

What is the purpose  
of privatization in  
egypt?



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## **Introduction:**

“ The Egyptian government started to launch the privatization in Egypt with the public enterprise of law 203 in 1991”. “ The frame work was 314 enterprises and now it is 319 enterprises”. (Peter: 2009) The term is most commonly applied in reference to the sale or transfer of public assets to the private sector. “ Privatization may also be used to refer to any policy or action which increases the role of the private sector in the economy.”

Privatization means taking the public issue into consideration to use it, in the private firms or organizations. increase the efficiency in some of the services that are public. (American history: 2003). The privatization thought as liberalization and marketization because they are able to establish a new market that will be helpful alternatives for the government products and services. (Levin, 2001).

## **Purpose of Privatization:**

The main purpose of the privatization in Egypt to assist the investors and the owners to implement, develop, and evaluate the public sector within the privatization. (El Tabbak , Abdel Wahab , P. 5: 2002 )

## **Objectives of privatization:**

. The objectives of the privatization in Egypt is to maintain and develop a positive effect globally, also building a good competitive economic and to get more involvement of the population inside the economic process. The main and the important objective that privatization in Egypt focus on it is to increase the productivity and for better allocating of resources. “ Replacing some of the employees in the local and central administration”. The Fiscal

objectives are reducing some of the budget deficit that comes through the revenue, through the privatization process. The public companies use to get more revenues now from the taxes that paid by the private companies and by this way they are getting more profit (Kenawy, 2009)

### **Methods of Privatization:**

. The methods divided into two main methods, the material and management privatization. The material privatization is the change of the propriety, which means that the public firm becomes private propriety. The second method, is the managerial its vey known type in the developed and transaction countries.

### **The privatizing through share selling to private investors:**

. The method here means to transfer the shares to one main investor that has been choosing through direct negation. Some people said if the company owners sell the overall company one time it will be easier for them and avoid a lot of problems. (Kenawy, 2009)

### **Management and employee buy-out privatization (MBO or EBO):**

. This method contain two types the MBO or the EBO one of this types will buy the enterprise, this method is for the public enterprises that have got a problems in financial or economic situations. These enterprises are preparing themselves for privatization. They are good in managing and put themselves on the right track, also it provides a strong motivation. (Kenawy, 2009)

## **Characteristics of the Egyptian program of privatization:**

. The privatization program in Egypt is followed by process. The ministries of the public companies are the one who choose which companies will be privatized and, then start making the decisions; they are the one who responsible for the privatization program. The privatization maintained on the market who is implemented through stock of the market, they are choosing the companies that have a very small profits and let them move toward privatization, but the big companies is not yet privatized because they are profitable and can attract more private investments. The government start to build community for helping the graduating students and for the unemployed people in assisting there small projects. (Kenawy, 2009)

. Based on my readings, privatization takes a big part from our society and nowadays everything in the world is private. For Example: the education in Egypt, the schools and the colleges are now private, also the companies half of them now are multinational.

## **The three forms of the privatization in education:**

### **. The Private provision:**

. Now the education can be owned by private owners, not only by the government. It's now provided by private people who managed this private school. In the private provision they discussed that the private schools can be built through many ways, like for -profit entrepreneurs, charities, or may be for other interested parties. . (Levin, 2001).

### **The private funding:**

. The one who starts to implement the idea of building private schools, he is the one who is responsible for funding this school, rather than the government role in paying money they are not responsible for that, so the privatization in education means that the parents pay for their Childs money for schooling them. (Tsang, 2002)

### **Private regulation, decision-making and accountability:**

. The monitoring system for the education service will be concentrated on the people who receives the service, they are the students and the family because the family the one who pays the money. If they find that the school is not well in education or poor education quality they exit, but if they find that its good they will start demanding more good service and they will have a voice. Also the government has the authority to put law and to monitor the performance of the schools through audits. For example: the American system, when the government reduced the passing grade on the SAT exam from 1300 to 1200, and these changes are settled by the government, This rule introduced in 2007 and to be used only until 2012 then it will expire. (Belfield, 2001)

### **Over view about the privatization in education:**

Lets first talk about the education in Egypt and especially the schools and i mean the private schools. Now every family is better staying away from the public schools and the public education (Thanwaya Amaa) why these families are doing that? First of all when you look to the two options you will find no common things between the two. First look to the public education in Egypt, first go and visit the schools see how the school looks. Then see how the

