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Welcome to the inaugural issue of *Lights: The MESSA Quarterly*.

As a publication of the Middle East Studies Students’ Association at the University of Chicago, *Lights* aspires to provide a forum for scholarly work on the Middle East, particularly for those students pursuing a Master’s Degree at the University. We are a non-political publication, seeking to foster understanding of the region and its people and offer a space for intellectual exchange. Our undertaking is to promote professional and educational growth among students and faculty through this avenue.

*Lights* adheres to high standards of scholarship, choosing the work that it publishes in consultation with University of Chicago faculty members. All submissions are considered anonymously and evaluated on their scholarly and stylistic merits. We select papers that explore the political, linguistic, historical, and cultural significance of the Middle East; works that transcend limitations across formal cultural and ideological boundaries, with varying aesthetic approaches.

We would like to sincerely thank the Center for Middle Eastern Studies faculty and staff for their support and cooperation with our mission. Special thanks to Dr. Fred M. Donner and Dr. John E. Woods for their insights and valuable time dedicated in guiding the Subcommittee with this publication. Additionally, we are extremely grateful to the authors who submitted their work for this inaugural edition.

We are proud to present this, the first of many editions of *Lights*.

- The Executive Board of MESSA’s Subcommittee of Publications
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Lights: The MESSA Quarterly
PART I
Featured 2011 Master’s Thesis

Robert E. Green

Robert Green completed his graduate studies at the University of Chicago in 2011, receiving an Master of Arts in Middle Eastern studies and an MBA with concentrations in finance and economics. He also holds a Bachelor of Arts in economics from Northwestern University. Following graduation, Robert has worked in corporate finance advisory in New York. His academic and professional interests include emerging markets finance and private sector development.


The ABC’s of Privatization: 
A Case Study of Al Ahram Beverages Company in Egypt 
by Robert E. Green 
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Introduction

The 1996 privatization of the Al Ahram Beverages Company (“ABC”), Egypt’s monopoly beer producer, was among the largest, most publicized divestitures during the country’s privatization effort of the 1990’s. It came at a pivotal juncture in Egypt’s economic reform program and left a uniquely enduring legacy. Yet despite the abundance of viewpoints in the popular press, financial industry research, and IFI reports, there has been comparatively little consideration of the transaction within the academic literature and no comprehensive empirical assessment conducted by any party.

As will be discussed in depth, the sale of Al Ahram, along with its subsequent experience as a private sector enterprise, was subject to numerous complexities and inconsistencies that have inspired similarly contradictory conclusions regarding its merits. Within the popular press, it has been described both as “one of the few unqualified success stories of the privatization program” and as “among the worst privatization sales ever.”1,2 Wall Street was generally exuberant about the company’s restructuring, leading a Credit Suisse First Boston analyst to assert, “ABC represents one of the most obvious examples of a successful privatisation in Egypt and the Middle East and North Africa (MENA) region.”3 IFI consultants responsible for monitoring the program’s results evidently agreed; a 2002 report submitted to USAID from the CARANA Corporation reported that ABC “remains the most obvious example of a successful privatization” in the Egyptian reform program.4 Even among the scant references to Al Ahram within the secondary literature there are stark disagreements. Businessman and author David Fick, on the one hand, lauds it as “the model of privatization in Egypt” in recognition of the modernizations in production implemented under the new ownership.5 Economist John Sfakianakis, in contrast, derides it as an example of the “rise of network behavior” and “rearranging” of rent-seeking interests during the 1990’s reforms.6 Taken together, the amount of concurrent and retrospective attention given to Al Ahram offers a depth of insight that is unobtainable for many Egyptian privatizations, but the contrasts of opinion reflect a tendency to draw selectively from the facts of the transaction.

In addition to developing a more complete understanding of the ABC case, this analysis offers broader lessons and applications for both academic research and policymaking. In particular, it illustrates both the feasibility and necessity of evaluating privatizations comprehensively. Single-firm case studies represent a small portion of the overall privatization literature and those that have been published are limited in both the range of industries represented as well as the breadth of evaluation criteria they utilize, such as profitability,

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productivity, stock performance, or governance. The broader universe of privatization research is similarly segmented and studies frequently ignore conditioning factors surrounding their data. That tendency belies the reality that SOE divestitures are highly complex with potentially potent reverberations along several economic, social, and political dimensions. The ABC case not only reveals the range of effects that determine the “success” or “failure” of a privatization, but confirms that they can each be systematically examined. An approach of this nature can enhance the study of privatization by highlighting the multiplicity of privatization effects and their manifestations both at the firm level and even on a national scale. By extension, in the context of ongoing and future privatization programs, it can better inform decisions by policymakers and evaluations by various stakeholders, from bureaucrats to IFI officials.

Subjected herein to such a review, the ABC privatization proves to have been, in most respects, unsuccessful in satisfying the core economic objectives of privatization. Outcomes with respect to financial performance, corporate governance, competitive market development, and fiscal stabilization fell short of, even worked counter to, the root economic motivations. While it did yield heightened product innovation and increased capital investment, and contributed positively to the country’s export activity and foreign direct investment, those benefits are seemingly outweighed by the aforementioned shortcomings. From a social standpoint, the transaction had additional adverse ramifications that while less direct, still contributed to the stalling of reform efforts and aggravated socioeconomic tensions that continue to plague Egypt.

**Historical Background**

Egypt’s privatization program involved a multitude of competing stakeholders, which inevitably resulted in protracted debate, inconsistent policy, and delayed implementation, further underscoring the need for comprehensive analytical frameworks to reconcile divergent interests. The push for SOE divestiture (and private sector development more generally) came under the government’s Economic Reform and Structural Adjustment Program (“ERSAP”) of 1990, implemented at the behest of the IMF, World Bank, and USAID. By that point, Egypt had reached the brink of economic collapse after years of fiscal and current account deficits financed through foreign debt and remittances. Central planning strategies introduced under Gamal Abd al-Nasser yielded a sprawling, unprofitable public sector: hundreds of state-owned enterprises (“SOE’s”) guaranteed employment and income to millions of citizens at the expense of efficiency and solvency. Earlier attempts to resolve public sector imbalances had drawn widespread opposition; among the most infamous examples were the 1977 riots against subsidy reductions enacted under Anwar Sadat’s Infitah policies. Workers, SOE managers, and bureaucrats alike were vulnerable to any public sector downsizing and the regime appropriately recognized how destabilizing their collective opposition could be. It should therefore have come as no surprise that the 1990’s reforms would require a balancing act. For instance, the

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7 It is beyond the scope of this paper to fully survey the case study literature, but a couple examples of multidimensional analyses include Takano (1992) and Grosse and Yañes (1998). Takano conducts a thorough assessment of the privatization of Nippon Telegraph and Telephone, Japan’s telecommunications monopoly, based on multiple economic criteria, though his approach is deliberately tailored to that sector. Grosse and Yañes segment the sale of Yacimientos Petrolíferos Fiscales, Argentina’s national oil company, into government, society, and company dimensions, however they emphasize the management of the privatization process rather than economic implications.

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Egyptian government had to weigh the merits of selling rapidly and reforming thoroughly to the satisfaction of the IFI’s (which were providing critical financial and logistical support), versus holding out for higher sale prices, cultivating domestic property ownership, and maintaining the cooperation of numerous interest groups. The deliberations were far more nuanced and the decisions even more difficult.

Thus during the early years of the reform period little was accomplished in the way of privatization and liberalization, and the IFI’s, frustrated by a perceived lack of commitment by the Egyptian government, withheld certain support measures in order heighten pressure for further progress. Law 203 of 1991 had listed 314 SOE’s and officials subsequently laid out ambitious timetables for restructurings and sales, of which they would fall dramatically short. Initially, the government stated a goal of selling 125 SOE’s within the first five years. Yet by 1995, the government’s privatization efforts yielded just three majority anchor investor sales, ten majority sales to employee shareholder associations (“ESA’s”), and a limited number of liquidations and minority offerings. That inaction, alongside resistance to other reform measures, such as currency devaluation, figured prominently in the IMF’s 1994 decision to postpone forgiveness of $4bn of debt, the third and final tranche of a cumulative $10bn agreed upon in 1990. Following the 1996 elections, new prime minister Kamal al-Ghanzouri launched a second phase of economic reform, committing to accelerated privatization and liberalization in order to restore IFI support.

The Al Ahram Beverages Company would be among those SOE’s put on the block to initiate and lend momentum to the government’s renewed effort. For a Muslim country to have a monopoly beer producer as a prized, consistently profitable public asset may seem unlikely, yet the company has a long history paralleling that of modern Egypt. ABC’s beginnings trace back to the 1897 founding of the Crown Brewing Company in Belgium under plans to establish operations in Alexandria. Another predecessor, Société Anonyme des Bieres Bomonti et Pyramids, was incorporated as a joint stock company in 1922 after the merging of two competing private brewers and by 1953 changed its name to Pyramids Brewery. Ten years later, Crown (then owned by Heineken Holding B.V.) and Pyramids were merged and nationalized under Nasser’s socialist program. The combined SOE was renamed the Al Ahram Beer Company. Production quality declined under public ownership, but Al Ahram remained profitable and eventually entered into additional product lines such as soft drinks and non-alcoholic beer. Reflecting its diversification, the government changed the company’s name to the Al Ahram Beverages Company in 1985. In conjunction with the public sector restructuring of 1991 (enacted through Law 203), Al Ahram eventually fell under the control of the government’s Holding Company for Housing, Tourism, and Cinema, the entity officially responsible for its sale. In October 1996, the government accepted a bid from the

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9 Ibid., pp. 32-34.
Luxor Group, a newly formed US-based investment vehicle led by Egyptian expatriate Ahmed Zayat.

Methodology

This analysis endeavors to review the Al Ahram privatization within a thorough and empirical framework that is grounded in economic principles. The following sections benchmark its outcomes against a series of privatization objectives, including three microeconomic and three macroeconomic. In addition, the case is assessed within a more subjective social context. As there exists no canonized list of privatization objectives, each objective herein is presented as a proposition with an accompanying literature review elucidating its foundations within the existing body of privatization research as well as its practical applications. Following the literature review is a discussion of relevant observations from the Al Ahram case, drawing from numerous sources, namely the news media, regulatory filings, and IFI reports. The final section, addressing the social implications of privatization, includes no specific propositions, but instead bases the discussion of Al Ahram upon an interdisciplinary set of theories concerning the prerequisites and outcomes of successful privatization efforts.

I. MICROECONOMIC CRITERIA


State-owned enterprises are notorious for their inefficiency and dismal financial performance, whereas private ownership generally results in broad operational improvements. In many cases, the public sector is utilized not for the pursuit of profits, but rather as a social welfare vehicle providing citizens with employment opportunities and low-cost goods. Governments therefore justify setting “soft budget constraints” for their firms, enabling managers and bureaucrats to avoid difficult cost-cutting measures as well as subsidizing excessive spending through direct budgetary transfers and lending through public agencies or state-owned financial institutions. Additional implications of government support measures and skewed managerial objectives will be addressed elsewhere in the analysis, however the resulting firm-level performance issues lie at the core of the privatization debate and merit being discussed first.

Firm performance has been a focal point for privatization research and numerous studies conducted across developed, transitional, and emerging markets have found improvements in the level, efficiency, and profitability of production, as well as other measures of financial health (e.g., reduced leverage). Megginson and Netter (2001) provide a thorough survey of such studies and confirm that the empirical results generally indicate statistically significant enhancements in firm performance under private ownership. Though the authors acknowledge instances of unfavorable or inconclusive outcomes, and recognize that transitional and developing economies are subject to greater data deficiencies and exposure to other factors

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13 See Kornai (1986).
impacting results, the breadth of work within this segment of research nonetheless provides a sound basis for accepting the proposition of positive firm-level financial effects.\footnote{A more specific debate continues on the revenue versus cost benefits of privatization, with some researchers identifying greater positive impact on revenue, while others, especially within the theoretical literature, emphasizing cost control as a primary advantage of the private sector. See Frydman et al. (1999) and Shleifer (1998).}

Proponents of privatization drawing upon that abundant evidence must still be mindful that aggregate data sets do not tell the entire story. Indeed, they are subject to limitations that frequently obscure critical factors underlying individual firm observations, particularly in the case of developing economies. Data availability, reliability, and comparability vary greatly between countries and companies, as well as within companies across time, thus requiring substantial compromises on the part of researchers in selecting uniform, synchronous model inputs and outputs. For instance, statistical regressions may utilize only three years of pre- and post-privatization data or rely on a single post-privatization year and varying durations of private ownership.\footnote{See Megginson et al. (1994), Boubakri and Cosset (1998), and La Porta and López-de-Silanes (1999).} The analyses also frequently test a small number of accounting measures that give incomplete and perhaps misleading representations of firm performance. As an example, some researchers, using increased sales per employee as the sole proxy, have concluded that firms operate more efficiently once transferred to private ownership, while ignoring other efficiency measures, such as sales turnover (sales/total assets).\footnote{Especially in cases of capital-intensive tradable goods production and given the proven tendency of SOE’s to over-employ, the latter measure seems far more relevant; that is, the efficiency debate should extend beyond the employment component.} More recent collaborative work on Latin America, namely Chong et al. (2004), has incorporated broader, better filtered datasets and additional ratios, including turnover and cost-of-sales/sales, but the limitations persist.\footnote{Results from this study are highly positive in favor of privatization, though the authors acknowledge biases remaining within the sample and those that naturally result from localizing to a single region. Interestingly, they identify diminished post-privatization “performance” of Colombian firms based on the criteria applied, which the authors attribute to stronger pre-privatization performance and greater post-privatization capital investment and competition. Yet they isolate that rationale, neglecting to consider the converse interpretation of relatively weaker investment and competition across the other countries. By not further considering the Colombia anomaly, the authors are able to adhere to their conclusion that privatization works, but weaken it by ignoring critical context.}

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privatization accounting changes and restructuring charges as well as pre-privatization manipulations are all common concerns when dealing with SOE’s in Egypt and elsewhere.\footnote{One example of this issue is that of the Egyptian Bottling Company (Pepsi Cola), whose post-privatization profit turned steeply negative even as revenues grew; undervaluation of assets and excessively long depreciation periods reflected in pre-privatization accounting were corrected after sale, which rendered the “before and after” financial comparison meaningless.}

While the privatization literature on firm-level performance provides substantial evidence of positive effects on output, profitability, and efficiency, it has also demonstrated the inherent flaws of applying blanket testing criteria and the merits of case-based approaches. Complete and accurate data is often unavailable, especially among emerging markets and opaque regimes such as that which administered Egypt’s public sector. When data can be obtained, varying time series as well as country- and firm-level idiosyncrasies create further challenges in constructing comparable samples of any size. To then identify a limited set of measures to capture the condition of all the underlying firms is exceedingly difficult. Instead, an individual case study allows for a more thorough and better contextualized measurement of pre- and post-privatization firm performance.

**Proposition 1 – Financial Performance & Efficiency: ABC Results**

By most standard accounting measures, Al Ahram’s post-privatization financial performance compared poorly against that achieved as an SOE, with variation depending on the delineation of timeframes and consideration of surrounding facts. Examining the composition of the company’s financial results reveals how vastly and rapidly it transformed under Ahmed Zayat’s stewardship and consequently how poorly the numbers fit into conventional “before and after” models. Nevertheless, ignoring the performance figures entirely can lead to premature, if not wholly misguided, conclusions. CARANA Corporation encountered that pitfall in its 2000 monitoring report to USAID, which concludes, “The company has been highly profitable since the privatization, which is the result of its continued monopoly in the beer brewing industry, as well as highly innovative and effective management strategies and cost cutting measures.”\footnote{CARANA Corporation – Privatization Coordination Support Unit (2000).} Curiously, that is the extent of their “Financials” section and the lack of any support for their statement is telling given what the numbers actually show.

To give due credit, Al Ahram exhibited impressive top-line sales growth at least through 2001, or five years post-privatization. Although revenue had been increasing at roughly 10% annually in its final years as an SOE, Zayat was able to accelerate that trend significantly to an average annual rate of nearly 25%. Having inherited a poorly operated SOE, he presided over initially meager growth while implementing various reforms in the first year. However, this was followed by an upswing in 1998, then an astonishing 62% revenue increase in 1999. The next few years saw lower levels of growth that were nonetheless elevated relative to pre-privatization averages. Thus ABC reported revenue of LE 424.5mm for 2001, dwarfing the LE 140.6mm reported for fiscal year 1996.\footnote{In 2001, the company switched its reporting period from a fiscal year ending June to full calendar years.} Sales over that period are illustrated in the following chart:
On the surface, the cumulative revenue increases show very well, but the growth pattern signals that the company was benefitting from more than just gradual market expansion and managerial refinement. In effect, ABC was constructed anew and it is critical to understand the events underlying that process in order to properly interpret the numbers. As mentioned above, Zayat and his team spent much of 1997 on the development and initial implementation of strategies laid out in conjunction with the acquisition. That included stamping out corruption, such as black market sales and inventory theft—merely recording all sales made by the company provided “a quick and significant positive effect on the company’s financial situation,” according to USAID consultants.21 Momentum picked up in 1998 with the rollout of new products, expansion of plant capacities, and the launch of REACH, ABC’s wholly owned distribution subsidiary. While the ingenuity and advantages of the company’s new distribution system will be highlighted later, it should be noted that REACH’s first customer was the Egyptian army, giving the company not only a lucrative fee-based contract for distributing Safi water (owed by the army with 15% of the bottled water market), but also immediate access to market territories, such as Upper Egypt, that had previously remained inaccessible due to political and religious issues.22,23 The latter component helped drive large gains in non-alcoholic beer sales, though the entire product line benefited.

Whereas those early growth initiatives could perhaps still be perceived as “organic,” a series of acquisitions that followed instantly expanded ABC’s output and altered its financial profile. Zayat took over the newly formed Nile Brewery in February 1999 and the state-owned Gianaclis winery shortly thereafter (both at bargain prices, as recounted under Proposition 4). The purchase of Nile, which had not yet begun production, gave ABC an additional 300,000 hl

of newly built (and much needed) capacity for its growing line of non-alcoholic beers. Sales of non-alcoholic beers were thus able to reach 424,000 hl in 1999 (LE 82mm), up 59% for the year, and 518,000 hl (LE 102mm) in 2000.24 By taking over the state’s monopoly winemaker, ABC was able to broaden its own product line and build upon an active, if theretofore underperforming, business. Wine sales amounted to LE 14.5mm in 1999 and LE 31mm in 2000, a relatively small component of overall firm revenue, but a substantial and immediate boost to the aggregate revenue increases achieved.25 With anemic growth in alcoholic beer sales (1.6% in 2000), the Nile and Gianaclis acquisitions were instrumental in sustaining that upward trajectory.

The declining momentum of the alcoholic beer segment was attributable to rising competition from El Gouna Brewery, another Egyptian newcomer and eventual acquisition target. To revitalize its alcoholic beer sales and further strengthen its other product lines, ABC acquired El Gouna in early 2001 and managed to push revenues up by LE 75mm (over 21%) to LE 424.5mm during a year otherwise marked by a global economic downturn and the September 11th attacks, both severely damaging to Middle East firms and not least those dependent on tourism. It is difficult to ascertain the resulting revenue contribution for 2001 and beyond, however El Gouna had achieved revenues of LE 63mm in the year preceding acquisition.26 Furthermore, based on El Gouna’s 2000 sales volumes and ABC’s 2001 reported average prices, the implied revenue contribution is roughly LE 73mm, suggesting that it accounted for a significant portion of the increase for that year.

The string of acquisitions by ABC and expansion of its distribution platform dramatically changed the company from its pre-privatization form. There is hardly more transparent a financial metric than top-line sales, yet in this case it is of limited use in evaluating the impact of privatization. In fact, the government could have simply merged ABC, Gianaclis, and its spirits business (which had been sold to El Gouna) to combine their sales. To be sure, there was an organic component of ABC’s growth—sound investment ideas and development strategies (even acquisitions) are undoubtedly hallmarks of skilled management. These attributes will be more fully accounted for in later sections, but in any case the company’s revenue figures, while impressive, cannot be credited as a successful outcome of its privatization per se.

The revenue component is still relevant inasmuch as it is a driver, along with cost structure, of a firm’s profitability, which in the case of Al Ahram actually declined, according to certain measures, after its privatization. Net profit, for instance, is one basic measure of a company’s financial health and can shed light on how well management executes its growth strategies. It is a natural pairing to revenue in that the “bottom line” should say much about how the “top line” is generated and conventional wisdom would have expected higher profits to accompany ABC’s persistently higher sales. Additionally, whereas most privatization studies focus on net profit, ABC’s generous tax treatment, which by 2000 virtually eliminated tax expense at the corporate level, renders its pre-tax profit figures more meaningful. As shown in

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25 Ibid.
the figure below, profits did grow steadily in the three calendar years following privatization, as many research models would choose to delineate. Further out the trend reverses, with pre-tax profit declining from 1999 onward and net profit from 2000 onward. *Egyptian News Digest* reported that, after turning negative in 2002, ABC’s net profit rose to a meager LE 36mm by 2004, lower than 1995 (two years prior to privatization).\(^\text{27}\) Similarly, profitability margins (measured as a percentage of sales) widened in the first couple years under Zayat before ending roughly flat at the popular “three year mark” and then declined thereafter.

![Profitability (LE '000s) & Margins](image)

*Source: Company filings.*

With its broad distribution network, ABC had established a highly scalable and difficult to replicate platform, however rising costs and associated liabilities seemingly undermined the expansion. As the business grew, operating expenses mounted from 21% of sales at privatization to over 30% by 2000, severely impacting its profitability. More detrimental to ABC’s bottom line was its acquisition-based growth strategy and choice of financing for those transactions. Academic studies frequently point to leverage reduction as a benefit of privatization, but this certainly did not hold for ABC, which had carried no debt under public ownership. In FY 1999, the company took on LE 102mm in debt, equating to 18% of total assets. Despite repaying a portion of that in 2000, the El Gouna acquisition brought ABC’s debt to LE 257mm, or 24% of its asset base, an elevated level for a company of its size and industry profile.\(^\text{28}\) As leverage increases so too does the accompanying financing expense, 

\(^{27}\) “Egyptian Al Ahram Beverages Reports $6.2 Mln Net Profit for 2004,” *Egyptian News Digest*, April 28, 2005, via Factiva, accessed November 2010. The adverse trajectory of ABC’s performance is evident from these media-reported figures, however it should be noted that no direct company filings could be obtained for the periods following its sale to Heineken in late-2002.

\(^{28}\) Such debt levels are typically not alarming, but as a brewer geographically concentrated in Egypt with a market capitalization of $164mm, they could be perceived as high. Other leverage and liquidity ratios for 2000 and 2001 include (’00, ’01): Total-Debt-to-Equity – 4.9%, 57.0%; Total-Debt-to-Capital – 4.5%, 35.9%; Total-Liabilities-to-Total-Assets – 36.6%, 57.8%; Operating Cash Flow Margin – 26.4%, 3.2%; Current Ratio – 1.53x 1.00x; Quick Ratio (including overdraft) – 1.11x, 0.67x. During this period, the company’s accruals ballooned and it began relying heavily on bank overdrafts, which reached LE 236mm in 2001, equating to 3.8x cash balances and 22% of

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which reached LE 49.4mm in 2001. Taking on substantial hard assets through acquisitions and paying a generous price for El Gouna also resulted in vastly higher depreciation and goodwill expenses for ABC.

An increasing asset base can still boost profitability if utilized efficiently, but again this was not the case for ABC. In measuring the efficiency of privatized SOE’s, many studies focus on worker productivity, or sales per employee, which for ABC rose steadily from LE 45 in 1996 to LE 87 in 2000, even with a growing number of employees over that period. Since asset expansion, not workforce optimization, was so central ABC’s strategy, it would seem more applicable to measure efficiency through asset turnover and return on assets (“ROA”). A different picture of efficiency thus emerges, indicating growth in assets outpacing that of sales, resulting in steadily declining turnover and ROA. Higher leverage notwithstanding, reduced turnover and profitability dragged down the company’s return on equity (“ROE”) as well.

![Asset Turnover vs. ROA & ROE](image)

*Source: Company filings.*

Lastly, since the literature has found privatization to correspond with increased cash dividends (and views that as a positive trend), it deserves mention that ABC released no cash to investors under Zayat. An LE 27mm payout for fiscal year 1997 went almost entirely to the government and other prior stakeholders. Management subsequently chose to retain its cash to support investment activities and ongoing operations. On the one hand, that could be recognized as a smart move, given the volatile cash position of the company, swinging from LE 97mm in 1997 to LE 157mm in 1999 to LE 62mm in 2001 and remaining positive through use of exorbitant bank overdrafts. On the other hand, perhaps a more generous dividend policy would have inspired more prudence on the part of management with respect to its expansion strategy.

total assets. The Debt-to-Total-Assets ratio is emphasized in the analysis for consistency with other privatization studies.
To formulate in hindsight what ABC’s performance would have been absent such aggressive moves to retain its market dominance would require endless conjecture, so the focus is on numbers actually achieved. In evaluating the success of privatizations, researchers pay scant attention to many surrounding circumstances, let alone alternative scenarios. Based on several popular objective criteria used in the literature, the privatization of ABC was not successful in improving the firm’s performance. Even positive statistics, such as revenue (or output) growth, are discredited by the methods by which they were achieved (i.e. acquisitions). Others, such as profitability and margins, would have passed tests for short-term performance gains, though our extended time horizons prove such conclusions premature.

Proposition 2 – Investment and Innovation: Privatization encourages capital expenditure and other business development activities that support improvements in efficiency, quality, and marketability of output.

Privately owned firms allocate a larger share of resources, both human and financial, toward capital improvement and product innovation. In both the empirical and theoretical literature, this notion is frequently addressed in conjunction with financial performance expectations, for viewed simplistically capital expenditure is itself a financial metric and a financial decision on the part of a manager. It stands apart, however, in the extent to which it drives those other results and thus merits separate treatment. Capital expenditure is a direct function of innovation and business development strategy—ideas and investments on the part of management to increase revenues and reduce costs.

As further elucidated in the next section (Proposition 3) and similar to the reasoning behind Proposition 1, the root motivation is that private managers face greater risks from inefficiency and realize greater benefits from profit generation than do their public counterparts. As Shleifer describes, “Ownership strengthens the owner’s incentives to make investments that improve the ways or reduce the costs of using the assets, because the owner has the power to reap more of the rewards on these innovations.”29 A segment of theoretical research has been developed based upon that principle, more specifically focusing on the role of “incomplete contracts” in investment decision making.30 Essentially, SOE managers face significant uncertainties from “soft budget constraints” in the event of failed investments as well as government “expropriation” of incremental profits generated through successful ones.

