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PROS AND CONS OF PRIVATIZATION IN THE MARITIME SECTOR IN EGYPT

Prepared By
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المستخلص

الخصخصة هي نقل الملكية من القطاع العام إلى القطاع الخاص. بدأت الخصخصة في مصر في أوائل التسعينيات. اعتمدت مصر مجموعة متنوعة من الأساليب لتنفيذ برنامج الخصخصة، تختلف كل طريقة عن الأخرى. كشف تطبيق الخصخصة في مصر عن العديد من المزايا والعيوب. وقد أوضحت هذه الورقة الجوانب الإيجابية والسلبية. كما تم استعراض خصخصة القطاع البحري في مصر وما هي إيجابيات وسلبيات الاقتصاد المصري من جراء الخصخصة وأثر هذه الخصخصة على كفاءة وأداء القطاع البحري. وخلصت هذه الدراسة إلى أن التخصيص سيزيد من رؤوس أموال الشركات ويزيد السيولة المالية في الخزانة العامة للدولة ويخفف العبء المالي عن الموازنة العامة للدولة. اعتمد البحث في جمع البيانات على الاستقصاء لمعرفة إيجابيات وسلبيات الخصخصة على القطاع البحري في مصر بعد تحليل نتائج المسح، خلص الباحث إلى أن الخصخصة لها تأثير إيجابي على القطاع البحري في مصر.

Abstract

Privatization is the transfer of ownership from the public sector to the private sector. In Egypt, began privatization in the early 1990s. Egypt has adopted a variety of methods to implement its privatization program, each method being different from the others. The implementation of privatization in Egypt has revealed many advantages and disadvantages. This paper clarified the positive aspects and the negative aspects. Also, reviewed the privatization of the maritime sector in Egypt and what are the pros and cons that will be reflected on the Egyptian economy as a result of privatization, as well as the impact of this privatization on the efficiency and performance of the maritime sector. Opposition to the idea of privatization concluded through this study that privatization will increase the capital of companies as well as will increase the financial liquidity in the state's public treasury and also reduce the financial burden on the state's general budget. In collecting data, the research relied on the survey to find out the pros and cons of privatization on the maritime sector in Egypt After analyzing the results of the survey, the researcher concluded that privatization has a positive impact on the maritime sector in Egypt

Key words: Privatization – Pros & Cons – Efficiency – Performance

1. Introduction

This paper reviewed the concept of privatization in general, the history of privatization around the world, the different ways of implementing privatization, and global experiences in privatization, for example in the United Kingdom and the United States of America. In addition to discuss Egypt's experience in privatization according to the government's privatization strategy, and the different forms and ways to implement privatization in Egypt, moreover the exposure to the pros and cons of privatization, and reviewed privatization in the maritime

transport sector, especially seaports in the world, focusing on Egyptian maritime transport. Furthermore, reviewed the opinions in favor and opposition to the idea of privatizing seaports by presented the reasons for support and opposition to privatization, The research relied on the review of previous researches, the method of data collection by conducting a survey.

2. Definition of privatization

Privatization, in its general and comprehensive concept, is to transfer public ownership to the private sector, partially or completely, including all laws, procedures and activities according to which the transfer process is conducted. Privatization has taken its scope within the economic reform and restructuring policies that developing countries seek to adopt as a response to the failure of comprehensive development policies based on state intervention to mobilize economic development mechanisms based on a comprehensive planning approach on the one hand and the reduction of external debts on the other hand. This reform is based in its fundamentals on liberating the economy from the domination of the public sector and relied on market mechanisms to allocate resources on the basis of competition within the framework of economic freedom (Starr, 1988).

3. History of privatization in the world

Since the early 1970s, the world has become aware of a new economic phenomenon called 'privatization'. To this end, several common definitions have emerged, centered on the state's renunciation of private sector ownership, or the transfer of ownership from the public sector to the private sector. Privatization began as a global economic phenomenon during this period. Between 1980 and 1992, more than 15,000 companies were privatized during this period, 3,800 of which were in countries that borrowed from the World Bank, and 85% of these operations were in Europe, Central Asia and Latin America in the former socialist economic zone (Megginson, 2003).

4. Global experiences in privatization

Many researchers emphasized that the number of privatized companies in the world increased significantly in his 1970s. Privatization has become a pervasive approach in all geographic regions of the world, also pointed out that the first part of the privatization process is the proportion of large developed countries such as the UK whose economies are predominantly capitalist, driven by a desire to increase corporate productivity.

