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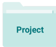

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PRIVATIZATION IN ISRAEL
The Creation of a Mature Market Economy*

by

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Introduction

Privatization has become a central feature of the economic policies of a variety of nations. We can distinguish here various types of reduction of government influence: selling of state assets or whole state-owned firms, liberalization of former spheres of government activity, promotion of competition in national economy. It is not surprising that such a pervasive global process has given rise to an enormous stream of scientific literature[1]. A significant part of the investigations has been devoted to the evaluation of privatization experiences in single countries or in groups of countries[2].

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1 For a survey of the literature on privatization see Gurkov (1992).

2 For an overview of the politics of industrial privatization in Western Europe see Vickers and Wright (1988), for a survey of the privatization experience of less developed countries, see Vernon (1988), and World Bank (1992). For a synthesis of cases of economies in transition see Keren and Ofer (1992) and Bos (1993).

However, one of the most interesting cases of privatization policy has not received significant attention in the scientific literature the experience of Israel in undertaking privatization. As the geographical location of Israel is on the cross-road between Europe, Africa and Asia, its economic structure combines institutions of developed market economies, the distinctive characteristics of a Mediterranean country and some features shared with economies in transition. Such characteristics have not only resulted in a unique structure of the public sector in Israel, but have also led to the establishment of a peculiar privatization policy. Many elements of this policy could work well for other Mediterranean countries as well as for economies in transition.

The aim of the paper is to present a review of privatization policy in Israel over the past decade. Emphasis will be placed on translating political attitudes and macroeconomic goals into organizational measures.The paper is comprised of five sections. In the first section we elucidate the position and the role of the public sector in the Israeli economy. In the second, we evaluate the origins of privatization policy in Israel and the different approaches to privatization in meeting the objectives of economic liberalization and efficiency. We then survey in the third section managerial responses to government privatization measures and changes in the organizational behavior of privatized enterprises. The section also includes a brief overview of employee participation in Israeli privatization. Current privatization plans are briefly summarized in the fourth section, and conclusions and implications are drawn in the fifth.

1 Structure and Role of the Public Sector

1.1 Some unique institutions

The situation of Israel is in many ways unique. No other country has absorbed so many immigrants relative to its size. Few other countries have been able to modernize so extensively despite the active hostility of many of its neighbors and enormous military, political, and social commitments. These circumstances have left their imprint on the Israeli economic structure. The Israeli economy differs from other developed market economies in the great share of the public sector in GDP and in the large degree of government intervention in economic activities. A phenomenon peculiar to Israel is that the public sector includes not only the government sector, but

also such National Institutions as the Jewish Agency, the Jewish National Fund, and Keren Hayesod and a very large cooperative sector, controlled by the Histadrut – the Israel Labor Federation.

1.2 The government sector

The government sector in Israel includes those units which are an integral part of the government – the government ministries and the ancillary units of the different ministries, such as the Government Printing Office and the Israel Military Industries. It also includes several economic and non-profit statutory authorities that were established by a special law. Examples are the Bank of Israel or the Port and Railroad Authority. Finally, the government sector also includes some 160 state-owned enterprises. These enterprises are legally defined as corporations whose voting shares are owned by government bodies or by the State.

The state-owned enterprises occupy monopolistic or dominant positions in electricity generation, oil production, communications and transportation, non-metallic materials and chemical and military industries.

Table 1 – State-Owned Companies: Net Worth, Revenue and Share of State Ownership

Type of Company	Net worth (Millions 1990 NIS*)	Percentage of State Ownership	Revenue	
			Total (Millions 1990 NIS)	As Percentage of Total Revenue of the Branch
Non-Metalic Minerals, Chemical and Oil Products	2,477.3	91.9	4,111.5	49,0
Water and Electricity	4,700.1	96.4	3,947.6	97.3
Transportation and Communications	2,050.9	88.2	6,717.5	70.0
Machinery and Electrical and Electronic Equipment	764.7	99.0	3,796.2	47.2
Transport Equipment	620.3	100.0	1,376.8	49.9
Construction and Housing	169.1	95.5	547.8	4.1
Other	1,163.4	47.3	423.0	n.a

* NIS1.8=$1

Source: State of Israel (1991), Central Bureau of Statistics (1992).

In 1993 the six biggest state-owned companies – Israel Electrical Corp., Israel Aircraft Industries, Bezek (the Israel Telecommunication Corporation), Israel Chemical Ltd., Batei Zikuk (refineries) and El-Al (national airline) – ranked among the 10 largest Israeli companies. In 1991 the state-owned companies in the 100 largest Israeli *industrial* companies accounted for 35.3% of their sales. Among the 100 largest *non-industrial* companies, the state-owned enterprises accounted for some 47.6% of sales[3]. On the whole, only 4.9% of employed persons in the Israeli economy worked in state-owned companies in 1990, but these firms made 14.6% of the total investments, and produced 16.9% of the national export and 18.6% of the Gross Domestic Product (State of Israel, 1991, p.3).

This enormous extent of state ownership necessitated the creation of an intricate, multilevel system of management, regulation and control over state enterprises. This system includes a special government body responsible for corporate governance – the Government Companies Authority – and branch ministries. From 1986 each state-owned company has been under the control of two "responsible ministers" – the Minister of Finance (through the Government Companies Authority) and another minister according to the enterprise's sector of activity (Minister of Defence, Minister of Communications, Minister of Energy etc.). The government itself also includes several committees that determine goals and policies of the state sector. In addition, there are numerous control bodies – the State Controller, who concentrates mainly on the financial discipline of state enterprises, and the financial and control committees of the Knesset (Israeli Parliament), that have a crucial role in the approval of financial transactions. A special place in this system is occupied by the Bank of Israel. The Bank Governor, by Israeli Law, serves as a Senior Economic Adviser to the Government, in all areas of macroeconomic policy. In this way the Bank can influences strategic aspects of public sector development. Studies of the comparative influence of different government bodies reported that the controlling minister had the strongest influence on companies' goals and policies, followed by the Government Companies Authority, the Government itself, the State Controller, and, finally, the Knesset with its committees (Aharoni, 1984, 9, p.19).

3 Excluding Zim Ltd., the national shiping company, partially owned by the government and partially by private investors.

1.3 The Jewish Agency and other National Institutions

Another group of organizations is very close to the government sector, but constitutes an independent system. These are the Jewish Agency and other National Institutions. The Jewish Agency was founded in 1929 to help create of the future state. Even before this agency was formed, other so-called National Institutions were established. The two most important ones were the Keren Kayemet, mainly for the acquisition of land, and Keren Hayesod, for the creation of the country's infrastructure.

