

Privatization Pros & Cons In Egypt

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Abstract-Privatization is a transfer of ownership from the public sector to the private sector. Privatization has started in Egypt since the early nineties. Egypt has adopted several different ways to implement the privatization program, and each method has distinguishing feature from others. With the implementation of privatization in Egypt, many pros and cons have emerged. The researcher presented in this paper to clarify how to take advantage of the positives and vanish the negatives. The researcher also reviewed the privatization of the maritime sector in Egypt and what are the pros and cons that will be reflected on the Egyptian economy as a result of privatization, as well as the impact of this privatization on the efficiency and performance of the maritime sector. Opposition to the idea of privatization the researcher concluded through his study that privatization will increase the capital of companies as well as will increase the financial liquidity in the state's public treasury and also reduce the financial burden on the state's general budget.

Key words: Privatization – Pros & Cons – Efficiency – Performance

1.1 Introduction

This paper reviews the concept of privatization in general, the history of privatization around the world, the different ways of implementing privatization, and global experiences in privatization, for example in the United Kingdom and the United States of America. In addition to discuss Egypt's experience in privatization according to the government's privatization strategy, and the different forms and ways to implement privatization in Egypt, moreover the exposure to the pros and cons of privatization, and reviewing privatization in the maritime transport sector, especially seaports in the world, focusing on Egyptian maritime transport, furthermore reviewing the opinions in favor and opposition to the idea of privatizing seaports by presenting the reasons for support and opposition to privatization. The researcher relied in his research on a review of previous research, data collection method and data analysis method.

1.2 Definition of privatization

Privatization, in its general and comprehensive concept, is to transfer public ownership to the private sector, partially or completely, including all laws, procedures and activities according to which the transfer process is conducted. Privatization has taken its scope within the economic reform and restructuring policies that developing countries seek to adopt as a response to the failure of comprehensive development policies based on state intervention to mobilize economic development mechanisms based on a comprehensive planning approach on the one hand and the reduction of external debts on the other hand. This reform is based in its fundamentals on liberating the economy from the domination of the public sector and relying on market mechanisms to allocate resources on the basis of competition within the framework of economic freedom. (Alkenany, 2007)

1.2.1 History of privatization in the world

Since the beginning of the 1970s, the world has known about a new economic phenomenon called “privatization”. Several common definitions emerged for it that centered on the state abandoning its ownership of the private sector, or in another way the transfer of ownership from the public sector to the private sector. Privatization began as a global economic phenomenon in the world in the period. From 1980 to 1992, in that period more than 15,000 companies were privatized, of which 3,800 were privatized in countries borrowing from the World Bank, 85% of these operations were in former socialist economies, in Europe, Central Asia, and Latin America(El-Gamal, 2018)

1.3 Global experiences in privatization

Many researchers emphasized that the seventies of the last century witnessed a significant increase in the number of privatized companies around the world. Privatization became an approach that pervades all geographical regions in the world. They also indicated that the first in the privatization process was the share of the major industrialized countries whose economies are predominantly capitalist, such as the United Kingdom, in a desire to increase the productivity of their companies.

1.3.1 Privatization in the UK

The UK experience in privatization is considered successful, since it began with the Conservative government headed by Margaret Thatcher. truly one of the pioneering experiences in terms of legislative, political and economic preparation With reforms in the stock market and the tax structure, then privatization covered all commodity and service sectors of the national economy, and it focuses in promotional efforts on the use of intensive media and advertising campaigns directed at all target market sectors . This was in order to convince, encourage and coax them into the feasibility of privatization. For example, media and advertising campaigns continued to sell British Telecom for a year and a half and to implement the gradual method of privatization and the founders of companies (Suleiman, 1999).

The British government worked to expand the ownership base in several steps, on top of which the state encouraged founders in the first place to buy the state's share of shares or part of them, and encouraged managers and workers to give them priority in buying shares, giving them shares in exchange for their share in the profits or reducing the price of shares for them. Or giving them an incentive to buy, or granting the distinguished employees free shares because they are the first responsible for the continuation, development and multiplication of their bid for the company (giving clear benefits to workers) and placing restrictions on foreign investors in the privatization process (Grout, 1995).

