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THERE are two ways to privatize: the right way and the wrong way.

The United Kingdom, in its varied privatization programs, was keen to ensure the public's participation in the purchase of state firms up for sale. For example, major television advertisements preceded the sale of British Telecom, and when this mammoth entity was finally privatized, the total number of shareholders in Britain virtually doubled.

The British government's privatization approach emphasized stock sales, through which the largest of brokers as well as the smallest of investors could participate. More importantly, they understood that privatization and the development of the capital market, including the stock market, go hand in hand.

Privatization has often been used as a mechanism to revitalize stagnant capital markets whose activity is minimal or where operations are sluggish. Revitalizing the capital market has been a key objective of the Egyptian government for at least a decade, because the government understands that an operative stock exchange is a mechanism through which additional investments can be generated.

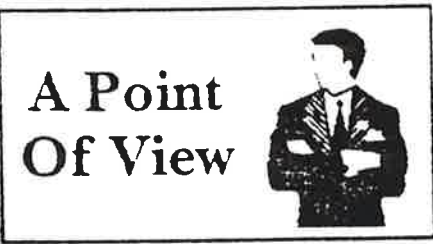
Yet even though the government has been keen to emphasize the importance of developing a solidly based capital market in one conference after another, little has been done to develop the framework around which it should operate. In fact, many would find a visit to the main trading center of the Cairo stock exchange interesting. There is virtually no activity, and trading is simply nonexistent.

Privatization, if linked to capital market development, could be one way of generating the activity that is missing in the Cairo stock exchange. More importantly, the government must ensure that the businesses privatized are offered for sale in such a way

that any Egyptian can buy into them. Stock offerings should be the way Egypt approaches privatization, and employee stock ownership plans can be a good way for dealing with a number of state enterprises that are targets of divestiture programs.

Any investor, large or small, must be given the chance to buy into privatized state enterprises to avoid having a select group of wealthy businessmen monopolizing the purchase of state assets.

Without the use of the capital market in



the process of privatization, equity will be lost. Equity in this case simply means that every Egyptian should be given the chance to buy into state firms offered for sale. Egypt can privatize the right way, or it can privatize the wrong way.

The wrong way is to privatize with the expectation that a state firm's assets are going to be transferred to a select number of businessmen who have the capital to buy into them. Thus, for example, when a major public hotel is offered for sale through a normal bid mechanism, how many Egyptians have, say, E£140 million to purchase it? I would guess not that many.

Anyone who knows the Egyptian and Arab business community will probably be able to guess the three or four people submitting bids. In transactions like this, the government knows quite well beforehand who is likely to acquire the assets it is offering for sale, while the small investor is, in a sense, deprived of the chance of putting his limited resources into enterprises that have the potential to generate high returns.

Now, with the government saying very clearly that it plans to sell very successful hotels such as the Cairo Marriott and to divest itself of other, less prolific enterprises like the Meridien, one key question is whether or not these assets are going to be offered for sale through the capital market.

All indicators seem to point to the absence of any intention to sell through the capital market. No new employee stock ownership plans have been announced and the government is moving in the direction of selling off these assets to any individual or organization that can come up with the hundreds of millions of pounds to buy them.

In the process, the small investor is not given a chance to buy into the equity of such organizations, primarily because the capital market was not the mechanism through which these assets were privatized.

Tourism Minister Fouad Sultan was quoted recently as saying that he was considering privatizing parts of EgyptAir through public stock offerings, and if this is done it will be the first large privatization transaction through the capital market.

In any case, it is now a wait-and-see game. Will the government continue to privatize the wrong way, or will it eventually come around to linking the sale of state assets to capital market development?

My advice to state officials in the capital markets authority is to pay less attention to Al Rayan and the other cast of characters in the disastrous pooling-of-funds ripoff, and to begin to pay more attention to the capital market as the mechanism through which Egypt can attract additional investment funds from small and large business circles alike.

Egypt now has a golden opportunity to get the capital market moving again. If it links capital market development to the various forms of privatization that the government is now implementing or planning to implement, it will embark on the road to additional economic growth in the future.