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Public Financial Management and its Impact on Egyptian National Railway

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ABSTRACT

The study focuses on improving the quality of public financial management over governmental entities to attain public welfare. Thus, local authorities, which are public bodies deal with numerous products and services offered to society at social prices, face deficiencies such as accumulated losses and low employees productivity. In Egypt, local authorities are known as economic authorities (EAs). As an example, Egyptian National Railway is the sole economic authority responsible for rail network, yet it undergoes deteriorating financial position over decades.

Keywords: Public Financial Management, Economic Authorities, Egyptian National Railway Authority
JEL Classifications: E62, H54, P43, O23, G18, M48

1. INTRODUCTION

Public financial management (PFM) is one of the most important issues concerned with public expenditure. PFM deals with the best allocation of resources, and their usage over local authorities for public welfare. The Charted Institute of Public Finance and Accountancy (CIFPA) defined PFM as "the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public services goals" (CIFPA, 2010). Another definition by Rebecca Simson and others is "the activities that underlies all government activities: Mobilization of revenue, allocation of funds among activities, expenditure and accounting for spent funds" (Simson et al., 2011).

Throughout the literature, PFM is concerned with the allocation of financial resources and their best usage especially in developing countries. Moreover, there is a strong relation between fiscal transparency and standards of good practices over resource allocation as this relation affects other areas in the economy such as fiscal discipline and corruption. Countries with more transparent fiscal practices enjoy high credibility in the market, better fiscal discipline and less corruption. An index for fiscal transparency was presented based on four different clusters of practices which are: Data assurance, medium-term budgeting, budget execution and reporting and fiscal risk disclosure (Hameed, 2005).

Then, PFM model can be generated through four dimensions where every dimension seeks a specific goal. The model should measure resource allocation, performance, risk and evaluation for the results.

In fact, governmental authorities in developing countries are handicapped in executing PFM. According to Egyptian Parliament Report - Planning and Budget Committee- (2008), economic authorities (EAs) are defined as local governmental bodies that offer services and goods to the society at low prices to raise the standard of living. Therefore, EAs performance is one of the areas that influence fiscal policy through public expenditure.

2. LITERATURE REVIEW

The Association of Chartered Certified Accountants (ACCA) enshrined that PFM should be improved and capacity strengthened in developing countries and emerging economics. The public sector has an increasing concern with fiscal management and regulation, prioritization of expenditure and value of money. Moreover, the quality of public service reflects ideal usage of funding, availability of resources for investment, cost-effectiveness of public services (ACCA, 2010).

PFM strategy, discussed in the literature, introduced two approaches, which are: The "basic first" approach and the "platform" approach. The "basic first" approach stated that government seeks to ensure that the three basics of budgetary control prior to work aiming to establish areas "beyond the basics," these are: Effective control of inputs before examining effective control of outputs, accurate cash-based accounts before introducing accrual-based accounts, and effective financial audits before shifting to performance audits (Schick, 1998). On the other hand, "platform" approach emphasized that reforms are packaged together into groups of activities (platforms) that form a logical sequence over a determined timeframe. "Platform" is a suitable and sustainable package of measures rather than an individual measure (Brooke, 2003).

According to Micheal (2010), a PFM model was introduced aiming to control resources in money terms and unit terms in order to avoid corruption and achieve public welfare. Therefore, a model should have the following dimensions as follows.

2.1. Dimension 1: Aggregate Fiscal Management

It is an accounting model depends on opening balance sheet (assets and liabilities), expenditure, revenues and financing flows, and finally closing balance sheet. An accounting model provides basis for directing, controlling and managing public finance through resource mobilization and allocation.

2.2. Dimension 2: Operational Management

It is an input-output model depends on measuring input in terms of money and output in terms of units. Thus, it measures effective performance, and delivers the value of money in terms of managing the budget in effective and efficient manner.

2.3. Dimension 3: Risk Management

It is a risk model that measures the risk that public money being stolen, used corruptly or used for purposes other than that intended to. To avoid fiduciary risk, there should be an effective financial control, constitutional legislative regulations and proper insight of public finances.