Finally, the British government envisaged two methods of controlling the selling prices of the companies offered for privatization, either by direct decision or through auctions, in both cases the price decision is preceded by an evaluation that is carried out by a specialized accounting office in conjunction with the responsible bank and the Ministry of Finance, then the matter ends with setting a price to be taken in the operations of direct privatization to some types of investors, or to be taken as a minimum in the bidding processes resorted to by the government (Bishop, 1993).

1.3.2 Privatization in the USA

Although the United States of America is primarily a private sector country, there are some leaders in the capital who oppose the privatization of many federal government agencies, but the trend towards privatization is stronger at the state level. There are some states who have accomplished the privatization of public goods until the prison administration, processing government data, caring for children and many others, and one of the best examples is the state of Michigan. To fire prevention and some parts of police protection, sewage treatment, street lighting, street tree pruning, snow removal, parking sites, railways, hospitals and prisons, and even cemeteries management, and waste collection, and some states subjected more than. A public service to compete in the market, and companies advanced to accomplish these tasks with high efficiency and at low cost, which led to a reduction in the fees paid by the citizen for the services provided to him. In a special experience, the Teachers Union in Michigan took advantage of private sector facilities in the field of obtaining products food, postal and security services for its members instead of being provided by its agencies (Qanu', 2005).

1.4 Privatization in Egypt

The experience of privatization in Egypt began with the government's signing of an agreement with the World Bank in May 1991 to set up a corrective program for the structure of the Egyptian economy. The privatization program is a pivotal part of this correction. However, the real beginning of giving the private sector an influential role and importance was with the economic openness. According to the experience of privatization in Egypt Procedures Manual for the Government Program, (1996) was aimed at restructuring companies, increasing the rates of use of available energy, expanding the ownership base and providing the opportunity to contact foreign markets, obtaining modern technologies, attracting capital for investment, stimulating capital markets, as well as reducing Government support and ridding public institutions of their accumulated large losses.

An office for the business sector was also established, and then a ministerial committee was formed headed by the Prime Minister with the participation of the Minister of Public Business and the technical office of the Ministry, to approve and follow up the implementation of the privatization program. As for undertaking the implementation of the privatization program, it is entrusted to the holding

companies - in accordance with the program approved by the Minister of Public Business Sector - which may seek the assistance of the expertise of local and foreign financial advisory institutions (Hindi, 1996).

1.4.1 Methods of implementing privatization programs in Egypt

The method of partial public subscription in the capital of the companies included in the program, and this is often within the limits of 10% (Government Program Procedures Manual, 1996) of the number of shares, since there is a fear that the full public offering or large proportions will cause an adverse effect that leads to a decrease the market value of the share, and the issuance of the first part of the subscription at a small percentage provides the opportunity to issue at a price lower than the real price, which leads to achieving capital gains, and forming a positive first impression that attracts national investments and investors to participate in the privatization program.

The Ministry of Public Business Sector has resorted to selling some establishments or part of them through the private subscription method that is, to one investor or a group of investors, either through bids or through direct negotiations.

The following indicators are used as a basis for evaluation between offers:

- A - Previous experiences in investment and management.
- B - Additional investments and financial capabilities.
- C - The ability to provide new experiences and use advanced technologies.
- D - A plan to benefit from the available labor and develop its capabilities and skills.
- E - The benefits that will accrue to society.
- F- The foreign exchange that used for payment.

Employees of companies offered for privatization are given the opportunity to buy a share of capital shares within the limits of 5% of the number of shares, and at a price discount of 20% (Government Program Procedures Manual, 1996) and a

share is sold to workers through their own union (it is considered a private investment fund for them). The profits generated from the shares shall be distributed to the employees who are members of the union, and the membership of the worker in the union shall be eliminated by his withdrawal from him or upon the end of his service has been found that many workers are disposing of their shares in pursuit of capital gains, so it is better to require them to keep them for at least one year (Wehbe, 1996).

Among the methods used in the privatization program in Egypt is to encourage negotiation to conclude lease contracts for available capacities that can be operated by the private sector, as well as management contracts for establishments and assets, and some unused assets have been liquidated in a meaningful way. Some measures have been taken, and some laws have been amended, to suit the privatization program. However, a complete legislative and legal preparation has not been completed, the slow bureaucracy and slow litigation procedures remain, with the difficulty of implementing court rulings, so investors lack protection in addition to the fact that capital is by nature cowardly.

