FORCING FREEDOM: POLITICAL CONTROL OF PRIVATIZATION AND ECONOMIC OPENING IN EGYPT AND TUNISIA

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ABSTRACT

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In this dissertation I address the question of what accounts for the success or failure of privatization efforts in middle-income developing countries. I have looked for an answer in the context of the interaction between the central government as the major agent of the reform and the relevant state and extra-state actors with a stake in privatization. In this interaction the government faces a “means versus ends” dilemma - the success of the liberal reforms may be conditioned upon the use of illiberal means, and vice versa - the use of liberal means may cause a failure of the liberal reforms. I have hypothesized that a reform-minded government has to resort to restrictive policies, increased centralized involvement and political control over the process in order to set in motion competitive markets as it does not enjoy consistent support for its policies given the weakness of the "winners" of the reform process who could provide support for the liberalization policies, and the resistance of the "losers" who have vested interests in the *status quo*. The greater the presence of the central government in the formulation, adoption and implementation of the privatization program, the smaller the scope of the involvement of the other actors, the smaller the likelihood that privatization would be pushed in the direction of serving particularistic interests rather than serving the goals of

the reform-minded government. My argument represents an elaboration of the notion of "the orthodox paradox" - the increasing importance of government involvement and strengthening of the state for the implementation of the reforms aimed at economic and political liberalization. I have shown in the comparison of the two cases that the country which has been more restrictive in the management of its privatization program (Tunisia) has achieved greater success than the country which has adopted a more liberal approach (Egypt).

TABLE OF CONTENTS

TABLES AND EXHIBITS

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I. INTRODUCTION

1. The Hypothesis

Students of the Middle East and North Africa (MENA) have noted multiple similarities between Egypt and Tunisia in terms of past and present political orientation, economic choices and state-society interaction. Both of these countries have sought to overcome the colonial legacies engaging in political, economic and social experiments during the decades after independence, both reconsidered their strategies after gaining experience, both faced tough dilemmas requiring serious compromises in the pursuit of their goals. From a larger perspective, what has been happening in Egypt and Tunisia over the last half a century has mirrored the major processes that took place in a large number of developing countries far beyond the region of the MENA. The orientation toward socialism was considered the fastest solution to their developmental problems in the 1960s. It produced substantial results, but at the same time it created more social, political, and economic problems than expected. Very soon it became evident that this course was not sustainable in the long run and market-oriented reforms had to be introduced. The decade of the 1970s, however, did not witness a turn towards genuinely liberal policies - a statist type of capitalism emerged out of the existing statist type of socialism instead sharing a number of features and being equally unable to deal with the major challenges that these countries faced. Both Egypt and Tunisia found it hard to abandon the import substitution strategy enacted in the 1960s although it was obvious that it had brought severe economic difficulties, deterioration of the living standards, social unrest and challenges to the governments. In the 1980s it became clear that the situation required radical measures, including a turn toward economic liberalization, opening space for the civil society, relaxing controls in politics and reintegration in the world economy, and the two countries embarked on structural adjustment accepting the social, economic and political strains that it brought. Within this new developmental framework at the end of the 1980s they undertook measures aiming at a change in the public/private balance in the economy, restructuring the gigantic (by their own scales) public sector and privatizing as many state-owned enterprises (SOEs) as possible.

What makes these countries interesting for comparison is the fact that although in the mid-1990s the issue of privatization had already been on the policy agenda in Egypt and Tunisia for years and in spite of the similar goals and hurdles, the outcomes of this process in the two countries had been different. In 1995 the record in Egypt was modest with 14 divestitures of majority interest out of 317 initially targeted SOEs: only 4 of these transactions involved a radical reform; in the other 10 cases ownership was transferred to employee stockholders associations which brought little change in the way these enterprises functioned. In Tunisia, at the same time, privatization of majority interest underwent 58 out of about initially targeted 400 SOEs initially targeted for divestiture; after restructuring and liquidation of some of the remaining companies the number of entities in the public sector was brought down to about 230 SOEs by the end of 1995 with practically no majority ownership by the employers of the privatized companies. In Egypt, on the one hand, the process has stalled: in spite of the seemingly favorable environment, little real privatization work is being done; on the other hand, there is serious progress in Tunisia: in spite of the inevitable ups and downs, over the long run it has become evident that divestiture has added up strength to the private sector.

Why has one of these countries moved forward and the other is lagging behind? How did the process go in each of them? Can the factors of success in Tunisia play a similar role in Egypt? Are the causes of delay absent from the picture of privatization in Tunisia? These are intriguing questions for political scientists, economists, sociologists, students of the process of privatization in general and the region of the MENA in particular. This dissertation represents an effort to explore such issues as privatization as a policy, government involvement decision-making and implementation, mobilization of societal actors involved in the process, the importance of particular tools and instruments for the progress of the reform, etc. I believe that the answers to the questions asked above should be sought in the context of the interaction between the central government, which is the major agent of the reform, and the relevant state and extra-state actors with a stake in privatization, who have interests and goals of their own and do not necessarily support the government's policies. In this interaction the government faces a dilemma of means versus ends - the success of the liberal reforms may be conditioned upon the use of illiberal means, and vice versa - the use of liberal means may cause a failure of the liberal reforms.

On the basis of the comparison of the Egyptian and the Tunisian experience I hypothesize that the government has to resort to illiberal means in order to set in motion competitive markets - the greater the involvement of the central government in the process of formulation and adoption of the privatization program, the greater the likelihood that this program will reflect its interests and goals. As to the process of implementation of the privatization program which cannot be accomplished without active participation of other actors (agents), such as the bureaucracy, the public sector managers, the private sector investors, labor and businessmen's unions, etc., the greater the political control of the central government, the smaller the scope of the involvement of these actors, the smaller the likelihood that acting as agents for the state (the principal) they will be in a position to derail the program if their goals and interests diverge from those of the central government. The comparison of the two cases shows that the country which has been more restrictive in the management of the privatization program (Tunisia) has achieved greater success than the country which has adopted a more liberal approach (Egypt).

Thus, this dissertation studies the role of illiberal government strategies (i.e. the greater restrictiveness in the management of the public sector reform) for the success or failure of its liberal economic policies (i.e. privatization). The choice of whether to adopt a more liberal or a more restrictive strategy is a political one, or, as I would argue, it is a function of the political regime which represents an interface between the state and society, the pattern of recruitment into the government and the exercise of the government's power over the various societal actors. If we use Robert Dahl's popular model of conceptualization of political regimes[1], the choice of a privatization strategy directly concerns the degree of participation and contestation of the relevant societal actors in the decision-making about and implementation of the public sector reform. That is why at the most general level of analysis we are trying to trace a link between political regime characteristics and the success or failure of specific policies. In this sense, the hypothesis in the previous paragraph supports that body of literature which has argued that more authoritarian governments are more likely to achieve success - reformers

[1] Robert Dahl. *Polyarchy: Participation and Opposition*. New Haven: Yale University Press, 1971, Introduction.

manage to achieve their liberal goals through a strategy of constraining the conflicting demands of the multiple actors involved by using illiberal means in creating a general institutional framework favorable for the reform given the lack of a clear societal support for the policies.

2. The Concepts

a) privatization and economic reform

Before going into further discussion it is necessary to clarify the meaning of a number of terms used in this dissertation - we will start by conceptualizing the issue of success or failure of privatization. The term "privatization" has been widely used both by theorists - political scientists, economists, sociologist, etc., as well as by practitioners - politicians, policy-makers, private sector businessmen, public sector managers, journalists, etc. I have adopted Ilya Harik's definition - "a policy process whereby a government reduces its role as an owner and manager of business enterprises in the interest of other actors such as individuals or corporations".[2] This is the most general level of abstraction at which this concept is used in the dissertation, although in the theoretical literature and especially in journalistic writings it has been accorded in a broader meaning - that of liberalization, or marketization, or any movement along the continuum from the state to the market as a regulator of economic, political and social activities. I do not consider appropriate, however, to attach such a broad scope to the term "privatization" and I distinguish it from "liberalization" which I use to mean expansion of individual or collective freedom, "partial withdrawal of the state from its hegemonic role

[2] Ilya Harik. Privatization: The Issue, the Prospects, and the Fears // Ilya Harik and Denis Sullivan (eds.). *Privatization and Liberalization in the Middle East.* Indiana University Press, 1992, p. 1.

as an entrepreneur and provider"[3] of goods and services in the political, economic or purely social realm.

At a lower level of abstraction the term "privatization" is used to signify primarily divestiture of assets and roles, associated previously with the public sector in the economy, i.e. transfer of assets or roles from the state to private investors - individual or institutional. Any movement along this "public/private" continuum can be easily measured - one can trace, for instance, the number of enterprises, or their distinctive units, sold by the state (or taken over by the state in the case of the opposite process of nationalization). This measure has been widely used in the literature on privatization as such numbers are easily accessible - it is practically impossible for a government to keep such statistics secret from the public. In this sense, greater success in privatization is achieved by the government which manages to privatize a greater number of state-owned companies. Another measure of privatization which requires a deeper analysis of the process takes into account the value of the privatized assets - a large number of small enterprises may have been privatized, however, if the greater part of the wealth of a nation remains under public ownership, then the conclusion about progress in divestiture may have a questionable validity. It is much harder to do such kind of analysis as it requires statistics which is not readily released by the governments in the developing countries; even if it is available, there still remain questions about how reliable the numbers are.

In the dissertation the term "privatization" is used to signify activities undertaken and carried out by the state, i.e. by the government and its agencies. Privatization represents a particular policy or a set of policies regarding the restructuring the public

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[3] Ibid.

sector in pursuit of various goals - political, economic, budgetary, social, etc. As Paul Starr points out, "privatization as a policy" should be distinguished from "privatization as a social movement" in the course of which private individuals or corporations take over particular activities or economic sectors previously reserved for the state. In this latter meaning privatization may be treated as a spontaneous process of expansion of the private sector resulting in a change in the balance of the state versus the market.[4] Unless particularly specified, I have analyzed the issues related to privatization from the perspective of the state as the major actor in the process - the one which initiates and has the ultimate responsibility for each particular transaction.

There seems to be a general agreement in the literature that privatization has come as a pragmatic reaction to the decades of failed experiments with the public sector rather than as a true ideological shift in the perception of the right balance between the state and the market. It takes place in a larger context - usually under a general economic crisis requiring a serious reassessment of the balance between the state and the market. There is a hierarchy of the goals of governments embarking on radical reform: the most general would be structural adjustment as a whole; the public sector reform is an element of the adjustment process and privatization represents one of the possible aspects of public sector reform. Privatization is supposed to serve the goals of public sector reform; the latter is supposed to enhance successful adjustment. The conventional wisdom postulates that privatization is the core element of structural adjustment and that successful

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[4] The distinction between "privatization as a policy" and "privatization as a social movement", or "demand-driven privatization" is explicated in Paul Starr. The Meaning of Privatization // Sheila Kamerman and Alfred Kahn (eds.). *Privatization and the Welfare State*. Princeton: Princeton University Press, 1988, p.p. 22-24, and in Paul Starr. The New Life of the Liberal State: Privatization and Restructuring of State-Society Relations // Ezra Suleiman and John Waterbury

privatization guarantees success in reforms as a whole. Relatively few are those who are skeptic about that notion. Bienen and Waterbury, for instance, have argued that given the hierarchy of goals, "privatization is probably easier to implement than has been supposed because the equity costs are relatively small compared to those of the broader structural adjustment process": "the payoffs for adjustment generated by privatization are relatively small" and privatization per se is not expected to alter profoundly the public/private balance in the developing countries.[5]

Structural adjustment usually involves, in the first place, stabilization measures: lowering inflation, currency devaluation, credit contraction, improving balance of payments, etc.; as long as the sale or liquidation of SOEs eases financial pressures on the government, privatization may contribute to stabilization, although it doesn't have to be a part of it. The second part of the adjustment process involves structural reforms per se which are supposed to change the incentive structure at a microeconomic level, including trade liberalization (abolition of quantitative restrictions and non-tariff barriers), alignment of domestic prices with the prices on the world market, improving revenue generation by the state through taxation, diminishing budget deficits as a result of subsidies, etc.[6] It is this last goal of structural adjustment, i.e. the reduction of the burden on the government and the elimination of the political interference in the economy, which is primarily served by the various aspects of the public sector reform. The introduction of competition and dissolution of monopolies makes explicit the costs of allowing SOEs to

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(eds.). *The Political Economy of Public Sector Reform and Privatization.* Boulder, San Francisco, Oxford: Westview Press, 1990, p. 27-30.

[5] Henry Bienen and John Waterbury. The Political Economy of Privatization in Developing Countries // *World Development*, 1989, Vol. 17, No. 5, p. 619.

[6] See Joan Nelson (ed.). *Economic Crisis and Policy Choice. The Politics of Adjustment on the Third World.* Princeton University Press: Princeton, NJ, 1990, p.p. 3-4.

operate inefficiently or using SOEs to pursue directly social and political goals; competition also provides information about managerial performance - the level of managerial effort can be assessed by comparing the SOEs efficiency to that of the competitors. Performance can be improved if SOEs face hard budget constraints and have no access to subsidies, privileges or other forms soft capital. Hard budgets cannot be fully implemented, however, without a sound financial sector, hence the necessity of a financial sector reform involving "improved supervision and regulation, reduced directed credit programs and direct government control over financial intermediaries, reduced interest rate controls and other measures designed to strengthen the capacity of the financial system to allocate capital on a commercial basis".[7] Another necessity is a change of the relationship between the state and the public sector managers involving freedom to react to competition with appropriate measures and incentives for improved performance, including systematic evaluation of performance and delivering fitting rewards and punishments.

All of these measures do not have to coincide with privatization, although they may prove to work better if they do. In fact, the public sector reform represents technically complex policy packages which are usually thought of separately for analytical purposes only - in reality, these policies are interrelated and the success or failure of privatization can have a serious impact on the rest of the measures, and vice versa. It matters, however, if privatization is implemented at the right time, i.e. in its proper place in the larger context of structural adjustment. This doesn't mean that there is a pre-set right time for it - the government may start, for instance, by privatizing the

[7] *Bureaucrats in Business. The Economics and Politics of Government Ownership.* Published for the World Bank. Oxford University Press, 1995, p.p. 86-87.

money-losing enterprises first to shed the loads associated with them; it may, on the contrary, decide to divest the most profitable ones so as to generate more revenue and cover the costs associated with the adjustment process. Nevertheless, the logic of divestiture should be consistent with the logic of economic reform in general; the coordination of privatization with the other reform measures in terms of timing, speed, scope, etc. is of particular importance for the final outcomes.

a) how much government involvement and political control?

Another major concept used in the dissertation is that of the liberalness or restrictiveness of the political regime. It is based on Robert Dahl's model in which regimes differ in the degree to which governments allow other actors to participate in politics and the degree to which these actors can contest the government's policies.[8] In a more restrictive regime, the government would limit the number of actors having access to policy making while in a more liberal one the government would let more of the interested parties have an input in this process; in a more restrictive regime the actors participating in the formulation and implementation of the government policies would have little opportunity to voice disapproval while in a more liberal regime the relevant actors would compete for the adoption of the better policy proposals, or, at least, they would have the opportunity to express open disagreement with the government's policies.[9] In a more liberal regime the control of the central government over the societal

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[8] Robert Dahl, ibid.

[9] It may seem that the dichotomy "liberal/restrictive" is a mere substitute for the dichotomy "democratic/authoritarian". Authoritarian governments tend to be more restrictive in the sense that to a smaller degree they allow societal actors to participate in the formulation and adoption of the policies which will be relevant for them; authoritarian governments are more restrictive in the sense that to a smaller extent they allow the societal actors involved in the implementation of

actors in their interaction with each other, or over the interaction between the societal actors and the specialized branches of the bureaucracy, is minimal, and vice versa: in a more restrictive regime this interaction would always be kept under some kind of political control. If it is not possible to exercise it directly, then special bodies with wide power of discretion and protection from the highest political offices are designed for this purpose (for instance, planning and control agencies, political police, etc.). In this sense I argue that the Egyptian government has been more liberal and the Tunisian more restrictive, although neither of the cases gets close to the extremes of the continuum.

A more restrictive government would adopt and carry out its policies in a more centralized manner while in a more liberal regime there is greater autonomy for the branches of the bureaucracy and the bodies of local government in their respective fields. Thus, the central government may be involved in decisions concerning the state as a whole or issues of relevance for the entire country, for instance, the adoption of a tax code, signing an international treaty regarding participation of the country in a regional political or economic organization, establishing a free trade zone on a small part of the territory of the country or in one particular city only, etc. The central government, however, may or may not offer other relevant actors space for decentralized decision-making and control on implementation on issues of relevance only for one region, for a specific industrial sector, for a specific enterprise, for a particular community, etc. This does not mean that I consider the concept of centralization as identical to that of

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these policies to voice their own interests and to express and promote their own version of these policies and contest the government's version. In spite of the apparent similarity between the two dichotomies, however, the former seems to be easier to define, has a broader meaning and is less ideologically loaded - Dahl himself did not use the latter in his model. Nevertheless, as the latter is widely used in the literature in contexts similar to the one in which I use the former, in the restrictiveness. Nevertheless, variation along a large part of the continuum of "liberalness versus restrictiveness" is parallel to the variation along a large part of the continuum of "decentralization versus centralization". Greater centralized control in most cases has the same logic as the greater state involvement in the economy as this involvement is carried out through the centralized structures of the state apparatus. Instances of centralized management and liberalized decision-making and implementation are an exception rather than a rule - centralization has come about historically due to the need for greater state involvement; even after the goals of this involvement have been achieved, the more centralized structure of government may remain in place for a long period of time as their transformation after decades and even centuries of existence may represent an additional challenge to the *status quo*.

In the realm of the economy a regime is more liberal if the state's participation in economic activities is more limited, and vice versa - it is more restrictive if the state-owned entities do not play on equal ground with the private sector firms. As to the public sector reform there is a lot of space for variation between absolute restrictiveness and absolute *laisser-faire* - in the case of privatization, in which the state is necessarily one of the parties, a more liberal regime would imply smaller control of the political authorities over the process and greater discretion of the specialized branches of the bureaucracy; a regime is less liberal if a sanction of an office very high in the political hierarchy is needed to validate the decisions of the actors involved. Thus, on the one hand, the central government may adopt only the general principles and goals of the process and designate a specific institution to run the day-to-day work. This institution may prepare just general

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instances in which I have used it myself in this dissertation I meant is as synonymous of the former.

guidelines of how to execute the privatization program and expect lower offices in the bureaucratic hierarchy to deal with any specific problem. In addition, most of the work on privatization may be left to the individual enterprises which are supposed to undergo divestiture and their supervisory bodies may only exercise general control. This would be a case of decentralized privatization, i.e. "each relevant institution (e.g. a sectoral ministry - B.B.) is responsible for the privatization of elements of its portfolio".[10] On the other hand, the central government may adopt a more restrictive approach - it may get involved decision-making, implementation and control regarding every transaction or any deal which involves transfer of assets from the state to the private sector; "privatization/SOE reform process is handled exclusively by a single institution within the government,... an existing department of government, usually within the Ministry of Finance, or a specifically created institution".[11] This would be an example of highly centralized privatization.

I have shown in this dissertation that the more restrictive approach of the Tunisian government as compared to the more liberal approach of the Egyptian government has led to a more successful privatization. I understand, however, that my argument could be challenged in general on the basis of the record of countries where liberal markets were established long ago and liberal values, as a rule, motivate human behavior. In this sense, we should be aware of the limits within which the argument of this dissertation may be valid - my analysis does not extend to the ends of the continuum of "liberalness /restrictiveness" of the regime - first, because pure restrictiveness makes sense only if the

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[10] Christopher Adam, William Cavendish, Percy Mistry. *Adjusting Privatization: Case Studies from Developing Countries*. London: James Currey; Kingston: Ian Randle Publishers; Portsmouth, NH: Neinemann Educational Books, 1992, p. 47.
[11] Ibid.

actors involved in social interaction have absolutely no interests and goals of their own (which never happens), and second, because of the different political context associated with the liberal end of the continuum. I admit that in general the outcomes of economic activities in a liberal environment have proved to be superior to any alternative - an illustration of this superiority gives the comparison of the performance of the industrialized countries in Western Europe and North America vis-à-vis the countries with centrally-planned economies in Eastern Europe. The market-based economy and the liberal principles of organization of the polity have produced individual initiative, optimal exploration of the existing opportunities, a self-correcting and self-sustaining mechanism for enhancing greater productivity. Nevertheless, the institutions which have worked perfectly in one place may not work so well in another place and in a different political context. The different balance of power between the affected classes and groups crucially influences the net effect of policies and institutions by changing the transaction costs - thus, within one political setting an institution may promote growth and within another setting - rent seeking.[12]

In the industrialized countries privatization has come in the context of deregulation and state withdrawal from direct involvement in certain spheres of economic activity. This happened even in industries which had been considered of strategic importance or in natural monopolies in which competition alone could hardly enhance economic efficiency. In addition to the reduction of the government's share of ownership,

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[12] Robert Bates and Mushtaq Khan elaborate on this idea in Robert H. Bates. Social Dilemmas and Rational Individuals: An Assessment of the New Institutionalism // John Harris, Janet Hunter and Colin Lewis (eds.). *The New Institutional Economics and Third World Development.* Routledge: London and New York, 1995, p.p. 27-48 and Mushtaq Khan. State Failure in Weak States: A Critique of New Institutionalist Explanations // John Harris, Janet Hunter and Colin Lewis, op. cit., p.p. 71-86.

competition was introduced or increased by lowering the barriers to entry and by relaxing the existing restrictive regulations - this is how, for instance, in addition to the privatized giants British Airways, British Telecom, British Gas, etc. new small companies appeared on the market in the UK. The new arrangement which followed the shrinking of the public sector proved to work well enough both for the new private entrants and for the consumers; at the same time, this retreat of the state did not impair its capacity to collect information and raise taxes - the state got the opportunity to focus on setting the rules of market interaction between the private actors and to shape the general strategy of the markets.

In the industrialized countries greater state involvement in the economy may not contribute to its performance but in the developing world it may - in Europe and North America there may be a dilemma between "the state or the market" but for the rest of the world the formula of success may be "the state and the market". The argument about the possibility that the restrictions which the central government imposes on the liberty of the individual societal actors may well serve the purpose of creating competitive markets can find support in the debate between the proponents of the "liberal" and "statist" solutions of the developmental problems of the Third World. Early developmentalist literature in the 1950s and 1960s postulated that the state should be the main agent of change as only it could foster accelerated industrialization, increased productivity in agriculture and creation of the infrastructure necessary for a modern economy. This view was challenged in the 1970s and 1980s by the proponents of neoorthodox liberalism who saw the state as a major obstacle to change and argued for the need for its minimal involvement as the only possible alternative to large-scale rent-seeking, overbureaucratization of the state apparatus, stifling of economic initiative and civil society through excessive controls and restrictions. Nevertheless, a solution of the "state versus market" dilemma was found in the literature at the end of the 1980s and the beginning of the 1990s - it insisted on the important developmental role of the state although it admitted to the obvious negative consequences of the excessive involvement in economic activities. The state and the market evolve simultaneously - as Kiren Aziz Chaudhry put it, "state and market building are mutually dependent and potentially conflicting processes, shaped by historically constituted domestic and international factors".[13] From the very beginning, the dominant public sector was seen as an institutional response to the lack of developed markets and the inability of the domestic private sector to cope with the developmental tasks. "Direct state participation in the economies of the developing countries serves as an administrative shortcut. At a purely administrative level, the involvement of the state as a producer, direct employer, and lender in countries lacking a regulatory infrastructure is simpler than, and thus preferable to the much more elusive alternative of creating and regulating a market economy."[14] As wrong as the strategy of excessive government involvement in the economy may have been in the past, a simple withdrawal of the state could not result in a properly functioning market economy in the present - it would rather lead to compromising the idea of liberal markets as they really need state support to be sustained.

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[13] "The difficulties encountered by the late developers in constructing effective national legal and regulatory institutions suggest that economic liberalization alone will not produce the efficient market systems held out by neoliberal reformers." See Kiren Aziz Chaudhry. The Myths of the Market and the Common History of Late Developers // *Politics and Society*, Vol. 21, No. 3, September 1993, p. 247.

[14] Kiren Aziz Chaudhry, op. cit., p. 252.

In fact, this point of view is not so new - it is based on insights provided by influential theorists in the past. Max Weber wrote a century ago that modern capitalist organization of production was possible within such a social order which could be provided only by a well-developed modern bureaucratic state, or the existence of solid framework of authority was an essential requirement for the functioning of the market[15]; Karl Polanyi argued in the 1950s that "the road to free market was open and guaranteed by the centrally organized and controlled state intervention"[16]; Alexander Gerschenkron focused on the specific contribution of the state apparatus in overcoming the inadequacy between the scale of economic activity necessary for development and the effective scope of the existing social networks in the late developers and the need for government intervention in planning, financing, and managing industrialization was as a special institutional response to economic backwardness in which no private actor could and was willing to undertake the entrepreneurial risk necessary for development.[17]

The argument of this dissertation builds upon the work of the theorists just mentioned. The active government involvement does not have to go against the logic of marketization. There may be different strategies, more or less liberal, in the movement toward competitive markets: the latter imply a more activist state while in the former decentralized societal and economic actors are the major driving force behind the process. The reason for the preference of the latter one in the circumstances common for most of the developing countries today is the belief that although all state and extra-state actors in a developing country may benefit from a liberal economic environment in the

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[15] Max Weber. *Economy and Society: An Outline of Interpretive Sociology*. Ed. by Guenther Roth and Claus Wittich. New York: Bedminster Press, 1968, p. 1376.
[16] Karl Polanyi. *The Great Transformation*. Boston: Beacon Press, 1957, p. 140.

long run, their short-run interests may motivate actions which result in delaying the movement toward a market economy as a whole and seriously distort the existing market interaction among the participating actors. In fact, the evolution of the markets in Western Europe and North America shows that they did not come as a result of the fulfillment of the wishes of any single market actor - on the contrary, any individual actor would prefer to benefit from the liberal rules of the game until he/she gains monopoly or sufficient market power and then oppose competition. Liberal markets have ultimately come about as a result of the consultation and the compromise of the varying and often conflicting interests of the multiple players. In case the interaction among these players concerning privatization happens in the context of developed markets, then this market environment can provide the general framework to regulate and channel the multiple interests in the necessary direction and discourage any individual actor from engaging in utility-maximizing behavior which would be detrimental for the system as a whole. Socially, this arrangement is underpinned by a mature civil society in which similar interests are represented by multiple actors or groups; politically, this arrangement is supported by the opportunity for the citizens to influence government decision-making through their elected representatives, freedom to organize around various political agendas and guarantee to the right of expression, no matter that the expressed opinion may be supported only by a handful of people.

The situation is different in most of the developing countries - they lack serious experience of large-scale decentralized decision-making: there aren't the necessary avenues of political participation in politics (mature parties and party systems, non-

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[17] Alexander Gerschenkron. *Economic Backwardness in Historical Perspective: A Book of Essays*. Cambridge, MA: Belknap Press of Harvard University Press, 1962.

governmental organizations and social movements, such as labor unions, environmentalist, pacifist and other groups, sufficiently autonomous from the government) capable of aggregating various political opinions and formulating competing political programs; there isn't a mature civil society permitting the existence of similar interest groups in non-hierarchical organization and having concurrent agenda; there aren't mature market institutions which would foster competitive behavior on the basis of comparative advantage and economic efficiency, with clear rules of competition and trust on behalf of the market participants. In these countries there isn't sufficient capacity to pursue the goals which the state has set for itself, no matter how developed and diversified the bureaucratic apparatus may be, to formulate adequately and carry out successfully the necessary policies for enforcing the basic rules of conduct in the interaction among the extra-state actors. In this context it may turn out that the central government in spite of its possible ambivalent attitude toward social and political change may be the actor who has not only the greatest capacity to be the major agent of change but also the most consistent actor in the movement toward competitive markets, i.e. the progress under a more authoritative management of the government may be more effective than the progress resulting from the interaction of the interests of the multiple actors involved.

Thus, if the basic foundations for a market economy need to be set up at the same time, then successful privatization cannot take place in the context of a mere relaxation of state controls. "On the contrary, it requires an active effort by the state to design new laws and institutions, to assure security of property rights and rights of voluntary associations... rather than disengaging itself, the state must first design a framework of rules, backed by its own policing powers, to create the necessary public trust for the market to functions... Privatization may ultimately result in less state control, but it first requires states to develop capacities they may not have previously had, such as the capacity to maintain the rule of law, instill confidence among investors, supervise contracts, and provide expedient administration of official rules and regulations."[18] In this sense, my argument represents an elaboration of the notion of "the orthodox paradox" - the observation that the shift from the state to the market in the 1980s and 1990s, i.e. the implementation of the economic and political reforms, has gone parallel with and is contingent upon the strengthening of the state and the political control over economic activities.[19]

As generalizations on the basis of limited number of observations are a risky business, having done extensive research only on two cases, I would limit my argument to the realm of the mid-income developing countries[20], of which Egypt and Tunisia are representative. The time frame of the study does not extend beyond the end of 1995 although I do not expect any subsequent developments to falsify my findings. Any other limitations and qualifications in terms of scope, speed, involvement of external actors, etc. will be discussed further in the dissertation. In the following section we will examine more closely the Egyptian and the Tunisian privatization experience and give evidence in

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[18] Paul Starr. The New Life of the Liberal State: Privatization and the Restructuring of the State-Society Relations // Suleiman and Waterbury (eds.), op. cit., p. 31.

[19] Miles Kahler, Thomas Callaghy and others who did work on structural adjustment. See Joan Nelson (ed.). *Fragile Coalitions: The Politics of Economic Adjustment*. New Brunswick: Transaction Books, 1989.

[20] As middle-income countries are considered those with a per-capita income between $676 and $8,355 in 1992; low-income countries are those with a per-capita income of $675 or less; the rest of the countries in the world, i.e. the ones with per capita income of $8,356 are generally considered to be industrialized. See *Bureaucrats in Business*, p. x.

support of the claim that Egypt has been one of the laggards while Tunisia, without being a champion, has steadily moved ahead.

3. Failure and Success in Privatization: Overview of the Egyptian and the Tunisian Experience

The idea of privatization in **Egypt** emerged in the midst of the economic crisis of the 1980s. The country's leadership had already shifted its course since the mid-1970s from state-sponsored socialism towards economic liberalization, encouragement of private enterprise and foreign investment (table 1.1). Nevertheless, a state-sponsored type of capitalism emerged as a major result of the liberalization efforts, continuing to rely on import substitution and a dominant public sector. If back in the 1960s this sector, justified by a socialist economic doctrine, expanded by taking over practically all private enterprises in the country, in the 1970s it grew on its own in size and strength parallel to the reemerging private sector and against the economic justification of the proclaimed course towards economic liberalization. Economic difficulties were exacerbated by the giant size of the public sector - it failed to meet the expectations and deliver the necessary goods and services. According to a USAID study,

> "[e]fficiency indicators show a steady deterioration in the performance of the PEs since the mid-1970s and an accelerated deterioration in the 1980s as the PEs financial rate of return fell to less than 10%, real output per worker declined, and the value added per worker fell, largely reflecting the burden of surplus labor. Although the GOE recently halted most direct subsidies, these businesses still represent a substantial drag on the state banks and on the economy in general. The

debt of the PEs, including long term loans, stood at LE 14.9 billion in July 1992."[21]

Table 1.1 Share of the Private Sector in GDP in Egypt (percentage)[22]

Sector of the Economy	1986/87	1991/92
total commodity	70	71
agriculture	99	99
industry and mining	50	58
construction and building	65	65
total production services	61	72
trade	82	90
finance	23	29
insurance	19	39
restaurants, tourism and hotels	80	85
total social services	54	55
real estate ownership	93	95
total GDP share	64	68

Instead of economies of scale and additional revenue for the state the public sector produced inefficiencies of scale and became a serious burden for the national budget, constantly requiring subsidies, consumed valuable scarce resources, stifled private initiative, facilitated the rise of interest groups with ambivalent and even negative attitude toward further liberalization. As a result of the "trial and error" strategy adopted by the government since the beginning of "*the Infitah*" and tacitly approved by its foreign sponsors, it became clear in the mid-1980s that there could be no sustainable solution to

[21] Privatization Project #263-0238. Project Paper. USAID/Egypt, August 9, 1993, p. 1.
[22] American Chamber of Commerce in Egypt. *Privatization in Egypt: Problems & Recommendations.* Cairo, 1994, p. 42.

the country's economic problems without a radical public sector reform. At that time the need for privatization had to be taken seriously.

The issue of restructuring of the public sector was one of aspects of the structural adjustment whose implementation was supposed to start after the first stand-by agreement with IMF of May 1987.[23] There was, however, no progress partially because of the eased inflation pressure on the government and partially because of the lack of commitment on the part of the Egyptian elites from the very beginning and the populist pressures on the government; thus, in November 1987 the agreements with the international financial institutions fell apart. The failure at the start of structural adjustment gave birth, however, to a number of important discussions, including the one on the issue of privatization - it involved various actors who had a stake of their own in the process, namely, labor unions, business associations, local communities, private voluntary organization, external agencies, multinational corporations, etc. The first time the term "privatization" was mentioned was in the May Day 1990 speech of the President Mubarak who called for "privatization and liberalization"; later that year it was included explicitly in his "1000 Day reform program". In terms of practical measures, however, privatization did not move further than the "popularization" initiatives at a governorate level: projects owned and operated by provincial governments (i.e. small and micro-enterprises, for instance, bread shops with a couple of workers, poultry units, dairies and

[23] The reform package included simplification of the exchange rate system through establishment of a new bank foreign exchange market and devaluation of the pound to the "tolerated market" rate, increase of the nominal interest rates to internationally competitive levels and elimination of all external arrears, reform in commodity and factor prices, i.e. increase of the average petroleum product prices and energy tariffs, decrease of the consumer subsidies on some basic food commodities, income tax reform, etc. See Robert Holt and Terry Roe. The Political Economy of Reform: Egypt in the 1980s // Robert Bates and Anne Krueger (eds.). *Political and Economic*

retail outlets) were to be privatized. Only a few of these projects were, in fact, divested by the beginning of the 1990s; as to the enterprises owned and managed by the central government, there was little progress, mainly in the implementation of alternative privatization schemes such as employee stock-ownership plans (ESOP), contracting out of assets and private management contracting.

Further measures towards privatization were undertaken in the beginning of the 1990s. After the Gulf War, in which Egypt managed to receive significant strategic rents for its support of the anti-Iraqi coalition, in May 1991 a new agreement for structural adjustment was signed with IMF. It involved a more comprehensive reform package, including reduction of the budget deficit by cutting food, energy and other subsidies, reduction of the number of employees in the public sector, unification and decrease of tariff rates and quantitative restrictions, higher real interest rates and a realistic single exchange rate, etc. The elimination of price distortions and the reform of the regulatory environment were expected to boost competition and promote the growth of private manufacturing. The reform package, however, favored restructuring of the public sector in terms of decentralized decision making rather than divestiture: managers were to have freedom of choice regarding inputs and outputs, prices, hire and fire decisions; at the same time they were supposed to face "hard budget constraints", receive no special financial privileges or bail-outs and get bank credit on market rates.[24]

We have to admit that this was not the first time that measures designed to eliminate the existing bottlenecks in the public sector and to raise its efficiency were

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Interactions in Economic Policy Reform: Evidence from Eight Countries. Oxford, UK, Cambridge, MA: Blackwell, 1993, p. 204.

[24] See Alan Richards. The Political Economy of Dilatory Reform: Egypt in the 1980s // *World Development*, Vol. 19, No. 12, p. 1726-28.

adopted in Egypt. Back in the 1950s and the 1960s it was considered that these goals would be best served by the strategy of centralized planning and control through the Ministry of Industry, the Economic Organization and the National Planning Committee which took over all large-scale production, mining, all imports, most of the exports, all infrastructure, finance, wholesale trade and a great deal of the retail trade; in May 1967 a Supreme Control Committee was established for the purpose of surveillance of the public sector and detection of the "opportunists and deviationists"; with the same good intentions the General Organizations were abolished with Law 111 of 1975 and greater discretion was given to the public sector managers, the possibility of liquidation of loss-making enterprises was accepted, all joint ventures with public participation were placed out of the jurisdiction of the public sector. It is worth noting that similar goals were pursued through contradictory policies and instruments; it is also worth mentioning that none of the adopted measures concerned the fundamental problem of the public sector - its primarily political nature and the non-competitive environment in which it functioned.

At the beginning of the public sector reform there were four groups of SOEs in Egypt. The first one included the so called strategic "economic authorities" - the Suez Canal Authority, Egyptair, the state petroleum and railway companies, and the utilities - power, water, telecommunications, and transport; the second one - the state-owned financial institutions - banks and insurance companies. The third one consisted of about 400 companies in industry, agribusiness and services primarily targeted by the Egyptian privatization program; we will focus on these enterprises in the comparative analysis of the Egyptian and Tunisian experience. "This set of PEs makes a relatively small contribution to national output and employment; it accounts for about 10% of GDP and employs some 8% of the labor force (1.1 million people). But it produces more than 70% of industrial output and includes many subsectors that are critical for economic development."[25] The fourth group includes public sector companies within the Ministry of Military Production which in 1993 was merged with the Ministry of Defense which from the very beginning were not expected to undergo divestiture - 20 military factories, 14 of which have both military and civilian output.[26]

A formal commitment to privatization was declared when the government announced a plan for divestiture of 125 public enterprises over the period 1990-1995. It was also decided to sell the state's shares in more than 250 public joint-venture companies and 23 public joint-venture banks. At the end of 1990, a larger number of governorates started to seriously consider disposing of some of their small businesses. A legal and organizational framework for privatization was established in 1991. The Public Business Sector Law No. 203 created a new structure of the public sector: the SOEs were taken out of the direct control of the sectoral economic ministries and put under the supervision of Holding Companies supposed to manage them with greater autonomy and with the objective of profit maximization, thus facilitating the ultimate transfer of ownership over the enterprises to private investors. A list of candidates for divestitures

[25] Interim Evaluation: Sector Policy Reform Program and Technical Support for Sector Policy Reform Project - Egypt. Prepared for the USAID as buy-in to contract number PDC-0095-Z-00-0-53-00, Amd.12. Prepared by Elliot Berg, Richard Sines and James Walker. July 1994. DAI, Bethesda, MD, p. 33.

[26] These are: 1. Helwan Iron Foundries (factory No. 9) 2. Helwan Company for Non-Ferrous Industries (factory No. 63) 3. Helwan Company for Engineering Industries (factory No. 99) 4. Helwan Company for Metallic Appliances (factory No. 360) 5. Helwan Company for Machine Tools (Factory No. 999) 6. Helwan Company for Diesel Engines (factory 909) 7. Shoubra Company for Engineering Industries (factory No. 27) 8. Abu Kir Company for Engineering Industries (factory No. 10) 9. Benha Company for Electric Industries (factory No. 144) 10. Kaha Company for Chemical Industries (factory No. 270) 11. Maasara Company for Engineering Industries (factory No. 45) 12. Abu Zaabal Company for Specialty Chemicals (factory No. 18)

was published in 1992 – these companies were to be privatized in three batches during the next three financial years: 20 in 1991/1992, 25 in 1992/1993 and 49 in 1993/1994. In February 1993 the government published General Procedures and Guidelines for the Government's Program of Privatization, Restructuring and Reward System, or the so called "Blue Book" - the only government publication concerning privatization, which stated the scope of the program, the government strategy, the institutional arrangements, the methods of divestiture as well as the principles for the restructuring of the public sector companies, performance evaluation and selection criteria, liquidation procedures, etc.

By the end 1995 no official report or analysis of the results was made public by the government. Out of 317 SOEs under the control of the central government grouped within 17 holding companies (annex 2) one could count only 14 cases of privatization of majority interest (table 6.4) and 12 cases of minority interest (table 6.5). It is worth noting that in 10 out of the 14 cases of majority interest privatization (as well as in 3 of the minority interest divestitures) ownership was transferred to employee stock ownership programs (ESOPs) which kept the previous management and brought little change in the performance of the companies. Transactions took place in the light, foodstuffs, tourism, land reclamation and service industries, in which the size of the firms' working capital was not so great and there was a more or less competitive market environment. There were only four large-scale deals: the sale of two soda companies - Nasr Company for Bottling to Coca Cola for LE322 million and the Egyptian Bottling Company to PepsiCo for LE156 million, the sale of Nasr Boiler and Steam Vessel to a consortium of investors

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13. Maadi Company for Engineering Industries (factory No. 54) 14. Heliopolis Company for Chemical Industries (factory No. 81).

with predominantly Canadian participation for LE58 million and Cairo Sheraton Hotel to a consortium with predominantly Libyan participation for LE497.[27] As of July 31, 1995, a total of LE1,278 million of revenue was generated from the sale of majority interest and LE597.47 million from the sale of minority interest. The proceeds from liquidation of particular units amounted to LE447.26.[28] It is also worth noting that there was no official statistics about the revenue generated from the privatization of the small and micro-enterprises at the governorate level.[29]

The story of the privatization in **Tunisia** is different. This country's experience for the last 40-50 years has been similar to that of Egypt. With the end of the French colonial domination and the achievement of sovereignty it became obvious that the local industry was seriously underdeveloped. As in Egypt, an import substitution strategy was adopted with a heavy reliance on the public sector and strong government intervention practically in all economic activities. Unlike Egypt, however, there was little local private industry to be nationalized and taken over by the public sector - this sector was supposed to become the major agent of development and instrument of industrialization. A suitable ideological justification for this was found in the 1960s - Tunisia engaged in the pursuit of a "destourian" (i.e. constitutional) socialism which condoned the spread of the public sector from the industry to the services and to the agriculture where it took the form of cooperatives of agricultural producers under direct government supervision. The socialist experiment barely lasted until the end of the decade but the public sector had already

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[27] The exchange rate in 1995 was LE3.39 for a US dollar.

[28] USAID Privatization Project. Evaluation Services Contract. Contract # 263-0238-C-00-5016-00. Quarterly review for period ending July 31, 1995. Submitted by IBTC, Inc., Cairo, Egypt, p. 3.

[29] Out of a total of 1850 small businesses, 1700 were sold till 1994. See American Chamber of Commerce in Egypt. *Privatization in Egypt: Problems and Recommendations*. Cairo, 1994, p. 4.

become powerful enough and continued to expand on its own without the need of any ideological justification. As in Egypt, its growth under the state capitalism of the 1970s and the beginning of the 1980s was even more spectacular than under state socialism; as in Egypt, it continued to create more problems than it was able to solve - it became a heavy burden for the state budget; it accounted for the general inefficiency of the Tunisian economy and had a significant contribution for the aggravation of the crisis in the economy and society in the mid-1980s which ultimately led to the change of political leadership. As Jamal Saghir points out, "by 1988 the public sector in Tunisia had become more extensive than ever before. Hence, PEs accounted for 12.3% of the budget ($400 million), aggregate losses were almost $900 million, total debts amounted to nearly $6 billion, almost 47% of the foreign debt of the country, net equity totaled $5 billion, and assets represented $17 billion. These PEs employed about 156,000 people, accounting for some 13% of the total employment of the country. As of 1988, the value added by the PE sector was $1.3 billion, production value was $5 billion, and their distributed payrolls accounted for 23% of the total salaries in the country. PEs, excluding the financial sector, represent nearly 15% of GDP."[30] The most troubled SOEs were the phosphate mining company (CPG), the fertilizer companies (GD) and the railway (SNCFT) - in 1988 government subsidies for them amounted to more than a half of the total subsidies for the public sector.[31]

[30] Jamal Saghir. Tunisia: Share Ownership and Employee Participation a Priority // *Privatization Yearbook, 1993, p. 233-234.*
[31] Ibid.

Unlike Egypt, however, there was less international fanfare about what Tunisians were doing in their country.[32] The ruling elites seemed to understand the need to go for an economic reform rather than wait and find themselves forced later to accept political liberalization. The Tunisian government tried at first to restructure the public sector and introducing elements of competitiveness without resorting from the very beginning to the radical solution of divestiture. The definition of a SOE changed a few times - thus the number of companies under direct government control was reduced "from approximately 500 during the period before 1985, when 10% of state ownership was the criterion to 307 under Act 85-72, which based the definition of public enterprises upon state ownership of 34% or more of the capital of a company, or a combined ownership of 50% or more through direct or indirect means. Finally, under Act 89-9 of February 1989, the new definition included only firms in which GOT held 50% or more participation interest which reduced the number of PEs to 189."[33] As a result a complex web of enterprises appeared, some of them with practically no private participation in the ownership structure but still not considered "public enterprises" as they did not belong directly to the state and were subsidiaries of other state-owned companies. Although the control over these companies ultimately belonged to the state, they were not subject to a number of restrictions mandatory for the "public" SOEs and functioned in accordance with the laws regulating private enterprises.

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[32] I don't attribute this to any significant difference in their desire for fanfare - domestically, the official propaganda worked in an equally efficient (or inefficient) way. Probably it was the international response or the attention paid by the international community to the events happening domestically which produced the perception that Tunisians have been less vocal about what they have been doing - for various reasons Egypt has attracted greater part of the attention of the rest of the world, its experience is better known and more often evoked.

[33] Jamal Saghir. Tunisia: Share Ownership and employee participation a priority // *Privatization Yearbook, 1993, p. 233-234.*

In 1986 the Tunisian government had to adopt a structural adjustment program sponsored by the international financial institutions. In exchange for financial assistance it committed to a radical reform including creation of the economic structure for the functioning of a competitive market, liberalization of the foreign trade and the financial system. A major element of this program was further restructuring of the public sector. The work on privatization itself started in 1987, i.e. practically at the same time as it did in Egypt. There were ups and downs in the process, the pace was not even during the period under study (till the end of 1995) but what ultimately matters is the final results. Initially, the public sector counted about 400 SOEs; no particular plans and lists of candidates for divestiture were published. Discussions on policy-related issues were minimal and a general consensus among the elites regarding privatization seemed to exist. The possible differences of opinion among policy-makers and other relevant actors were hidden behind an education and information campaign at the end of the 1980s which presented privatization as the latest achievement of the industrialized and of a few pioneering developing countries in the field of macroeconomics management and practically left no space in the public opinion for the opponents of these policies. At the end of 1995, as a result of both restructuring and sale, there were 58 privatized enterprises, not including the enterprises in which the state kept a majority interest or the enterprises which were liquidated as a result of the restructuring; the revenue generated as a result of these transactions amounted to TD239.362 million.[34] The process also started with the sale of companies which were easier to privatize (e.g. hotels and commercial establishments) but later spread to the textile and foodstuffs industry, transportation, construction materials, the chemical industry, the production of

[34] The exchange rate in 1995 was TD 0.95 for a US dollar.

mechanical and electric appliances, etc. (Table 1.2). If in the beginning the goal of the government was to get rid of the money-losing enterprises only, after 1993 it showed commitment to privatize the profitable ones too. As a result of the sales, liquidations and restructuring at the end of 1995 what was left of the public sector was about 230 entities (annex II), more than 100 of which would not qualify as a SOE in the strict sense as they represent in fact government agencies (e.g. research centers, the government publishing house, etc.). Practically in all cases the privatization transactions involved a change of the management of the enterprise. In spite of the ups and downs (most of these 58 SOEs were privatized before 1993) divestiture is in progress and can be considered a success; the divested companies represent a fair share of the industrial sector of the country in general.

Table 1.2 Privatization of SOEs by Industry in Tunisia (as of December 31, 1995)[35]

Sector	Number of Enterprises	Proceeds (TD million)	Percent of Total
tourism and crafts	12	78.549	32.8
textile	5	12.994	5.4
commerce	5	5.984	2.5
construction materials	7	11.955	5.0
chemical industry, mechanical and electrical appliances	6	35.259	14.7
agribusiness and fisheries	9	40.716	17.0
transportation	11	50.856	21.2
other	3	3.049	1.3
Total	**58**	**239.362**	**100.0**

What do the accomplishments of Egypt and Tunisia look like against the background of the wave of privatization worldwide? Privatization became a global phenomenon when it spread in the 1980s from the industrial economies, notably the United Kingdom, to the rest of the world. In the 1990s, it accelerated as governments started selling more enterprises, at first, small firms operating in competitive markets, and later, large monopolies. Mass privatization schemes were launched in Eastern Europe and the republics of the former Soviet Union. With the adoption of explicit programs in a large number of countries, five times more privatization transactions took place in 1988-1993 than during the period 1980-1987; the developing countries accounted for 86 percent for the transactions in the former period compared with 66 percent in the latter one. "Although most of the increase was due to the explosion of privatization activity in the transition economies of Eastern Europe and Central Asia, the number of divestitures

[35] Source: General Directorate of Public Enterprises, Prime Ministry of Tunisia.

increased more than fourfold in Latin America and more than threefold in the rest of Asia. Even Sub-Saharan Africa experienced an increase of divestitures, albeit a much more modest one that left the continent with fewer privatizations than any developing region."[36]

If early sales involved relatively small SOEs, primarily in agribusiness, services, and light manufacturing, in the beginning of the 1990s divestiture included the sale of large SOEs in such important sectors as infrastructure, electric and water utilities, transportation, and telecommunications, as well as major firms in the financial and the industrial sectors (tables 1.3 and 1.4). There has been a wide regional divergence in the average size of firms: Latin America accounts for just one fourth of the number of transactions, but at the same time for almost 60 percent of the value, while Central and Eastern Europe accounts for almost half of the transactions but only 19 percent of the value; Asia accounts for 16 percent of the transactions and 21 percent of the value and is second only to Latin America in average revenue per sale; Africa is at the bottom with only 11 percent of the transactions and 3 percent of the value. Although the public sector still absorbs a larger part of the total investment in the developing world than in the industrial countries, the share of SOEs in investment in the former has decreased from 22 percent in the early 1980s to 19 percent in the early 1990s; the share of SOE investment relative to GDP declined from 5 percent in the early 1980s to 4 percent in the early 1990s.[37]

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[36] *Bureaucrats in Business. The Economics and Politics of Government Ownership*, p. 26-27.
[37] Ibid., p.p. 28-30.