2.4. Dimension 4: Governance

It is a governance model which evaluates how public resources are used to satisfy civil society needs to attain public welfare. Receivers feedback, in how they perceive the utilization of resources, is important as it reflects interest of stakeholders, transparency of information and accountability of individuals for the use of public resources. Thus, PFM model transforms theory into practice.

Campos and others stated that governments in developing countries are willing to reduce aggregate public spending and budget deficits. Therefore, they focus on the composition of public spending and possible areas to cut expenditure. Accordingly, they concentrated on three main objectives, which are:

1. Aggregate fiscal discipline: It sets ceilings for the budget on the aggregate level and on every spending unit.
2. Strategic prioritization of expenditure: The government sets its priorities and then allocates its resources accordingly.
3. Technical efficiency: It is the capacity to achieve programs and deliver services at the lowest prices.

Therefore, governments in developing countries are willing to lessen public spending to control budget deficit (Campos and Pradhan, 1999).

In fact, local authorities in developing countries face challenges in implementing PFM. In Egypt, the Parliament defined EAs as local governmental bodies offer services and goods to the society at low prices. As a result, EAs have an effect on Egyptian economic growth through influencing both investment and consumption levels. EAs work with divergent sectors in the society but their performance differs from sector to another. EAs are classified to: Profitable authorities such as Egyptian General Authority for Petroleum, Suez Canal Authority and losing authorities such as Radio and Television Union, Egyptian National Railway (ENR) Authority (Egyptian Parliament Report, EAs Budget, 2008).

In Egypt, the poor performance of EAs results in their loss and burdening State Budget with the deficit. There are several reasons behind the deficit such are: Mal and inefficient usage of the authority resources, overemployment, products and services offered at prices lower than their cost, accumulation of debt and loans, subject to divergent legislative laws and devaluation of the Egyptian Pounds (Ashour, 2014).

3. OVERVIEW ON EGYPTIAN ECONOMY

In 1991, Egypt initiated its reforming economic program named "Economic Reform and Structural Adjustment Program" aiming to remedy macro imbalances. The program's goal was to implement a comprehensive fiscal adjustment through increasing revenue as well as minimizing expenditure. Fortunately, the program managed to curb the overall fiscal deficit significantly to about 2–3% of GDP in the mid 1990s.

Although the government took number of steps to set fiscal discipline during 2000s, but the revolution, in 2011, ruined all procedures taken. In 2004, Ministry of Finance (MoF) implemented several steps to adjust structural fiscal problems aiming to control budget deficit. These steps were as follows: Budget classification, treasury single account, public revenues and spending and debt management. These problems were among the basic area that experienced strategic reform. In 2010, the government applied a medium term fiscal consolidation plan to control the budget deficit by 1% annually. Therefore, the government adopted cash-basis method for budget recording to fit with the international standards. Moreover, it created macro fiscal framework, and improved the quality and dissemination of fiscal data. Nevertheless, Central Bank of Egypt (CBE) designed treasury single account, and MoF launched the debt management unit in order to avoid fluctuations in the interest rates and control both domestic and external debt. Furthermore, the government introduced public private partnership (PPP) unit to manage PPP policy. The government set a key objective for the reform agenda to control expenditure was to restructure the subsidy scheme. In 2011, after the revolution, Egypt's public finance conditions worsened greatly due to the increase in government spending, negligible growth of revenue and expanding State Budget deficit (Atef, 2012).

3.1. EAs in Egypt

In 2016, MoF issued "Financial Report for EAs Budget for year 2015/16" stating that Egypt has 51 EAs dealing with several sectors, in production or services, such as: Agriculture and irrigation, industry, petroleum and mining, electricity and energy, transportation and telecomm and trade. There are number of EAs that suffer from deficits while others achieve surplus (MoF, Financial Report for EAs Budget, 2016).

In 2013, MoF issued "Financial Report on EAs Budget for year 2012/13," the report presented EAs that suffer from losses. The five EAs characterized with highest loss were as follows:

1. Radio and Television Union has the highest deficit among EAs with annual loss about L.E. 3670 billion (bn). Loss is due to increase in employees' wages, accumulated loans and failure to achieve projected revenues.
2. ENR is the second losing EA with annual loss about L.E. 1777 bn. Loss is due to fixed tariff, increase in operating expenses such as solar prices, spare parts and wages and it will be discussed in details in the next section.
3. National Authority for Social Insurance undergoes loss for about L.E. 1628 bn which is due to increase in costs and expenses.
4. General Authority for Supply Commodities endures loss for about L.E. 930 mn due to increase in the subsidy of basic and secondary commodities.
5. New and Renewal Energy Authority had loss for about L.E. 700 mn due to changes of exchange rate, increase in cost especially interest charges.

