4. EGYPT: SUCCESSIVE HOLDING STRUCTURES

4.1 Origins, Changes and Continuity

The focus of the development strategy of the Egyptian government since the 1952 revolution was growth through self-reliance and socialism. From 1961, the nationalization of private enterprise began and by 1965, all large establishments in agriculture, industry, trade and infrastructure were state-owned. To look after the 438 public enterprises which existed at this time, thirty nine General Organizations were created, under the aegis of sectoral ministries. The rationale for the General Organizations at this point was improved sectoral coordination and planning of industrial development. During the 1970s, there were some attempts at liberalization under an Open Door Policy and new laws were introduced to encourage private investment. Although most industry remained in the hands of the state, the government attempted to ease the strict and bureaucratic controls on public enterprises by abolishing the General Organizations in 1975 (Law 111) and placing the enterprises directly under the relevant ministries. A performance evaluation system was introduced at the same time to give greater autonomy to public enterprises.

This system was not successful, due to the difficulties encountered by the ministries in dealing directly with the enterprises. The performance evaluation system was not satisfactorily implemented due to difficulties in establishing clear objectives and monitoring performance and it was abandoned in 1980. In 1983, the government introduced a new law on public enterprises which set up thirty eight Public Sector Authorities (PSAs), to hold shares in public enterprises, which were declared to be joint stock corporations. The grouping of enterprises was similar to the old

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1. Law 43 of 1974 for foreign private investment and joint ventures; Law 32 of 1977 which extended some of the benefits available to foreign investors to Egyptian nationals and Law 59 of 1979 to promote investments in new communities.
General Organizations; the essential difference between the two systems was that the Public Sector Authorities had corporate status and were expected to be considerably more autonomous in the supervision of their companies than the General Organizations.

In 1991, further steps to increase the autonomy of public enterprises and their supervisory bodies were undertaken through the passage of a new law transforming the Public Sector Authority structure to holding companies (HCs).¹ A new apex agency, the Public Enterprise Office (PEO), was established directly under the Prime Minister, which is now the interface between the holding companies and the government. Public enterprises under the new holding companies, the new ‘affiliated companies’ (ACs), in addition to being joint-stock corporations, will also be quoted on the stock exchange.

The General Organizations of the 1970s were integral parts of government ministries. The Public Sector Authorities which succeeded them however can be regarded as weak holding structures. They did indeed hold shares in the enterprises below them, and both the Public Sector Authorities and their companies had corporate status. To what extent therefore do the new holding companies of 1991 lead to greater decentralization or autonomy? An examination of the changes introduced in the successive systems is useful as it highlights the weaknesses of previous systems and shows how attempts were made to address them. The present discussion concentrates on the experience of 1983 to 1991, but also describes the recently introduced changes of 1991 and 1992, and assesses the extent to which these may be expected to lead to a difference in public enterprise performance in the future.

Although public enterprises span all sectors of the economy, and there were thirty eight Public Sector Authorities or holding groups, with around 400 enterprises between them, the discussion here is largely based on the experience of the Public Sector Authorities in industry. This sample is fairly large, since in 1989, industrial public enterprises accounted for over 49 per cent of total public enterprise employment and close to half total fixed assets in public enterprises (Appendix Tables A4.1 and A4.2). Industrial public enterprises here, and in most of the tables that follow, refer to some 180 enterprises in nine sectors, including six sectors under the Ministry of Industry, in mining, metallurgical, engineering, chemical, textiles and food industries (117 enterprises), plus three additional sectors, pharmaceuticals, military production and

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