil wells were made, which helped increase oil production by a staggering 80 percent. Thanks to a hugely successful macroeconomic stabilization and reform program, which was introduced in the latter half of the 1990s, subsidies were reduced, and reforms in the financial sector, controlled inflation, combined the exchange rate and liberalized trade. Within the years 1995-1998, economic growth was at its peak (World Bank, 2002).

The latter half of the 1990s also saw a significant improvement in most aspects of governance (four from six) and a marked reduction in internal disagreements, which helped bring in more domestic private investment. Foreign direct investment did not play a supporting role. With a traditional approach towards trading and an undersized manufacturing base, Yemen's economy focuses more on services and accounts for nearly 50 percent of the GDP. It was hospitality, trade and transport within the services sector that helped contribute to the overall growth rate. The unification of Yemen also helped improve the rate of flow of goods, products and people between both regions. As the country stabilized under the program set by the International Monetary Fund (IMF), the fiscal deficit for that period also began to slowly but steadily reduce. Therefore, we

can see that majority of the country's growth stemmed from private sector investment (Al-Asaly, 2000).

After 1999, there has been a steady decline in the GDP growth rate. There have been many reasons why the Government has been unable to keep up its rate of reforms: the start of antigovernment sentiment and rebellion in many parts of the State, and money in from the rapid increases in oil prices post 2000. In this period, there was also a deterioration of good governance. A number of reform initiatives never managed to pick up: introduction of a general sales tax, reducing petroleum subsidies, the 1999 privatization law was never ratified, slow implementation of civil service modernization and reforms in the health sector, and wavering political commitment towards judicial and legal reforms.

After 2000, the terms of trade were made stronger thanks to increases in the strong oil prices, which helped the GDP average around 4 percent. This helped change the trend of the past decade. Post February 2000, there was an increase in internal conflicts. This preceded the attack on the USS Cole in the same year and turned over the lowering rate of violence of the past five years. In 1999, there was a marked decline in private investment, which continued until it was only 10 percent of the total GDP. This was 50 percent of the average amount during the reform period (World Bank, 2002).

2.3.3. Reasons behind privatization in Yemen

A. Overview of Economic development

All the economic infirmities of the two former States along with the new State have been inherited by the new State economy. For instance, the Second Gulf War and Unification harmed the economy. The unification cost was steeper and during the period

1991 to 1994 the public outflow and expenditure were relatively high, amounting to 44.07 in 1991 and 119.88 in 1995. The direct cost of unification is evident from the increased budget expenditure. The cost of employing new public that were appointed for certain political reasons was represented by the increased budget expenditure.

Moreover, the cost of military spending as well as the political promotion campaign also represented the cost of unification. In comparison to the direct cost, the indirect cost was much more. Although no exact data were available regarding the cost, an estimation can be made about it. According to the government's claim, the total cost of the civil war was around 12 billion Dollars. By adding the cost of human harm and losses to the \$12 billion, we can obtain the total indirect costs, which would be much more.

Distorted and biased new laws, rules and regulations and establishments were the other components of indirect costs. The joint committees, which were given the responsibility for the laws and regulation and unified constitution did not have enough time and right to make the most appropriate and unbiased laws and regulations. That is the reason their works were imperfect, incomplete, contradictory and contained ambiguity as they reunited the institutions, regulations and laws of the two former States.

The national interest and concern was completely overlooked and it made the Government choose a pro Gulf States and Saudi stance because these were the States that hosted more than 2 million Yemeni workers. Furthermore, substantial aid and support as well as loans for development were also given to Yemen by the pro Saudi and Gulf States.

The Government and the IMF generally believed that the massive inequities and imbalances in the aggregate/cumulative accounts caused the economic decline, which became apparent in 1995, when the government actually looked at the economic condition seriously. In order to handle this serious situation, the Government as well as the IMF identified the remedy, which was to come up with a policy and course of action that would enable them to reduce the budget deficit and thus help to stabilize the economy. This would help to bring back the economic growth and prosperity by achieving the equity in accounts. This view is clearly reflected in the policies of free economic reform (Al-Asaly, 2000).

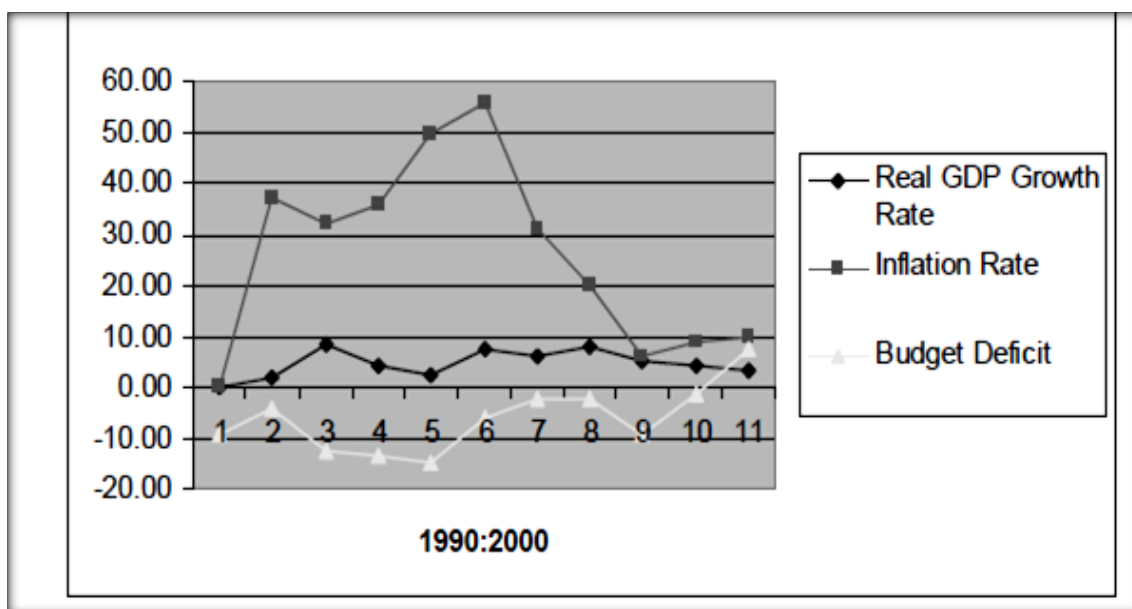
The Government made links with the IMF as well as World Bank seeking their support and aid, which was due to the need for international assistance as well as inadequate local resources. In the negotiations, the opposing parties were not included and the results of the negotiations were productive in a sense that it produced agreements that were significant to economic reform.

Being comprehensive, the reform program comprised restructuring as well as stabilization policies. Measures and stabilization policies were taken to cut down the general expenditure, raise the public revenue and redesign the budget. Limits were imposed by the IMF on its finances as well as on the budget deficit. According to the IMF, the budget deficit must not exceed 3% of GDP. Moreover, the budget deficit must be covered by public borrowing and not by borrowing from Yemen's Central Bank. In addition, the Government decided to reduce the direct as well as indirect transfers, as well as the salaries and wages. As the major revenue is earned through taxes, the

Government had to change the tax code and make an effort to improve the tax collection systems of the Tax Authority (World Bank, 2002).

Figure 2.1 shows the economy's performance during the period, in a summarized manner. This figure measures the economic growth and performance as well as other significant macro variables. According to all economic indicators, during the period 1990 to 1995 Yemen's economy was on the verge of decline. The oil sector's growth was positive whereas the non-oil sectors faced a very low growth. Looking at their growth rates, the real oil GDP grew at a rate of 7% on average, whereas, on average, the real non-oil GDP growth rate was near to zero. The real GDP growth rate was 1.4% on average.

Figure 2.1 Developments in main macro indicators



Sources: Al-Asaly, 2000

If we look at the non-oil sector closely (Table 2.1), we will find that, mostly, the sectors faced either fluctuated or negative growth rates with only some of the service

sectors having a substantially positive growth, however, these growth rates were not stable. That is the reason why the economy did not witness transient shocks and underwent permanent, deep and long lasting structural problems, which left a bad impact on almost all of the economic indicators (Al-Asaly, 2000). In addition, investments were stagnant and there was a decline in the private per capita consumption. Not only the domestic savings were negative but also the national savings were low.

Table 2.1: Macroeconomic Indicators in Yemen, 1991-2000					
Year	GDP growth (%)	Non- oil GDP (%)	Oil Value added (%)	Inflation CPI (%)	Fiscal balance (% of GDP)
1991	2.0	3.2	-5.6	44.9	-3.5
1992	8.3	11.7	-15.4	50.6	-11.9
1993	4.1	4.0	4.2	54.8	-12.8
1994	2.2	-2.3	42.7	71.3	-14.7
1995	10.9	9.4	19.9	62.5	-5.2
1996	5.9	4.5	13.5	40.0	-0.9
1997	8.1	8.2	7.5	4.6	-1.5
1998	4.9	5.4	2.5	11.5	-7.9
1999	3.7	2.9	7.8	8.0	0.1
2000	5.1	4.7	7.2	8.5	7.9
Source: World Bank 2002					

After the conflict and period of unification, although the biggest challenge for the Government was to swiftly grow the economy, Yemen's government inherited an over centralized public sector. This resulted in the dominant, inefficient and over regularized public enterprises and a number of private sector activities were restricted (Freeman et al., 2004).

The condition of Yemen's economy deteriorated and it was not taken seriously by the Government until 1995, when the government realized and made efforts to eliminate the problem. With the coordination between Yemen's Government and the IMF, inequities in the aggregate account were observed and they believed that only free economic policies could bring stability in the economy and further improve it.

Negotiations took place between the Yemen Government, IMF and the World Bank for getting aid and support in order to enhance the economic growth. The negotiations were settled by signing a contract concerning economic reform. The particular elements included reducing the expenditure, raising the public revenue as well as restructuring the budget (Al-Asaly 2001).

The privatization program started in 1995, in Yemen, with the help of the IMF and World Bank. Privatization was found to be a significant factor in economic reform that targeted on privatizing 70% of the State owned enterprises (SOE) employment by 2000. However, the large ventures remained under the control of the Government (World Bank 2002). Although the program moved at a slow pace, by 2007, more than 100 ventures were privatized.

B. Weak Performance Of Public Sector

Unification of the North and the South in 1990 resulted in the consolidation of systems that were so apart, resulting in the duplication of functions at the greater civil service. The end of the Gulf War meant the return of around 800,000 Yemenis from the Gulf who had to be absorbed into the already full Government offices. In addition, the economic agitation of 1990-1995 ended in a very low salary for the civil service, with large and not-so-well qualified personnel being in office.

Table 2.2: Social Indicators in Yemen and Comparator Countries, 1970 and 1996				
	<i>Yemen</i>		<i>Comparators countries[#]</i>	
	1970	1996	1970	1996
Gross Primary Enrollment(% of age group)	41	53	55	72
Gross Secondary Enrollment(% of age group)	8	23	9	21
Adult Illiteracy(% of population 15years and above)	90	62	79	54
Access to Safe Water(% of population)	5	52	na	42
Life Expectancy* (years)	39	54	44	49
Infant Mortality Rate* (per 1000 live births)	186	98	155	106
Source: <i>Country Assistance Review</i> , Operations Evaluation Department, World Bank, Report No. 19030, 1999. For (*), 1998 figures from Yemen At-A-Glance. ([#]) average of Angola, Bangladesh, Burkina Faso, Burundi, Chad, Congo Dem Rep, Ethiopia, Guinea-Bissau, Haiti, Kenya, Madagascar, Malawi, Mali, Mozambique, Nepal, Niger, Nigeria, Rwanda, Sierra Leone, Uganda, Zambia.				

Parallel to this, planning of the expenditure and revenue was not properly done. With fiscal adjustments being made as emergency measures, the need for proper budgeting was strongly felt. The careless cuts in different expenditure, especially in maintenance expenditure, alarmed the continuing of various investments (World Bank, 2002).

Yemen needs to improve the quality and quantity of services in financial constraints and limited capacity, as there have been reports of poor service provisions. For example, in 1997, a FIAS report stated that local civil servants did not provide foreign investors with full support or protection and security of their property through the implication of contracts. In addition, it was also pointed out that basic services, including education and health, were seldom available to people. Low admission rates at the primary and secondary levels, low life expectancy and high infant mortality rate are a few to mention. Above all, about half of the population does not have access to

clean drinking water (see Table 2.2). Durable improvement in the management of the public sector is needed to compete with this challenge by careful usage of the limited financial and human resources.

Here, a suggestive evaluation of citizen satisfaction is another issue that points towards the poor delivery of basic services. The questions were posed to various family units as to whether they utilized specific basic services during the previous six months, what was the percentage of these services made available by their Government, as well as whether they had any satisfaction from those services.

The fact was that, as we can see in Table 2.3, private service contributors had a fairly common presence as far as health care and waste removal was concerned. However, it was providing about 75% of these services. Apart from the phone services, which were practically being utilized by only a tenth of the entire family units, the degree of citizen satisfaction was quite inadequate. Even the judiciary system and policing services were only being utilized by an approximate ten percent.

A staggering 75 percent were quite discontented by the judiciary and some 84 percent were unhappy with the policy. Moreover, with regards to health care and education, fewer than 50 percent of the surveyed citizens showed any satisfaction. Through superior management of limited resources, sufficient financial support for maintenance and operations, an extra consideration while planning for local requirements, and specific services supplied by adequately encouraged, responsible and sincere government employees and public officials, many of the usual reasons for the discontentment could easily be dealt with (World Bank, 2002).

Service	Table 2.3: Access To and Satisfaction with Services			
	Service used in last 6 mth (% of HH)	Service provided by gvt (% of services)	Satisfied with Services (%)	Main reason for dissatisfaction
Health services	80	72	43	High cost, lack of concern of health staff, no medicines
Schools	64	98	50	Poor quality, lack of desks/chairs, far away, disrepair, associated costs
Water	62	78	35	Frequent cuts, low pressure, price increases
Electricity	50	100	56	High prices, power cuts, poor service
Sewage	40	82	50	Lines in disrepair, no service
Garbage disposal	29	72	28	Containers far away, negligence, dishonest employees
Courts	12	100	16	Bribes required, no justice
Telephone	11	100	81	
Police	11	100	26	Dishonesty, delays in resolving conflicts

Source: Social and Institutional Assessment, Proposed Civil Service Modernization Project

The citizens were also questioned about the type of services that were not being provided at present and whether the Government should provide to the under privileged class (see Table 2.4).

Although the Government does not solely provide efficient services mentioned, such as employment opportunities and low-priced or subsidized food, the four major responses, namely, health care, education, electricity and water, could definitely be improved by superior management of the public sector and/or better enhanced public-private partnership. Various other responses showed an immense apprehension towards more useful and efficient government aid and benefits than at present.

Another essential point to note here is that the poor quality of public services creates further problems for the underprivileged citizens, as they do not have the means

and resources to afford private health care, education or, for that matter, electricity (World Bank, 2002).

Table 2.4: Unavailable Services that Government Should Provide	
<i>Services, by grouping</i>	<i>Number of respondents</i>
Water, regulate water service	148
Nearby health care, inexpensive or free health services, mother and child centers	102
Electricity service, improved electrical apparatus	100
Education, expansion of schools, free education, improved quality, school equipment and facilities, school for girls, transportation for students	84
Food assistance, lower food costs	84
Job opportunities	33
Sewers	31
Garbage collection, clean the streets	31
Provide homes, repair old houses, enlarge houses	23
Telephone services	21
Pave streets	21
Loans with easy conditions	16
Improve electricity service	11
Financial assistance, Clothing for the poor, Raise incomes, Provide cooking gas,	10 or less Each
Lower costs of services, Provide security, Provide fishing boats, Gardens for	
children, Provide merchandise on installment, Provide agricultural services, Provide	
social welfare, Provide land, Take care of the environment and pesticides, Improve	
social welfare, Laws to resolve disputes, Police station, Youth clubs, Make available	
a just person to resolve problems, Provide harbor for boats	
Source: Social and Institutional Assessment, proposed Civil Service Modernization Project	

C. Problems of Government Finance

Three characteristics of government finance are examined firstly with Yemen's budgetary institutions responsible for the preparation, execution and control. The second part takes into account the efficacy and success of public spending projects towards developing an environment for continual advancement as well as poverty alleviation. The third and last part concerns the public revenue.

I. Budgetary institution

In order to determine whether budgetary institutions provide support to good expenditure outcomes, three highly important questions need to be examined. Is overall fiscal discipline protected by budgetary institutions? Are there any guarantees from the institutions that the budgetary distributions would have calculated the priorities of the officials at the helm of the affairs? Do the institutions support proficient and successful utilization of resources while organizations use the funds assigned? The process of budget preparation, execution as well as budgetary control is examined in this part in lieu of the three aspects mentioned above.

i. Budget Formulation

Earlier, there was a lack of a unanimous consent or harmony concerning decisions based on financial aggregate and covering the macroeconomic structure. There were no suggestions concerning the monetary restrictions under which the budget was to be formulated in the budget circulars. Moreover, the proforma documents used by government departments, which they had to fill in for investment schemes, were excessively detailed. Consequently, the concerned government departments presented over-cost budget requests (which they considered to be good for preliminary negotiations) and deficient proforma documents (usually leaving out very fundamental and vital details).

Consequently, the budget schemes were reduced by a laborious, temporary procedure, which showed no sectoral concerns. Moreover, the procedure for the budget

was not integrated. The present budget was prepared by the Ministry of Finance (MOF) and the Ministry of Civil Service and Administrative Reform took a leading position on the salary portion. The Ministry of Planning and Development (MOPD) disjointedly arranged the investment budget. Earlier, the predominantly poor synchronization between the preparation of the investment and regular budget resulted in an unsuccessful and ineffectual distribution of resources (World Bank, 2002).

In the past few years, a continuous struggle has taken place sustained by technical support from the IMF to resolve some of the issues. These exertions concluded in the introduction of a novel budget planning system for the budget prepared in 2000 (started in the summer of 1999 and it was sanctioned by Parliament in December 1999). It is worth mentioning here that the general duty for the budget has been delegated to the MOF. An integrated budget memo was distributed, which gave some recommendations concerning the maximum limit of expenditure inside a budget cover fixed by a mid-term macroeconomic agenda established in collaboration with the IMF. These recommendations, nonetheless, continued to increase, thereby giving partial tractability for the line departments to make distribution choices among budget chapters. Moreover, generally speaking, the line departments did not give limited budgets. As had happened in the past, the procedure of doing away with the proposal was carried out while the budget committee discussions were taking place (World Bank, 2002).

Although the problem of poor synchronization between the MOPD and the MOF had been resolved, further official aspects continued to hamper the efficient preparation of the budget. These aspects involved: (i) constant misunderstanding, practically, on the duties of the line departments; (ii) meager wages of the civil servants and poor

administrative independence; (iii) no approximations for the next budget; (iv) extremely restricted tractability of the line ministries; and (v) the lack of an impartial standard on which the distribution decisions were made.

Currently, a mid-term macroeconomic structure is being implemented; however, it is the same as that which was initially established in collaboration with the IMF. There exists no internal capacity to develop complete sectoral cover within which various spending schemes are to be organized. In the past, these units have been developed (in writing) by both the MOF and the MOPD. However, neither of these have the staff members nor skills to develop these schemes (World Bank, 2000).

In order to prioritize the public expenses, sector planning is now taking place in main line agencies. The public spending should be brought in line with sectoral targets centered on this planning. Procedures for the development schemes have been made simple and work is being done to sustain a dependable database on investment schemes together with the information on materials required for the completion and the degree of physical completion. Over the past few years, the dearth of knowledge has made it difficult to prepare the budget. Furthermore, up till now, institutional misunderstanding regarding the duties of the line agencies and the (MOPD) has hampered the establishment of this database.

Various features of the budget hamper the effectual usage of the budget resources. Some problems from amongst these require that they be resolved at the time when the procedure of the budget preparation is taking place. The “projects” in the budget fund the maintenance of current facilities. These projects should be reallocated to the present budget.

- A large amount of partially financed projects are included in the investment budget. For instance, instead of funding the construction of a complete school, capital is given to fund some parts of five different schools. There is a dire need that only those projects should be funded that are on top of the priority list and these should be given an adequate amount of funds.
- There is insufficient financing of the working and upkeep. The issue is specifically prominent in the health, agriculture and education sectors. Sufficient supplies are required for operations and maintenance (O&M) and the transition between the start of a new scheme and the growing distribution to O&M should be carefully watched.

Expenditure on defense rising (more than 20% rise totaling US\$ 90 million; from this standpoint, this rise is equal to the entire budgeted aggregate for the Ministry of Public Health during the year 1999). The wage bill has amplified considerably (comprises 35% of the budget due to the cost associated with the execution of laws dealing with health care personnel and new teachers), while the investment budget for public is, in actual terms, around 20-25% greater than the previous year. It is improbable that the State can competently embark on this stage of public investment because they have not shown this ability at the lower levels of investment.

When the budget was given to the parliament, it indicated a deficit of around 3.5%. This shows the amount that can be funded from sources other than the non-inflationary ones. Despite the fact that the budget preparation centered on oil prices at \$17 per barrel (and the anticipated price centered on prospective market points to greatly probable case of about \$19), further suppositions are improbable and cause the deficit to further increase (World Bank, 2000).

ii. Budget Execution

The current processes for the issuance of resources to spending departments and the control on the expenses from the budget are a sheer waste of time, hard to manage, and inefficient. Consequently, checking of budget implementation is not done on time and there is inadequate information present for the effectual administration of cash. Moreover, the schemes for rearranging resources prevent the administrative function of forming legal changes in the expenses to accomplish stated goals. Temporary processes for additional resources do not allow planning with adequate urgency.

Three individual accounts are maintained with the Central Bank for every spending unit, on the agency stage. There are separate accounts for revenue, development expenditure and recurrent expenditure. It is through these accounts with the Central Bank that the MOF can maintain records of the budget.

There is, however, one down side. The above stated accounts fail to provide details regarding budget execution underneath levels. Once a month, the Ministry of Finance MOF has to allocate a certain amount of money for spending for every account. This calculation is based upon the cash flow data gathered from the Central Bank. Several controls have been put in place regarding allocations and the primary macro-fiscal control in place is the rule that the total expenditure for every part does not exceed the Ministry of Finance allocated amount. On a monthly basis, agencies are required to send a statement of income and expense to the Ministry of Finance. More often than not, agencies wind up submitting their reports late because of tardy returns from the various governorate branches. While there is no all-inclusive commitment accounting, there is a broad commitment towards recording the data within statistics records. Many

different reforms have been detailed in order to correct the many information deficiencies in place and to shift several functions to the Ministry of Finance from the Central Bank.

According to set principles, it is the General Director of Finance (an employee of the Ministry of Finance) whose responsibility includes controlling all budget executions of every spending unit. This is why all payments have to pass through the person in this position. Due to the dual reporting structure, lack of motivation on the part of the underpaid staff and staff who lack proper qualifications, a great number of opportunities are present where the control systems can be easily avoided.

Looking back on the initial numbers regarding the 1999 budget implementation and the 2000 budget contents, it is clear to see that the Government's prioritization program had not been properly implemented in several sectors in 1999. Take for example the health and education sectors. The 2000 budget had several high priority plans based on programs that should have been completed in the previous year. Furthermore, in the agriculture sector, the Government had planned to move several "projects", which helped in the financial maintenance of several existing facilities into the regular budget. Regardless of this, those projects continued to show up in the proposed programs of 2000 (World Bank, 2000).

We can see related problems in the transportation and education sectors as well. While the 1999 budget was not fully implemented due to the fluctuating oil prices and the resulting uncertainties that cropped up in the general resources sector, there were several other problems as well. There were line ministries from the agriculture, education and health sectors who were told that, in March, after the resource allocations

were slashed, they would be informed how they would cut down standalone projects. They were not allowed to make adjustments in accordance with their prioritization program.

iii. Budgetary Controls

There are several necessary fundamental points missing from Yemen's budget control systems, such as:

- proper organized and defined procedures that define the tasks that need to be performed and by whom and how;
- independent and ex-post audits of all financial transactions, as well as thorough investigation and reporting of any irregularities that may exist;
- qualified and motivated officers who are capable of proper supervision; and
- properly defined guidelines and laws regarding financial administration and the punishments to be enforced for noncompliance.

In accordance with Finance Law Number 8 of 1990 (article 56), it is the responsibility of the Ministry of Finance to look after all financial controls, preparation of all government financial accounts, inspections and internal controls. Although it is the Ministry of Finance is responsibility to complete these duties, they often lack the right tools to do so. In addition, the Finance Law does not allow sanctions when any violations are brought to light (World Bank, 2000).

Under The Central Organization for Control and Auditing (COCA) Act No 39 of 1992, this governing authority has been declared as the ultimate auditing authority within Yemen. The COCA's responsibilities include:

1. conducting audits;
2. developing accountancy and the auditing profession within Yemen; and
3. controlling public funds.

In order to reach these goals, the COCA has the authority to conduct performance, compliance and financial audits as and when the needs arise. They are supposed to conduct yearly financial audits on each and every authority and ministry in every Governorate. This includes any and all bodies and SOEs that are receiving government subsidies. Practically, they lack the necessary technical skills to do so and are also not capable of auditing every agency, every year. Lastly, their follow up process to audit is extremely weak (World Bank, 2000).

There has been some misunderstanding regarding the internal audit because the Ministry has two units for internal audit. One of the units performs the pre-audit on the financial transactions taking place as well as reporting it to the chief accountant (indirectly COCA and MOF). Another unit headed by the General Director performs a technical as well as financial audit to ensure compliance with the regulations there are around 30 agencies in which units for internal audit are set up (World Bank, 2000).

For example, in the Ministry of Housing and Construction, the financial internal audit involves three to four officers whereas the General Internal Audit involves 30 workers, comprising five structural engineers who prepare about 80-90 reports per annum covering the details regarding financial as well as technical breaches of the regulations and laws along with identifying the accountable officers, for the Minister's verdict concerning whether or not to take action. Despite the fact that COCA has the

authority to access these reports, even then the copies are rarely given to the MOF/ COCA and are only used internally (World Bank, 2000).

II. Expenditure

Following are the four main causes as to why the public expenditure program of Yemen did not come up with the thorough prioritization required to utilize the limited resources effectively. If these problems are addressed properly, it may result in a positive impact of public expenditure over economic growth and also reduced poverty.

1. For carrying out the prioritization of investment programs, the data available is insufficient, which means that neither the information regarding the level of physical completion is available nor the total cost details required for completing the current projects.
2. A huge number of small projects are included in the investment program. The inclusion of low priority projects have caused great stress for the planners in order to satisfy the regional interests, even if it is only a token distribution. Therefore, we may say that the money is spent but none of the usable assets have been created, which indicates that the resources are thinly spread over most of the projects, which continues to remain incomplete every year.
3. The sector strategy has not been reflected by the composition of a sectoral investment program. This may be due to the reason that there is a lack of comprehensive agreement on sectorial goals. If we take the example of the education sector, the government expenditure is so low that it does not reflect the importance of primary education, particularly for the girls and also in the areas that are under-served. Mostly, the investment is in the power and water

segments, which is financed by public money, despite the fact that there is an increasing role for the private sector in the power as well as water segment.

4. The resources required for operations as well as maintenance are frequently inadequate in order to operate the existent facilities. This becomes even worse when providing a budget for Operations & Maintenance for upcoming facilities while the ongoing investment program is already facing insufficient resources.

Most of the time, the donors and planners get around this by adding the projects in the investment programs, which is an instrument for financing the recurring costs. Therefore, in order to operate the existing facilities, the resources needed are severely understated in the budget. As discussed earlier, the lack of resources for operations and maintenance is one of the major reasons that caused the poor delivery in the health sector as well as in the primary education services (World Bank, 2000).

The Government often to come up with an expenditure reform program in order to create sustainable growth together with poverty reduction. The expenditure reform program often to focus on maximizing the benefits from the investment spending, and cutting down the non-essential expenses. Not only this, but also it often to reorient the cash flow towards the priority areas. There are some areas in which current spending can be rationalized, which includes the remaining subsidies, huge public sector wage bills, and also the cumulative transfers to public entities/enterprises. Or, we may say that the current outlays can be redirected towards the education, operations and maintenance, health and social sectors and also reoriented towards the social safety net as well as vocational training programs (World Bank, 2000).

A comparatively high amount of expenditure has been made on development in recent years but it did not have a significant impact on the economic growth. In fact, it reflected that the often to productive projects were not being selected as well as weaknesses in monitoring the implementation. The Government often to ensure the selection of the most profitable and productive projects as well as monitor the implementation, in order to make the most of public investment. Moreover, the focus of development expenditure often to be the ongoing projects and not the new ones. Due to the persistent physical infrastructure needs, the development cash flows often to be maintained at a high level and the priority must be given to the basic education, health, water as well as wastewater, power, transport including ports, roads and airports, research as well as to the agriculture sector. The power and water sectors are usually financed by public investment, therefore, it often to be opened to private investment (Second Five Year Plan for Economic and Social Development, Yemen 2001).

III. Revenue

As with many of the government areas that need improvement, so does the tax administration, because in 1998, at only 10 % of the GDP, Yemen had the lowest non-oil taxes in the whole region. Furthermore, the tax system was inefficient due to improper definitions of tax base, arbitrary exemptions, as well as taxes that produce very little revenue.

In the structure of the Enhanced Structural Adjustment Facility ESAF/ the Extended Fund Facility EFF programs, since 1997, the Government of Yemen has entered into a program in order to increase the revenue from the non-oil sector as well as enhance its efficiency. Two new tax laws were presented to the parliament, which

systematically reformed the direct and indirect taxes. The direct tax reforms include consolidation of income from all sources, expansion of tax base, rationalizing tax brackets, and elimination of the ad-hoc exceptions/exemptions. Whereas the proposed changes for the indirect taxes include introducing an excise tax approximating a GST. This measure helped to avoid exports zero rating, cascading, as well as problems of indirect taxes and import duties.

However, this system is just an initiator to a more broad general sales tax that the Government will plan in the upcoming years (Enders, 2002). The experience of the other countries in the area/region are helping the Yemeni Government to study the most appropriate GST system. Tax administration reforms consist of a series of measures from simple actions, such as introducing the tax identification number to the difficult steps, such as improving the customs working and simplifying the tax administration. Not only the training program for the tax collector is planned but also an awareness program for the tax payers is designed (Enders, 2002). The other indirect tax reforms comprise introducing ink-stamped packets used for domestic cigarettes as well as a bandroll tax for imported cigarettes and eliminating all the stamp taxes. Revisions in the investment laws were also made in order to reduce delays to the exemptions on duties and taxes (Enders, 2002).

The modification in tax policy (reduced charges, little choice) together with tax management might be assist in decreasing the capacity for dishonest practices in revenue collection. The changes in the financial administration projects might be also assist in moving the inducements for a company to report manipulation instead of conspiring with the dishonest officers.

The solution to the Government's honest efforts is the justification of the public expenses because if taxpayers perceive that their hard-earned money is not being spent on worthwhile projects then tax evasion and dishonesty will rule.

In the middle of 1997, the execution of a wide-ranging customs management reform started so that simple and effectual duty and clearance processes could be set up together with duty shortcomings and short-term admission processes. In 1997, after the introduction of the Harmonized System of Nomenclature (HS), the customs clearance system was computerized using the Automated System for Customs Data (ASYCUDA) system. The upgrade of customs operation at the Hodeida seaport and Sana'a airport, which was accomplished in 1998, will be slowly carried out in every customs office (Enders, 2002).

D. Enhancing Private sector

The private sector in Yemen is small and its comparative significance to the GDP kept on reducing during the late 1990s. In spite of facing problems in acquiring correct data on its mass and role in GDP, the present approximations exhibit that the portion of the private sector value-added in the total GDP was around 66% of the GDP of 1995 but kept on declining in the First Five Year Plan (FFYP). During 1996-1997, the private sector value-added reduced to 58%, increased to 66% in 1998 (exhibiting the fall in oil prices) before it declined to 55% in 1999 and even further to 44% in 2000. The productivity of the private sector as a ratio of GDP other than of oil sale rose from 77% in 1995 to 80% in 1997 and stayed at around 78% in the year 1998-1999 before it fell to 66% in 2000 (Table 2.5).

A sudden rise was seen in the private investment (chiefly local) between 1995 and 1997 and a sudden decrease in 1998-1999, but recovered in 2000.

Table 2.5: GDP By Private/Public Sector, 1995-2005

	1995 Ratio to GDP (%)	2000		Target 2005		
		MN YR at 2000 prices	Ratio to GDP (%)	MN YR at 2000 prices	Ratio to GDP (%)	Average Annual Growth Rate, (%), 2001-2005
Non-Oil Sector	86.5	914,343	66.3	1,346,500	74.3	8.0
Oil Sector	13.5	465,469	33.7	465,500	25.7	0.0
Private Sector	66.2	605,131	43.9	973,132	53.7	10.0
Public Sector (incl. Oil)	33.8	774,681	56.1	838,868	46.3	1.6
Total GDP	100.0	1,379,812	100.0	1,812,000	100.0	5.6
Source: Second Five Year Plan for Economic and Social Development						

During the years 1992-2000, a trend can be seen in the rise in fresh investment schemes that were approved by the General Investment Authority (GIA). The projects from private overseas investors approved by the GIA continued to be YR6 billion in the years 1995-1999 and rose to YR22 billion in 2000 (Enders, 2002). Yemen's main challenge with regard to the creation of jobs is to augment the scope and size of the private sector not dealing with oil. In 2000, the manufacturing sector minus the gas, oil and refining had a share of 10% in the GDP.

Out of this 10%, the non-oil industrial sector contributed a mere 5% to the GDP in 2000 (decreased from 12.6% GDP as recorded in 1995). In 2000, the private service sector, contributed 44% of GDP, however, nearly two-thirds of the sector comprised tourism, transportation and trade, which, conventionally, are not an area of high

performance or salaries. Notwithstanding the fact that the industrial sector gave a high yield and salaries (thereby giving improved standards of living resulting from the increased number of jobs in the industrial sector), the disturbing fact is that the industries hired a mere 2.5% of the total labor force in Yemen during the year 2000 (Enders, 2002).

In Yemen, the private sector companies are small in size and give low compensation packages. The progress in terms of size and remuneration is also sluggish. This indicates the existence of large hurdles in the advancement of these small companies. According to the Industrial Survey of 1999, only 288 companies (less than 1% of the manufacturing companies) had more than 10 workers. Around 95% of companies had three or less workers and these figures were the same as in 1996.

The majority of the private manufacturing companies in Yemen are owned by one or two individuals making small quantities of the product, selling/distributing to the clients directly having less contact with the middlemen. The ensuing incapacity to attain any economies of scale and scope together with the dearth of specialty skills is simply because though the admission in the sector is not difficult, the majority of the current companies are not expanding or are inefficient. Moreover, remuneration in the majority of such small companies was 50% less than that in bigger companies (Enders, 2002).

Compactness is not related to the age of the firm because the typical age of a company is 14.2 years according to a latest study involving 947 companies in five areas. Besides being small, many of the companies have a single owner involved in less value-added, simple actions like hairdressing, plumbing, shop keeping, car maintenance, welding shops and carpentry shops. The majority of the companies are designed as

proprietorships and limited partnerships whereas 28% of them are state-owned. The degree of foreign ownership amongst companies is very small and the majority of the companies are dealing with manufacturing for the local market (Enders, 2002).

In Yemen, the arrangement of private sector action indicates the existence of main hurdles in the progress in specialization and value addition in the companies. A greater number of small recognized companies and large companies (fewer average sized firms) together with a considerable propensity of big companies to indicate the hurdles to progress imply that although access into the official division may be comparatively simple, commercial growth may be restricted by increased degrees of insecurity and risk, structural insufficiencies, management problems, increased competition and poor capacity of the company. These conditions are aggravated by the attitude of the already present big companies where considerable internalization of services and activities take place like transport, training, electricity generation and distribution, as can be seen in the largest companies (Enders, 2002).

We can say that the commercial market prospects and services consistent with increasing production either do not exist for SMEs or the admission is greatly limited and/or very exorbitant. This successfully increases the production costs, and, basically, the least resourceful size for moneymaking companies in the private industries. An atmosphere of legal insecurity is created when there are high business costs associated with inadequate procedures for contract implementation and handling of business problems that foster limited progress potential (Enders, 2002).

One of the most important and obvious barriers towards private sector development, which also impedes the growth in firm size in Yemen, happens to be

governance problems. Generally speaking, there is a lack of good opportunities to make profit for firms based in Yemen. There is also very little capacity for the expansion of product markets in the country. In spite of this, the firmly rooted and older companies in the country have a history of being more successful than their younger counterparts. They not only have personal land holdings but are also engaged in export activities (Enders, 2002).

The reason behind the success of these old companies is said to lie in the fact that they have personal, widespread informal networks established. They easily bypass the various official marketing institutes in place and create a more integrated organizational structure that helps them avoid the institutional and governance failures present within Yemen's business environment. The problem is that these opportunities are limited to a very small number of firms in Yemen. Consequently, the poor working of the official institutes, who are supposed to support the market, wind up being a deterrent to new companies entering the business environment (World Bank, 2002).

A survey by World Bank conducted in November 2001 on Yemeni private sector organizations showed that poor governance is clearly visible in the country. It can be seen in the:

1. ineffective or completely absent market-supporting institutions, whose duties include the enforcing of contracts (tribunals, courts etc.), regulating the flow of information (e.g. credit worth of companies)
2. poor public sector performance regarding the delivery of basic and necessary services
3. amount of corruption present in the country and the inefficient manner of interaction between private organizations and public officers.

However, this indicates that much scope is available where growth constraints can be dealt with and removed, so that room can be created for small and medium sized companies to grow and proper formal alternatives to institutions can be developed to rival the informal measures used by the few, larger firms. The development and growth of small and medium sized firms in Yemen appears to be rooted in finding a way where these companies can have easy access to official substitutes to the exclusive, informal methods used by the more successful, older firms (World Bank, 2002).

A number of studies have shown that governance has a great influence on the development of firms. One factor that has a significant negative influence on economic and investment growth rates happens to be corruption. In comparison, focusing on strong enforcement of proper official service delivery, strong rule of law and enforcing property rights can help promote economic growth and greater investment (Enders, 2002).

The linkages present between development and set governance measures remain constant for several economic indicators and are also acknowledged for several other development effects (such as income growth quality, literacy rates and infant mortality rates). Due to its weak governance performance, Yemen's growth and investment is significantly affected.

Governance concerns have also been identified as a significant concern in Yemen's private sector. Private sector showed that a little more than 80% of the companies found corruption to be the biggest obstacle towards profitable development. A little more than half of the survey's companies pointed out the different problems

present in the legal, regulatory and administrative frameworks within which companies work and they also identified gaps in the available physical infrastructure (i.e. the electricity situation), which hindered their performance, manufacturing and distribution of their products and services (Enders, 2002).

Two areas have been the most significant in the Yemeni business segment. First, is the uncertainty regarding macro and other rules as well as crime and disorder, while the second is administrative issues, such as taxes, corruption, smuggling and settlement of disputes. To some extent, the infrastructure and other input issues, such as access to land and electricity, is also of concern. For some firms, telecommunication problems and labor regulations are also severe barriers to growth.

2.4. Privatization option in Yemen

The Government drawing out from the service and production areas of the economy is one of the main components of the economic reforms. It includes the privatization of many public sector enterprises. The major challenge was to enhance economic growth for the Yemeni Government just after the unification period. Although the Government inherited the over-centralized public segment, a monopolized, inefficient and over regulated system can be observed in the public enterprises, which limits the activities of the private sector (Freeman et al., 2004).

In early 1995, a privatization program was initiated by the Yemeni Government as a part of economic reforms. The objective of this program was to privatize almost 70% of 212 enterprises by year 2000, in terms of employment. It came to an end when the parliament did not approve the loan from the World Bank to fund the long-run

privatization program. After some time (years), the Government itself financed the privatization program. According to the April 2004 presidential instructions, the investors can enjoy the land at no cost. In addition, if the project capital exceeds 10 million US dollars then it is exempted from profit tax paying. In the middle of 2003 to 2004, almost eight companies became private and seven of them were publicly auctioned, whereas the remaining one shifted to the Yemeni Economic Corporation, also known as YECO. In 2005, according to the privatization officials, two of the enterprises were privatized by the Government and three more would be privatized by the end of 2006. It has also been announced by the Government of Yemen that it would privatize 15 of the factories suffering from economic stagnation by 2007. The airport services, pharmaceutical companies and also the cement factories remained top of the priority list for privatization (U.S. & Foreign Commercial Service & U.S. Department of State, 2008).

The privatization program would help in growth concerning the development strategy focusing on improving the environment for private segment investment and also towards making the resource allocation efficient. In the past 2 years, the successful implementation of macroeconomic reforms helped the economy to stabilize and restore business confidence. Moreover, privatization commands to prioritize the rebalancing of the role of the private and public sectors in the economy. This will result in improved economic efficiency as well as quality of services, which contains budget deficits and liabilities, and also accelerates the private sector's growth and investment accelerates. The Government views the sound privatization actions as to be significant to attract the world market and the investors in order to draw their interest to do business activities in the Middle Eastern countries (World Bank, 2002).

2.4.1. Privatization Process

According to this study, the term “privatization” means selling the public enterprises to the private investors as well as opening the government monopolized segments for them.

The major points that will be argued in this part are public sector, legal procedures, and methods of privatization. It also includes the role of government agencies and the contribution of international organization.

a. The Size of the Public Sector

The Yemen Republic acquired a fairly large public region, mostly from the socialist south. Of the 192 enterprises listed in the survey, which was accomplished in the middle of 1996, more than 110 were positioned in the recognized PDRY. The different areas in which these enterprises are allocated are industry, tourism, agriculture, fishing, transportation, oil, trade and finance. These sectors are not good in generating economy and sometimes they even close down, which leads to heavy a load on the financial plan, because budget transfers or gathering of those amounts that are overdue must cover the operational losses (Enders, 2002).

b. Labor Issues

One fourth of the total civil servants were working with public enterprises .The total employees number almost 86,500. The salaries of these employees lead to a heavy load on the financial plan because of the operational losses. The decrease or threat of a decrease in the labor of particular public enterprises can cause severe employment

problems. The 18,000 employees associated with privatized enterprises receive their monthly salaries from the Government.

There is labor union, which the Government controls. The contribution of this union in the privatization development is very restricted. The labor union has no right to be heard in the privatization process according to the law of privatization. The basic requirements of employees cannot fulfill their received salaries. If the relation of the employees with their enterprises is not mature they cannot look for new jobs. The labor law is very limited in making redundancies, which offers some security for employees of social enterprises. It prevents the redundancy of employees for economic motives, such as privatization. Additional security is added by the Privatization Law. This Law allows that the units provided for privatization can be hired or bought by foreigners or by any citizen.

The investor with the winning bid to carry on the actions of the enterprises taken over will have enough land either on rent or on sale. The issue of the number of employees who will be hired to continue their job and the stipulations given to these employees must be as good as the existing ones in terms of salaries, bonuses, and other benefits has also been covered in the terms, which were discussed between the Government and potential investors. The employees and these investors want a contract for their job to be guaranteed for at least five years, at the same time the remaining workers would be moved to the Civil Service Fund. The main objective is to secure workers, but the issue for many workers is that these position investors will not take a large number of recognized employees to evade being locked into long-term agreements (Al-Asaly, 2002).

It is essential for any potential buyer of any public enterprise to meet the technical recommendations indicating the number of current employees that they want to stay in the enterprises after privatization. The favorable choice is for the one who plans to keep the largest number of old employees. Other plans are also offered by the Government that could resolve the labor issues of public enterprises. The issues, such as condition of laying-off pay and bonuses, reducing the compulsory retirement age and supporting early retirement with maximum benefits for employees are focused in these plans.

The undeviating motivation to prospective employees to keep the most favorable economic number of workers and offer large severance settlements straight to employees are more useful approaches. The workers are secure to look for another job or to begin their business (Al-Asaly 2002).

c. Legal Procedures

The Government of Yemen started the privatization of public enterprises in different areas of the economy by the end of the civil war in early 1995. The Government must establish the authorized processes to classify the enterprises to be privatized with a program. The Congress of Ministers published order number 150 in 1999. It also included some suggestions for the privatization process but this order is not very useful. The Council of Ministers also issued order number 8 in 1995, which included some rules regarding privatization. After that, order number 5 was issued in 1996, which included the issues of the required fields to privatize public and combined enterprises. The Prime Minister issued an announcement to develop a Technical Privatization Office (TPO) in 1996.

The management of organizational and operational practices for privatization was the top priority of the Technical Privatization Office TPO. The Council of Ministers decided to settle the shut down enterprises in 1997. The Council of Ministers then supported privatization approaches in 1998. The Government and Parliament finally gave permission the Law of privatization in 1999 (Al-Asaly 2002).

d. Methods of Privatization

Different techniques have been occupied by privatization in Yemen. At least 60 small enterprises have been privatized by either hiring or returned to their recognized owners. Many Agricultural Rental Stations (ARS) were privatized to their employees.

Table 2.6 Types of Privatization in Yemen						
Types	Tourist enterprises	%	Cinematographic Enterprises	%	industrial & agricultural enterprises	%
Selling	15	32			4	10
Leasing	9	19			3	8
Liquidation	2	4			14	36
Sharing					2	5
Restitution to owners	21	45	12	100	4	10
Selling the Individual Assets and leasing the land					11	28
Conversion activity					1	3
Total	47	100	12	100	39	100

Source: Privatization Technical Office, author

A total of 98 enterprises of Yemen were privatized with the help of seven methods of privatization. These methods are shown in table 2.6. The 47 enterprises, which were privatized were tourist enterprises followed by 39 enterprises of industrial and agricultural enterprises, and, finally, 12 cinematographic enterprises were privatized.

- **Selling method**

This method of selling, which entails the transfer of the shares to an assured investor who has chosen by auction or interviews with the selected investors, has acquired to privatize 15 tourist enterprises and 4 industrial and agricultural enterprises.

- **Leasing method**

This method of hiring an enterprise, which includes contract signing between the Government, the owner and the individual recipient for taking charge of a public company for a certain duration, has taken over to privatize 9 tourist enterprises and 3 industrial and agricultural enterprises.

- **Liquidation method**

This method of liquidation of an enterprise, which indicates that the material privatization of organized companies cannot be accomplished as the financial and economic standards do not allow this, has taken over to privatize 14 industrial and agricultural enterprises and 2 tourist enterprises.

- **Restitution to owner method**

This method of “restitution to owner”, which is very helpful in developing countries where many people were deprived with the introduction of socialist economy, has taken

over to privatize 21 tourist enterprises, 12 cinematographic enterprises, and 4 industrial and agricultural enterprises.

- **Selling the individual asset and leasing the land method**

The selling of ancestral goods, which may involve the individual assets of an enterprise without any kind of connection between them or assets that have some relationship with each other, has taken over to privatize 11 industrial and agricultural enterprises.

- **Conversion activity method**

This method of conversion activity, which means to free the movement and offer to the private sector, has taken over to privatize one industrial enterprise.

The sell method has been used in the recent endeavors of privatization. Advertisements are placed in the press calling for local people of Yemen for bids as the appraisal of large enterprises are accomplished. The tender will be re-advertised if there are no bids after one month. The Technical Privatization Office TPO may discuss directly with potential buyers if there are still no bids after re-advertisement of tenders (Al-Asaly 2002).

Technical and financial offers must be submitted by any interested buyer of certain enterprises. The financial offer includes the bid amount and the method of its payment. Administrative circumspection according to financial and technical bids offers the final decision.

e. Government Agencies

The privatization Law specifies the development of the High Committee and Technical Privatization Office TPO to make sure the completion of regulated, impartial and

transparent privatization methods because of the disagreement of coordinating between several ministries and enterprises.

The Higher Committee (HC) was created in 1999 and held its first conference on June 7, 2000. The Prime Minister and Ministers of Planning, Finance, Legal Affairs and State were also included in this conference. The policies offered by this conference considered issues, such as the privatization program, favoring transactions and program designs, and hiring temporary executive board members to the state-owned units permitted for privatization. The Technical Privatization Office (TPO) is likely to act as an administrative unit for Higher Committee HC, which is responsible for maintaining records and other secretarial duties, such as formulation of privatization plans, mainly by reconsidering proposals and observing their implementation. Observation of operations includes, for example, the stipulation of advice and support to individual departments to achieve privatization transactions and also organizing the essential papers and contacts and directing all concerned institutions, for example, labor unions (Al-Asaly 2002).