After the creation of the state in 1948, the proto-government organizations could have been dismantled, but were not. Today, the Jewish Agency owns many important economic institutions. First and foremost, the agency owns the majority of the voting rights in one of the largest Israeli banks, Bank Leumi. In 1990 this bank had accumulated some 34% of the total assets of the Israel banking sector. In 1992 Bank Leumi was the largest Israeli bank in equity and second in net profit. The Bank Leumi group controls a large number of subsidiaries and affiliated companies – banks, financial, insurance and real estate companies – and is also a partner in several large industrial companies. The Jewish Agency also held 33% of rights in Mekorot – the National Water Authority. In addition, it is the major means of channelling and allocating private financial aid to Israeli organizations. Because of this, the position of the Jewish Agency is of the utmost importance.

1.4 The cooperative sector

The Histadrut sector is a unique Israeli creation. The Histadrut – the General Federation of Labor – was established in 1920. The Histadrut is not just a trade union,but also an organization caring for health, mutual aid, old age care as well as many economic activities (Barkai, 1989a; Barkai 1989b).

The Histadrut controls several large holding companies, such as Koor Industries, the Israeli leader in net profits in 1992; Bank Hapoalim, the largest Israeli bank; Solel Boneh, the largest construction firm in Israel; Shikun Ovdim, housing; insurance; as well as trading firms: Tnuva, the largest Israeli non-industrial firm; and Hamashbir, the major importer. Two transport cooperatives monopolize all bus transportation. In addition to these units (known as the "institutional economy") the Histadrut also has veto power in all kibbutzim and moshavim – the communal settlements – and in many

cooperatives in manufacturing, transportation and retailing (the "owned economy") (Aharoni, 1991, p. 173). In 1989 the share of Hevrat Ha'Ovdim – the economic establishment of Histadrut – was 25% in manufacturing output, 38% in banking services and 18% in insurance. The cooperative sector also generated 74% of output in agriculture, 8% in construction, and 90% in bus transport. The total number of employees in the cooperative sector in 1989 was about 160,000 – 2.1 times more than in the government sector – which amounts to 11.0% of total employment (Dun and Bradstreet, 1991). The Histadrut also has partial control of other firms in the economy, most important the holding company Clal, partially owned by Bank Hapoalim.

It should be remarked that this extent of cooperativeness is unique not only by comparison with developed market economies, but also with the former communist economies. Although in the 1980s, Rumania, Hungary and the Soviet Union surpassed the Israeli share of cooperative organizations in agriculture output, no Eastern European country has reached a comparable degree of cooperative ownership in manufacturing.

Many specialists set cooperative enterprises as a separate sector in the Israeli economy, but it seems appropriate to include it as a specific part of the *public* sector. Indeed, the number of members of the Histadrut – collective "owners" of funds and means of production – surpasses the total number of employed persons in Israel (respectively 1,600,000 and 1,461,000 in 1989), and practically all Israeli families indirectly participate in Histadrut activities[4]. Moreover, in many cases it is almost impossible to separate the government and Histadrut sectors. This question is discussed more extensively below.

1.5 Tangle of quasi-government organizations

In Israel it is very difficult to demarkate boundaries of the public sector, as well as the boundaries of each kind of ownership within the public sector. A prominent Israeli political scientist, Ira Sharkanski, called this situation a "tangle of quasi-government organizations" (Sharkanski, 1987, p.112). The fundamental causes of this "interlacing" are:

4 A major reason is that Israelis largest health insurance plan, Kupat Holim, makes Histadrut membership mandatory.

- the mutual partnership of several public institutions in a number of companies;
- the multilevel system of subsidiaries of the largest Israel holding companies;
- the conditionality of the formal definition of a "government company";
- the degree of government control of the economy.

The mutual partnership of the Histadrut, the Jewish Agency and the Government existed until recently in Zim, Mekorot and other companies. Moreover, since 1983, the government held a substantial number of shares in the two largest Israeli banks – Hapoalim and Leumi, despite the fact that they do not formally belong to the government sector[5]. Such intra-penetration is especially appreciable at the level of subsidiaries and affiliated companies. Despite the modest size of the Israeli economy, there exist several developed holding groups with multilevel systems of subsidiaries and cross-participation. For example, Sonol Israel Ltd. is the second largest oil company in the country. It holds some 20% of the oil market and is 9th among the 100 largest Israel non-industrial companies. However, Sonol is only a subsidiary of Hevrat Ha'Ovdim, through Bank Hapoalim. As mentioned above, Bank Hapoalim in turn holds substantial shares in the diversified concern, Clal.

In addition, the very formal definition of government enterprises leads to further erosion of the public sector boundaries. According to the Israeli Government Company Law of 1975, government companies trace with an absolute majority (more than 50%) of government-owned shares. However, the government has numerous minority holdings in banks, industrial and trading companies. Such companies are excluded from the direct governance of the Government Companies Authority and from the supervision of the State Controller, but they maintain informal relations with government bodies, which manifests itself in "soft budget constraints" and other protectionist measures.

However, the principal cause of vagueness of public sector boundaries is the enormous degree of government control of economy and government involvement in the decisions of every single firm in

5 Following a collapse of stock market prices in 1983, the Government bought up most bank shares to stabilize the market.

the economy. The means of government intervention include the regulation of retail prices, determination of relative prices of the factors of production through cross-subsidies and by tariff barriers. These means are supplemented by the total state control of the capital market, because no private firm may issue bonds or shares without the approval of the Minister of Finance. The total control over land, water and electricity that are supplied to different users at different prices amplifies the picture of an over-bureaucratized economy. If we recall the methods for promoting "developing regions", and government preferences for lower interest rates and tax benefits, it will be not surprising that, in the opinion of managers, the influence of the Finance minister and his ministry in the private sector is far greater not only than the influence of the Hevrat Ha'Ovdim Secretariat over cooperative enterprises, but also, with regard to operational business decisions, and than the individual ministers' influence over state-owned enterprises (Aharoni, 1984, 5, p.41).

Government enterprises and the other components of the public sector embrace a significant share of economic activities, and occupy monopolistic or dominant positions in key branches of industry and agriculture, transportation and communication, banking etc. The public sector as a whole constitutes no less than 40% of GDP – much more than in any Western economy. That is why the performance of the public sector is of crucial importance for national economic development. In this paper we will concentrate on manufacturing and basic services – the main areas of recent changes.

2 The Politics of Israeli Privatization

2.1 Background of the current privatization process

Upntil the mid-1980s, the public sector was the engine of Israeli economic development. Within this sector were the military industries, non-metallic mineral extraction, many branches of the chemical industry, and manufacturing. Studies on the comparative performance of different sectors of the Israeli economy reported that in 1969-1981 Histadrut enterprises demonstrated greater efficiency than private enterprises (Ben-Ner and Estrin, 1988). A similar study on the relative performance of public and private sectors in Israel in 1982 also suggested the greater efficiency of the public sector (Kondor, 1991). Such superiority was based on massive capital subsidies and the implementation of capital-intensive technologies. Because of the

high level of inflation, the real interest rate was reduced to a negative figure (-2,5% in 1970-1972 and –16,6% in the period 1973-1978 (Ben-Porath, 1986, p.114). The public sector received also considerable resources from foreign economic aid.

