The Performance of Privatized Financial Institutions in Egypt: The Case of Alexandria Bank

Tarek Roshdy Gebba¹ and Ibrahim Elsiddig Ahmed²

Abstract

Privatization has been advocated as a central part of the Egyptian economic reform program targeted to encourage a more effective participation of the private sector in most economic fields. The paper addresses the Egyptian privatization agenda, the progress of the privatization program, and structure of Egyptian banking system and the privatization of the financial sector. It also examines the pre-and post-privatization performance of state-owned commercial banks in Egypt (Alexandria Bank), using a combination of data for five years before and five years after privatization. In Egypt, the choice between the different methods of privatization is determined on a case-by-case basis. The CAMEL approach (Capital, Asset, Management Efficiency, Earnings, and Liquidity) has been adopted by applying three ratios under each category for five years before and five years after privatization. The performance of the bank of Alexandria after privatization on average is significantly better at the level of capital adequacy and earnings. The mean of asset quality and the mean of liquidity are lower after privatization but this stand for better performance as a result of substantial reduction of operating expenses and more investments. The management efficiency is almost the same before and after privatization. There is a significant difference between performance of the two stages and most likely in favor of privatization. Despite the criticism targeted to the Egyptian privatization program, the paper found positive consequences of privatization, particularly post-privatization performance.

JEL classification numbers: L330, E590

Keywords: Privatization, State-Owned Enterprises Sector (SOEs), Banking Sector, Privatization Performance, Privatization Proceeds, Egypt.

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1 Introduction

Privatization has been recognized as a reform policy for promoting economic development has obtained much popularity in both developed and developing countries. Supporters of privatization argue that efficiency, service delivery, performance and other results are better achieved by private sector, therefore the case for privatized enterprises (Cook and Kirkpatrick [1]; Hope, [2]). Privatization programs grew significantly in developing economies, either by choice or external pressures during the 1990s. Estimated privatization proceeds totaled US$250 billion between 1990 and 1999 (World Bank [3]). As well as, the transition economies of the former European communist countries as well as communist China followed privatization as a means for promoting economic development (Liou [4]; Farazmand [5]).

The continuing popularity of privatization as a reform policy in developing countries reflects the need for systematic studies of its effects. Particularly, review of literature revealed that less attention has been given to the differences in post-privatization outputs in lower-income economies. Accordingly, the consequences of privatization within developing countries remain controversial (Parker and Kirkpatrick [6]). The purpose of this paper is to provide an evidence-based assessment of post-privatization performance in Egypt as one of developing economies. Five years before and five years after privatization of Alexandria Bank (one of the four state-owned banks in Egypt) is assessed. A comparison of financial performance is made between pre- and post-privatization episodes, for this bank, which transferred from the government to the private sector in 1996.

This study concentrates on the analysis of financial variables, with understanding that these will not provide a comprehensive picture of the economic performance and contribution of privatized enterprises. The analysis of financial performance has been criticized for using data that might tend to exaggerate the results in favor of privatization. However, the paper indicates that the use of financial variables reveals poor as well as good performance and, therefore, despite its narrowness it remains a useful, but incomplete, component that can contribute to an overall assessment of privatized enterprises’ performance.

The paper is organized as follows: in the next section, privatization definitions, objectives, and methods are addressed; particularly privatization methods that are applied in Egypt. Section 3 briefly discusses privatization program in Egypt with respect to the scope of the State-Owned enterprises (SOEs) sector, the Egyptian privatization agenda, the progress of the Egyptian privatization program, and structure of Egyptian banking system and the privatization of the financial sector. Section 4 reviews the relevant literature on privatization performance in developed and developing countries, including Egypt and more specifically in the banking sector. Section 5 introduces the main findings and analyses the results for the financial performance of Alexandria bank. The final section draws research conclusions.
2 Theoretical Framework: Privatization Definitions, Objectives and Methods

2.1 Privatization Definitions

The term Privatization has been used to cover a wide spectrum of different policies. Privatization sometimes refers to "the transfer of ownership from the SOEs to private hands" or "deregulation" (Major [7]), as well as "joint public private venture", or "price flexibility" purged by SOEs as the result of privatization (Dhiratayakinant [8]). Many authors view privatization as "contracting out" of certain activities conducted by state agencies and the transfer of management of state entities to the private sector (Kolderie [9]; Boycko and Shleifer [10]). According to other authors (Paul [11]; Jackson and Price [12]), the scope of privatization is not confined to ownership transfer, it describes a range of different policy initiatives designed to change the balance between SOEs and the private sector. Privatization implies denationalization (the sale of SOEs sector assets), deregulation (the opening up of state activities to private sector competition), contracting out, the private provision of public services, joint capital projects using public and private finance, reducing subsidies and increasing or introducing user charges. In this research paper, its meaning is confined to transfer of ownership from the government to the private sector.

2.2 Privatization Objectives

Privatization has been accepted by many countries around the world, including Egypt as part of a shift in economic management policy and government reform. Among the common objectives of privatization are to increase efficiency and productivity at macroeconomic level and enterprise-level, improve services quality, reduce public expenditure and fiscal deficit, shrink government size, raise revenues for the budget and generate additional tax revenue, promote foreign direct investment and increase the level of overall private investment and enhance private firms, decrease public monopoly inefficiencies and enhance public participation and confidence in a market economy (Kettl [13]; Prager and Swati [14] Wallin [15]; Lieberman et al. [16]).

Some of these objectives, such as reducing the fiscal deficit by retiring debt through privatization proceeds have been met as a short-term objective of privatization. Others, such as increasing efficiency and productivity, are considered as long-term objectives that require the government to develop certain measures, including the development of qualified government negotiators, management know-how, technology, competitive environment for both SOEs and private sectors, regulatory framework and liberalizing entry to ensure competition and training managers post privatization (Kettl [13]; Lieberman et al. [16]).

According to Lieberman et al. [16], privatization objectives can be categorized into three key groups:

- Reducing the role of government in the economy, particularly getting government out of the business, by enhancing market forces to promote competition and efficiency;
- Creating new sources of cash flow and financing for enterprises, through attracting foreign direct investment (FDI), broadening and deepening capital market access for privatized enterprises, increasing availability of bank financing, and also through
retiring government financial support and preferential subsidies and transfers to SOEs;

- Reducing the fiscal deficit through using privatization proceeds to retire external and domestic debt, increase tax revenues from revenues generated by privatized enterprises and decrease serious drains on state budgets (the financial transfers to SOEs).

