ECES
المركز المصري للدراسات الاقتصادية
The Egyptian Center for Economic Studies

Views On News

Date: 11 January 2023 **Issue**: 688 **Source: Youm7**

Finalised Version of the State Ownership Policy Document as Approved by President of the Republic

(Part II)

The Council of Ministers published the most important articles of the State Ownership Policy Document, including its objective, key guidelines, and methodology for the decisions to maintain or sell state-owned assets over the coming period. Also highlighted are the role of the Sovereign Fund of Egypt, public and private partnerships as a mechanism for further strengthening the role of the private sector, framework of competitive neutrality, and governance principles of state-owned assets that guide the state ownership of assets.

[Link]

Our Views

The State Ownership Policy Document was published in its latest version at the end of 2022 following several months of dialog by various groups of stakeholders, with the aim of ensuring transparency and societal dialog regarding this important document that identifies the parameters of state ownership within **Egypt's economy and removes the crowding-out effect against the private sector in production and employment. Two versions of the document were published before the final version was approved by the Council of Ministers.**

Views on News previously addressed this issue to highlight several crucial points that should be included in the document to achieve real institutional reform, not just State exit from some sectors. In particular, the existence of State investments with easier terms as a competitor to the private sector is the primary reason behind the decline across both Egyptian as well as foreign direct investment, let alone the uncertainty of the private sector over State investments that may completely crowd it out.

As a sequel to this topic addressed by the Egyptian Center for Economic Studies, several issues of *Views on News* compare the three versions of the document to identify noteworthy amendments, especially that the Prime Minister announced the introduction of 85 percent of the amendments proposed during the societal dialog.

In this issue of *Views on News*, the criteria for mapping State presence in economic activity will be analyzed, which are presented in the following table. This will be followed by another issue that deals with the activities in detail:

First draft **March 2022**	**Second draft** **June 2022**	**Final version** **December 2022**
Criteria for mapping out state presence in economic activity		
1- Classification of goods or services: Whether or not they are “related to national security”, “including goods related to the daily needs of citizens.”	1- Same text.	1- Same text.
2- The key role of the State as an organizer, financier, and supporter of future technological industries related to the fourth	2- Same text.	2- Same text.

industrial revolution, to localize them in Egypt.		
3- How attractive sectors/activities are to private investment.	3- Same text.	3- Same text.
4- Security of private investments from being crowded out by public investments.	**4- Enabling private investments, while allowing for promotion of possible integration opportunities with public investments.**	**4-** Security of private investments from being crowded out by public investments.
5- State exit from industries/sectors whose market is saturated, and which do not need state support.	5- Same text.	5- Same text.
6- Level of profitability of state-owned assets.	6- Same text.	6- Same text.

1. The first criterion, which remains unchanged in the three versions, deals with whether or not the good or service "relates to national security", pertaining to the daily needs of citizens. This is an overly broad definition, especially in the absence of specifying what is meant by national security, as

well as not identifying the body tasked with determining such classification. If State entities will decide on their own in the absence of the private sector and civil society, then the clause facilitates the remaining presence of the state in the sectors or activities in question.

2. The second criterion also remains unchanged, and stands as a valid provision, as there should be no role for State investments except in areas with high risk or sizable capital required for investment due to the novelty of the field. Future technological industries fall under this description. However, it is important to set specific definitions, because the private sector successfully exists in many new technological industries. What is required here, though, is to facilitate private investment in these areas instead of State investment alone except in case of reluctance of private sector for the reasons mentioned above.

3. The third criterion also remains unchanged and leads to much ambiguity because it mentions attractiveness of investment in an absolute manner without specifying what is meant. The private sector may be reluctant to enter into an investment from which the State will exit because it is not economically feasible or that trade methods are not profitable. This should not mean the continuation of the State in the activity in question, because it is not attractive to the private sector. In fact, it is more logical to merge the third criterion with the second, so that it would have a clearer and more concise meaning.

4. The fourth criterion focuses on private investments not being crowded out by public investments, which is a basic requirement and was set forth in the final version. This is a

positive provision, though attempts were made to dilute it in the penultimate version.

5. The fifth criterion is the State's exit from sectors whose market is saturated and does not need State support. This is a valid criterion, although it raises important questions as to the nature of Egypt's economic system and where decision making authority lies. Is it a free market where the market determines needs, or is it a command economy where the State decides what the country needs and does not need?

6. The last criterion, which also remains also unchanged, relates to the level of profitability of state-owned assets. This criterion indicates that the decision to exit depends on the extent of profitability of the asset or service, as if exit would be greater from unprofitable activities, and this completely contradicts the previous criteria and the context of the document. Both focus on enabling the private sector because of its great responsibility in production, employment, and export, and keenness not to overcrowd it. It also clearly shows that the State has the largest role, not only in managing the economic system, but also in operating it.

In the upcoming issue of *Views on News*, the analysis of the document will be completed by comparing the criteria for exit or remainder across different sectors in detail.