The privatization program in Egypt suffers from the lack of information, and the lack of data to support investors in making decisions to participate in the program, and the media and advertising efforts for the privatization program are minimal and very limited, which has led to the formation of negative attitudes of citizens towards privatization. which is in the minds of the Egyptian investor, the foreigner, and all citizens about privatization, is the black image represented by the lifting of subsidies, the increase in prices, and the state's abandonment of limited and no-income social classes.

Due to the limited rehabilitation and capacity development programs for workers in the projects proposed for privatization, and the lack of pre-prepared plans to address the problems of reducing workers as a result of the privatization program, workers and leaders in many companies developed a bleak picture of privatization, which led to resistance from leaders and workers in these companies The privatization program, and this resistance is compounded by the lack of awareness programs on privatization issues at the level of citizens, investors, companies, political and administrative leaders and workers (Fayez, 1996).

There is a prior loss of confidence among investors at home and abroad, as a result of the nationalization procedures, and the lack of sufficient media and advertising efforts about the privatization program in Egypt, and the steps that have been taken in it, in addition to the black image crouching in the minds of the experiences of money-placement companies and loan representatives, and the prosecution of some Former officials at the level of ministers in cases of abuse of employment, and of public funds. (Technical Office of the Minister of Business Sector, 1996)

By reviewing the Egyptian government's strategy for privatization, find that the implementation of the privatization process in Egypt took several forms, including, for example, first selling the assets entirely owned by the government to the private sector. The company is laying off most of the existing workers in most cases. Second, putting up part of the company's value on the stock exchange, and thus creating a partnership between the public and private sectors to benefit from the advantages of the private sector and to try to overcome the defects in the public sector. There are other methods of privatization, each with its own advantages and disadvantages. Therefore, the government must study the different forms of privatization well and choose the method that suits it in order to achieve the highest gains from privatization and avoid any financial damage that may inflict on it.

1.5 pros & cons of privatization

Privatization means that state-owned companies become owned by private companies. For example, if the government needs money, can sell a piece of land to a private company, and the private company can build a house then sell. Privatization can have many different pros and has become very popular recently. However, privatization also has cons.

1.5.1 Pros of privatization

In a world that is increasingly interconnected and smaller in size through the speed of communications and transportation in it, there is no society capable of successfully competing without getting rid of the heavy legacy of public enterprises and reinforcing this by liberating the entrepreneurial spirit of the

private sector, and the recognition of this fact is behind the massive privatization revolution from Moscow to Manila and Michigan in the United States of America, and the theory behind this is simple based on deep facts about the nature of human beings and their response to incentives and deterrents. And its high costs, on the contrary, if competition, accountability and fear of losing a valuable customer when performing the tasks were published, the result would be distinction, and the deterioration of performance would become an exceptional case.

There are also additional pros of privatization:

1-Conducting an organizational reform process that covers both the organizational structures and the various regulations related to the activity of public productive institutions, with government institutions responsible for investment policies, then financial and monetary policies.

2-Raising the efficiency of private enterprises by achieving the optimum volume of production that secures the producers the maximum possible profit.

3-Encouraging competition according to the concept of market economies through which the base of private ownership expands, by getting rid of all forms of monopoly that were formed under the central planning of the government.

4-Focusing the light on the growth of the private sector and supporting its productive institutions, given that this sector has the elements of economic efficiency and its components, as happened in the developed countries when their private sector accelerated the advanced economic growth processes in them, and a steady growth in this sector is usually achieved through the following two areas: First, it includes Creating a general economic climate that includes issuing laws, legislations and various incentives for the growth process in private sector activities. The second area includes macroeconomic policies that aim to expand the base of private ownership over a certain period of time. Achievement in this area is highlighted by the participation of the private sector in the ownership of public institutions, with the state gradually leaving the fields of economic activity.

5-Development and revitalization of capital markets (stock exchange) that did not prevail under the dominance of the public sector or the central planning system that closed financial exchanges or restricted their operations in general.