The Privatization Law focuses on the development of temporary boards signifying that each concerned department and its economic unit should be taken over for privatization. The privatization process of the concerned enterprises would be contributed by each committee under the administration of the higher committee. The responsibility of the departments of each sector is to complete the privatization operations of enterprises other than the larger ones in coordination with the Technical Privatization Office TPO. The Higher Committee HC has the full authority to approve large privatization transactions. The income of privatization will be deposited in the

special account of Central Bank allocated to finance, economic and social development missions (Al-Asaly 2002).

f. The Role of International Agencies

Two international organizations supported the privatization process of Yemen. The privatization program of the government of Yemen gets assistance for the financial and technical perspective from the World Bank, which sanctioned a project. The basic plan of the recent IDA project is to offer support to attain successful and transparent government administration for the privatization program of Yemen. Three factors of this program are mentioned below:

(1) The privatization of five large enterprises (Aden Refinery, Airport Passenger and Cargo Ground-Handling Service at six airports, General Land Transport Corporation, Yemen Corporation for Cement Production and Marketing, and Yemen Drug Company) (2) The approach of pre privatization towards three large enterprises (Port of Nashton, Public Telecommunications Company, Yemenia Airlines), and (3) Government allocated financial and legal support in the privatization of almost 50 small and medium enterprises. The agenda for the completion of the projects was on track in early 2002. Experts were selected for these five large enterprises, with the study of those experts likely to be done in the second quarter of 2001 for Aden Refinery, the General Corporation for Land Transport and the Yemen Drug Company, and for the Airport, Ground-Handling Services and the Yemen Cement Company at the end of the third quarter of 2001 (Enders, 2002).

2.4.2. The Status of Privatization Process

The issues, such as position of privatization, the result of privatization and the consequences of privatization on the economy will be discussed in this section.

The development of law making for privatization takes a relatively long time. Therefore, on many occasions, privatization programs have been delayed. More than 60 small enterprises were privatized between the years of 1994 and 1997; 16 tourism enterprises – 8 by hiring and the other 8 by restitution; and 53 other enterprises, which mostly includes agricultural. These 53 enterprises were privatized through restitution to their original owner or also through liquidation. These privatization programs were not transparent due to the lack of an effective plan and strong institutional structure. In addition, these programs were mostly carried out through the judgment of the departments involved. There were also setbacks in the programs of the department's committees signifying the enterprises to be privatized because of overlapping accountabilities of different departments.

There is no doubt that ministries severally developed their internal committees to privatize some of the enterprises under their authority. These committees of the ministries contributed in each and every action of the process (such as in approving the short list of consultants and the report that the eventual consultant submits) when the Technical Privatization Office TPO was accountable for privatization. This contribution caused disagreements between the Technical Privatization Office TPO and the concerned ministries, and also delays in getting the committee members together, which led to delays in getting the input of these members for the short listing report assessment. The privatization program was almost stopped in 1998-1999, at the same time the Government focused on creating a structure to carry out these programs in a more organized and transparent manner (Al-Asaly 2002).

Nothing was accomplished between 1995 and 2000. The Privatization Law was propagated after a long development period in November 1999, which was intended to manage and combine privatization procedures across state-owned economic components. Privatization plans for five large enterprises were organized and supported by the Government, involving completion steps and agenda. In 2002, Aden Refinery new shares would be available for capital investment by investors, and it is important to make sure the expert management over the enterprise by a globally recognized refinery operator. A contract was undertaken with the Wheat and Meal Silos. After the first month of advertising, there were no bids for Aden Wheat Silos and the Fish Canning Factory (Al-Asaly 2002).

The Government of Yemen made several decisions regarding privatization. The Airport Ground-handling Services was privatized and both the private and government sector made a shareholding or revenue sharing venture. The General Land Transport Company project was funded by the Government and also by the employees. The project was to establish a strategic restructuring with a view to creating a liable joint stock company. The Government of Yemen is considering liquefying the small public enterprises that are generating less profit and going in loss. The Government wanted to restructure these companies into more strong and profitable firms. The Government of Yemen concluded that the large profitable public enterprises would not be privatized after the clearly efforts of ongoing privatization even when their names are listed down in the privatization list. This was supported by many parliament members and by a large number of the public (Al-Asaly 2002).

The tourism sector, which was leased, was performing quite well. They kept their labor, which was specialized in their own sector. The Yemeni national bank was not supposed to be privatized to strategic investors and the Mill of soils in Hodeida was sold to an investor and the predication process is not completed as yet (Al-Asaly 2002).

2.5. Problem Statement

In early 1995, the economy continued to get worse and was on the verge of downfall and decline. There were no serious efforts or steps taken by the Government until 1995 to boost the economic growth. After that, the Government started to realize the severity of the situation and figured out possible solutions to handle it. Yet again, a significant role was played by the political attentions while selecting the direction and improving elements, which is quite evident in the subsequent section (World Bank, 2002).

Due to Yemen's stance, the Gulf States stopped giving loans and aid and also dismissed more than 1 million Yemeni workers. Moreover, a new verdict was issued by the Saudi Government for special treatment and handling of Yemenis. This period's economic cost was immensely high. The shocks that Yemen faced after gulf war were so severe that the economy failed to make a recovery. The inefficient and ineffective Government as well as its institutions could not cope with the crisis and calamity due to poor synchronization and coordination, which constitute one of the reasons for not recovering from the shocks. The condition worsened due to the instant response and reaction of the combined Government to fix the exchange rates together with fixing the basic goods prices as well as the price of oil products (Freeman et al., 2004).

In light of current changes in many countries, as policies of liberalization and restructuring, shifting the state roles, strengthening the role of the private sector, openness economic, and the transition to a market economy comes the importance of research for the definition of privatization as an instrument of economic policy because of their advantages lies in the increased state revenues, to achieve competition and economic efficiency, and accelerate the shift to a market economy. The privatization program which applied by the Yemeni government in the context of economic reforms initiated in the implementation of mid-1995 with support from the IMF and World Bank, showed many questions about the feasibility of implementing this program.

The Yemeni government believes that the privatization program aims to increase economic growth and improve living conditions, as well as encouraging private investment. A study about the effects of privatization policies on economic reform in Yemen prepared by the General Director of the Federation of Chambers of Commerce and Industry of Yemen and an economics professor at the University of Sana'a Mohammed Maitami, confirms that the economic justification for privatization did not achieve its objectives according to plans and leaving a net flow of foreign direct investment to Yemen between 1990 and 2005 negative. The growth of GDP remained lower than planned in the sense that objective of customization expected to raise the pressure on the state budget, and attract more investment channels to the Yemeni economy and higher rates of economic growth, remained an elusive goal (Al-Maitami 2006).

It is possible that privatization commands priority for re-balancing public/private sector roles in the economy, improving economic efficiency and quality of services, containing budgetary deficits and contingent liabilities, and accelerating

private sector-led growth and investment. This means the privatization in Yemen could be viable.

Moreover, the evaluation of privatization performance of the Yemen enterprises had not been done yet so this study is to fill the research gap by evaluating the enterprise efficiency, profitability, and labor market of the privatization program in Yemen.

2.6. Objectives of the Study

Yemen is acknowledged as being among the most corrupt countries in which the corruption is increasing by leaps and bounds each year. In 2001, it was 2.9 degrees, which was originally low grade but continued to get worse, in 2010 (the end of the period of study for this research), it was 2.2 degrees, which was ranked as the 146 of total numbers of states in the survey which were 178 countries.

Therefore, the objectives of this study can be defined as follow:-

1. To identify privatization methods, problems and obstacles that Yemen faced.

From the problems faced in Yemen, the method of liquidation and restitution was used to liquidate the firms and companies. After the privatization, many companies stopped the functional units and work excluding all the shops and houses that were a self-running system, or were the residence of owners. The labor is not an issue in these enterprises. The main problems in this case are the compensations of their occupants.

The government compensated some of the occupants through give them appropriate pieces of government lands.

2. To determine the main motives and main goals of privatization in Yemen.

Moreover, Yemen has a systematic institutional corruption the organizers of the system found in the capitalism their required, so that by the name of privatization, where they transfer many SOEs to personal or company ownership was done. This caused the socialists system in Public Democratic Republic of Yemen PDRY of patronization and production to exploit the property situation, which was originally private property.

3. To identify the major bottlenecks, which are currently affecting the performance of the newly privatized sample enterprises.

These privatization programs were not transparent due to the lack of an effective plan and strong institutional structure. In addition, these programs were mostly carried out through the judgment of the departments involved. There were also setbacks in the programs of the department's committees signifying the enterprises to be privatized because of overlapping accountabilities of different departments.

4. To assess how does privatization affect firms' profitability, operation efficiency, capital expenditure, output, and employment.

More than 60 small enterprises were privatized between the years of 1994 and 1997; 16 tourism enterprises – 8 by hiring and the other 8 by restitution; and 53 other enterprises, which mostly includes agricultural. These 53 enterprises were privatized through restitution to their original owner or also through liquidation.

5. To explore what major post-privatization restructuring measures they could adopt as solution and suggest some recommendations.

The study comes to answers the following questions: what are the stated key motives that encouraged government of Yemen to adopt privatization? Are there any hidden motives? What are the stated goals of the privatization program? Did the privatization program achieve the goals? What are the hidden goals? What are the types of privatization adopted? What is the viability of privatization in Yemen? Has the privatized enterprises performance lived up? How does privatization affect the firm efficiency? How does privatization affect the firm profitability? How does privatization affect the labor market? What are the major problems that affect privatization performance in Yemen?

2.7. Scope of Study

The scope of this study is to provide the existing literature because it explores the situation in a country in the Middle East region that had been lacking from the world literature. By evaluating the post-privatization program and recognize the trammels, the government could redraw the policy in which it will improve the program. It may help the enterprises under study in improving their performance. Finally, it could help another new study in same area of research.

Out of nine enterprises that are still working, three enterprises have been selected which are National Grain Silos Ltd, National Cigarette & Match Industries Ltd, and Al-Esayi Beverages Company Ltd Canada Dry/Aden (see appendices C5 & C6). The timeframe for this study is the enterprises operation from the year 1995 until 2009 and seven years for the three enterprises (three years before the privatization and three years after privatization excluding the year of privatization).

2.8. Limitation of study

The researcher encountered many difficulties being the most important lack of information and confidential data because of secrecy and very conservative officials of privatization to provide the researcher with sufficient information as well as some officials of the enterprises that have been privatized and is still continuing to work. Another difficulty is in distributing the questionnaire to the selected sample and then collecting the questionnaire.

The study has a limitation due to a shortage of data, which restricted the numbers of enterprises to four enterprises and the period of study to seven years. Some of the relevant information are confidential and the researcher cannot access the information due to policy of the government, and it had limited the scope of the study in the accessibility and availability of the secondary data.

It is not easy to get to the real attitudes of the participants in the questionnaire because of the impact on the view of participants in the questionnaire by political and social factors. This requires asking the respondents to fully cooperate, give the right opinion out of their political or social factors, and declare that the success of this research is closely dependent on their honesty and assured it is just a personal opinion.

2.9. Organization of thesis

The study comes in six chapter organized as follow:

Chapter one provide an introduction that includes definitions of privatization in general them move to discuss privatizationin developing countries and MENA countries. Chapter two discusses the privatization in Yemen. It gives brief background about

Yemen economic and move to discuss the policy of privatization, reasons behind privatization and privatization option in Yemen. In addition, this chapter includes problem statement, objective of the study, scope and limitation of study.

Chapter three discusses the literature review of this study. It discusses privatization and growth of state, theories of privatization, determinant, and modes of privatization. Chapter four is the research methodology chapter. It discuss the research approach and design, framework, sampling design, and data. Chapter five presents the finding of the study for the three enterprises and analyses result from the questionnaire. Chapter six presents the discussion and conclusion of study. It discusses the result of the study is relates to the objectives and literature review and ending with conclusion of the study.

CHAPTER THREE: LITERATURE REVIEW

3.1. Privatization and Growth of the State

Conditional explanations give an overview of governments existing policies, which are formed as a result of wars that were fought in the past or are still in existence. The concessions and compromises among the competing nations are also the reasons due to which government policies are affected. Conditional explanations are basically alternatives given to the deterministic theories. The deterministic theories narrowed the strategic interference of the government bodies. The results of the future battles are unpredictable because the power of the competing parties depends on a number of factors. The factors include different ideas, developing institutions and resources. A few of these factors can actually be manipulated, if rigorous actions are taken. Therefore, government policies play a vital role under such situations.

Conditionalism basically means that the government has choices, however, these choices are restricted by a few factors, like environmental and economic conditions, power, control, policies and institutional laws. Ideas, leadership, ideology, group tactics and shifting resources are a few short-term forces that affect the government choices. Focused change is made in structural parameters as well. When the government makes choices it rejects those perspectives that present only one solution for meeting the objectives and overcoming the environmental limitations. During the statistical analysis of policy outcomes, variations are taken into account on a compulsory basis. These variations are estimated using the independent variable, which relates to a number of factors ranging from primary to demographic (Wilensky, 1974). However, these studies define the government policies in simple budgetary terms. When issues that are linked

to the scope and timing of social welfare are taken into account, then the governments of different nations have freedom to respond as per their requirements.

A government tends to change its policies because it wants more fruitful returns. Conditional explanations identify the unrestricted nature of the battle and then define the role of the public sector accordingly. In addition, conditionalism also believes that nations can take various forms and sizes as well (Feigenbaum et al., 1998).

3.1.1. Deal with the problem of payment

In the 1970s, governments were of the view that the economic sector of the country required great intervention by the government in order to give positive outcomes. The state wanted to have public enterprises so that they could influence their plans, regulations, and even production and distribution of goods and services (Biersteker, 1987). In the 1980s, the condition of public enterprises was such that they were left far behind the private sector. This may be because the government would have gone too far with its intervention, thus leading the economic performance of the public companies to deteriorate. Many studies have shown that the performance of SOEs have been very poor in comparison to the private sector (Cowan, 1990; Cook and Kirkpatrick 1988; Vernon 1988). The state has failed to recognize these shortcomings because it was very busy with the industrial growth, which was taking place in different countries (Tanzi, 1987).

Privatization was found to be the only solution to bring the state out of the financial crisis (Vernon, 1988). SOEs were acting as barrier in resolving the problems of fiscal deficit, foreign debts and high inflation (Shepherd, 1976). The financial crisis

led to the withdrawal of the government hold from the states industrial sector. Market price mechanism was given priority for the allocation of the resources in the states sector (Cook and Minogue, 1990). The failure of SOEs led governments to become more inclined toward privatization (Vernon, 1988). Nevertheless, the auction of SOEs brought revenues, which brought an improvement in the budgetary position of the nation.

Many theorists consider privatization as a reaction to the financial crisis. These theorists include Clarke, Cull et al. (1998), Clarke and Pitelis (1990), Adam et al. (1992), Nellis, and Shirley (1994) etc. These theorists believed that had the development in economy been faster, the public sector would have survived. After the war, the post-independence development in developing countries came to an end. Public enterprises required additional funds, not for the expansion but for mere survival. SOEs reached to such a position that they generated no revenue but rather needed financial support from the budget. SOEs needed funds so that it could at least decrease the public liabilities even if it was unable to increase their assets. The sale of public enterprises could bring in a good sum of money to the state. Selling was a better option to regain financial stability rather than cutting down expenses, which were related to education, healthcare and so on.

The sale of assets would just solve the financial problems of the state on a temporary basis; it would not look into the further serious matters that would come ahead of time. According to Adam et al (1992)., the sale of assets would create a neutrality affect for the nation. The price that the state would obtain after selling the assets would just be the discounted future profits that the entity would have obtained. Through sale, the private and public enterprises would only be able to adjust their

existing liquidity problems but the net worth would remain unchanged (Adam et al., 1992). Only if the seller and buyer both have different valuations for the proceeds that they obtained from the sale of assets could the neutrality position be removed. Privatization can lead to many uncertain consequences, which is why it is considered to be a very risky business. The huge investment that has been made in the public enterprises is to be considered as sunk cost. The decision about the liquidity of SOE has always been a great political responsibility.

A matter that requires great political responsibility would definitely be subject to government involvement. The government would try to get the finest possible deal for themselves; the best deal would be as cheap as possible.

3.2. Theories of Privatization

The idea of government sowing the seeds from its own expansion is not a new one. The battle between government's thirst for control and power, and public liberty was a major concern of Western democratic theorists, namely Alexis de Tocqueville and John Stuart Mill. However, these concerns became less when a legal framework for the protection of citizen's rights and government bureaucratization was drawn up during the nineteenth- and twentieth-century. The government was seen as a system that worked for the benefit of the citizens instead of constraining them while the institutionalized and professionalized civil services painted the government's image as that of a tool used for implementing the public goals (Putnam, Aberbach, & Rockman, 1981). Consequently, the growth of the government was seen as an expansion of the people's will instead of personal liberty.

Over a period of twenty-five years, many theories have surfaced that consider the government to be an independent element in the economy that can sustain force toward its expansion. Many sociologists have provided a base for this perspective in regards to organizational theory. Nonetheless, controversial theories have also been formed based on public choice and an autonomous state. According to Gormley and Gormley (1989), the bureaucratic authority or discretion was not seen as an issue in USA until the twentieth-century when the Progressive Movement began in the 1900s, which was further institutionalized during the 1930s and 1940s when New Deal took matters. According to Gormley, the progressive movement backed bureaucratic autonomy whereas the latter backed the bureaucratic empowerment. In order to establish Franklin Roosevelt's aggressive reforms, a strong and delegated presidential staff was provided. With the death of Roosevelt and the end of WWII, the White House was left without a strong leadership, which allowed the bureaucratic companies to freely ally with other sub government powers.

According to Feigenbaum and Henig (1994), the analytical theories of social science and public administration considered bureaucracy as an independent element that not only exerted pressure but could pursue its own goals and programs using the names of other people. Chester I Barnard was the first person to focus on organizational maintenance and was followed by Amitai Etzioni who extended his perspective to bring in behavior of the organizations. In later years, Wilson and Edward Banfield shifted the focus to the government because they thought that by focusing on political parties such as the partisan of the urban schematics, the interests of the government could be evaluated using the authority prerogatives in order to narrow the scope (Banfield and Wilson 1966). Wildavsky (1979) said that other authors have widened the perspective to include battles of bureaucracy budget. This perception of the bureaucracies, i.e. the

gradual reorientation of bureaucracy symbol, came into existence after the focus shifted from agency capture in which the perception of the units of government was that it was manipulated by purposeful and stronger private companies to those of so called iron triangles, as defined by mutual consent of the bureaucratic regulators, private investors and key legislators, as well as the regime that perceives the governmental units as equals in the coalition that not only protect their interests but also proclaim an allegiance for public betterment (Bernstein, 1977).

When the governmental units are perceived as organizations that have their own objectives of expansion and maintenance, it is easier to explain the steady growth phenomenon in the public budgets. When it is assumed that non-material incentives, such as status, power and control, are of interest to the bureaucracies, the organizational theories can include regulatory expansion in their theories.

Since the concepts of organizational theory are based on sociology, it naturally leads one to think that social units, such as bureaucracies, have their own interests, which are different from the public or individual choices. On the other hand, although the public choice theory, with its roots in economics, has created a concept of government expansion on the pursuit of individual self-interest, it has considered that the growth of government is directed by internal factors, such as those described by the organizational theory (Savas and Research, 1982).

It is argued by the public choice theory that the activities of the governmental bureaucrats, politicians and voters are best understood in the same manner as the behavior of the consumers and business organizations explained by the economists. For instance, politicians in the same manner as that of the business organization, have a

certain product for sale. This major part of this product contains materialistic favors to the groups and areas of the government that constitute the involved politicians' constituency. In other words, if the politicians wish to be elected, they need to make new promises for governmental expenditure and deliver these promises if they wish to remain in the office. On the other hand, the bureaucrats will try to maximize their public reputation, patronage, salary, power, perquisites of the office, bureau output, ease in bureau management and ease of making any changes (Niskanen Jr., 2007), which are assumed to expand with the agency's budget. When conducting final analysis, the public choice theory makes almost the same predictions as the organizational theory regarding the behavior of the government, in that it has been seen that the impact is much greater. This is because of the stature accorded currently by many to economics instead of sociology as well as the readiness to mathematical and modeling methods adaptation that create a sense of sophistication and objectivity in straightforward accounts.

Furthermore, the public monopoly concept is appreciated by the public choice theory, which assumes that the corporate monopolies are under low pressure to efficiently meet the consumer demands because of their dominance in the goods market. In markets where the government is dominant, such as utilities, elementary and secondary education and urban services, this situation is much worse.

Even if the consumer is unhappy with private monopoly, they can choose not to purchase the service or product, but when the citizen is unhappy with the government monopoly, they still have to pay in the form of taxes for every service including those they do not use.

As the public choice theory is an extension of the classical liberalism theory, it supports the assumption that the term political can be best understood in relation to the rational self-interest of the individuals. Furthermore, it is also assumed that the personal aggrandizement is human nature's inherent objective that does not require any explanation. As such, these two assumptions have reported anti-statist conclusions as aforementioned.

According to Carnoy (1984), the neo-institutionalists and Marxists have critically reviewed the state but not hostility. The scholars, in response to the Marxists perspective, elaborate using three elements: (1) Even though the economic elites preserve disproportion and influence the government operations, this influence is attenuated; (2) the interests of the state are different from the external supporters and its bureaucratic members; (2) the state, on its own, possesses the resources of power (Domhoff, 1990).

The economic elite's influence is attenuated because of the uncertainty in relation to the capital interest and its constituencies in concrete cases, such as the interests' division in the capitalist class and working class as well as the non-economic interests in regards to different conditions that create a powerful counterbalance. It is assumed that the owners of the capital have a common interest for legal preservation, economic institutions and political parties in order for them to prosper. Nonetheless, to move away from such a common interest to division of interests, such as those of the concerted elite can cause problems in the world. It is important to question whether or not the progressive income tax will provide regressive benefit capital through the aggregate demand stimulation or spark a backlash. The ability of the elites to foresee the consequences of taking alternative course of politics is limited, which makes them

vulnerable to the public in relation to disagreement, hesitation and miscalculation. Moreover, the concept of mobile capital has different interests as those of the capital, which is constrained by the natural resource, labor or market requirements. According to Molotch (1976), the economic elites benefitting from the lands' value, such as mortgage lenders, landlords and realtors, have their way of finding their own interests, which diverge from those of the economic elites who have contingent commitments to specific locations. In the same manner, the declining industries and growing industries interests differ.

As the state's institutional interests diverge from the interests of the powerful actors, the literature on the autonomous state suggests that sufficient resources are possessed by the state of its own, which enables it to pursue the interests effectively. As such, many of the resources of the state are linked to its formal status. According to John Mollenkopf (1989), even if the states are constrained, they are still sovereign having the power to use monopoly legitimately for force in order to create juridical grounds for the private property and develop the economy in different ways. Besides these formal powers of the state, the managers can also have different type of information monopoly; benefits from a certain expertise reputation, wielding the authority in their favor, and, in many cases, may be safeguarded from external forces and sources of revenue by civil service protection.

Theories regarding the semi-autonomous states, similar to the public choice theories, assume that the states internal needs are its main engine for growth. In contrast to the public choice theory, this theory also assumes that the growth of the state is a response to the pressure from the interests of the business as well as the mobilized working class people along with the elites, which allow the managers of the state to

strategically create a maximum effect out of their own resources in relation to the fact that the state is dependent on the productivity of its economy as argued by traditional Marxists (Mollenkopf, 1989).

3.2.1. Reconsider state theories

Many of the state growth theories, even with their differences, all speak in the language of determinism and universalism. Given the time and tendency of the way of thinking, many nations had already developed modern as well as extensive social programs of government with government institutions that support them. In contrast, many nations were ahead in the transition phase.

This imagery is challenged by the privatization, as stated by Feigenbaum et al. (1998). When we catch up to the concept of privatization, it can allow us to understand the methods in which the state growth may be considered conditional instead of determined as well as its divergence and shifting instead of being universal. It is argued by Feigenbaum et al. (1998), that the failure of the contemporary literature to understand privatization is because of its over-eagerness to construct a boundary of understanding considering that the privatization as a phenomenon represents a sharp edge with the past that needs to be wiped clean on the cognitive slates so as to unhinge the future state growth speculations from our previous growth understanding. Furthermore, Feigenbaum et al. (1998) pointed out that when the previous theories on the growth are discussed, it can provide insights that can lead to the understanding of privatization in a better way.

According to many commentators (Cowan (1990), Berg and Shilley (1987), ... etc), the public enterprises have been less competent than the private entities. It has been pointed out by John Waterbury that this sector has been responsible for multiple tasks. The tasks include the employment regeneration, the improvement of infrastructure, advancement and absorption of modern technologies, supply of services and goods to the employees, providing financial support and the creation of competition with foreigners who trade in the same services and goods (Waterbury 1993). The state mostly keeps a safer side for the public enterprises, by providing them a position of monopoly in the market. Moreover, they have also been provided with protective tax rates and soft constraints as customers and suppliers of specific services and goods. With so many incentives already present with the public enterprises, their motivation for enhanced performance reduces and this eventually deteriorates their overall performance and profit margins. The greatest threat that these entities face comes from the international market.

Privatization has proved itself as a phenomenon that does not bring quality of work, but increases productivity along with lower budgets. There are a few people who do not believe in the superiority of the private sector. They believe that private entities just have one sole purpose behind their existence and that is profit maximization. Therefore, they work their best to achieve it. It is even convenient to measure their performance in the light of just one objective. While on the other hand we see that the existence of a public entity is subject to a number of reasons. The public enterprises is basically used by the government to pursue various non-commercial objectives.

The non-commercial objectives include generation of employment, keeping lower prices etc. Measurement of SOEs performance in comparison to the private sector

is difficult because here the measurement would be based on the non-economic goals of the entity. In addition, there is another issue of property rights. Within this issue we see that a number of shares in the SOE are owned by the general public who are dispersed in the locality. While on the other hand, the private entities are managed by one owner, thus enabling it to be more closely monitored. Close monitoring would definitely bring out more fruitful returns, while in the public sector the existence of the agency problem prevails. This agency problem can only be solved when the ownership is changed. However, the problem does not lie in the property rights; in fact it is the nature of the objective that affects the entity. Even a public enterprise can be treated as a private one; this can be done if the public entity is brought in an open competition environment, where its objective would be of profit maximization, the employees of the public company would also be given added incentives so that they can perform at their best. Multiple owners mostly own the private entities, and their agency tribulations are no different from the public enterprises. The managers who run the business are after all the employees of the owners (Shapiro and Willig, 1990).

Analyses have revealed that public enterprises lack the check and balance mechanism, which is found in the private enterprises. If in an entity of a private sector the administrators do not carry out their duties properly, then the quality of products would eventually decline leading to higher costs and lower profits for the owners. In such a situation, the owners have an option, which is to immediately make a change in the working team and bring new employees onboard. The new team would then definitely bring good outcomes. If this is not done then the time would not be far when the company would become bankrupt or would receive takeover bids from other potential investors who have the confidence of bringing better results out of the entity.

The performance of a listed company can be clearly identified by the fluctuations in the share prices, which are openly displayed on the stock market (Adam et al., 1992).

The idea to evaluate the performance of an organization on the basis of stock price on the stock market is not adequate to get the right calculation. Therefore, it is always criticized by the analysts. They predicted that the choice of the right mechanisms of incentives and regulations for public sector managers will entice the government to be an effective owner of a business like an individual or group of individuals. Ideally, it is to the benefit of the government to acquire the ownership of companies that tend to maximize the profit ratio of the government.

The performance of private sector firms is good compared to public sector organizations and the improvement in performance is because of the SOEs division, as described in many empirical studies (Galal and Shirley, 1994). However, it cannot be taken as the final provisions of the study. There is the need for a lot of research that would be able to give forth another perspective for developing a fundamental relationship between the public enterprise and the objectives of non-commercial enterprises that needs to be researched and elaborated.

However, a government can generate its earnings through imposing taxes on private sector revenue if it is not able to have direct authority over state businesses. Whereas the social and political benefits of government are sometimes carried out in the favor of SOEs of private sector because of access to large volume of resources. Consequently, governments often seem conscious about the entry of new stakeholders in the private sector, which can affect the performance of SOEs in the achievement of non-commercial goals. This also becomes more important in the presence of high

competition and inefficient workforce in the public sector, which causes the lower profit volume of the government.

The greater centralized control of the process is the idea that is reinforced by constant privatization related to the efficiency rationale. This is because of the fact that central government is responsible to set goals and objective for the businesses irrespective of the political benefits. To increase community income it is the responsibility of the central government to hinder zero revenue generation investment.

The main objective of the government is to maintain stability in the national economy by increasing the net income through the production of goods and services. This is achieved by setting different goals and the relative policies that help to maximize the behavior of utility. This attitude of government helps to acquire objectives related to the political and social environment and the firm prevalence of the idea of government influence on private sector businesses and their relative future operations. The central measures against public sector firms help to stabilize the market price level, and maintain the balance in the supply and demand factors, services and labor opportunities and founding of new industries. This would help to promote economic development, employment and social welfare and national security. Therefore, a change in policy from dirigisme to liberalization does not mean that the government is deviating from the attainment of goals, but rather adopting new policies and strategies to successfully achieve its goals.

The important role of government in the management of economic activities in the state cannot be undermined, as it is considered that the government has the right to hold onto the business enterprises of the state and revenue generated from the operating

units of those businesses. In spite of having no share in the ownership of public sector business, the government still shares their revenue by charging taxes. In this way, the government shares a specific portion of the revenue earned by public organizations. Although this share of revenue varies according to the ownership structure and share available to the government, the significance of this portion of the stake cannot be denied during the process of privatization. This process does not deprive the government from its share, but rather modifies the structure of the state claims in the earnings of public sector organizations.

However, it has been observed for many years that extraction of resources from SOEs via direct ownership has resulted in the support of these SOEs. This is especially seen in cases when SOEs do not seem profitable enough and others that are liable to have a share in revenue (e.g. suppliers of raw materials, product consumers and company employees, etc.). Thus, irrespective of the ideological preferences of the regime, be they liberal or statist, the government can choose the option of privatization based on other practical reasons. For example, in the Middle Eastern and North African countries the economic liberalization came into being without enforcement of new and irregular regimes. This revolution was led by the very politicians who were against liberal policies in the past but were forced to make changes according to new circumstances.

Often in the emerging countries the straight proprietorship of an enterprise required restrictions on opposition, this provides an open honored admission subscription to underdone resources and customers for the SOEs. This leads to an anticompetitive situation in the markets, as the government does not want to track the dangers accompanying the opposition and has the capability to restrict it. The SOEs

were measured as an addition to the government contraption. Nevertheless, their own objectives experienced development of their individual. The inconsistency amongst the objectives of the government and those of the SOEs is not just due to the aspiration of each of the performers to take a “permitted trip” at the expenditure of the other. SOE executives, as the executives of any initiative, have an inducement to see their business develop as their routine is restrained by the effectiveness of the corporation. For the government, the over extension of a single SOE or a manufacturing subdivision may lead to negligence and declining presentation in other similarly important businesses and subdivisions. In an unchallenged situation, SOEs may advance severe independence from the government, place pressure on the political leaders and also try to figure out strategies and administrative consequences.

In many occurrences, the community segment executives may become much more influential than their administrators in the government, both politically prejudiced and on individual revenue. During the post-transition period in Eastern Europe, one would have severe reservations if they had not substituted the “primary/negotiator” roles. In a few extreme cases, the development of the community subdivision had transported the singularity of cronyism as some SOEs had the benefaction and clientele as their balance from the very start, such as broad economic freedom, comprising monopoly influence, superior loans and agreements, and so on. In addition, they have been extended to preferred firms in return for political provision (Haggard 1988). Privatization in these situations leads to detaching expensive client based associations and recapture control by the administration over economic association. From this viewpoint, it is logical to imagine that a privatization approach-connecting preventive the contribution of the other related players in making the significant conclusion would be reliable with the task of combining the administration’s consultant.

The development and the reduction of the community segment has been observed in the literature as the approaches of the governing leaders to modify the current political and social alliance and figure a new one rendering to the development of the government. Denationalization, as well as nationalization, has, therefore, been understood as an established form of “give and take” strategy as an outcome of which certain collections of people get advantage while others experience sufferers. The administration follows denationalization with the purpose of minimizing the impact of the upcoming and insures the provision of the previous. Bienne, Waterbury and other philosophers have revealed the alignments of the possible alliances that can be attended or destabilized by denationalization. At one excessive, they have found the mainstream combination of significance replacement based on a leading community division and including principally systematized employment, communal division executives and personnel with definite revenue, urban interest with prestige. Alliances endorsed the redeployment of revenue “from countryside to city inhabitants and from comfortable to minor income divisions, at the other excessive , they have come upon the local private businessman, exporters of manufacturing properties, commercialized unindustrialized manufacturers, the travel industry etc. (Waterbury 1989). “The previous association would include government personnel and beneficiaries of supported community services; the final would encirclement “entrepreneurs” large and small. In one situation, the government delivers facilities; in the other, it retails properties” (Ikenberry, 1990).

The theories on denationalization have suggested that the participation of civilization in denationalization can barely be very dynamic. Frequently, collections and entities have indecisive assertiveness as the remaining advances are not undisputable. However, although denationalization may provide chances, it also needs thoughtful

determination on the prospective recipients` behalf, i.e. both to capitalize possessions and to route dangers with an extraordinary gradation of indecision. Entering in these kinds of assemblies is incompatible, so a clash of welfares might raise in manufacture the stability amongst the “winners” and the “losers” even more unpredictable.

3.2.2. Arguments for and against privatization

The research of privatization has proven that large-scale regional private organizations, especially of the bigger ones and those that need innovative, technological and expert managing skills, usually comes out in cases as the key prospective customer of the divested SOEs. Normally, although all big organizations support privatization, they are unlikely to invest in any organization if there are no obvious possibilities for income far above the normal. It is noticed that most of the SOEs going through divestiture are money-losing organizations. These are effective ones too, but the condition would rather keep them for as long as possible they produce income. There is only one remedy to this situation, such as big online organizations would get divested SOEs only if these organizations are provided at a significant lower price, i.e. at a price well below their real value. That is why a variety of scholars have agreed upon one theory that privatization includes paying off personal industries and private companions on conditions a priori objectionable to the government (Starr, 1988). However, this does not seem to be reasonable – it is not even supported by well-organized and developed countries, such as the US, where, especially in all the initial community offers to the organizations, they are sold on for less than their real value and the IPO premium is a way to represent its difference, which is a reasonable gain for the client who is supposed to be a part of the risk when an organization goes public (Starr, 1988).

Another severe problem also exists that cannot be ignored. In the under developed countries, privatization is not so powerful as in developed countries because the private region cannot aggressively get involved in privatization. It does not have a sufficient economic platform (most companies are extremely utilized and rely on public industry financial institutions for funding of their present operations); it is cautious about revealing information about its functions, which makes it difficult to improve investment on the stock market; participation of private sectors and corporations in technological development and innovation growth has been relatively low.

The basic problem here is the rent-seeking characteristics of the personal organization, which were designed by the state with agreements on preferential terms. Under the significant changeover technique, it was protected from competitors, both international and domestic, and would find it difficult to endure if it were introduced (Ramanadham, 1993). Moreover, many countries have introduced a tendency for private corporations under “unreported, unlawful or semi-criminal activities”; they are involved in “dysfunctional business activities, smuggling, economic and financial scandals, extensive tax evasion, and other [similar - BB] activities” (Ramanadham 1993). Through these justifications, scholars have concluded and believe that the assistance of regional private organization for privatization should not be avoided – it would take part only on their own conditions, which are likely to be different from those of the government.

The end result of privatization comes in the form of the lowering of cost as the firms start to use the resources efficiently and produce goods at a lower cost, which enables them to sell at a lower price to the consumers. In the short run, the prices may go up as the subsidy would get removed off the goods and services, which previously

were subsidized but it gives them the freedom to buy the goods and services without facing any hassle of shortage of supply. It was inferred that the use of subsidization for a small portion is beneficial in developing countries that used subsidized services and goods (Galal and Shirley 1994). There are two reasons why the consumers do not support privatization, first there is a tradeoff involved in it. The tradeoff is between the lower costs in the long run and in the short run high initial costs of the previously subsidized goods. The second reason is that the consumers are scattered and that results in problems when a group action for privatization is to be taken.

The foreign investors also have an important stake in the process of privatization. There are many expectations of the government of the country in which the foreign investors want to invest. Expectations from the foreign investors are the provision of capital to the countries short of capital, to bring in new technology in the country in which they are investing and to improve the external debt position of the country in which the privatization is being done. On the other side, the investors will only invest in those companies that have a good past record, have a possibility to be profitable in the future and only in those business whose goods and services are demanded globally. The foreign investment can also lead to political problems in the host country of the companies/firms working under foreign investment. The foreigners can force the host country to sell the companies that are of strategic importance to the host country. It is rightly said by Cowan (1990) that in the case of the opposition being strong enough, it will most likely force the country to privatize the companies of strategic importance then the foreign investment can prove to be a strategy to lose.

Another group that has an important stake in the privatization is the workforce of the companies. As privatization means an increase in the efficiency of the company

through methods, such as better allocation, mechanization, cost cutting by laying off the employees, etc., this will lead to an increase in the unemployment levels of the host country. These workers do not just lose their jobs but they also lose other benefits, such as social security, medical allowance, pension etc. For this reason of loss of the numerous benefits, the workforce of a country is least likely to support the government initiative of privatization. The high degree of presence of labor unions, etc., imposes a barrier in the way of privatization; this problem has been tackled by some governments. The governments have tackled this problem by taking into account and providing the benefits that the workforce will lose, and by providing a good remuneration package to those who decide to work for the privatized company.

Another important issue in the process of privatization is the managers of the state-owned firms; their attitude towards privatization is quite unpredictable. A dire need for the managers to stay with the firm after privatization emerges as a result of their experience of managing the affairs of the company. Their presence after the privatization will ensure the proper management of the company. A number of managers at the state-owned enterprises are also employed as a result of political influence; those managers are merely employed due to the political influence instead of their competence for the position. Many managers of the companies prefer the protection given by the government because if the protection is given to them they do not have to worry about a number of factors. The factors, such as the competition, the inputs, production standards as they are quite flexible under the government protection, subsidies, protected markets, etc. in the process of privatization many state-owned enterprises go bankrupt because they are unable to perform effectively and efficiently due to the protection given to them. Privatization is a threat not only for the managers employed by political influence but is a threat for those competent managers as well.

For this reason, they do not support the process of privatization because of the loss of jobs and other benefits. They support divestiture only when they see a possibility of their benefit in it. The buyout by the management of the company can result in many conflicts due to the interests of that management. The managers, when buying the company will pay the minimum amount possible. The reason for paying the minimum amount is that the managers will try to take the company towards bankruptcy and then the management will buy it for a very small amount of money irrespective of the value of the company (Cowan 1990).

One of the methods for resistance towards privatization is bureaucracy. As a result of privatization, those officials who have the status and power to have a direct control over the management and may lose their standing and power may not like it (Cowan 1990). In the case of privately owned companies, bureaucratic supervision is required but only those with a specific skill set, quite different from the ones required for SOEs. This scenario reduces the job opportunities as well as chances of corruption. Due to the limited supervision in the case of privatization, the number of seats held by bureaucrats on the SOEs board reduces. In addition, their own job is at stake. The literature review shows that although the protest by such bureaucrats is rarely verbal it is a considerable one. The tactics include raising hurdles in the way of potential investors, foot-dragging, and misrepresenting the government's actions in front of the public. This is done through organizing various meetings, loss of files and delaying in issuance of directives (Cowan 1990).

Intellectuals seem to maintain a relatively indecisive attitude towards the privatization phenomena. Some of the reasons for their resistance towards the process of privatization include distributional disparity, insufficient liberty to initiate and

implement the policies. Although it is difficult to actually estimate the ultimate results of privatization on the part of intellectuals, they can modify the public opinion in order to support the interests of other groups. If we consider liberal intellectuals on the other hand, then these are very strong supporters of privatization since they consider the public sector as a problem creator, and believe in having liberty, similarly in the case of the economy and want civil society to be independent.

It cannot be concluded which one of these two is a clear winner in the short run. In addition, the losing party will still have the capability to oppose governmental policies. They cannot be expected to support the privatization process; therefore, any such expression on the part of them is questionable by the theorists. Hence the privatization is least expected to produce a new electoral partnership. This imposes limitations over the speed and scope of a privatization plan (Onis 1991). Privatization can only be proved to have an impact over the coalition management if the government can associate it with a broad populist agenda (Onis 1991); if the public assets are available underpriced since it will ensure the divestiture (Suleiman and Waterbury 1990); if the corruption by previous government is associated with the performance of public sector and divestiture is presented as a part of rupture (Haggard 1988); or if the debt to equity swap option with the foreign creditors is considered for funding the external debt (Reding 1989).

To make any privatization successful, the efficient handling of the coalition is very important which is difficult for a government that wants a change. Generally, as the majority of the stakeholders resist the privatization process, in order to play safely, political support should be sought out. The political involvement is likely to bring in

incentives in order to maintain loyalty of the partners involved in the coalition. In addition, it will also reduce the resistance of the stakeholders.

We can conclude that there are many theories on privatization phenomenon and clearly there were five theories which specified the comparison between private and public enterprises as in table 3.1 (1)Agency theory (2) property right theory (3)Public choice theories (4)Organization theories (5) neoliberal theory. From those five theories there are three theories which is appropriate for the case of Yemen privatization that are (1) public choice theory, (2) organization theory and (3) neoliberal theory.

TABLE 3.1 Theories on Privatization

THEORY	CENTRAL ARGUMENT	IMPLICATIONS AS FIRMS MOVE FROM STATE TO PRIVATE	STUDIES
Agency theory	<ul style="list-style-type: none"> - Agency problems and the solutions of the problems which correlated the type ownership - Agents assumed to maximize their own utility instead of firm utilities. 	<ul style="list-style-type: none"> - Changes in managerial incentives - Changes in corporate governance - Changes in control systems 	Aharoni (1981) Kay and Thompson (1986) Sappington and Stiglitz (1987) Vickers and Yarrow (1988, 1991) Caves (1990) Estrin and Perotin (1991) Martin and Parker (1997) Shapiro and Willig (1990) Bos (1991) Bos and Peters (1991) Laffont and Tirole (1993)
Property right theories	The more direct and unattenuated are the rights to property, the better the assets will be used	<ul style="list-style-type: none"> - Incentives for management - Clear lines of accountability - Commercially oriented 	<i>Alchian (1965)</i> <i>De Alessi (1980, 1987)</i> <i>Borcherding (1983)</i>
Public choice theories	<ul style="list-style-type: none"> - Go after own utility by the politicians instead of public utility. - Enforcement happened of SEOs to gain political interest, which could lead to inefficiency. 	<ul style="list-style-type: none"> - Incentives for management - Clear lines of accountability - Commercially oriented 	Zeckhauser and Horn (1989) Haskel and Szymanski (1992a) Boycko and Vishny (1996)
Organization theories	<ul style="list-style-type: none"> - Concentrated on the organizational characteristics of private firms. - Like ; incentives , control mechanisms, culture, objectives, organization structure, communications/reporting systems, nature and location of the business, management, and 	<ul style="list-style-type: none"> - Less political intervention - Increasing search for efficiency - Reducing social considerations 	Fernandez (1984, 1985) Perry and Rainey (1988) Ricart et al. (1991) Bishop and Thompson (1992) Parker (1993, 1995) Martin and Parker (1997) Walker and Vasconcellos (1997)

	labor		
Neoliberal theory	<ul style="list-style-type: none"> - The neo-liberal mainstream assumption about market failures asserts that they result from a lack of market functioning or else from too much regulation. - minimization of the State will create the conditions of “perfect competition” 	<ul style="list-style-type: none"> - Competition: individuals/business organizations/nations compete on an extending market 	Bourdieu (1998; 2001) Chomsky (1999) Touraine (2001) Saad-Filho and Johnston (2005) Plehwe et al. (2006) Clarke, S. (2005) Thorsen, D., & Lie, A. (2000)
SOURCE : (Villalonga 2000)			

3.3. The Political Determinants of Economic Performance and underpinning of privatization

The political impact on the economic reforms was a subject of theoretical inquiry in older studies before the privatization phenomenon. In the political impacts on the economic reforms, the economic performance is highly influenced from the political regime characteristics and is considered as one of the most influential aspects. Political scientists had very different perspectives at different times in recent decades. Most of the time they were following the discipline mood. In the early decades of theorizing modernization in the 1950-1960s, when it appeared that “all the good things work together” most of the theorists of that time accepted a simple positive correlation that there is a relation of significant importance between the successful economy of the region and a liberal government and also vice versa such as between authoritarianism and bad economic performance. Mostly they only offered simple conclusions, and, very often, they compared countries not having the same set of denominators and also ignored the other possible reasons for the difference in the outcome. They failed to justify over the time the persistence of this simple correlation (Coleman and Almond, 1960).

Samuel Huntington challenged this simple correlation perspective by arguing that instead of political liberalization it is political order that has the potential for producing economic progress. Moreover, the social dislocations are caused by economic and political modernization and that these social dislocations become an obstacle to future economic development. This kind of criticism against simple correlation perspective started soon after the end of the 1960s and these scholars proved that “all the good things do not go together”. Moreover, Huntington also concluded that the state capacity to deal with these development targets should be the function of “the government form (dictatorship or democracy)” instead of as earlier practiced, “the degree of the government”. He concluded that the latter has less importance than the former method and also supported his conclusion with the history of industrial countries. “In the continental Europe, as the most contemporary modernized countries, they centralized power and rationalized authorities and all these necessary for both unity and for making progress. The opposition for this modernization came from the conventional and traditional interests: regional, religious, local and aristocratic. For the economic development, the rising of new social concepts and groups, breaking the old order, breaking down the privileged and restraining of feudalism and several other aspects the centralization of power was mandatory.” (Fukuyama and Huntington, 2006).

Huntington and Fukuyama (2006) concluded that the initial need of developing countries is concentration and accumulation of power, not dispersion of these powers, and that this lesson is for Peking and Moscow and not for Washington. Both the U.S. foreign policy makers and leaders of developing countries took the prescriptions of Huntington’s policy very seriously, in spite of huge criticism in academia about this point (Belev 2000).

Furthermore, it is clear that it would be hard to get a common solution to all these theories. In the 1970s, the conflicting ideological preferences and practical policies “the dependents and developmentalists” presented the existence of multiple intervening factors’ (e.g. the civilian society, international environment, etc.), which influenced the economic performance and nature of the political regime. At this point, it would be better that instead of focusing on specific issues – growth investment and inflation – the main focus should be on the notion of economic performance deconstruction. This helps them in achieving better results of similar economic reforms cases and to explain the successful or unsuccessful experiences of development in a better way.

Democracy and property rights are two major variables that are closely related to each other and are discussed on a theoretical basis. Property rights are of great importance for every country or government and have proper legal documentation. These rights sometimes become threats to the government as private sector people like labor, property less people do become a threat to the country regarding certain legal aspects of these rights. Governments do take serious action to protect these rights but somehow or the other the private sector violation causes threats to the state. It was stated by Engels and Marx in the nineteenth-century that the relationship between democracy and property rights are totally inverse because democracy is basically providing everyone with equal rights and under the case of property rights no equality of practice is observed regarding wealth (Przeworski & Limongi, 1993). However, according to the theorists of the twentieth-century, they said that authoritarian governments mostly face worse economic conditions because they have to deal with small society based problems while diplomacy increases in allotting the justice under property rights cases. Douglas North stated that rulers must be committed and try to set

the proper rules and regulations for the market. He also said that although property rights are crucial for the growth of the state economy they did not present any proper linkage of democracy and property rights (North & Weingast, 1989). In a continuation of his statement, Mancur Olson further stated that the government should complete its regime so that the rules and regulations should be followed accordingly and the leaders could prove their commitment to the state. According to him, the more the government is insecure the more corruption there will be among the leaders (Olson 1991).

The state government should be particular in making free and moderate political rules and regulations. It should be obvious whether long-term expansion or short-term utilization is favorable, which can lead the people to discourage savings and results in the economic decline. It has been commonly observed that the large number of political parties' participation in the government increases the pressure on the government causing great damage to the economic growth. The government faces critical situations under these circumstances in which it has to hold back such demands by using alternative measures and isolating them from the support. If these measures are related to the scrutiny of democracy, then the government cannot prosper by following them, it can only continue by using those alternative measures that are against the demand of majority (Huntington and Fukuyama 2006). People who support this opinion to run a state favor dictatorship. According to them dictatorship is far better for such structural modifications that require large investments in the human as well as material resources, and which results in the huge decline in spending, providing the lowest living conditions in the developing countries. However, if the political parties opt for these measures they cannot succeed at all, no party can meet success on such sacrifices for their glowing future in democracy (Przeworski and Limongi 1993).

Up until now the discussion has supported the authoritarian style of leadership, which has not been challenged yet. According to Atul Kohli, if the authoritative rules and regulations could favor the growth and development in third world countries, as a renovated policy could only be followed by taking serious measures by the authority involving inferior levels of the government who are usually responsible for implementing the policies of government. Atul Kohli also stated that it had been observed that some of the authoritarian governments had succeeded to turn the centralized control towards development by using force to bring about remarkable changes in the behavior of societal groups (Kohli 1994). If the government control is improved then one of the state leaders should commit himself to complete the developmental projects according to the drawn policies. The point should also be considered that if that leader did not allow any other person, such as bureaucrats and other low-level officials, to be involved in such projects then soon he/she would lose power, which could lead towards the failure of the developmental project. Quoting the reference of Mobutu, many theorists, including Thomas Callaghy, explained that Zaire is a typical “predatory state” in which corruption and personalism is observed following the policies among the lower level bureaucrats (Evans et al., 1985).