In sum, the quality of any privatization program depends basically on the government’s ability to achieve these objectives and manage its negative social effects. However, often governments are confused about privatization objectives, and introduce overlaps or distortions into their programs and adopt mutually conflicting objectives with respect to privatization (Yonnedi [17]).

2.3 Privatization Methods

Perhaps the strong debate on privatization performance initially was over methods to be utilized. The privatization methods of ownership transfer are discussed as follows:

2.3.1 Initial public offerings

According to this method, enterprises subject to privatization have to be public limited companies and then they are sold to the public wholly or partially by an issuer, which sells bonds on behalf of itself and in one’s own account. This method can be appropriate in two cases: if enterprises subject to privatization are productive or potentially productive in the future, so that there is interest on the part of investors to own these companies’ shares; the existence of developed capital markets (Romer and Paul [18]). The public offerings method incorporates several advantages, such as keeping the concentration of shares off a single owner or a group of owners, providing small investors with the opportunity to participate in the program of privatization and insuring a reasonable degree of transparency in the privatizing process. However, the method implies many disadvantages, including, the complexity of share issuance procedures, which might require much time and high transaction costs (Ramanadham, [19]).

2.3.2 Selling to anchor investors

This method implies the transfer of the stocks to anchor investor(s) who has/have been selected based on reputation, financial power, experience and other determinants through auctions or direct negotiations. Selling to major investors is recommended in certain situations, such as the case of low-productive enterprises, the necessary need of knowhow in the technical or managing domain, and in the economies in which capital markets are still underdeveloped (Starr [20]). This method implies some advantages, including the selection of investors based on certain criteria and therefore the flexible negotiations over the future policy of the enterprise. Although, this method has some disadvantages, such as the possibility of ownership concentration and therefore control of certain individuals or groups of investors on the overall economy, and the potential lack of transparency and increased corruption (King and Levine [21]). That is why clear regulations concerning the selection of investors must be developed and met.
2.3.3 Employee/management buy-out

This method aims to widen the ownership base through selling SOEs stocks to privatized enterprises' managers and/or employees. It is recommended for SOEs that are in a critical financial or economic situation but have a qualified management who are capable to put the enterprise on the right track and to maintain the activity of the respective enterprise. This method incorporates several potential advantages, such as the increase of motivation and ability for taking responsibility on the part of managers and employees, the possibility of minimizing the resistance and distrust to the privatization process on the part of labor, and the possibility of ensuring a local population participation. But the method implies some disadvantages, such as the possibility of transferring the old social and political pick and flower and bureaucracy to the privatized company, the difficulty to change the management style and thinking used in a centralized economy into a market-oriented economy (McKinnom [22]).

2.3.4 Selling public assets (liquidation)

This method focuses on selling either individual assets (no relationship between them) or related assets (have some connections with each other) of an enterprise. In rare cases, the sale can be limited to few isolated parts and the nucleus of the company remains intact. The selling can be completed by auctions, or direct negotiations with particular interested investors (La Porta [23]). It was noticed, that in some cases, the liquidation could become more expensive than the restructuring of the enterprise, which might be attributed to the expiring liabilities, and, the required payments for early retired employees.

2.3.5 Restitution to former

This method is widely used by the Central and Eastern transition economies. It is based on restoring land, property and small companies to previous owners, who have lost their properties which, were illegally confiscated by the communists. The returning to the former owners might be faced by some juridical conflicts or barriers, in order to identify and keep out the former owners, which make this method more expensive (Beesley [24]).

2.3.6 Vouchers or coupons

Due to the difficulties of the direct sale of SOEs, particularly in transition economies, several forms of donation have been developed by these countries to ensure a fast transfer of the SOEs ownership to private hands and increase social equality. All the systems of privatization through vouchers have allowed for every citizen of the respective countries receives an equal number of coupons or certificates without any payment or at lower prices, which can be later exchanged or replaced by shares of a public enterprise or land. Several advantages are included in this method. It is more popular from public perspective and is characterized by fast and low cost privatization. Furthermore, mass privatization might overcome the lack of internal financial resources and contribute positively to the development of capital markets. But, there are also negative consequences of this privatization method, such as the lack of benefit from privatization proceeds, the lack of experience on the part of shareholders, who have no experience in evaluating the results of the company, interpretation of the financial statements, performing the general shareholders meeting, and therefore the potential lack of economic efficiency growth anticipated from privatization (Ikram [25]).
In Central and Eastern European transition economies, including the Former Soviet Union several privatization methods have been adopted, such as mass privatization, trade sales, restitution, liquidation, management and employee buyout, initial public offerings, small-scale privatization and liberalized entry for new companies and spontaneous privatization, which allow the labor collectives and managers of the SOEs to operate independently of state intervention and, therefore, effectively become owners of their enterprises (Lieberman, et al. [16]).

2.4 Methods of Privatization Applied in Egypt

In Egypt, the choice between the different methods of sale available is determined on a case-by-case basis, according to the following criteria:
- Objective of each sale;
- The enterprise performance and economic prospects;
- The size of the company and ability to mobilize private funds.
- Negotiation with buyer(s) must occur after obtaining publically solicited bids. In addition, all divestures must be undertaken through competitive bidding or an offer of shares on the stock market. The privatization methods that are adopted in Egypt are:
  - Public offerings of shares on the stock market;
  - Public auction or tender;
  - Employee/management buyout;
  - Creation of mutual fund, country fund or unit in combination with a debt/equity conversion program;
  - Vouchers or coupons, which can be exchanged through funds.
Companies can be wholly or partially sold, and the government of Egypt prefers to sell shares on the stock market instead of direct sale to investors. So, the Public Enterprise Office (PEO) always tries to push Holding Companies (HCs) to issue shares on the stock market. However, there is a general tendency to sell at least 10 percent of each company to employees through Employee Shareholder Association (ESAs) according to law 95 of 1992 (American Chamber of Commerce in Egypt [26]).

2.5 Privatization Policy in Egypt

The size and scope of the SOEs sector in Egypt are considered crucial background for the readers and thus a prelude to the detailed discussion of the Egyptian privatization agenda and the progress of the privatization program.

The SOE sector has been the dominant presence in the Egyptian economy since the late 1950s. Over the period from 1960 to 1973, the SOE sector owned most major economic activities in the country, including heavy and light industries, financial institutions, infrastructures, housing, wholesale trade and most of the reclaimed land, etc. the SOE sector was officially considered "the leading sector" in the economy. The size of the SOE sector became huge in relation to GDP, total employment, value of fixed assets, share of investment, and contribution to value-added (Ikram [25]; Dessouki [27]).