3.2. ENR Authority

ENR is one of the oldest railways in the world, as it is the second railway after the British one. It's main role is to operate, construct and expand railway network within the Egyptian boundaries. Over more than 100 years, ENR has faced number of profound change concerning legislative and financial levels. On the legislative level, the Railway Authority was founded according to Law No. 366/1956, which was abolished, afterwards, by issuing Law No 152/1980. Law No. 152/1980 emphasized a new perception for the role of railway and offered ENR number of advantages to improve its performance. On the financial side, ENR modified its financial statements to abide with Accountability State Authority Decree No.204/2001 for reclassifying operating expenses.

3.2.1. General data on ENR

According to the Master Plan report issued by Japan International Cooperation Agency (JICA) - Railway Sector -, ENR started working in 1854 with a railway between Alexandria and Kafr ElZayat as the first railway in Africa. Afterwards, railway network extended to link large cities with each other. The network operates through two basic double-track lines: The first is from Cairo to Alexandria and the second is from Cairo to Aswan (High Dam) and some other secondary lines and it is working as a standard-gauged and not electrified. There are number of features that should be mentioned as follows:

- For the administrative level: In 2007, a new organization chart for ENR was established to reorganize the department as follows: Infrastructure, long distance passengers, short distance passengers, freight transport, human resources, financial affairs, safety and risk management, and shared services.

As Law No. 152/1980 permitted ENR to establish companies, owned solely or with partners, ENR has eight affiliated companies to enhance its performance.

- For production efficiency, total line length reaches 5310 km or 9,560 track km where more than 70% of network tracks are single track and about 30% are double and quadruple track. It has 11 maintenance workshops for rolling stock that suffer from several deficiencies such as lack of new maintenance facilities, and absence of safety tools for workers. It has about 700 stations for both passenger rail and freight rail. Moreover, there are 511 bridges on the Nile and waterway, and 58 bridges over railway for cars. For the signaling system, about 4,545 km of the network use manual signaling, except for Cairo-Alexandria line, and about 585 km use automatic signals. ENR implemented automatic train control system to detect signals or restrict high speed through automatic brakes functioning (JICA, Master Plan, Railway Sector, 2012).
- For rolling stock capacity, ENR total locomotives owned were 827 locomotives in years 2012/13 and 2011/12 with 437 working locomotives presenting 52.8% of total owned for year 2012/13 versus 495 working locomotives presenting 59.9% of total owned for year 2011/12. Thus, working locomotives have decreased by 58 locomotives presenting 11.7% of total owned. In 30/6/2013, end-of-life expectancy locomotives (more than 25 years) were 540 locomotives representing 65.3% of total owned.

Passengers cars: In 30/6/2013, there were 3853 cars versus 3931 cars in 30/6/2012 with 78 cars decreased, and there were 2287 working cars in 30/6/2013 versus 2382 working cars in 30/6/2012 with 95 cars decreased representing 4%. In 30/6/2013, end-of - life expectancy car (more than 35 years) reached 765 cars presenting 19.9% of total cars. Moreover, seat occupancy ratio for year 2012/13 reached 98.8% of total cars versus 114.9% for year 2011/12 implying the high demand on railway.

Cargo cars: There were 11,422 cars in 30/6/2013 versus 11,671 cars in 30/6/2012 with a decrease of 249 cars representing 2.1% due to scrapping. There were 10,368 working cars in 30/6/2013 presenting 90.8% of total owned cars versus 10,522 working cars in 30/6/2012 presenting 90.2% of total owned cars; thus there were decrease of 154 working cars presenting 1.5%. End-of-life expectancy cars (more than 35 years) reached 5,830 cars in 30/6/2013 presenting 51% of total owned. Rate of working cargo trips reaches 5,466 trip in year 2012/13 versus 6477 trip in year 2011/12 with 1011 trip decrease presenting 15.6% (Accountability State Authority, Annual Report for results for Financial Supervision and Evaluation of ENR Performance in 30/6/2013, 2013).

