

Economic Seminars

State still waiting for private sector to play big role in privatization

International companies want to come to Egypt with their own conditions

State is still waiting for the private sector to play an extensive role in privatization

It is the private sector that encourages foreign countries to buy firms offered for sale. Proper management of companies is more important than just availability of funds and international firms want to come to Egypt with their own conditions.

Since Egypt adopted the policy of reforming economic march in the 1980s and a dire need emerged to apply the privatization policy to institutions and public companies, the State has made strides towards the application of this policy through integrated programs.

These programs have taken into consideration the social dimension that constitutes an influential factor in rendering this policy successful. The public sector companies have thus been divided into 17 holding companies, each possesses a number of the public sector firms that together stand at more than 300 companies.

Through the government's embracing a specific approach, these holding companies began reforming the conditions of these (affiliate) firms and dealing with them in various manners such as selling the company's shares to individuals and financial institutions and investment funds, selling them to Egyptian, Arab or foreign main investors or liquidating businesses that are not qualified for continuing on their activities.

Yet, no major role for the Egyptian sector has emerged so far in purchasing the offered-for-sale companies and there are still questions on the extent of the role the Egyptian private sector could play.

Some people view the Egyptian private sector, under its current capabilities, cannot play that role. Others, however, see the private sector could play a big role, but needs encouragement and urge from the State by changing some measures and getting rid of bureaucracy, especially as the private sector's strong involvement in the privatization processes would get the foreign investor feel reassured, hence accepting engagement in the purchase of enterprises put up for sale.

This was the fulcrum of the debate and questions raised in a seminar organized by the Egyptian Businessmen Association under the chairmanship of Saeed al-Tawil about the public sector's role in the privatization program and whether it is capable of buying the offered-for-sale companies as a main investor or through the stock market.

The discussions reached the conclusion that the private sector and the Egyptian businessmen have to vigorously join the privatization program. Businessmen are more capable of handling the obstacles facing the privatization processes in the public sector companies than foreign investors due to having conditions set by the government for the privatization processes that are out of line with the requirements of foreign investors and the multinational companies as strategic or main investors.

Management Crucial

At the start of the seminar, Saeed al-Taweel noted the importance of having a good management for the public sector firms to be privatized as this is more important than the availability of funds for the purchase of these businesses and it is meaningless to sell a company whose activities cannot be efficiently run by a good administration.

The international or the multinational companies, when getting involved in privatization processes, focus on several factors, most notably the profitability, the products' market share and whether it is big or small, the future of labor and whether it is possible to dispose with them or they (international firms) would be committed to keeping them in place as well as the budget figures, tax problems and legal impediments.

As the labor problem is a source of concern to many of those who purchase businesses, Dr Saeed al-Tawil said there are various ways followed by the world's different countries to regulate these matters whether through representatives of the company shareholders or training the labor force and seeking their help in new operations.

There are parties that pay the workforce unemployment benefit in case of laying them off and in Egypt there are allocations in the Social Fund under this item.

With respect to the experience of selling the former companies and evaluating the role of the public sector in it, engineer Mohieeddin Abualam president of the Holding Company for Engineering Industries said the transfer of ownership over the past period from the public sector to the private one through the stock market to junior investors has faced a management problem later on in these companies as "we found that the private sector did not take part in

management due to breakup of ownership with the burden remaining on the business sector". It is necessary for businessmen to have big shares in the companies put up for sale so that they could be able to run them, otherwise privatization would fail to achieve its goals.

Private Sector Called on to Purchase

"As we understand it, the basic investor is the international firms specialized in the field that fits activity of the company offered for sale, but this investor is not available at present.

Through past experiences, we found that the major companies want to come to invest in Egypt with their conditions", he said. This is practically realistic but does not cope with Egypt's selling conditions that are set by the government and the major foreign companies cannot grasp that.

Here comes the role of the Egyptian businessmen as they understand the nature of the Egyptian companies and what is happening in them. Businessmen should thus apply to entirely purchase these firms through contribution with the international companies, which encourages these companies to get involved in purchase.

In Egypt, businessmen know how to address the tax and legal problems, he said, calling on the Egyptian private sector men to take this step at the beginning of 1997 as the State is waiting for them to play that role. He also stressed the importance of the Egyptian private sector's buying mammoth shares, so that it could run the company where it has shares", he said.

For his part, Mohamed al-Sayed Desoki, president of the Holding Company for Mining and Calories said there is a difference between the basic investor and the strategic one.

The basic investor, whether a person or a group of investors, has the financial capabilities, while the strategic investor has high-level marketing capability. The sale of companies is not designed to change the administration and all the firms that became subject to the law 159 have not had their administration changed, he said.

