

State Firms in the Red Will Be Hard to Sell Into Private Hands

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SINCE the government's recent announcement that it plans to sell off a number of enterprises that have been extremely profitable over the past few years, many interested in the divestiture debate have voiced their concern over such sales.

They are worried over the possible privatization of enterprises such as the Cairo Marriott hotel that have been very successful, and they are somewhat confused as to why the state is planning to rid itself of organizations that are operating in the black and that have never been in the red. At the same time, various governorate officials have indicated their willingness to privatize loss-making public firms but have refused to consider the sale of organizations generating positive returns.

Those in favor of privatizing hotels operating in the red believe that they should be sold now because they will bring the government more revenue than they would in functioning at a loss.

The premise of those supporting the privatization of profitable hotels is based on the belief that positive returns can only be made so long as tourists keep pouring into Egypt, but that tourism can be subject to some very serious downturns depending on unpredictable political circumstances in the Middle East region as a whole. What happened to tourism, for example, in the wake of the *Achille Laura* hijacking of October 1985?

The returns of tourist enterprises are easily influenced by any political turmoil in the region, so does the government want to risk taxpayers' money on unknown political events? Those who would like to see large-scale privatization of the tourism industry feel that the government is now in a good position to unload hotels such as the Marriott for a tremendous return. A year from now, who knows?

Those who oppose the privatization of successful state enterprises must also consider that

firms in the red will be much more difficult to sell than those in the black. Hotels such as the Marriott will find a large number of buyers, primarily because of its good prospects for future earnings. Can the same thing be said for the Borg or Cleopatra hotels?

Business finance uses the term 'dogs' to describe enterprises that have lost money for years and that are likely to continue making negative returns. Is it easy for a bank or a businessman to unload his or her 'dog'? Are people

A Point Of View



likely to wait in line for the chance to buy out 'dogs' in trouble?

In the United States, there are venture capital institutions that specialize in buying 'dogs,' selling their assets and making a profit in the process. They buy assets dirt cheap from firms that have serious debt problems and that are insolvent and then sell them again at a profit. In most cases venture capital firms do not try to turn the 'dogs' they have bought around, primarily because 'dogs' are generally unable to metamorphose into profit-making enterprises.

In Egypt's governorates and in the tourism sector, those calling for the privatization of 'dogs' must realize that their sale will not be easy. The expected sale of a number of profitable state enterprises is a reflection of the government's understanding of this reality.

But, more importantly, the question of what to sell or what not to sell must be preceded by a clear government statement specifying the areas in which it wishes to continue being involved and those from which it wishes to withdraw.

Does the government want to be in the busi-

ness of managing hotels? Does it want to own chicken farms? Does it want to occupy itself with cattle raising?

Cabinet officials such as Minister of Tourism Fouad Sultan have tried to answer these questions for their ministries. Recently, Sultan was quoted as saying that he perceived the role of the Ministry of Tourism as being nothing more than an institution that helps to finance the establishment of new hotels in boom areas such as the Red Sea and Sinai that would be owned and managed entirely by the private sector.

He also stated that proceeds from the sale of hotels such as the Mendi and the Marriott would be used to finance the infrastructure development requirements of both the Red Sea and Sinai in order to pave the way for future tourism development sites in those areas.

Whether people like or dislike Sultan's vision is a different story, but the important thing is that he has a clear vision of what direction he feels the government should be moving in when it comes to tourism development activities.

And he has a very clear perspective on the government's role in tourism. This kind of vision does not exist in local government and public-sector industry circles.

If the government plans to unload nothing but 'dogs' in both local government and industrial activities, it should not expect hordes of prospective buyers to come rushing to its doorstep: the private sector will certainly balk.

Should this happen, there would once again be voices accusing the private sector of not being serious about helping the government to rid itself of such burdensome assets. And again, Egypt's entrepreneurs would stand accused of not being serious about development at all.

But what maniac investor, Egyptian or non-Egyptian, would buy into a 'dog' that can neither bark nor even wag its tail for a profit? As one Egyptian proverb goes: 'A dog's tail is the one thing that will never straighten itself out.' Likewise, state enterprise 'dogs' will never be attractive to the private sector because they too will never be able to straighten themselves out.