4.1 Privatization in the United Kingdom

The UK privatization experience, which began with the Conservative government is considered successful is truly one of his pioneering experiences in terms of legislative, political and economic preparation. With stock market and tax structure reforms, privatization will cover all goods and services sectors of the economy, and promotional activities will focus on the use of intensive media and advertising campaigns aimed at all target market sectors .

This was done to convince, encourage and persuade them of the feasibility of privatization. For example, the media and advertising campaigns he continued to market for British Telecom for a year and a half, implemented a step-by-step method of privatization and start-up (Yarrow, 2002).

The UK government has taken a number of steps to expand its ownership base. The state encouraged founders to purchase state stock or a portion thereof, and gave to managers and workers in preference to purchasing stock. Finally, the UK government offers her two ways of controlling the selling price of companies proposed for privatization. This is either by direct decision or by auction. In any case, the relevant banks and relevant valuations are carried out prior to pricing. Professional accounting firm of the Ministry of Finance, then the issue ends with setting the price to be taken directly in the privatization business

4.2 Privatization in the United States of America

Although the United States of America is primarily a private sector country, there are some leaders in the capital who oppose the privatization of many federal government agencies, but the trend towards privatization is stronger at the state level. There are some states who have accomplished the privatization of public goods until the prison administration, processing government data, caring for children and many others, and one of the best examples is the state of Michigan. To fire prevention and some parts of police protection, sewage treatment, street lighting, street tree pruning, snow removal, parking sites, railways, hospitals and prisons, and even cemeteries management, and waste collection, and some states subjected more than. A public service to compete in the market, and companies advanced to accomplish these tasks with high efficiency and at low cost, which led to a reduction in the fees paid by the citizen for the services provided to him. In a special experience, the Teachers Union in Michigan took advantage of private sector facilities in the field of obtaining products food, postal and security services for its members instead of being provided by its agencies (Qanu', 2005).

5. Privatization in Egypt

The experience of privatization in Egypt began with the government's signing of an agreement with the World Bank in May 1991 to set up a corrective program for the structure of the Egyptian economy. The privatization program is a pivotal part of this correction. However, the real beginning of giving the private sector an influential role and importance was with the economic openness. According to the experience of privatization in Egypt Procedures Manual for the Government Program, (1996) was aimed at restructuring companies, increasing the rates of use of available energy, expanding the ownership base and providing the opportunity to contact foreign markets, obtaining modern technologies, attracting capital for investment, stimulating capital markets, as well as reducing Government support and ridding public institutions of their accumulated large losses.

An office for the business sector was also established, and then a ministerial committee was formed headed by the Prime Minister with the participation of the Minister of Public Business and the technical office of the Ministry, to approve and follow up the implementation of the privatization program. As for undertaking the implementation of the privatization program, it is entrusted to the holding companies - in accordance with the program approved by the Minister of Public Business Sector - which may seek the assistance of the expertise of local and foreign financial advisory institutions (Hindi, 1996).

5.1 Methods of implementing privatization programs in Egypt

A method of partial public offering of the company's capital included in the program, which is often within 10% of the number of shares due to fear of full public offering (Government Program Procedures Manual, 1996) large shares have a negative impact on the market value of the stock, and issuing the first part of a subscription at a small rate gives the opportunity to issue at a lower price than the actual price (Mohammed, 2012). It leads to the achievement of capital gains and gives a positive first impression of national investors participating in privatization programs. The Ministry of Public Economics has relied on selling some or part of its facilities through private subscription methods (saiah, 2012).

Employees of a company offered to privatize are given the opportunity to acquire a stake in capital at a discount of 20%, which is equivalent to 5% of the number of shares and their own (Government Program Procedures Manual, 1996). One share union is sold to workers (they consider it a private investment fund). The profits earned from the shares are distributed to the workers, who are members, and the workers' union members either leave the company or many workers dispose of the shares to generate capital gains at the end of the service. Therefore, it is advisable to ask for storage for at least one year (Wehbe, 1996).

Egypt's privatization program methods include encouraging negotiations to conclude a lease of available capacity that can be operated by the private sector, facilities and asset management contracts, and some idle assets have been effectively liquidated. Several steps have been taken and some legislation has changed to accommodate the privatization program. However, full legislative and legal preparations have not yet been completed, slow bureaucracy and long legal proceedings still make it difficult to implement court decisions, and capital is inherently timid. Egypt's privatization program lacks information and data to help investors decide whether to participate in the program, and the media and publicity of the privatization program is minimal and very limited. Therefore, the public's negative attitude toward privatization. Egyptian investors, foreigners, and all citizens of privatization have in mind the lifting of subsidies, rising prices, and the transformation of the nation from a social class with limited income. Many due to the lack of a limited rehabilitation and capacity building program for workers in projects where privatization was proposed, and a prepared plan to address the consequent shrinkage issues of the privatization program (Bon, 2012).