Table 1.3 Divestiture in the developing countries, 1980-1993[38]

Region	1980 - 1987		1988 - 1993		1988 - 1993	
	number of transactions	% of total	number of transactions	% of total	value of transactions $ billion	% of global value
Africa	210	46	254	11	3.2	3
Asia	108	24	367	16	19.7	21
Latin America	136	30	561	25	55.1	57
Eastern Europe and Central Asia	2	-	1,097	48	17.9	19
Total developing countries	456	100	2,279	100	96.0	100
Industrialized countries	240		376		174.9	
Divestiture worldwide	696		2,655		270.9	

Table 1.4 Revenue from divestiture in developing countries by region and sector, 1988-1993 ($ billion)[39]

Country	Primary	Industrial	Finance	Infra-structure	Others	Total revenue
Africa	0.7	0.5	0.3	0.1	1.6	3.2
Asia	1.8	6.4	2.6	7.4	1.5	19.7
Latin America	8.2	9.9	13.3	22.5	1.2	55.1
Eastern Europe and Central Asia	1.4	8.9	3.7	2.0	1.9	17.9
Total	12.1	25.7	19.9	32.0	6.2	95.9
Total number of divestitures	392	1,036	146	267	438	2,279
Total divestitures for 1980-1987	126	92	35	51	152	456

As the World Bank experts admit, "bureaucrats are still in business": "although the potential gains from privatization and other reforms are substantial, only a few

[38] Ibid., p. 27.

countries have reformed their SOEs successfully".[40] In spite of the seemingly large wave of privatizations worldwide and the growing consensus that the public sector is in general less efficient than the private one, the size of the public sector has diminished significantly only in the former socialist countries and in a few middle-income countries. In most of the Third World, particularly its poorest parts, the SOEs represent as large share of the economy as ten or twenty years ago, i.e. the SOE sector tends to be larger and most costly in those countries which that can least afford it.

For the period 1980-1993 there has been less than 3 divestitures per country per year.[41] There seems to be a lack of change in the SOE share in total employment and the declining share of SOE investment may not have affected the size of the SOE sector substantially. "To the extent that this trend continues, the relative role of the SOE sector in the economy will diminish in the future. But for now, the small number of divestitures relative to the total number of SOEs, the concentration of sales only in a few countries, and the fact that the decline in the SOE share of investment will only gradually reduce the size of SOE capital stock relative to the rest of the economy all suggest that the importance of the SOE sector on average has remained substantially unchanged in the developing countries."[42]

It is clear that both Egypt and Tunisia tend to diverge from the extremes in any respect of the developing country privatization record: neither are they among the poorest

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[39] The table does not take into account privatization transactions with proceeds of less than $50,000, liquidations and mass privatization schemes. See ibid., p. 28.
[40] "Government employees operate a casino in Ghana, bake cookies in Egypt, assemble watches in India, mine salt in Mexico, make matches in Mali, and bottle cooking oil in Senegal." See ibid., p. 1-2.
[41] Dividing total transactions worldwide (3,351) by the number of divesting countries (95) over 13 years (1980-92).
[42] Ibid., p. 30.

countries which lag far behind the middle-income ones, nor has there been special political events, like the democratic transitions in Eastern Europe at the end of 1980s, to delay or push forward the process of privatization. Both Egypt and Tunisia joined the bandwagon of the global trend toward economic liberalization early enough and both of them have been inconsistent in carrying out the reform measures. Nevertheless, on the one hand, it is fair to say that Egypt has been a laggard in the process: first, we see that only 14 companies were privatized out of 317 in the entire public sector and out of 60 explicitly targeted for divestiture by the government; and second, the average number of transactions in Egypt per year (1.85) is lower than the modest average of 3 divestitures per country per year. On the other hand, it is also fair to say that Tunisia has performed well: although there was no list of enterprises initially targeted for divestiture for a comparison with the results achieved until 1995, we see, first, that the number of SOEs has shrunk from about 400 in 1987 to about 230 in 1995; and second, the average annual number of divestitures (7.25) is substantially greater than the country average.

Before starting the analysis of the results of privatization in Egypt and Tunisia which were briefly outlined in the preceding paragraphs it is necessary to see to what extent the questions asked in this dissertation have been answered in the literature so far and review some important theoretical issues.

II. WHO? WHY? HOW? MAJOR ISSUES IN THE LITERATURE

It is fair to say that the studies of the political dimension of privatization and especially the impact of the strategies chosen by the government on the outcomes with regard to the region of MENA have not been very extensive; it is also fair to say that few researchers have tried so far to trace in detail the link between regime characteristics and the success or failure of the public sector reform. Nevertheless, the existing literature on privatization, on the one hand, and the politics of economic reform, on the other, provide significant insights into the matter under consideration and offer some leads for the solution of our research task.

1. The Rationale for Privatization

The concept of privatization is relatively new - it did not appear in the literature until the 1980s. Many related issues, however, had been studied well enough, although under different perspectives. The literature on the political economy of the public sector explored its functioning both in the context of the welfare state in Western Europe and in the context of the import substitution strategy adopted by many developing countries, studied its rationale, analyzed its problems and concluded about the necessity of reform, although even the most ardent supporters of the ideas of liberal markets did not go so far as to advocate divestiture as the core element of this reform. Theorists focused on the phenomenon of privatization *per se* only after politicians in Western Europe, especially in the UK, got involved. At first, it was only a policy debate whether it was appropriate or not "to sell the family silver" in order to ease the burdens of the economic crisis and back off from the commitments assumed by the state in the post-war period. The opponents of the idea based their arguments on general normative grounds while the supporters engaged in a more technical analysis providing evidence about the efficiency gain as a result of divestiture.

In the mid-1980s after it turned out to be a success in the industrialized world, privatization spread to many countries in Asia, Africa and Latin America. This is when it went beyond the policy debates - theorists from different fields gave their contribution, trying to put privatization in the context of more general theoretical debates concerning property rights, state/society interaction, democratization of capital, globalization, etc. The title of one of the first comprehensive studies published in the US - "The Promise of Privatization" - seemed to reflect the emerging consensus in the attitude toward privatization as the best possible strategy for the countries in need for reform.[43]

As many countries gained experience, towards the end of the 1980s it became evident that there was no guarantee that "the promise" would come true. It was clear that privatization was primarily a political process and not just a matter of managerial restructuring or financial engineering. It was also clear that privatization might bring new problems, perhaps greater and more serious than the ones it was able to solve. Even if it worked in the long run, privatization involved serious risks and costly tradeoffs; it required careful political management and coordination with the overall reform strategy of the government. A further development in the study of privatization was the effort to assess the experience of the countries in Eastern Europe and the former Soviet Union in the beginning of the 1990s - divestiture was happening there with a speed which surpassed the expectations but the apparent success of these policies raised new questions putting it in the context of the political regime change, focusing on the distributional implications of the process and causing a great deal of skepticism and disappointment.[44] Now, at the end of the 1990s, privatization is not any more that new and sexy concept quite *en vogue* among policy makers and social scientists. It has become clear that it is just one of the avatars in which century-old debates have reemerged - the debate of the state versus the market, the debate of means versus ends in politics, the debate of whether policy choices represent a response to international pressures or stem from the dynamics of domestic politics, etc., i.e. debates on dilemmas with no easy solutions.

There have been different kinds of studies on privatization. The first one presents privatization from the technical perspective of practitioners and policy-makers - with a lot of details concerning the particular experience of a country, an industry or an enterprise and giving specific policy prescriptions.[45] The second kind are the general theoretical works by academics who have studies privatization from their respective single field

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[43] See Raymond Vernon (ed.). *The Promise of Privatization: A Challenge for US Policy*. New York: Council on Foreign Relations. 1988. This book was also the first study in which this consensus was subjected to a serious critical evaluation.

[44] Even the experts of the World Bank and the IMF who are usually considered to be among the strongest advocates of privatization, have become quite critical and selective in their advocacy. See *Bureaucrats in Business. The Economics and Politics of Government Ownership.* Published for the World Bank. Oxford University Press, 1995.

[45] UNCTAD. *Accounting, Valuation and Privatization.* United Nations, New York, 1993; Pierre Guislain. *Divestiture of State Enterprises. An Overview of the Legal Framework.* World Bank Technical Paper Number 186. The World Bank, Washington, DC, 1992; Bouin, O. and Ch.-A. Michalet. *Rebalancing the Public and Private Sectors: Developing Country Experience.* OECD, 1990; Kent, Calvin (ed.). *Entrepreneurship and the Privatizing of Government.* New York, Westport, Conn., London: Quarum Books, 1987; John Vickers and Vincent Wright (eds.). *The Politics of Privatization in Western Europe.* Frank Cass, 1989 (a collection of country case studies); Ramanadham, V.V. (ed.). *Privatization in Developing Countries.* London: Routhledge, 1989 (a collection of country case studies); Savas, E.S. *Privatization: The Key to Better Government.* Chatham: Chatham House Publishers, 1987; etc.

perspective.[46] The third kind are case studies focusing on the experience of particular countries.[47] A relatively marginal space is occupied by a fourth body of literature - comparative studies of two or more cases, building theoretical arguments based on an interdisciplinary approach to privatization.[48] It is to this body of literature that this dissertation is to contribute - to reach theoretical generalizations through parallel examination of the experience of Egypt and Tunisia - two cases typical not only for the region of MENA, but for the middle-income countries representing the greater part of the developing world.

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[46] Dieter Helm (ed.). *The Economic Borders of the State.* Oxford University Press, 1989; Eliot Berg and Mary Shirley. *Divestiture in Developing Countries.* World Bank Discussion Paper No. 11. The World Bank, Washington, DC, 1987; Bloommestein, Hans and Michael Marrese. *Transformation of Planned Economies: Property Rights and Macroeconomic Stability.* OECD, 1991; Cowan, L. Gray. *Privatization in the Developing World.* New York: Greenwood Press, 1990; Gayle, Dennis and Jonathan Goodrich (eds.). *Privatization and Deregulation in Global Perspective.* New York: Quarum Books, 1990; Gormley, William. *Privatization and Its Alternatives.* Madison, Wis.: University of Wisconsin Press 1991; Hanke, Steve (ed.). *Privatization and Development.* San Francisco: Institute for Contemporary Studies, 1987; Klitgaard, Robert. *Adjusting to Reality. Beyond "State versus Market" in Economic Development.* San Francisco: ICS Press, 1991; Ramanadham, V.V. (ed.). *Privatization. A Global Perspective.* London and New York: Routhledge, 1993; Ramanadham V.V. (ed.). *Constraints and Impacts of Privatization.* Routledge, 1993; Sappington, E.M. and Stiglitz, Joseph. *Privatization, Information and Incentives*, NBER Working Paper Series, Working Paper 2196, Cambridge, Mass.: National Bureau of Economic Research, 1987; Vickers, John and George Yarrow. *Privatization: An Economic Analysis.* Cambridge: MIT Press, 1988; etc.

[47] There have been a number of country case studies in the Raymond Vernon (ed.), op. cit., Ramanadhan V.V. (ed.). *Constraints and Impacts of Privatization,* Suleiman, Ezra and John Waterbury (eds.). *The Political Economy of Public Sector Reform and Privatization.* Boulder: Westview Press, 1990; with regard to the Middle East and North Africa it is worth noting the essays in Ilya Harik and Denis Sullivan (eds.). Harik, Iliya and Denis Sullivan (eds.). *Privatization and Liberalization in the Middle East.* Bloomingdale: Indiana University Press, 1992.

[48] Bienen, Henry and John Waterbury. The Political Economy of Privatization in Developing Countries // *World Development*, Vol. 17, No. 5, pp. 617-632; Kamerman, Sheila and Alfred Kahn (eds.). *Privatization and the Welfare State.* Princeton University Press: Princeton, NJ, 1989; Onis, Ziya Privatization and the Logic of Coalition Building. A Comparative Analysis of State Divestiture in Turkey and the United Kingdom // *Comparative Political Studies*, Vol. 24, No. 2, 1991, pp. 231-256; Suleiman, Ezra and John Waterbury (eds.). *The Political Economy of Public Sector Reform and Privatization.* Boulder: Westview Press, 1990; Waterbury, John. *Exposed to Innumerable Delusions. Public Enterprise and State Power in Egypt, India, Mexico and Turkey.* New York: Cambridge University Press, 1993.

None of the existing studies of privatization so far has directly addressed the relationship between the issue of more or less liberal reform management and the success or failure of privatization in general or in the context of a particular country. The literature has provided insights, however, into a number of important aspects of privatization which have relevance for the solution of the research task of this dissertation. Why would governments opt for privatization? How does it interact with the other goals of the reforms carried out? Who are the major actors and how do they react to the idea to privatize? How does the government manage privatization politically? The answers to these questions can be found in the following discussion of the privatization rationale, setting up the framework within which the relationship between political regime characteristics and successful public sector reform can be explored.[49]

a) deal with balance of payments problems

A number of theorists (Clarke and Pitelis, Adam, Cavendish and Mistry, Berg, Nellis and Shirley, etc.) explored privatization as a response to the fiscal crisis that many countries faced. According to them the expansion of the public sector was sustainable as long as the economy could grow fast enough; after the mid-1970s, however, the postwar period of easy growth in the industrialized countries and the post-independence growth in some developing countries came to an end. The public sector turned out to be a source of constant and deteriorating budget deficits - the SOEs needed additional funds to continue their operations even without any further expansion. Money-losing SOEs bring no

[49] One of the best attempts to conceptualize the government's goals was made in John Ikenberry. The International Spread of Privatization Policies: Inducements, Learning, and "Policy Bandwaggoning" // Suleiman and Waterbury (eds.), op. cit. I have borrowed his conceptual framework, although not all arguments in discussing these goals.

revenue and require subsidies from the budget, so divestiture of these enterprises could decrease the public liabilities even if it would not increase public assets. Money-making SOEs are attractive to potential private investors; that is why the government is likely to get a good price. In both cases, privatization has net positive implications for the state finances and In case of severe budget crises the government can resort to it instead of cutting on other expenditures, such as healthcare, education and so on.

It has become clear, however, that the sale of assets as a means of solving fiscal pressures is only a short-term measure which could just ease the crisis situation but would not solve the more serious problems. As Adam et al. point out, there is a strong "neutrality effect": "the price at which the asset is sold will be the sum of the discounted future profits generated by the asset. Thus, the sale will result in the public and private sectors adjusting their relative liquidity positions, but leaving their respective net worth unaltered".[50] A departure from this neutrality position may exist if the seller (i.e. the government) and the buyer (i.e. the private investor) have different valuations of the proceeds from the asset sold or in case of post-sale change of the rules of the game for the buyer by the seller. Privatization for this purpose, however, is a risky business and the state may have to deal with serious unexpected consequences. It may be necessary to recognize millions of dollars of sunk costs in public investment - timely decisions regarding SOE liquidation are never easy and involve a great deal of political responsibility.

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[50] "... whilst the immediate effect of an asset sale is indeed a reduction in the current budget deficit, this must be offset against compensatory higher deficits in the future caused by the loss of the future earnings stream from the asset sold." Christopher Adam, William Cavendish, Percy Mistry. *Adjusting Privatization: Case Studies from Developing Countries*. London: James Currey; Kingston: Ian Randke Publishers; Portsmouth, NH: Neinemann Educational Books, 1992, p. 9.

From this perspective, it is logical to expect that the greater this political responsibility, the higher the level of immediate government involvement in the process, the greater the chances that the state (i.e. the seller) would get the best possible deal in the divestiture and the transaction costs (i.e. the costs of agency and the costs of monitoring) would be as low as possible. The comparison of the Egyptian and Tunisian cases will offer evidence in support of this claim.

b) enhance efficiency

One of the most serious verdicts on the public sector so far has been made on the basis of the belief that it is less efficient than the private one (Cowan, Berg and Shirley, and others). John Waterbury points at the "multiple missions" assigned to this sector: promotion of industrialization, raising the living standards of the population of "backward" areas, development of infrastructure, employment generation "whether needed or not", providing financial surpluses for the treasury, absorption and development of new technologies, supply of cheap goods and services for their employees, and finally, competition with foreign suppliers of such goods and services.[51] As the state would hardly run the risk of losses of its enterprises due to competition from private firms, in most cases the SOEs enjoy a monopoly position on the market, high protective tariffs and soft budget constraints as suppliers and consumers of particular types of goods and services. Thus, the SOEs lack incentives for improved performance - in fact, it is generally accepted that their performance gradually deteriorates, especially in case of serious shocks coming from the domestic or international environment.

[51] John Waterbury. *Exposed to Innumerable Delusions*, p. 107.

Privatization is regarded as a means for increasing productivity, improvement of quality and reduction of costs as private firms have proven greater capacity for such changes.

The opponents of this point of view note that the superiority of private over public ownership cannot be taken for granted. On the one hand, SOEs are used by the governments to pursue non-commercial objectives, for instance, employment generation, keeping prices low, investment without clear economic justification, etc., which are inconsistent with the principles of efficient and financially viable performance. On the other hand, a private owner has no non-economic objectives - his/her single goal is profit maximization. It is also easier to measure performance along such a single criterion rather than using less tangible measures for the non-economic goals of the SOEs. Besides, as property rights in the public sector are dispersed among multiple co-owners in contrast to the single owner of a private enterprise, there is less incentive to monitor closely the performance of a public enterprise rather than to monitor the performance of a private enterprise - a classical case of agency problems which could be solved by a change in the ownership. Nevertheless, it is not the property rights but the nature of the objectives which are set for the enterprises: public sector companies could be placed under the same circumstances as private sector ones, i.e. in an environment open to competition; they can be managed consistently with the principle of profit maximization; their management could be given adequate incentives for improved economic performance. It has also been argued that it is difficult at present to imagine the private sector firms as owned and controlled by one person - corporate owners are multiple in most cases; then, the agency problems are not that different from those in the public sector as managers are, in fact, employees of the owners, no matter whether these owners are represented by a board of directors or a government agency.[52]

A deeper analysis has shown, however, that there are built-in checks and balances in private business which are not present in the public sector. If the management does not perform well enough, then the quality of the products will suffer, costs will go up and the revenue for the owners will decrease. In this case, the private owners will have the option of changing the old management with a new one which would perform better. If this does not happen, then the owners risk a bankruptcy or losing their company as a result of a takeover carried out by potential investors who could achieve better performance of the company through superior management. In general, the stock market represents the mechanism which makes the changes of performance visible through the fluctuations of the share prices of the listed companies.[53]

The critique of this argument is usually based on the idea that share price on the stock market could hardly be an adequate measure for a company performance; besides, if proper incentives and regulatory mechanism were created for the public sector managers, then there is no reason why the state could not be an efficient owner of an enterprise just as an individual or a group of individuals. Theoretically, this is possible - the state could play by the rules of the market and try to maximize the profits brought by the companies it owns. In reality, however, a number of empirical studies have shown, first, that, in general, private sector firms tend to be more efficient than public sector ones; and second, that performance improves in the majority of cases of divestiture of

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[52] See, for instance, Adam, Cavendish and Mistry, op. cit., p.p. 9-12; Carl Shapiro and Robert Willig. Economic Rationales for the Scope of Privatization // Suleiman and Waterbury, op. cit., p.p. 56-58.

[53] Adam, Cavendish and Mistry, op. cit., p.p. 12-19.

SOEs.[54] Although these finding may have limited validity and further research may show that the opposite is true, they suggest a very important causal relationship - this between the public ownership and the non-commercial objectives of the enterprises. The state would not need to own directly any enterprises if it pursued commercial goals only - in any case, it receives part of the private sector revenue through taxes. SOEs are the means of pursuing particular political and social goals by the state - goals which the government could not achieve by other means given its limited recourses and capacity. It is for this reason that the government often creates significant barriers to private entry in the industries in which non-commercial goals motivate the performance of the SOEs - in case of increased competition the inefficiencies of the public sector companies will become evident, they would lose more money and the attainment of the non-commercial goals would be put in question.

From this perspective, the efficiency rationale of privatization may be consistent with the idea of greater centralized control over the process. It makes sense to claim that the central government is the actor who effectively assigns "missions" to the enterprises, no matter political or not; it is the central government who has the authority to give up the non-profit maximization objectives; it is the central government who has created most of the barriers to private entry to protect public monopolies and has greater capacity than any branch of the bureaucracy or the local government to remove these barriers.

c) change the instruments of economic and political management

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[54] These are the general findings of the few empirical studies of the effects of privatization - see, for instance, Ahmed Galal and Mary Shirley (eds.). *Does Privatization Deliver? Highlights from a World Bank Conference.* EDI Development Series. The World Bank, Washington, DC, 1994.

Government policies always have particular objectives but these objectives can be pursued by different means. With regard to the national economy, utility maximizing behavior implies increasing the net income from production of goods and services and thus contributing to the attainment of other goals – political, social, etc. The state is the owner of the public sector enterprises and thus it has the right to the residual from their operations; it can also use the public sector firms to influence the conditions on the market - through determining price levels, regulating supply and demand of goods, services and labor, facilitating the growth of specific industries, etc. to promote national economic development, employment and social welfare, as well as national security. Policy change from *dirigisme* to liberalization does not imply that the government gives up these goals - on the contrary, it adopts new policies to serve these goals better in the long run.

In general, the state is always a partner in any economic activity which takes place on its territory. On the one hand, it can be the owner of an enterprise and have claims to all residual revenue from its operations. On the other hand, the state can have no share in the ownership of a firm, but, nevertheless, it also has claims to part of the revenue - a specified portion of the revenue in the form of taxes. There may be different variations of how much and how exactly the state extracts resources from the enterprise depending on the ownership and other factors but, in any case, it is a major actor with a stake of its own. Therefore, in the course of privatization the state does not give up its claims to a portion of the revenue but only redefines these claims. What has happened over the years, however, is that in many industries and countries the right to extract resources from the SOEs through direct ownership has degenerated into an obligation to support these SOEs if they are not profitable enough while others can still have claims to the revenue (e.g. suppliers of raw materials, consumers of the output, the employees of the company, etc.). Thus, no matter what the ideological preferences of the regime are, i.e. liberal or statist, the government may choose to privatize for purely pragmatic reasons. This is the case in most of the countries in the Middle East and North Africa, including Egypt and Tunisia, in which the turn to economic liberalization took place without a radical reorientation of the regime or was even carried out by the same governments and leaders who quite actively pursued antiliberal policies in the past.

As it was already mentioned, in most of the developing countries direct ownership of an enterprise entailed limitations on competition, offering privileged access to raw materials and consumers for the SOEs, leading to a monopolistic position in the markets as the state did not want to run the risks associated with competition and had the capacity to limit it. The SOEs were considered an extension to the state apparatus, however, their own goals underwent evolution of their own. The discrepancy between the goals of the state and those of the SOEs is not just due to the desire of each of the actors involved to take a "free ride" at the expense of the other. SOE managers, as the managers of any enterprise, have an incentive to see their business grow as their performance is measured by the profitability of the company; for the state the overexpansion of a single SOE or an industrial sector may lead to neglect and deteriorating performance in other equally important companies and sectors. In a monopolistic environment SOEs may gain serious autonomy from the government, generate pressures on the political elite, try to shape policies and political outcomes. In many instances the public sector managers may become much more powerful than their supervisors in the government in terms of both political influence and personal income - in post-transition Eastern Europe one would have serious doubts if they had not switched the "principal/agent" roles. In less drastic cases the growth of the public sector has brought the phenomenon of cronyism as some SOEs had patronage and clientelism as their rationale from the very beginning - various economic privileges, including monopoly power, preferential loans and contracts, and so on, have been extended to favored firms in return for political support.[55] Privatization in such circumstances means shedding costly clientelistic relations and regaining control by the government over economic management. From this perspective, it makes sense to expect that a privatization strategy involving limiting the input of the other relevant actors in making the important decisions would be consistent with the task of consolidating the government's authority.

d) build coalitions of support

The expansion and the contraction of the public sector have been viewed in the literature as strategies of the ruling elites to bring a change to the existing political and societal coalition and shape a new one according to the evolution of the regime. Privatization, as well as nationalization, have thus been interpreted as a set of "give and take" policies as a result of which certain societal groups benefit while others incur losses. The government pursues privatization with the aim to decrease the influence of the latter and secure the support of the former. Bienen, Waterbury and other theorists have shown the configurations of the possible coalitions which can be served or undermined by privatization. At the one extreme, they have found the populist coalition

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[55] Stephan Haggard. The Philippines: Picking Up after Marcos // Raymond Vernon (ed.), op. cit., p. 91.

of import substitution based on a dominant public sector and including primarily organized labor, public sector managers and employees with guaranteed income, white-collar urban interests - a coalition promoting redistribution of income "from rural to urban populations and from richer to poorer income strata"; at the other extreme, they have found local private business people, exporters of manufactured goods, commercialized agricultural producers, the tourist industry, etc.[56] "The former coalition would involve government employees and recipients of subsidized public services; the latter would embrace "capitalists" large and small. In one case, the state provides services [for coalition support]; in the other, it sells assets."[57]

The literature on privatization has provided evidence that the involvement of society in privatization can hardly be very active. Often groups and individuals have ambivalent attitude as the net gains are not unquestionable: privatization may offer opportunities but also requires serious efforts on behalf of the potential beneficiaries, i.e. both to invest resources and to run risks with a high degree of uncertainty. Membership in those groups is not mutually exclusive, so a conflict of interests may arise making the balance between the "winners" and the "losers" even more volatile.

The studies of privatization have shown that large-scale local private business emerges in most cases as the principal potential buyer of the divested SOEs, especially of the larger ones and those which require technological innovation and professional managerial expertise. In general, big business always declares its support for privatization, however, it is unlikely to invest in any company if there are no clear

[56] John Waterbury. The Political Management of Economic Adjustment and Reform // Alan Roe, Jayanta Roy and Jayshree Sengupta (eds.). *Economic Adjustment in Algeria, Egypt, Jordan, Morocco, Pakistan, Tunisia, and Turkey.* Economic Development Institute of the World Bank. An EDI Policy Seminar Report, Number 15, 1988, p.p. 56-57.

opportunities for profits far above the average. Most of the SOEs undergoing divestiture are money-losing companies, so they are unlikely to attract attention. There are, of course, profitable ones too, but the state would rather keep them for as long as possible as they generate revenue. So, there is only one solution to this dilemma - big local business would invest in divested SOEs only if these companies are offered at a substantial discount, i.e. at a price well below their true value. That is why a number of theorists have concluded that privatization involves paying off private sector allies at terms *a priori* unfavorable for the government.[58] This charge, however, does not seem to be fair - even in the US practically in all initial public offerings the companies are sold for less than their true value and the difference represents an IPO premium which is a fair gain for the investor who assumes a part of the risk when a company goes "public".[59]

Nevertheless, there are other serious problems. In the developing countries the private sector cannot actively participate in privatization as it is not strong enough - it doesn't have an adequate financial base (most firms are highly leveraged and depend on public sector banks for financing of their current operations); it is reluctant to disclose information about its operations which makes it hard to raise capital on the stock market; the role of private enterprises in technology development has been relatively low. A greater problem is the rent-seeking nature of the private business - it was nurtured by the state with contracts on preferential terms; under the import substitution strategy it was shielded from competition, both foreign and domestic, and would find it hard to survive if

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[57] John Ikenberry, op. cit., p. 95.

[58] Paul Starr. The Meaning of Privatization // Sheila Kamerman and Alfred Kahn (eds.). *Privatization and the Welfare State.* Princeton University Press, 1989, p.p. 38-39; Onis, op. cit., p. 238, etc.

it were introduced.[60] In addition, in many countries private enterprises have a bias toward "unreported, illegal or semi-criminal activities"; they engage in "dysfunctional entrepreneurial behavior,... widespread tax evasion, financial scandals, smuggling, and other [similar - BB] activities".[61] These arguments have led theorists to believe that the support of local private business for privatization should not be taken for granted - it would participate only on its own terms which are likely to be different from those of the government.

Small investors are considered as another important actor and their support may be crucial for the success of privatization. For the general public SOEs are somebody else's property; after divestiture a large number of individuals could become co-owners through individual holdings, mutual funds, ESOPs, etc. Thus, privatization is supposed to result in democratization of capital and reduction of social conflict, sustained by the expected increase of productivity. This is the rationale for the idea of "popular capitalism" which was "sold" to the public very successfully in countries like the UK, Chile, the Czech Republic, etc. The most successful of the efforts to bring together voters, workers and owners of capital under this slogan were made by the conservative government of Margaret Thatcher under which the number of private shareholders grew substantially from 3 million in 1979 to about 9 million in 1987.[62] Even in Chile a "radical" form of "popular capitalism" was attempted in the mid-1980s when the

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[59] The term "public" here does not mean "owned by the government" or "being part of the public sector" - it means "publicly traded" as opposed to "privately held". This difference is explicated in Paul Starr, The Meaning of Privatization, p.p. 16-21..

[60] See V.V. Ramanadham. *Constraints and Impacts of Privatization*, p. 14-15, Anne Krueger. The Political Economy of the Rent-Seeking Society // *American Economic Review*, Vol. 66, No. 3, 1974, p.p. 291-303, Gray Cowan. *Privatization in the Developing World.* Greenwood Press, 1990, p. 14.

[61] V.V. Ramanadhan, *Constraints and Impacts of Privatization*, p. 14-15.

government pushed for "an extreme, ideological version of privatization, divesting the state of even core social welfare roles, but simultaneously attempting to reintegrate workers in a private system of welfare provision".[63] The attempts to build "popular capitalism" failed, however, in most of the Third World - in order to work, it requires well developed market institutions (a capital market with a fair degree of liquidity, mutual funds capable of pulling investors' resources and diversifying risks, available more or less sophisticated financial instruments, etc.) which do not exist in most of the countries engaging in privatization. It also requires a fair degree of confidence in the system in general and confidence is of short supply and very often totally disappears if the small investors see their investments, small in size as compared to the value of a whole company but large enough as compared to the level of individual savings, quickly depreciate and even disappear within months or even days when the privatized companies go bankrupt or when the share prices of the privatized companies collapse on the stock market.

Consumers are another group which is supposed to benefit from privatization in the long run - as the privatized enterprises become more efficient, costs should go down and then prices should go down too. Even if in the short run prices on previously subsidized products increase, consumers do have to gain as they have the opportunity to buy freely goods and services which are no longer of short supply in the market. It has been shown in a number of studies that in the developing countries subsidization was more beneficial for a small portion of the population who more widely used subsidized

[62] Onis, op. cit., p. 241.
[63] Ibid., p. 238.

goods and services and could afford higher prices than for the poorest and the neediest.[64] Nevertheless, consumers' support for privatization is hard to achieve for two reasons: first, the lower costs of consumer products in the long run involve a tradeoff - higher prices for formerly subsidized products in the short run; and second, consumers are diffused as a group and collective action problems emerge when they have to act together in support of privatization.

Foreign investors represent another group with a serious stake in privatization. On the one hand, they are expected to provide capital which is of short supply in the Third World as well as to bring new technologies without which local companies would hardly survive the competition with the foreign imports. On the other hand, they expect through debt-equity swaps to recover part of the external debt of the country undergoing privatization. Foreign companies interested in privatization are likely, however, to invest only in enterprises with proven record of profitability, with clear prospects for growth and only in industries for which there is sufficient global demand. Foreign participation can also create serious political problems domestically - political opposition in any form in which it exists can capitalize on it by attacking the government for selling the national patrimony to foreigners, especially with regard to companies of strategic importance for the country. If the opposition is strong enough and could represent a real threat for the government, getting foreign investors involved can become a losing strategy.[65]

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[64] As Ahmed Galal points out, "it is not the poor who were flying on the airlines or consuming the telephone or electricity services in Mexico, but the upper and middle classes". Galal and Shirley, op. cit., p. 347. See also Joan Nelson. The Politics of Pro-Poor Adjustment // Joan Nelson (ed.). *Fragile Coalitions: The Politics of Economic Adjustment*. New Brunswick: Transaction Books, 1989, p.p. 95-113 and Ilya Harik. Subsidization Policies in Egypt: Neither Economic Growth nor Distribution // *International Journal of Middle East Studies*, No. 24, 1992, pp. 481-499.

[65] Even some domestic ethnic groups may be regarded as "illegitimate buyers" of SOEs - some Chinese minorities in East Asia, Indians in East Africa, etc. See Cowan, op. cit., p. 17.

Labor has a serious stake in privatization too. Privatized companies are no longer used for employment generation - on the contrary, increased efficiency comes as a result of cost cutting and layoffs of redundant workers. For these workers loss of jobs means not just a loss of a source of current income but also loss of pensions and social security benefits; for the labor union leaders it means decreased ranks which leads to decrease of bargaining power. Thus, as labor has more to lose than to win, it can hardly be expected to support the government's program - on the contrary, it has been observed that in a number of countries the high degree of unionization and its substantial political strength have made it a serious obstacle. This is very well understood by most governments, especially by populist regimes. For this reason many privatization programs are designed to include certain adjustments, for instance, severance payments, benefits for the expected time on the job market, certain social security benefits, etc. for those who lose their jobs and ESOPs and flexible remuneration schemes for those who keep the jobs.

Another important actor in privatization is the management of the SOEs. Its attitude to the government's policies is ambivalent: the managers can clearly be among the "winners" - they have had enough of government supervision over their day-to-day activities; their technical competence and managerial experience make them just as necessary for the private sector as they were in the SOEs before. At the same time, many of the SOE managers have got their positions as a result of political connections within the establishment rather than because of good managerial record or professional expertise. Some of them really prefer the tutelage of the government over their companies - they feel comfortable with the generous subsidies, preferential access to inputs, protected markets for their production, soft requirements for quality and cost. In case of privatization many of the former SOEs may go bankrupt - the loss of the managerial position clearly means a loss of status privileges and political weight and even for the most talented managers privatization brings a fair degree of uncertainty. That is why they are generally expected to oppose divestiture; they can be supporters only if they have a substantial stake, i.e. if they have the prospects to become the new owners of the divested companies. Management buyout in privatization, however, leads to a serious conflict of interests: the SOE managers as agents are supposed to try to obtain the best deal for the principal, i.e. the largest possible proceeds from the sale; as a potential buyer they would try to pay as little as possible. In this situation the state will always be in a losing position because of its informational disadvantages - even the most profitable company can be practically brought to bankruptcy by the management and then bought for cheap.

Bureaucracy is considered as one of the main sources of resistance to privatization. It has a lot to lose in case of divestiture - "ministry officials who exercise direct control over SOE budgets and operations may resent the diminution of their status and power".[66] Privatization reduces not just the opportunities for patronage and corruption - bureaucrats may lose not just the seats they occupy on the board of SOEs but even their own jobs as a too large supervisory apparatus will not be necessary after divestiture. There will always be a need for bureaucratic regulation of the private sector activities but it requires specific skills quite different from those needed for direct administration of the SOEs. It has been shown in the literature that the bureaucracy's opposition is rarely vocal but serious enough - it usually involves footdragging, creating numerous bureaucratic hurdles for the potential investors and public suspicion regarding

[66] Ibid., p. 13-14.

the government's intentions "through a combination of losing files, scheduling endless meetings, and procrastinating in issuing directives".[67]

Intellectuals also have an ambivalent attitude toward the process of privatization. It is hard to say that they have anything to lose or to win *per se* as a group, however, by shaping the public opinion they can articulate and promote the interests of other groups with more substantial stakes. On the one hand, liberal intellectuals have been the most ardent supporters of privatization clearly seeing the problems created by the overexpanded public sector; it is natural that they would favor any change toward liberalization in the economy and relaxing the restrictions on civil society. On the other hand, intellectuals have also had serious reasons to oppose privatization, namely the lack of openness in the initiation and implementation of these policies, the failure of divestiture to promote the goals of economic and political liberalization, the distributional inequality exacerbated by privatization, etc.[68]

Thus, none of the relevant actors is a clear "winner", at least in the short run, while the "losers" are quite capable of organizing and opposing the government's policies. It is unrealistic to expect any configuration of these actors to push seriously for privatization - the support that the government would receive from any of them is considered by most of the theorists questionable. That is why it has been argued that "the ability of a privatization program to generate a new electoral coalition is, in general, quite restricted. This, in turn, places definitive limits on both the pace and scale of the

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[67] Ibid., p. 14.

[68] Paul Starr says that he is against privatization: "Even though privatization is logically distinct from questions of distributive justice, the one-sidedness of the privatization debate puts the advocates of more generous public programs entirely on the defensive. This one-sidedness is why I feel obliged to say I am opposed to privatization. I am opposed to the political consequences

privatization program".[69] Nevertheless, under certain circumstances privatization can become an effective tool for coalition management: if the government is able to relate privatization to a broader populist agenda[70]; if the performance of the dominant public sector is presented as linked to the corruption of a previous unpopular government and divestiture is "sold" to the public as one of the aspects of the rupture with the past[71]; if the public assets put up for sale are excessively underpriced to guarantee divestiture at any cost[72]; if the servicing of the large external debt can be arranged through debt for equity swaps with foreign creditors.[73]

It is obvious that the coalition management needed for successful privatization is a very serious task for any reform-minded government. If the odds for the success are not clearly in favor of the reformers, then it would be logical for the leadership to opt for greater political involvement in the process in order to produce the specific incentives needed to secure the support of the coalition partners and to neutralize the opponents as it is logical to expect inconsistent behavior from most of the stakeholders in privatization.

e) depoliticize economic and social outcomes

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that are likely to flow from pursuing privatization as a solution to the difficulties of administering democratic government." Paul Starr. The Meaning of Privatization, p. 44.

[69] Onis, op. cit., p. 235.

[70] For instance, subsidization of housing for low income groups from the proceeds of privatization as practiced in Turkey. See ibid., op. cit., p. 237.

[71] For instance, the success of the Aquino government in the Philippines to associate the dismal performance of the public sector with the pervasive corruption of the Marcus regime. See Stephan Haggard. The Philippines: Picking Up after Marcos.

[72] For instance, the radical privatization strategy adopted by the government of Pinochet in Chile. See Paul Sigmund. Chile: Privatization, Reprivatization, Hyperprivatization // Suleiman and Waterbury, op. cit., p.p.346-347.

[73] For instance, the privatization of the state telephone company and part of the petrochemical sector in Mexico under Salinas. A. Reding. Mexico under Salinas: A Facade of Reform // *World Policy Journal*, No. 6, p.p. 658-730.

It was already mentioned that some of the major reasons for the growth of the public sector in the industrialized and especially in the developing countries were political by their nature and the public sector was an important instrument in the power buildup for the ruling elites. In Western Europe it had been assigned a certain political role as a guarantor of economic growth and social welfare, including full employment and adequate benefits for the citizens. In the Third World its political role was even more important - it served as an instrument for legitimation of populist regimes by providing affordable goods and services at prices even lower than the costs, opportunities for full employment, welfare benefits, including basic healthcare, housing and education, provided either directly by the SOEs or by the state, patronage and redistribution of income and managerial positions in the public sector to representatives of particular societal groups.

As a result of this, a symmetrical rise in the society's expectations of the state to solve all existing problems emerged together with the rise of the claims of the state to dominate the state-society relations. Daniel Brumberg called this phenomenon "a ruling bargain", quite valid for most of the developing world, although he was focusing only on the countries in the Middle East and North Africa. "The ruled traded their rights to independent political activity in return for the pledge by the rulers to provide social welfare"[74] - an arrangement made possible by the large amounts of revenue generated from oil sales, remittances of expatriate workers, foreign borrowing, etc., which funded the expansion of the inefficient public sector and the social welfare programs. As long as

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[74] Daniel Brumberg. Prospects for a "Democratic Bargain" in the Middle East. A discussion paper prepared for the National Endowment for Democracy Seminar on Democracy in the Middle East, April 17, 1991, p. 3.

economic growth was sustainable and there were sufficient resources for distribution to the majority of the population everything seemed to be fine.

At the end of the 1970s, however, it became clear that this compromise could not be sustained. The increased costs of domestic commitments for the state in the economy and society disillusioned the ruling elites about their capacity to manage social and macroeconomic outcomes. Parallel to that, on the other side of the bargain grew disillusionment with the government's capacity to solve the mounting problems. It was time to curb the responsibilities of the state and, therefore, the public expectations - an act primarily political by its nature. This is when the issue of privatization came to the agenda - to help government elites "shed roles and responsibilities that set up conditions for political failure".[75] The need for such a move was particularly important in the developing countries in which the excessive state involvement in the economy instead of prosperity had produced an antigrowth effect as a result of the crushing the small entrepreneurial class, the poor investment decisions and other costly mistakes. The regimes were losing credibility following their failure to meet the expectations which they themselves had set up and to deliver the promised goods and services. "Having total control over the national economy deprived political leaders of sharing the burden and the responsibility for failure with others."[76]

Most of the studies on the political dimensions of privatization found that even the most statist regimes accepted it as a measure to redefine the proper spheres of accountability of the state rather than to open space for civil society. In Iraq, for instance, as Kiren Aziz Chaudhry points out, the implementation of a "wholesale" privatization

[75] John Ikenberry, op. cit., p. 96.

program in virtually all sectors of the economy at the end of the 1980s led to the withdrawal of the state "from those industries that catered specifically to the need of the average consumer [and] the government freed itself from direct responsibility for inflation, shortages, and the mushrooming black market in goods, currencies and services".[77]

At the same time, however, privatization doesn't mean that by divesting parts of the public sector the ruling elites are giving up the means for influencing social and political outcomes. In most of the developing countries the beneficiaries of this process have been among those most closely associated with the regime; as Fred Lawson points out, in Iraq, for instance, it even "consolidated the regime by channeling greater resources to forces within the dominant social coalition" and potential opponents of the regime are practically never among the beneficiaries.[78] Privatization rarely affects the despotic power of authoritarian regimes - extraeconomic measures could always come to play if necessary in case of unexpected political consequences of the economic liberalization. Moreover, the state exit from large parts of the economy is not matched by the necessary regulation of the relationship between consumers and producers, between labor and capital, etc., putting all the hardship brought by the reforms on low and fixed income groups and setting up the new private businessmen as targets of the potential discontent

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[76] Ilya Harik. Privatization: The Issue, the Prospects, and the Fears // Harik and Sullivan, op. cit., p. 16.
[77] Kiren Aziz Chaudhry. Economic Liberalization in Oil-Exporting Countries: Iraq and Saudi Arabia // Harik and Sullivan, op. cit., p. 158.
[78] "... the largest proportion of the primary beneficiaries of Iraqi deregulation consists of individuals and groups having close ties to the state apparatus... with intimate relations with government and Ba'ath party officials". Fred Lawson. Divergent Modes of Economic Liberalization in Syria and Iraq // Harik and Sullivan, op. cit., p. 134.

of the masses, thus preserving and even consolidating its position of ultimate arbiter regardless of the social and economic outcomes in the country.

Depoliticization is a highly political act, especially when it concerns such a sensitive issue as giving up commitments. Even those societal actors who would be potential beneficiaries of divestiture might be hurt in one way or another and their reaction might have political implications more serious than the mere failure of the government's divestiture program. That is why it is logical to expect the government to be more restrictive political in the management of the program in order to minimize the risks involved in the process of decreasing the immediate political responsibility of the government to the masses.

2. Political Determinants of Economic Performance

The impact of political regime characteristics on economic performance is one of the major aspects in the study of the politics of economic reform - it has been an older subject of theoretical inquiry than the phenomenon of privatization. At different times over the last decades political scientists have had different perspectives, to a great extent following the prevailing mood in the discipline. At the time of early modernization theorizing in the 1950-60s when it seemed that "all good things go together" a large number of theorists embraced an easy positive correlation, if not a causal relationship, between liberal government and successful economic performance, and vice versa - between authoritarianism and economic backwardness. In most cases they offered simple snapshots, often comparing countries lacking common denominators for such comparisons, disregarding other probable causes for the outcomes, avoiding to put their findings in a dynamic perspective and failing to explain why the existing simple correlations would persist over time.[79]

Criticism of this approach came as early as the end of the 1960s from scholars who showed that "all good things do not go together". Samuel Huntington, for instance, argued that it was political order rather than political liberalization that could bring economic progress and, on the contrary, political and economic modernization produced social dislocations which then created serious obstacles to further economic development. Huntington believed that the capacity of these states to deal with their developmental tasks was a function of "the degree of government" rather than of "the form of government (democracy or dictatorship)" and concluded that the former was more important than the latter. In support of his argument he referred to the history of the industrialized countries. "In continental Europe, as in most contemporary modernizing countries, rationalized authority and centralized power were necessary not only for unity but also for progress. The opposition to modernization came from traditional interests: religious, aristocratic, regional and local. The centralization of power was necessary to smash the old order, break down the privileges and restraints of feudalism, and free the way for the rise of new social groups and the development of new economic activities."[80] He concluded that "[t]he primary need [developing] countries face is the accumulation and concentration of power, not its dispersion, and it is in Moscow and Peking and not in

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[79] See, for instance, Gabriel A. Almond and James S. Coleman (eds.). *The Politics of the Developing Areas*. Princeton, N.J., Princeton University Press, 1960; David E. Apter. *The politics of Modernization*. Chicago, University of Chicago Press, 1965; some of the studies in the SSRC Committee on Comparative Politics political development series in the 1960s, etc.
[80] Samuel Huntington. *Political Order in Changing Societies*. New Haven and London: Yale University Press, 1968, p. 126.

Washington that this lesson is to be learned".[81] In spite of the abundant criticism of this point of view in the academia[82], both developing country leaders and US foreign policy makers took Huntington's policy prescriptions very seriously.

Further discussion of the dilemma "development and/or democratization" happened in the 1970s when conflicting ideological preferences and practical policies (e.g. "the developmentalists" and "*the dependentistas*") highlighted the existence of multiple intervening factors (e.g. the international environment, the civil society, etc.) which might influence the relationship between the nature of political regime and economic performance. At this point it also became clear that theorists would hardly achieve an easy general solution to the dilemma - it seemed to be a better idea to deconstruct the notion of economic performance and focus instead on specific issues, namely, the impact of politics on specific policy choices and on individual economic indicators, such as economic growth, inflation, investments, etc. This allowed them to achieve a better understanding of both successful and unsuccessful developmental experiments as well as to explain why in seemingly similar cases economic reforms produced different results.

One of the relevant pairs of variables whose relationship has been widely discussed in the theoretical debates has been that of property rights and democracy. The property rights literature usually treats the state as the main source of threat, although private actors, such as organized workers, landless peasants, etc., can also represent a potential threat to certain kinds of property rights. The focus of the inquiry has been the dilemma between the need for a strong state to protect property from private

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[81] Ibid., p. 137-138.
[82] See, for instance, Mark Kesselman. Order or Movement // *World Politics*, Vol. 25, No. 1, 1973.

encroachments and the potential threat that a strong state would pose for these rights. Back in the 19th century Marx and Engels argued that this relationship was inverse as democracy was built on the principle of equality of the citizens while property rights assumed lack of equality in wealth.[83] 20th century theorists had a different perspective on this matter arguing that the more authoritarian the government, the worse the economic performance of the country as the leaders would face smaller societal constraints and have greater discretion to alter property rights, thus bringing uncertainty to the markets. Douglas North raised the issue of the commitment of the ruler to the set of rules governing the market - he argued that secure property rights were critical for growth, yet he did not provide a causal link between property rights and democracy.[84] Mancur Olson added to this the importance of the longevity of the regime - what matters is not only the commitment of the current government to follow a particular policy, but it must be also credible that the regime itself will last; the more insecure the authoritarian ruler, the more likely he/she would plunder the society.[85]

A related issue is whether more or less liberal political arrangements will favor long-term growth or bolster short-term consumption and thus dissuade people from saving and depress economic growth. Indeed, there is ample evidence that expanded political participation brings increased distributive pressures on any government, thus

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[83] For a detailed analysis of this issue see Adam Przeworshi and Fernando Limongi. Political Regimes and Economic Growth //*Journal of Economic Perspectives*, Vol. 7, No. 3, Summer 1993, p. 52.

[84] "The more likely is that the sovereign will alter property rights for his or her own benefit, the lower the expected returns from investment and the lower in turn the incentive to invest. For economic growth to occur the sovereign or government must not merely establish the relevant set of rights, but make a credible commitment to them". Douglas North and Barry Weingast, Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in 17th Century England, in *Journal of Economic History*, Vol. 49, No. 4, 1989, p. 803.

having a negative long-term effect on growth in times of economic crisis. It is hard to suppress such demands without risking to alienate the support base and having to resort to unpopular measures. If such measures were subject to democratic scrutiny, then it would be unlikely for any government to succeed in enacting them, or the government can only be successful if it pursues a strategy against the will of the majority of the population.[86] Proponents of this point of view believe that dictatorships are therefore better positioned for success in structural adjustment as it requires in particular huge investments in human and material resources which imply cuts in current consumption that would be extremely painful given the low living standards in most of the developing countries. "If such measures were put to a popular vote, they would surely be defeated. No political party can hope to win a democratic election on a platform of current sacrifices for a bright future."[87]

This argument favoring authoritarian measures, however, has not remained unchallenged. Atul Kohli, for instance, doubts that restrictive rule enhances developmental capabilities in the Third World because a transformative project could hardly be implemented without attributing serious decision-making authority to the lower echelons of government which will ultimately be responsible for carrying out the government's policies. Kohli admits that certain authoritarian governments have managed to "transform centralized control into developmental capacity, mainly by utilizing

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[85] Mancur Olson. Autocracy, Democracy, and Prosperity, in Richard Zeckhauser (ed.), *Strategy and Choice*. Cambridge: The MIT Press, 1991, p. 153.
[86] This point of view has been argued by Samuel Huntington in *Political Order in Changing Societies* as well as in Samuel Huntington and Jorge Dominguez. Political Development, in Fred Greenstein and Nelson Polsby (eds.), *Handbook of Political Science*. Vol. 3. Reading: Addison-Wesley, 1975, p.p. 1-114.
[87] Adam Przeworski and Fernando Limongi, op. cit., p.p. 54-55.

coercion to alter the behavior of social groups", but very rarely.[88] Besides, if one accepts the idea of increased control by the government, then one has to take the commitment of the state leaders to the transformative project and the consistency of their policies for granted. It could be argued that sooner or later, a ruler who curbs other actors opportunities for participation would sooner or later abuse his/her power and this could be more detrimental for the success of the transformative project than the limited scale of rent-seeking activities of bureaucrats and government officials at lower levels of authority. This argument finds support in the reference to Mobutu's Zaire, described by Thomas Callaghy and other theorists as the quintessential "predatory state" where "[p]ersonalism and plunder at the top destroy any possibility of rule-governed behavior in the lower levels of bureaucracy."[89]

Yet, the most successful economic performance in the second half of the 20th century has been achieved predominantly in developing countries with strong authoritarian governments - e.g. the East Asian NICs. As a major reason for this many scholars have noted the ability of the authoritarian regime to insulate policy making and implementation from strong particularistic pressures, especially those originating from large industrial conglomerates or labor or businessmen's unions. This argument sounds particularly convincing when the experience of the East Asian NICs is compared to the populist experience of most of the Latin American countries. Authoritarian regimes are

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[88] Atul Kohli. Centralization and Powerlessness: India's Democracy in a Comparative Perspective // *State Power and Social Forces: Domination and Transformation in the Third World.* Ed. by Joel Migdal, Atul Kohli and Vivienne Shue. Cambridge: Cambridge University Press, 1994, p. 98.