In addition to the entrepreneurial aspect, Megginson et al. (1994) offer additional, albeit intimately related, explanations for increased capital expenditure post-privatization.31 These include a renewed focus on capital versus labor inputs (the public sector typically emphasizes the latter) and the need to address deferred maintenance and spending requirements. The authors also point out how improved access to private capital markets and the need to improve competitiveness similarly encourage new investments.

There is substantial empirical evidence that these tendencies hold true across a range of regions and economies, based on measurement of capital expenditures in proportion to sales, total assets, fixed assets, and employees. In contrast, some researchers, particularly in the

context of Latin America, have found that due to excess, underutilized capacity at many SOE's, capital investment often does not increase. There are also cases in which SOE's undergo restructurings and capital investment programs in advance of privatization, which may result in slack capacity and alleviate spending needs for the new ownership. It is important, however, not to mistake an absence of increased investment for an absence of entrepreneurial incentives.

Hence, it is again evident that the high-level numbers do not always offer a clear story and that firm-specific circumstances must be taken into account. Further to that point, investment and innovation may appear in multiple areas of a firm’s financial statements. Studies that rely on the conventional measures of capital expenditure as additions to property, plant, and equipment (“PP&E”) are liable to miss other capitalized expenses, such as research and development or pre-production costs. Very often costs associated with business development, such as advertising or staffing a new department, are simply buried into general expenses on the company’s income statement.

There are additional, oft overlooked pitfalls in grouping capital investments into more general financial analyses. For the latter, the expectation is performance improvement, but that need not be the case with investment. Observed trends in capital spending reveal little about returns generated. In fact, the previous section demonstrated how contradictory the two can be—business expansion activities, whether financed through debt or requiring upfront commitment of personnel and other resources, may reduce near-term profitability. Likewise, that privatization promotes capital investments does not presume that all will be “successful.” More important is for privatization to create conditions for entrepreneurship, to encourage owners (unlike bureaucracy-minded SOE managers) to think innovatively and take on risks for the benefit of the enterprise. Under those premises, the current framework addresses capital investment under its own heading.

**Proposition 2 – Investment and Innovation: ABC Results**

Ahmed Zayat had ambitious plans from the start to transform ABC from a “tarnished brand” into a “full-fledged beverages company” and undoubtedly achieved that objective. With an “entrepreneurial, consumer-driven” mindset, he and his team moved well beyond Al Ahram’s core beer products, ramping up existing secondary segments and introducing new ones, while rolling out marketing and distribution strategies that enabled the company to access far more customers far more easily. Across the board, product quality reached new heights and so did popularity. By all accounts, the Al Ahram Beverages Company exhibited great commercial success following privatization.

To be sure, this came at a hefty price tag, for the company spent large amounts on its production facilities, new product development, advertising, and REACH distribution subsidiary. As illustrated below, ABC’s investments in core PP&E alone were substantial, totaling just under LE 500mm from 1997-2001, far exceeding the LE 239mm commitment originally made by the Luxor Group in connection with the acquisition. PP&E figures for some post-privatization years do not appear substantially higher, however it must be taken into

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32 Chong et al. (2004), pp. 57-59.
34 February 1997 Prospectus, p. 39.
account that in the two years prior to sale, new bottling lines were installed at each of the company’s three facilities thereby elevating expenditures in those years. Furthermore, over the next five years, ABC booked LE 30mm in intangible assets (representing development and pre-production costs) and LE 184mm in goodwill (mostly tied to the El Gouna acquisition) in addition to the new PP&E. Meanwhile, ABC was committing 5% of sales to advertising costs and large sums to distribution infrastructure, as reflected in higher selling, general, and administrative expenses (“SG&A”) incurred.

There was much to show for the money spent, as the company’s productive and administrative resources were vastly improved. In addition to the acquisitions described previously, Al Ahram promptly tripled capacity at its Sharkia plant and built a new, LE 150mm state-of-the-art production facility at El-Obour (inaugurated in 2000), both of which yielded valuable efficiencies in brewing and bottling. Having inherited Gianaclis’ outmoded assets, the company also spent several million pounds in new equipment and production processes in the first few months of that deal closing. Beyond the facilities and heavy machinery, the entire operation was modernized. As described in The New York Times at the end of 1999, “When [Zayat] arrived there were four telephones; now there are 1,600. He raised the number of desktop computers, from four to more than 300, and fax machines, from one to dozens.”

As it proceeded in updating its infrastructure, the company worked to improve upon its existing brands as well as to expand its portfolio. It entered into licensing and/or technical

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35 Ibid., p. 17.
36 Al Ahram Beverages Company, 1999 Annual Report, p. 10, via Thomson ONE Banker, accessed November 2010; and 2000 Annual Report, p. 22. Per the 1999 Annual Report, productivity at Sharkia went from 56 to 73 cases per man per hour. According to the 2000 Annual Report, El Obour was built with an initial capacity of 500,000 hl, but due to automation required only 170 on-site personnel.
assistance agreements with top western companies, including Danbrew (Carlsberg) and Guinness for beers, Royal Crown (RC) and Unilever (Lipton) for juices and soft drinks, and Ginestet (Groupe Taillan) for wine. The value of such strategic moves may not be easily measured by standard financial metrics. Likewise, the El Gouna acquisition gave the company access to additional brands (e.g. Sakkara and Lowenbrau beers, and Obelisk wines) as well as a spirits business. By the beginning of 2001, ABC’s product portfolio had reached 50 SKU’s—up from 9 in 1997—as management aimed to address all niches of market demand, be it age, taste, economic status, or religious orientation.38 “Brandwidth,” they called it. A variety of non-alcoholic beers provided the biggest boon (fitting for a Muslim region), but across the board ABC’s drinks became genuinely popular and long gone were the days of tourists sporting t-shirts wryly declaring, “If Stella doesn’t kill you, it will make you stronger.”39 This certainly would not have been accomplished under continued public ownership, seeing as the company had still been expanding its staid alcoholic beer segment at the time of sale.

![Sales by Product Segment (% of Total Sales)](image)

Source: Company filings.

Just as ABC’s brand expansion was fitting for its local market, so too was its marketing approach, which management proudly characterized as “avant-garde.” To literally build a drinking culture in Egypt, the company spent heavily on sophisticated campaigns, catering carefully to its diverse customer base. In the tourist outlets there were beach umbrellas, parties, and giveaways. In widely circulated media, there were retro ads playing on the familiarity of Stella in old Egyptian movies, ads for non-alcoholic products in the style of western beer ads, and other clever ploys that were unprecedented in the Egyptian market, but that proved highly effective.40 To promote its wines, ABC established a wine academy for hotel and restaurant workers and marketed heavily through travel publications and tour operators.41

Recognizing that customer access was just as critical as customer awareness, Al Ahram broadened its distribution channels and geographic coverage significantly. At privatization, the company had 173 trucks, a small number of warehouses around Cairo, and a network of 30 agents that it relied upon for 25% of its sales.\footnote{February 1997 Prospectus, p. 28.} In 1998, it launched REACH, which by 2000 was equipped with 17 depots, 500 trucks, and 1,200 employees. Not only did REACH introduce home delivery for customers uneasy about purchasing alcohol in public, but also opened up its own chain of “Superstores,” numbering 43 by 2000. In that year, the number of outlets selling ABC’s alcoholic and non-alcoholic products reached 3,450 and 57,000, respectively. Between its relationship with the army via Safi and dedicated investment in distribution, ABC was able to create its single most powerful competitive advantage.

The scale and ingenuity of Al Ahram’s capital and operational investments should be recognized as a successful outcome for the firm’s privatization. Regardless of the impact on the firm’s bottom line, it resulted in consumers getting what they wanted and helped cultivate a market for new alcoholic and non-alcoholic beverages—true commercialization. It would also be reasonable to presume that such an innovative program could not have taken place under public ownership. It was indeed aggressive, as the company pushed the envelope with the visibility of its products and sought to reshape public attitudes about alcohol. The Egyptian government has had a string of challenging confrontations with local Islamic sentiments, so in spite of the economic promise, this would not likely have been deemed a fight worth waging.

**Proposition 3 – Corporate Governance: Privatization promotes organizational restructuring to align incentives among owners, managers, and workers for the benefit of firm performance.**

As highlighted in the preceding two sections, the issue of incentives is central to the privatization debate, but it is through governance that behaviors within an organization may be influenced. That is, the anticipated improvements in firm performance emanate from assumed improvements in management structures and policies. Unfortunately, while the ex-ante problems of public ownership and second-order privatization effects (e.g., financial performance and capital investment) have served as a convenient focal point for both empirical and theoretical research, the intermediate governance mechanisms by which this occurs have been given less attention. Presumably this is due to the difficulty of observing and objectifying organizational changes undergone by former SOE’s, the variety thereof within SOE samples, and the fact that a separate universe of literature exists to address the management and structure of private firms. A tailored case study approach may be more suitable for capturing these issues.

Nevertheless, there is a selection of theoretical literature that is instructive on governance issues in privatization. At a high level, it has been widely recognized that SOE’s are inherently ill-fated due to fundamental principal-agent problems, namely between the state as principal and the SOE managers as its agents. In contrast to previous sections that emphasized how the underlying philosophy of the public sector and the nature of public sector employment are not conducive to profit maximization, the point here is that public sector actors may still act rationally, but divergent goals and ineffective monitoring leads to waste and corruption—indeed, inefficiency. Reflecting on the experience of Egypt and other countries that
experienced with nationalization, John Waterbury provides an apt description of the public sector pitfalls:

All of this hinged on one crucial assumption, or illusion, as it turned out. The plan, the market, and equity targets had to be managed by selfless public officials who would resist the temptation to exploit the power that state administration of markets and assets provided them. It did not seem ill-advised to set up state monopolies because they would be run for the public interest… Any distortions or gross inefficiencies that might emerge in regulated markets and in SOEs would be handled by bureaucratic controls (auditing, inspection, policing) and by enlightened senior management.43

Needless to say, rent-seeking and entrenchment of personal and coalitional interests predominated, leading to the ultimate failure of the public sector. But that acknowledgement still does not say much about how SOE’s may be restructured post-privatization in order to correct those failings.

To that end, Dharwadkar et al. (2000) offer helpful, if somewhat simplistic, insights by applying agency theory to privatizations in emerging markets where institutional shortcomings are prevalent.44 They argue that weak governance mechanisms as well as limited shareholder and creditor rights are liable to exacerbate principal-agent problems, such as perquisite consumption, entrenchment, and expropriation. The analysis is largely theoretical, but it lays out a series of relevant (albeit tentative) conclusions on structural solutions for those concerns, summarized as follows: (i) transfer of SOE’s to dominant (>50%), foreign, and outside (i.e. non-employee) owners; (ii) replacement of pre-privatization top management and reduction of government representation within the firm; (iii) implementation of M-form organizational structures; (iv) contracting personnel through behavior-based compensation mechanisms; and (v) avoidance of debt as a managerial control mechanism.

Some broad empirical work has substantiated claims regarding the merits of foreign and outsider ownership as well as the effects of debt.45 Among that body of research is a unique study by Omran (2009), which tracks the evolving post-privatization ownership, governance, and performance of 52 Egyptian firms. He finds that firm performance (measured by ROS, ROA, ROE, and Tobin’s Q) is positively correlated with private ownership concentration, foreign ownership, change in board composition, and proportion of outside directors. Meanwhile, he identifies an inverse relationship between performance and employee ownership. The data also indicate increasing proportions and concentrations of private ownership over time, particularly by foreign investors. Together with the theoretical literature, these findings

44 The scenarios envisioned are rather simplistic, whereas post-privatization organizational changes are much more nuanced and the organizations themselves as well as their country environments are likewise complex. The authors do not address effects of using foreign public capital markets (either equity or debt) or bank channels as a means for bridging institutional gaps between emerging and developed economies. Nor do they consider the common occurrence in emerging markets of local SOE buyers and managers coming from positions of wealth and social privilege; they make rather paternalistic generalizations about the agents involved.
45 Frydman et al. (1999), Djankov and Murrell (2002), Jia et al. (2005), and Omran (2009) substantiate benefits of foreign, outside ownership. Yotopoulos (1989) highlights, albeit on a macroeconomic scale, the effects of excessive debt on Chile’s failed privatization program during the 1970’s.
provide a foundation for case-based privatization analyses, especially within an Egyptian context.

**Proposition 3 – Corporate Governance: ABC Results**

Ahmed Zayat and his team markedly improved operations at Al Ahram relative to those they inherited, however there were several factors that undermined the efficacy of their restructuring. A range of new corporate policies generally served to bolster worker productivity and reduce waste. At the same time, the company’s post-privatization governance structures, based on the applicable management theory, were decidedly suboptimal. It is admittedly difficult to net out offsetting effects and discern how much upside may have been foregone as a result of adverse governance practices, but firm performance and shareholder rights were indeed compromised.

The scale of operational dysfunction that prevailed at Al Ahram as an SOE presented tremendous opportunity for immediate improvement. As described in *The New York Times*, “Workers lounged around reading newspapers or napping while grimy, ancient machines gushed foaming beer into dirty green bottles, often along with insects, twigs and clumps of dirt.” Shortly after taking control of ABC, Zayat offered another striking account, proclaiming, “The amount of waste and the amount of corruption is beyond my wildest imagination… A case of Stella beer is LE 54, but it doesn't leave our warehouse until LE 60 has been paid. The kickbacks are high. The money that is being paid for each case is shared almost from the top to the bottom of the company.” Product deliveries commonly took place without any sale officially recorded, thus diverting all proceeds away from the company and depriving the government of excise tax revenues. With 27 sector heads and 72 general managers it was arduous to process legitimate sales, let alone monitor illicit ones. Zayat promptly put an end to those practices, instituting new quality and inventory control measures and assigning inspection teams, normalizing working hours, and steering employee behavior with new training, revamped benefits, and performance-linked compensation. Management ranks were streamlined and workers were redeployed to other parts of the company in order to boost efficiency.

Management and employees alike had opportunities to participate in Al Ahram’s potential success via the company’s widely touted stock incentive plans. In profiling the company in an October 2000 feature on the “world’s most dynamic [small] businesses,” *Forbes* magazine commended this innovation, saying, “Zayat takes pride in ABC’s being the first company in Egypt and among the first in the Middle East to award options to employees at all levels.” Officially, the program was implemented with the objective of “attracting and retaining talented managers and employees, and align [sic] shareholders and management

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48 IBTCI (1998), 27.
interests.”

Evidently pleased with the results, the company launched a second management share incentive program in 2001.

Such an overhaul could only be undertaken by fresh, outside leadership, which Zayat and his team certainly qualified as, but the new management also represented a large, powerful ownership interest that put other shareholders in a vulnerable position. With the Luxor Group remaining as the single largest shareholder and top employees steadily accumulating shares, ABC seemingly became subject to local, “insider” ownership. IBTCI, in its 1998 report to USAID, voiced early concerns about the lack of board representation for GDR holders combined with Egyptian securities laws that gave the Luxor Group, through its control of the GDR Depository, effective voting control over 7.5% of the company’s shares. In total, management constituted roughly 15% of ABC’s equity ownership as of 2001 via shares and GDR’s owned directly or through Luxor. On the board of directors at that point, four of seven seats were filled by insiders, including the two Zayat brothers (Ahmed and Sherif), and all but one member of the executive committee were Egyptian. To be fair, there were strong international, educational, and professional pedigrees among the top ranks and as previously acknowledged their commercial orientation was evident. The contention in the theoretical research that local insider managers are too risk averse and inexperienced to effectively reform privatized SOE’s does not apply in this case, but the circumstances introduced other problems.

More accurately predicted in the research is the entrenchment and expropriation that occurred. They were well short of a majority interest in the company, but with their positions on the board and executive committee, Ahmed and Sherif Zayat exerted tremendous influence across the operations of the company and the shareholder base. Despite the increasing segmentation of ABC’s business, management remained highly centralized under Zayat; no M-form structure or mutual monitoring was imposed. And notwithstanding the foreign GDR float, due to legacy (pre-privatization) holdings and steps by the company to encourage local ownership (e.g. a 1999 stock and GDR split), a sizeable portion of Al Ahram shares were in the hands of Egyptian institutions. The research views such local shareholding arrangements with caution, suspecting overly cozy relationships with managers or insufficient resources and expertise among the institutions to monitor effectively.

This may have been valid in the ABC case, for under Zayat, the company embarked unchecked on an ambitious and risky expansion. All the while, Al Ahram was paying no cash dividends, instead using cash on hand to support its expansion strategies. And as progressive as the stock incentive plan may have appeared, 60% of the 622,500 shares authorized were explicitly earmarked for the Zayats, diluting the other shareholders for their own benefit. Depending on which personnel ultimately received the remaining authorized shares, the

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52 1999 Annual Report, p. 46.
55 Medawar, Credit Suisse First Boston, April, 6 2001, p. 7.
57 Ibid., pp. 658-659.
58 1999 Annual Report, p. 5.
59 Ibid., p. 660.
incentive program may have been of more dubious benefit under the theoretical supposition that outcome-based compensation mechanisms are less effective in emerging markets such as Egypt. This latter consideration is not easily verifiable, but ex-ante further diminishes the merits of the program from a governance standpoint.

Also noteworthy is the apparent lack of cash equity that Ahmed Zayat had in the enterprise, which could have misaligned his interests with those of other shareholders who purchased the stock or GDR’s. The original GDR issuance generated a profit of $20mm ($13.6mm net) and he essentially took control of ABC for free. Furthermore, the significant leverage he subsequently placed upon the company clearly did not act as a deterrent for assuming high levels of risk. One would expect that ABC’s lenders, including American Express and Barclays, had the means to underwrite and monitor effectively, but it is unclear what steps were taken to impose management restraint to maintain credit standards.

Cash investment aside, Zayat still held a large equity stake in ABC and there is at least one example of proper alignment of interests: the 2002 Heineken sale. Zayat retained his executive position after the ownership changed, but the transaction was a very positive outcome for shareholders, who had watched the stock price and firm performance languish for some time prior. That visibility owed to the relatively advanced reporting provided by the company, coverage by 17 equity analysts, and the “BB” S&P credit rating it carried (well below investment-grade, but the first industrial rating in Africa and first corporate rating in Egypt).

Herein also lie examples of the challenging contradictions that often arise in evaluating privatizations. There were indeed severe governance weaknesses at ABC, but the company still underwent significant operational improvements and, in some respects, it was at the forefront of Egypt’s capital markets evolution. It also eventually attracted a more mature foreign buyer, Heineken, which over time promoted further development of its governance practices. For example, in 2004 the company was divided into separate business units, with different “owners” responsible for each segment. Zayat was still chairman at the time, but it is questionable whether such maturation would have occurred under his sole stewardship.

II. MACROECONOMIC CRITERIA

Proposition 4 – Market Institutions: Privatization promotes the development of competitive industry and other supporting institutions.

Privatization, on a microeconomic level, is a means to promote efficiency and investment, but private ownership is not, in itself, a sufficient condition for achieving those outcomes. Researchers broadly agree that competition and deregulation are the critical factors in improving firm performance, with limited exception for instances of natural monopoly and large externalities from production. This notion is explicitly captured in Ravi Ramamurti’s definition of privatization as:

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Any measure that increases the role of the private sector in the economy—for example, through deregulation, which permits private entry into markets previously reserved for SOE’s; economic liberalization, which exposes them to greater competition (e.g. through lower tariffs or fewer restrictions on foreign investment); or institution building, which improves the functioning of private firms and markets.63

In this arena of literature, theory has been repeatedly substantiated through empirical work. In fact, even absent government divestiture, exposure to market forces has been shown to induce efficiency and performance gains at SOE’s.64 Hence, the regulatory and market structures are considered most critical to realizing the benefits of privatization.

Intuitively, firms are more motivated to invest in innovation and minimize costs when facing threat from other market participants, though any government presence affecting competitive forces can be a powerful deterrent. As Vickers and Yarrow (1991) describe more technically, “Competition facilitates performance comparisons, which can generally improve tradeoffs between incentives and risk when several agents (managers) facing correlated uncertainties are being monitored.”65 Indeed, agents must face common risks and effective monitoring, however that is typically not the case when the state intervenes. In its 1993 Project Paper for the Egyptian privatization program, USAID focuses on the role of government as an “unfair competitor” when it is either directly producing goods or supporting certain producers at the expense of others.66 Continued government participation in industry also limits the credibility of broader economic reform programs. The challenges and uncertainties introduced by the public sector make it vastly more difficult to attract private investment, be it in the form of new entry or capital improvement, which lie at the root of industrial development.

Further to that point, and with more direct fiscal implications, continued government involvement not only stifles competition, but also sustains exposure to the resource drain caused by SOE’s. As Waterbury insists, “The private sector itself must…be privatized – that is, denied subsidized credit, energy and inputs, licenses and quotas, award of contracts through non-competitive bidding, and so forth.”67 Privatization places assets outside the reach of self-interested, potentially corrupt, officials and undisciplined managers and simultaneously removes direct burdens on the state. Ramamurti likewise points out that privatization is more conducive to effective regulation because unlike SOE’s, private organizations operating under the law and investor monitoring cannot simply break rules “with impunity.”

Creating a private sector is a difficult undertaking, however, and cannot be accomplished overnight. Ramamurti also reminds that, especially when reform programs are implemented in conjunction with crises, governments are likely to privatize without pursuing

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64 Caves and Christensen (1980) notably demonstrate the predominating effect of competition in the context of the Canadian railroad industry. Kole and Mulherin (1997) similarly find that the performance of firms seized by the US government during WWII, but nonetheless subject to continued industry competition, was not significantly different from that of private counterparts.
reforms beforehand. Monopolies, left intact, can be privatized more quickly and raise more money. Those considerations will be revisited later, but they are important for contextualizing the institutional weaknesses observed in countries where privatization is underway.

Still, governments must make a long-term commitment to cultivating a strong, competitive market environment. In many countries, new market and legal infrastructures are introduced in conjunction with privatization programs and sometimes this occurs in close concert with individual transactions. Recognizing the gradual characteristics of this process, Ramamurti emphasizes a dynamic “feedback effect,” whereby momentum for improved regulation can build over time through either continued “learning” on the part of the government or increased political support for taking measures to improve consumer welfare.

With the caveat that much of the institutional development process occurs at a higher political level and over a wider continuum of time, it is important to consider the extent to which individual privatization cases either contribute to or are consistent with achieving those objectives.

Proposition 4 – Market Institutions: ABC Results

In promoting market competition, the Al Ahram privatization was an unambiguous failure. The company existed as an artificial monopoly at the time of privatization and need not have been preserved as such, yet that is precisely what transpired. To be fair, there was arguably no financially or strategically intuitive option for breaking up the company prior to sale. The failure instead lay in how the company subsequently safeguarded its grip on the industry and how the government of Egypt enabled it to do so.

Al Ahram’s monopoly position was not simply a circumstantial characteristic—it was core to the ongoing business model. The 1997 GDR Offering Memorandum, the purpose of which was to “sell” investors on the company, repeatedly and unabashedly emphasizes ABC’s market power as the “sole producer” of beer in Egypt. The document also declares that, “The principal focus of the new strategy under the Business Plan will be to maintain the Company’s dominant position” in that segment. In subsequent shareholder reports, management explicitly reports on its continued success in protecting the company’s monopoly status.

Those efforts hinged on squelching competition, which occurred overtly through acquisitions of market entrants, namely Nile Brewery (1999) and El Gouna (2001). ABC was all but handed the keys to Nile, paying just $54 per hectoliter, half the standard industry replacement cost for such facilities. At five times first-year incremental operating earnings, the price paid for El Gouna was, at least in Zayat’s view, attractive as well. Notably, the sale occurred after cooperative (i.e. collusive) agreements between the companies fell through and it also required top El Gouna stakeholders to sign non-competitive agreements to ensure they henceforth stayed out of ABC’s way. Since one man’s gain is another’s loss, it is reasonable to

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question how balanced the negotiations were. Behind Nile were Mohamed Nossair and Farid Saad, and behind El Gouna was the Sawiris family—among Egypt’s toughest, most powerful businessmen. In this instance, they apparently recognized how ABC’s impenetrable grip on alcohol sales and distribution limited the long-term prospects of them sharing the stage and recouping their early investments. Zayat went so far as to claim, “I always had control of the market, even when El Gouna became an established name. I allowed Sawiris to live from day one.”

ABC’s acquisition of Gianaclis was also a bargain, but carried greater significance given the seller—that is, the Egyptian government. At a multiple of less than two times earnings, the deal would have been attractive to other buyers, even in recognition of the strategic turnaround and substantial capital improvements it would require. As a matter of fact, among the losing bidders was the Sawiris’ Orascom Group. The sale clearly demonstrates how complicit the government was in ABC’s efforts to broaden and strengthen its control over the country’s alcoholic beverage market (after having already augmented its non-alcoholic business with the Safi distribution license). Bureaucrats explicitly endorsed the Gianaclis sale and at least tacitly approved the other two acquisitions. For instance, ABC was allowed to inherit the licenses and tax treatment of both competing brewers, which unsurprisingly drew criticism from a number of sources. Chemonics International, as a consultant to USAID, concludes that regulatory approval of such anti-competitive transactions cannot be justified by any rationale for development strategy or by even the broadest market definition. Domestic competition, the paper asserts, is a prerequisite for microeconomic efficiency and competitiveness on an international scale.

Early on in the ABC privatization saga, the government appeared to recognize this, having offered tax holidays to new brewers, but it subsequently turned that enticement for market entry into a daunting barrier. Along the way, the government decided that no additional concessions would be granted and, as previously mentioned, allowed ABC to assume those held by Nile and El Gouna. No others had been issued. With ten-year tax holidays on its newly built plant at El Obour as well as those acquired through Nile and El Gouna, ABC benefited from cost advantages that no potential domestic competitor could replicate.

Meantime, it was virtually impossible for foreign producers to compete on price, as the Egyptian government had long stifled alcohol imports with excessively high tariffs. Its protectionist policies may have had some strategic basis while the public sector was still a direct stakeholder in the industry, but the government opted to maintain them even after divestiture. Around the time of the ABC privatization the government had actually enacted a broad reduction in tariffs, yet it left those on alcohol intact. ABC was thus insulated by

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73 1999 Annual Report, p. 4.
74 “Battles over liquid assets,” Middle East Economic Digest, April 12, 1999, via Factiva, accessed November 2010.
76 Handy (1998), p. 70. As an additional clarification, tariffs for both alcohol and tobacco were excluded, which could have been justified as a “sin tax” policy were it not for the fact that the government itself had been readily supplying both goods to the population and subsequently lent so much support to ABC. The government
import duties on alcoholic beer of 1,200%, plus additional taxes and fees. In practice, a 300% rate was paid on beer imported for use in tourist outlets (then constituting the vast majority of such imports), but it still had the effect of prohibiting competition. Technically, alcoholic beverages had been carved out of the WTO’s General Agreement on Tariffs and Trade (“GATT”) through 2005, at which point the tariff structure was to be revisited. ABC management and equity analysts had seen that deadline looming, but evidently protectionist minds prevailed, for as of 2010, average duties for beer stood at 1,200%, wine 1,800%, and spirits 3,000%, while the 300% rate still applied for tourist outlets.