In the period from 1974 (the launch of the open door policy) to the early 1990s (the launch of the economic reform program), the SOE sector continued to be the predominant one in the economy. Meanwhile, the private sector started to contribute to DDP but not in a large proportion. Since the early 1990s, the private sector has started to contribute significantly to the economy and has become the main sector, with regard to contribution
to GDP. The following table shows the private sector and SOE sector contribution to GDP.

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<td>64.1%</td>
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<td>36.7%</td>
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<td>100%</td>
<td>100%</td>
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<td>100%</td>
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</table>

Source: Adapted from IMF, 1998; USAID/Egypt, 2004, Al-Ahram Newspaper, Tuesday, 23 of August 2011 [70]

2.6 The Scope of the SOE Sector in Egypt

In the Egyptian context, the SOE sector implies a broad range of entities and economic activities. At the beginning of the privatization program in early 1996, the main agencies incorporated into the SOE sector were (Dessouki [27]; IMF [28]; Ministry of Economy, Investing in Egypt [29]):

- Central and Local Government and Service Authority. Central government includes different ministries, which perform executive functions. Local government is organized on a regional basis into 28 governorates (councils). It has limited functional autonomy and is financed primarily through central government allocations. The service and Economic Authorities are semi-autonomous units, which cover specific monopoly activities and utilities in fields such as transportation, communication, trade, finance (including the capital market economy), housing (including reconstruction), and health. In addition to, the service authorities cover educational institutions, such as universities, as well as various other bodies in culture, tourism and presidential services, such as the intelligence unit.

- Economic Authorities. There are over 60 Economic Authorities including those responsible for power generation, telecommunications, the Sues Canal, the General Petroleum Corporation, the Airport Authority, the national airline, the post office, government water supplies and port authorities.

- State-Owned Enterprises. There are 314 Affiliated Companies (ACs), which work under law 203 of 1991. These enterprises are concentrated in industrial sector, but also include hotels, electricity distribution companies, transport and port –related companies. ACs are distributed between and supervised by 17 holding companies (HCs). The ACs in turn own holdings in about 184 joint-venture companies, which are a partnership between private and the SOE sectors. These 314 companies are the only SOEs subject to the privatization program.

- The Banking Sector. It is supervised by the Central Bank of Egypt (CBE) in collaboration with the Ministry of Economy and is comprised the 28 commercial banks, including four State-Owned Banks (SOBs) and 24 Private and Joint Venture Banks (JVBs). In addition to 34 categorized as non-commercial banks, including 31 business and investment banks and 3 specialized banks (whose main activities are, roughly the same as those of commercial banks).
The Insurance Sector. It includes the three state-owned insurance companies, a reinsurance company, and five joint-venture insurance companies. All of these companies are supervised by the Egyptian Insurance Supervisory Authority (EISA).

The Public Pension Fund and Social Security System. This sector includes National Investment Bank (NIB), as well as the public pension fund and social security system. The NIB is in charge of investing surplus contributions to social funds, such as government social funds, post office savings, saving certificates and others (Ministry of Economy and Foreign Trade [29]).

2.7 The Egyptian Privatization Program

The privatization program in Egypt began in 1991 as part of the country’s economic reform program. Egypt’s 314 SOEs (non-financial institutions) were grouped under 27 holding companies (reduced to 14 by 2001). Under the government’s strategy for the divestment of SOEs, three approaches were initially undertaken. The first was to sell shares through the domestic stock market, the second was to sell strategic stakes of shares to anchor investors through public auction, and the third was to sell firms to employee shareholder associations. In addition, some firms were liquidated because they were deemed not economically viable due to their enormous debt burdens.

Privatization as a crucial part of the Egyptian comprehensive economic reform program targeted to encourage a more effective participation of the private sector in most economic fields. To pursue this objective, the state started to adopt a privatization program to reduce major state monopolies and to transfer the ownership of SOEs to the private sector. The central objective of the privatization program in Egypt was to increase assets efficiency. The government also aimed to reduce the drains on its financial resources, optimizing the use of its economic resources and securing enhanced assets to foreign markets, technology and capital (The Ministry of Economy, Egyptian Economic Profile [29]).

The privatization program has other goals, including widening the base of ownership, increasing the creation of long-term jobs, and reallocating sales revenues to higher priority government expenditure on social services. It is also concerned with investment in human resources and national infrastructure and with increasing the role of the private sector in the ownership and management of national economic resources, and promoting capital market development (American Chamber of Commerce in Egypt[26]). The following part addresses the privatization agenda applied in Egypt to meet the above objectives (IMF [28]):

- Civil Service Reform. The government plans to reduce the size of the civil service by 2 percent per annum, which would reduce output by 7 percent and the labor force by 25 percent.

- Privatization of SOEs sector. The government is committed to reduce the size of SOEs under privatization, which is subject to law 203 of 1991by about one-third every two years of the six-year program. If successfully implanted, it will reduce the SOEs role in the industrial sector by about 25 percentage points, from 38 percent to about 13 percent, and reduce the total output by about 6.4 percentage points of GDP, from about 9.6 percent to 3.2 percent. Additionally, if this program successfully implemented, the 314 enterprises should be completely sold off by the year 2000.

- Privatization of the Banking Sector. The government reform program includes the privatization of joint-venture banks and one of the four commercial state-owned banks
The Performance of Privatized Financial Institutions in Egypt

...Alexandria Bank). If successfully implemented, this would transfer around half of the financial service sector to private sector control. Currently 70 percent is state-owned. With regard to overall GDP, about 1 to 2 percent of additional output would change from SOE sector to private sector control.

- Privatizing Insurance Companies. The People's Assembly in Egypt issued a new law in early 1998 to allow for the government privatization of the three state-owned insurance companies, in addition to the re-insurance company. Moreover, the government has already started to sell its equities in the five joint-venture insurance companies.

- Privatization of Infrastructure. It is not strictly included in the Stand-By Agreement, which was signed with IMF in 1991. However, the government has allowed greater private sector involvement in a number of infrastructure sectors. Privatization of infrastructure in Egypt is limited to the form of acquisition or management of new, rather than existing, assets. The private sector has started to invest, in the form of build-operate projects (BOT), in different fields such as electricity, airports, and some port facilities. Moreover, the program contains the sale of local governments (councils) assets, the privatization of the activities of the Principal Bank for Development and Agricultural Credit and the exploration of the feasibility of privatization the management and operation of some of the state-owned hospitals and retail distribution assets subject to the Ministry of Petroleum (American Chamber of Commerce in Egypt [26]).