[89] Peter Evans, op, cit., p. 150. Evans notes that during Mobutu's long rule, the ruling clique has made tremendous fortunes mainly benefiting from the opportunities for export of the country's mineral resources while during the period 1965-1990 the GNP per capita decreased on average by two percent annually. Ibid., p. 149.

more likely to establish the required form of autonomy as they are subjected to smaller distributive pressures, enjoy greater opportunity "to extract resources, provide public goods, and impose the short-term costs associated with efficient economic adjustment".[90] In this sense, less liberal regimes can have longer time horizons and be more successful in initiating reform than democratic ones, particularly given the weaknesses of democratic institutions in most developing countries.[91]

The literature on the politics of structural adjustment in the late 1980s-early 1990s brought more clarity to the theoretical debates about the role of regime type characteristics for a country's economic performance and provided evidence in support of the hypotheses formulated in the previous decades.[92] These theorists tried to be as specific as possible in the formulation of their research tasks, accepting from the very beginning the possibility of different role of the political factors for different indicators of the economic performance of a country. Barbara Stallings and Robert Kaufman, for instance, examined the systematic differences in the way democratic and authoritarian regimes dealt with distributive conflicts and economic policy choices facing the challenges for the regimes when "politically controversial domestic policy adjustments will be necessary, if not sufficient, components of any economic recovery" from the debt

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[90] Stephen Haggard. *Pathways from the Periphery*. Ithaca" Cornell University Press, 1990, p. 262.
[91] "Many economic reforms, such as fiscal adjustment or trade liberalization, entail short-term costs while the benefits take longer to unfold. If the democratic politician cannot count on being in power long enough to reap the political gains from reform, optimal policies will be abandoned as interest group lobbying or electoral pressures intensify." Adam Przeworski and Fernando Limongi, op. Cit., p. 56.
[92] See, for instance, Barbara Stallings and Robert Kaufman (eds.). *Debt and Democracy in Latin America*. Westview Press: Boulder, San Francisco, & London, 1989, Joan Nelson (ed.). *Fragile Coalitions: The Politics of Economic Adjustment*. New Brunswick and Oxford: Transaction Books, 1989; Joan Nelson (ed.). *Economic Crisis and Policy Choice; The Politics of Adjustment in the Third World.* Princeton, NJ: Princeton University Press, 1990; Stephan Haggard and Robert Kaufman (eds.). *Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State.* Princeton, NJ: Princeton University Press, 1992, etc.

crisis of the 1980s, including raising taxes, lowering domestic expenditures as well as debt service.[93] They found out that authoritarian regimes (e.g. Mexico, Chile) opted generally for orthodox policy packages sponsored by the IFIs, facilitated by the "highly cohesive technocratic elites with strong neoclassical convictions... The capacity to do so rested heavily on executives that could operate with limited institutional restraints and on extensive bureaucratic or coercive control of popular-sector protest."[94] Established democracies (e.g. Costa Rica and Colombia) had a more mixed response to the crisis. The major differences and similarities with the authoritarian governments were the following: 1) both kinds of regimes opted for tough credit restrictions and devaluations as the established democracies appealed to "centrist tendencies within public opinion in, to the economic moderation of the major parties, and to comparatively broad patterns of trust and cooperation in the relations between the government and major interest groups"[95]; 2) authoritarian regimes went further than in restructuring their economies; 3) all governments tried to avoid confrontation with foreign creditors. Transitional democracies (e.g. Brazil and Peru), however, experimented most often with heterodox packages, adopting "measures that stimulated consumption, relying on administrative controls rather than fiscal and monetary demand-management to contain inflation", clashing with local business classes and the IFIs attempting unilateral action to reduce interest payments on the external debt.[96] As to the outcomes of the reform efforts, Stallings and Kaufman admitted that there might be a number of factors which had to be taken in

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[93] Robert Kaufman and Barbara Stallings. Debt and Democracy in the 1980s: The Latin American Experience // Barbara Stallings and Robert Kaufman (eds.). *Debt and Democracy in Latin America*. Westview Press: Boulder, San Francisco, & London, 1989, p. 202.
[94] Ibid., p. 207.
[95] Ibid., p. 209.
[96] Ibid.

consideration, including the magnitude of the external shocks, the strength of the national economy, the available natural resources, which might make the difference between the political regimes less relevant. Nevertheless, they concluded that there might be a significant effect of the nature of the regime on economic performance. With regard to economic stabilization, transitional democracies, i.e. countries undergoing political liberalization, "tended to have substantial difficulty with both inflation and budget deficits"[97]; "established democracies had a lower than average figures on these variables, such as the right-wing authoritarian government in Chile", but not of Mexico. As to real wages, in established democracies "fiscal moderation was successfully combined with fairly large real wage increases. Among transitional democracies, there were still higher increases."[98] With regard to the rates of growth, the conventional wisdom that more authoritarian regimes would be more successful because of their capacity to favor long-term investment did not receive much support (e.g. Mexico had a poor record). As to the balance of payments, "since authoritarian regimes presumably have greater capacity than democracies to contain domestic demand and generate surpluses, it is conceivable that they are in a better position to reduce the size of their balance-of-payments deficits" though export promotion and negotiated debt relief.[99]

Karen Remmer is another theorist who examined the performance of different political regimes on separate economic indicators comparing the policy performance of "old" and "new" democracies and authoritarian regimes in Latin America for the period

[97] Ibid., p. 212.
[98] Ibid., p. 213.
[99] Ibid., p. 214-215.

1982-1988 on a number of indicators.[100] Unlike Stallings and Kaufman, she claimed that in general no major differences separated democratic and authoritarian regimes and that democratic crisis management had been more effective than authoritarian crisis management. "New" democracies in Latin America turned in the best record in the area of employment while the worst belonged to the "old" democracies. No statistically significant difference separates the average annual unemployment rate of "new" democracies from those of authoritarian regimes. Remmer observed a similar pattern with respect to economic growth, real wages, and the rate of change in government deficits relative to GDP - the two extremes of the spectrum corresponded to the "old" democracies and the authoritarian regimes rather than to the "new" democracies and the authoritarian regimes. I would argue, however, that some of Remmer's findings can be subject to a different interpretation – the apparent success of the newly liberalized countries in meeting the employment needs may have been a result of increased populist pressures on the government and not of superior performance of the national economy. The same logic applies to another indicator – real wage growth which may not reflect the strength of the economy if it is not matched by productivity growth – under a dominant public sector, for instance, this wage growth may be the result of the new government's effort to widen its popular base in spite of the sacrifice of the economic efficiency. The interpretation which I am suggesting can be vindicated by Remmer's own statement about inflation – that "new" democracies have turned in the worst average record. She offers, however, additional evidence to support her claims that the differences between the newly established democracies and authoritarian regimes are not statistically

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[100] Karen L. Remmer, Democracy and Economic Crisis: The Latin American Experience, *World Politics*, Vol. XLII, April 1990, No. 3, pp. 315-335.

significant - the newly established democracies have outperformed authoritarian regimes in promoting growth, containing the growth of fiscal deficits, and limiting the growth of the debt burden. That is why her conclusions should not be easily dismissed – on the contrary, the possibility of different interpretation of the empirical findings shows the importance of the close examination of the impact of politics on individual economic policies and indicators.

At this point, we can conclude, first, that at a general theoretical level it has proved to be too hard to come up with a valid generalization about the role of the political regime for the economic performance of a country - the only issue which is rarely disputed in this discussion is that the "[f]requent alterations between authoritarianism and democracy seem to provide the worst of all possible contexts for building state capacity. Competence tends to suffer during transitions both to and from military rule. Islands of competence nurtured for decades can be destroyed during a few months by presidents engaged in chaotic struggles to defend themselves against overthrow. At the other end of the cycle, redemocratization brings in its wake hungry parties eager for the spoils they have been denied during the years of military rule."[101]

Our second conclusion is that the skepticism of a number of theorists regarding the usefulness of the analysis of the political context for the explanation of the economic outcomes is not justified. This analysis doesn't have to provide one simple general answer for all possible questions - it is important that it throws light on important specific issues after the notion of a country's economic performance is deconstructed into individual economic indicators or policies. It is in this direction that I have focused my inquiry in

[101] Barbara Geddes. *Politician's Dilemma: Building State Capacity in Latin America.* University of California Press, 1994, p. 23.

the dissertation, i.e. it would be a significant finding to figure out what the political determinants of privatization are although they may not be the same for other processes or policies. The role of political regime characteristics for the success or failure of the public sector reform in the short and intermediate run may not be the same as its role for the growth of civil society or adjustment to the changes in the international environment but this doesn't mean that it should not be studied. It is not easy to study a specific causal relationship without a large enough number of observations or particular guidelines for the procedure prescribed by a general model of the relationship between the nature of political regime and economic performance far but this is a different issue.

We can qualify our argument to exclude those cases of outright predatory authoritarian behavior which tend to be an exception rather than a rule and focus on the rest of the developing world where non-democratic rule is motivated by considerations other than plunder. In this sense, Egypt and Tunisia represent appropriate cases - the regimes in these countries use political repression against their own people quite modestly and try to promote what Ronald Wintrobe calls “capitalist authoritarianism”[102] - "the regime acts to insulate the economy from the ravaging effects of pork-barrel politics or rent-seeking by *stifling* the political forces of redistribution characteristic of democratic politics. Market forces are then freed to reward effort, saving, and innovation, hence producing superior economic growth".[103]

It is this kind of authoritarian rule that prevails in a large part of the developing world, including the majority of the countries in the MENA and Egypt and Tunisia in particular. In other words, both governments exhibit the necessary degree of commitment

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[102] Ronald Wintrobe. *The Political Economy of Dictatorship*. Cambridge University Press, 1998, p. 11.

to market-oriented reform which can satisfy the major objections in the literature against authoritarian management of economic outcomes. Both presidents Hosni Mubarak and Zein Abidin Ben Ali have distanced themselves from the ideologies of their socialist predecessors, shown preferences for a more pragmatic approach to politics and publicly declared their intent to pursue economic liberalization. In spite of the rumors which might exist in these countries, it has never been seriously alleged that any one of them was involved in illegal or unethical activities for his own or his family's benefit, both of them have made sure that the people in the top leadership of these countries did not get involved in corruption. In other words, their credibility as political leaders motivated by the national interest is seldom questioned. Both presidents have been in office for a long time (Mubarak since 1981, Ben Ali since 1987) and there are no serious concerns about the longevity of their governments.

This does not mean, however, that the stand they have taken on the public sector reform has always been pro-active and supportive. None of the two presidents has ever elaborated on his position regarding privatization - their own statements are often vague, with little information as to specific results and no clear indication of the policy goals and means. Their endorsement of the policies is rendered public by the fact of the adoption of these policies or by the fact that these policies are pushed for by persons known for being close to them at a personal level. The progress of the reform is often a result of their strategic behavior, i.e. the fluctuations in the implementation are meant to reinforce their position of power vis-a-vis the domestic or foreign political opponents. The most plausible explanation for the ambivalent attitude and lack of excitement regarding privatization is the fact that the extensive public sector represents a significant power

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[103] Ibid., p. 134.

base for the government. Without it the government would not have been able to carry out its economic strategy and sustain the existing domestic political arrangements; without it there would have been no resources to distribute among the political allies; without the SOEs there would be no way to provide employment opportunities for thousands of people and thus prevent social and political unrest. Both Mubarak and Ben Ali, however, have hardly had any alternative to the general course toward liberalization that they have adopted; both of them may have felt at certain times that the progress in their policies has gone further than they expected. On the one hand, the current policies toward liberalization have been induced by both international and domestic factors and the governments of these countries have had little choice but to start reforming their public sectors. On the other hand, the ruling elites understand that going too quickly and too may cost them their power as complete liberalization of the economy would be incompatible with non-democratic political arrangements. They also understand that the general relaxation of the state control over the civil society may place more resources in the hands of their opponents and they would hardly run the risks which go with that. That is why in spite of the overall declarations in favor of privatization the governments of both Egypt and Tunisia cannot be expected to proceed without caution.

After we have reviewed some of the major arguments in the debates on the politics of economic reform, we can start the comparative analysis of the privatization programs in Egypt and Tunisia and the patterns of political control which was exercised in both countries. Before we do that, however, it is necessary to make sure that it is the more or less liberal approach to the management of the public sector reform that accounts for the different outcomes in privatization - for this purpose we will consider some possible alternative explanations which might account for the success or failure of privatization.

III. FACTORS FOR THE SUCCESS OR FAILURE OF PRIVATIZATION: POSSIBLE ALTERNATIVE EXPLANATIONS OF THE DIFFERENT OUTCOMES

In this dissertation I argue that the different outcomes of the privatization process in Egypt and Tunisia can be explained by the different degree of political control, or the more or less restrictive approach to the management of the public sector reform. My argument, however, could be wrong if one could find other causes of the differences. That is why in this chapter I will consider possible alternative explanations for the success in Tunisia and the failure in Egypt. My analysis will show that the variables which could shape the privatization outcomes are either of no relevance or practically the same impact in both countries, and thus cannot account for the different pictures we see at the end of 1995.

A number of theorists have made multiple attempts to conceptualize the factors influencing the privatization outcomes. Eliot Berg and Mary Shirley wrote at the end of 1980s of the "obstacles and pitfalls": the lack of profitable SOEs-candidates for sale, the inadequate awareness by political authorities that liquidation is the only way to get rid of money-losing public sector companies, the political risks involved, the narrow field of potential buyers domestic and foreign, the need for special privileges for SOE purchasers (protection against foreign competition, tax holidays, subsidies, special access to funds or inputs, etc.), the danger that the government will make a poor bargain, etc.[104] V.V. Ramanadham offered a more rigorous conceptionalization speaking about "constraints and impacts" which include: 1)macroeconomic factors - the general situation in the

[104] Eliot Berg and Mary Shirley. *Divestiture in Developing Countries*. World Bank Discussion Papers No. 11, The World Bank, Washington, DC, 1987.

economy (major macroeconomic indicators), infrastructure (legal environment, capital markets, infrastructural and informational facilities, etc.), parallel requisites (overall economic policies, development planning, budget policies), efficacy of the private sector; 2) attitudinal factors - political, social, enterprise culture; 3) policy formulation and implementation - policy statement, sequencing, organizational structure; and 4) uncertainty of the impacts.[105] Kikeri, Nellis and Shirley wrote in 1994 about the "conditions for success", including country-specific conditions ("the extent to which free entry is allowed by the macroeconomic and regulatory policy framework, markets are competitive, resources are allocated on the basis of marginal returns, and the regulatory and supervisory institutions are effective") and market conditions ("the nature of the market into which the enterprise is divested, that is, whether the market is competitive or potentially competitive as opposed to non-competitive").[106] John Waterbury explored in detail the commitment of the political leadership to carry out consistently the privatization programs - he associated this "will to transform" with: 1) the ideological conviction of the initiators, 2) the strategic behavior of the state elites designed to preserve or restructure the power basis of the government, 3) the inadvertence, i.e. existence of an effective "change team" which would carry out the reforms further than the initiators expected, 4) the lack of viable alternatives, etc.[107]

Nevertheless, there is no generally accepted analytical framework which would provide us with an all-exhaustive and mutually-exclusive conceptualization of the factors

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[105] V.V. Ramanadham. Privatization: Constraints and Impacts // V.V. Ramanadham (ed.). *Constraints and Impacts of Privatization.* New York and London: Routledge, 1993.
[106] Sunita Kikeri, John Nellis, Mary Shirley. Privatization: Lessons from Market Economies // *The World Bank Research Observer*, Vol. 9, No. 2, July 1994.

of success or failure of privatization and help us analyze any particular privatization-related issue. That is why in the comparative analysis of the experience of two or more countries we have to figure out in advance which of the possible factors could have any relevance. In the following paragraphs we will consider a few of the factors other than the political control over the process which could account for the different outcome of privatization in Egypt and Tunisia in particular. I will try to outline these factors without developing elaborate arguments about eventual causal relationships and show that privatization has practically taken place in both countries under the same conditions, i.e. that these possible alternative explanations do not falsify my initial hypothesis.

1. Initial Differences in the Public/Private Balance

A possible explanation of the different outcomes in privatization might be the different starting points, i.e. the difference in the initial public/private balance. It could be argued that the public sector in one country had been weaker than its counterpart in the other one and this is what accounts for the fact that the former has experienced a greater progress in privatization. There might exist certain structural characteristics of the public sector, whatever they might be, that could make it easier or harder to carry out a comprehensive reform: if the public sector is not too big it might not have become a serious drain on the state's resources and its inherent problems have not become so obvious; there might not be serious interests at stake and divesting might not be politically too difficult. In the following paragraphs I am going to show, however, that the public/private balance in Egypt and Tunisia was practically the same at the time of

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[107] John Waterbury. *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico and Turkey.* Cambridge University Press, 1993, Chapter 2. The Will to

the beginning of the privatization (late 1980s) and it could hardly account for the different results.

The dynamics of the public/private balance in both countries during the second half of the 20th century has been strikingly similar and the primacy of the private sector was never challenged until the mid-1950s. Before the revolution of 1952 in Egypt the public sector accounted only for the provision of some basic services such as water, electricity, railways, etc. while the private sector contributed 87 percent of the total value added and 95 percent of the total civilian employment.[108] Even after "the free officers" took over, up till 1956 they were not committed to any particular economic ideology - although there was an increase in public investment, it was confined to the expansion of infrastructure and the provision of social services while private initiative was supposed to motivate practically all small and medium-size enterprises, with industry, banking, insurance and part of the utilities remaining practically entirely under private ownership. Even the idea of a land reform and introduction of agricultural cooperatives was fully compatible with a dominant private sector and a market-oriented economy.

One can hardly speak of a national public sector in Tunisia until the end of the French protectorate in 1956. After independence, enough space was supposed to be offered for both private and state-owned enterprises and a liberal economic environment was expected to be maintained. The growth of the public sector was supposed to come as a result of the policy of "tunisification", i.e. the replacement of foreign control over some large-scale productive enterprises, including railways, shipping, electricity, gas and water

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Transform.

[108] Attiat Ott. Privatization in Egypt: Reassessing the Role and Size of the public Sector // Attiat Ott and Keith Hartley (eds.). *Privatization and Economic Efficiency*. Aldershot, England and Brookfield, Vermont: Edward Eldar Publishing Company, 1991, p. 185.

utilities, a major part of the mining industry, especially the phosphate mines, and in banking, as the local private sector was not mature enough to take them over completely. More than a half of the market-oriented agricultural sector, previously owned by the French (450,000 out of 850,000 hectares), was bought by the government and then distributed among Tunisians.[109] The general market orientation of the economy was preserved until the beginning of the 1960s - with private control on all agriculture, trade and a large proportion of the industry.

The statist orientation came later when the governments of these countries, inspired by socialist ideology, opted for centralized planning and control. In Egypt this happened at the end of the 1950s when the Ministry of Industry was established to carry out the industrialization of the country, the Economic Organization took charge of the existing enterprises with public participation as well as the entire financial sector, and the National Planning Committee was set up to design long-term plans for social and economic development. Starting in 1960, a campaign of nationalizations was launched aiming at a practically total control over the economy: all large scale production, mining, most of the foreign trade, all infrastructure, finance, wholesale trade and some retail trade were administered by newly created SOEs. Agriculture was not taken over but the government limited the size of individual landholding, introduced price controls, determined the kind of crops farmers could produce and obliged them to sell their products to specific government agencies only. When the country started experiencing severe economic problems, especially after the war with Israel in 1967, the government

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[109] Christian Morrison and Bechir Talbi. *Long-Term Growth in Tunisia.* Development Centre Studies. Long-Term Growth Series. Development Centre of the OECD. Paris, 1996, p. 23.

established a Supreme Control Committee to strengthen its control over the public sector and detect "opportunists and deviationists".[110]

The policy reorientation in Tunisia came in 1961 when the planning departments of the ministries of finance, industry and commerce were merged to form a Secretariat of State for Planning and Finance, headed by Ahmed Ben Salah, and a comprehensive policy document, entitled "Ten-Year Development Perspectives, 1962-71" was adopted. Although some space was supposed to be left for the private sector, a significant policy change towards "collectivization" took place in the 1960s. Starting in 1962, the government began to issue national plans - a practice which has not been abandoned yet, although the plans now are of an indicative nature. At first, the state took over all wholesale trade, especially foreign trade; then if moved to the industrial sector - by 1964 the SOEs accounted for half of the industrial output. Next, it targeted the retail trade pushing all grocery shopkeepers and most craftsmen into co-operatives. The accelerating wave of "collectivization" swept agriculture - in addition to the existing state farm, whose number increased as a result of the nationalization of 450,000 hectares in 1964, starting in 1967 when about 300 agricultural co-operatives were established, and peaking in 1969 when more than 90 percent of the agricultural sector was already collectivized, i.e. managed by cooperatives or state trade offices.[111] By the end of the summer of 1969 the state controlled wholesale and retail trade, part of handicrafts, a major portion of the industry (70 percent) and banking, with effective control over transport, energy and

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[110] Attiat Ott, op. cit., p. 188.
[111] We should note the riots and Soviet-style use of force against the peasants at that time.

mining taken earlier.[112] As in Egypt, toward the end of the 1960s the situation in Tunisia resembled that in the centrally-planned economies of Eastern Europe.

With the end of the 1960s came the end of the socialist experiments in both countries - the public/private balance began to change in the direction of the market, although the growth of the public sector was not put to a halt. In Egypt the retreat from the "die hard" statist policies came with the defeat in the war with Israel in 1967, Nasser's death in 1970 and the "open door" policies, introduced by President Sadat in 1974. The new strategy aimed at a liberalization of the foreign exchange markets and some imports; they were supposed to provide incentives and inducements to private domestic and foreign investment, while preserving government control over public sector enterprises and agriculture. On the one hand, the "open door" policies involved a partial liberalization of the economy - the General Organizations which had managed the SOEs by industries were abolished in 1975, the restrictions and political supervision over the activities of the SOEs were relaxed and joint ventures between foreign investors and SOEs were welcomed. Between 1973 and 1985 the share of private enterprise increased by 8 percent in industrial value added, in construction by 16 percent, in transportation by 18 percent and in the service sector by 10 percent.[113] On the other hand, Sadat's goal was to retain the maximum of political and economic control - foreign capital was supposed to help him preserve the domestic *status quo*, i.e. "*El-Infitah*" was not conceived as a retreat from the dominant public sector but as a means to enhance its efficiency. In fact, during the 1970s the public sector continued to grow - it absorbed billions of dollars in new investment which was only possible as a result of "the open doors" and led to the

[112] Christian Morrison and Bechir Talbi, op. cit., p. 24.
[113] Attiat Ott, op, cit., p. 191.

growing indebtedness to foreign creditors and continued to dominate the economy. Besides, foreign capital did not rush to form joint ventures with the industrial SOEs - it preferred instead investments in tourism, banking, trade, etc. which did not require large capital expenditures and offered greater opportunities for short-term profits.

Socialism in Tunisia came to an abrupt halt in September 1969 after President Bourguiba replaced Ahmed Ben Salah as a minister of the economy with Hedi Nouira - a former governor of the Central Bank who later became the prime minister and led the turnaround to a market economy. The policy shift included the following elements: 1) the public sector was to be limited to the basic sectors while the rest of the economy was to be in private hands; 2) market mechanisms were to be restored to correct the inefficiencies created by the controlled economy; 3) priority should be given to agriculture as a precondition for overall economic growth; 4) large industrial projects, especially in the heavy industry, were to be abandoned while investment should focus on the processing industries (textiles, clothing, leather, wood and food), especially in small and mid-size enterprises; and 5) foreign investment was to be encouraged. In 1971 all land not belonging to the state as well as the handicraft industry, all retail and wholesale trade were returned to the private sector; the monopoly of the state foreign trade offices was abolished. The economy came back to the situation of the beginning of the 1960s - the restrictions on the development of the private sector were lifted although the public sector had substantial holdings in the infrastructure, banking, industry, a part of the modern agricultural sector, etc. Nevertheless, the public sector had already grown stronger - it had gained experience in the 1960s and expanded further on, absorbing in 1978 62.2 percent of total investment versus 61.8 percent in 1968, i.e. before the end of the socialist experiment.[114] In addition, centralized control was partially retained through a system of official prices on a number of products, high customs duties, extensive quantitative restrictions and import licenses.

In the 1970s it seemed that the hybrid model between controlled and market economy in both countries could work - to a great extent this was due to the favorable external shocks and weather conditions and because of the returns on the enormous investments in infrastructure and education investments during the previous decade. In the 1980s, however, the economic environment changed - the oil prices collapsed, a number of years were marked by continued draughts hitting hard the agriculture of most of the countries of the region, remittances from expatriate workers decreased as the need for them in the rich countries of the Gulf and in Libya fell sharply. The governments of both countries continued to pursue their massive programs of public investment in spite of the changing economic environment, but for they could do this only at the cost of increasing their external debt. Other reform measures followed a "one step forward, one step backward" pattern. On the one hand, the supervisory ministries were supposed to set broader targets and help with financing while the SOE management was declared free to run the day-to-day operations, make hire and fire decisions and undertake measures toward liquidation of certain parts of the enterprises which had no chance of becoming efficient. On the other hand, sectoral homogeneity and lack of competition was preserved; indirect subsidies through cheap inputs, mainly energy, and the political process of recruitment of senior level management remained, inhibiting change at the enterprise level.

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[114] Christian Morrison and Bechir Talbi, op. cit., p. 26.

In the mid-1980s this hybrid model of growth drove Egypt and Tunisia into a deep crisis - it became obvious that the liberalization measures adopted in the 1970s were by far insufficient. To deal with the mounting problems both countries embarked on structural adjustment programs designed to stimulate growth into the private sector and create a competitive environment. As it happened in most of the developing countries in a similar situation, the government had to turn to the international financial institutions to provide sponsorship of the reform program and financial assistance. Among the measures included in the comprehensive structural adjustment package following the stand-by agreement which Egypt signed with the IMF in 1987 was a public sector reform and privatization in particular. Stabilization, however, proved to be short lived as few changes were introduced at a macroeconomic level - as the pressures on the state budget seemed to ease a little due to short-term factors (debt rescheduling, temporary increase of the oil prices, certain domestic developments, etc.), the government shied away from comprehensive structural reforms. Nevertheless, there was movement along the way of the SOE reform - the issue of privatization *per se* came to the policy agenda and in spite of the swings in the government policy remained there ever since.

After it became evident in 1989-1990 that foot-dragging could lead the country into a deeper crisis, in 1991 the Egyptian government had to work out another agreement regarding structural adjustment with the international financial institutions. A number of prices were deregulated; most of the controls on domestic and foreign investment were lifted and licensing requirements for new investments were abolished except for a small list of products; foreign exchange was liberalized and a single exchange rate was adopted. Further liberalization took place in the domain of foreign trade - the number of commodities requiring export and import licensing as well as the tariff rates were reduced. Tighter monetary and credit policies were adopted; credit ceilings on the banking system were imposed and interest rates were raised. The structural adjustment program also called for gradual decrease of the budget deficit to less than 9.5% of GDP in 1991/92 to 3.5% in 95/96, increasing revenues, restraining the increase of the wage bill, reducing public investment and subsidies, etc. Next, Egypt was relieved of 50% of the official debt outstanding at June 30, 1991 for its commitment to go for comprehensive reforms including changes in the institutional, legal and financial environment of public enterprises, increase of their efficiency through fostering the autonomy of their managers and making them conform to the same rules as the private sector, and privatization of public enterprises in the commodities and financial sectors, with the exception of strategic enterprises.[115]

The debt crisis of the 1980s hit Tunisia severely too. When the oil prices fell and revenues from tourism diminished, toward 1986 Tunisia found itself with an external debt of $5 billion, with $1.2 billion of debt service payments and a current account deficit of $618 million.[116] As it lacked the resources to cope with the crisis alone, the Tunisian government turned to the international financial institutions for help which led to the stand-by agreement with IMF of August 1986 and a comprehensive economic adjustment and reform program. The package included: 1)liberalization of most prices; public sector reform and privatization; 2) liberalization in the financial sector; 3) liberalization of

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115 *Structural Adjustment and Reform Policies in Egypt: Economic and Social Implications.* United Nations, Economic and Social Council, E/ESCWA/SED/1993/14, October 1993, p.p. 12-23.

116 Jon Marks. Tunisia // Timothy Niblock and Emma Murphy (eds.). *Political and Economic Liberalization in the Middle East* . London: British Academic Press, New York: St. Martin's Press, 1993, p. 167.

foreign trade; and 4) adoption of legislation to ensure competition. The program was designed to create radical changes the way the economy functioned and to introduce for the first time since independence a competitive environment. Among the measures undertaken which are relevant for the public sector reform it is worth mentioning the trade liberalization (60 percent of the import licenses were removed by 1988), the price liberalization of approximately 70 percent of the manufactured goods, the adoption of an industrial investment code which gave an equal treatment to foreign investment in manufacturing and allowed 100 percent profit repatriation from entirely export-oriented companies; in addition, interest rates were liberalized, foreign exchange restrictions were eased, financial markets were modernized, tax reforms were introduced and subsidies were cut back, a number of joint venture with foreign investors were formed.[117]

As we see, the evolution of the public/private balance both in Egypt and Tunisia followed the same logic and the major changes took place practically simultaneously; privatization also came to the policy agenda at the same time and in the same context. The numbers in table 3.1 illustrate this claim. As we see, by some indicators the Egyptian public sector has had a little stronger position in the public/private balance than its Tunisian counterpart (by share in the non-agricultural activity, in gross domestic investment, by SOE external debt in GDP) while by other indicators (net financial flows from the government, share in total external debt) the situation was reversed. The existing differences, however, are not significant enough and given the more or less equal numbers in the comparison of their share in economic activity and employment generation, it would be fair to conclude that the public sectors in Egypt and Tunisia were equally strong (or weak), equally problematic and in need for reform. In spite of the

[117] Ibid., p. 168.

inequality of the public sectors in terms of sheer size, there was no significant difference in the initial public/private balance in both countries which might account for the different outcome of privatization in the middle of 1990s.

Table 3.1. Public/Private Balance in Egypt and Tunisia[118]

Indicators	1987/85	1986/91	1978/91	1991
share of SOEs in economic activity (% of GDP)				
Egypt	37.1	30.0	34.1	32.8
Tunisia	29.8	30.7	30.2	29.8
All developing countries (weighted average)	10.6	11.2	10.9	10.7
Mid-income (weighted average)	9.6	10.0	9.7	9.3
Africa (weighted average)	18.7	18.7	18.4	17.3
North Africa (without Libya & Mauritania - unweighted average)	37.8	34.4	35.65	-
Industrialized countries (weighted average)	-	-	4.9	-
share of SOEs in nonagricultural activity (% of nonagricultural GDP)				
Egypt	51.1	39.0	43.0	42.6
Tunisia	29.8	30.7	30.2	34.8 (86)
Developing countries (weighted average)	12.6	13.1	12.8	12.0
Mid-income (weighted average)	10.6	11.0	10.8	10.3
Africa (weighted average)	17.2	16.9	17.1	16.2
North Africa (without Libya & Mauritania - unweighted average)	45.2	39.0	41.9	-
Industrialized countries (weighted average)	-	-	5.0	-
share of SOEs in gross domestic investment (%)				
Egypt	55.0	63.3	58.5	51.9
Tunisia	38.4	30.4	35.0	30.5
Developing countries (weighted average)	26.9	20.5	24.1	17.9
Mid-income (weighted average)	24.4	16.6	21.0	14.3
Africa (weighted average)	28.9	26.4	27.8	24.2
North Africa (without Libya & Mauritania - unweighted average)	50.8	38.8	45.6	-
Industrialized countries (weighted average)	-	-	7.7	-

[118] Source: *Bureaucrats in Business*, p.p. 268-315.

Indicators	1987/85	1986/91	1978/91	1991
share of SOEs in employment (%)				
Egypt	13.7	13.6	13.7	13.5
Tunisia	18.5	-	-	18.3(1983)
Developing countries (weighted average)	4.9	4.8	4.8	4.1
Mid-income (weighted average)	3.0	2.7	2.9	2.4
Africa (weighted average)	15.5	17.1	16.4	18.3
North Africa (without Libya & Mauritania - unweighted average)	-	-	-	-
Industrialized countries (weighted average)	-	-	-	-
net financial flows from the government to SOEs (% of GDP)				
Egypt	-2.6	0.2	0.6	-0.5(1990)
Tunisia	5.4	7.6	6.3	9.3(1988)
Developing countries (weighted average)	-0.7	-1.1	-0.9	-1.8
Mid-income (weighted average)	-1.1	-1.4	-1.3	-0.1
Africa (weighted average)	1.6	1.4	1.5	1.6
North Africa (without Libya & Mauritania - unweighted average)	5.0	-	5.7	-
Industrialized countries (weighted average)	-	-	-	-
share of SOEs in total external debt (%)				
Egypt	13.5	16.5	14.8	22.6
Tunisia	28.2	22.3	25.7	17.4
Developing countries (weighted average)	16.9	13.9	15.6	11.6
Mid-income (weighted average)	19.4	15.5	17.8	12.3
Africa (weighted average)	14.7	12.0	13.6	10.2
North Africa (without Libya & Mauritania - unweighted average)	31.3	20.6	26.7	-
Industrialized countries (weighted average)	-	-	-	-

Indicators	1987/85	1986/91	1978/91	1991
external debt of SOEs as % of GDP				
Egypt	15.0	23.2	18.6	22.5
Tunisia	13.8	13.6	13.7	10.0
Developing countries (weighted average)	6.5	5.9	6.3	4.3
Mid-income (weighted average)	7.6	6.3	7.0	4.1
Africa (weighted average)	7.4	10.9	8.9	9.0
North Africa (without Libya & Mauritania - unweighted average)	17.3	14.8	16.2	-
Industrialized countries (weighted average)	-	-	-	-

2. State Capacity and Public Sector Reform

An alternative explanation of the different outcomes of privatization in Egypt and Tunisia might be the initial difference in state capacity. Other things being equal, greater progress could be expected from a country in which the state enjoys greater infrastructural power,[119] i.e. it is able to carry out the policies it has designed, while in another country the state might not be able to do so, no matter that it might be imperative for it to carry out these policies. Public sector reform might fail for a number of reasons: lack of clear understanding of the prospects, insufficient knowledge of the experience of other countries in similar situations, inadequate understanding of the specifics of those SOEs which are expected to undergo privatization, lack of levers for influencing the environment, insufficient resources to cover the expenses that arise, lack of skills to communicate the goals of the reform program to the neutral bystanders who could eventually become supporters, etc.

Thomas Callaghy, Peter Evans and other theorists have explored the importance of state capacity for successful adjustment. They have argued that "the ability to deal with specific problems like stabilization and adjustment is rooted in diffuse general characteristics of the state apparatus and its relation to surrounding social structures and that these in turn are consequences of long term processes of institutional change".[120] This concept, however, is not without controversy in the literature. John Williamson, Joan Nelson, John Waterbury and a number of experts of the international financial

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[119] I am using this term in the sense Michael Mann used it in juxtaposition to the despotic power of the state. Michael Mann. The Autonomous Power of the State: Its Origins, Mechanisms and Results // John Hall (ed.). *States in History*. Oxford: Basil Blackwell, 1986, p.p. 109-136.

[120] Peter Evans. The State as a Problem and Solution: Predation, Embedded Autonomy, and Structural Change // Stephan Haggard and Robert Kaufman (eds.). *The Politics of Economic*

institutions have focused on the importance of the technocratic presence as a building material of the capacity, while Adam Przeworski et al. consider the technocratic approach harmful for the state as by being antithetical to democratic decision making it creates serious problems in the long run.[121] A taxonomy of "developmental" versus "predatory" states has been developed by Callaghy and Evans[122], building up upon earlier work by Margaret Levi, Joel Migdal, Chalmers Johnson, etc.[123]: the major distinction is that the developmental state is considered capable of undergoing and directing structural change while the predatory one is not. In the comparative analysis of the state capacity of Egypt and Tunisia I will focus, first, on the nature of the state apparatus, its composition and interaction with relevant societal actors, and second, on the general regulatory framework of economic activities in these countries. I will show that there is no substantial difference in the way these may have affected the outcomes of the reform process.

The notion of developmentalism was constructed on the basis of the experience of a number of East Asian countries, namely Japan, South Korea and Taiwan. The developmental state there was capable of acting as a surrogate for weakly developed

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Adjustment: International Constraints, Distributive Conflicts, and the State. Princeton: Princeton University Press, 1992, p. 141.

[121] See in particular Chapter 5. Economic Reform in New Democracies // Adam Przeworski et al. *Sustainable Democracy.* Cambridge University Press, 1995, p.p. 67-91.

[122] The former extract resources from the society but they also "provide collective goods, foster long-term entrepreneurial perspectives among private elites by increasing incentives to engage in transformative investment and lowering the risks involved in such investments", "on balance, the consequences of their actions promote rather than impede economic adjustment and structural transformation". The latter, on the other hand, "fail to provide even the most basic prerequisites for the functioning of the modern economy: predictable enforcement of contract, provision and maintenance of infrastructure, and public investment in health and education" - "the preoccupation of the political class with rent-seeking has turned society into its prey". Peter Evans. The State as a Problem and Solution, p.p. 148-149 and 151.

[123] Margaret Levi. *Of Rule and Revenue.* Berkeley: University of California Press, 1988; Joel Migdal. *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World.* Princeton: Princeton University Press, 1988; Chalmers Johnson. *MITI and the*

capital markets, while inducing transformative investment decisions. This has been possible due to the existence of a true bureaucracy of a Weberian type. "Corporate coherence gives then the ability to resist incursions by the invisible hand of individual maximization by bureaucrats; internally, Weberian characteristics predominate. Highly selective, meritocratic recruitment and long-term career rewards create commitment and a sense of corporate coherence. Developmental states have benefited from extraordinary administrative capacities, but they also restrict their interventions to the strategic necessities of a transformation project, using their power to selectively impose market forces".[124] In the following paragraphs I am not going to offer a rigorous argument about the extent to which the state in Egypt and Tunisia fits the developmentalist model - rather, I am going to show that as much as they do or do not, there aren't substantial differences between them.

As noted by Antonella Bassani, "the nature of the [bureaucratic] influence is basically twofold. First, members of the administration can give shape to stated policies through the exercise of choice and judgment in administering them. Second, policy-makers are dependent, at least in part, on the administration for information and advice on which policy to choose. Senior bureaucrats generally know more about the subject matter of policy issues than the typical political leader and has the detailed knowledge needed to make informed policy decisions."[125] It is fair to say that both the Egyptian and the Tunisian states have had a long bureaucratic experience. The Egyptian bureaucracy

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Japanese Miracle: The Growth of Industrial Policy, 1925-1975. Stanford, CA: Stanford University Press, 1982.

[124] Peter Evans, op. cit., p. 163.

[125] Antonella Bassani. *The Political Economy of Trade Liberalization: A Comparative Study of Morocco and Tunisia.* Ph.D. dissertation, The Johns Hopkins University, Baltimore, MD, 1993, p. 284.

dates back to the pharaonic age; among the multiple legacies of the French protectorate in Tunisia is the strong bureaucratic presence in almost all spheres of life. In the 20th century the state apparatus in these countries experienced extensive growth - during the years of socialism it penetrated deep into all spheres of the society. For years it was the major instrument used by the political elites for carrying out their political projects. It definitely showed remarkable accomplishments as far as the despotic power is concerned - the governments of both Egypt and Tunisia could neutralize and even destroy with its help the domestic challengers to their power, they could more or less handle the challenges emerging from the external environment, namely, their relationships with the former colonial powers, the neighbors (which were not always very friendly), make use of the superpower rivalry for influence in the Middle East and the Mediterranean, etc. Nevertheless, it would be unrealistic to claim that the long evolution of the state apparatus in both countries has produced a Weberian-type of bureaucracy which would give the states the necessary infrastructural capacity not just for participating, but also for being one of the major agents of structural change.

After the revolution in 1952 the new leaders in Egypt "placed almost total responsibility for the planning and the implementation of their massive economic and social development programs upon the shoulders of the bureaucracy... Indeed, with the advent of the socialist laws of 1961, the ability of the revolutionary government to develop Egypt economically and socially would depends almost entirely upon the capacity of the bureaucracy to innovate, plan, coordinate, produce, distribute, and apply economic and social programs on a scale seldom found beyond the confines of the socialist block. The success or failure of Egypt's economic and social development would henceforth be the success or failure of the Egyptian bureaucracy."[126] The situation was practically the same in Tunisia. "The need to administer this growing panoply of [state] controls led to the development of an overly ambitious and overextended administration whose functions became the licensing, monitoring and regulation of nearly every aspect of business affairs. Government agencies grew to become large organizations, with great discretionary powers and largely exempt from external supervision and control."[127]

One important common feature of the state apparatus in both countries is its excessive politicization. In both countries in the 1960s the bureaucracy was required to embrace socialism as its ideology and impose it on the masses.[128] To be able to cope with its new developmental tasks and responsibilities, the number of bureaucrats in Egypt rose from 250,000 employees in 1952 to approximately 1,200,000 by 1970; even after socialism was given up, it continued to grow up and reached 1,900,000 in 1979 in the state apparatus *per se* and 3,200,000 including the employees of the public sector.[129] Similarly, the Tunisian administration has been strongly influenced by socialism, promoting an expanded role of the state and especially of the administration in the economy through comprehensive planning and control because of the alleged weakness of the private sector and its inability to carry out autonomously the strategy of industrialization. "The administration's view of the private sector has resulted in a strong feeling of mutual distrust between civil servants and entrepreneurs which is reflected on the one hand in the slow clearance of customs, delayed approval of investment projects

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[126] Monte Palmer, Ali Leila, El Sayed Yassin. *The Egyptian Bureaucracy*. Syracuse: Syracuse University Press, 1988, p. 3.
[127] Antonella Bassani, op. cit., p. 287.
[128] Palmer et al. provide an interesting fact - one of the early acts of the revolutionary government was the establishment of the "purge committees" charged with the task of ensuring loyalty, integrity, productivity, and efficiency in government.

and other administrative procedures, and on the other in the private sector's limited use of technical services offered by the administration or their concealing of information concerning their enterprises."[130]

For years, the major criterion in bureaucratic recruitment was party loyalty. It would be fair to say, however, that recently both in Egypt and Tunisia a new generation of higher ranking bureaucrats, better educated in economic matters, has come to the civil service - these are technocrats with expertise in their fields while the old generation had generally political background. Nevertheless, there has been little change at the middle and lower levels which are involved in controlling and licensing functions - they represent the layer of direct contact between the private business and the government and give the image of the bureaucracy in general as being not well informed about the regulations, incentives and procedures, having limited available resources and incomplete and not updated documentation, but at the same time enjoying significant discretionary power.

Another serious problem stems from the nature of the relationship between the political elite and the bureaucracy. For various reasons, including control and domination, political leaders do not provide a leadership of high quality - their decisions lack clarity, priorities are vague, government policies on a number of critical issues are ambivalent and subject to erratic change and the bureaucracy often faces a great deal of uncertainty which ultimately leads to inferior performance. In many cases good civil servants find their hands tied by the excessive demands and controls - so, it is understandable why the

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[129] Monte Palmer et al., op. cit., p. 8.
[130] Antonella Bassani, op. cit., p. 290.

bureaucrats in general tend to hide behind the a of massive regulations and follow the routine.

Both in Egypt and Tunisia work in the state apparatus has been gradually but consistently losing its prestige. The purchasing power of state employees has not increased substantially for the last couple of decades and at times of high inflationary pressures has suffered serious setbacks. Salaries in the private sector for employees with similar qualifications exceed sometimes significantly the remuneration of civil servants which led to demoralization of the bureaucracy. A serious drain of bureaucratic resources has become the emigration to the oil-producing states of the Gulf where many former civil servants have cashed in on their experience and qualifications. Extremely damaging for the bureaucracy in Egypt was the policy of mandatory recruitment of all university graduates for the purpose of reducing unemployment which was incompatible with rational allocation of personnel on the basis of need and qualifications. Benefits of welfare nature and perks also exist in Tunisia to compensate for the low salaries which ultimately distorts the incentives for better performance.

Scholars who have done work on bureaucracy have noted that to become an effective instrument of change it should possess to a sufficient degree such attributes as drive, innovation, flexibility, autonomy, ability to communicate with the public, etc. Palmer et al., Bassani and other students of Egypt and Tunisia have expressed doubts regarding the availability of such characteristics of the civil service in any of these two countries - the administration remains equally poorly adapted to switch from a controlling to a servicing function and be an active participant in the reform process.

Another source of difference in the state capacity could be the nature of the general legal and regulatory environment. The basic problem concerning the rules and regulations in any state is the policy predictability - if "the rules of the game" are not yet established or not well enforced, any project that cannot pay abnormally high risk premia is abandoned. Different market players do not compete on equal grounds: large private companies have good rapports with high government officials and do not have to go through the red tape associated with the lower bureaucratic levels while micro and small enterprises have practically no access to policy makers and have to take all the pain that bureaucratic red tape can cause.

The legal systems in both Egypt and Tunisia have been undergoing a gradual reform over the past two decades as many of the existing laws were created to regulate a centrally-planned economy. The introduction of a new legislation, suitable for the regulation of a dynamic, private-sector-dominated, market economy took place at the end of the 1980s and the beginning of 1990s. Nevertheless, there still are serious deficiencies in the existing regulatory environment. Labor laws and regulations have been a serious obstacle to reform - they carry the spirit of socialism in the specific way they protect workers and put serious strains on personnel management and labor mobility in both countries. It is extremely difficult to dismiss an employee - firing is virtually impossible unless the company closes down. Another problem is the issue of securitization - the existing regulations are very restrictive with respect to both the kind of property that can be mortgaged and the identity of the mortgage's beneficiary. The general restrictions to the securitization process limit firms' ability to mobilize capital, especially with regard to micro and small enterprises and to new ones without credit history. Regulation of intellectual property rights is not well developed: rights and obligations are not well defined and penalties are non-deterring. Thus, the lack of protection of intellectual property has kept a number of foreign companies off these markets as the sunk costs of losing the proprietary knowledge after costly research and development seems too great to bear. Other deficiencies in the legal system bear on the anti-trust laws and regulations which are practically non-existent - on the contrary, in some cases price fixing collusions may even be institutionalized, consumer protection laws are underdeveloped, regulations on combating fraud and for controlling standard specifications exist just nominally.

With regard to the business regulation, both in Egypt and Tunisia there are multiple layers of directives and provisions for checking and rechecking concerning market entry, operations and exit. First, entry regulations tend to be restrictive - to enter the markets a corporation has to go through different kinds of licensing which requires submission of multiple documents, including taxation cards, lease contracts, electricity meter readings, inspection certificates, etc. Eva Bellin noted with regard to Tunisia, for instance, that in January 1990 official permission to start a new enterprise required more than 40 different authorizations.[131] Similarly, to establish a tourist project in Cairo a private entrepreneur has to receive the approval of 18 offices at the level of district and city government.[132] Second, overregulation prevents private enterprise growth - while these enterprises are small and often informal they manage to avoid a number of restrictions, but moving into medium size which in most cases involves full formality creates serious problems.

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[131] Eva Bellin. *Civil Society Emergent? State and Social Classes in Tunisia*. Ph.D.-Dissertation, Princeton University, 1993, p. 172.
[132] Ibrahim Oweiss (ed.), op. Cit., p. 49.

An efficient judicial system is also a crucial element of a capable state as an effective market economy is based on the premise of enforceable property rights and commercial contracts. In general, this enforceability depends on whether the courts provide timely, impartial and efficient litigation. It is fair to say that both the Egyptian and the Tunisian commercial judicial procedures are slow and expensive: the systems were designed to serve a planned socialist economy where private commercial disputes were not the norm. Officials within the judiciary trace its problems back to inadequate litigation procedures, understaffing, low technical capacity, poor facilities and limited financial resources. The inadequate commercial judicial system and the consequent lack of efficient property rights and contract enforcement mechanisms limits contestability. As a result potential investors are deterred by the cost and duration of the litigating exit, corporatization is inhibited as contracts binding individual investors together are difficult to uphold, project risk is high, technology transfer, especially from foreign partners, is restricted. Companies, especially small ones, try not to use the judiciary to secure their legal rights. According to a World Bank study on Egypt, over 65 percent of the private firms in Egypt prefer to either negotiate a partial settlement or to write defaulted debts off completely; 83 percent of the firms has never sued anyone in court, only 25 percent have sought court judgment for debt recovery, and 42 percent of those who went to court have seen their court cases dragging on for more than two years.[133] No such numbers on Tunisia are available but a number of people interviewed noted that businessmen have expressed general reluctance to resort to litigation as a means for dispute resolution.

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[133] *Private Sector Development in Egypt: The Status and the Challenges.* A World Bank Report. Prepared for the Conference "Private Sector Development in Egypt: Investing in the Future", Cairo, October 9-10, 1994, p. 15.

Thus, it is hard to claim that either Egypt or Tunisia has developed a superior state capability to carry out the reform program more successfully than the other one. There may be differences in the performance of the state apparatus on certain issues and in the specifics of the legal and regulatory environment in both countries but these differences are not significant. That is why state capacity can hardly explain the success of privatization in Tunisia and the failure in Egypt. Thus, we move to another possible factor for the different outcomes - the possible difference in the strength of the private sector, i.e. the actor who is supposed to take over the divested SOEs.

3. The Private Sector and the Public Sector Reform

One could argue that the underlying reason for the different outcomes of privatization in Egypt and Tunisia is the difference in the strength of the private business in these countries. The success or failure of the public sector reform may very well depend on the existence of a private sector, capable of mobilizing capital, taking a fair amount of risk, bringing professional expertise and innovation to the divested companies. On the one hand, such a strong and dynamic private sector from the very beginning can offer an explicit comparison of the ultimate results of the operation of assets under public and private management and thus provide incentives to the decision-makers to proceed with the reform without delay being one of the major beneficiaries of the process; it can form an influential lobby for privatization; it can support a reform-minded government to tackle the existing obstacles by providing the ultimate justification for the change of ownership - the superior performance of the divested SOEs. On the other hand, a weak and underdeveloped private sector would not be able to bring the necessary economies of scale, technological innovation, compete with foreign competitors and thus implicitly reinforce any doubts that a government with a long statist tradition might have regarding privatization as even the most reform-minded government may have fears that after the divestiture a wave of failures and bankruptcies would follow as a result of the inability of the new owners to operate efficiently the assets under their management.[134] A weak private sector could not be a serious partner is a reform-minded coalition faced by the organized opposition of the "losers" from the process. Finally, in case the domestic private sector is weak, the privatizers would have to rely on foreign investors to take over the former SOEs, which may trigger additional opposition on the basis of nationalistic feelings and fears of losing sovereign control over the national assets.

The question of "who is around to privatize" is, admittedly, of great importance for the success or failure of privatization. In the comparative analysis of the experience of Egypt and Tunisia, however, this is not a very important issue - I would argue that the private sector in both countries have demonstrated more or less equal motivation to support the public sector reform, although in neither of them it has managed to become an active agent of change; I would also argue that in both countries the private sectors have shown similar strengths and weaknesses which to an equal degree can push forward or delay the process of privatization.

