

Keep Politics Out of Privatization

By Khaled Fouad Sherif
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THE EGYPTIAN government's bold announcement to sell off its assets in joint-venture firms has been received by many with mixed feelings due to fears that politically motivated deals could derail the privatization effort.

Of course, most economists interested in the privatization debate support this particular form of privatization since it is likely to be the easiest to implement. The reason is that in the case of successful joint-venture firms, the government will probably find its partner willing to purchase the state's share in such enterprises.

In fact, according to Egyptian law, the private-sector partner has to have first right to purchase state shares offered for sale in a joint-venture project.

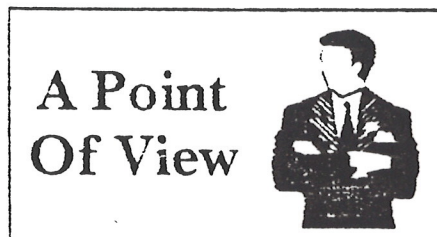
After the government's announcement, however, many people worried over who was likely to gain control of the assets due to be sold into private hands. The government has part ownership of a large number of diverse enterprises in various sectors in the economy. It has both foreign and local partners in such joint-venture enterprises.

The government will likely find it easier to sell to a foreign partner than to an Egyptian. Why? Primarily because many feel that the local entrepreneurs who made joint-venture deals with the state represent a well-known interest group. The selling of joint venture assets to such partners, many believe, is not spurred by the need to lighten the government's load, but rather is part of a process to offer even more advantages to an already privileged few.

In fact, every single one of the names on a list of Egyptian partners in government joint ventures belongs to a well-known public figure. The reason for this is that these entrepreneurs are either retired politicians or belong to families whose names have been in local newspapers too often.

The sale of government assets to these individuals is likely to hurt the privatization effort more than it will assist it, because many of these joint ventures are widely perceived as politically motivated 'sweetheart' deals intended to benefit a particular person or group of individuals. The government's decision to sell off such assets has already been interpreted by many opposition newspapers in Egypt as being yet another giveaway to the privileged few.

In one recent instance where it began negotiations with a local private-sector partner, the government has asked for E£6 million for its share in the joint firm but has been offered a mere E£3 million. The gov-



ernment now finds the sales process stalled because the difference in the evaluation of the assets is simply too great to even permit negotiations.

Then why, one paper asks, does the government not permit open public stock offerings through which any Egyptian can buy assets in the joint ventures the government is planning to privatize? The simple answer is that Law 43, under which most joint ventures were founded, does not allow for public stock offerings and gives first rights on purchase to private-sector partners.

Why doesn't the government amend the law? Well, maybe it should, since for the general public to take the privatization effort seriously, the government has to provide some assurance that no 'sweetheart' deals are being made and that its move is designed to benefit the majority rather than a select minority.

More importantly, public stock offerings are one good way to get the Egyptian stock market operating again and this could further benefit the economy in many other ways.

For the privatization effort to be successful it must find supporters across the board and all doubts about the government's intentions should be erased. Even if the government has good intentions and off-loads a troubled firm onto the shoulders of someone dumb enough to buy it, its effort could still provoke adverse reactions if that someone belongs to the elite, and the resulting loss of faith could paralyze the privatization effort for years to come.

The problem in the sale of joint-venture assets obviously involves the people with whom the government went into business years ago.

The government's announcement that it will privatize its joint-venture assets has prompted business circles to draw up a list of the companies concerned and the names of their private-sector partners. These names have already raised many an eyebrow, and the opposition press has had a field day commenting on the ethical questions involved.

If the government is 'in bed' with anyone, as the opposition press claims, it cannot afford to be perceived as getting into an even more illicit affair. All in all, the companies it chooses to privatize first will determine the fate of Egypt's privatization effort.

One piece of advice for any state official reading this article: keep away from firms whose privatization would have too many political ramifications. Start with those firms where political tensions will not be strong. More importantly, no giveaways and no 'sweetheart' deals — all this would likely mean that the political credibility of the privatization effort would end before sales even start.

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