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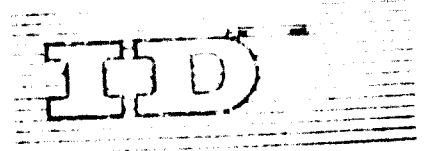
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INDUSTRIAL FINANCING OF PUBLIC MANUFACTURING ENTERPRISES  
IN THE UNITED ARAB REPUBLIC <sup>1/</sup>

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## I INTRODUCTION

A study of the historical development of the Egyptian economy during the present century would show that the economy has passed through two stages of development.

The first stage extends from the beginning of the century till about its middle. This stage is characterised by some essential changes of structural pattern. The National Planning Committee was set up to study the distribution of the national income in Egypt for the period from 1953 to 1954 based on the prices available in the country during 1954. The Committee noticed that the national income rose from L.E. 170 m. in 1913 to L.E. 780 m. in 1954, a mere rate of inflationary rate of 1.5% annual increase in the national income. This means that the real average earnings of the population on the basis of the 1954 prices, showed no significant increase and remained in the range of 34 Egyptian pounds or about 30 dollars per year for the whole period.<sup>1</sup>

The second stage begins from 1954 and now. In this stage the Egyptian economy has passed through three different and complementary stages of economic development. These stages are:

1. The attempt to create suitable climate for the encouragement of industrialization.
2. The development of the Co-operative system of economic activities.
3. The formation of the nucleus of a public sector after the nationalisation of the Suez Canal Company in 1956.

This third aspect stems from national feeling of the necessity for the existence of an organization to manage the state ownership in the different economic spheres after the promulgation of the Egyptian constitution in 1956, and to ensure greater governmental participation in a number of banks, insurance companies and industrial and commercial enterprises.

<sup>1</sup> L.E. (Egyptian pound) = about 12.30

Therefore, a general body, known as the Economic Organization was set up in 1957 to supervise the State's shares in the nationalized Companies.

The investments of this Organization rose from L.E. 47.3 m. in 1955 to L.E. 94.9 m. in 1959. One can conclude, therefore, that the foundation of this Economic Organization was an expression of the government's desire to make the public sector participate with the private sector in general activities.

With the beginning of the year 1961, the government has decided that an efficient socialist planning is the only means which could ensure the scientific utilization of all the financial, natural and human resources in order to realize and avail the people the opportunity of a satisfactory standard of living.

Two other organizations - Misr and Kasr - were also established in March 1961 to lead the process of economic development.

The state also believed that the inevitable socialist solution is the only gate to economic and social development, and that this solution requires the public ownership of all means of production. This belief does not necessarily demand the nationalization of all means of production or the prevention of private ownership; it may be achieved by two means:

- a) The creation of a public sector able to carry the main responsibility in the development process.
- b) The existence of a private sector participating in the development within the framework of the general plan, or under government direction.

## II FINANCIAL PLANNING AND OPERATIONS OF PUBLIC MANUFACTURING ENTERPRISES

### 1. Organizational Structure of Public Manufacturing Enterprises and their Operational Relationship with Controlling Authorities.

Due to the expansion of the activities of the public sector, it was necessary to reorganize it in specialized organizations, each of which should direct a specified sector of the economic activities in order to achieve high productivity and to tighten control and supervision on every economic unit concerning the fulfillment of the targets of the comprehensive development plan.

Accordingly, this direction which took place in July 1961 shifted the role of the public organizations from an organizer which mediates between private and public ownership to an active economic administration of the public sector. The framework of administration and organization was constituted at four central levels:

1. The direct administration at the level of the public enterprise.
2. The indirect administration-through direction and supervision - on the level of industry through the specialized public organizations.
3. Co-ordination at the level of the economic sector by the responsible ministry.
4. The Co-ordination between different sectors of the national economy at the level of the supreme council of public organizations.

As a result of the former specialization in public organizations, the public sector in the field of industry came under the direct supervision of the Ministry of Industry and Mineral Wealth which supervises the following public organizations:

1. The Egyptian Public Organisation for Spinning and Weaving, supervising 28 companies engaged in the field of spinning, weaving, etc.
2. The Egyptian Public Organisation for Metal Industries, supervising 8 companies engaged in the field of metal industries.



3. The Egyptian Public Organisation for Chemical Industries, supervising 29 companies engaged in the fields of fertilizers, paper, lumber, plastic, coal and essential chemicals, coke and organic chemicals, artificial gases, insect powders, and colouring materials.

4. The Egyptian Public Organisation for Petroleum, supervising 10 companies engaged in the field of prospecting for petroleum, its refinery, industrialization, marketing, distribution and transportation.

5. The Egyptian Public Organisation for Geological and Mineral Resources, supervising nine companies engaged in the field of mining and geological research.

6. The Egyptian Public Organisation for Engineering Industries, supervising 14 companies engaged in the field of ships production (freighters and tankers) railway cargoes, steamers and cables and durable goods.

7. The Egyptian Public Organisation for Cooperative Production and Light Industries, which directs 20 industrial cooperative societies, 20 marketing centres, and 305 cooperative producing societies.

8. The Egyptian Public Organisation for Construction Materials, supervises 11 companies engaged in the field of the production of cement and its by-products and marketing glass, crystal and clay.

9. The Egyptian Public Organisation for Food Industries, supervises 25 companies engaged in the fields of sugar, tobacco, cigarettes, oil, soap, milk, canned food and juices and perfumes industries.

10. The Egyptian Public Organisation for Military and Aviation Industries, directs 16 companies and factories engaged in the field of engineering industries.

11. The Egyptian Public Organization for Electronic and Electromechanical Industries, supervises 3 companies engaged in the field of radio, T.V., air conditioning, batteries and recorders industries.

On the basis of the Law of Public Organizations and Public Enterprises which was issued in August 1966, the relationship between the ministry and its subordinate organizations on one hand, and with the public companies of these organizations on the other hand, can be stated as follows:-

1. Every minister has to implement and follow-up, through his subordinate public organizations, the State's general policy with the aim of realizing the objectives of the development plan.

2. The public organizations shall participate, within the limits of their activities, in the development of the national economy and are considered as the minister's machinery to help him in realizing the objectives of the development plan.

3. The public organization has to control, supervise, coordinate and evaluate the actions of the subordinate economic units without interfering in their internal affairs.

4. Presidential decree shall determine the economic units that shall constitute every public organization.

5. Every economic unit has to submit the resolutions of its board of directors to the organization's board of directors concerning the following:

- a-the organizational structure and the internal regulations of the unit.
- b-the budget.
- c-the investment, employment, financing, production, exportation and marketing programs and plans.

6. Concerning the subordinate economic units, the organization's board of directors shall observe the following:

- a-to participate with the subordinate productive units in forming the plans securing the development of production, quality control, the economic utilization of available resources
- b-assisting the economic units in forming the plans for the increase of exportation within the framework of the national production and consumption plan.
- c-the ratification of the proposed plans for raising the productive efficiency of the workers
- d-the participation in the formation of unified cost accounting and standards of performance.
- e-assessing the work in the subordinate economic units and coordinating the activities of these units.
- f-organizing the relationship between all economic units and solving all emerging disputes
- g-assessing the periodic reports of the activities of the economic units and what they have achieved regarding the planned objectives.
- h-formulating an employment plan.

7. The organization's board of directors under the chairmanship of the responsible minister shall perform the following duties:

- a - the ratification of the budget and the distribution of the profits.
- b - modifications of the charter and regulations of economic units.
- c - Prolonging or reducing the life of units.
- d - increasing or decreasing the unit's capital.

