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25 NOVEMBER
2019

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Egypt: Dimensions of Privatization of Army Ventures

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Abdel Fattah al-Sisi's call for listing companies affiliated with Egypt's armed forces on the stock exchange along with other state-run firms and assets in the coming period was not surprising to me.

On Thursday, October 31, 2019 during the inauguration of two new army-owned and operated chemical plants in Giza Governorate, west of Cairo, Sisi suggested that military companies should be listed on the stock exchange in the coming period. "The government has been working on floating state companies and assets for the last three years. There must be an opportunity for the armed forces' companies. They must enter the stock market and there should be a chance for Egyptians to buy their shares," Sisi said. He also emphasized that the "private sector is welcome to participate" in army-run projects, citing the greenhouse projects as an example.

This paper attempts to provide answers for two main questions; the first question relates to the proposal's timing indication, and the second one is about how to implement it on the ground:

First: The timing indication

As for the timing of Sisi's statement on listing companies affiliated with the army on the stock exchange, Egypt has already completed the program of the so-called "economic reform" with the International Monetary Fund (IMF), and has already started negotiations on a new program as has been stated recently by Minister of Finance Mohamed Maait – after meeting the IMF program requirements, to a great extent, as a major precondition to start negotiations on a new program agreement.

Since most of these conditions have already been met, except for the final scheduled rise in fuel and power prices (full removal of subsidies), which the IMF has agreed to postpone because of the continued decline in oil prices (Especially after stability of oil prices at $60 per barrel versus $67 in the current Egyptian public budget).

The Egyptian government also announced that it is proceeding with removal of what it called the unworthy of (subsidized) supply cards. It is noteworthy that in the wake of protests last September, the government announced reactivation of supply cards that had been suspended for 1.8 million citizens before, but it denied such reports later, especially after the protests have abated, in a clear message to the IMF that it is still committed to implementing its conditions.

Among the IMF conditions that have not yet been met by the government is listing the state-run firms on the stock exchange. In March 2018, the government announced that it would trade stakes from 23 companies and banks in the stock exchange, provided that implementation would take place in the fourth quarter of the same year, to provide the public budget with LE 80 billion from the proceeds of selling these companies to bridge the chronical budget deficit.

After the government had postponed the trading process of state-run companies more than once due to the emerging market crises and the decline in prices of shares in the stock exchange, the process finally started in March 2019 by trading some shares of the Eastern Tobacco Company despite the continued decline witnessed by the stock exchange performance.

From the above review we can conclude that the International Monetary Fund will prompt the government in the coming period to turn a blind eye to the huge decline in all indicators of Egyptian Stock Exchange and the unprecedented decline in share prices, compared to late 2017 and early 2018, taking into account that share prices, denominated in dollar, are extremely low, which means that the government's fiscal targets from this step may not be realized due to the pound's price decline.

This does not mean that the government is not implicated in wasting its assets, especially in deliberately determining the pricing process away from international and domestic valuation houses, and even adopting the mechanism of the average share price during the last month before selling as the only determinant of the price, despite admitting the declining prices and deferral of sale more than once for the same reason, which means blatant corruption represented in waste of corporate assets and manipulation of their real value.

I think the IMF conditions have this time gone beyond the procedural side to the doctrinal side. In fact, the IMF's recipe for Egypt represents an extremist liberal agenda that gives the largest and perhaps the only economic role to the private sector; but on the ground, the military seems to be replacing the public sector, especially under the army's sovereign advantages that make the private sector unable to survive in the market, rather than compete with the army's economic organs.

Accordingly, Sisi's proposal to list companies affiliated with Egypt's armed forces on the stock exchange was under the Egyptian authority's urgent need for concluding a new agreement with the IMF, which is likely, upon completion, to ensure that Egypt obtain a new IMF loan, in addition to other advantages – especially after Egypt's repayment of more than $13 billion of debts and interest rates during this year, and likeliness that these burdens will continue in the coming years.

The government had to justify the current trading of state companies shares despite the low prices, something which had been postponed many times over two years. Anyway, Sisi's proposal seems to have provided a significant cover for trading the shares of the government-owned companies in the coming period in the stock exchange by announcing that the army projects are also likely to be put up for sale to the private sector. The Egyptian Authority's message to the interior seems to say that 'we will put government companies up for sale although we know that the prices are extremely low, and there are no suspicions of collusion or corruption, particularly that the army accepts to put some shares of its companies up for sale on the stock exchange. However, the government's message to the IMF and international institutions says that 'Egypt is moving forward with a radical version of economic liberalism, which in addition to crushing the poor and middle classes through austerity programs, the government adopts selling the rest of the public sector and even the military economic ventures.

Second: How to implement the proposal

As for the answer to the second question on how to implement Sisi's proposal, I believe that the regime as well as leaders of the military institution are not serious in abandoning part of their economic ventures which they consider as gains that are worthy of defense even through bloodshed, as a member of the junta explicitly stated in 2012.

I also believe that the content of the whole process will be circumvented through several ways, including:

- Using the stock exchange's primary market to finance expansion of the target army companies, and then trading only the expanded part or less than that on the stock exchange, which is essentially the property of shareholders, while retaining ownership of the same share or more.

- Trading shares of joint projects between the army and the private sector on the stock exchange, especially that these projects have multiplied sharply over the past period due to the army's use of the state land as a share in joint ventures with the private sector – provided that the military retains its full share in these projects, which allows it the right to manage, while only the private sector shares only are traded on the stock exchange.

- The army may get rid of some projects that have caused public discontent, and affected its prestige and mental image to the public, such as fish projects, or those projects in which the army was involved without prior feasibility studies and therefore vulnerable to losses, such as the greenhouse projects.

In fact, Sisi found it an opportunity to hit a host of birds with one stone, where this proposal allows the regime to get a new certificate from the International Monetary Fund through which it can extend the current stage of borrowing and at the same time get rid of some vulnerable projects that are not feasible economically, as well as the possibility of expanding projects through the stock exchange, and finally obtain legitimacy to sell the remaining public sector projects, with appeasing its Arab and foreign allies who will profit from the corrupt mechanism of pricing, all under a thick smoke curtain created by the case of privatization of army projects.

Of course, I totally reject the sale of state-owned projects, especially as most of them make profits that go to the state budget and help in bridging its chronic deficit, most notably the Eastern Tobacco Company, which provided LE 56 billion to the Ministry of Finance last year, a figure that is about 25 times the money provided by the Suez Canal Authority during the same year. In addition, many of these companies affect the Egyptian national security, especially the petrochemical companies and banks, and therefore there is no real economic justification behind dispensing with them.

It should also be noted that the government has not indicate how it would deal with the employees of these companies that will be listed on the stock exchange, how it would preserve their rights, or even benefit from their experiences in case of layoffs.

It can be acceptable that the army owns economic projects, but it should meet three main requirements:

- To produce weapons, ammunition and technology,

- To be subject to control and accountability like the rest of the state's general economic activity,

- Not to have special sovereign advantages that ensure superiority and in many cases monopoly.

Finally,

The Egyptian people have the right to monitor all projects financed by public funds, and the right to control distribution of profits resulting from those projects. Also, all projects that use public resources must have real and serious feasibility studies; and Egyptians have the right to make sure of taking necessary procedures for preventing any monopolistic practices. The State must preserve national economic potential, most prominently the profitable public sector companies.