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teachers are treating the students, they are treating the students in a bad way and that's reflect a negative physiological effects on the student that's, the student don't want to go to the school and in the same time he don't want to study. Second let's talk about the exams of the (Thnawya ama). The student make all of his efforts all of the year, studying well to get the higher average, to reach his hopes, then when the student go to the exam, he faces that's he can't answer some of the questions inside the exam, because some of these questions come in a very difficult way, or some of them come from out of the syllabus. Then the student will face the worst surprise in his life that he will not get a good grade or maybe he will fail. So in the end the student will get depressed because he did a lot of efforts to reach his goal, and others kill themselves. Then let's discuss the point, of going to a private schools, The families now are likely moving to the private schools because this schools, the only ones that have the best education nowadays. For example: The American diploma and the British diploma. Not all of the families can pay for their child this heavy fees starting from 20, 000 L. E, but they making all what they can do for paying all of this money, for better education and learning well , they will learn a new things in their life that is very important to know. Some families look from another side and it's the safety for their Childs. To sum up with the privatization of education, what all I want to say that's privatization of the schools one of the better services the communities serve for citizens and it's more comfortable also for good treating in the schools, high quality of education. Students are learning more than one language. Beside the core language the English language, they also learn another language like (French, German).

Then moving to the second thing that's privatization is the way of returning every single private sector quality that was taken by the government. It's more favorable to take the public issues from the government because it's not expensive and it will be more efficiently done by the private sector. The reasons behind the efficiency of the private sector is because of the talents, experience, and the most important thing that money is available. Also privatization will reduce the expenditure and will develop the effectiveness of the government because the good privatization will get more benefits for the governments and that will help them in reducing the unemployment rate and also raising the economy. There are two important kinds of privatization. "The first one is the private qualifications of the services with someone public characters". For example the minister one of the public character, he acts as an important person inside our society so they must take a lot of private benefits for them. For example a private police man to protect him, and if he went to a public place like a club or hotel he gets a private parking and a private places to sit in it. The minister is public, because he is one of the government's team. But the government can pay for that to get some special private benefits for him. (Shafitz , Russell , Borick : 2009 )

### **Selling the governmental assets:**

. There is other steps for the privatization, that the governments are putting their assets for selling. From my own analysis I can describe what the governmental assets are. They are the main assets of the country. For Example: the Roads, Plants, and the equipment and these are intangible assets. When a big business man like (Hisham Taalt Mostafa) start to think to make a private business like (El- Rehab). In This situation He Went to the

government to ask them to buy a part of the governmental assets (Lands), then the government gives him the permission to buy this land for his own by paying money of this land and then it will be private for this person. After that the land will be privatized for the (El-Rehab City Project). That What I mean by selling the governmental assets, Also the Government takes a Percentage of the Project, but it's a very small Percentage Like 7% and the rest for the Business man and his group. In the end we can call it Privatization of the Governmental assets. (shafitz , Russell , Borick : 2009 )

### **The role of the donor community in developing privatization:**

From Couple of months some countries meet together under the chairmanship of the World Bank. They said that they will give to Egypt “ 10.3 billion” on the next three years and they will give part of the money for the goods and services purchasing. They also said to them to bring back or to renew the privatization programs which have a bad result in the last years.

. Inside the meeting they said that they will develop the country from the donor community. The donor Community is the part who makes donations for the country to improve it and they are some of people like a business man's (Private Sector). They will start to Maintain a new job opportunities for the people who don't have a job. Provide the new people who finished their colleges to give them money to start a small business in the begging of their work life. (El Tabbakh, Abdel Wahab, p. 11: 2002)

. The financial institution privatization in Egypt is the part of the privatization inside the ministry of foreign trade that was responsible for every purchase



of the insurance sector. " In nov 2001, they started to be focusing on the privatization joint ventures and they get 34 private joint venture join them, they choose those companies to join, because they know that they are profitable and that's the aim of the private joint venture.

### **Study of privatization in Egyptian banks:**

. Then Let talk about another and different thing about the privatization in Egypt. First let me announce that's this part is the most important part of the privatization in Egypt.

. Let speaks some about the privatization of the banks in Egypt it's really an interesting part to talk about it. lets see what's happened in privatizing the public banks. First of all they started to private the banks in Egypt in 1996. In Another situation the government got some calls from some people to privatize the public sector of banks in Egypt (Bank Misr, Alex Bank).

Then the government starts to think about it and they found that will be profitable to get some people from private sector to join them. So they start to negotiate with some private people to give them a percentage of the shares in the bank. They Offers to them from 5 to 10 % share for any private sector want to join this public sector banks. (El Tabbakh, Abdel Wahab, P. 13: 2002)

They think in more advanced and profitable ways to use the idea of changing the banks from the public sector to the private sector because when they come trying analyzing how the bank is is going in Egypt they got a horrible results. They found that the banks face a lot of problems and losing a lot of money. All of this because the bad and the poor bank system.