East Asian NICs are good examples of the authoritarian governments that have shown remarkable economic growth during the last part of the twentieth-century among the developing countries. This success was because of some of the key abilities of the authoritarian governments by protecting policy making tasks and implementing them by required force, specifically, those relating to multinational industries, unions, and labor divisions, etc. This discussion helped a lot in making a comparison of the experience among East Asian NICs to most of the countries of Latin America. There are many favorable factors that make the authoritarian style of government popular, which include

that, “they enjoy the independence as they face less pressure and have great opportunities to get the maximum resources, easy access to public goods and also to impose short-term prices favourable for economic growth” (Haggard 1990). The essence of the above discussion is that the authoritarian style of ruling, i.e. not very liberal period, can be proved to be more successful than the democratic style, as we have observed the bad impacts of democratic regimes in developing countries (Przeworski & Limongi 1993).

The research conducted during the period of the late 1980s and early 1990s on different government styles like democratic, authoritarian, etc., gave a thorough comparative study of the economic performance of states with the supportive hypothesis following in the last decade (Haggard et al., 1992). The researchers were very particular in their research work from the point of how the political factors affect the economic growth of the countries. Among those researches Robert Kaufman and Barbara Stallings (1989) gave logical differences faced by the authoritarian and democratic styles of rule in respect of conflicts and economic strategies followed by the state when “political adjustments are required for making problematic domestic policies for major economic reforms”, as was observed during the economic crisis of the 1980s including high taxes, low domestic expenditures along with debt liabilities Both of them discovered that in Mexico and Chile, etc., the authoritarian governments followed the old policies proposed by IFIs made by the most experienced technocrats having in depth neoclassical assurances. To follow such policies was not an easy task for the leaders having limited powers and in handling the influence of bureaucratic powers in controlling the protests of the majority sector (Stallings and Kaufman 1989). Whereas Costa Rica as well as Columbia are good examples of democratic rule where mixed

responses were observed in response to crisis. The following are the main dissimilarities and similarities with the authoritarian governments:

- 1- Both the governments went for devaluation and credit restrictions as the democracies that were well-known were interested in bridging the gap between various interest groups and the government. The purpose was to build trust and moderate economic activities among the parties (Stallings and Kaufman 1989).
- 2- The authoritarian governments went way beyond just restructuring their economies.
- 3- All the regimes want to stay aloof from having conflicts with foreign creditors.

Democracies that were in the process of evolution, such as, Brazil and Peru, often tried a heterodox package and embraced measures that encouraged consumption and counted on administrative controls instead of fiscal and monetary demand management in order to limit inflation, while jarring with local business classes and the IFIs action of reducing interest payments on the external debt (Stallings and Kaufman, 1989). Stallings and Kaufman confessed to the consequences of the reform efforts, in that there might be numerous elements that should be taken into account, which includes the scale of the external shocks, the power of the national economy, the resources that are accessible, which might reduce the difference between the political governments. On the other hand, they determined that the nature of the government might have a conspicuous effect on economic performance. The transitional democracies, countries going through political liberalization, with the aspect of economic stabilization, “had a tendency of having considerable problem in budget deficits and high inflation” (Stallings and Kaufman, 1989); “recognized democracies possessed less than the average values, like right-wing authoritarian government in Chile”, but this was not the case for Mexico. In well-known democracies, to real wages,

“fiscal moderation was effectively pooled with fairly large real wage increases, in transitional democracies, higher increases were still seen” (Stallings and Kaufman, 1989).

As for the rates of growth, the traditional belief that more authoritarian governments would earn more success, because of having more capability of favoring long-term investment, was not proved correct (e.g. Mexico had a bad record). For the balance of payments, “as authoritarian governments are assumed to be having more capacity to fulfil domestic demand and produce surpluses, it is believed that they can reduce the size of their balance of payments deficits, better” through the promotion of exports and discussing debt relief (Stallings and Kaufman, 1989).

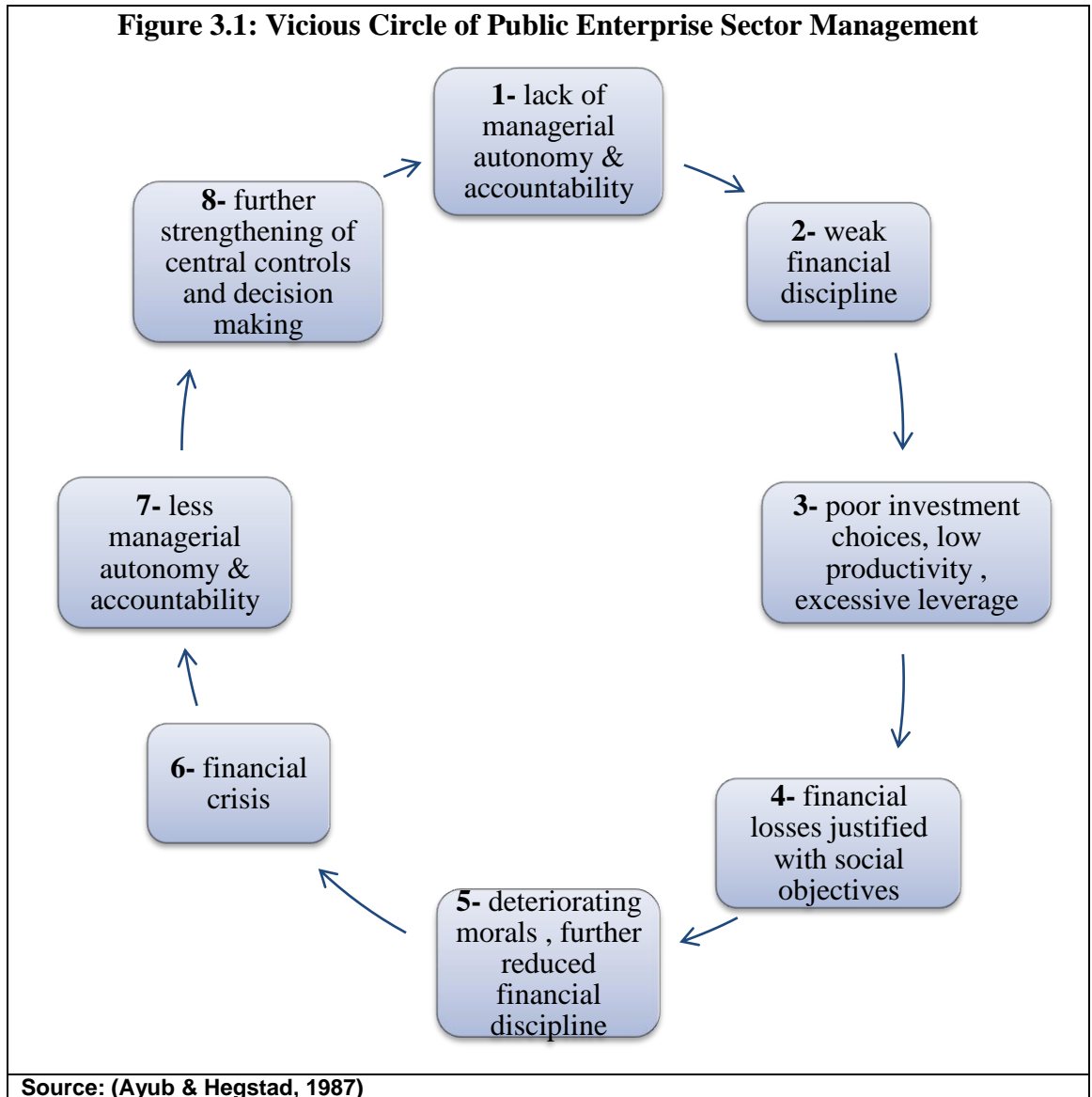
Another theorist who studied the performance of various political governments was Karen Remmer. She looked at the performance of the political regimes on discrete economic indicators. She compared the performance of the policies of old and new democracies and authoritarian regimes in Latin America for 1982-1988 on numerous indicators (Remmer 1990). Her claim was in contrast to that of Stallings and Kaufman. She claimed that, generally, there were no major differences in democratic and authoritarian governments, and that democratic governments were more efficient in crisis management than authoritarian governments. In Latin America, new democracies set the best records in the area of employment for which the old democracies had a poor history. The average annual employment rate of the new democracies and authoritarian regimes seem to be the same, as no statistically significant difference between them has been found.

In addition, a similar pattern in the economic growth, changes in government deficits with respect to GDP, and real wages, which are two opposite extremes, instead of two new democracies and the authoritarian regimes, was witnessed by Remmer.

Unsatisfactory performance of SOE has been described (by Ayub and Hegstad 1978) as a vicious circle, in figure 3.1. The limitations of SOE managers in directing and deciding has led to poor investment choices, low productivity and too much influence of capital structures, which brought losses. It came from extensive government controls and organizing SOE combined with pathetic financial discipline. This is the reason why firms could not increase their resources. With the compulsion for achieving social goals, non-commercial responsibilities also became one of the reasons for the poor performance of SOEs. It was because these obligations were not clear as they were made of multifaceted preferences that were difficult to sort out in reality. Managers defended their bad results with reference to a gathering of social objectives. It has been anticipated by a number of governments that SOEs do not give high importance to financial profitability (Ayub & Hegstad, 1987).

Privatization is believed to improve corporate performance and help countries to flourish, but what it actually does is still not clear. According to a cross-country aggregate study (by Sachs, 2001) at a macro level, privatization alone does not lead to GDP growth, but when it is accompanied by in-depth institutional reforms it is seen to be giving positive results. A variety of outcomes has been seen from the surveys of privatization on the firm level. The outcomes ranged from no positive noticeable effect of privatization on performance (Bevan et al., 1999), to concluding carefully that privatization globally enhances the performance of the firms (D'souza et al., 2000), to being quite self-assured that privatization does improve performance (Shirley and Walsh, 2000) and (Djankov and Murrell, 2002).

Figure 3.1: Vicious Circle of Public Enterprise Sector Management



The reason for the different impacts of privatization on firm performance could also be that the studies were conducted on a different data set with limited access to corporate government issues (ownership structure and/or board of director composition), which produced inconsistent results.

Both political and economic motives are involved in privatization. The economic motives, however, are broadly discussed in the literature, as the two are entangled. According to the authors, the governments want to bring an improvement in income distribution and so they diminish public service disparities in the country.

Mostly, governments look forward for permanence, both political and economic, in times of crisis and unrest in the country and so they go for privatization. A number of motives are directly concerned with a country's privatization success. Many authors say that the only way of measuring it is by comparison of the results against particular objectives and goals of the government (Aharoni, 1991; Domberger and Piggott, 1994, and Ramamurti and Vernon, 1991).

The dependency on the private sector and market forces increases with privatization. It has been argued that during the shifting process of responsibilities from the government to the market, the institutional framework also gets altered because of privatization through which citizens, companies and organizations express, intervene and promote their individual and shared interests. Although the particular outcomes of such an institutional change are ambiguous, some doubt that major consequences would have to be borne. For some of the groups the interest would be clear and willingly promoted, while others will experience the opposite. The battle of goals and interests is what politics is all about. Various researchers have advocated that privatization is a result of either economic logic or a political objective (Feigenbaum et al., 1998).

3.3.1. The administrative perspective

Privatization has been presented by the administrative perspective as a sequence of existing options to public officials who are in the quest of making the government perform better. Specifically, in the United States, the "good government" orientation has been mirrored by the privatization discussion. This point of reference assumes the subsistence of a comparatively particular collection of public objectives. These public objectives are acknowledged as lawful, as they came into view by a democratic method,

consideration by recognized proficient, or affirmation by well known organizations. With public objectives obvious and acknowledged, the vital duty for public administrators is to follow judiciously the most resourceful and effectual way to those ends.

The organizational viewpoint for privatization, corresponds to a “toolbox” of different methods. With the help of these methods the organization may choose the most suitable in order to achieve the required objectives. The tools that are presented are indenturing out, user charges, receipts, beneficial sales, and load shedding. The organizational viewpoint assumes that the government administration should try to work their best for public interest, keeping in consideration the restrictions propounded by unsatisfactory information and the imposition of personal unfairness. It also admits that the competence and usefulness of precise schemes could rely upon the administrative and monetary framework (Feigenbaum et al., 1998).

Advocates of the organizational prospect look for denoting the situations below which various privatization tools are probably intended to work well (Bendick Jr., 1989). The organizations say that no good way is presented by the government to practice the social good. In some conditions, the government may fully support and may unswervingly offer good assistance, while for various other conditions, the government may sponsor recipients who then acquire their preferred services from private creators. Aspects like the divisibility and tangibility of the assistance, the level of antagonism within the privileged supplier cooperation, the accessibility of information, and the administrative capability of government must be pondered while taking into account which method or technique to follow.

3.3.2. The economic perspective

The economic viewpoint portrays privatization being the predictable outcome of the neoclassical fact that states the renunciation of an immense, invasive, and scrounging state. From this viewpoint, there are both comprehensive and micro rudiments. The comprehensive propose that configurationally there are constraints to the comparative bulk and invasiveness of the community, that faction away from those confines is continued merely for the short-term, and that an attempt to argue with this economic truth is unavoidably answered in debility and regression (Becker, 1992).

This analysis repeats the point of view of the right and left. The right, obviously, has constantly claimed that the expenditure of the wellbeing region direct to voracious taxation, as a result of which incomes are decreased and also the private investments are decreased. Whereas, the viewpoint on the left, is that the viewers claim that the wellbeing rules of Keynesian of the post-war time, essential mutually for the justification of capitalist government and like a urge to industrious speculation, endure from political methods that assign capital absurdly, as an answer to supremacy rather than necessity (O'Connor, 1973).Thompson highlights the extension of source of region in the self-concerned attitude of officials, politicians, administrators and beneficiaries that achieve more in their job as recipients than they mislay their job as taxpayers (Borcherding, 1977).

This methodology portrays the territory sector as being created of entities judiciously following one's own material benefit, the summation of whose proceedings direct to a comprehensive level of ineptitude. Consequently, privatization is depicted as a process that acquires assets from the administrators and hands over those assets to the capable concealed hand of the market.

The economic viewpoint is likely to classify privatization proposals with three foremost principals: tenure, competition, and the arrangement of advantage to price. Transaction of state resources unreservedly is considered as the best mode of privatization, on the other hand, it decreases the public sector discrepancy, decreases the volume of governmental equipment, transfers verdicts to the private sector, which is most probably more familiar to market signals, and provides the opportunity to more people directly in endorsing economic expansion. Increasing the confidence of viable forces without altering tenure – while government contract out for public services – providing liability for adjusting and implementing objectives in the public sector, however, it seems to have the benefits of endorsing competence and decreasing the issue of bureaucracy. Arrangement of price with advantage – while services are subsidized by consumer charges rather than profits of general tax – is supposed to indirect obstruction growth of the government, by lessening the capability of the government to provide various services regarding true market worth to those who utilize them (Feigenbaum et al., 1998).

3.3.3. Administration and economic perspectives limitations

The disappointment with both the viewpoints comes from three bases. First, as an introduction to privatization frequently borrows notions and terms from these two, the chief grounds of the organizational and economic viewpoint are not in agreement with each other. While the organizational viewpoint assumes public organizations to be comparatively informed, aggravated by a beginning of wider interest, and performing with a level of freedom and prudence, the economic viewpoint observes the public administration as having no apparatus to charge market signals, aggravated by the

aspiration to fit a larger amount of the public worth for themselves, and, consequently, by financial and economic forces that act for their own reason.

The two viewpoint's also have indistinct vital differences. The acceptance of a specific form of privatization can be of less importance than the differences in the path in which privatization is devised and put into practice. It is difficult to contract out undefined and ill-conceived projects, when administrations rely on the person who gives contracts for data activity, or at the time when workable providers are not present. In the same way, to sell SOEs are not only efficient, but have been rearranged to endorse more competition and this will be efficiently supervised by suitable equipment (Caves and Christensen, 1980). The other is to sell off the public valuables just to close a bit of, which is known as the short-term budget gap, to shift a public domination into private domination, or to give a sure gain to respected followers.

Lastly, the two viewpoints do not highlight the political directions of privatization initiated in the disagreement of interest between the groups and classes having competition. The description of privatization as monetary adjustment is most limited and excessively deterministic; it minimizes the real variety in behavior of a region and the citizens having identical aim circumstances; it downplays the inspiring supremacy of non-monetary forces like ideology, ethnicity, nationality and race; it does not succeed in recognizing the indeterminacy and fluidity of the separation between public and privatization (King, 1987). Whereas, the description of privatization, like pragmatic adjustment, distinguishes privatization as a choice that may be selected or could be refused, it exaggerates the level of social agreement concerning the objectives and aims. By targeting the collective advantages, the expenses and advantages are divided among the racial and classes that are based on groups, it pays no attention to the potential for

privatization roots to change the interests of politicians; and, in addition, it does not succeed in tackling the wider ideological arguments about being highly developed in the name of privatization (Barnekov et al., 1989).

3.3.4. A political perspective

The fundamental dispute is that the movement of wider privatization is, in most of its demonstrations, clearly understood as a political process rather than as a scientific process to alter circumstances or as an outcome of economic rights (Feigenbaum and Henig, 1994). Instead of dealing with privatization as an alternative between sources to attain familiar and wide social objectives, we debate that privatization frequently form of an approach to convert the state policy and rearrange organization and choice – forming a procedure to benefit the objectives of some groups over the challenging ambition of other groups. As shown in table 3.2, this political viewpoint varies from the organizational and monetary advancements in the main inspiration credited to political performers, the main unit of evaluation engaged, and the fundamental idea of privatization produced, planned, and logical (Schneider, 1990).

- **Privatization strategies**

There are at least three types of privatization strategies; pragmatic privatization , tactical privatization , and systematic privatization.

Pragmatic Privatization shows most of the properties regarding the organizational viewpoint but having one vital difference: while the organizational viewpoint shows this collection of properties as being applicable everywhere, the political viewpoint does not deem this privatization to be continuous context episodes. This type of privatization is

fulfilled by bureaucratic units that are derived from the push and pull of stresses by politicians. American municipal agreements for private stipulation of public jobs give a better picture. They are often familiarized as technological answers to fulfill an instant social issue.

	Administrative	Economic	Political
Emphasized Goal	Achievement of social defined goals	Maximization of individual's utilities	Redistribution of power and control
Unit of Analysis	Discrete societal problem	Individual/firm	Group/class
Concept of Privatization	Tool box	Preferred mechanism	weapon

The main players regard privatization as one of the many substitute ways through which they can support the familiar social concerns. While making a decision as to whether an enterprise should be privatized or not or the time when it should be privatized, little attention has been given to the political repercussions and philosophical stability. On the other hand, strategic privatizations are encouraged to accomplish immediate political objectives of specific parties, interest groups or politicians. They try to change the equilibrium of power by pleasing devotees and inviting partners. In several instances, privatization is strategically regarded as a type of differentiation in the political product. For instance, in France, during 1986-88, the Chirac government initiated the program of the sale of assets, which appeared to focus largely on getting the highest number of votes through the advertisement of a unique program, which was different from the routine traditional practices of the communists(Feigenbaum and Henig, 1994).

General privatization tactics similar to those prevalent in Eastern Europe these days, are aimed at restructuring the whole society by changing political and economic institutions together with the alteration of political and economic interests. General privatization tries to 1) reduce the expectations of the people about the performance and responsibilities of the government, 2) to reduce the mistakes of the state-owned enterprises and its implementation structure, and 3) to change the interest group setting so that its contribution to the progress of government decreases. In the context of Weberian practice, the typology have selected is a logical concept focusing on learning by conceptualizing main hidden aspects of the communal behavior (Feigenbaum and Henig, 1994).

Per se, it unavoidably has several shortcomings that are characteristic of sort. Initially, by stating particular groups as “pure”, it tries to minimize the intricacy of the case under consideration. Plans are frequently developed by many people having distinct purposes, therefore, particular privatization ventures hardly contain uncontaminated instances of any particular form.

Several people may find a policy attractive because of its long-range ramifications; therefore, Margaret Thatcher supported privatization as a means to change Britain into a capitalistic society run by people. On the other hand, some like short-range electoral gains like putting moneymaking public organizations on sale so that a politically disconcerting discrepancy can be reduced (Feigenbaum and Henig, 1994). Nau (1990) stated that impartial city administrators may, in order to deal with limited budgets, privatize the services of a city. He also added that the city managers may receive inspiration from the papers produced by the political lobbies. While others, having a desire to reach a higher position, may support privatization so as to be

recognized for creativity. Undeniably, the reason for a plea involves many explanations. Rules are made because they lure associations of people having corresponding yet not very similar interests. In this case, privatization is not a rare phenomenon. Similar to several typologies, the typology developed by us tends to study events in isolation and overlooks those instances that oppose the vitality of a political lifespan. Tactics can change and privatization ventures carried out to accomplish a group of goals might transform in nature when distinct communities organize to attain power, or, as main players, re-establish their interests keeping in mind the ever-changing circumstances.

Lastly, while securing our typology in the inspirations of the main players, we are bringing attention to the effect of a single main aspect while the other main aspects having the real effect are being excluded. Even if the conditions were appropriate, there is a chance that things will not go as planned. We do not suggest that the struggle for privatization to bring changes in the system will have any greater effect even if the privatization policies were completely executed. The reason why we have chosen to aim for inspiration is that there exists a foundation for exploring the various types of sanctioned privatizations, their documented justifications and the associations endorsing them to obtain political motives. However, it is too early to conclude empirically the comparative impact of the latest privatization ventures. Whether these constraints offset the part played by a typology is based on the characteristics of its design and the manner in which it is used. Typologies should be presented as abstract tools for empirical research of significant occurrences rather than being posed as ends, because in so doing, they become damaging. The demonstrative worth of typology is stressed in the discussion without ignoring several intricate and dynamic characteristics of the instances under consideration. Moreover, we start adding onto our first typology by shifting from inspirations to the real effects. Keeping in view these changes, we provide

the critical view of the political groundwork of every type of privatization tactic (Feigenbaum and Henig, 1994).

3.3.5. Pragmatic Privatizations

During the start of the 1980s, Raymond Vernon came up with a practical justification for the presence of different privatization projects throughout the world: such policies emerged due to the reduction in the capital at that time (Vernon, 1988). Although a lot of research related to policy learning about the advantages and disadvantages of the government intervention had been carried out, the policies did not mirror a fundamental philosophical move. Practical privatizations are short-range and most of the time temporary and quick solutions to the issues, for instance, the requirement for cash. Many of the subsidiaries of the Italian corporation IRI were put on sale for the same reason (Vernon 1988). In spite of the presence of an authorized rule not to privatize, St. Gobain in France did the exact opposite (Schmidt, 1988).

The United States can be given the credit for carrying out most of the pragmatic privatizations, particularly at the metropolitan level. In early 1932, privatization of the user fees and the city services took place setting a standard for the manner in which the policies in the 1980s would be formulated. These diverse arrangements undertaken by the government represented a series of pragmatic adjustments rather than a broad unacknowledged privatization movement undertaken up until now. These arrangements, aimed at the expansion of the public sector rather than to shrink the governmental empire (Henig, 1989). The process of privatizing public services is based on an apolitical conception, which leads to the fact that the private and public sectors are surrounded by entirely different goals. The public sector is perceived as the one

delivering the civil service while the private sector is considered as a combination of hierarchically organized firms. The public sector stresses the protection of rights of the citizens, due processing, and administrative fairness. On the other hand, the private sector focuses on adopting new and innovative technology, economic efficiency and flexibility (Donahue, 1991). Privatization incurs a change within an organization for the attainment of goals for which the private forms are considered to be the most suitable. In fact, privatization provides an administrative solution to a functional problem. This ideology, which separates the domains of the public and private sectors, is superficially expressed in apolitical form (Sales, 1991). In the late nineteenth- to early twentieth-century, this technocratic outlook was depicted in the local government of the United States, which is derived from the Progressive Era, and also in the French municipal elections of the “nonpartisan” good government slates since the 1960s (Suleiman, 1974). Therefore, in comparison to Britain, these two countries had the probability of privatization occurring at the local level, while partisan politics made systematic efforts in drawing authority from Labor-dominated councils under Margaret Thatcher and thus remained out in the open.

The examples of pragmatic privatizations mentioned above usually take place in environments that are not politicized to a great extent and portray trivial thoughts towards ideology. This implies that these are the areas that follow the famous expression by Schattschneider and are the ones that are insulated from the “mobilization of bias” (Schattschneider, 1975).

Pragmatic privatizations occur in areas that have already been depoliticized and are in the process of reinforcing that depoliticization, rather than being completely apolitical. A conflict is privatized due to a lengthy list containing ideas relating to

localism, individualism, free private enterprise, economy and privacy in government. This is done in order to limit the scope of privatization and public authority for broadening the scope of the conflict. An enormous amount of conflict can be amicably controlled by making it private to such an extent that it becomes almost invisible (Schattschneider, 1975).

This, however, does not imply that pragmatic privatizing authorities are considered insincere keeping in view their apolitical intent; instead they tend to view their actions in a way that is beneficial for their constituents or at least caters to the majority of them. Therefore, the city managers have the idea of saving money at the expense of hurting small groups, as privatization of garbage collections is harmful for public sector unions. This is due to the fact that private firms pay lower wages; however, the city managers are of the view that they can raise valuable funds for worthy purposes like education, by adopting this practice.

Public firm managers use pragmatic privatization in situations where the allocation of stock to private shareholders or sale of subsidiaries would be beneficial in attaining short-term profits or instrumental in making long-term strategy (Feigenbaum et al., 1998). Mitterrand, the President of France, precluded the keeping of public firms, as his "ni . . . ni . . . [neither . . . nor ..]" electoral promise conforms the electoral promise of neither new nationalizations nor new privatizations (Feigenbaum et al., 1998). Another form of pragmatic privatization occurs as a consequence of a crisis, intended at solving the internal budgetary crisis or catering to the deficit of the external balance of payments along with the devising of an austerity plan.

Third World countries depict this sort of pragmatic privatization. Mexico and Ghana also fall in the same category of pragmatic privatization (Feigenbaum et al., 1998). Decisions are not based on any sort of emptiness; however, the motives here are not necessarily honest. Financial conditions might pressurize the external financial authorities to make the decision in favor of privatization (Babai, 1988). Most of the restricted areas and depoliticized undergo pragmatic privatization, while political scenarios experience tactical privatization. This privatization caters to the political benefits on a short-term basis and may also lend a hand in providing long-term impacts. Britain and France illustrate clear cut examples explaining the fact that rewarding political friends or providing benefits to the voter might be a core motive behind privatization policies.

The Chirac government of 1986-88 in France depicted the clearest example of this fact by privatizing nationalized companies for tactical reasons. This act was justified by declaring that the state companies were being poorly run, although the profit and loss statements disapproved these usual justifications by presenting a positive performance under state management (Feigenbaum, 1989). Privatization provided the conservative party a big platform for elevating themselves above the socialists. The conservatives were not provided a chance to deploy their own ideas as the socialists had started to deregulate the economy, liberalize capital markets and reduce the taxes since 1983. Although the deregulation was implemented for pragmatic reasons, the public sector was blamed for the problems occurring in France, particularly the nationalizations of the socialists (Loriaux 1991). The same electoral logic was also followed by the Thatcher government. Privatization turned out to be a useful tactic for the run-up to the first re-election campaign, although it was not considered to be a part of the initial economic agenda of the government.

During 1981, the application and use of monetarism was lost owing to the massive deflationary consequences. This made Sir Keith Joseph, Margaret Thatcher and Sir Geoffrey Howe formulate a policy initiative aimed at revitalizing the ideology of the free-market. Privatization opened a new era by drastically cutting down the increasing trend of unemployment and contracting the industrial production. It also responded to the party's natural constituency by enhancing the opportunities for attaining more profit (Wolfe, 1989).

After the return of the Thatcher government, it decided to use privatization as a source of reducing public sector borrowing by risking crowding out private investment. This was done as the rising PSBR was becoming a source of political embarrassment (Suleiman and Waterbury, 1990). Another tactical advantage of privatizing the public sector companies was that the shares of newly privatized firms were sold at a discounted rate to the friends of the companies (Feigenbaum and Henig, 1994). This trend actually follows the first rule of politics according to which one reward one's friends while punishing one's enemies. This rule was followed by both France and Britain (Bauer, 1988). Tactical policies were quite secret in Britain just like the private asset sales, although several motives favored various privatizations there. However, they were mostly covert, as Peter Self explains: It was clearly depicted by the Thatcherism strategy that private profits can run down the state as opposed to building it up much more quickly. Those who benefit from these strategies include city institutions apart from public industry, employees and management. The city institutions make immense benefit from the privatization strategy. Not only this, the main gainers are the households who get relief in tax payment, which is financed by the sale of public assets (Self, 1990). Pragmatic privatization targets the situations depicting poor performance

or the problems persistent in the surroundings, while tactical privatization is considered not to have an end in itself. Tactical privatization revolves around political opportunism and the amount of “booty” at stake. Therefore, in some circumstances, privatization is a target of opportunity. These cases usually are the ones where resistance is weak or strong allies are present at hand (Self, 1990).

The sale of national airlines favored by private transportation interests depicts an example of the latter, while the initiatives taken by the Bush administration for public housing illustrates the former. The motive of this strategy is to neutralize the short-term opposition in to a long-term project. These types of benefits are favored by the political weaknesses pertaining to minority residents with low income or public housing. Not only this, disarray, fragmentation and dispiritedness among the organizations that had taken up their cause in the past also benefit these initiatives. Therefore, offering shares to employees and managers at discounted rate further sweetens the concept of privatization (Letwin 1988). According to Self (1990), it is not necessary to use a frontal attack as part of the tactics, because such an attack would be a failure given the accumulated interests of the political parties. Instead, small transitional changes that offers political benefits to the groups who have been at a disadvantage because of the political system.

In contrast to this, Stuart Butler talks about the strategy of the British to bring down the coalition normally is likely to face opposition from the British Telecom sales saying that the break down was achieved by offering the key people discounted or free stock in addition to the below-market issue pricing so that immediate benefit to the stockholders can be realized through the appreciation of their stock holdings (Butler, 1987).

According to Babai (1988), a different tactical privatization may be used by the Third World countries because it is demanded by the World Bank and International Monetary Fund as a prerequisite for additional funding. Furthermore, Babai (1988) noted that even though the aforementioned lending institutions' demands may be satisfied by simply introducing the market principles in the public sector instead of full asset sales, this is marked as the price of the loan.

It is recommended by the World Bank to liquidate or divest the assets of the states in twenty-five of its thirty-eight structural loan adjustments that it forwarded between 1980 and 1986 to the developing countries. Furthermore, Feigenbaum and Henig (1994) stated that it is recommended in thirty-six out of thirty-eight loans to increase the market orientation of the state companies. Feigenbaum and Henig (1994) further stated that when the Third World leaders are provided with funds, a degree of legitimacy, and in-kind service, from the international financial community, they induce the local governments to liberalize their assets for tactical reasons even when the governments are not sure of any free market and long-term advantage for their citizens. Many of the privatization programs' inconsistencies are also explained using tactical privatization. For instance, the Thatcher government privatized the national gas company in order to create a single monopoly despite promising to adhere to competitive market principles. The government went through with this because the sale of monopolies offered the quickest possible sale, which was hoped to give the program of privatization a dynamic appearance after the October 1987 stock market crash. According to Feigenbaum et al. (1998), the chances of reducing the deficit was sacrificed by the French conservatives by selling their companies at discounts to rich political friends.

3.3.6. Systemic Privatization

The impact of the systemic privatization is considered to be the most far reaching as well as the most ideological. This is because this privatization aims to change the class relations permanently instead of being a technocratic solution to address a limited number of problems. There are three types of systemic privatization.

The first type of systemic privatization consists of non-transient change to pursue the interests of the mobilized agenda as they are conceived. When this situation arises, the state withdraws, which results in a non-ready and substantial reversible power decrease of the working class people in respect to the organized high people. According to Wolfe (1989), this may happen when the efforts of privatization functions basically to undermine the organized labor power, such as relocation of jobs to a non-union private sector from a union public sector. This type of systemic privatization is known as a power shift.

The second type systemic privatization involves a non-transient change in the culture, expectations and values of the active public, which results in the activities' sphere broadening, which was regarded as private and personal, and the shrinking of the activities' sphere, which was considered to consist of legitimate solutions for public intervention and scrutiny. In this respect, the privatization effect is to subtly delegitimize the public sector by combining the ideological perspective with broader constituencies that are already shared with the supporters of privatization. For instance, in Britain, the key actors were to permanently transform the relation of the citizens to each other by breaking down the class restraints. The basic reason was to change the Marxian British society to a Hobbesian society. According to Hall (1983), privatization replaces the use of "them" to "us", which creates an equivalent that "they and we

combined equals we”. Further, privatization uses the concept of “we” to build capital using profitability and accumulation.

Ironically, Carnoy (1984) stated that the policies of privatization have become a mechanism through which a country can delegitimize itself as well as the elite class can enhance their cultural hegemony. This type of systemic privatization is known as a perceptual shift. In contrast, the third type of systemic privatization consists of a non-transient institutional restructuring or arrangements within the society, such as legal, economic or political in order to achieve greater reliance on the market-oriented and private solutions is encouraged by the range of incentives offered to the groups or individuals. The aim behind restructuring is to change the responsibilities of the institutions so that the decision process shifts from the public sector to the private.

An influential British supporter of systemic privatization, Madsen Pirie, pointed out that the public assets transfer to the private sector removes any political status as entities and transforms it into economic status entities (Pirie, 1988). Furthermore, Pirie (1988) pointed out that once these assets become economic entities, the decisions made will be economic also. This is known as an institutional shift of systemic privatization.

According to Wolfe (1989), the implication of this type of systemic privatization is to bring a change in the social control mechanism from the political and overt bureaucratic structure to a more subtle and less accountable force of the economic market. In order to evaluate any changes in the institutional accountability system, it is important to differentiate between non-democratic and democratic countries. Even though the nature of control is changed, the accountability also changes in various directions depending on the previous bureaucratic control form and regulatory system in place after privatization of the asset.

As such, the process of privatization in previously non-democratic states may increase accountability of the bureaucracies if it was previously not the case. In contrast, according to Feigenbaum et al. (1998), the accountability loss in the democratic states may be improved if regulatory systems are setup by the states that can obscure the abuses of the private enterprises.

The motives of the privatizing may also be explained using the accountability paradigm in new democratic states. For instance, the rule of Franco was associated with the public ownership in Spain because of which privatization was preferred as a pragmatic solution by the neo-classic trained technocrats as well as the advancement in the status of democratization by the socialists (Bermeo, 1990). The effect of the privatization is systemic whether it is motivated by democratic ideology or neoclassical thought. Sometimes, the changes in the class relationships are bought by the institutional rearrangement by developing new classes or interests. According to Feigenbaum et al. (1998), this has been seen in Eastern Europe where the privatized intuitions are being handed over to the citizens instead of foreign investors. This is because once privatized, these companies have their own interests, which are considered to diverge from the interests of the government. Feigenbaum (1989) stated that the Western experience has proved to be a guide for the private companies to influence the public policies for their own interest.

3.3.7. Conceptualizing Political Interests

When the economic and administrative perspectives are considered, the motives for privatization remain unanswered. This is because both perspectives assume that the

relevant intentions are unified, stable and apparent. Both the perspectives differ when each consider the different interests to be relevant. For instance, the economic perspective is based on the concept of individual interests that are defined privately while the economic interests are based on the public interests that are defined politically. When the political perspective is considered in relation to the aforementioned perspectives, it is based on the concept that the interests are not only in conflict with each other but also divided. As such, the latter perspective is assumed to be best suited for understanding the privatization battles that cause resistance by the organized political powers for delegation of privatization decisions to depoliticize the technical units institutionally. The political typology depicting the differences between the privatization initiatives is presented in table 3.3. When the vertical dimension of the presented figure is observed, the economic and administrative perspectives place high emphasis on the government's choice.

According to Salamon and Lund (1989), the differences between the methods of privatization mentioned in the three columns, such as contracting out, asset sales, user fee and deregulation, although considered to be important, they are less significant when compared to the differences observed moving along the horizontal plane.

Table 3.3 The Political Dimension Of Privatization				
Illustrations of conventional privatization techniques :		Pragmatic	tactical	Systemic
	Key motives	<u>Public sector “triage”</u> - Reduce budget drain - adjust to changing circumstances	<u>Short-term shift in party or interest group clout</u> - attract voters - reward supporters - product differentiation	<u>Long-term shift in balance of power</u> - lower expectations of government - reduce government capacity - transform political stakes
	Asset sales	Shedding costly public enterprise where private provision has become a viable alternative	Selling profitable public assets at discounted prices as a form of patronage	Selling public housing in order to convert tenants to a (more conservative) homeowner’s mentality
	Contracting out	Competitive bidding among private firm to provide services where contracting agency has enforcement capacity	Awarding “sweetheart” contract to campaign contributor	Shifting government provided services to private providers to build new interest group that will lobby for further privatization
	Deregulation	Deregulating sectors that are not natural monopolies , coupled with protection consumer interests	Reduced enforcement of regulations that fall heavily on political supporters	Across-the- board delegitimization of regulatory intervention and government capacity to oversee and enforce
	User fees	Raising new revenues and diversifying revenue alternatives	Making it possible for the government party to cut (or provide raising) an unpopular tax	Reducing the net progressively of public policies
Source : Feigenbaum, H., Henig, J., & Hamnett, C. (1998). <i>Shrinking the state: The political underpinnings of privatization</i> : Cambridge Univ Pr.				

The pragmatic type asset sale is similar to the terminology and applicability of the pragmatic deregulation initiative. Although, a pragmatically asset sale clashes abruptly in the beginning as well as the consequences that are assured by disciplined or systemic affairs.

The version of procedural privatization that is related to phenomena called power transfer is conventional and the divided models are critically well suited for analyzing this type of privatization.

Accepting the capacity for apparent procedural changes in an institution raises the need for a methodical way that easily establishes political opinions, which are manageable as well as the organizational behavior that gives importance to some opinions over the others.

The basic rules of the play have changed after the wider effects of procedural privatization and the influential individuals consider their choices and adapt their plans. According to Schattschneider (1975), by drastically changing the chances for personal capacity and degrading the organizational ability of the public sector to cater to the public needs, the procedural privatization ensures some individuals of working in an atmosphere where “mobilization of bias” prevails.

Moreover Feigenbaum and Heing (1994) proposed the theory that even if some of the actors play their political games, the process of privatization also brings some new opportunities like giving birth to new private institutions and groups, and the selling of stocks to individual buyers and companies establishes a cluster of investors, which widens the scope of interests. These newly created power groups try to intimidate the policy makers when feeling dissatisfied with the government policy or seeing greener pastures elsewhere. According to Feigenbaum (1993), privatization perpetually alters the scenario of interests by which policy makers operate. The political entrepreneurs are able to assemble new nodes of collective action, this happens due to the opportunities that are created by non-incremental changes that take place in both society and state. Privatization can give relief to the government as far as a few issues

are concerned, but there would be other problems that would prevail. Today's public policies would achieve successful results but the future outcomes would definitely face obstacles.

3.3.8. From Motive To Consequence

The immediate appearance of privatization across the country is a matter that attracts particular interest. We have decided to provide greater motivation to the political actors with the anticipation that the distinct interests of dominant actors will disclose the mechanism of policy making and agenda formation. However, there is a possibility that the intentions of the political actors are not materialized. It is highly probable that the actions of the political actors may go wrong, even the endeavors made by them can fail, which are taken to encourage the structural realignments. Hawkins argued that the initiatives of the West German privatization of 1957 prefigured the Thatcher model in many perspectives (Hawkins, 1999).

The purpose behind the Thatcher model was to win at least a little support of the middle and the working class with respect to stock possession and to obtain greater adherence to market forces and capitalism. The long-term effects on the ownership of stock remained restricted (Esser 1988). Those objectives that do not involve systematic alterations are often not met due to the flawed strategies or inappropriate implementation approach. Efforts that fail in such a way do not have much impact on the role of the government, the perception of the citizens, the distribution of power and the influence of public organizations. There are cases, under which the consequences differ completely from the intentions of the principal actors.

The policy makers have defined three different categories of privatization under the horizontal dimensions, while the vertical dimensions include the interest groups, the social classes, and the penalties of the government. Each cell consists of a brief explanation of the patterns of privatization. Our typology gives birth to new opportunities concerning the theoretical consideration and observed valuation, which is why it would not be wrong to take the typology as an analytical tool. Under what situations the state should take steps for the introduction of essential market oriented reforms, is still a question. Another question arises as to the logical initiation of privatization, which would develop a force that would help in realigning the state with the society. In order to get the answers to these questions the typology must come into action. As privatization sets out a firm footing, the policies relating to privatization would soon be scrutinized.

3.4. Modes of privatization

Well known techniques of privatization are present in developed as well as in developing and transition countries from Eastern and Central Europe.

3.4.1. Privatization by Selling Shares to the Public

A public listed company issues shares to the general public. For the issue of shares there are a number of options like, for instance, the shares can be issued on a national as well as an international platform or even to a group or one person in particular. In most cases an issuer is hired who sells bonds at his own risk. This thus eliminates the risk of the state. The issuer can be an investment bank. There are situations under which only parts of the shares of the public entity are sold to the private companies, this is done in

order to raise the number of shares. This can only be brought in to practice if two conditions are satisfied (Romer, 1998).

An entity that is to be privatized must have the potential to make profit in future, as then would it be an attractive factor for the investors. There are a number of benefits that are obtained through the issuance of shares of public companies. It distributes the shareholding into the hands of a number of individuals, therefore not letting the shareholding to be concentrated in a few hands. This gives an open opportunity to the small investors, and this enables them to create popular capitalism. In addition to this privatization also brings transparency of the accounts (Kenawy, 2009).

Despite these advantages there are a number of demerits, which are attached to the issuance of shares (Ramanadham, 1995). One disadvantage is the complexity of issuing shares, if one company decides to issue shares it has to bear a huge transaction cost and would even have to devote a great deal of time. The cost is so high that it creates a crowding out effect. The crowding out effect basically explains the situations under which the access of a number of private investors becomes very hard. In countries that are not very developed the capital markets are not found to be that sound, therefore they do not have enough funds to support the companies financially. This causes the individual shareholders to lose their control over the managers who are supposed to be their agents. Those owners who have made big investments in the company have greater say over the management.

3.4.2. Privatizing Through Share-selling to Private Investors

Under this process the shares are issued to selected investors rather than offering to the general public. This process is less complicated and is subject to less transaction cost. Those countries that do not have well established capital markets find this method more convenient. This practice is mostly adopted by those companies that are not very productive and require necessary expertise for the technological domain (Starr, 1990). If shares are being issued by this process then there should be proper selection criteria for potential buyers. The buyer should be competent, must have experience as well as financial power. Only if the buyer meets the criterion would he be able to become a successful new owner and bring about better results (Kenawy, 2009).

The future owners get more flexible with the upcoming policies of the companies. Apart from these advantages there are a few disadvantages as well, which are listed by (King and Levine, 1993). The disadvantages are as follows:

Propriety and revenue creates danger for the organizations. By acquiring shares the private investors gain control and possess the ability to throw the unwanted individuals, groups and institutions out of the domain. The investors should be selected as per a specific criteria, if this is not done then it is highly likely that the chances of corruption would increase. Even greater transparency can be achieved if a proper mechanism is followed for the assortment of potential buyers.

3.4.3. Management Buy-in Privatization (MBI)

MBI is a new methodology adopted by the managers in which the managers buy the share stock of the enterprise as entrepreneur. This is an effective alternative to the previous buying procedure of the stock carried out by private sector investors.

MBI methodology is specifically designed for the enterprises where not only the capital is required but also the enterprise possesses high technology that is being used in different developed countries regarding the sales and marketing fields along with an effective costing system (Levine, 1999).

3.4.4. Management and Employee Buy-out Privatization (MBO or EBO)

MBO/EBO (management or employee buy-out) is the advanced methodology adopted by the management as well as the entire staff of the enterprise who themselves buy the company for privatization. MBO/EBO generally adopted by the public sector organizations. These organizations are mostly facing critical economic conditions but possess sound management, which comprises highly skilled and qualified workers who can run the organization effectively. Sometimes firms adopt this method for fulfilling the market demands by restructuring (Plane 1997), as discussed below:

The sale of an enterprise depends upon the maintaining of the jobs that exist in the enterprise, without which the sale could not be done.

The management of the organization must be highly motivated to handle all the new responsibilities of every staff member. In the method of EBO, the misunderstandings and distrust present among the workers against the management is restrained and there are also chances that external participation of personnel could also take place.

Along with the advantages related to this method there are also several drawbacks, which are discussed below. The two main disadvantages given by McKinnon (1993) are: One of the drawbacks of this method is that it is not considered

to lead the enterprise towards the desired aims and long-term replacements of employees selected socially or politically. The power relating to bureaucracy remains the same as in the old system. The major point, which is not acceptable by the people, as it is very hard to believe that a professional enterprise manager selected from the system of the centralized economy could be hired on the basis of market demands.

In such situations where the transference of ownership to the previous management is considered conservative it could lead to the reduction of the required capital and the economy of the running market.

3.4.5. Privatization Through the So Called Phenomenon of “Leveraged-buy-out”

The Leveraged-Buy-out is another method of privatization to MBO/EBO, which was known before these new methods. In this method of privatization a large number of workers, either including managers or not, are involved and their wages are so high that it can support the capitalization of funds as well as the external funds required by the organizations, involvement of credit companies, owners of the public enterprises or government. Warranties are also offered for organizations' equity or future income (Levine, 1999).

3.4.6. Privatization through Selling of the Privatization Individual Assets

This is also a new method of privatization by selling the privatization of individual assets. This method involves straight selling of goods regarding the individual assets of an enterprise, whether they are connected by any relation or not, also the assets correlated to each other involving different working organizations. Liquidation is also once involved in direct trade of patrimonial goods that is the privatization of materials of correlated organizations could not be possible economically as well as financially

Some of the cases involve the selling of isolated parts with the brain of the companies remaining untouched. Auctions, shares and communication mediums are taken under consideration for selling to the interested parties (Porta et al., 2002).

3.4.7. Privatization Through Restitution to Former Owners

This method is under practice in the former socialist countries of Eastern and Central Europe, where with the restoration of the economy, many people were deprived of their assets. Therefore, returning these enterprises to former owners, will involve many legal complications while identifying the former owners and keeping them away, which makes the method more expensive in such circumstances (Beesley and Littlechild, 1994).

3.4.8. Privatization Through Coupons (Voucher Privatization)

Privatization through direct selling has limitations in Europe because in these countries different forms of contributions have been evolved, which hinder the fast transfer of ownership rights associated with a certain social parity. The issuance of vouchers is one of the common factors of privatization that enables the citizens of countries involved in this process to receive an equal number of coupons, without any payment or at a little price, which can later be exchanged for shares of a public company or land (Kenawy, 2009).

Fast and low cost privatization is one of the benefits of this method (Cook and Uchida, 2003). In this type of privatization, political acceptance is projected because of the full participation of the population. Therefore, it is commonly considered a widespread technique. This process of privatization is in the interests of the public as

they become direct owners of the government property, and gain benefit in the form of future earnings and fiscal facilities rather than indirect participation.

Conversely, through this method the dearth of internal economic resources is compensated. The initial cases have, by this time, ascertained that the bulk of privatization plays a positive role in the advancement of investment markets. The amount of swapped certificates for each company exhibits the worth the citizens attach to it. This also serves as a basis for deciding the price for the retained stock, for prospective selling on the external and internal capital markets.

There are some drawbacks of this means of privatization: the government is unable to draw any revenue obtained from the selling of an organization and also the companies fail to acquire the financial stability required for executing the means of reorganization. Apart from this, at the initial stage, there exists a comparatively high difference in the rights of ownership due to the inability of the shareholders to efficiently control the companies.

Ikram (1980) stated that due to the fact that shareholders do not have adequate knowledge of the way the financial position of a country is evaluated, the way financial statements are interpreted, the performance of the meeting of the shareholders and the administration of the company, it is quite difficult for them to protect their own rights. As a result, the dearth of financial efficiency and progress could be viewed after privatization has taken place.

CHAPTER FOUR: RESEARCH METHODOLOGY

This chapter gives an overview of the research approach, research design, sampling design, data types, data collection and interpretation methodologies involved in carrying out the research and to test the proposed research questions the statistical tools are used.

4.1. Research approach

Howe (1992) described that the research approach is referred to as the methodological examination into a subject to schedule action plan based on the discovered facts. A research approach can vary significantly depending on what must be researched if it would be appropriate to research methods or it is a scientific method or other scientists who have finished the experiment. The two common approaches of research adapted vastly by researchers are quantitative and qualitative research.