Though the debate applied well beyond Al Ahram, proposed antitrust legislation had been lingering within the government since the early 1990’s. The Anti-Monopoly and Fair Competition Act was finally approved in Parliament in 2005, but in a weakly diluted form that was “subjective as ever.” During that interim, Zayat insisted that he was “not doing anything illegal right now” and even claimed to be promoting competition by ensuring that “ABC and GBC [El-Gouna] sales teams stayed completely separate.”

That argument on organizational structure seems tenuous in light of how centrally he controlled ABC and how proudly he characterized the company’s expanded “brandwidth” and production capacity post-acquisition. Regardless of which individuals were responsible for selling which products, everything flowed to the same bottom line and were priced accordingly. ABC vividly demonstrated its renewed monopoly power through its pricing, which increased markedly upon incorporating El Gouna—consumers were forced to pay 14% more for Stella, 30% more for Sakara Gold, and 5.5% more on average across its full portfolio of alcoholic beers. El Gouna had sought to build market share by undercutting ABC and eliminating that threat provided much greater pricing power and much needed margin relief.

Thus, Egypt’s weak regulatory environment was a boon to Zayat and his team, but detrimental to competition and, by extension, consumers. Instead of using the privatization to promote institutional development, the government both actively and passively did the opposite. Antitrust law notwithstanding, Al Ahram still maintained a market share of over 99.2% as of 2009, having recently acquired a new small rival, Luxor Brewery.

continues to dominate the tobacco industry in Egypt through its controlling stake in the Eastern Company S.A.E. (http://www.easternegypt.com).

77 February 1997 Prospectus, p. 32.
78 1999 Annual Report, p. 11.
**Proposition 5 – Fiscal Conditions: Privatization alleviates fiscal burdens upon states through generation of sale proceeds, increase in tax receipts, and removal of ongoing support measures.**

Oftentimes the immediate motivation for privatizing SOE’s is to remove their direct financial strain on the public sector, but embedded in nearly all cases is the goal of improving the long-term fiscal health and capacity of the state. Indeed, many privatization programs are implemented amid fiscal crises brought on or exacerbated by the unprofitability and inefficiency of SOE’s (the evidence of which has already been discussed). SOE’s may require direct government assistance as well as support from other publically owned firms, such as banks providing easy credit or suppliers channeling discounted inputs; in the latter cases, low creditworthiness reverberates through the public sector, compromising the financial health of those counterparties. The public sector creates a vicious cycle of fiscal damage.

In addition to removing direct support measures, there are two channels through which privatization may yield valuable fiscal inflows: long-term tax streams from the divested firms, which will hopefully become more profitable, as well as upfront proceeds from the sale of those firms and other assets. Governments can apply the added financial resources toward deficit reduction, debt retirement and other productive objectives. As Chong et al. note, “Increased fiscal revenues mean more resources that can be channeled to address pressing social needs, thereby benefiting society at large.”

There is a wide range of welfare-improving activities that a government may undertake, but with regards to the magnitude of this effect, the authors invoke evidence from Latin America that “privatization revenues and the increased tax receipts from non-profit-making firms were probably large enough to offset the costs of job losses [associated with privatization].” In their earlier study on Mexico, La Porta and López-de-Silanes established that the “the large increase in tax revenue dwarfs the losses suffered by consumers as a result of higher prices.” While those findings are highly localized, they illustrate the direct fiscal impact of privatization through sales and taxation.

In underscoring the potential significance of tax effects, some caveats concerning their predictability and measurability also deserve note. Latin America, as indicated above, is an example of privatization resulting in increased taxation, which those authors calculate using net taxes and a net-taxes-to-sales ratio (i.e., net of direct subsidies). Davis et al. (2000) cite similar findings from other regions, but at the same time point to certain pitfalls that governments must be mindful of in post-privatization tax administration. Specifically, taxation policies and processes involving private firms can become more challenging than those governing simple transfers between two state entities (e.g. treasury and SOE). Furthermore, as the private sector grows, the proliferation of firms makes tax processing and enforcement more complex, while newly divergent incentives raise the risk of tax avoidance or evasion. Thus, to better gauge both tax contribution and statutory adherence, it may be more informative to test effective tax rates, or net-taxes-to-net-profit-before-taxation.

Likewise, the amount of sale proceeds generated through privatization may vary, contingent upon how governments structure their objectives and approaches to divestiture. The three principal methods for SOE divestiture are by voucher, share issue, and direct (asset)
sale. The first, which has been least commonly observed, involves allocation of shares free of cost (or nearly so) to a population for redistributive or nationalistic purposes. The second, share issue privatization (“SIP”), is most common and entails divestiture through public capital markets. In the third method, the government sells SOE’s or individual assets to individual private firms or investors (a.k.a. “anchors”), or small groups thereof. A relatively large body of literature exists on patterns, results, and relative merits of utilizing each method, much of which is beyond the scope of this paper.  

For those methods that generate proceeds (i.e., SIP’s and direct sales), pricing is naturally a central concern, so it is necessary to consider why some firms are sold at apparent discounts. Perotti and Guney (1993), for instance, examine data from several countries revealing substantial underpricing in IPO’s of public enterprises, as measured by short-term stock price appreciation. The authors present insightful explanations for the observed patterns, notwithstanding some non-trivial data limitations. The principal finding of the study is that partial initial sales involving a change of control (e.g., >51% sold) occur at significant discounts, while follow-on offerings incur less of a discount. SOE sales initiated later in a privatization program may be for larger ownership percentages. The authors argue that this reflects a process of government reputation- or credibility-building, especially applicable in monopolistic or policy-sensitive industries. That is, governments initially cede control and concede on pricing, and over time demonstrate their commitment to divestiture and preservation of a favorable regulatory environment. As that is accomplished, richer pricing can be achieved. The importance of voting control cannot be overemphasized—minority offerings dominated by large government ownership stakes do not make attractive investments and will not generate maximum proceeds. Furthermore, the visibility of share offerings and stock market valuations enabled Perotti and Guney to base their study on SIP’s, but the underlying dynamics should carry over to direct sale processes.

In some cases, rapid privatization may be needed to establish policy credibility and attract investment, or to urgently shed money-losing SOE’s. Alternatively, priorities may lie in inducing wider share ownership, which can build popular support and reduce political risk, or in developing nascent capital markets. All of these may be used as rationale for discounted SOE pricing.

Broadly speaking, privatization ought to provide governments with greater resources from a combination of sales, taxes, and severance of support obligations. Where that does not occur there should be clear justification based on other objectives being achieved by the state. In practice, comparative evaluation of different objectives can be highly ambiguous; that is, it may be impossible to assess whether future “credibility” can be attributed to and valued against

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87 For example, see Boycko et al. (1994) on the political and economic dimensions of voucher privatization within the context of Eastern Europe; Boutrikova and Megginson (2000) on the impact of SIP’s on capital market development across a number of developed, emerging, and transitional economies; and López-de-Silanes (1997) on firm, industry and auction process characteristics affecting SOE auction prices in Mexico. In addition, Megginson et al. (2004) provide an analysis of economic, legal, and political factors influencing the choice between SIP’s and asset (private capital market) sales.

88 The authors present transaction timelines for several countries, including ones in Western Europe, Eastern Europe, Asia, and Africa, which results in significant inconsistencies and ambiguities across the local datasets. Within the data for each country there are numerous deviations to the divestiture and pricing patterns they identify and different methodologies are used to measure discounts.
sale proceeds foregone earlier in the process. But if governments opt for such a trade-off, future decision-making should remain conducive to credibility building and revenue maximization.

**Proposition 5 – Fiscal Conditions: ABC Results**

The contribution of the Al Ahram privatization to Egypt’s fiscal recovery was minimal at best, and perhaps detrimental. Not only did the government lose one of its most profitable enterprises, but it also sold the company at a deep discount and allowed it to substantially avoid tax collections. The government was also exceedingly generous to the newly privatized company in other ways, such in the sale or use of additional assets.

The government’s apparent mishandling of its deal with Ahmed Zayat marked the culmination of a protracted and convoluted sale process. ABC was initially put on the block in April 1994 with the goal of first finding a majority investor then selling the remainder to the public at a later stage, and though the government received over 20 bids, it accepted none, instead spending the following two years prevaricating between various direct sale and share issue schemes.\(^89\),\(^90\) No matter what the final strategy were to be, such indecisiveness was unlikely to garner confidence among potential investors. Then in 1996, under pressure from the IFI’s, the government initiated a new phase in its privatization program that called for a more concerted effort to sell assets. As a profitable monopoly with no strategic importance to the state, Al Ahram was a particularly attractive candidate for satisfying those demands. In fact, a partnership of the Egyptian Finance Company (“EFC”) and Al-Ahly for Development & Investment negotiated through the first half of the year an LE 105mm bid for 70% of the company.\(^91\),\(^92\) Deeming this valuation too low, the government rejected the bid and instead moved forward with a public offering for up to 60% of ABC. Due to religious sensitivities (i.e., not valuation concerns), the offering was then downsized to 20% and still undersubscribed; shares for 15% of the company were sold at LE 67 each and another 10% was allocated to the employees.\(^93\),\(^94\) Once again the government turned to potential anchor investors to unload the remaining 75% stake.

Enter the US-based Luxor Group and its head, Ahmed Zayat, with a novel solution for fully privatizing Al Ahram and maximizing its sale price. Unfortunately, perhaps in the exuberance of having procured a more suitable bid, officials allowed Zayat to pocket the incremental value predictably generated through the transaction, rather than capturing it for the benefit of the state. In November 1996, Zayat reached an agreement with the government to acquire its 75% of shares at LE 68.50 each.\(^95\) On the one hand, the price represented a slight

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91 “Al Ahram Beverages to be Sold through the Bourse,” *Middle East Economic Digest*, June 24, 1996, via Factiva, accessed January 2011.
92 The partnership was headed by Mohamed Nossair and Farid Saad, who in light of the failed ABC bid, sought and received a license to start a new beer company, to be known as Nile Brewery.
94 Of the 15% sold in the market, only one third (5%) went to retail investors. The remaining 10% was purchased by Misr Insurance and Bank of Alexandria.
95 February 1997 Prospectus, p. 7.
premium over the prior public offering. On the other hand, the local minority offering leaving the company otherwise intact entailed a much different valuation than selling to deep-pocketed foreign majority investors who could anticipate complete government divestiture and implementation of a well defined restructuring plan. That is, the company was worth significantly more under new private ownership and management, even taking into account the regulatory exposure to which it was still subject both as a monopoly and as an alcohol producer in a Muslim country.

This upward revaluation was unmistakably confirmed through Zayat’s execution of the deal, wherein also lay the novelty. Lacking the LE 230mm needed for the share purchase, he financed it through a concurrent issuance of global depository receipts (“GDR’s”) in London. Each GDR represented one half an ABC share and was priced at LE 53 ($15.50), equating to LE 105 per whole share. The offering was 7.5 times oversubscribed and the GDR price climbed by $5 on the first day of trading.96 Investors proceeded to earn nearly 100% returns within the first nine months, but even at issuance they were valuing the company over 50% higher than the government’s sale price!97 Zayat sold roughly 62.5% of the company in this manner, raising just under LE 300mm.98 Therefore, approximately LE 70mm ($20mm), less LE 22mm ($6.4mm) in transaction fees and commissions, went straight the Luxor Group—hence, neither to the state nor to the company.99,100 The Luxor Group meanwhile retained the remaining 12.5% equity interest. It is unclear why the government could not have accomplished the sale directly and reaped all the benefits. Some surmise it pertained to sensitivities about dealing in alcohol, but that seems unlikely; since the sale was a given, the priority should have lain in maximizing benefit to the state.101 Simply because conservative Egyptians did not want to purchase the “sin stock” did not dictate opposition to a profitable sale. Details of the transaction were well documented and publicized, yet fully accepted by the bureaucrats involved.

Well after the sale was finalized, the company continued to benefit from valuable land and tax concessions from the state. Although ownership of ABC’s Giza and Alexandria factories remained with the government, the company was granted a five-year lease at a “nominal” fee of LE 25,000 per year.102 The sites were extremely valuable and ABC could essentially utilize them as their own at no cost. Since the company would be required to vacate at the end of its lease term, the government sold to ABC five potential development parcels for a below-market price of approximately LE 13mm.103 A portion of these sites, located at El Obour City, was then used for the company’s new factory. More generous still was the ten-year tax concessions that came with the land and those subsequently obtained through the acquisitions of Nile and El Gouna as well as Gianaclis, for which ABC paid the government just 2 times earnings. Thus, as of 2000, all of the company’s facilities were producing under tax

99 Ibid., p. 8.
102 February 1997 Prospectus, p. 31.
holidays ranging from five to ten years; only its soft drink production (a small portion of the overall business) and REACH distribution subsidiary were subject to taxation.\textsuperscript{104} This is reflected in the precipitous decline in ABC's effective tax rates post-privatization to under 0.5% by 2000, compared to a statutory rate totaling 34%.\textsuperscript{105} The company had also managed until 2001 to avoid certain sales tax obligations associated with REACH.\textsuperscript{106}

There is no persuasive rationale justifying the amount of value foregone by the government. The opacity and indecisiveness exhibited by bureaucrats throughout the sale effort certainly did not earn any credibility that could potentially have drawn more interest and made for a more competitive (i.e. lucrative) auction. Moreover, for the low price it received, the government accomplished no obvious social objectives, since the shares went primarily to foreign investors and not much cash was reinvested for productive alternative projects.\textsuperscript{107} One government advisor offered a market development perspective, claiming, “Everybody in Egypt is happy. It's good for Egypt, because the GDR's mean that Egypt's market is becoming international.”\textsuperscript{108} That far-reaching assessment is unconvincing, for it still does not rationalize Zayat's role and his profits earned in the transaction, and likewise ignores the fact that GDR's had successfully been utilized in prior privatizations, such as that of Commercial International Bank.\textsuperscript{109} Also, while there are arguably benefits to be gained from foreign listings (e.g. ex ante access to capital and ex post performance improvements), the GDR's, traded abroad, provided no direct benefit to the local exchanges.\textsuperscript{110}

Some observers might contend that it was good to simply get the sale done—regardless of proceeds or concessions—for the sake of demonstrable reform progress, but this argument also holds little weight when considering how secondary ABC, in itself, was within the broader structural reform effort and foreign aid negotiations. In keeping with past patterns of reactive reform measures, the ABC sale approval came through within a week of the IMF announcing a new $391mm standby credit facility and forgiveness of a final $4bn tranche of debt, saving

\begin{flushleft}
\textsuperscript{104} 2000 Annual Report, p. 43.
\textsuperscript{105} 2000 Annual Report, p. 43.
\textsuperscript{107} As was generally the case with Egyptian privatization, it is unclear exactly how the proceeds from the ABC sale were applied. However, Davis et al. (2000) point out that in the period between 1996 and 1998, the government allocated one-third of gross proceeds to the financial restructuring of other SOE's, one-fourth for social assistance (severance), and remainder for debt reduction (19). Posusney (2002) argues that the early retirement program financed by the Egyptian government failed to provide the intended safety net, as stipend payments were insufficient to meet living expenses and lump-sum payments were liable to be spent quickly on large-scale expenses (e.g. marrying off children). Despite job retraining programs, workers were unable to find new employment. Meanwhile, academics often criticize SOE restructurings orchestrated by governments as unproductive. For example, see: Kikeri, Nellis, and Shirley (1992) and López-de-Silanes (1997).
\textsuperscript{108} Weiss and Wurzel (1998), pp. 128-129.
\textsuperscript{110} Bortolotti et al. (2002) argue that while political priorities and development objectives often favor domestic versus foreign listings, the latter can serve to signal commitment and tap greater capital resources abroad. Though there is a strong theoretical basis for the argument that foreign listings can compensate for lack of domestic market liquidity, the authors observe a positive relationship within their sample of 20 countries, most of which are developed. Jia et al. (2005) present evidence that foreign listings correspond with superior firm performance.
\end{flushleft}
It was also just before the Third Economic Conference for the Middle East and North Africa being held in Cairo to promote investment. The coincident timing, coupled with the perennial understanding that continued IFI support was indeed contingent on identifiable steps forward with privatization, may give the impression of some higher purpose and urgency to the sale. By the end of 1996, however, Egypt’s economy had stabilized and improved substantially; growth and investment were rising and the government did not anticipate drawing upon the new credit facility. The debt forgiveness was certainly material, but the donors’ decision, delayed since 1994 due to Egyptian non-compliance, was based on additional fiscal, monetary, and trade policy commitments, such as a steep import tariff reduction (which ironically excluded alcohol). In any case, external financing should not serve as a substitute for SOE sale proceeds, though inclinations toward the contrary may be symptomatic of the same fiduciary abandon that led to the failure of the public sector in the first place. For even under an urgent sale scenario, it is still unclear why an additional pricing discount and subsequent rents needed to be offered to effect an equitable sale.

Another rationale applied, but not borne out in the Al Ahram case was that it would generate momentum for further privatization sales. As it would turn out, the program continued to plod along, marked by familiar indecision and inaction that continued to erode investor confidence. The trend in majority anchor sales and majority IPO’s remained flat from 1996 to 1997 and the figures were disappointing and inconsistent in the years following (see table). As of June 2010, the Egyptian government was still struggling with 149 of its most troubled SOE’s. Not only does this demonstrate the government’s weak track record of implementing stated goals and effecting sales, but also highlights central flaws with the “momentum” justification. SOE sales are of dubious merit if the government loses its most valuable assets, such as ABC, without receiving their fair market value and if the same is done in subsequent sales, which themselves occur sporadically. Stephen King, for example, cites continued suspicions of underpricing in later privatizations, such as Asyut Cement in 1999 and

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114 Treaster, *The New York Times*, December 25, 1999. Also see: IBM Business Consulting Services – Privatization Implementation Project. 2004. “Privatization in Egypt: Quarterly Review October – December 2003,” report to USAID, http://dec.usaid.gov/, accessed December 2010. The Times article claims, “Mr. Zayat's success has been a catalyst for a new wave of investment in Egypt… For most investors and investment bankers, the companies, all troubled, had been a yawn. But when they saw what Mr. Zayat was able to do with Al Ahram, they began searching for other diamonds in the rough.” Similarly, the 4Q 2003 report to USAID by IBM Consulting Services cites seven transactions between 1998 and 2001 as evidence that “Anchor investor transactions started to catch up with sales like Al Ahram Beverages in 1997, paving the road for the next stage, which began focusing on sale [sic] to anchor investors.” That perceived momentum would in fact dissipate.
115 Numerous press reports are available concerning the continued deficiencies in the Egyptian privatization program, though the following two articles capture the situation both in the year following the ABC sale as well as five years onward: Mark Huband, “Battle to convince investors,” *The Financial Times*, May 12, 1998, via Factiva, accessed November 2011; “Slow Pace of Egypt Privatization Attracts Continued Criticism,” *Middle East Economic Survey*, March 18, 2002, via Factiva, accessed November 2011.
The questionable benefits of the Gianaclis sale, another 1999 transaction, have already been discussed. It is difficult to glean any long-term programmatic benefit from the government’s approach to selling individual SOE’s, such as ABC.

Recalling that the government had identified 314 SOE’s under Law 203 of 1991, the slow pace of divestitures (particularly non-employee majority interests) is evidenced in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Anchor Investor</th>
<th>IPO</th>
<th>ESA</th>
<th>Liquidation</th>
<th>Majority Total</th>
<th>Minority IPO</th>
<th>Sales</th>
<th>Leases</th>
<th>Partial Total</th>
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<td>2</td>
<td>12</td>
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<td>1995</td>
<td>3</td>
<td>15</td>
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<td>1996</td>
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<td>12</td>
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<td>28</td>
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<tr>
<td>1997</td>
<td>3</td>
<td>5</td>
<td>7</td>
<td>21</td>
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<td>1998</td>
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<td>2002</td>
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<td>34</td>
<td>33</td>
<td>134</td>
<td>16</td>
<td>28</td>
<td>22</td>
<td>66</td>
</tr>
</tbody>
</table>

Source: IBM Business Consulting Services

Notes: (1) Reflects date of majority divestiture, not initial offering.
(2) One offering (Extracted Oils) accounted for in 1997, versus 1995 as published.

Saddled with its least desirable assets, the state has meanwhile borne increased strain from adverse selection. Surely this is liable to occur in any large-scale privatization program, but that reality makes it all the more important to realize as much value as possible from the sale of more promising enterprises.

**Proposition 6 – Balance of Payments: Privatization promotes foreign investment and export-oriented industrialization that improves balance of payments and supports sustainable economic growth.**

Particularly for states recovering from the detriments of import-substituting industrialization ("ISI")—for which SOE’s have served as a primary vehicle—a key objective of privatization is to generate sustainable inflows of foreign capital to support development and create a healthy balance of payments. Insular, centrally planned economies tend to suffer from a lack of capital to meet investment needs and a lack of efficiency to meet production goals, resulting in both severe strain on domestic resources as well as reliance on debt and imports. Economic crisis predictably ensues. John Waterbury provides a succinct summary of this confluence, as observed in Egypt, India, Mexico, and Turkey ("EIMT"):  

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117 King (2009), p. 115.
In EIMT, the private sector and foreign capital were eschewed as instruments for the implementation of ISI and in favor of state enterprise... Flaws in the strategy resulting from deficit financing, inflation, overvalued exchange rates, trade imbalances, and mounting debt were exacerbated by...SOE’s, which...tended to replicate the malfunctioning of the state.  

Each of the EIMT countries struggled to cope with imbalances stemming from ISI, though Waterbury presents Egypt as an egregious example, with a “malfunctioning” economy, a public sector “in a realm of its own,” and a “systems maintenance” approach to structural adjustment that allowed fundamental problems to fester for years. By 1986, its public deficit reached 23% of GDP and its external debt stood at 119% of GDP. Meanwhile, the country remained heavily dependent on food imports and its non-petroleum exports were minimal. Both exacerbating and reflecting the problems at home, Egyptian nationals were holding large sums of money offshore, estimated in excess of $80bn as of 1993, or nearly twice the country’s international debt. It was against this backdrop that Egypt, like other ISI countries, was pressed to initiated reforms aimed at stabilizing the economy, which in turn required dismantling public sector—i.e., privatization. 

Although it is difficult to isolate and prove the direct macroeconomic benefits of privatization, the issue of capital flows is critical in the debate on SOE divestiture and private sector development. In practice, it is a derivative effect of privatization along with other related structural reform measures, such as foreign exchange adjustment, trade liberalization, and fiscal deficit reduction. With respect to the first-order benefits of privatization, there is a large body of evidence revealing increases in foreign direct investment (“FDI”) associated with SOE sales. For example, Davis et al. (2000) indicate that among the 18 countries included in his study, approximately 40% of privatization receipts, on average, were in foreign exchange. That corresponds well with an assessment by King et al. (2004) that 40% of Egypt’s cumulative privatization proceeds through 2003 represented foreign investment. In addition, as mentioned previously in the context of Proposition 3, multiple studies have shown that foreign ownership corresponds with superior performance among former SOE’s.

Foreign direct investment thus lays a foundation for sustainable growth by not only providing much needed financial capital, but also facilitating exchange of intellectual capital and management expertise, as well as access to global product markets. Companies are able to deploy those greater resources to improve efficiency and output quality, which in turn supports heightened competitiveness on an international scale. That ability to compete allows firms to expand their market reach and increase export activity. In simple terms, exports provide additional income for firms and capital for the broader economy. The resulting expansion signals further investment opportunity, which attracts new FDI and continues the process of economic development.

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120 Ibid., pp. 6, 66, 105.
121 Ibid., pp. 77-78.
122 Ibid., pp. 83-84.
124 Davis et al. (2000), p. 10.
125 King et al. (2004), p. 23.
Richards and Waterbury point out that for developing countries such as Egypt, the industrialization process (and its accompanying economic growth and job creation) requires investment in tradable goods production. This may seem obvious, yet Egypt’s public sector had over-allocated resources to infrastructure and other capital-intensive investments that did not stimulate growth.\textsuperscript{126} Furthermore, the authors argue that along with FDI must come repatriation of offshore savings in order to fuel private investment and endorse committed reform.

Naturally, foreign capital inflows must be managed carefully to mitigate vulnerabilities toward real exchange rate appreciation and inflation in the near-term, as well as toward excessive foreign ownership of assets over the long-term. In the case of developing countries with nascent private sectors, there are nonetheless significant potential benefits to be realized by maintaining an outward orientation.

**Proposition 6 – Balance of Payments: ABC Results**

It is difficult to trace with precision how the privatization of Al Ahram has impacted Egypt’s balance of payments, but there are features of the company’s experience broadly indicating positive contributions along multiple criteria. Both the initial government divestiture and subsequent sale to Heineken drew large sums of foreign investment. Under private ownership the company established relationships with larger international producers in order to improve its output and efficiency. By extension, it sought more aggressively to export its products and appears to have been successful in doing so.

The most obvious and direct macroeconomic benefit of the Al Ahram privatization was the foreign direct investment it generated. Whether it came from Zayat and his backers or other western GDR investors, the LE 230 raised in the government’s 75% sale provided a meaningful boost to 1997 net FDI of approximately LE 2.58bn, although as discussed above, the price was low and ultimately dwarfed by the 2002 acquisition.\textsuperscript{127} Heineken purchased the company at a far richer valuation that greatly benefited Egypt’s capital flows, even if the funds did not pass through the state budget as a result of the company’s then fully private ownership. The Dutch brewing giant paid LE 1.3bn, representing a remarkably large share of the LE 2.7bn of net FDI achieved for the year. Even the *Economist Intelligence Unit* credited the transaction for the impressive leap in FDI (46%) over the prior year.\textsuperscript{128} In fact, at the time it was the largest merger and acquisition transaction in Egyptian history, further underscoring its economic significance.\textsuperscript{129}

For Zayat and his counterparts at Heineken, the value of the company was in not only cultivating a domestic market for quality alcoholic and non-alcoholic beverages, but also the potential to tap into a much larger regional demand base. Zayat’s vision was for Al Ahram to “become the leading beverages company in the Middle East and North Africa” and had made

\textsuperscript{126} Richards and Waterbury (1990), pp. 224–225.
international expansion a top priority for 2001.\textsuperscript{130} Prior to privatization the company had already been selling small amounts of its non-alcoholic beer ("NAB") in Saudi Arabia and by 2000 its export sales equated to over 5% of its NAB production.\textsuperscript{131} But the market was much larger and presented tremendous opportunity for ABC. Though Zayat’s aims (including international acquisitions) reportedly encountered difficulty following the September 11th attacks, he did reach an agreement with SADAFCO, a leading food distributor and manufacturer in Saudi Arabia, in mid-2001 that would allow ABC to penetrate several Gulf countries, with expected sales of $10mm.\textsuperscript{132} Heineken similarly had its sights set on the broader Muslim world and could leverage its established global network to effectively market ABC’s products beyond Egypt. Its efforts have ostensibly been successful, for in early 2005 the company was anticipating its export volume for that year to reach an amount equal to its local sales.\textsuperscript{133} By 2009, the company was exporting 10% of its total production, both alcoholic and non-alcoholic, to 30 countries in the Middle East, Africa, Asia, and Europe.\textsuperscript{134}

Al Ahram’s strength as an international firm has hinged on production improvements initiated by Zayat that leveraged the resources and expertise of some of the world’s foremost beverage companies. As described previously, a technical assistance agreement with Danbrew enabled the company to build efficient, technically advanced production facilities as well as to refine and expand its product line. ABC entered into an agreement with Guinness to produce and export Kaliber non-alcoholic beer to 27 countries. Likewise, the company licensed with Unilever to distribute Lipton tea, opening up new multinational relationships. These and other agreements represented the company’s entry into the global marketplace, creating an exchange of intellectual capital that readied Al Ahram for future product exports.

