

PRIVATIZATION IN IRAN: A Review of Economic & Cultural Obstacles

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The intervention of the governments in economy and the consequent implications such as improper allocation of resources, monetary, financial and managerial problems and the prevalence of various kinds of economic favor and financial corruption during the recent decades have caused the expansion of privatization in many countries including the developed and underdeveloped ones.

In Iran, after the end of the Iran-Iraq War, the best way for being saved from economic problems was determined to be the implementation of privatization. Following this idea, taking operational measures started in this field since 1989 and the transfer of state-owned enterprises and institutions to the private sector was commenced since the end of 1992. But due to different reasons such as the economic and cultural obstacles, this policy has not been successful.

The new cycle of privatization in Iran began in 2001 in coincidence with the establishment of Iranian Privatization Organization (I.P.O.) in Iran. This process is underway severely now. Although commenting on the new process of privatization in Iran and its consequences seem a little soon, but as it is evident, the senior authorities of Iran are inclined to continue of the privatization in Iran. Of course, there are still many problems and obstacles in this course the most important of which are referred in the present paper.

Prelude

Privatization is the most widely debated as well as practiced strategy since 1980s all over the world. It has become the main string of open economy and liberalization. The structural adjustment program (SAP) of the developing countries are leaning more towards privatization. It denotes transfer of ownership from state authorities to private enterprises. However, the concept is so vast as to cover even deregulation, re-regulation, freeing the markets, transfer of shares to private and privatization of ownership through sale of assets to private sector.

In Iran too privatization wave started since 1988, after the ceasing of long drawn Iran-Iraq War. Rationalization of war torn economics is an old history and a proven fact. At the same time, IMF engineered and programmed adjustment for the entire globe, even stimulated the privatization program in Iran. The government of the Islamic Republic of Iran decided to implement the SAP, since its first five-year plan(1989-1994). In fact, privatization is the main pivot of SAP implemented in Iran. The same

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thrust continued in the second, the third and the fourth plan(2004-09). However, privatization in Iran is met with little success on account of various impediments.

The proposed study intends to focus on effective obstacles to privatization in Iran. This paper intends to highlight the economic as well as cultural obstacles to privatization process in Iran.

Theoretical Fundamentals of Government Intervention in Economy

By the early years of the 20th century, the economic operations of governments were very limited and restricted merely to coin minting, paper money production, coining laws and regulations, collecting taxes and allocating them to operations such as supplying the basic needs, establishing justice and security, and defending the country against the foreign invaders. The first World War (1914-18) and its economic, social and political costs, victory of communists in 1917 and foundation of socialistic system, great economic growth during the years 1929-32 and Kinez's theories and recommendations, World War II(1939-45), unemployment, and social disturbances resulted from the economists' protection from the governments' economic operations and policy makings because of shortcomings in function of market mechanism and the necessity of strategic industries and investment in large scale, etc...during the 1940s, 1950s, and 1960s caused many other responsibilities to be borne by the governments in addition to the aforementioned ones. This move that has commenced from 1903s was dominant until the recent years of 1970s,(Motavasseli, 1994)¹.

However, gradually, through development of governments' operations due to problems such as severe bureaucracy, weakness of management system, lack of appropriate system of evaluation and auditing, lack of motivation, diversity of objectives, improper usage of monopolies, inefficient protections, etc.... inefficiency governed the economic operations of governments, for example, during 1989-91, the losses of state-owned enterprises on the basis of a percentage of GDP in Argentina and Yugoslavia were 9% and 8% respectively and in average more than 5% in the Desert of Africa. In 1980s about half of the 350 Tanzanian companies suffered losses. In 1991, about 30% of Chinese companies also suffered losses. The transferred payments to the state-owned companies were 3% , 4%, and 9% of GDP, in Mexico in 1982, in Turkey in 1990 and in Poland in 1989 respectively.

The above mentioned factors along with work Bank sponsored structural adjustment programme & stabilization measures in the context of globalization have made several countries to take up public sector restructuring programme seriously. It is in this background that the privatization of public enterprises has assumed tremendous significance, in several countries of the globe, including Iran.

Privatization: Conceptual Clarification Meaning & Definitions

Privatization is a general and multifarious term that refers to the assignment of operational or financial control of the state-owned enterprises to the private sector².