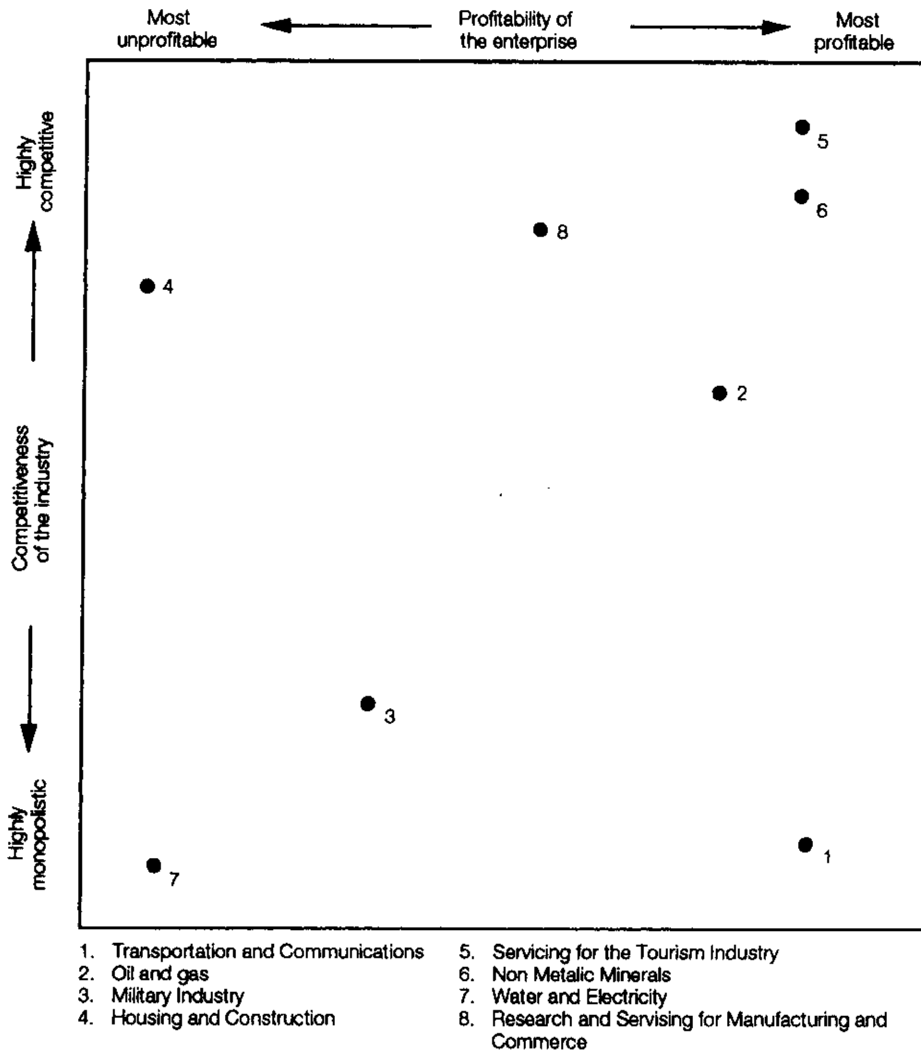
The start of a sharp stabilization policy in mid-1985 had a severe impact on the public sector performance. The attempt to stop the high inflation and to diminish the government debt led to a decrease in the volume of direct government support and put an end to the common practice of automatic government bailouts of bankrupt firms (Bruno and Meridor, 1991, p. 115). One measure of the stabilization program led to high positive effective interest rates and forced the revision of many ambitious national programs. The most painful decision was taken at the end of 1987, to cancel the multi-billion dollar development of the Lavi aircraft project. This led to serious financial difficulties for all components of the public sector. In the the government sector rate of return of many firms was extremely low. The total return on capital of the government enterprises in 1987 was only 1.1%; in 1988 it was 1.8%. It rose to 6.6% in 1989 and fell again in 1990 to 2.8% (State of Israel, 1991). A number of branches suffered from continuous considerable loss. Classification of government enterprises according to their profitability and to the extent of competition in their industries is shown in Figure 1 (see page 256).

Only the oil, gas, transportation and telecommunication enterprises are resonably profitable, owing to their monopolistic positions. According to the most common approach, the ideal strategy for denationalizing the monopolistic, profitable enterprises in the lower-right quadrant is to deregulate the industry, allow competition, and ultimately sell the assets to the newly-formed private enterprises. In contrast to profitable enterprises, the water and electricity suppliers in Israel lose money despite their monopoly status, because they are forced to operate under price control. Without a significant change in their policy environment, there are unlikely candidates for privatization. Finally, unprofitable enterprises in competitive industries (the upper-left quadrant in Figure 1) could be denationalized in whole or in part by selling profitable segments or subsidiaries to private firms. The overview of the implementation of this strategic framework in the specific Israeli conditions constitutes the next step of our analysis.

2.2 Short history of Israeli privatization programs

Divestiture of state-owned enterprises is not an unknown economic policy in Israel. Between 1968 and 1972, the government

Figure 1. Classification of situation of the state-owned enterprises.



Source: Government Company Authority, Annual Report #30, 1991

embarked on a privatization program: it sold 46 state-owned enterprises, mostly small ones.

After the elections of 1977 the new government also announced a major effort to sell state-owned enterprises, but sold very few. In March 1978 the Ministerial Economic Committee decided to diminish government participation in state enterprises by stock issues and by selling existing assets. This decision concerned 48 state companies that were chosen by 7 "teams", from the controlling ministries. Each company had two supervisors: the Minister of Finance and a responsible minister according to the main branch of its activities (Minister of Defence, Minister of Transport etc.). Despite these bureaucratic transformations between 1978 and 1986, there was no real selling of state enterprises, nor was any schedule or list of planned divestitures drawn up. A new wave of interest in privatization started after the success of the 1985 macroeconomic stabilization policy. Planned decreases of the government budget deficit necessitated a search for non-traditional sources of revenue, and selling of state assets became one of them.

At the beginning of 1986 the Ministry of Finance decided to initiate a staged privatization program. The government followed common practice for a privatization program: it did not rely on domestic specialists and invited as a principal consultant the First Boston Corporation (FBC). The same approach was adopted one year earlier by the government of Turkey, when it invited the Morgan Guarantee Trust to draw up a plan of massive privatization (see: Vernon, 1988). The Master Plan for Israeli privatization, presented by the FBC in April 1988, embraced 45 of the largest state-owned companies – 25 state corporations with their subsidiaries – employing 85% of the state sector labor force. The recommendations of the Master Plan included:

1) necessary pre-divestiture financial measures: clearing of balance sheets; surety of outstanding debt; financial restructuring;
2) change of legal status of government companies if necessary;
3) transformation of regulation framework for state monopolies;
4) preferable methods of privatization:
   - selling a proportion of the whole operation
   - selling the whole firm by public share issue
   - selling part of the shares to private buyers
   - stock issues and bond issues to employees
5) rough schedules of divestiture actions.