According to Barbour (1998), qualitative research defines the meanings, concepts, definitions, metaphors, symbols, characteristics and descriptions of things. Qualitative research is a multi-method in focus consisting of interpretive and naturalistic approaches to its matter or subject. This means that qualitative researchers study things in their natural settings trying to interpret or make sense of phenomena in terms of the meanings people bring to them. Similarly, Warren, Carol and Karner (2005) described that qualitative research is efficient in obtaining particular cultural information about the behaviors, opinions, social contexts and values of specific populations. The strength of qualitative research is its ability to offer complicated textual explanations of how people undergo given research problems. Conversely, Krantz (1995) described that quantitative

research is closely associated with deduction and reasoning from normal principles to particular conditions. Quantitative research focuses on the considerations that underlie the positivist tradition within which educational research was originally located in terms of applying deductive logic, hypothesis driven, achieving objectivity and causal relationships. In contrast, Benz and Newman (1998) mentioned that quantitative research characterizes the phenomena numerically to respond to particular hypotheses or questions. Quantitative researchers place huge value on products and outcomes. The quantitative research tends to be based on theory from the onset because of its deductive nature. Onwuegbuzie and Leech (2005) explained that quantitative researchers look for context free generalizations. They are more concerned with standardized predetermined, designs and research procedures. Quantitative research is done to determine the causes, effects and relationships. Based on the various needs, quantitative research has its own paradigms and characteristics underlying the research.

This study adapts quantitative research. Jick (1989) defined quantitative research as being originally developed in natural sciences to learn the natural phenomena. Quantitative research is an enquiry into a recognized issue identified using statistical techniques and based on testing theory measured with numbers. The quantitative method's aim is to decide whether the predictive theory generalizations hold true. Similarly, Morgan (1998) described that quantitative research tends to concentrate on proof and measurement. This research adopts a scientific approach. It is regarded on the premise that something is only applicable if it can be counted and observed. Its major characteristics are numerical data, which allows an extent of statistical analysis. There are many approaches to quantitative research, which consists of descriptive, causal, experimental and correlational comparison. Roberts (2000) explained that quantitative research is also based on variables measuring for individual people to gain numerical

values that are generated for statistical analysis for interpretation and summary. Quantitative research is concerned with the qualitative phenomenon, i.e. phenomenon similar to or including kind or quality. Quantitative research is more associated with deductive reasoning from normal principles to particular situations. The quantitative method employed here described as a “retrospective case study” which follows a way of gathering evidence after the events is occurred, to clarify the research problem (Stern & Kalof, 1996). Therefore, the questionnaires are oriented to investigate and explain, "Why did x exist?" (Lofland & Lofland, 1995; Stern and Kalof 1996). It is focusing on a particular event, decision, institution, location, issue or piece of legislation (King, Keohane, & Verba, 1994).

The quantitative approach adopted for this study is matches pairs to compare the performance before and after privatization policy is implemented.

The tests which will be adopted in this study is the same technique of (Megginson, Nash, & Van Randenborgh, 1994) to decide the performance change of privatization and in order to assess whether there is a significant difference in the parameters studied at the baseline and after three years, a paired sample test was applied using SPSS.

4.2. Research Design

According to De-Marraais, Kathleen and Lapan (2004), the research design is the structure, strategy and plan of investigation so formed as to obtain answers to the problems and queries of research. The phase of research design deals with the brief description of procedures that will be acquired to carry out the study of research. This kind of research is carried out irrespective of whether the study is carried out in the

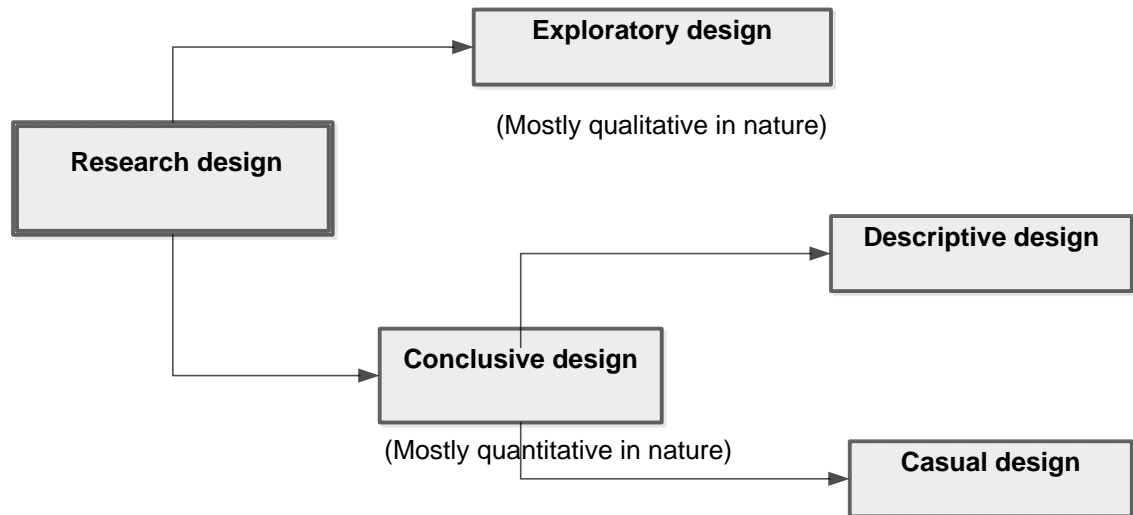
laboratory or field, and provides the descriptions of the procedures of data collection and the analytical procedures selection to be used to acquire the objectives of research. Similarly et al. (1996) described that the research design is the detailed plan or blueprint for how a research study is to be finished, operationalizing variables so that they can be measured, gathering data to be used as a basis for analyzing outcomes and testing hypotheses and also selecting a sample of interest to study.

The research design is a plan of action of a research proposal in which researchers characterize how they proceed and which methods and strategies they will adopt. Its components are the analysis and gathering of data the extension of theory and intended development and the process of generating reliability and validity. In contrast, according to Roberts (2000), the research design manages the matters, such as choosing participants for research and preparing for activities of data collection that consist of the research process.

The purpose of research design is to offer answers to research queries and to control the variance. A good research design assists in interpreting and understanding the outcomes of the study and ensures that a researcher obtains usable outcomes. There are several types of research designs. Among the most commonly used research designs are exploratory research, descriptive research, experimental research design and case study research designs (Fry, Chantavanich and Chantavanich, 1981).

Figure 4.1 shows two kinds of research designs – conclusive and exploratory research design.

Figure 4.1: Types of Research Design



4.2.1. Exploratory research design

According to Bryman, Stephen and Campo (1996) exploratory research is always conducted to explore the problem and is usually done when the alternative choices have not been defined clearly or their scope is unclear. Exploratory research permits the researchers to briefly explore problems to popularize themselves with the concept or issue to be studied. Leinhardt and Leinhardt (1980) explained that the exploratory research design is applied when the research objectives consist of the following:-

1) producing a more accurate formulation of a vaguely recognized issue; 2) identifying issues; 3) formulating and identifying alternative action courses; 4) achieving researcher and management prospects concerning the character of the problem situation;

5) implementing priorities based on the essential significance of different issues; and 6) collecting information on the associated problem by doing conclusive research.

4.2.2. Conclusive research design

Manly (1992) described that the purpose of conclusive research is to check the research hypotheses. Conclusive research is often quantitative and may be generated to a sampled population. Conclusive research is the structured collection and data analysis belonging to a specific issue or problem. The purpose of conclusive research is to check the research hypotheses. Conclusive research is often quantitative and may be generated to the sampled population. Similarly, Singer and Willett (2003) explained that the conclusive research is the structured collection and data analysis belonging to a specific issue or problem. It is more focused than exploratory research and requires huge samples and numerous limited queries to provide quantitative data to make determinations. As shown in the above figure, the conclusive research design may be either causal or descriptive in nature.

According to Maxcy (2003) descriptive research defines the kind of data analysis, research design and questions that are applied for a given concept. The descriptive statistics tells us what are the causes and effects of descriptive research. Descriptive research can be either qualitative or quantitative. Collins, Onwuegbuzie and Jiao (2007) described descriptive research as involving the collection of data that describe the events and then depicts, tabulates, organizes and describes the collection of data. This research attempts to implement responses to the questions of when, what, how and sometimes who. Here the researcher tries to explain or define a subject, often by creating a profile or a gathering of issues, people and events. The major need of descriptive research is the description of the state of affairs as it currently occurs. On the

other hand, Walliman and Walliman (2010) described causal research design as being used to examine the relationship of the cause and effect between the variables. Causal research recognizes the extent to which variables are interconnected with each other. Causal research design depends on experiments and the conduct of interviews. Similarly, Elliott (2005) explained that causal research design is appropriate when the research objective is to recognize a variable that affects the phenomenon being understood and identifying why they affect what is being affected.

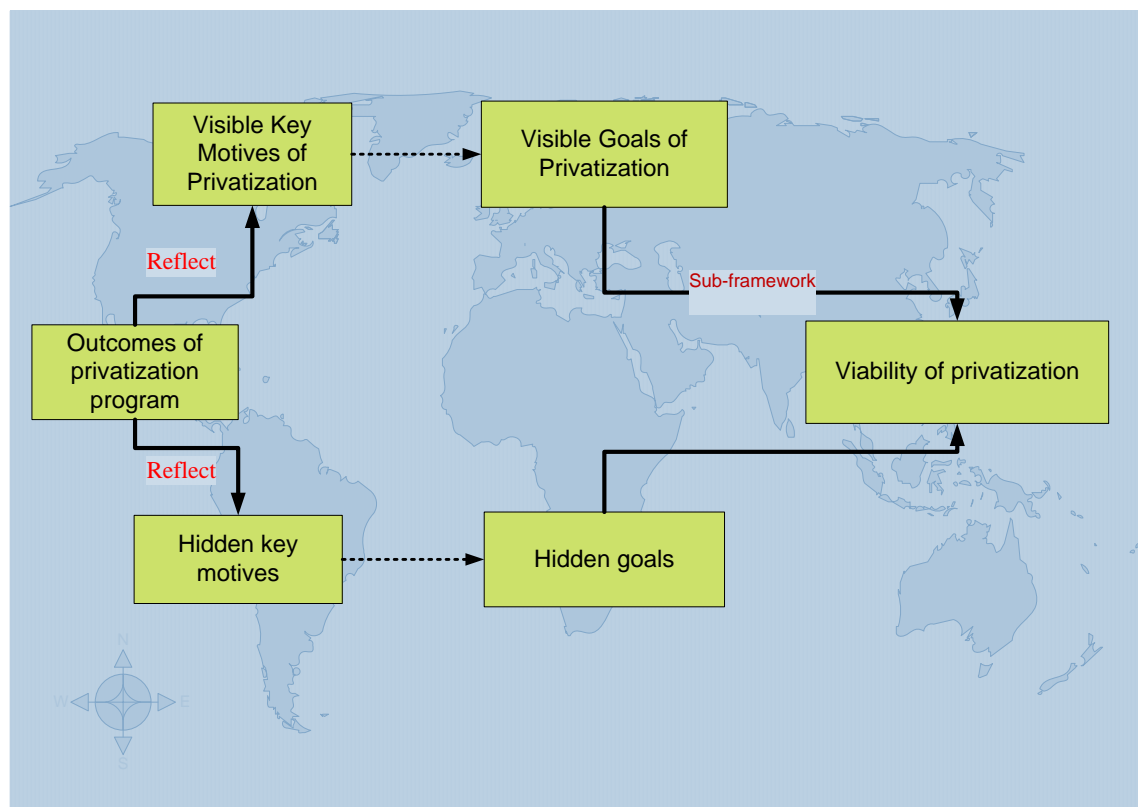
4.2.3. Research Design adapted in this study

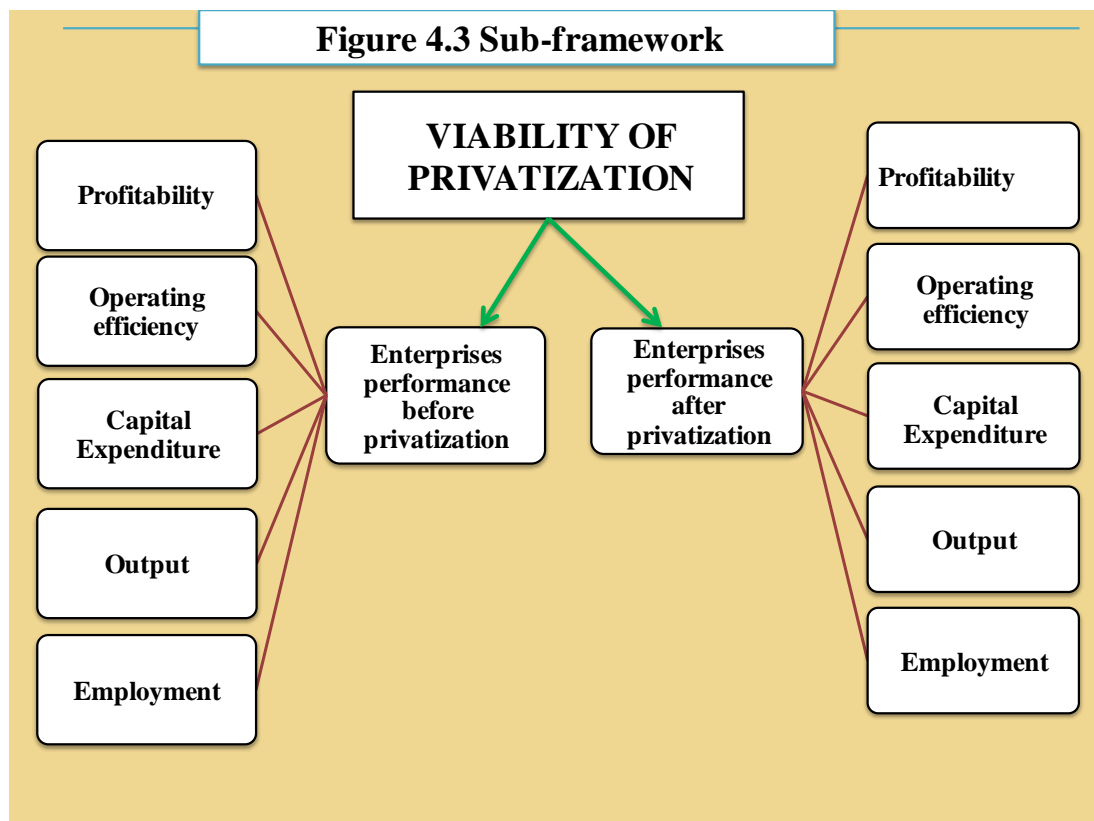
Descriptive research design is adapted in this study. According to Miller and Gatta (2006), descriptive research is mere description and is fundamental to research enterprise. It has added immeasurably to the shape and nature of knowledge of the society. Descriptive research empowers several sponsored government researches including the gathering of a vast range of economic and social information and census of the population. Similarly, Schwandt (2006) explained that descriptive research helps researchers to produce data that can explain the characteristics and composition of similar groups. These groups can be employees, customers, service providers and other organizations. Descriptive research can generate perfect understanding about the inquiry groups and the interrelationships among variables. Descriptive research is a quick identifying investigation with sufficient interpretation.

4.3. Conceptual Framework:-

The main framework in figure 4.2 explains that through the outputs of the privatization process we can discern the real motives and goals behind the privatization, which determine the future outcome of the privatization process. There are visible goals and motives of the phenomenon In contrast; there are hidden goals and motives. Which of those goals and motivations are driven the privatization process in Yemen? On the other hand, the sub-framework in figure 4.3 shows the comparing of the performance of those enterprises before and after privatization.

Figure 4.2 Main Framework





4.4. Sampling Design

According to Bohn and Wolfe (1992), the sampling plan or design is the method used to choose significant participants from the accessible population. A complete sampling design represents many samples and recognizes specific samples, for instance, the geographic positions where those samples are gathered or when the samples are gathered. Complete sampling design consists of justification and an explanation of the number and the timings/positions of the samples along with this information. Levy and Lemeshow (1999) described that a well prepared sampling design is directed to ensure that the resulting data are sufficiently representative of the target population and justifiable for their intended use. The effective use of human resources (HR), time and

money are difficult assumptions throughout the process of sampling design. A better design must attain the study requirements with minimum expenditure of resources. The sampling techniques are of two – probability sampling and non-probability sampling.

Cox, Cox and Ensor (1997) described probability sampling as applying the theory of sampling and consists of random sampling selection of units. An important feature of probability sampling is that every population member from which the sample was chosen has a known probability selection. Similarly, Elder, Thomson and Myers (1980) mentioned that statistical inferences are made about the sampled population from the data acquired from the sampling units when a probability sampling is used. Each probability of selection may be unequal or equal but it must be non-zero and should be known. The methods of probability sampling are: 1) Simple random sampling; 2) Cluster sampling; 3) Systematic sampling; 4) Multi stage sampling; and 5) Stratified sampling.

Smith (1983) conveyed that samples that are not selected randomly are known as non-probability sampling. Here one selects customers based on the researcher's judgment, nonrandom samples or other convenience process. Since subjectivity is included in the sampling process, each probability of customers is not determined which is being involved in the sample. Similarly, Gore and Patil (1994) explained that as a result the sampling error is not measured and there is greater risk that the statistical inference related to non-probability samples are biased. The methods of non-probability sampling are: 1) Convenience sampling; 2) Snowball sampling; 3) Quota sampling; and 4) Judgment sampling (Reason, 2006).

4.4.1. Population and Sampling

This research made use of secondary as well as primary data for the study. For the primary data, it adapts probability sampling or simple random sampling. According to Gore, Patil and Taillie (1996), a simple random sample is the subset of a bigger population created in such a way that every population element has a common probability of being chosen for the subset. The procedure for drawing a sample to satisfy the simple random sampling definition is referred to as simple random sampling. Specific units of sampling are chosen using random numbers and entire available selections of a given amount of units are similarly probable in simple random sampling. Similarly, Mode, Conquest and Marker (1999) explained that the simple random sampling is simple to understand and the formulas for deciding the size of the sample are similarly straightforward. Simple random sampling is very useful when the population is similarly homogeneous. The benefits of simple random sampling are that: 1) it is simple to implement and simple to understand; 2) it offers unbiased calculations of proportions, variability and means statistically; and 3) the calculations of data analysis and sample size are very straightforward.

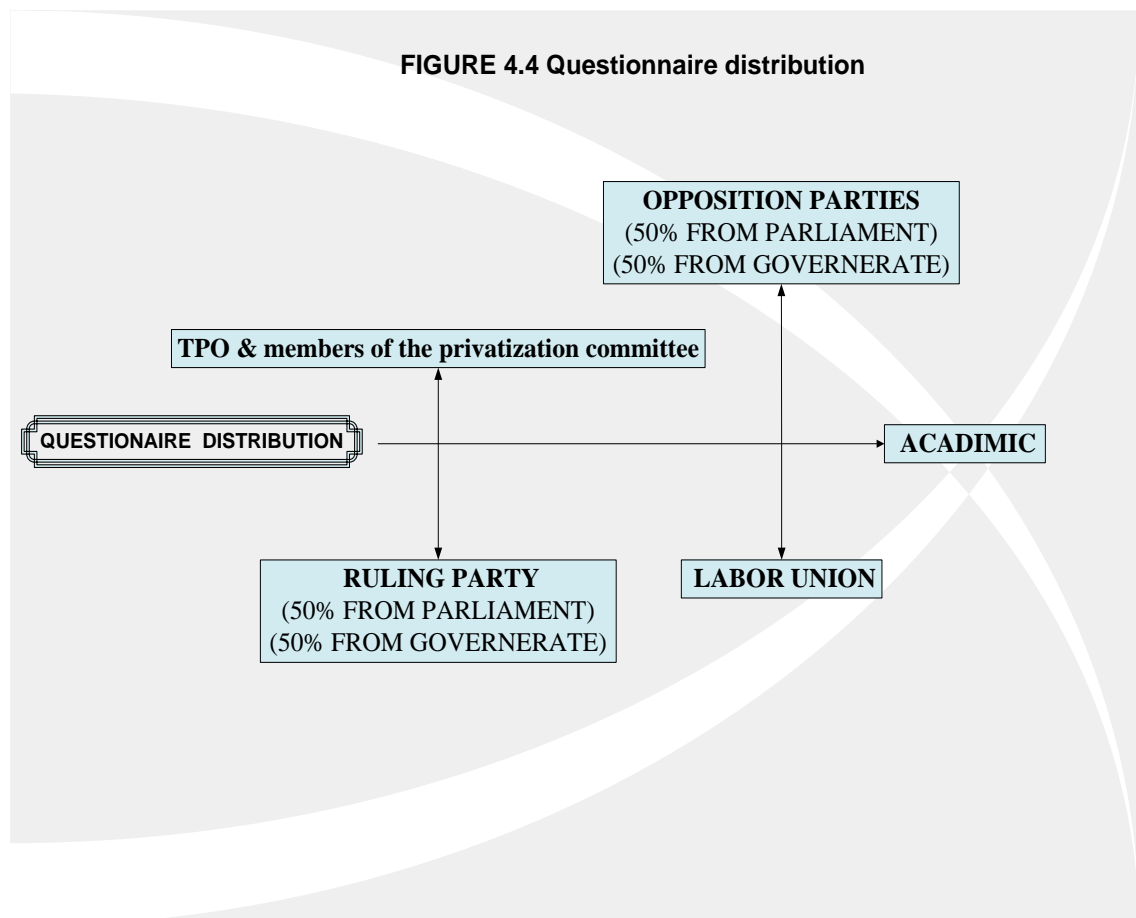
In contrast, Muttlak (1995) mentioned that, in some cases, the implementation of simple random sampling is more critical than some other kinds of designs due to the criticality of accurately recognizing random geographic places. Additionally, simple random sampling is more expensive than other schedules if criticalities in acquiring samples because of the location affects of extra effort expenditure.

The target respondents are the people from the privatization committee, labor union, academic committee, and ruling and opposition parties of Yemen as it show in figure 4.4. Questionnaires distributed to various managers and board director of the Technical Privatization Office, those whom were members of the privatization committee, ruling party, opposition parties, labor unions, and academic.

The study sample was selected from among those because they have a close relationship to the privatization process. The Office Technical privatization had a role overseeing the privatization process and the entire text of the law so that, TPO has the important information about the privatization program. The Members of the Privatization Committee were who doing the privatization procedures of the enterprises concerned. They have a fully information of the situation of those enterprises before the privatization process, and also to the problems and constraints faced during the privatization process, whether related to methods , procedures or related to the pressures and interventions during the evaluation process. Political parties, both ruling party and opposition parties, the choice were to the members of parliament because the has full information of the legal aspect of the privatization program and the problems of approval and suitability of the situation in Yemen, as well as a fully understanding of the problems subsequent to the privatization process.

Labor Union representing the supervisory authority that is keen on the workers' demands and solve their problems, including those problems resulting from the privatization process.

Finally, academics were selected from those who have the attention of the administration, economics, law and knowledge of the international experience theoretically and in practically. Therefore, they can compare the Yemenis' privatization experience of with others then appointed the differences and the weaknesses in administrative and legal aspects as well as policies.



A questionnaire has been developed from al-Sayani (1996), Ismail (1998), Al-Saidi (2002) Habtoor (1997), and Al-Rubaie (2001).

The sample size for the quantitative study is 177 and the data was collected by distributing questionnaires to the respondents by hand.

A pilot study was carried out to test the questionnaire to improve the quality by distributing it to 30% of the total 405 respondents which is 121 respondents. Subsequently, the questionnaire was revised before being distributed to all the respondents. This study was sent to 234 respondents which were different from the returned 30%, however, only 177 questionnaires were returned as we can see in table 4.1 therefore giving a response rate of 75.64% and Cronbach's Alpha to the questionnaire was 0.703. Cronbach's alpha is a test reliability technique that requires only a single test administration to provide a unique estimate of the reliability for a given test and it does not provide reliability estimates for single items.

When using Likert-type scales it is imperative to calculate and report Cronbach's alpha coefficient for internal consistency reliability for any scales or subscales one may be using. The analysis of the data then must use these summated scales or subscales and not individual items. If one does otherwise, the reliability of the items is at best probably low and at worst unknown.

Conventionally, editors and reviewers consider a measure with alpha equal to or greater than 0.70 as reliable for research purposes (Bland & Altman, 1997) and this is frequently a criterion for publishing the outcome measure. But should this always be the case? Helms et al. (2006) suggested that this value is required for unspecified reasons.

Furthermore, Cronbach's alpha, being a statistical tool, requires data to meet specific assumptions for the reliability estimates to be accurate and meaningful.

Otherwise, the reliability of the outcome measure might be underestimated. Therefore, Pedhazur and Schmelkin (1991) proposed that the reported reliability should be evaluated by taking into account the specific circumstances of each study before claiming lack of reliability for a developed outcome measure.

Table 4.1 Distribution of Questionnaire			
Participators category	Number of participators	Number of Questionnaire distributed	Number of Questionnaire collected
1- TPO& members of the privatization committee	40	40	35
2- Academic	40	30	24
3- Labor union	24	24	20
4- Ruling party	228	100	70
5- Opposition parties	73	40	28
Total	405	234	177

4.4.2. Primary data

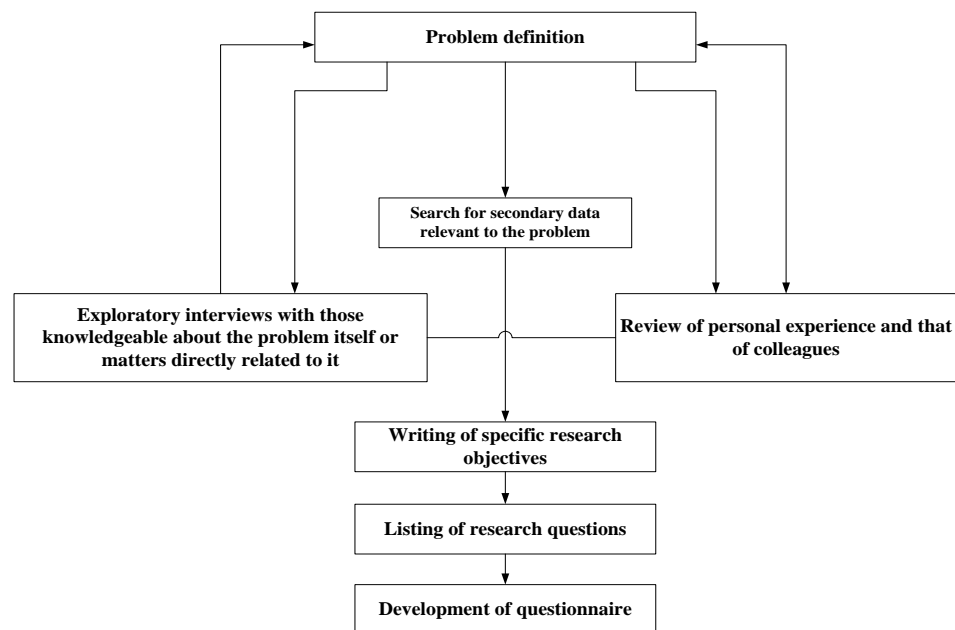
Chisholm, Rupert and Elden (1993) described primary data as being collected directly from the researcher for some particular purpose or study. It may be gathered by methods, such as questionnaires and/or personal investigation. The primary data were gathered with the help of questionnaires for this research. A questionnaire is a vehicle used to pose queries, which the researcher needs the respondents to answer.

In this research, sliding scale questions were used since the research used quantitative analysis. Sliding scale questions asked the respondents to scale predefined answers that are closest to their viewpoints. sliding scale questions are more simple to respond to and tabulate than open ended but they do not permit respondents to elaborate.

The first step is to specify the information needed. A continual review of the earlier stages of the research project, particularly the specific components of the problem, the research questions, and the objectives, will help keep the questionnaire focused and the other steps are listed in figure 4.5.

Questionnaires should also be designed with the target respondents in mind, taking into account their educational level and experience. The language used and the context of the questions must all be familiar to the respondents. Keep in mind the characteristics of the respondents, particularly their experience.

Figure 4.5 the steps preceding questionnaire design



Source Crawford, I. M. (1997)

The content of the questionnaire is divided into six sections evaluating these categories:

- 1- General aspects (Q1 to Q10)
- 2- Procedural aspects (Q11 to Q13)
- 3- Objectives aspects (Q14 to Q19)
- 4- Progress aspects (Q20 &Q21)

- 5- Ownership aspects (Q22 to Q24)
- 6- Evaluation aspects (Q25 to Q30)

4.4.3. Secondary data

The sampling selection depended on

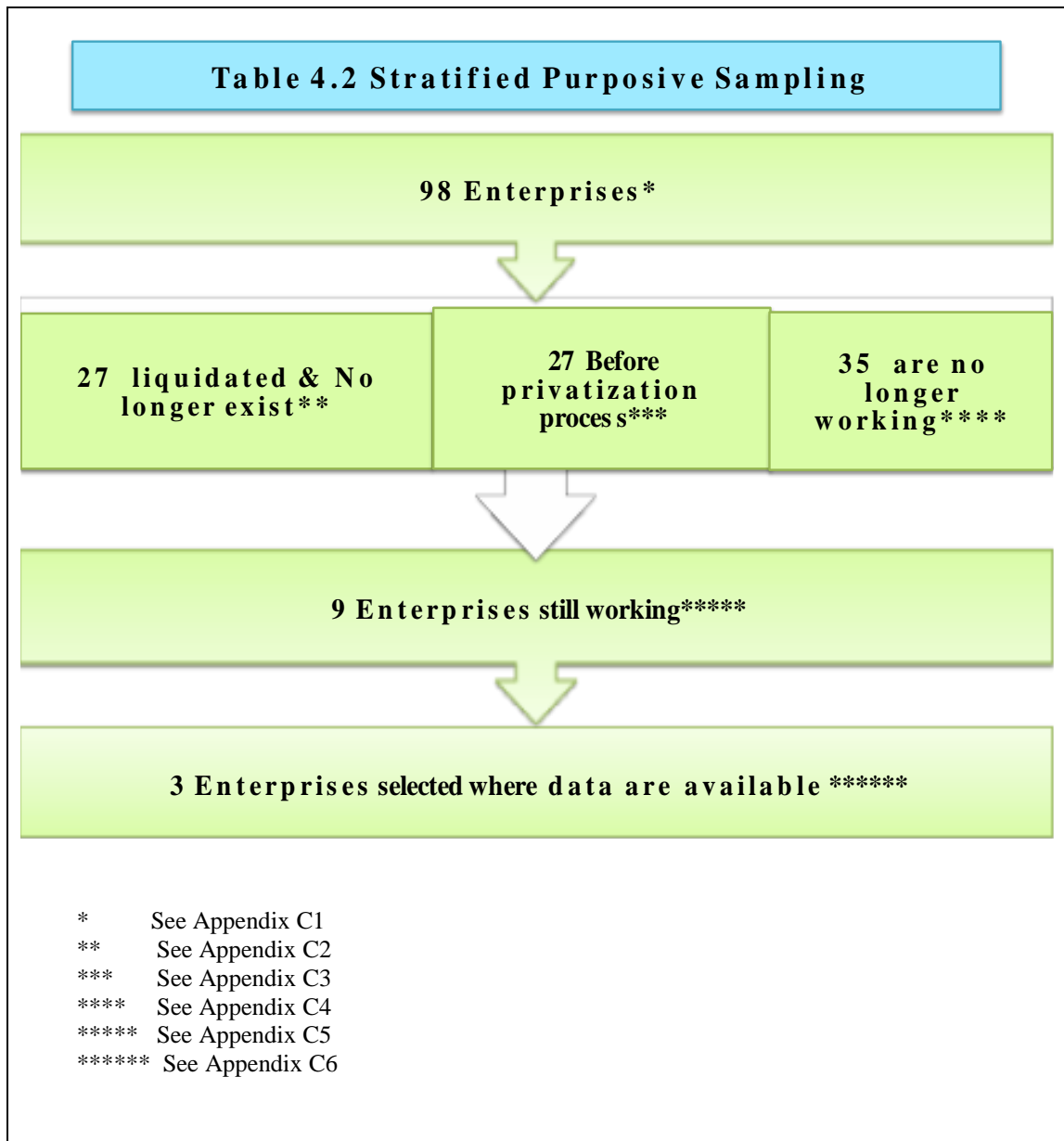
- 1- Availability of data
- 2- Privatized time
- 3- Existing and continuing of enterprises

Three enterprises have been selected out of nine enterprises which are stay working as we can see in table 4.2.

- 1- National Grain Silos Ltd
- 2- National Cigarette & Match industries Ltd
- 3- Al- Esayi Beverages Company Ltd Canada Dry/Aden

The time period for these enterprises operation is from 1995 until 2009 and seven years for the three enterprises (three year before the privatization and three year after privatization excluding the year of privatization).

The data collected for this study is a secondary data like financial and accounting data for the case studies, published journals and materials written on the topic, including Yemeni policy documents, government reports, documents and government websites, annual reports for the three-years pre-privatization requested from the Ministry of Industry and Trade, also the data for post-privatization requested from Technical Privatization Office and other relevant reading material.



According to Megginson, and Randenborgh (1994) in the developing countries the enterprises sampling number usually ranged in between 3 to 12.

So that we can see many studies have sampling were between these ranges. For example Galal, and Vogelsang in the world bank study named “Welfare consequences of selling public enterprises” have a sample of 12 companies, Afeikhena Jerome (2008) in his

study about privatization performance in Nigeria has sampling of three enterprises, and Ramamurti (1996) in his study about privatization monopolies survey seven enterprises.

Because the sample size is small, the evidence cannot generalize so that questionnaire has adopted in order to fill the gap of small size sampling and to make general evidence about the privatization in Yemen.

This study employed secondary data using the following measurements as explained in table 4.3 and the symbols A and B in the Predicted Relationship column represent after and before.

TABLE 4.3 Variable Predictions

Variables	Proxy	Predicted Relationship
Profitability	Return on Sale(ROS)=net income/sale Return on Assets(ROA)=net income/total assets Return on equity(ROE)= net income/total equity	$ROS_A > ROS_B$ $ROA_A > ROA_B$ $ROE_A > ROE_B$
Operating efficiency	Sale efficiency(SALEFF) = Sale / total employment Net income efficiency(NIEFF) = Net income / total employment	$SALEEF_A > SALEEF_B$ $NIEFF_A > NIEFF_B$
Capital expenditure	Capital expenditure to sale(CESA) = Capital expenditure/ sales Capital expenditure to assets (CETA) = capital expenditure / total assets	$CESA_A > CESA_B$ $CETA_A > CETA_B$
Output	Real sale (SAL) = Nominal sale / consumer price index	$SAL_A > SAL_B$
Employment	Total employment(EMPL) = Total number of employment	$EMPL_A < EMPL_B$

Source: (D'souza and Megginson 1999)

a) PROFITABILITY

- **Return on Sales**

The return on sales is used to calculate the operational efficiency of an organization. Return on Sales is also referred to as operating profit margin of an organization. It is evaluated using the formula (Hills and Jones, 2007):

$$\text{Return on Sales} = \text{Net income (Before interest and tax)} / \text{Sales}$$

- **Return on Assets**

Return on assets is the point of how profitable an organization is common to all its assets. Return on assets gives an idea as to how effective management is at using its assets to produce earnings. The return on assets is represented as a percentage and it is known as return on investment (Wisner, Tan and Leong, 2008). The return on assets can be calculated by using the formula:

$$\text{Return on Assets} = \text{Net income} / \text{Total Assets}$$

- **Return on Equity**

According to Walton and Aerts (2006), ROE is the sum of excess revenue acquired as a percentage of shareholders equity. ROE measures corporation profitability by showing how much gain an organization produces with the cash shareholders have spent. The ROE can be denoted as percentage and evaluated by the formula:

$$\text{Return on Equity} = \text{Net income} / \text{Shareholder's equity}$$

b) OPERATION EFFICIENCY

- **Sales Efficiency**

The sales efficiency, i.e. the ratio of sales per employee is used to contrast organizations that are common. Organizations with greater figures of sales per employee are assumed as being more effective than those with smaller figures. The ratio of greater sales per employee represents that an organization can perform with less overhead costs, and, therefore, do more with fewer employees, which always translates into successful gains (Zu, 2008). The sales efficiency can be calculated by using the formula:

$$\text{Sales efficiency} = \text{Sales} / \text{Total employment}$$

- **Net Income efficiency**

The ratio of net income divided by total employment is known as net income efficiency (Bernstein, 2000). The net income efficiency is calculated by the formula:

$$\text{Net income efficiency} = \text{net income} / \text{total employment}$$

c) CAPITAL EXPENDITURE

- **Capital Expenditure to sales**

Capital expenditure is divided by sales. The extent gives a sense of how an organization is spending for the future (Agar, 2005). The capital expenditure to sales is represented by the formula:

$$\text{Capital Expenditure on sales} = \text{Capital expenditure} / \text{sales}$$

- **Capital expenditure to assets**

The capital expenditure to assets is the ratio of capital expenditure divided by total assets (Vause, 2009). The capital expenditure to assets is represented by the formula:

$$\text{Capital expenditure to assets} = \text{Capital expenditure} / \text{total assets}$$

d) OUTPUT

- **Real Sale**

The real sale is the output of nominal sale divided by consumer price index (Jarvis, Ramesh and Wu, 2011). It is calculated by the formula:

$$\text{Real Sale} = \text{Nominal sale} / \text{consumer price index}$$

e) EMPLOYMENT

- **Total Employment**

The total employment is common to total number of employment (Taylor, 2006). The formula for total employment is:

$$\text{Total employment} = \text{total number of employment}$$

4.5. Analysis and Interpretation of data

The data analysis and interpretation consists of the objective material in the researcher's possession and his subjective reaction and desire to derive from data the inherent meaning in their relation to the issue (Crowther and Lancaster, 2008).

Statistical tools employed

The statistical tools that are used for the analysis of the primary data to be collected are:

- i. graphical method
- ii. sample percentage method
- iii. weighted average method

The process of denoting the collected primary data in visual form or in the form of figures is known as graphical. This study uses bar charts for representing data.

The analysis of a simple percentage is used in comparing between more than two collections of data. In this method, the percentages are used to represent relationship percentages and can be used to compare similar terms.

$$\text{Percentage} = \text{No. of responses} \times 100 \div \text{Total number of responses}$$

This research makes use of the statistical techniques, such as the Karl Pearson Correlation test, to check the proposed hypothesis. The Karl Pearson Correlation test gives a result of a variable by the name coefficient of correlation, which helps in identifying the relationship between the quantitative dependent and independent variable (Weiten, 2010, p 44). The correlation coefficient is denoted by the symbol "r".

The correlation coefficient “r” is evaluated by applying the formula below:

$$r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

Where n = number of elements

r = correlation coefficient

x = Variable

y = Variable 2

The weighted arithmetic average removes the items bias and gives a better measure of central tendency. The weighted average method is calculated by:

Weighted Arithmetic Average =

Total of the weighted scores ÷ Total no. of respondents

In any research, the obtained results are validated with the help of two parameters using reliability and validity.

According to Karras (1992), reliability is the degree to which the measures yield stable results and are free from error, i.e. the measurement procedure stableness.

According to Healy and Perry (2000), validity is referred to as the measure that tests whether it measures what it claims to measure. The measure is valid if it measures what it does so cleanly and is supposed to measure, without including these factors accidentally.

The study of correct and incorrect action is known as ethics. It implements what the researcher must do when confronted with a condition where the personal beliefs, rights, societal rules and values are in conflict.

In summary the limitation of the research is that

- i. This research sample size is only 177, owing to time constraints
- ii. The respondents were not that cooperative with providing the answers and they had to be given much pressure.

The research design adapted in this study is descriptive research and the sampling technique used is simple random sampling. This section, besides explaining the statistical tool required for testing the proposed research hypothesis, has explained how the researcher managed to maintain validity and reliability despite several limitations involved in conducting the research.

CHAPTER FIVE: FINDINGS

5.1. INTRODUCTION

This chapter presents the findings of the study. First, this chapter presents a brief history of the three enterprises under study. It also provides an analysis and discussion of the results concerning the performance of these enterprises before and after privatization in terms of profitability, operating efficiency, capital expenditure, output, and employment.

Second, it will provide a descriptive analysis in connection with topics, such as questionnaire, response rate, and the distribution of frequencies. Next, the study hypotheses are tested using ANOVA analysis of variance and regression.

5.2. Brief history and analysis of the enterprises under study

Three enterprises have been selected in this study as stated in chapter 3 – National Grain Silos Ltd, National Cigarette and Match industries Ltd, and Al- Esayi Beverages Company Ltd Canada Dry/Aden.

5.2.1. Brief History of case study enterprises

(i) National Grain Silos Ltd.

National Grain Silos was established as one of the components of the Yemeni General Organization for Grain, which was created by Law No. (126)/1976 and then joined the General Corporation for Foreign Trade in 1987.

The new institution began exercising the functions and powers that were vested in both the previous institutions, including the management and operation of grain silos that operate with a storage capacity of 30,000 tons, the subsequent suction and discharge equipment, and packaging of fixed and mobile equipment.

However, starting from 1992, the role and functions of the institution have substantially decreased for several political and economic reasons and those relating to grain silos following:

- 1 - Abolition of the government support for wheat and flour, and leaving the field of marketing to the private sector.
- 2 - The private sector creates fixed and mobile equipment for packaging in each of the ports of Hodeida, Salif, Aden, resulting in reduced activity of the Grain Silos.

According to (Committee established by decision of the Deputy Prime Minister, 2002) the balance sheet for the year 2000, the losses of the institution were 369,635,667

riyals and the 2001 data prepared by the institution indicated that the losses would increase to 750 million riyals. On the other hand, it estimated that the size of the actual losses were at least 2 billion riyals because of the lack of differences in calculating the exchange rate for the value of the remaining installments to the institution with the benefits of foreign loans owed by the institution.

In addition, the report noted that the cash balance of the institution in April 2002 did not exceed 120 million riyals, and the Committee expected that the amount be used to meet the salaries and wages and certain general expenses to the maximum extent until the end of July 2002 (Committee established by decision of the Deputy Prime Minister, 2002).

The Committee concluded that the appropriate option to address the situation of the institution was liquidation. The legal justifications relied upon by the Committee was the earlier privatizing of the Grain Silos under Cabinet Resolution No. 142 of 2002 of \$ 7.5 million.

The new company became an independent company on behalf of the National Company for Grain Silos Ltd and proceeded for expansion and progress. Where before privatization they had a storage capacity limited to only 30000 tons, this had now increased to 90000 tons, and, in the future, it is expected to increase to 120000 tons in addition to the plan for the establishment of flour mills.

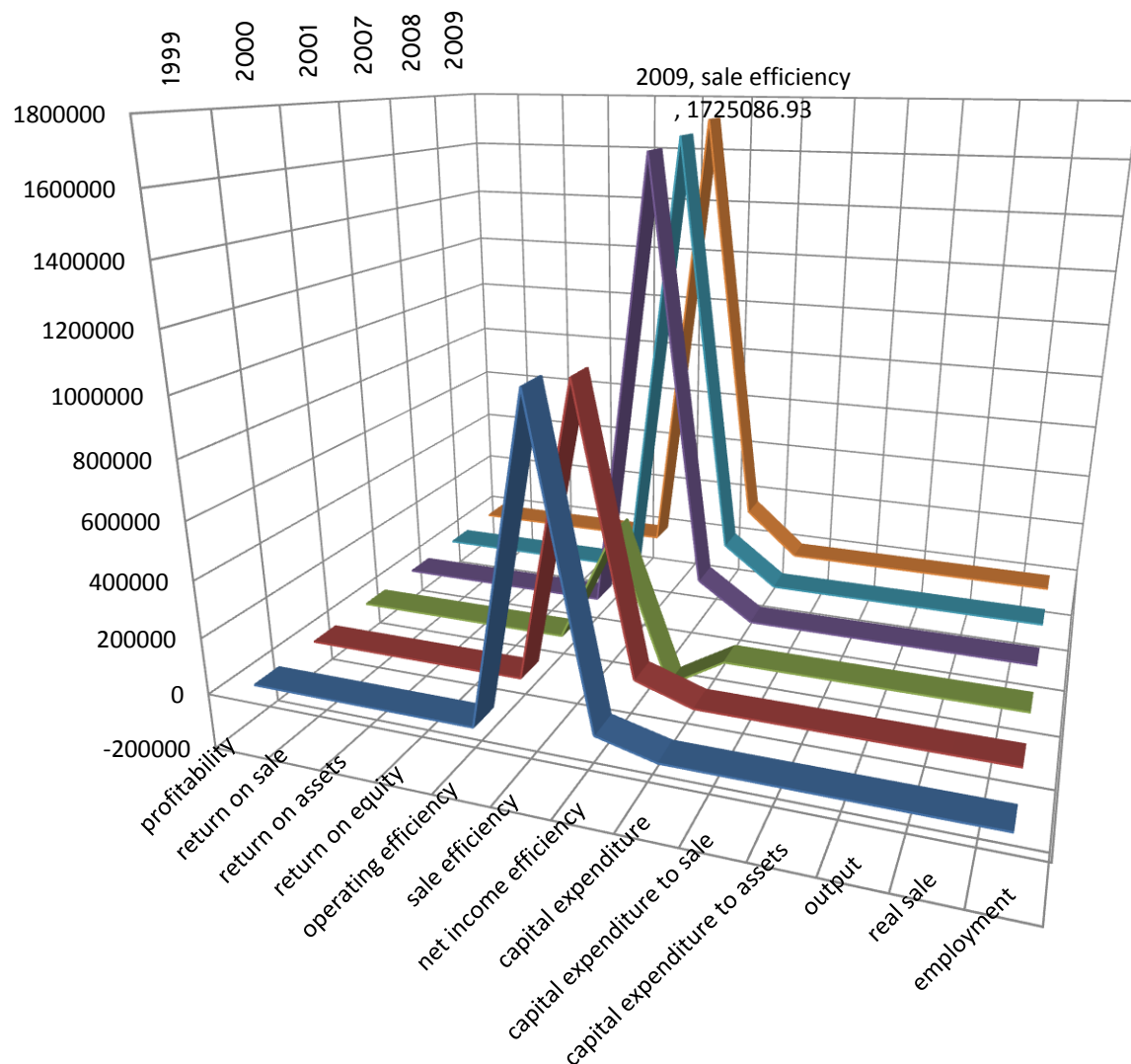
The new company began their improvement with the establishment of five silos, storage, accessories for cranes, conveyor belts, high precision scales and the capacity of

each silo was 12000 tons. In addition, the automatic vacuum system was updated in order to convey this storage capacity, which increased the former productivity by more than 50% for two years in a row.

The data were collected for the variables under study of the National Grain Silos Ltd for a period of three years prior to the privatization process (1999, 2000, and 2001) as well as for three years after the privatization process (2007, 2008, and 2009).

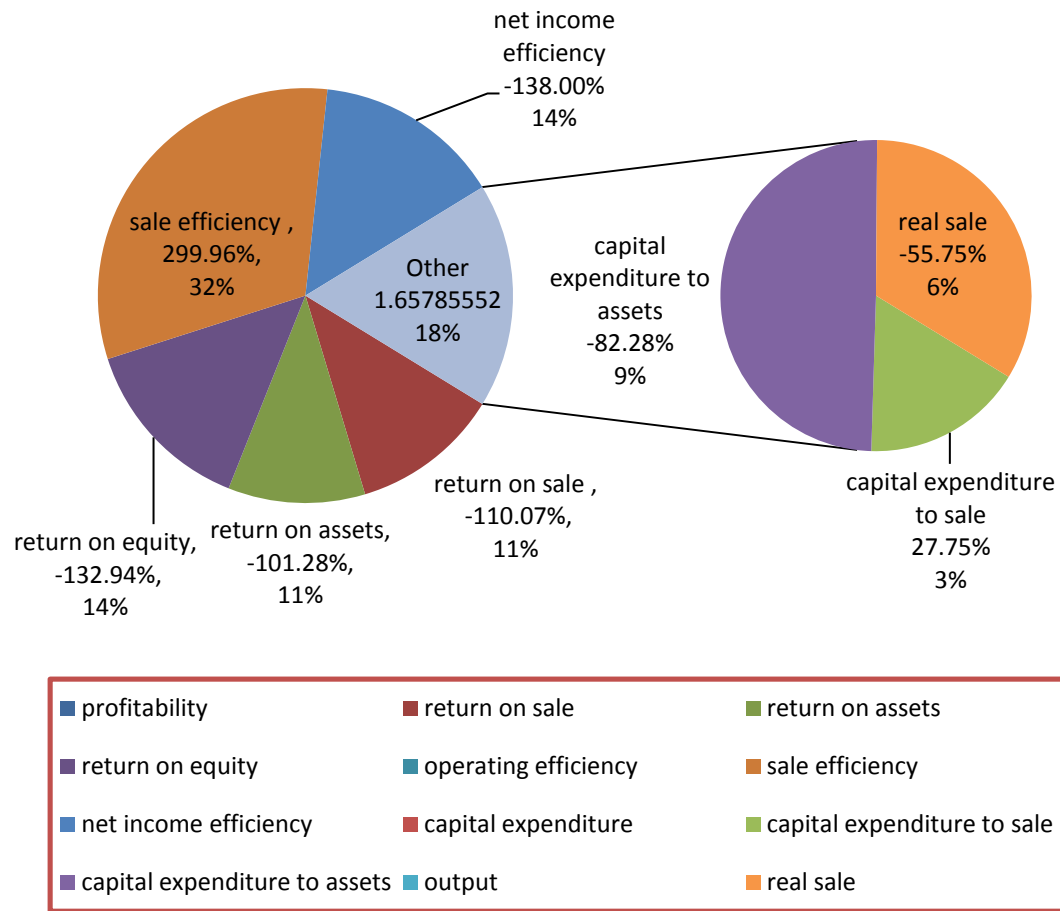
From figure 5.1, we can see that the performance of the National Grain Silos Ltd during the period of the study in general was not good. The results of the profitability showed that there were negative changes after privatization for all indicators (return on sale, return of asset, and return on equity). In addition, other indicators decreased and only sale efficiency, capital expenditure to sale increased after privatization. On the other hand, employment of the enterprise decreased as it should be after privatization.

