



An International Conference on
“The Role of the Private Sector in
Development Assessment and Prospects”
Under The Patronage of
H.E. The Lebanese Prime Minister

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Background:

1. It is generally recognized that since the early 1980s a number of developing countries, inclusive of a number of Arab countries, have implemented economic reform programs largely aimed at transforming their economies from state-dominated, to market-oriented, economies. In the early 1990s the Europe and Central Asia (ECA) countries presented themselves as special laboratories for experimentation with the economic reform programs.
2. It is also generally known that the economic reform programs were thought to reflect a Washington policy consensus on how developing, and transition, countries are supposed to conduct their development and economic affairs. They were also supposed to incorporate the policy gist of professional economic thought. The obvious truths of the economics profession, as Professor Dani Rodrik notes, became "get your macro balances in order, **get the state out of business, give markets free rein**".
3. The reorientation of these economies towards increased reliance on the market mechanism for resource allocation is intended to eventually unleash a growth process which will help reduce poverty, and hence achieve the overarching objective of development. Mounting empirical evidence, however, pointed to the fact that the promised economic growth rarely materialized. Such evidence prompted the World Bank to produce a report on Economic Growth in the 1990s: Learning from a Decade of Reform, to evaluate the economic reform experience.
4. There is evidence to show that the economies of ECA saw their economic structure changed dramatically over the period 1989-2006. This dramatic structural change reflected itself in the role of the private sector defined as its GDP share. In the 27 countries of this region, the average share of the private sector in GDP increased from about 9.8% in 1989 to 64.8% in 2006 recording an annual rate of increase of 11.1 percent. For 23 countries for which data is available for 1989 the GDP share of the private sector ranged from a low of 5% (in 8 countries) to a high of 30% in Poland. By 2006, only two countries had a private sector share of 25% of GDP, and one country had a share of 45%. The share of the private sector in rest of the countries was in excess of 55%. As is well known, most of these countries were subjected to what has come to be known as "shock therapy" reforms, and the increased share of the

private sector in GDP could be understood as a direct result of the wide ranging privatization policy that was implemented.

5. Elsewhere a number of developing countries, inclusive of a number of Arab countries, formulated strategic objectives revolving around increasing the role of the private sector in the development process. While evidence similar to that for the ECA region on the historical trend of the share of the private sector in GDP is not available as yet, there is evidence for a few Arab countries. Thus, for example, Ibrahim El-Issaway in a recent book on the Egyptian economy shows that the share of the private sector in GDP increased from about 56% in 1974 to 72% in 2004, albeit with fluctuations over the period (see, El-Issawy, I., (2007), *The Egyptian Economy in Thirty Years*; Academic Press, Cairo). For two oil producing countries there is evidence from the IMF to show that the share of the private sector over the period 1996-2001 averaged 25% for Kuwait and 42% for Saudi Arabia.

6. The lack of information on the GDP share of the private sector in the Arab region forced a number of analysts to use a specially constructed data set on the share of private investment as a proxy for studying the role of the private sector in development in these countries (see, for example, Nabli, M., (2007), *Breaking the Barriers to High Economic Growth: Better Governance and Deeper Reforms in the Middle East and North Africa*; World Bank, Washington).

7. In addition to privatization of state owned enterprises the reform programs advised governments of the developing countries to systematically use bank credit to encourage the private sector. According to the World Development Indicators 2008 bank credit granted to the private sector as a percentage of GDP for 2006 averaged about 137% for the world, and 99% for East Asia and the Pacific. By contrast, for the same year, the simple average private credit to GDP ratio for Arab countries was only 43%, albeit increasing from 38% in 1990 recording an annual rate of increase of only one percent.

8. The scarcity of the evidence on the role of the private sector in development in Arab countries provides an impetus for further research and deliberations, especially in view of the huge diversity among Arab countries in terms of development achievements, structure of economies, and the record of implemented reforms.

Objective and Themes:

9. The **major objective** of the **Conference** is to provide a forum to debate the issues related to (i) the process of the market reorientation of the economies of the developing countries over the period since the mid-1980s to the present, (ii) the role of the private sector during the process; (iii) the private-sector friendly policies adopted and implemented during the period; and, (iv) the remaining agenda for increasing the role of the private sector in the development process.

10. On the basis of the above observations six broad themes for the Conference are identified:

(a) theoretical evaluation of the role of the private sector in the development process of developing countries inclusive of the prerequisites for the emergence of a national private sector, and the institutional requirements for enhancing the role of the private sector in the transition from state-dominated economies to market-based economies;

(b) empirical evaluation of the role of the private sector in the development process of developing countries (e.g. using cross-country techniques), inclusive of evaluating time trends of the share of the private sector in GDP and investment; the role in employment generation; and, the effect of an increased role on total factor productivity;

(c) country case studies on the evaluation of privatization programs as a means of increasing the role of the private sector in the development process of developing countries, inclusive of sectoral studies;

(d) evaluation of the effect of an increased role of the private sector from the perspective of the price structure, quality of goods, and the employment of factors of production;

(e) evaluation of an increased role of the private sector from the perspective of equality of opportunity in access to educational and health services; and, from the perspective of trends in the inequality of the distribution of consumption expenditure, poverty and social exclusion inclusive of issues pertaining to corporate social responsibilities and issues relating to the conflict between the profit maximization motive and the sustainability of democratic governance regimes; and,

(f) exploration of appropriate policies and programs that aim at increasing the role of the private sector in the development process.

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