As in many other developing countries, the public and the private sectors in Egypt and Tunisia have existed in a state of symbiosis, involving both mutual support and confrontation. As a part of the implicit political bargain between the state and a number of societal actors the private sector was *de facto* denied political legitimacy - the state

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[134] This has been a serious problem in a number of developing countries - the governments were forced to renationalize already privatized companies because of the dire implication that their

elites were reluctant to offer opportunities for political participation not just for ideological but also for nationalistic reasons as a significant part of the business communities comprised of minorities - trading and merchant communities of Jews, Armenians, Greeks, Lebanese in Egypt and French and Italians in Tunisia.[135] The private sector has always been a "policy taker" and often has had to deal with overt public policy discrimination vis-a-vis the public sector. In Egypt, for instance, private textile producers pay higher price for locally produced cotton than SOEs do - the state justifies these policies by evoking the allegedly higher social costs borne by the SOEs.[136] The situation is similar in Tunisia where the state achieves a high degree of compliance of the private business with the major rules of the game through ambitious regulatory powers - control and oversight on practically all aspects of business operations, including prices, firm location, foreign currency allocation, etc.

At the same time the private sector in both countries has been offered a number of privileges and benefits. The lack of political ambitions is compensated through significant tariff and non-tariff protection against foreign competitors, lucrative contracts from government agencies, especially for capital intensive projects in construction, infrastructure and the heavy industry, opportunities to sell a major part of the production to public sector entities and to buy numerous of inputs, including energy, raw materials, and certain intermediate goods, at subsidized prices, access to credit at preferential rates, opportunities to sell its production in relatively unregulated domestic markets and to reap significant profits in the exports as the access to foreign markets is restricted. Extensive

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failures and bankruptcies could have for the national economy as a whole.

[135] In fact, the nationalizations in the 1960s in both countries successfully eliminated the presence of these business communities.

[136] John Waterbury. *Exposed to Innumerable Delusions*, p. 221.

state intervention in the economy minimizes the risks for private entrepreneurs; the existing corporatist societal arrangements practically eliminate the pressures that labor could exercise. Even when the state provides incentives for private investment in productive enterprises especially in underdeveloped industrial sectors and areas, private businessmen rarely assume an activist stance - for years, they have chosen instead to invest in real estate, wholesale or retail trade, or take over the small businesses of departing foreigners.

The following quote of John Waterbury represents an illustration of the public/private symbiosis in Egypt:

"The medium-scale enterprise sector, selling to the domestic market, has generally cooperated closely with public authorities inasmuch as public policy has crucially shaped its rates of profitability. Protection against imports is of paramount concern, for even if the SOEs raise the prices of inputs, steep tariff walls will still protect access to local markets... The public sector is a major purchaser of goods and services, and although SOEs generally are obliged to give preference to one another in such purchases, private suppliers can enter into long-term, lucrative arrangements... the most lucrative contracts lie in the construction sector, where private firms can bid on the capital-intensive projects of the state in infrastructure and heavy industry. An oft-cited statistic is that during Egypt's First Five Year Plan, 40% of all outlays went to pay subcontractors in the construction sector. But large SOEs are important subcontractors in their own right. The large public textile complex at Mehallah al-Kubra in Egypt comprises 30 plants that in turn supply yarn to, and buy cheap "popular" cloth from, some 1600 small-scale weaving businesses."[137]

With regard to Tunisia, Eva Bellin wrote that the most widely used instrument of state support for the private sector has been the preferential tax treatment for certain "priority" ventures - for instance, according to the tax code of 1987 export-oriented

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[137] Ibid., p. 218-219.

industries are exempt from all corporate taxes and the income earned by the investors on these projects is not subject to personal income taxes for a period of 20 years.[138] Besides, the Tunisian private sector has always been shielded from serious competition.

" Substantial protection of the local market remained the rule in Tunisia for nearly three decades until 1986 (i.e. the beginning of the structural adjustment in the country - BB)... [B]y Jan 1988 the Central Bank estimated that (only! - BB) 53% of all imports in Tunisia had been imported in complete liberty... Despite its highly publicized commitment to trade liberalization, however, the state's performance in this area has been less than spectacular. Although the state did take steps to liberalize trade in raw materials, equipment, and spare parts, by 1989 it had not yet removed import restrictions on finished goods (which compose the bulk of Tunisia's industrial product and which would have exposed Tunisian industry to competition)."[139]

The state also curbed domestic competition - Bellin notes that:

"[u]ntil 1987, the state required all industrial ventures to be licensed by API (the Agency for the Promotion of Investments). Originally designed to assist entrepreneurs through the investment process, API has also served a winnowing function, denying licenses to those industrial ventures it deemed non-viable. One of the criteria for viability was "non-saturation" of the local market. Given the small size of Tunisia's domestic market, "saturation" was often achieved in many sectors with the creation of one or two firms per sector. Consequently, API's licensing system created a situation of guaranteed monopolies (or, at best, oligopolies) in many sectors, including pharmaceuticals, glass, biscuits, and rubber."[140]

These practices result ultimately in severe distortions in the economy as far as factor prices are concerned which precludes the opportunity for efficient operation of

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[138] Eva Bellin, op. cit., p. 115.
[139] Ibid., p. 123-125.

either the public or the private sector. It is hard to say who gains or loses more from the monopolistic position of the dominant private sector actors and the opportunity to charge high prices for products of mediocre quality. It is clear, however, that in case of conflict of interests between the private business and the SOEs, the former will always be the losing side, at least until the economies of these countries are not completely liberalized.

There are also significant structural similarities between the private sectors in Egypt and Tunisia. We will mention two of them which lead us to believe that they are likely to behave in a similar way. The first one is the predominance of the small and microenterprise in the private sector. In Egypt, formal medium and large enterprises "enjoy a high degree of protection, get all the institutional private credit, use relatively advanced technologies and management, make most of the country's private investment, deliver most of its private exports and pay higher salaries".[141] Nevertheless, the small and micro enterprises (99 percent of all the private nonagricultural enterprises[142]), account for the greater part of the private output and employment. The medium and large firms are "institutionally visible, well connected and incorporated into relatively sophisticated legal forms (joint stock companies, limited liability concerns, partnerships with shares) while the small and micro enterprises are broadly unrepresented, inconsistently regulated (even when fully registered) and set up in simple ownership structures (single proprietorships, *de facto* partnerships)."[143] The system of incentives, created by the state for the private sector - e.g. tax holidays, subsidized interest rates, protection from domestic and international competition - has been, in fact, effective only for large domestic and

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[140] Ibid., p. 126-127.
[141] *Private Sector Development in Egypt*, p. 2.
[142] Ibid.
[143] Ibid.

international investors while the potential and the resources available to the rest of the private sector have remained largely dormant.

The situation with the Tunisian private sector is similar:

"The vast majority of private sector enterprises in Tunisia are clustered in what API calls "classic, repetitive projects" and run by entrepreneurs with relatively little industrial experience. Using relatively simple technology these enterprises answer local demand for basic goods such as clothing, processed food, furniture, and building materials. Besides being technologically simple and repetitive, most of these enterprises are relatively small... The vast majority of private sector firms in the manufacturing sector employ fewer than 50 workers (86% in the agro-alimentary, 79% in construction materials, 68% in the metal, electrical and mechanical appliances, 77% in chemicals, 64% in textiles/leather, etc. - less than 50 workers).[144] "Industrialists as a group a young class; most industrial enterprises date from the early 1970s if not later. Moreover, most industrial entrepreneurs have relatively shallow roots in industry, having come to the sector from a wide variety of professional background."[145]

A second important characteristic of the private sectors in Egypt and Tunisia which makes it less likely to push actively for liberalization and privatization relates to the prevailing type of ownership:

"The firm structure of preference for the large-scale private sector in E[gypt] is the family-owned holding company. It appears to be well adapted to cope with both economic and political risk. As in the public sector, there is little separation of management from ownership. To the extent that shareholders monitor firm performance,

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[144] Calculated on the basis of the data provided in Eva Bellin, op. cit., p. 140.
[145] Eva Bellin, op. cit., p. 143.

it is because the majority of shares is owned by the family itself. The most senior management positions are generally reserved for family members... [These] groups [represent] vertically integrated, multiproduct oligopolies that minimize competitive pressures from both clients and suppliers... [and] are able to extract quasi rents from sales in imperfect input markets. The rents are generally used to further diversification at the expense of specialization and research and development. For maximum risk minimization, it is crucial that the group control its own banking institution... Even when such groups go public through share offerings, the ownership of equity will generally remain highly concentrated."[146]

The family-owned companies are also most common in Tunisia:

"[M]ost industrial firms in Tunisia are run as family concerns. This is true even when the firms take on "modern" juridical status (e.g. incorporation)... in 1987 of 200 [surveyed] private industrial enterprises ... only 27 (i.e. 13% of the 55 that responded) were governed by a formal board of directors... Management and control of the industrial firm remains highly personal and Tunisian entrepreneurs hold fast to this approach, despite the fact that this may mean slower growth. Thus, for example, Tunisian entrepreneurs do not commonly resort to the stock market to expand capital since issuing public stock might involve outsiders in the management of the firm (anathema to the average Tunisian)... To this day, the underdevelopment of the stock market acts as a continuing testament to the Tunisian entrepreneur's preference for highly personal control of his firm."[147]

The finance and credit product mix available to the private sector in Egypt and Tunisia is limited to lending from the banking system which, in turn, offers only a limited mix of financial instruments. Bank lending to the private sector does not exceed a period of five years; formal credit is rarely given to micro and small enterprises or to certain

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[146] John Waterbury, *Exposed to Innumerable Delusions*, p. 223-224.

sectors (e.g. housing); consumer credit is very limited. The lack of long term credit represents a very serious financial constraint in privatization as private banks usually offer short term commercial lending to medium and large companies only. Thus, large, lumpy manufacturing activities by default have been primarily undertaken by SOEs. Private micro and small firms are practically excluded from the formal credit system and have to rely on private informal sources, advances from customers and suppliers' credit in spite of the much higher costs involved. In Egypt, for instance, the effective interest rates in the informal credit market are reported to be as high as 100% vis-a-vis 19% in the formal banking system.[148]

The securities markets in both countries do not yet play a significant role in private corporate finance because of a number of legal and regulatory obstacles to their efficient operations. A number of private sector companies are listed on the stock exchanges in Cairo, Alexandria and Tunis, but trading volumes until very recently have been very low; additional risks for investors come from the fact that a very small percentage of the stock of most listed companies is actually traded, to a large extent because of the "right of first refusal" of the incumbent shareholders and the low reliability of the financial data available. In most cases, listing on the stock exchange is done not for the purpose of raising capital, but for obtaining certain tax privileges.

Thus, the economic and financial capabilities of the private sectors in both Egypt and Tunisia are equally limited. Their position versus the state to an equal degree has given them certain privileges and at the same time has exposed them to the discretion of

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[147] Eva Bellin, op. cit., p.p. 142-143.
[148] *Private Sector Development in Egypt*, p. 16.

the authorities. That is why it is unrealistic to expect strong involvement of the private business in privatization in any of these countries.

4. External Influence and Public Sector Reform

There is at least one more possible alternative explanation of the different results of privatization in Egypt and Tunisia which, if true, might falsify the general argument of this dissertation - it is the impact of the external environment and the positive or negative incentives for reform that it creates. Success or failure of privatization may be linked to the flow of resources from abroad - it has been convincingly argued that a state which derives its income from exogenous sources, i.e. does not have to rely on domestically raised funds, and faces soft budget constraints does not have to resort to tough economic measures which may spur societal controversy and shake the existing *status quo*.[149] In this line of reasoning, on the one hand, such a government would not have sufficient motivation to push for a comprehensive economic reform and successfully privatize the majority of its SOEs. On the other hand, a government which has limited exogenous resources and gets little income in the form of rents would have to go further along the public sector reform as this would represent one of the few possible opportunities for increasing revenue, or decreasing public expenditure, in the face of mounting budget deficits. Thus, the success or failure of privatization might have nothing to do with any domestic variables but be just a function of the availability of resources. Then, Egypt might have lagged behind in privatization because the revenue it could generate from exogenous sources could compensate for the lack of sufficient revenue from the public

[149] See, for instance, Lisa Anderson. Peace and Democracy: The Constraints of Soft Budgets // *Journal of International Affairs*, 49/Summer 1995, p.p. 25-44.

sector, and vice versa - as the Tunisian government to a smaller extent could rely on soft budgets to accommodate the growing deficits generated from the inefficient performance of the SOEs and the public sector reform seemed to be one of the few available options for increasing the state's revenue.

The literature on the state has explored well enough the impact of its nature on the existing socio-economic and political arrangements. It has been shown that in this sense there is a significant distinction between extractive and distributive states[150] - the former depend on the collection of taxes for the provision of law and order, establishing and enforcing the necessary rules for the proper functioning of markets, creating basic infrastructure, etc. while the latter depend on exogenous variables, or rents, such as, for instance, the proceeds from the sale of natural resources, the support of a rich "patron" in the international system, etc., i.e. variables "not closely related to the economic structure and social realities of the country".[151] On the basis of this distinction the theory of the rentier state and rentier economy was developed in the 1980s.[152]

The MENA has provided prime examples for the rentier phenomenon. Most of the countries in this region have been blessed with significant oil reserves or other natural resources whose exports have provided a practically uninterrupted flow of funds from abroad. Another source of externally generated revenue has been the flow of foreign capital in the form of donors' aid, assistance from the international financial institutions,

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[150] See, for instance, Jacques Delacroix. The Distributive State in the World System // *Studies in Comparative International Development*, Fall 1980, p.p. 3-22.
[151] Hazem Beblawi and Giacomo Luciani. Introduction // Beblawi, Hazem and Giacomo Luciani (eds.). *The Rentier State. Nation, State, and Integration in the Arab World.* Croom Helm, in association with Methuen, Inc., 1987, p. 3.
[152] See ibid., Kiren Azis Chaudhry. The Price of Wealth: Business and State in Labor Remittance and Oil Economies // *International Organization*, 43/1989, p.p. 101-145, Thomas Callaghy.

portfolio investments in government's financial instruments by private investors, etc., all motivated by non-economic, for instance, political or geostrategic, considerations. Being on "the right" side of the global confrontation during "the cold war", supporting "the right" coalition in a regional conflict, having internal threats to the national security or threats to the political stability in the entire region, etc. - these are all serious arguments in support of the claims for resources from state or non-state actors in the international system, claims that have been pursued by countries in the MENA successfully enough in the second half of the 20th century. A third source of externally generated resources have been the waves of migrant labor which have swept the countries of the region for the last half a century. Expatriate workers have significant links to their home countries and their income, while earned abroad, has been spent to a great extent domestically - either invested by them in some kind of business, usually small, or used to support family members and relatives. In many cases this was a way to redistribute other externally generated rents by providing services in countries rich in natural resources but poor in qualified or even in any labor force at all. As a result, those states which could generate sufficient revenue from abroad did not have to focus on the development of a modern taxation system which would both strengthen the state and promote economic development - in fact, the task of developing a modern taxation system which is a major lever in political or economic management was seriously neglected in spite of the increasing involvement of the state in major industrial, agricultural and infrastructural projects. Excessive state intervention, both explicit or implicit, were relied upon in spite of its distortive effects on a number of key economic variables for the long run.

External Actors and the Relative Autonomy of the Political Aristocracy in Zaire // Nelson Kasfir (ed.). *State and Class in Africa*. London, Frank Cass, 1984, p.p. 61-83, etc.

The purpose of this section is not to elaborate on the theory of the rentier state or rentier economy, nor to explicitly apply it to the assessment of the realities of the two country cases and see to what extent each of the two countries should be considered "rentier", "semi-rentier" or "non-rentier". Instead, I will present evidence showing that the existing differences between the two countries along the line of the briefly outlined hypothesis above are not substantial or that such an impact of the international environment would rather lead to softer budgets in Tunisia rather than in Egypt.

Table 3.2 Externally Generated Revenue in Egypt and Tunisia[153]

Indicator	Egypt	Tunisia
exchange rate (1995)	LE 3.39/USD	TD 0.95/USD
GDP per capita (current prices in USD)	1,112(1995/96)	2,006 (1995)
real GDP change	4.4% (1991/92) 1.7% (1992/93) 3.9% (1993/94) 4.6% (1994/95) 5.1% (1995/96)	3.9% (1991) 7.8% (1992) 2.0% (1993) 3.4% (1994) 2.5% (1995)
population (million - 1995)	60.236	8.96
external debt (billion USD – 1995)	32.1	9.9
external debt per capita (USD – 1995)	535	1,112
taxes/total revenue in Egypt or VAT/total revenue in Tunisia (%)	28 (1995/96)	22 (1995)
taxes (including sales and service)/total revenue (%)	43 (1995/96)	64 (1995)
overall balance of payments (USD million) 1992 1993 1994 1995	 3,360 18 (1,164) (1,827)	 (180) 70 527 97
number of tourist visits (thousand – 1995)	3,133	4,120

153 Sources: *Egypt: Country Profile, 1997-98* and *Tunisia: Country Profile, 1997-98*. The Economist Intelligence Unit, London.

Indicator	Egypt	Tunisia
revenue from tourism/GDP (%)	1.7 (1995/96)	7 (1995)
Suez Canal revenue/GDP (%)	3.7 (1995/96)	-
oil and gas exports (% of foreign trade)	48.5 (1995/96)	8.4 (1995)
phosphates and fertilizers (% of foreign trade)	-	10.3 (1995)
workers' remittances (million USD)	....	527 (1991)
	....	508 (1992)
	6,000 (1993/94)	600 (1993)
	3,300 (1994/95)	696 (1994)
	3,250 (1995/96)	712 (1995)
remittances per capita (USD – 1995)	53.95	80
foreign debt/GDP (%)		
1991	102.2	65.6
1992	89.4	56.7
1993	79.4	61.5
1994	78.1	60.8
1995	73.3	57.3
debt service/exports (%)		
1991	17.1	23.7
1992	15.3	20
1993	13.6	20.7
1994	14.4	18.4
1995	14.6	17.0
gross official assistance (million USD)		
1991	5,025	502.81
1992	3,602	541.2
1993	2,401	407.5
1994	2,694	....
: of which grants (million USD)		
1990	5,014	274.9
1991	4,084	190.7
1992	3,256	238.9
1993	1,864	206.8
1994	1,791	167.8
gross official development assistance per capita (USD – 1993)	42	43

Table 3.2 offers statistical data necessary for the comparison. By a number of important indicators it seems that Egypt has been the greater beneficiary of externally generated revenue. First, Egypt has indisputably a unique resource as the Suez Canal

which can generate revenue in the form of fees for passage amounting to 3.7 percent of GDP. Second, Egypt has substantial oil reserves which allow it to export significant amounts of petroleum and petroleum products - in this sense, the contrast with Tunisia is clear - the oil and gas exports represent 48.5 percent of the foreign trade while the comparable energy exports from Tunisia amount only to 8.4 percent. Nevertheless, oil should not be the only natural resource to be considered - in the same category we should take into account the large reserves of phosphates in Tunisia which together with the fertilizers amount to 10.3 percent of the foreign trade versus practically zero for Egypt. Third, the ratio of all taxes, including the sales and service charges, to all government revenue has been in favor of Tunisia (64 versus 43 percent), i.e. it seems that Egypt has the weaker taxation system. Without getting into a detailed analysis of the different taxation structures, however, it is hard to compare the contributions to the national budgets in the two countries; in fact, a juxtaposition of the ratios of taxes (excluding sales and service charges) to the total government revenue shows a discrepancy in the other direction (29 versus 22 percent). Fourth, it might be correct to assume that the laggard in privatization would be the one to receive more foreign capital and for this reason have greater indebtedness to foreign investors. In this sense the comparison of the total external debt of the two countries does not necessarily support a rentier explanation - the gross Egyptian indebtedness may be more than three times greater than that of Tunisia ($32.1 billion versus $9.9 billion) but on a per capita basis the Tunisian indebtedness has been practically double the Egyptian one ($1,112 versus $535). The overall balance of payments has been positive for Tunisia while it has fluctuated below and above zero in Egypt - a fact that could be interpreted as contrary to the logic of the rentier hypothesis.

The debt service burden has been lighter for Egypt but at the same time the foreign indebtedness as a percentage of the GDP has been lower for Tunisia. The total gross official development assistance has consistently been in favor of Egypt but on a per capita basis there is practically no difference (the latest available Egyptian number is even slightly lower than the Tunisian - $42 versus $45).

The comparison on other indicators shows that Egypt is less likely to be the greater beneficiary of exogenous resources. Fifth, gross workers' remittances over the latest years have been substantially greater for Egypt but on a per capita basis again they have been practically by 50 percent greater in Tunisia ($80 versus $54). Sixth, if we assume that the domestic tourist industry may serve as an instrument for generating revenue from abroad, then a clear winner by this indicator is Tunisia - not just by the number of tourists visiting the country (4.12 million versus 3.13 million tourists) but especially by the percentage of GDP generated through tourism (7 percent versus 1.7 percent). Seventh, it might make sense that the richer country would be less pressed to carry out the reform and be less in need of privatization-generated resources. In fact, Tunisia is the richer country of the two with almost double the GDP per capita than Egypt ($2,006 versus $1,111); yet, Egypt is the laggard in privatization.

We have to admit that this brief analysis is by no means exhaustive. The discussion of the numbers, however, does not justify the claim that Egypt has benefited more from the international environment thus received an opportunity to delay the implementation of the public sector reform; thus, the availability of externally generated resources can hardly be accepted as an alternative explanation of the different results in Egypt and Tunisia.

There may be a multitude of factors influencing the outcomes of privatization. In this chapter I have tried to consider briefly just a few of them which seem to be relevant to privatization in general and the experience of Egypt and Tunisia in particular. Without developing elaborate arguments and just stating possible causal relationships which may exist between them and the success or failure of the public sector reform, I have shown that they have had a similar, if not equal, impact on the outcomes so far. Thus, any hypotheses regarding the different outcomes in Egypt and Tunisia, based on any of these factors, would not be helpful in our comparison. That is why in the following chapters we will proceed with the analysis of the different patterns of management of the privatization programs by the governments of the two countries.

IV. ADOPTION OF THE PRIVATIZATION PROGRAM: RESTRICTING DEBATES OVER ECONOMIC POLICY

When opting for reform any government is faced with a number of question to which it has to provide satisfactory answers: What kind of reform measures do we exactly need? What effects will they have, i.e. will they be able to achieve their goals? What unintended consequences might they bring? How should these policies be enacted and later corrected, adjusted, fine-tuned, etc. in the course of the reform when the first results become evident? These questions warrant answers at the early stages of the reform, i.e. before the work on privatization *per se* has started. Answers to these questions should be provided at the beginning in the process of adoption of the privatization program. At this stage many details regarding the practical implementation of the policies may not yet have crystallized; nevertheless, this is the time to take a stand on some major general issues, such as why and how to reform the public sector, i.e. this is the time when "the rules of the game" of privatization are set up.

In the process of adoption of the program the state may take on a more or less activist role – the government may opt for greater or smaller participation of the relevant actors in decision making; it may also allow a wider or narrower scope within which these actors can participate, i.e. the degree to which their input can be different from the position of the central government. Thus, if the government adopts a more liberal approach, the privatization program would be the product of a wide-ranging consultation among the actors affected in one way or another by the reforms. In the former case, if the government adopts a more restrictive approach the program would be the product of decision making from the top with little input from below. As it will be shown in the following paragraphs, in the more successful of the two countries in consideration (Tunisia) the government opted for the latter approach in the launch of the privatization program. We will start the comparison of the two cases by analyzing the existing preferences regarding greater or smaller societal involvement in policy making.

1. Societal Involvement in Policy Making: *Pro*s and *Cons* in the Literature

a) hypothesis 1: need for wide societal involvement

The literature on structural adjustment has explored the impact of the pattern of adoption of the reform program on the interim and final outcomes of the reforms. A number of theorists have argued for the necessity of wide societal support for the reforms claiming that legislative majority is a crucial element. This conclusion was reached in studies of a number of countries: on the one hand, in Australia, Colombia, New Zealand, Portugal, Spain, etc. where the government enjoyed a solid base of legislative support the adjustment process in the 1970s-80s was successful; on the other hand, in Turkey the adjustment crumbled at the end of the 1970s as a result of the weak support for the Demirel government which initiated the reform program; Sarney and Bresser Pereira in Brazil, Belaunde in Peru and Carlos Andres Perez in Venezuela did not enjoy sufficient legislative support and this hampered the successful consolidation of the reforms. Another illustration of this finding from the 1990s is the stalled reforms in Russia, Ukraine and Bielorussia where the parliaments opposed the governments.[154]

[154] For details see John Williamson and Shephan Haggard. The Political Conditions for economic Reform // John Williamson (ed.). *The Political Economy of Policy Reform*. Washington, DC: Institute for International Economics, January 1994, p.p. 572-573.

We have to admit that without any societal support in the long run any reform is doomed. Nevertheless, wide and consistent support for policies, which are likely to produce increased hardship for large groups of the population in the short term while promising higher living standards in the more distant future, requires understanding of the possible downside of the reforms, balance of the interests of the societal actors involved and trust in the leadership provided by the government. This is hard to achieve in the industrialized countries which have sufficient resources to provide temporary relief for the "losers" but it is a much greater challenge for the majority of the developing countries known for the deep societal polarization, limited legitimacy of the government and insufficient resources for softening the blow on the “losers”, produced by the initiation of the reform. That is why the ambition to provide support from all major actors would hardly produce the desired results in most of the middle-income developing countries, i.e. it is unrealistic to expect this scenario to happen in Egypt and Tunisia.

b) hypothesis 2: wide societal involvement is harmful

A number of theorists have expressed skepticism about the possibility of achieving sufficient societal support just by a parliamentary majority, especially given the fact that in most of the developing countries the authority of the legislative body is more formal than real. Besides, it has been argued that it is hardly possible to design coherent policies on the basis of the inputs of all actors concerned - as some of these actors may be adversely affected by the reforms, they may engage in lobbying to shield themselves from the adverse effects and thus ultimately derail the program.[155] An oft-cited example in this respect is the Jamaican experience in the 1980s when the government of Michael Manley in observance of the democratic principles opened a wide societal debate on all aspects of adjustment and finally failed to carry out its promises due to the very narrow margin of consensus and the serious divergence between the various actors: ultimately the situation in the country deteriorated and the government proved to be unable to realize its good intentions.[156]

It has been argued that the Egyptian case provides support for the pessimism regarding the utility of wide societal participation and debates - the involvement of groups with conflicting interests in discussions as to how exactly to design and carry out the privatization program put the government for many years in the position of an arbitrator who had to face the task of reconciling the existing differences of opinion instead of working on the privatization program itself. In this respect it is worth referring to Denis Sullivan who has followed closely the debate on the most privatization-related issues in Egypt. "On the one hand, this debate centers on the question of which takes precedence - economics or politics... On the other hand, the debate is a more fundamental one, centering on the question of what kind of economic system should Egypt follow - socialist, capitalist, Islamic, or other."[157] On the surface, however, the major point of

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[155] See John Waterbury. *Exposed to Innumerable Delusions*, chapters 6-9 (Managerial Careers and Interests; Coalitions and State-Owned Enterprises; The Public-Private Symbiosis; and Organized Labor and the Public Enterprise Reform)

[156] Joan Nelson. The Politics of Adjustment in Small Democracies: Costa Rica, the Dominican Republic, and Jamaica // Joan Nelson (ed.). *Economic Crisis and Policy Choice: The Politics of Adjustment in Developing Countries*. Princeton: Princeton University Press, 1990, p.p. 169-214.

[157] Denis Sullivan. Extra-State Actors and Privatization in Egypt // Ilya Harik and Denis Sullivan (eds.), op. cit., p. 24.

contention appears to be if the reform should be implemented as soon as possible or gradually.[158]

The first cut of the privatization debate concerned at exactly the concept of privatization should mean in the Egyptian context. The *reformists* interpreted it as "selling of the public sector" (*bi' qitaa' al-'aam*) and believed that this was the only viable strategy if Egypt was to stop the drain on public resources caused by the numerous SOEs and achieve higher efficiency of its productive sector. Their opponents argued that privatization should be understood as "encouraging of the public sector" (*tashgii' qitaa' al-khaas*), i.e. adoption of policies favoring the growth of the private sector without necessarily disposing of the enterprises under state ownership. The rationale for the latter point of view lay in the understanding that the public sector had not just profit maximization goals but also social and political objectives such as employment generation and provision of minimum wages; the gradualists believed that if the government assured private business that bureaucratic interference and controls got cut down, entrepreneurs would be more active and ultimately would tilt the private-public balance in the economy in favor of the former.

There is a second cut in the privatization debate, quite widely publicized by newspapers and magazines (e.g. the influential economic weekly *Al-Ahram al-Iqtisadi*).

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[158] Hence the supporters of these points of view were called respectively *reformists*, i.e. those who advocated quick privatization, and *gradualists* - those who recognized the need for reform but argued against any drastic moves. Sullivan refers to Yusef Wali, former Minister of Agriculture, Deputy Prime Minister and Secretary General of the ruling National Democratic Party; Atef Obeid, Minister of the Public enterprise sector and of Cabinet Affairs, Fuad Sultan, former Minister of Tourism, as *reformists* while the *gradualists* are represented by Kamal Ganzouri, current Prime Minister and former Minister of Planning and Deputy Prime Minister, Muhammad Abdel-Wahhab, former Minister of Industry, etc. These people were among the most important figures involved in policy making at the time the privatization program was launched. See Sullivan, op. cit., p. 25.

It has been argued that, on the one hand, there seemed to be obvious candidates for divestiture - companies with clear-cut market orientation (e.g. soda, candy and perfume manufacturers, etc.); on the other hand, there were enterprises of strategic importance for the country, the state's "crown jewels" (e.g. iron and steel works, machine building and chemical factories, etc.) which represented the backbone of the national economy, i.e. companies whose significance went far beyond short-term profit maximization and which, as the *gradualists* claimed, had to remain public. For quite a long time, the advocates of this approach seemed to prevail in the struggle for influence over policy making, i.e. considerations of social stability got a higher priority than economic efficiency.[159]

Behind these statements one can see a deeper division among policy makers - division with regard to whether Egypt should move with a higher pace to the market or it is better to retain as much as possible of the legacy of the Nasserist "socialist" past. In Sullivan's words, it is exactly the opposition to "dismantling of a socialist structure" that underlies the arguments of the most ardent advocates of the gradualist approach - it is difficult for them not to recognize the serious problems facing the Egyptian economy but to accept a radical reform would mean a loss of power that they enjoy through their position in management of the dominant public sector. "The inconclusive debate over "socialism or capitalism" (or other), the continuing support for economically irrational

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[159] In a speech on May Day 1990 in which President Mubarak pledged that economic reform constituted his 'primary duty', he nevertheless argued for moderation: "I will not sell [the] giant factories (e.g. Kafr ad-Dawwar, al-Mahlla al-Kubra, Stea, al-Amiriyah, Helwan Iron and Steel, the aluminum and fertilizer companies, Kema etc.)... It is better for us not to run such small concerns as hotels, tourist agencies and the rest of this junk. We need to concentrate on our big and strategic concerns, on our giant factories that are necessary for the country for both social and economic reasons." Quoted by Hassan A. W. El-Hayawan and Denis J. Sullivan. Privatization in

but socially popular policies (massive subsidies, penalizing agriculture to appease urban interests, free education, guaranteed employment), the bureaucratic and political resistance to reform, indeed the minuscule steps taken toward privatization, all suggest that Egyptian socialism is not being dismantled."[160]

As a result of the dissensus regarding both the general political orientation and the specific policies which were to be implemented, the government had to accept the role of an arbitrator between the proponents of the different points of view instead of focusing on the particular measures toward reforming the public sector; thus for years it was not able to come up with coherent policies while at the same time had to suffer the liabilities for the social costs of the continuing since the 1970s economic liberalization which offered the potential and real "losers" an opportunity to consolidate their political positions and act together.

c) bridging the two contending approaches

An attempt to bridge the two divergent approaches regarding the societal involvement in the discussion and the formulation of the reform measures was made by theorists studying economic reform after democratic transitions who came up with the so called "honeymoon hypothesis". They argued that there were greater chances for success for governments appealing for support to the masses if the reforms took place in the aftermath of a regime change. "Economic reformers are likely to enjoy greater freedom of political maneuver immediately after they take office, when difficult decisions can be

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Egypt // V. V. Ramanadham (ed.). *Privatization in Developing Countries.* London, New York: Routledge, 1989, p. 341.
[160] Ibid., p. 349.

blamed as the legacy of the outgoing government".[161] So far, Poland has provided the best possible case in support of this hypothesis; the Philippines under Aquino has offered another example. In many cases, however, successful reformers managed to carry out their programs without a "honeymoon" (e.g. South Korea in the 1960s, Chile in the 1970s and Turkey in the 1980s); besides, there have been a number of instances in which reform-minded governments did not take advantage of the wide societal support either because there was no honeymoon or because the government had otherwise immediate priorities during that period. Obviously, this approach has a limited applicability to the region of the Middle East and North Africa where, unlike Latin America, Southern and Eastern Europe, no regime change has happened and the incumbent governments have enjoyed a high degree of stability, so there is no space for a reference to radical political change in the explanation of the contrasting results of the efforts to privatize in Egypt and Tunisia.

I would argue, however, that there is another way to bridge the two diverging hypotheses discussed above by combining the *pros* of both of the approaches and neutralizing the *cons*. Privatization is a political act rather than anything else as it involves restructuring of the power arrangements between the state and the society and among the various societal actors themselves. A reform-minded government can successfully carry out its program both keeping debates in check and at the same time enjoying sufficient societal support if it manages to depoliticize the outcomes of privatization. This is a matter of political management of the economic policies, i.e. of making them seem apolitical. The logic of this approach can be summarized as follows: 1) to be able to function well enough the modern economy requires highly specialized

[161] John Williamson and Stephan Haggard, op. cit., p. 571-572.

technical knowledge on behalf of its managers; 2) the purpose of the reform is to make SOEs more efficient which cannot be done without the knowledge and skills of highly qualified experts; 3) specialized technical and organizational skills have nothing to do with political affiliation, so people with different political preferences should not be afraid that their interests would be hurt; 4) these apolitical experts should not depend on the short-term swings of the public opinion in case of temporary hardships; if they are let alone to apply their expertise consistently the performance of the economy in general will improve, value-added will increase and everybody in the country, regardless of political affiliation, will benefit; 5) the government is best position to appoint these experts as it can deal with the problems at a large scale; at the same time it will not benefit disproportionately from the reform as the experts will have no involvement in politics.

Support for this hypothesis has been provided the Tunisian case which provides us with a picture opposite to that in Egypt - the Tunisian authorities adopted a strategy of greater restrictiveness in the management of the reform process. After the general orientation toward a market economy crystallized in the 1970s and the first half of the 1980s, the government had already a clear answer to the first question on the list, i.e. if a radical reform of the public sector was necessary and desirable. Further, it proceeded with confidence and little willingness to engage multiple societal actors in policy debates. Information regarding policy flowed only one-way - from the top down - and little feedback was asked for; i.e. from the very beginning the government made it clear in what direction it was headed. Most of the public discussion of privatization was included in the government's initial public relations campaign which covered a series of newspaper and magazine articles by selected academics regarding the inefficiency of the public sector, the need for reform and the success of privatization programs in foreign countries, mainly in Great Britain.[162] A series of conferences, organized in 1987 and 1989 by the Tunisian government and USAID, offered academics, businessmen, policy makers and foreign investors the opportunity in a controlled environment to discuss issues such as "Why Privatize?", "How to Privatize?", "Financial Markets Development", "Employee/Management Leveraged Buyouts". As the government had not provided any materials concerning the particular measures it intended to undertake, privatization was discussed only in most general terms, with occasional references to foreign experience - obviously, the government did not intend either to use the input of the participants in these forums as a basis for the elaboration of a detailed privatization program.[163] The purpose of this campaign was to legitimize the policies by providing the experts' general "seal of approval". Since then, the government tried to avoid any debates, especially discussions of the problems it encountered along the course of the reforms and analysis of the interim results in the implementation of the privatization program.

One of the ways in which the strategy of depoliticization was carried out was through the use of vague or technical terms in the discourse on public sector reform

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[162] The following titles of the published articles show that the discussion took the form of a public relations campaign: Privatization: La formule progressive et rationnelle retenue: Les salaries participeront a la privatization (*Le Temps*, May 11, 1989), Restructuration des enterprises publiques: lentement mais surement (*La Presse*, January 18, 1990), Retarder la privatization: c'est retarder notre developpement (*Le Temps*, January 23, 1990), Les procesdures de vente sont transperentes (*Economiste Maghrebien*, March 1990), Une option essentielle pour le 8me plan: la privatisation des enterprises publiques travaillant dans le secteur concurentiel est presentee comme une choix strategique et irreversible (*Economiste Maghrebien*, December 1990), Reflechir au choix et s'inspirer des experiences des autres (*Le Temps*, May 26, 1989), Privatization: un instrument d'efficacite et de productivite (*Le Temps*, June 17, 1991), etc.

[163] "As is so often the case with introductory conferences, expectations on the part of business persons in developing countries are raised to expect that positive results will ensue rapidly. Tunisian business persons and GOT officials were disappointed in that little came of these conferences". See USAID. Project Assistance Completion Report. Private Sector Development and Technology Transfer. Project No. 664-0328, Washington, DC, p. 6.

although the objectives seemed to be clear from the very beginning. The word "privatization", for instance, was rarely mentioned in the political discourse and the legal texts - instead, the formula of "participation in the public enterprises" and "restructuring" (*restructuration*) was opted for - a nice way to avoid stirring unnecessary opposition, provoking societal confrontation and resistance to the idea on ideological grounds.[164] In this line of reasoning, all the initial public offering of shares of stock of public enterprises were further considered as "participations" (implying wider participation in the ownership) while the sale of a part or of an entire enterprise to a strategic investor went under the heading of "spin-off" (*cession*) or "merger" (*fusion*). At the same time by keeping practically all the activities at the level of experts the government did its best not to let privatization get out of control and not to offer too much liberty to the management of the individual SOEs - a possible scenario which could threaten to undermine its own authority in case the public sector playing a major legitimating function for the regime was dismantled too quickly.

Practically all publications regarding privatization in the Tunisian press in the 1990s have been just short reports of particular transactions presented as instances of the generally successful economic policies of the government; rarely these transactions were put in perspective at the background of the general economic strategy and the tasks and goals of the privatization program as a whole. The government never published any interim report or information regarding the implementation of the program, thus leaving the public in the blind about its short term intentions and the numbers for the transactions already in place. In this situation, privatization has progressed and the government, while

[164] Even the major legislative documents were shy to use the term "privatization" adequately - for instance, the major privatization law was called "Law 89-9 of February 1, 1989 on the

enjoying sufficient popular support, has managed to avoid being asked sensitive questions and having to justify its actions on a day-to-day basis.

2. Societal Involvement in Privatization

I argue in this dissertation that the key to explaining why the process of privatization stalled in Egypt and went ahead in Tunisia should be sought in the state-society interaction on the formulation and adoption of the public sector reform. The pattern in which the government as the major pro-reform actor dealt with the challenges coming from its opponents with a stake in the *status quo* shaped the design of the privatization program. The country in which the central government managed to a greater extent to neutralize its opponents and mobilize a greater number of supporters happened to be the one in which opportunities for the opposition to articulate its objections and mobilize resistance have been to a greater extent curbed.

a) privatization and political opposition

It has already been mentioned that privatization is a process with wide ranging political implications and the support that the government receives or the resistance that it may encounter is political by its nature. A major role in the formulation and the mobilization of such support or resistance in any country is played by the political opposition.

Opposition, as much as it exists in Egypt and Tunisia, owes its existence to the state. From the very beginning it was supposed to be loyal and never pose any threat to the government or the existing social order - this was the condition for its recognition and

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participation in the public enterprises".

legalization. Political parties are the major instrument of institutionalized political participation and contestation - they promote specific interests not represented in the government and try to formulate alternative strategies and policies; other relevant actors could be organizations with political agendas of their own which do not have the legal status of political parties (e.g. various political movements) or organizations not directly involved in politics but having a position on political issues because of the stake of their members in specific political processes (e.g. labor unions, businessmen's associations, chambers of commerce).

Political parties of the opposition in Egypt and Tunisia have generally had limited space in these countries' politics. First, as Moneb Zaki points out, "having shallow bases within society, their ability to mobilize popular support is extremely limited; consequently, no party seems to mobilize an established broad constituency or to be expressing any collective political will emerging from a social base".[165] These parties have limited membership and access to resources necessary for political campaigns. Second, the political spectrum both in Tunisia and Egypt is dominated by the ruling parties, respectively the National Democratic Party (NDP) and the Constitutional Assembly for the Republic (RCD). The elections held in both countries since the (re)introduction of pluralism have produced a majority of at least 70 percent for these parties, so whatever opposition exists, it would hardly be able to seriously challenge the government on its version of any reform program, although it can cause a discussion on the most sensitive aspects of this reform against the will of the government. Third, as a rule, opposition members of the parliaments have generally been reluctant to criticize: in

[165] Moneb Zaki. *Civil Society and Democratization in Egypt, 1981-1994.* Konrad Adenauer Stiftung, The Ibn Khaldoun Center. Cairo: Dar al-Kutub, 1995, p. 85.

both countries opposition parties have relied for financial support on the government, leading opposition figures can be offered offices either in the government or at high levels in the bureaucracy, so criticism could jeopardize the privileges and perks that come along with the status of belonging to the legal opposition. Nevertheless, one can observe certain differences in the interaction between the governments and the oppositions in the two countries which, as I argue, have had an impact on the formulation and the implementation of the public sector reform - the opposition in Egypt has had an input in the privatization program through openly expressing its opinion on various issues and criticizing the government's policies while the opposition in Tunisia has stayed on the margins by just stating its support for the government or expressing no opinion on the specific policies.

Political pluralism has existed in **Egypt** since the end of 19th century with two interruptions - under the British Protectorate between 1914 and 1923 when the first Egyptian constitution was adopted and between 1952 and 1977 when the military regime banned political parties. Law 40 of 1977 restored it, although serious restrictions on the activities of the parties were imposed and strict state control was maintained. The major parties which were accorded a legal status are the presidential National Democratic Party (NDP), the New Wafd Party (successor of the old Wafd), the nasserist National Progressive Unionist Party (Tagammu) and the Socialist Labor Party; the Muslim Brotherhood which has thousands of supports throughout the country was not accorded the official status of a party because the government, recognizing the seriousness of its opposition to the regime, was afraid to offer it legal means for antiregime activities.

Recently, the Brotherhood's voice has usually been heard through its alliance with Labor.[166]

In general, the opposition in Egypt has had the opportunity to use the mass media (with the exception of the radio and TV) to launch criticism on the official policies. This does not concern the electronic media which have remained under strict governmental control. The authorities have so far refrained from imposing a crude censorship but at the same time it has restricted access of opposition newspapers to officially generated news only and harassed a number of journalists, thus making it hard to express serious opinion based on hard facts and to criticize the government too severely. Criticism of the government's policies have often appeared in the liberal "Wafd" (the paper of the Wafd Party), "As-Shaab" (the paper of the Socialist Labor Party which expresses now the opinion of the Islamist opposition) and in other papers and magazines. Another important arena for voicing dissent with the government's policies has become the People's Assembly where all the members have had an opportunity to debate extensively most of the issues involved in privatization. In the following paragraphs we will briefly outline the positions of the major actors in Egyptian politics on the public sector reform.

The ruling NDP is usually associated with a centrist position toward the public sector reform which, as a rule, justifies all measures undertaken by the government. Just the way it supported in the 1970s and 1980s the existence of a dominant public sector, in the 1990s it admitted that most countries in the world with significant economic accomplishments had moved seriously toward the market and Egypt had to follow their example. Along with the government which did not want to antagonize significant parts

[166] There are more political parties and organizations but they do not have a significant presence in Egyptian politics and their position on the public sector reform, as much as it exists, can hardly

of the population it took "the middle road", i.e. it opposed the idea of a fast and radical privatization because it could result in a disequillibrium between the different sectors of the economy and social dislocations, but at the same time insisted on the necessity of certain progress in the reform. Initially, the party would not accept full divestiture of SOEs as there might be multiple alternative ways to reform these companies - thus, contracting out or privatization of the administration should come first and ownership transfer of the company's stock might not be necessary. Later, toward the end of the 1980s NDP changed its position following the government's decision to accelerate the reform. It tried hard to justify the public sector structure enacted with Law 203, i.e. endorsed the idea of letting the Public Economic Authorities and the holding companies manage the SOEs on a commercial basis and sell certain individual SOEs if it was necessary for the improvement of their overall profitability. In this context, for instance, the party highly publicized the success story of the Public Sector Authority for Maritime Transportation in raising productivity and generating foreign exchange and presented privatization as a way to expand the ownership base of the economy.

The Wafd Party occupies the right side of the political spectrum - it is associated with the early development of capitalism in Egypt and claims to be the champion of liberalism in the country. According to the Wafd, Egypt has not joined the wave of successful privatizations around the world and has not benefited sufficiently from all the opportunities for improved economic performance it could offer. Among the examples of successful public sector reform in countries facing similar problems its leaders bring up, for instance, the example of the Tunisian privatization in surmounting investment obstacles, fighting bribery and routine. The Wafd has always been critical of Egyptian

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influence policy making.

socialism and expects the ownership base of the Egyptian industry to shrink as a result of privatization. It believes that the inadequate structure of the public business sector has created negative incentives for reform - Law 203 set up an unnecessary middle level of management and useless institutions. That is why the public sector reform has not been successful enough so far - in fact, even in those industries in which there has been some progress, such as, for instance, the tourist and hotel industry, the government has been inconsistent and instead of pushing for privatization its overbureaucratic approach has created significant obstacles and delays. Still, the Wafd has not always been consistent in its position on privatization - on certain occasions it did not miss the opportunity to criticize the government for the inevitable pitfalls of the privatization process.

The NPUP has offered a leftist criticism of the public sector reform. From the very beginning it expressed serious doubts that the Egyptian private sector would be able to rescue Egyptian economy from its crisis as the solution to the problems could not be reduced to a simple choice between public and private ownership. On a more fundamental note, the NPUP considers the capitalist orientation as an inappropriate developmental model for the country - Egyptian businessmen used to invest heavily in real estate before 1961; later they engaged in speculative financial and commercial activities and invested only in light consumer industries with quick turnover, low capital requirements and low risk. With regard to the experience of the rest of the world, the party maintains that the choice of whether to opt for a dominant public or private sector as a major instrument of economic development should be country-specific - in a formerly backward country like Russia, for instance, the reliance on a dominant public sector accounted for the successful industrialization and transformed the country into a superpower. As to Egypt, the process of privatization represents a violation by the government of the existing social contract - the SOEs are property of the entire Egyptian people and no one else has the right to make decisions to sell them. Moreover, the people who have are responsible for the mismanagement the SOEs should be accountable for their failures and it is outrageous that the same people are now entrusted with making the decision as to what to sell and what to preserve. Admittedly, in the recent years the NPUP has accepted the idea of moving a bit toward the market but it argues that privatization should happen only on a limited scale - the major way to fix the problems of the economy would be to rationalize the SOEs through trimming and streamlining their management. The NPUP has specific considerations on the issue of who should be the new owners of the privatized SOEs - as it sees development as a "national struggle" depending on Egyptians' independent efforts "to achieve production sufficiency (economic objective), equitable distribution (social objective) and democracy (political objective)", it believes that foreign involvement should be kept at a minimum and Egyptian investors should be the main beneficiaries of the privatization program.[167]

According to the Labor Party, the economic problems of the country cannot be simply accounted for by the inappropriate choice of the prevailing type of ownership in the economy - the source of the problems is the gross macro- and microeconomic mismanagement which produced the discrepancy between production and consumption, revenues and expenditures, exports and imports. Fundamentally, significant economies of scale are hardly possible in a private sector of the kind Egypt can have as the Egyptian

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[167] Nevine Mossaad. The Process of Privatization in the Egyptian Parties' Discourse // *Privatization in Egypt: The Debate in the People's Assembly.* Editors Wadouda Badran and Azza Wahby. Center for Political Research & Studies - Faculty of Economics and Political Science, Cairo University, Giza, Egypt, 1996, p. 114.

capitalist class which grew out of the "open door" policies is consumptive and parasitic in nature - it has a veneration for "slyness" and no "productive work ethics"; it often opts for illegitimate profit over honest gain; it does not invest in industrialization and the development of the productive capacity of the national economy - instead, it is prefers currency speculation and lucrative import business. As a result, it just contributes to the deterioration of the Egyptian society's values. For this reason, like NPUP, Labor has generally opposed the dissolution of the public enterprises and the new structure of the public sector - it has maintained that if its management does its job right, then the individual SOEs will be successfully brought to profitability. Labor's recent acceptance of privatization has come later in the 1990s by default when it became clear that the party would jeopardize its own public support if it went on totally opposing it.

The Muslim Brotherhood is the most important of the non-legalized political actors and its opinion on the public sector reform can be representative for the position of the Islamist movement in the country. As it was mentioned earlier, the Brotherhood actively uses the legal channels for voice through its alliance with the Labor party, i.e. on the pages of the newspapers and magazines effectively controlled by the Labor or through the members of the Parliament who got their seats either on the Labor ticket or as independents. What makes the Islamist position different from that of the Labor party, however, is that public sector reform is not seen within the context of independent national development - it is regarded as one of the steps leading to the establishment of "an Islamic market" considered as a religious duty toward God. "This market differs radically from its Western counterpart. For the former is regulated by the rules of the Sharia and is open to the state's interference in the benefit of the weak or enfeebled. It does not resort to debts and focuses on agriculture and industrialization"[168] Nevertheless, the Islamists do not get any more specific and do not suggest alternatives to the government plans at a microeconomic level - their criticism is mostly opportunistic and targeted at capitalizing on the pitfalls of the government's efforts for the purpose of recruiting a greater constituency for their political agenda.