“Voljanovski : Privatization means doing economic operations by the private sector or transfer of ownership of assets to the private sector”³.

Privatization of state-owned enterprises and institutions was propounded by the International Monetary Fund as one of the stages of economic adjustment in 1980s throughout the world. In Iran, after the termination of Iran- Iraq War, privatization started since the later years of 1980s and it was decided that the economic adjustment to be implemented during a long-term plan of 25 years including 5 medium-term plans of five years.

Since the beginning of the First Economic, Social, and Cultural Plan of the Islamic Republic of Iran, the orientation of the country’s economy was towards restriction of the economic role of government and development of the influence of private sector in economy. In tandem with the economic adjustment plan, the privatization policy was suggested the objectives of which were increasing the efficiency of economy, better resource allocation, augmentation of dynamic innovation and entrepreneurship, limitation of black market and mediation operations and the financial obligations caused by budget deficit of the state-owned companies. On the other hand, the other objective was that the government can gain considerable revenue through selling and planned assignment of state-owned enterprises to private. Therefore, on the basis of the Article 44 of the Islamic Republic of Iran Constitution and in accordance with the Economic, Social and Cultural Development Plan, the government has given priority to privatization since 1990.

But unfortunately, economic privatization in Iran until now that is the early years of the Fourth 5-Year Development Plan has achieved no significant success. Perhaps, the most important factors may be the lack of necessary laws and sufficient experience in transferring state-owned enterprises to the private ones. Of course, it is worthy to be noted that an organization named Iranian Privatization Organization has recently shouldered this responsibility.

Objectives of Privatization

The objectives of privatization in any country are determined with respect to the economic approaches, political, social and cultural goals. But, the most important general objectives of privatization which are considered in most countries are classified as follows:

1. Increase in competition and improvement of management and operations of economic enterprises.
2. Reduction of the direct role of government in economic operations.
3. Decrease in budget costs of government resulted from paying subsidies, and capital costs.
4. Development of domestic capital markets and access to foreign capital, technology and financial resources.

Specific objectives of privatization in Iran

1. To create economic competition in market.
2. To increase labor productivity and job opportunities.
3. to expand production & diversification
4. To cut the economic oil dependence.
5. To reduce payment of subsidiaries & decrease in budget cost of Government.
6. To optimize allocation of the resources and expansion of investment.
7. To be prepared to join World Trade Organization.
8. To meet the principals for Economic development.

Common Methods of Privatization

In general, it may be said that the national objectives, economic plans, goals of privatization, restrictions, and executive problems and bottlenecks in any country determine and dictate the procedures of privatizations. In a general classification, the methods of privatization are:

A. Privatization Through Ownership Transfer

Privatization is done through the following procedures:

1. Supplying shares to public
2. Selling shares to private sector
3. New investment of public sector in state-owned enterprises
4. Selling assets of state-owned enterprise or institution
5. Dividing large state-owned enterprises into smaller ones and transferring them.
6. Selling enterprises to their personnel and managers

B. Privatization Without Transferring Ownership

Some of the economic enterprises which are known as specific and strategic ones, by different reasons, were often kept in the public sector. The most important reasons for taking these decisions are:

1. The government is not interested in transferring ownership in any reason.
2. The government intends to create a source of personal income.
3. The government is going to experience the efficiency of private sector before transferring ownership.
4. In the case that the government intends to transfer the ownership but there is no applicant.
5. In the event that it is identified that insufficiency is due to mismanagement.

In such cases, the government can increase the efficiency by improving operational methods which may be done through employing financial management and discipline governing the market by the following procedures:

1. Concluding contracts for assigning management
2. Leasing enterprises to the private sector for a specific period

It goes without saying that employing any of the abovementioned transfer methods will have different economic, social and political effects and consequences.