In many ways, Al Ahram was well suited for the balance-of-payments objectives of privatization. Especially on an intraregional scale, malt beverages are a highly tradable good, offering the developmental benefits to which Richards and Waterbury refer. Whether direct exported or licensed (still constituting an export), ABC products could easily reach markets beyond Egypt where there was substantial unmet demand. Globally, the industry is distribution driven, so it would logically appeal to an established international firm such as Heineken. Furthermore, unlike many other manufacturers in developing countries, ABC was not reliant on imports for production, as 80\% of its input costs (COGS) were locally originated, with the rest sourced primarily on price.\textsuperscript{135} This accentuated the net benefit of the company’s export activities.

Of course there are other details that would help ascertain the balance-of-payments impact of the Al Ahram privatization, however the data available signal that it has been highly positive. In addition to more specific information on export volumes, insight into Heineken’s parent-subsidiary accounting would be useful. An additional point of interest would be whether Zayat or other Egyptians on his team effected any transfer of foreign-held savings to

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\textsuperscript{130}2000 Annual Report, pp. 14, 16.
\textsuperscript{131}Ibid., p. 42.
\textsuperscript{132}Hamed, ING Barings, August 22, 2001, p. 3.
\textsuperscript{133}Mostafa, Business Today Egypt, March 2005.
Egypt in conjunction with their acquisition. Though having those details would be additive to the analysis, it likely would not materially alter the overall favorable assessment.

**Social Considerations**

In evaluating the social impact of privatization there are economic principles that can provide helpful benchmarks, however practical ambiguities necessitate use of more subjective, contextualized assessment criteria. The overarching goal of privatization (alongside other liberalization policies) is to promote growth in income and employment within society, but that applies over the long-term. There are many short-term hurdles that affect the ultimate results of a privatization program and as time horizons expand and success measures become less direct, the contributions of individual privatizations are increasingly blurred. It is nonetheless feasible to assess how conducive a transaction may be toward those long-term ends and how effective it is, when viewed against the backdrop of a larger program, in overcoming short-term challenges.

The concept of “social welfare,” though inherently ill-defined and difficult to measure, is fundamental to economics and hinges on degrees of Pareto efficiency, whereby society should undertake any transactions that make individual members better off without making others net worse off. Aggregate welfare can thus be improved through allocations of a set amount of resources or by expanding the overall amount of allocable resources available. Among the underlying conditions for efficiency are perfect competition, absence of externalities, and negligible transaction costs. Real world incidences satisfying those conditions are elusive and “efficiency” does not necessarily imply equitable distribution of resources in either the short or long term. Equitable allocations can theoretically be achieved through strategically calibrated initial redistributions, but here too real world applications are problematic.136

What the real world instead presents is a range of competing social factors that influence reform agendas and outcomes. In reality, reform is a painful process and can incur heavy costs upon members of society, who are therefore liable to resist. Joel Hellman applies the notion of a J-curve to describe periods of economic reform marked by interim “transitional costs in the form of high unemployment, price increases, and production declines,” which create challenges for politicians in initiating and sustaining reforms.137 Whereas much previous work focuses on the threat of large groups of short-term “losers” blocking further reform, Hellman identifies a small, yet powerful class of “winners” in postcommunist transitions that have aimed to halt the process in order to preserve extraordinary rents gained during the early stages of private sector development, a tendency he terms “partial reform equilibrium.”138 Richards and Waterbury, in the context of the Middle East, offer an alternate perspective on managing winners and losers, contending that by favoring well-organized, well-connected groups (e.g. wealthy, privileged classes) political leaders are better able to guarantee stability and consistency of reforms, which in turn builds credibility.139 Ultimately, success lies somewhere in between—there is often a delicate balance to be struck among many interest groups across the social stratum.

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136 This refers to the two fundamental theorems of welfare economics.
138 Ibid., p. 204.
139 Richards and Waterbury (1990), pp. 223-224.
That is certainly true of Egypt, where the regime faced pressure from powerful constituencies spanning the public and private sectors, in addition to the external donor community. Regime officials, private businessmen, public sector bureaucrats, SOE managers, and workers were all major stakeholders in the privatization program and recognized the potential immediate consequences it would have on their economic circumstances. In fact, as Dieter Weiss and Ulrich Wurzel point out, the direct, identifiable, and far-reaching impacts of privatization on different social groups in Egypt made it significantly more difficult to implement than other macroeconomic reforms.\textsuperscript{140} Generally, the political and business elite had the most to gain in the near-term, while the prospects were far less favorable among the other segments.

In privatization, labor is especially vulnerable to short-term costs, since it represents lower income populations and overstaffing is a central problem in SOE performance. The Egyptian government, whose labor relations had long been rocky and sporadically violent, faced particularly concerted resistance from workers.\textsuperscript{141} After all, under the moral economy framework (cemented under Nasser and reinforced into the 1980’s) there had essentially been a contract between the two sides that in exchange for the availability and protection of jobs, the state could expect political support and productive labor.\textsuperscript{142} With one end of that bargain reneged upon in the 1990’s, workers were more emboldened to protest and the Egyptian Trade Union Federation (ETUF) fought labor law revisions that were to allow for SOE restructuring and divestiture.\textsuperscript{143} As Marsha Posusney argues, “The impasse over privatization underscores the centrality of the labor movement to the structural adjustment process.”\textsuperscript{144} That is, the labor threat effectively tied the hands of the state with respect to implementing reform.\textsuperscript{145}

Outside the unions, there were other avenues of support for workers, but with a broader populist and nationalist agenda. Mustafa Kamel Al Sayid (1991) provides a survey of the early public debate on privatization that took place in Egypt in late 1989 revealing the positions of influential public figures and organizations. At the forefront were two leftist opposition parties, the Socialist Labour Party (Al ‘Amal) and the National Progressive Unionist Party (Tajamo’). Ibrahim Saad El Din and Ibrahim El Essawi, prominent economists associated with Tajamo’, warned of widening distribution of income and the “plundering” of resources by Egyptian businessmen.\textsuperscript{146} Adel Hussein, editor-in-chief of Al ‘Amal’s newspaper, \textit{Al Sha’ab}, played on both nationalist and religious sensitivities by emphasizing the threat of Islamic investment companies and other public sector assets being bought by foreign, even Zionist, firms.\textsuperscript{147} To be sure, there was an evolving gradient of viewpoints expressed over the ensuing years, but these were seminal positions espoused and retained by many. Moreover, while Islamists looked favorably upon private ownership in principle, the movement aligned with the opposition in response to perceived social and nationalist injustices wrought by structural reform.\textsuperscript{148,149}

\textsuperscript{140} Weiss and Wurzel (1998), p. 204.
\textsuperscript{141} Ibid., pp. 150-152.
\textsuperscript{142} Posusney (2002), p. 44.
\textsuperscript{143} Ibid., pp. 48-54, 62.
\textsuperscript{144} Posusney (1997), p. 5.
\textsuperscript{145} Ibid., p. 247.
\textsuperscript{146} Al-Sayyid (1991), pp. 30-31.
\textsuperscript{147} Ibid., p. 49.
\textsuperscript{148} Ibid., p. 51.
On the whole, privatization was stymied and it is likely that credit can be shared among many groups, top to bottom, who had vested interests in doing so. Enough was accomplished, however, to create winners and losers. In their respective articles published in Networks of Privilege in the Middle East, John Sfakianakis and Ulrich Wurzel highlight the extent to which the course of reform in Egypt was steered by cronyism. Sfakianakis (2004) focuses on informal networks among a limited group of state and business elites, while Wurzel (2004) maps out a more diverse, yet overlapping set of entrenched interests spanning the public and private sectors. Regardless of the precise constellation of relationships, the aggregate results have been marked by an accrual of substantial rents among a privileged, interconnected few and overall obstruction of privatization progress. Worsening inequalities of income and wealth have meanwhile validated and exacerbated opposition sentiment.\textsuperscript{150} Weiss and Wurzel also emphasize that by the mid-1990’s worsening economic conditions had drawn “a considerable part of the population…to the idea that ‘Islam is the solution’ for protecting Egypt’s cultural identity.”\textsuperscript{151}

No single SOE sale could possibly account for such large-scale societal developments, but an understanding of the economic and political dynamics described above, coupled with sufficient background on the country environment, enables one to evaluate how it may have factored into the broader outcome.

Social Considerations: ABC Results

The privatization of Al Ahram had a pronounced adverse social impact on account of the rentierism it facilitated. It was arguably effective in navigating immediate challenges from interest groups, but ultimately worked counter to the aims and progress of Egypt’s larger reform program. Indeed, it has retained a distinct notoriety in popular discourse and is considered by many to be emblematic of Egypt’s social ills.

As the Egyptian government proceeded with its privatization effort in 1996 amid both external pressure and widespread internal resistance, certain decisions were more justifiable than others for the purpose of completing the ABC sale (process flaws notwithstanding). For instance, the government reverted to an anchor sale strategy after its domestic share offering chafed the sensitivities of the Muslim population. Regarding the lack of demand for the domestic IPO even among secular Egyptians, Reuters quoted a local broker explaining, “It’s the fanatic wave which put people off, saying it’s a sin to drink in Egypt.”\textsuperscript{152} It can therefore be reasoned that the switch to a foreign sale was necessary to avert further Islamic backlash, though this also presupposes that the movement excepted an alcohol company from its general skepticism of foreign ownership. The continued Egyptian dominance of the shareholder base and management through Ahmed Zayat should reasonably have allayed the latter nationalist concern as well. The fact that Zayat was based in the US (albeit well-connected in Egypt) may nevertheless have introduced other complications offsetting the presumed benefit of appeasing the Islamists. Zayat abruptly out-maneuvered several powerful and politically engaged

\textsuperscript{149} Weiss and Wurzel (1998), p. 151.
\textsuperscript{150} King (2009), pp. 8, 116, 119.
\textsuperscript{151} Weiss and Wurzel (1998), p. 155.
\textsuperscript{152} Evans, Reuters News, July 7, 1996.
business leaders, including Farid Saad of EFC as well as Fouad Sultan, Mohamed Nosseir, Mohamed Ragab, and Youssef Ramsis Atteya of Al Ahly.153 Soothing frustrations among the local elite business class may have been an added imperative behind the government’s decision to issue valuable tax-exempt brewing licenses both to members of the losing consortium and the Sawiris family, another eager entrant.

Another vital constituency placated in the initial sale process was labor; however, the benefits were short lived. Accounts vary, but not surprisingly for a mismanaged SOE, Al Ahram was “up to ten times overstaffed” with roughly 3,100 employees at the time of privatization.154,155 Yet amid the ongoing resistance to privatization and impasse in labor law reform, the government required Luxor to maintain existing employment levels and benefits.156 Also in keeping with the tradition of state-labor relations, Luxor meanwhile assured investors that union strikes would remain illegal.157 To promote efficiency improvements, the company instead reassigned workers from production to sales and distribution and offered early retirement packages.158 According to IBTCI’s 1998 report, those measures, coupled with the sizeable equity stake allocated by the government to ABC employees (10%) in conjunction with the domestic IPO, facilitated a high level of union cooperation.159

Technically, labor retention policies directly contradict economic principle, but there could be a valid trade-off if the company is able to “grow into” the high staffing levels and the macro stability afforded by continued employment allows for further reform progress. That seemingly was not the case with ABC, as there were lingering reports of “endemic” overstaffing following the company’s significant expansion of the labor force to over 4,000 workers by 2000.160,161 Evidently Heineken was better able to streamline the organization, for as of 2009 the company was down to 2,500 employees (plus 500 indirect).162 Furthermore, a group of former employees filed a lawsuit shortly after privatization. By Marsha Posusney’s account, “The company claims they resigned voluntarily, but the workers charge that they were forced to quit because of declining pay and frequent harsh disciplinary actions.”163 This is not a picture of efficient employment growth or labor accord.

It is rather a story of rentierism. The economics of societal resource allocation are admittedly ambiguous in practice, but to confirm that the ABC privatization was an uneven trade does not require sophisticated modeling. As demonstrated under Proposition 5, the Egyptian people, as “owners” of public sector assets, received less than the market value for Al Ahram and some would argue the same with respect to Gianaclis. As a monopolist, Zayat and other shareholders were able to continue extracting rents from Egyptian consumers through

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155 February 1997 Prospectus, p. 34.
156 Ibid., p. 38.
157 Ibid., p. 34.
159 IBTCI (1998), p. 27.
control of pricing and production. A non-competitive distribution agreement with Safi and various government concessions similarly exacerbated the effect. Regardless of one’s views on welfare equality, these rentierist arrangements clearly resulted in an incongruent transfer of resources that benefited Zayat and the rest of the company's largely foreign ownership.

The arrangements underlying Al Ahram’s privatization and subsequent growth were, for their part, based on relationships that facilitated coveted access and influence. Indeed, the ABC story serves as a paradigm for broader patterns of rent seeking and network effects observed in economic reform. Ulrich Wurzel points to Zayat’s initial insistence on government divestiture and subsequent resistance to market competition as an example of the “instability and multiplicity of actors’ interests.”

That is, Zayat sought to achieve what Hellman termed “partial reform equilibrium.” Sfakianakis frames ABC in the context of patterned monopolization and empire-building by Egypt’s business “whales” (or “hitai”) during the privatization effort as well as the opaque, exclusive dealings with the regime through which assets were accumulated and protected. Sfakianakis references Zayat’s close relationships among the political elite and especially strong connections within the public enterprise office and privatization committee. King reinforces this perception, citing Zayat as a “prominent business partner” of the Mubarak family. In response to widespread suspicions about the ABC acquisition, Zayat told the Financial Times, “In fact this is the cleanest deal that has ever taken place in Egypt. Not one single person was bribed.” That is a bold characterization, for absent any explicit bribes there still remain a host of suspicions and unanswered questions concerning the deal.

Fifteen years on, ordinary Egyptians have come to their own conclusions and remain passionately critical of the Al Ahram privatization. It has become a rallying point beyond the privatization debate—it is invoked in the context of broader popular discontent on economic, political, and religious issues. Among the more focused assessments is one provided in a 2006 article entitled “The Systematic Looting of Egypt – A Model of Privatization.” The author states, “The corruption inherent in the sale of Al Ahram Beverages had been clearly displayed” through the subsequent acquisition by Heineken. From another corner of Egyptian society, a May 2010 column in Bar Masr urges action against Al Ahram’s widespread advertising and sale of alcohol. Recounting the quick bargain privatization sale, he proclaims, “It is a scandal, whereby if we were in a respectable country, its principals would have been languishing in prisons, instead of the upstanding ones and reformers.” Another internet article from 2006, widely republished on blogs and discussion forums, links Zayat with the Mubarak family, criticizing the sale to Zayat absent a proper bid and alleging that profits later reaped through the sale to Heineken went to the Mubarak family.

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accusations of a corrupt, behind-the-scenes partnership. While these sources are disparate in their readership and ideological affiliations, the recurrence of ABC references reveals widespread, enduring outrage.

The salient point is not necessarily whether such outrage is justified, but that it exists in the first place. Managing discontent is a necessary ingredient for implementing economic reform and the regime’s handling of the Al Ahram privatization has evidently undermined that. Likewise, efforts to appease sensitive constituencies at the time of divestiture were of dubious impact and under private ownership the company continued to function as a vehicle for rent-seeking. In both its immediate and longer term effects, the privatization was socially detrimental.

Conclusion

This analysis has evaluated the privatization of the Al Ahram Beverages Company against six economic objectives of privatization and also within a social context. The objectives themselves represent consolidations of related theoretical principles and empirical findings from prior research, but provide a practical economics-based framework through which to segment key characteristics of the transaction and its outcomes. Those characteristics are in turn analyzed to determine whether it produced results consistent with the underlying privatization goals and whether it was structured in such a way that predictably dictated success or failure.

Reflective of the contrasting assessments of the ABC privatization found among primary and secondary sources, the analysis reveals both positive and negative elements, however the latter appear to predominate. Key findings under each proposition are summarized in the following table:

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Description</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>1) Financial Performance &amp; Efficiency</td>
<td>Both sales and profits grew during the initial post-privatization years, driven substantially by inorganic growth. Profitability subsequently declined, as ballooning debt and operating expenses suppressed margins. Efficiency, as measured by ROA, ROE, and Asset Turnover, fell below pre-privatization levels.</td>
<td>✗</td>
</tr>
<tr>
<td>2) Investment &amp; Innovation</td>
<td>The company invested heavily in capital improvements to augment capacity and incorporate new technology. It diversified with new, higher quality products, implemented a superior distribution strategy, and introduced an unprecedented marketing campaign.</td>
<td>✓</td>
</tr>
<tr>
<td>3) Corporate Governance</td>
<td>Effective governance mechanisms were not implemented, as the Zayats represented the largest shareholder interest while dominating management and the board of directors. Expropriation of smaller shareholders ostensibly occurred. On a positive note, management remedied egregious inefficiencies and corruption that prevailed under public ownership and succeeded in effecting a sale at a substantial premium. Further governance improvements occurred under the new foreign parent.</td>
<td>✗ / ✓</td>
</tr>
</tbody>
</table>

ABC was sold as a monopoly and the state continued, after privatization, to bolster the company’s dominant market position by limiting new domestic entry, maintaining exorbitant import tariffs, and enabling it to purchase the government’s wine business as well as to distribute the army’s bottled water products.

The discounted sale price accepted by the government and generous treatment thereafter siphoned value away from the state instead of supporting fiscal recovery. Zayat paid less than minority GDR investors were willing to, enabling him to reap an immediate multi-million-dollar profit. ABC then benefited from other concessions, including tax holidays and additional land rights.

The initial divestiture sale and, to a greater extent, the subsequent acquisition by Heineken boosted Egypt’s foreign direct investment. The privatized company also established international ties that facilitated importation of technology and intellectual capital, as well as greater exportation of its products.

In orchestrating the privatization sale of ABC, the government generally failed to manage powerful constituencies in a manner allowing for effective reform. Instead, shareholders, especially Zayat, were able to collect economic rents that were not only detrimental to social welfare, but also engendered enduring popular resentment.

It is admittedly difficult to ascribe relative weights for the individual criteria on account of their ambiguous values and shared causalities, but in the case of Al Ahram the negatives are of distinctly greater magnitude. For instance, the elaborate expansion of the business may be relegated as a secondary concern relative to cultivation of a competitive market environment (which in turn motivates innovation). Likewise, promoting fiscal and social stability is likely more effective in generating long-term FDI flows than selling individual prized SOE’s, a naturally finite resource.

In spite of its subjectivity and potential for further refinement, the framework successfully incorporates the most salient facts of the case and accordingly lends itself to broader application. The ABC privatization exemplifies the need to analyze SOE divestitures comprehensively and the same benchmarks can be utilized in the context of other firms and country environments. While the global, IFI-spearheaded privatization drive of the late twentieth century has subsided, there still exist extensive public sector holdings across many regions and sectors, from industrial enterprises to infrastructure assets, along with pervasive regulatory intervention. Meanwhile, nationalizations that have occurred in recent years in connection with the global financial crisis and geopolitical developments (e.g. Venezuela) serve as reminders that the issues addressed within this framework are ever present. Dependent upon applicability and availability of data, future analyses could account for subsidization of inputs, local property rights, or total factor productivity, and address additional case-specific circumstances. Details on SOE divestitures, particularly in emerging market environments, can be scarce, but as the Al Ahram case also demonstrates, privatization decisions and outcomes occur over time, and many indicators of success and failure are plainly visible through a wide enough lens.

Megginson (2010) estimates that within the European Union alone governments currently retain “at least two-thirds of one trillion dollars worth of stakes in partially privatized firms that could be sold within the next few years” (24). He acknowledges that no tabulation exists for the vast government holdings in emerging markets, but indicates that the “market values of retained stakes in partially privatized companies from these regions…must surely exceed two trillion dollars” (27).
### INCOME STATEMENT

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</thead>
<tbody>
<tr>
<td>Sales</td>
<td>EGP 114,965</td>
<td>EGP 130,056</td>
<td>EGP 140,591</td>
<td>EGP 149,152</td>
<td>EGP 168,251</td>
<td>EGP 272,162</td>
<td>EGP 303,406</td>
<td>EGP 349,475</td>
<td>EGP 424,540</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(54,529)</td>
<td>(50,556)</td>
<td>(58,602)</td>
<td>(60,685)</td>
<td>(62,117)</td>
<td>(95,413)</td>
<td>(105,297)</td>
<td>(124,339)</td>
<td>(148,214)</td>
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<tr>
<td>GROSS PROFIT</td>
<td>60,436</td>
<td>79,500</td>
<td>81,989</td>
<td>88,468</td>
<td>106,134</td>
<td>176,749</td>
<td>198,109</td>
<td>225,136</td>
<td>276,327</td>
</tr>
<tr>
<td>Selling &amp; distribution expenses</td>
<td>(9,665)</td>
<td>(12,054)</td>
<td>(12,496)</td>
<td>(13,068)</td>
<td>(23,175)</td>
<td>(49,585)</td>
<td>(58,862)</td>
<td>(75,263)</td>
<td>(99,420)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(12,714)</td>
<td>(15,684)</td>
<td>(17,167)</td>
<td>(18,241)</td>
<td>(19,990)</td>
<td>(22,274)</td>
<td>(21,043)</td>
<td>(34,478)</td>
<td>(51,840)</td>
</tr>
<tr>
<td>PROFIT FROM OPERATIONS</td>
<td>38,057</td>
<td>51,762</td>
<td>52,326</td>
<td>57,159</td>
<td>62,969</td>
<td>104,890</td>
<td>118,204</td>
<td>115,395</td>
<td>125,067</td>
</tr>
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<td>Other income</td>
<td>9,729</td>
<td>12,669</td>
<td>11,382</td>
<td>14,858</td>
<td>22,632</td>
<td>13,785</td>
<td>19,322</td>
<td>19,515</td>
<td>24,173</td>
</tr>
<tr>
<td>Finance cost</td>
<td>(2,968)</td>
<td>(7,023)</td>
<td>(17,076)</td>
<td>(49,366)</td>
<td>(49,366)</td>
<td>(49,366)</td>
<td>(49,366)</td>
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</tr>
<tr>
<td>Amortization of goodwill</td>
<td>(389)</td>
<td>(826)</td>
<td>(875)</td>
<td>(3,950)</td>
<td>(3,950)</td>
<td>(3,950)</td>
<td>(3,950)</td>
<td>(3,950)</td>
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<tr>
<td>Other expenses</td>
<td>(6,684)</td>
<td>(9,365)</td>
<td>(7,293)</td>
<td>(3,823)</td>
<td>(2,209)</td>
<td>(2,209)</td>
<td>(1,377)</td>
<td>(2,086)</td>
<td>(2,842)</td>
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<tr>
<td>NET PROFIT BEFORE TAXATION</td>
<td>41,102</td>
<td>55,066</td>
<td>56,415</td>
<td>68,194</td>
<td>83,392</td>
<td>112,379</td>
<td>128,121</td>
<td>114,873</td>
<td>93,081</td>
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<tr>
<td>Taxation</td>
<td>(12,824)</td>
<td>(16,781)</td>
<td>(15,069)</td>
<td>(14,282)</td>
<td>(15,816)</td>
<td>(24,163)</td>
<td>(24,163)</td>
<td>(351)</td>
<td>(471)</td>
</tr>
<tr>
<td>PROFIT AFTER TAXATION</td>
<td>EGP 28,278</td>
<td>EGP 38,285</td>
<td>EGP 41,346</td>
<td>EGP 53,912</td>
<td>EGP 67,576</td>
<td>EGP 88,216</td>
<td>EGP 103,958</td>
<td>EGP 114,522</td>
<td>EGP 92,610</td>
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<td>Less: Minority interest</td>
<td>(1,125)</td>
<td>(1,429)</td>
<td>(1,645)</td>
<td>(3,86)</td>
<td>(3,86)</td>
<td>(3,86)</td>
<td>(3,86)</td>
<td>(3,86)</td>
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<tr>
<td>NET PROFIT FOR THE YEAR</td>
<td>EGP 28,278</td>
<td>EGP 38,285</td>
<td>EGP 41,346</td>
<td>EGP 53,912</td>
<td>EGP 67,576</td>
<td>EGP 87,091</td>
<td>EGP 102,529</td>
<td>EGP 112,877</td>
<td>EGP 92,224</td>
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<tr>
<td><strong>Assets</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Bank balances and cash</td>
<td>EGP 85,913</td>
<td>EGP 89,045</td>
<td>EGP 95,593</td>
<td>EGP 92,774</td>
<td>EGP 91,219</td>
<td>EGP 152,327</td>
<td>EGP 157,401</td>
<td>EGP 133,830</td>
<td>EGP 62,146</td>
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<tr>
<td>Inventories</td>
<td>50,380</td>
<td>46,070</td>
<td>48,690</td>
<td>43,237</td>
<td>60,166</td>
<td>90,238</td>
<td>91,099</td>
<td>97,182</td>
<td>131,136</td>
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<td>Accounts rec. and prepayments</td>
<td>7,403</td>
<td>14,399</td>
<td>8,370</td>
<td>8,238</td>
<td>30,511</td>
<td>42,828</td>
<td>88,047</td>
<td>122,711</td>
<td>204,049</td>
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<td>Marketable securities</td>
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<td>602</td>
<td>602</td>
<td>661</td>
<td>11,000</td>
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<tr>
<td><strong>Current Assets</strong></td>
<td>144,298</td>
<td>150,116</td>
<td>153,255</td>
<td>144,909</td>
<td>181,895</td>
<td>296,393</td>
<td>336,546</td>
<td>353,722</td>
<td>397,332</td>
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<td>Property, plant &amp; equipment</td>
<td>43,764</td>
<td>57,383</td>
<td>57,564</td>
<td>76,453</td>
<td>96,050</td>
<td>235,240</td>
<td>287,258</td>
<td>355,874</td>
<td>469,846</td>
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<td>Intangible assets</td>
<td>4,647</td>
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<td>13,033</td>
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<td>14,062</td>
<td>9,737</td>
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<td>Goodwill</td>
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<td>47,193</td>
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<td>Investments in unconsol. subs.</td>
<td>6,086</td>
<td>6,086</td>
<td>6,086</td>
<td>6,086</td>
<td>15,905</td>
<td></td>
<td></td>
<td></td>
<td>179,932</td>
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<tr>
<td>Long-term investments</td>
<td>7,252</td>
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<td>7,252</td>
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### CASHFLOW STATEMENT

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<td>Constr. under progress written off to G&amp;A</td>
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<td>(13,598)</td>
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<td>(6,083)</td>
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<td>Increase/(Decrease) in AP</td>
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<td>(15,816)</td>
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<td>(7,033)</td>
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### Cash flow from investing

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<td>Payment for long-term investment</td>
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<td>(2,450)</td>
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<td><strong>NET CASH USED IN INVESTING ACTIVITIES</strong></td>
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### Cash flow from financing

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<td>Increase in statutory reserve - Excess over par</td>
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<td>92,183</td>
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### Net (decrease) increase in cash

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<td>Net ending cash</td>
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<td>85,771</td>
<td>63,658</td>
<td>105,044</td>
<td>64,316</td>
<td>12,236</td>
<td>(173,910)</td>
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References


Washington, DC: International Monetary Fund.