8. The regulations of the board of directors of public organizations concerning the following items shall be submitted to the responsible minister for authorization:

- a - the organization's proposal budget.
- b - the general budget and the profit and loss account.
- c - the increase or the decrease in the organization's capital.
- d - the public organization's and the subordinate economic units objectives and the general plan concerning investments, financing, production, marketing, export and employment.
- e - regulations and organizational structure.
- f - the establishment of economic units.

9. The company's board of directors consists of nine members as follows:-

- a - the president of the board appointed by a republican decree.
- b - half of the members appointed by a republican decree and the other half elected by the company's employees.

The Egyptian economy went also in another direction, i.e. the adaptation of the comprehensive planning system for the sake of the development of the national economy instead of using partial and unrelated development plans.

The factors which led the government to adopt the comprehensive planning system are:-

1. To guarantee that the increase in production and national income will exceed the rate of increase in population in order to raise the standard of living;
2. To secure the appropriate model of economic development in the light of the available potentialities and resources, for satisfying the needs of all classes of the society;
3. To secure the appropriate model for a balanced development of all sectors of the national economy;
4. To secure the execution of development projects which are not attractive to private investment because of the following:
  - a - the largeness of their capital.
  - b - the credit risks involved.
  - c - the insufficiency of incentives which would encourage private investment.
  - d - the smallness of profits especially in the short run.
  - e - their need for obtaining some resources like foreign loans through the government or domestic savings through various domestic savings organizations.
5. To guarantee a high level of employment within the available resources and potentials.
6. To guarantee the continuation of the investments - of which some are in new fields considered as monopolies - in the hands of the government and fall under its supervision.

The comprehensive planning system was adopted in two main directions:

- a - the long term planning
- b - the short term planning

The first long term plan was a 10 year plan beginning with the year 1960/1961. Its main objectives were to double the national income in ten years and to realize a rate of growth higher than the rate of population increase which was estimated at 1.2% annually.

This plan was divided into two main sections; the first division began in the form of a five year plan from 1960/1961 until 1964/1965.

The following table shows the objectives of the first five-year plan with regard to value of production income, the value added and employment.

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3 Source: Speech of Minister of Planning about the First five years plan 1960-1965; July 1960

Sectors	Total Planned Investments	total Value 59/60	total in 1960	percent -age of increase	total in 59/60	total in 1960	percent -age of increase	Increase in Employment
Agriculture	300	736	162	21.2%	400	512(110)	28%	555
Industry and Electricity	570	1014	720	65.5%	271	540(76)	97%	304
Construction	110	112	7	6.1%	12	112	100%	
Total Government Investments	980	1862	889	47.7%	683	1564(83)	84%	109
Total Government Sectors	980	1862	889	47.7%	683	1564(83)	84%	109
Grand Total	1670	3828	2978	77.8%	1366	3128(82)	82%	406

in five year plan

In this table it is observed that the plan aimed at increasing the value of the national production from L.E. 2525 million in 1959/1960 to L.E. 3601 m. in the fifth year of the plan 1964/1965 at a rate of increase of 42.6%. The major responsibility for maintaining the increase falls on the shoulders of the industrial and electrical sectors. The plan aimed at increasing their production from 1094 million pounds in 1959/1960 to 1814 million pounds in 1964/1965 by an approximate increase of 65.3%.

The total investments in this plan reached 1696.9 million pounds of which the share of industry and electricity reached 578.7 million pounds.

The following table shows the distribution of the plan's investments on the various national economic sectors and the share of each sector from foreign and local sources of finance.

Sectors	Investments			Percentage of the Foreign Currency to the total (excluding inventories)
	Foreign Currency	Domestic Currency	Total	
Agriculture	78.9	313.1	392.-	23 %
Industry and Electricity	375.-	203.7	578.7	34 %
Other Sectors	192.1	414.1	606.2	43 %
Change in Inventories		120.-	120.-	
<b>Grand Total</b>	<b>646.0</b>	<b>930.9</b>	<b>1696.9</b>	<b>100 %</b>





The following table also shows the development in the national income, the per capita income at the prices of 64/65 as compared with the first year (1959-1960)

	1960	1965	Increase	Percentage Increase
National Income from				
Agriculture	425 -	477 -	52 -	12 %
National Income from				
Industry	256.2	385.1	128.9	50.5 %
National Income from				
Electricity	9.8	22.4	12.6	129 %
National Income from				
Construction	47 -	72.5	25.5	54 %
National Income from				
Other Sector	567.1	735.2	168.1	29.5 %
<b>Grand Total</b>	<b>1259.1</b>	<b>1692.2</b>	<b>433.1</b>	<b>34.4 %</b>
Population	1000000	1100000	100000	10 %
National Income per Capit	1259.1	1538.4	279.3	22.2 %

This table shows that the five year plan is achieving the main objectives of the development plan, i.e., the development of the national income at a rate higher than the rate of population increase.

5 Ministry of Planning, Follow up and Evaluation Report on the Five year plan (1960-1965) Part 1, Page 32.

It is also observed that the major increase in the total national income took place in the Commodity sectors, especially the construction sector amounting about 12.7 million yards with an increase of 7.8% over the base year, or at an annual rate of growth of 3.5%. This rate is one of the highest rates of growth of output with the similar rates achieved in other developing countries.

Comparing the results achieved by the selection reports concerning the increase in the national income achieved in the first five year plan (1960-1964 to 1961-1965) with the estimations of the National Finance Commission concerning the national income from 1963 to 1965, we can see that the national income increased during the first five year plan at a rate of 37.1%, and the national average increase of 10%. This increase equates five times the average rate of national income during the period 1945-1957 before the institution of the system of compulsory savings. These results show clearly the effect of compulsory savings in increasing the national income and what the national economy can achieve after instituting the necessary mechanisms and the correction of the deficiencies emerged during the first five year plan period now.

Following the completion of the first five year plan, new amendments in the annual plans for the next five year plan were made. They are now being prepared for a third five year plan (1970-1971 to 1974-1975).

The technical reports drafted by the Ministry of Planning and The Institute of National Planning in Cairo show what ought to be undertaken to avoid the deviations and the contradictions shown in the first and second five year plans as to the absence of a complete financial plan. The reports point out the following necessary steps for preparing the third five year plan:

**A - With Regard to Financial Planning:-**

1. The necessity of studying the various possibilities for financing the third five year plan from domestic and foreign sources.

2. Proposed methods of financial flows from the different sectors of the national economy. The financial flows must be in complete agreement with the flow of material resources determined by the quantities of production, consumption and investment in a planned economy.

3. The origin and flow of the resources (out of foreign and domestic finance) and the flow of these resources from its sources to its applications to develop any country or countries or funds.

4. The control of financing and expenditure as a tool for the financial execution of the execution of the material plan.

5. To be put forward flexibility of financial planning and financial policies in order to face the variations in the implementation of the material plan in the economy.

6. Develop new ideas to increase and coordinate the activities of the various institutions for the mobilization of these savings.

**B - With Regard to Financial Institutions:-**

1. The coordination among the ministers of the treasury, the national economy, industry, and the sectoral ministries regarding the responsibilities and priorities of formulating and executing the financial plan.