The Advantages of Privatization of Economy in Iran

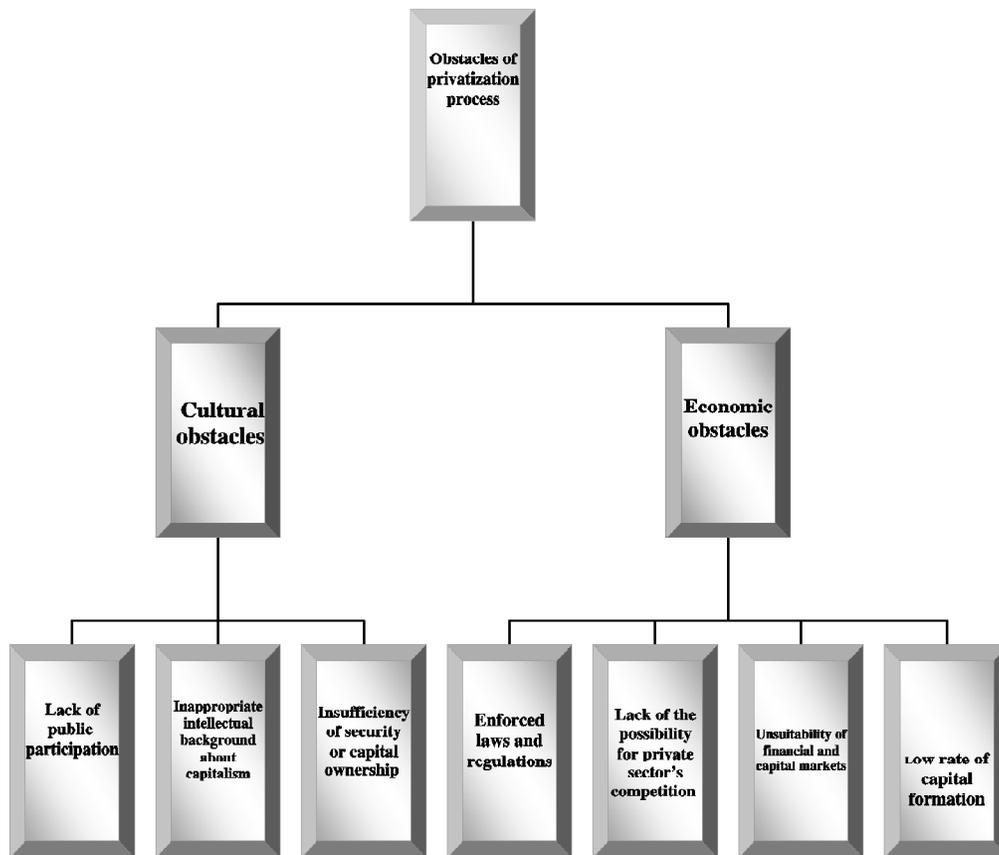
Economic privatization will be realized easily, but it will accompany with many problems and challenges; therefore, it should be done without any haste and with much care. However, privatization has led to many advantages in Iran the most important of which are as follows:

1. The growth of private sector and making the people involved in economic operations while preparing the appropriate ground for proper competition, will also create new job opportunities.
2. Increasing efficiency and competency in production activities that may lead to harnessing inflation.
3. Creating appropriate atmosphere for domestic and foreign trade and preparing the ground for cutting off the dependence on oil export (pulling out of single-product slough)
4. Absorbing domestic and foreign capitals
5. Preparing the necessary grounds for joining the World Trade Organization (W.T.O.)
6. Marching towards modern and scientific management and releasing from traditional and unscientific management.
7. Belittlement of government family, reducing pressure on government's budget and dropping off the government's expenses.
8. Enhancing the tax incomes of the government through developing economic operations of private sector.
9. Supplying, selling and presenting goods and services to the market in competitive prices.
10. Developing social security, etc.

Obstacles to Privatization in Iran

Although the obstacles of privatization in Iran are numerous and different and they can be studied in different aspects, but perhaps, the most important obstacles of privatization in Iran can be summarized in to economic and cultural aspects as shown in the following Table.

Figure 1: Obstacles to Privatization Process in IRAN



A. Economic Obstacles to Effective Process of Privatization in Iran

1. Low Rate of Capital Formation:

Dr. Motavasseli, Mahmoud considers non removal of the structural obstacles and unprepared grounds for investment as the problems of the privatization process in Iran⁴.

The post-revolution conditions, oppressive war, severe inflation and many other factors caused the reduction of the rate of investment in Iranian economy. Dr. Rashidi, Ali believes "Lack of investment in economy and reduction of GDP, on one hand, and rapid increase in population, on the other hand, have raised the rate of unemployment". The implicit deflator of GDP (the general standard of inflation in economy) at the end of the year 1992 was 1208 while it was 163 in the year 1978¹⁵.