Corporate workers and executives have developed a dark situation of privatization, led by a privatization program leading to opposition from these corporate executives and workers, this resistance to citizens, investors, businesses, politics and it is exacerbated by the lack of programs to raise awareness of privatization issues among government leaders and workers (Fayez, 1996).

In addition, due to the nationalization process on Egypt's privatization program, inadequate media and advertising efforts, and the steps introduced into the black image crouched in the heart of the experience, previous among domestic and foreign investors. (According to the Ministry of Business, Department of Technology, 1993, 1996)

Considering the Egyptian government's privatization strategy, there were several forms of implementation of the privatization process in Egypt, for example, the first full sale. The property owned the government in the private sector. In most cases, the company has fired most of its existing employees. Second, it seeks to expose some of the value of the enterprise, build partnerships between the public and private sectors, enjoy the benefits of the private sector and overcome the shortcomings of the public sector. There are other ways to privatize, each with its own strengths and weaknesses. Therefore, the government needs to study the various forms of

privatization and choose the appropriate method in order to maximize the benefits of privatization and avoid the economic damage that may be inflicted on it.

6. pros & cons of privatization

Privatization means that state-owned companies become owned by private companies. For example, if the government needs money, can sell a piece of land to a private company, and the private company can build a house then sell. Privatization can have many different pros and has become very popular recently. However, privatization also has cons.

6.1 Pros of privatization

The privatization of the government sector aims to achieve many productive advantages and services provided by institutions, and it will be summarized as follows:

- Raising the country's economic growth rate.
- Exploiting government institutions that do not bring profit to the state and reducing the financial burdens borne by the state's general budget to support institutions to ensure their continuity and compensate for their losses.
- Facing the budget deficit by providing resources to the state's public treasury through the proceeds from the sale of public institutions.
- Activating the role of the private sector in developing the economy through the services or products it provides.
- Reducing financial and administrative corruption, as the government sector is more vulnerable to corruption than the private sector.
- Achieving the inverse relationship between the profits made due to the strength and efficiency of the services provided by the private sector and the tax.
- Activating many projects, activities or other practical offices such as advertising, performance evaluation and other projects related to commercial activity (Bholane, 2014).

6.2 Cons of privatization

The privatization process has negative effects on many segments of society, including the following:

- The high rate of poverty and the high rate of monopoly on projects due to their privatization and the sums of money spent in running their activities.
- Neglecting the public interest because the private cares about money, which leads to the deterioration of some public services for citizens of the middle and lower categories.
- High rates of inflation.
- The absence of democracy and the state of social and economic equality. (Tetteh, 2013).

7. Privatization of maritime sector in Egypt

In recent years, since ports are an industry that requires a large amount of capital, countries around the world are moving toward port reform through privatization, which can improve the performance and efficiency of ports and reduce the financial burden on governments. A view in favor of privatization is that the transfer of ownership from the public sector to the private sector leads to improved port performance and efficiency (Cullinane, 2002).

Most countries in the world are responding to the global trend of government privatization (airports, highways, water supply and sanitation) in developed and developing countries by

handing over operational responsibility for ports and port facilities to private companies. Following the public sector retains responsibility for basic regulatory functions such as maritime safety regulation, contract monitoring and enforcement. (Research on Factors Affecting the Development and Modernization of Arab Ports, Arab League Report, Cairo, 2006), many reports argue that the concept of privatization in ports is a means, not an end. It points to a trend toward privatization. It was primarily intended to increase port productivity. A feature of the privatization application is that the port authority relies on its own funds and does not rely on financial support from the state. The Port Authority can be considered as one of the most prevalent applications of the privatization concept in the world, a property rights system that has fulfilled the aforementioned mechanism. The experience of international ports proves that huge leaps have been made in developing port productivity and reducing the cost of services as a result of the application of private sector trust systems in port management and, at various transshipment stations, as a result of tracked commercial assets and integrated information systems that contribute to the speed of procedures and regulations to be followed and the security of planning, execution, follow-up and correction at all stages of work Use Port. Privatization should not be a sale of assets, but a privatization of public administration and liberation from rigid rules and regulations .