2. Develop new banking systems to perform its assigned role in a planned economy concerning the following:-

a - Participating in the determination of financial plans and the realization of the necessary amount of flows, with regard to working capital or capital investment.

b - The banks' activities to grant the plan of credit during the planned time and in the planned quantities.

c - The necessity of adopting the system of specialized banks and determining the role of every bank in the formation and carrying out the plan in order to facilitate the process of controlling the plan.

3. The determination of the different governmental institutions concerning the execution and carrying out the plan.

4. The necessity of the existence of a central agency for price intervention and establishment of a structure of prices or intervention for every group of commodities. This structure should show the limits of production and other margins and how these prices should react to market conditions.

5. Determining the activities of saving institutions in order to avoid any future activities which may distort their functions.

6. Dividing the function of the investment fund to an independent investment bank specialized in financing investments.

7. The unification of the system of social insurance and the governmental pension and insurance system taking into consideration the fact that the most substantial and important source of administrative evidence for planning is **that** its

C - With regard to the need for information at the level-

1. Completing the information of the national table such as the balance of payments, income and expenditures.

2. Preparing a national plan according to the actual need of the units of the public sector.

3. Preparing a balance sheet showing the volume of the national income, its distribution and its final uses.

4. Preparing financial flows table including the results of financial flows during the past two years at least. These tables should be analyzed and used as a basis for estimating the volume of funds, their sources and applications for the coming years.

2. PLANNING (FORECASTING) FINANCIAL REQUIREMENTS FOR  
NEW INDUSTRIAL ENTERPRISES:

New projects may be divided into two main parts according to their nature:

1. Investment in existing enterprises or existing industry for the renewal of the stocks, or replacement and renewals of outdated industries.

2. Investment in new projects in industries.

With respect to existing industrial projects, the public enterprise which is going to carry out the project prepares the economic evaluation of the project and discusses it with the relevant public organization. After the project is approved it is then included in the government budget for financing.

With respect to new projects, The Public Organization for the Execution of the Five Year Plan for Industry, a technical organization responsible to the Ministry of Industry, makes the necessary economic studies. When the study of the project shows its feasibility and after its priority is determined, the project is included in the plan of industry and the general organization which will be responsible for its execution is selected according to the nature of its activities. The general organization will then select the appropriate public enterprises which will carry out the project. The public enterprises determine the time table on the basis of its capabilities and the necessary stages of the project.

The company then formulates an investment budget for the general stages of the project and specifies the funds necessary for the next financial year. The company then forwards the budget to the general organization for the verification of the necessary investments and to include these investments in the government investment budget.

Investment projects, whether for existing industries or for new ones are included in the annual budget of the public enterprise which is expected to execute them. This budget should be prepared at least five months before the beginning of the new financial year, and must include all the projects which are to be executed by the enterprise, whether their economic studies are made by the company itself or by some other organization.

The companies sometimes overestimate the requirements when they prepare the annual budget due to the lack of the necessary information, and the inability of the executives to utilize efficiently the available information. This inability leads to a great difference between what was really executed by the end of the financial year and what was included in the annual budget.

Some of the public organizations such as the Egyptian Organization for Chemical Industries use standard forms as guides for the subordinate companies for preparing their annual budgets. These forms include detailed comparative information and standards for the projection of the requirements in the next financial year. They also include information about the available capacity and the standard of performance during the past years. Information about production, expenditures, wages, total and net profit, investments and sources of finance are also included. This information is obtained from the existing industries. The standard forms include information about the total costs of the project, the annual investments, the investment expenditures and its components and the available sources of finance. These forms were useful for the following reasons:

1. Comparing the projections of the budget for the new financial year with the information and averages of what had been accomplished in the previous years and with the available capacities whether regarding final or detailed and average figures. This makes the budget an evaluation and follow-up tool in addition to its function as a tool for planning.

2. Comparisons with what had been accomplished in the previous years and the development of quantities, prices, value and the available capacity enables those who are responsible for preparing the budget to make appropriate projections and to reduce the percentage of errors in estimations. Accordingly, the budget can really express the objectives which could be achieved.

3. The information and percentages in these forms are used for the evaluation of performance in those enterprises by using the value added and the standards of productivity for every industry or within the same industry.

4. The results and averages which are obtained are considered as tools for studying the condition of enterprises and for the discovery of deficiencies and problems which should then be studied and analysed.

The domestic financing of projects is done by one or all of the three following methods:-

- a. self-financed through provisions and reserves and retained earnings of enterprises.
- b. Government participations partially or wholly in the capital of enterprises.
- c. Loans from local banks.



With regard to foreign financing of projects, the companies are allowed to make direct contracts with the exporters after consultation with the ministries of the national economy and of finance regarding the value of the contract, the value of the payments, the annual interest, the type of currency, the date of payments, etc., in order that these ministries may arrange for the repayment of the loans in hard currency and in due time.

After the general organization ratifies the projections included in the annual budget of the subordinate companies, it submits to the responsible ministry a consolidated budget for the whole organization including all subordinated enterprises for approval and for the approval of investments after consulting the Ministries of Planning, Finance and the National Economy regarding these investments. The next step is that these budgets are incorporated in the government budget for final approval by top political authorities.

Following the approval of the annual budget, every enterprise is responsible to carry out its approved share. The enterprise, for example, is obliged to do the following:-

1. To carry out the investments included in its budget.
2. To finance by its internal sources the amounts it had promised to finance by itself.
3. To pay back in time the installments and interests of the loans in local currency even if these loans were granted in foreign currency. These payments would allow the Ministry of the National Economy and the Ministry of the Treasury to make the necessary arrangements for the repayment of foreign loans.

The Ministry of the Treasury is responsible for paying the government share in the capital of any enterprise.

The Ministry of the National Economy prepares the foreign currency needed for the repayment of installment and other foreign obligations in due time, after the enterprise pays its obligations.

The responsibility of local banks is to transfer the amount of the loan or other obligations after the amount is provided by the government.

Some remarks concerning the procedures used in preparing the annual budget of public enterprises may be stated as follows:

1. The inflexibility of the budgeting procedure:- For example, it may happen that during the discussion of the budget proposals which takes place between the Ministry of Industry and the Ministry of the Treasury, it becomes clear that it is not possible to provide the enterprise with all or part of its financial needs as requested in the budget proposal for some of the following reasons:

- the non-availability of the foreign currency necessary for fulfilling foreign obligations in due time.
- the inability of the government to participate partially or whole in the required capital of an enterprise.
- the inability of the enterprise to get short-term loans from domestic commercial banks
- the non-availability of hard currency to import the required stocks of raw materials or spare parts.
- the inability of the enterprise to finance some of the projects included in its budget.
- the insufficiency of the balance of some of the clearing accounts provided by some countries for importing certain items from these countries.

These problems may become clear only at the time when the proposal of the budget is about to be communicated to the National Assembly for ratification. Time would not then be enough to reconsider the proposed projects and to make other priorities and studies to select the projects which could be carried out with the available resources. The selection of projects, due to shortage of time is done on the basis of the following priorities:

- A projects of strategic character
- B projects for the production of food supplies and necessary commodities.
- C projects whose production will be exported to provide the country with hard currency.
- D projects whose raw materials are available locally or need the least possible amounts of hard currency whether for investment, or for the importation of raw materials and spare-parts.
- E projects which produce commodities in the short-run.
- F projects which achieve some other objectives like employment.

Thus it is necessary to make several alternatives when the enterprise prepares its annual budget and that these alternatives be ready at the time the budget proposal is discussed at the ministerial levels. In this case, the best projects could be selected according to the available resources in the country.