PART II
Biographies

Andrew Alger
After graduating from the University of Chicago with a Bachelor of Arts in Near Eastern Languages and Civilizations, Andrew Alger returned to his native Boston to teach English in Catholic Charities' Department of Refugee & Immigration Services. He is interested in Arab nationalism and the development of modern education systems in the Arab world, and anticipates receiving his Master of Arts from the Center of Middle Eastern Studies at the University of Chicago in 2012.

Gwendolyn Collaco
Gwendolyn Collaco received her Bachelor of Arts from Vassar College in both Classics and Medieval and Renaissance Studies in May 2011 with double honors and Phi Beta Kappa. Currently working on her Master of Arts in Middle Eastern studies, she hopes to continue exploring issues in Late Medieval and Early Modern Ottoman Turkish history concerning public and private spaces, as well as intellectual culture. Within this sphere, her research interests include coffee, tea, vices, and game culture.

Matthew E. Gillman
Matthew Gillman earned his Bachelor of Arts in Near Eastern Studies with honors, minor in art history, at the University of Washington, Seattle. In Summer of 2010, he received a Critical Language Scholarship to study Turkish in Bursa; in Spring of 2011, he studied at Boğaziçi University in Istanbul. An earlier version of the paper that appears here was presented at UW’s second-annual Interdisciplinary Student Conference on Near Eastern Studies in May 2010.

Isaac Hand
Isaac Hand is an artist, musician and student currently pursuing his Master of Arts in Middle Eastern studies at the University of Chicago. In 2007, he acquired a BA in History from the University of Cincinnati, after which time he operated art community spaces in Cincinnati. Before attending the University of Chicago, he taught English in Istanbul.

August N. Samie
August Samie obtained his Bachelor of Arts with a dual focus in Creative Writing and Literature from California State University, Northridge in May 2011. He is currently pursuing a Master of Arts at the Center for Middle Eastern Studies at the University of Chicago. His interests include, but are not limited to, gender and sexuality in Uzbekistan and Tajikistan, Central Asian literatures, and Turkic script changes in the twentieth century.

Sami J. Sweis
A graduate of Centre College in Danville, Kentucky, Sami Sweis began his Master of Arts in Middle Eastern Studies at the University of Chicago in autumn of 2010. He is interested in tribes and state formation in the Middle East, particularly during the British Mandates though not exclusively. He is especially intrigued by Christian Tribes, who have been overlooked in contemporary scholarship. After obtaining his MA, he intends to pursue a doctorate.
This paper traces the development of leftist Iraqi intellectuals’ positions on India during the 1920s and 1930s. I argue that at a time when imperialist interests were viewed as a major threat to the progress of the Iraqi people, the Ahali group and their forebears reported on Indian politics in order to elaborate on the larger context of Eastern nations’ struggles against colonialism.

The Ahali group incorporated examination of Indian politics into their program for uplifting the Iraqi masses. They took Mohandas K. Gandhi and Jawaharlal Nehru as instructive models for modern citizenship, and communicated these models through editorials, biographies, and book-length publications. Through these media, the Ahali group transformed their coverage of India into a tool for educating the Iraqi masses about their rights and capabilities in the modern nation state.

This paper is in two parts. The first part establishes the intellectual milieu in which the Ahali group published their newspaper, al-Ahali. It briefly traces the development of urban-rural tensions in late Ottoman and early modern Iraq, establishes the terms of conflict between the Sharifian Elite and the young Effendiya, and examines how that conflict was mediated through the press and education. The second part describes how journalistic coverage of Indian politics and culture developed during the 1920s and 1930s. It examines how travel to India influenced the first generation of Iraqi leftist intellectuals, charts the intellectual development of the Ahali group and their views on India, and then examines their press coverage of Indian figures such as Mahatma Gandhi and Jawaharlal Nehru.

I.

Two major trends in urban and rural Iraq characterize its transition into modern statehood. During the late nineteenth and early twentieth centuries, Ottoman governors and later British officers attempted to assert greater control over the Iraqi countryside from the cities of Baghdad, Basra, and Mosul. Tribal power in Iraq was so great, however, that both efforts were at best partial successes. In the nineteenth century, the Ottomans were forced to grant the Muntafiq confederation a great deal of autonomy, which they were later to regret as these and other tribesmen resisted Abdulhamid II’s efforts to centralize land ownership. Similar setbacks were encountered by the British, whose attempts to entice tribal chiefs’ support were unsuccessful at containing the rural, anti-British resentment which boiled over into the revolt of 1920.

Ottoman and British designs on the Iraqi hinterlands accelerated a second trend in Iraq’s urban-rural development. As early as the mid-nineteenth century, Iraqi tribesmen had
been immi

grating to the cities in waves. They brought with them an Arabic dialect and culture distinct from what had predominated in the cities previously. This trend continued throughout the twentieth century, at each stage renewing tensions between urban and rural sensibilities that were central to debate over Iraq’s identity as a modernizing state. Until at least the Qasim era, this debate was uneven, because immigration to the cities created an urban poor without any direct leverage over the well-established ruling elite.

From the British mandate until 1958, Iraqi urban society was further characterized by a generational split between the Sharifian officers and the young Effendiya. The Sharifian officers were the children of Sunni elites who had studied in Iraq’s Ottoman schools before attending the Istanbul War College. There, they were exposed to the currents of Turkish nationalism and first began to think in Arab nationalist terms. Many officers completed this transition to Arab nationalism during the war, and joined Faysal al-Hashemi’s revolt against the Ottomans. After the British installed Faysal as king of Iraq, the Sharifians took up most positions in his government, where they were perceived by the young Effendiya to be pro-British in their outlook and imperialist in their policies. In stark contrast to the Sharifian elites, the young Effendiya came from Iraq’s urban professional families, were from Muslim, Christian, and Jewish backgrounds, and had been educated in Iraqi private schools.

Peter Wien has described this split in Iraqi society in terms of generational conflict. The Sharifians were pan-Arabists, and as such sought to minimize the influence of non-Arab voices in Iraqi society. The young Effendiya resisted. As Iraqi nationalists, they emphasized the distinctive variety of Iraqi cultures and societies, and believed that Iraq’s government should empower its minorities in order for the nation to progress. The resultant conflict over Iraq’s identity and goals took place chiefly in the public schools, where the Sharifians prescribed militaristic discipline to persuade Iraq’s youth of pan-Arabism. The young Effendiya, among whom could be counted the Ahali group’s founding members, found avenues for resistance wherever Sharifian control was limited: in the private schools, cultural and religious institutions, and the press.

Education and the press were two areas in which opposition groups found some success despite the strong presence of the state. During the 1920s, the Iraqi press was controlled largely by the Sharifians, for whom national interest served to limit criticism of the monarchy. Newspapers such as al-Istiqlal, al-Iraq, and al-Fallah found a way to champion democracy by cautioning the fledgling state against the authoritarian excesses of the Ottomans. Outright criticism of the state came most often from Shi’i clergies and intellectuals, who issued fatwas against participating in elections and circulated copies of the Lebanese Shi’i newspaper ‘Irfan to strengthen their position vis-à-vis their Sunni rulers. Criticism of Iraqi society was especially heinous in the eyes of the state, as when the Marxist journal as-Sahifa was banned for

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1 Somekh, Sasson. *Baghdad, Yesterday: the Making of an Arab Jew*. Indiana University Press, 2007. Somekh records in his memoirs that the urban Iraqi Jewish dialect of Arabic had been strongly influenced by the arrival of a Bedouin dialect during the mid-eighteenth century.


4 Bashkin, Orit. *The Other Iraq*, 27.
questioning the fundamentals of Iraqi religious life. A government ban did not necessarily silence the opposition voice, however, for the press laws held over from Ottoman times allowed for the editors to obtain a license for nearly the same newspaper under a slightly different name. (This tactic was to be employed by the Ahali group twice, when it was published under the titles Sawt al-Ahali and then Seda al-Ahali). 

Conflict between the ruling Sharifian elite and the young Effendiya opposition found its most vibrant articulation in the development of Iraq’s schools. During the 1920s, the Sharifian pan-Arab aspirations tended to dominate Iraq’s public school system. Sati’ al-Husri, the Director General of Education, typified these aspirations. A career Ottoman officer trained in Istanbul, al-Husri became an ardent pan-Arab nationalist at the end of the First World War. His state curricula emphasized Arabic, history, and civics courses as the best method to instill loyalty to the state in young Iraqis, as well as to foster fervent belief in the excellence of Arabic civilization writ large. al-Husri’s influence on the schools continued into the early 1930s, when he figured often into Ahali articles on education reform.

al-Husri’s vision for the state schools spoke to an idealized vision of Iraqi society. As such, it did not address the material needs and career aspirations of minority groups, especially the urban poor. These groups were better served by the young Effendiya, who developed social welfare programs to increase the opportunities for learning available to Iraqis. The Women’s Awakening Club, founded in 1923, operated a house for orphans where they educated the poor and taught women to read. In 1928, a Jewish woman founded a school for the blind, where she also taught poor women to do handicrafts. The House of the People Society ran a night school in Baghdad where they taught progressive values of childrearing, in addition to reading, writing, and arithmetic.

Focused on practical gains for a wider segment of Iraqi society, these welfare programs represented an alternative to the state-building aspirations of the Sharifians. Without the resources of the state, however, most of these programs were forced to close by the end of the 1920s. This sad outcome, coupled with government intransigence, spurred members of the young Effendiya to make education a central concern of their political opposition. Thus, although al-Husri appeared regularly in the early pages of al-Ahali, his views were often juxtaposed with those of other, younger education reformers.

II.

Modern Iraq’s first intellectual ties to India were born of long-standing trade relations. In Kirkuk, a group of Turkmen and Arab families had traded with India for centuries, sending ships down the Euphrates River and across the Indian sea to Mumbai. Although the arrival of British merchant fleets in the late nineteenth century had disrupted that trade, the Kirkuk families were sufficiently well-off to send their children to be educated abroad.

These individuals were a notable exception to the patterns of advancement through education made available by the Ottoman rule. As Ottoman influence waned in its Arab

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6 Bashkin, Orit. The Other Iraq, 96.
provinces, a new generation of students found it necessary and desirable to complete their studies elsewhere. Husayn ar-Rahhal (b. 1903) was one such student. The son of wealthy Kirkuk merchants, he attended an Ottoman primary school, but instead of going on to studies in Istanbul, he enrolled in a gymnasium in Berlin. Upon returning to Iraq, however, ar-Rahhal decided to spend a year on his own exploring India. When he returned, he joined Nadi al-Tadamum, a Marxist study circle, where he met another Iraqi who had traveled to India, the novelist Mahmud Ahmad as-Sayyid⁷. Mahmud Ahmad as-Sayyid (1903 – 1937) had grown up in Baghdad, where he had received a religious education alongside his studies at a Turkish elementary school. The two later collaborated on the controversial Marxist newspaper as-Sahifah.

The travel experiences of as-Sayyid and ar-Rahhal are recorded in as-Sayyid's novel Jalal Khalid, the first of its kind in modern Iraq. In Jalal Khalid, the eponymous hero is a wealthy, well-educated Iraqi youth who travels to Mumbai and Calcutta⁸ before returning to Iraq right after the 1920 revolt. The narrator describes Mumbai as a city where even Indian traders can be successful, but where most of its citizens live in wretched poverty. as-Sayyid describes the poor as as-sawad al-'azam (the masses), a term adopted for use by the Ahali group to describe Iraq’s uneducated poor. Further descriptions of the city’s poor suggest that the protagonist’s eyes are being opened to harsh realities not unlike those experienced by his own people.

The pivotal scene in Jalal Khalid is a dialogue between the protagonist and the Indian editor of a revolutionary newspaper. Jalal Khalid remarks that he does not think women should be liberated after the fashion in Egypt, to which the editor replies that this view is inconsistent with Khalid’s desire to ameliorate the station of the poor. This conversation compels Jalal Khalid to read an article in a revolutionary Urdu newspaper which tells him that women must be given the same rights as men and be liberated from their domestic life if society is to progress. The article also suggests that differences between India’s religions had been exaggerated, and that freedom from the confines of sectarian thinking would liberate Indian society. Similar claims on the course Iraqi society should take were later articulated in as-Sahifah, so it would seem likely that as-Sayyid’s and ar-Rahhal’s experiences in India greatly influenced the development of their ideas about Iraq.

A letter from home informs Jalal Khalid that revolt is brewing in Iraq, so he decides to leave India. When he arrives in Basra, however, he is dismayed to hear that the French army has occupied Damascus and crushed hopes of an Arab rebellion there, and that the sentiment behind the summer revolt of 1920 had largely been dissipated under the might of the British army. The rest of the novel consists of an exchange of letters between Jalal Khalid and a revolutionary friend, Ahmad Mujahid. In these letters, the two friends discuss their opinions of Iraqi Bedouins with equal amounts of fascination and reproach. Ahmad Mujahid likens Bedouin singing to moaning and wailing, and relates how a local Bedouin woman was forced to have relations with a stranger in order to save face, but who is later attacked by the tribesmen for it. These anecdotes neatly parallel Jalal Khalid’s earlier experiences with gazing at the foreign in India: the Bedouin singing recalls the Hindu funeral procession he witnessed in Calcutta, and

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⁸ Formerly Bombay; Currently Kolkata
the deplorable condition of Bedouin women contrasts sharply with Jalal Khalid’s image of middle-class Indian women fawning over a gorilla in a zoo. A strong current of comparison between Iraq and India runs through the novel, particularly with regard to women’s rights and the nature of religion.

Hanna Batatu claims that Jalal Khalid is not well-written, but that its author nevertheless “succeeded in projecting the intellectual uneasiness and bewilderment of his generation and in adding something to the Iraqis’ knowledge of themselves.”9 Batatu further claims that as-Sayyid lacked the intellectual vim and vigor of his compatriot, and that therefore the character of Jalal Khalid was more likely based on ar-Rahhal’s experiences in India. I prefer to understand both as-Sayyid and ar-Rahhal as represented in the novel, the one by Jalal Khalid and Ahmad Mujahid. This understanding would be consistent with a reading of the novel as a record of the two intellectuals’ ideas about colonial subjects in dialogue with one another, as they were in as-Sahifah and in Nadi al-Tadamum. Batatu also notes that as-Sahifah advanced feminism as a natural outcome of historical processes, and that “it questioned Islam’s very foundations by explaining all religions in natural terms.”10 These correlations between novel and newspaper reinforce the role India played to both intellectuals as a mirror in which to study Iraqi society more discriminately.

As-Sayyid and ar-Rahhal communicated their ideas about India and Marxism to another group of leftist intellectuals who had a much larger impact on the political consciousness of the young Effendiya, the Ahali group. Hussein Jamil, later a Baghdad lawyer and a founding editor of the Ahali newspaper, participated in student demonstrations sponsored by ar-Rahhal’s Marxist group, Nadi al-Tadamum. These included the Nusuli affair, in which students advocated for a much-beloved Sunni teacher who had written a controversial textbook to be reinstated, and protests against the visit from Sir Alfred Mond, a Zionist sympathizer. ‘Abd al-Fattah Ibrahim and ‘Abd al-Qadir Isma’il were cousins of Mahmud Ahmad as-Sayyid, and therefore also had some exposure to reports about India. This early period in the Ahali group’s careers indicates how schools and social clubs enabled a form of resistance to the Sharifians through the spread of ideas.

Although the Ahali group coalesced around its paper in 1932, its founding members had known each other during much of their formative years. All were native Iraqis from well-established families and associated with one another as students. ‘Abd al-Qadir Isma’il and ‘Abd al-Fattah Ibrahim were both related to the Iraqi novelist Mahmud Ahmad as-Sayyid.11 Together with Muhammad Hadid, another founding member of al-Ahali, Ibrahim and Isma’il had overlapped in their studies at the American University of Beirut, where they had participated in student group discussions about imperialism.12 When each found himself back in Baghdad during the early 1930s, they joined with Hussein Jamil (b. 1906), a lawyer trained at the Baghdad College of Law who, through his connections, provided the group with the funds to start the newspaper.

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9 Batatu, Old Social Classes, 394
10 Batatu, Old Social Classes, 395.
11 Batatu, Old Social Classes, 403.
12 Bashkin, The Other Iraq, 61.
The Ahali Group demanded greater political freedoms from the Hashemite Republic's ruling elite. At the same time, they deliberated on the societal and economic challenges faced by Iraq's uneducated masses, debated on how best to meet those challenges, and communicated their positions to Iraq's growing urban middle class. Because political parties were illegal during the early days of the Hashemite Republic, the Ahali group published a newspaper in Baghdad to express their views. This paper was largely successful at avoiding the censorship of the Iraqi government, and through it the Ahali group came to represent a major current of opposition to the status quo for the rest of the Hashemite period.

The paper's formative period witnessed intense debate among its editors, for despite their personal familiarity, the founding members had matured in markedly different directions after their undergraduate courses of study. After graduating from the American University of Beirut, Muhammad Hadid pursued advanced study at the London School of Economics, where he studied under Harold Laski (1893–1950). He studied the writings of Sydney Webb and participated in the activities of London's Fabian society. 'Abd al-Fattah Ibrahim went on to write his master's thesis at Columbia University under the aegis of Parker Thomas Moon (1892–1936), a participant in the American delegation to the Treaty of Versailles negotiations and a published critic of imperialism. 'Abd al-Qadir Isma'il returned to Iraq after completing his studies in Beirut, where he and Hussein Jamil participated in Iraq's nascent intellectual life.

When Hadid and Ibrahim returned to Baghdad, the confluence of Fabian socialism, historical anti-imperialism, and Iraqi social criticism stimulated the development of new ideas for modernizing Iraqi society. The Ahali group's unique mix of ideologies also enabled them to avoid the dangerous label of socialism, as Hussein Jamil later wrote, and thereby appeal to a broader segment of Iraqi society. The group chose the name al-Ahali, "families" or "peoples," because it encapsulated their pluralistic views as to how Iraqi society should function.

The confluence of ideologies tended also to amalgamate the views of Ahali's different contributors, and to increase the sophistication with which they treated a given subject. The evolution of their book On the Road to India (علي طريق الهند) demonstrates this fact. The book began as the master's thesis of 'Abd al-Fattah Ibrahim at Columbia. Upon Ibrahim's return to Iraq, the Ahali group published it so that their readership could benefit from the anti-imperialist world history Ibrahim had studied in the United States. The initial printing ran out quickly, and for the second edition the editors deemed it necessary to expand the scope of the book, an act which doubled its length to 370 pages. This edition was not printed until 1935, as the Ahali editors were busy printing other materials that defined their positions on local political and social issues. Collaborating on the book's expansion secured the Ahali group's position within the young Effendiya, earning them a reputation as historians in addition to being journalists.

Important parallels between Iraqi and Indian history emerge from On the Road to India. The claim that the multitude of India's religions facilitated its exploitation echoes concerns expressed in as-Sayyid's socialist newspaper as-Sahifah about Iraqi religions. Similarly, the enfranchisement of elites at the expense of the poor invites comparisons to Iraq's own ruling elite, and the description of a peasant rebellion recalls the 1920 revolt in Iraq. The term as-

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sawad al-'azam resurfaces in reference to India's poor. At the very least, readers were meant to observe the striking similarities between British repression of India and British repression of Iraq. Ibrahim's admiration for the role Indian educators played in resisting colonialism is also clear. He relates how Surendranath Banerjee, the founder of the Indian National Association, founded the newspaper *Bengal*, and then credits him with creating Ripon University, now an undergraduate college affiliated with the University of Calcutta, in order to better prepare Indians for their struggle for independence. Ibrahim employs terminology tinged with Islamic overtones in describing how Surendranath bequeathed the university to the benefit of the people ("#"("#",")") and in describing it further, uses the term *ahlī*. It is difficult to avoid drawing the conclusion that Ibrahim cared passionately about the Indian struggle for independence, and that what he saw in its figures' accomplishments, he believed could be done for the benefit of the Iraqi people.

Coverage of India's political figures extended from history into the realm of Ahali's present. Mahatma Gandhi and, to a lesser extent in the 1930s, Jawaharhal Nehru featured prominently in the Ahali group's newspaper. In its inaugural issues, the editors ran a regular series of articles on Mahatma Gandhi's life that lasted for the better part of a year. These articles shared with Ahali readers details of Gandhi's childhood and education, and later how he came to develop his views on Islam and Hinduism in the subcontinent. They also published what would now be called an op-ed piece that compared Lenin and Gandhi, terming them the "Leaders of the New Age." On the front cover of one issue, they featured a photo of Nehru, styling him the Leader of India's Young People. It bore the caption, "His picture is printed on the occasion of his sentencing to two and a half years, the maximum penalty provided for by law," in a show of solidarity with the politician and disgust at his treatment by the British. These articles enabled Ahali readers to stay current with trends in Indian politics from the perspective of Indian figures, and thus provided Iraq's young Effendiya with an alternative to the official line touted by the British embassy in Iraq. It also invited them to examine how Indian resistance to British opposition was carried out.

Other articles proved that events in India were relevant to Iraqis in a wider context than that afforded by distant ideologues. al-Ahali reported on a conference of the Indian Constitutional Society and the question of an Indian constitution. The Ahali editors noted that the Buddhist society of Rangoon protested Britain's plans to separate the provinces of India and Burma, and described how riots between Muslims and Hindus in Mumbai had disrupted work in the factories. One article proved that exchanges between India and Iraq were not unidirectional. In March of 1932, the Iraqi chief veterinarian was invited to give his opinions on using Arabian horses in Calcutta's races. These articles and others laid the foundation for a shared Eastern identity between Iraqis and Indians, rooted in their common experiences of the British and the challenges they faced as modernizing nations.

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14Ibrahim, ‘Ala Tariq al-Hind. 260, f. 2
16Ahali Group Newspapers, “The Oppression Policy in India and what it will lead to.” Sep. 29, 1932 p. 5

Lights: The MESSA Quarterly
The persistent popularity of Indian politics to the Ahali group is evident in their articles on Jawaharlal Nehru in the 1940s and 1950s. al-Ahali ran translations of Nehru's speeches to various Indian and international assemblies, and put him in dialogue with a number of world leaders: Josef Tito, Nikita Kruschev, and Dwight Eisenhower\textsuperscript{20}. They reported on his reactions to Iraq's 1958 revolution, and carried 'Abd al-Karim Qasim's essay on Nehru's personality in 1959\textsuperscript{21}. They did not restrict Nehru to the role of world leader, although they represented him fairly in that regard too. As many articles from this period cover Nehru's opinions on socialism, the advancement of peace and the poor, and combating the ills of imperialism\textsuperscript{22}. al-Ahali's coverage of Nehru at this stage even drew parallels to his earlier associations with Mahatma Gandhi\textsuperscript{23}, ensuring that the relevance of Indian political thought to Iraq remained unbroken throughout the 1930s, 40s, and 50s. India's relationship to Iraq, and Iraq's relationship to India matured and developed, and the Ahali reporters were there to record it.

\textsuperscript{20}Ahali Group Newspapers, Nov. 27, 1959.
\textsuperscript{21}Ahali Group Newspapers, Nov. 29, 1959, \textit{et al.}
\textsuperscript{22}Ahali Group Newspapers, Dec. 9, 1959, \textit{et al.}
\textsuperscript{23}Ahali Group Newspapers, Oct. 16, 1959.
Bibliography


Coffee’s allure has rarely remained an individual affair. The sharing of a cup of coffee marks a bridge between individuals, establishing a realm of commonality between those who hold the cups. In the coffeehouses of the 16th and 17th centuries Ottoman Empire, this notion facilitated interaction, causing the rise of a Muslim subculture within these establishments. Though originally the tradition of the social cup of coffee held a place in the Sufi lodges, the social fluidity of this sect of Islam spread the appeal of the coffeehouse to the general Muslim populace. Thus, the coffeehouse transformed into an alternative public space in which the social strata of Islam blended. Following its diversified consumer group, the coffeehouse expanded its functionality past religion, becoming a commercial home for literature, entertainment, vice and political dissension. Due to these attractions, the coffeehouse brought previously private discourse and actions into the public, which countered traditional values and the social structure. The resulting anxiety from Ottoman officials created constant opposition on both a political and religious front, making the coffeehouse a threat to the social institution as well as a non-hierarchical sphere for cultural expression.

These tensions went unnoticed by European travelers in the area, who instead became enthralled by the social cohesion and intellectual aspects of the coffeehouse. The resulting version of the establishment in the West creates another, distinctly European, subculture as an unrestricted forum of thought for men across the classes. This adaptation, in turn, affected previous Western perceptions of the Ottomans as barbarians, popularized by humanists around the Fall of Constantinople to the Turks in 1453. Helped by consumer orientalism, an alternate image of the Turks formed around exotic appeal and intrigue. However, the fascination with the Ottoman culture sparked a resurgence of barbarian image from the renewed fear of an Ottoman invasion of Europe, this time as a subtle takeover of Western culture. Thus the spread of the coffeehouse brought about a conflict in the European identity of civility formed originally by barbarizing the Turks. So while the coffeehouse continually stood as a place for varying types of commonality in both the European and Turkish version, it also challenged cultural identities by allowing individuals to disregard borders within and around each society it called home.