Figure 5.1 : National Grain Silos Ltd Performance



	profitability	return on sale	return on assets	return on equity	operating efficiency	sale efficiency	net income efficiency	capital expenditure	capital expenditure to sale	capital expenditure to assets	output	real sale	employment
■ 1999		0.047	0.027	0.179		1099537.	51594.47		0.953	0.547		0.000002	484
■ 2000		0.064	0.032	0.236		1045600.	66405.48		0.936	0.474		0.000001	496
■ 2001		-0.289	-0.046	-0.333		425233.7	-122705.		1.289	0.205		-0.00000	380
■ 2007		0.082	0.049	0.354		1653751.	135547.6		0.918	0.548		0.000002	365
■ 2008		0.087	0.047	0.382		1683613.	146527.0		0.913	0.492		0.000002	365
■ 2009		0.098	0.051	0.442		1725086.	169171.5		0.902	0.467		0.000002	365

Figure 5.2 : National Grain Silos Ltd Percentage change



By looking at the percentages change in figure 5.2 we recognize that the sale efficiency was the highest increased percentage change by 299.96% (32% of the indicators) followed by capital expenditure to sale which record 27.75% (3% of the indicators) by contrary the other indicators records negative percentage changes. Net income efficiency and return on equity registered the highest decreased by -138 % (14% of the indicators) and -132.94% (14% of the indicators) respectively followed by return on sale and return on assets which decreased by -110% (11% of indicators) and -101.28 (11% of indicators) respectively.

(ii) National Cigarette and Matches industries Ltd

The national cigarette and matches industries were established in 1978 by merger of the Arabian Match Company Ltd (AMCO), which was established in 1970, and the National Tobacco and Cigarettes Ltd, which was established in 1973. The company produces two kinds of cigarettes and imports roll your own tobacco, and tobacco papers from Europe.

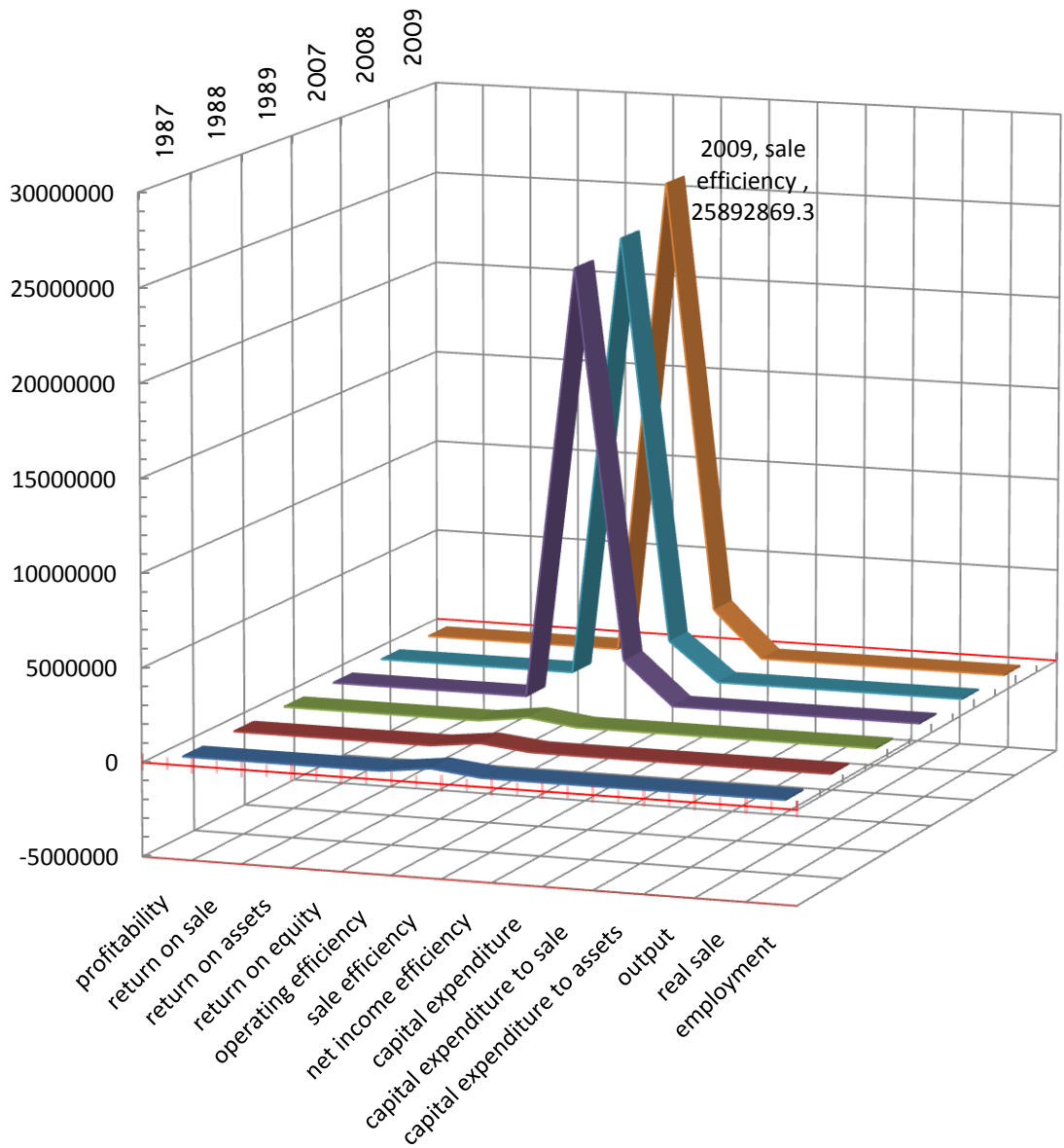
It was within the mixed sectors where the Government contributed 80% of the capital and 20% private sector contribution; moreover, the Government occupied the company administration instead of the private sector as a result of the nationalization law, which was practiced in South Yemen before unification, through which a lot of private properties were confiscated for the Government.

After unification in 1990, the private sector increased the capital of the company with an amount of USD3,000,000 as a result the percentage was edited so that the private sector got 60% and the Government got 40% and the administration of the company returned to the private sector starting from 1991.

Accordingly, the factory returned to the original owner, who, in turn, began to improve and develop the factory in terms of updating machines, increasing the size of production, and the establishment of a new factory for tobacco in 2003 at a total cost 1 billion and 400 million riyals.

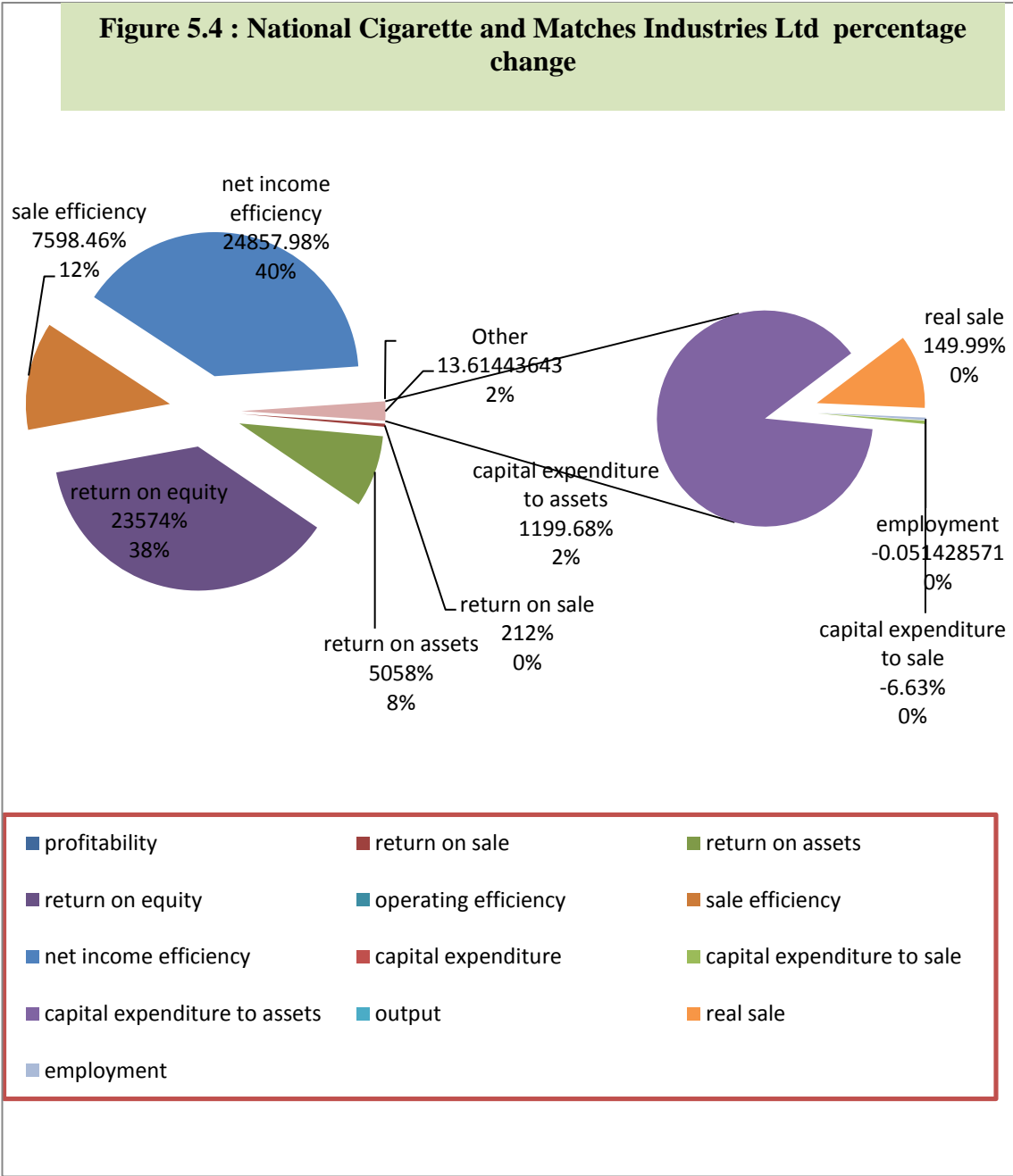
The data were collected for the variables under study of the National Cigarette and Matches Industries Ltd for a period of three years prior to the privatization process (1987, 1988, and 1989) as well as for three years after the privatization process (2007, 2008, and 2009).

Figure 5.3 National Cigarette and Matches Industries Performance



	profitability	return on sale	return on assets	return on equity	operating efficiency	sale efficiency	net income efficiency	capital expenditure	capital expenditure to sale	capital expenditure to assets	output	real sale	employment
■ 1987		0.040	0.020	35.09		311574	12534		0.960	0.480		0.040	350.00
■ 1988		0.054	0.040	45.55		302753	16269		0.946	0.702		0.040	350.00
■ 1989		-0.003	-0.003	-2.96		336439	-1057		1.003	0.996		0.040	350.00
■ 2007		0.099	1.026	6116.96		23374218	2303073		0.901	9.384		0.100	332.00
■ 2008		0.087	1.075	5530.92		23927304	2082424		0.913	11.277		0.100	332.00
■ 2009		0.098	0.831	6744.11		25892869	2539198		0.902	7.640		0.100	332.00

The performance of this enterprise after privatization was better than before. From figure 5.3, we can see that almost all indicators were increase during the years after privatization and only one indicator that was decrease, which was the capital expenditure to sale.



From figure 5.4, we can observe that most of the indicators recorded increasing in the percentage change. Net income efficiency record the highest percentage increased by 24857.98% (40% of the indicators) followed by return on equity which record 23574% (38% of the indicators) and the capital expenditure to sale was the only indicator has decreased which record -6.63% .

(iii) Al-Esayi Beverages Company Ltd Canada Dry/Aden

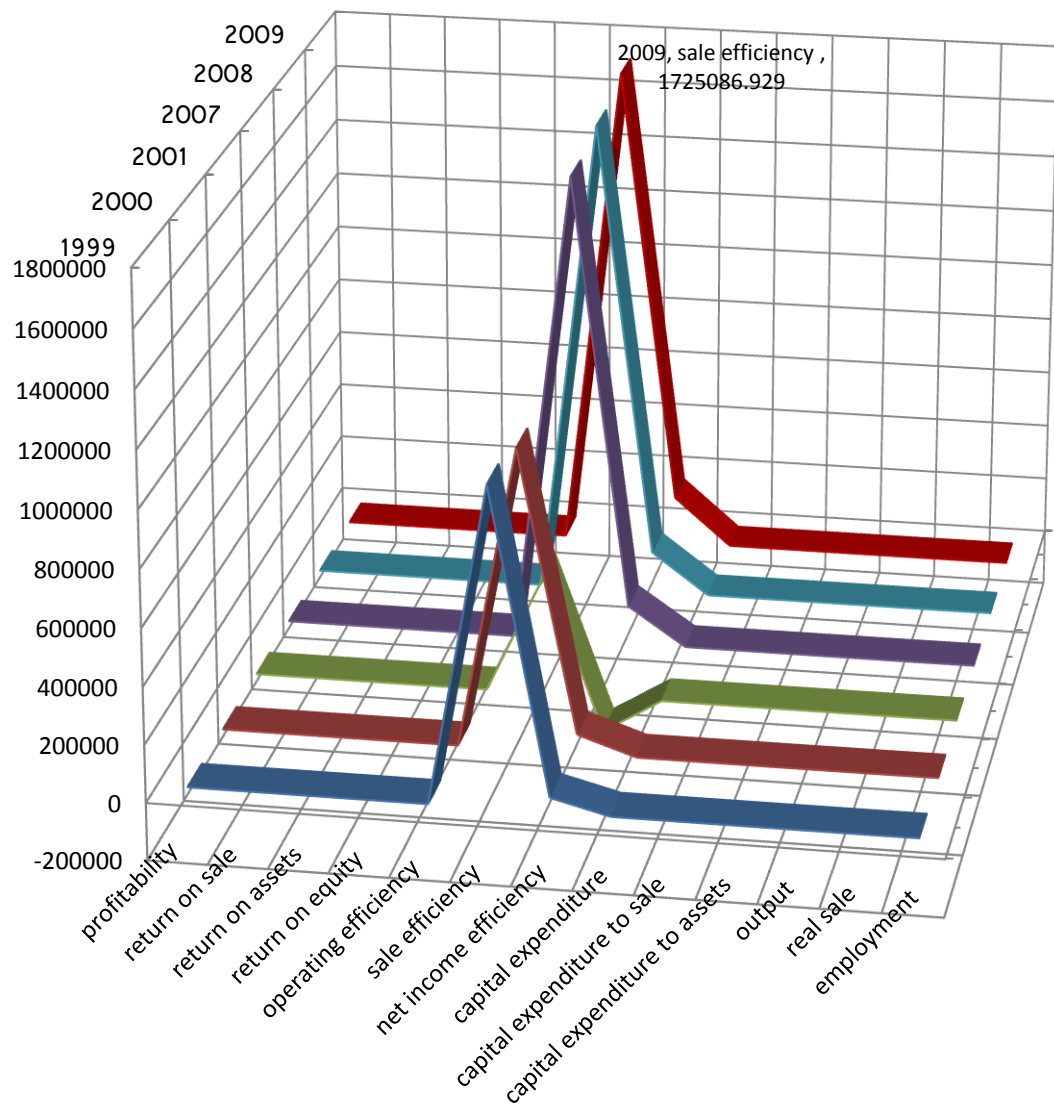
The factory, which ran from July 26, 1961, consisted of four sections, a section to generate steam, Processing Section, Department of Production, and Department for carbon dioxide. The factory continued to work efficiently until 1972 when the Government issued Law No 8/1972 for the establishment of the National Foundation for the packing of soda water. The Act provided nationalization of four companies, including Al-Eisayih Company (Canada Dry) and its affiliated facilities and devolved ownership to the people represented by the National Endowment for the mobilization of carbonated water.

After the unity between the two parts of Yemen, the State started to re-nationalize property to their respective owners so that the former owners provide a request to return their previous property. Thus, the Yemeni Government agreed to return the company to their respective owners in 2001 and renamed it the Al-Esayi Beverages Co., Ltd. The new company started to work with an appropriate economic and business performance while at the same time implementing updates and improvements at all

levels of production, mechanization, management and keeping up with recent developments in its field.

The data were collected for the variables under study of the Al-Esayi Beverages Company Ltd Canada Dry/Aden for a period of three years prior to the privatization process (1999, 2000, and 2001) as well as for three years after the privatization process (2007, 2008, and 2009).

Figure 5.5 : Al-Esayi Beverages Company Ltd Canada Dry Performance

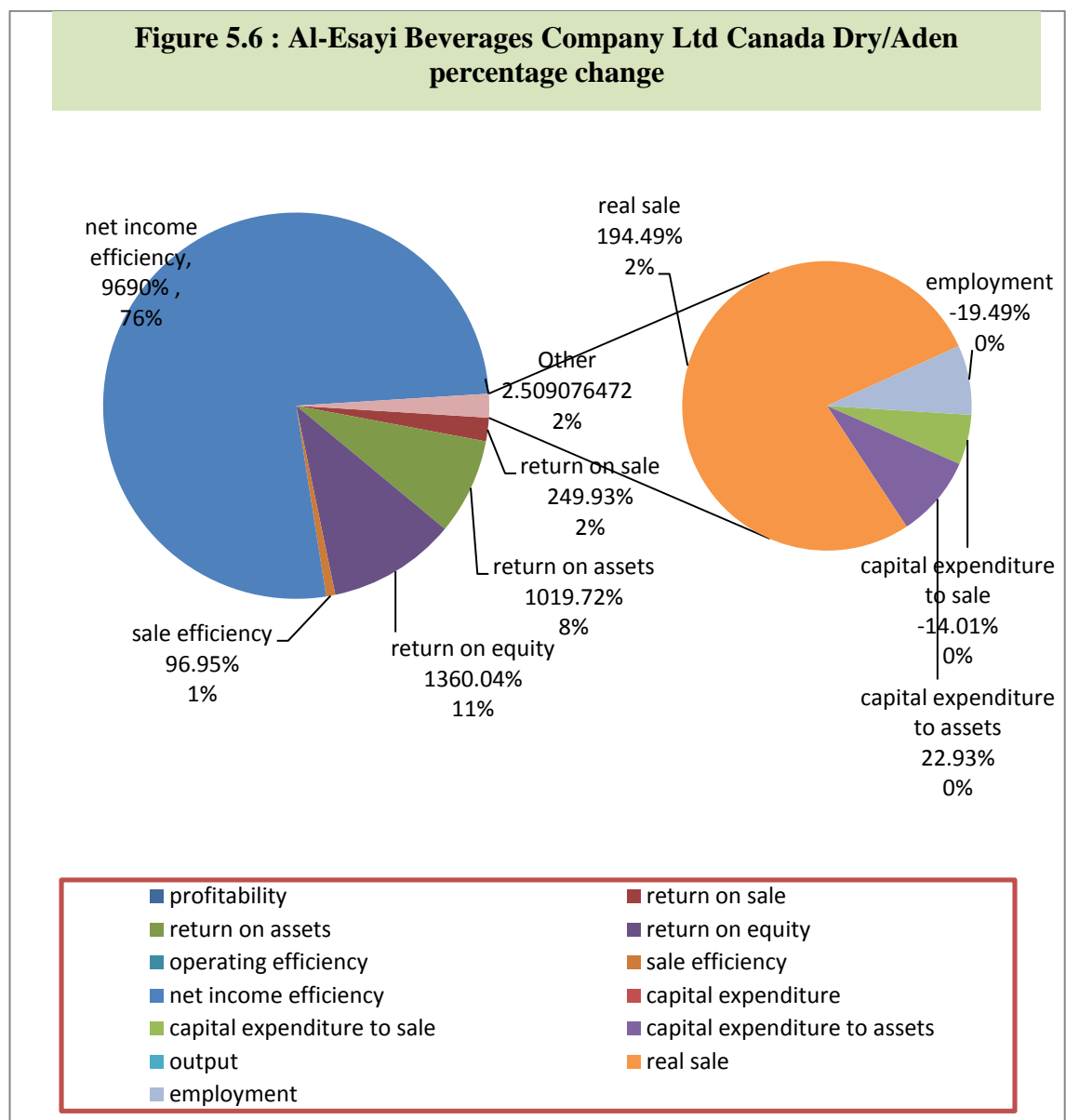


	profitability	return on sale	return on assets	return on equity	operating efficiency	sale efficiency	net income efficiency	capital expenditure	capital expenditure to sale	capital expenditure to assets	output	real sale	employment
■ 1999		0.04692	0.02690	0.17858		1099537	51594		0.95307	0.54656		2.2E-06	484
■ 2000		0.06350	0.03213	0.23554		1045601	66405		0.93649	0.47384		1.7E-06	496
■ 2001		-0.2885	-0.0459	-0.3334		425234	-122705		1.28855	0.20520		-1E-06	380
■ 2007		0.08196	0.04891	0.35381		1653751	135548		0.91803	0.54789		2.4E-06	365
■ 2008		0.08703	0.04689	0.38246		1683613	146527		0.91296	0.49194		2.7E-06	365
■ 2009		0.09806	0.05074	0.44157		1725087	169172		0.90193	0.46675		2.4E-06	365

The enterprise showed improves in its performance because of the privatization policy.

From figure 5.5 we can declare that most of the indicators under study were has

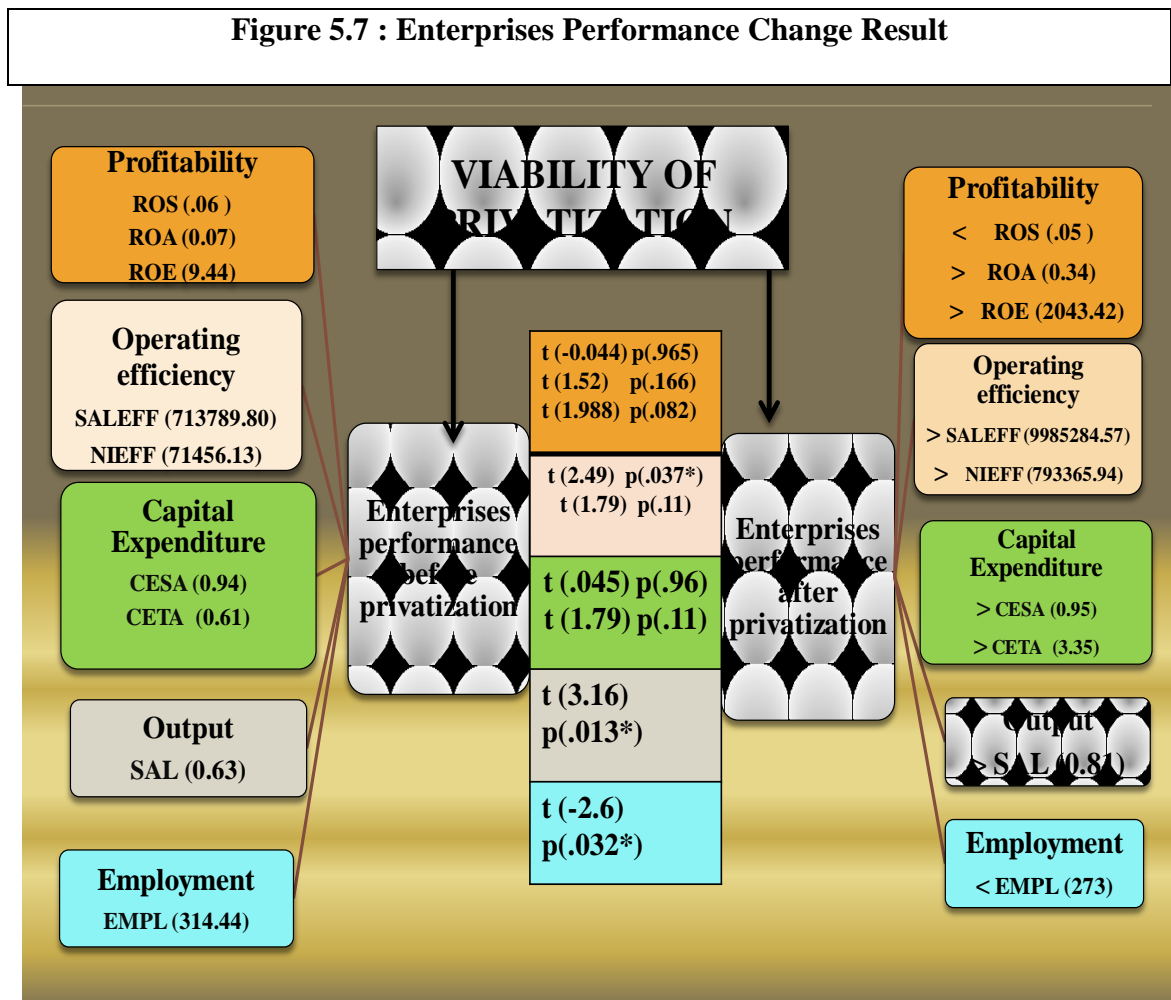
increasing during the years of privatization and there is only one indicator record decreased which is the capital expenditure to sale.



From figure 5.6, we can observe that the enterprise showed improves in its performance as all indicators increased except capital expenditure to sale. The highest change indicators was the net income efficiency which record 9690% (76 of the indicators) followed by return on equity with percentage change of 1360% (11% of the indicators).

5.2.2. Analysis of the enterprises under study

Previously, it was noted that the research aimed to test the performance change of the enterprises under study after privatization with respect to the change in the mean and median values in terms of profitability, operating efficiency, capital expenditure, output, and employment. Figure 5.7 demonstrates the result with the sub-framework in Figure 4.3, which compares the performance change for the three enterprises under study.



This section will present and discuss the results of analysis using unadjusted standard measurements of performance for the selected sample consisting of the three privatized companies.

The empirical results for the three enterprises under study are represented in table 5.1 and figure 5.7 and discussed as follows

I. Profitability Changes

As mentioned previously, the theoretical and experimental studies have shown that when ownership transferred from the public to the private sector, this should lead to increased profitability of enterprise since the attention of management in the private sector is to increase profit in contrast to public sector management.

The measurement of profitability uses three proxies – return on sale (ROS), return on assets (ROA), and return on equity (ROE) – with a net income measure of profit.

From table 5.1 we can see the results of the profitability mean changes of the privatization as follows:

The return on sale recorded decreased insignificantly by -0.003. The t-test statistic was -0.045 and its corresponding p-value was $0.965 > 0.05$. Since the p-value is more than 0.05, we can conclude that there is no significant difference between the means of return on sale at the baseline and three years after privatization.

The second proxy, which was the return on assets, recorded an insignificant increase of 0.271. The t-test statistic was 1.522 and its corresponding p-value was

0.166 > 0.05. Since the p value is more than 0.05, we can conclude that there is no significant difference between the means of return on assets at the baseline of three years before privatization and three years after privatization.

Table 5.1 : Performance indicators					
	Mean value Before Privatization (Median)	Mean value after privatization (Median)	Mean change due to privatization	T test statistic for significance of change	Sig.(2- tailed) P(value)
Profitability					
return on sale	.06 (0.05)	0.05 (0.09)	-0.003 (0.0333)	-0.044	0.965
return on assets	0.07 (0.03)	0.34 (0.05)	0.271 (0.0168)	1.52	0.166
return on equity	9.44 (1.05)	2043.42 (0.38)	2033.98 (-0.6576)	1.988	0.082
operating efficiency					
sale efficiency	713789.80 (684511.4)	9985284.57 (3873981.33)	9271494.76 (3189469.93)	2.491	0.037*
net income efficiency	71456.13 (51594.47)	793365.94 (146527.02)	721909.81 (94932.55)	1.794	0.111
capital expenditure					
capital expenditure to sale	0.94 (0.95)	0.95 (0.91)	0.003 (-0.033)	0.045	0.965
capital expenditure to assets	0.61 (0.52)	3.35 (0.49)	2.746 (-0.0245)	1.794	0.111
Output					
real sale	0.63 (0.56)	0.81 (0.85)	0.18 (.30)	3.169	0.013*
Employment					
Total employment	314.44 (350)	273 (332)	-41.44 (-18)	-2.600	0.032*

* indicated significant at .05 value

The third proxy for the profitability, which was the return on equity also recorded an insignificant increase of 2033.271. The t-test statistic was 1.988 and its corresponding

p-value was $0.082 > 0.05$. Since the p-value is more than 0.05, we can conclude that there is no significant difference between the means of return on equity at the baseline of three years before privatization and three years after privatization.

The tests of the three profitability indicators are insignificant at the 5% level, which provides insufficient evidence to conclude that there has been an increase in the mean (median) due to the privatization program. In other words, this result shows that the enterprises have not changed in their profitability after privatization, which indicates that those enterprises are facing trouble in their financial management. This finding is somehow different from the findings of many profitability studies (e.g. Cowan, 1990; Yarrow, 1986; Megginson, Nash and van Randenborgh, 1994; Boycko, Shleifer and Vishny, 1993; Boubakri and Cosset, 1999) that showed an enhancement in the profitability of the enterprises after privatization.

II. Operating Efficiency Changes

In order to measure the change in efficiency, two indicators were used – sale efficiency (SALEFF) and net income efficiency (NIEFF).

Both scales showed an improvement of enterprises after the privatization process as it recorded a significant increase in the mean (median) of the SALEFF from 713789.80 (684511.4) before privatization to 9985284.56 (3873981.33) after privatization; recording an increase in the mean (median) of 9271494.76 (3189469.93), respectively.

The t-test statistic was 2.491 and its corresponding p-value was $0.037 < 0.05$. Since the p value is less than 0.05, we can conclude that there is a significant difference between the means of sale efficiency at the baseline of three years before privatization and three years after privatization.

The mean difference between the baseline and three years after privatization for net income efficiency recorded an insignificant increase of 721909.810. The t-test statistic was 1.794 and its corresponding p value was $0.111 > 0.05$. Since the p-value is more than 0.05, we can conclude that there is no significant difference between the means of net income efficiency at the baseline of three years before privatization and three years after privatization.

Meanwhile, the sale efficiency (SALEFF) and net income efficiency (NIEFF) indicators are insignificant at the 5% level, which provides sufficient evidence to conclude that there has been no increase in the mean (median) due to the privatization program.

These findings are inconsistent with the foregoing mentioned in the literature review (e.g. Cowan 1990; Yarrow, 1986; Megginson, Nash and van Randenborgh, 1994; Boycko, Shleifer and Vishny, 1993; Boubakri and Cosset, 1999) on the improvement of the operating efficiency of the enterprises after privatization. The finding indicates that the enterprises inefficiently invested financial and human resources and technology in

spite of the presence of competition and the cut of the support that was previously provided by the government.

III. Capital Expenditure Changes

For the change in capital expenditure, two ratios were used to measure the change expected from the privatization process – capital expenditure to sale (CESA) and capital expenditure to assets (CETA).

Both scales showed an improvement in the enterprises after the privatization process as it recorded an increase. The mean capital expenditure to sale for the three years before privatization was 0.94 with a standard deviation of 0.16 and the median value was 0.95. The mean capital expenditure on sale for the three years after privatization was 0.95 with a standard deviation of 0.06 and the median value was 0.91, recording an increase in the mean by 0.003. However, the median did not increase but decreased by -0.033. The mean value for capital expenditure on assets was 0.61 with a standard deviation of 0.27 and the median value was 0.52. After three years, the mean was more compared to the baseline 3.35 recording an increase in the mean by 2.746 with a standard deviation of 4.65 and the median value was 0.49, which decreased by -0.0245.

The mean difference between the baseline and three years after follow up for capital expenditure to sale recorded an insignificant increase of 0.003. The t-test statistic was 0.045 and its corresponding p-value was $0.965 > 0.05$. Since the p-value is

more than 0.05, we can conclude that there is no significant difference between the means of capital expenditure to sale at the baseline of three years before privatization and three years after privatization.

The mean difference between the baseline and three years after follow up for capital expenditure to assets recorded an insignificant increase of 2.7456. The t-test statistic was 1.794 and its corresponding p-value was $0.111 > 0.05$. Since the p-value is more than 0.05, we can conclude that there is no significant difference between the means of capital expenditure to assets at the baseline of three years before privatization and three years after privatization.

Therefore, this result is at odds with many writers (e.g. Cowan, 1990; Yarrow, 1986 Megginson, Nash and van Randenborgh, 1994; Boycko, Shleifer and Vishny, 1993; Boubakri and Cosset, 1999) in that the new leadership of the enterprises that have been newly privatized tended to increase investment spending in order to enhance the performance of the enterprises. The extent gives a sense of how an organization is spending for the future so that a reasonable indication of this result is that the new leadership of these privatized enterprises did not put in their mind the future of the enterprises.

IV. Output

Only one indicator was used to measure the output, which is the real sale (SAL). From table 5.1 we can observe that the mean real sale for the three years before was 0.63 with a standard deviation of 0.17 and the median value was 0.56. For the three years after, the real sale was 0.81, which is more than the baseline value with a standard deviation of 0.11, and the median value was 0.85.

The mean difference between the baseline and three years after follow up for real sale recorded a significant increase of 0.180. The t-test statistic was 3.169 and its corresponding p-value was $0.013 < 0.05$. Since the p-value is less than 0.05, we can conclude that there is a significant difference between the means of real sale at the baseline of three year before privatization and three year after privatization.

This finding is similar to the findings of many profitability studies (e.g. Cowan 1990; Yarrow, 1986; Megginson, Nash and van Randenborgh, 1994; Boycko, Shleifer and Vishny, 1993; Boubakri and Cosset, 1999) that showed an enhancement in the real sale of the enterprises after privatization.

V. Employment

For measuring employment, one indicator was used, which is the total employment (EMPL) of the enterprises under study during the period of three years before and three years after privatization. From table 5.1, we can observe that the mean total employment

at the baseline was 314.44 with a standard deviation of 141.9 and the median total employment was 350.0. The mean total employment after three years was 273.0 with a standard deviation of 114.29 and the median was 332.0.

The mean difference between the baseline and three years after follow up for total employment recorded a significant decrease of -41.444. The t-test statistic was -2.600 and its corresponding p-value was $0.032 > 0.05$. Since the p-value is less than 0.05, we can conclude that there is a significant difference between the means of total employment at the baseline of three year before privatization and three years after privatization. This finding is similar to many studies, which ended with a decrease in the employment of the enterprises after privatization.

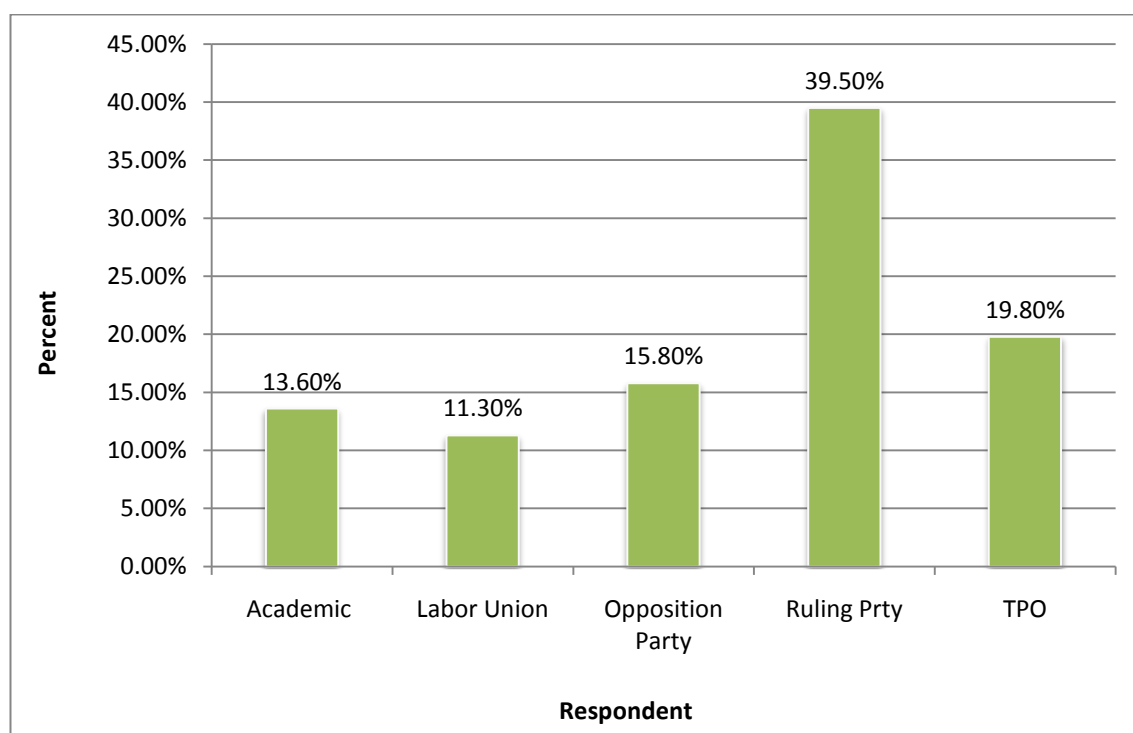
From the foregoing, it is clear that in spite of the presence of some increase in the measured variables, the performance of these enterprises after the privatization process was not better than before the privatization process. This confirms the view of the researcher, which is that the privatization process in Yemen is not viable, which prompted the researcher to move towards an empirical study on the questionnaire design to find out the real reasons behind the lack of feasibility of the privatization program. This will be explained in the next section.

5.3. Analysis of Questionnaire

From the following Table 5.2 we can observe that 39.5% of the respondents belonged to the ruling party. The following bar chart also shows taller bars indicating the same.

Table 5.2 Questionnaire Respondent

	Frequency	Percent
Academic	24	13.6
Labor Union	20	11.3
Opposition Party	28	15.8
Ruling Party	70	39.5
TPO	35	19.8
Total	177	100.0



5.3.1. Inferential statistics

In order to determine whether there is a significant difference between different party groups and constructs determining general, Policy, Procedure, Objective, Progress, Ownership and Evaluation a one-way ANOVA test was applied.

The table 5.3 shows that there was a statistically significant difference between different party groups and constructs determining general, at a significance level of 0.05 with 4 degrees of freedom and 172 for within group mean squares (variance estimate). The critical value of F is 2.42. Since its computed value is 5.569, which is more than the critical value.

A one-way ANOVA test was applied to test if there is any significant difference between different party groups and constructs determining policy. The table shows that there was a statistically significant difference between different party groups and constructs determining policy, at a significance level of 0.05 with 4 degrees of freedom and 172 for within group mean squares (variance estimate). The critical value of F is 2.42. Since its computed value is 12.971, which is more than the critical value.

A one-way ANOVA test was applied to test if there is any significant difference between different party groups and constructs determining procedure. The table shows that there is a statistically significant difference between different party groups and constructs determining procedure, at a significance level of 0.05 with 4 degrees of

freedom and 172 for within group mean squares (variance estimate). The critical value of F is 2.42. Since its computed value is 2.859, which is more than the critical value.

Table 5.3 : ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
General	Between Groups	3.533	4	.883	5.569	.000
	Within Groups	27.277	172	.159		
	Total	30.810	176			
Policy	Between Groups	6.380	4	1.595	12.971	.000
	Within Groups	21.150	172	.123		
	Total	27.530	176			
Procedure	Between Groups	.945	4	.236	2.859	.025
	Within Groups	14.215	172	.083		
	Total	15.160	176			
Objective	Between Groups	1.955	4	.489	4.621	.001
	Within Groups	18.195	172	.106		
	Total	20.150	176			
Progress	Between Groups	7.663	4	1.916	14.998	.000
	Within Groups	21.971	172	.128		
	Total	29.634	176			
Ownership	Between Groups	1.469	4	.367	4.891	.001
	Within Groups	12.916	172	.075		
	Total	14.385	176			
Evaluation	Between Groups	4.382	4	1.096	7.564	.000
	Within Groups	24.913	172	.145		
	Total	29.295	176			

A one-way ANOVA test was applied to test if there is any significant difference between different party groups and constructs determining objective. The table shows that there is a statistically significant difference between different party groups and constructs determining objective, at a significance level of 0.05 with 4 degrees of freedom and 172 for within group mean squares (variance estimate). The critical value of F is 2.42. Since its computed value is 4.621, which is more than the critical value.

A one-way ANOVA test was applied to test if there is any significant difference between different party groups and constructs determining progress. The table shows that there is a statistically significant difference between different party groups and constructs determining progress, at a significance level of 0.05 with 4 degrees of freedom and 172 for within group mean squares (variance estimate). The critical value of F is 2.42. Since its computed value is 14.998, which is more than the critical value.

A one-way ANOVA test was applied to test if there is any significant difference between different party groups and constructs determining ownership. The table shows that there is a statistically significant difference between different party groups and constructs determining ownership, at a significance level of 0.05 with 4 degrees of freedom and 172 for within group mean squares (variance estimate). The critical value of F is 2.42. Since its computed value is 4.891, which is more than the critical value.

A one-way ANOVA test was applied to test if there is any significant difference between different party groups and constructs determining evaluation. The table shows that there is a statistically significant difference between different party groups and

constructs determining evaluation, at a significance level of 0.05 with 4 degrees of freedom and 172 for within group mean squares (variance estimate). The critical value of F is 2.42. Since its computed value is 7.564, which is more than the critical value.

5.3.2. Questionnaire analyses

The next section discusses objectives 1 – 3 & 5 of this study, which is reflected in the content of the questionnaire, which is divided into six categories:

a) General aspects

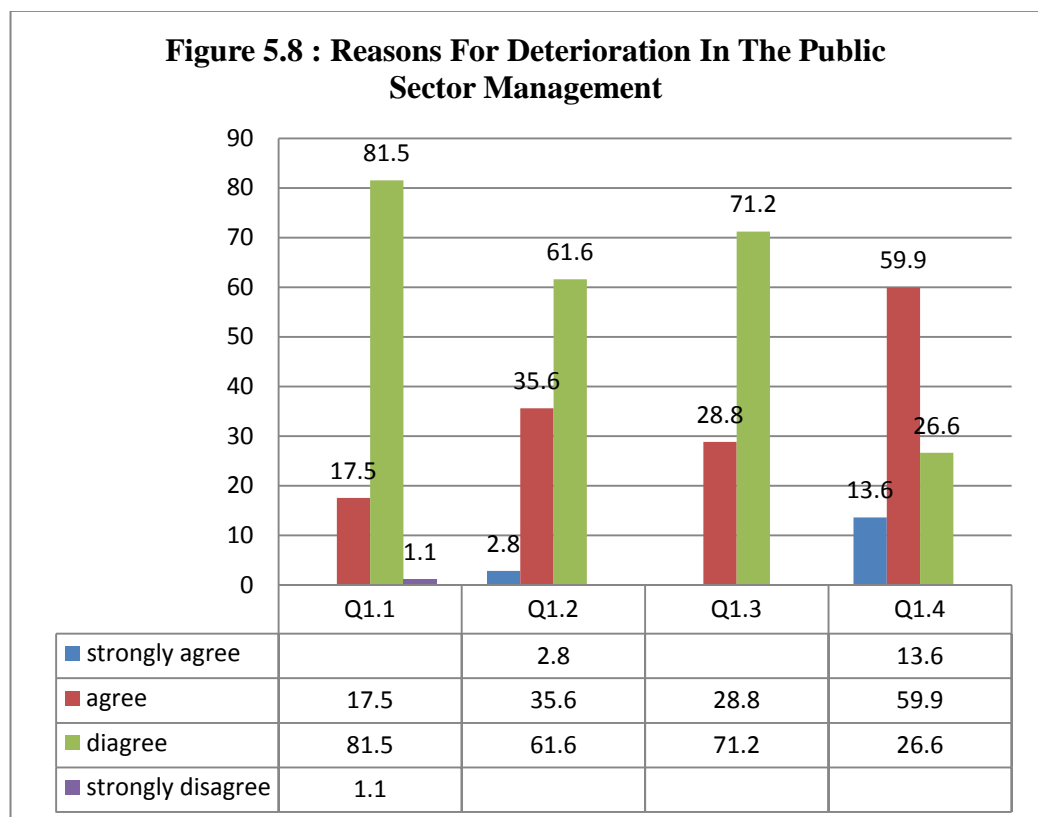
- **Reasons for deterioration in the public sector management**

The deterioration in the public sector management can attributed to

- 1- lack of skills
- 2- inefficient administration
- 3- lack of supervisor skills
- 4- political and administrative corruption

From figure 5.8, we can observe that 81.4% of the respondents disagreed for lack of skills as the reason for the deterioration in the public sector management, 61.5% of the respondents disagreed for inefficient in administration as the reason for deterioration in the public sector management, that 71.2% of the respondents disagreed for lack of supervision skills the reason for deterioration in the public sector management, and 59.9% of the respondents agreed for political and administrative corruption as the reason for deterioration in the public sector management.

It appears to be objective reasons that make unjustified deterioration in the public sector due to political corruption and administrative. The list of these reasons include taking senior management positions in production enterprises by a political decision without taking into account the efficiency of managerial or experience and scientific level required for those positions, the existing administrators are not being efficient or lack the scientific qualifications required to sit at the top of the administrative structure for production enterprises, which impacted negatively on the basis of the administrative structure.



Note:

Q1.1 lack of skills

Q1.2 inefficient in administration

Q1.3 lack of supervision skills

Q1.4 political and administrative corruption

Also, improvement in management decisions and random production plans and the lack of attention to the quality and quantity of outputs and weak in the

administrative and productive control. Furthermore, weakness of the organizations for control and the inability to exercise its power effectively, which lead to the widespread embezzlement of public money and properties (Alsayani, 1996).

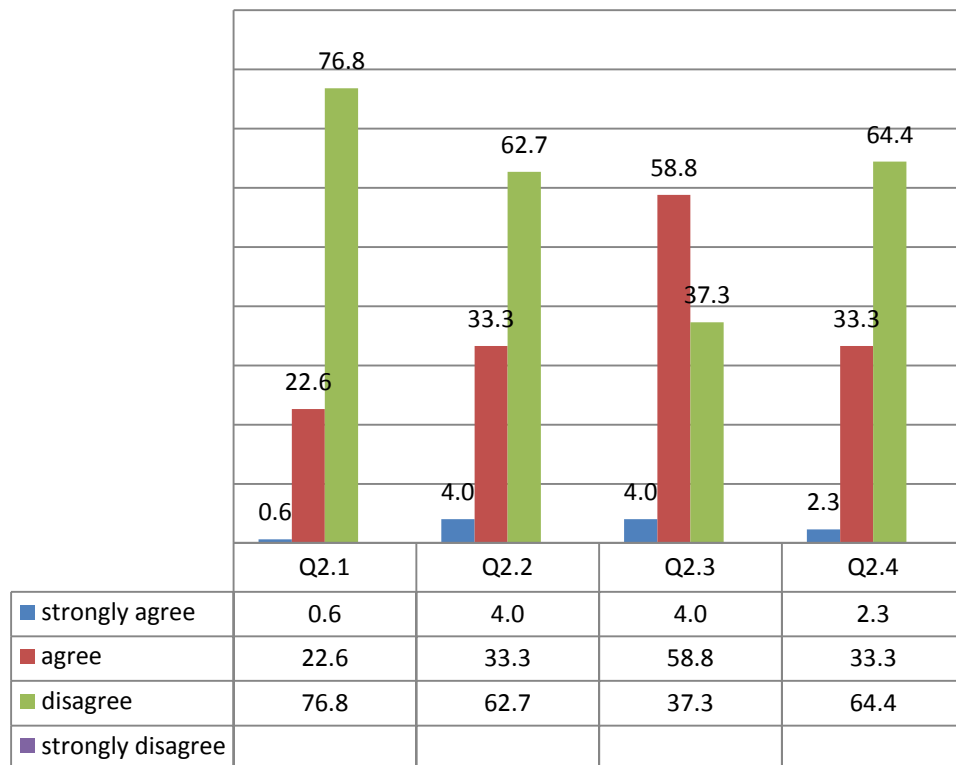
- **Characteristics that should be available in the administrative body responsible for privatization**

From figure 5.9, we can observe that 76.8% of the respondents disagreed that free from administrative constraints should be available in the administrative body responsible for privatization, 62.7% of the respondents disagreed for free from the constraint of routine should be available in the administrative body responsible for privatization, 58.8% of the respondents agreed that no third party intervention should be available in the administrative body responsible for privatization, and 64.4% of the respondents disagreed that fair distribution of privatization opportunity should be available in the administrative body responsible for privatization.