2. There must be some coordination among the activities of the Ministries of Planning, Treasury and the National Economy on one hand and among the other ministries controlling the sectors of the national economy on the other hand, in order that public sector enterprises would have complete information about the available resources and policies when they prepare the

proposed budget, such as the policies of investment, employment, production, prices, marketing and wages, the possibilities of foreign and local finance, and trade and repayment agreements.

3. All enterprises should prepare their budget proposals at least six months prior to the beginning of the financial year in order that time would be enough for:-

- (a) discussing the proposals with the public organization allowing time for their approval by the board of directors and for the preparation of the consolidated budget for all the enterprises under the supervision of the organization. These proposals should be within the framework of the government plans, and the general policy of production, employment, marketing, exportation, investment and finance. The proposals should also be discussed with the Ministries of Planning, Treasury and National Economy and should be changed according to the resources available to the Government.
  - (b) A consolidated budget of every ministry should be prepared including the proposals of the subordinate public enterprises to be included in the government budget which should be approved by the National Assembly prior to the beginning of the financial year. This will give all parties concerned adequate time to take the necessary measures for putting all potentialities for execution with the beginning of the new year.
4. The personnel responsible for preparing the budget proposals should be highly qualified in order that they can discharge their responsibilities.
5. The budget personnel should be aware of the fact that the budget is prepared within the framework of national planning system. Accordingly, the budget should reflect government policies and should rely on the available resources and potentialities.

### 3. COST, PRICING AND PROFIT POLICIES

The costing machinery emerged in the public sector with the formation of the Economic Organization in 1957. Following the establishment of the General Organizations in 1961, the costing machinery, limited as it is in personnel, was distributed among these public organizations. Most of its personnel, however, were occupied with administrative posts and, as a result, were forced to abandon their cost accounting work and specialization. Thus a great opportunity was missed for the formation and development of a strong costing machinery to serve the process of economic development. Accordingly, we can say that despite the great enlargement of the public sector by the government, no serious attention was given to the development of the necessary costing apparatus and personnel required for the public enterprises. On the contrary, there is a serious shortage in the costing personnel which threatens the planning system from its roots; there are many public sector companies which operate without any qualified costing personnel and without any one who may have some experience in the field of cost accounting.

The state has to interfere to fix the prices of some strategic, and consumption commodities and some intermediate products to protect consumers and national production. The productive companies themselves fix the prices of other commodities according to their own inclinations and to circumstances. As a result, the enterprisers whose products are not priced by the government find themselves in monopolistic positions and fix the prices of their commodities. These companies fix the prices on the basis of achieving the utmost profits without consideration to the consumer's welfare or the actual costs.

In these two cases, i.e., whether it is the state or the productive company that fixes the price, price determination is not done on an economic basis due to the great shortage in cost calculations and the inability to determine the economic costs of production. Therefore in the first-mentioned case, i.e., in planned economies, it is of utmost importance that the central committee, in the determination of prices to be established, determine the structure of prices ~~show~~ at the costs of production and the markup or the percentage of margins.

With regard to profits and the government policy for profit distribution, it is noticed that after the promulgation of the 1961 law stipulating the participation of the workers and employees in the company's profits, the net profits available for distribution is distributed as follows:

5% of the net profits is devoted to the purchase of governmental bonds.

75% of the net is distributed to shareholders and the remaining 15% is distributed among the workers and employees as follows:

10% in cash to be paid when profits are paid to the shareholders.

5% to be devoted to local social services such as housing for the workers and employees of the enterprise.

10% is devoted to central social services for the workers and employees.

The absence of a strong control machinery in the public sector resulted in the inability of authorities to determine the economic costs and consequently, the sales prices which are determined on the basis of economic costs and a pre-determined mark-up. There are, therefore, not possible to establish any direct relation between costs, prices and profits at the present time. It is of great importance that in such a public sector which administers all phases of economic activities and which carries out the responsibility of development, every production enterprise should be able to sell its products at a price which is determined by the market with a profit margin to earn the following objectives:-

1. Accumulation of sufficient amount of surplus to be used in financing development programmes. The supreme planning authorities may fix the size of this surplus in the shape of a total savings amount for the society as a whole.
2. Maintaining a uniform standard of living through reduction of prices of the principal basic commodities by subsidizing these commodities from a non-cumulative margin which is obtained from price increases of other luxury commodities.
3. Realization of a reasonable balance between the factory prices of similar commodities produced by different enterprises. These enterprises may differ in their production efficiency and consequently in their unit production costs.

#### 4. OPERATIONAL EFFICIENCY AND INVESTMENT

Among the several responsibilities assigned to public organizations is the valuation and follow up of the performance of the subordinate economic units to know the extent to which these units had achieved their objectives and the standards of achievement.

This evaluation must take place at least once every three months and immediately at the end of the financial year. The evaluation of the executed operations are to be done through the measurement of the productive efficiency of these operations and projects.

**some\*** The following are the deficiencies which hinder the attempt to measure the productive efficiency of enterprises:

1. efficiency is not measured in all companies because of the lack of adequate technical measures or standards of performance.
2. inadequate attention given by some of the officials for fear of the discovery of the problems and the demerits of their companies.
3. measurement of efficiency is not done by using all possible standards but only by one standard. Better results can only be achieved when all available standards are adopted.
4. insufficient attention to the results of measurement and the delay in communicating and making these measurements which results in the inability of the executives to face the resulting problems in appropriate time.
5. non-existence of cost accounts in most of the companies resulting in the inability of the measurement of the productive efficiency on the basis of the costs of the various branches or centers of production or the productivity of every element of production.



The results of the first five year plan show the importance of the measurement of productive efficiency for the formulation of the necessary policies for increasing productivity, after it was discovered that the productivity of labor and materials in industries had sharply fallen. The increasing productivity in the industrial sector of the national economy can be greatly developed in a relatively shorter period of time.

After the execution of the first five year plan it was clear that despite the significant increase in the industrial production under this plan, the productivity per "unit of work" did not play any role in the development.

On the contrary, the labor productivity was negative since the average productivity of workers in industry was decreased by a 1.5% during the last year of the plan (1964-1965) as compared with labor productivity at the first year (1959-1960). Also the productivity of one unit of material input, played no significant role in the growth of industrial production since it increased by a 3.2% in the last year of the plan as compared with the productivity of material input at the first year (1959-1960) of the plan.

In addition to the normal standards used for the measurement of production efficiency, we find that in other few cases the "value added" was used as another standard for the measurement of efficiency, the evaluation of performance and the discovery of defects. The value added standard was not used by all companies despite its comprehensiveness. This lack of utilization lessens the great benefits which could be gained out of that measure, such as the comparison of the results of several productive units and the comparison of these results over time.

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6 See Annex 1 "The value added".

The total results of every industry can also be compared with the results of other industries for the same financial year or previous years.

Beginning with the financial year 1966-1967 the budget<sup>7</sup> in addition to its function as a planning tool, was used as a tool for evaluating performance and the measurement of the production efficiency. This method was adopted in the Egyptian Public Corporation for Chemical Industries and has shown a great success not only in the follow-up, evaluation and measurement of productivity of the latest financial years but also in connecting these years with the coming financial year and thereby averting possible exaggeration in budget estimates.

#### INCENTIVES

Following the ratification of the proposed budget of every enterprise, the budget estimates become objectives or targets which must be achieved. On that basis the efficiency of the general plan and its productivity during the financial year are evaluated by determining the percentage of achievements of these objectives. The plan has to determine before the beginning of every financial year the objectives which must be achieved by every enterprise or project. Some of these objectives relate to production, employment, profit, investment and export targets.

