Egypt's state will maintain control despite privatisations

Thursday, February 24, 2022


Egyptian President Abdel Fattah el-Sisi
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Minister of Finance Mohamed Maait announced plans in late January to restart the government's dormant programme for listing several state-owned enterprises (SOEs) on the Egyptian stock exchange. The initiative, set to resume in March, is advertised as a push towards privatisation – in a bid to boost revenues, investor confidence and foreign investment. However, the simultaneous increase in economic activity by military-led firms and partially privatised SOEs calls into question the promised improvements for the private sector.

What next

The partial sales of SOEs will not significantly reduce state control of economic activity in Egypt. In some cases, the injection of capital will increase the capabilities of SOEs to expand. Moreover, the anticipated share offerings will not eliminate government pressures to prioritise national projects over shareholder interests or market fairness.

Subsidiary Impacts

- The president will push for the partial privatization of civilian SOEs, while leading the expansion of military-owned firms.
- Foreign-owned private companies will not risk expropriation, but will be subject to unfair competition from military-led firms.
- Listing SOEs on the stock market will increase transparency of the firms' activities and financial standings.

Analysis

The resumption of plans for the partial privatisation of SOEs comes after years of inactivity on Egypt's latest privatisation programme, which was launched in 2018. Early candidates are likely to include Heliopolis Housing, Alexandria Containers and Abu Qir Fertilisers.

At the time, the government said it would sell minority stakes in nearly two dozen SOEs in under three years with the aim of raising USD4.5bn. Since then, only three have offered shares on the Egyptian stock exchange (EGX), largely due to market volatility that was exacerbated by the pandemic.

State involvement

The few SOEs that have sold shares on the bourse remain majority-owned by the state and continue to enjoy special privileges to dominate their respective markets.

The first SOE to offer a stake on the EGX under the latest programme was tobacco producer Eastern Company in early 2019. It sold an additional 4.5% of its shares -- mostly in a private offering to Saudi and Emirati investors. (The company has been listed on the EGX since 1995.)

The state still owns at least 50.5% of the company, which maintains a monopoly on the manufacturing of tobacco products in Egypt.

Discussions are underway to issue a second licence for a new cigarette maker to enter the market. However, current terms stipulate that Eastern Company would hold a 24% stake in the firm and the new player would be prohibited from producing low-cost cigarettes, which make up 98% of Eastern Company's revenues, except in a joint venture with the SOE.

Similarly, state-owned digital payments company e-Finance, which sold 26.1% of its shares in an October IPO, monopolises all activity related to the state's digitals payments and collections.

This includes payments to recipients of all social safety net programmes and future plans to digitise the collection of taxes and customs, among other financial transactions in the health, tourism and transportation sectors. No other digital payments company is authorised to work with the government.

With the new injection of capital following its IPO, e-Finance plans to expand activities into consumer finance and microfinance. The SOE can be expected to enjoy a privileged position vis-a-vis private sector fintech companies operating in those industries, though private fintech is growing rapidly.

Similar dynamics can be expected to result from the partial sales of military-owned companies slated for the programme -- such as bottled water maker Safi, and Wataniya Petroleum for oil distribution. The firms will enjoy increased capital for market expansion, while the military co-owners retain majority control and protections by the state.

Expanding military-led industries

The military and civilian branches of the security apparatus have been expanding their economic footprint substantially in recent years, both through acquiring private-sector firms and establishing new companies (see EGYPT: Military sway in the economy will grow - January 10, 2018).

Since the military takeover in 2013, Egyptian intelligence agencies have acquired the country's most prominent private-sector TV networks and production companies, which now fall under the umbrella of the intelligence-run United Media Services.

Between 2016 and 2017, the armed forces acquired 82% stakes in two major private-sector steel companies, Egyptian Steel and Suez Steel, and built a USD1bn cement plant, despite Egypt having a cement surplus.

Many of these strategic investments aim to control the inputs required for massive military-led infrastructure projects, including several new cities, most notably the USD58bn new administrative capital outside of Cairo.

In the name of domestic security, the military has also expanded its activities in agriculture and food production substantially, as well as taking stakes in major new refining and petrochemical projects.

In August, President Abdel Fattah el Sisi inaugurated Silo Foods, run by the military's National Service Products Organization (NSPO) and marketed as the biggest industrial city for food products in the Arab world. Plans also include opening a new supermarket, Silo Mall, around the country.

Another NSPO firm, the National Company for Animal Production, has expanded at a rapid pace since its founding in 2018, with more than 22 sites across the country and over 200,000 cattle for meat and dairy production.

According to the Ministry of Agriculture and Land Reclamation, these military-led projects boosted Egypt's self-sufficiency in meat production from 44% in 2014 to 57% in 2020, with a goal of reaching over 65% in 2025.

Private sector under pressure

Sisi has repeatedly called for more collaboration between SOEs and the private sector. However, the power imbalances mean that private-sector actors have little room for negotiations over the terms of agreements.

The unfair playing field will worsen as the armed forces expand their economic footprint. Military firms can streamline cumbersome bureaucratic procedures, access free or heavily subsidised energy and land, use conscript labour, and are exempt from paying customs and taxes.

On top of unfair competition, many businessmen have been pressured to participate in national megaprojects and donate to Sisi's charity fund, Tahya Masr. The fund has collected billions of Egyptian pounds, and many businessmen quietly complain that their donations are not voluntary.

Some successful companies, like Safwan Thabet's dairy giant, Juhayna, have faced more direct harassment by the state. Despite donating several million dollars to the Tahya Masr fund, Safwan was arrested in December 2020, joined by his son two months later. They remain in prison (see EGYPT: Juhayna owners arrests show military dominance - July 19, 2021).

The arrests coincided with Sisi's campaign to expand military involvement in the food sector and establish hundreds of centres for milk collection.

The case of Juhayna and lower-profile private-sector companies facing similar pressures call into question the sincerity of the government's promise to make Egypt more investor friendly through sale of SOEs on the EGX.

Slowing private-sector activity

Increased competition by military-led companies is compounding the global economic challenges currently faced by the private sector.

Import-dependent Egypt has suffered a drop in private-sector activity in recent months, as global prices soar due to the pandemic and global supply chain disruptions.

The headline IHS Markit Egypt Purchasing Mangers' Index (PMI), measuring non-oil private-sector activity, fell to 47.9 in January from 49 just one month earlier. The survey results found that private- sector output levels declined more in January than any other month since mid-2020. Employment numbers have also been falling since November.