2.8 The Progress of the Egyptian Privatization Program

During the first phase from 1993 to January 1996, just 3 companies were completely sold to anchor investors, and 16 were partially privatized through the stock market with interests ranging from 5 to 20 percent. The first phase was primarily aimed at preparing and testing the market and preparing companies for privatization. The second phase from 1996 to 1998 witnessed the end of the preparatory effort, as well as the end of the "hesitation" stage. The government has moved forward and has wholly or partially sold 84 enterprises against only 4 in the first phase (IMF [28]; Financial Times, May 12, 1998). Table (2) summarizes the Egyptian privatization program's achievements up to the second quarter of 2003.
Table 2: Privatization achievements summary up to 2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Anchor Investor</th>
<th>Majority IPO</th>
<th>ESA</th>
<th>Liquidation</th>
<th>Majority Total</th>
<th>Minority IPO</th>
<th>Asset Sales</th>
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<td>32</td>
<td>132</td>
<td>16</td>
<td>25</td>
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Proceeds LE Billion: 7B | 6.3 | 950 Million | 1.75 | 1.08 | 14.4 B

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Source: USAID, 2002; USAID/Egypt, 2004 [70]

Notes: ESA (Employees Shareholder Association-IPO (Initial Public Offerings)

Drawing on table (2), the government has mostly or partially sold 105 enterprises over the third phase (the period from 1998 to 2003) against only 84 in the second phase and 4 in the first phase. Accordingly, it was expected that the privatization path will be accelerated over the last phase (starting from 2003). Interestingly, over the period from 2003 up to the present time, fewer but larger SOEs (9 firms) have been partially or wholly sold, including Egypt telecom, Fertilizer Company, and Suez Cement. Other major privatizations were in the banking sector (e.g. Commercial International Bank and Bank of Alexandria in Egypt). To conclude, up to the present time, 202 SOEs have been partially or wholly privatized in Egypt (A-lAhram Newspaper, Tuesday, 23 of August 2011). Consequently, around 65% of the Egyptian privatization program has been implemented (202 out of 314 enterprises) over the period from 1993 up to the present time.

The privatization program in Egypt has slowed down in recent years for a variety of reasons, not least due to the deterioration in international capital markets following the global financial crisis. In addition to the market downturn, this reflects more politically hesitation delays in privatization transactions in Egypt, as a result of criticism of past privatization deals in terms of the lack of transparency in major privatization deals, increase of corruption caused by privatization, and dominance of business power elites that helps expand the private business sector by promoting inequality and creating negative externalities. In some cases, business interests aligned with incumbent governments appear to have received preferential treatment (OECD [30]).
2.9 The Privatization Progress in the Banking Sector

According to figure (1), the banking sector in Egypt implies 28 commercial banks, including four State-Owned Banks (SOBs) and 24 Private and Joint Venture Banks (JVBs). In addition to 34 non-commercial banks, including 31 business and investment banks and 3 specialized banks (whose main activities are, roughly the same as those of commercial banks).

Figure 1: Structure of Banking System

![Diagram of Banking System]

The banking sector reform has become a critical component of the economic reform program launched by the government of Egypt in 1990. The reform program of the financial sector incorporated different aspects, such as the elimination of the repressive measures that had been in practice since the early 1960s, the liberalization of loan and deposit rates in 1991, followed by the removal of ceilings on bank loans to the private sector in 1992. Also, service fees and bank charges were freed up; the reserve requirement ratio was reduced; and majority foreign ownership was permitted (Omran [31]). With regard to the banking sector privatization, in its attempt to reduce market concentration and enhance competition, the Egyptian government launched an active bank privatization program in 1994. This program implied two separate dimensions, the privatization of joint venture banks and the privatization of state-owned banks. In reality, the state has already sold its equities in 21 joint-venture banks, in addition to Bank of Alexandria (Ford [32]; OECD [30]).

The insurance sector is being prepared for privatization by changes in some laws and evaluation of the companies' assets. This will affect 10 companies of the state owned insurance companies, a reinsurance company and five joint-venture companies.

2.10 Literature Review on Privatization Performance

There have been spates of studies related to the performance of privatization programs in developed, transition and developing countries. A wide range of these studies using samples of enterprises indicated that the performance of SOEs sector had improved after privatization (Galal et al. [33], D’Souza and Megginson [34], and Dewenter and Malatesta [35]. All these studies, with the exception of Galal et al. [33], examined operational and
financial performance data and concluded that privatization had resulted in higher profitability, greater efficiency and increasing capital investment. Meanwhile, much of the research has also been critiqued for several problems such as sample selection bias, accounting manipulations, and the usage of research methodologies.

Other researchers, including Vining and Boardman [36], Boycko et al. [37], Nellis [38], Brada [39], Shleifer [40] indicated that privatization is necessary for achieving significant improvement in business performance. They emphasized the advantage of privatization over the SOEs sector and argued that by increasing competition in the privatization of this sector, performance can be significantly improved. Levac and Wooldridge [41] also indicated that privatization can help increasing long-term benefits, such as corporate earnings, employment, and economic growth by enhancing a company's operational efficiency and improving resource allocation. They also argued that privatization can help improving accountability, monitoring and incentives systems in the SOEs sector. On the other hand, Kikeri et al. [42] indicated that the privatization success must be measured in terms of efficiency outcomes rather than maximizing privatization proceeds. They further argued that selling the large enterprises first might deliver more credibility to the government’s privatization policy, and contracting out the management of targeted enterprises could provide similar efficiency benefits as privatizing them.

Megginson et al. [43] compared mean performance results for three years before and three years after privatization, using a combination of data, containing 61 companies in 32 industries across 18 countries that were privatized partially or wholly between 1961 and 1990. They revealed that privatized enterprises had higher profitability and more efficiency, larger sales and more capital investment spending, output, employment, and dividend payout. In another study assessing the privatization performance, conducted by D’Souza and Megginson [34], using data set containing 85 companies across 28 countries, including 13 developing economies between 1990 and 1996. They found that higher levels of profitability, real sales and operating efficiency, significant reductions in leverage ratios, and insignificant changes in employment and capital spending following privatization. A limitation of all of these studies is that they do not report separate results for developing and developed countries and therefore possible differences between developed and developing economies are not considered (Parker and Kirkpatrick [6].

Also, Boubakri and Cosset [44] in their study of the financial and operating performance of 79 privatized firms across 21 developing countries between 1980 and 1992. They found significant improvements in profitability, operating efficiency, capital investment, output, dividends and total employment. Vickers and Yarrow [45] asserted that competition is necessary as an incentive for gains in productive efficiency and concluded that private companies are more efficient than SOEs in competitive environments.