The government adopts a system of incentives which has two phases:

- (a) personal incentives.
- (b) general incentives for the productive units.

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<sup>7</sup> See Annex 2 on Standard Forms: "Study of Budget Proposal"

The granting of personal or individual incentives is based on several factors such as the personal productive efficiency of the worker, his additional or extra-ordinary work for the company and his personal conduct and behaviour. The company judges the level of efficiency of its employees and determines the type of rewards to be granted. Decisions of the enterprise concerning individual incentives must be approved by the responsible General Organization.

One of the main tools of incentives which should be considered is to base annual wage increases (bonuses) on increases in productivity.

General incentives are granted in the following manner:-

- (a) granting the employees their annual bonus or increase in wage or only a part of it.
- (b) granting the employees parts of the companies profits in proportion to what was achieved by the company itself.
- (c) granting medals for the company.

These general incentives are granted to all employees of a company on the basis of the achieved results. The defects currently existing in the incentives system are -

1. The responsible planning officials, whether in the public organizations or public companies, may not have sufficient knowledge of the material, financial, technical and human potentialities of some companies or that resources may be allocated by the state to these companies. Therefore those officials may decide the objectives of these companies in a way not in harmony with their capacities.

2. The inability to attain some or all of the objectives of a company may be due to some external factors or because the state couldn't allocate the necessary resources in due time such as the inavailability of foreign currency required by a company for importing some production requirements.
3. The company may fail to achieve some of the objectives while at the same time may realize higher standards than those fixed in the plan.

In the formulation of incentives and determination of awards the following points may be considered

- (i) These objectives should be specifically fixed according to the resources actually allocated to the enterprise.
- (ii) The incentives and rewards have to be increased at certain rates compatible with the rates of increase over the planned objectives. The reward should also be reduced for any deviation in the plan at the same rate.
- (iii) A weight must be given to each of the objectives to be realized in every company separately. This weight has to be determined in every company according to the importance of the objectives and the possibilities of achieving them. The weight of the objectives has also to be changed from time to time according to the stage of development of the enterprise. For example, at the early stages of a project, the objective of investment and employment will be at their top without great concern for the objectives of production and profits. Then after the beginning of production the weight of the investment objective will equalize or be less than other objectives.

- (iv) The company has to be relatively rewarded on what was achieved of its objectives separately according to the weight of each objective.
- (v) In assigning the weights to be given to objectives achieved by the company, the final results of operations must not be taken into consideration because profit and loss statement may show high profits which may be attributed to factors other than efficiency or plan fulfillment such as when the government increase the sales price of certain products, or other reasons which are not due to the efforts exerted by the company's employees. Accordingly, the final results must be analyzed to determine the reasons behind deviations.
- (vi) The objectives achieved in the current year have to be compared with the achievements of previous years. Incentives must not be given for levels of achievement below what was achieved before even though these levels may be equal to what was determined in the plan or even greater.
- (vii) Points of weight must be given for every objective in every company according to its potentialities and according to what it had already achieved in the former years and not according to what was achieved by other companies working in the same field because companies differ in their standard of efficiency.

### III FINANCING OF PUBLIC MANUFACTURING ENTERPRISES

#### A Government Investment Policy

##### 1. Size of Investment

Viewing the investment policy from the angle of the size of domestic investments which were carried out during the years 1966 to 1967 we shall see that the value of the domestic investments in fixed assets which were carried out reached L.E. 396.2 m., i.e., 16.3% of the total national product for the year 1966/1967. In 1965/1966 the value of investments was L.E. 372.4 m. or a 16.0% of the national product and the value of investments was L.E. 362.4 m. or a 16.3% of the national product in 1964/1965.

The increase in inventories in 1966/1967 was about L.E. 37.2 m., i.e., 1.5% of the total national product. In 1965/1966 the increase in inventories was L.E. 46.8 m. or a 2.9% of the national product and in 1964/1965 the increase was L.E. 23.3 or a 1.0% of the national product.

Thus we find that the total final investments both in capital assets and in inventories reached the amount of L.E. 396.2 million in 1966/1967, i.e., 16% of the total national product. In 1965/1966 the value of investments was L.E. 446.2 or a 18.2%. The value of investment was L.E. 381.7 m. or a 17.4% in 1964/1965.

The following table shows the value of the total investments which was carried out during the years 64/65, 65/66, 66/67. It also shows the percentage of these investments to the total national product at current market prices.

	in E.G.P. of current Prices		
	64/65	65/66	66/67
Total domestic investment in fixed assets	300.4	311.7	350.8
Increase of Inventories	22.3	6.7	37.9
Total Investments	322.7	318.4	388.7
Gross National Product	2001.7	2000.0	2005.0
% of investments in fixed assets to GNP	16.1	15.9	19.4
% of increase of inventories to GNP	1.1	0.3	1.9
% of total investments to GNP	17.2	16.2	19.4

Looking at the value of investments in the industrial and mineral sectors in the years 64/65, 65/66, 66/67 we find that it reached L.E. 10.2 m. in the first year, L.E. 100 m. in the second year and L.E. 97.8 m. in the third year.

8 Ministry of Planning: Follow-up and Evaluation Report 1966/1967, Cairo.

Comparing this achievement with what is proposed in the government budget of 1969/1970 financial year, we find that the funds allocated to the industrial, petroleum and mineral wealth sectors amounted to L.E. 123.4 m.

The investment policy from the point of view of the size of investment is considered to be the most important factor in the increase of the rate of growth in the mineral, industrial and electrical sectors. The annual average contribution of these sectors to national income reach 8.2%. This growth average is considered to be the highest in these sectors in the world during the first half of the sixties.

## 2. Allocation of Investments to Economic Sectors

Every sector of the national economy is allocated a certain amount of investment funds which is based on the importance given to the sector and the objectives for changing the structure of the economy and providing the people with sufficient services.

The following table shows the distribution of the total investment among the economic sectors in 1964/1965, 1965/1966, 1966/1967 at current market prices.

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9 Ministry of Planning-Cairo, Follow-up and Evaluation  
Report 1966/1967



Sectors	Market Price U.S. \$		
	1955	1956	1957
Agriculture and irrigation	22.1	23.2	24.5
High dam	12.8	13.5	16.6
Industry and mineral	59.9	100.6	124.4
Construction	5.2	6.8	8.0
Electricity	53.2	61.1	69.3
<b>Total Commodity sectors</b>	<b>153.2</b>	<b>205.2</b>	<b>242.8</b>
<b>Total Service sectors</b>	<b>11.0</b>	<b>13.0</b>	<b>11.0</b>
<b>Total investment in fixed assets including land</b>	<b>164.2</b>	<b>218.2</b>	<b>253.8</b>
Land	5.0	6.0	7.0
<b>Total investment in fixed assets</b>	<b>159.2</b>	<b>212.2</b>	<b>246.8</b>
<b>Increase in inventories</b>	<b>23.3</b>	<b>60.0</b>	<b>33.0</b>
<b>Total Gross Investment</b>	<b>182.5</b>	<b>272.2</b>	<b>279.8</b>

As the table shows, industry was given the largest portion of investment funds during the first five year plan, in order to build and strengthen the industrial base, especially with regard to capital industries which are most needed for the process of economic development.

In 1965/66 the size of the total investment in fixed capital assets in industry alone reached U.S. \$6.7 m. with a rate of 27% of the total investment during that year.