However, the phenomenon of the coffeehouse began within the spiritual rather than the intellectual realm. Still, the notion of a non-hierarchical public sphere transcended its manifestations, originally stemming from coffee’s initial purpose within Sufi circles of the Ottoman Empire. Al-Jaziri, a mid to late 16th century observer, described the usage of coffee in a Sufi dhikr, or remembrance of God, writing, “...every Friday and Monday...their leader ladled it out with a small dipper and gave it to them to drink, passing it to the right, while they recited open of their usual formulas mostly 'la illaha illa Allah al-Malik al Haqq al mubin
Coffee made the ideal drink for those worshiping God as the “Clear Reality,” from its stimulating properties, which also aided in the tiring dancing that could accompany a dhikr. Moreover, the act of sharing a drink emphasized the theme of brotherhood in a Sufi lodge, particularly when paired with religious chant. And since Sufis often belonged to multiple lodges, the sharing of coffee further established a specific lodge as its own sphere of worship, in which any other affiliations did not affect one’s participation in the dhikr. And as coffee usage commercialized with trade beyond the Sufi consumer crowd, this mentality of brotherly cohesion alters to social cohesion, meaning that class distinctions among Muslims had little bearing on their interactions at the coffeehouse.

Besides introducing coffee as a facilitator for a separate social sphere, Sufi Muslims played a role in the spread of coffee’s popularity throughout the Ottoman Empire. This occurred not only through the fascination for this sect of Islam, but also through the commonality shown by its participants to the rest of society. Ralph Hattox explains this factor, writing, Sufis were not on the whole professional men of religion, but people whose livelihood was gotten elsewhere. For religious and certainly social reasons, they belonged to the orders […] but their day-to-day lives were not confined to the orders […] hence the development of the coffeehouse as a universal social institution.

From his insight, a theme of plurality arises in the Sufi sect concerning social backgrounds outside of religion, which transfers over to the coffeehouse. Since Sufis were not “confined to the orders,” they aided in the change of coffee from a Sufi drink to becoming an Ottoman drink. And unlike the ulama, the learned men concerned with Islamic law, the constant interaction of Sufi dervishes with the rest of society allowed them to wield immense influence among them. This social interaction aided in attracting more people to the coffeehouses that the dervishes frequented.

As coffee gained recognition in the non-Sufi populace, the coffeehouses themselves shifted to becoming more secularized establishments, with attractions influenced by its variety of new customers. While maintaining a Sufi connection, a public sphere of conviviality formed, which encompassed a greater spectrum of the social strata than any other existing public space. As the 17th century Ottoman chronicler, Ibrahim Peçevi, wrote, “These shops became the meeting places of a circle of pleasure seekers and idlers, and also of the wits from among the men of letters and literati, and they used to meet in groups of about twenty or thirty. Some read books and fine writings, some were busy with backgammon and chess, some brought new poems and talked of literature.” Though still continually referenced with regards to the

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3 Ibid., 75.
dervishes, the coffeehouse became a setting of great secular importance as well. It balanced the
dregs of society, or “pleasure seekers and idlers,” with some of the most respected, “the men of
letters and literati.” And yet in this setting, these two extremes of Ottoman culture could come
together without open hostility or prejudice. In fact, they could even entertain the option of
interacting, for the act of sharing a cup of coffee put aside the labels of society temporarily to
share a few moments of enlightenment or good-hearted cheer, in an alteration of Sufi tradition.

And indeed the conviviality and romance in addition to the entertainment aspects most
likely aided the display of social cohesion in the coffeehouse. The entertainment could also
include dancing girls and hashish in addition to the more cerebral activities mentioned earlier
by Peçevi, also making the coffeehouse a balance of intellectual and corporal stimulation. Thus
through encompassing the spectrum of Ottoman society both by class and interest, the
coffeehouse created a new realm for interaction that brought together the most unlikely
individuals. And by offering attractions that could please this diverse crowd, the coffeehouse set
an atmosphere of ease, which also encouraged interaction of all sorts and the notion of
commonality.

Yet this new form of non-hierarchical social cohesion remained distinctly Muslim on a
whole and actually acted to form boundaries on a religious line in the empire, making the
coffeehouse a purely Islamic subculture. Ralph Hattox expands upon the division among faiths,
saying,

In Islamic society, the general tolerance for the protected Christian and Jewish
minorities came accompanied with the understanding that the minorities were to
remain both separate and unequal...the tavern probably had a more
heterogeneous clientele than the coffeehouse. The former was perforce run
exclusively by non-Muslims, ostensibly for non-Muslims.

In this light, the coffeehouse became the main Muslim sphere in the highly pluralistic Ottoman
Empire. It established a concrete representation of the varied Muslim identity. However, this
religiously affiliated identity came from solely its demographic of clientele rather than a
significant portion of the activities that occurred there. Nevertheless, it also succeeded in
asserting Islamic authority within the empire in face of the infidel tavern. One visible message
came from the prohibition of taverns within the walled city of Istanbul, allowing the
coffeehouse to occupy the socio-religious and commercial center. This distinction stood to
remind Christians and Jews of their status as “separate and unequal,” despite their considerable
presence in this expansionist empire, while it built social cohesion among Muslims.

However, as a flourishing public space for Muslims outside of the mosque, the
coffeehouse generated strife between the Muslim community and its leaders. Ibrahim Peçevi
mentioned the tensions arising during the early 17th century, writing, “The Imams and
muezzins and pious hypocrites said: People have become addicts of the coffeehouse; nobody
comes to the mosques!” The ulema said: ‘It is a house of evil deeds; it is better to go to the wine

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7 Hattox, Coffee and Coffeehouses, 95-96.
8 Özkocak, “Rethinking the Public and Private,” 971.
tavern than there.’ The preachers in particular made great efforts to forbid it.” The burgeoning and immense popularity of the coffeehouses gave the ulama cause to counter this phenomenon, since it slowly began to encroach upon their authority and hurt mosque attendance. Despite the fact that many of these men frequented coffeehouses, warranting the label of “hypocrites,” their loyalty and duty remained to their mosques, which they considered the true and correct public sphere for Muslims. And since the coffeehouses connected to Sufism, a sect of Islam that skirted the edges of normality, the ulama had considerable ammunition in targeting Sufi ecstatic practices within dhikr gatherings.

Yet the incredible opposition from religious authorities almost appears perplexing since they financially encouraged the coffeehouse to hold a place in this socio-religious and commercial center. Selma Özkocak notes the mosque connection to the coffeehouse, explaining, “It functioned as an entertainment place for those who came to the nearby mosque and needed to be occupied before and after the prayer times…the coffeehouse was assigned to a pious endowment, vakıf, and thus it was also financially a part of it.” And so the ulama attacked an establishment technically a part of the mosque, which was meant to keep Muslims near their intended destination. But the ulama could not predict that their mosque would quickly become the secondary destination, or sometimes even the forgotten destination. The entertainments and interaction available in the coffeehouse became a distraction from spiritual life and caused disorder to the priorities of society in the eyes of the ulama. And any tensions felt most likely magnified from such close vicinities, as the mosque leaders could essentially watch the growing crowd of coffeehouse clientele beside the dwindling mosque attendance. So to turn the minds of the erring worshippers, the ulama employ verses from the Qu’ran as proof of need for a reevaluation of the interests of the Muslim community.

One of the strongest arguments used by the ulama came from an attack on coffee itself. Peçevi’s references to wine and wine taverns the alluded to this, since the ulama found Qur’anic evidence to prove coffee’s classification as an intoxicant prohibited by God. Yet the main verse employed to prohibit coffee stood open to interpretation and heated debate. The Qur’an states in verse 5:90-91, “O you who believe, indeed khamr [wine] and maysir [gambling] and stone idols and arrows of divination are abominable, the work of Satan, so shun them so that you might prosper. Verily Satan wishes through khamr and maysir to sow enmity and hatred among you, and to turn you from mention of God and from prayer. So are you among those who desist?” Since coffee technically comes from a berry, the ulama labeled it as “wine,” stretching definitions of fermentation to classify it so. And due to the various entertainments the coffeehouses offered, an argument also arose to consider some activities there as maysir, like chess and backgammon. Still, the largest issue comes from accusing the establishment of trying to “turn [Muslims] from mentions of God and from prayer,” which the ulama took as the cause of the drop in mosque attendance for the coffeehouse. However, since the coffeehouse stood technically as a part of the mosque, both financially and spatially, a significant number of coffee-goers refused to consider it a snub to God. Because of this issue, in addition to the rather loose connections to the Qu’ran, many coffee drinkers disregarded the ulama.

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9 Peçevi, “Tarih-I,” 133.
10 Özkocak, “Rethinking the Public and Private,” 971.
12 Hattox, 49.
And by this point, the coffeehouses had become entrenched in the workings of society, now affirming its position as the new urban center for personal relations. Particularly, the previously mentioned romantic aspect flourished in the face of official opposition, which only increased official anxieties. Even as a subculture, the coffeehouse managed to capture the vast range of intricacies in Ottoman perceptions and approaches to love in a single establishment. As Alan Mikhail remarks, “…coffeehouses, as sites of both coffee—with all its symbolic evocations of the heart and the lover—and coffeehouse boys, force us to think of gender in the Ottoman world as a complicated layering of ambiences, identities and desires—a kind of gender-heterotopia. In the Ottoman imagination, the coffeehouse...is a special kind of space, one where the rules of normal (public) space do not apply.”13 From Mikhail’s observation, the coffeehouse not only embodied Ottoman love, but it enhanced due to the lack of hierarchical class divisions and regulation. Its enclosed and sometimes limited space did not simplify “gender-heterotopia,” rather it allowed the “layering” to deepen and multiply as a place that facilitated personal relations. And sharing a cup of coffee offered an opportunity to introduce individuals across the social strata, unlikely to meet in any other public space, intensifying the alarm in authorities with the possibilities beyond mere romance and sexual diversity.

Their main fears involved the facilitators of romantic relations, which included the literary and political discourse amongst this varied crowd. One possibility for this sophisticated aspect came in the coffeehouse’s ability to bring conversations, usually meant for the private home, into public forum. Ibrahim Peçevi took note of this process in his chronicle, he expressed, “Those who used to spend a good deal of money of giving dinners for the sake of convivial entertainment, found that they could entertain the joys of conviviality merely by spending an asper or two on the price of coffee.”14 The incredible bargain provided by the coffeehouse lured hosts to transferring their gatherings to the coffeehouse, which offered vast amounts of entertainment, in addition to refreshments. But in a public arena that facilitated interaction through conviviality, other individuals could easily overhear issues discussed at parties, or possibly join in a previously private conversation with the extension of a cup of coffee. The easy-going atmosphere lowered pretenses, while the coffee created commonality among the clientele, whether these individuals had just met or known one another for years.

And the coffeehouse as a structure added to its ability to facilitate these conversations, which had before remained behind closed doors. Alan Mikhail suggests, “Because the male world of the coffeehouse shared so many characteristics traditionally associated with an Ottoman home, we might go so far as to assert that the coffee-house is so named with reason, instituting a public imitation of the private home.”15 The coffeehouses conveyed a sense of intimacy by inducing the illusion of the private sphere, while still maintaining its functionality as a public place. This association with a place of comfort encouraged the complete and broad spectrum of conversation, including political opinion.

Furthermore, the removal of the dinner party from the home may have actually intensified and broadened any conversations between a host and his guests. Ralph Hattox expands upon this idea, saying, “No longer was a host necessarily surrounded by...the trappings and symbols of his household. The act of hospitality could now be transferred to a

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13 Mikhail, *Ottoman Tulips, Ottoman Coffee*, 169.
15 Alan Mikhail,“Gender, Urban Space and the Ottoman Coffee House,” 150.
public place where one’s responsibilities, and perhaps prestige, as a host were more limited. This would imply a subtle shift in the relationship of host and guest, and a break, if only symbolic, with old values.”

So in this case, the coffeehouse took away the factor of intimidation during dinner parties, putting both host and guests on a similar plane as guests of the coffeehouse. Such an arrangement induces camaraderie by masking social distinctions, or “old values,” in a neutral public field. And by dissolving these “old values,” the coffeehouse grew into the threat for the Sultan by disturbing the stability of the social order.

Such unbridled interactions caused anxiety in authorities even higher than the ulema, since these relations muddied and threatened the societal order of the empire. So throughout the first century of the coffeehouse’s existence, the government continually attempted to thwart its growth. One of the earlier endeavors came during the reign of Süleyman the Law-Giver in the late 16th century; his jurist Ebu’s-su’ud, decreed,

“The Sultan, the Refuge of Religion, has on many occasions banned coffeehouses. However, a group of ruffians take no notice, but keep coffee-houses for a living [...] The city’s rakes, rogues and vagabond boys gather there to consume opium and hashish. On top of this, they drink coffee and, when they are high, engage in games and false sciences, and neglect the prescribed prayers. In law, what should happen to a judge who is able to prevent the said coffee-sellers and drinkers, but does not do so?

Answer: Those who perpetrate these ugly deeds should be prevented and deterred by severe chastisement and long imprisonment. Judges who neglect to deter them should be dismissed.”

The accusations of vice and religious negligence became the prevailing complaints of the Ottoman government, as well as the disorder in society, which they believed would follow. Since this edict identified coffee goers simply as “rakes, rogues, and vagabond boys,” it sought to counter the growing notion of the establishment of a non-hierarchical public sphere. By purposely narrowing its clientele to the basest individuals of society, the edict implied that the coffeehouse represented the opposite of the public sphere, and rather the public enemy, making the coffeehouse a threat to society as a whole. These tactics came as a protective measure to the government against the threat of the uncontrollable interaction and activities of the coffeehouse. And since pressure even fell upon the jurists of the emperor, such an extreme approach reveals anxieties brewing in the government for coffeehouse discourse as the cause for political dissension.

Despite the fact that “the ruffians take no notice” of bans, the coffeehouse does not escape prosecution entirely, since sultans later find a more concrete cause to ban them. Rudi Matthee notes, “Sultan Murad IV in 1633 used a huge fire that destroyed thousands of houses in Istanbul as a pretext to prohibit the use of a substance associated with political opposition.”

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16 Hattox, 99.
Unfortunately, sources do not specify which particular political issues were discussed within the walls of the coffeehouse. But the drastic measures taken by the Sultan may have come more from the influence the coffeehouses could garner than the issues themselves. As a meeting place of men from so many echelons of Muslim society, political messages and agendas could easily disseminate throughout Istanbul by utilizing coffeehouse clientele. And with support from multiple levels of society, any political opposition could acquire a force with the ability to strike fear into the Sultan’s government.

Yet this ability to mix the social order became one of the chief sources of fascination for western travelers. One 17th century French traveler, Jean de Thévenot, expressed his particularly emphatic views on the universal appeal of the coffeehouse, saying, “All sorts of people come to these places, without distinction of religion or social position; there is not the slightest bit of shame in the entertaining such a place, and many go there simply to chat with one another.” Though Thévenot may have been mistaken concerning religious distinctions, his observation marks a genuine admiration in this form of Turkish sociability and civility. However, his blind eye to the specific religious connections of the coffeehouse contrasted the Ottoman perception of this establishment as a Muslim public sphere. But by making religion an irrelevant factor, Thévenot created for his readers an image of the Turks separable from that of the barbarian infidel. As he later describes this establishment as comparable to the taverns of Europe, he finds a similarity in the coffeehouse that allows European culture to become receptive to the coffeehouse. This approach allowed his audience to consider the Ottomans as a civilized society, not unlike the Europeans reading his works, resulting in a positive fascination with Turkish culture.

Such observations also began to challenge previously perceived notions of the “barbarian” Turks, which had circulated during and after the fall of Constantinople in 1453 due to discourse from Renaissance humanists. The barbarian image allowed Europe to unify under an image of the “civilized” West, since the Turks overran the intellectual homeland of civilization in Greek Byzantium. This mentality certainly does not fade with traveler observations, but another exotic image of the Turks arises to satisfy the growing fascination, which travelers, such as Thévenot, bring back to Europe.

Fittingly, the surfacing image of the exotic Turk portrayed itself most vividly in the early Western adaptation of the coffeehouse, which did not shy away from its Turkish origins in the slightest. Established only a hundred years after Istanbul’s first coffeehouse, this phenomenon of the 1650’s exhibited what Brian William Cowen refers to as “consumer orientalism,” since the intense popularity of the western coffeehouse greatly stemmed from romanticized perceptions of Turkish culture connected to this in-vogue beverage. As Cowen goes on to say, “The coffeehouses…brought a sort of orientalism to anyone willing to step in and try a dish of the exotic new drink and thus participate in a social ritual previously adhered to only by select circles of virtuosi and their fellow travelers […]”

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20 Ibid.
the genteel and the plebian together to indulge their taste for the exotic.” His statement expresses how the coffeehouse in the West gives individuals the opportunity to display their worldliness in a local setting by partaking in this new drink of the marvelous and strange Turks. And by embracing the Turkish heritage of coffee, even in the form of a modish novelty, the western version of the establishment furthered the tradition of commonality and the non-hierarchical public sphere in the West.

In turn, the coffeehouse redefined civilized culture in Europe, a culture that had arisen by barbarizing the Turks. By the late 17th and early 18th centuries, the establishment took on an identity of the “penny university,” or the intellectual sphere for all men, which John Houghton explained during his publications from this time. In 1699, he wrote, “Coffee-houses make all sorts of people sociable, the rich and the poor meet together, as also do the learned and unlearned. It improves arts, merchandise and all other knowledge; for here an inquisitive man, that aims at good learning, may get more in an evening than he shall by books in a month.” Since the coffeehouse acted as a place to express sophistication through exoticism, it especially drew the attention of the bourgeoisie, who felt the most need to prove their refinement to the elite of society. And the coffeehouse became a highly academic and political realm to match the rising societal influence of the bourgeoisie as well as the main traveler observations of Turkish coffeehouses. However, the clientele did not limit the coffeehouse to just the upper classes, for the townsperson able to pay the tab remained welcome.

From the popularity of this adaptation of the coffeehouse, the western notion of civility began to lean on the non-hierarchical public sphere as a tool. And the maintained similarities between this variation of the coffeehouse and the intellectual aspects of the Turkish original established a connection between Europe and the Ottomans with the potential to alleviate the confined and hateful impressions of the past. However, the prospect of this caused an even greater stir from western observers.

Nabil Matar expands on this perception of an Ottoman threat from within European cities. Concerning commodification of Islamic culture in England in particular, he says, “Clearly the Moors and Turks were ‘everywhere,’—not just in the literary imagination of English dramatists and poets, but in the streets, seatowns, royal residences, [and] the royal courts…The allure of the Muslim world and the challenge it posed to the Christian identity and the British nationalism had grown more powerful and more successful over the years.” And since the Muslim world was becoming too close for comfort, British and European society maintained the barbarian image as a protective measure to preserve the European identity. So despite rise of the exotic Turk in part from the coffee and the coffeehouse, the barbarian refused fall. Indeed, it fought back with growing nationalistic pride and the Christian identity as weapons. And behind it the old fear of heathendom surfaces to prevent the blurring of lines between cultures.

Effects of this line of thought came through in literary outlets, such as drama.

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Continuing with the case of England, the playwright, William Congreve, wrote a drinking song in his late 17th century play, *The Way of the World*, as a response to the coffee’s invasion of the English society. He throws his support to wine and claret as the traditional drinks of the civilized Christian, saying,

Your Turks are infidels and believe not in the grape!
...To drink is a Christian diversion
Unknown to the Turk and the Persian
Let the Mohametan fools
Live by heathenish rules
And be damned over tea-cups and coffee.
But let the British lads sing, Crown a health to the king,
And a fig to your sultan and sophy!\(^{25}\)

His song strikes at eastern imports such as “tea-cups and coffee,” stressing how their influence had tainted society by drawing such popularity to establishments such as the coffeehouse. Congreve gives particular attention to the categorization of the Turks as the infidels, which suggests his own fears concerning the spread of Islam into Europe through such exotic allures.

This mentality echoes of the discourse after the Fall of Constantinople, when the menace of infidel Islam threatened the physical borders of Christendom. Yet this song implies that Islam crept into Europe through the coffeehouse, much to the detriment of society, in order to turn many proper gentlemen into “Mohametan fools” through the “sophy” in the discourse of the coffeehouse. As Nabil Matar describes in *Islam in Britain*, “To drink coffee was to be culturally fickle, and fickleness was the first step to renouncing Christianity...not only Christianity but their Englishness too.”\(^{26}\) And so this song carries a cry to rally behind the alcoholic drinks, which set Europeans apart from the Muslims in his mind. He further exhorts the Englishmen not to abandon their English pride to foreign goods, for in doing so, they invite the enemy of Christian culture to influence them more than any alcohol could. The English cultural identity stood as too great a prize to lose to the Turks, who had already defeated the cultural homeland of European thought in Constantinople.

And so even in its varying forms across the Ottoman and European lands, the coffeehouse never ceased to cause a stir with its charm of commonality. Its implicit disregard for carefully established boundaries made it a source of pleasures for society and fears for those deeply in favor of order. But in creating such tensions and turmoil in and between societies, it opened opportunities for change amongst individuals and peoples through interaction. For, in any setting, the best partner for coffee is conversation. And that can become just as addictive as any brew.

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We are Told (what is) the Best of Stories: Unraveling the Metanarrative of Moral Choice through Surat Yusuf
By Matthew E. Gillman

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Yusuf, the beloved prophet, is not a moral exemplar. While academic approaches to the Qur’an have assessed its metanarrative, or worldview, as one of black-and-white moral choice, the tale of Yusuf is not one of positivistic morality, but rather of enacting and reconciling less-than-moral actions. By this I do not only mean immoral, or wrong action, but also non-moral, or actions standing apart from even being understood as moral or immoral. Surat Yusuf is thus not the story of a prophet’s righteous behavior, but rather the manifestation of God’s will transcending the actions of individuals.

To understand this, I will first lay out the traditional formulation of the Qur’anic worldview, reframing it as one of metanarrative. Since this conception is one of ahistoric morality, I will subdivide its critique into examinations first of time, then of favoritism among Yusuf, the Brothers, and Zulaikha, and the moral and non-moral actions they take to gain favor of others.

Historical Standards and the Metanarrative

In Genesis, wherein we find the Qur’anic story’s antecedent, there is a complication in understanding the incident of seduction. Yusuf refuses to lie with Zulaikha because it would be a sin against God, but while adultery is indeed a sin in both Judaism and Islam, the Jewish injunction against adultery was actually promulgated in the Decalogue, which had at his time yet to be revealed.1 Midrashic accounts, however, attempt to resolve this issue of knowledge by claiming that Yusuf had received instruction from his father Ya’qub about this yet-to-be law,2 justified by an exegetical culture in which the Bible was considered to be economical in its use of language and therefore required unpacking—which often involved poetic liberties.3

In reading Surat Yusuf, then, to which standard are we to hold the namesake hero morally? Pre-Mosaic law, esoteric knowledge taught by Ya’qub, or some eternal religion (a pre-Qur’anic islam)? Furthermore, if we accept one of the latter two, to which standard should we hold the other characters? Qur’anic exegetes have used pre-Biblical (Egyptian, Indian, and Pahlavi) morality tales about the “guile of women” to retroactively ground that thematic;4 can we therefore hold Zulaikha morally culpable for her lust?

1 Chronology between Genesis 37-45 and Exodus 34 is established by Exodus 1-2.
This points us in the direction of Fred Donner who, in his work on early Islamic historiography, articulates an ahistoric view of the Qur’an, in which “courses of action” are bipolar; to him,

The very concept of history is fundamentally irrelevant to the Qur’an’s concerns, because all people have been, and will be, confronted with the same eternal moral choice—the choice between good and evil, with the guidance of the revelation and of the prophets as the criteria provided by God.5

Along similar lines, Abdoljabad Falaturi—also arguing for an ahistoric Qur’an—points the way by noting the absence of zaman (the Arabic translation of Greek linear time, chronos) and its use instead of waqt, a “spatial” and “unalterable where of an event.”6 The Qur’anic conception of time makes no distinction between vertical and horizontal orientations, between temporal sequence or spatial co-incidence.7 Or, to quote Thomas Mann’s epic retelling of the story of Yusuf,

What concerns us here is not calculable time. Rather it is time’s abrogation and dissolution in the alternation of tradition and prophecy, which lends to the phrase “once upon a time” its double sense of past and future and therewith its burden of potential present.8

To take an example from another narrative, we find in Surat an-Naml that the Queen of Sheba, who shames herself by baring her legs, is generally considered to be the victim of her own ignorance about religion.9 This could be sustained with Zulaikha: the fact that she does not know about a divine morality is her downfall; that is to say, despite applying an arbitrary or potentially anachronistic moral standard, we are nevertheless allowed to condemn her in the Qur’anic (con)text. She is asking him to sin or act immorally—an encounter, like all others in the Qur’an, in which Mustansir Mir finds “a genuine test of moral fiber and affording an equal opportunity of meeting with success and failure.”10 Not only, then, is the Qur’an concerned with good and evil, but Yusuf’s moral success is just as likely as his failure—and, as we shall see, he indeed fails.

This attempt to classify narrative-bound action on an overarching paradigm can be framed as the Qur’an’s metanarrative. In the strict sense proposed by Jean-François Lyotard, “metanarratives” are those stories which “claim to be able to legitimate the story and its claims by an appeal to universal reason.”11 This claim to truth, however, slants the metanarrative as

7 Falaturi, “Experience of Time,” 69. The designation of “vertical” as being linear progression and “horizontal” as spatial co-incidence is opposite the Western conception of time as a horizontal number line with simultaneous events stacked at the same point, though the idea is ultimately the same.
9 Jacob Lassner, Demonizing the Queen of Sheba, (Chicago: University of Chicago Press, 1993), 89.
necessarily hegemonic. For an alternative conception, we can consider Beatrice Skordili, who defines it instead as “the kind of story that underlies, gives legitimacy, and explains the particular choices a culture prescribes as possible courses of action.” If we replace “text” for “culture”, then the Qur’anic metanarrative is that which explains possible courses of action for its characters and readers; this can either be read on its own, or still considered in hegemonic terms, since the Qur’an notes that Muhammad is only reenacting a prophetic message which is not new (as in 21:24, for example).

Kevin Vanhoozer however, in a Biblical context, is wary of associating scripture with metanarrative because “there is more in scripture than narratives” and he wants “all forms of biblical discourse to have authority and not one conceptual scheme only.” We will find, however, that all three forms of Qur’anic discourse—narrative, exhortative, and legal—will also have validity, though not in the context of a morality metanarrative, only one of divine will.

