Let's Cut the Propaganda About Egypt's Public Sector

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SEVERAL weeks ago I came across a very interesting document entitled "Industrial Public Sector: Overview of Reform and Performance 1983/84-1988/89," issued by the Egyptian Ministry of Industry. This document outlines the ministry's reform objectives and presents some indicators of the performance of companies reporting to it.

The document is the first publication ever issued by the Ministry of Industry that both discusses and endorses privatization as a public-sector reform tool. Sadly, though, the privatization strategy outlined in this document can only be described as misguided and fundamentally wrong in its approach.

The ministry endorses the "sale to the private sector of factories or production units which, for logistic reasons, are difficult to manage from company headquarters or whose activities are considered marginal to the public enterprises' major activity."

Sounds good so far, but which plants does the ministry regard as marginal to the public sector and as privatization targets? The examples listed in the document are the Port Said Frozen Food factories, which belong to the Edfina Food Processing and Canning Company of Alexandria, the clay brick works — which have never made a profit — of Nasr Phosphate Company and one small plaster factory owned by the Sinai Manganese Company.

No mention at all is made of firms such as Corona Chocolate, Misr Dairy or General Batteries, which, in my opinion, represent the crux of the public sector's problems.

What is the government doing running a chocolate factory and losing E£8 million a year in the process? What is it doing making ice cream and yogurt at Misr Dairy, a firm with an endless record of operations in the red? And what business does it have with a battery company that has been unable to break even over the last five years? Local private-sector firms already supply plenty of the same products.

When we talk privatization, is it not logical to discuss the government's withdrawal from the production of items such as beer, corn flakes, bubble gum, perfume and chocolate?

If the strategy is to reform enterprises such as Corona, Misr Dairy and General Batteries by upgrading their technology to improve the quality of their products, it should be remembered that these three companies have lost the majority of their markets to their domestic private-sector competition and that this is the root of virtually all of their problems. The government cannot be sure that they can retrieve the lost market share.

A Point Of View

In the end, the state can invest hundreds of millions of pounds to upgrade the facilities of Misr Dairy only to find that the public is simply more loyal to, say, Nestle yogurt, and the firm still can't get itself out of the red. The same can be said of chocolate, especially now that the investment authority has allowed Cadbury to enter the Egyptian market, with its local production lines expected to operate next year. How well will Corona fare against it?

If we are back to the notion of restructuring holding companies in order to give managers more freedom to operate against their private-sector competitors, it should be remembered that Egypt has changed the structure of its holding companies four times over the last three decades. Each time holding companies were dismantled and reorganized, the system of operations of state enterprises remained the same.

But, more importantly, how can a document about public-sector reform avoid talking about companies producing chocolate, ice cream and yogurt at a loss and then dare to say that "the rate of return on capital employed rose from an average of 6.8 percent in 1986-87 to reach 10 percent in 1987-88 and 11.2 percent in 1988-89?"

Is this document trying to tell its readers that returns to the public sector are on the rise overall, regardless of the fact that individual public firms such as a chocolate company or an ice cream maker are losing more money?

Whatever the message is, it must be remembered that the inflation rate in Egypt currently exceeds 25 percent, so that even if the Ministry of Industry is happy with an 11.2 percent return on capital employed, this translates into a loss of almost 14 piasters on every pound invested in state enterprises. Yet what is frightening is that the document to which I refer attempts to make the 11.2 percent return look like a milestone achievement.

Even more shocking is the statement in this Ministry of Industry paper that subsidies to the public sector "were totally eliminated." That's news to me and to anyone who has been in a state firm recently.

Every state enterprise I have visited still pays roughly E£0.03 per kilowatt-hour for electricity while private-sector firms pay approximately E£0.14 per kilowatt-hour. Implicit subsidies on items such as electricity and fuel have not been eliminated, since state industries are definitely not paying the normal rate for their energy.

Yet even more depressing is the statement made in the paper that "aggregate transfers to the treasury, including direct and indirect taxes, jumped from E£1.4 billion in 1983-84 to E£2.8 billion in 1988-89." But what about aggregate budgetary withdrawals from the treasury for state enterprises? The World Bank currently attributes 35 percent of the state budget deficit to state enterprise deficits and overdrafts.

I suppose the author felt it best to leave this discussion out of the analysis because it would distort the message being passed to the reader.

If the message is that everything is OK in the public sector, then everyone knows this is simply not the case. The sooner the government admits the truth and stops trying to describe the public-sector Frankenstein as God's angel on earth, the better.

Everything has its good and bad points, and the public sector is definitely no angel. Trying to describe it as one is simply a reflection of inaccurate analysis that distorts the picture for readers who do not know better.