6-Creating new jobs and fields of work, as one of the main objectives of the national program to expand the base of private ownership is to add new job opportunities and reduce as much as possible the unemployment rate spread in the groups of society with their specializations and experiences in various fields (Bholane, 2014).

1.5.2 Cons of privatization

Despite the advantages and benefits of privatization, there are those who object to it and put forward some of the negatives resulting from it, which are as follow with the response to them:

1-The government's focus on getting rid of its mainly losing institutions, after the burden of these institutions increased on the shoulders of the state as a result of the high volume of its debts, and the benefits of the debts themselves were doubled with the accumulation of their losses for many reasons, and therefore they are sold at the lowest prices.

2-Transferring the ownership of public sector institutions - wholly or partly - to the private sector is, logically speaking, a preference for the economic considerations that are advocated and adopted by private institutions over the many social considerations that public institutions have always believed in that serve all members of society without discrimination.

3-The increase in the number of unemployed manpower inside the country, because laying off workers from public institutions is one of the most complex problems facing the process of implementing the mentioned program, through: The fact that Arab countries suffer from a surplus of qualified and unqualified labor offset by a shortage of those Employment with others, and that Arab countries that suffer in some specializations resort to filling this shortage by hiring foreign workers in many cases, despite the fact that the available Arab labor is no less efficient or experienced than the foreign ones.

4-The implementation of the program in many cases leads to the emergence of a limited percentage of society characterized by high cash income, which usually leads to a clear disparity in the income of members of this community, and is

reflected in the stability of the country in terms of social, economic and even political.

5-The possibility of lifting government subsidies on basic commodities that are usually consumed by members of society with limited incomes in particular, and the difficulty of compensating this subsidy by other means.

6-A reduction in the value of the national currency of the country that applies the aforementioned program during several stages of it, because the national currencies of developing countries do not in most cases have a golden cover or sufficient economic power to support dealing with them in the various financial markets (exchanges).

7-The difficulty of conducting evaluations for public institutions with their fixed and variable assets, which are decided to be offered for sale to the private sector, or not to follow fundamental procedures in the evaluation processes themselves as one of the most complex problems facing the actual application of this program (Tetteh, 2013).

1.6 Privatization of maritime sector (seaports)

In recent years, many countries of the world have implemented policies aimed at reforming seaports through privatization, believing that they will increase performance and efficiency and reduce the financial burden on the government as it is an industry that needs a large capital. The view in favor of privatization is that the transfer of ownership is from the public sector for the private sector, it will lead to raising the performance and efficiency of seaports (Cullinane, 2002).

Most countries of the world are moving with the global trend of privatization in (airports, Highways, water supply and sanitation) governments in developed and developing countries by handing over operational responsibility for ports and port assets to private companies. The public sector retains responsibility for basic legal functions such as public office Navigation safety regulations, contract monitoring and implementation.

According to a study of the factors affecting the development and modernization of Arab seaports, Arab League report, Cairo, 2006) many reports have indicated

that the concept of privatization in ports is a means, not an end, and that the trend towards privatization was primarily aimed at increasing the productivity of the ports. Among the features of the application of privatization is the port authority's reliance on self-financing and not relying on financial support from the state. The port management is considered the ownership system that mentioned the mechanism previously served as one of the forms of applying the concept of privatization, which is the most widely used globally.

The experiences of international ports have proven that the development in the productivity of ports and the reduction in the cost of services witnessed a great leap as a result of the application of the system of reliance on the private sector in the port management and in the various handling stations, as a result of the speed of procedures and rules followed and the use of tracking traded goods and integrated information systems, which helped in the safety of planning, implementation, follow-up and correction in all stages of work in the port. Privatization may not be a sale of assets, but rather the privatization of the administration and its liberation from strict rules and regulations.

Hence, can say that the application of privatization in ports will increase their competitiveness. The privatization program should include support for competitiveness within the port, the goal of privatization is to break the monopoly of the government agency, which is unable to face the burdens in the right way, and develop services on an ongoing basis in order to obtain better results in less time and at the lowest cost. Preparing workers and providing a strong and distinguished superstructure and infrastructure with the aim of reducing accidents, losses, waiting for ships and increasing revenues by raising the frequency of ships at the port and the volume of goods in circulation, using modern technologies and equipment to facilitate the passage of goods within the port and to exploit part of the profits to make the necessary development of the port has been proven by experience and evidence that the privatization process generated a kind of distinction that non-privatized ports lack in terms of speed of response to developments and meeting customer requirements more effectively.