Table 2 – System Changes and Recommendations for Privatization of State-Owned Enterprises According to the First Boston Corporation (FBC)

TYPE	Company	Description
Financial restructuring, liberalization and hybridization	El-Al (national airlines)	- Change of legal status - Recapitalization - Public offering on the local and international stock markets up to 15-20%.
	Bezek (telecommunications)	- Change of the general license - Immediate sale of the company debt - Public offering
	Hevrat Hashmal (electricity)	- Change of regulation framework - Immediate sale of the company debt - Public offering
	Agricultural Bank	- Restructuring of the credit portfolio - Public offering on the local stock market
Hybridization	ZIM (navigations)	- Public offering on the international stock exchanges after three years.
	MALAM	- Change of employment conditions - Public offering by stages (the first stage -30%), but not immediately
	ELTA	- Direct sale up to 26%
	Pei-Glulot Veshirutei Neft (petrol)	- Public offering on the local stock market by stages after the amalgamation
Hybridization by subsidiary	Ta'asia Avirit (aircraft industry)	- Direct sale of Elta (subsidiary) up to 26% or bond sale.
	Shekem (retail trade and army supplies)	- Transformation of departments into subsidiaries - Public offering of subsidiaries on the local stock market
Direct sale	Israel Chemicals Ltd.	- Change of concession rules - Direct sale of 50% of the stock
	Maman (handling air cargos)	- Immediate direct sale of state share (100%)
	Batei Hazikuk (refineries)	- Direct sale of state share (74%)
	Arim	- Direct sale
	Israel Investment Co. for Industrial Development	- Direct sale of 50%
	Tahal	- Direct Sale of 51%, but not immediately
	Government Co. of Coins and Medals	- Direct sale of 50%
	Israel Co. for Foreign Trade Agencies' Insurance	- Direct sale of 100% or direct sale of 51% and subsequent sale the rest on the local stock market
	Karta	- Direct sale of the whole company

Source: Arnov A., R. Amihay *"Privatization and its limits"*. Bank of Israel Research Department, Discussion Paper 11.91, Jerusalem.

The proposed Master Plan did not escape the common fate of ambitious privatization programs, elaborated by foreign management consultants. Although the plan was well received, it did not take into consideration some legal technicalities, peculiarities of power distribution within the government and the public sector itself, and did not correspond to local accountants' practices and standards. For example, the FBC assessed the net worth of Israel Chemicals Ltd. (ICL) at $650-700 million, while an Israel consulting firm – Economic Models Ltd. – estimated the value of ICL in the range from $1.1 to $1.4 billion. A comparison was conducted between the Master Plan's clauses and real privatization actions in 1988-1992. None of the implemented divestiture decisions corresponded to initially proposed measures by First Boston.

In the period February 1986 – July 1992 a significant change of control took place in five state-owned companies: Paz Ltd., Zion Cables, Jerusalem Economic Corporation, Maman, and Beit-Shemesh Engines. Other operations involved the partial privatization of bits and pieces of companies as well as the sale of corporate bonds on the stock market. Even the biggest operations – sales of Bezek's or ICL's shares – did not make a major impact on government control of those companies. A large number of causes for the slow pace of privatization may be listed, but the main impediment to large-scale privatization was the attempt by each ministry to zealously guard those companies under its control, as a source of political power and patronage.

After the Israeli parliamentary elections of 1992, the state enterprises received particular attention from the new government. In the last week of June 1992 the Government Companies Authority received some 160 propositions from ministers for new appointments of directors of state enterprises. It has already been noted that two "responsible" ministers share the authority of appointing directors to the boards of the state companies, and therefore many positions are often left vacant for months at a time, due to disagreements between the ministers.

However, the newly elected government's activity was not only confined to the selection of top officials. The goals of and approaches to privatization were also revised. The Minister of Finance formulated 6 principal objectives of privatization policy:

- elimination of government responsibility for numerous business enterprises and promotion of competition in the national economy;

- improvement of the efficiency of public monopolies' activities;
- attraction of foreign investors and integration of the Israel economy in the world economy;
- a significant decrease of the internal government debt by the sale of government assets;
- increasing flexibility of the labor market and participation of companies' employees in stock ownership;
- development and expansion of the local capital market.

Simultaneous pursuit of those goals has produced changes in methods of privatization. Because it seemed that the domestic capital market could not absorb a very considerable volume of the privatized companies' stock in a short time, selling a proportion of the whole operation by tender offer was placed the forefront of privatization efforts. At this was how the divestiture of Industrial Buildings Corp. was carried out. In the cases of Bezek and Israel Chemicals the proposed tenders were open to foreign companies operating within the same industries, i.e. to "strategic partners".

Large-scale involvement of foreign capital in the Israeli privatization process has a double rationale from the government's point of view. First, any strategic partner hopes to realize some additional benefits from acquisition of a state company : reinforcement of its position on the local market or even on the world market (in the case of Israel Chemicals); establishing vertical integration or organizational combination with the acquired firm; receiving access to special resources like stable state orders, skilled workers, know-how, etc. According to these additional synergies, the value of a company for a strategic partner will be greater than for an outsider buyer, and hence the government attempts to appropriate this surplus. So, owing to the advantageous locations of the properties belonging to Industrial Buildings Corp., for instance, in the center of the country, 51% of its shares were sold for $201 million, whereas the value of the whole corporation for an outsider buyer had been estimated at only $330-340 million.

Another explanation for the involment of foreign capital has a more strategic character. For many years the main forms of foreign capital transfer to Israel have been official U.S. military and civilian aid ($3.06 billion in year, $1.8 billion military and $1.2 economic) and support mobilized through various Zionist organizations. Today, the government is attempting to diminish, for political reasons, the degree of "ideology-inspired" economic support and is trying to make

Israel more attractive for private foreign investors. Moreover, "it is possible to bargain more aggressively with a foreign buyer than with a domestic buyer" (Jones and al., 1990, p. 188).

The total gains from sale state assets from 1986 to the first half of 1993 totalled almost $2.1 billion. Public issues of stock and convertible bonds yielded some $159.3 million, private sales of stock and convertible bonds – $1,039.4 million, and public offers of stock and convertible bonds – $884.3 million. In addition, in the same period it was issued $1,170.1 million in corporate bonds (State of Israel, 1993).