In all cases investment has been in several industrial sectors such as transport, energy, etc. of a productive character which due to its significance to the increase in the national product, the development of these activities has received the following amounts of funds during the years 1965/66, 1966/67

	1965/1966	1966/1967
	<u>L.E.m.</u>	<u>L.E.m.</u>
Chemical Products Industry	16.5	14.2
Petroleum Products Industry	3.6	6.1
Basic Metallic Industry	13.3	16.-
Non-metallic material products industry	10.6	4.8
Means of transport Industry	4.5	5.6

At the same time industrial activities of consumption character required investment and production of consumption and export were not neglected.

Some of these activities received the following amounts in 1965/1966 and 1966/1967.

	1965/1966	1966/1967
	L.E.m.	L.E.m.
Food industries, refreshments and tobacco	14.7	11.3
Finished clothes and spinning and weaving industries	4.6	1.9

In the five year plan the activities of productive character, i.e. the activities which increase the rate of growth, received 70.4% of total amount of the executed investments in the industrial, electrical and mineral sectors.

The government budget of the fiscal year 1966/1967 included an amount of L.E. 123.0 m. for investment in the industrial, petroleum and mineral sectors, or a 2.1% of the total amount of investment in the economic sectors which reached L.E. 5790.0 m. in this year. This shows the importance given to the industrial sectors since the beginning of the first five year plan.

With regard to changes in inventories, we find that the increase in inventories in 1966/1967 was L.E. 27.9 m. or a 1.4% of the gross national product as compared with L.E. 68.9 m. or a 2.1% of G. N.P. in 1965/1966 and a L.E. 23.3 m. or a 1.1% of G.N.P. in 1964/1965.

It is noticed that the major part of these inventories was accumulated by public enterprises. The increase in the inventories of these enterprises reached L.E. 31.2 m. or a 4.6% of the total industrial income in 1966/1967 as compared with L.E. 15.2 m. or 12.1% in 1965/1966 and L.E. 10.3 m. or a 3.4% in 1964/1965. This increase in the inventories of the public industrial enterprises led to an accumulation in the stocks of these enterprises which amounted to L.E. 247.1 m. in 1966/1967 or an average increase of 5.6% over 65/66 and 45.2% over 1965/1966. This accumulation in stocks represents 51.7% of the total industrial income in 1966/1967 and representing also a very high rate of accumulation.

The following table 10 shows the increase and accumulation of inventories.

	L.E. m.		
Inventories	64/65	65/66	66/67
Increase in Inventories:			
Finished Products	1.-	21.7	22.4
Raw Materials	9.4	28.8	5.7
Spare Parts	3.9	4.7	5.1
<b>Total increase in Inventories</b>	<b>14.3</b>	<b>55.2</b>	<b>21.2</b>
Accumulation in Inventories:			
Finished Products	56.5	77.5	100.3
Raw Materials	15.1	112.9	107.2
Spare Parts	7.5	36.5	39.6
<b>Total accumulation in Inventories</b>	<b>79.1</b>	<b>326.9</b>	<b>247.1</b>
<b>Inventories</b>			
<b>Total Industrial Income</b>	<b>633.1</b>	<b>1211.1</b>	<b>477.4</b>
% of Increase in Inventories to total Industrial Income	2.3	4.6	4.6
% of Accumulation in Inventories to total Industrial Income	10.1	26.8	51.7

10 Ministry of Planning - Follow-up and Evaluation Report 1966-1967, Cairo, P.A.

Undoubtedly, the accumulation in stocks as is shown in the table is considered to be a burden on the national economy with regard to costs, the possibility of being spoiled, the possibility of obsolescence and fall of demand on it, and the waste in the resources allocated. However, what is really surprising is the great accumulation in the stocks of finished products which increased in the years 1963, 64/65 by U.S. 44.1m. until the increase reached U.S. 100.3 m. in 1966/1967 or a 40.6% of the total volume of accumulation in inventories.

### 3. The Efficiency of Investments

Looking at the investment policy from the point of view of efficiency we find that there was no significant success in this respect. The marginal rate of capital to total income in the mining and industrial sectors during the first five year plan reached 1.4, and in the sector of mining, industry and electricity altogether was 2.8. This factor does not reflect any significant efficiency in the utilization of investments if compared with the former period of the plan and the other rates achieved in countries which adopt systems of planning. It is known that with comprehensive planning systems it is possible to overcome and eliminate idle capacities and to secure a flow of production at a level close to full capacity. This would lead to the achievement of high efficiency in investments and reducing that factor.

The inefficiency in the utilization of investments in industry, electricity and mining during the first five year plan becomes clearer if we take into account the fact that the marginal factor of capital to total national income was much lower in the East European Countries. This factor was 1. - in the Soviet Union, 1.4 in the German Democratic Republic, 1.6 in Czechoslovakia, 2.0 in Poland during the period from 1947 to 1954.<sup>11</sup>

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11 Dr. V. S. Blazna. Planning for Economic and Social Development, High Arabic Studies Institute, 1963. Page 47.

Accordingly, we can say that, with regard to the investment policy in industry, the size of investments was the main determinant of the increase in the rate of growth. The allocation of investments also played a great role in that growth. However, "efficiency" did not play any significant role in achieving economic growth in the industrial sectors in the U.A.R. On the contrary, the efficiency of investments hindered the process of economic development.

#### B. SOURCES OF FINANCE

The total of investments during the years 1964/1965, 1965/1966, and 1966/1967 was L.E. 321.7 m., L.E. 446.2 m. and L.E. 396.7 m. respectively. The total available domestic savings from both the public and private sectors reached in these years L.E. 307.2 m., L.E. 309.6 m. and L.E. 340 m. respectively. Accordingly, the total amount of foreign sources of finance during the same years was L.E. 74.5 m., L.E. 136.6 m., and L.E. 56.7 m. respectively.

The following table <sup>12</sup> shows the sources of financing the total domestic investments in the years 64/65, 65/66 and 66/67.

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12 Ministry of Planning Cairo. Follow-up and evaluation Report 1966-1967.

	1963	1964	1965
Total Investment		100.0	100.0
Total domestic Savings	80.0	80.0	80.0
External Finance	20.0	20.0	20.0
Financing of investments	20.0	20.0	20.0
Gross National Product (Current Prices)	1000.0	1000.0	1000.0
% Total domestic Investments to GNP	10.0	10.0	10.0
% Total domestic Savings to GNP	14.0	13.0	13.7
% External Finance to GNP	3.4	3.0	3.3
% External Finance to Total Investment	20.0	20.0	20.0

## I Domestic Sources of Finance:

If we examine the governmental policy concerning domestic financing we shall find that starting with the first five year plan, a great reliance was placed on three main resources:

1. Imposing several types of indirect taxes.
2. The expansion of the system of social insurance and securities.
3. The nationalization and the transfer of the greater parts of the net income profits to the government.

These sources were used in addition to the use of inflationary methods.

With a view to financing gross investment in the first five year plan, gross domestic savings in the plan years amounted to L.E. 1075.0 m., with an annual average of L.E. 219.1 m. a volume of 13.2% of gross domestic product. Gross domestic savings did not, in any of the plan years exceed 15% of gross domestic product. In the follow-up report the following observation was made:

"Hence, action should be taken to promote savings rate up to 23% of income by the end of the second five year plan."<sup>13</sup>

We can notice also from the previous table that in 1964/65, 65/66 and 66/67, the first three financial years of the five year plan, the percentage was only 14.0%, 13.0% and 13.7% respectively.