Kole and Mulherin [46] addressed other aspects of privatization and found that product/market conditions rather than ownership is the central factor affecting efficiency. They concluded that under competitive conditions, there are no significant efficiency differences between private and SOEs sectors. In effect, as Shirley and Walsh [47] argue, in an increasingly global environment the impact of competition can be so strong, so that SOEs may be forced to respond to pressures that maximize productive efficiency without the ownership change of privatization.

Despite the reports of the positive consequences of privatization, there have been negative effects of privatization revealed by some studies. In analyzing privatization in Iran, Farazmand [48] identified some of potential negative consequences of privatization, including lack of government control over the market, increased corruption accompanied
with privatization, the predominance of business power elites that lead to expanding the
private sector by promoting social inequality and creating negative externalities, economic, political and environmental deterioration because of globalization and privatization, shrinking of responsibilities of government sector by excessive
privatization, loss of public interests, and inefficient allocation of national resources.
Privatization requires the government to develop some measures, among them
development of qualified government negotiators (Kettle [13], competitive environment,
and a regulatory framework (Marangos [49] to protect the interests of the government and
publics. Such measures are hidden costs of privatization that come into play in addition to
the more obvious administrative and legal costs of transferring or selling a service or
facility to private investors (Prager [14]. Privatization works best in developing countries
when it is integrated into a blanket process of structural reform. Parker and Kirkpatrick
[6] argued that in order for privatization to improve performance over the long-term, it
needs to be complemented by policies that promote competition.
The samples in many earlier studies were heavily biased towards the developed
economies, and in some studies little has been made to analyze developing countries
separately. Nevertheless, the overwhelming conclusion revealed by these earlier studies
was that privatization was working well in different contrasting institutional contexts
across developed and developing countries. In effect, the institutional context appeared as
a neutral variable. This result conflicted with some characteristics of developing
countries, such as having relatively weak legal systems and underdeveloped institutions
and systems of regulation, in comparison with their developed country counterparts
(Minogue [50]; Ogus [51]). Furthermore, relatively little was known about how systems
of corporate governance work in developing countries and how changes in ownership
would affect governance structures and accompanied performance (Shleifer and Vishny
[40]).
In transition countries, most of studies (Dyck [52]; Weiss and Nikitin [53]; Lizal et al.,
[54]; Frydman et al. [55]) examining the post--privatization performance indicated better
enterprise-level performance compared with the SOEs. These studies associated the
performance with the types of ownership configuration that emerged during the
privatization process. The problem faced by a majority of these studies is the use of
enterprise-level performance measures such as higher revenues, total employment and
others as indicators of success.
In Egypt, there have been few studies related to Egyptian privatization performance, for
example Omran [31] in his study on privatization performance argued that privatized
enterprises tend to perform similar to SOEs. He found a larger decline in employment for
SOEs compared to private companies, a decline in leverage for both SOEs and private
firms and no significant difference in output change, profitability, and operating
efficiency for either privatized enterprises or SOEs. Furthermore, Omran [31] argued that
in Egypt, larger ownership by foreign investors had positive consequences on post-
privatization firm performance, while employee ownership had negative ones. Hassouna
[56] also indicated that the sales of stocks to employees in Egypt have not been
successful.
While, the limited literature on the privatization performance in the banking sector, such
as Hasan and Marton [57], Bonin et al. [58], and Megginson [59], and [60]) provided
evidence that bank privatization is difficult to achieve particularly in transition
economies. However, these studies found that foreign ownership involvement produce
positive consequences on bank performance comparing with state-owned banks. These results provide strong evidence that ownership structure affects banks performance. In an investigation on bank privatization in Argentina, (Clarke and Cull [61], [62]) examined the pre- and post-privatization performance of state-owned provincial banks and indicated that privatized provincial banks operated similarly to the 10 largest established private banks and therefore better than state-owned provisional counterparts. Unlike, the successful experience of bank privatization in Argentina, Markler [63] identified the following factors that have restricted Brazil’s attempts of bank privatization, including the collapse and acquisition of private banks, foreign participation, and globally oriented financial markets. Recently, Megginson [59]; [60]) argued that although privatization generally improves the performance of financial institutions, the improvement of privatized financial enterprises was less than their non-financial counterparts.

In a study of the financial and operating performance of a sample of 12 Egyptian banks over the period from 1996 to 1999 conducted by Omran [64]. He argued that following privatization, the results indicated that some profitability and liquidity ratios for privatized banks declined significantly, but other performance measures were unchanged. The results indicated that the relative performance changes of privatized banks were better than those of mixed banks with majority state ownership but worse than those of banks with other ownership forms (private, state-owned, and mixed private ownership). However, the study found a strong evidence to support the previous empirical findings that banks with greater private ownership perform better. Significant additional research at both country, sectoral and company levels is necessary to better understand the effects of privatization, particularly post-privatization performance. Existing research is limited and inconclusive at best. Further diversity in research questions and methods is required to understand the specific circumstances leading to post-privatization improvements.

3 Research Methodology

The questions addressed by this research paper can be structured as follows: The first question addresses Egypt's privatization agenda and progress and highlights Egypt's banking sector structure and the progress in the banking sector privatization. The second question examines pre-and post-privatization performance of the Bank of Alexandria. To tackle these issues, this research employed a combination of qualitative and quantitative techniques to conduct an analysis of Egypt's privatization policy, including the scope of the SOEs in Egypt, privatization agenda, the progress in privatizing financial and non-financial enterprises. In addition to, a review of other relevant literature on the privatization performance, particularly post-privatization performance of the banking sector.

On the other hand, the CAMEL approach was used to examine pre-and-post privatization performance of the Bank of Alexandria. CAMEL approach is basically ratio based model for evaluating the performance of banks. It is a management tool that measures capital adequacy, assets quality, and efficiency of management, earnings’ quality and liquidity of financial institutions. The model covers the areas of capital adequacy, asset quality, management efficiency, earning quality, and liquidity ratios. For evaluation of the bank’s financial performance the researchers have made several studies on the CAMEL model but in different perspectives and in different periods. Godlewski [65] tested the validity of
the CAMEL rating typology for bank's default in emerging markets. He focused explicitly on using a logical model applied to a database of defaulted banks in emerging markets. Said [66] examined the liquidity, solvency and efficiency of Japanese Banks using CAMEL methodology, for a representative sample of Japanese banks for the period 1993-1999, they evaluated capital adequacy, assets and management quality, earnings ability and liquidity position. They applied two ratios for each component of the model.