Accidents: ENR had high rate of accidents but it managed to control them. There are several reasons for the accidents. Generally, human error is one of the major reasons for accidents, due to their poor training, absence of safety rules, lack of written rules or instructions and shortages of training facilities. Moreover, throughout the period of 2006 till 2009, ENR suffered from highest accident rates due to deficiency of new equipment, poor signaling mechanism, over speeding and fire accidents of rolling stock. However, in year 2010, rate of accidents reduced due to forcing drivers to abide to operation instructions and cancelling some trips (Khalil, 2012). Accountability State Authority Report for year 2012/13 mentioned that accidents were classified as misalliance accidents and fire accidents. First, misalliance accidents in year 2012/13 reached 163 accidents classified as follows: 16 drop off accident, 20 separation accident, and 127 collision with other transporting vehicles versus 320 accident in year 2011/12 classified as follows: 93 drop off accident, 17 separation accident and 210 collision with other transporting vehicles. Thus, number of accidents decreased by 157 accidents presenting 49.1%. Second, fire accidents in year 2012/13 were 10 accidents - seven in passenger cars - versus 5 accidents in year 2011/12 - three in passenger cars. In general, accidents have a negative impact over ENR as it leads to physical and human loss, block train traffic for some lines and lessen passenger confidence in railway. ENR is keen to take the necessary steps to control such accidents through spreading safety regulations and instructions and give greater emphasis to maintenance. (Accountability State Authority, Annual Report for Results For Financial Supervision and Evaluation of ENR Performance in 30/6/2013, 2013).

3.3. Staff and Employees

Through different reports issued by Accountability State Council for years 2006/07–2012/13, there were number of features that were recognized as illustrated in Table 1:

- Number of employees decreased from 72,487 employees in year 2006/07–60,238 employees in year 2012/13.
- Total salaries expense was L.E. 849.7 mn in 2006/07 and increased to L.E 2.43 bn in 2012/13 with an approximate increase for L.E. 1580 mn representing 185.9% and the cause behind this increase was annual salary increase. In addition to the above mentioned reason, in year 2012/13, total salaries increased with higher rates, 19.5%, due to accepting employees requests to break sit-ins and resume work.
- Increase in average annual employee salaries from about L.E. 11,722 in year 2006/07–L.E. 40,302 in year 2012/13 with increase of L.E. 28,580 representing 243.8%.
- Rate of salaries to current revenue in year 2006/07 was 75.7% and increased to 102.1% in year 2012/13 which means that salaries increase was higher than current revenue increase.
- Rate of salaries to total expenses was 29.9% in year 2006/07 and increased to 56.4% in year 2012/13 reflecting increase in salaries expense at higher rates than increase of other expenses.
- Employee productivity reached about L.E. 13,014 in year 2006/07 versus L.E. 21,439 in year 2012/13 with increase about L.E. 8425 representing 64.7% (Accountability State Authority, Annual Reports For Results of Financial Supervision and Evaluation of ENR Performance, for years from 2006/07 to 2012/13).

3.3.1. Legislative framework

According to JICA Master plan study for railway sector, ENR has passed through number of laws and legislation amendments to regulate its performance. In year 1956, The General Authority for the Egyptian Railway was established under the Ministry of Communication by Law No. 366/1956 allowing the Authority to operate in a flexible atmosphere free from governmental restrictions and assigning the Minister of Communication as the Chairman of the Authority. Nevertheless, the law declared number of features such as activities, capital, reports requested, the membership of its board of directors and its responsibilities, and way of chairman selection and chairman duties. In 1966, Presidential Decree No. 2715 was issued limiting the responsibilities of Minister of Transport for supervising and monitoring performance for the General Authority of the Egyptian Railway to be transformed to the chairman and board of directors. In 1971, Presidential Decree No. 2,598 was issued reorganizing the membership of board of director.