2.3 Transformation of the Histadrut sector

The stabilization program also had a severe impact on the Histadrut sector. The failure of Koor, the leading Histadrut industrial conglomerate, was the most drastic. In 1987, Koor incurred a loss of $240 million ($8,000 for each of its 30 thousand employees). The outstanding debt of the concern stood at $1.8 billion. In the fall of 1988 Koor was blasted by crossfire fire from the New York-based Bankers Trust, one of Koor's leading creditors. Bankers Trust filed in Tel Aviv courts for Koor's liquidation. The threat from Bankers Trust was eventually neutralized, but the need for essential changes became obvious. The final transformation of Koor was accomplished in September 1991. The Koor debt-bailout pact between Hevrat Ha'Ovdim, the government and banks included the following provisions:

1) Koor's $600 million debt to Israeli banks was restructured through a write-off of $200 million. The remaining $400 million was spread over a nine-year period. The banks provided government-guaranteed index-linked loans of about $100 million at an interest rate of 5%. The principal would be repaid at a rate of 2% during the first seven years. An additional $30.5 million loan was used to pay holders of issued notes. After this exercise Israeli banks own 38.2% of Koor's equity. Bank Hapoalim alone holds 25% of Koor's stock.

2) the $200 million debt to foreign banks was restructured to include:
   - a write-off of 20% – about $40 million;
   - a payment in Koor's ordinary shares – 17% or $35 million;
   - a cash payment of 42,5% of debt, $85 million. The remaining 20% would be repaid in 8 biannual installments beginning 6 years from the closing date. This debt bears interest of Libor plus 1%.

3) holders of Koor's $105 million notes in USA were repaid $24 million and got 5.5% of Koor's equity.

After this operation 25.9% of Koor's stock remained in the hands of Hevrat Ha'Ovdim and an additional 10% in government hands in convertible bonds, linked to the Consumer Price Index with 4% real interest.

The pact marked the nadir of Koor's financial troubles. From October, 1990 until November, 1992 the market value of Koor's stock rose by 1,100% in nominal terms and by 819% in real terms, and the net worth of the concern reached $1 billion. In 1992 the operating profits of Koor rose by 61% and the net profit, by 45%. In assessing the result of the bailout operation of 1991, it is possible to estimate the following financial gains. The government gained some $37 million from the growth of Koor's stock value. The banks, which invested $200 million, received in one and a half years $245 million and the Hevrat Ha'Ovdim received the greatest gain: it put into the operation only $25 million and now owns $307 million. These impressive financial results were obtained by a major restructuring and economy drive. Even Koor's headquarters were moved from a luxury building to more modest offices. The former conglomerate with 130 individual operating entities and a workforce of 31,000 employees was transformed into a holding company with 30 subsidiaries and affiliated companies, employing 18,000 employees. The main sources of financial resource were not only internal retained earning and stringent economy, but also stock and bond offers and issues of the affiliated companies – Tadiran, Mahteshim and Shemen. Koor received about 78% from $279 million gained through those operations. For example, Tadiran, a leading Israeli electronic company – carried out an initial public offering in June 1992 on the New York Stock Exchange.

An additional source of resources for Koor's transformation was the sale of Hevrat Ha'Ovdim shares in government companies. Up to 1992, Hevrat Ha'Ovdim controlled 10% of Zim, 3.7% of El-Al, 20% of Kfar Hayarok and 33% of Mekorot voting rights. In March 1992 the government paid $10 million in exchange for Hevrat Ha'Ovdim's shares in those companies. By this operation, the government attempted to put an end to the "tangle of the public institutions" and to simplify the decision-making process concerning the divestiture of state enterprises.

The experience of Koor may be applied to current ownership transformations in Eastern Europe. The industrial organization of those countries is characterized by the dominance of large monopolis-

tic and monopsonistic complexes. The current process of dissolution of such complexes is accompanied by the interruption of production ties and subsequent considerable economic damage. The new organization forms, developing now in the industry of Eastern European countries (associations, concerns), could use well the techniques applied to Koor's restructuring as a model.

3 Managerial Response to the Privatization

The attitudes of Israeli managers towards privatization are very ambiguous. On the one hand, there is incontestable evidence that privatization signifies the elimination of political supervision and incompetent intervention in business decision-making, and hence managers welcome the general strategy of privatization. On the other hand, there is strong opposition of managers of state enterprises to new privatization plans. The situation aggravated so much, that on 22 February 1993 the Ministerial Committee on Privatization had to insert a special amendment into the Law of Government Corporations, 1975, stating that now, the Ministerial Committee on Privatization can dismiss any top executive of any state enterprise who resists divestiture decisions. We shall next examine both sides of the managerial attitudes, pros and cons.

3.1 Positive shifts in post-privatization behavior

The cumulative experience of post-divestiture enterprise performance allows identification of four essential positive shifts in management:

1) establishment of long-term targets;
2) higher flexibility;
3) closer connections with international companies and greater possibilities of production and market cooperation with foreign companies;
4) development of new patterns of motivation.

First at all, managers in privatized companies received a complete set of well-defined operational goals. The establishment of clear operational goals has been a weak point of strategic management in state-owned enterprises. We already mentioned the new wave of managerial appointments in privatized enterprises after the parliamentary elections of 1992. Similar events shake up the Israeli government sector after every political disturbance or ministerial crisis.

When this takes place, personal score-setting with members of the political hierarchy takes first place among the factors influencing managerial appointments. Its average score of influence, according to the opinion of the managers of government business enterprises was 5.30 (in 7-point scale), while the influence of the "success in previous job" was assessed only as a 4.90 (Aharoni, 1984, J-1). The insecurity of the top managers about their positions has prevented the implementation of long-term targets and plans.

The new possibilities for greater flexibility are based on production diversification and establishment of new sectors of business and new potential, latent in renewed managerial techniques. For example, after the transfer of the oil company Paz from government to private hands, the new owners – the Liberman family – introduced an up-dated computerized management system, according to the world standards in the oil industry (Ministry of Defence, 1991). Such flexibility allows more effective operation in competitive overseas markets. An example of the reorientation of a privatized company is the recent experience of Maman Ltd. This company was among the first completely privatized state companies. Although the price for its core business – the monopoly concession for handling air cargo – is still government controlled, the company adopted a new strategy of diversification. As a result of the establishment of the new lines of business, net profit rose by 80% in comparison to the pre-divestiture period, while the labor force has increased by 36%. All the additional profit came from 30% revenues that stemmed from the new activities – handling passenger cargos and managing warehouses. Maman became an active partner in several joint ventures in Israel and abroad. It established a partnership with another transport company and has also invested $5 million in the Israel Marketing Center in Amsterdam.

Finally, privatization allows the implementation of many new tools and methods for motivating both managers and employees. A most attractive method is the distribution of shares among the employees. The first Israeli divestiture agreements did not include any advantages for the employees or managers of privatized enterprises.

For example, the demands of the employees of Paz Ltd. for acquisition of shares were rejected as unnecessary and absurd. The first attempt to involve the employees in the privatization process was made in July 1991 in the public issue of shares of Dead Sea Periclase Ltd. The employees received 3.4% of the ordinary shares and options at a special price – 1/7 of the price which the general

public paid. Then, in the February 1992 issue of Israel Chemicals shares, ICL employees were offered 15,5 million shares at a reduced price of $.61 per share in comparison to $1.0 per share to other buyers. The employees' portion totals 4.7% of the issue, and about 1% of total company stock. Finally, in the recent Bank Hapoalim offering a separate offering to the banks' employees was added. The employees received 10% of the shares on offer.