Derviz et al. [67] investigated the determinants of the movements in the long term Standard & Poor’s and CAMEL bank ratings in the Czech Republic during the period when the three biggest banks, representing approximately 60% of the Czech banking sector's total assets, were privatized (i.e., the time span 1998-2001).

Bhayani [68] analyzed the performance of new private sector banks through the help of the CAMEL model. Four leading private sector banks had been taken as a sample. Gupta K. [69] conducted the study with the main objective to assess the performance of Indian Private Sector Banks on the basis of Camel Model. They ranked 20 old and 10 new private sector banks on the basis of CAMEL model. They considered the financial data for the period of five years i.e., from 2003-07.

Table 3: Means and Standard deviations of the ratios before privatization and after privatization

<table>
<thead>
<tr>
<th>CAMEL Element</th>
<th>Mean Pre-Privatization</th>
<th>Mean After Privatization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity/Assets</td>
<td>0.05</td>
<td>0.08</td>
</tr>
<tr>
<td>Equity/Debt</td>
<td>0.05</td>
<td>0.09</td>
</tr>
<tr>
<td>Equity/Net Loans</td>
<td>0.13</td>
<td>0.20</td>
</tr>
<tr>
<td>Mean</td>
<td><strong>0.08</strong></td>
<td><strong>0.12</strong></td>
</tr>
<tr>
<td>Assets Quality:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Op Income/TA</td>
<td>0.03</td>
<td>0.04</td>
</tr>
<tr>
<td>Net Loans/TA</td>
<td>0.39</td>
<td>0.43</td>
</tr>
<tr>
<td>Loan Loss Res/T. Loans</td>
<td>19.52</td>
<td>12.36</td>
</tr>
<tr>
<td>Mean</td>
<td><strong>6.65</strong></td>
<td><strong>4.28</strong></td>
</tr>
<tr>
<td>Liquidity Ratios:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquid Assets/TA</td>
<td>0.23</td>
<td>0.39</td>
</tr>
<tr>
<td>Liquid Assets/Deposits</td>
<td>2.24</td>
<td>0.49</td>
</tr>
<tr>
<td>Liquid Assets/Net Loans</td>
<td>0.65</td>
<td>0.96</td>
</tr>
<tr>
<td>Mean</td>
<td><strong>1.04</strong></td>
<td><strong>0.62</strong></td>
</tr>
<tr>
<td>Earnings Ratios:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>0.06</td>
<td>0.18</td>
</tr>
<tr>
<td>ROA</td>
<td>0.00</td>
<td>0.01</td>
</tr>
<tr>
<td>NPM</td>
<td>0.10</td>
<td>0.35</td>
</tr>
<tr>
<td>Mean</td>
<td><strong>0.06</strong></td>
<td><strong>0.18</strong></td>
</tr>
<tr>
<td>5. Management Efficiency:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OE/OR</td>
<td>2.67</td>
<td>1.15</td>
</tr>
<tr>
<td>Deposits/Loans</td>
<td>1.07</td>
<td>1.94</td>
</tr>
<tr>
<td>NI/No. of Employees</td>
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<td>1.10</td>
</tr>
<tr>
<td>Mean</td>
<td><strong>1.50</strong></td>
<td><strong>1.40</strong></td>
</tr>
<tr>
<td>SD</td>
<td><strong>4.6778</strong></td>
<td><strong>2.9364</strong></td>
</tr>
</tbody>
</table>

As per previous studies on financial performance, this study uses surrogate measures of performance at different levels of the bank according to the CAMEL approach. The study selected three measures or ratios under each element of the CAMEL model (Capital adequacy, Asset quality, Management efficiency, Earning or profitability, and Liquidity). The absolute data of Alexandria bank is collected from the financial reports of
the bank and the ratios are calculated and analyzed for the purpose of evaluating privatization of the bank. Many studies used only two ratios but to end up with comprehensive analysis of the bank performance, we used three ratios. The ratios are calculated for each individual year from 2001 – 2011, then the mean average is computed for two periods before privatization (2001-2006) and after privatization (2007 – 2011) to compare the bank’s results before and after privatization. Moreover, the standard deviation is calculated for each group ratios based on the period class to measure the degree of risk of the bank before and after privatization. Table (3) below, provides the means and standard deviations of the Bank of Alexandria ratios.

4 Discussion and Analysis

The components of CAMEL model will be analyzed and discussed in the next section:

4.1 Capital Adequacy

It is important for a bank to maintain depositors’ confidence and preventing the bank from going bankrupt. It reflects the overall financial condition of the bank and also the ability of management to meet the need of additional capital. The following ratios measure capital adequacy:

- Capital Adequacy Ratio (CAR): The capital adequacy ratio is developed to ensure that banks can absorb a reasonable level of losses occurred due to operational losses and determine the capacity of the bank in meeting the losses. Standard norms require the banks to have a CAR of 8%. As per our calculation the ratios are below 6% throughout the period before privatization and started increasing immediately after privatization form 6% in 2007 to 10% in 2011. This proves the adequacy of capital after privatization. Table (3) indicates that the mean average of the ratio substantially differs between the situation of the bank before privatization and after privatization. It increased from 5% to 8% as a result of remarkable increase in the bank’s net income with a rate higher than that of increase in the bank’s total assets. The finding proves that the bank capital is more adequate after privatization than the case before the privatization.

- Equity-Debt Ratio (E/D): This ratio indicates the degree of leverage of a bank. It indicates how much of the bank business is financed through equity and how much through debt. Our analysis indicates that the equity to liability is very low before privatization and enhanced after privatization ranging between 6% and 11%. It is an indicator of high financial risk. The mean ratio of equity to debt relationship has increased from 5% before privatization to 9% after privatization. This reflects that the bank relied more on equity finance to reduce the debt risk inherent before privatization. Increase in this ratio is an indicator of the bank ability to borrow as debt increased over the five years after privatization.

- Equity-Loans Ratio (E/L): This is the ratio indicates a bank’s aggressiveness in lending which ultimately results in better profitability. This ratio is 10% to 12% before privatization and increased to an average of 18% after privatization. This result proves that, the bank was conservative before privatization but aggressive after. On average the equity to net loans ratio increased from 13% before to 20% after
privatization. This result indicates that the bank was able to raise more share capital and also follow a more conservative lending policy.

The above three capital adequacy ratios provide consistent results regarding the good position of the bank’s capital adequacy after privatization as compared to its capital adequacy before privatization. One can conclude that the capital adequacy of the bank of Alexandria has greatly improved from 8% before privatization to 12% after privatization as proved by the mean average of all the capital adequacy ratios. This finding indicates that the bank is far better after privatization as compared to its capital adequacy before privatization.

