

Egypt's Reform Talk Takes Off into Outer Space

By Khaled Fouad Sherif
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EGYPT'S politicians have recently turned into ardent advocates of privatization, promising the moon to international creditors in terms of economic reforms that are to be undertaken. But stark reality imposes constraints that make it virtually impossible to keep some of these promises.

Various ministers and politicians are now calling for radical change in the economy, and some have suggested reforms on a scale that goes far beyond the wildest dreams of even a year or two ago. Experts on industrial reform have been flown in from the United States and Italy to advise the government on the steps to be taken, and several cabinet officials have announced that final decisions on public-sector reform are to be made public in July.

At the same time, in its talks with international donors the government has emphasized that it is keen to find a formula for implementing public-sector reform, and it has even presented a time schedule stipulating when and how various adjustments are due to be made. Sadly, however, the motivation behind these promises is simply to persuade the International Monetary Fund (IMF) and the World Bank to permit debt rescheduling and provide fresh loans to Egypt.

In the final analysis, many of these promises, especially those involving electricity and fuel price increases, are potentially destructive because they simply cannot be kept according to the government's schedule.

Some officials are now keen to pay lip service to public-sector reform on an unheard-of scale. One official who recently addressed an audience of more than 100 people, many of them from international institutions that the government has been trying to please, sounded like an Egyptian version of Margaret Thatcher when he emphasized the need to privatize public utilities.

So what is wrong with privatizing public

utilities? Virtually everything.

Before you can privatize any public enterprise it must first be commercialized. Take the Egyptian Electricity Authority (EEA), for example, which is one of the utilities that the official wants to privatize. Today, the EEA sells electricity for 2.18 piasters per kilowatt-hour on average while the long-run marginal cost of production exceeds 17.5 piasters.



Taking into account that total electricity sales by EEA amounted to some 33.62 billion kilowatt-hours, according to figures for 1987-88, this means that the economic subsidy on electricity is well over E£5 billion a year, or roughly \$2 billion.

If we were attempting to privatize a public utility such as electricity, private-sector clients would be willing to buy into it only because they expected financial gain. But the EEA would have to increase the price of electricity by at least 800 percent in order to make a profit. Such a dramatic increase in prices would be the only way to make the EEA attractive to the private sector.

Is an 800 percent increase in electricity rates feasible for a country such as Egypt? I doubt it.

Imagine how an 800 percent hike in electricity rates across the board would affect commercial, residential and industrial users. And what, for example, would happen to a government official such as a first undersecretary in some ministry making an average salary of E£280 a month?

At current rates, this official is paying

approximately E£60 for electricity per month. An eightfold increase would mean that his bill would skyrocket to E£480. He would have to either sharply curtail his consumption of electricity — and help to boost demand for candles and the like — or turn to illicit means to make up the difference.

There is another way to look at the likely effects of an 800 percent hike in electricity rates. Per capita gross national product in Egypt is approximately E£194 per month. The average household pays about E£40 per month for electricity. An eightfold increase would inflate that bill to E£320 a month.

So how do those calling for the privatization of a utility such as electricity propose to make up the difference between such huge bills and the average Egyptian's wages? A senior World Bank official asked precisely this question after Egypt's 'Margaret Thatcher' ended his discussion.

Many public enterprises and utilities must first be commercialized before they can hope to be privatized. The process of commercialization, in the case of a utility such as electricity, takes years and can only be carried out with a range of price adjustments that must be correlated with increases in average wages. You cannot privatize electricity tomorrow: it is simply not feasible.

And if statements on privatization are merely an attempt to convince international donors that Egypt is serious about reforms, then their impact is likely to be the exact opposite.

Economists representing international donors walk away with the feeling that Egypt's technocrats are nothing more than politicians living off one panacea after another. In the end, paying lip service does more harm than good.

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