In 1980, Law No. 152 was issued abolishing Law No. 366/1956 and according to this law, ENR enjoyed more freedom to achieve its responsibilities and stated ENR functions as: First, construction of railway networks, operation and provision of stations and services throughout the Republic, second, establish, manage and maintain the facilities and equipment necessary to provide railway services, third, implement the projects necessary to achieve its objective and develop its services. In 1985, Decree of Ministry of Transport (MoT), Communications and Maritime Transport No. 171 was declared regulating financial matters and procedures of ENR. In this decree, financial and administrative responsibilities were assigned for the Chairman, Board of Director and Managers Council. In 2006, Law No. 149 permitted investors, whether persons or companies, to construct, operate and manage railways for certain duration.

As law No. 152/1980 is the main backbone law operating ENR, we will focus on number of points as follows:

- An authority named "ENR" was established and subordinated to Minister of Transport to emphasize the power of the Authority. In addition, ENR has full legal protection over its funds since it is public funds.
- ENR capital is the capital of the authority established under Law no. 366/1956 in addition to contributions assigned from State Budget to ENR.
- ENR resources are as follows:
    a. Amounts allocated from State Budget,
    b. Fees of services performed,
    c. Difference between services price, set by ENR, and stated price, set by the government,

Table 1: ENR staffing from year 2006/07 till 2012/13

Years	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Number of labor in thousands	72,487	64,716	64,607	63,500	60,490	60,239	60,238
Salaries in L.E. (mn)	849,7	877,0	978,7	1100	1490	2030	2430

Source: Accountability State Authority, Annual Report For Results of Financial Supervision and Evaluation of ENR Performance, for years from 2006/07 to 2012/13.

d. Proceeds of penalties imposed by law for violations of the regulations applied by ENR,
e. Donations and subsidized.

ENR received number of advantages such as: The right to establish its management regulation and activities to achieve its goals without complying to the applicable governmental rules, the ability to establish stock companies owned solely or with partners, the right to execute and finance research by itself or through others, the right to prepare its budget in accordance with its internal regulations, the power of administrative detention within the provisions of Administrative Detention Law, being exempted from paying taxes and tariffs on imported items needed for its activities and on-going projects, being exempted from importation regulation as it has the right to import either by itself or through third parties without license for necessary items for production, the right to appoint an employment representative in board of director (JICA, 2012).

3.3.2. Financial framework

Financial framework explores financial procedures taken, traffic divisions, and analysis of Current Budget.

3.3.3. Financial procedures

World Bank report emphasized the necessity of restructuring ENR to levy the burden of deficit from the State Budget. The aim of restructuring is to minimize government contributions to ENR and direct these contributions, under Public Service Obligation scheme, to the most deserving sector while other sectors operate on commercial basis.

ENR performance is monitored by MoT and MoF. MoT follow-up ENR performance and operations while MoF supervises its financial activities and budgeting. ENR's board of director prepares its budget, which are current budget and capital budget. Current budget is approved by MoF after discussion with MoT. While, the Capital Budget, which comprises investment projects and repayment of loans, is approved by MoF, MoT and Ministry of Planning. Investment expenditures are funded through loans from National Investment Bank (NIB) which are repaid by MoF.

According to Law No. 152/1980, ENR revenues and resources are placed in an account in CBE. ENR has the right to overdraft up till L.E. 0.9 bn with interest range 7–8%. ENR suffers from financial deficiencies as current revenue does not cover current expenses. Thus, it took steps to face its deteriorating financial position and negative cash flow through overdrafts from CBE to finance its operational expenses, loans from NIB to finance capital expenses. Although, ENR does not receive subsidy from the government, MoF reimburses loans taken from NIB and overdrafts taken from CBE; such reimbursements are known as contributions given from government. It deserves mentioning that the ratio of operating loss to current revenues reached 100% in some years and exceeded to 162% as in year 2004/2005. Generally, the operating loss ranged from 30% to 60% from revenue before interest and 10% from revenues after interest. In year 2004–2005, ENR suffered from annual deficit about L.E.1.5 bn and negative cash flow about L.E.106 mn (World Bank, Restructuring Egypt's Railway, 2005).

ENR suffers from a deteriorating financial position as it's operating loss and negative cash flow were a result of low traffic revenues, operating deficiency and fix tariff for social consideration. In fact, before mid 1990, ENR used to increase tariff between 5% and 10% annually. ENR has more reasons causing the deficit such as: Increase operating expenses, finance maintenance and depreciation of some strategic projects, bear expenses for maintenance and repair of infrastructure such as rails, signals, and bridges leading to increase expense of passenger/kilo and ton/kilo, number of halted railways in 2012 and 2013 due to the revolutionary circumstance (MoF, Financial Report of EAs Budget for year 2012/2013, 2013).