Therefore, the ranking of the characteristics that should be available in the administrative body responsible for privatization became as follows:

- 1- no third party intervention
- 2- fair distribution of privatization opportunity
- 3- free from the constraint of routine
- 4- free of administrative constraint

Figure 5.9 : Administrative Body Characteristics

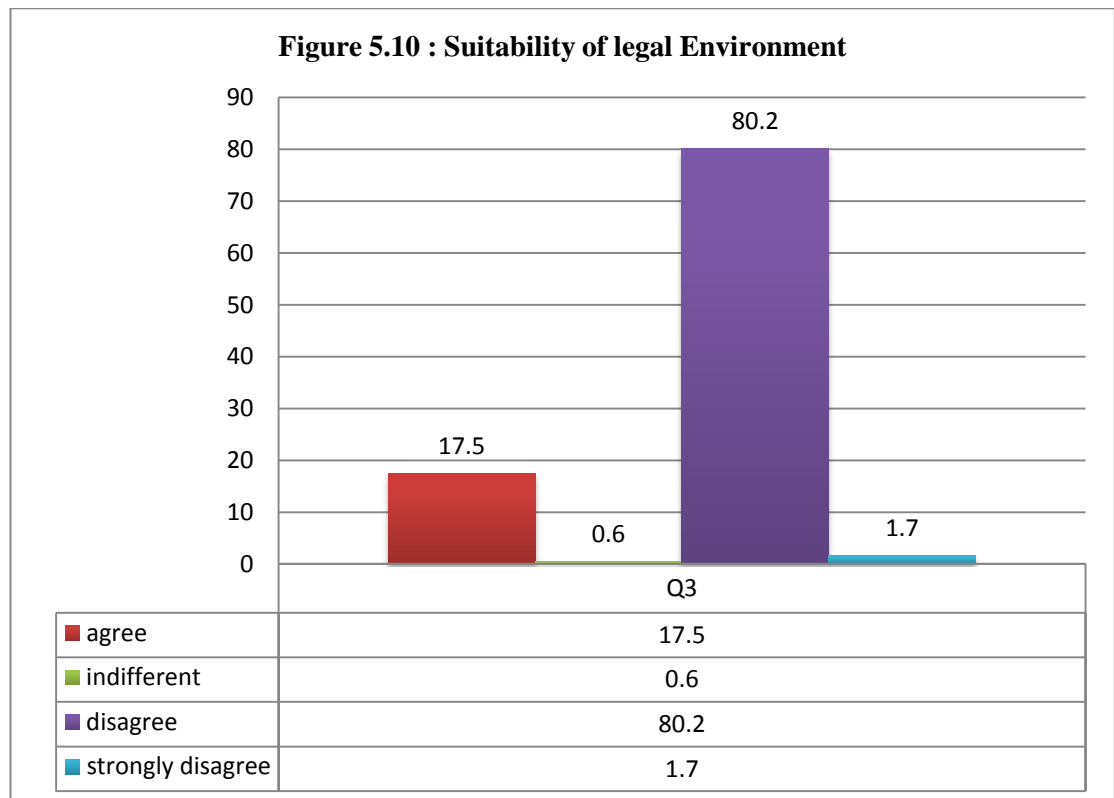


Note:

- Q2.1: free of administrative constrain
- Q2.2 free from the constraint of routine
- Q2.3 no third party intervention
- Q2.4 fair distribution of privatization opportunity

- **The privatization law provides a suitable legal environment**

From figure 5.10, we can observe that 80.2% of the respondents disagreed that the privatization law provides a suitable legal environment to handle the privatization program and only 17.5% agreed.



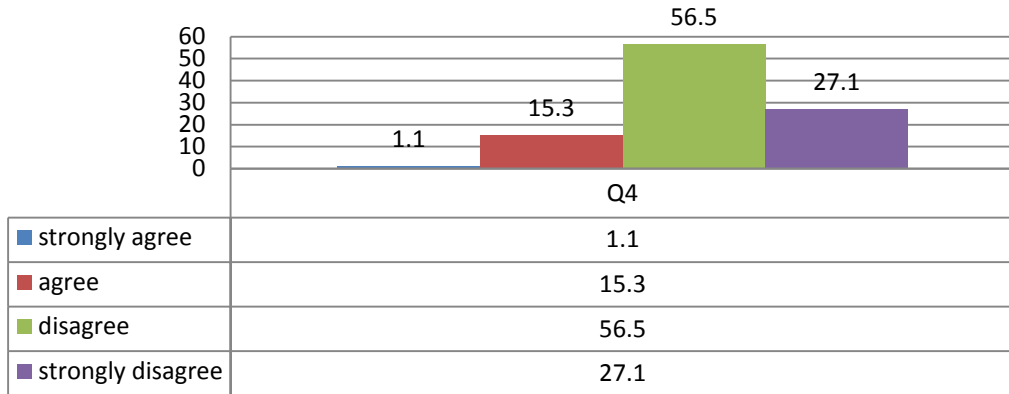
Note:

Q3: The privatization law provides a suitable legal environment

- **The government of Yemen developed a more comprehensive privatization policy and a more aggressive strategy for implementing the privatization program.**

From figure 5.11 we can observe that 56.5% of the respondents disagreed with the Government of Yemen developing a more comprehensive privatization policy and a more aggressive strategy for implementing the privatization program followed by 27.1% of the respondents strongly disagree and only 15.3% of the respondents agreed.

Figure 5.11 : Development of Policy & Strategy for Implementing Privatization



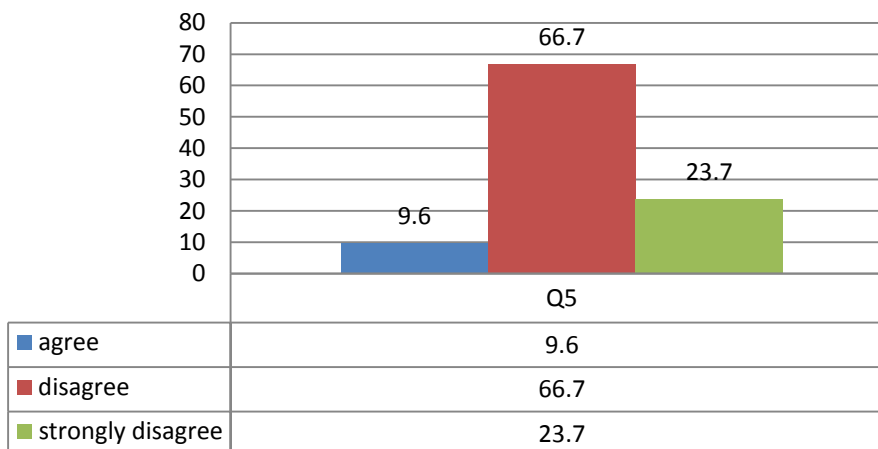
Note:

Q4: The government of Yemen developed a more comprehensive privatization policy and a more aggressive strategy for implementing the privatization program.

- **The privatization policy has been effectively implemented**

From figure 5.12, we can observe that 66.7% of the respondents disagreed that the privatization policy had been effectively implemented followed by 23.7% of the respondents strongly disagree and only 9.6% of the respondents agreed that the privatization policy had been effectively implemented.

Figure 5.12 : Privatization Policy Effectively Implemented

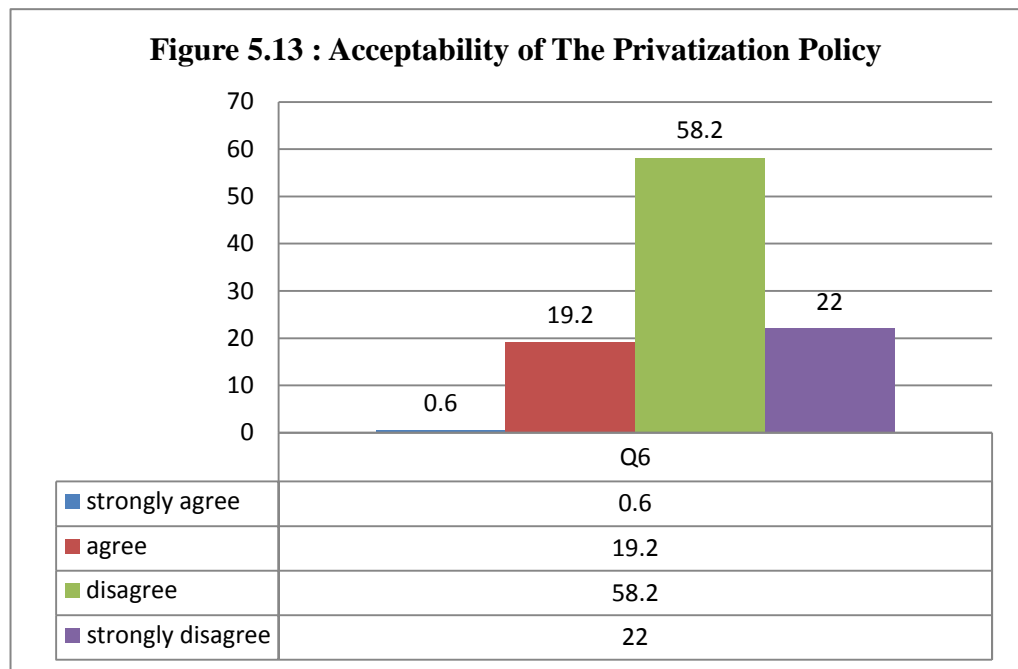


Note:

Q5: The privatization policy has been effectively implemented

- **Acceptability of the privatization policy**

From figure 5.13, we can observe that 58.2% of the respondents disagreed that, overall, the existing privatization policy is acceptable followed by 22% of the respondents strongly disagreed and only 19.2% agreed.

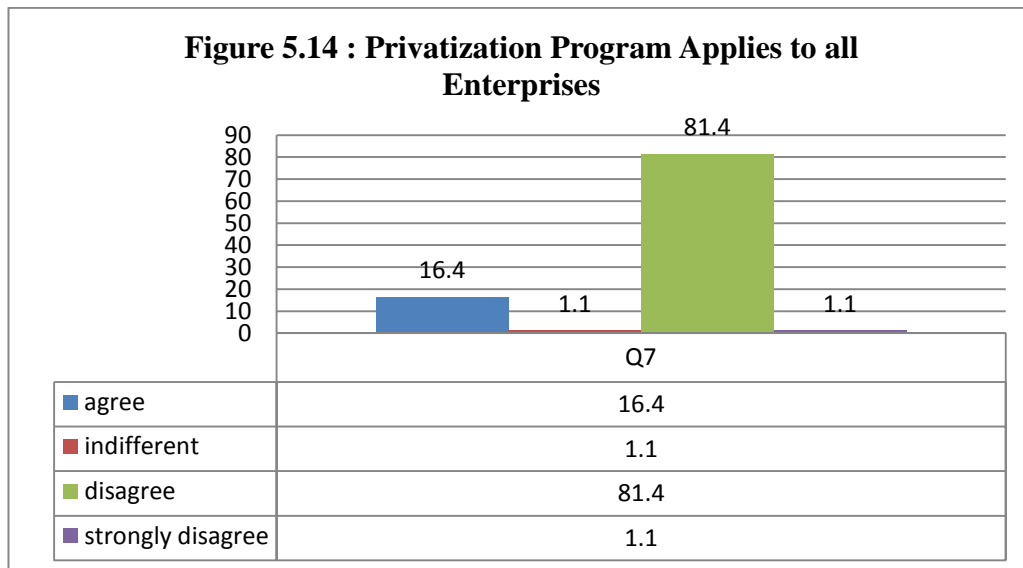


Note:

Q6: the overall existing of privatization policy is acceptable

- **Privatization program open to all enterprises**

From figure 5.14, we can observe that 81.4% of the respondents disagreed that the privatization policy/program is open to any enterprise that wants to be privatized followed by 16.4% agreed that it was.

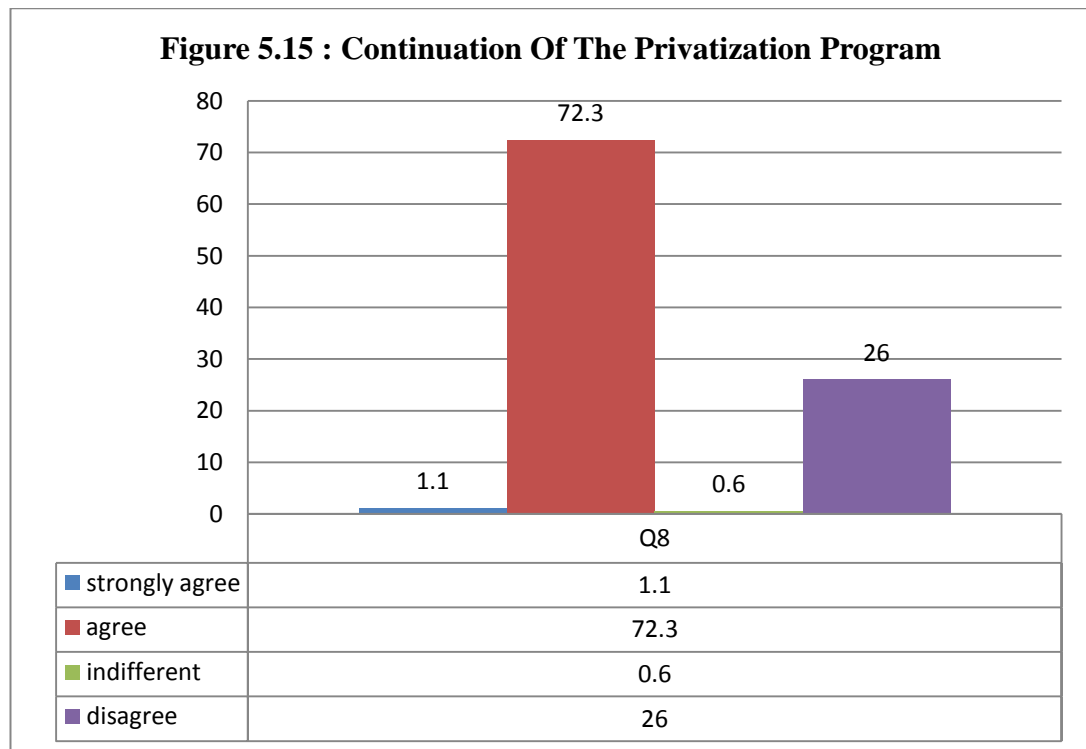


Note:

Q7: the privatization policy/program is open to any enterprise wants to be privatized

- **The privatization program should continue**

From figure 5.15, we can observe that 72.3% of the respondents agreed that the privatization policy should continue and 26% disagreed that the privatization program should continue.

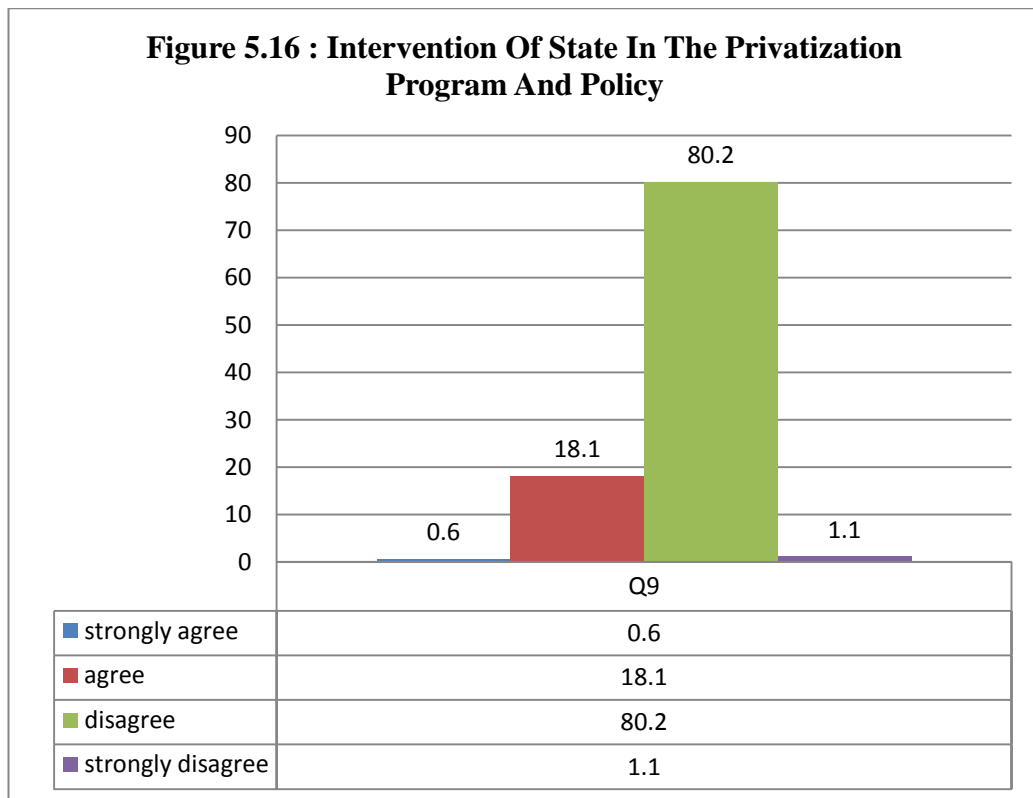


Note:

Q8: the privatization policy should continue

- **Intervention of State in the privatization program and policy**

From figure 5.16, we can observe that 80.2% of the respondents disagreed that the State's intervention in the privatization policy should reduce and only 18.1 agreed with the intervention of the State.

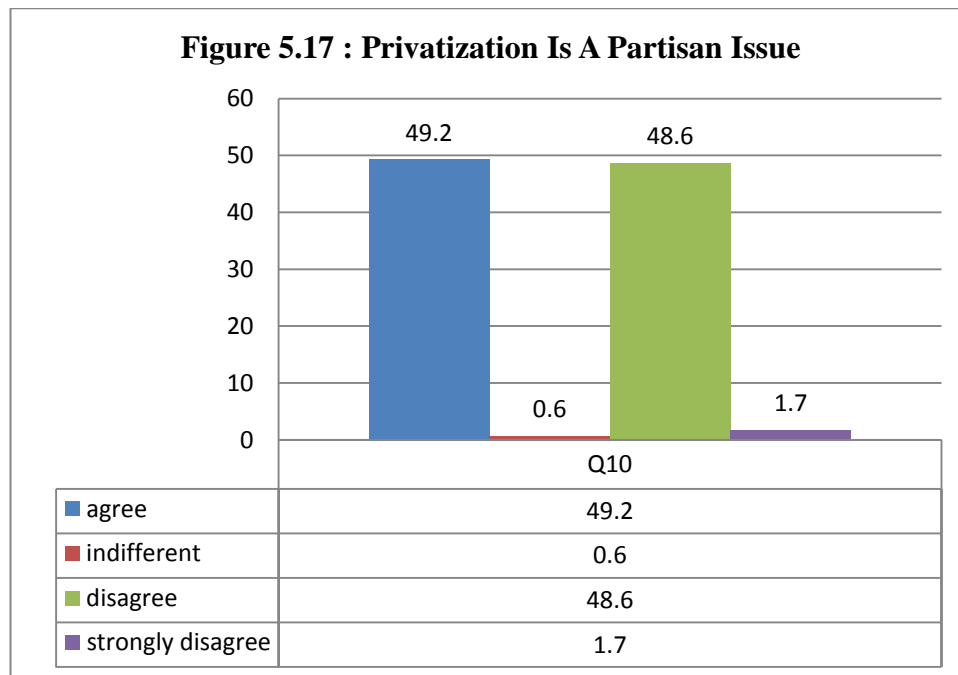


Note:

Q9: the state's intervention in the privatization policy should reduce

- **Privatization is a partisan issue**

From figure 5.17, we can observe that 49.2% of the respondents agreed that the privatization is a partisan issue, however, 48.6% of the respondents disagreed that privatization was a partisan issue.



Note:

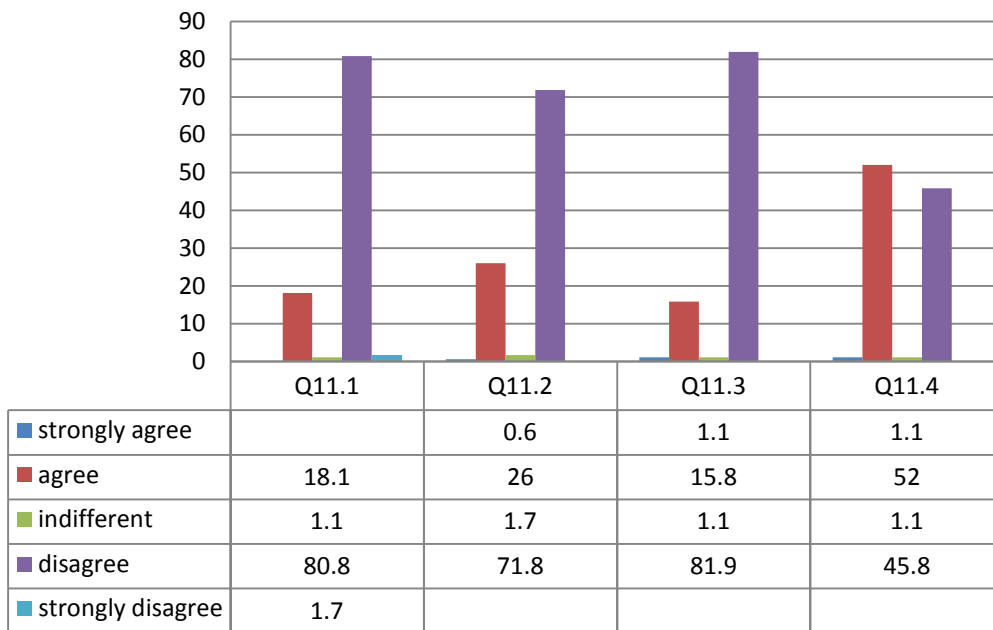
Q10: the privatization is a partisan issue

b) Procedural aspects

- **The best methods to carry out the privatization process**

From figure 5.18 we can observe that 80.8% of the respondents disagreed that total sale is the best method to carry out privatization process, moreover, 71.8% of the respondents disagreed that partial sale is the best method to carry out the privatization process. In addition, 81.9% of the respondents disagreed that liquidation is the best method to carry out the privatization process, and 52.0% of the respondents agreed that management contracts are the best method to carry out the privatization process.

Figure 5.18 : The Best Methods To Carry Out The Privatization Process

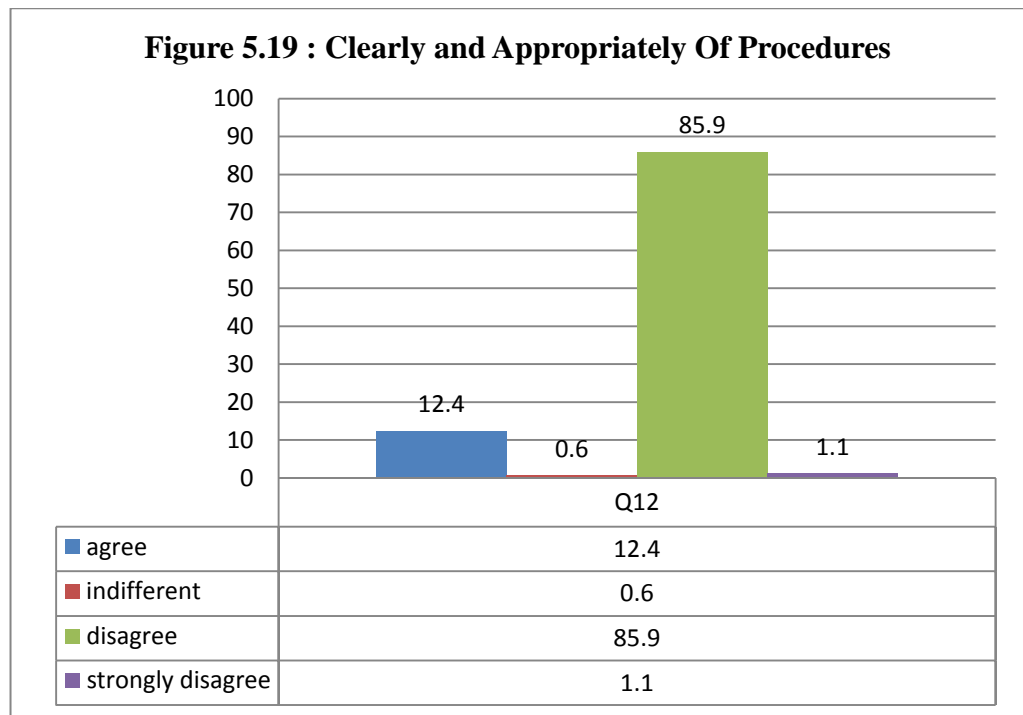


Note:

Q11.1: total sale
 Q11.2: partial sale
 Q11.3: liquidation
 Q11.4: management contracts

- **The procedures were clear and appropriate**

From figure 5.19, we can observe that 85.9% of the respondents disagreed that the procedure was clear and appropriate, and only 12.4% of the respondents agreed that the procedure was clear and appropriate.

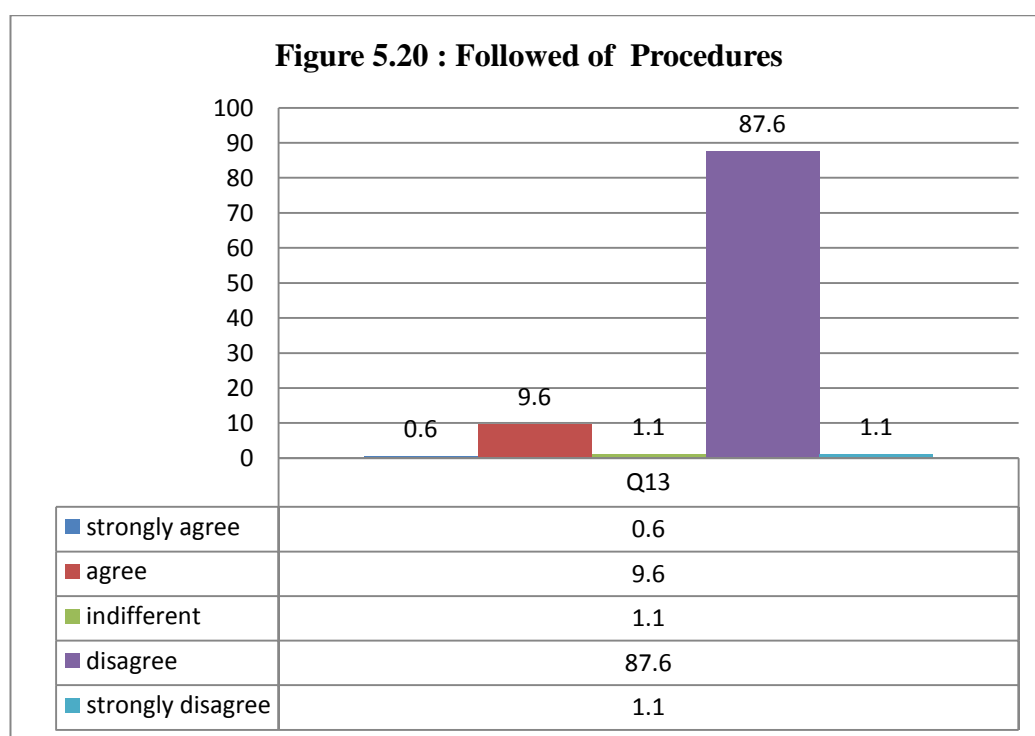


Note:

Q12: The procedures were clear and appropriate

- **The Procedures were followed when the Government assesses the possibility of privatization**

From figure 5.20, we can observe that 87.6% of the respondents disagreed that the procedures were followed when the Government assesses the possibility of privatization, however, only 9.6% of the respondents agreed that the procedures were followed.



Note:

Q13: The Procedures were followed when the Government assesses the possibility of privatization

c) Objective aspects

- **The objective of privatization program is to improve the Government's financial flow**

To determine and analyze the ways that the Government improved its financial flow through the privatization program three aspects were asked, as follows.

- 1- Rising revenue from the sale of assets and shares.
- 2- Reducing the need for operating subsidies and investments capital
- 3- Increasing tax revenue as a result of increasing enterprises performance

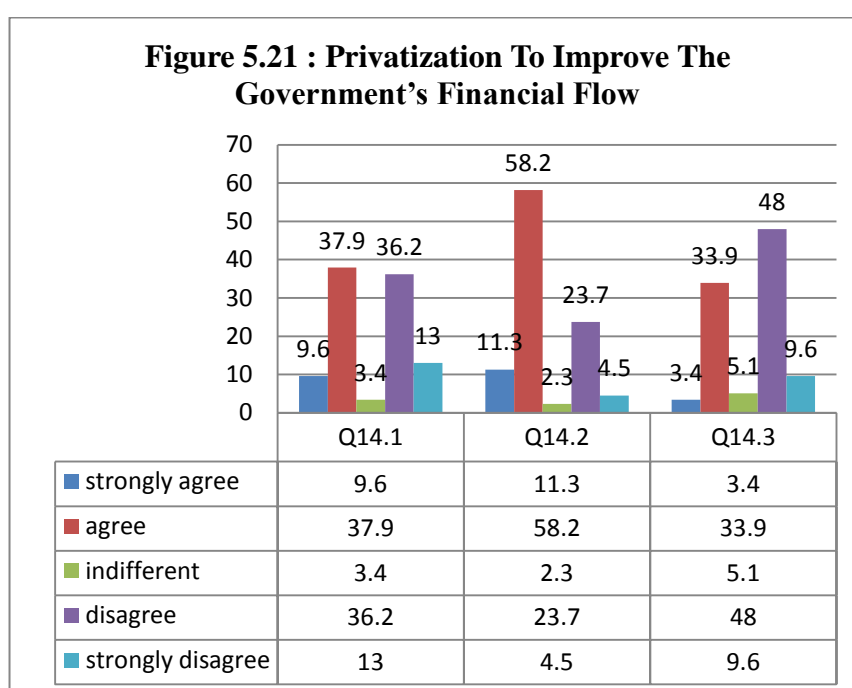
From figure 5.21, we can observe that 37.9% of the respondents agreed that raising revenue from the sale of assets and shares is the objective of the privatization program to improve the Government's financial flow. In addition, 58.2% of the respondents agreed that reducing the need for operating subsidies and investment capital is the

objective of the privatization program to improve the Government's financial flow. Nevertheless, 48.0% of the respondents disagreed that increasing tax revenue because of improved enterprise performances is the objective of the privatization program to improve the Government's financial flows.

The respondents only agreed with two objectives that can improve the Government's financial flow, which are:

- 1- raising revenue from the sale of assets and shares
- 2- reducing the need for operating subsidies and investment capital

While they disagreed with increasing tax revenue as a result of improved enterprise performance as an objective of the Government in order to improve financial flow.



Note:

Q14.1: Rising revenue from the sale of assets and shares

Q14.2: Reducing the need for operating subsidies and investments capital

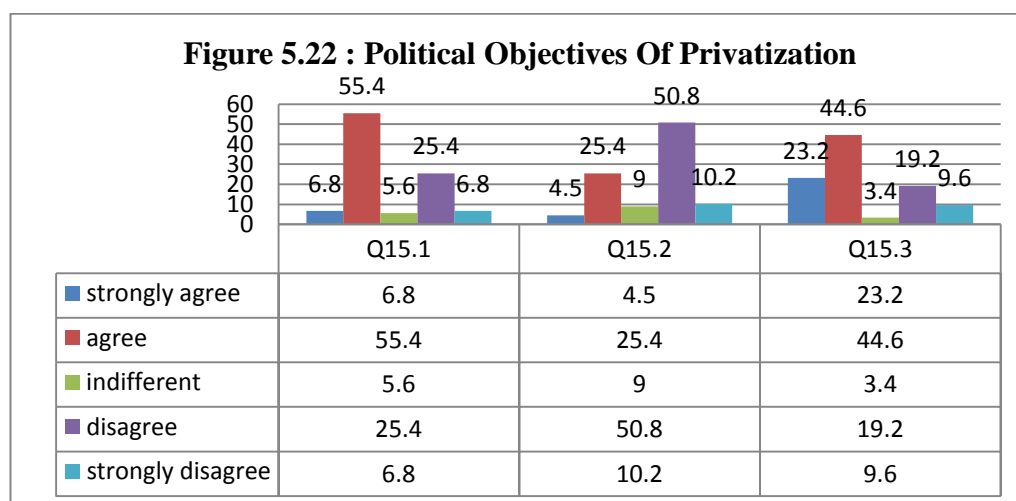
Q14.3: Increasing tax revenue as a result of increasing enterprises performance

- **Political Objectives of Privatization Programs**

In order to determine the political pressures that led to adopting privatization, three aspects are stated as follows:

- 1- budget deficit
- 2- the deficit in the balance of external payments
- 3- the pressure from foreign financial authorities e.g. IMF& WB

From figure 5.22, we can observe that 55.4% of the respondents agreed that budget deficit is the objective of the privatization program as one of the political pressures to solve urgent problems. In addition, 44.6% of the respondents agreed that the pressure from foreign financial authorities is the objective of the privatization program as one of the political pressures to solve urgent problems. However, for the question about the balance of external payments, we can observe that 50.8% of the respondents disagreed that the deficit in the balance of external payments is the objective of the privatization program as one of the political pressures to solve urgent problems.



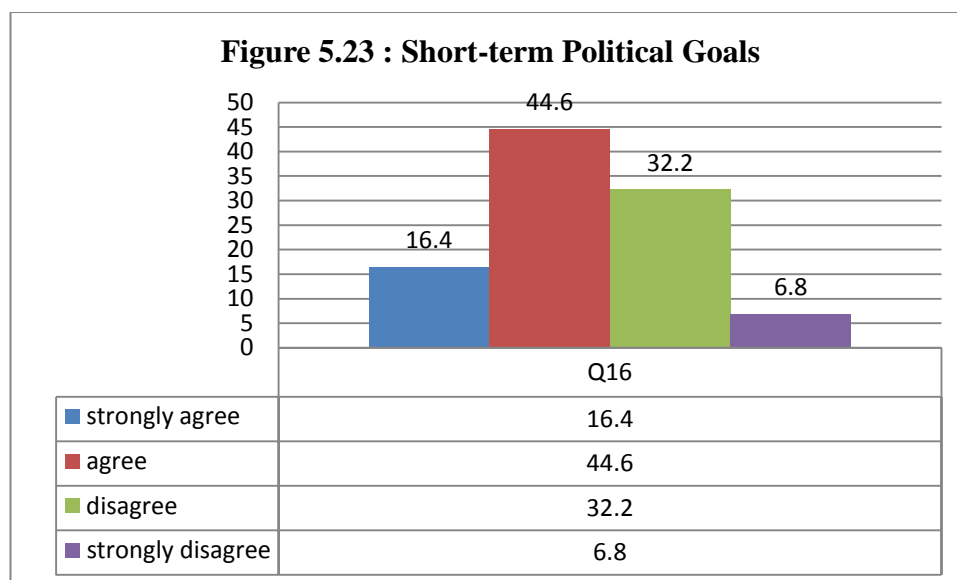
Note:

Q15.1: budget deficit

Q15.2: the deficit in the balance of external payments

- **Objective of privatization program are to achieve short-term political goals of particular political parties/politicians**

From figure 5.23, we can observe that 44.6% of the respondents agreed that the objective of privatization program is to achieve short-term political goals of particular political parties/politicians, and 32.2% of the respondents disagreed that the objective of the privatization program is to achieve sort-term political goals of particular political parties/politicians.



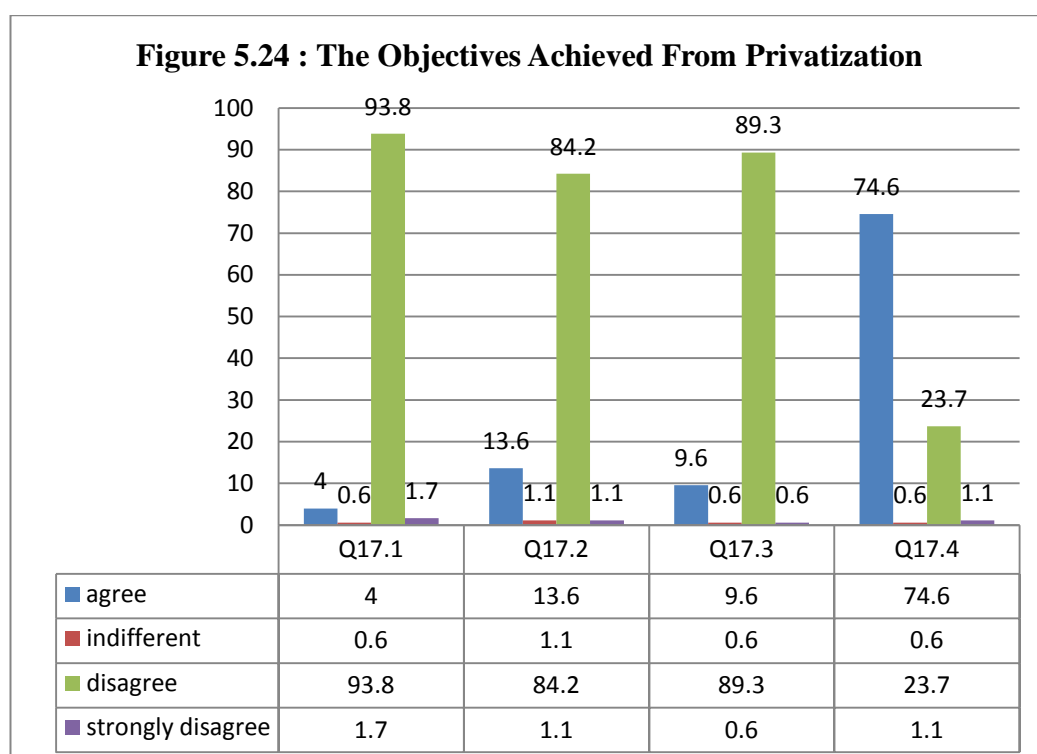
Note:

Q16: Objective of privatization program are to achieve short-term political goals of particular political parties/politicians

- **The objectives that have been achieved from the privatization process**

From figure 5.24, we can observe that 93.8% of the respondents disagreed that increased production efficiency is achieved from the privatization process. In addition,

84.2% of the respondents disagreed that reducing the budget deficit is achieved from the privatization process. In addition, we can observe that 89.3% of the respondents disagreed that attracting foreign and immigrant capital is achieved from the privatization process. In the end, 74.6% of the respondents agreed that none of the above was achieved from the privatization process.



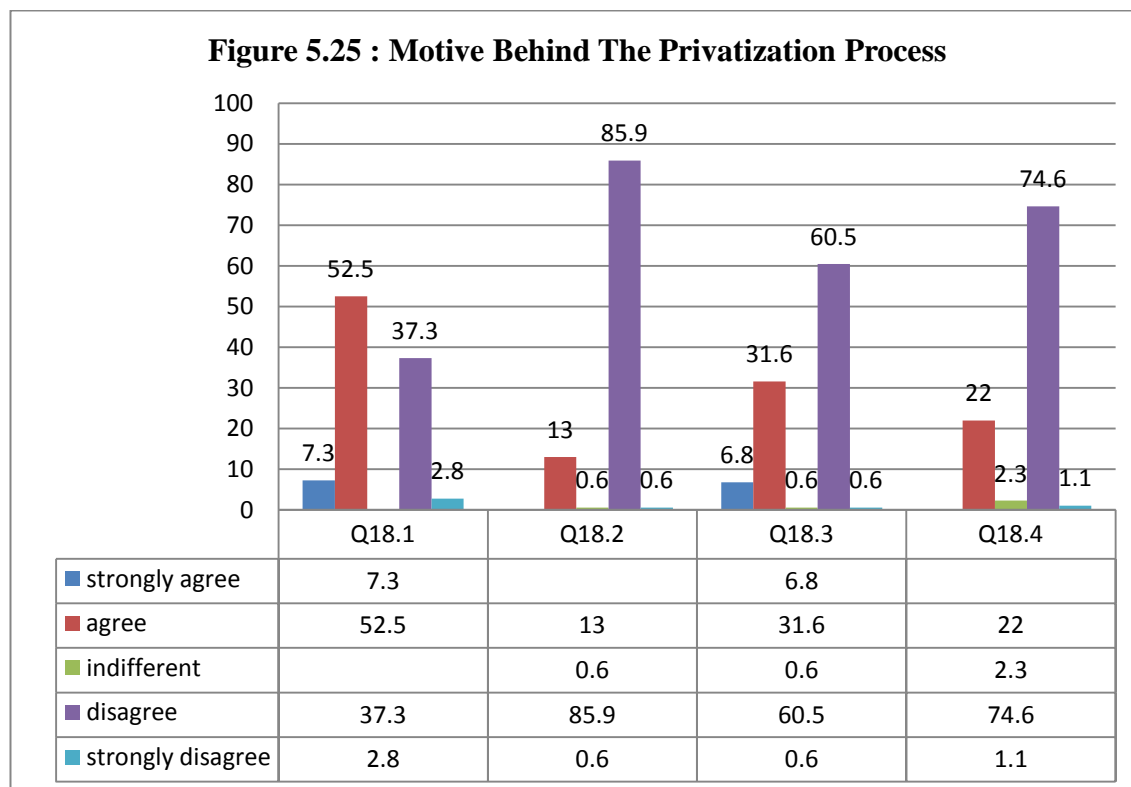
Note:

Q17.1: increase production efficiency
 Q17.2: reduce the budget deficit
 Q17.3 attract foreign and immigrant capital
 Q17.4 none of the above

- **The motive behind the privatization process**

From figure 5.25, we can observe that 52.5% of the respondents agreed that political motive is the motive behind the privatization process. However, 85.9% and 60.5% of

the respondents disagreed that social motive or foreign motives are the motive behind the privatization process.



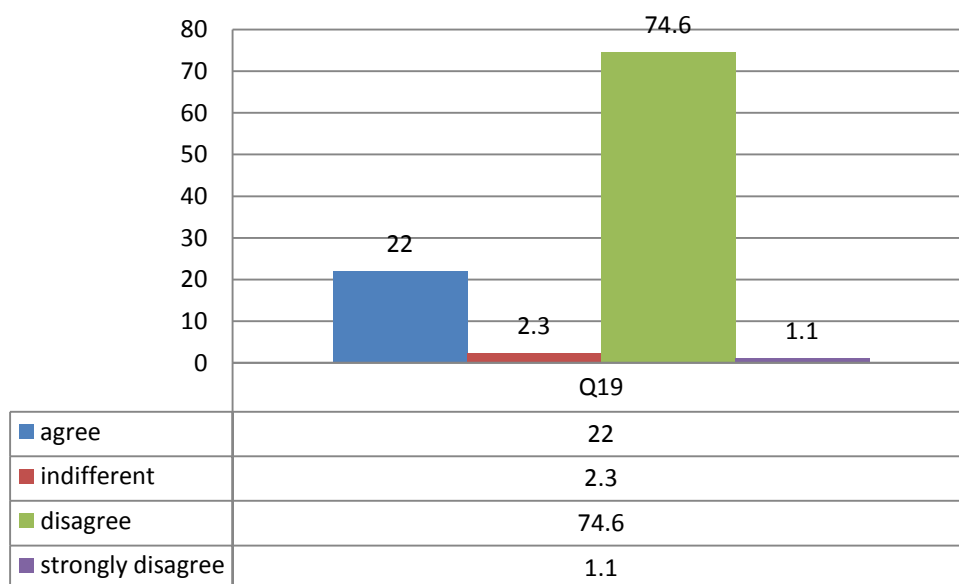
Note:

Q18.1: political motives
 Q18.2 social motives
 Q18.3 foreign motives
 Q18.4 other motives

- **Policymakers, agency officials and other stakeholders agreed that the goals of the privatization have been achieved**

From figure 5.26, we can observe that 74.6% of the respondents disagreed that policymakers, agency officials and other stakeholders agreed that the goals of the privatization have been achieved and only 22% of the respondents agreed that policymakers, agency officials and other stakeholders agreed that goals of the privatization have been achieved.

Figure 5.26 : Policymakers, Agency Officials And Other Stakeholders Agreed That Goals Of The Privatization Have Been Achieved



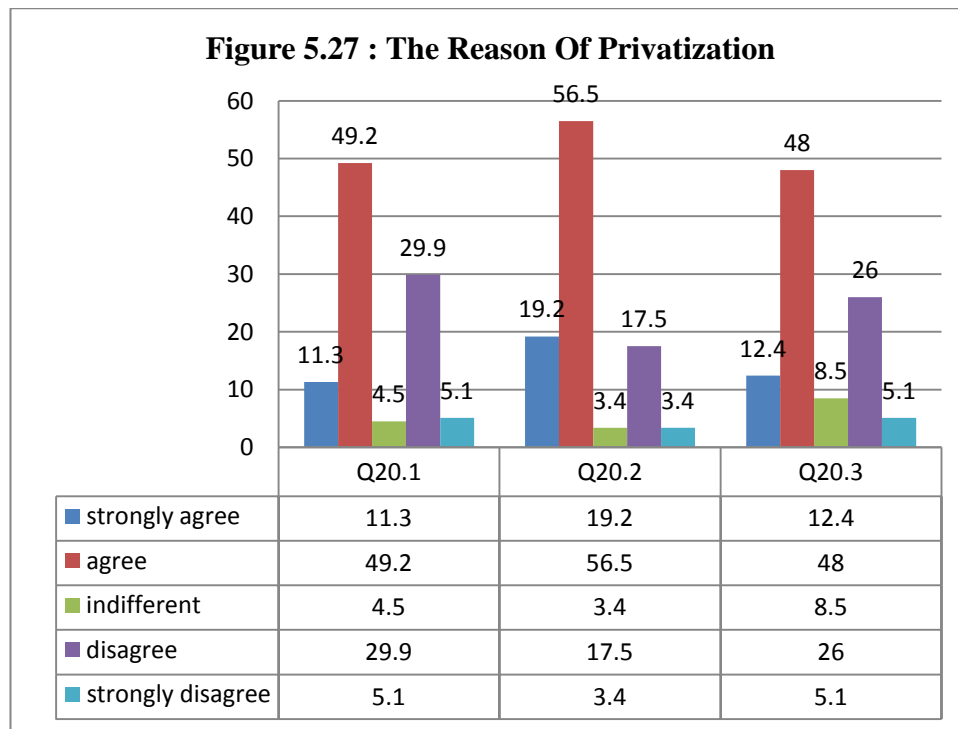
Note:

Q19: Policymakers, agency officials and other stakeholders agreed that the goals of the privatization have been achieved

d) Progress aspects

- **The reason for the privatization process**

From figure 5.27 we can observe that 49.2% of the respondents agreed that the process of privatization is to lay off staff, 56.5% of the respondents agreed that the process of privatization is to disintegrate enterprises, and 48.0% of the respondents agreed that the process of privatization is to increase bureaucratic power.



Note:

Q20.1: lay of staff

Q20.2: disintegrate enterprises

Q20.3: increase bureaucratic power

Therefore, we can rank the reasons of the privatization process as follows:

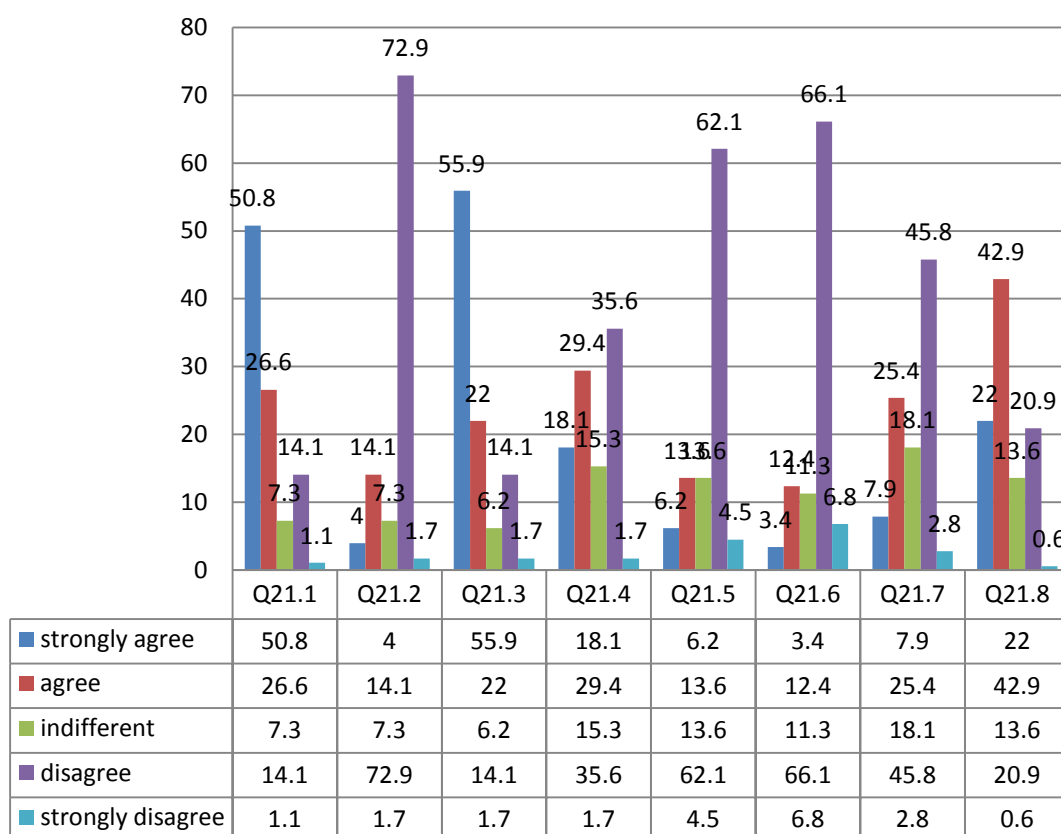
- 1- disintegrate enterprises
- 2- lay off staff
- 3- increase bureaucratic power

- **Who played a major role in the privation process?**

When asked about who played the major role in the privatization process we can observe from figure 5.28, that 55.9% of the respondents strongly agreed that advocacy groups play a major role followed by 50.8% of the respondents strongly agreed that private entrepreneurs, private lobbies play a major role in the privation process, and 42.9% of the respondents agreed that economic/budgetary factors played a major role in the privatization process. In contrast, we can observe that 72.9%, 66.1%, 62.1%, 45.8,

and 35.6% of the respondents disagreed that, respectively, the union and professional organizations, general public opinion, the media, legal factors, and bureaucrat/civil servants played a major role in the privatization process.