The availability of transparency in the method of determining costs and tariffs, which would give confidence to customers that the pricing that is determined is based on data the market according to the actual cost and that the provision of competition will reduce that cost and tariffs in order to attract shipping lines and

thus increase productivity in the port. However, there is criticism of the privatization process as this opinion believes that privatization is nothing but the sale of state assets in the form of organized or random deals and that many countries of the world have failed to implement privatization in a way that helps the growth of their economy. Several problems emerged as a result of the application of privatization in a random way and from this problem is an increase in unemployment, as well as selling some assets at less than their market value, which had a bad impact on the economy.

1.6.1 Privatization of the Egyptian Maritime Sector

The privatization of the Egyptian maritime sector began in the second half of the 1990s. A new regulation has been issued to allow private sector initiatives, including Foreign Direct Investment (FDI), to participate in various maritime transport activities. This new policy is necessary for the marine industry in Egypt to meet the increasing demand for import and export products, increase productivity and improve its competitiveness in the global market. The port sector has entered into several Public private partnership projects and has shown strong performance. In the case of a private station operator, (the port authority enters into a concession contract with the operator).

The first Build, Operate and Transfer program was awarded to the Sokhna Port Development Company (SPDC) in Egypt in 1999 for a period of 25 years. The second BOT 49-year program was awarded with Suez Canal Container Terminal (SCCT). Since then, the Egyptian port authorities have considered the BOT as a standard scheme for the public-private partnership plan. The BOT period is determined by the size of the investment. The aim was to create an important hub port, improve port efficiency, expand port capacity, attract foreign investment, and create jobs (JICA, 2012).

Egypt's experience in privatizing seaports and container terminals such as Ain Sukhna Port and SCCT and AICT. Noticed that some opinions are with the idea of privatization and strongly support it and that it is the best solution to all the problems that Egyptian ports suffer from, whether from the low level of infrastructure and reliance on old methods of loading and unloading that need to be replaced and developed to keep pace with global development. By entering into

a partnership with the private sector, as it possesses the financial and technical capabilities that help it develop to keep pace with global progress in the maritime transport industry, as well as to reduce the financial burden on the government. All of this will be positively reflected on increasing the efficiency, performance and competitiveness of Egyptian ports. On the other hand, there is an opinion against the idea of privatization in general, especially in the maritime transport sector, believes that Egyptian ports are part of the Egyptian national security that cannot be abandoned.

The government should do everything in its power to develop ports to keep pace with the global development in the maritime transport industry. two previous opinions has a point of view that all have to appreciate, but we can say that the government should be well aware of the importance of seaports and their constant need for development to keep pace with the permanent and continuous development in the maritime transport industry, both in terms of the size of giant ships and the high speed of goods handling for that The government should decide after the study whether it will need a partnership with the private sector or not, in order to reduce pressure on the state's general budget. The government should also benefit from the expertise and capabilities of the private sector according to its need. In addition, it can choose the way and form of partnership between them to achieve the required goals.

1.7 Conclusion

In this paper, the researcher clarifies the concept of privatization and the history of privatization around the world. Explanation of the different methods of privatization the researcher pointed out the two best methods that can be applied in Egypt. privatization that can be taken into consideration before resorting to the privatization process to achieve maximum benefit from the privatization process. Review some global experiences in privatization. Clarify the pros and cons that will result from the privatization process. A review of Egypt's experience in privatization in general, then in the maritime transport sector, and the points of view supporting and opposing the idea of privatization.

The researcher strongly supports and supports the idea of entering the public sector into a partnership with the private sector according to clear controls and with full transparency so that the state can reap the fruits of privatization and

avoid falling into its negative aspects. The state, as well as easing the financial burden on the state's general budget, and this allows the state to devote itself to its main role, which is to take care of the infrastructure that affects the daily lives of citizens

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