Egypt's Privatization Plan Hobbled by Taboos

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A Point Of View

THE Egyptian government has committed itself to privatizing a number of governorate-owned assets along with a large group of joint venture firms. But it is reluctant to privatize fully government-owned industrial enterprises regardless of their profit-or-loss position and is insisting that these projects can be turned around through improved management and legislation that gives chief executive officers (CEOs) the flexibility they require to make their firms successful.

Publicly owned industry is not the only area where the government has shown reluctance to privatize, and a number of other activities have escaped becoming part of the government's divestiture program. This article will focus on those areas where privatization still remains taboo, and will try to explain why the state refuses divestiture as a policy reform tool in some areas.

Public Industry: The minister of industry, Mohammed Abdel Wahab, has already indicated that the government has no plans to fully privatize or dismantle the assets of any of the 117 state firms under his portfolio. However, he has indicated that managers in select enterprises will be given a free hand to sell off parts of their fixed assets, primarily land and buildings that are not being put to use by their enterprises.

Abdel Wahab has also indicated that the government may turn to the sale of stock in some public firms to be able to come up with additional cash to finance things like plant expansion. Nonetheless, full transfer of government assets in the 117 state firms controlled by the minister of industry is rejected.

Of course, one has to wonder why full divestiture is still unacceptable in a ministry known to have a large number of troubled enterprises in its portfolio. President Hosni Mubarak, in his speech to the public on 1 May, was keen to identify firms such as Misr dairy and Corona chocolate as being both insolvent and inefficient.

The president hinted that the state may be willing to privatize a government-owned chocolate factory such as Corona if it continues to lose money, as if he were giving the enterprise its last chance to get out of the red. Industry Minister Abdel Wahab feels that firms like Corona, if properly managed and given the right freedoms for their CEOs, can be turned around.

Sadly, though, no one is asking the more fundamental question: what is the government doing in the chocolate business anyway? What possessed it to become active in ice cream, fig bar, corn flake and bubble gum production? Many see the real issue as not being whether the government can actually make such ventures profitable but why it wants to continue being involved in such activities in the first place.

Retail Trade: Prime Minister Atif Sidki was quoted as saying recently that the government is not considering withdrawing its presence from the retail trade, and government ownership of retail outlets like Omar Effendi and Sidnawi would remain intact.

The minister of supply was also quoted as saying that the privatization of assets such as Omar Effendi and Sidnawi could lead to a spiral increase in prices if a small number of private businessmen take over such operations. Accordingly, the government will not withdraw from activities like the sale of imported perfume, roller skates and Atari video cassettes.

One even more shocking example is that Gatineo, another government-owned retailer, was advertising an automatic baseball pitching machine in their front window recently, which makes one wonder what kind of demand exists for such an item in Egypt.

What got the government involved in any of these activities to begin with? Is it right for the government to be doing trade in items such as those mentioned above?

The government will continue to run large import-export companies under the auspices of the Ministry of Economy and Foreign Trade to be able to supply government-owned outlets with imported goods.

More importantly, neither the prime minister nor the minister of supply were willing to discuss the returns on assets from enterprises such as Omar Effendi and Sidnawi over the last several years, nor did they disclose any of their profit or loss figures.

Internal Transport: The government has also balked at the idea of transferring internal transport facilities to the private sector. Various governorates had suggested that divesting their governorate-owned bus companies would lower their expenditures significantly, but they were overruled by the prime minister, who has made it clear that all transport activities will remain exclusively in the hands of the government.

Public Utilities: Various government officials have also stated that the sale of Egypt's newly refurbished telephone system will remain firmly in government hands. In addition, the heavily subsidized prices of utilities like water, gas and electricity make it impossible to turn over these activities to the private sector unless large price increases for these services are introduced first, which would allow private firms to reap a profit from investing in them.

Public Housing: After the nationalizations of 1961 the government forcibly acquired the deeds of a large number of apartment buildings and housing complexes from their previous owners and turned those deeds over to public-sector insurance companies. These firms have virtually left the rents on such apartments at their 1961 prices, and for all of those who are lucky enough to have one of these apartments, their rents in most cases will not exceed E£40 per month.

Thus the insurance companies generate very little return and invest virtually nothing in maintenance, which has led to very serious deterioration in such buildings. Why doesn't the government just turn over the deeds of these apartments to their occupants for a small fee and be done with it?

On another extreme, though, Minister of Housing Hasballah El Kafrawi has stated that he plans to sell a number of government-owned housing contractors to the private sector. In this area one will just have to wait and see.

Public-Sector Banks and Insurance Companies: More than two months ago the cabinet was said to have met to discuss the possible privatization of a number of public-sector banks.

It is now obvious that the government has dropped the notion of privatizing public-sector banks, but the reason is not clear.

Some analysts attribute the government's unwillingness to the vast range of ongoing public-sector activities. For example, institutions such as the Bank of Alexandria bail out a number of public-sector industrial firms that depend on liquidity injections from them.

If the private sector were to take over banks of this sort, would they still offer unlimited credit lines to insolvent public-sector firms? No, of course, and for the public-sector banking system to be dismantled, major dismantling would also have to occur in the public sector's other areas.

The government also has not considered moving out of areas such as insurance, which they claim are extremely profitable. Thus, firms such as El Sharq for insurance will remain in public-sector hands for many years to come.

On a separate note, the government has also announced that it will privatize government-owned cinemas but will hang on to all government-owned theaters.

One can summarize by saying that the areas where privatization remains taboo are 100 percent government-owned public-sector industrial establishments, retail firms such as Omar Effendi, public utilities such as telephones, sublet housing units, public-sector banks, insurance companies and theaters.

On the other hand, the government has given the green light for the privatization of joint venture industrial assets and local government-owned assets — small government-owned chicken farms and hatcheries, for example — along with a cinema hall here or there.

Have you ever heard the fable of the race between the hare and the tortoise? In this case I don't think that the IMF-World Bank hare is too concerned about the Egyptian tortoise finishing first in its race toward serious privatization.