Time(s): Reading and Re-reading Sequence

In the Qur’an, we find that narratives are fragmentary (occurring across multiple passages) and elliptical (omitting details presumed to be known by the audience). Here the form emphasizes theological content, denying narratives the textual space to exert their own atomistic identity. *Surat Yusuf*, however, contains just that—a single, coherent narrative which, in nearly a hundred lines, has both an exposition and conclusion, rather than an isolated episode. In other words, the sura organizes itself across zaman, rather than waqt. In this way, the “best of stories” (ahsan al-qisas) has suddenly usurped the ahistoric aspect of our metanarrative. Mieke Bal challenges this, however; she notes that

Even within the most narrative parts, that is, the bits that are internally chronological, such as the Yusuf sura, the different episodes may be chronologically tied together without that chronology being important at all.

Thus *Surat Yusuf* is not the story of Yusuf per se; the textual focus moves sometimes instead to episodes involving, for instance, only his Brothers (Q 12:8-10, 80-2), the Brothers with Jacob (12:63-8), or Pharaoh (12:43-5). If we attempt to read chronologically, we will find that when Zulaikha attempts to seduce her slave, Aziz says it is part of women’s guile (*keyd*); but when Zulaikha calls an Assembly of Ladies (as it is known in the Midrash) who also marvel at him, it is decided that “in the end, after seeing the signs of his innocence, they saw it fit to imprison him for a while” (12:35). In this reading, despite his innocence from seducing Zulaikha, the way he makes other ladies of the city feel (and bleed) for him means he should be confined.

Bal, however, suggests that the shift from the seduction-command to the ladies gossiping

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is *spatial*, not temporal;\(^{16}\) that is, it is a *waqt* disjunction, not *zaman* progression, freeing up the chronology of the event. Thus when the ladies say that Zulaikha “is trying to seduce her slave” (12:30), it is *not* referring to the instance of her locking the door and commanding, “lie with me.” Instead, the “trying” or “seeking to seduce” (*turāwīdhu*) indicates an ongoing process—she is not suddenly overcome with desire but rather, as in *Midrash Tanhuma* where she changes her clothes throughout the day to attract Yusuf,\(^{17}\) she has for a period already been after him. *This* is the event (or, rather, *chain* of events) of which the ladies seem to have received word.

Zulaikha, then, need not call the Assembly after the seduction-command, only after the initiation of the ongoing-seduction when it leads to gossip. We may then read this textual unit between the seduction-command and the imprisonment as not being a chronological space, but really a *deliberative* space, of Aziz considering what he should do with Yusuf in light of this immediate instance of Zulaikha attempting to seduce him (for, indeed, some say Aziz had already been aware of the process).\(^{18}\) He is thus contemplating what to do, and—upon remembering the ladies of the city—decides to have Yusuf imprisoned.

**Seeking Favor**

Mustansir Mir notes the “involution and evolution in reverse” of the sura, in which he sees events mirrored between the first and last half, with different outcomes in each case. He does not, however, carry out the logic to its full extent. For example, whereas he notes direct analogues—the Brothers taking a son of Rachel twice or huddling twice, both the Brothers and Zulaikha using intrigue to attain love—he proceeds to claim that certain other episodes, such as the caravan or prison-mates, are “of incidental importance.”\(^{19}\) He has, in fact, just juxtaposed their analogues: both the caravan and the interpretation of the prisoners’ dreams deliver Yusuf from his debasement (to use Bal’s term) toward ascendency in the house of Aziz and the court of Pharaoh, respectively.

We can also complicate some of the supposed “evolutions in reverse.” In the instance of taking a son of Rachel, Mir notes that in the first case, it is with ill intention (to be rid of Yusuf), and in the latter, with good intention (to get more grain).\(^{20}\) This is made to do double-duty, however, for the ridding of Yusuf is also compared to Zulaikha using intrigue to attain love; here the intention (love) and method (intrigue) are the same, while in the comparison between taking each of the sons of Rachel, we find that their intention differs. There, in taking Yusuf to “play” or “sport” (12:12), the Brothers seek to gain favor from their father; in taking Yusuf’s younger brother, they seek to gain favor from Yusuf in the form of more grain. Thus, the search for favor has shifted from Ya’qub to Yusuf. Relatedly, we must be wary of the potential conflation or confusion of Ya’qub’s favor and Yusuf’s being cast into the well. Here, the Brothers are not reacting to their *father’s* favoritism, but to *God’s* favoritism, as evidenced by the dream whose telling is the incitement to the episode. They become reconciled to Yusuf, like Zulaikha, when confronted by Yusuf’s new position of power as prophesied in the dream.

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\(^{17}\) Kugel, *In Potiphar’s House*, 40.
\(^{20}\) Ibid
The circumstance with Zulaikha, then, does not compare to the Brothers disposing of Yusuf (because she does not seek favor of Aziz) but rather it compares more, though not perfectly, with the instance of seeking grain. I say this is not perfect because while Zulaikha does want Yusuf to give her something, it is in defiance, not compliance, with Yusuf’s own statement—though, as we will see, not necessarily his internal desires.

In the second half of the story, the Brothers ask Ya’qub if they can take their younger brother in order to get more grain, and say they only have good intentions (12:63). Here they are telling the truth. It is worth noting that in the first instance, the Brothers have ill intention with the hopes of subverting a statement of Yusuf—that is, the (would-be) fulfillment of his dream. In the second case, though they do not know it, they have good intentions and hope to make good on a statement of Yusuf—that he will provide more grain if they bring their brother. A. H. Johns, then, believes that the Brothers commoditize Ya’qub’s love, and Yusuf tests them to see if they have changed—and, since they protest their brother’s detainment on his charge of theft due to their father being “advanced in age,” Yusuf accepts transformation.21 This is not an entirely convincing interpretation, since he switches from the matter of Ya’qub’s (would-be) love towards the Brothers to the Brothers’ love toward Ya’qub, which had always been there—if, in the presence of Yusuf, tainted by jealousy.

This brings me to the important matter of disobedience. Not only did the Brothers lie and thus disobey their father by not caring for Yusuf, but Yusuf himself disobeyed Ya’qub by telling his dream to the Brothers22 despite being told not to (12:5). While this requires some interpolation in the Qur’anic version, the Brothers’ preoccupation with being rid of just Yusuf—rather than Yusuf and his brother, who they mention as both being in greater favor with their father (12:8)—emphasizes the prior point regarding love toward Ya’qub. This would make Yusuf’s subsequent debasement in the well, though caused by God’s favoritism as evidenced in the dream, most immediately his own doing.23

Perhaps it is because of a lesson learned, then, that Yusuf tells Zulaikha that he cannot transgress Aziz; in this sense, he has indeed become endowed with judgment (12:22). But this brings us to the story’s critical juncture—“She made for him and he would have succumbed to her if he had not seen evidence of his lord—We did this in order to keep evil and indecency away from him, for he was truly one of Our chosen servants.” (12:24) While the word “lord” (rabb) is ambiguous—possibly meaning Aziz or God24—it is nevertheless an intervention, not Yusuf’s own moral volition, which keeps him from sin.

Suddenly, we have lost our entire basis for understanding this aya, even the sura, in terms of a metanarrative of moral choice, more so since this not an isolated incident: Through our aforementioned zwqqt disjunction, we find that in the city, women are talking about the seduction and Zulaikha calls the Assembly of Ladies, gives them knives and fruit, and when she

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22 Bal, Loving Yusuf, 175.
23 From a Judaic and Biblical perspective, it is also important to note that Yusuf is guilty of telling on his brothers—a type of ‘bad report’ or backbiting which further condemns him; see Kugel 80.
calls out Yusuf to serve them, the ladies cry at his beauty, call him an angel, and Yusuf invokes God for protection lest he succumb to them (12:30-4). Thus, in the face of two sexually- tempting situations, Yusuf is reliant on God (or, at least, a “lord”) for protection. He makes the moral decision, if we would like to call it that, to call upon God for protection (in the second instance), but really he has no agency to act morally on his own, to enact a moral decision—only to be a ladies-man restrained through prison or a sign.

In this case, he is debased because he does not himself do the right thing; in the case of the well, he is debased on the basis of his doing the wrong thing. In the latter instance (by which I mean first, as though a timeline still mattered), he is sold into slavery; in the former instance, coming out of prison, he rises to a position of power. Thus we see that the well is an instance of punishment, the prison one of disgrace.

Yusuf is still favored through all of this, we should note, in a range of social positions: Yusuf the son, the slave, the servant of God (al-ibn, 12:5; al-fatan, 12:30; al-‘abd, 12:23); he is a sort of Matroyshka, packing together a number of potential reader-identifications, all of whom rise through the favor of his lord(s)—another nesting of characters. The story therefore applies to a range of situations. First: God has an intention for Yusuf which becomes manifest as foretold in the dream—the lord provides a narrative. Second: Ya’qub gives a directive for Yusuf not to tell his brothers—the lord provides an exhortation. Third: Aziz gives Yusuf management of his house, and when Yusuf’s presence incites disorder he is imprisoned—the lord provides a law.

We can shift the mode of identification to the historical, as well: Yusuf an-nabi is Muhammad (or vice versa): rejected by kin, migrating to a foreign city and rising to a position of power. Our is now a metanarrative in which, as Skordili notes, “the posts of sender, addressee, and hero can be occupied by the same person at different times.” Muhammad receives the Qur’ān as an addressee, identifies with and enacts the role of hero, and transmits the message to others as sender. Khalidi, in the same vein, refers to Qur’ānic narratives as “allegories of the human soul” in which not only does the reader grasp the relevance of those stories to their own life, but in fact relives that experience. The metanarrative is now comprehensive in terms of both function and content, applying to all roles and textual materials.

What Will Happen—To Morality, To Man

To return to Donner, the revelation and guidance of the prophets is the moral criteria provided by God, though I would reclassify these specifically as (historical or mythic) narrative instances of the metanarrative—they express an aspect of God’s will, which is, as a whole, unknowable. In particular, the Qur’ānic story of Yusuf is one which calls the Muslim back to their position in the face of God (no matter which part of Matroyshka Yusuf reflects the

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25 Johns, “Joseph in the Qur’an,” 44.
26 Skordili, “Metanarrative,” 165.
individual). Moral choice fails as a metanarrative, however, not only because individuals do not in all cases enact moral decisions, but also because a notion of morality—what is right and wrong—is necessarily beyond our comprehension; in other words, it is not made explicit as to what the Qur’anically-guided (not necessarily Muslim) individual is to do in every situation. Even in the limited number of examples given in the Qur’an, it is sometimes ambiguous how or in what ways we should allow a character to be praised—as is evidenced by the amount of work necessary to settle an “infallible” prophet30 in a context of his own disobedience and debasement. God’s will, on the other hand, is made fully explicit—everything in the Qur’an is God’s will manifest. I find it important and fitting to note, then, that not only are we “told the best of stories,” but we are told what is the best of stories—the epigraph itself exemplifying God’s will.

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Currently, the acceptance of the Holocaust in the West is at odds with the Middle Eastern perspective that these historical events have been exaggerated or entirely fabricated. Within the last decade, the denial of the Holocaust has been extensive among leaders in the Middle East. Specifically, the Iranian President, Mahmoud Ahmadinejad, has been the principal voice in rejecting the Holocaust. Multiple theories have been posited to explain Ahmadinejad’s revisionment of history. These range from his desire to create closer ties with other Middle Eastern nations, to his being purely anti-Semitic. There is, however, an alternate theory that begs investigation: might Ahmadinejad simply want to deny the Holocaust in an attempt to lead the world toward another genocidal event?

President Ahmadinejad’s Holocaust denial is troubling, but it is not the beginning of denial. Holocaust denial has a history of its own, which has led to it being “an ideological arsenal for twenty-first century mass murderers. Those who deny the Holocaust are deconstructing humanity’s collective memory to pave the way for new genocides.”

It is prudent at this point to mention that history is not objective; it is conveyed and recorded with agendas, making it subject to multiple interpretations. This volatility, however, goes only as far as the bounds of truth, or proven research through documentation. Beyond this truth is the revisioning of history that has taken hold in the Middle East in the last decade. Whether arguing the perspective of this paper, or quite the opposite polemical view - that is, Israel’s use of the Holocaust to further its agenda – history is, by and large, researched, analyzed, and placed in the academic discourse as a function of memory (religious, sociopolitical, individual).

The concept of revisioning history for the agenda of the current Iranian regime is the primary purpose of this paper. In illustrating a brief history of Holocaust denial in Iran, this paper will move forward in analyzing Iran as the leading nation of this denial. Through an examination of Mahmoud Ahmadinejad’s rhetoric and the government sponsored events demonizing Jews, the conclusion is reached that Holocaust denial is a means to justify the destruction of Israel.

**Brief Overview of Holocaust Denial in Iran**

Although this paper is focusing on Iranian Holocaust denial, it is important to briefly consider Holocaust denial in relation to the Middle East. Holocaust denial in the Middle East was not widely promulgated until the late 1970s. Historian Bernard Lewis recounts that Jews

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under Islam “were never free from discrimination, but only rarely subject to persecution; that their situation was never as bad as in Christendom at its worst, nor ever as good as in Christendom at its best.”\(^2\) The Holocaust occurred in the West, and quite appropriately, its denial began in the West as well. From books in the 1960s and 1970s the “three pillars of Holocaust denial—no gas chambers, no six million murdered, no master plan—were crafted.”\(^3\) These chief concepts from Western revisionists have greatly been debated, and generally, refutation of the Holocaust has been stifled in the last three decades with laws preventing Holocaust denial. Professor of Law at Chapman University in California, Michael Bazyler, explains, “As a result of the enormous suffering inflicted upon the world by the Nazi regime, and especially Europe, a number of European countries have enacted laws criminalizing both the denial of the Holocaust and the promotion of Nazi ideology.”\(^4\) While individuals in the West have come to terms with documentation of the Holocaust and even gone as far as banning its denial, the Middle East has steadily become a breeding ground for anti-Semitic rhetoric, using the West’s ban on denial to boast of the freedom of speech that is prevented in the West.

Though denial emerged from Arab leaders after World War II, there was no concrete discourse directed to or from the Middle East to challenge Jews, Israel, and the Holocaust until German neo-Nazi Ernst Zündel published his pamphlet, “The West, War, and Islam,” in 1980. This document was produced and sent to leaders in the Middle East in an attempt to propagate the notion that Jews, more specifically Zionists, are their enemy. Zündel writes in the conclusion to his piece,

> There is a better way—the way of truthful information...The key is in the exposure of the so-called Holocaust or alleged genocide of the Jews. This evil hoax has made two of the richest Western nations mentally subservient to the Zionists, helped them spread their misinformation, and is giving them practically unlimited financial means for their repressive and destructive policies and ends.\(^5\)

Zündel’s pamphlet was not the instigator for the denial that has swept much of the Middle East, but its message has resonated with many leaders. In essence, “The West, War, and Islam” is a “fear-mongering essay that attempted to warn the Islamic world of its purported enemies — the most important being the ‘international Zionists,’ who were attempting to ‘goad the West into a future criminal war’ against it.”\(^6\) Inciting the fear that much of the Western world is under the thumb of Zionists, Zündel hoped to motivate anti-Semitic action in the Middle East. He posited that Zionists have managed to manipulate the West in gaining funds to promote their oppressive agenda Islamic territory.

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\(^3\) Shermer, Michael, and Alex Grobman, Denying History: Who Says the Holocaust Never Happened and Why Do They Say It? (Berkeley: University of California Press, 2000), 40.
The turbulence that is the Arab-Israeli conflict has driven much of the anti-Zionist propaganda in the Middle East. Before 1948, expressions denying the Holocaust “were mostly implicit and indirect, [but] became more forthright from the 1950s on, as the Arab-Israeli conflict intensified.” This conflict has augmented the denial due to the distorted image Middle Easterners have of Israel’s origins as a product of the Holocaust. With the propaganda against Israel has come denial, the derivative of anti-Semitism, but the most pronounced denial has not been from Arabs. National governments–Egypt and Lebanon–have actively sponsored Holocaust denial, but Iran has become the leading nation in furthering denial. Iran is “the Middle Eastern center for disseminating anti-Semitism and encouraging the hate industry against Israel and the Jewish people, sometimes without distinguishing between them.” Iran has not had the same unrest as its neighboring Arab nations have with Israel, but since the Iranian Revolution in 1979, the clerical leadership has broadcast their distrust and dislike of Israel, Zionism, and Jews. In 2001, Supreme Leader Ayatollah Ali Khamenei reiterated his predecessor, Ayatollah Ruhollah Khomeini’s statement that, “The statistics of Jewish deaths during the Holocaust had been exaggerated.” Statements like these have, in the last six years, changed the discourse on this powerful subject under the leadership of Mahmoud Ahmadinejad.

In 2005, the liberal reform President Mohammad Khatami ended his term, passing the presidency to Ahmadinejad, a conservative leader with a subversive agenda. With Ahmadinejad in power, the Iranian government has done little to squelch anti-Semitism. Quite the contrary, “Iranian anti-Semitic propagandists make a point of erasing all distinctions among Israel, Zionism, and the Jews.” This method of categorizing the three as synonymous entities has been carried out through a variety of anti-Semitic methods, one of which is a government sponsored cartoon contest.

Before the contest is explored, it is necessary to understand the logic behind Iranian anti-Semitism, and in turn, Holocaust denial. After the British withdrawal of the Mandate of Palestine in 1948, Israel was voted a member of the United Nations in May 1949. The current Iranian regime believes that Israel’s legitimacy as a state is a result of Zionism. With this in mind, it is easily understood why Israel, Jews, and Zionism are categorically linked and demonized. The historical process that led to the creation of Israel is negated by Ahmadinejad. To many like him in the Middle East, the Holocaust is “one of the major myths that Zionism invented in order to create a guilt complex in the West, which consequently played a crucial role in forging sympathetic public opinion in support of the establishment of the state of Israel.” Ahmadinejad’s rhetoric toward the Holocaust is connected to the “false” establishment of a Jewish state. According to Brandon Friedman of the United States Department of Veteran Affairs, Ahmadinejad “asserts that there is a causal link between the Holocaust and the creation of Israel. However, this account is a misreading of history: The Zionist enterprise began long before the Holocaust; for example, the 1917 Balfour Declaration recognized the Zionist efforts

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7 Litvak, Meir, and Esther Webman, From Empathy to Denial: Arab Responses to the Holocaust (New York: Columbia University Press, 2009), 156.
9 Tobias and Foxman, 3.
11 Litvak and Webman, 157.
to establish a Jewish homeland in Palestine more than fifteen years before the Holocaust.”

The Balfour Declaration of 1917 stated, “His Majesty’s Government view with favor the establishment in Palestine of a national home for the Jewish people, and will use their best endeavors to facilitate the achievement of this object.” The process of a Jewish homeland had begun long before the events of World War II and the Nazi atrocities. Nevertheless, under Ahmadinejad, Iran has “adopted a policy of active, public anti-Semitism, including Holocaust denial (or minimization) alongside a call to destroy the State of Israel. The Iranian aim in denying or minimizing the Holocaust is to undermine the feelings of guilt of Europe and the United States which led to the founding of the State of Israel.” Effectively, Iran is using this denial as a method to release the West from its “guilt” that led to the creation of Israel and the corresponding difficulties that have risen since 1949.

This policy of Holocaust denial has the direct purpose of discrediting Israel’s right to exist. For the Iranian regime, minimizing the effect of the Holocaust, or simply denying it ever happened, is the means to the destruction of the Jewish state. There is, unfortunately for the Iranian regime, the slight issue that was mentioned above: Israel’s creation was not a direct effect of the Holocaust. If this fact was accepted by Ahmadinejad—the Holocaust did occur and six million Jews were killed—there would still be his explanation that the Holocaust was a “result of European policies, and any homeland for the Jews would belong not in Palestine but in Europe. Either way, the result is the same: Israel must vanish.” Thus, the current Iranian regime’s agenda is set: demonize Jews and deny the Holocaust in order to refute the validity of Israel’s existence. Accordingly, Iran is exceptional in its “being the first country since Nazi Germany to officially adopt an active anti-Semitic policy as a means of advancing its national interests.” With this base perception of Iran’s goal, two of the regime’s methods of denial can be analyzed: a cartoon contest, and Ahmadinejad’s rhetoric.

**Controversial Cartoon Contest**

One of the tactics the Iranian government has used to demonize Jews and Israel was a cartoon competition in response to the Danish cartoon depictions of the Prophet Muhammad. To produce an image of having freedom of speech, “The newspaper, Hamshahri, launched an international cartoon competition in 2006 to denounce what it called ‘Western hypocrisy on freedom of speech’.” This was done with the approval of the government to object to the West’s apparent lack of questioning of the Holocaust’s validity. According to coordinator of the project Massoud Shojai Tabatabai, the director of the Iranian House of Cartoons, the

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14 IICC, 14.
16 IICC, 19.
17 Brackman and Breitbart, 62.
competition’s “aim was to challenge perceived western double-standards on free speech, which Iran’s leaders insist precludes openly debating the authenticity of the Holocaust.”

The International Cartoon Competition was launched in February 2006, drawing about “750 entries from around the world, including America and Britain, as well as many Muslim countries.” This international interest in the competition was fused with anti-Semitism in questioning the nature of the Holocaust and Israel’s right to exist. Tabatabai was quoted, “We are concerned about the real holocaust, which is happening to Palestinians… Why should Palestinians pay for events which happened thousands of kilometers away in Europe?” His questioning of Israel’s location on historical Palestinian land mildly echoes those of President Ahmadinejad, but also—and significantly—shows the inconsistency in Iran’s leadership truly believing the Holocaust did not occur.

The government sponsored website, International Cartoon Center, turned into an ongoing site for publication of anti-Semitic cartoons. The images that are posted have common themes of Israeli destruction, Palestinian liberty, and Holocaust denial. Of the images submitted for the 2006 competition, the image by Moroccan Abdellah Derkaoui was awarded the first prize of $12,000 by Iran’s Minister of Culture and Islamic Guidance, Mohammad-Hossein Saffar-Harandi. This image is of an Israeli crane constructing the separation barrier around Palestine, which has the entrance to Auschwitz superimposed on the dividers. The connotation of this image is Israel’s creation of a holocaust against the Palestinians. The use of the Auschwitz entrance as the Palestinian barrier is meant to be a reminder of the injustices, murder, and destruction created by the Israelis. This is, however, an obvious recognition that the Holocaust took place, since it is being used to relate the same message of terror. In effect, this image has less to do with Holocaust denial, but more about anti-Semitism directed at invalidating Israel’s right to exist.

Ahmadinejad’s Rhetoric

Despite Ahmadinejad’s alleged aspiration to be an impartial surveyor of the Holocaust and logically explain the lack of Israel’s right to exist, his rhetoric, since he took office in 2005, has proven contrary. In analyzing quotes from Ahmadinejad, a highly troubling conclusion is seen with his repeated denouncements of Israel and Zionism. Though Ahmadinejad’s rhetoric is not new—in fact, he quotes the father of the Islamic revolution, Khomeini—taken in context of the twenty-first century, many scholars argue it is simply the West’s opportune time to criticize the Iranian regime in order to impose sanctions and prevent uranium enrichment. However, the gravity of Ahmadinejad’s words requires notice, simply because of the implications of his intent.

The immense media coverage of Ahmadinejad’s rhetoric began after a speech he gave on October 26, 2005. This speech was given at a conference in Tehran entitled “The World

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19 Ibid.
20 Ibid.
without Zionism.” The infamous quote repeated through media coverage, “Israel must be wiped off the map,” was given in this speech. Though the media slightly mistranslated the quote, the connotation is very similar: Israel should not exist. Transliterated, Ahmadinejad said, “Va Imaam-e aziz-e maa farwand ke in rezhim-e eshghaalgar-e Qods baayad az safhe-ye ruzaagard mahv shavad. In jomle besyaaar hakimaane ast.”22 The literal translation of this is, “And our dear Imam said that this occupying regime of Jerusalem must be eliminated from the page of time. This sentence is very wise.” Whether translated literally or conceptually, the implication that Israel should not exist is the same.

In this speech, Ahmadinejad used the same method of demonizing that the Nazis used during WWII to justify their eradication. He said, “Be-zudi in lake-ye nang raa az daamaane donyaa-ye Islaam paak khaahad hard, va in shodani ast,”23 which translates to, “Soon this stain of disgrace will, from the garment of the Islamic world, be cleaned, and this is doable.” His reference to Israel as a stain is dehumanizing, which removes the obvious guilt that would arrive with an attack on Israel. Philosopher Paul Ricoeur expresses of the symbol of the stain, “evil is apprehended as a spot, a blot, and then as something positive which affects from without and pollutes.”24 Ricoeur theorizes that the “stain” is a symbol of evil, which through defilement, leads to the justification of suffering. The tactics that the Nazis used in defiling the entire Jewish population is not far from the image Ahmadinejad produced.

Three months later, on December 14, 2005, Ahmadinejad continued this line of rhetoric by overtly denying the Holocaust for the first time. He said of the West, “They have invented a myth that Jews were massacred and place this above God, religions and the prophets…If somebody in their country questions God, nobody says anything, but if somebody denies the myth of the massacre of Jews, the Zionist loudspeakers and the governments in the pay of Zionism will start to scream.”25 This denial of the Holocaust, done by calling it a Western “myth,” illustrates three of Ahmadinejad’s main concerns: the Holocaust as a Western creation for propaganda; the illegitimacy of Israel’s existence in the Middle East; and the lack of free speech about the Holocaust in Europe. Contextually, he is more concerned with illuminating what he views as the Western hypocrisy of free speech, putting forth a discussion for the dismantling and relocation of Israel elsewhere. This recounts his belief that the Holocaust is the direct cause of Israel’s existence. To him, the “myth” is used to justify Israel’s location in historical Palestine. Nearly a year later, in August 2006, he stated, “the real cure for the conflict is elimination of the Zionist regime.”26 In effect, his perspective is that Israel’s very existence is the root of the problems of Middle Eastern unrest.

23 Ibid.
With the arrival of Israel’s sixtieth anniversary in 2008, Ahmadinejad intensified his rhetoric with the repetitive demonization of Israel. In a speech given to the Majlis, the Iranian parliament, on May 10, 2008, Ahmadinejad said,

The [very] basis for the existence of the Zionist regime is in question. This oppressive and false regime is about to fade and collapse... Those who think that they can revive this stinking corpse by celebrating its anniversary are totally wrong. The [leaders] who attend these celebrations should know that they will go down [in history as accomplices] of the Zionist criminals... Having received a slap in the face from the Lebanese people, this regime is now coming to its end like a dead fish... If countries in the region continue to [support] Israel they will be burned by the wrath of the nations.27

Ahmadinejad’s purpose is twofold: reiterating his questioning of Israel’s right to exist and stating his belief that Israel’s existence is on a downward spiral. His reference that Israel cannot be revived is rooted in his conviction that Jews should not have a state in the Islamic world. He implicates nations that support Israel as criminals and further demonizes Israel with the simile of a dead fish. Lastly, he propagates support for Arab fighters—Hezbollah in this case—with the reference to the Lebanese people. Ahmadinejad’s perspective is that of Israel as the terrorist state, since it has supposedly oppressed and subjected Arabs in that region to stern, non-Islamic territorial and political struggles.