3.4. Passenger Traffic and Freight Rail

According to World Bank report, passenger traffic is the most dominant ENR activity as it comprises about 92% of total activity and 73% of traffic revenue. In 2005, ENR used to have five divisions as follows.

3.4.1. Intercity services

It is long distance with high quality services such as comfort and speed. It works mainly in big cities and operates in two routes: Cairo-Alexandria route and Cairo-Luxor-Aswan route. It accounts for 20% of total seat-kilometers and 55% of passengers traffic revenue; average revenues per seat-kilometer is L.E. 0.053 ($0.009). Thus, intercity services cover its direct costs except for turbo train Cairo-Alexandria route due to its high maintenance cost.

3.4.2. Express services

It is long distance with limited quality services such as low speed and non-air condition coaches. It operates in big and medium cities such as Cairo-Demietta, Cairo-Suez and other routes. It accounts for 45% of total seat-kilometers and 28% of passengers traffic revenues; average revenues per seat-kilometer is L.E. 0.012 ($0.002). It does not cover its direct cost leading to current operating deficit.

3.4.3. Local services

It is short distance low quality services linking rural areas with cities and markets and it is directed to low income people. It comprises ten routes where nine operate in Nile Delta and one in Upper Egypt. It accounts for 29% of total seat-kilometer and gains about 11% of passenger tariff revenues and average revenues per seat-kilometer is L.E.0.007 ($0.001). It suffers from deficit driven from high production cost, short train distance, and low revenue per seat-kilometer due to poor occupancy rate.

3.4.5. Suburban and special services

It serves areas in Cairo and Alexandria cities and accounts for 3% of total seat-kilometers and 3% of passenger revenues. Special services are passenger services for some category as military, police and some factories. It presents 4% of total seat-kilometers and 4% for passengers revenues. Both services endure deficit.

3.4.6. Rail freight

It has a limited role as it presents 8% of total traffic volume and 27% of traffic revenues. Rail freight can hardly cover its direct cost, in spite of the fact that it has the lowest tariff compared to global tariff. ENR freight tariff is $0.008 per ton-kilometer. Rail freight transports mineral such as iron ore, phosphate, clay, coal, coke for the steel industry, petroleum products, and imports wheat and containers to areas in Red Sea and Mediterranean Sea.

In 2016, MoT issued Annual Report for "Railway Sector," which stated that freight volume had been holding approximately 12 mn ton up till 2005 but, since then, it has been diminishing rapidly till it reached 4.6 mn ton in 2015 as illustrated in Table 2.

3.5. Current Budget for the Period of 2000/01–2009/10

In 2001, Decree of Accountability State Authority No. 204/2001 for reclassification of operating expenses in Current Budget of EAs was issued. MoF launched steps to implement the above mentioned Decree. In year 2007/08, "current transferable" expense shifted from operating current expenses to become a separated expense in itself in Current Budget. Phases were divided as follows.

3.5.1. Period (1) from 2000/01 till 2006/07

As illustrated in Table 3, current Budget of ENR for the period of 2000/01–2006/07 comprised current revenues, current expenses, current transferrable revenues and current transferable specialized expenses. Current expenses included salaries, commodity cost, services cost and current transferable expense.

Figure 1 current revenues and current expenses from 2000/01 to 2006/07 where current expenses increase in higher rates than increase of current revenue resulting in operating loss

3.5.2. Period (2) from 2007/08 till 2009/10

In Table 4, current Budget of ENR for periods of 2007/08–2009/10 comprised current revenue, current expenses, current transferred revenues, current transferable expense, and current transferable specialized expenses. Then, donation, deprecation, interest and other expenses were depicted to reach to net loss. In this period, current transferable expense, including depreciation and interest, was excluded from current expenses and both depreciation and interest became a separate expense item in current Budget.

Figure 2 current revenues and current expenses from 2007/08 to 2009/10 and we can depict that current expenses is minimizing and current revenues is increasing in higher rates resulting in operating profit.