Therefore, the improvement of economic structure is the prerequisite for reinforcing private sector and investment is a tool for achieving the economic objectives and is always considered as a necessity for economic growth in all economic theories.

2. Unsuitability of Financial and Capital Markets:

The most important economic policy taken in the recent years, i.e. transferring the state-owned enterprises to the private sector and reduction of administration of government is to be implemented mainly through the organized capital market (Stock Market), but underdevelopment of financial and capital markets in Iran and inefficiency of stock market may be considered as one of the most important factors of failure of privatization plan in Iran. Dr. Motavasseli in his assessment about the process of privatization in Iran expresses:

Financial foundations of the country including stock market, insurance, and banks that provide the financial resources for investment of private sector has an outstanding role in this respect (Motavasseli, 1994)⁶.

3. Lack of Possibility of Public Sector's Competition:

The great share of public sector and big public organizations that are practically administered by the governmental managers has caused failure of private sector in competition with public sector. Not preparing the ground for the public sector to be able to compete and the priority of special groups are some of the important obstacles in privatization process. Many governmental managers have not the necessary motivation for implementing the privatization policy and avoid performing it in different ways.

4. Enforced Laws and Regulations:

On the contrary to the most countries that are successful in implementing the policy of privatization, in Iran, no primary measures have been taken and no planning has been done as well as no preparation is made before the official declaration of the privatization policy by the government and this is one of reasons that the authorities responsible for implementing privatization policy can not be successful sufficiently. In Iran, unfortunately, the enforced laws are not in line with new economic development and privatization and instead of accelerating and facilitating they have acted as obstacles in privatization path. Lack of coined laws about privatization, the limitations of labor law, trade law, tax law, and the acts ratified by the consultative assembly for privatization, has slowed down this procedure. Dr. Arab Mazar, in conclusion of the analysis about privatization has referred to the legal obstacles to privatization in Iran as follows:

- No accurate definition is available about the private sectors' objectives and there is no specific law for the process of privatization in the country so that the operations done in this regard to be protected by law.
- There are problems relating to laws such as labor law, tax law, and trade law the amendment of which seems necessary for facilitating the implementation of privatization.
- There is no clear image and law about the procedure of foreign investment absorption while one of the primary and major objectives of implementing privatization is foreign technology and investment absorption ⁷.

B. Cultural Obstacles to Privatization in Iran

1. Insufficiency of Ownership Security:

In the case of lack or insufficiency of ownership security, venturing of the private sector for shouldering great and modern projects reaches to minimum. The historical and cultural background of a country has always been the most important factor in creating the intellectual ground of the people of a society. These beliefs and intellectual background influence our legislation, policy making and taking decisions.

The necessity of privatization development and private ownership is its safety and security. It is true that when we have a topic such as confiscation, the quantity of ownership would not develop sufficiently. Venturing to bear great projects reduces because participation in these projects discloses the amount of that individual's assets.

2. Improper Intellectual Background About Capitalism:

Such improper intellectual background is resulted from the fact that the majority of the owners of industries and capitalists during the pre-revolution era, were from among the relatives and close friends of the King and the wrongdoings of these people including lack of feeling responsibility for social and national roles, improper dependence, and financial corruption of the majority of them caused very negative attitude of the revolutionists and people towards these individuals and capitalism. Many of the approvals about nationalization of industries, banks, and management transfer, etc... have been enacted on the basis of such attitude. It is natural that in such an atmosphere in which the social values are in contrast with capitalism in a large scale, the capital owners are not inclined to have any investment⁸.

3. Lack of Public Participation:

For making great changes in society and economy such as implementation of strategies of economic development, economic adjustment or privatization and economic liberation, we need the cooperation and participation of the public for passing the sensitive stages which is the characteristic of these changes.

Although in the documents of the First, Second, Third & Fourth of Economic, Political and Cultural Plans of the Islamic Republic of Iran, emphasized on the attraction of public participation as the prerequisite but, in practice, no special and effective executive measures were taken in this regard.