Figure 5.28 : A Major Role Player In The Privatization Process



Note:

- Q21.1: private entrepreneurs, private lobbies
- Q21.2: union and professional organizations
- Q21.3: advocacy groups
- Q21.4: bureaucrats/civil servants
- Q21.5: the media
- Q21.6: general public opinion
- Q21.7: legal factors
- Q21.8: economic/budgetary factors

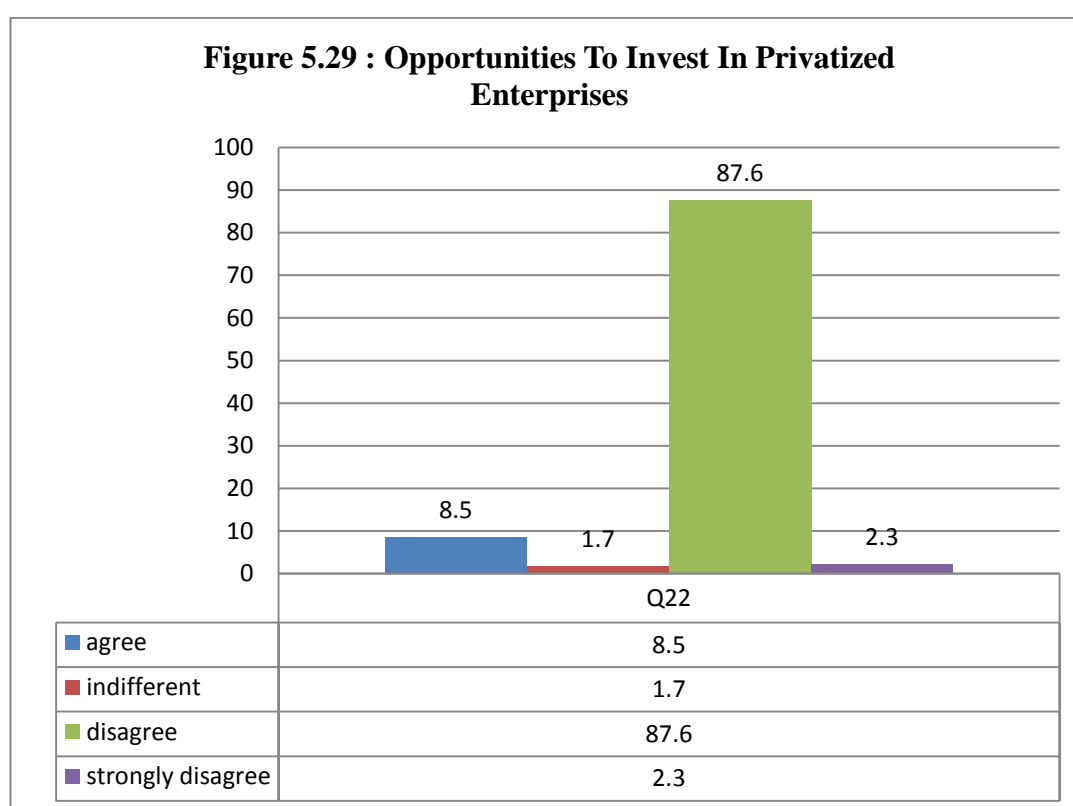
The major role-playing is as follows:

- 1- advocacy groups
- 2- private entrepreneurs and private lobbies
- 3- economic/budgetary factors

e) Ownership aspects

- **All investors have equal opportunities to invest in the privatization program**

From figure 5.29, we can observe that 87.6% of the respondents disagreed that all investors have equal opportunities to invest in the privatization program and only 8.5 of the respondents agreed that all investors have equal opportunities to invest in the privatization program.



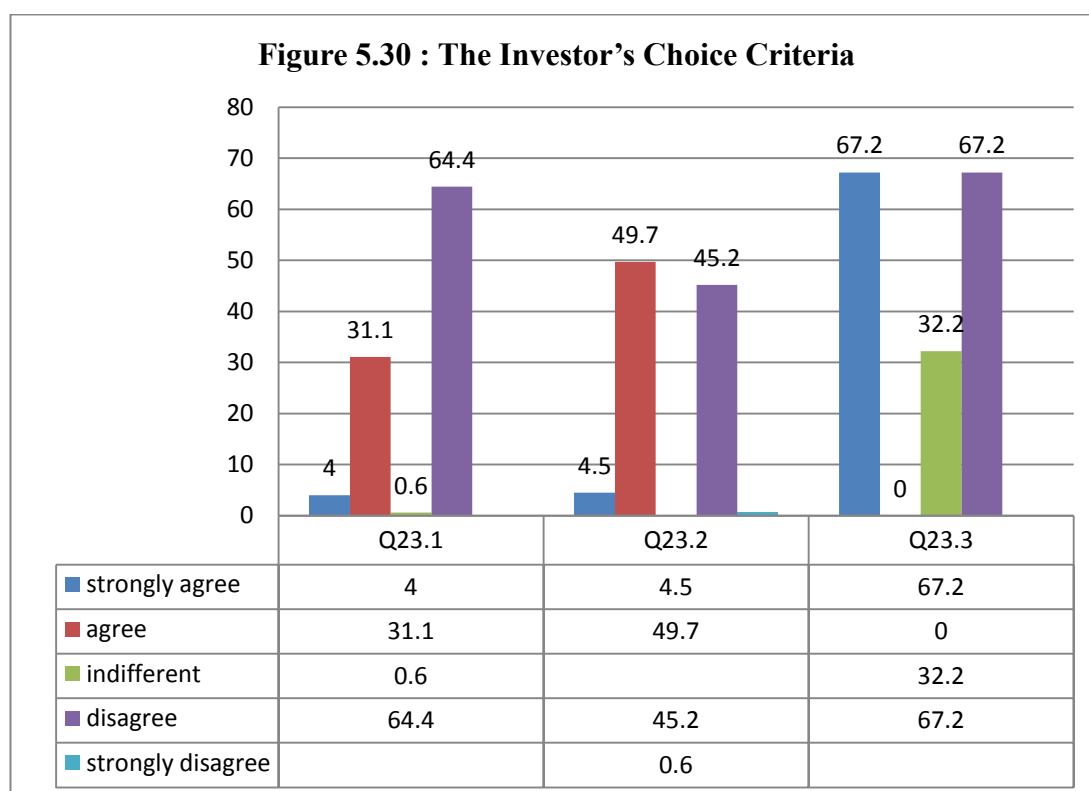
Note:

Q22: All investors have equal opportunities to invest in the privatization program

It is clear to us that the choice of the investor is not in the correct way as some investors have the opportunity to invest while there is another investor that does not have the opportunity.

- **The criteria considered in the investor's choice**

From figure 5.30, we can observe that 49.7% and 67.2% of the respondents agreed that social criteria and political criteria, respectively, had been considered in the investor's choice. For the financial criteria 64.4% of the respondents disagreed that the financial criteria had taken at the investor's choice.



Note:

Q23.1: financial criterions

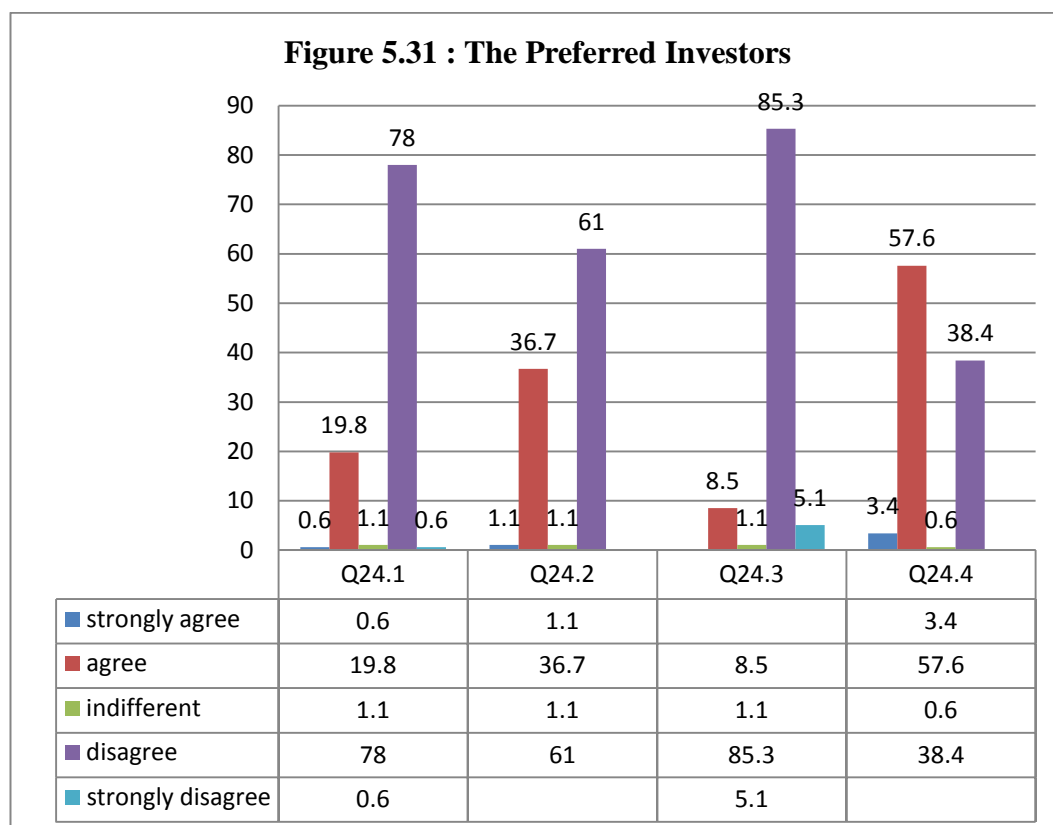
Q23.2: social criterions

Q23.3: political criterions

- **The preferred investor to own the enterprise after the privatization**

For the question to which investor you preferred to own the enterprise, figure 5.31 shows that 57.6% of the respondents agreed that putting the company's shares for public subscription is preferred to own the enterprise after the privatization. Whereas,

85.3%, 78%, and 61% of the respondents, respectively, disagreed that foreign investor, single investor, and management and employees at the facility are preferred to own the enterprise after the privatization.



Note:

Q24.1: single investor

Q24.2: management and employees at the facility

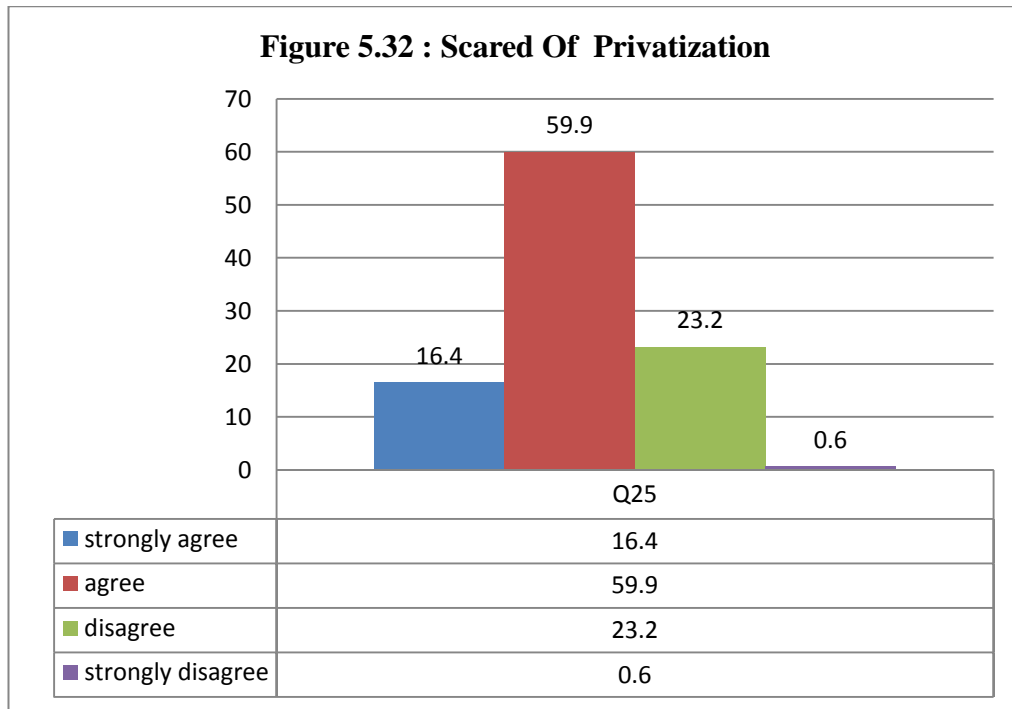
Q24.3: foreign investor

Q24.4: people – put the company shares for public subscription

f) Evaluation aspects

- **Scared of the privatization program**

From figure 5.32, we can observe that 59.9% of the respondents agreed that many people were scared by the privatization program and 23.2% of the respondents disagreed that many people were scared by the privatization program.

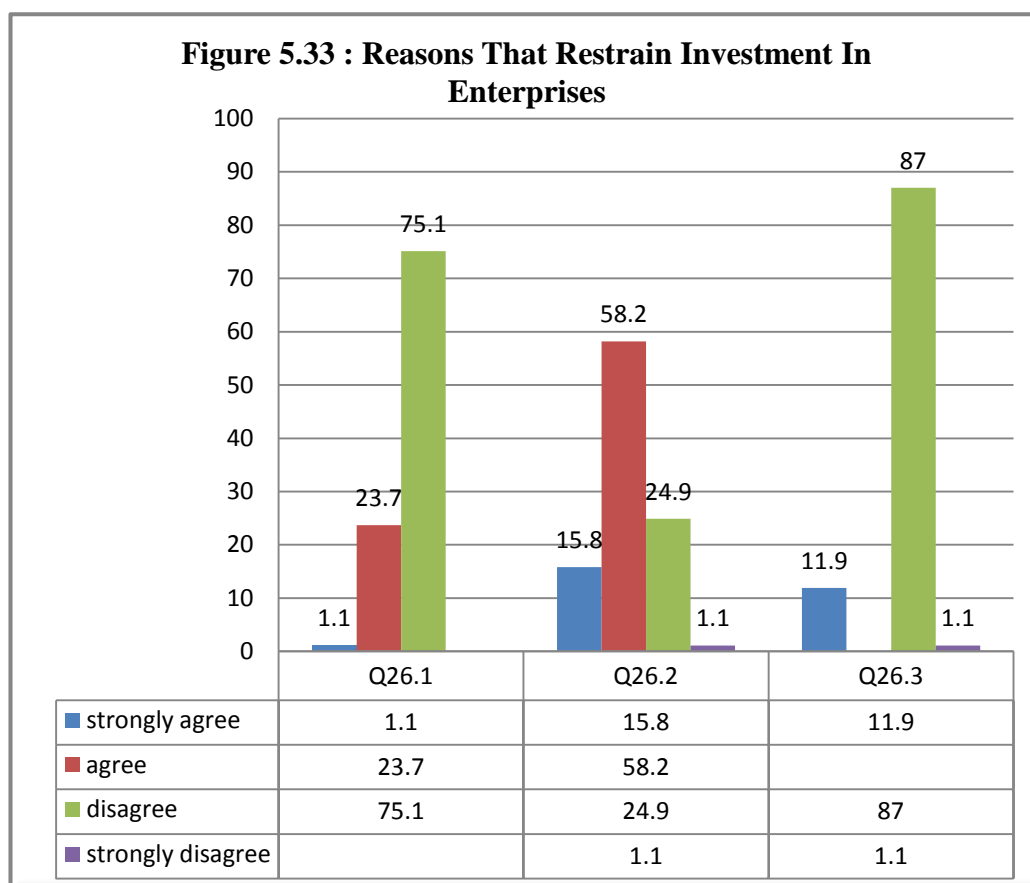


Note:

Q25: many people scared from the privatization program

- **The reasons that restrain investment in enterprises to be privatized**

From figure 5.33, we can observe that 58.2% of the respondents agreed that the security constraint is the reason that restrains investment in enterprises to be privatized. Whereas 87% and 75.1% of the respondents respectively disagreed that the existence of alternative investment and lack of information is the reason that restrains investment in enterprises to be privatized.



Note:

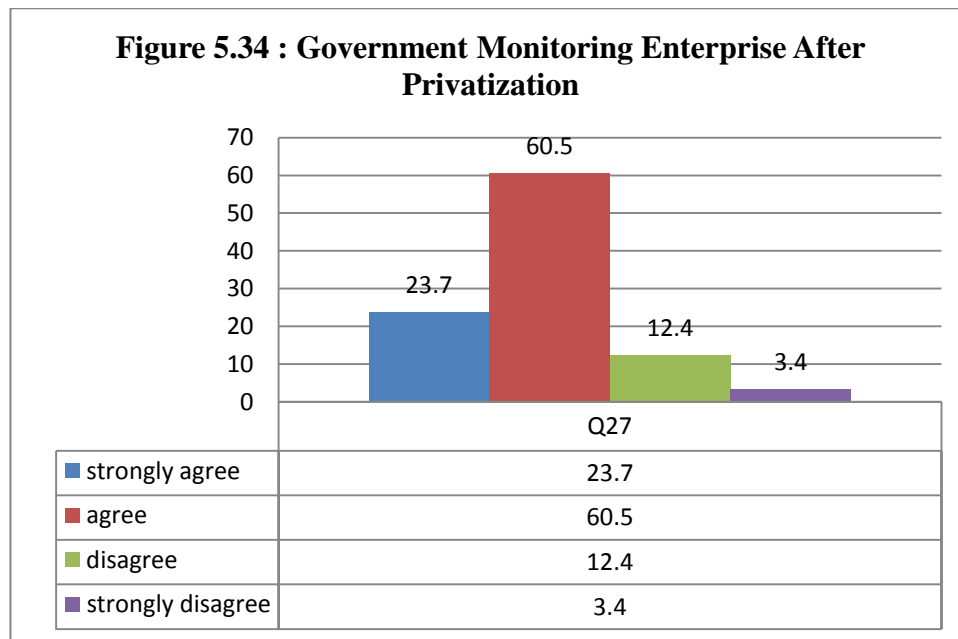
Q26.1: lack of information

Q26.2: security constraints

Q26.3: the existence of alternative investment

- **The government did not seek to monitor the enterprise after privatization**

When asking about the attempt of the government of monitoring the enterprises after privatization, the following figure 5.34 shows that 60.5% of the respondents agreed that the government did not seek to monitor the enterprise after privatization and only 12.4 of the respondent disagreed. Also 23.7 of the respondents strongly agreed, 3.4 strongly disagreed that the government did not seek to monitor the enterprises after privatization.

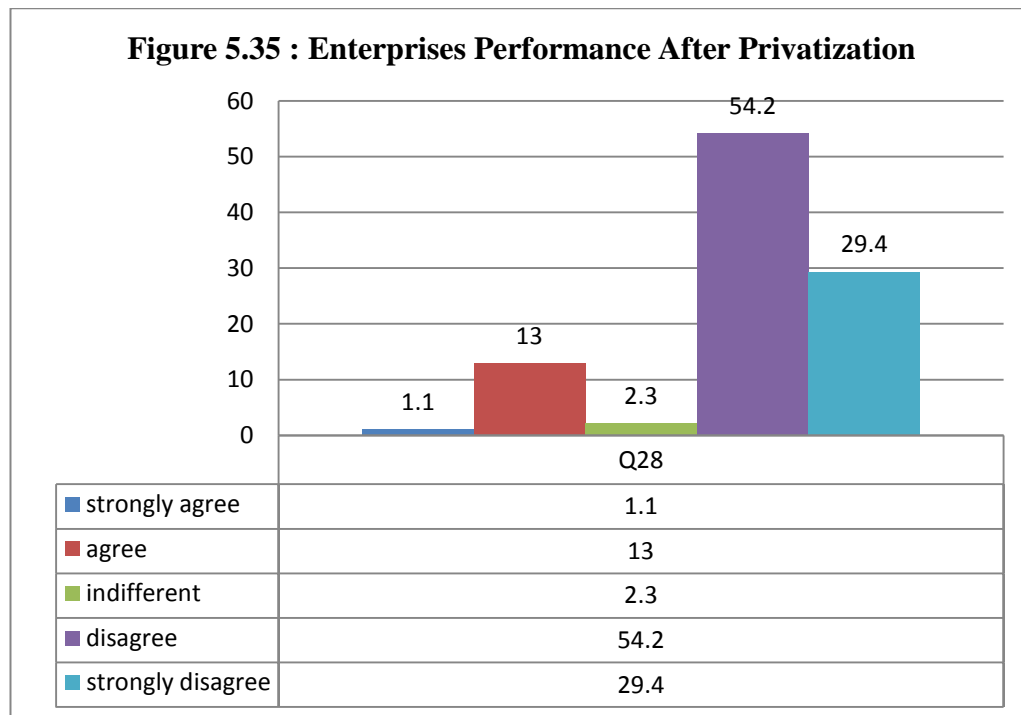


Note:

Q27: The government did not seek to monitor the enterprise after privatization

- **The performance of the enterprises after privatization**

For the question about the enhancement of the enterprises performance after privatization, the results from the following figure 5.35 shows that 54.2% of the respondents disagreed that the performance of the enterprises is enhanced after privatization followed by 29.4% of the respondents strongly disagreed. However, 13% of the respondents agreed that the performance of the enterprises is enhanced after privatization.

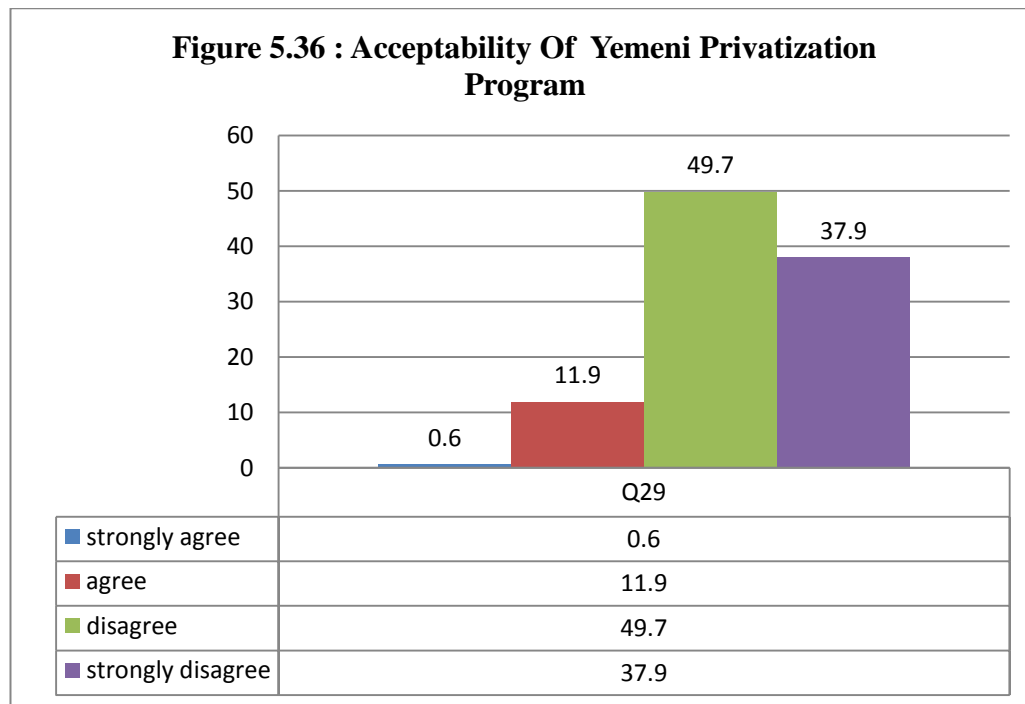


Note:

Q28: the performance of the enterprises enhance after privatization

- **That the whole program of privatization in Yemen is acceptable**

From figure 5.36, we can observe that 49.7% of the respondents disagreed that the whole program of privatization in Yemen is acceptable followed by 37.9% of the respondents strongly disagreed. In contrast only 11.9% of the respondents agreed that the whole program of privatization in Yemen is acceptable.



Note:

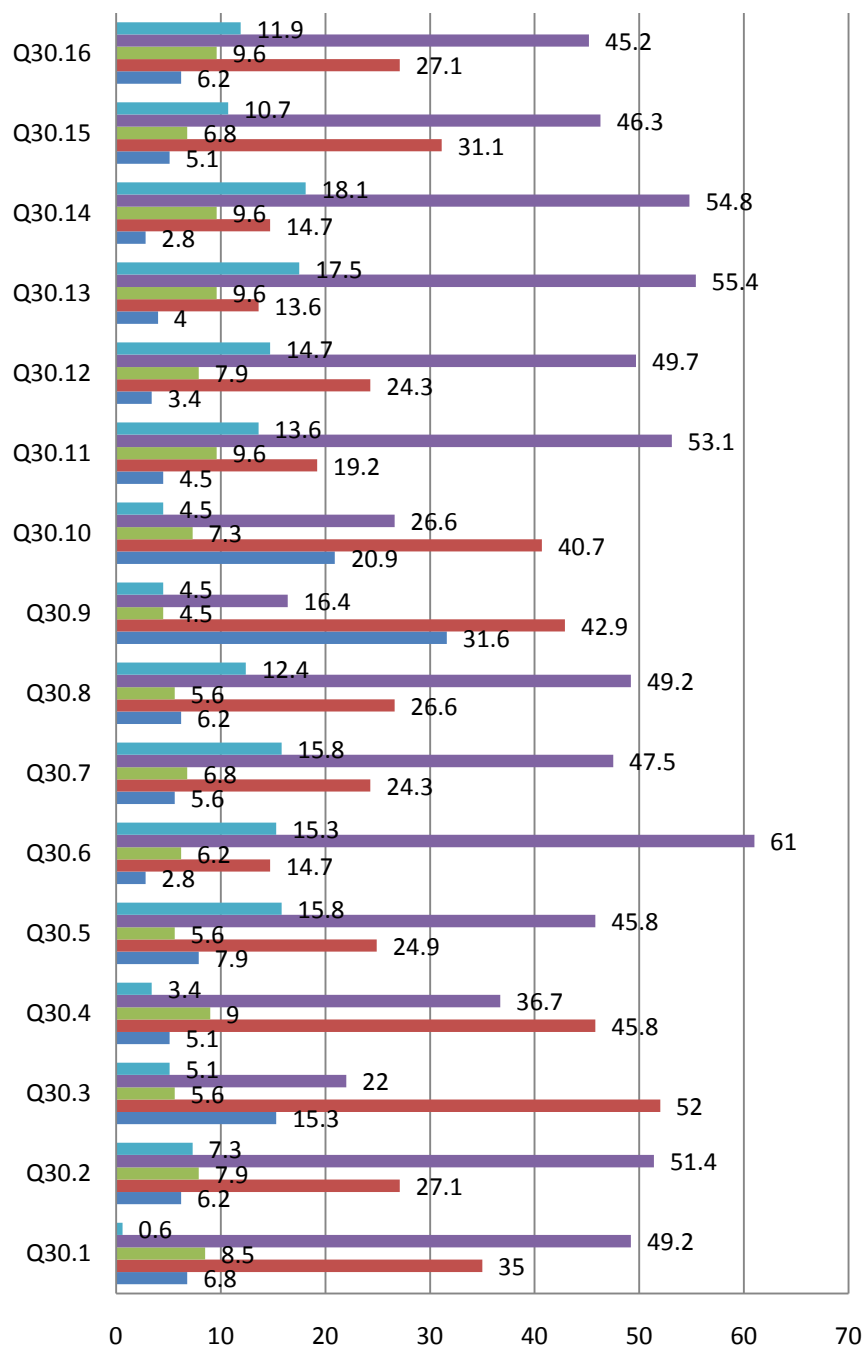
Q29: That the whole program of privatization in Yemen is acceptable

- **The effect of the privatization program in Yemen**

The question concerning the effect of the privatization program in Yemen contains 15 categories and we can observe the answers of the respondents from the following figure 5.37, which showed that the respondents only agreed with four categories, as follows: 52.0% of the respondents agreed that an increase in the power of the bureaucrats is the effect of privatization, 45.8% of the respondents agreed that an increase in the power of the personal goals of public servants rather than the nation benefitting from privatization is the effect of privatization, 42.9% of the respondents agreed that politicians maximize utility is the effect of privatization, and 40.7% of the respondents agreed that politicians gaining popularity is the effect of privatization. In contrast, the respondents disagreed with the remaining categories as follows: 61.0% of the respondents disagreed that increased employment opportunity is the effect of

privatization, 55.4% of the respondents disagreed that better quality of goods for public is the effect of privatization, 54.8% of the respondents disagreed that increase in foreign investment is the effect of privatization, 53.1% of the respondents disagreed that better control of privatization mechanism and procedure is the effect of privatization, 51.4% of the respondents disagreed that reduced accountability of leader and politicians is the effect of privatization, 49.7% of the respondents disagreed that more competition among enterprises is the effect of privatization, 49.2% of the respondents disagreed that increase in productivity of enterprises is the effect of privatization, 47.5% of the respondents disagreed that increase in efficiency of enterprises is the effect of privatization, 46.3% of the respondents disagreed that increase in domestic investment is the effect of privatization, 45.8% of the respondents disagreed that increase in performance and profit of enterprises is the effect of privatization, and 45.2% of the respondents disagreed that an increase in domestic consumption is the effect of privatization.

Figure 5.37 : The Effect Of The Privatization Program



	Q30.1	Q30.2	Q30.3	Q30.4	Q30.5	Q30.6	Q30.7	Q30.8	Q30.9	Q30.10	Q30.11	Q30.12	Q30.13	Q30.14	Q30.15	Q30.16
strongly disagree	0.6	7.3	5.1	3.4	15.8	15.3	15.8	12.4	4.5	4.5	13.6	14.7	17.5	18.1	10.7	11.9
disagree	49.2	51.4	22	36.7	45.8	61	47.5	49.2	16.4	26.6	53.1	49.7	55.4	54.8	46.3	45.2
indifferent	8.5	7.9	5.6	9	5.6	6.2	6.8	5.6	4.5	7.3	9.6	7.9	9.6	9.6	6.8	9.6
agree	35	27.1	52	45.8	24.9	14.7	24.3	26.6	42.9	40.7	19.2	24.3	13.6	14.7	31.1	27.1
strongly agree	6.8	6.2	15.3	5.1	7.9	2.8	5.6	6.2	31.6	20.9	4.5	3.4	4	2.8	5.1	6.2

Note:

Q30.1: reduce accountability of public servants

Q30.2; reduce accountability of leader and politicians
Q30.3: increase power of bureaucrats
Q30.4: increase power of personal goal of public servants rather than nation benefits of privatization
Q30.5: increase performance and profit of enterprises
Q30.6: increase employment opportunity
Q30.7: increase efficiency of enterprises
Q30.8: increase productivity of enterprises
Q30.9: politicians maximize utility
Q30.10: politicians gain popularity
Q30.11: better control of privatization mechanism and procedure
Q30.12: more competition among enterprises
Q30.13: better quality of goods for public
Q30.14: increase foreign investment
Q30.15: increase domestic investment
Q30.16: increase domestic consumption

CHAPTER SIX: DISCUSSION AND CONCLUSION

6.1. Discussion

The condition of Yemen's economy deteriorated, and it was not taken seriously by the Government until 1995 when the government realized and made efforts to address the problem. The Government and the IMF generally believed that the massive inequities and imbalances in the aggregate/cumulative accounts had caused the economic decline, which became apparent in 1995, when the Government should to look into the economic condition more seriously.

In order to handle this serious situation, the Government in conjunction with the IMF identified the remedy, which was to come up with a policy and course of action that would enable them to reduce the budget deficit and thus help stabilize the economy. This would help bring back the economic growth and prosperity by achieving the equity in the accounts. The Government made links with the IMF as well as the World Bank in seeking their support and aid. This was due to the need for international assistance as well as inadequate local resources. In the negotiations, the opposing parties were not included and the results of the negotiations were productive in a sense that it produced agreements that were significant for economic reform. Being comprehensive, the reform program comprised restructuring as well as stabilization policies.

In order to support the economic reform, it is a recommendation from IMF to government of Yemen to cut down the general expenditure, increase the public revenue and redesign the budget, the stabilization policies took various measures. Limits were imposed by the IMF on its finances as well as on the budget deficit. According to the IMF, the budget deficit must not exceed 3% of GDP. Moreover, the budget deficit must be covered by public borrowing and not by borrowing from Yemen's Central Bank. In addition, the Government decided to reduce direct as well as indirect transfers, together with reducing salaries and wages. The major revenue is earned through taxes; therefore, the Government had to change the tax code and make an effort to improve the tax collection system of the Tax Authority (World Bank, 2002).

With the coordination of the Yemeni Government and IMF, the inequities in the aggregate account were observed, and they believed that only free economic policies could bring stability in the economy and further improve it. Therefore, the Yemeni Government adopted the privatization program in the hope of overcoming these problems. Although these were the stated motives, as is clear from the results of this study, we find that there were hidden motives behind the privatization program in Yemen. The experience of privatization in Yemen failed in achieve its objectives and goals, which was illustrated by studying those enterprises that have been privatized, which amounted to about 100 enterprises from 1995 to date. This study demonstrated that most of these enterprises stopped working with a few exceptions; however, these enterprises suffer from a lack of efficiency and performance.

In this section, we are going to discuss the findings of the study and link it with the study questions.

6.1.1. The motives for privatization in Yemen

In early 1995, a privatization program was initiated by the Government of Yemen as part of the economic reforms in the hope that the privatization program would help in growth concerning the development strategy focusing on improving the environment for private segment investment and also in making the resource allocation efficient. Moreover, privatization was intended to prioritize the rebalancing of the private/public sectors role in the economy. This will result in improved economic efficiency as well as quality of services that contain budget deficits and liabilities, and accelerate the private sector's growth and investment. The Government views the sound privatization actions significant to attract the world market and the investors in order to draw their interest to conduct business activities in the Middle Eastern countries (World Bank, 2002).

Those were the stated motives, however, from the results of this study we find that there were hidden motives behind the privatization program in Yemen. Through the answers to the questionnaire, we determined that the motives behind privatization were political motives. For the question concerning the reasons for the deterioration in the public sector management, 59.9% of the respondents agreed that political and administrative corruption is the reason for the deterioration in the public sector management. It appears to be objective reasons that make unjustified deterioration in the public sector due to political corruption and administrative. The list of these reasons, include taking senior management positions in production enterprises by a political decision without taking into account the managerial efficiency or experience and

scientific level required for those positions. This is because the existing administrators are not being efficient or qualified to remain at the top of the administrative structure for production enterprises, which has impacted negatively on the administrative structure. This has led to improvisation in management decisions and random production plans, the lack of attention to the quality and quantity of outputs and weak administrative and productive control. Furthermore, weakness of the organizations for control and the inability to exercise its power effectively has led to the widespread embezzlement of public money and property (Alsayani, 1996).

By looking at the response concerning the motives behind privatization, 52.5% of the respondents agreed that political motive is the motive behind the privatization process. This can be supported by looking at another response. For the criterion considered in the investor's choice, 49.7% of the respondents agreed that social criterion considered in the investor's choice and 49.2% of the respondents agreed that privatization is a partisan issue, which may be the kind of bonuses that are given to relatives, friends and political allies in order to achieve political goals. Moreover, 81.4% of the respondents disagreed that the privatization policy/program is open to any enterprise that wants to be privatized and 85.9% of the respondents disagreed that the procedures were clear and appropriate, which means that there was a specific selection on some of the enterprises that may have a benefit for a certain group of investors. In addition, 87.6% of the respondents disagreed that the procedures were followed when the governments assess the possibility of privatization. In doing so, clearly the methods that have been followed were not only active in transfer those institutions from the cripple to the success but also methods to get rid of those institutions and their consequences. The question concerning the best method to carry out the privatization process confirms that view, in that 80.8% of the respondents disagreed that total sale is the

best method to carry out the privatization process. Moreover, 71.8% of the respondents disagreed that partial sale is the best method to carry out the privatization process. In addition, 81.9% of the respondents disagreed that liquidation is the best method to carry out the privatization process, and 52.0% of the respondents agreed that management contracts are the best method to carry out the privatization process.

The preferred ranking of the methods to carry out the privatization process are as follows:

- 1- management contracts
- 2- partial sale
- 3- total sale
- 4- liquidation

Through what was discussed in the literature review, it is clear that the Yemen privatization law has addressed the known privatization method and at the same time given the privatization committees the right to choose from among those methods, as well as any other method the Committees deems appropriate. In addition, we can see the rank of the methods that were used for privatizing industrial and agricultural enterprises is as follows:

- 1- liquidation
- 2- selling the individual asset and leasing the land
- 3- total selling
- 4- restitution to owner
- 5- leasing

This is confirmed by the consensus among the respondents that the procedures were not clear and appropriate, and the procedures were not followed when the governments assess the possibility of privatization.

Furthermore, when asked about who played the major role in the privatization process, 55.9% of the respondents strongly agreed that advocacy groups play a major role followed by 50.8% of the respondents strongly agreed that private entrepreneurs, private lobbies play a major role in the privation process, and 42.9% of the respondents agreed that economic/budgetary factors played a major role in the privatization process. This means that those groups are the first beneficiaries of the privatization process in Yemen, where the benefit takes the form of material return to those groups directly or to satisfy some political allies or to gain political loyalties.

In addition, the response about policy matters supports that the political motive is the motive behind the privatization program in Yemen. A total of 80.2% of the respondents disagreed that the privatization law provides a suitable legal environment to handle the privatization program, 56.5% of the respondents disagreed with the Government of Yemen developing a more comprehensive privatization policy and a more aggressive strategy for implementing the privatization program followed by 27.1% of the respondents strongly disagree and only 15.3% of the respondents agreed. On the other hand, 66.7% of the respondents disagreed that the privatization policy has been effectively implemented and 58.2% of the respondents disagreed that the overall existing privatization policy is acceptable followed by 22% of the respondents strongly disagreed and only 19.2% agreed. Moreover, 49.2% of the respondents agreed that the privatization is a partisan issue.

By looking at the reality of the actual experience of privatization in Yemen, we can see that most of the institutions were privatized in the period between 1994 and 1999, which was before the issuance of the privatization law that has passed through several stages as follows:

The council of ministers also issued order number 8 in 1995, which included some rules regarding privatization. After that, order number 5 was issued in 1996, which included the issues of the required fields to privatize the public and combined enterprises. The Prime Minister issued an announcement of developing the Technical Privatization Office (TPO) in 1996.

The management of organizational and operational practices for privatization was the top priority of Technical Privatization Office TPO and the council of ministers decided to settle the shutdown enterprises in 1997. The council of ministers then supported privatization approaches in 1998. The Government and parliament finally gave permission for the Law of privatization in 1999 (Al-Asaly 2002).

Therefore, it shows us that the privatization law had no role in the organizing mechanism for privatization of a wide range of enterprises that have been privatized, and this prompted the respondents to say that the privatization law provides an unsuitable legal environment to handle the privatization program. In addition, most of the respondents disagreed that the Government of Yemen developed a more comprehensive privatization policy and a more aggressive strategy for implementing the privatization program, the privatization policy has been effectively implemented, or that the overall existing privatization policy is acceptable. On the other hand, the respondents agreed that the privatization program was a partisan issue and was not open

to any enterprise that wanted to be privatized but they agreed that the privatization policy should continue and should not reduce the intervention of the State in the privatization program/policy. Through the above, clearly the fault is not in the privatization law, but in those who are in charge of it.

Although everyone agrees that there were defects in the privatization process in Yemen, which led to the ineffectiveness of the privatization law, this does not prevent continuing the privatization law and state intervention in the future if it is not a partisan issue.

From the results on pages 191 to 224, it can be concluded that there was a hidden motive behind the privatization in Yemen as follows: political motive, political and administrative corruption, pressure from foreign financial authorities, political advocacy groups, and private entrepreneurs, private

6.1.2. The goals of privatization in Yemen

According to the Council of Ministers Resolution No. 5 /1996 the goals of the privatization program in Yemen are as follows:

- 1- Relieve bleeding budget resources through the provision of subsidies that the State presented to public enterprises that faced a deficit in financial resources.
- 2- Rise, increase the efficiency and performance of public enterprises, and activate the competitive decisions.
- 3- Ending the totalitarian role of the State in the management of the national economy and a shift to market economies and not to enter or participate in any

new investments except in certain investment cases like strategic projects, which are required for the public interest.

- 4- Take advantage of the net outcome of the privatization process in the development of the sector itself and the payment of installment debts guaranteed by the state, as well as use in compensation for termination of employment surplus.
- 5- Broaden the ownership base of public and state-owned enterprises and distribute the ownership of these enterprises to the private sector either completely or in part and to encourage ownership and investment in these enterprises by the private sector with a competitive form that does not lead to monopoly.
- 6- Ensure the flow of new investments, modern sophisticated technology, and administrative and regulatory expertise through the contribution/participation of the private sector in the ownership of these institutions.

The above, which were the stated goals for the privatization program, could be a very great benefit to the Yemeni economy for the advancement of the slump, which took place during the period of post-unity and the returning tide of Yemeni workers from the Arab Gulf States as well as the civil war that took place in 1994. However, this study shows as that there were hidden goals behind the privatization program in Yemen.

By looking at the political pressure that led to privatization, 55.4% of the respondents agreed that budget deficit is the objective of the privatization program as one of the political pressures to solve urgent problems. In addition, 44.6% of the respondents agreed that the pressure from foreign financial authorities is the objective of

the privatization program as one of the political pressures to solve urgent problems. Since the budget deficit and the pressure from foreign financial authorities ranked as the urgent problems that made the objectives of the privatization program one of the political pressures, we can say that the privatization program in Yemen is a pragmatic type related to the internal crises as the deficit in the state budget. Adopting privatization policy provides money spent on those public enterprises in addition to the money return from the privatization process without regard to the condition of those enterprises.

As evidenced by the question about the ways that the government improved its financial flows, which resulted as follows: 37.9% of the respondents agreed that raising revenue from the sale of assets and shares is the objective of the privatization program to improve the government's financial flow. In addition, 58.2% of the respondents agreed that reducing the need for operating subsidies and investment capital is the objective of the privatization program to improve the government's financial flow. From that, we can observe that most of the respondents agreed that the financial situation of the State is the most important reason for the country heading toward a privatization program. Which leads us to say that the privatization program is a tactical goal in which the consensus was on the financial return from the sale or reduction of support from the Government and the yield on the long-term goal of improving the performance of enterprises, which feed the State treasury tax revenues, did not receive support as one of the goals of the privatization program.

Many of the enterprises that have been privatized were operating satisfactorily and could have been rehabilitated to operate effectively, but politicians tended to

privatize these institutions in order to cover up the failure in fiscal policy, which resulted in political and administrative corruption.

As evidenced by the response the privatization program was to achieve the short-term political objectives of certain political parties/politicians to satisfy the political parties that may be opposed to the policy of the Government or to attract voters and supporters in addition to rewarding friends and relatives. A total of 44.6% of the respondents agreed that the objective of the privatization program is to achieve the short-term political goals of particular political parties/politicians.

The response concerning the goals of the process of privatization confirm the validity of this opinion. Whereas 49.2% of the respondents agreed that the process of privatization is to lay off staff, 56.5% of the respondents agreed that the process of privatization is to disintegrate enterprises, and 48.0% of the respondents agreed that the process of privatization is to increase bureaucratic power. Moreover, 87.6% of the respondents disagreed that all investors have equal opportunities to invest in the privatization program, which means that there has been selection in the choice of the investors

According to Feigenbaum et al. (1998), pragmatic privatization occurs as a consequence of a crisis, intended at solving the internal budgetary crisis or catering for the deficit of external balance of payments along with the devising of an austerity plan. Third World countries depict this sort of pragmatic privatization.

Decisions are not based on any sort of emptiness; however, the motives here are not necessarily honest. Financial conditions might pressurize the external financial authorities to make a decision in favor of privatization (Babai, 1988).

Most of the restricted areas and depoliticized undergo pragmatic privatization, while political scenarios experience tactical privatization. This privatization caters to the political benefits on a short-term basis and may also have a long-term impact (Feigenbaum 1989).

The privatization that is pragmatic shows most of the properties regarding the organizational viewpoint with one vital difference; while the organizational viewpoint shows this collection of properties to be applicable everywhere, the political viewpoint does not deem this privatization to be continuous context episodes. This type of privatization is fulfilled by bureaucratic units, which is derived from the push and pull of stresses by politicians.

From the above it is clear to us that there were no strategic goals for the privatization process in Yemen, only short-term political goals, which follow a pragmatic and tactical privatization and far from the structural privatization represented in the following goals;

- 1- rewarding political friends
- 2- create the base of public support for the government and certain policy
- 3- providing benefits to voter
- 4- interests of the political parties

- 5- cover for loans from international organizations and donor countries as well as debt rescheduling.

6.1.3. Evaluation of privatization program in Yemen (performance of enterprises and viability of privatization program)

The condition of Yemen's economy deteriorated and was not taken seriously by the government until 1995. Subsequently, the government realized and made efforts to eliminate the problem. With the coordination of Government of Yemen and the IMF, the inequities in the aggregate account were observed and they believed that only free economic policies could bring stability in the economy and further improve it.

Negotiations took place between the Government of Yemen, the IMF and the World Bank for aid and support in order to enhance the economic growth. The negotiations were settled with the signing of a contract concerning the economic reform. The particular elements included reducing the expenditure, raising the public revenue as well as restructuring the budget (Al-Asaly, 2001).

Many believe that the privatization process did not work for the Yemeni economy so it was necessary for us to study the result of the process of privatization so that we could evaluate the process of the privatization program through questions relating to the assessment of the privatization process in order to obtain a comprehensive view.

For the question, "Policymakers, agency officials, and other stakeholders agreed that goals of the privatization have been achieved" the majority of the respondents believed that the process of privatization in Yemen is useless, as the set goals have not been achieved. Where 74.6% of the respondents disagreed, and 22% of the respondents

agreed that the policymakers, agency officials, and other stakeholders agreed that the goals of the privatization have been achieved.

On the other hand, security comes at the forefront of the reasons that hamper the privatization process in Yemen, where a record rate of 58.2% of the respondents agreed that the security constraint is the reason that restrains investment in enterprise to be privatized. In addition, we can see the lack of the seriousness and attention from the Government for the success of the privatization process by the response to the questions concerning the attention of the Government to monitor enterprises that have been privatized. The Government did not seek to monitor the enterprise after privatization, where 84.2% of the respondents agree or strongly agree (Figure 4.3) and 15.8% disagree.

Accordingly, the answer to the question on people's fear of the privatization process was positive in that 59.9% of the respondents agreed that many people were scared of the privatization program. This fear comes through clear practices on the ground since the start of the privatization process in 1995 until the present time. That led respondents to evaluate the privatization program in a negative manner. Through the question about the enhancement of the enterprises performance after privatization, the results show that 54.2% of the respondents disagreed that the performance of the enterprises is enhanced after privatization followed by 29.4% of the respondent strongly disagreed. However, 13% of the respondents agreed that the performance of the enterprises is enhanced after privatization. In addition, the answer to the question about whether the whole program of privatization in Yemen is acceptable or not, comes to support the fear of the people for the privatization program. From that answer, we can

observe that 49.7% of the respondents disagreed that the whole program of privatization in Yemen is acceptable followed by 37.9% of the respondent strongly disagreed. In contrast, only 11.9% of the respondents agreed that the whole program of privatization in Yemen is acceptable.