Table 2: Freight transportation volume

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Mn Ton	12	11.9	11.2	11.8	11	10.5	7.9	6.1	5	5.8	6.2	4.1	3.3	3.9	4.6

Source: MoT, Annual Report "Railway Sector," 2016, Egypt

Table 3: Current Budget for ENR for the period of 2000/01–2006/07 L.E Million

Item	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Current revenues	852.0	906.0	920.4	1020	1120	1170	1150
Current expenses	2310	1940	2440	3140	2820	2670	2870
Salaries	540.0	540.7	573.9	611.3	664.8	758.0	850
Commodity cost	281.0	312.0	348.4	350.9	372.9	504.6	497
Services cost	119.0	142.5	159.5	193.5	187.0	187.3	193.4
Current transferable expense	1.370	950	1360	1980	1590	1220	1330
Current operating loss	−1450	−1040	−1540	−2110	−1700	−1.500	−1720
+Current transferable revenues	157.2	217.6	222.7	107.3	156.8	118.3	178.2
-Current transferable specializes expenses	5.0	3.4	17.8	29.5	32.6	49.8	67.6
Net loss	−1301	−824.5	−1320	−2030	−1570	−1430	−1610

Source: MoF, Capital Budget of ENR for years 2000/01–2006/07

Figure 1: Current Budget for ENR for the period of 2000/01–2006/07

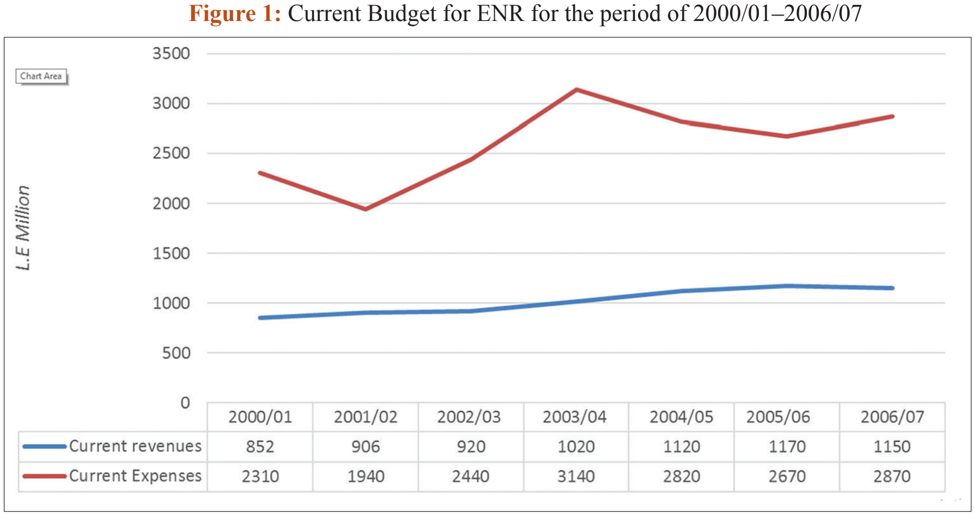

Figure 2: Current Budget for ENR for the period of 2007/08–2009/10

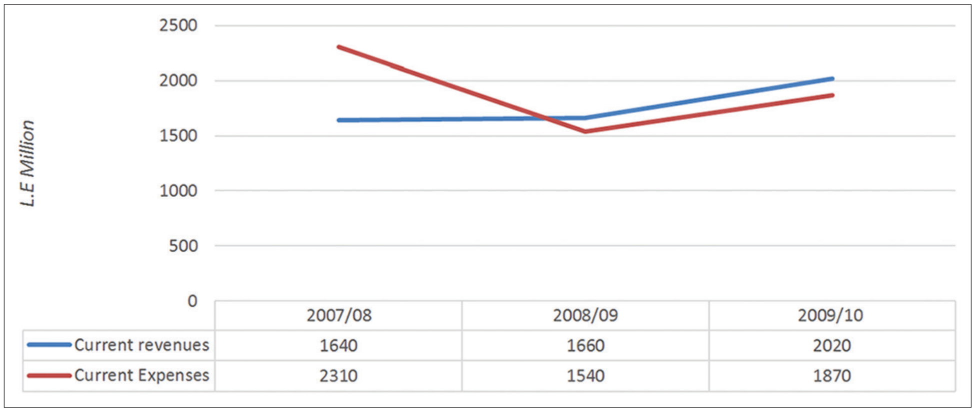

Table 4: Current Budget for ENR for the period of 2007/08–2009/10 L.E Million

Item	2007/08	2008/09	2009/10
Current revenues	1640	1660	2020
Current expenses	1650	1540	1870
Salaries	948	978.7	1100
Commodity cost	496	415.5	495.1
Services cost	208	148.4	271.6
Current operating profit	−12.4	120.0	149.3
+Current transferable revenues	158	391.8	446.3
-Current transferable expenses	0.19	0.24	0
-Current transferable specializes expenses	39.1	51.77	134.4
Total profit	106.3	459.9	461.25
Donations	22.53	0	0
Depreciation	949.7	1090	614.7
Interest	60.43	46.8	21.9
Net loss	−881.0	−676	−175.4

Source: MoF, Capital Budget for ENR for years 2007/08–2009/10

From Tables 3 and 4, we can analyze the following points:

- For current revenue: In year 2000/01 current revenues was L.E. 852 mn and increased to L.E. 2.02 bn in year 2009/10 with L.E. 1,17 mn increase representing 137%.
- For current expenses: In period (1), current expenses comprised salaries, commodity cost, service cost and current transferable expense which was the total of depreciation and interest. However, in period (2) current expenses included same expenses in period (1) excluding current transferable expense from operating expenses and became two separate expenses in the Current Budget. Therefore, current operating loss was depicted in period (1) was transformed to current operating profit in period (2) except for year 2007/08.

In year 2000/01, current expenses were L.E. 2.31 bn and increased to L.E. 2,87 bn in year 2006/07 with L.E. 560 mn increase representing 24.2% while in year 2007/08, current expenses was L.E. 1,650 bn and increased to L.E. 1,870 bn in year 2009/10 with L.E 220 mn representing 13.3%.