The success of macro policies (including privatization) depends on a set of values and intrinsic prerequisites for self-reliance development so that a multilateral mobilization in development and propagation of creative and lofty values and establishment of them are realized. These are the values that reflect scientific thought, labor consciousness, productive investment, creativity, innovation and invention as the national and religious attempt in campaigning the economic and

cultural invasion of the aliens. Shams says: Privatization is one of the tools of people's participation and while the community has not surpassed the stage of legitimating the government for supplying the primary needs of the people, the government will dominate everything and if its dominance exits from the door, it will return through the window⁹.

Conclusion

In Iran, during the years after Iran- Iraq war, this thought of privatization was strengthened as a means of rescue from economic problems. Implementing the privatization policy and the practical actions were commenced since 1989. Subsequent to the approval of the Cabinet, the transfer of state-owned enterprises and institutions to the private sector began in 1992. But, due to numerous reasons a part of which was explained in this article, this policy did not succeed until July 2001. However a new era of privatization was started in Iran with the establishment of Iran Privatization Organization. But still the economic and cultural bottlenecks as prevail in this venture.

Policy makers and authorities of the country should come to a common and essential agreement about privatization such as; Are there really the necessary grounds for this movement at the present situation? Are they ready for admitting the consequences of this movement? Is the national economy able to resist against the complications of such a transformation including the economic shocks and social and cultural tensions resulted from it? Do the authorities and public have such a determination in this area? In the event that they come to this common understanding, then, they can take appropriate and integrated policies whether in economic or cultural aspects and will follow up the necessary measures without any interruption until achieving the predetermined objectives. Privatization by itself is not an isolated job, it demands a good number of changes in various matters which do affect & determine the implementation of privatization programme. At the same time, it is not an unique situation in Iran, it prevails in most of the countries where in privatization in introduced.

Notes

1. Motavasseli Mahmood, (1994), "Privatization": A Desirable Combination Between State & Market", Tehran, Islamic Republic of Iran: Institute of Commercial Studies, p. 187.
2. National Industries Investment Company of Iran, (1994), Privatization from Theory to Practice"(Article Collection), p. 27.
3. *Ibid*, p. 196.
4. Motavasseli Mahmood, (1994), "Privatization": A Desirable Combination Between State & Market", Tehran, Islamic Republic of Iran: Institute of Commercial Studies, p. 274.
5. Rashidi Ali, (1994), "Democratic Economics, Head of Development Legal Community," Vol. 1, Avayenoor, Publish, First Edition, Tehran, Iran, p. 115.
6. *Ibid*, p. 274.
7. Arab Mazar Ali, (1995), "Privatization Experiences Analysis, (Article), Economics Faculty, Center of Privatization Studies, Tehran, Iran.

8. Motavasseli Mahmood,(1994), "Privatization": A Desirable Combination Between State & Market", Tehran, Islamic Republic of Iran: Institute of Commercial Studies, p. 274.
9. Shams Adole Hamid, (1992), "Privatization of Public Organization is Necessity or Force? Government Management Journal, Summer, No. 17, p. 48.

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APPENDIX

The Government Companies Transferred During March 21, 2007 to Feb.01, 2008

<i>Name of company</i>	<i>Transferring method</i>	<i>Name of the specialized parent company</i>	<i>Number of stocks</i>	<i>Amount in million rials</i>
Hepco Heavy Equipment Manufacturing Co.	Stock market	Development & Innovation Organization of the Iranian Industry	295195	498
Niroo Trans Co.	Stock market	Satkab	7343316	16228
Iran Foundry & Tractor Making Co.	Stock market	Development & Innovation Organization of the Iranian Industry	850000	1046
Darab Cement Co.	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	1307717	2770
Turbo Compressor Manufacturing Co.	Tender	Development & Innovation Organization of the Iranian Industry	19995	213
Iran Transfo Co.	Tender	Satkab	8130	36
Motojen Co.	Tender	Privatization Organization	100000	150

Table Contd...

