

## Chapter 2

# Public Sector Transformation: Privatization in Saudi Arabia

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### ABSTRACT

*The Kingdom of Saudi Arabia has embarked on the privatization of its public enterprises with the main objectives of improving the efficiency of the national economy, enlarging Saudi citizens' ownership of productive assets, and encouraging local and foreign capital investment in the Kingdom. Subsequently, in 2003, the Saudi Council of Ministries approved a list of twenty-two targeted economic activities and government services to be privatized and the private sector is being invited to participate in many economic activities and services. As such, the aim of this chapter is to present the historical context and rationale for privatization in Saudi Arabia. The objectives and implementation process taken by the Saudi government to create a suitable environment for private sector investment and the issues and problems associated with privatization initiatives are also discussed in this chapter.*

### INTRODUCTION

It has been argued that government bureaucracy is slow in its actions and inefficient in its performance and private enterprises are managed more efficiently. Consequently, the fundamental principle of offloading government-run industries and services to the private sector has been the subject

of an ongoing debate in the Western world over the last three decades. Adoption of this policy has moved eastwards since the 1990s and is being implemented in North Africa, the Middle East, India, Pakistan and other Asian countries since its perceived that healthy economic development is achieved if privatization is well implemented (Dinavo, et al., 1995).

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Subsequently, during the late 1990s and early 2000s, the Saudi government, after considerable deliberations and studies, decided to follow the route of privatization that has been implemented in the western world. Prior to that, the government of Saudi Arabia was directly managing all infrastructure facilities and services, which were heavily subsidized by the government. Since the national economy was heavily dependent on oil, the fluctuation in oil prices and the two gulf wars had taken a heavy toll on government expenditure, resulting in a spending deficit in spite of Saudi Arabia's status as the world's largest oil producer.

At the time, the domestic private sector was very weak in comparison with its counterparts in other nations, and was not in a position to contribute substantially to the national economy. The government realized that drastic measures were needed to improve the efficiency and productivity of infrastructure facilities such as water, electricity, seaports, telecommunications, postal and health services that provide services at subsidized rates. It was also necessary to adopt state of the art technology and the latest management techniques to introduce a sense of accountability in the departments providing these services.

Thus, the Saudi economic reform was initiated under the Sixth Development Plan covering the period from 1995 to 2000. The strategic basis of the development plan emphasized the need to continue adopting policies that help the private sector to undertake many of the economic tasks of the government, rationalizing the systems of direct and indirect subsidies provided by the government for services. Thus, the private sector was to take the role as the engine of the economic recovery and growth. In addition, the development plan emphasized the need to continue the Saudization policy and the development of the Saudi labour force, to accelerate the replacement of the non-Saudi workforce ([www.mop.gov.sa](http://www.mop.gov.sa)). The plan also specifically called for the "stabilization of the internal and external value of

the Saudi currency with the development of the country's capital market as catalysts for private sector expansion" (Al-Salloum, 1999, p. 232). The sectors that were initially marked for privatization include: telecommunications, power generation and sea water desalination, seaports operations, education services, municipal, and health services. However, there are several fundamental issues that impede on the success of privatization in Saudi Arabia as discussed in this chapter. The next section presents the background of Saudi governmental system. This is followed by the contextual descriptions of the path towards and implementation of privatization in Saudi Arabia. The issues problems and recommended solutions are then provided in this chapter.

## **BACKGROUND OF THE SAUDI ARABIAN GOVERNMENTAL SYSTEM**

Modern Saudi Arabia was founded in 1932 by the late King Abdulaziz bin Abdulrahman Al-Saud. Saudi Arabia is a monarchy in which the power rests in the hands of the King and the Crown Prince. From the Kingdom's foundation in 1932 until 1992, Saudi Arabia was ruled without a formal, written Constitution. It was only in March 1992 that King Fahad promulgated several Royal Decrees, which constituted a package of constitutional and administrative reforms.

The Basic Law, adopted in 1992, declared that Saudi Arabia is an independent Islamic monarchy ruled by the sons and grandsons of King Abdul Aziz Al Saud, and that the Holy Qur'an is the constitution of the country, which is governed on the basis of Islamic law (Shari'a). There are no political parties or national elections. The King must observe the Shari'a and retain a consensus of the Saudi royal family, religious scholars (Ulama), and other important elements in Saudi traditions and society. The Basic Law stipulates that the King alone chooses his successor, the Crown

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