- For current operating loss: In phase (1), current operating loss was L.E. 1,45 bn in year 2000/01 and increased in year 2006/07 to L.E. 1.72 bn with L.E. 270 mn increase representing 18.6%. Thus, current revenue does not cover current expenses. On the contrary, in period (2) current operating loss was diminishing and current operating profit was depicted.
- For net loss: In period (1), net loss reached for L.E. 1,3 bn in year 2000/01 and increased to L.E. 1,61 bn in year 2006/07 increasing by L.E. 270 mn representing 18.6%. Net loss was due to increase in operating expenses. In period (2), it enjoyed current operating profit and net loss was diminishing. Actually speaking, year 2009/10 featured the lowest net loss, which was L.E. 175 mn, due to decrease in depreciation and interest and increase of current transferable revenues.
- Two points should be mentioned: First, ENR received donation for the first time in year 2007/08 for L.E.22,53 mn aiming at lessening net loss. Second, total revenue in years 2006/07 and 2007/08 compromised revenues from the Authority and Metro lines but in year 2008/09, Egyptian Council of State issued its legal opinion for transforming assets of Line 1 and line 2 of Metro from ENR to National Authority Tunnels Company.

4. CONCLUSION

PFM is one of the important topics nowadays as it deals with resources allocation. Governments, especially in developing countries, face challenges in directing and monitoring resources to satisfy public welfare. EAs as public authorities encounter number of problems such as poor managerial performance, low productivity, overemployment and discrepancies in wage structure. A proposed solutions to such difficulties are: Set economic pricing instead of social pricing for the service or product, improve wage structure, link incentives with performance, and enhance censorship.

For the case of ENR, total deficit, comprising operating loss and investment expenditures, is accumulated and increasing the burden on the State Budget. Governmental contributions are distributed among ENR sectors lacking transparently leading to misallocation of resources and worsening its financial position. Assumed solutions to these obstacles are as follows: Separate ownership from management, reprising tariff for passenger rail and freight rail, transfer loans of NIB to be shares in ENR capital, revise laws organizing activities of ENR, classify sectors to commercial sectors and non-commercial sectors, revise employees wage structure, data transparency and public acknowledgements. Thus, to conclude, it deserves mentioning that local authorities can improve if resources were planned and directed to the prosperity of the people.

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