Given its limited capacity of mobilizing societal support and involving large parts of the population in more than just a few general issues in politics, the political opposition tried to voice its position on the public sector reform in the parliament. It is fair to say that parliaments in countries like Egypt and Tunisia usually play a minor role in policy making - their major task is to a smaller extent to formulate and to a greater extent to legalize the decisions of the ruling elites. Nevertheless, as Mustapha Kamel El Sayyid points out, "[i]t would be [...] incorrect to deny the [parliamentary] debate any significance, for although it was not an entirely independent discourse, it was important [...] as a reflection of the divisions within the Egyptian political elite on a highly crucial issue, namely he character of the country's economic system, or what was termed by participants in this debate as the country's economic identity."[169] In spite of the dominance of the People's Assembly by the ruling NDP, an insight into the parliamentary debates on privatization can be very instructive as "political parties in Egypt, including the ruling party itself, are not very well disciplined bodies, and unless the object of debate is crucial to the party, and, moreover, unless party members have clear instructions from

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[168] According to Adel Hussain, a leading Islamist MP, an example worth following is that of Iran and especially Sudan which, according to him, has shown growth "at the fastest rates in Africa and the world. The Sudanese growth is not malignant based on drug trade as in Columbia or on tourism and currency exchange as in Egypt. But it is a real growth resulting from a real increase in productivity". Ibid., p. 115

their leaders, some would expect the debate to reveal important divergence among members, reflecting their varied social, educational, occupational and political backgrounds and to demonstrate indecisiveness and lack of agreement."[170]

It is important to note that the Egyptian Parliament tried to assert itself along with the efforts of the government to formulate the reform program. Thus, when President Mubarak announced at the beginning of the 6th legislative term in 1990 the government's plans to opt for faster economic liberalization in his "The Thousand Days Program" with no reference to the previous economic orientation or the negotiations with the international financial institutions on ERSAP, the People's Assembly faced a significant shift in the government's intentions. In the parliamentary debates during the previous 4th (1984-1987) and 5th (1987-1990) legislative terms the government and the legislature had focused on the leading role of the public sector which was only to be complemented by the private sector in the process of economic development. Although most of the members of the parliament welcomed the idea of a public sector reform, they made it clear that it represented an abrupt change in the policies on major issues such as, for instance, prices, subsidies and divestiture. Following the parliamentary procedures, the *ad hoc* committee for the reply to the government's policy statement, consisting mainly of NDP members as well as independents, launched serious criticism of the government on procedural grounds "for not submitting for discussion and approval of the People's

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[169] Mustapha Kamel El Sayyid. Parliamentarians and Issues of Privatization // *Privatization in Egypt: The Debate in the People's Assembly*, p. 326.
[170] Ibid., p. 301-302

Assembly detailed timed programs spelling out ways and phases to put those policies into effect".[171]

In this context the issue of the constitutionality of the public sector reform arises - in fact, since the late 1980s voices had been heard that privatization went against the provision of the Constitution according to which Egypt was a socialist state with a public sector belonging to all Egyptians. Critics from the right and from the left claimed that in order to go on with the proposed reform measures, the Constitution had to be amended, some of them hoping that this could be too difficult to do. The NDP, however, expressing the point of view of the government, rejected any idea of amendment of the Constitution, claiming that privatization was constitutional as it was not prohibited by the Constitution. Opening a discussion on one or a few articles concerning the economic system might agitate further discussion on sensitive political matters which might increase the risks of disturbing the existing power arrangements and bring chaos and destruction.- the Islamists would challenge the secular nature of the state and call for applying the Islamic Sharia, the liberals would propose elaboration of the electoral laws, impose term limits to the incumbency in the office of the presidency, put limitations on the president's authority, call for institutionalized guarantees of citizens' rights , etc.

In general, a number of important issues were raised in the parliamentary debates and the government had to compromise with the multiple interests represented in the process of formulating the necessary laws and regulations. The first of them, implicitly raised during the 4th legislative term (1984-1987), was the need for privatization in general - at that time nobody expressed explicit criticism of the idea, but multiple

[171] Wafaa Abd El-Elah. An Overall Analysis of Economic Liberalization and Privatization in the People's Assembly // *Privatization in Egypt: The Debate in the People's Assembly*, p. 272.

members from the NDP, Labor, NPUP and even some elected on the list of the Wafd (probably belonging to the Muslim Brotherhood) implicitly rejected the idea by declaring their unqualified support for the public sector and called on the government "to take measures to enable it to operate efficiently and end administrative interference in its management".[172] Facing the shift in the government's policies in the 1990s, the legislature managed to come up with a common ground on the public sector reform in a position which captured the middle ground of the multiple points of view expressed - the reply to the policy statement of the government included the following arguments for privatization: "1) the private sector could attain higher levels of economic efficiency since it has continuing opportunities for growth and its firms operate according to market mechanisms which constitute an important indicator for evaluating economic performance; 2) the private sector could reinvest its assets in activities ensuring highest yields without being always influenced by political considerations; 3) the private sector through its higher rates of output growth could contribute to the reduction of the government deficit in a way that would help slow the inflation, 4) the private sector could absorb a high percentage of the labor force, thus contributing to the solution of the unemployment problem, particularly with the use of labor intensive technologies."[173]

The second major issue debated in the People's Assembly was the choice of appropriate methods of privatization. At the beginning of the parliamentary debates very few were those in favor of a radical divestiture of SOEs - certain Wafdist members pushed instead for employee stock ownership schemes in order to create incentives among the workers for increased productivity. Another suggestion, made by NDP

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[172] Ibid., 314-315.
[173] Ibid., p. 315.

representatives, focused on the assumption of a certain degree of control over the SOEs by the banks which were holding their debt - this was considered safe enough as those banks were themselves public sector entities. Active involvement in the discussion of workers' ownership in the privatized companies took Islamist MPs who saw in it an effective way to combat corruption, suggesting even complete ownership by the employees of the SOEs. Later, however, especially during the 6th term, the advocates of privatization did not have to express their intentions in vague terms and suggest sophisticated mechanisms - they could propose to leave entire industries to the private sector, liquidate failing companies, actively use the financial market as a means of transferring the ownership to private investors, establishing venture capital firms, etc.[174]

A third major issue for discussion was the space which should be reserved for each of the two sectors in the national economy. There was little controversy on the privatization of small businesses with capital up to LE 100,000 under the jurisdiction of the local authorities in the governorates which was supposed to happen between 1990 and 1993; the government did not face any criticism either when it suggested to offer for sale reclaimed desert land to private companies and individuals, to privatize its share in the joint ventures with foreign participation which were initially designed to work as private sector firms, to divest certain food preparing and distributing posts belonging to state-owned fishing companies or to liquidate SOEs in which all previous methods of restructuring had been exhausted with no success. Nevertheless, the sale or private management contracting of successful major enterprises turned out to be a serious point of contention. Thus, the minister of tourism Fouad Sultan was the target of severe

[174] Mustapha Kamel El Sayyid cited among the most active in the discussions such members of the Parliament as Seif El Din El Ghazali of the Wafd Party, Ahmed Seif al Islam Hasan al Banna

criticism for specific transactions with successful tourist projects - divestiture was rushed, the new owners and managers of major hotels were not brand name chains, but Egyptian or other Arab firms with little experience in the business, some of the formerly money-making duty-free stores could hardly break even after privatization, etc. As a result, the government had to sacrifice Sultan as a member of the reform team in order to show moderation and deflect some of the criticism. Even ardent advocates of privatization (such as Yasin Seraj ad-Din, the Wafd spokesman, for instance) noted that the government's failure to propose clear criteria for drawing the line between the two sectors and the lack of clarity in general played in favor of the supporters of an expensive public sector.[175]

A fourth issue on which the government's privatization program was subjected to criticism has been the social implications of privatization. Most active in the debates have been the NPUP representatives, joined by certain independents, who explained that the public sector reform would have a negative impact on the low income segments of the population and also criticized the involvement of external actors by the government in the process of liberalization. Even the Wafd's representatives did not miss the opportunity to criticize the government for the workers' layoffs in the privatized companies as inconsistent as this may be with its general stance toward privatization. The Labor Party, supported by the Islamists, tried, for instance, to organize the workers of Al Nasr Company for Cars (GM joint venture) to oppose the efforts of the government to link wages to production - to justify its position it maintained in the parliamentary debates that

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and Sheikh Yusuf al Badri of the Islamic alliance, etc. See ibid., p. 316-318.
[175] Ibid., p.p. 320-321.

"if the top state officials are not accountable, why should we hold the workers accountable".[176]

To conclude, although the political opposition in Egypt has not managed to come up with serious alternatives to the government's privatization program and has had a limited success in influencing the substance of the reform measures so far, acknowledging its capacity to mobilize public opinion, the government has wielded to the pressure to moderate its strategy. The criticism of privatization may not be totally harmless - it may spur unnecessary controversy among the supporters; it may also drive the opponents to actions which are inconsistent with the status of the legal opposition. Any drastic reduction of consumer subsidies and substantial layoffs of redundant workers from the privatized former SOEs could invoke public protests and mobilization which could be easily exploited by the opponents of the regime. That is why the government has tried to avoid or delay the implementation of those aspects of the economic reform which are likely to affect negatively large masses of the population. As a result, the process of privatization has stumbled as potential private investors were reluctant to step in an uncertain economic environment.

The political spectrum in **Tunisia** and its impact on the public sector reform has been different. If in Egypt the government has to be cautious in order not to give an opportunity to the opposition for mobilization of criticism, this is hardly an issue in Tunisia. The best strategy of keeping all privatization related issues depoliticized involves maintaining the weakness of all actors in politics who could possibly take advantage of the pitfalls of the public sector reform and capitalize on the sensitive issues in their criticism of the government.

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[176] Nevine Mossaad, op. cit., p. 123.

The Tunisian government has done its best to keep the party system rudimentary and the political parties have been under a very strict watch. The ruling elites have accepted the necessity of some degree of political pluralism and after coming to power Ben Ali took steps in 1988 to allow party politics. Currently, besides the ruling RCD, officially recognized are Le Mouvement des Democrates Socialistes (MDS), Le Parti d'Unite Populaire (PUP) (this party is an offshot of the Mouvement d'Unite Populaire which is not officially recognized, nominally headed from exile by Ahmed Ben Salah and directed inside Tunisia by Brahim Khayder), the Tunisian Communist Party (PCT), the Progressive Socialist Rally (RSP), the Arab Socialist Democratic Unity Union (UDU), the Social Party of Progress (PSP). Representative institutions, however, have been weak and have played only a marginal role in policy making and legislation has rarely originated in them - economic policy has been hardly debated and, as a rule, never amended. "Political parties, with the exception of the government-supported ones, have been weak, highly personalized, poorly organized and suspect in the eyes of government elites. The tradition of using patronage, corruption, repression, or intimidation to maintain government majorities and to deal with the opposition has been an established practice... Parties were never given a chance to grow and develop organizational structures which could challenge the executive. Thus, as for the representative assemblies, interest groups did not pay much attention to parties or elections and for the most part business has kept out of active politics."[177]

A part of the government's strategy to marginalize any opposition activities included the co-optation of leading opposition political figures who were offered at the end of 1980s and beginning of 1990s positions as government ministers, ambassadors

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[177] Antonella Bassani, op. cit., p. 251-252.

and other high offices in the administration - these people readily accepted the offers which led to further muffling of any criticism of the government. It is notable as well that only MDS has published an economic plan for the country's future - a plan with a social-democratic slant, general enough and borrowing a large portion of the government's economic program; public sector reform is mentioned just in very general terms and there is practically no debate on the government's privatization strategy. As to using the parliament as a place to voice one's point of view, so far no political party has tried to use this opportunity for expressing criticism. In this sense pluralism in Egypt may be limited but in Tunisia it is practically non-existent as none of the members of the parliament dares challenge any of the aspects of the government's program. Privatization, as practically any other major issue in Tunisia, is beyond the realm of political contestation.

The Islamist movement could be considered as another possible actor in Tunisian politics who might have an opinion on the public sector reform. Not surprisingly, the Tunisian government does not allow the Islamist to participate legally on their own or through an alliance with any legal political party. The only Islamic organization - MTI, renamed later as Nahda, was denied legal status from the very beginning and kept outside the major issues in political life even at the cost of repression. Of course, one can analyze the views of its leaders about the economy on the basis of their statements, made in speeches or academic writings (the leader of Nahda Rashid al-Ghanoushi states that his movement would like to see in Tunisia an industrialized, civilized society guided by the principles of "Islamic humanism" and expresses no criticism against the market economy at all[178]), but there is no real policy debate which may have an impact for the formulation and the implementation of the reform program. Thus, the Tunisian government has managed to exclude the major political forces which could launch criticism for the pitfalls of privatization and politicize its goals and outcomes. The channels for political participation in Tunisia have remained practically closed for expressing any dissenting opinion on economic matters in general and the public sector reform in particular.

To conclude, the major reason why Tunisian political figures in the opposition have had a limited contribution to these debates is the fact that their political parties do not have an elaborate position on the public sector reform. On the one hand, this is due to the fact that there is little transparency on the plans of the government as well as on the performance of the public sector; on the other hand, the opposition parties have been prevented from reaching the level of maturity when they would be able to offer economic programs which could represent viable alternatives to the government's policies.

b) bureaucracy and public sector reform

Bureaucratic politics is the most important sphere of public activity in which the public sector reform in countries like Egypt and Tunisia is debated and influenced - the other channels of participation are less inefficient due to the immaturity of the participatory institutions or the specific balance of power among the various actors in politics. I would argue that the debate on the public sector reform to a greatest extent could be found in the realm of bureaucratic politics *per* se. This not at all strange: the state apparatus is probably the most developed of the political institutions - so far, it has

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[178] Muhammad Mahmoud, Women and Islamism: The Case of Rashid al-Ghanoushi of Tunisia // Abdel Salam Sidahmed and Anoushiravan Shteshami (eds.). *Islamic Fundamentalism.* Westview

carried out its functions much better than the legislature or any political party. In addition, the impact of privatization on the bureaucracy is probably greater than on any other actor - as the bureaucracy manages the public sector on behalf of the state the SOEs have become a source of authority for the bureaucrats and divestiture could represent a direct assault against their sources of power.

In some countries the bureaucracy participates actively in the process of decision-making on policies concerning major developmental issues; in other countries the various branches of the bureaucracy are kept at bay and later they are only instructed on how to implement the policies formulated by the political leadership. On the one hand, this could be a matter of capacity of the relevant actors - if the participatory institutions are not mature enough, then by default the national developmental programs are worked on by the state apparatus. On the other hand, even if the participatory institutions are not capable of producing a coherent program, the top leadership of the country may avoid a wide involvement of the bureaucracy in decision-making by consciously limiting the access to this process only to a handful of dedicated professionals who enjoy political protection and are driven practically by the same motives as the political leadership. I would argue that in countries like Egypt and Tunisia the smaller the realm of bureaucratic politics associated with the public reform, the smaller the input of the various branches of the bureaucracy in the process of preparation of the privatization program, the lower the likelihood that adopting the program itself will take years or that the program will stall at an early stage of its implementation.

In this sense, there is a substantial difference between the two cases compared in the dissertation. From the very beginning, the Egyptian bureaucracy has been practically

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Press, 1996, p. 254.

the most vocal actor in the debates on the public sector reform. It took full advantage of the opportunity for voicing its position offered by the top political leadership and did its best to influence the thinking and the decisions which this leadership was about to make. The Tunisian bureaucracy, on the other hand, did not have the opportunity to do so as most of the relevant branches of the state apparatus were kept outside the realm of effective decision making.

The **Egyptian** bureaucracy has long been in the focus of the attention of researchers[179]; it has often been depicted as the major obstacle to a successful market-oriented reform. In fact, it is to a great extent the Egyptian bureaucratic politics that from the very beginning has fed the debate between the "reformists" and the "gradualists" regarding how the country should proceed with the public sector reform. Behind every single point of view expressed by an Egyptian policy maker one could recognize the general concern for the high status of the bureaucracy as well as the bureaucratic rivalries for power, influence and control over the distribution of resources coming either from the state itself or as foreign aid from foreign donors.

One of the factors which fed the debate on how the public sector reform should be designed and implemented was the desire to retain control in their respective fields by competing against the potential contenders for power. As Denis Sullivan has shown, the officials of the Ministry of Agriculture, which, headed by the reformer Yusef Wali, played a major role in promoting economic reform, argued that "the private sector is not ready, not mature yet. It (privatization - B.B.) may therefore hurt the consumer more than

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[179] See, for instance, Monte Palmer, Sayed Yassin, Ali Leila. *The Egyptian Bureaucracy.* Syracuse: Syracuse University Press, 1988; Nazih Ayubi. Bureaucratic Inflation and Administrative Inefficiency: The Deadlock of Egyptian Administration // *Middle Eastern Studies*,

help him", that everything should be done "in our own way, in our own time". Behind this benign formulation Sullivan finds serious conflict of interests - for instance, high-ranking government officials are at the same time private businessmen and "many assistant secretaries and project directors worry how such reform will affect their own power bases and pocketbooks".[180]

Much of the "voice" of the bureaucrats is motivated by the interministerial rivalry within the state apparatus. The defense of the public sector against the market reform has definitely been inspired by the desire of the officials of the Ministry of Planning to retain control through overseeing the related bureaucratic interests, formulating and executing Egypt's 5-year plans. Sullivan points out that:

"Dr. Kamal Ganzouri (currently the Prime Minister – B.B.) heads this ministry not in order to oversee its gradual disappearance but to assure its success in managing economic performance. Ganzouri, who was also Minister of International Cooperation until 1987, is widely regarded as opposed to reform. Yet he recognizes that the Egyptian economy is in shambles and that even he cannot do much to reverse the situation. He thus acknowledges the need for some policy reform, but as the main proponent of gradualism, his commitment to a slow pace and a piecemeal approach to reform distinguishes him from his colleagues in the cabinet, who favor more rapid and extensive change... His chief rival in the cabinet is Minister for Cabinet Affairs Atef Obeid (currently the Minister of the Public Business Sector - BB), said to be the intellectual force behind those Egyptian politicians calling for more through economic reform. Other "reformists" include Yusef Wali; Salah Hamed of the Central Bank of Egypt; Fouad Sultan, minister of tourism; and Fathi Sorour, minister of education (and later speaker of the Parliament)...

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18 (3), 1982, p.p. 286-299; Nazih Ayubi. *Bureaucracy and Politics in Contemporary Egypt*. London: Ithaca Press, 1980, etc.

[180] "This pattern of dual and related jobs is more the norm than the exception in the MOA, as it is in other ministries. Various undersecretaries have large farms, are beef producers, or have stakes in the various fertilizer and seed companies." Denis Sullivan. The Political Economy of Reform in Egypt // *International Journal of Middle East Studies*, 1990, p. 320.

Much of the rivalry between Ganzouri and Wali is a struggle for personal advancement and power. Since becoming president in 1981, Mubarak has yet to name a vice-president, i.e. his successor. Wali is secretary-general of the ruling NDP and in 1987 was thought to be the main candidate for that post. Ganzouri, the planning tsar in Egypt and thus a powerful figure was also in competition for the same position. Mubarak recognizes this rivalry and has tried to placate both by designating them as deputy prime ministers."[181]

There is one aspect in which the internal divisions within the Egyptian government have been instrumental - in convincing the international financial institutions and the foreign donor community to continue their financial support for the country in spite of the lack of tangible results in the public sector reform. So far, the Egyptian government has successfully played a "two-level" game: on the one hand, it has made it clear to the local elites that they could not afford losing the generous foreign aid to which they have become accustomed for decades, so they have to accept the necessity of moving somehow toward the market; on the other hand, stressing its strategic importance for foreign interests (US, French, Arab, etc.) in the Middle East and North Africa, it has made it clear that political instability would hurt these interests the most, so foreign donors have to ease their requirements for consistent economic reform if they do not want a deterioration of the social and political *status quo*.[182] In this context, the Egyptian government has managed to play different foreign agencies against each other - for instance, it has used its political contacts in the US administration to influence the main

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[181] Denis Sullivan, op. cit., 1990, p. 325-326.

[182] "In 1977, under pressure from the IMF, the United States and several Arab states, President Sadat announced the reduction of various food and other subsidies. This led to "food riots" throughout Egypt and, as a result of those riots, to several days of uncertainty regarding the stability of the Sadat regime; the subsidies were quickly reinstated." See Denis Sullivan. Extra-State Actors and Privatization in Egypt // Ilya Harik and Denis Sullivan (eds.), op. cit., p. 28.

foreign advocate of privatization and donor - USAID - to relax the conditions under which financial support and technical assistance could be offered.[183]

In the situation of continuing rivalries between the top lieutenants of the regime a major task of the leadership becomes the issue of the arbitration among the conflicting interests. The goal of preserving the existing power arrangements always predominates over the imperatives of the economic reform, so no matter how committed the top leadership to reform is, the power structures warrant serious compromises. The interministerial competition prevents the different functional units of the state apparatus from cooperating to improve the overall bureaucratic performance. Thus, the state apparatus which plays an extremely important role in running the national economy has proved to be both inefficient and ineffective and the public sector reform is one of the primary field in which this has become evident. In spite of the temporary relief and the rents coming from foreign donors, the lack of bureaucratic coherence and the competition between the different factions of the state apparatus logically have led to the disappointing results in the public sector reform and created the potential for future economic problems which could undermine the social and political *status quo*.

At first sight the bureaucracy in **Tunisia** seems to be not much different from that in Egypt: structurally it seems to have more or less the same capacity to carry out the government policies, it faces similar economic and social challenges, politically it is equally dependent on the good will of the politicians; behaviorally it doesn't seem to have any greater drive, flexibility, desire for innovation and risk-taking, etc. than its counterpart in Egypt.

[183] See ibid.

At the same time there seems to be a substantial difference in its rapport with the top political authorities. The political leadership has always dominated the Tunisian bureaucracy - the single-party regime after independence and the substantial limits on pluralist politics have served as a brake to its assumption of a significant autonomous role. It is true that in the absence of effective legal channels for participation the different interest groups would find a way to voice their demands through the channels of bureaucratic politics; it is true that the activities of the different branches of the bureaucracy would be influenced by the closest to them business or consumer groups; however, it is also true that this "voice" has been to a great extent muffled and never allowed to go against the officially stated or presumed position of the government. The Tunisian bureaucrats, like their Egyptian counterparts, have their own interests in general or the interests of the separate branches of the state apparatus they belong to but the involvement of the bureaucrats has tended to be less political, i.e. in such matters which might have potential implications, like, for instance, the state versus the market debate, they generally followed the top political leadership; if any part of the state apparatus had to lose anything from the policy shift, its resistance was passive rather than actively pronounced. In any case, the Tunisian bureaucracy has not assumed that activist role of a developmental agent as the Egyptian one - this is probably one of the reasons why it has not attracted such attention by researchers as the Egyptian bureaucracy did.

The Tunisian state apparatus is definitely not immune from the intra- and interministerial competition which has been analyzed by Sullivan in the Egyptian case; however, what strikes foreign observers is the efforts to build consensus that exists in the work of Tunisian bureaucrats.[184] Functional roles also seem to be better delineated; responsibility more clearly vested with specified branches of the state apparatus; a number of important policy decisions seem to get adopted by the government without extensive consultation even with the relevant ministries. The government has done its best to keep debates on policy issues as far from bureaucratic politics as possible which has strengthened the corporate coherence of the state apparatus and in this sense has better served the goals of the public sector reform.

c) legislative framework of privatization

The different kind of interaction between the government and the political opposition and the different involvement of the bureaucracy in the formulation and the adoption of the privatization program in Egypt and Tunisia produced different regulatory frameworks which had a serious impact further on the implementation of the reform measures.

The **Egyptian** government wanted to soften the criticism of its opponents and obtain a seal of societal approval with the widest possible margin and opted for a detailed legislative regulation of most of the issues related to privatization, no matter that this implied the involvement of a large number of people, a wide scope of discussions, a long period of time for work and great possibility of delays because of clashes of interests. This strategy produced a regulatory framework in which the laws outnumbered by a wide margin the other relevant documents (presidential decrees, executive directives, etc.). There are at least eight major laws that constitute the general regulatory framework for the public sector reform: Law 159 of 1981 (Companies Law); Law 230 of 1989

[184] Interviews with consultants from Price Waterhouse, Abt Associates, etc.

(Investment Law); Law 203 of 1991 (Public Business Sector Law); Law 95 of 1992 (Capital Market Law) as well as texts on companies from the Civil Code and the Commercial Code and texts on exemptions and incentives from in Law No. 59 of 1979 and Law 143 of 1981.[185] It would be fair to say that in its ambition to create a comprehensive regulatory framework for private sector activities the Egyptian government managed to come up with multiple regulatory texts, adopted at different times and in different circumstances and bearing the traces of significant interest group lobbying - a regulatory framework which lacks sufficient coherence and contains contradictory provisions. According to the existing constitution, adopted in 1971 and amended in 1980, for instance, Egypt is a "socialist democratic state", the national economy is regulated by a comprehensive development plan, "the people" control all tools of production and allocate the production surplus with the goal of achieving equity in distribution, eradication of unemployment through welfare benefits, minimum wages and ceilings of income, etc. All major laws have undergone multiple amendments over the years. "The laws governing companies and investment activities in Egypt are several, and are scattered and branched off either with respect to the legal form of the project and its legal regulation, or concerning the privileges, exemptions, guarantees, and incentives that the project enjoys".[186]

One of the first legislative documents regarding the process of economic opening was Law No. 43 of 1974 which marked the beginning of the Open Door Policy by offering regulation of the Arab and foreign investment in the Egyptian economy and the

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[185] Mahmoud Fahmy. Background Paper: Legal and Judicial Framework, presented at the Conference on Private Sector Development in Egypt: Investing in the Future, Cairo, October 9-10, 1994, p. 27.
[186] Ibid., p. 14.

functioning of the free zones in the country. It was later replaced by the Investment Law No. 230 of 1989, currently in effect, which gives comprehensive regulation of most private sector business activities in which part of the capital is either Arab or foreign. Earlier, in 1981 another law - Law No. 159 of 1981 was adopted to encourage the Egyptian investors to initiate the establishment of joint stock companies, companies limited by shares and limited liability companies.

The most important law concerning the process of privatization in the strict sense is Law No. 203 of 1991 governing public business sector companies. It was supposed to give the SOEs the same opportunities for improved economic performance as the private sector enterprises had been given by terminating the obstacles faced by the public sector under the previous legislation. Its goals are: 1) to limit public sector activities to strategic activities; 2) to arrange the sale of non-strategic public sector and joint projects to the private sector and the liquidation of those units which could not be reformed; 3) to separate management and ownership of public sector units in order to free the sector from the government's red tape, and to develop it through sound management methods according to the same philosophy and management systems applied in the private sector that are in line with pure economic efficiency standards - in short, to let this sector operate in a market environment.

As the existence of a well-functioning capital market (money market, financial capital market and securities market) is a important condition for successful privatization and further functioning of the private sector, Law No. 95 of 1992 was issued "to regulate the issuance and circulation of the stock exchange and the companies operating in the field".[187] Other important laws, although not directly related to divestiture, were the Income Tax Law No. 157 of 1981, amended later by Unified Tax Law No. 187 of 1993, Law No. 186 of 1986 Promulgating the Law for Regulating Customs Exemptions stipulated in international agreements or in the free zones, and the Law No. 11 of 1991 promulgating the Sales Tax, which has not been entirely applied (just the first out of the three stages) because its application in spite of increase of the revenue for the state, led to a slump in new investment activities and reluctance to expand existing ones.

Decrees and executive directives also serve important regulatory functions in the economic reform, although they have not played a direct role in privatization. First, for instance, interest rates in Egypt were deregulated completely in 1991 - all banks are free to set their creditor and debtor interest rates as they see it fit as well as the rate of return of their banking operations although the central bank has maintained its right to set the discount and lending rates. Second, since 1991 the exchange rate was deregulated - banks got the freedom to set the exchange rates of the Egyptian pound against other currencies, non-bank institutions were permitted to deal in foreign exchange, the restrictions for individuals to hold foreign exchange and to import and export it was abolished and foreign exchange transactions both domestically and abroad were allowed. Third, investment fields under the Investment Law No. 230 of 1989 were expanded to all fields besides those in the negative list published in 1991 which included high energy consumptive industries, soma assembly industries and military products and related industries, tobacco and its products, investment in the Sinai peninsula except for oil exploration, natural gas and mining sources. Fourth, in 1992 the Corporations Law was amended by a ministerial decree stipulating minimum requirements for the issued share

[187] Ibid., p. 14-15.

capital for companies participating in the stock market for the purpose of strengthening the confidence in their position.

Still, these documents, important as they are for the general economic environment, have only an indirect impact on the public sector reform per se. There is only one general executive regulatory text which pertains directly to privatization - the "General Procedures and Guidelines for the Government's Program or Privatization, Restructuring and Reward System", sometimes called "The White Book", issued by the Public Enterprise Office on February 14, 1993. It is the most detailed policy document regarding privatization issued so far and elaborates on the principles of privatization, including increase of efficiency, opening markets for competition, deregulation, dealing with the public debt, reserving special rights for the government if it holds a minority interest in certain cases of strategic importance, equality for all investors (individual, institutional, public, etc.). "The White Book" presented the structure of the agencies involved in privatization, defined the scope of the program, including a list of companies which were to undergo privatization in the coming three years (20-25 each year), the methods of divestiture the use of the proceeds from the sale. A special section included guidelines for restructuring of the SOEs before or instead of privatizing. Although "The White Book" gave initially a lot of ground for discussion, it later lost relevance especially after it became obvious that the suggested privatization schedule would not be kept.

The big question concerning the legislative base of privatization is whether it is adequate for the goals of the program. It has become obvious that the regulatory framework of the public sector reform is not focused enough as it is provided by bits and pieces of many laws and regulations whose main target is different, i.e. there is a need for legislation on privatization *per se* to cover all relevant issues, including issues not mentioned presently, such as provisions for bankruptcy, merger and arbitration procedures, enacting anti-trust regulations to prevent the transfer of public sector monopolies into private sector monopolies, amending the labor law to allow the future private owners greater flexibility in recruitment, contract duration and employment termination. Most of these issues are politically sensitive and one can hardly expect to have them easily solved and regulated in a timely manner.[188]

The situation in **Tunisia** seems to be quite different. The government decided from the very beginning that it did not need to redo and pay any special attention to the general framework regulating economic activities which was not very much different from the one existing in Egypt in mid-1980s. Instead, the government decided to target the issue of privatization itself spending less time and effort on obtaining legislative approval for the major aspects of the reform. As one of the major government officials responsible for the public sector reform said, "we do not need parliamentary action for everything we do - a privatization law should give us the legislative approval for our policies in very general terms and specify our major objectives for a period of 5-6 years. If we need a new law after this period, it can be adopted consistently with the changes of objectives; otherwise, all the necessary regulations can be provided at an executive level. Thus, we won't have to follow the long parliamentary procedures - we can focus instead on the real work on privatization."[189]

The first official document regarding privatization was Law 87-47, adopted in August 1987. It created the basis for the design of the privatization program; it also

[188]American Chamber of Commerce in Egypt. *Privatization in Egypt: Problems and Recommendations*. August 1994, p. 17.

created the initial institutional structure of the public sector reform: an interministerial commission which would choose enterprises to be privatized; a restructuring/privatization commission to undertake the required analysis and structure the privatization transactions, and a follow-up commission to carry out the transactions. This arrangement, however, didn't seem to work well enough; it was abandoned and a new, simpler one came into being. In 1989 Law 89-9, providing the overall framework for the public sector reform, was adopted. It gave a definition for a "public enterprise" in the manufacturing and the service sectors, specified procedures, roles and responsibilities, and transferred managerial responsibility for a number of enterprises to non-governmental shareholders. Total or partial liquidation of non-viable SOEs was allowed; companies which would not be privatized were to undergo serious restructuring. Other issues targeted by the law were the participation of small investors in the ownership of large companies, employee stock ownership plans, the development of the Tunis Stock Exchange, etc. In August 1994 this law was amended with Law 94-102 - the scope of the public sector was widened to include all enterprises with 34 percent or more of direct or indirect state ownership; the privatization of banks and insurance companies was also allowed.

It is worth mentioning that the texts of these laws are pretty short - they provide some basic concepts and determine the bodies which have the authority to deal with the various problems which may arise in the course of privatization. These documents do not explore major issues of the process such as planning, selection, valuation, marketing, sale and post sale regulation, thus leaving a lot of space for discretion and putting practically

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[189] Interview held in Tunis on February 26, 1996.

all the authority in the hands of the executive, in particular in the hands of the specially selected or designed bodies to deal with privatization.

Another relevant legislative act was the adoption of Law 94-117 in November 1994 which reorganized the financial markets and created the Tunisian Stock Exchange. Unlike the previously mentioned laws, this one included an elaborate conceptualization of most of the major issues, including regulation of the investment funds with wide public participation which were supposed to become major participants on the stock market, the functioning and the regulation of the financial markets, public information, the management of the financial market, financial intermediaries, settlement, etc. One of the main reasons why this was done was the low likelihood of inspiring political controversy because of the more technical nature of the subject matter.

Unlike Egypt, in Tunisia the use of consultation mechanisms which could provide opportunities for contestation was marginal and a number of important policy issues were handled by acts of the executive, usually adopted with no preliminary discussion and sometimes even with no prior knowledge of a number of officials directly involved in the implementation of the privatization program. The presidential Decree 87-65 of 12 January 1987, for instance, dealt with issues of the administrative reform. Among other things, in its Chapter VI it elaborated on the functions of the Directorate General of Public Enterprises (DGPE) within the Prime Ministry which was supposed to be the major actor in the public enterprise reform, in the restructuring and turnaround of the SOEs and in dealing with their implications, including remuneration of the personnel, layoffs, conflicts, preparation of bills for the parliaments, etc. It is remarkable that this decree came out before the parliament had adopted the first privatization law later in

August which shows the marginal importance of the legislature in the public sector reform. Later, in March 1989 Decree 89-377 replaced the three commissions responsible for privatization, with a single interministerial body - CAREPP (Commission pour l'assanissement et la restructuration des enterprises publiques et pour les participations) - thus, matters previously handled by a law, were now decided by the executive. Another important executive act was the Decree 93-2408 of 29 November 1993 regarding the Ministry of Planning and Regional Development.[190] Among other things, it stipulated that this ministry was to become the major body in charge of the preparation of the privatization programs of the public enterprises and of the control of the execution of the privatization transactions in cooperation with the other governmental bodies involved. This involved a major shift of responsibility - the authority was transferred from the DGPE to the Ministry of Planning, again handled just with an executive act without any involvement of the legislature.

Other important government decisions have taken the form of government circulars signed by the Prime Minister. They come out practically every six months deal with issues which in other countries are handled by laws and deliberated by the legislators, i.e. a lot of these circulars in a technical and professional manner present things as lacking any political connotation. Circular 33 of June 21, 1989 described the procedures for privatization in detail, defined and codified the roles of CAREPP and DGPE: the Prime Minister makes final decisions regarding restructuring and divestiture and any fiscal and financial incentives, based on CAREPP's recommendations; the Ministry of Planning, now called Ministry of the Economic Development, was appointed

[190] This ministry was later renamed as Ministry of Economic development. For convenience, further in the dissertation it will be called Ministry of Planning.

as responsible for coordinating among the various actors in the process of privatization - in particular, among the different supervising ministries (ministères de tutelle), the SOEs and the CAREPP. The public enterprises together with the appropriate sectoral ministries are supposed to examine the existing opportunities and propose scenarios for privatization. Another important document of this kind is Circular 55 of August 11, 1993 which elaborates on the field of action of the Ministry of Planning which includes researching the opportunities for privatization, preparation of privatization proposals for CAREPP for decisions and follow-up on the execution of these decisions. This document brought a further centralization of the process as the definition of privatization and the control over the process was extended to include all public enterprises with direct or indirect public participation. Again, the circular assigned new responsibilities to the Ministry of Planning before a document of a higher order, in this case the Decree 93-2408, was adopted; it also instituted a technical committee on privatization which is one of the most important bodies involved in the process.

Thus, there have been significant differences in the way the public sector reform was launched by the Egyptian and the Tunisian governments. In Egypt the government had to proceed with caution fearing that privatization may fuel social and political controversy after it triggered public debates and allowed various actors to voice their opinion regarding the necessity, the contents and the instruments by which the reform should be handled. The debate on privatization had a significant impact on society and the government had to assume the position of an arbitrator between the parties involved and make sure that none of the potential losers was hurt so badly that the support of the majority for the political *status quo* could be put in danger. The downside of this approach was the substantial delay with which the privatization program was launched, the serious policy compromises, the incoherence and vagueness of the regulatory environment. On the contrary, in Tunisia the government did its best to limit the debates by trying to depoliticize all possible aspects of the public sector reform. The laws adopted by the legislature gave the executive practically unlimited discretion in dealing with privatization issues; the attention of most of the actors in politics was kept away from the public sector reform; the stakeholders were hardly consulted and allowed to have an input in the process of policy making. As a result, the reform strategy was never fully elaborated in Egypt while in Tunisia it was practically entirely formulated in the beginning of the 1990s. This contrast in the comparison of the privatization experience of the two countries provides support for the argument of this dissertation that the more centralized the process of decision-making, the more restricted the scope of public participation and contestation in the formulation and implementation of the economic policy, the smaller the involvement of the representative institutions and the greater the space for discretion of the executive, the greater the likelihood that within a reasonable period of time the government will be able to set the public sector reform in motion. What exactly the government did to carry out the privatization policies, what institutions were set up for this purpose, how they performed and how exactly the process of privatization worked will be analyzed in the next chapter.

V. EXECUTIVE INVOLVEMENT IN PRIVATIZATION

In the previous chapter we discussed the issue of how the privatization program was adopted - the comparison between the Egyptian and Tunisian experience led us to believe that there was a causal relationship between the restriction of the debates on the design and the timeliness of the program, on the one hand, and the successful launch of privatization, on the other hand; we also concluded that depoliticization of the economic policies was a winning strategy for the Tunisian government in its efforts to limit societal debates and proceed with the implementation of these policies. This chapter is supposed to give answers to questions which logically follow from the findings in the previous one: How exactly did the government shape its privatization program? What institutions did it set up to carry out privatization? How exactly was the process designed to work and how did it in fact work? Who were the major participants in the decision making process and on which of them did the program place the major emphasis?

Consistently with the argument of the dissertation in favor of a more restrictive approach to the management of the privatization program I argue that the different outcomes in Tunisia and in Egypt can be attributed to the different involvement of the central government, or its designated representatives, in the process of decision-making and control over policy implementation. Thus, in Egypt the responsibility for making major privatization decisions and following up on them was assigned to lower levels of authority in the hierarchy of the state apparatus and the management of the public sector. On the contrary, in Tunisia it is the executive at a very high level or a specialized body with significant delegated power that deserves the credit for pushing through each privatization transaction from the very beginning to the very end. The design of institutions and processes favoring a more centralized approach turned out to be effective for the ultimate success of the privatization program - in the following paragraphs I will substantiate this claim by examining the organizational structure and the decision making process regarding public sector reform in Egypt and Tunisia.

1. State/Society Balance and Likelihood of Reform

Once adopted, privatization programs are implemented through a set of institutions. A government adopting a more restrictive approach to privatization would set up such institutions in which most of the privatization-related decisions were made either by top political figures or through delegation of authority to selected specialized bodies, and vice versa – a government opting for a more liberal management of the program would allow officials at lower levels of authority to be responsible for most of the relevant decisions and the control over their implementation. In other words, in terms of the structure of decision-making and control over implementation. As the concepts of restrictiveness and centralization are parallel for the most part - in the universe of countries to which Egypt and Tunisia belong, a more restrictive government is most likely to adopt and carry out its policies in a more centralized ways, and vice versa. Another way to look at the issue of the liberalness or the restrictiveness of a regime would be to consider a continuum of state-society interaction measured by the amount of power or control that each of the sides has over the other: at the one end, it is the state having complete control over society, and at the other end, it is the dominant societal groups having taken over the state completely. The question is to find out where exactly the balance along this continuum should be for the transformative project undertaken by the government to be successful and the analysis of the two cases leads us to believe that this balance should be shifted toward the state end of the continuum as otherwise powerful societal actors who have a policy agenda of their own may derail the state-sponsored projects as it has often been the case in the MENA.[191]

We already discussed in Chapter 1, the "continental European perspective", according to which markets could not function efficiently without the explicit support of the state for the exchange relations, and market-building and state-building have been through history two complementary processes. Reliance on society only for carrying out structural transformation in the MENA may be unrealistic: decades after achieving independence, most of the countries in the region do not have yet a mature civil society which could assume a leadership position. Societal actors have been strongly dependent on the state and the government has been accountable for major societal developments, such as creating social classes, groups and associations, developing national productive capacities, building industries which could later be turned over to private entrepreneurs; most of these entrepreneurs have been former government officials who left their offices, sometimes with official encouragement, to start their own businesses.[192] In addition, as it has already been noted, there is a significant divergence of interests among the major societal groups which would preclude their consistent support for structural transformation if significant costs are incurred: private business groups would often lobby to satisfy their narrow particularistic interests including restrictions on markers

[191] See, for instance, Ilya Harik. Pluralism in the Arab World // *Journal of Democracy*, July 1994, Vol. 5, No. 3.

rather than their liberalization.[193] As far as public sector reform is concerned, the divergent interests of the major societal actors could lead in the best case scenario to the kind of "spontaneous privatization"[194] which was observed in Russia and some countries in Eastern Europe and the results of which have often been disregard for shareholder value, loss and destruction of productive assets and further weakening of the state and hurdles along the way of creating competitive markets, to say nothing about such concepts as equity and social justice.

In this line of reasoning, Joel Migdal has argued that unlike Europe where the spread of markets took place at the background of already existed states, in Asia, Africa and Latin America statehood had not been established and consolidated in advance; former imperial powers had resorted to the help of local strongmen for the rule of the indigenous population in their colonies; and the ultimate results had been a fragmentation of social control ("heterogeneity of rule making in society"[195]) resulting in low state capability. One the one hand, any further attempt to bring about change on the entire territory of the country, especially if government regulation, extraction, appropriation and distribution of resources was required, met the resistance of these strongmen. On the

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[192] See, for instance, Ilya Harik. Pluralism in the Arab World, and also Robert Bianchi. *Unruly Corporatism: Associational Life in Twentieth-Century Egypt.* New York : Oxford University Press, 1989.

[193] As Ilya Harik has shown, it is the civil society in MENA which has often acted as a brake in the efforts to introduce liberal reforms both in politics and in the economy. See Ilya Hark. Pluralism in the Arab World, p. 49.

[194] Paul Starr came up with the term "spontaneous privatization" regarding the experience of Russia and certain countries in Eastern Europe in Paul Starr. The Limits of Privatization // Steve Hanke (ed.). *Prospects for Privatization.* New York: Academy of Political Science, 1987. Here is an illustration of how it has worked: "... the management of a PE establishe[s] a subsidiary, often a joint venture with a foreign firm, using the assets of the original PE. The PE could end up as a shell holding company with few of the assets, but most of the debt from the original enterprise". See Roman Frydman, Andrzej Rapaczinski and John Earle. *The Privatization Process in Central Europe.* CEU Privatization Reports, Vol. 1, Budapest, London, New York: CEU Press, 1993, p. 15.

other hand, to seek the support of these strongmen for the transformative project would often mean accepting the challenge of the very idea of statehood in the way it was defined after independence.

An attempt to reconcile the state/society tension in the course of structural transformation was undertaken by theorists who tried to bring in another dimension to the analysis and claimed that the autonomy of the state did not have to be exercised at the cost of the society but could be "embedded" in it: the actions of state institutions were "constrained by ongoing social relations"[196] and thus should not be considered independent; the efficiency of the state action comes not just from insulation and corporate coherence of the state apparatus but also from the "accurate intelligence, interventionism, active agency and sophisticated responses to a changing economic reality"[197], provided by "a concrete set of social ties which bind the state to society and provide institutionalized channels for the continual negotiation and renegotiation of goals and policies."[198] Its major institutional characteristics according to Peter Evans are: 1) corporate bureaucratic coherence, based on meritocratic selection and recruitment and long-term career commitment; 2) selective bureaucratic intervention in markets limited only to "the strategic necessities of the transformative project"; 3) existence of informal ties both among bureaucrats and between the bureaucracy and the major private sector actors, based on joint participation in semi-formal organizations and associations; recruitment of senior private sector managers and executives among former public

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[195] Joel Migdal, op. cit., p. 141.
[196] Mark Granovetter. Economic Action and Social Structure: The Problem of Embeddedness // *American Journal of Sociology*, Vol. 91, No. 3, November 1985, p. 482.
[197] Peter Evans, op. cit., p. 148. On the basis of this criterion theorists spoke about "developmental" and "predatory" states, bearing in mind the NICs in Southeast Asia for the former and Mobutu's Zaire for the latter as closest cases to these ideal types.

officials; 4) organization of the private sector in conglomerates, such as the *zaibatsu* in Japan and the *chaebol* in South Korea, which have business interests in multiple sectors of the economy and form an oligopolistic structure through which industrial policy can be implemented; and 5) both hostile immediate external environment and general foreign financial support from the state's allies which could help align the business elites around the transformative project of the government with the understanding of the disastrous consequences for everybody in case of failure.

It is fair to say that this model of state/society interaction, based primarily on the Southeast Asian experience is hardly applicable to the current realities of the MENA. First, it was developed on the basis of structural change involving primarily industrialization and to a smaller extent on issues related to structural adjustment.[199] Even if we assume that "embeddedness" would universally work for any kind of structural transformation, the situation in the MENA is substantially different from that in Southeast Asia since the 1950s and 1960s: the state is too interventionist, the informal ties between the state and the business elites are not the same (the existing business associations do not provide an arena for serious negotiation of the government policies, i.e. there is no effective mechanism for consultation between the state and the private business); there is no such oligopolistic structure of the market as in Southeast Asia and probably the most obvious difference, there is no external challenge to the governments and the social order, as the confrontation with strong communist neighbors in Korea, Taiwan, etc., to bring together the government and the business elites and present the transformative project as the only effective strategy of survival; foreign involvement in

[198] Ibid., p. 164.

the process of structural transformation in the MENA has not been as significant as it was in Southeast Asia. In short, the external shocks shaping the state/society interactions and serving to a great extent as a guarantee of the evolution toward developmentalism and embedded autonomy are missing in the MENA.

So, it is really hard to push the argument beyond the dimension of the balance of power between the state and the society in the struggle for control over each other. That is why I would argue that in the absence of a mature civil society and external political shocks which would motivate the different societal interests to subscribe for the transformative project and be able to moderate their own utility maximization this balance should be shifted to a greater extent toward the state end of the continuum. I also argue that this can be done by charging the higher echelons of the state apparatus with as many decisions and as much control over the transformative project, in our case, over the privatization program, as possible. The lower the level of authority at which these decisions are made, the greater the danger that state capacity will be diluted.

This idea is consistent with Joel Migdal's argument about the threats that fragmented social control and the oligopoly of the mobilizational capacity posed to state leaders. The multiple state agencies involved in the decision-making process are parts of the same state apparatus but these agencies can pursue interests of their own and have perspectives on what is to be done quite different from that of the central government. "Such particular views are created and reinforced in any number of ways, including shared socialization (in a military academy), the repeated representation of the agency's interests in wider forums (as in the competition for funds), daily personal interaction, the

[199] The recent economic trouble in Japan and South-East Asia supports the doubts that this model could work well enough for any kind of structural change.

effective allocation of resources and status within the agency, and so on."[200] The "implementors" at low and mid-levels of authority are subjected to multiple pressures: first, from their supervisors; second, from the intended clients or beneficiaries of the program; third, from other state agencies and/or from the ruling party which compete for allocation of public resources; and fourth, from local leaders, "strongmen". "These middle-level officials may have considerable discretion in pursuing their tasks and, even when it is not defined as part of their formal duties, they may have a decided impact on individual allocation decisions".[201] They are "far from the sight of state leaders, often even far from the sight of the top personnel in their agencies" and can play a crucial role in determining whose authority and rules will prevail.[202] The concern for their own security and career growth motivates them in deciding whose interest they should be guided by or how to balance the different interests involved. The central government in countries like Egypt and Tunisia has sufficient reasons to be concerned about the "implementors" - nonmerrit appointments, frequent shuffling in and out of different agencies and especially low remuneration have become major reasons for doubt regarding their loyalty and important factors for their silent co-optation by the private sector groups which they are supposed to regulate.

Migdal's argument can be pushed a little further - if the central government is committed to the transformative project (industrialization, structural adjustment, privatization, etc.), and this is a reasonable assumption which we already made in Chapter 2, it will be less prone to succumb to rent-seeking activities than bureaucrats at

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[200] Joel Migdal, op. cit., p. 208-209.
[201] Merilee Grindle, *Policy and Policy Implementation in the Third World*, Princeton: Princeton University Press, 1980, p. 197, quoted by Joel Migdal, op. cit., p. 238.
[202] Joel Migdal, op. cit., p. 238.

lower levels of authority. One reason for this is the time horizon of the officials and politicians responsible for privatization. In a non-democratic setting, the person on the pinnacle of power has a longer time horizon than his/her subordinates in the political hierarchy. In most of the countries in the MENA, including Egypt and Tunisia, there have been multiple prime ministers, cabinet ministers, etc. during the rule of each president or monarch. The incumbency of high ranking bureaucrats is also dependent on the patronage of incumbent politicians, i.e. even if these bureaucrats don't change as often as the politicians in office (government ministers, for instance), the bureaucrats have to work under the leadership of these politicians and carry out their policies. At a lower level of authority, even if the incumbent can remain in office for a longer time, his/her autonomy to pursue specific policies is very limited, i.e. the lower the position n the hierarchy, the greater the volatility of the policies carried out by that officer. The more reversible the policies, the shorter the time horizon of the officials involved in their implementation. Shorter tenure in office means also a greater number of people being responsible for running it within a given period of time -. at lower levels of authority turnover is faster and individual performance is harder to monitor. In this situation the personal responsibility for the dissipation of public value gets diluted and the incentives to benefit from the office increase.

The shorter the time horizon, the greater the likelihood of rent-seeking: if incumbency is very limited in time, then efforts to benefit from it on a short-term basis are greater; if incumbency is more secure, then the incumbent does not have to rush to get from it as much as possible as quickly as possible - the cumulative long-term returns can be much greater than those from a one-shot deal. Even if there is no corruption involved, the shorter the expected tenure in office, the lower the likelihood that the incumbent politician or bureaucrat would go easily for the risks involved in the transformative project - as job security is a major driver of his/her performance, he/she would rather keep a low profile and try to avoid any controversial moves in their contacts with representatives of the various private interests regarding not just the execution but also the making of certain operational decisions, no matter that they might be encouraged by the central government to act more aggressively. If risk-taking involves a dilemma between career advancement and job security, it is more likely to be solved in favor of the former at higher levels of authority and in favor of the latter at lower levels of authority.

If there is a dilemma between career advancement and material remuneration it is also more likely to be solved in favor of the latter at lower levels of authority and in favor of the former at higher levels of authority. At higher levels of authority an official is more likely to associate his/her personal interests with the interests of the office - he/she is to get the credit for the successful performance of the office and to be held responsible for its failures, and vice versa while at lower levels of authority officials are less likely to associate their career success with the general success of the office as the personal benefit they get as a result of that successful performance can be insignificant. There also may be a collective action problem involved - no matter how hard you work, you won't be able to appropriate the results of your dedicated work yourself if you are low in the rank and file - your colleagues will share them no matter if they contributed as much as you did.