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. Also another causes of this problem that's the bank was giving the client a greater interest rate paid and that's was for every client comes new for the bank to put his own money. The big problem was that there was a bad development in the main financial system, and beside all of this the economy was down it was have no growth . Then After all of this happened the government really faced a big problem because everything is down and they are giving the people a higher interest rate paid so beside that's they are facing problems in the system and no growth for the economy and they are promising the clients with a higher interest rate paid it's a disaster. Then the government starts to move and think for a new ways to solve this problem. Then in the end after a time of thinking they got the solution and this solution is to move all of the public sector banks and shift them to the private sector banks. This was the right solution the government had taken to help the country from facing a financial crisis. The feedback of moving the banks from the public sector to the private sector that they found a developing in the system of the banks and also its lets the bank avoid the long term crises of losing money. Really it was one of the most perfect solutions they had done for the banks and the solution in the end was the privatization. (Mohieldin and Nasr, P. 19: 2003).

. Also They Decide to turn all of the public joint ventures shares to be private joint venture shares. They are 23 joint ventures public sector shifted to Privatization joint venture. They did all of this changes because of making much more and developed competitiveness. After that's they let the public banks to decrease some of their shares to 51 %. After more 3 years in 1996 they asked again the public banks sector to reduce more shares again then it

reaches now 20%. Also the privatizations have some more benefits, to improve the system of managing in the banks. Also not all of the public banks reduced their shares only some of them who did that but some of them did not do that and they are now still owing there public sector bank. (Mohieldin and Nasr p. 19; 2003).

. From My opinion that's one of the most important thing the government did, because of the country benefits itself and also it's more important for the growth of the economy.

### **The Privatization of insurance companies:**

. Egypt started to privatize four of her insurance companies, as start of taking one of the developing steps in economic reform, whose goals to make Egypt one of the financial centers of the Middle East and this is the goal they want to achieve it. Then they start to invite seven investment bankers to discuss how they will evaluate Cairo four government insurance companies. These four companies of insurance hold 90% of the life insurance business, and 70-80% of non life business. Dr. boutrous ghali said that he is searching for a good investor that has active insurance companies that would take stakes in those companies and start managing them. (Boutrous-Ghali, vol: 99)

### **Advantages of privatization:**

Then let's discuss the advantages of privatization. The advantages of privatization first starts with, privatization gives a lot of chances to start doing business. For example: (Taalt mostafa group). Second, giving the chance also for foreign companies to come and start opening their business,

those foreign companies are getting with them the best employees and the ones with higher experience and those people are well-educated and qualified in their major department. The more private in the market the more new companies start to enter the market and it's an important thing because that will get more competitors to the market. Another reason will get more positive things to the consumer because they will find a lot of companies doing the same product but in a different brand name and with different prices. So the consumer will choose the one that's finding the benefits in it and cheaper.

It can increase efficiency and innovation, they having the advantage to lower some of the operating cost through practices that are flexible like (Job categories). (Eggers: 1993)

### **Disadvantage of privatization:**

Then starts mention the disadvantages of the privatization. What if one of these big companies fails in doing their own business, what will happen to them? First of all they invested all of the capital inside this business so when they fail in doing this business, therefore they will lose all of their money and assets. Also these big companies are getting all of their qualified workers while coming opening their business here, therefore the unemployment rate will increase, because the company will not have a liquidity to pay wages for the employees, so the employees will leave the company and that will increase the rate of turn-over, or the company will fire all of the workers immediately. Two of the most dangers things in the privatization are the higher of paying the taxes, less tax income, and monopoly. (shafitz , Russell , Borick: 2009 ).

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It can be the main cause of exploitation to private sector; this can happen by the rich people, who can increase the prices of their goods and services. They also fire some of the employs to reduce the cost of production.

### **obstacles of the privatization program in Egypt:**

. Privatization found a lot of obstacles in implementing there program in Egypt. These obstacles can make a lot of problems in implementing the program. Stop moving the program in the right track and it may be fail and never success. Some mention points about the obstacles that they find that some of the employees afraid of reducing in their wages and may be these employees lose their work, also the employs afraid of losing their positions power inside the firm. The un-equal wealth distribution also that's one of the obstacles that can face them while implementing the program. . (Kenawy, 2009)

### **Conclusion:**

Finally, in this paper I discussed the theoretical studies on privatization. Privatization is becoming an important tool in re-structuring public infrastructure sectors. Privatization also will have positive effect on improving the operational and financial country performance. Also I focused on influence the level of economic development on the privatization growth rates in public infrastructure.