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13 Ministry of Planning. Cairo-Follow-up and Evaluation Report of the First Five year plan (1960/61 - 6A/65)



It has also been found that savings rates in the socialist countries often exceed those in certain countries such as Japan and West Germany, not to mention relatively high amounts of 31% and 27.5 respectively during the 1960s.

Table 10. Savings The following table shows the sources of domestic savings from public and private investments in the years 1964/65, 65/66 and 66/67.

	1964/65	1965/66	1966/67
Government Sector	10.5	11.5	13.7
General Organizations	1.2	3.0	5.0
Public Enterprises	13.9	17.1	19.1
Reserves for central and social services for workers	7.3	8.5	9.7
<b>Total Non-Financial Sector</b>	<b>32.9</b>	<b>40.1</b>	<b>57.6</b>
Banking	1.6	10.1	13.7
Insurance	3.4	3.4	4.2
Postal savings	8.4	4.9	2.8
Saving Banks	0.1	0.3	0.4
Investment Certificates	6.6	14.3	12.3
<b>Total Banks and Insurance Sector</b>	<b>19.7</b>	<b>28.1</b>	<b>29.4</b>
Insurance and Pension Org.	47.3	53.4	55.6
Social Insurance Org.	49.8	60.3	67.9
1/2 day monthly savings	0.0	3.3	12.1
<b>Total Social Insurance Sector</b>	<b>97.1</b>	<b>117.0</b>	<b>135.6</b>
Government Sector	80.5	77.2	64.3
Others	5.0	12.1	19.3
<b>Total public and private savings Collected by public sector</b>	<b>236.0</b>	<b>266.3</b>	<b>310.6</b>
<b>Total Private Savings Collected by Private Sector</b>	<b>20.3</b>	<b>27.8</b>	<b>29.4</b>
<b>Total domestic savings</b>	<b>307.3</b>	<b>294.1</b>	<b>340.0</b>

14 U.N. Statistical Yearbooks of National Accounts.

15 Ministry of Planning, Cairo: Follow-up and Evaluation Report 1966/1967

This table shows that the major part of the domestic sources were within the public sector, whether these savings were public or private. The private savings which were not included in public savings, did not represent more than 10.20% of the total in 1966/67, i.e. 2.2 m. or 1.1% of the total domestic saving, or a 1.0% of the total domestic saving.

### C. FINANCING PUBLIC ENTERPRISES

Investments in public enterprises are financed by one or more of the following methods:

- a) Government participation in the paid-in capital of the enterprises.
- b) Obtaining loans and credit facilities from domestic banks.
- c) The use of internal sources such as depreciation, reserves, and retained earnings.

#### 1. Government Participation

In the budget of 1966/67 it was pointed out that the new investments and capital would amount to L.E. 350 m. out of which L.E. 100 m. could be covered by government participation in the capital of public enterprises, or 1/3 of the total investments. The government policy in this respect is to finance as a partner the unpaid portion of the capital of public enterprises.

## 2. Loans and Credits

The 1960 budget indicated that domestic loans and credit in the amount of 12.5 million will be used for financing investments, 10.5% of the total investments during that year.

It was also mentioned that the government will rely on domestic sources of financing, in addition to self-financing, of the real domestic market. Accordingly, the government's participation in the real market is L.E. 25.2 m., and the domestic market will provide L.E. 30.2 m., or a total amount of L.E. 55.4 m. will be financed as follows:

Insurance and pensions organizations	L.E. 17.0 m.
Investment certificates	L.E. 15.0 m.
Government Bonds	L.E. 11.7 m.
Domestic loans	L.E. 12.7 m.
Total	L.E. 56.4 m.

## 3. Self-Financing or Internal Sources

The total amount of internal funds provided by public enterprises themselves for financing their investments in the years 1957/58, 1958/59, and 1959/60, was L.E. 37.0 m., L.E. 41.7 m., and L.E. 46.0 m. respectively. It was mentioned in the 1960/61 government budget that the total amount of funds provided from sources within public enterprises could amount to L.E. 61.3 m. It was also mentioned that the financial policy concerning capital investments, has been based on the fact that enterprises should first rely on their internal sources in meeting all their needs, then they may rely on the surplus which may be available from sources within the real economic sector, and lastly they may rely on the government investment fund for requirements over and above internal sources.

Self-financing for the year 1969/70 was budgeted as follows:

Reserves and Provisions	L.E.	31.4 m.
Payments in advance	L.E.	5.5 m.
Cost of assets sold	L.E.	1.9 m.
Surplus of the Internal Sources of public enterprises	L.E.	1.4 m.
Other Capital revenues	L.E.	13.4 m.
Surplus of self finance which is made available to the investment fund	L.E.	7.7 m.
		<hr/>
	TOTAL	L.E. 61.3 m.

## II EXTERNAL SOURCES OF FINANCING

The foreign sources of financing investments amounted to L.E. 74.5 m. or 12% of total investments in 1963; L.E. 136.6 m. or 31% of the total investments in 1965-1966; and L.E. 56.7 m. or 12% of the total investments in 1966/1967. It was also mentioned in the 1969/70 budget that the total investments of L.E. 350.0 m. will be financed as follows:

L.E. 296.0 m. of domestic financing of which L.E. 1.3 m. represents self-financing and, L.E. 228.7 m. represent domestic loans and participations.

L.E. 54.0 m. of foreign financing of which L.E. 49.8 m. were foreign loans, and L.E. 4.2 m. were foreign grants.

Accordingly, the total foreign financing in the financial year 1969/1970 represents 17.0% of the total investments.

Foreign financing especially after the nationalization and Egyptianization which took place in the country, depends largely on governmental and institutional loans, and credit facilities. Private foreign capital does not exist except in the petroleum sector.

The total volume of investments in the industrial, petroleum and mineral wealth sectors in 1969/1970 amounts to L.E. 123.4 m. to be financed as follows:

L.E. 13.0 m. of local currency, and L.E. 110.4 m. of foreign currency (i.e. 67.25 m. of hard currency and L.E. 20.4 m. credit facilities).

International organizations did not play any significant role in financing the industrial investments although they have contributed to the financing of investments in other economic sectors. The G.O. has also mentioned that negotiations with the International Bank concerning financing foreign costs for the covered irrigation projects were about to be concluded, and that the International Bank was about to discuss the possibilities of offering loans for financing projects of transportation, land reclamation, etc.

It was also mentioned that the International Monetary Fund has agreed to grant to the U.A.R. a loan of L.E. 40.0 m. in hard currency in addition to a sum of \$33.0 m. according to the compensatory financing system.

### III Comparative Advantages and Disadvantages of the Various Sources of Financing Public Manufacturing Enterprises:

#### A: Domestic Financing

The local sources of financing are characterized, especially in a planned economy like U.A.R. with the following:

1. They participate in the establishment of projects according to the need of the national economy such as the establishment of heavy industries without giving much consideration to the profit maximization goal.

2. They are not accompanied by any foreign political interference or restrains.

3. They are used as a safe and secure source of financing projects concerned with the production of strategic, consumption and essential commodities.

The domestic sources of financing lack the following:

1. The inability of providing the necessary technical experiences.

2. The inability to provide the necessary tools and equipments, and the spare parts which cannot be produced locally, especially when foreign currency cannot be made available through the local sources such as exportation and tourism.