The higher the level of authority of an official, the more he/she enjoys the benefits from the strategic rents received by the state as the quasi-owner of the public enterprises.

That is why the efforts of officials who enjoy these rents not to pass them to the new private owners together with the transfer of ownership from the state to private investors are consistent with the logic of creating competitive markets and liberal economic environment. The lower the level of an official, the greater the likelihood that he/she will receive just a salary as remuneration for his/her work and the less access he/she would have to these rents. Strategic rents don't pay off on a daily basis - you have to be in office for a longer period of time to be able to enjoy them. A lower ranking official who would be more likely to stay in office for a short time will be more likely to trade a part of these strategic rents to a private sector actor if he/she has this opportunity. A low-ranking official may not even ask for a bribe - he/she may even not object to anybody appropriating these rents if this did not concern his/her own interests in job and salary security. On the surface such a deal would look like one of the many privatization transactions - on the one hand, this official could be held accountable if the process of privatization is too slow as his/her performance is measured by the number of divested enterprises; on the other hand, he/she will hardly be held accountable if he passes any strategic rents to the private sector as it is not easy to measure these rents.

The idea of restrictive centralized political control and granting more discretionary power to the executive, especially in cases of policy stalemates, is supported by Stephan Haggard and Robert Kaufman – they point out that "in the short run... centralization of authority has been crucial for economic reform in both authoritarian and democratic regimes" to overcome the major political impediments such as collective action dilemmas (reform is treated as a public good with many beneficiaries and potential free riders), distributive conflicts (uncertain balance between the potential "winners" and the potential "losers"), and the rate of discount of successful reform by policy makers (given the potentially contradictory incentives for politicians - staying in power and pursuing the reform measures in spite of the hardships and the risks the reform entails for them). [203] They also believe that key strategy and policy decisions should be made by the president or prime minister on the basis of the counsel from a hand-picked team of advisers and the successful reform depends the degree of high executive involvement.[204]

I admit that there always exists a danger that having extensive centralized control, the state leadership may deviate from its course toward structural transformation. At the same time, one should admit that there can be institutional guarantees against the abuse of power. One such guarantee is built in the very process of privatization - a strong and independent private sector which can represent "a check on the predatory tendencies of the state"[205]; at the earlier stages of privatization, however, this guarantee is not sufficient as the private sector is still being built and consolidated. Another guarantee is the delegation of authority to a small body or bodies of experts to act on behalf of the central government on major aspects of the reform, i.e. to experts enjoying high political protection and certain isolation from the demands of the interested societal groups and international actors. John Waterbury has called these experts "a change team" - they are primarily technocrats with practically no political links but with considerable consistency in views and priorities, with pragmatic, rather than ideological approach to problem

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[203] Stephan Haggard and Robert Kaufman. *The Political Economy of Democratic Transitions*. Princeton: Princeton University Press, 1995, p. 10. This is a finding based on the study of a number of cases in middle-income developing countries such as Argentina, Bolivia, Brazil, Chile, Peru, Mexico, Uruguay, South Korea, Taiwan, the Philippines, Thailand and Turkey.
[204] Ibid., p. 163.
[205] Ibid., p. 273.

solving. [206] Thomas Callaghy has also noted that "[t]he effective operation of a technocratic core is largely determined by its size; its level of technical and administrative capability; the quality and availability of data; as well as the technocratic staff's own depth, cohesiveness, continuity over time, and the degree to which it is allowed to interact and bargain with both external and internal actors."[207] Central banks, ministries of finance, ad-hoc planning and coordinating agencies have played an important role in this respect in successful reforms in the developing countries.[208] It is fair to say in the comparison between our two country cases that the specialized bodies set up to manage the process in Tunisia were closer to serving as a "change team" than the bodies in Egypt.

It is also worth noting that this explicit and strictly delimited delegation of authority does not pose the same risks as the unlimited discretionary authority under emergency rule justified by external and internal security threats and explicitly legalizing limited individual or group political participation or contestation - on the contrary, it "raises the costs of opportunistic reversal" of the policies and enhances the credibility of the political leaders.[209] This kind of delegation does not represent disregard for democratic procedures and disrespect for representative institutions but rather "as

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[206] John Waterbury. The Heart of the Matter? Public Enterprise and the Adjustment Process // Stephan Haggard and Robert Kaufman (eds.). *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State*. Princeton: Princeton University Press, 1992, p. 191.

[207] Thomas Callaghy. Toward State Capability and Embedded Liberalism in the Third World: Lessons for Adjustment // Joan Nelson (ed.). *Fragile Coalitions: The Politics of Economic Adjustment*. Transaction Books: New Brunswick and Oxford, 1989, p. 120.

[208] Robert Wade, for instance, has observed the roles of such bodies in Southeast Asia, i.e. the Council for Economic Planning and Development and the Industrial Development Bureau in Taiwan and the Economic Planning Board in South Korea. See Robert Wade. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton: Princeton University Press, 1990, Chapter 7. The Economic Bureaucracy.

[209] Stephan Haggard and Robert Kaufman, *Political Economy of Democratic Transitions*, p. 274.

evidence of the institutionalization of rules and policy-making processes that are likely to survive changes of political leadership; in short, as evidence of consolidation."[210]

In the following paragraphs we will see how the institutions set up to carry out the privatization program in Egypt and Tunisia reflected the balance between the central government and the societal actors involved in the process and how exactly the major privatization related decisions were made.

2. Organizational Structure of Privatization

Studies of the public sector reforms in the MENA so far have not paid any particular attention to the organizational structure of the privatization programs. Nevertheless, one of the students of this process in the region has noted that the experience of countries outside the MENA showed that a centralized structure would work better. "The basic problem with a decentralized approach is that the branch ministries and enterprises may not have an incentive to carry out privatization and may delay the process. The size and influence of these ministries will decline with privatization. Also each ministry may adopt different and inconsistent approaches to privatization. One ministry does not learn from the success and failure of another ministry."[211]

Launching their privatization program, both the governments of Egypt and Tunisia created the bureaucratic structures which were supposed to carry it out. It is worth pointing out that the currently existing bodies were not set up from the very

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[210] Ibid., 337.
[211] Robert Anderson. Privatization in the Middle East and North Africa. Workshop on "Strategic Visions for the Middle East and North Africa". Gammarth, Tunisia, 9-11 June 1995. Economic Research Forum for the Arab Countries, Iran and Turkey, p. 20.

beginning - they emerged out of year-long evolution which led them in different direction. In Egypt it seemed in the beginning that the decision-making and controlling nucleus of the privatization program was closer to the pinnacle of power of the government but in the course of the unfolding reform it moved away from it and got closer to the implementing bodies. In Tunisia, on the contrary, the number of people and bodies involved in privatization kept shrinking and the central government and the specialized bodies assumed greater responsibility over time.

a) Egypt

The organizational structure of privatization in Egypt emerged in its current shape a couple of years after the adoption of the Public Business Sector Law 203 of 1991. Since the mid-1980s the government had already tried different institutional configurations which were expected to bring better coordination among the agencies involved and motivate them for public sector reform. One of the most notable efforts in this aspect was the establishment of a "Steering Committee", headed by the Minister of Agriculture and Land Reclamation Yussef Wali who was at the same time a Deputy Prime Minister, and included three more cabinet ministers and four representatives of the private sector. This public/private cooperation helped identify certain obstacles to privatization and establish a framework for privatizing some companies, but its mandate was not broad enough to be successful. In an effort to remedy the situation in October 1991 the Parliament passed Law 203, restructuring the public business sector and transferring control over the SOEs down to the newly created holding companies - 27 at first and reduced later to 17. New bodies to manage privatization within the new structure of the public business sector were enacted.[212]

The Minister of the Public Business Sector has the overall responsibility for the privatization program, including the responsibility for every individual transaction decision, restructuring and financial incentives for enhanced performance. This ministry, however, is not supposed to initiate the individual transactions and relies for this purpose on the lower levels of the public sector management. It is considered that putting this ministry, headed by Dr. Atef Ebeid - a professor at the American University in Cairo, in charge of the privatization program was a positive move in terms of streamlining the process; nevertheless, the mere fact that Dr. Ebeid had in fact two more portfolios in the Cabinet of Ministers (Administrative Development and Environmental Affairs) as well as the practically rudimentary structure of the ministry itself (few functional units, excessive reliance on advisors, etc.) has prevented it so far from assuming a serious leadership position and kept it practically outside the date-to-date work on public sector reform.

The Public Enterprise Office (PEO), funded by the government of Egypt, the World Bank's International Development Agency, UNDP, USAID, EEC, Britain's ODA, Germany's GTZ, Canada's CIDA and other donors, has been the technical advisory body of the Minister of the Public Business Sector since November 1991. It is supposed to prepare annual privatization plans, act as an intermediary between the state, the holding companies and the affiliated companies, review the holding companies' business plans, adopt the criteria for the performance evaluation of the public sector managers, prepare

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[212] The following discussion is based on interviews with government officials, SOE managers, foreign consultants and representatives of the international financial institutions involved, conducted during my fieldwork in July - November 1995 in Egypt as well as on materials on

guidelines on policy implementation regarding privatization as well as to come up with proposals to include particular issues the government's privatization program.

It is natural that the privatization program should have a secretarial body, however, the way the PEO fits in the entire structure and interacts with its other elements it is considered as just another bureaucratic entity demanding "a constant stream of reports" and practically "blocking direct access to the HCs".[213] Poor management of the work in the office has led to the loss of some of the best experts on its staff. The PEO generally prepares reports with historical data on restructuring and divestiture for the government: the way it has been designed it relies on the minister for instructions and commands regarding the process of privatization and shows no capacity to play an active and autonomous role. There is one more aspect in which the PEO has fallen out of place - at the beginning it served as a filter between the foreign consulting companies providing technical assistance, potential private investors and the SOEs themselves, keeping the direct contacts between them as limited as possible which served as a brake to the privatization efforts. Later, in 1994 the Minister allowed such direct contacts and special privatization units were created in six holding companies to deal with the reform, thus bypassing the office. Thus, the PEO was left out of the effective privatization work, struggling to find a justification for its existence in the system without being able to effectively do any coordination of the public business sector reform efforts or to come up with any ideas as to how to go forward.

The next layer of public sector management in Egypt are **the holding companies** (HCs) in which the individual SOEs were grouped by industry as at the beginning of the

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USAID/Government of Egypt "Partnership in Development" Project. A list of the people interviewed is provided in Annex I.

1990s it was considered that the industry-specific knowledge and experience would play a significant role in privatization. The seventeen holding companies are supposed to serve as an important link between the government and the individual SOEs, to select the management of the SOEs, supervise their performance both from operational and financial point of view, and what is most relevant for the public sector reform - make the most important privatization decisions. This is the critical level of authority at which privatization transactions are initiated, administered and implemented. Although the general assembly of each such company is chaired by the Minister of Public Business Sector and includes private businessmen, bankers, economists, economists, legal advisors, and union representatives, it is within the hands of the management of each of the HCs to make the relevant privatization decisions - whether to proceed with the sale or to engage in serious restructuring at the beginning.[214]

It has to be noted, however, that the management of the holding companies consists of people who are public servants by status and who lack incentives for radical reform - in the extreme case of complete privatization they would remain like generals without armies. As a rule, they have been government employees for all of their lives, lack private sector experience and privatization-specific knowledge. If they privatize the best performing companies, then the financial performance of the HCs, including the remaining SOEs under their supervision would deteriorate, hence their work may be judged as unsatisfactory; they may want to privatize the losing companies under their

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[213] Interview with a consultant held on September 21, 1995.

[214] A survey conducted by *Arthur Andersen* showed that practically all the chairmen of holding companies interviewed had the necessary authority to make privatization decisions. International Business and Technical Consultants Inc., *Organizing for Privatization: An Assessment of Organizational Effectiveness of the Egyptian Privatization Program and the Associated Impact on the USAID Privatization Support Program and Structure.* Special Report No. 2, 1995, p. 13.

supervision, however, it would be hard to find candidates to assume the present and future liabilities of these companies. The existence of the holding companies "allows cross-subsidization of money-losing firms by profitable ones within the HCs and also allows investments for restructuring to be made without proper screening".[215] The inherent conflict of interest at the level of the management of the holding companies where the critical privatization decisions are made and implemented is the ultimate reason for the lack of progress.

An effort to make this decentralized approach work was made with the help of foreign consulting firms, *Bechtel International* until the spring 1995 and *Arthur Andersen* afterwards. In 1994 privatization units, composed of a few consultants, started to be set up at several HCs - their task was to motivate the management through personal relationships, to provide from the very early stages of each privatization transaction useful information to the management and offer functional privatization expertise, i.e. financial, managerial, organizational, technical and marketing capabilities. The efforts of all privatization units are supported by one Technical Back-Stop Unit, providing some core capabilities such as training of personnel and an array of financial techniques which could be shared by all holding companies (ESOPs, mergers and acquisitions, financial products, etc.). Nevertheless, in spite of the efforts toward further elaboration of the existing decentralized structure, these new bodies would not be able to function properly if the management of the holding companies was not motivated enough. That is why by

[215] Interim Evaluation: Sector Policy Reform Program and Technical Support for Sector Policy Reform Project - Egypt. Prepared for the USAID. Contract number PDC-0095-Z-00-9053-00, Amd. 12, Eliot Berg, Richard Sines, James Walker. July 1994, DAI, Bethesda, MD, p. 43.

the end of 1995 only in 6 holding companies there were such privatization units - those were the only sectors in which any progress in privatization was made.[216]

The number of individual SOEs in Egypt, called **affiliate companies** (ACs), was 314 at the time of the adoption of Law 203 in 1991 and they represented about 70 percent of the entire industrial sector in the country. In the course of the public sector reform their management got substantial freedom, i.e. the authority to determine the company's policies regarding pricing of their products, paying salaries to employees, choosing suppliers for purchasing inputs, initiating joint ventures with foreign investors, etc. It was considered that part of this increased managerial freedom would induce them to actively participate in preparing privatization decisions - the SOE management was given the authority to initiate the lease or sale of productive units and even divestiture for the whole SOE after this company has been placed on the list of candidates for divestiture.

This arrangement with the affiliated companies, however, proved to be ineffective. Conflict of interest was the major problem - with the exception of ESOPs, a management team, especially in a heavily indebted company, could hardly expect to retain its position after the ownership had been transferred to private investors. Even if this happened, cost-cutting measures would have to be implemented and difficult decisions to be made; the old management, for instance, would hardly find it easy to handle the necessary massive layoffs of employees, to face eventual litigation for damages to other companies and the environment or to use a wide array of financial instruments to attract capital in order to compensate for the loss of subsidies from the

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[216] These were the HCs of Housing, Tourism & Cinema; Pharmaceutical & Chemical Industries; Engineering Industries; Mining & Refractories; Public Works & Land Reclamation; and Metallurgical Industries.

budget. In this situation their best policy has been support for the status-quo and in the worst case scenario passive acceptance of the reforms pushed for by their superiors.

Thus, in the decentralized structure of decision-making and control over implementation the holding companies and the affiliated companies in Egypt are supposed to be the focus of the privatization efforts. The foot-dragging in the reform, however, has been a characteristic feature of the process and success in a given sector represents the result of individual efforts rather than being built into the system. Even though the lower levels of public sector management have been accorded the authority to initiate and implement the reforms, there has been little change in the management style. A number of board members of the HCs and ACs still do not see the need for radical measures toward increasing productivity and efficiency and are not willing to take the risks associated with being a private player on the market who does not rely on a higher authority to take the ultimate responsibility for managerial decisions and to bail out the company in case of serious problems.[217] Besides, those who understand the necessity of a radical reform are not too eager to go ahead with it because of the fear that they might be accused of dissipating public property which has been considered for decades as a national patrimony. The lower levels of public sector management also have limited marketing capabilities - the management of the HCs and ACs, as a rule, has expertise to work under a dominant public sector and little experience of functioning in a market

[217] Heba Handoussa shared her own experience on the board of one of the HCs as well as her observations of the work of other HCs: "The HCs are a major impediments to privatization in Egypt - they have to maximize their NPV and at the same time sell the most profitable companies... The voice of the Board members is weak - on paper, it is the Board to make decisions, but in reality it is the chairman... The HCs are not necessary at all - I don't know why they were included in Law 203..." Interview held on 19.10.1995.

environment which would require serious efforts to identify, target and develop relationships with potential buyers of the individual SOEs domestically and abroad.

There hasn't been a consistent policy regarding the use of the proceeds of each privatization transaction - it is hard to know in advance whether they would be reinvested in the AC, or used for payment of debt, or sink deep in the state budget which further shatters the commitment of the SOE managers. It is not clear yet what the influence from the participation of private sector businessmen on the boards of HCs is and to what extent their participation could improve the SOE efficiency. Little attention has been paid to specific measures enhancing competition - even if divestiture has a satisfactory progress, it is unrealistic to expect that the managers of the individual SOE undergoing privatization to undertake parallel measures supporting a competitive environment which may later hurt their performance. "Accordingly, decentralizing the responsibility for initiating and executing specific transactions has contributed to a great extent to slowing down the process, since members of HCs and AC are neither motivated enough nor possess the required institutional capability to assume this role at this stage of evolution of the privatization process."[218]

b) Tunisia

The organizational structure of the Tunisian privatization program also has undergone a process of evolution until it reached its current form. Unlike Egypt, at the beginning it was more decentralized and with the time it evolved toward greater centralization, i.e. a smaller number of bodies were made responsible for the major

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[218] American Chamber of Commerce in Egypt. *Privatization in Egypt: Problems & Recommendations.* Cairo, 1994, p. 22.

privatization decision and the focus of the program got closer to the central government.[219]

During 1987-1989, i.e. the first couple of years after the launch of the program, the government experimented with a decentralized process - no administrative body or individual was responsible for the privatization transactions from the beginning to the end. Initially, three commissions were set up to deal with the public sector reform: an interministerial commission, an interdepartmental commission and a technical commission. The first one, the **Commission d'Assainissement et de Restructuration des Entreprises à Participation Publique** (CAREPP), chaired by the Prime Minister, reviewed and approved all privatization and restructuring proposals; it also included such political figures as the Secretary General of the Government, the Ministers of Planning (now Economic Development), Finance, Interior and Social Affairs, the Ministry of State Property (Ministere du Domaine d'Etat) and the Governor of the Central Bank in person or through their representatives as permanent members as well as the relevant sectoral minister and the CEO of the SOE undergoing privatization as ad-hoc members. The main task of the **Interdepartmental** (follow up) **Commission** was to coordinate the activities of the different agencies involved in the transactions. It was presided by the Director General of Participations at the Ministry of Finance and included bureaucrats, i.e. representatives of the Prime Minister and the Ministers of Planning, Finance and of the Governor of the Central Bank as permanent members as well as the representatives of the sectoral minister and the CEO of the SOE in question as ad-hoc members. This

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[219] The following discussion is based on interviews with government officials, SOE managers, foreign consultants and representatives of the international financial institutions involved, conducted during the fieldwork in January - May 1996 in Tunisia, as well as materials on the

commission was supposed to collect the bids for the enterprise being sold and compare them at the background of a serious analysis of the needs of the enterprise as well as coordinate the initial public offerings at the stock exchange and determine the introductory share price. The **Technical Commission** consisted of high officials from the already mentioned ministries who were supposed to help formulate proposals for preparation of the SOEs for sale, suggest the most appropriate mode of divestiture as well as propose to CAREPP options for resolution of the recurring financial and social implications of the divestiture.

This structure, however, did not produce substantial results: it proved to be difficult to coordinate the activities of these bodies, the implementation process turned out to be too complicated and time consuming, there was no adequate staff support for the three individual commissions and their members lacked the necessary specialized knowledge and experience. "They were, in any case, often busy with their own full-time jobs, leaving little time for consideration of the complex problems of valuation of firms or seeking prospective buyers. No priorities for divestment were laid down and no overall strategy was developed. As a result, little had been accomplished in the months before the overthrow of the Bourguiba regime."[220]

After President Ben Ali took office the organizational structure of the public sector and the procedures for privatization were streamlined. Law 89-9 abolished two of the former three commissions and kept only one - CAREPP, which turned into the driving force towards privatization. As a rule, it meets once a month and serves as a

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USAID/Government of Tunisia Private Enterprise Promotion Project. A list of the people interviewed is provided in Annex II.

[220] L. Gray Cowan. *Privatization in the Developing World.* Greenwood Press: New York, Westport, CT, London, 1990, p. 118.

consultative body to the Prime Minister, Dr. Hamed Karoui, who makes the final decision on each particular case or issue. In fact, it is the Prime Minister who is charged with the decision-making and the responsibility not only for the privatization program in general, but also for every individual transaction concerning restructuring, methods of divestiture, setting prices and selecting buyers, etc. The issues considered by CAREPP include static or dynamic reforms, restructuring with a partial or total spin-off of a productive entity of the enterprise, total privatization or liquidation. According to a senior government official up to 1990 only 5 decisions were made on reforms within SOEs while 20 - on partial privatization, 45 on total privatization, 9 on liquidation and 1 on absorption of SOEs.[221]

The government also decided that support for CAREPP should be provided by a new body, the **Commission Technique d'Assainissemnt et de Restructuration des Entreprises à Participations Publique** (CTAREPP), made up of experts from the ministries represented on CAREPP who could ensure that technical procedures surrounding the privatization process were accomplished and provide a sound technical basis for CAREPP presentations to the Prime Minister. Among its responsibilities it is worth mentioning preparing the priorities for privatization, reviewing the financial and operational performance of the companies considered for reform, suggesting the conditions for sale which had to be taken into consideration both in preparing the individual SOEs for sale by the sectoral ministry and the bids that private investors were supposed to submit. "Under this scheme, as soon as CAREPP designated an enterprise as ready for restructuring or privatization, CTAREPP would determine divestiture priorities,

[221] Interview with a senior government official on January 29, 1996.

review company financial and operational profiles, and establish the conditions of sale."[222]

An important body under the initial arrangements was the **Directorate General for Public Enterprises** (DGEP) at the Prime Ministry which was charged from the launch of the privatization program until 1993 with carrying out comprehensive analysis of the performance of the public sector, making recommendations regarding the overall process of restructuring, coordination of the work of the individual sectoral ministries supervising the public enterprises, etc. Later, its functions were limited to just being the secretariat of CAREPP. The most important shift took place in 1993 when the bulk of responsibility for the experts' work was placed on the **Ministry of Planning and Regional Development** (now called Ministry of Economic Development). Thus, activity which was done before by an inter-agency bodies was commissioned to a single agency in the state apparatus - an agency, charged with the primary support for the work of CAREPP and with the delegated authority to be the major driving force behind the public sector reform. Parallel to that, the scope of CAREPP's attention was widened - if at the end of the 1980s it had targeted mainly the money-losing companies in the competitive sector, now has moved to extend the reform to many profit-making enterprises, including the companies operating in an environment of limited or non-existing competition, most of which were considered previously as strategic and non-competitive, such as Tunisair, for instance.

A major difference in comparison with the Egyptian privatization program is that from the very beginning the Tunisian government decided not to publish a list of

[222] Abt Associates Inc. *Privatization in Tunisia: A Review of the Experience to Date*. Cambridge, MA and Bethesda, MD, July 1995, p. 10.

companies which would be targeted for divestiture or limit itself to money-losing companies which represented a drag on the state budget. CAREPP announced that all SOEs should be sooner or later privatized, so that the management of the individual SOEs did not develop a complacent attitude once they did not see their companies on the list and that they feel pressure for improving their performance. "Management was thus encouraged to greater efficiency in the expectation that the restructuring secretariat could knock on the door at any time. CAREPP has clearly streamlined the process of privatization, at least at the top level of the government. It restricted membership, access to the highest authority, and limited documentation has made decisions on the form of divestment both rapid and simple."[223]

The next level of public sector management in Tunisia, the **sectoral ministries,** play a less important role in the privatization program. Although their representatives participate in the work of the coordinating bodies, this participation is just *ad-hoc* and their input in the process of policy-making is rarely very significant. The sectoral ministries are expected to do some of the technical work in implementing decisions made by others and to serve as a link between the individual SOEs and the policy-making bodies involved in the management of the privatization program. Once the decision for privatization of a public enterprise is adopted in principle, the sectoral ministry studies the implication of the privatization for the industry and give its opinion which is taken into consideration by the technical bodies and CAREPP. The ministries are usually perceived as "very slow to respond to the idea for privatization"[224]; that is why the role which is accorded to them in the privatization program seems to be quite logical - they

[223] Gray Cowan, op. cit., p. 120.

examine initially the individual SOEs under their management trying to identify opportunities and strategies for reform and later advise CAREPP on the appropriate strategies for the divestiture. Later the sectoral ministries have responsibilities in the implementation and the follow-up on CAREPP's recommendation and the prime minister's decisions.

In comparing the organizational structure of privatization of the two countries it should be noted that the holding companies in Egypt do not represent the functional equivalent of the Tunisian sectoral ministries. There are such ministries in Egypt too, for instance, Ministry of Agriculture, Animal and Fish Wealth and Land Reclamation, Ministry of Defense and Military Production, Ministry of Economy and Foreign Trade, Ministry of Electricity and Energy, Ministry of Housing and Utilities, Ministry of Industry and Mineral Wealth, Ministry of Petroleum and Mineral Resources, Ministry of public Work and Water Resources, Ministry of Supply and Home Trade, Ministry of Tourism, Ministry of Transport, Communications and Civil Aviation, etc. Within these ministries there are functional units called authorities, for instance, within the Ministry of Industry and Mineral Wealth there is a Public Sector Authority for Spinning and Weaving Industries, Public Sector Authority for Metallurgical Industries, Public Sector Authority for Mining and Refractories, Public Sector Authority for Engineering Industries, Public Sector Authority for Chemical Industries, Public Sector Authority for Foodstuffs Industry, etc. In both countries these bodies are the regulating agencies for the respective industries and generally do not get involved in the day-to-day management of the public sector enterprises.

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[224] Jamal Saghir. *Privatization in Tunisia.* CFS Discussion Paper Series. The World Bank. January 1993, p. 6-7.

The management of the individual **SOEs** in Tunisia is supposed to get involved once it has been indicated by CAREPP and the Ministry of Planning that their turn has come. The process of privatization of the individual company formally is supposed to start with a proposal from the CEO of that company but this is a formal procedure rather than one implying real authority to exercise judgment whether it is appropriate to privatize the company or not. The government has tried to create incentives for the SOE management not to drag their feet in this process by offering preferential opportunities for lines of credit for those companies which are planning an initial public offering. One of the reason why the CEOs are not too enthusiastic about privatization is the understanding that the specific work on the preparation of the company for divestiture would take most of their time and efforts which would otherwise be directed toward enhancing the performance of the enterprise. As a rule, in the process of planning the divestiture the CEOs of the companies are not supposed to share the prospects with the employees in order to avoid any controversy and resistance from the labor unions; only after a formal decision is made the SOE management is supposed to announce the plans and participate in the marketing of the assets offered for sale.

It is fair to say that the CEOs of the SOEs have not represented a major obstacle to privatization in Tunisia. Jamal Saghir has observed that "[a]lthough managers of PEs and sector ministries in some cases have opposed the privatization of selected PEs, so far - in general - they have cooperated extremely well."[225] One of the reasons for this is the fact that even if they wanted to resist, they would hardly be able to do so as they have little decision-making authority in the process as it has been designed from the very beginning and shaped by the government. Besides, the government has made it clear that the public sector managers are considered civil servants and after the divestiture of their companies the government would have the responsibility to move them to managerial positions in other companies of the public sector.

There is one more point to be made - unlike the insider privatization in many countries in Eastern Europe and the former Soviet Union where the former managers of SOEs retained their positions by arranging either a buyout or just a free transfer of the ownership over their companies to themselves, the Tunisian government did its best to clearly delineate responsibilities and avoid conflict of interest in the process of divestiture. One the one hand, the CEO of a public enterprise is supposed to do his/her best to maximize the value of his/her enterprise and make all efforts to obtain the highest possible price for the assets sold; on the other hand, a private investor, interested in buying a SOE offered for sale, would like to get this enterprise as cheap as possible. That is why the bodies in charge of privatization have made it clear that SOE managers should not be among the primary buyers of the divested assets. According to one of the top government officials involved in the process, only one former CEO of a SOE was considered seriously as a prospective buyer, but in his position of a CEO for a period of about ten years he brought the company to profitability, then left it before it was put for sale and only afterwards he organized a consortium of investors who would be willing to bid for it.[226]

3. The Process of Privatization

[225] Ibid., p. 14.
[226] This is the case of the company *Ceramique Tunisienne* and its former CEO Yunes Ferchou.

In the following paragraphs we will see now how exactly privatization transactions were designed to happen in both countries. In Egypt, consistently with the more liberal overall strategy of the government the bulk of the privatization activity was designed to take place with greater involvement of the lower levels of management in the public business sector while in Tunisia the central government and the appointed by it specialized bodies have participated most actively practically in every privatization transaction.

a) Egypt

The process of privatization in Egypt was designed to include two stages - planning and implementation. In general, the government decided to start from those SOEs which seemed to be easy to privatize because they belonged to sectors not considered as strategic for the national economy or evoke unnecessary controversy. The initial candidates for divestiture were supposed to be found in such industries as tourism, textile manufacturing, food processing, etc.; capital intensive enterprises, including public utilities, although not specifically mentioned, were not considered as eligible for privatization. The divested companies were supposed to be generally profitable, small or medium-size and, as a rule, would not require serious financial, operational or legal restructuring or substantial additional investment; they should be financially viable, have low indebtedness, serious prospects for attractive profit margins and operate in a relatively competitive markets with no monopoly and oligopoly; these companies were not supposed to be subsidized by the state at present or cause potential social unrest as a result of redundant labor layoffs. A list of the companies, totaling about 20-25 SOEs every year, which were planned to undergo divestiture during the first three years after the adoption of the current structure of the public business sector was published in the PEO's "General Procedures and Guidelines for the Government's Program of Privatization, Restructuring and Reward System" in 1992.[227]

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[227] This list includes the following companies:

For financial year 1991/1992 - a) Law 203 companies 100 percent state ownership: Misr Free Shop Company, Egyptian Vineyards Company, El Nasr Bottling Company, Egyptian Bottling Company, El Nasr Glass & Crystal Company, Misr Studio & Film Production Company, El Nasr Boiler Manufacturing Company; b) assets of Law 203 companies: Cairo Sheraton Hotel, Aswan Oberoi Hotel, Sheraton Boat M/S Anni, Sheraton Boat M/S Hotp, Sheraton Boat M/S Tut, Sheraton Boat M/S Aton, Shepheards Hotel; c) shares in Law 203 companies: Porcelain Dinnerware & Utility Ware; d) shares in Law 159 companies: Misr Tourist Village Company; e) shares in Law 230 companies: Suez Cement Company, Chloride Egypt, Ashti Company, Egypt Garden International.

For financial year 1992/1993 - a) Law 203 companies 100 percent state ownership: Kafr El Zayat Insecticides & Chemicals Company, The Nile General Auto Repairs Company, Arab Office Engineering Consultancy & Designs, Paints and Chemicals Industries Company, Alexandria Company for Pharmaceutical and Chemical Industries, El Nasr Engineering & Refrigerating Company 'COLDAIR', Egyptian Shipbuilding & Repairs Company; b) assets of Law 203 companies: Alamien Hotel, Palastine Hotel, Consumption Goods and Cloth 'Sednawi', Consumption Goods and Cloth 'Secural', Fashion Ware Home 'Hano Alex', Fashion Ware Home 'Shamla'; c) shares in Law 203 companies: El Nasr Clothing & Textile Company 'KABO', Egyptian Food Company 'Bisco Misr', Egyptian Supplies & Marine Works Company, United Housing Company, El Nasr Electronics & Engineering Company 'Philips'; d) shares in Law 230 companies: Egyptian International Pharmaceutical Company 'EPICO', Egyptian German Electrical Products Company, Schindler Egypt, Egyptian German Dyes Company, Misr Carbonated Beverages 'Misroob', Arabian Ceramic Company 'ARACMCO', Sinai Diving Club.

For financial year 1993/1994 - a) Law 203 companies 1) industrial sector: El Nasr Company for Refractories and Ceramics (SORNAGA), Egyptian Copper Factory Company, Industrial Gases Company, Abuqir Fertilizer & Chemical Industries, Delta Spinning & Weaving Company, Uniarab Spinning and Weaving, Dakahlia Spinning & Weaving, Damietta Spinning & Weaving, Alexandria Spinning & Weaving, Extracted Oil Company, Tanta Oil & Soap Company, Cairo Oil & Soap Company, Alexandria Confectionery & Chocolate Company, Egyptian Starch, Yeast & Detergents Company, Edifina Company for Preserved Foods, Al Ahram for Beverages, Egyptian Light Transport Needs Manufacturing Company, Misr Engineering & Tool Company 'MICAR', Egyptian Company for Refractories; 2) health sector: Medical Packing Company, Arab Drug Company 'ADCO'; 3) cement sector: El Ameria Cement Company, Tourah Portland Cement, Helwan Portland Cement Company; 4) foreign trade sector: Misr Car Trading Company; 5) domestic trade & distribution sector: Egyptian Company for Wholesale Trade, Egyptian Company for Fish Marketing, Egyptian Company for Packing & Distributing Foodstuffs; 6) housing sector: Development & Popular Houses Company; 7) transportation sector: United Arab Stevedoring Company, Alexandria Containers Handling Company, Port Said Containers Handling Company, Damietta Containers Handling Company, Egyptian General Warehouses; 8) tourism sector: Misr Hotel Company; b) assets of Law 203 companies 1) industrial sector: Delta Industrial Company 'IDEAL'; 2) tourism sector: Egyptian Hotels (Chisel Hotel); 3) retail trade

Two ways of selection of the candidates for divestiture are considered appropriate: 1) in the process of preparing their annual business plan the HCs can choose candidates for divestiture, and 2) the PEO can suggest the candidates, get the general approval of the Minister of the Public Business Sector and then present the list to the relevant holding companies for inclusion in the business plan for the year. What happened in fact in the period 1992-1995 was that although a number of companies were selected by the PEO as suitable for divestiture, only a few of them ended up being privatized. A next step is identifying target buyers - in this respect the government tried not to excite any nationalist sentiments and gave top priority to Egyptians living in Egypt, followed by Egyptians living abroad, and then investors from other Arab countries; foreigners interested in direct investment and foreigners interested in portfolio investment, but not in management of the acquired assets, were at the bottom of the list. The criteria for their selection according to the "General Procedures and Guidelines" include ability to bring new capital and foreign exchange to the privatized companies, protection of public interest and jobs, business plans for upgrading company's performance, growth and job creation, feasibility of the business plans, and last, but not least, financial value of the offer or the net present value of the cash flows for the government. It is not too hard to see that it would be very difficult to satisfy all of these requirements at the same time - some of them, such as, for instance, job protection and maximizing cash inflows, would necessitate measures in opposite directions and involved very high risks for potential investors.

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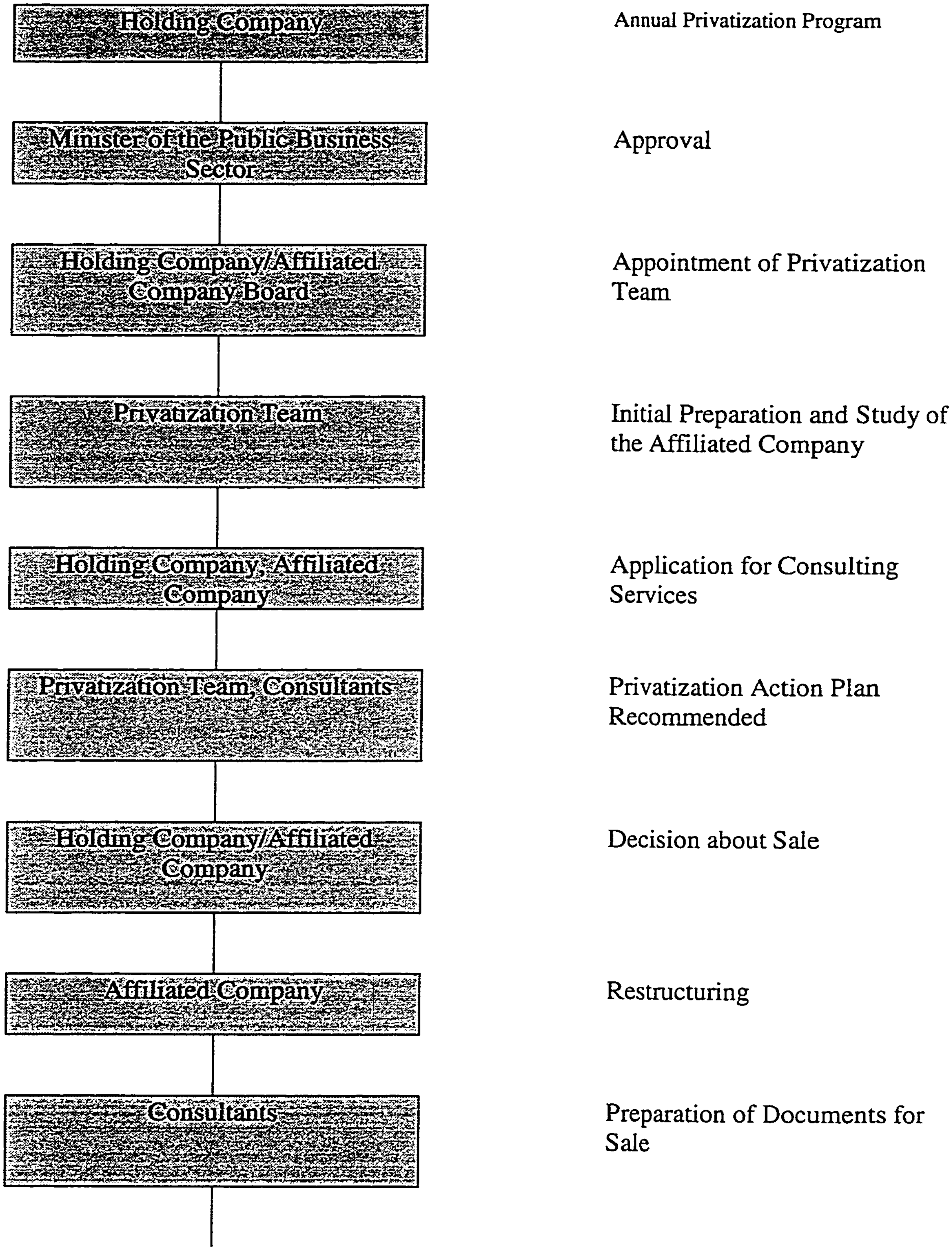
sector: Consumption Goods & Clothes Company 'Sednawi'. Source: Government of Egypt. Public Enterprise Office. *General Procedures and Guidelines for the Government's Program of Privatization, Restructuring and Reward System.* Cairo, February 14, 1993, p.p. 51-54.

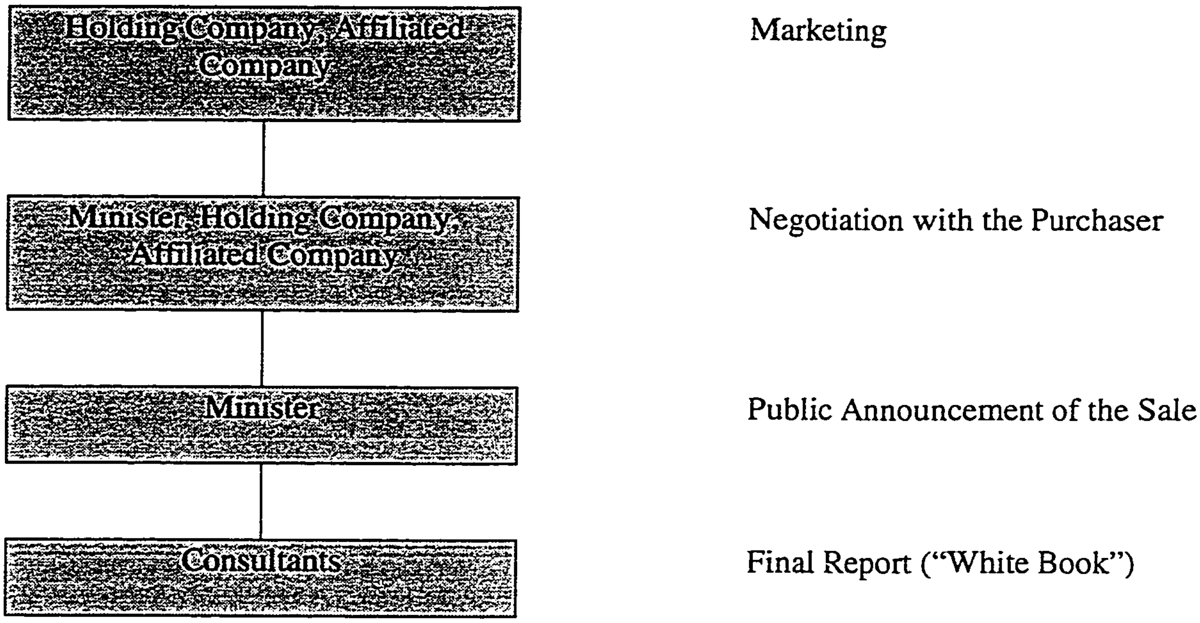
The Egyptian privatization program has allowed different methods of divestiture of the individual companies including public auctions or tenders, initial public offerings on the stock exchange, employee/management buyout, contracting out management services, creation of mutual funds and unit trust targeting debt/equity swaps, voucher privatization for participation; the choice of the specific method is supposed to depend on the particular circumstances of each transaction, the enterprise performance and economic prospects, the size of the company and ability to mobilize private funds. Nevertheless, so far the government has opted primarily for ESOPs and partial public offering of 5 or 10 percent of the equity on the stock exchange while sales to strategic investors, for instance, who would take over a majority interest in a company have been avoided. Thus, the preferred methods of privatization so far have been the ones which would be most likely to allow the old SOE management to stay in office after privatization as the privatized share of the equity has gone either to small investors who would have no opportunity for a say in management or to employees who would not try to participate as for them salary is more important than any prospective income from their equity interest.

The implementation stage of the privatization transactions consists of preparation of the enterprise for sale, decision-making and implementation of the decision itself. (Exhibit 3.1) The preparation process starts from the annual program for divestiture prepared by the HCs and the approval of the selected candidates by the Minister of the Public Business Sector. Then a Privatization Team is appointed by the board of the HCs and ACs to manage the individual transaction from the beginning to the end, including valuation, due diligence, solution of financial problems through cancellation, consolidation, restructuring or conversion of debt into equity, etc. The HCs and the ACs apply to the PEO for technical assistance which arranges for the services of outside consultants. These consultants analyze the company and prepare a report; they also come up with a comprehensive Privatization Action Plan for the HCs and the AC, including a recommended strategy for carrying out the entire transaction. The plan is submitted both to the Privatization Team and the PEO for review; then the HC makes the necessary decisions regarding the strategy and procedures which should be followed further by the Privatization Team.

The last stage is that of implementation itself. It may include financial restructuring of the company before the sale but at the same time the sale may take place without any restructuring. The necessary sale documents - prospectus, offering memoranda and bid documents, underwriting arrangements, etc. - are prepared; the company is marketed; the bidders' offers are evaluated and the sale decision is made. Then the Minister of Public Business Sector announces the completion of the transaction. A final report - a public document including the most important documents related to the transaction, is prepared by the consultants and sent to the Cabinet, the HC, the AC, the Central Audit Organization, and the Parliament. In reality, no final report has been made available to the public so far. Thus, most of the decisions, as it was already mentioned, are completely within the authority of the HCs although some of them may require subsequent ministerial approval. The "implementors" in Migdal's terms have significant operational control practically over each stage of the privatization transaction which has ultimately resulted in footdragging and delaying the implementation of the government's program as a whole.

Exhibit 5.1 The Process of Privatization in Egypt




Holding Company, Affiliated Company
Marketing
Minister, Holding Company, Affiliated Company
Negotiation with the Purchaser
Minister
Public Announcement of the Sale
Consultants
Final Report ("White Book")

b) Tunisia

The procedures of privatization in Tunisia, unlike the organizational structure, have not undergone significant changes over the years - it was considered acceptable that they might vary from case to case but nevertheless they were kept more or less the same and as simple as possible (exhibit 3.2). According to the general strategy of the Tunisian government the losing enterprises in the competitive sector had to go first, then parts of other public enterprises were spun-off, then entire profit-making companies in the competitive sector came along. Now, companies in the non-competitive sector, at first just through spin-off of productive assets, and later entirely, are considered as suitable for privatization.

Officially the preparation of an enterprise for privatization starts with a simple proposal - i.e. a letter of intent from the CEO of the SOE, addressed to the sectoral ministry and the Ministry of Planning and accompanied just by the basic financial statements of the enterprise. The sectoral ministry is supposed to study the opportunities for privatizing the enterprise, partially or entirely, and prepare a report. The papers are then analyzed by senior officials of the interested ministries and agencies coordinated by the Ministry of Planning (or previously by the DGEP and CTAREPP), who are supposed to consider the implications of the specific project for their area of competence and give recommendations concerning the means for restructuring and privatization, in particular the financial restructuring and the solution of the debt problems, and then present to CAREPP the existing options. Still, CAREPP may come up with alternative plans as to how to proceed further or with a clear recommendation to the Prime Minister who makes the decision to start preparing the enterprise for privatization. The file is sent back to the sectoral ministry and the company undergoing privatization for implementation. At this moment under the coordination of the Ministry of Planning external actors, including accounting or consulting firms, investment and commercial banks, brokerage houses, etc., get involved in the work on asset valuation and the appropriateness of one or another method of privatization - initial public offering, spin-off, deal with a strategic investor, etc. The reports prepared by these consultants are reviewed by CAREPP for a final approval of the methods and conditions of sale.

From this moment on the coordinating body - the Ministry of Planning, or the Ministry of Finance in case of an initial public offering, takes over the operational control over the preparation and the execution of the actual transaction. Again, consulting companies and banks participate in the marketing of the enterprise, on the one hand, drafting the conditions of sale and inviting bidders through ads in the papers on behalf of the government and, on the other hand, helping the potential investors to come up with proposals for business development of the privatized enterprise. In the initial years of privatization the bids of potential strategic investors were evaluated by the Interdepartmental Committee; afterwards they were examined by the Technical Committee and presented to CAREPP for selection of the successful bidder; later, the Ministry of Planning was charged with this task. In case an initial public offering is the chosen method of privatization, then it is the Ministry of Finance Directorate of Participations in cooperation with the Tunisian Stock Exchange, underwriting banks and brokerage houses which is responsible for the transfer of assets.

Exhibit 5.2 The Process of Privatization in Tunisia

Ministry of Planning and Regional Development	Choosing the SOE-Candidate for Privatization
SOE	Proposal
Sector Ministry	Study of the Opportunities for Privatization
Ministry of Planning, Technical Commission	Study of the Implications of Privatization
CAREPP, Prime Minister	Decision to Start Preparation for Sale
Ministry of Planning (or Ministry of Finance)	Coordination of the Process
Consultants, Sectoral Ministry, SOE	Preparation of the SOE for Sale
Ministry of Planning	Selection of Purchaser
CAREPP, Prime Minister	Decision to Sell
Ministry of Planning, Ministry of Finance, SOE	Execution of the Transaction

It is worth noting that most of the critics of the existing regulatory arrangements believe that the procedures can be further streamlined noting that the search for consensus through agency representation in such coordinating body as CAREPP causes unnecessary delays. Nevertheless, with the years the process of privatization has undergone further centralization in which the role of the central agencies have increased. It is worth making the following points in this respect. First, especially significant in this process has become the Ministry of Planning which does the principal work on strategic planning of privatization in Tunisia - this is the body which is supposed to put every single privatization transaction in perspective with the overall program. Given the fact that no coherent policy document has been made public to explicate the goals and the means of the privatization program, it is considered as the body in which the most important ideas regarding public sector reform are generated and forwarded for consideration by CAREPP and the Prime Minister. Second, to be privatized, a SOE has to be among the ones considered for privatization. Which ones should be considered is within the discretion of CAREPP which acts upon the explicit recommendation of the Ministry of Planning as there is no general schedule for privatization. In addition, only public enterprises legally structured as corporations and in which the state or another public enterprise has direct ownership could be considered for divestiture. It is within the discretion of the Ministry of Planning and the relevant sectoral ministry to engage in the process of corporatization of a company and thus make it possible to proceed with privatization. Third, the experts involved in privatization work within the Ministry of Planning seem to fit well enough into the idea of "a change team" which is many countries have pushed for successful policy reform. They have a lot of discretionary power; their number is not large; they are fairly young, well-educated (with graduate degrees from prestigious foreign or local schools), enjoying the trust of the top political figures managing the process and to a great extent shielded from the particularistic pressures of the interested parties.

Thus, in the comparison between the Egyptian and the Tunisian privatization experience it is fair to say that the more successful one has been the one in which officials at a higher level of authority were involved both in managing the overall process and in decision-making and control regarding the individual privatization transactions. The less successful program has been the one in which the "implementors", i.e. the holding companies in Egypt, have had the authority to make important operational decisions and have a serious impact on the overall progress of the public sector reform. The more successful program has been the one in which a small body, i.e. the privatization team of the Tunisian Ministry of Planning, has been delegated the power to act on behalf of the top executive in managing the process, the one in which delegation of authority has been combined with an efficient consultation mechanism in the face of CAREPP which coordinates the positions of most of the agencies involved in the process. As in other cases of effective "change team" involvement, the bodies in charge of public sector reform in Tunisia have been closer to the pinnacle of political power and have had the necessary discretionary authority together with the overall managerial and implementation responsibility. Greater progress has been achieved in the case in which small bodies, technocratically rather than ideologically minded, have had the opportunity to initiate, push for and close the privatization deals, having at the same time the authority to engage the relevant public sector management layers, the capability to mobilize help from external consultants, commercial and investment banks, to market the SOEs undergoing divestiture through its access to a greater number of potential domestic or international private investors.

In this chapter we have focused on the rules and mechanisms that were set up for the management and the implementation of the public sector reform in Egypt and Tunisia. In the following one we will consider certain policy choices in which the approach of the Egyptian and the Tunisian government differed and show that privatization methods and instruments involving a smaller number of participants have tended to work much better than more inclusive ones.