Moderate participation of employees in property gives additional benefits to the managers of privatized companies. On the one hand, selling shares with considerable advantages for the firm's own employees and other public sector employees could render the public reaction to the "golden parachutes" of managers more gentle. Today, the egalitarian traditions of the Israeli society reveal themselves in very painful responses to the visible inequalities of the wealth distribution. The attempts of top managers to receive considerable packages of shares of privatized companies provoke enormous interest and an extensive wave of negative publicity. The sharing of benefits among a greater number of participants should make privatization more acceptable to the public opinion.

On the other hand, a significant advantage for the managers is related to the post-divestiture control allocation. The position of a "mixed enterprise" where the government will not be able to interfere in company affairs in an arbitrary manner, and where there will not be significant pressure from minority shareholders, embodies the dream of public sector managers (see: Ben-Shahar, 1991, p. 99). Therefore, the managers prefer the "soft" variant of privatization by minority stock issues (up to 25% of voting rights). Employees' participation plans can provide the massive socio-political pressure on the government to choose the appropriate variant of divestiture.

3.2 Inconvenience factors.

At the same time, many government privatization actions meet with strong opposition from managers of enterprises to be privatized. Maximal resistance is provoked by tender offers of a controlling interest in government companies and especially by the planned participation of foreign "strategic partners" in the privatization process.

The sale of part of a state-owned company through tender offer under the aegis of government bodies has created an unusual situation for managers. For the first time Israeli managers encountered

the threat of involuntary acquisition or hostile merger of their companies. Usually they have been protected from that by several unique features of Israel's stock market.

The single most important feature of Israeli firms is their uniquely concentrated control structure. In the great majority of firms control is held by a single stockholder or a number of stockholders acting in concert. As a result, any attempted acquisition must be negotiated with, and accepted by, the target firm's incumbent management, which is controlled, in turn, by a single coalition of owners. Another unique future of the Israeli capital market is "pyramiding". Corporate clusters emanating from a single holding company and filtering down to a large number of subsidiaries are quite common everywhere. However, the Israeli capital market is unique in its tolerance of simultaneous public offerings made by several issuers belonging to the same cluster (Procaccia, 1989, p.5). Both these features imply that hostile acquisitions are virtually impossible. Therefore, not only the managers of *public* enterprises, but also the managers of *private* enterprises lack experience in defending their companies against such takeovers.

A short Israeli privatization history includes several examples of takeovers of state companies. Such was the case of the sale of Paz Ltd. in July 1988, when its Director General, Arie Levy, learned only from a morning newspaper to whom the company had been sold. Another example of a takeover is the case of Beit Shemesh Engines Ltd., where, in March 1992, the government implemented a recovery plan and transferred the right to manage the company for a two-year period to its strategic partner – Ormat Turbines Ltd. – with the right to purchase the government's share (60%) in the company during this period. The last example of a takeover is the sale of 51% of shares in Industrial Buildings Corp. in spite of the strong opposition of its top managers. In 1992, Bezek and Israel Chemicals Ltd. were in a similar situation, and their top executives were resisting, by various means.

It is obvious that any divestiture has several immediate negative psychological effects for the acquired company's managers and workers. Indeed, an incorporation into another company changes habits and roles completely and alters established areas of power within the organization, transfers the centers of decision-making, and disturbs intra-firm and external communications. As a rule, any takeover transforms the existing formal and informal promotion schemes, and causes deterioration of promotion prospects for managers of an acquired company.

Skilled and unskilled employees also experience inconveniences from takeovers. First, post-merger organizational transformation and production rationalization may cause massive redundancies or intra-firm re-arrangements and dismissals. Even if this does not occur, many problems arise, related to the safeguarding of established long-term social programs.

Furthermore, all the above-mentioned problems become much more complicated in the case of international takeovers. The two major Israeli government companies, Bezek (telecommunications) and Israel Chemicals Ltd. are especially sensitive to the danger of horizontal merger, i.e. product and market extension, while the acquiring firm has relevant market and business expertise. A habitual strategy for the acquirer in a horizontal merger is "pillage and plunder", where the acquiring organization "raids" a target firm and replaces all operations and strategic and cultural systems with its own. This gives rise to many new conflicts, due to the introduction of different managerial cultures. Although the widest economic, political and cultural contacts bind Israel and the Western World, Israel has its own original management culture derived from the fusion of the national traditions, habits and skills acquired during long obligatory military service, and the common lax style of Mediterranean countries. The integration of such a culture into another, especially the Anglo-Saxon tradition, is not easy (see Lawrence, 1990).

The third main kind of managers' fear is related to the risk of giving up government backing and bankrolling, and accepting the much larger degree of personal responsibility for business. Notwithstanding the fact that in Israel many private and cooperative enterprises receive considerable amounts of government aid (grants, direct transfers, cross-subsidies, guaranties of consolidated debts and so on), state-owned companies have much more "friendly access" to the public coffers.

So far, we clarified the main forces operating in the Israeli privatization process, and reviewed the reasons for opposition to the recent government plans. Now we proceed to examine the tactics of managerial resistance and to evaluate the means for improving privatization plans.

4 Correction of the Privatization Policy and Elaboration of the New Plans

Let us analyze the defensive behavior of the two biggest Israeli state companies. Both have monopolistic positions on the local markets and are proposed for further privatization: Bezek and Israel Chemicals Ltd. (ICL). The quasi-government company Bezek was established in 1980. In 1984 it received a monopoly for telecommunications, but under the new operating license that was signed in July 1992 by the former Minister of Telecommunications hours before leaving office, Bezek will not be able to supply communications services or products other than infrastructure and basic services. Bezek occupies third place among Israeli state companies according to the number of employees. In 1991 Bezek employed 9358 people, its turnover reached $2,535 million and revenues $1,464 million. Bezek is also a monopsonist on the Israeli market for telecommunication equipment. For example, in 1992 Bezek accounted for 60% of the sales of Tadiran and 20% of the sales of Telerad – two major Israeli electronics producers.

In 1990-1991 the government decreased its share in Bezek to 76% by two stock issues, but some proposed steps, including an additional sale of 8% to an institutional investor, were deferred. In December 1992, the government announced its schedule of privatization and liberalization in telecommunications. It proposed to break the existing monopoly for the cellular phones and overseas calls. One of the principal pre-conditions for the tenders is acceptance of government price control for the new operators' activities. At the same time, the government, and especially the Prime-Minister and the Minister of Finance, plan to continue the privatization process and to transfer the controlling interest in companies to a "strategic partner".

