Egyptian Government Should Not Be Involved in Retail Trade

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ONCE again the Egyptian privatization debate has taken on a different dimension with Prime Minister Atif Sidki's announcement that the government will maintain its role and possibly even expand operations in retailing.

The government got itself involved in retailing after the nationalizations of 1961, when it took control of organizations such as Omar Effendi, Sidnawi, Salon Vert and a number of similar establishments. During the 1960s and early 1970s the government did not allow the private sector to play any major role in this area, and retailing was virtually a government monopoly.

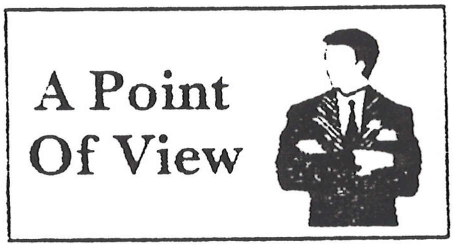
After the initiation of the 'open door' policy in the 1970s the private sector was allowed back into retailing, with the government hanging on to its nationalized acquisitions.

Today, the largest Egyptian retail outlet for clothing, home appliances and children's toys is Omar Effendi, with Sidnawi running a close second. In every district of Cairo and in every governorate there is always at least one Omar Effendi outlet. The public sector even competes with itself in the retail trade because the majority of government retailers carry virtually the same products and offer the same discounts during the winter and summer seasons.

Sadly, though, many of these enterprises have been a financial drain on the government and have operated in the red for years. One such example is Rivoli, which accrued negative returns in 1986 and 1987. On the other hand, the retail leader in returns is Omar Effendi, which posted profits in 1986 of E£12.48 billion. In 1987 and 1988 Omar Effendi's profits rose to E£13.53 billion and E£14.34 billion respectively.

The argument for keeping retail establishments in the public sector is twofold: first, many of these organizations are generating positive returns, and second, they are used as outlets to support the sale of public-sector products which are often subsidized.

But couldn't the private-sector also contribute positive returns to the treasury through its payment of taxes? Couldn't the private sector also act as the principal retailer for public-sector goods even if they are subsidized? The obvious answer to both questions



is, of course, that the private sector can assume both functions.

But why, then, is Prime Minister Sidki insisting that these retail establishments remain in government hands? Why is he even rejecting privatization of the assets of retail establishments that are losing money?

More importantly, does the prime minister believe that there is a role for the government in trading Christian Dior cosmetics (carried by Omar Effendi), or in the sale of children's miniature swimming pools? Is there a role to be played by the government in the sale of Atari video game cassettes or in 40-watt auto-reverse cassette players? Probably not.

"But wait," argue those opposed to the privatization of retail establishments, "why sell profit-making retailers like Omar Effendi for possibly lower tax returns from private-sector retailers?" My answer to those questioning the need to privatize such establishments is not to be fooled by how much money Omar Effendi generates in fiscal assets.

Return on assets (ROA), a crude measure for net profit divided by total assets, for Omar Effendi in 1987 was only 9.9 percent. In 1988, this figure dropped to only 8.08 percent. What does this mean? It simply means that if one assumes the inflation rate to have been roughly 25 percent in both of the aforementioned years, Omar Effendi lost between 16 and 17 percent of the purchasing power of its revenues in 24 months of operations.

If this pattern persists, and the ROA remains below the rate of inflation, the 'current ratio' (current assets divided by current liabilities) of such an organization will begin to decline. This is exactly what is happening to Omar Effendi today. The company is facing serious liquidity and solvency difficulties and has a 'current ratio' of only 0.96 with a debt-to-equity ratio that is also on the rise.

All in all, Omar Effendi is not performing well and neither are any of the other government-controlled retailers. Their ROA ratios are weak to the point where if they were in the private sector many of them would by now undoubtedly be bankrupt.

My question is simple: what is the government doing in the retail trade with its Omar Effendis, Sidnawis, Rivolis and even its Suma Niles?

It is not enough to say that the government should be in the business of anything if it can make a profit. If this is the case, is it okay for the government to be using its foreign exchange reserves to import teddy bears from Korea and toy plastic water guns during a major hard currency crisis?

It is not okay for the government to be wasting foreign exchange on items like these, and if the private sector wants to risk its hard currency on such items, so be it. Let the government invest its resources where they can be better utilized.

No more messing around, guys: the more bears you import, the less sense you make to any economist around the globe. Getting out of toy water pistols is as important as getting out of faulty local government investments and joint ventures that have gone wrong.