VI. CHOICE OF SPECIFIC PRIVATIZATION STRATEGIES: OVERCOMING RESISTANCE AND ADDING MOMENTUM

In the previous chapters we considered the manner of launching the privatization programs in Egypt and Tunisia as well as the nature of the institutions involved in privatization decision-making: we found out that the restrictions on debates on the questions of "why? when? how?" and the greater involvement of the central government as well as designated specialized bodies with significant delegated power and high political protection facilitated the progress in public sector reform. In this chapter we will compare and contrast particular strategies adopted by the governments of the two countries in the process of implementation of the privatization programs - strategies concerning overcoming the constraints caused by redundant labor as an inevitable adverse consequence of privatization, as well as the choice of specific methods and instruments for divestiture which are more or less likely to produce desired results within a reasonable amount of time. Consistently with the general argument of this dissertation, I would argue that the greater the direct involvement of the central government in the efforts to overcome the societal constraints, the greater the focus on the specific problems arising from divestiture itself, the more restrictive the methods of divestiture it adopts, the greater the likelihood that societal opposition would be overcome and the greater the likelihood that privatization would not result in palliative measures designed just to shed the government's responsibility for the performance of the SOE but create opportunities for enhanced efficiency and viable operation in a market environment. To prove these claims in this chapter I will consider, first, the measures adopted by the governments to deal with redundant labor as a source of opposition, and second, on the methods and instruments through which the Egyptian and the Tunisian governments decided to carry out the transfer of state assets to private investors.

1. State Involvement in Overcoming Labor Resistance

Redundant labor represents a major issue for any government involved in privatization. In many countries undergoing structural adjustment governments had to delay or compromise on important reform measures for the fear of social and political unrest and increase of unemployment. Privatization, at least in the short run, definitely represents a threat to labor - first, it brings the necessary layoffs in the process of restructuring the former SOEs that the new private owners have to undertake. It also threatens the position of those employees who would not be subject to layoffs - parallel to the decrease in demands for labor, wages are likely to go down and working conditions to deteriorate, the privatized companies cease to be a part of the social security system providing not only pensions after retirement but also health insurance, housing and other perquisites to the employees. Second, in countries with developed labor movements the leaders of the labor unions are likely to feel that privatization and the consequent reduction of the labor force would reduce their power and prestige which are generally based on the wide membership in the unions and their capacity as a unitary actor. The new owners are likely to demand and take advantage of the change of ownership in order to increase profitability through enjoying maximum freedom in hiring and firing decisions, lack of government intervention in setting wages, determining required skill levels of the employees, vacations, overtime, working condition, etc. which will definitely hurt the interests of labor. That is why any government opting for privatization expects a certain degree of resistance, overt or covert, both from the labor union leaders and the rank and file. Third, additional problems for the privatizers would stem from the existing labor legislation, adopted in many developing countries by the first post-independence governments - this legislation has a clear pro-labor bias as a result of the influence of socialist doctrines or at least the desire to protect national labor from expatriate colonial employers. The magnitude of these problems is likely to be substantial - that is why it would be logical to expect that the better the understanding of their nature, the greater the resources committed by the central government to solve them, the more focused the government's measures on the specific pitfalls of the public sector reform and not general socio-economic issues, the greater the likelihood that the existing opposition will be countered without facing serious threats to the social and political order or having to compromise on the implementation of the program.

Let us briefly consider the labor situation with labor in the two countries. In **Egypt**, since the 1960s the SOEs have been the major instrument of providing guaranteed employment regardless of considerations of economic efficiently of the individual SOEs through a maximum employment policy at the expense of real wage growth even during the boom period of the 1970s. At the peak of the implementation of this policy (1974-1983) the public sector absorbed as much as 71 percent of the total workforce.[228] Nevertheless, the absorptive capacity of the SOEs could not be stretched beyond its limits and since the early 1980s unemployment has been on the rise; that is why, for instance, in 1990 when the total population amounted to 53.6 million and the labor force was 15.7

million, or 29.3 percent, 1.3 million people, or 8.3 percent, were officially considered to be jobless.[229] The monetary and fiscal reforms under ERSAP did not produce the growth rates which would be sufficient to generate the necessary employment opportunities in the private sector for these people. Making matters worse, compared to the situation in 1973, government employees saw their real wages by 1987 decline - by 45 percent for civil servants and by 10 percent for SOE workers, while real wages in the private sector had increased by 2 percent.[230]

According to Said El Naggar the restructuring of the public sector by itself was expected to result at the end of the 1980s roughly in 380,000 layoffs and expenses of LE 4,000 per worker for retraining or new job creation, or LE 1.5 billion, but the phasing out the public sector reform was expected to attenuate the shock to a bearable level as the necessary layoffs would not take place at once.[231] At a closer scrutiny Andrew Cao expected this number to be smaller: as privatization would touch only non-strategic public enterprises employing roughly 368,000 people, and the estimated redundant labor was around 30 percent, then only 122,680 people needed to be laid off on average; in an optimistic scenario this number would be 25 percent of the total employment, i.e.

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[228] Massoud Karshenas. *Structural Adjustment and Employment in the Middle East and North Africa*. Working Paper 9420. Economic Research Forum for the Arab Countries, Iran & Turkey. Cairo, 1995, p. 28

[229] This number might be as high as 2-3 million, or 13-20 percent of the workforce, with 86.9 percent newcomers to the labor market, i.e. graduates of secondary schools and universities, and 13.1 percent who had a job previously. Ibid., p. 5.

[230] Andrew Cao. *Privatization of SOEs in Egypt: Labor Issues and Prospects for Development*. Applied Research Series Feasibility Studies. International Privatization Group, Price Waterhouse. (no date), p. 3.

[231] *Structural Adjustment and Reform Policies in Egypt: Economic and Social Implications*. October 1993. United Nations Economic and Social Council. Economic and Social Commission for Western Asia. E/ESCWA/SED/1993/14, p. 52.

122,680, and in a pessimistic scenario - 50 percent, or 184,020.[232] In this context Cao concluded that "unemployment caused by redundancy is not as significant as it first seemed", suggested alternative approaches for the government strategy regarding privatization and estimated the costs for the taking care of the redundant labor, including the costs of retiring worker, estimating the cost of retiring the older redundant workers to be between LE 52,556,112 to LE 18,394,068 based on an average pension paid to the retirees of LE 1,428 per year (the average pension in Egypt in 1987/88), the cost of retraining of younger displaced workers, based on the current annual wages of these displaced workers, to be between LE 576 and LE 1,478 per worker and resulting in an unweighted average of LE 1,027 or for the entire group between LE 8,685,339 and 16,158,818.[233]

Other studies provide numbers of the same magnitude. "The World Bank and their SAL analysis estimated 120,000 public enterprise workers will lose their jobs due to reforms. The World Bank arrived at this number by estimating 10 percent of 1.2 million public enterprise workers will be displaced over 1.5 years."[234] Taking into account the effects of the agricultural reforms on displaced labor and using the World Bank one-third measure of labor redundancy of all 448,000 agricultural employees, 149,333 people will be affected by agriculture reforms, which makes a total of 269,333.[235] Besides, many

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[232] After adjustment of 13.8 percent for those at age 65 or older (20 percent adjustment for retirement at the age of 60) and adjustment for the estimated "ghost workers" of about 5 percent, adjustment for an assumed 50 percent successful relocation rate as a result of effective training, and assuming that the privatization of these SOEs takes place over a period of 4 years, the annual labor displacement would range between 7,867 and 16,914, or between 15 000 to 33 827 if the SOEs are privatized over a period of 2 years. Andrew Cao, op. cit., p. 5-6.
[233] Ibid., p. 7-8.
[234] Jeffrey H. Goode. *Economic Reform and Labor Displacement in Egypt*. USAID/CAIRO/EAS, February 29, 1993, p. 10.
[235] Ibid., p. 11.

workers have second jobs, unaccounted for but estimated for about 7-8 percent - "the number of workers estimated to be displaced by the economic reform program who will need alternative employment or government compensation [is about] 250,000 [which] in a $40 billion economy would not be a serious economic problem, particularly if it were spread over 3-4 years. However, a large political problem could develop if the GOE does not take effective action to alleviate the plight of the redundant labor. An angry group of educated, middle class, former public sector employees can cause instability if their problems are not dealt with effectively."[236]

The situation on the labor market in **Tunisia** was not much different at the time of the launch of the privatization program. As a result of the growth of the public sector in the 1960s and 1970s it accounted for 13,000 new jobs annually or half of all created in the economy; in the 1980s, however, unlike in Egypt, within the framework of economic liberalization employment shrunk significantly and the percentage of unemployment as a result of layoffs grew from 15 percent in 1980 to 48 percent in 1986. At the beginning of the 1990s Tunisia which had a population of about 9 million, had a workforce of about 2.5 million, 500,000 of whom were women. Unemployment is a particularly serious problem amounting officially to 14 percent of the workforce although some estimates point at another number - 20 percent, half of which are people under the age of 25.[237] Yet, at the end of the 1980s the SOEs employed about 156,000 people or approximately 13 percent of the total number of labor employed which is similar to the percentage of

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[236] Ibid., p. 14.

[237] Abt Associates. *Privatization in Tunisia. A Review of the Experience to Date.* Private Enterprise Promotion Project. Government of Tunisia/USAID, July 1995, p. 19.

workers employed in the non-strategic SOEs in Egypt considered for privatization.[238] With regard to the public sector in particular, CTAREPP has estimated the redundant workers to be around 20 percent of all employees; 26 out of 77 examined SOEs in 1990 needed to carry out layoffs.[239] Thus, it would be fair to say that even if the total percentage of employment in the public sector in Tunisia is lower than that in Egypt, the situation on the labor market in general was extremely serious and the challenges that the Tunisian government would face in this respect would not be any less disturbing.

In my research I did not come across studies of the feasibility of the divestiture of any part or the entire public sector based on the likelihood to have to deal with large numbers of laid off workers - apparently, all studies of this kind are kept classified by the government which is another aspect of the effort to limit the flow of information regarding privatization and prevent discussion of its pitfalls. The available data shows, however, that the threat of labor unrest as a result of layoffs did not prevent the government from implementing the privatization program. By 1989 out of 7509 employees in the privatized SOEs 3039 kept their jobs (40 percent), 2102 were transferred to other SOEs (28 percent), 324 benefited from anticipated retirement (4 percent) and only 103 were effectively laid off (1.5 percent).[240] Other available numbers, as of June 1990, show 6483 laid off or redirected employees out of 21,206 employed in the privatized companies; 46 percent of the labor force of these companies stayed on, 19 percent chose early retirement, 16 percent left voluntarily after receiving a severance package. (Table 6.1)

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[238] Jamal Saghir. Tunisia: Share Ownership and employee participation a priority // *Privatization Yearbook*, 1993, p. 233-234.

[239] Jamal Saghir, *Privatization in Tunisia*, p. 17.

Table 6.1 Effect of Privatization on Public Sector Employees in Tunisia (as of June 1990)[241]

Effects of privatization	**Number of affected workers**	**Percent of affected workers**
Transfer with the buyer	2,989	46.1
Early retirement	1,241	19.1
Voluntary departure with severance package	1,011	15.6
Anticipated retirement	515	8.0
Transfer to other activities	101	1.6
Layoffs	327	5.0
Retirement	291	4.5
Other	8	0.1
Total	6.483	100

Toward the mid-1995, however, most of the redundant labor of the privatized SOEs had more or less been taken care of through transfer to new positions or early retirement. Contrary to the expectations of pessimists, privatization itself did not produce massive layoffs and did not aggravate the situation on the labor market by boosting unemployment. On the contrary, a number of former SOEs were able to offer new employment opportunities after their privatization due to the inflow of newly invested capital (table 6.2). Although the number of new jobs was not great enough to seriously ease the unemployment situation in the country, it showed that privatization *per se* might not contribute to it too much.

[240] These numbers were provided in an interview with Ahmed Benghazi, a senior official at the Ministry of Planning.
[241] Jamal Saghir, *Privatization in Tunisia*, p. 21.

Table 6.2 Situation in Certain Privatized Enterprises in Tunisia (as of June 1992).[242]

Enterprises	Investment Million TD	Creation of Employment	Production
Marberie de Thala	1.7	54 jobs	+ 9%
Carnelages tunisiennes	-	+ 10%	+ 45%
SITEX	24.0	+ 10%	+ 22%
Comptoirs sfaxiens	1.0	+ 32%	+ 25%
SHTT (8 hotels)	28.8	+ 38%	+ 13%

In the following paragraphs we will consider how exactly the governments of Egypt and Tunisia dealt with the issue of redundant labor and the potential threat of labor protest in the process of implementation of their privatization programs.

a) privatization and state involvement in compensatory schemes for redundant labor

One approach in dealing with redundant labor would be to delegate to a specially designated body sufficient authority to manage the solution of the recurring problems; this approach may involve setting up a specific institution, which would function as one of the major agencies involved in privatization. On the other hand, markets may also be expected to take care of the existing bottlenecks in the labor market - if a portion of the employees of the former SOEs have been laid off, then they could be absorbed by other businesses; the necessary training or retraining for the new jobs would be their own responsibility and supply and demand would ultimately restore the equilibrium. I argue that the chances of success of privatization are greater when the government has a greater

[242] Source: Ahmed Benghazi, Ministry of Planning.

involvement in dealing with redundant labor and when it does not have unrealistic expectation that as the economy of the country moves toward liberalization the market would take care of the displaced workers. It is more likely that the immature market institutions and the lack of economic capacity to absorb the laid off employees without active government intervention would result in a failure of the labor market and the idea of relying on competitive markets instead of the state as a regulator of the economy might be discredited. The greater the attention that the government pays to organizing relief measures for the displaced workers, the greater the likelihood that the laid off workers would be taken care of and the separate problem of unemployment in the country would not affect the implementation of the privatization program. Such measures may involve provision of severance payments to the laid off workers, temporary preservation of benefits and social security and preparation of the workers for employment in other public or private companies through organizing and financing of training and retraining programs.

It is fair to say that the developing countries undergoing public sector reforms have generally tried to avoid the extremes of the possible alternative strategies. Practically all of them recognize the need for some kind of government support for the redirection of redundant labor admitting that markets are not strong enough to take care of this task by themselves; they also recognize the need for serious involvement of the individual employees, the labor unions and the private sector as the movement toward the market would hardly occur otherwise. The question is to what extent the state should get involved - whether it should just provide the general regulatory framework encouraging the redirection of the redundant labor or commit serious financial and institutional resources to this process, or maybe attempt to solve this problem within the framework of the solution of the general problem with unemployment in the economy. This is where we can find a difference between the strategies of the Egyptian and the Tunisian governments: the former set up a more liberal regulatory framework and tried to get private and societal actors involved while providing just nominal leadership, paying little attention to coordination of the efforts of these actors and relying primarily on foreign donors for financial support of the necessary measures; the latter, on the contrary, set up the necessary structures within the central government – it financed and managed the work itself. In Egypt the provision of the compensatory schemes have become the responsibility of the individual actors all of which have different preferences, hence, biased toward shifting the efforts in directions to the solutions of problems they are primarily affected by but not necessarily focusing on redundant labor from privatization; in Tunisia the centralized control over this activity has allowed to focus only on the provision of relief for displaced workers and not to attempt to use the limited available resources for solving general economic and social problems. As a result, the problem of redundant labor has been more directly addressed in Tunisia than in Egypt and labor issues have tended to be less of an obstacle in privatization for the Tunisian government.

The body set up to deal with the redundant labor in **Egypt** is the *Social Fund for Development* - "an autonomous institution established in 1991 by presidential decree No. 40 to create job opportunities, decrease the rate of unemployment, minimize the adverse effects of the ERSAP and protect low-income groups from its effects". It was designed to become the basis for the new social safety net replacing the old social security system which functioned through government agencies and SOEs - "to mobilize local and international resources to attend to issues that arise in the course of project execution; create temporary and permanent job opportunities through productive activities and services, support groups in need of assistance; promote community development, enhance organizational capabilities and upgrade technical and managerial performance".[243]

The SFD is an institution with a seemingly strong bureaucratic organization - the Prime Minister is the Chairman of its Board; it has an Executive Committee, a Secretariat and staff headed by a Managing Director. It is not, however, a government agency - the Prime Minister's leadership is just nominal like his leadership of the dozens of committees, bodies, etc. which he chairs enforcing the corporatist arrangements in the state. SFD is not a NGO *per se* either - it is supposed to coordinate the efforts of the government, the labor unions, foreign donors, etc. in providing relief for the "losers" from the adjustment process. The SFD programs are supposed through proactive income-generating and employment-creating activities to benefit mainly low-income groups, high school and university graduates in need for employment, Egyptians formerly employed in the Gulf region who had to leave the Gulf countries after the Iraqi invasion of Kuwait, women and people living in areas lacking basic services and infrastructure. Its programs are carried out through a number of sponsoring, implementing and executing agencies (ministries, public and private sector companies, NGOs, PVOs, etc.) - apart from coordination of the activities of these agencies, SFD itself provides loans and grants coming from individuals, international, regional and local organizations and sometimes from the government. Loans are supposed to be used only for productive purposes while grants can be committed to projects for development of the infrastructure particularly in

[243] *Social Fund for Development.* Annual Report, 1994, Cairo, p. xi.

poor rural and urban communities. So far, financing has mainly been provided by UNDP - an estimated US$3.5 million through funding a Preparatory Phase Project in 1990, a Bridging Phase Project in 1991 and a Main Phase Project in 1993. IFP has contributed the same amount as well as US$ 13.5 million of cost sharing for technical assistance activities. Up to 1994 for the programs of the SFD $650 million (LE2,204 million) were committed, including $311 million (48 percent) for loans and $339 million (52 percent) for grants.[244]

Let me briefly mention the specific programs with SFD involvement. The Public Works Program has focused on infrastructural projects mainly at a municipal level designed to provide comprehensive services for raising the living standards and to create a large number of job opportunities for the targeted population. The Community Development Program, particularly active in the Upper Egypt, targets the different NGOs involved in social safety activities and tries to motivate them to get involved in long-term development-oriented rather than in "relief-oriented" activities, such as 32 Eradication of Illiteracy projects carried out in all 26 governorates designed to cover 10,000 illiterate people and generate 500 job opportunities for unemployed graduates. The Enterprise Development Program is supposed to create long-term employment opportunities and income generation for the masses of unemployed people with different kinds of skills; it focuses primarily on small and micro enterprises which are considered as the most important source of work for these people and the major instrument for poverty alleviation. The Employment and Retraining Program is designed to target specifically the SOEs undergoing restructuring by helping the existing SOEs to retain and reassign the maximum number of workers as well as to create jobs for recent graduates without

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[244] Ibid., p. xiii.

sacrificing productivity and efficiency. In this context, the Fund has supported the establishment of a network of NGOs involved in group and individual counseling to SOE employees and unemployed graduates regarding job search strategies. The Institutional Development Program is supposed to cover these activities which require the parallel involvement of multiple national and international bodies. In 1991 it was expected that the SFD would also facilitate the social and economic reintegration of the Egyptians returning from Iraq and Kuwait in the Gulf crisis whose number was estimated to be between 350,000 and 500,000.[245]

It won't be fair not to admit that the SFD has had serious accomplishments for the period of its existence. With regard to assisting the laid off workers on re-employment, retraining and obtaining adequate compensation the SFD's activities included: "i) assisting five companies that voluntarily sought SFD support; ii) carrying out detailed studies of 12 companies to develop employment and retraining programs (case studies); iii) carrying out a strategic study for PE restructuring with emphasis on employment and retraining programs (about 45 companies) and determine options and funding for severance payments; v) evaluating the capacity and needs of training centers that could be instrumental in the implementation of training/retraining programs recommended by the restructuring studies; vi) carrying out training and retraining programs for approximately 1,670 workers with the provision of job opportunities for approximately 1,240 workers; and vii) developing manual and handbook regulations for the program".[246]

Nevertheless, the SFD's presence is not adequately felt at the level of holding companies and affiliated companies, i.e. where the real privatization work is done and

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[245] Ibid., p. xiii-xv.
[246] Ibid., p. 4-5.

where the needs for assistance are the greatest - in the HC for Engineering Industries, for instance, which has been one of the 6 HCs involved in privatization there has been practically no interaction with the SFD; most of the people in the HCs and ACs knows practically nothing about the Fund or consider it generally unable to do the job they would expect it to.[247] In designing it the government relied on it to solve the problem of laid off workers in the course of the public sector reform but placed this task in the context of the broader objective of reforming the entire social security system in the country and creating the backbone of the new social safety net. It is not a surprise, then, that this semi-autonomous apex agency, whose relationship to the existing public and private structures and own authority were not very clearly defined, could not accomplish the ambitious goals of its creators - it did not have the necessary bureaucratic capabilities; funding for its programs was provided on an *ad-hoc* basis mainly by foreign donors; its activities targeting the problem of unemployment and the results of the implementation of the privatization program were not effectively linked (this could have been done, for instance, by committing a fixed percentage of the proceeds from the sale of the SOEs to private investors to retraining and relocating workers through the SFD programs). The way the SFD was designed it might have worked better in an environment with mature market institutions and active societal actors but not in Egypt. In 1991 and 1992, for instance, it took 18 months just to set up its administration, offices and facilities and hire the necessary staff with proper skills and qualifications. Developing the programs themselves, negotiating with donors and following the different procedures and requirements for receiving financial resources further delayed the implementation of the

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[247] Interview of experts from IBTCI with the PU and executives from the HC for Engineering Industries, December 11, 1994.

SFD programs; there has been a divergence between the amount of resources committed and actually made available. The Gulf Crisis returnees, for instance, could not get any help from the Fund.

Like its Egyptian counterpart, the government of **Tunisia** also created an institution which was supposed to deal with the issue of redundant labor - the *Fund of Rationalization of the Employment in the Public Enterprises (FREEP)*, established in 1987. Unlike Egypt, this institution was not supposed to take on the general problem of unemployment in the country and in this context solve the problem of public sector reform layoffs - it was supposed to target the latter and in this way to attempt to help solve the general problem of unemployment only in a small segment of the labor market; the general problem might remain as acute as before but the progress in this specific segment would prevent unemployment from becoming a serious obstacle to the implementation of the public sector reform. FREEP has had the following tasks: 1) to assist in solution of the redundancy and pay the laid off workers as soon as possible; 2) to create a database of the personnel at the SOEs so as to be able to intervene effectively if necessary; 3) to study the profile, the salary range and the social perks of the redundant labor. These goals were to be achieved through providing compensation packages for the workers affected by the company downsizing, taking care of certain liabilities of the former SOEs, such as accumulated arrears to the social security system, pension funds, certain third party liabilities, providing professional expertise and technical assistance in accounting, auditing, management, organizational managerial development and advisory services on individual privatization transaction. Probably most important is the relief that FREEP has offered in the form of compensatory payments for the laid off employees in case no opportunities for alternative employment could be found - up to 1990 they received a severance package based on one monthly salary for each year of work with a cap of 12; in addition, they received a bonus of 30 percent. Starting in 1991, the severance payment was increased to 2 monthly salaries plus one for each year of work with no cap. In certain cases of downsizing the government came up with specific provisions regarding workers' compensation.[248]

What accounts for the effectiveness of FREEP is not just the focused and well defined rules for action but also the effective way of providing the necessary financing for the Fund. A part of the resources which would otherwise go for supporting the excessive labor in the Sows has been committed to FREEP. Periodic allocations have been made by the state - up to July 1991 they totaled US$80 million covering severance packages ($35 million), pension liabilities ($9.8 million) and outstanding debt of the Sows ($35.2 million).[249] The government also negotiated a line of credit with the World Bank for financing a retraining program of the laid off employees but in no way depended heavily on donor's contributions. Unlike the Egyptian SFD, the Tunisian FREEP has been since its inception a state institution: the government assumed all the responsibility for managing it; it aimed at providing uniform relief for all the laid off workers in the course of privatization only and did not attempt to solve larger problems for which there was no available capacity. The fund was set up under the auspices of the Ministry of Planning - the body with major responsibilities and delegated power for the implementation of the privatization program, and has become an effective instrument for

[248] Jamal Saghir, *Privatization in Tunisia*, p. 21
[249] Ibid., p. 17.

dissociating the general issue of unemployment from the short-term problems generated by the reform.

b) privatization and government/labor union relationship

We have to admit that there is at least one more aspect of the state/labor relationship which has implications for the outcome of the public sector reform - this is the issue of labor union resistance to the implementation of the government's program. As it was mentioned earlier, with the privatization of a number of SOEs and reduction of the workforce, the political weight of the labor unions, measured by the number of unionized workers and their organizational strength, is expected to decrease; hence, the leadership of these unions is likely to voice opposition to any government measure which could lead to such effects. Consistently with the general argument of this dissertation, I would argue that one could expect a country in which the government has managed to exercise greater control over the activities of the labor unions to achieve better results in the privatization program through better handling their resistance to the reform. Out of the two country cases, the country with the better record in privatization (Tunisia) is the one in which the government has managed to a greater extent to suppress voicing labor demands through the labor unions, so, I would argue that the differences in the state/labor relations in both country account for the different extent to which the government had to compromise the implementation of the privatization program.

In both Egypt and Tunisia the state/labor relationship has been known for the existing corporatist arrangements imposed by the governments during the years of socialism. In exchange for political control over the labor movement the government enacted labor legislation which had an inherent bias for the workers and against the employers, no matter public or private. The currently existing Labor Law 137 of 1981 in **Egypt** makes it very hard, especially for public sector employers, to fire workers - in case the management of a SOE decides to do that, it has to obtain the endorsement of a tripartite committee, then expect to go through an appeal process. The management would very rarely resort to firing an employee as the entire procedure may take years to resolve; in case the dismissal is found unsubstantiated, the SOE has to pay a compensation of 60 percent of up to 23 weekly wages, plus offer this employee an alternative job paying at least 75 percent of his/her previous salary.[250] Even if it is legal to liquidate a losing SOE, this is not always feasible as the liquidation requires parliamentary approval - for instance, in the case of the proposed liquidation of *Eastern Textiles Company,* whose debt was twice as much as its capital, the labor unions organized occupation of the company's premises; the workers' protests induced the People's Assembly later to block the liquidation decision of the government in spite of the enormous future burden for the budget.[251] Still, although at the turn of the 1990s the union leadership would not even discuss the idea of privatization, five years later it admits to the necessity to divest certain money-losing SOEs and to give the management some freedom in hire and fire decisions.[252] Nevertheless, the Egyptian labor unions are definitely an obstacle when it comes to fast and efficient privatization - they may not be

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[250] Jean Tesche and Sahar Tohamy. *Economic Liberalization and Privatization in Hungary and Egypt*. Working Paper 9410. Economic Research Forum for the Arab Countries, Iran and Turkey, p. 3-4.
[251] Ibid., p. 18-19.
[252] This was admitted by a number of HC executives involved in privatization - for instance, in the interview with Abdel-Karim Sabek, Chairman of the HC for Mining and Refractories. IBTCI, Organizing for Privatization. An Assessment of Organizational Effectiveness of the Egyptian

too vocal in resisting, but still, the government has to take them very seriously because of its fear that any antagonism might push them to ally closer with the main challengers to the government's authority - the Islamists. That is why the possibility of facilitating privatization by acting tough with or disregarding the potential opposition of the unions has not been seriously explored by the Egyptian government.

Labor legislation in **Tunisia** is also biased against the employers, public and private alike, which accounts for the very cautious approach of the government toward privatization. The 1966 Labor Code requires direct involvement and authorization of the Minister of Social Affairs and the General Inspectorate of Labor in case both public or private employers have to lay off employees as a result of restructuring and cost-cutting; the Minister of Social Affairs and a representative of the General Inspectorate of Labor take an active part in the consideration of every privatization transaction by CAREPP. Employers are required to compensate the laid off workers with substantial several payments which makes it often easier not to lay off the redundant workers at the detriment of performance. In fact, this often deters foreign investors from actively investing in the country, although the government has provided exemptions from most of the limitations of the labor laws for the multiple off-shore enterprises in Tunisia, i.e. the companies in which a substantial portion of the foreign investment is concentrated. As in Egypt, there have been instances of serious labor opposition to privatization - for instance, the privatization of the refrigerator company *Confort SA*. In the process of negotiation between the government and the potential private investor the workers organized a strike and occupied the premises of the company; the government found

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Privatization Program and the Associated Impact on the USAID Privatization Support Program and Structure. Special Report. Cairo, 1995, Annex 3-1.

itself forced to include representatives of the unions in the negotiations in spite of its general policies not to involve the employees in the privatization transactions with outside investors. To diffuse the resistance, the government also had to make arrangements with the private investors to retain as much of the workforce as possible - thus, the buyers of *Confort SA* kept 600 out of 817, i.e. 73 percent of the employees; in the case of *GIAB Flour Mill*, sold in 1990, all of the 151 workers kept their jobs.[253]

The relationship between the Tunisian government and the union leadership knows both periods of successful cooperation and strong opposition. Yet, in the 1990s it is yet too early to forget either Ahmed Ben Salah's efforts in the 1960s to make the UGTT give up its class-specific character and "put the organization at the service of the nation"[254] or the bloody clashes between workers on strike and the police as well as the imprisonment of the UGTT Secretary General Habib Achour by President Bourguiba in the 1970s when the government felt that the growing influence of the UGTT leaders and increased labor militancy represented a threat to its authority. Now, two decades later, although President Ben Ali included the UGTT in the National Pact of 1988 legitimizing the existing power arrangements, the labor movement has not yet regained the autonomy that it had in the past. "The UGTT is an active organization, with approximately 4000 local unions across the country. Membership is estimated by the union to be about 500 000 or 20 percent of the workforce. With regard to economic policies, the union verbally opposes many aspects of the Tunisian government's economic reform program, particularly the privatization program."[255] Nevertheless, as it was noted earlier, the government gives consideration to labor issues in the course of each privatization

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[253] Abt Associates. *Privatization in Tunisia: A Review of the Experience to Date*, p. 20.
[254] Eva Bellin, op. cit., p. 267.

transaction. Senior government officials keep a close relationship with the UGTT leadership but they do not let the union have any involvement in the decision-making process. As the UGTT has not reacted strongly to its exclusion from privatization, the government hasn't had to dedicate significant efforts and resources to counter its opposition.

One of the government's strategies for dealing with labor resistance in many countries is to try to provide special incentives for support for privatization schemes targeting broader ownership of the privatized SOEs through setting up employee stockowners associations and organizing employee/management buyouts. This strategy has been pursued, although to a different extent, by both the Egyptian and the Tunisian governments. This is already the issue of the major methods and instruments of divestiture and their contribution for the success of the privatization program which is addressed in the following paragraphs.

2. Principal's Corporate Control and Choice of Specific Methods of Privatization

Ownership of an enterprise can have more or less sophisticated forms and methods of organization: it may be concentrated or dispersed, there can be a single or multiple principals, there can be different instruments through which it is transferred, with different implications for the exercise of principal's control (e.g. direct control through management of the operations of the company or through asset allocation in the owner's portfolio). In this dissertation I will not attempt to take part in the theoretical debates on the issue of ownership and effective corporate control - I would only argue that to work properly, the more sophisticated forms and instruments of ownership require

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[255] Abt Associates. *Privatization in Tunisia: A Review of the Experience to Date*, p.p. 19-20.

a high degree of maturity of the market institutions. It has already been mentioned that the majority of the middle-income developing countries, including Egypt and Tunisia, lack such institutions - in this case, sophisticated forms of ownership are inefficient in terms of guaranteeing effective corporate control and maximizing shareholders' value due to high transaction costs. In this context I would argue that the simpler the existing forms of ownership, the greater the likelihood of efficient operation of the enterprise; it would be fair to say too that the public sector reform has greater chances of success if the government moves swiftly to enact simpler ownership schemes with clearly delineated rights and responsibilities among the shareholders as well as between the shareholders and the stakeholders. A more restrictive strategy of the government is likely to produce a greater concentration of post-privatization ownership which, given the lack of mature competitive markets, increases the likelihood of successful transfer of effective control to the new owners of the former SOEs.

The success or failure of the transfer of corporate control depends to a great extent on the methods and instruments of divestiture chosen by the government. No matter how much a private investor is committed to bringing change, if he/she does not obtain effective control over the enterprise the post-privatization performance is not likely to differ much from that of the SOE before as conflicts of interest will constrain the efficient performance of the enterprise. Governments can choose among multiple methods and instruments for divestiture which differ in sophistication and degree of state involvement at the implementation stage - they range from contracting out management services, enforcing regulatory contracts on operation in monopoly environment, to organizing an initial public offering on the stock exchange, selling the equity of the SOE, in part or entirely, to private investors on the basis of competitive bidding or direct negotiations, organizing an employee or management buyout, distributing vouchers among the citizens with which shares of stock of the SOE can be acquired directly or through investment funds, liquidating the entire SOE, etc. The choice among these methods depends on the government's priorities and objectives targeted by the privatization program – some of them are more consistent with more liberal privatization strategies (those involving a greater number of actors) while others are characteristic for a more restrictive approach to privatization (those in which there is less space for challenging the effective authority of the new principals).

It makes sense, in general, to sell the assets of the SOE "to those who will pay the highest price in a transparent and competitive bidding process... This price will reflect the future profitability of the enterprise under improved private management... This revenue can then be used by the government for the benefit of all citizens, for example, by retiring outstanding government debt... to provide compensation to those employees who lose their jobs due to privatization in the form of severance payments or retiring."[256] Speed is also an important objective - successful divestiture in a timely manner of more easily privatizable SOEs from the very beginning would give a momentum for the further implementation of the program and provide valuable financial resources for dealing with the difficulties that the government may run into. Another objective for the government is to present its privatization program as fair and equitable to all citizens - "privatization should not be seen as a way of benefiting special interest groups who are allowed to purchase state assets at bargain prices. If the public views privatization as merely a way of enriching a powerful minority, then public opposition is likely or delay or halt a privatization program even though the program achieves its objective of maximizing economic efficiency".[257] There are always tradeoffs and compromises when different and often contradictory objectives have to be pursued simultaneously. Most governments engaging in privatization usually opt for a case-by-case approach in the choice of the specific methods and instruments of divestiture taking into consideration the enterprise's individual characteristics, such as its size and financial condition, the industrial sector and the market structure, specific opportunities for maximizing the revenues from the sale, availability of suitable buyers with serious intentions about the future of the enterprise, availability of incentives for labor not to oppose the sale, etc. No matter what the tradeoffs are, however, they should not, nevertheless, compromise the necessity of creating conditions for competitiveness on the markets through relaxing and abolishing stifling controls and regulations. Although all individual decision should be made on a case-by-case approach taking into consideration the existing constraints and opportunities, the *pros* and *cons* for any of the alternative methods should be clear.

I argue that certain methods of divestiture are more consistent with centralized ownership and effective control of the new principal over the privatized SOE; other methods lead to more dispersed ownership and less effective. I also argue that the greater the involvement of the state in the process of asset transfer, the more centralized the pre- and post-privatization control over these assets, the greater the likelihood that privatization of the SOEs won't result in change of the window dressing only. On the one hand, the sale of an enterprise to a strategic investor, for instance, is a privatization technique which produces a more concentrated post-privatization ownership structure;

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[256] Ibid., p. 12-13.
[257] Robert Anderson, op. cit., p. 10.

and on the other hand, techniques, such as initial public offerings and employee/management buyouts produce more dispersed post-privatization ownership which strongly affects the effective control of the new principals. From this perspective, we will briefly consider the *pros* and *cons* of the possible methods of privatization.

In a *direct sale* the enterprise is sold to an investor or a consortium of investors, called strategic or core investors. The transactions is usually carried out through a competitive tender process or through direct negotiations; the enterprise is sold to the highest bidder. The strategic investor has experience, skills and access to fresh capital; he/she needs a majority share of the ownership so as to have full corporate control necessary for running the enterprise efficiently. This method is beneficial for the government as the transaction costs are low and the sale can generate revenue for the state; there is also a downside, however - if there is just one buyer, then he/she can be in a position to exercise pressure on the state for lower sale price; later the entire enterprise may be liquidated which could have serious political, social and economic implications.

In a direct sale to a strategic investor the government may divest all or just a part of the equity of the enterprise. From that investor's perspective a substantial majority interest in needed for obtaining operational control. Yet, if the government retains a minority interest it may be suspected of an intention to retain the opportunity for political intervention which limits competition and discourages potential investors from entering the industry. The governments in a number of countries in the MENA have opted for divestiture of a minority interest only - in this case, the incentives for entry for strategic investors are even lower as the likelihood that they would be able to exercise effective control over the operations of the enterprise is not great. This approach is usually applied to companies which are considered of strategic importance for the country and the government is reluctant to turn them entirely to private owners because of fears that it might lose a significant source of power. In any direct sale the government can require that the new owners do not resort to drastic layoffs, commit in advance additional capital to post-privatization restructuring, do not attempt to liquidate of change the profile of the enterprise for a certain period of time, etc. Each of these limitations on the operational freedom of the new owners makes it harder to achieve maximum profitability; hence the revenue from the sale for the government is likely to be limited.

One of the most widely used methods of divestiture, especially when the government chooses to privatize just a part of the equity of a SOE, is an *initial public offering (IPO)* on the stock exchange. On the one hand, IPOs allow the state to obtain fresh capital for the enterprise which is of great important for any restructuring that might follow; they also allow to maximize the revenue from the sale through the very competitive nature of the process; politically, IPOs involve minimum controversy as the threats of excessive foreign control over the privatized company are not too great. On the other hand, it may not be easy for the government to organize an IPO and obtain a favorable response from the investment community if the enterprise is in a very bad shape and requires serious restructuring. For an IPO to be successful, appropriate mechanisms and institutions are necessary, for instance, developed capital markets, advisory expertise, serious valuation capacities, investment banks and consulting companies for underwriting and technical assistance, etc.

Another method of privatization is the *employee and/or management takeover.* This is probably the politically easiest way for a government which is not responsible to a wide constituency to dispose of public sector assets within a short period of time - there is no need to search for a new investor to take over the company or engage in negotiations; practically all the parties involved have an interest to proceed with the sale (although the state may turn out to be the only one in a losing position); an immediate result of divestiture may be productivity increase as a result of the improvement of the relationship between the management and the employees. Different arrangements may be enacted as a result of the EMBO such as employee ownership (through employee stockowners associations holding all or a part of the stock), profit sharing (linking the workers' remuneration to the financial performance of the company), employee participation in the decision-making about the company, etc. Most frequently, however, it is the management who becomes either the effective or even the nominal owner of the privatized enterprise. No real sense of ownership is developed on the part of the workers as the idea of equity ownership is not very popular in most of the developing countries and the majority of employees prefer more conventional forms of savings. The workers' membership in an employee stockholder association (ESA) may be terminated together with the termination of the contract of employment of this worker; employees can hardly trade their shares of the enterprise. This method of privatization, as a rule, precludes the possibility that the government would obtain substantial revenue from the sale; it is also hard to carry out post-privatization restructuring if layoffs of employee-owners are necessary; there is hardly an opportunity for fresh capital infusion. The main problem, however, comes from the non-competitive nature of the transaction - the management does its best to prevent outside investors from participation in the privatization of the company and then effectively excludes the workers who may or may not be nominal shareholders; assets are grossly underpriced as a result of the conflict of interest in the management which, as a rule, remains the same after privatization. In most cases, "the employee ownership component of these privatizations had clear political aims. Broadening share ownership was the primary objective; and employee ownership was often coupled with efforts to stimulate other small scale ownership. Employee ownership was also described as a necessary component to facilitate the privatization... [when] there was a perceived or real threat of labor opposition to the privatization".[258] That is why in most countries privatization through ESOPs has been kept at levels "large enough to reduce potential labor opposition yet small enough not to give employees too much influence over managerial decision making."[259]

Another method targeting the widest possible ownership base is that of *voucher privatization*, used primarily in Eastern Europe and the former Soviet Union and not very popular in the MENA. Voucher are distributed among all the citizens for free or for a nominal fee; they can be used for purchasing shares of the SOEs offered for sale. As this method appears to be equitable (everybody seems to be getting his/her fair share of the public sector) and governments usually do not face opposition, it tends to generate sufficient public support for privatization program. On the flip side, the multitude of small investors can hardly supervise the management of the privatized enterprise, i.e. corporate control gets divorced from ownership which compromises the idea of maximization of shareholders' value.

There are other forms and methods of privatization as well as combinations of the ones just mentioned. Concerning the actual use of the privatization techniques it is worth

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[258] Ibid., p. 18.
[259] Ibid.

noting that the direct sale have been the most widely used one in the period 1988-1993 - in the developing countries there have been 1,846 such sales, i.e. 80 percent of all transactions bringing about 58 percent of the total from divestiture. IPOs account for only 12 percent of all transactions but have brought almost 39 percent of the revenue. (Table 6.3) [260] Different methods of privatization have had different popularity in different regions of the world. "Most East Asian economies have relatively well-developed domestic stock markets, resulting in a strong use of public offerings (60 percent of total privatization revenue for the region, 90 percent in South Asia)... In Eastern European countries, however, direct sales accounted for almost 70 percent of total privatization revenue." [261] (Table 6.4) In the following paragraphs we will consider the particular choices of privatization techniques made by the Egyptian and the Tunisian governments.

[260] L. Gray Cowan, op. cit., p. 21-22.
[261] Ibid., p. 23.

Table 6.3 Privatization Methods Used in the Developing World[262]

Method	1988	1989	1990	1991	1992	1993	Total
Concession	0	0	4	3	10	4	21
Direct sale	22	105	324	413	292	597	1,853
Joint Venture	0	0	0	4	9	12	25
Lease	0	0	3	6	3	12	24
Liquidation	0	0	1	4	0	9	14
M/EBO	1	2	5	9	10	35	62
IPO	5	10	18	59	94	94	280
Total	**28**	**117**	**355**	**498**	**518**	**763**	**2,279**

[262] Ibid., p. 43.

Table 6.4 Regional Breakdown of Privatization Methods in the Developing World, 1988-1993 ($ million)[263]

Technique	East Asia& Pacific	Europe & Central Asia	Latin America	MENA	South Asia	Sub-Saharan Africa	Total
Concession	215.0	22.0	1823.0	0	0	0	2060.0
Direct sale	6483.3	12337.3	33512.5	362.1	416.4	2349.9	55461.5
Joint Venture	50.2	63.4	1079.8	0	4.2	13.7	1211.3
Lease	7.5	0.6	37.8	0	0	0.5	46.4
Liquidation	0	0.2	70.1	0	0	0.5	70.8
E/MBO	23.8	21.7	89.8	1.5	39.3	0	176.1
IPO	9373.4	5505.7	18575.2	378.0	3099.6	26.4	36958.3
Total	**16153.2**	**17950.9**	**55188.2**	**741.6**	**3559.5**	**2391.0**	**95984.4**

a) Egypt's privatization - preference for wider ownership of the privatized former SOEs

In this dissertation argue that one of the reasons why the privatization program in Egypt has not been very successful is the choice of more inclusive instruments and methods of divestiture by the government in contrast to the more exclusive arrangements in Tunisia. "There is a general preference for share selling in the capital market instead of direct sales. In addition to the efforts done by PEO to push HCs to issue shares in the stock market, there is a general tendency to maximize the opportunity to sell to workers."[264] Tables 6.5, 6.6 and 6.7 give a fair idea of what were the methods used and the share of ownership divested in privatization of majority or minority interest.

[263] Ibid., p. 44.
[264] American Chamber of Commerce. *Privatization in Egypt*, p. 11-12.

Table 6.5 Privatization of Majority Interest in Egyptian Companies Controlled by the Central Government by the End of 1995[265]

	Company	Proceeds LE million	Share of ownership divested (%)	ESOP share (%)
1	Nasr Company for Bottling (Coca Cola)	322	100	0
2	Egyptian Bottling Company (PepsiCo)	156	100	0
3	Nasr Boiler and Steam Vessel	58	100	0
4	Engineering Design and Irrigation Projects (EDIPCO)	1	95	95
5	Cairo Sheraton Hotel	497	78	0
6	Wady Kumombo for Land Reclamation	51	95	95
7	Egyptian Akaria Company	30	95	95
8	Egyptian Dredging Company	13	95	95
9	Mechanical Evacuation	16	95	95
10	General Company for Land Reclamation	39	95	95
11	Arab Company for Land Reclamation	40	95	95
12	General Company for Reservoirs and Ground Water	17	95	95
13	Upper Egypt Dredging Company	5	95	95
14	Société Anonyme de Behera	33	95	95
	TOTAL	**1,278**		

[265] Ibid., annex 2 and 4.

Table 6.6 Privatization of Minority Interest in Egyptian Companies Controlled by the Central Government by the End of 1995[266]

	Company	Proceeds LE million	Share of ownership divested (%)	ESOP share (%)
1	Paints and Chemicals Industries	25.00	10	0
2	Alexandria Portland Cement	48.00	15	0
3	Amerya Cement	80.70	12.5	0
4	Tourah Portland Cement	210.74	27	5
5	El Nasr Clothing and Textiles Company	24.11	7.3	0
6	Egyptian Electro Cables	67.50	25	0
7	Extracted Oils Company	24.00	10	0
8	Alexandria for Pharmaceuticals and Chemicals	18.73	15	0
9	Nile for Pharmaceuticals and Chemicals	23.75	15	0
10	Uniarab Spinning and Weaving	9.40	n/a	0
11	Alexandria Spinning and Weaving	8.01	n/a	0
12	Misr Chemical Industries Company	81.60	n/a	0
	TOTAL	**579.06**		

[266] Ibid., annex 3 and 4.

Table 6.7 ESA Status in Egypt[267]

	Affiliated Company	percent ownership	sale value
1	Arab Bureau for Design & Engineering Consultation	40	0.88
2	Engineering Design & Irrigation Projects Consulting Co.	95	0.29
3	Wady Kom Umbo for Land Reclamation	95	15.00
4	General Co. for Land Reclamation	95	11.47
5	Egyptian Akkariea Co.	95	8.82
6	General Mechanical Excavation Co.	95	4.71
7	Upper Egypt Dredging	95	1.47
8	Egyptian Dredging Co.	95	3.82
9	Arab Co. for Land Reclamation	95	11.76
10	RIEGWA	95	5.00
11	Societe Anonyme de Behera	95	9.71
12	Helwan Portland Cement	5	5.88
13	Tourah Portland Cement	5	6.47
14	Ameriya Cement	10	12.71
15	Tourah Portland Cement	5	6.45
16	Eastern Co. for Tobacco	5	13.97
17	Egyptian Electro Cables	5	3.18
18	Extracted Oils Co. (Public First Tranche)	5	2.77
19	North Cairo Flower Mills	5	2.96
20	Alexandria for Pharmaceuticals & Chemicals	5	1.29
21	Nile for Pharmaceuticals & Chemicals	5	1.59
22	Helopolis for Housing & Development	9.5	5.82
	TOTAL		**127.34**

ESA in Partial Divestiture Co. Sales of Law 203 Companies Total - 50.75 million

[267] Source: PEO.

The Egyptian government declared at the early stages of the privatization program that the survival and the growth of the companies in the public sector would depend on the success in attracting strategic investors, mainly large multinational corporations which would try to benefit from the relatively low cost of production in Egypt and explore the opportunities for increased sales in the MENA and Europe - the benefits of their involvement include transfer of technology, superior marketing capacity, greater exposure to international markets, etc. Such investors were expected to prefer loss-making companies, especially with a monopoly position on the domestic market - through a better management they would turn them around and achieve substantial gains.

The government failed, however, to attract such investors - only 4 out of the 14 majority interest privatization involved a strategic investor, mainly foreign companies in consortia with local businessmen. "Whether it was the investment climate in Egypt, the alternative low production cost locations in [Eastern Europe]... or the condition of the public enterprises themselves, foreign investors did not appear as expected. Those that did, sought bargain prices, from the government's perspective, for the companies in which they expressed interest".[268] Local businessmen and consultants find a number of reasons for the failure: decision-makers who would still have socialist stereotypes might have been deterred by the apprehension that the monopoly position of many SOEs offered for sale would create an opportunity for the new owners to hurt domestic consumers; many SOEs faced the option of being acquired by companies-competitors in the same business and were reluctant to share with them sensitive information. A major reason for the failure was the fact that the potential buyers were not willing to pay much for the SOE offered for sale. Another important reason was the organization of the process itself - the government insisted on divestiture through tender auctions with sealed bids from the potential investors which seemed to be easier than targeting a potential buyer and conducting direct negotiations. "Not only did the privatization management feel that the bids were too low, but they feared the potential consequences if they were later shown that a sale was made well below the company's government appraisal value."[269] That is why the government decided to look for alternative methods for divestiture.

As it was difficult to sell SOEs for anything more than "fire-sale" prices, the Egyptian government decided to try restructuring first for those companies which were unlikely to attract serious investors' attention. Generally, this might not be a bad idea in another situation, however, the foreign donors, namely USAID, and the participating consulting companies opposed it as they believed that "restructuring could thwart the effort to establish an approach to get things going to build up the momentum of privatization. The HC chairmen could use restructuring to reform the SOEs, trying to secure better performance and, in the process, get trapped in a long term workout. USAID would have no confidence in their doing turnaround management with its money. Moreover, it could give the Chairmen a cushion of years to continue receiving cash flow and avoid facing up to the divestiture process. Delay would suit the chairmen and others who are either statists or who believe that there are delicate matters involved."[270]

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[268] Special Study for the Privatization Program in Egypt. Privatization in Egypt: A Review of Program Development and Current Status. Prepared by Paul O'Farrel, IBTCI, Cairo, June 5, 1995, p. 14.

[269] Ibid., p. 14.

[270] IBTCI. *Special Study for the Privatization Program in Egypt: Privatization Organizational Study*. Cairo 1995, p. 26.