Therefore, it can be said that the application of port privatization will enhance the competitiveness of ports. Privatization programs should include promoting competitiveness within the port. The purpose of privatization is to break the monopoly of government agencies that cannot adequately manage their burdens and to continuously develop their services for better results. In less time and at the lowest cost. Ports using modern technology and equipment with the aim of providing workers with strong and superior superstructures and infrastructure to reduce accidents, casualties, ship waiting times and revenues. By increasing the frequency of ships entering the port and the amount of goods circulated, the goods will pass through the port and a portion of the profits will be used for necessary work has entered into several Public private partnership projects and has shown strong performance. In the case of a private station operator, (the port authority enters into a concession contract with the operator).

In 1999 Egypt's Sokhna Port Development Company (SPDC) was awarded the first construction, operations and relocation program for 25 years. His second Build, Operate and transfer (BOT) 49 year program was awarded at the Suez Canal Container Terminal (SCCT). Since then, Egyptian port authorities have viewed his BOT as a standard program for public-private partnership planning. The aim was to create a key hub port, improve port efficiency, expand port capacity, attract foreign investment, and create jobs (JICA, 2012). Egyptian experience in the privatization of ports and container terminals such as Ain Sukhna Port, SCCT and AICT. Some views agree and strongly support the idea of privatization, which has been noted as the best solution to all the problems that Egyptian ports are suffering from. An unloading that needs to be replaced and evolved to keep up with global developments .

Private sector has the financial and technical capacity to respond to global advances in the shipping industry and to partner with the private sector to reduce the financial burden on governments. All of this will have a positive impact on improving the efficiency, performance and competitiveness of Egyptian ports. In general and the maritime sector in particular, believing that Egyptian ports are part of Egypt's national security and cannot be abandoned .

The government should study to develop ports to keep up with the global development of the shipping industry. This will be done through studying and analyzing previous experiences of privatization forms and methods and choosing the form that suits the Egyptian situation, through the government's use of the best economic experts.

8. Development of Questionnaire

Questionnaire is one of the most well-known and most frequently used analyzing methods. It provides a convenient way to collect information from specific population groups (Rojas, 2007). Questionnaires are defined as "tools for gathering information to explain, compare, or explain knowledge, attitudes, behaviors, and / or socio-demographic characteristics. The methodology is fairly flexible when measuring different types of data (subjective, objective, qualitative, and quantitative). In general, there are several types of questionnaires that can be used when conducting a survey By Mail surveys, group management surveys, household approvals, face-to-face interviews, and telephone interviews (Westers, 2006).

Nonetheless, respondents who respond to the questionnaire often want to limit their answers, which can cause the questionnaire to lose its point. However, researchers can overcome this problem to some extent by providing ample space for comments. On the other hand, low response rates for written surveys, especially mail surveys, are the most common problem and can dramatically reduce the credibility of survey results. Needless to say, postal surveys may not be answered by the data subject, which further adversely affects survey results.

The following equation was used to calculate the sample size, where the number of the study population was about 900 employees, and through the use of this equation, the research sample was determined, which amounted to 265.

$$n = \frac{X^2 * N * P * (1-P)}{(ME^2 * (N-1)) + (X^2 * P * (1-P))}$$

Where:

n = sample size.

X² = Chi-square for the specified confidence level at 1 degree of freedom.

N = Population Size.

P = population proportion (.50)

ME = desired Margin of Error (expressed as a proportion)

An opinion poll was conducted for Egyptian maritime sector, by taking a sample of workers at the middle and senior management level.

Questionnaire questions were selected to find out whether privatization has a positive or negative impact on the maritime sector in Egypt. By collecting and analyzing the results of the questionnaire, found that privatization has a positive impact on the maritime sector in Egypt.

8.1 Descriptive Analysis

1. Privatization has a positive impact on productivity of maritime sector in Egypt.

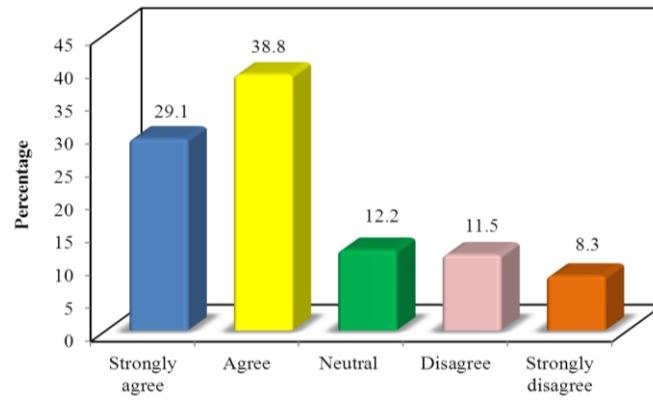


Figure (1.1): Privatization has a positive impact on productivity of maritime sector in Egypt. Figure (1-1) shows that 67.9% agree that 1- Privatization has a positive impact on productivity of maritime sector in Egypt, there are 19.8% not agree and 12.2% neutral.