Israel Chemicals Ltd. is in a similar situation. Its history goes back to 1930; the current company was established in 1967. ICL consists of the parent company (ICL itself) and 14 affiliated companies involved in the mining of the Dead Sea, for which the company holds a concession until 1999. As a group, ICL provides jobs for some 6,000 people, its revenues from sales and services totalled $897.8 million in 1991, and its operating profits reached $68.9 million in the same period. In February 1992 19% of ICL's equity was offered to the public. Some 226.6 million ordinary shares were issued, of which 117.6 million were offered to institutional investors. The final proceeds from this operation reached $235.2 million. The next planned step envisages a tender offer to "strategic partners". Even if it does

take place, the government intended to retain in its hands "the golden share", which: would allow the government to veto a sale of the company to parties considered hostile to Israel; would prevent the transfer of the company's headquarters outside Israel; would govern the use of strategic reserves controlled by ICL.

In both cases the proposed divestiture methods displeased the top managers. However, the specific situation of an Israeli state company drastically reduces the range of available preventive actions. On the one hand, the very complicated multi-stage system of control over Israeli state-owned enterprises, which includes the State Companies Authority, the Ministry of Finance, the ministers-supervisors, the Ministerial Committee on Privatization, the Financial Committee of the Knesset, and some other controlling bodies does, not allow the use of anti-takeover provisions such as the "poison pill" (a clause in the corporate bylaws that provides a disadvantageous result for a potential acquirer should its ownership position be allowed to exceed some pre-assigned threshold). The state company lacks the right to include such provisions in its statutes.

On the other hand, state control makes inefficient a "scorched earth defence" – a tactic in which the defending company's management engages in practices that reduce their company's value to such a degree that it is no longer attractive to the potential acquirer. For a state company, deplorable results of its business activities or continuing considerable losses may be additional arguments for deliverance from the state sector. In the most extreme case the government can transfer the rights to manage such a "permanently failing company" to a private firm in the same branch, at a minimum price.

Finally, conditions in the Israeli capital market make impossible another advantageous form of anti-takeover defence: leveraged buy-out, i.e. a purchase of a company, financed largely by debt, that is backed by the firm's own assets. Management leveraged buy-outs, when a primary debt-financed purchase of all the stock or assets of the company is done by an investor group composed of the firm's managers, are widely prevalent in many countries. However, the real interest rate in Israel is too high for such operations to be feasible and profitable.

Therefore, managers were forced to search for new methods and arguments. The first set of proposed arguments against the involvement of a foreign partner in the privatization process touched on national interests and security. In the case of Bezek there were the questions of the military communication system services, in the case

of ICL – the necessity of special environment protection and prevention of attractive tourist places on the Dead Sea.

These questions focused much attention on the problems of post-divestiture regulation. One possible answer for the government resides in refinements of tender conditions and in a more selective choice of buyers. Another lies with the creation of a regulation framework for privatized companies. We have already mentioned the rights, given by the "golden share", to government bodies. Under the prevailing conditions of the Israeli economy, with the strong tradition of the state intervention, the problems of regulation cannot be the governing argument against privatization of state monopolies[6].

Another, very hopeful method of anti-takeover defense was the presentation of stock and bond issues as a unique means for financing large long-term investment programs. For example, the Board of Directors of Bezek has proposed a $3-billion 5-year development program for national telecommunications, including the laying of a 480 km long optic-fiber cable "highway". Together with the announcement of this program the Managing Director of Bezek stated in his letter to the Minister of Finance, that Bezek had already spent $600 million of its annual development budget, and the development program for 1993, projected to be $630 million, would be cut by 12% unless the proposed stock and bond issues goes ahead.

A third method was an artificial over-estimation of the advantages to state finance from constant government control. For example, in December 1992, Bezek declared its expected dividend to be NIS 40 million, stating that "when the Minister of Finance complained of a lack of money, Bezek gave the money to the country". The goal of such actions is the maximal possible overestimation of a company's economic value for government but subsequently, also for a potential acquirer.

The following method, used by Bezek, can be compared to a "white knight defence" – finding an important ally to purchase a strong minority position (for example, 25%) of the potential acquisition stock. Presumably this ally (the "white knight") will oppose and hopefully block the efforts of any hostile firm seeking to acquire the vulnerable firm. Indeed, great interest has been expressed by the biggest international telecommunications companies in purchasing a

6 For the analysis of the privatization of the natural monopolies in Israel see Arnon and Fershtman (1992).

controlling interest in Bezek – among them AT&T, Alcatel and SouthWest Bell. The latter joined forces with the domestic Israel concern Clal and proposed to buy 25% of Bezek's stock immediately, and an additional 26% during the next two or three years.

To counterbalance this plan, Koor proposed another program of divestiture. It was negotiating with First Boston, Merrill Lynch and Bell Atlantic in an effort to forge a consortium of investors to purchase a controlling interest (25%) in Bezek. If this materializes, 50% of Bezek's shares would be sold on the Israeli stock market in addition to the 25% that was held by the public. In such a proposition Bell Atlantic – a company with $12 billion annual sales, and 65,000 employees – would serve as a cloak for a vertical merger between Bezek and domestic manufacturers of communication equipment. Indeed, following the plan, foreign investors as a whole (including the proposed "strategic partner") would not be able to receive more than 6% of Bezek's stock. The benefit for Bezek in such a proposal would be a merger with a friend firm, with a similar management culture and the specific traditions of the Histradrut sector. The principal interest of Koor in this merger was the preservation of long-term contracts for equipment deliveries for telecommunications.

Finally, the most controversial and potentially dangerous method of anti-takeover defence, accepted by the management of Bezek, is the aggravation of labor conflict under the government privatization program. In November 1992, after the announcement of details of government plans for liberalization and privatization in telecommunication, a strike of 2,000 employees was provoked. The strike resulted in disturbances in communication services in the Northern District of Israel. During one working day there were no routine and preventive repairs, nor information services and overseas calls. The strike received much media attention that served to attract public interest to Bezek's problem.

Simultaneously, manpower cuts were announced, for the first time in the existence of the company. In January 1993 the Directors of Bezek elaborated a program of early retirement on a pension for some 500 employees. In addition, it planned to dismiss in the next three or four years another 1,500, "if liberalization and privatization will be continued". The cost of dismissing employees from state enterprises is very high in Israel. The government has enormous commitments to employees of state companies.The discharge of 2,000 employees would cost $150 million, and the company intended that the government foot the bill.

After the implementation of these measures the strategic goal of the company's managers was accomplished. The question of foreign participation in the divestiture became a political problem. The workers of Bezek demonstrated in front of government buildings with slogans against the sale to a strategic partner. They met with members of the Knesset and received support for their demands. Today, Bezek looks forward to raising its capital by stock issues and using proceeds from this operation for early repayment of the company's debt to the Treasury. The consolidated debt of Bezek to the Israeli government is now up to $1.3 billion. Bezek is preparing a prospectus for the issuing of $260 million shares in the first phase of a $520 million capital raising exercise.