In this situation, in 1992-1993 the government opted for the use of other methods of privatization. IPOs became a priority method of divestiture - up to 10 percent of the equity of the SOEs was offered on the stock market. This strategy was expected to receive support through the formation of large mutual funds which were expected to rapidly accumulate the savings of a large part of the population and create sufficient demand for equities. Unfortunately, these mutual funds did not become operational until the end of 1994. The main problem with this strategy, however, turned out to be the small percentage of shares offered for sale - this was not considered by the business community as real privatization but just as a way to pour additional funds into the inefficient public sector, so there wasn't much interest on the part of the investment community. As one of the leading USAID official involved in privatization pointed out, "It is very hard for an investor to commit seriously by acquiring only for 5-10 percent of the equity when he would have practically no say in the management of the company".[271] The events happening after the period studied in this dissertation (i.e. after 1995), confirmed that if the majority of the shares of a SOE was offered for sale through an IPO the interest of the business community would be much greater.[272]

Another preferred method was privatization through ESOPs - this happened in 10 out of the 14 majority interest divestitures and in most of the minority interest privatizations. "The ESOPs appear to have had a positive impact with labor, which is

[271] Interview with David Jessee, senior privatization officer at USAID, Cairo.
[272] "When the privatization agency announced this May that 10% of Medinet Nasr Housing was to be sold off, it looked like another unappetizing offer. Then, to the market's surprise, the government did an about-face and said that it would sell 75% of equity... for the first time in a public share offering, the control of a company was really going to the private sector. With the sale, the board was privatized and this now looks like an excellent little company. The stock was offered at EL 65 and is now trading at LE 91..." Egypt. Re-Evaluating the Stock Market. *Euromoney* / August 1996, p. 82.

necessary in building a pro-privatization consistency from within this traditional seat of hostility. The permanence, however, of the ESOPs will not be assured until the trust framework has been developed into a workable arrangement and their enterprises achieve competent management. Currently, the ESOP, as a mechanism meaningful to the worker, remains to be developed to the point at which the individual has access to and discretion over the disposition of his/her shares."[273]

Although exact numbers could not be obtained from the PEO, the transfer of ownership to ESAs practically did not result in a change of management. The state retained only 5-10 percent of the company stock but, in fact, it remained in a position to seriously influence major operational decisions. As it usually happens in cases of ESOPs, the management obtained a disproportionate edge over the regular employees, most of whom were less concerned with exercising their rights as shareholders than with maximizing their current income. In addition, privatization through ESOPs tends to be industry- and company-specific - it might have been possible, for instance, to transfer 95 percent of the equity and the management of a SOE in the HC for Public Works and Land Reclamation but this is hardly feasible, for instance, in the HC for Engineering Industries where highly specialized professional skills are needed for the management of capital-intensive production. That is why privatization efforts tended to stall in those enterprises in which the favorite techniques of the government did not work. "By the ingenious method of inventing ESAs and hurriedly creating more than 100 of them, [however,] GOE [was] able to claim that it [had] met the targets and commitments to ERSAP... But this compliance is merely in form, not in substance. It is likely to have very few positive

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[273] IBTCI. *Special Study for the Privatization Program in Egypt: Privatization Organizational Study*, p. 27-28.

effects on economic efficiency and growth. GOE, with or without the World Bank, will also have to work out a new privatization program."[274]

b) Tunisian privatization - focus on strategic investors

Unlike Egypt where ownership was transferred in most cases to a multitude of different investors through an IPO or to an ESA and where either the state kept a majority interest after the transaction or the management remained the same, in the process of implementation of the Tunisian privatization program control over the former SOEs was passed to a less dispersed body of shareholders and/or in the cases of IPOs the state did not keep a disproportionately large share of ownership. In Tunisia the state kept a stricter control over all privatization transactions making sure that effective corporate control was transferred to the new owners which, in most cases, meant non-involvement of the SOE-management on the part of the bidder and post-privatization management change.

The Tunisian government announced at the beginning of the public sector reform that the employees of the SOEs would have a priority for buying the shares of their enterprise at a reduced price - the government made this commitment with the purpose of reducing the potential opposition from labor. As the privatization program progressed and it became clear that employees of the SOEs would accept the major parameters of the reform, the government focused on those methods of divestiture which would limit the number of players involved in the transactions and create opportunities to decrease both transaction costs, maximize its revenue and effectively transfer control over the businesses to the new owners. So far, the majority of transactions have been carried out through a sale of assets to a strategic investors - *Abt Associates* have provided the

[274] *Interim Evaluation: Sector Policy Reform Program*, p. 42.

following numbers: 26 direct sales, 11 IPOs, 3 EMBO/ESOPs and one case in which the government reduced its share of assets through a merger.[275] (also table 6.7)

Table 6.8 Types of Buyers of SOEs and Revenue from Privatization in Tunisia[276]

Type of Investors	Proceeds (MD)	Percentage
Tunisian investors	191,043.50	79.81
Foreign Investors	38,615.50	16.13
Personnel	9,703.00	4.06
Total	**239,362.00**	**100.00**

In case the assets offered for sale constituted an autonomous operating unit the government has had the option to choose between a tender auction or an IPO. The conditions of the sale, formulated in a *cahier de charges* and covering such aspect as method of payment, specified the required technical and financial qualifications of the bidder, business plans, requirements for dealing with redundant labor, etc., together with a complete list of tangible and intangible assets appraised are prepared by the enterprise general management. The privatization of the *Societe des Statitons Thermales et des Eaux Minerales (SOSTEM)* in the first half of 1995 is a representative transaction of this kind. If the government did not receive any satisfactory bids, however, it engaged in direct negotiations with the highest bidding party until the deal was closed, as it happened in the case of *Confort SA*.

[275] Abt Associates. *Privatization in Tunisia. A Review of the Experience to Date*, p. 12. These numbers are as of an earlier date - that is why they do not add up to the number of transaction (58) given in Chapter I for the end of 1995.
[276] Source: General Directorate of Public Enterprises, Prime Ministry, Tunis.

An alternative strategy has involves selling of shares of the SOE on the Tunis Stock Exchange with the help of a brokerage house or an investment bank. In fact, these transactions have involved primarily sales of relatively small portions of the equity of the enterprise - only one IPO represented a widely distributed public share issue. "Several privatizations have been hybrid operations, transferring certain functions to the private sector with the government retaining control over public policy, or such functions as promotion, production, and importing/distribution. In some instances, the government sold the commercial real estate, manufacturing plant, or production facilities."[277] The state also took advantage of the opportunity to retain "a golden share" in a few of the privatized companies which gave it for a limited period of time the right "to veto a merger, split, voluntary liquidation, and any decision that may structurally change the nature of the enterprise activities, including the sale of one or more assets."[278]

As it was already mentioned, the government has announced early enough that it would favor EMBOs - thus, it intended to mitigate any adverse social impact of privatization and offer the employees incentives to accept the idea of profit sharing or other possible ESOP schemes. In fact, there have been only a few such transactions so far - for instance, the divestiture of a machinery company, *Societe Tunisienne d'Entrerien et de Construction Mechanique (STECM)*, and the sale of the fishing boats of the Office National de la Peche to the employees. Generally, ESOPs involved a minority share of the equity of the company (e.g. the case of the refrigerator manufacturer *Confort S.A.*). In the case of the textile manufacturer *SITEX,* in which the majority interest was acquired by the a foreign strategic investor, the government promised to sell a portion of the shares to

[277] Jamal Saghir, *Privatization in Tunisia*, p. 20
[278] Ibid.

the employees at a discount; later, however, when the company turned out to make substantial profits the government reneged on its promise and decided to sell the remaining shares at a full price to the majority holder.

So far, the Tunisian government has kept maximum control over the transaction process and chosen primarily those methods of divestiture which would transfer effective corporate control to the private investors; it has avoided diluting the ownership of the privatized SOEs and limited the opportunities for conflicts of interest. Thus, by getting actively involved in the demise of its own public sector and restricting post-privatization corporate control it played a successful role in moving the country in the direction of competitive markets.

VII. CONCLUSION

It is fair to say that the work done in political economy has not covered the region of the MENA as thoroughly as, for instance, Southeast Asia or Latin America. Students of this region have not had such a significant contribution to the study of the field in general as, for instance, those who have specialized on the two other regions already mentioned. Keeping this in mind, I have tried to contribute to filling in the existing gap and explore the explanatory power of politico-economic approaches in order to achieve a better understanding of the global phenomena with specific implications for the countries in the MENA.

There are a number of questions to which I have addressed in this dissertation. The first one is why focus on privatization. I have tried to show that it is a global phenomenon with serious implications for the rule of most of the governments in the region and for the life of millions of people. The study of the public sector reform is a multidisciplinary endeavor which provides excellent opportunities to better understand what the politics in these countries is about and in what direction its evolution is likely to be. Analyzing the causes of success or failure of privatization I have made an argument about the need to solve a "means versus ends" dilemma in economic reform. I have hypothesized that in middle income developing countries lacking democratic experience in policy making and implementation a reform-minded government has to resort to illiberal means (restrictive policies, increased centralized involvement and political control over the process) in order to achieve liberal ends (setting in motion competitive markets) if the other relevant actors do not consistently support the government's policies. The greater the presence of the central government in the formulation, adoption and implementation of the privatization program, the smaller the scope of the involvement of the other relevant actors, the smaller the likelihood that these actors would be able to push privatization in the direction of serving their own particularistic interests rather than serving the goals of the reform-minded government. My argument represents an elaboration of the notion of "the orthodox paradox" - the increasing importance of government involvement and strengthening of the state for the implementation of the reforms aimed at economic and political liberalization and has been built upon the understanding that non-market institutions, set up by the government, generate incentives to carry out the reform measures or impose constraints on certain antireform activities, in spite of the limited commitment on the part of the ruling elites, the weakness of the "winners" in the reform process who are supposed to provide support for the liberalization policies, and the resistance of the "losers", who have vested interests in the *status quo*. My argument is valid for the majority of the middle income countries which are considered with reference to their economy as “emerging markets” and with reference to politics as “non-democratic” – countries in which the political regimes are stable, their leaders have adopted pragmatic measures toward economic liberalization because of their inability to rule as they did before but the local elites have shown an ambivalent attitude toward the public sector as a comprehensive and radical reform might represent a threat to the existing political and social order.

The second question is why exactly Egypt and Tunisia have been chosen as country cases for comparative analysis of the privatization experience in support of the hypotheses of the dissertation. The two countries are good representatives for the middle-income developing world. It has been argued as well that there are substantial similarities in any aspect of their experience, especially in the 20th century. From a broader perspective, both have gone through struggle for independence earlier this century, both have experienced nationalist revolutions, both have undergone a period of socialism in which, in fact, their public sectors were born and brought to dominate any economic activities, both opted for gradual economic liberalization after the obvious failure of the socialist experiment, in both countries most of the economic choices have been politically motivated.

To prove my hypotheses I have considered a few alternative factors of the success and failure of privatization in these two countries – I have shown that their impact has been practically the same or bears no relevance for the analysis. Thus, a possible explanation of the different outcomes might be the initial difference in the public/private balance. In both cases, however, the initial starting points were practically the same: the public sector has been practically everywhere in the national economy for decades: in Egypt - since the nationalizations in 1960s, in Tunisia - since the destourian socialist experiment in the 1960s; in both cases the public sector expanded and grew even stronger after the socialist experiments were abandoned in the 1970s. Another alternative explanation of the different outcomes could be the different capacity of each of the states to implement its policies. In both cases, however, the initial state capacity has been practically the same - with large and interventionist bureaucracies capable of controlling a dominant public sector but hardly able to manage and regulate an economy working in a decentralized manner both in a liberalized or liberalizing environment. A possible source of the different outcomes could be a substantial difference in the strength of the private sector in the two countries, i.e. the societal actor who should come to replace the dominant public sector or facilitate its adaptation to a market environment. In both Egypt and Tunisia, however, in spite of the growth that the local private sector had experienced since the beginning of the 1970s, it has remained equally timid, inefficient, domestically oriented, dependent on its symbiotic relationship with the dominant public sector and on the political patronage of the state. Taking over divested enterprises requires substantial financial and managerial resources, ability to take a fair degree of risk and to assume all the responsibilities for the future of the enterprises - capabilities which were of short supply in both countries. One could look for an explanation in the impact of the external environment. In this respect both countries have more or less equally received a flow of resources from abroad which could create soft budget constraints and delay the adoption of radical measures in dealing with the existing economic problems. Although by some indicators one of these countries seems to have benefited more than the other (Egypt, for instance, from the Suez Canal fees for passage, petroleum product exports, external debt restructuring, and Tunisia from phosphate exports, expatriate workers remittances, strong tourist sector), one could hardly say that there are substantial differences in the availability of exogenously generated resource as a whole which could create possible or negative incentives for reform in Egypt or Tunisia.

The third question which deserves an answer is what exactly were the differences in the way the privatization programs were formulated, adopted and implemented which could account for the different outcomes in Egypt and Tunisia. First, the Egyptian government contributed to the delay of privatization by making its formulation and launching dependent on societal bargaining from the very start while the Tunisian government presented its program as "apolitical" and did not ask for more than support in the most general terms only. The comparative analysis of the experience of the two countries has shown that wide societal debates and input into the decision-making process can hardly facilitate the progress in the public sector reform. Success is more likely to be achieved if policy-making to a smaller extent depends on multiple actors with a stake in privatization and to a greater extent involves professional experts enjoying high political protection and isolated from interest group pressures. By presenting the leading privatization agency as an apolitical body and endowing it with significant power to shape privatization outcomes the government can make sure that the reform policies are formulated and implemented consistently and do not depend on the day-to-day fluctuations of the political balance of power in society. The delegation of specific discretionary authority to an "apolitical" body of experts can also prevent the government from cannibalizing its own privatization program as well as help achieve an equilibrium between the need for wide societal support for the government policies and the ability to autonomously formulate and carry out these policies.

Second, the comparative analysis of the experience of Egypt and Tunisia shows that the higher the level of authority at which important privatization decisions are taken, the higher the level of authority involved in operational control over policy implementation, the greater the likelihood that the public sector reform will not fall prey to particularistic pressures. The lower the level at which policy-makers, bureaucrats and public sector managers make privatization-related decisions, the greater the likelihood that these decisions would be influenced by the implementors, i.e. by their individual perspective, time horizons and prospects for career growth, immediate environment including higher- and lower-ranking bureaucrats, local leaders and societal actors with whom they are supposed to interact in implementing the government's policy in general. The country in which more than just general policy decisions regarding privatization were in the hands of the central government (Tunisia) turned out to be more successful than the country in which effective decision making was passed to the lower levels in the elaborate structure of the public business sector (Egypt). This is not to say that a decentralized structure of policy-making institutions would always formulate and carry out reform measures worse than a centralized one - for decentralization to work it would require mature market institutions and civil society, competitive environment, clearly defined roles and responsibilities which would minimize conflict of interest of the parties involved, i.e. requirements which are hardly met in the universe to which the two country cases belong.

Third, the comparative analysis of the experience of Egypt and Tunisia shows that the success or failure depends on the choice of the specific strategies for implementation of the public sector reform. The more active the central government's involvement in the efforts to address the pitfalls of privatization, to mitigate some of its adverse consequences and prevent the "losers" form voicing serious opposition, the lower the likelihood that the "losers" will be able to consolidate their positions and derail the reform. Thus, on the one hand, the Tunisian government which has been more successful in the implementation of its privatization program has been the one which has proactively addressed the issue of labor redundancy as a direct consequence of the public sector reform, designed and ran a centralized institution through which it managed to present this issue as separate from the more general issue of unemployment that plagued the country's economy; the Egyptian government, on the other hand, left it to the multiple NGOs, PVOs, foreign donors, etc. to deal collectively with the problem of worker layoffs, it could not avoid the threat of labor unrest and had to compromise on the speed and the effectiveness of the privatization program. Successful privatization also depends on the choice of specific methods and instruments through which the divestiture of the SOEs is carried out. A government that opts for more restrictive methods which, building up on its control over the transition process, maximize the control of the new principal over the privatized enterprise is more likely to achieve success in privatization; a government which allows for corporate control to be diluted and ownership on the privatized enterprises dispersed is less likely to see substantial motivation of the potential new owners to push for privatization, less likely to receive significant revenue from divestiture and more likely to allow the old SOE managers keep their seats after the transfer of ownership.

The final question which can be asked is to what extent the findings of this dissertation can be used as a basis for specific policy prescriptions. At a first glance, it may seem that the argument I have developed belongs to a textbook for "school of dictators" as it seems to justify strengthening authoritarian control. Although there may be certain justification for such a claim, I believe that the argument fits better in a textbook for "a school of reformers" as the ultimate goal of the policies under consideration is the movement from the state toward the market - as society as a whole is likely to be ultimately the major beneficiary of the reforms. In this sense, from a policy perspective one has to take into account the status quo and look for ways to push the reforms forward given the existing constraints and opportunities in the short run. The non-democratic nature of the regime, the lack of mature civil society and well articulated private interests should be considered as parameters in any policy makers' calculation of the *pros* and *cons* of the existing alternative strategies. Thus, the problem they face could be formulated as follows: given the non-democratic nature of the regime, the lack of mature markets and civil society, what could be done in order to foster market oriented reform? The most general answer would be that the government should adopt the role of the major driving force of the reform; further, it should be ready to substitute political control and effective management for what would be done by an efficient self-regulating market mechanism in a liberal environment. This political control should be comprehensive and encompass all stages of the formulation, adoption and implementation of the privatization program as well as the management of important related processes such as the political management of labor relations, channeling political discussions of the reform in a direction desirable for the government, etc. The specific policy prescriptions for reformist governments which logically follow from my analysis could be summarized as follows:

1. The central government should take its role of a principal of the public sector very seriously. The purpose of the reform is not just to get rid of the SOEs but to change the ownership structure so that they would be able to deliver more. Whether this will happen or not depends to the greatest extent on the government -it should act keeping in mind that it will continue to have a stake in the former SOEs after divestiture as it will have a claim to a part of their revenue through taxation. As in any process involving interaction between parties with opposing interests (e.g. sellers versus buyers), the top political leadership should make sure that its interests as a seller are protected well

enough and its shares of ownership in the SOEs are not offered for grabs to the multiple interested parties.

2. As the political status quo is not clearly in favor of the reform the government should engage in active political management of privatization in order to neutralize its potential active opponents. This can be done by depoliticization of privatization, i.e. by not letting it get on the political agenda. The necessary political support for it should be obtained only in very general terms in the context of support for the market oriented reforms as a whole.

3. Privatization should be shielded from passive opposition which is likely to be encountered from the various branches of the bureaucracy and the management of the SOEs. That is why a small groups of committed and well qualified professionals from different fields should be entrusted with the bulk of the work on the privatization program. These professionals should be presented as "apolitical" but at the same time their choices should be the ones which best serve the central government's and not anybody else's goals in the process of privatization – they should be granted all necessary political support from the central government and provided with the resources needed for efficient performance. They can also increase the leverage of the central government in its interaction with the opponents of privatization by offering it the opportunity to play a two-level game.

4. The process of privatization happens in an imperfect regulatory environment which bears the traces of the socialist past. At any stage of the formulation or the implementation of the program the opponents of the reform may try to use this in order to stall it. Seemingly friendly proposals or elaborate regulation through legislation may

serve a self defeating purpose as parliamentary discussions are likely to politicize the process and force the government to compromise on important aspects of it. Privatization regulation should be based primarily on acts of the executive which leave enough space for the discretion of professional managers of the process.

5. The government should keep a close eye on any privatization related decision, especially on decisions for sale of the individual SOEs. It should not allow SOE managers or mid- or low level bureaucrats to assume the principal's role in such transactions as that will have adverse consequences both for the revenue for the state coming from the divestiture itself as for the efficient operation of the future private enterprises. The number of intermediaries should be kept as low as possible if they cannot be eliminated.

6. The government should try to ensure strong post-privatization principal's control through appropriate methods of divestiture. The prescription is clear – opt for simpler forms of ownership as they are likely to work better in a non-liberal environment; on the contrary – sophisticated forms of ownership may bring conflict of interests which may preclude market competitiveness in the future.

7. The government should watch for unintended consequences of privatization and focus on what is related directly to divestiture and restructuring of the SOEs without trying to solve larger social or economic problems. With respect to labor redundancy the efforts should be directed to taking care of the employees who may lose their jobs in the process of restructuring after divestiture and not to solving this problem by dealing with the general problem of unemployment. Unemployment in general is a broader structural problem of the economy of the universe of countries under consideration and can hardly

be solved *en passant* in the course of the public sector reform; if this is attempted, a likely failure will put the success of the privatization program in question.

8. Reformers should keep in mind that simultaneous economic and political liberalization have had little success around the world. That is why strong government authority and a longer time horizon are vital requirements for the success of the market oriented reforms. It is much better to have a more restrictive or very slowly liberalizing political regime and a stable progress toward competitive markets than a prolonged period of economic crisis and/or stagnation which unavoidably coincides with the efforts to achieve a critical mass of consent among the elites necessary for the adoption and implementation of a coherent reform program. The success of the public sector reform even in a more restrictive political environment will definitely be more conducive to a subsequent move to a genuine political liberalization.

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ANNEX I – LIST OF INTERVIEWS

The following government officials, public sector managers, foreign consultants, representatives of the international financial institutions, potential investors in the SOEs undergoing privatization, labor and professional unions representatives and academics gave detailed interview in person at least once and in many cases two or three times during the dissertation fieldwork:

A. Egypt, July-November 1995

- Denis Sullivan - Professor, Northwestern University, Boston, MA
- Jamal Saghir - Officer, The World Bank, Washington, DC
- Fouad Abdul Wahhab Fahmy - Director, Public Enterprise Office
- Walid Essam - Officer, Public Enterprise Office
- Nour Youssef, Deputy Chairman, Holding Company for Engineering Industries
- David Jessee - Privatization Officer, USAID, Cairo
- Martine Leveque - Mission of the European Union, Cairo
- Kathleen Charles - *Arthur Andersen*, Cairo
- Adel El Ansari - Chief of Party, IBTCI, Cairo
- Paul O'Farrel - Consultant, IBTCI
- Mohammed Baher Ragui - Associate, IBTCI, Cairo
- Heba Handoussa - Director, Economic Research Forum, Cairo
- Amani Kandil - Professor, Cairo University
- Francoise Clement - Fellow, CEDEJ, Cairo
- Tim Sullivan - Chair, Department of Political Science, AUC
- Samir Ishak - Professor, Department of Political Science, AUC
- Mustapha Kamel As Sayyid - Professor, Department of Political Science, AUC

B. Tunisia, January-April 1996

- Jamal Saghir - former advisor to the Government of Tunisia on Privatization
- Mohamed Jebali - Director General of Public Enterprises, Prime Ministry, Tunis
- Ahmed Benghazi - Director, Privatization Unit, Ministry of Economic Development
- Asma Abbassi - Director, General Directorate of Participation, Ministry of Finance
- Najoua Khraief - Expert, Prime Ministry
- Younes Ferchiou - Former CEO and bidder in the privatization of *Ceramique Tunisienne*
- Riadh Farhat - Director, *Tunisair*
- Ali Nakai - Director of Studies, UTICA
- Mohamed Chandoul - Vice Chairman, UGTT
- Mohamed Abbassi - Former Privatization Officer, USAID, Tunis
- Fatma Felah - Program Officer, World Bank, Tunis
- David Pashock - Head of Economic Section, US Embassy - Tunis

- Mary-Jane Bushnack - Officer, USIS, Tunis
- Abderrahman Fendri - Consultant, Cabinet CAF/ABT Associates, Inc., Tunis
- Rich Ernst - Consultant, Abt Associates, Inc., Washington, DC
- Professor Ezzedine Larbi - Director of Studies, IFID
- Professor Azzam Mahjoub - Professor, Faculty of Economics, University of Tunis

In addition to the personal interviews in Egypt and Tunisia, the transcripts of interviews conducted by other people were used during the work on the dissertation:

- The chairmen of the six holding companies involved in the process of privatization. These very detailed interviews were conducted by consultants from IBTCI in the winter and spring of 1995 while working on a study, commissioned by USAID, on the progress in the implementation of the privatization program in Egypt.
- Representatives of the privatization units within the holding companies involved in privatization. These interviews were conducted by consultants from Arthur Andersen in Cairo.

ANNEX II – LIST OF THE HOLDING COMPANIES AND THEIR AFFILIATED COMPANIES IN EGYPT

I. Holding Company for Spinning, Weaving & Ready-Made Garments

1. Misr Spinning and Weaving Company (Mahallah El Kubra)
2. Damietta Spinning and Weaving Company
3. El Delta Spinning and Weaving Company
4. El Nasr Textiles and Garments Company
5. Dakahelia Spinning and Weaving Company
6. Cairo Dyeing and Finishing Company
7. El Sharkia Spinning and Weaving Company
8. El Sharkia Linen and Cotton Company
9. Arab Carpets and Upholstery Company
10. Misr Helwan Spinning and Weaving Company
11. Misr for Artificial Silk Company
12. Misr Company for the Manufacture of Spinning and Weaving Equipment
13. El Delta Cotton Ginning Company
14. Cairo Cotton Company
15. Haute Couture Company
16. Egyptian Manufactured Goods Sales Company
17. United and Egyptian for Trade and Distribution Company

II. Holding Company for Marketing of Consumer Goods

1. Omar Effendi Stores Company
2. Modern Garments Company (Adidas, Rivoli)
3. Garments and Consumer Products (Sednawi)
4. Port Said Cotton Export Company
5. El Wadi Cotton Ginning Company
6. Misr Spinning and Weaving Company
7. United Arab Spinning and Weaving Company
8. El Ahlia Spinning and Weaving Company
9. El Seouf Spinning and Weaving Company
10. El Nasr Spinning, Weaving and Dyeing Company
11. Alexandria Spinning and Weaving Company
12. Port Said Spinning and Weaving Company
13. Misr Sabaghi El Bida Company
14. Egyptiab Company Wool Spinning and Weaving Company
15. El Nasr Wool and Textiles Company
16. Misr Shibeen El Kom Spinning and Weaving Company
17, Modern Textiles Company

III. Holding Company for International Trade and Cotton

1. Misr Cotton Exports Company
2. Alexandria Commercial Company
3. Cotton Trading and Export Company
4. Eastern Cotton Company

5. El Nile Cotton Ginning Company
6. Misr Cotton Ginning Company
7. Arab Cotton Ginning Company
8. Arab Foreign Trade Company
9. Misr Foreign Trade Company
10. Misr Import and Export Company
11. El Nasr Import and export Company
12. The General Engineering Works Company
13. The Commercial Company for Wood
14. Egyptian Trading of Chemicals and Metals Company
15. Egyptian Electric Equipment Company
16. Upper Egypt Spinning and Weaving Company
17. General Jute Producing Company
18. Artificial Silk and Cotton Company
19. El Nasr Spinning, Weaving and Knitting Company
20. Cairo Silk Textiles Company
21. Cairo Garments and Knitting Company
22. Central Egypt Spinning and Weaving Company

<u>IV. Holding Company for Engineering Industries</u>

1. El Nasr Car Manufacturing Company
2. Misr Engineering and Equipment Company
3. The Manufacture of Transport Equipment Company
4. The Egyptian Company for the Manufacture of Light Transport
5. El Nasr Boilers Company
6. Arab Radio and Television company
7. El Nasr Television and Electronics Company
8. El Nasr Electric Appliances Company
9. Cairo Metal Products Company
10. Alexandria Metal Products Company
11. El Nasr Engineering and Refrigeration Company (Coldair)
12. El Delta Industrial Company (Ideal)
13. Egyptian Mechanical Precision Industries Company (Sabi)
14. Egyptian Electric Cables Company
15. El Nile General Engineering Company
16. Egyptian Pipes Company (Siegwart)
17. El Nasr Forging Company
18. Egyptian Copper Factories
19. Engineering and Transport Company
20. El Nasr Rubber Products Company
21. Abu Keer Fertilizers and Chemical Industries Company
22. Tractors and Engineering Company

<u>V. Holding Company for Metallic Industries</u>

1. Egyptian Iron and Steel Company
2. El Ahlia Metal Industries Company

3. General Metals Company
4. El Delta Steel Company
5. El Nasr Casting Company
6. Mist Aluminum Company
7. Egyptian Ferro Alloys Company
8. El Nasr Steel Pipes Manufacturing Company
9. Egyptian Railroad Equipment Company
10. Installations and Industrial Services Company
11. Engineering Projects Company for Steel Works (STEELCO)
12. Egyptian Metallic Construction Company (METALCO)
13. El Nasr Coke and Essential Materials Company
14. Ameriya Cement Company
15. Assiyut Cement Company
16. El Nile Maritime Transport Company
17. El Nile River Transport Company

VI. Holding Company for Mining, Refineries and Building Materials

1. Torra Portland Cement Company
2. Helwan Portland Cement Company
3. El Qawmiya Cement Production Company
4. Egyptian Gypsum and Quarries Company
5. General Mineral Wealth Company
6. Sands Bricks Company
7. Faraskour Wood and Building Materials Company
8. El Nasr Company for the Manufacture of Particle and Artificial Resin
9. Egyptian Thermal Industries Company
10. El Nasr Refineries and Ceramics Company
11. General Porcelain and Ceramic Company
12. El Nasr Company for Manufacture of Glass and Crystal
13. El Nasr Salines Company
14. Sinai Manganese Company
15. El Nasr Phosphate Company
16. Red Sea Phosphate Company
17. Egyptian Financial and Industrial Company
18. Abu Zaabal Fertilizers and Chemicals Company
19. Eastern Tobacco and Cigarettes Company

VII. Holding Company for Chemical Industries

1. Chemical Industries Company (KIMA)
2. El Nasr Fertilizers and Chemical Industries Company
3. Paper Manufacturing Company (VERTA)
4. General Paper Manufacturing Company
5. Middle East Paper Company
6. Moharem Industrial Print Shop
7. National Paper Company
8. El Nasr for Manufacture of Pencils and Graphite

9. Misr Chemical Industries Company
10. Paints and Chemicals Industries Company
11. Dyes and Chemicals Company
12. Egyptian Plastics and Electricity Company
13. National Plastics Company
14. General Battery Company
15. El Nile Matches and Houses Company
16. Kafr El Zayat pesticide Company
17. Industrial gases Company
18. Tanta Flax and Oils Company
19. Egyptian Leather Industries Company
20. El Nasr Tanning Company
21. Egyptian Shoes Company (BATA)
22. General Trade and Chemicals Company
23. Alexandria Portland Cement Company
24. Kanaltex Flooring Company

VIII. Holding Company for Pharmaceutical and Medical Equipment
1. Memphis Chemical Company
2. Development of Chemical Industries Company
3. El Nasr Pharmaceutical Chemicals Company
4. El Kahira Pharmaceutical Company
5. Arab Pharmaceutical Company
6. Alexandria Pharmaceutical Company
7. El Nile Pharmaceutical Company
8. Misr Pharmaceutical Preparations Company
9. El Goumhouriya Preparations Company
10. Egyptian Pharmaceutical Trading Company
11. Medical Packaging Company

IX. Holding Company for the Production & Distribution of Food Commodities
1. Egyptian Sugar and Distillation Company
2. Egyptian Salt and Soda Company
3. Tanta Oil and Soap Company
4. Cairo Oil and Soap Company
5. Alexandria Oil and Soap Company
6. Extracted Oils Company
7. Misr Oil and Soap Company
8. El Nile Oil and Soap Company
9. Egyptian Bottling Company (Pepsi Cola)
10. El Nasr Bottling Company (Coca Cola)
11. Edfina Preserved Food Company
12. El Nasr Preserved Food Company
13. Egyptian Starch, Yeast and Detergents Company
14. Egyptian Starch and Glucose Company
15. Misr Food and Dairies Company

16. Egyptian Food Company (Biscomisr)
17. Alexandria Confectionery and Chocolate Company
18. Egyptian Company for the Packaging and Distribution of Food Commodities
19. General Company for Wholesale Trading of Food Commodities
20. Egyptian Company for Wholesale Trading of Food Commodities
21. Egyptian Fish Marketing Company
22. El Nasr Dehydration of Agriculture Products Company
23. Central Egypt Flour Mills Company
24. North Cairo Flour Mills Company

<u>X. Holding Company for Flour Mills and Rice Mills</u>

1. Gharbia Rice Mills Company
2. Sharkia Rice Mills Company
3. Kafr El Sheik Rice Mills Company
4. Dakhelia Rice Mills Company
5. Damieta and Belkis Rice Mills Company
6. Behira Rice Mills Company
7. Rashid Rice Mills Company
8. Alexandria Rice Mills Company
9. Rice Marketing Company
10. South Cairo Flour Mills Company
11. General Company for Greater Cairo Bakeries
12. East Delta Flour Mills Company
13. Central and West Delta Flour Mills Company
14. Upper Egypt Flour Mills Company
15. North Alexandria Flour Mills Company
16. South Alexandria Flour Mills Company
17. General Silos and Storage Company
18. El Nile Cooperatives Company
19. Al Ahram Cooperatives Company
20. Alexandria Cooperatives Company

<u>XI. Holding Company for Development of Agriculture and Animal Wealth</u>

1. Mariut Agriculture Company
2. North El Tahrir Agricultural Company
3. South El Tahrir Agricultural Company
4. General Egyptian Agricultural Company
5. Ramses Agricultural Company
6. El Noubaria Seed Production Company
7. Production and Agricultural Services Company
8. El Noubaria Agricultural Engineering and Mechanization Company
9. West Noubaria Agricultural Company (under liquidation)
10. Central Delta Agricultural Company (under liquidation)
11. Upper Egypt Agricultural Company (under liquidation)
12. El Nahda Agricultural Company (under liquidation)
13. San El Hagar Agricultural Company

14. Egyptian Meat and Milk Production Company
15. United Poultry Production Company
16. Egyptiab Meat, Poultry and Food Supplies Company
17. Alexandria Ice and Refrigeration Company
18. El Wadi Company for the Export of Agricultural Crops (under liquidation)
19. El Nile Company for the export of Agricultural Crops (under liquidation)
20. Egyptian Cotton Compression Company

XII. Holding Company for Public Works and Land Reclamation

1. Behira Company
2. Egyptian Akaria Company
3. General Land Reclamation Company
4. Wady Kom Ombo land Reclamation Company
5. Arab Land Reclamation Company
6. General Ground Water Research Company
7. Egyptian Dredging Company
8. Upper Egypt Dredging Company
9. Irrigation Company for Public Works
10. Egyptian Irrigation, Drainage and Construction Company
11. High Dam Company for Civil Works
12. Engineering Design and Irrigation Projects Consultations Office
13. Arab Bureau for Construction and Engineering Consultations

XIII. Holding Company for Building and Rehabilitation

1. Misr Reinforced Cement Company
2. Egyptian Contracting Company (Mokhtar Ibrahim)
3. El Nasr General Contracting Company (Hassan Allam)
4. Egyptian Contracting Company (El Abd)
5. El Nile General Concrete Company
6. Atlas General Contracting Company
7. Upper Egypt General Contracting Company
8. El Mahmoudiya General Contracting Company
9. Giza General Contracting Company
10. El Nasr Building and Construction Company (EGYCO)
11. Red Sea General Contracting Company
12. El Nasr Public Utilities and Installations Company
13. Egyptian General Building Company
14. Prefabricated Houses Company
15. Arab Foundation Company (VIBRO)
16. El Wadi El Gedeed Contracting Company
17. El Nile General Bridges Company
18. El Nile General Contracting Company
19. Arab General Contracting Company
20. Alexandria General Contracting Company
21. General Contracting Company for Sanitary Installations
22. Cairo for Public Building and Houses

23. El Maadi Housing and Rehabilitation Company
24. Masr el Gedida Housing and Rehabilitation Company
25. Madinet Nasr Housing and Rehabilitation Company
26. El Shams Housing and Rehabilitation Company

<u>XIV. Holding Company for Construction and Energy Distribution</u>

1. Cairo Electricity Distribution Company
2. Alexandria Electricity Distribution Company
3. Canal Electricity Distribution Company
4. Behira Electricity Distribution Company
5. North Upper Egypt Electricity Distribution Company
6. South Upper Egypt Electricity Distribution Company
7. North Delta Electricity Distribution Company
8. South Delta Electricity Distribution Company
9. The General Company for Electrical Projects
10. Misr Electrical and Mechanical Projects Company
11. High Dam Electrical and Industrial Projects Company
12. El Nasr Electrical Transformers Company
13. Industrial and Engineering Company
14. Cairo General Contracting Company
15. El Nasr Civil Contracting Company
16. The General Construction Company

<u>XV. Holding Company for Housing, Cinema and Tourism</u>

1. Rehabilitation and Low-Cost Housing Company
2. El Nasr Rehabilitation and Housing Company
3. Mamoura Rehabilitation and Housing Company
4. Cairo Rehabilitation and Housing Company
5. United Housing Company
6. Grand Hotel Company
7. Misr Hotels Company
8. Egyptian Hotel Company
9. Egyptian General Company for Tourism and Hotels
10. Misr Travel Company
11. Misr Sound and Light Company
12. Misr Cinema and Film Distribution Company
13. Misr Studios and Film Producing Company
14. El Gomhouria General Contracting Company
15. Canal General Contracting Company
16. El Delta General Contracting Company
17. Egyptian Prefabricated Houses Company
18. Egyptian Wood Manufacturing Company
19. Egyptian Vineyards Company
20. Al Ahram Beverages Company
21. Misr Duty Free Company

XVI. Holding Company for Land Transport

1. The General Nile East Delta Bus Company
2. The General Nile West Delta Bus Company
3. The General Nile Central Delta Bus Company
4. The General Nile Upper Egypt Bus Company
5. The General Nile Company for Direct Transport
6. The General Nile Company for Transport Work
7. The General Nile Company for Auto Repair
8. El Canal Shipping Agencies Company
9. Port Said Containers Company
10. Suez Shipping and Automatic Unloading Company
11. Damietta Containers Company
12. Misr Company for Automotive Parts

XVII. Holding Company for Maritime Transport

1. Egyptian Navigation Company
2. Egyptian Shipbuilding and Repair Company
3. Egyptian Marine Supply and Contracting Company
4. Alexandria Containers Company
5. United Arab Shipping and Unloading Company
6. Alexandria Shipping Agencies Company
7. Egyptian Maritime Transport Company
8. Egyptian General Warehouse Company
9. El Nile Heavy Transport Company
10. El Nile Goods Transport Company
11. El Nile for Land Transport
12. Alexandria Shipyards Company
13. Egyptian General Shipyards Workshops

ANNEX III – LIST OF THE SOEs IN TUNISIA

Presidency of the Republic
Tunisian Institute of Strategic Studies

Prime Ministry
Official Printing House of the Tunisian Republic

Secretariat of State for Information
Tunisian Agency of Foreign Communication
Agency Tunis-Afrique Press
New Society of Publishing, Press and Editing

Secretariat of State for Scientific and Technological Research
Institute of Arid Areas
Regional Institute for Information Sciences and Telecommunications
National Center of Nuclear Science and Technologies

Secretariat of State for Women's and Family Matters
Center for Research, Studies, Documentation and Information on Women

Secretariat of State for Computerization
National Center for Computerization

Ministry of the Interior
Office of Housing for the Ministry of the Interior Officers on Active Duty
Municipal Agency for Management
Municipal Agency for Treatment and Valuation of (dechets)
Nabeul Fair Company
Regional Company for Forrest Products of the Jendouba Governorate
Tourist and Hotel Company Africanova-Korba
Tourist and Hotel Company of the Northwest
Bizerte National Fair Company
Bank for Credit and Support of the Local Communities
National Office for Civil Defense

Ministry of Justice
Office of Housing of the Magistrates and the Ministry of Justice Personnel

Ministry of National Defense
Development Office for Rgim Maatoug
National Center for Teledetection
Office for Military Housing

Ministry of International Cooperation and Foreign Investment

Tunisian Agency for Technical Cooperation
Agency for Promotion of the Foreign Investment

Ministry of Finance
Banque Nationale Agricole
Societe Tunisienne de Banque
Banque de l'Habitat
Banque du Sud
Union Internationale des Banques
Banque de Developpement Economique de Tunisie
Banque Nationale de Developpement Touristique
Societe Tunisienne d'Assurance et de Reassurance
Societe Tunisienne d'Assurance Lloyd
Societe Tunisienne de Reassurance
Compagnie Tunisienne pour l'Assurance du Commerce Exterieur
Regie Nationale de Tabac et des Allumettes
Manufacture de Tabac de Kairouan
Regie des Alcools
Centre Informatique du Ministere du Plan et des Finances
Office of Housing for the Employees of the Ministry of Finance

Ministry of the Industry
Les Ciments Artificiels Tunisiens
Les Ciments de Bizerte
Societe de Ciments de Gabes
Les Ciments d'Oum Khelil
Societe des Ciments d'Enfidha
Les Ciments de Jebel Ouest
Societe Tunisienne de Chaux
El Anabib
El Bouniane
Societe Tunisienne des Industries des Materieux de Construction
Centre Technique des Industries des Materieux de Construction de la Ceramique et du Verre
Societe Tunisienne de Sederurgie
Societe Tunisienne de Construction et de Reparations Mechaniques et navales
Centre Technique des Industries Mechaniques et Electriques
Societe Nationale de Cellulose et de Papier Alfa
Societe Generale des Industries Textiles
Centre Technique de Textile
Centre National du Cuir et de la Chaussure
Agence de Promotion de l'Industrie
Agence Fonciere Industrielle
Institut National de la Normalisation et de la Propriete Industrielle
Laboratoire Central de'Analyses et d'Essais
Compagnie de Phosphates de Gafsa

Societe du Djebel Djerissa
Office National de Mines
Groupe Chimique Tunisien
Raffinerie Tunisienne de Souffre
Societe Tunisienne de l'Electricite et du Gaz
Entreprise Tunisienne des Activites Petrolieres
Societe Tunisienne des Industries de Raffinage
Societe Nationale de Distribution de Petrole
Compagnie de Transport par Pipe-Line au Sahara
Compagnie Tunisienne de Forage
Societe de Stockage d'Hydrocarbure et de Transport par Pipe-Line
Societe Tunisienne du Gazoduc Transtunisien
Societe Industrielle d'Appareillage et de Materiels Electriques
Agence de Maitrise de l'Energie
Societe Tunisienne du Sucre
Complexe Sucrier de Tunisie
Societe Tunisienne d'Industrie Meuniere

<u>Ministere du Commerce</u>
Office du Commerce de la Tunisie
Ellouhoum
Societe AGRICULTOR
Evolution Economique
Societe Tunisienne d'Import et d'Export du Centre
Batiment
Societe Tunisienne des Marches de Gros
Centre de Promotion des Exportations

<u>Ministere du Developpement Economique</u>
Institut National des Statistiques
Institut d'Economie Quantitative Bach Hamba
Commissariat General du Developpement Regional
Office du Developpement du Sud
Office du Developpement du Nord-Ouest

<u>Ministere de l'Agriculture</u>
Office des Terres Domaniales
Office de l'Elevage et de Paturages
Office de Developpement Sylvo-Pastoral du Nord-Ouest
Office des Cereales
Office National de l'Huile
Office Nationale des Peches
Office National de la Vigne
Agence de la Reforme Agraire des Perimetres Publics Irrigues
Agence de Promotion des Investissements Agricoles
Centre National des Etudes Agricoles

Societe Nationale d'Exploitation et de Distribution des Eaux
Societe Nationale de Motoculture
Societe Nationale de la Protection des Vegetaux
Societe d'Exploitation du Canal et des Adductions des Eaux du Nord
Societe Tunisienne d'Aviculture
Societe GRAFOUPAST
Societe de Distribution des Produits de la Mer
Fondation Nationale de l'Amelioration de la Race Chevaline
Agence des Ponts et des Installations de Peches

Ministere de l'Equipement et de l'Habitat
Office de la Topographie et de la Cartographie
Agence Fonciere d'Habitation
Societe Nationale Immobiliere de Tunisie
Societe Nationale Immobiliere du Nord
Societe Nationale Immobiliere du Sud
Societe Nationale Immobiliere du Centre
Agence de Rehabilitation et de Renovation Urbaine
Societe Generale d'Entreprises de Materiel et de Travaux
Societe Immobiliere et de Gestion EL ISKEN
Societe Regionale des Travaux Publics
Societe d'Etudes et de Promotion de Tunis Sud
Societe Immobiliere de Tunisie

Ministere de l'Environnement et de l'Amenagement du Territoire
Agence Nationale de Protection de l'Environnement
Office National de l'Assainissement
Agence de Protection et d'Amenagement du Littoral

Ministere du Transport
Societe Tunisienne de l'Air
Societe Nationale des Chemins de Fer Tunisiens
Societe du Metro Leger de Tunis
Compagnie Tunisienne de Navigation
Office des Ports Nationaux Tunisiens
Office des Ports Aeriens de Tunisie
Societe Nationale de Transport
Societe Nationale de Transport Rural et Interurbain
Societe de Transport de Marchandises
Societe Regionale de Transport de Sfax
Societe de Transport du Sahel
Societe Regionale de Transport du Gouvernorat de Bizerte
Societe Regionale de Transport du Gouvernorat de Beja
Societe Regionale de Transport du Gouvernorat de Jendouba
Societe Regionale de Transport du Gouvernorat de Kef
Societe Regionale de Transport du Gouvernorat de Nabeul

Societe Regionale de Transport du Gouvernorat de Kairouan
Societe Regionale de Transport du Gouvernorat de Kasserine
Societe Regionale de Transport du Gouvernorat de Gafsa
Societe Regionale de Transport du Gouvernorat de Gabes
Societe Regionale de Transport du Gouvernorat de Medenine
Centre d'Etudes et de Recherches Aeronautiques
Societe de Travaux Ferroviaires
Societe de Transport Touristique TRANSTOURS
Societe Immobiliere et Touristique de Transport
Agence de Visite Technique des Vehicules

Ministere du Tourisme et de l"Artisanat
Office National du Tourisme Tunisien
Agence Fonciere Touristique
Montazah Gammarth SA (ex SHTT)
Societe de Gestion des Hotels et Restaurants d'Application
Societe Publipromotion
Office National de l'Artisanat
Societe de Production des Articles de l'Artisanat
Office du Thermalisme
Societe Promogolf Monastir
Societe Promogolf Hammamet
Centre de Reeducation Fonctionnelle de Jebel Ouest

Ministere des Communications
Societe Tunisienne d'Entreprises des Telecommunications
Centre des Etudes et des Recherches de Telecommunications
Office National de Telediffusion
Office National de Telecommunication

Ministere de l'Education
Centre National Pedagogique
Office des Logements des Personnels du Ministere de l'Education Nationale

Ministere de l'Enseignement Superieur
Cite des Sciences de Tunis

Ministere de la Culture
Maison Tunisienne d'Edition
Academie Tunisienne des Sciences, des Lettres et des Arts Beit El Hikma
Agence Nationale de Mise en Valeur et d'Exploitation du Patrimoine Archeologique et Historique
Theatre National
Organisme Tunisien de Protection des Droits d'Auteur

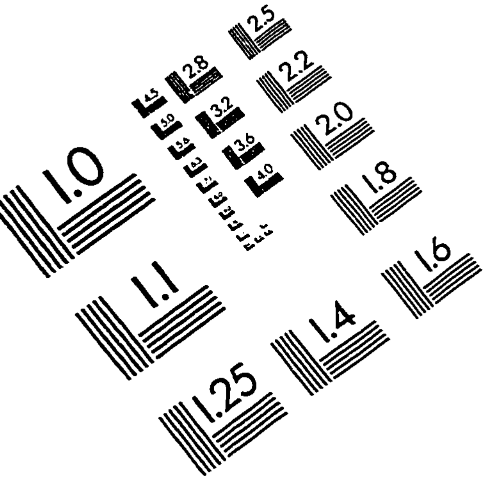
Ministere de la Sante Publique
Pharmacie Centrale de Tunisie
Societe des Industries Pharmaceutiques de Tunisie
Office National de la Famille et de la Population
Hopital Hedi Chaker - Sfax
Hopital SAHLOUL - Sousse
Hopital Mongi Slim - La Marsa
Centre Informatique du Ministere de la Sante Publique
Centre de Maternite et de Neonatolgie
Hopital Habib Bourguiba
Hopital d'Enfants
Institut Hedi Rais d'Ophtalmolgie
Institut National de Nutrition et de Tecnologie Alimentaire
Institut Salah Azaiez
Institut National de Neurologie
Institut Mohamed Kassab d'Orthopedie Kssar Said
Hopital Aziza Othmana
Hopital Habib Thameur
Hopital Abderrahmane Mami de Pneumophitisiologie
Hopital Razi
Hopital Fattouma Bourguiba
Hopital Charles Nicole de Tunis
Hopital La Rabta de Tunis
Hopital Farhat Hachet de Sousse
Institut Pasteur de Tunis

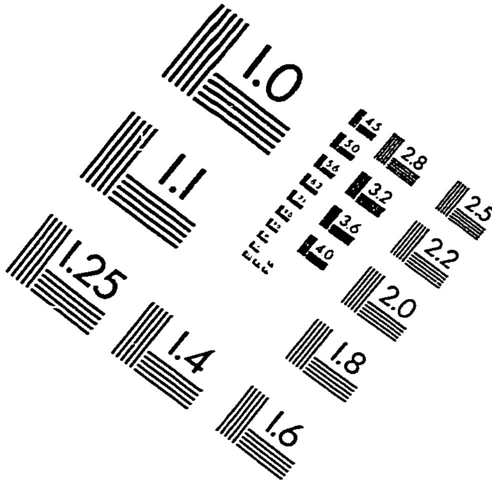
Ministere des Affaires Sociales
Caisse Nationale de Securite Sociale
Caisse Nationale de Retraite et de Prevoyance Sociale
Caisse de Retraite du Personnel des Services Publics, de l'Electricite de Gaz et des Transports
Societe de Promotion des Logements Sociaux
Office des Tunisiens a l'Etranger

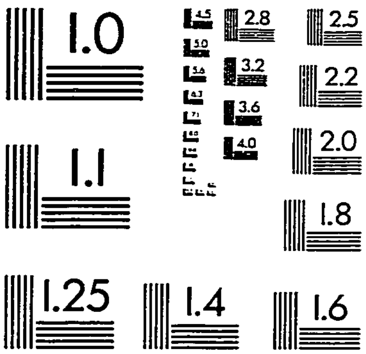
Ministere de la Formation Professionelle et de l'Emploi
Agence Tunisienne de la Formation Professionelle
Agence Tunisienne de l'Emploi

Ministere de la Jeunesse et de l'Enfance
Cite Nationale Sportive
Commissariat General au Sport
Societe PROMOSPORT

IMAGE EVALUATION TEST TARGET (QA-3)







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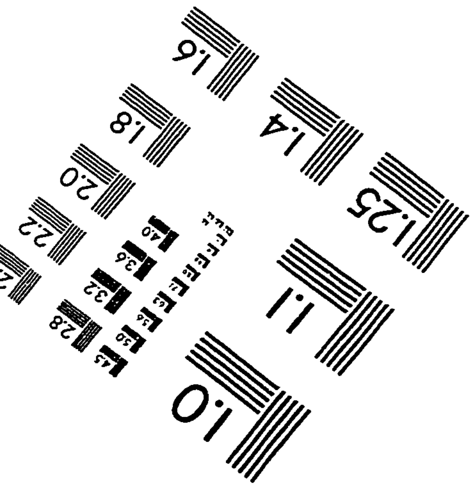

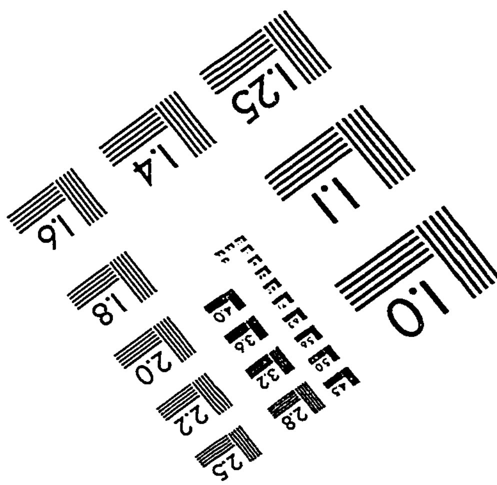

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