Egypt Considers Options On Sale of Joint-Venture Assets

26 Feb. 90

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Special to the Middle East Times

CAIRO — The Egyptian government has invested hundreds of millions of pounds in various joint-venture enterprises since the introduction of the 'open door' policy in 1974. Today the government, in conjunction with various private-sector firms, owns assets in industries that produce items such as bubble gum, soft drinks and car batteries.

Many joint ventures that received part of their start-up capital from the government are in serious financial difficulty today, while others are prospering. For example, the net rate of return on revalued public assets for 30 joint-venture firms with government participation was only 2.3 percent during the period 1980-81 through 1987-88 against an annual inflation rate of 18 percent during the same period.

The weak financial returns from joint ventures have prompted the government to consider the sale of its assets to its private-sector partners or the general public. *Al Ahram* recently quoted three prominent Egyptian ministers as saying that the cabinet had approved a comprehensive sales package for these assets.

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The government is now very concerned by the low rates of return made by some joint-venture firms, which were never expected to have a serious negative impact on the state's finances. The government is now considering using privatization as a mechanism for minimizing state funding of joint ventures and for accumulating additional financial resources to offset the ever rising budget deficit. A privatization list including over 150 companies in 4 different governorates has been drawn up and ways to sell their assets are being discussed.

The government is also likely to turn to a number of international development organizations in the near future to ask them for technical assistance in the joint-venture privatization process, funding support to absorb any possible leverage problems facing firms placed on sale, and financial support to help create new and viable private businesses to replace failed joint-venture firms.

Of course, large-scale privatization of government assets in joint-venture firms will provide the state with windfall financial returns. The government, according to some rough estimates, could make up to E£2 billion if it sold its shares in joint-venture firms to private entrepreneurs. But first it has to find buyers, and this in itself may not be an easy task, especially if the joint venture up for sale is not performing well or is overleveraged.

Another difficulty the government faces is the requirement in the 'open door' policy investment law, Law 43, that private-sector partners be given first right to buy out government shares in an enterprise once a decision is reached to sell the assets. The private-sector partner can negotiate with the government for years over the true value of state assets being sold before an agreement is reached, thus slowing down the privatization process considerably.

In addition, the government will have to consider the method it will use to sell off state assets to the public if private partners decline their buyout option. Will the government initiate general public stock offerings, for example, or will the state consider implementing more complex debt equity swap arrangements to unload these assets?

Whatever the mechanism used, the government's bold announcement to begin privatizing joint ventures is a big step forward in Egypt's liberalization efforts. However, one has to bear in mind that the government promised many privatization reforms in the past and delivered very little.

The example that every economist interested in the privatization debate remembers is the government's two-year-old promise to sell off government assets held and run by various governorates.

Over the last two decades the state has invested hundreds of millions of pounds in enterprises throughout the country as part of a national food security campaign. Today, the state owns hundreds of chicken breeding farms, greenhouses and livestock-breeding businesses in most of Egypt's major governorates. These businesses are now a major financial burden and the government's promise to sell off these assets has yet to be fulfilled.

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