Preparing Industrial Environment

Within the framework of the importance of working to create a basic environment allowing for more industrial development, **Dr. Nader Riad** president of Bavaria Egypt and board member of the Holding Company for the Engineering Industries said the industry's sector stance towards implementing the privatization process should be made clear, meaning that privatization should be carried out within the context of working to create sound infrastructure that permits more industrial development.

"The industrialists' problem with privatization is that there is a great shift in the economic policies and that everything that is part of the public sector has become desirable, unlike what happened 20 years ago when there was some kind of scrambling for privatization that could lead to undesirable results.

So, we have to determine what is precisely required from implementing the privatization program and whether it just involves sale of companies owned by the public sector or liquidation of these companies and setting up entities with no heads, or do we want to just expand ownership or privatize management in the light of having uneconomic indications for the public sector firms?, he said.

"We have to make advantage of other states' experiences in executing the privatization program as Germany had spent more than 16 billion deutschmarks to put the privatization program into practice in less than 13 months and more

than 17 million individuals had taken part in the purchase operations", Dr Nader added.

Regarding the Egyptian privatization program, **Dr. Nader** said that there are mistakes with implementing it, for example setting 10% as a share for personnel in the companies to be denationalized.

The question is what would be the situation if this labor force were replaced by others who have no share in these companies? Also with respect to the issue of selling to basic or strategic investor, it should first be known how far this investor had been successful in his own country as the basic investor only provides funds for purchasing great share, while the strategic investor provides the technical expertise and administration for boosting these companies.

Dr. Nader also noted that the foreign or local investor usually draw a comparison between the cost of buying a specific share in a company to be privatized and the creation of new industrial investments before looking into the problems that could be faced by this investor when buying a certain share in these businesses.

It is the private sector that would encourage the foreign firms to buy the companies offered for sale

Concerning the importance of marketing the firms offered for sale, Dr Ahmed Sheha President of the Marketing Technology Association stressed the importance of the good marketing of the companies offered for sale and their shares and informing about their potential and exhibiting their capabilities and budgets to buyers to be reassured the evaluation of the price per share represents the real situation.

He demanded that the holding companies follow all ways that could present a clear picture to the simple saver and buyers in general about the companies planned to be sold or planned to have part of their shares sold.

In this respect, contacts could be directly made with investment funds or even individual investors and those concerned with investment in the field of purchase of shares or purchasing companies entirely to market their sale.

In case of selling the shares of this company or selling it entirely, it is preferred to sell to financially and administratively strong investors and to Arab and foreign investors to be able to inject new capital for investment in Egypt from abroad to provide greater support for the Egyptian economy, he noted/

Implementing Program

With respect to how to implement the privatization program, Dr. Sa'd Sallam, board chairman of Olympic companies viewed the enforcement of this program should be done through combining between engagement of the basic investors and expanding the base of ownership of companies, which ensures some sort of stability and development of these firms.

Dr. Sa'd noted that the serious main investor does not only focus on the current profits, but he has to look into the expected ones in the future and how far the company is ready for competition following the application of the GATT treaty and reducing customs and putting into action the partnership agreement with the European Union.

As development and research have an important role in achieving company growth, Dr. Sa'd viewed that the Egyptian firms have to attach importance to development and research to get ahead of the other foreign businesses instead of only relying on imitating foreign products as research and development are the most significant elements for continuation and competition on the markets.

He asked the Egyptian public sector to overcome the psychological barrier and put its closed firms in the stock exchange to provide the element of development along with the necessity of forging alliance and integration between some private sector companies to reach the economic volume for operation instead of vying for too little shares of the market among these companies.

The Egyptian private sector could play a consequential role in implementing the privatization program by contributing to converting the lose-making companies into profitable ones through the stock exchange, he added.

Representing banks, Adel Allaban, managing director of the Commercial Bank spoke about the necessity of having a main investor in Egypt and that has become an imperative matter.

Farsightedness

The main or strategic investor as seen by Allaban is the person who brings an added value whether in production, marketing or financing and not just a holder of a financial share as he is the person who intervenes in running things and taking the helm of decision inside the institution in which he contributes shares.

He demanded the State not to be shortsighted only focusing on attracting the basic investor with the aim of buying faltering firms and the successful

companies should also be brought to the fold given the foreign investor seeks profit in the first place.

He also indicated that the basic investor fit for Egypt exists in southeaster Asia and in Europe as the medium-sized companies are present there, calling for discarding the idea that the strategic investor poses a danger to the Egyptian economy, "but on the contrary he is an addition and vital element for transfer of technology to Egypt".