<i>Name of company</i>	<i>Transferring method</i>	<i>Name of the specialized parent company</i>	<i>Number of stocks</i>	<i>Amount in million rials</i>
Iran Wood Veneer Co.	Tender	Privatization Organization	3335935	19285
Iranian National Cooper Industries Co.	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	358348350	1259525
Mobarakeh Steel Co.	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	152789160	369741
Sugar Co.	Outside the stock market	Privatization Organization	177079	437
Pars Alvan Co.	Outside the stock market	Privatization Organization	63828	90
International Transportation Co. of the Islamic Republic of Iran	Outside the stock market	Road Maintenance & Road Transportation Co.	343888	40115
Behara	Outside the stock market	Privatization Organization	126189	400
Farnakh Spinning & Knitting Co.	Outside the stock market	Privatization Organization	51290	6
Iran Aluminum Co. (Iralco.)	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	16132000	148609
Rangin Chemical Co.	Stock market	Privatization Organization	104	0
Kerman Steel Co.	Outside the stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	2295000	36696
Iran Production & Distribution Co. of Foundry Materials	Tender	Development & Innovation Organization of the Iranian Industry	209275	229
Housing Engineering & Future Making Regions Co.	Tender	Development & Innovation Organization of the Iranian Industry	47500	750
Iranian Air Industries	Tender	Development & Innovation Organization of the Iranian Industry	71060000	73118
Nasb Niroom Co.	Tender	Development & Innovation Organization of the Iranian Industry	2370250	79458
Uremia Sugar Co.	Tender	Privatization Organization	546763	17280
Tehran Water & Soil Consulting Engineers' Co.	Tender	Satkab	466	5282

Table Contd...

<i>Name of company</i>	<i>Transferring method</i>	<i>Name of the specialized parent company</i>	<i>Number of stocks</i>	<i>Amount in million rials</i>
State Production & Packing of Meat Products Co. (Ziaran)	Tender	Agricultural Services	479864	33364
Ima Electronic Development Consultants Co.	Tender	Development & Innovation Organization of the Iranian Industry	50	7
Dashtestan Cement Co.	Tender	Privatization Organization	10159992	19105
Pars Switch Co.	Tender	Satkab	2155338	3809
Khuzestan Steel Co.	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	106600000	358712
Mepna Co.	Tender	Development & Innovation Organization of the Iranian Industry	76500000	103645
Shahriar Agro-Industrial Co.	Tender	Privatization Organization	240833	11658
Khuzestan Steel Co.-Preferred-Average rate	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	70688100	153747
Khuzestan Steel Co.- Preferred-day rate	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	27950331	93634
Iranian National Cooper Co.-Block-20% in cash	Stock market	Development & Innovation Organization of the Iranian Industry	231585784	2031934
Iranian National Cooper Co.-Block-80% in installments	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	926343136	8127735
Khorassan Steel Co.	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	49999500	186451
Tir Pars Co.	Stock market	Development & Innovation Organization of the Iranian Industry	271700000	228000
Halil Ab Co.	Stock market	Satkab	28396	2130
Iran Water & Electric Equipment Co.	Stock market	Satkab	76000	5396
Iran International General Contracting Co.	Stock market	Development & Innovation Organization of the Iranian Industry	1225500	90844

Table Contd...

<i>Name of company</i>	<i>Transferring method</i>	<i>Name of the specialized parent company</i>	<i>Number of stocks</i>	<i>Amount in million rials</i>
Gostaresh General Contracting Co. of Steel Industries	Stock market	Development & Innovation Organization of the Iranian Industry	47500000	60942
Engine Manufacturing Co. of Tractor Making of Iran Co. Preferred-Average rate	Stock market	Development & Innovation Organization of the Iranian Industry	2049951	2759
Iran Alloy Steel Co. Preferred-Average rate	Stock market	Development & Innovation Organization of Mines and Mineral Industries of Iran	770	8931
Nirooklor Co. Preferred-Average rate	Stock market	Saktab	99130	130
Shiraz Petrochemical Co.- Preferred in cash	Stock market	National Petrochemical Industries Co.	12762	12
Shiraz Petrochemical Co.- Preferred in credits	Stock market	National Petrochemical Industries Co.	51066	48
Nasb Niroo Co.- Preferred-Average rate	Stock market	Development & Innovation Organization of the Iranian Industry	25000	544
Nasb Niroo Co.- Preferred-Average rate	Stock market	Satkab	99750	2171
Nationwide Research & Engineering Center of Iran- Preferred-Average rate	Stock market	Development & Innovation Organization of the Iranian Industry	175	8



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