4.2 Assets Quality

The quality of assets is an important parameter to gauge the strength of the bank. The prime motive behind measuring the assets quality is to evaluate types and activity of assets. The ratios necessary to assess the assets quality are:

- Operating Income to Total Assets (OI/TA): This ratio discloses the efficiency of bank in generating revenues out of its existing resources. The ratio as calculated in the appendix ranges between 2% to 5% from 2001 to 2011. Table (3) indicates the mean average of this ratio is almost very close before and after privatization (3% to 4%). This is not a major change on average but is due to the same rate of increase in both the numerator and the denominator because both operating income and total assets increased. There is a positive change, which proves the enhancement of asset efficiency after privatization as compared to the situation before privatization. The ratio is very low before privatization, which is due to the low operating profits and the less efficient assets.

- Net Loans to Total Assets (NL/TA): It is the most standard measure of assets quality measuring the net performing assets as a percentage to total assets. The bank was not active before privatization, specifically in 2004, 2005, and 2006, which have a ratio of 37%, 37%, and 23% respectively. Loans to total assets increased clearly after privatization and reached up to 51% in 2011. On average, the mean of this ratio has increased from 39% to 43% of the two groups before and after privatization respectively. The positive change indicates that the bank is concentrating on more performing assets after privatization compared to its performance before privatization.

- Loan Loss Reserves to Total Loans (LLR/TL): It indicates the extent which loans provided by the bank are riskier and how the bank is protecting itself through loss reserves. High loss reserves before privatization (18%) on average reflects the high degree of risky loans and the ratio decreased to around 11%. Table (3) shows that the mean loan loss reserve ratio decreased from 19 times before to 12 times after privatization. The finding indicates the reduction of risky loans provided by the bank after privatization. The compiled measure of assets quality has decreased from 6.65% before privatization to 4.28% after privatization. The result is an indicator of less assets’ efficiency after privatization, which may be due to the conservative lending policy applied by the bank after privatization and the expansion policy in terms of the acquisition of new assets.
4.3 Liquidity

Bank has to take a proper care to hedge the liquidity risk; at the same time ensuring good percentage of funds are invested in high return generating securities, so that it is in a position to generate profit with provision liquidity to the depositors. The following ratios are used to measure the liquidity:

- Liquid Assets to Total Assets (LA/TA): It measures the overall liquidity position of the bank. The liquid asset includes cash in hand, balance with institutions and money at call and short notice. The total assets include the revaluation of all the assets. This ratio is only 20% in 2001 (before privatization), which is very low but enhanced after privatization to about 35% in 2011. The average of the ratio provided by table (3) has explicitly increased from 23% to 39%. The bank was working under a high liquidity risk before privatization and then started to recover the liquidity problem by keeping more current assets.

- Liquid Assets to Demand Deposits (LA/DD): This ratio measures the ability of bank to meet the demand from depositors in a particular year. To offer higher liquidity for them, bank has to invest these funds in highly liquid form. The liquid assets of the bank have increased from around 5 billion in 2001 to around 16 billion in 2011 by more than 200% increase. Also the bank was able to attract more deposits as it was 1.7 billion in 2001 compare to around 31 billion in 2011. The mean ratio before privatization is 224% before privatization compared to only 49% after privatization. The main reason for this is the very low level of customers’ deposits before privatization as well as low investments.

- Liquid Assets to Net Loans (LA/NL): The ratio indicates the bank ability to strike a balance between its liquidity, investment in loans and its profitability. The ratio has increased from 39% in 2001 to 82% in 2011, which is an indicator of better liquidity position. On average, the bank keeps more liquid assets after privatization (95%) as compared to 65% before privatization. Again this is related to the conservative lending policy followed after privatization.

4.4 Earning Quality

The quality of earnings is a very important criterion that determines the ability of a bank to earn consistently. It basically determines the profitability of bank and explains its sustainability and growth in earnings in future. The following ratios explain the quality of income generation:

- Net Profit to Equity (NI/E): This ratio indicates how much a bank can earn profit from its shareholders’ equity. The appendix shows the remarkable increase in the return on equity ratio from 8% in (2001) to 18% in 2010. Among the main factors that contributed to the improvement in ROE is the significant growth of 67% in operating income from 2004 to 2007. The growth in income is due to the fact that the average portfolio increased by 52% during 2007. Coupled with the growth in income, the bank's operating expenses has also shown a sharp downward trend reducing from 2,292 million in 2004 to 1,947million in 2007. The mean of the return on equity has increased from 6% before privatization to 18% after privatization. The bank’s performance has greatly improved as a result of the obvious growth in net profits.

- Net Profit to Total Assets (NI/TA): This ratio measures return on assets employed or the efficiency in utilization of assets. This ratio is very low in 2001 (0.3%), which
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indicates low efficiency of the bank’s assets. After privatization, the ratio has little bit enhanced but still below average. The average return on asset ratio has not changed from the before and after privatization. The reason may be the remarkable growth in total assets, which is followed by less growth in net profits after privatization.

- **Profit Margin Ratio (NI/OR):** It is a measure of returns to total revenues. The bank was not active in generating profits from its operating revenues as its ratios range is only 8% to 10% before privatization. The profit margin ratio increased to more than 30% after privatization. The average profit margin of the two periods has clearly increased from 10% before privatization to 35% after privatization.

The overall earning quality measure indicates that the bank’s profitability has increased from 6% before to 18% after privatization as provided by the table above. Therefore, the bank is more profitable after privatization. This finding is consistent with many studies, which they come up with better profitability when organizations are private owned compared to state-owned enterprises.

### 4.5 Management Efficiency

Management efficiency is another important element of the CAMEL Model. The ratio in this segment involves subjective analysis to measure the efficiency and effectiveness of management. The ratios used to evaluate management efficiency are described as:

- **Operating Expenses to Operating Revenues:** This ratio measures the efficiency of the management in performing operations that generates high revenues but with low expenses. It is a very high ratio, which indicates inefficient management before privatization as always at the time the ratio is greater than 1 or (100%). This means that operating expenses are greater than operating revenues of the bank. This ratio comes down to 80% in 2011 compared to 325% in 2001. The average mean of the years before privatization shows a ratio of 2.67x, which is very high and reflects less efficient management as compared to 1.15x after privatization as an indicator of better management efficiency in the operating cost reduction although operating revenues has obviously increased.