On May 13, 2008, Ahmadinejad tried providing a logical method to undercut the legitimacy of Israel’s existence, while continuing the notion that Israel is nearing demise. During a press conference to Iranian press television, he stated regarding Israel’s sixtieth anniversary,

Today, certain people are about to convene in occupied Palestine in order to celebrate its anniversary. They believe that, by doing so, they are strengthening this disintegrating regime. However, the whole world will come to understand that holding these ceremonies is a sign of the weakness, backwardness, and disintegration of this regime. Otherwise, why didn’t they celebrate this regime’s 50th or 55th anniversary? Why did they come up this idea [only] now? Let me tell you, celebrating a dead man’s birthday won’t improve his condition one bit. This dead man will not be resurrected by all those people who are about to convene there... [The Zionists] are a group of terrorists and criminals who came [to Israel] according to a plan, with the support of foreigners, and who have no roots in Palestine. Sooner or later, they will be driven out by the people of Palestine... From the point of view of the nations in the region, the Zionist regime does not even exist... The era of Zionist writings, Zionist bullying policies and the Zionist political mechanism has come to an end.28

The implication behind Ahmadinejad’s unyielding rhetoric is immense. Curiously, he tries to logically “prove” that Israel must be nearing its end because of the size of its celebration of sixty years—in contrast to the smaller fiftieth or fifty-fifth celebrations—clearly ignoring that

28 Ibid.
the year is a milestone. Not surprisingly, he continued his direct dehumanization by allegorically referring to Israel as a “dead man.” This “dead man,” however, has continually proven to be a strong opponent, which clarifies the last statement of the Zionist “bullying.” In referring to Zionists as terrorists, he “invests the word ‘Zionist’ with exactly the same meaning Hitler poured into ‘Jew’: the incarnation of evil.” With a similar Hitler-esque approach, the dehumanization of Israel allows for the avoidance of dealing with Jews humanely. That is, with the “Zionist state” acting as the root cause for Middle Eastern conflict, the Iranian regime, along with Arab states, can refuse Israel’s existence and promote the perception of the occupying Zionists’ oppressive nature in Palestinian land.

More recently, on January 27, 2009, International Holocaust Remembrance Day, Ahmadinejad combined his previous stances on the Holocaust and the Zionist regime in his speech at a conference on the Holocaust at Sharif University of Technology in Tehran. Ahmadinejad expressed that,

The illegitimate Zionist regime is an outcome of the Holocaust. While many people from the nations died in World War II—and it has been mentioned that 65 million people were killed—a political and power-seeking network claimed to be the advocate for one group of the victims, and sought reparations for their blood. [This network] ruled that the survivors of this particular group of victims must receive compensation—and part of this compensation was to establish the Zionist regime in the land of Palestine… Sadly, for 60 years they allowed no one to question and cast doubt on the logic of the Holocaust and its very essence—because if the truth were to be exposed, nothing would remain of their logic of liberal democracy… It is the very advocates of liberal democracy who defend the Holocaust, who have sanctified it to the point where none may enter. Breaking the padlock of the Holocaust and reexamining it will be tantamount to cutting the vital arteries of the Zionist regime.30

The significance of this statement is not his mention of “cutting the vital arteries of the Zionist regime” that so much of the media focused on. Rather, it is the repetition of Ahmadinejad’s logic behind Israel’s roots and the lack of free speech in the West. His logic is quite simple and has been a motivating factor for his rhetoric, but what was overlooked in this statement was the indication that Jews were, nevertheless, victims. He states that 65 million people were killed, and one of the groups that were victimized stepped forward for reparations, resulting in the creation of Israel. Despite the obvious historical inaccuracy—not to mention Ahmadinejad’s own misstep with the clarity of what he wanted to articulate—it is apparent that Ahmadinejad has his own denial. This denial, though, is strategic from his perspective in that rejection of the Holocaust allows for the gradual inuring of the world to Israel’s destruction.

Conclusions

The end of WWII brought with it the incredible difficulties that have ravaged the Middle East since. Subsequent to 1948, the desire to disprove Israel’s right to exist has led Middle Easterners down a path that began with elementary methods of denial—often mentioned

29 Kuntzel, 8.
in passing or implicitly expressed—to the bold statements and actions that have been conveyed in recent years. After Israel’s creation, the refutation of the Holocaust was directed from Arab nations, which “focused on the political implications of the Holocaust for the Arab-Israeli conflict, on what was perceived as Israeli instrumentalization of the Holocaust and on its ramifications for the status of Israel and Zionism.”

This general belief was then spread to take hold within Iran, with the Islamic regime change in 1979.

The rhetoric of President Ahmadinejad has greatly disseminated Holocaust denial in the Middle East. Two basic goals are conclusive through his rhetoric: deny the legitimacy of Israel and dismantle Israel—the first goal having a direct effect on the ability to perform the second. The “myth” that is the Holocaust has, for Ahmadinejad, justified the establishment and continuance of Israel. His rhetoric is quite clear with the agenda of ridding the Middle East of a Jewish state, denoting his premeditated and intentional approach. Much like Hitler’s observance of an unremembered Armenian past, Ahmadinejad recognizes that revisioning history is a necessary step in leading to another Jewish genocide. Eradicating the world’s collective memory of the Holocaust would allow for an easier path to Israel’s destruction. In order for this to occur, however, the denial of the Holocaust has slowly transformed to include demonization, since a past forgotten is not enough to justify the obliteration of a people. The rhetoric Ahmadinejad has put to use directly follows Hitler’s model. For as long as Jews are viewed as victims of Nazi atrocities, the destruction of Israel cannot take place. As was well implemented during WWII, the current demonization of Jews, Zionists, and Israel is an attempt at revisioning history to serve the purpose of Ahmadinejad’s apparent goal. The essential requisites for genocide include all the elements in Ahmadinejad’s discourse: denial, demonization, and subversive actions to revision the past.

An inconsistency and self contradiction arises from Middle Eastern denial of the Holocaust. The question begs to be asked: why, if Middle Eastern leaders dislike Jews and Zionists, do they deny Hitler’s feat? Due to the political situation regarding the Arab-Israeli conflict, leaders cannot applaud Hitler. If Middle Eastern leaders were to acknowledge “the Nazi systematic extermination of Jews [this would] give implicit credence to Zionist claims that the Jews were a persecuted people who, therefore, had a right to statehood.” Due to their perpetual attribution of occurrences during WWII to the creation of Israel and their belief that Zionists use the Holocaust to justify their existence—where the reality is actually rooted in the early twentieth-century—it is virtually impossible to approve of or recognize Nazi actions. This contradiction has been created by Middle Eastern leaders, rendering their efforts futile. To historically accurate observers, the roots of Israel’s creation is not the Holocaust; therefore, efforts made by Ahmadinejad and his like do not have the probability of accomplishing a worldwide revisioning of the Holocaust as a means to obliterate Israel. This, however, does not diminish the importance in noticing, exposing, and analyzing the Middle Eastern perspective. From the end of WWII, “Holocaust deniers have wanted to revise the past. Today, they want to shape the future: to prepare the way for the next Holocaust.” The revisioning of the Holocaust that has taken place in the last decade has one purpose that has been made evident through the Iranian regime’s discourse: alter the world’s collective memory to rationalize a second Jewish genocide.

31 Litvak and Webman, 7.
32 Litvak and Webman, 158.
33 Kuntzel, 2.
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Re-Examining the Procopian Prejudice against the Ghassanids
By Sami J. Sweis

During the Persian Wars of the sixth century, the Byzantine Empire had an interesting ally, the Ghassanids, who had settled in the Jawlan, the region known today as the Golan Heights. They were Christian Arabs, albeit Monophysite. They built fortresses, founded churches, debated theology, and even supported monasteries. Despite these achievements, the Greek Historian Procopius (c. 500-565 AD) left their legacy tarnished in his account of the Persian Wars, History. Through fabricated accounts of deceit and corruption, Procopius faulted the Ghassanid army, led by King Arethas, for Byzantine defeat at the hand of the Persians. His version of events became the standard narrative for future historians that left the Ghassanids perpetually responsible for the losses of the Byzantines. In 1957, Irfan Shahid challenged Procopius’ accounts to reveal their ancient prejudice and partiality that seemed to haunt Arab history. Having experienced the sunset of direct colonial ambitions in the Middle East, Shahid knew of the caricatures of “treacherous” and “wild” Arabs supposedly organized into primitive “tribes.” Thus, as a Byzantinist and Arabist, when Shahid began examining Procopius’ History, the prodosia (betrayal) theme against the Ghassanids seemed oddly contemporary—an ancient voice still echoing loudly in the modern world. By comparing Procopius’ version of key events in Ghassanid history with other contemporary accounts, he concluded that Procopius disparaged the reputation of the Ghassanids, including their leader Arethas, for political reasons: first to criticize obliquely Emperor Justinian (Kaiserkritik) and to expunge the magister of the Byzantine armies (Belisarius) of defeat.

His analysis of Procopius’ motives—Kaiserkritik and absolution of Belisarius—has withstood challenges (most notably from Christides Vassiliou). These motives, however, may not account for Procopius’ entire treatment of the Ghassanids. For instance, Procopius’ subtle criticisms of Belisarius and his obfuscation of the settled, Christian identity of the Ghassanids remain unexplained by the prodosia theme. Re-appraisal of Procopius’ writings in light of the recent scholarship by Greg Fisher suggests another motive: to undermine the growing unique identity of the Ghassanids and their changing relationship with Constantinople.

To develop this revised understanding of the Procopian prejudice, it is necessary to survey Shahid’s claims of suppressio veri (truth omission) and suggestio falsi (false accusations) to highlight how his analysis fails to address other criticisms of the Ghassanid Arabs and even Belisarius.

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1 Born Irfan Kawar, Shahid published his seminal works on the Procopian prejudice under his birth name, which he changed in the late 1960s.
Procopius’ account of Arethas’ promotion from *phylarch* to “king” is the first example of *suggestio falsi* that Shahid examines. Procopius explains that despite the Emperor’s unprecedented move to bestow upon Arethas the “dignity of king” (*αξιώμα βασιλέως*), “Alamoundaras” [“the ‘king’ of the Arabs allied to the Persians”] continued to injure the Romans just as much as before, if not more, since Arethas was either extremely unfortunate in every inroad and every conflict, or else he turned traitor as quickly as he could.” Not only does Procopius falsely accuse Arethas of ineffectiveness, he subtly critiques the Emperor as the reader is to connect this policy failure to Justinian, who made Arethas “king.” At this very first mention of Arethas, therefore, Procopius prepared his readership for the recurring *prodosia* theme and for whom to blame.

At the Battle of Callinicum (531), Procopius again constructs the *prodosia* theme through an inaccurate account of events. At this battle, Belisarius assigned the Arabs under Arethas to the right side of the phalanx. Once the battle proceeded, Procopius explains that they “broke their formation and moved apart, so that they got the reputation of having betrayed the Romans to the Persians. For without awaiting the oncoming enemy they all straightaway beat a hasty retreat.” Therefore, “the Persians in this way broke through the enemy’s line and immediately got in the rear of the Roman cavalry. Thus the Romans…held out no longer” and were ultimately defeated.

Shahid charges Procopius of *suggestio falsi*, since the Greek historian explains that *all* of the Arab troops retreated—including Arethas. When Shahid compared Procopius’ account with that of John Malalas in the *Chronicles*, he found a contradiction that proves Procopius falsely accused the Ghassanids. Malalas writes that “when the Phrygians saw their exarch fall and his standard captured by the Persians, they turned in flight and the Roman Saracens fled with them, but others continued with Arethas fighting.” The reputation of Arethas remains intact. Instead of simply preferring one writer to another, Shahid gives more credence to Malalas’ account because, unlike Procopius, his version was more detailed and because he was not appointed secretary to Belisarius. For this reason, it “naturally justifies one in suspecting that the omissions in Procopius were made by a historian who was trying to be deliberately selective…”

In another battle ten years later, Procopius once more blames defeat on Ghassanid treachery. When the Roman army encounters the fortress at Sisauranon, Belisarius orders to “let Arethas and his forces be sent into the country of Assyria. For the Saracens are by nature unable to storm a wall, but the cleverest of all men at plundering.” By sending the Arab army to plunder the Assyrians, Belisarius planned to capture the fortress and cross the Tigris River “without having to fear mischief from anyone in our rear, and knowing well how matters stand

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5 *History*, I. xvii. 48.
6 *History*, I. xviii. 35-36.
7 *History*, I. xviii. 38.
10 *History*, II. xix. 11-12.
with the Assyrians.” Thus, he “commanded Arethas to pillage all that lay before him and then return to the camp and report how matters stood with the Assyrians with regard to military strength.” According to Procopius, the Arabs did plunder Assyria and “secured a great amount of rich plunder.” Meanwhile, Belisarius secured surrender from the inhabitants of Sisauranon. However, Arethas feared that “he should be despoiled of his booty by the Romans,” if he returned, thus he “was now unwilling to return to the camp.” Arethas, instead, sent false intelligence to the Byzantines as an excuse for their desertion. Procopius concludes that this betrayal ended the campaign because the extreme heat afflicted the Byzantine soldiers while awaiting Arethas.

In this episode, Shahid accuses Procopius of suppressio veri, since he failed to give a complete picture of Belisarius’ campaign. In the Anecdota (or The Secret History), Procopius writes that because Belisarius feared his wife’s infidelity, he did not desire to go far from Roman territory. It was “for this reason he ordered Arethas and his men to cross the Tigris River…while as for himself he saw to it that he did not get even one day’s march from the Roman boundary.” There is obviously no mention of the Ghassanid’s greed, which provoked them to abandon the Byzantines. Shahid recognizes one criticism, however, in that this discrepancy may mean that the History “is inspired by partiality…[and] the Anecdota is inspired by spite.” Scholars ought to question both accounts since they cannot be sure which is most accurate. Nonetheless, it is enough to highlight his prejudice.

Shahid’s analysis of the various incidents of Procopius’ falsehoods and half-truths do not address the subtle criticism of Belisarius (Magisterkritik) present in the History. In fact, Shahid overlooks the Greek historian’s critical appraisal of the magister by focusing on Procopius’ efforts to defend Belisarius. Indeed, Procopius does blame the Ghassanids for Byzantine defeats; but he also assigns blame to Belisarius.

At the Battle of Callinicum, for instance, Procopius writes that the soldiers had to persuade Belisarius to fight. Initially, the magister considered it imprudent to pursue the retreating Persians, since he reasoned, “if we compel them against their will to abandon their purpose of withdrawing and to come to battle with us, we shall win no advantage whatsoever if we are victorious,—for why should one rout a fugitive?” Despite his well-reasoned pragmatism, the Roman troops convinced Belisarius to attack, which motivated the Persians to fight. Shahid interprets this episode as partiality for the magister, assigning blame to the troops who convinced him to battle the Persians.

Another interpretation of this battle is that Procopius was actually slighting Belisarius. He even emphasizes this criticism with the curious episode of the Persian army standing before their king, Cabades, after defeating the Byzantines. He writes that after Cabades realized the high rate of casualties from the battle and the failure to capture a fortress, “he rebuked Azarethes [the Persian commander] for the victory and thereafter ranked him among the most

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12 History, II. xix. 16.  
16 History, I. xviii. 19.
unworthy.” For even the Persian king, though not present at the battle, realized its uselessness—just as Belisarius had suspected. Yet, in contrast to the prudence of Cabades (who punishes his commander) the Byzantine soldiers easily swayed Belisarius to fight the Persians. By putting these two episodes together in the History, Procopius illustrates Belisarius’ ineffectiveness as a magister—an example of restrained Magisterkritik.

Procopius again highlights the impotency of the magister at the fortress in Sisauranon by questioning his strategy. He chronicles that the commanders had to convince Belisarius to return to Roman territory, as “they came, indeed, frequently to Belisarius and entreated him to release them immediately, protesting that they had given over to Alamoundaras the country of Lebanon and Syria, and were sitting there for no good reason.” Procopius suggests that if not for these commanders, Belisarius would have stubbornly waited for Arethas’ return, while his men became ill from the intense heat.

In the same episode, moreover, the Greek historian even accuses the Magister of cowardice. After receiving the false intelligence from Arethas, Procopius writes that “Belisarius and the Roman army, hearing nothing concerning this force, were disturbed, and they were filled with fear and an intolerable and exaggerated suspicion” (italics added). The Greek phrase translated as “exaggerated” is ὡτε μετρίαν ἐμπίπτοντες, and literally means “not falling within moderation (or the mean).” In other words, Procopius hints that his fear was more excessive than acceptable, particularly for the commander of an army.

Besides these examples of Magisterkritik in the History, Shahid’s articles do not convincingly address other criticisms of the Ghassanids, primarily those not dealing with the military. Examples abound of language and descriptions that Procopius utilizes to disparage the settled society and Christianity of the “Saracens” allied with Constantinople. Only in his most recent work, Byzantium and the Arabs in the Sixth Century (BASIC), did he address the issue by suggesting that Procopius was a “crypto-Samaritan.” He did not develop this argument, perhaps indicating his own uncertainty, especially considering other research into Procopius’ religion.

Through suggestio veri, Procopius does not clearly differentiate the sedentary, Christian Ghassanids from the nomadic—and often pagan—tribes outside the frontier zone. For example, Procopius describes the Ghassanid territory in unflattering, desolate terms. He writes that,

The coast immediately beyond the boundaries of Palestine is held by Saracens, who have been settled from of old in the Palm Groves. These groves are in the interior, extending over a great tract of land, and there absolutely nothing else grows except palm trees….and [Abochorabus ] was appointed by the emperor captain over the Saracens in Palestine. And he guarded the land from plunder

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17 History, I. xviii. 56.
18 History, II. xix. 34.
19 History, II. xix. 30.
20 One should examine Averil Cameron’s chapter entitled ‘Procopius and Christianity,’ in Procopius and the Sixth Century (1985), where she dismisses the claims of former scholars suspecting the historian to be anything but a Christian.
constant, for both to the barbarians over whom he ruled and no less to the enemy, Abochorabus always seemed a man to be feared and an exceptionally energetic fellow (italics added).\textsuperscript{21}

He reduces the Ghassanids to itinerant pastoralists and as “barbarians.” Procopius builds on their alleged nomadism when describing the source of the inter-war feud between Arethas and Alamoundaras. The dispute involved ownership of the Strata, which “at that time was claimed by both tribes of Saracens…and extends to the south of the city of Palmyra.”\textsuperscript{22} On this land, “nowhere does it produce a single tree or any of the useful growth of corn-lands, for it is burned exceedingly dry by the sun, but from old it has been devoted to the pasturage of some few flocks.”\textsuperscript{23}

Procopius is responsible, Shahid claims, for this nomadic image of the Ghassanids, since the “natural conclusion of the reader of his pages is that these were nomads with no fixed dwellings, roaming Oriens and untrustworthy at that.”\textsuperscript{24} By doing so, Procopius robs the Ghassanids of their sedentary heritage that Shahid examines in BASIC.

One very important, and glaring, omission by Procopius is the religious identity of the Ghassanids, which he leaves in doubt by grouping all “Saracens” into one indistinguishable group. When describing the palm grooves, he writes, “beyond them many other nations are said to be settled as far as the man-eating Saracens.”\textsuperscript{25} In addition, when the Byzantine army decided to leave the fortress at Sisauranon ten years later, it was because the “sacred season of the Saracens had in fact already passed,” referring to the supposed two months when the tribes would not fight.\textsuperscript{26} Finally, Procopius includes the curious episode of Ambrus, “one of the Saracens, who though a Christian, was serving under Alamoundaras,” but who assisted the city of Sergiopolis by secretly warning the inhabitants of the Persian stratagems.\textsuperscript{27} The intriguing mention is significant, because it is the only instance of Procopius linking Christianity with “Saracen”—but only to a specific person and with exception as indicated by “though.”

Considering the overlooked examples of Magisterkritik as well as the deliberate obfuscation of the Christian and sedentary nature of the Ghassanids, Shahid’s original analysis ought to be expanded. Instead of limiting the discussion to prodosia, we can incorporate Greg Fisher’s conclusions about the development of a unique Ghassanid identity—distinct from Byzantium but incorporated into its hierarchy. Thus, Procopius’ bias becomes more than just Kaiserkritik and absolving Belisarius; it includes a political critique on the developing autonomous identity of the Ghassanids, which Monophysitism and settled society were an aspect. Although he considers the apex of this process as having occurred under the reign of

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\textsuperscript{21} History, I. xix. 8-11.
\textsuperscript{22} History, II. i. 6.
\textsuperscript{23} History, II. i. 6.
\textsuperscript{24} Shahid, Byzantium and the Arabs in the Sixth Century, pg. 5.
\textsuperscript{25} Related, Shahid believes that archaeological and literary source purport that in fact, Justinian “left in the hands of the Ghassanids the segment of the limes that extend not only from Palmyra to Ayla but also the longer one that began at Circesium,” to fortify and defend (5). In BASIC, he traces the Ghassanid connection to a variety of structures, like Qasr al-Hayr al Gharbi, the praetorium extra muros, and the tower at Dumayr.
\textsuperscript{26} History, I. xix. 15.
\textsuperscript{27} History, II. xix. 33.
\textsuperscript{27} History, II. xx. 10.
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Arethas’ son al-Mundhir (569-582), he accurately credits the policies of Arethas and Emperor Justinian for encouraging their autonomy. Fisher points to two occurrences during Arethas’ rule that highlight an important development of Ghassanid identity. Since Procopius associates these developments with the *prodosia* theme, we can conclude that he thus impugns the unique Ghassanid identity.

The first event is the elevation of Arethas to the “dignity of king” (ca. 530) by Emperor Justinian. Fisher interprets this move as the old Roman tradition of “supporting individual leaders against whom they could apply political leverage, backing up this approach with punitive expeditions and gifts of money where it suited.”

This explanation corresponds well with Shahid’s argument that there is an “inherent improbability” of Arethas betraying the Byzantine army since this title “carried with it much prestige… and it was an office which was highly coveted by many of the Arab chiefs.” Consequently, Arethas depended on the support and protection of the Romans, for he was vulnerable to other *phylarchs* and tribes. As already explored, Procopius suggests that this development was dangerous and ineffective, since Arethas quickly turned treacherous. Shahid would add that it is particularly interesting for Procopius to use the term 

\[ \text{basilea} \]

instead of the more accurate term \[ \text{archiphylarchia} \] (“supreme *phylarch*”). This alternative term would have better described Arethas’ responsibilities as a “function in the Byzantine military system of Oriens,” since “Basileia appears more of a decorative dignity revealed to the barbarian world.”

Accordingly, he postulates that \[ \text{archiphylarchia} \] as a neologism, “might create some confusion about the structure of the military administration in Oriens…” since “the holder of this new position would have been put on the same level as the *magister militum* of Antioch.” Thus, by opting for a title from the barbarian world, Procopius not only prevents administrative confusion and recognized the elevated status of Arethas—just as Fisher argues—but he also makes a clever political point by keeping Arethas separate from Byzantium but is denigrated as an independent, treacherous “king” now allied, to Constantinople.

A second important development concerning Arethas is his growing military independence. Fisher points to the episode at the fortress in Sisauranon where Arethas purportedly exercised his own judgment to abandon the Romans. Despite the fact that Fisher inexplicably falls for the *prodosia* theme, Shahid would agree that during the Persian Wars, Procopius indeed realized the growing military influence of the Ghassanids. At the Battle of Callinicum ten years earlier, for example, he described the forces under Arethas as \[ \text{stratēgoi} \], an army, which is “a natural description since this was not the small force of a provincial *phylarch* but the army of the supreme *phylarch* in Oriens.” By using this term \[ \text{stratēgoi} \], instead of his usual word \[ \text{phylarchia} \] (often translated as “forces”), Procopius indicates a higher standing for the Ghassanids, Arethas in particular. He is not a *phylarch* commanding tribal contingents but the leader of an *army* such as another sovereign would command. Moreover, this was an army which could betray the Byzantines—a consequence of their developing independence.

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29 Irfan Kawar, “Procopius and Arethas,” 46.
31 Ibid.
Fisher’s contention of the development of an autonomous Ghassanid identity through political symbols (viz. the elevation of Arethas to a “king” and the creation of an “army”), and their placement alongside examples of prodosia, helps us account for the subtle criticisms of Belisarius. Instead of only criticizing the Emperor and absolving the magister, Procopius intended to criticize the formation of a politically unique Ghassanid kingdom. This same conclusion also explains why the Greek historian also explicitly limns a nomadic, pagan image of the settled, Christian Ghassanids. Just as a new crown and larger army represented a growing separateness of this Arab kingdom, their sponsoring of the heretical Monophysitism was an assertion of religious—if not cultural—autonomy from Constantinople. Whereas Shahid’s original analysis of the prodosia theme does not account for Procopius’ treatment of Ghassanid society, Fisher’s study of Ghassanid identity offers a solution. Just as Procopius criticizes the political autonomy of Byzantium’s Arab allies, he also deprecates Ghassanid society and religion.

Evaluating Greg Fisher’s findings alongside Shahid’s analysis, the Procopian prejudice becomes more pervasive. The cases of subtle Magisterkritik and instances where Procopius disparages the social and religious identity of the Ghassanids commented on the policy of the Byzantine system which encouraged the Ghassanids to form an autonomous identity (both political and religious). Procopius was clearly worried by this policy, which explains why he characterized the Ghassanids as treacherous and as nomadic pagans. Shahid rightly realized that the Procopian prejudice, the implications of prodosia, tarnished the reputation of the Ghassanids in the eyes of future historians. The intention of this analysis, then, is not to draw criticisms of Shahid’s oeuvre; rather, it is to account for the other criticisms and misrepresentations plaguing Procopius’ history. By re-evaluating his conclusion, we find that Procopius’ motivations were even more cynical. The Greek historian was not only criticizing Justinian and expunging Belisarius, but also decrying the growing uniqueness of Ghassanid society independent from Constantinople.

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33 In BASIC, Shahid details the conversion of the Ghassanids to Christianity and then their conversion to Monophysitism of which they became staunch supporters. He describes their Christian rituals (including pilgrimages), their role in theological debates, and support for monasteries. Although during Persian Wars the Monophysite and Chalcedonian dispute had reached a state of abeyance, the Ghassanid were surely developing Monophysitism. Arethas’ efforts thus led to the ordinations of Jacob and Theodore (542/543), thereby strengthening the place of Monophysitism in the Christian world.
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