Moreover, from the question concerning the effect of the privatization program in Yemen it can be concluded from the evaluation provided from the outcome effects of the program as a whole. The observation showed that the respondents only agreed with four categories. First of all, 52.0% of the respondents agreed that the increase in the power of the bureaucrats is the effect of privatization, second, 45.8% of the respondents agreed that the increase in the power of the personal goals of the public servants rather than the nation benefiting from privatization is the effect of privatization, third, 42.9% of the respondents agreed that politicians maximized utility is the effect of privatization, and, finally, 40.7% of the respondents agreed that politicians gaining popularity is the effect of privatization.

Therefore, we can summarize the effect of the privatization in Yemen as follows:

- 1- increase power of bureaucrats
- 2- increase power of personal goals of public servants rather than nation benefiting from privatization through exploitation of their position.
- 3- politicians maximize utility
- 4- politicians gaining popularity

6.1.4. Major problems that affect privatization performance in Yemen

Through the above, we can say that the process of privatization in Yemen is not sustainable, as the motives behind the privatization program, as shown by the study, were not economically motivated but politically motivated in order to achieve short-term tactical objectives. So that privatization in Yemen could not be viable because it has tactical objectives, which are advocated to achieve the short-term political goals of particular parties, politicians, or interest groups (e.g. Attract voters and reward supporters, generous award of contracts to gain more supporters, change the political interests, and create new interest groups), and pragmatic objects, which are generally carried out by bureaucratic units somewhat insulated from the push and pull of normal political pressure in order to solve urgent problems (e.g. budget deficit, the deficit in the balance of external payments, and pressure from foreign financial authorities, such as the IMF and World Bank), more than economic/systemic objects (e.g. improve the government's financial flow by raising revenue from the sale of assets and shares; reducing the need for operating subsidies and investment capital; and increasing tax revenues as a result of improved enterprise performance).

We can summarize the major problems that affect privatization the performance as follows:

- 1- Continuation of the political interference in the privatization process.
- 2- The legality of actions and steps taken at the time of the privatization is questionable as well as failure to follow decisions in most cases.
- 3- A lack of transparency and clarity in the methods of privatization adopted in Yemen.
- 4- Change the activity of enterprises that were privatized and often liquidation of a lot of enterprises in spite of the possibility of continuing to work.

- 5- The lack of effective marketing of enterprises offered for privatization.
- 6- Discourage a style of IPO share, which, in turn, achieves expansion of corporate ownership.
- 7- Negligence of the Government to monitor the work of enterprises that have been privatized.
- 8- The motive behind the privatization process was not to improve the status of enterprises as it was for purely political purposes.

6.2. Conclusion

6.2.1. Summary of results

The process of research and analysis of the main and sub questions reached important results and recommendations, listed as follows.

- 1- For the results of the evaluation of the performance of the three enterprises (National Grain Silos Ltd, National Cigarette and Match industries Ltd, and Al-Esayi Beverages Company Ltd Canada Dry/Aden), the study concluded that although these institutions still continue to work, the performance change of the enterprises under study after privatization with respect to the change in the mean and median values in terms of profitability, operating efficiency, capital expenditure, output, and employment were not good as most indicators were not clear evidence that progress has been achieved as a result of the privatization process.
- 2- The researcher found that there were hidden motives behind the privatization process, which are completely different to the stated motives, which had a clear effect not on the deterioration of the privatization process, but on the deterioration of

the economic situation in Yemen in general. The motives varied between politically motivated and foreign motives, albeit politically motivated was the basis behind the privatization process in Yemen, where the political players used it as a tool to improve their political and financial support. The procedures followed when conducting the privatization of an enterprise was different to what it should be in order to give preference to someone close or pro politicians to be able to get the enterprise. Therefore, we have seen that most of the enterprises have been privatized before the formal issuance of the privatization law from parliament. Moreover, the privatization law passed in 1999 was not observed in most cases. In addition, the political and administrative corruption was among the essential supporters for the process of privatization to obtain huge revenues from the sale or rental of such enterprises in addition to loans granted to the project from the World Bank and the International Monetary Fund.

- 3- The study proved that there were hidden goals behind the privatization program in Yemen. These were political goals represented by the political pressure to solve urgent problems, to achieve short-term political goals of particular political parties/politicians, to increase bureaucratic power, and used as a cover in order to get more loans from international organizations.
- 4- The outlook of the privatization program in Yemen showed that a lack of feasibility followed such a policy in a country like Yemen where most goals set for the program have not been achieved, and it has increased the fear of people from continuing to follow the program in light of the deterioration evident in the political situation, administration, spread of bribery, and political corruption.

- 5- The main problem of the deterioration of the privatization program in Yemen is that the motives behind the privatization program were political rather than economically motivated in order to realize short-term tactical goals.
- 6- The success of the economic reform programs and privatization is not measured simply by the implementation of policies and procedures and not simply the number of companies that were sold; broadening the base of private property is not a goal in itself.
- 7- Following the policy of a free economy and the dictates of the World Bank, and the International Monetary Fund may not be successful in third-world countries, especially Yemen, where the focus is on certain economic reforms, as it overlooked the political reforms and administrative, which is the basis for the success of economic reform policy, in general, and privatization, in particular.

6.3. Contribution of the study

The idea of government sowing the seeds from its own expansion is not a new one. The battle between a government's thirst for control and power, and public liberty was a major concern of Western democratic theorists, namely, Alexis de Tocqueville and John Stuart Mill. However, these concerns were reduced when a legal framework for the protection of citizen's rights and government bureaucratization was drawn up during the nineteenth- and twentieth-century. The government was seen as a system that worked for the benefit of the citizen instead of constraining them while the institutionalized and professionalized civil services painted the government's image as that of a tool used for implementing the public goals (Putnam, Aberbach, & Rockman, 1981). As a result of

this, the growth of the government was seen as an expansion of people's will instead of personal liberty.

Over a period of twenty-five years, many theories have surfaced that consider government to be an independent element in the economy that can sustain force toward its expansion. Many sociologists have provided a base for this perspective in regards to organizational theory. Nonetheless, controversial theories have also been formed based on public choice and autonomous state. Over the years, the concept of privatization rapidly spread globally and was adopted by many countries.

There are many reasons for opting for the policy of privatization, such as the potential benefits that may come as part of the policy as well as the macroeconomic reform package that it offers along with other stimulating components for a country's economy in the form of improved products and services, investment, increase in capital or access to foreign markets.

It has already been stated that the key motives for the progress of the state-owned companies in the developed, and, particularly, in the developing nations, were political in nature and that the state-owned institutions were the main tool for the accumulation of the power among the elites who were governing these countries. A particular political duty was given to the public sector in Western Europe to act as a patron of social well-being and economic progress together with proper facilities for the populace and full employment. It made a very significant contribution in the Third World where it acted as a tool for legitimization of the anti-elitist governments by offering services and goods at very low price, creating employment opportunities, welfare facilities together with fundamental health facilities, education and shelter given by the SOEs or by the

government, support and relocation of income together with the white-collar jobs in the state-owned enterprises to the agents of certain social groups.

Consequently, a balanced increase in the expectations of the society for the government to resolve the current issues appeared along with the increase in the demands by the government to control the dealings between the government and the society. This occurrence was termed as “a ruling bargain” by Daniel Brumberg, which seemed fairly appropriate for the majority of the developing nations even though he was concentrating solely on the Middle Eastern and North African countries. The ruling elite transacted their privileges to the autonomous political action in response to the promise made by them to deliver social wellbeing (Brumberg, 1991). This was made conceivable through the earnings from the sale of oil, payments of people working in the foreign countries, external debts, etc. This financed the development of the incompetent state-owned enterprises and the social well-being projects. If economic progress was viable and enough resources were available to distribute among most of the people, all appeared okay.

In the late 1970s, it became evident that this conciliation could not be carried out any further. The augmented rates of national responsibilities for the government in the society and the economy frustrated the leaders about their ability to cope with macroeconomic and social consequences. Similarly, the cynicism about the government’s ability to resolve the increasing problems also grew. It was high time that the duties of the government be curtailed through the expectations of the people, which in itself were political in nature. At this time, the problem of privatization was made a part of the agenda to assist the government to forego duties, which led to the circumstances leading to the political fiasco (Ikenberry, 1990). The developing

countries provided an excellent example of this where the unnecessary intervention of the government in the economy positioned to bring about success had curtailed growth by ignoring the business class, the poor decision making in terms of investment and various expensive errors. Since the political leaders had the complete control over the domestic economy, the responsibility for the fiasco could not be shared with others (Harik and Sullivan, 1992).

The majority of the research carried out on the political aspects of privatization reveal that even those governments who had total control over the economy agreed to the fact that privatization was a means to restructure the proper boundaries of responsibility of the government instead of leaving the space for the public community. Concurrently, privatization does not suggest that by detaching parts of the state-owned enterprises, the leaders are forfeiting their means of manipulating political and social consequences. In the majority of developing nations, the people who benefited from this procedure were those who had connections with the government. Fred Lawson indicates that in the case of Iraq, for example, privatization even strengthened the Government by directing the capital to the armies in the main social alliances and that the prospective enemies of the government never benefit from this process (Chaudhry 1992). The tyrannical power of the dictatorial governments is hardly affected by privatization. Additional economic steps could always be helpful in the instances of unanticipated political outcomes where economic restrictions are relaxed. Furthermore, the departure of the government from large sections of the economy is not consistent with the required regulation of the interaction between capital and the labor, and between buyers and the sellers. This burdens the entrepreneurs as they become targets of the prospective displeasure of the people thereby stabilizing and even strengthening the place of the

government as the sole conciliator irrespective of the economic and social consequences in the state.

According to Kikeri et al. (July, 1992), privatization is considered as a strong policy that can bring more improvements compared to the SOEs, such as removing excess labor and thus increasing economic competition. Authors also cite the reason for governments pursuing privatization as being because of international lending and/or international agency persuasion or pressure, which if the governments follow, may allow them to increase the international funding or get new loans (Leeds, 1991).

In addition, in an article written by Robert Poole (1988), namely, 'Privatization: Providing Better Services with Lower Taxes' provides another reason for opting for privatization that governments have become too big to handle the activities, which turn into bureaucracy and reduces the efficiency.

This is for the developed countries, but in the developing countries, especially the Arab countries, the privatization program has not achieved success. It has proven its failure in many Arab countries that have adopted it, where the government chooses the option of privatization based on other practical reasons. For example, in the Middle Eastern and North African countries, the economic liberalization came into being without the enforcement of new and irregular regimes. This revolution was led by the very politicians who were against liberal policies in the past but were forced to make changes according to new circumstances. The Arab States were among the first countries to respond to calls for privatization in which several Arab governments started selling many government installations, and without controls.

Similar experiences of developing countries in terms of the strategy and methods of privatization, as well as in terms of the goals and motives behind the privatization process, led to a striking similarity in the output of the privatization process in many of those countries where most of those experiments failed and did not meet their goals.

Through this study, we conclude that privatization, as an economic policy, is inadequate for Yemen and Arab countries, in general, in such a political and social environment. The result from the implementation of the privatization policy is catastrophic to those countries where it has been used by influential politicians, stakeholders and the ruling political parties, as it has led to more corruption and looting of public money and loading the people with more debt.

Therefore, the interests of the Arab governments (e.g. more money and fund) met with the interests of the donor countries and international organizations (e.g. more liberal) in the process of privatization.

Privatization appeared as a mechanism to swallow small economies around the world where the importance of privatization towards economic recovery for the peoples of the third world was considered as the way for third-world countries to follow for the Eradication of Poverty. These rumors were promoted by the World Bank, the IMF, and Western companies, and the United States and Western allies used their influence to enforce the Third World governments to sell the public property to the private companies, which has become one of the conditions for the support of Western donor institutions accordingly. All these pressures came to force these countries for more liberal orientation and globalization system that lead then to walk into the orbit of those countries without regard to the interests of the peoples. This is what people have realized in a number of Arab countries, recently, which led people to rising up against

the corrupt governments in the so-called the Arab Spring revolution in the hope of changing these corrupt regimes, new systems carry the concerns of people and guided the nation towards progress and the desired goal.

6.4. Political problem in Yemen

According to Enders (2002), an international report compared Yemen with 188 countries on six aspects of governance. The results showed that in five categories, Yemen ranked in the lower 25% of all the countries. Regarding corruption control, Yemen fell into the 15th percentile. The rankings for political stability and rule of law are even lower. By considering the 19 nations of the North Africa and Middle East, even then Yemen's governance ranking is fairly poor. Regarding the violence and political instability, only Afghanistan and Iraq have lower ratings than Yemen. From the 19 nations, Yemen's ratings are as follows:

- Corruption and rule of law: 16th
- Government effectiveness: 15th
- Regulatory framework: 14th

It is only in voice and accountability that Yemen's performance earned a higher rank (6th in the 19 MENA nations) (Enders, 2002).

Furthermore, on the failed state Yemen's condition worse in the aspects shown in table 6.1, The Failed States Index is based on the twelve primary social, economic and political indicators.

Social Indicators

1. Mounting Demographic Pressures

2. Massive Movement of Refugees or Internally Displaced Persons
3. Legacy of Vengeance-Seeking Group Grievance or Group Paranoia
4. Chronic and Sustained Human Flight

Economic Indicators

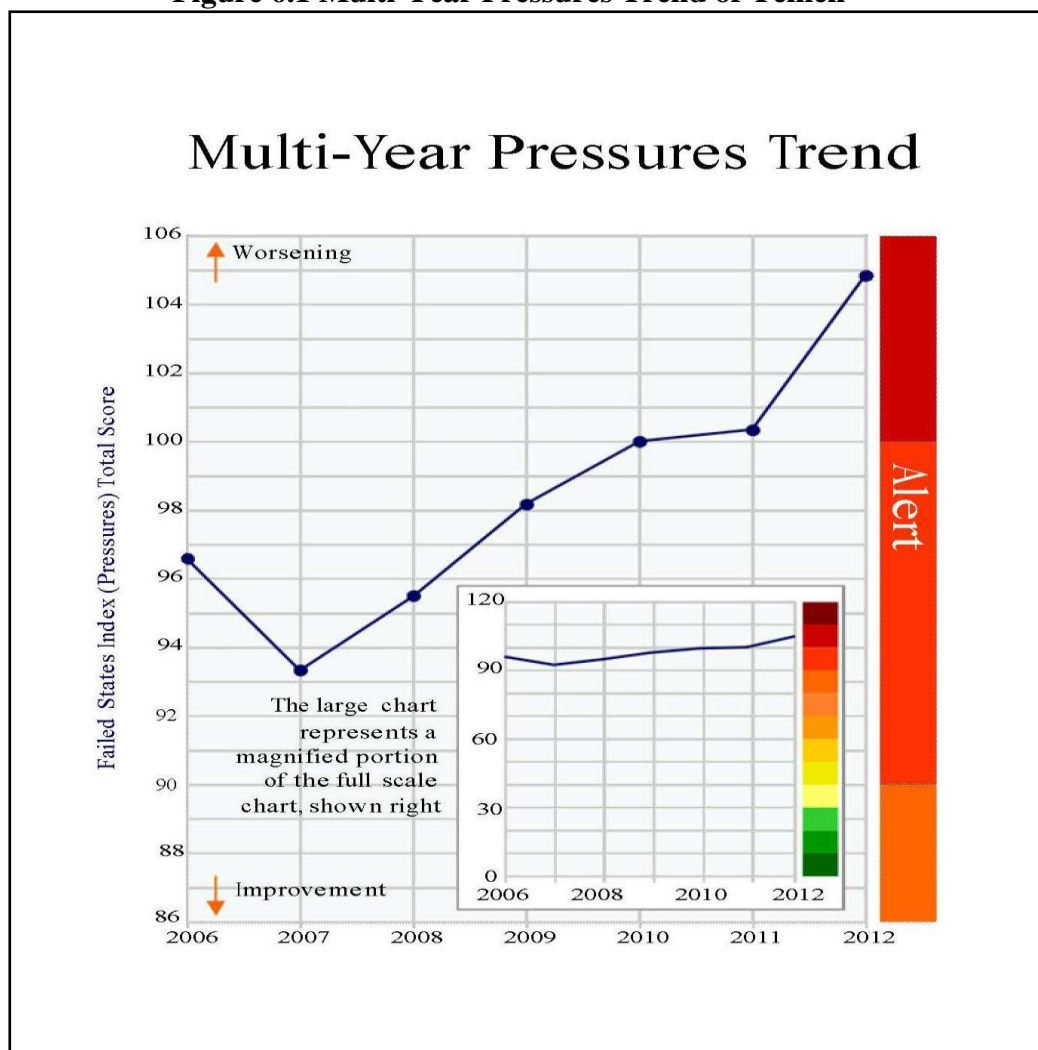
5. Uneven Economic Development along Group Lines
6. Sharp and/or Severe Economic Decline

Political and Military Indicators

7. Criminalization and/or Delegitimization of the State
8. Progressive Deterioration of Public Services
9. Suspension or Arbitrary Application of the Rule of Law and Widespread Human Rights Abuse
10. Security Apparatus Operates as a "State Within a State"
11. Rise of Factionalized Elites
12. Intervention of Other States or External Political Actors

From figure 6.1 we recognize that Yemen worsening on the failed of state started from 2007 until 2012. In 2007, Yemen scored 93.2 and ranked as number 24 of the failed state, in 2008 scored 95.4 and ranked 21, 2009 scored 98.1 and ranked 18, in 2010 scored 100 and ranked 15, and in 2011 scored 100.3 and ranked as number 13 of the worst failed state.

Figure 6.1 Multi-Year Pressures Trend of Yemen



Source: Messner (2012).

Table 6.1 Failed State Index Data 2012

FFP		Failed States Index Data 2012												
CFSIS 201 (06A)		Copyright © The Fund for Peace 2012												
		Total	Demographic Pressures	Refugees and IDPs	Group Grievance	Human Flight	Uneven Development	Poverty and Economic Inequality	Legitimacy of the State	Public Services	Human Rights	Security Apparatus	Factionalized Elites	External Intervention
1	Somalia	114.9	9.8	10.0	9.6	8.6	8.1	9.7	9.9	9.8	9.9	10.0	9.8	9.8
2	Congo (D. R.)	111.2	9.9	9.7	9.3	7.4	8.9	8.8	9.5	9.2	9.7	9.7	9.5	9.6
3	Sudan	109.4	8.4	9.9	10.0	8.3	8.8	7.3	9.5	8.5	9.4	9.7	9.9	9.5
4	Chad	107.6	9.3	9.5	9.1	7.7	8.6	8.3	9.8	9.5	9.3	8.9	9.8	7.8
5	Zimbabwe	106.3	9.0	8.4	8.7	9.0	8.9	8.9	9.4	9.1	8.9	8.7	9.8	7.5
6	Afghanistan	106	8.9	9.0	9.4	7.4	8.1	7.7	9.5	8.5	8.5	9.7	9.4	10.0
7	Haiti	104.9	9.5	8.1	7.0	8.8	8.6	9.5	9.3	9.3	7.7	8.2	9.0	9.7
8	Yemen	104.8	8.8	8.7	9.0	7.0	8.4	8.7	9.1	9.0	8.4	9.7	9.8	8.3
9	Iraq	104.3	8.0	8.5	9.7	8.6	8.7	7.7	8.4	7.8	8.3	9.9	9.6	9.0
10	Central African Republic	103.8	8.8	9.7	8.5	5.6	8.7	8.0	8.9	9.1	8.5	9.6	9.1	9.3
11	Cote d'Ivoire	103.6	7.9	9.0	9.0	7.6	7.7	7.4	9.6	8.3	8.3	8.9	9.9	10.0
12	Guinea	101.9	8.3	8.0	7.9	8.0	8.1	8.9	9.5	8.6	8.7	9.4	9.2	7.3
13	Pakistan	101.6	8.5	9.0	9.6	7.2	8.2	7.2	8.3	7.0	8.6	9.3	9.1	9.4
14	Nigeria	101.1	8.4	6.5	9.7	7.6	8.9	7.5	9.1	9.1	8.6	9.2	9.8	6.6
15	Guinea Bissau	99.2	8.7	7.5	5.7	7.7	7.8	9.0	9.3	8.5	7.5	9.4	9.2	8.9
16	Kenya	98.4	8.9	8.4	8.9	7.7	8.2	7.3	8.6	8.1	7.4	7.6	9.0	8.4
17	Ethiopia	97.9	9.6	8.7	8.1	7.0	7.9	7.4	7.2	8.4	8.6	8.1	8.7	8.2
18	Burundi	97.5	8.8	8.9	8.0	5.9	7.9	8.8	8.3	8.5	8.1	7.4	7.9	9.0
18	Niger	96.9	9.3	6.9	7.7	6.0	7.6	8.6	8.4	9.2	7.9	8.2	8.6	8.4
20	Uganda	96.5	8.8	8.2	7.7	6.9	8.1	7.5	8.0	8.6	7.8	8.3	8.7	7.9
21	Myanmar	96.2	7.9	8.2	8.7	5.7	8.7	7.6	9.4	8.4	8.6	7.5	8.6	6.9
22	North Korea	95.5	7.9	5.3	6.6	4.4	8.6	9.3	9.9	9.4	9.6	8.1	7.7	8.7
23	Eritrea	94.5	8.6	7.1	6.4	7.1	6.9	8.6	8.4	8.2	8.7	7.8	8.1	8.5

Source: Messner (2012).

6.5. Security problems

Republic of Yemen appears inclined to civil warfares, although in a lot of events these were sort of proxy warfares or bounded to particular areas. The war of 1994 that defeated the effort of the past PDRY leaders to revert the clock comprised inward about esteem a good continuation of the borderline clashes between YAR and PDRY

prior to uniting and doesn't represent a civilian war in the exact common sense. Even so, the Yemeni government addresses a lot of primitively socio-economic or political struggles since menaces to inner security and overreacts from deploying the armed forces and/or surety engaging, so often aggravating the situation.

A lot of Yemeni population have firearms located in their hands, with estimates indicates the existence of between 5-10 million firearms. Usually these weapons are used in those conflicts between the tribes, as well as conflicts between tribes and the government, despite these efforts recently to disarm these weapons out of the hands of citizens, violence is still rampant in Yemen.

Although Yemen's neighbors do not constitute a real threat to the security of Yemen, military spending is high for a country as Yemen that scored in 2006 about 6.6% of GDP. Somalia is the most problematic neighbor to Yemen despite the lack of a common land border where the impact of failure of the Somali State to Yemen from several aspects, including the increasing number of Somali refugees in Yemen, the increasing acts of piracy off the coast of Yemen.

On the other hand there are several threats to the internal security of Yemen represented in multiplication of numbers of Islamist militants belonging to the so-called al-Qaeda, which carried out a series of attacks on Western tourists in addition to the bombing of the USS Cole, as well as the attack on the French tanker Limburg. Besides the breadth of land and maritime borders of Yemen increased the percentage of entering large numbers of non-Yemeni militants returning from Iraq and Afghanistan, as well as Africans illegally. Add to that the ongoing geopolitical conflict in the northern regions of Yemen, especially in the region of Saada, which has seen six wars starting in 2004.

6.6. Recommendations

The crises suffered by Yemen during the period of unity were represented by the first Gulf War and the resultant return of large numbers of Yemeni workers from the Gulf States. Furthermore, the integration of two different systems of political approach, and the civil war in 1994, had a deep impact on the deterioration of the Yemeni economy. This prompted the Government of Yemen to cooperate with the World Bank and the International Monetary Fund in order to carry out political and economic reforms and provide the necessary support for the process of reforms by the donor countries and relevant international organizations.

Privatization came in the forefront of those reforms but failed as a result of the above-mentioned reasons, and here we must make recommendations that we believe are necessary for the success of such a program.

- 1- There must be transparency and clarity in privatization methods and procedures, also, it should have the full power, individual and independency in its decisions away from political pressure. Goals must be clear and specific and not just for financial return. It must look beyond the financial return of the privatization program where the development and operation of the enterprises with high efficiency after the privatization process should be among the main goals, thereby leading to achievement of the overall objectives of the privatization as an economic recovery, good performance and high efficiency of privatized enterprises.
- 2- In as much as the study proved that the privatization policy cannot be applied in the presence of political and administrative corruption, it must provide the political and administrative environment before applying economic reforms. This can be done

through the application of political and administrative reforms first and the elimination of administrative and political corruption, nepotism and then proceed with the privatization program.

- 3- In as much as the study proved that there were political goals represented by the political pressure to solve urgent problems, to achieve short-term political goals of particular political parties/politicians, to increase bureaucratic power, and used as a cover in order to get more loans from international organizations, it must work to mitigate the influence of bureaucratic, advocacy groups, private entrepreneurs, and private lobbies from interference during the privatization process.
- 4- In as much as the study proved that there were politically motivated was the basis behind the privatization process in Yemen, where the political players used it as a tool to improve their political and financial support. The procedures followed when conducting the privatization of an enterprise was different to what it should be in order to give preference to someone close or pro politicians to be able to get the enterprise. It must work to abolish the use of public enterprises as a political tool to achieve political goals and to reward friends and political supporters and the reduction of government interventions that do not aim to raise the efficiency of the facility in the first place.
- 5- Under The Central Organization for Control and Auditing (COCA) Act No 39 of 1992, this governing authority has been declared as the ultimate auditing authority within Yemen. The COCA's responsibilities include conducting audits, developing accountancy and the auditing profession within Yemen, and controlling public funds. Nevertheless, the privatization law (45)/1999 did not mention that the COCA is the responsible in control of privatization and this is confirmed by actions in reality. So that it should Enable the Central Organization for Control and Auditing

to fulfill its role in reviewing and checking accounts for those enterprises that are implementing procedures for privatization.

- 6- The privatization Law specifies the development of the High Committee and Technical Privatization Office to make sure the completion of regulated, impartial and transparent privatization methods because of the disagreement of coordinating between several ministries and enterprises. The Technical Privatization Office TPO is likely to act as an administrative unit for Higher Committee HC, which is responsible for maintaining records and other secretarial duties, such as formulation of privatization plans, mainly by reconsidering proposals and observing their implementation. There were setbacks in the programs of the department's committees signifying the enterprises to be privatized because of overlapping accountabilities of different departments. Ministries severally developed their internal committees to privatize some of the enterprises under their authority. These committees of the ministries contributed in each action of the process (such as in approving the short list of consultants and the report that the eventual consultant submits) when the TPO was accountable for privatization. This contribution caused disagreements between the TPO. Therefore, it has to be an independency of the Technical Privatization Office and reduction of the intervention in the powers and decisions of the Technical Privatization Office and its committees.
- 7- Feigenbaum et al (1998) Mentioned that IMF and World Bank have a role in the transfer of political ideas from one place to another and with little taking into account the countries boundaries as well as internal issues. This pressure played by international organizations designed to undermine and determine the role played by such political forces that support the expansion of the state. As a condition of lending to Third World countries, the World Bank and the International Monetary Fund claim those countries following the privatization plans first. While

international lending institutions may be satisfied if a country merely introduces market principles into the public sector, rather than full-scale sale of assets, liberalization is the price of the loan. Feigenbaum et al (1998) give example of the pressure that played by IMF and World Bank

“In thirty-eight structural adjustment loans to developing countries from 1980 to 1986, the World Bank recommended liquidation or divestiture of state-assets in twenty-five of them. In addition, they recommended increased market orientation of state firms in thirty-six of the thirty-eight loans. When the international financial community is in a position to provide Third World leaders with immediate injections of funds, in-kind services, and a degree of legitimacy, local governments may be induced to liberalize for tactical reasons, even if their leaders are not convinced of the long-term advantages of free markets for the majority of their citizens”.

Therefore adopting measures commensurate with the circumstances of the country, and not scrambling behind that the dictates of the World Bank and the International Monetary Fund (IMF), which is not feasible in country such as Yemen, where there is a lack of objective views about the situation in general. It must take into account the development of developing countries. Every country has its specifics, which differ from another, and requires different reforms.

- 8- Simply the implementation of policies and procedures or simply the number of companies that were sold does not measure the success of the economic reform programs and privatization; broadening the base of private property is not a goal in itself. Thus, the real objectives behind the privatization are to improve the economic efficiency as well as the quality of the services that contain budget deficits and liabilities, private sector growth and acceleration of investments.

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APPENDIX A Questionnaires In Arabic

نظرا لمتطلبات إكمال دراستي الجامعية أتقدم بهذا الاستبيان للحصول على بعض المعلومات ذات الصلة بموضوع الدراسة وأقدر كامل التقدير لمن شارك في إكمال هذا الإستبيان . كما أؤكد لمن يشارك بالسرية الكاملة للمعلومات الواردة في هذا الاستبيان وعدم إستخدامها في غير موضوع البحث. أخيرا أشكر لكم تعاونكم.

عبدالله الامير

كلية الاقتصاد والادارة العامة

الجامعة الماليزية

الرجاء وضع العلامة أمام الإختيار المناسب للأسئلة من 1 الى 30

اعارض بشدة	اعارض	محايد	اوافق	اوافق بشدة
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1 -تعود أسباب التدهور في القطاع العام الى :-

أ - عدم وجود المهارات

ب - عدم كفاءة الاداره

ت - نقص المهارات الرقابية

ث - الفساد السياسي والاداري

2 -من وجهة نظرك أي من الصفات التالية ترى ضرورة توفرها في الجهاز الاداري

المسؤول عن الخصخصة؟

أ - متحرر من القيود الروتينية

ب - متحرر من الضعف الاداري

ت - متحرر من الضعف الاداري

ث - عادل في توزيع فرص الخصخصة

3 -هل وفر قانون الخصخصة البيئة القانونية الملائمة

لبرنامج الخصخصة؟

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اوافق بشدة	اوافق	محايد	اعارض	اعارض بشدة
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4 -أوجدت الحكومة اليمنية قانون خصخصة شامل
واستراتيجية فعالة لتنفيذ برنامج الخصخصة

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5 -تم تنفيذ قانون الخصخصة بشكل فعال

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6 -بشكل عام , قانون الخصخصة في اليمن ملائم

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7 -على حد علمك , قانون/برنامج الخصخصة يسري على
جميع المنشآت المراد خصخصتها

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8 -تدخل الدولة في قانون الخصخصة يجب أن يقلص

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9 -قانون الخصخصة يجب أن يستمر الأخذ به

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10 - برنامج الخصخصة في اليمن مسألة حزبية

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11 - الطرق الاتية ترى أنها الامثل لإنجاز عملية الخصخصة

أ - البيع الكامل

ب -البيع الجزئي

ت -التصفية

ث -التأجير

12 - كانت الإجراءات عند القيام بعملية

الخصخصة واضحة ومناسبة

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اعارض بشدة	اعارض	محايد	وافق	وافق بشدة
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13 - تم إتباع الإجراءات المحددة عند قيام الحكومة بتقييم إمكانية القيام بعملية الخصخصة

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14 - أهداف برنامج الخصخصة هو لتحسين الوضع المالي للحكومة بواسطة:-

- أ - رفع واردات الحكومة من خلال البيع أو المشاركة
 ب - تخفيض الدعم الحكومي المقدم لتلك المؤسسات
 ت - تحسين الواردات الضريبية كنتيجة لتحسين الأداء لتلك المؤسسات

15 - كانت أهداف برنامج الخصخصة نتيجة لضغوط سياسية لحل أزمات ملحة هي:-

- أ - عجز الموازنة
 ب - العجز في ميزان المدفوعات الخارجي
 ت - ضغوط خارجية من قبل مؤسسات التمويل الأجنبية

16 - برنامج الخصخصة كان لتحقيق أهداف سياسية قصيرة المدى لإحزاب سياسية معينة/سياسيين .

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17 - أي من الأهداف التالية ترى أنها تحققت كنتيجة لعملية الخصخصة ؟

- أ - زيادة الكفاءة الإنتاجية
 ب - تخفيض العجز في الموازنة العامة للدولة
 ت - اجتذاب رؤوس الاموال الخاصة المهاجرة والأجنبية
 ث - لا شيء مما سبق

18 - الدوافع التي كانت وراء القيام بعملية الخصخصة هي :-

- أ - دوافع سياسية
 ب - دوافع إجتماعية
 ت - دوافع خارجية
 ث - دوافع أخرى

اوافق بشدة	اوافق	محايد	اعارض	اعارض بشدة
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- 19 - على حد علمك هل تعتقد أن صناع السياسة ، المكاتب التخصصية ، المساهمين موافقين أن أهداف عملية الخصخصة قد تحققت؟

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- 20 - أتت عملية الخصخصة

(a) تسريح موظفي المؤسسات

(b) إنهاء كيان المؤسسات

(c) زيادة البيروقراطية

- 21 - كيف لعبت المجموعات /المؤسسات / المتغيرات الاتية دورا اساسيا في سير عملية الخصخصة ؟

أ - متعهدي القطاع الخاص وجماعات الضغط

ب -المنظمات والنقابات المهنية

ت -الجماعات السياسية

ث -البيروقراطيين / الموظفين المدنيين

ج -وسائل الاعلام

ح -الرأي العام

خ -عوامل قانونية / تشريعية

د - عوامل إقتصادية وخاصة بالموازنة العامة

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- 22 - حظي كل مستثمر بفرص متساوية للإستثمار في المؤسسات المراد خصخصتها

- 23 - المعايير الاتية تم الأخذ بها عند إختيار المستثمرين

أ - معايير مالية

ب -معاييرسياسية

ت -معايير اجتماعية

- 24 - المجموعات التالية تفضل أن تؤول اليه المنشأة بعد خصصتها

أ - مستثمر مفرد

ب -الإدارة والعاملين في المنشأة

ت -مستثمر اجنبي

ث -الاكتتاب العام

اعارض بشدة	اعارض	محايد	اوافق	اوافق بشدة
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25 - كثير من الناس متخوفين من برنامج الخصخصة

26 - الاسباب التي تعيق المستثمرين من الإستثمار في إحدى المنشآت المراد خصخصتها هي

أ - نقص المعلومات

ب - معوقات أمنية

ت - وجود بدائل إستثمارية

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27 - الحكومة ليس لديها الاهتمام بمراقبة المنشآت بعد خصخصتها

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28 - تحسن اداء المنشأة بعد عملية الخصخصة

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29 - برنامج الخصخصة بشكل عام في اليمن مقبول

30 - تأثير برنامج الخصخصة في الجمهورية اليمنية :-

أ - الحد من مسئولية الموظفين العموميين

ب - الحد من مسئولية القيايين والسياسيين

ت - زيادة نفوذ البيروقراطيين

ث - إزدياد المطالب الشخصية للموظفين العموميين أكثر من المنفعة العامة للخصخصة

ج - تحسين اداء المؤسسات وربحياتها

ح - زيادة فرص العمل

خ - تحسن كفاءة المؤسسات

د - زيادة إنتاجية المؤسسات

ذ - زيادة المنفعة الخاصة بالطبقة السياسية

ر - زيادة شعبية المتنفذين السياسيين

ز - تحسن أسلوب وطريقة عمل برنامج الخصخصة

س - زيادة التنافس بين المؤسسات

ش - تحسن جودة السلع

ض - تزايد الاستثمار الاجنبي

ط -تزايد الاستثمار المحلي

ظ -تزايد الاستهلاك المحلي

Dear brothers/sisters

Due to the requirements of my PhD in public administration under a research title (the viability of privatization in Yemen), I would be conducting a survey to obtain some data that are relevant to this research. Therefore, I would appreciate very much if you would kindly participate by being one of my respondents to help me in my research. You can be rest assured that **ALL THE INFORMATION IN THIS SURVEY WILL BE STRICTLY CONFIDENTIAL**. Lastly but not least, I would like to take this opportunity to thank you for your valuable and kind support.

Abdullah Alameer

Faculty of economic and public administration

University of Malaya

Please tick whichever is appropriate from questions from 1 to 30

STRONGLY AGREE	AGREE	INDIFFERENT	DESAGREE	STRONGLY DESAGREE
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1- Reasons for deterioration in the public sector management :-

- a) Lack of skills
- b) inefficient in administration
- c) lack of supervision skills
- d) Political and administrative corruption

2- The following characteristics should be available in the administrative body responsible for privatization.

- a) Free of administrative constrain
- b) Free from the constraint of routine
- c) No third party intervention
- d) Fair distribution of privatization opportunity

3- The privatization law provides a suitable legal environment to handle the privatization program.

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4- The government of Yemen developed a more comprehensive privatization policy and a more aggressive strategy for implementing the privatization program.

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5- The privatization policy has been effectively implemented.

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6- The overall existing of privatization policy is acceptable.

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7- The privatization policy/program is open to any enterprise wants to be privatized.

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8- The privatization policy should continue.

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STRONGLY AGREE	AGREE	INDIFFERENT	DESAGREE	STRONGLY DESAGREE
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9- The state's intervention in the privatization policy should reduce.

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10- The privatization is a partisan issue.

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11- The following methods are best to carry out the privatization process.

a) Total sale

b) Partial sale

c) Liquidation

d) management contracts

12- The procedures were clear and appropriate.

13- The Procedures were followed when the governments assess the possibility of privatization.

14- The objectives of privatization program is to improve the government's financial flows by

a) raising revenue from the sale of assets and shares

b) reducing the need for operating subsidies and investment capital

c) increasing tax revenues as a result of improved enterprise performance

15- The objectives of privatization program are one of the political pressures to solve urgent problems

a) Budget deficit

b) The deficit in the balance of external payments

c) The pressure from foreign financial authorities e.g IMF&WO

STRONGLY AGREE	AGREE	INDIFFERENT	DESAGREE	STRONGLY DESAGREE
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16- The objectives of privatization program are to achieve short-term political goals of particular political parties/politicians.

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17- The following objectives have been achieved from the privatization process.

- a) Increase production efficiency
- b) Reduce the budget deficit
- c) Attract foreign and immigrant capital
- d) none of the above

18- the motives behind the privatization process from your point of view are:-

- a) Political motives
- b) Social motives
- c) Foreign motives
- d) other motives

19- Policymakers, agency officials, and other stakeholders agreed that goals of the privatization have been achieved.

20- The process of privatization is to

- a) lay off staff
- b) disintegrate enterprises
- c) Increase bureaucratic power

21- The following groups/organization/factors play a **major role** in the privatization process.

- a) private entrepreneurs, private lobbies
- b) Union and professional organizations
- c) Advocacy groups
- d) Bureaucrats/ civil servants
- e) The media
- f) General public opinion
- g) Legal factors
- h) Economic/budgetary factors

STRONGLY AGREE	AGREE	INDIFFERENT	DESAGREE	STRONGLY DESAGREE
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22- All investors have equal opportunities to invest in the privatization program.

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23- The following criteria had taken at the investor's choice.

a) Financial criteria

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b) Politic criteria

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c) Social criteria

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24- The following groups are the preferred to own the enterprise after the privatization.

a) Single investor

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b) management and employees at the facility

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c) foreign investor

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d) People - put the company's shares for public subscription

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25- Many people scared from the privatization program.

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26- the reasons that restrain investment in enterprises to be privatized are:-

a) Lack of information

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b) Security constraints

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c) the existence of alternative investment

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27- The government did not seek to monitor the enterprises after privatization.

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28- The performance of the enterprises enhance after privatization.

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29- The whole program of privatization in Yemen is acceptable.

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30- The affect of privatization :-

a) reduce accountability of public servants

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b) Reduce accountability of leader and politicians

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c) Increase power of bureaucrats

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d) Increase power of personal goal of public servants rather than nation benefit of privatization

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e) Increase performance and profit of enterprises

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f) Increase employment opportunity

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g) Increase efficiency of enterprises

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h) Increase productivity of enterprises

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i) Politicians maximize utility

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j) Politicians gains popularity

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k) Better control of privatization
mechanism and procedure

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l) More competition among
enterprises

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m) Better quality of goods for public

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n) Increase foreign investment

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o) Increase domestic investment

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p) Increase domestic consumption

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APPENDIX C1 All Yemeni Privatized Companies

	<i>Enterprises</i>		<i>Enterprises</i>		<i>Enterprises</i>
1	Yemen Corporation For Textile Industries	18	Usan Biscuit Factory	35	General Organization For Trade Of Building Materials \Aden
2	Oil Installations Jehev	19	Automated Bakeries	36	Yemen Company For Free Trading
3	The Revolution Factory Of Steel Products	20	Tomato Paste Factory	37	General Organization For Building And Housing/ Aden
4	Factory Of Farming Tools And Metal	21	Public Institution For Drinks	38	General Organization For Manufacturing Complexes/Sana'a
5	Factory Of Leather Shoes	22	Badjil Factory For Spinning And Weaving	39	General Corporation For Foreign Trade And Grains
6	The Martyrs Factory Of Clothes	23	National Cigarette And Match Industries Ltd	40	State's Share In Marib Insurance Company \ Sanaa
7	Industries Skin Cooperative	24	Alganady Factory For Plastic	41	General Corporation For Services And Marketing Of Fish/ Hadramout
8	Vegetable Oil Factory	25	General Consumer To The Staff Of The State	42	National Tanning Factory \ Aden
9	Women's Sewing Cooperative	26	Plant Hire Agricultural Machinery/ Seiyun	43	National Corporation For Soft Drinks (Canada Dry) \ Aden. Al-Esayi Beverages Company Ltd Canada Dry/Aden
10	Popular Bakery	27	Old Poultry Farm Fouh/Hadramout	44	Soap Factory \ Aden
11	Public Institutions For Drilling	28	New Poultry Farm Fouh/Hadramout	45	General Corporation For Poultry \ Aden
12	Public Institutions Of Vegetables And Fruits	29	Hammam Ali Farm	46	Crescent Hotel \ Aden
13	National Navigation Company And Unloading Cargo	30	Company Of Production And Marketing Of Salt And Gypsum/ Salif	47	Rock Hotel \ Aden
14	National Company For Medicines Aden	31	National Company For Sponge And Metal Furniture Co., Ltd.	48	Aden Hotel
15	Industrial Bank	32	(I) National Grain Silos Ltd./ Ports Of Hodeida	49	Arwa Suite\ Aden
16	Soap Factory	33	General Company For The Production Of Vegetable Seed \ Hadramout	50	Stone House Hotel \ Sana
17	Public Dairy Institutions	34	Emulsion And Paint Company/Aden	51	Gail Bawazir Suite\ Hadramout

	<i>Enterprises</i>		<i>Enterprises</i>		
52	Praise House Hotel \ Sana	89	Aden Movenpick Hotel		
53	Hotel Thula \ Sana	90	Elephant Bay Restaurant/Aden		
54	Land Of Gardens Hotel \ Marib	91	Gold Mohur Hotel/Aden		
55	Alqettn Suite \ Hadramout	92	Coast Resort/Hadramout		
56	Ambassador Hotel \ Eden	93	Automated Bakery		
57	Peninsula Palace Hotel \ Aden	94	Spinning And Weaving Factory/Aden		
58	Liberty Hotel \ Aden	95	Perfume Factory/Aden		
59	Mukalla Hotel\ Hadramout	96	Tanning Corporation/Aden		
60	People Hotel\ Hadramout	97	Textile Production Factory		
61	Dome Palace Hotel \ Hadramout	98	Fish Canning Factory/ Al Mukalla		
62	Al Sharq Hotel \ Hadramout				
63	White Gold Hotel \ Abyan				
64	Negev Suite\ Shabwah				
65	Khormaksar Casino\ Aden				
66	Thousand Nights Restaurant\ Aden				
67	Sea View Hotel \ Aden				
68	Yemenia Agency For Tourism/Aden				
69	Top Top Storehouse \ Aden				
70	Tawahi Bar \ Aden				
71	Rex Restaurant \ Aden				
72	Aalghemndan Park \ Lahj				
73	Modeah Hotel \ Abyan				
74	Liberty Cinema \ Aden				
75	Port Cinema \ Aden				
76	Eastern Cinema \ Aden				
77	Balqees Cinema \ Aden				
78	Civil Cinema \ Aden				
79	Azal Cinema \ Aden				
80	Dar Saad Cinema \ Aden				
81	People Cinema \ Aden				
82	14th October Cinema \ Abyan				
83	14th October Cinema/ Hadramout				
84	Mukalla Cinema\ Hadramout				
85	Maala Cinema \ Aden				
86	Seed Production Company/ Seiyun				
87	26 September Hotel/Aden				
88	Abyan Suite/Abyan				

APPENDIX C2 Companies were Liquidated and no Longer Exist

	<i>Enterprises</i>		<i>Enterprises</i>		<i>Enterprises</i>
1	The Revolution Factory Of Steel Products	10	Industrial Bank	19	Yemen Company For Free Trading
2	Factory Of Leather Shoes	11	Public Dairy Institutions	20	General Organization For Building And Housing/ Aden
3	The Martyrs Factory Of Clothes	12	Usan Biscuit Factory	21	General Organization For Manufacturing Complexes/Sana'a
4	leather Cooperative Industries	13	Tomato Paste Factory	22	General Corporation For Foreign Trade And Grains
5	Vegetable Oil Factory	14	Public Institution For Drinks	23	General Corporation For Services And Marketing Of Fish/ Hadramout
6	Women Sewing Cooperative	15	Consumer Association of State officials and the public&mixed sector	24	National Tanning Factory \ Aden
7	Popular Bakery	16	Company Of Production And Marketing Of Salt And Gypsum/ Salif	25	General Corporation For Poultry \ Aden
8	Public company For Drilling	17	National Company For Sponge And Metal Furniture Co., Ltd.	26	Yemen Corporation For Textile Industries
9	Public Institutions Of Vegetables And Fruits	18	General Organization For Building Materials Trading \Aden	27	Vegetable Oil Factory/Abyan

APPENDIX C3 Companies That Privatized Before Privatization Process

	<i>Enterprises</i>		<i>Enterprises</i>
1	Alganady Factory For Plastic	15	Al Sharq Hotel \ Hadramout
2	Alganady Factory For Plastic	16	Negev Suite\ Shabwah
3	Aden Hotel	17	Khormaksar Casino\ Aden
4	Gail Bawazir Suite\ Hadramout	18	Thousand Nights Restaurant\ Aden
5	Praise House Hotel \	19	Sea View Hotel \ Aden
6	Hotel Thula \ Sana	20	Yemenia Agency For Tourism/Aden
7	Land Of Gardens Hotel	21	Top Top Storehouse \ Aden
8	Algeth Suite \	22	Tawahi Bar \ Aden
9	Ambassador Hotel \	23	Rex Restaurant \ Aden
10	Peninsula Palace Hotel \ Aden	24	Aalghomndan Park \ Lahj
11	Liberty Hotel \ Aden	25	Modeah Hotel \ Abyan
12	Mukalla Hotel\	26	People Cinema \ Aden
13	People Hotel\	27	Perfume Factory/Aden
14	Dome Palace Hotel \ Hadramout		

APPENDIX C4 Companies are No Longer Working

Enterprises		Enterprises	
1	Soap Factory \ Aden	18	Balqees Cinema \ Aden
2	Badjil Factory For Spinning And Weaving	19	Civil Cinema \ Aden
3	Spinning And Weaving Factory/Aden	20	Azal Cinema \ Aden
4	National Company For Medicines Aden	21	Dar Saad Cinema \ Aden
5	Oil Installations Jehev	22	14th October Cinema \ Abyan
6	Automated Bakeries	23	14th October Cinema/ Hadramout
7	Factory Of Farming Tools And Metal	24	Mukalla Cinema\ Hadramout
8	Old Poultry Farm Fouh/Hadramout	25	26 September Hotel/Aden
9	New Poultry Farm Fouh/Hadramout	26	Abyan Suite/Abyan
10	Crescent Hotel \ Aden	27	Aden Movenpick Hotel
11	Rock Hotel \ Aden	28	Elephant Bay Restaurant/Aden
12	Arwa Suite\ Aden	29	Gold Mohur Hotel/Aden
13	Automated Bakeries	30	Coast Resort/Hadramout
14	Stone House Hotel \ Sana	31	Automated Bakery
15	Liberty Cinema \ Aden	32	Tanning Corporation/Aden
16	Port Cinema \ Aden	33	Textile Production Factory
17	Eastern Cinema \ Aden	34	Fish Canning Factory/ Al Mukalla
		35	White Gold Hotel \ Abyan

APPENDIX C5 Available Privatized Enterprises To - Date

	<i>Enterprises</i>		<i>Enterprises</i>
1	National Navigation Company And Unloading Cargo	7	National Corporation For Soft Drinks (Canada Dry) \ Aden. Al-Esayi Beverages Company Ltd
2	National Cigarette And Match Industries Ltd	8	General corporation for Land Transport
3	Plant Hire Agricultural Machinery/ Seiyun	9	Seed Production Company/ Seiyun
4	National Grain Silos Ltd./ Ports Of Hodeida		
5	General Company For The Production Of Vegetable Seed \ Hadramout		
6	Emulsion And Paint Company/Aden		

APPENDIX C6 Availability of Data for Privatized Enterprises Who Granted Approval

1	<i>National Cigarette And Match Industries Ltd</i>
2	<i>National Grain Silos Ltd./ Ports Of Hodeida</i>
3	<i>National Corporation For Soft Drinks (Canada Dry) \ Aden. Al-Esayi Beverages Company Ltd Canada Dry/Aden</i>