Egypt's New Reform Proposals Have Some Good Points

By Khaled Fouad Sherif
Special to the Middle East Times

THE GOVERNMENT of Egypt has recently submitted to the World Bank various proposals for industrial reform in Egypt with the objective of seeking guidance and funding to carry out these structural changes. This article focuses on the contents of these reform proposals and highlights their positive aspects. I will get to the negative aspects next week.

The government has given great weight to public sector reform in the structural adjustment programs it has presented to both the World bank and the International Monetary Fund (IMF). The main points of the proposals dealing with state enterprise reform are the following:

1. State enterprise management will have greater autonomy, with the objective of separating government ownership from control.

2. A new type of trial holding company will be created to serve as the only point of contact between the state and various public enterprises reporting to it. This new holding company will be granted the right to select company management and will have the responsibility of reviewing financial statements with the objective of auditing performance. The holding company, which will replace one of the five existing ones, at first on a trial basis, will be given the power to liquidate any non-viable public enterprise. If successful, other existing holding companies in different sectors will be replaced by this new restructured holding company.

3. Management of state enterprises will be given decision-making powers in the areas of pricing, product mix, setting of salaries, etc. independent of holding company supervision and central government interference. They have often lacked these powers in the past.

4. A negative list will be drawn up of those sectors in which the government will not approve additional investments. Any activity outside the negative list will be given automatic approval for investment, while any investment proposal for a project that would produce goods covered by the negative list would face immediate rejection. The approval criteria for granting investment licenses will reflect those areas where there is minimal competition and where no excess capacity exists. Goods likely to be on the negative list include: aluminum pots and pans, various types of cables and wires, components of electrical appliances and washing machines, refrigerators and related machine parts as well as commodities such as salt and sodium. 5. Privatization of industrial

17 Sept 9[illegible]

A Point Of View

enterprise assets will proceed in those firms in which the government does not have the majority equity. Privatization will be limited to Law 43 companies, especially those in the tourism sector.

6. The government plans to take serious steps toward liberalizing the foreign trade sector to make domestic markets more competitive. It will assess methods to reduce various non-tariff trade barriers to imports and will work on exchange rate unification simultaneously.

7. Public investments will be maintained at approximately 11 percent of gross domestic product (GDP) per annum, and state enterprises will no longer have automatic access to credit from the public sector banking system.

The main positive aspects of the reform program proposal are the suggestion of the government's willingness to liberalize the foreign trade sector, privatization of Law 43 assets, limits on public investment and the government's stated desire to cease giving state enterprises automatic access to credit from the domestic public sector banking system. A large number of public sector firms have been receiving infant industry protection for too many years and many have benefited for decades from import bans on competitive products. This has led to the development of industries that have focused exclusively on the domestic market, where they had a guaranteed share. Too many years of overprotection have left their toll on the quality of a large number of state enterprises that in many cases also had monopoly privileges in the domestic market place.

In addition, the government's privatization of joint venture enterprises across the board should be encouraged. The government is currently burdened by sizable expenditures in many such enterprises that are acting as a financial drain on the state's resources. The decision to proceed with the divestiture of such enterprises, if implemented seriously, can mean substantial savings for the state and sizable budgetary expenditure reductions. If the government sticks to its planned 11 percent of GDP ceiling it will, of course, be giving the private sector much more of a role in Egypt's development and, thus, is committing itself to developing a market- oriented economy.

Another positive aspect is the government's stated policy that it will no longer give state enterprises automatic access to credit. This should eventually end the dependency that has developed between state firms and the central government with regard to their requirements for foreign exchange and overdrafts when they find themselves short of liquidity.

Egyptian public sector banks may, under this new mechanism, no longer be obliged to borrow aborad on behalf of various state enterprises and to run foreign exchange risks on behalf of local public firms. In addition, public banks may no longer be required to absorb the losses of state firms when they fail to make adequate returns on their investments, or to supply firms facing liquidity problems with a non-ending chain of questionable bank overdrafts.

Concerning the negative list for investments, management autonomy and the proposal to create yet another hybrid form of holding company, I will deal with these in next week's column, in which I will focus on the negative aspects of the government's proposed reforms.