

# The Big Mystery: How Much Are Egypt's State Firms Losing?

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FOR THE past two years at least I have been searching in vain for some simple, straight forward figures of Egypt's state-owned enterprises. The elusive defect figures are nothing but a measure of the accumulated financial losses of public industrial firms, and they should appear on their income statements. I would also like to see cumulative figures for the losses of all government-owned industrial enterprises and financial grants extended to them in the form of unpaid overdrafts as well as various open and hidden subsidies. But I have been unable to find a single government institution that calculates the full size of economic deficits accruing from the activities of state industrial enterprises, and all of the figures I have come across seemed contradictory.

I have now come to believe that there is no government entity charged with calculating the full economic burden of state-owned industrial firms. The same is probably true for many other sectors such as public construction companies and utilities firms. True, the National Investment Bank publishes some information about financial deficits of state enterprises that I have found these estimates to be incomplete and often contradictory to other published statistics. For example, last year the National Investment Bank analyzed the budgets of over 365 state enterprises, among them public industries, utilities and construction companies, and found that 202 of these firms incurred financial losses amounting to over E£1.5 billion (\$550 million). This figure, though, only represents the accumulated losses for the fiscal year 1988-89, and it is derived from income statements without taking into consideration non-financial grants, overdrafts and explicit as well as implicit subsidies. Generally, however, financial loss figures

of themselves are not an accurate reflection of the economic burden that the unprofitable activities of these companies impose on the government. What about those state enterprises that receive electricity at three pence per kilowatt-hour, which means their power supply is heavily subsidized, because the normal rate is as high as 14 pence? What about the various fuel subsidies that state firms receive?



Should not all of these items be included when we attempt to assess the full size of the burden borne by the government in running these enterprises? If the National Investment Bank does not adjust its figures to include such subsidies as well as overdrafts and financial grants of various kinds, then who has figures that take items like these into consideration?

This year, when I asked the Ministry of Industry officials for end-of-the-year accumulated economic deficit estimate and a list of explicit and implicit subsidies, they kept on insisting that all subsidies for state enterprises had already been abolished, a statement very far from the truth. When I then asked about the size of the cumulative financial deficit of state industrial enterprises based on their income statements, I was given a figure of only E£26.1 million for fiscal year 1988-89.

When I posed the same question to the National Investment Bank, I was told that the financial losses of state firms recorded in their income statements for fiscal year 1988-89 amounted to E£46.9 million. So which is the correct figure? Two different government organizations are providing two different answers.

Of course, someone somewhere has to realize that there are opportunity cost losses also associated with state enterprise operations. Every kilowatt-hour of electricity sold to the public sector for three pence could have been sold to the private sector for 14 pence, which implies an 11 pence loss in revenue for the government on every kilowatt-hour sold to state entities.

In any case, my estimates indicate that state enterprises across the board received a whopping E£4.2 billion in implicit subsidies on electricity alone in fiscal year 1988-89. Such a huge amount must be considered when attempting to assess the full extent of the burden that these unprofitable state firms represent.

After five years of analyzing state enterprise financial data, I have come to believe that this sector is plagued by extremely poor financial and economic reporting. In many cases, no clear indication exists as to whether funds extended by the government to state enterprises are loans, equity or grants and the interest and amortization schedules for government loans to public firms are often nonexistent or unspecified. The government must do more to improve its system in terms of correctly identifying the size of deficits based upon realistic estimates adjusted for implicit and explicit subsidies, grants and equity injections. If the government makes no more serious attempt in coming in a few months to improve its financial data analysis efforts, I fear that important questions about the true size of the economic deficit accruing from state enterprise activities will remain unanswered.