2. Privatization has a positive impact on performance of maritime sector in Egypt.

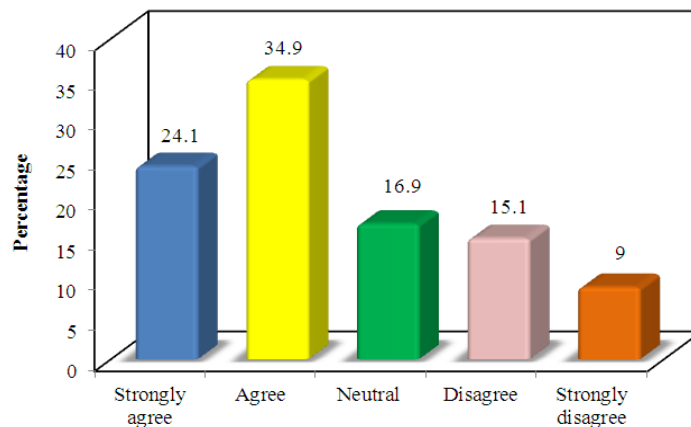


Figure (1.2): Privatization has a positive impact on performance of maritime sector in Egypt. Figure (1-2) shows that 59% agreed that Privatization has a positive impact on performance of maritime sector in Egypt. There are 24.1% not agree and 16.9% neutral.

3. Privatization has a positive impact on efficiency of maritime sector in Egypt.

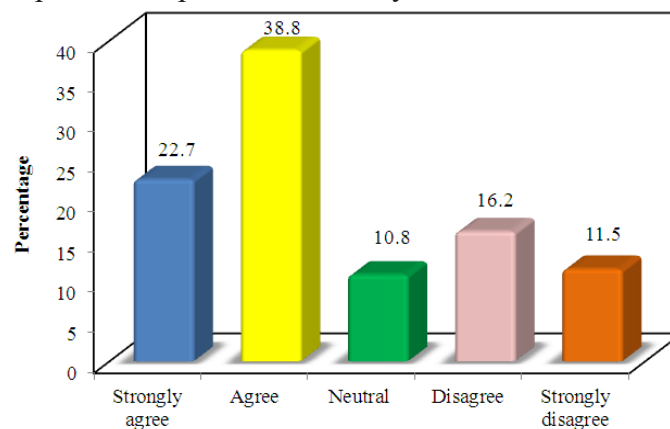


Figure (1.3): Privatization has a positive impact on efficiency of maritime sector in Egypt. Figure (1-3) shows that 61.5% agree that Privatization has a positive impact on efficiency of maritime sector in Egypt. And 27.7% not agree and 10.8% neutral.

8.2 Hypothesis Test

Table (1.1): Multivariate Linear regression for privatization

	B	SE	Beta	t	p
(Constant)	0.137	0.112		1.225	0.222
Performance	0.660	0.105	0.557	6.296*	<0.001*
Efficiency	0.372	0.073	0.342	5.074*	<0.001*
Productivity	-0.058	0.084	-0.052	-0.684	0.494
$R^2=0.675, \text{adjusted } R^2=0.671, SE=0.75, F=189.524^*, p<0.001^*$					

F,p: f and p values for the model

R^2 : Coefficient of determination

B: Unstandardized Coefficients

SE: Estimates Standard error

Beta: Standardized Coefficients

t: t-test of significance

*: Statistically significant at $p \leq 0.05$

Table (1.1) shows the multiple regression analysis for the impact of the three variables under study together on privatization. It was found out that performance has the most significant positive impact on privatization followed by efficiency in the presence of other variables ($P\text{-value} < 0.05$). While productivity has insignificant positive impact on privatization.

9. Conclusion

This paper reviewed the concept of privatization in general, its history around the world, and the different methods of implementing it, in addition to presenting some international experiences in privatization. In addition to reviewing the pros and cons of privatization in the maritime sector in Egypt. The research relied on data collection on the survey and then analyzed by a program to a statistician. Through analyzing the results of the survey data, it was reached that privatization has a positive impact on the maritime sector in Egypt.

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