Other current privatization plans include the sale of 65% of the stock of Shekem – the large trading company which has the exclusive contract to operate army canteens; the Company for Quality of the Environment and several building companies (see Table 3). However, the main kind of operations for divestiture is now public offers and issues on the domestic stock market. The resistance of the managers to tender offers is mainly responsible for this shift of the privatization policy. Another cause of change of methods of industrial privatization was the success in privatization of banking assets.

Rather than attempt to present a complete picture of the banking reform in Israel, we outline only those features, related to the privatization policy[7]. The government of Israel is now the major shareholder in the four largest banking groups in the country (Bank Hapoalim, Bank Leumi Le Israel, Israel Discount Bank and the United Mizrahi Bank); nevertheless the regulated shares eventually held by the government have no voting rights, even though they constituted almost 100% of the bank's equity. The assets of the four semi-nationalized banks account for about 91% of the total assets of commercial banks in Israel (Ruthenber, 1993). These banks are also major shareholders in non-banking corporations.

The government started to sell the bank shares in 1991. First, it sold its interest in I.D.B. Bankholdings back to the former owners – the Recanati family. Then the government attempted to sell the controlling interest in the Mizrahi Bank to a domestic financial magnate, but this deal did not receive approval from the Financial Com-

7 For a general discussion about the banking structure in Israel see Razin and Sadka (1992)

mittee of the Knesset. All these transactions were in the form of private sales.

The first public offering on the Tel-Aviv stock exchange of the government bank shares was in May 1993, when 21% of the Bank Hapoalim shares were sold. The enormous offering ($307.4 million) was overscrubed at the maximum price. This demonstrated the maturity of the Israeli capital market and its preparedness for the large privatization transactions. Few days after this transaction the government sold 60% shares of Bank Igud (some $ 85.5) to four domestic institutional investors. Those events put an end to the attempts to involve *hostile* foreign firms in the privatization process. As a result, the subsequent privatization transactions reached an unprecedented amount. According to the last published data, in 1993 the government received $1.466 billion from the sales of state-owned companies and it foresees to receive about $1.0 billion in 1994.

The list of further privatization events includes sale of controlling interests in Bank Hapoalim and Bank Leumi (two major banks), Shikun U'Pituah (housing) and Tahal (water engineering); and interests in israel Shipyards and Zim Shipping Lines, the Shekem comissary chain, Israel Chemicals and the Bezeq telecommunications company (Sandler, 1994).

5 Conclusions

We have surveyed very briefly the recent experience of Israeli privatization. Some conclusions need to be drawn.

First of all, privatization in an over-regulated economy like that of Israel can be successful only with the maximal involvement of domestic resources and aproper adherence to domestic management traditions. Any foreign-inspired models of divestiture can only produce negative reaction to the government measures, and finally they will be neutralized. This experience is especially important for the current privatization process in the economies of transition. Any condemnations of "spontaneous" and "bureaucratic" privatization cannot help to avoid the necessary steps of organizational restructuring.

The second main conclusion, drawn from the Israeli privatization experience, is that the long-standing traditions of government control over the national economy allow it to resolve the problems of

Table 3 – Implementation of Privatization in Israel

TYPE	COMPANY	STATUS	DATE	DESCRIPTION	VOLUME (current $ mln.)
Complete Privatization	Haifa Chemicals Ltd.	Realization share (26%)	9/1986	Direct sale to a foreign investor the government	14,7
	Zion Cables Ltd.	Realization	1/1988	Direct sale to domestic and foreign investors 65% of the stock and options for additional 35%	14,0
		Realization	10/1990	Realization of the option for 32,5% of the stock	
	Paz Ltd.	Realization	7/1988	Direct sale to a foreign investor the government shares (75%).	97,0
	Jerusalem Economic Corporation Ltd.	Realization	3/1987	Initial stock and option issue (17,5%) on the Tel-Aviv stock market	12,5
			10/1989	Direct sale of the government shares (82,5%) to domestic and foreign investors	54,7
	MAMAN	Realization	11/1989	Stock offering of the government shares (32,5%)	10,9
				Stock offering of the shares of TESHET (15,6%)	5,2
		Realization	10/1991	Direct sale to a single investor the rest of the government shares (26%)	11,3
	Industrial Buildings Ltd.	Realization	3/1987	Initial issue of stocks, options and convertible bonds (20,2%)	28,3
		Realization	11/1989	Public offering of stocks and options (23,8%)	56,8
				Public issue of the government options (5%)	11,8
		Realization	3/1993	Direct sale the rest of the government shares (51%) to a single investor	201,0

TYPE	COMPANY	STATUS	DATE	DESCRIPTION	VOLUME (current $ mln.)
Complete Privatization	I.D.B. Bankholdings Ltd.	Realization	8/1991	Direct repurchase by a single investor (25%)	228,7
		Realization	11/1992	Public offering of shares	210,0
	Mizrahi Bank Ltd.	Partial realization	8/1992	Direct sale of 26% to a single investor and a right to obtain additional; 25% until September 1993.	
			12/1992	The deal was not permitted by the Bank of Israel	(100,0)
	SHEKEM	Partial realization	1993	Public offering of 65% of equity in shares and convertible bonds on the Tel Aviv Stock Exchange	
		Project	1994	Public offering of remaining 35% of stock to private investors	
	ZIM	Project	1994	Public offering on the New York Stock Exchange up to 24%, the diminishing the government share up to 26%.	
	Shikun U'fituah	Project	1994	Public offering of 100% on the Tel Aviv Stock Exchange, including sale of the 10% of stock to employees	
Direct Hybridization	Dead Sea Periclase	Realization	10/1986	Initial public stock and option issue (25%)	11,2
		Realization	6/1991	Issue for employees of shares and convertible bonds	14,5
	NEFTA (Israel Co. for petrol)	Realization	6/1989	Public option offering (28,8%)	18,1
	BEZEK (Israel Co. for telecommunications)	Realization	9/1990	Public stock offering (8,7%)	76,7
		Realization	5/1991	Public issue and stock and bond offering	134,7

TYPE	COMPANY	STATUS	DATE	DESCRIPTION	VOLUME (current $ mln.)
	BEZEK	Project	1994	Public issue of 25% of stock on the local and foreign stock markets	220-240
	Israel Chemicals	Realization	2/1992	Public offering of 20% of the government shares	277
		Project	1993	Direct sale of 10% of the government shares to a single foreign investor	
	Bank Hapoalim	Realization	5/1993	Public offering of 20% of the government shares	318
	Union Bank	Realization	5/1993	Direct sale of 60% of the stock	85,5
Sale-out of government minority holdings	Israel General Bank	Realization	7/1992	Sale of 24,7% of the stock	16
	Koor Industries Ltd.	Partial realization	9/1992	Sale of shares	20
			1993	Sale of convertible bonds	100

post-divestiture regulation without the establishment of new special "regulatory homes". The post-communist countries, and especially the independent states of the former Soviet Union, now suffer from a lack of "manageability" of the national economy. Careful analysis of the organizational framework of the Israeli public sector may be helpful for the development of government structures for the economies in transition.

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