- **Total Deposits to Total Loans (TD/TL):** This ratio measures the efficiency and ability of the bank’s management in converting the deposits available with the bank excluding other funds like equity capital, etc. into high earning loans. The ratio was very low in 2001 around (15%) but increased to around 1.6 or (160%) in 2011 indicating the management ability of attracting more deposits. The mean ratio after privatization has grown to 194% as compared to only 107% before, which is a sign of more efficient management.

- **Profit per Employee (PPE):** This shows the surplus earned per employee. It is known by dividing the profit after tax earned by the bank by the total number of employees. The mean ratio of net income per employee has shown substantial increase from (0.75) pre-privatization to (1.10) per employee after privatization. The positive change is a result of the growth in net earnings as well as the reduction in the number of employees during the financial crises period, which falls after privatization. Overall management efficiency is less after privatization (1.40), while it is (1.50) pre-privatization. Analysis of management efficiency by mean ratios has a negative result similar to liquidity and assets quality components of the CAMEL model. The result is
mainly due to the efficiency of the bank in reducing operating expenses compared to operating revenues, which is counted in the positive side of efficiency.

| Table 4: The Mean of the CAMEL Elements Pre and After-Privatization |
|---------------------------------|-----------------|
| Capital Adequacy                | Pre-privatization | Post-Privatization |
|                                 | 0.08             | 0.12              |
| Assets Quality                  | 6.65             | 4.28              |
| Liquidity                       | 1.04             | 0.62              |
| Earnings                        | 0.06             | 0.18              |
| Efficiency                      | 1.50             | 1.40              |

Overall comparative analysis of the bank’s performance before and after privatization is summarized by the mean averages as shown in table (4) above. The main findings can be summarized as follows:

- Capital of the bank is more adequate after privatization as compared to pre-privatization. There is a substantial increase in the capital adequacy from 8% to 12%, which indicates that the bank’s capital is more adequate after privatization and the bank is more protected against financial crises as well as its ability to attract and return customers and depositors.

- The above finding of capital adequacy is supported by earnings quality as it also increased from 6% to 18%. This positive growth change in earnings after privatization is an indicator of the bank’s ability to increase its revenues, control its operating expenses, and better use of its resources. The improvement in profitability of the bank of Alexandria after privatization is consistent with the results of many studies on privatization assessment (Said M. Saucier [66]; Bhayani [68]).

- Assets quality of the bank has decreased from 6.65 to 4.28 after privatization. The reduction of the asset quality is not a negative indicator because it happens as a result of the substantial reduction in the loan loss reserves. Less loans reserves is a sign of less risky loans or more conservative bank’s credit policy.

- The liquidity of the bank has substantially decreased after privatization to 0.62 compared to the liquidity position pre-privatization of 1.04. This finding is an indicator of liquidity risk but at the same time has another positive sign that the bank is able to increase its investments and therefore, its profitability.

- The average management efficiency is 1.4 after privatization compared to 1.5 before privatization. The decrease of this ratio is not a negative result because it is a product of the reduction in the operating expenses.

Another tool that can be used to measure the stability of the bank’s performance before and after privatization is the degree of risk of all the CAMEL contents. The best measure of risk is the standard deviation (SD) of the two periods based on the mean average calculation. As per the calculation of the standard deviation from table (3), the degree of risk is clearly different between before and after privatization. The bank of Alexandria is less risky after privatization (2.93) compared to the high risk before privatization (4.68). This is a normal result as the bank is performing well at all aspects after privatization. The findings of this study are consistent with many previous studies (Meggison et al. [43], Brada [39], Shleifer [40], and Omran [64]).
The above analysis, together with the deep revision of all relevant literature provides policy makers in Egypt with a comprehensive picture of pre-and post privatization of one of the four state-owned commercial banks. Accordingly, the future privatization path can be based on empirical evidences that help to develop and conduct transparent privatization policies and procedures in order to overcome the critiques targeted to the Egyptian privatization program implementation and consider the bad practices of the past privatizations deals.

5 Conclusion

The Privatization refers to the transfer of ownership from the SOEs to private hands or deregulation. The main objectives of privatization are to enhance financial performance, increase efficiency and productivity, improve services quality, reduce public expenditure and fiscal deficit, shrink government size, raise revenues, promote foreign direct investment and increase the level of overall private investment and enhance private firms, decrease public monopoly inefficiencies and enhance public participation and confidence in a market economy. Since the start of the Egyptian privatization program in the early 1990’s up to the present time, 202 SOEs have been partially or wholly privatized in Egypt. Consequently, around 65% of the Egyptian privatization program has been implemented (202 out of 314 enterprises) over the period from 1993 up to the present time.

With regard to the banking sector privatization, in its attempt to reduce market concentration and enhance competition, the Egyptian government launched an active bank privatization program in 1994. This program implied two separate dimensions, the privatization of joint venture banks and the privatization of state–owned banks. In reality, the state has already sold its equities in 21 joint-venture banks, in addition to Bank of Alexandria.

The study aims at evaluating the financial performance of Alexandria bank pre-post privatization over ten year’s period (five years before and five years after privatization). The study applied five elements of financial performance under the CAMEL model to assess capital adequacy, asset quality, management efficiency, earnings quality, and liquidity. A total of fifteen ratios (three ratios under each of the five categories) have been assessed, including the mean averages and standard deviations to provide comprehensive assessment before and after privatization. The main findings of the study can be summarized as follows:

- Capital of the bank is more adequate after privatization as compared to pre-privatization. There is a substantial increase in the capital adequacy from 8% to 12%, which indicates that the bank is more protected against financial crises as well as its ability to attract and return customers and depositors.

- This positive growth change in earnings after privatization that rises from 6% to 18% is an indicator of the bank’s ability to increase its revenues, control its operating expenses, and better use of its resources.

- The reduction of the asset quality from 6.65 to 4.28 is not a negative indicator because it happens as a result of the substantial reduction in the loan loss reserves. Less loans reserves is a sign of less risky loans or more conservative bank’s credit policy.
• The bank is facing a liquidity risk as the average liquidity decreased after privatization to 0.62 compared to the liquidity position pre-privatization of 1.04. At the same time this reduction has a positive sign that the bank is able to increase its investments and therefore, its profitability.

• The calculation did not support better management efficiency as the mean is almost the same for the two periods.

• The bank’s risk after privatization is significantly better (2.93) compared to 4.68 before privatization as a result of the positive changes that generated at the different categories of the CAMEL approach.

6 Future Research

Further research is needed in order to investigate the economic, political and social consequences of privatization at the state level in Egypt and the relationship between privatization methods and post-privatization performance in the banking sector. Furthermore, additional research at both sectoral and company levels is necessary to better understand the effects of privatization, particularly post-privatization performance.

References

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