3. The inability to finance all investments included in the national plan.

If we study the different types of domestic financing, we shall notice the following:

1. With Regard to Government Participation: Despite the fact that the capital remains in the country without being obliged to repay or to pay interests annually, the system of government participation may seem inadequate at the present time for the following reasons:

- 1 - The long routine measures which are taken by the government until its share in capital is paid.
- 2 - Liquid money may not be available to the government to pay its participations at the time when the enterprise is in urgent need for that money.
- 3 - The government gets a 1/2 % interest on all its participation in the capital of enterprises since the nationalization laws and also receives part of the realized profits. This situation raises several questions such as:

(a) Is the government share in the capital of an enterprise considered to be a "capital" as the word is understood in finance literature? If so, this participation would be entitled to profits, if profits are realized. If this participation is granted to the enterprise as a loan, then the government would receive an annual interest until the loan is repaid. In this case the government should not claim any profits.

(b) What is the difference between the capital of the enterprise at the time it was nationalized and the capital paid after nationalization. The former entitles the government to profits while the latter capital entitles the government to both profits and an annual interest.

(c) In the case of mixed enterprises owned by the government and the private sector, the shares owned **sector\*** by the private are entitled to profits while the shares owned by the public sector are entitled to profits and annual interests without any difference between the shares in both cases.

(d) If the enterprise did not realize any profits or if it realizes losses, why would it be obliged to pay interest on the government share in capital while the private share holders get nothing?

(e) If capital is entitled to both profits and interest while loans are entitled to interest alone, the cost of borrowing would be much less than cost of participation. In this case it would be more economical for the enterprise to borrow than to accept government participation.

(f) If interests are paid as an advance part of the realized profits, then why is it also paid to the government when there are no profits or when there are losses?

## 2. With Regard To Domestic Loans:

Domestic Loans are more advantageous for financing industrial projects than the government participations because loans are not subject to government red tape which encounter the process of transferring this participation to the enterprise. Also the cost of a loan is much less than the costs of participations, as pointed out before.

However after the enterprise receives the loan, the granting bank imposes a system of supervision and control on the enterprises activities to ensure the repayment of the loan and the annual interests in due time. Thus, the bank becomes a financial control institution.

Besides, in financing some types of industries such as heavy industries which may not realize sufficient returns except in the long run, the percentage of realized profits may be much less than the annual rate of interest which must be paid annually.

## 3. With Regard to Self-Finance

Internal sources of finance provided from within the enterprise are characterized as being more flexible and far from government or bank routine measures, or supervision from outside the country. They are also characterized as being the most economical sources of domestic financing. The only disadvantage of self financing is that it reduces the company's liquid funds.



## **B Foreign Financing**

Foreign financing is more advantageous than domestic finance for the following reasons:

1. Provides the enterprise with funds necessary for importing means of production and the spare parts which are not produced locally.
2. Provides the enterprise with technical experience.
3. Assembling industries depend mainly on the imported materials.
4. It compensates for the shortage in domestic financing due to the insufficiency of domestic savings.

However, foreign financing has also some disadvantages. One of its disadvantages is that it is sometimes accompanied by political strings and foreign interference. It also requires that instalments and annual interests be paid in foreign currency. Thus it is necessary before accepting foreign loans to make a balance between future obligations which must be paid in hard currency and the resources which would be available during these periods.

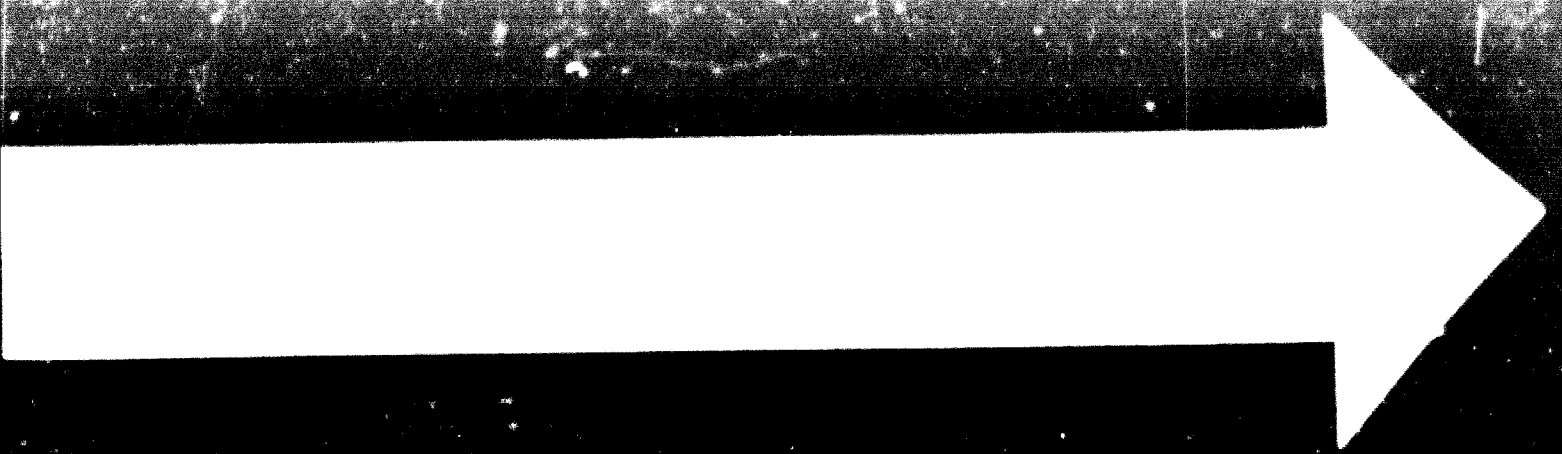
The foreign sources of financing may be divided into private and general or institutional sources.

### **The General or Institutional Sources**

These sources represent loans received from foreign governments and international organization and could be divided into the following types:

(a) The loan or investment is received in the form of a certain type of free currency which the lending organization or government makes available to the government for importing production means or equipment from any other country. This is the most dominating form of foreign loans received by the U.A.R. from international organizations or foreign countries such as Libya, Kuwait and Saudi Arabia, which can obtain sufficient foreign currencies from their natural resources without being able to offer loans in the form of commodities because they are still not yet economically developed. This form of institutional loans are characterized by their flexibility in enabling the government of the U.A.R. to obtain its needs from any country without restrictions. The amount of the loan could be used in obtaining the needs of the country from the best sources regarding the price or the quality. However one of its disadvantages when compared with other foreign sources of finance, is the high price which may be paid for it and the comparative shortness of the period which may be required for the repayment of the loan and the accrued interest.

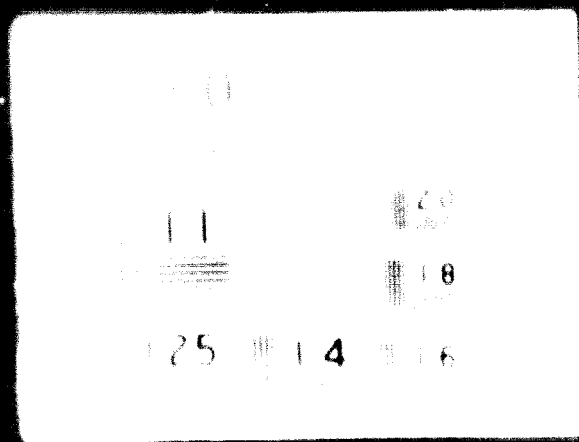
(b) The lending country may require that the loan be expended through the purchase of goods or equipments from its markets except when parts of these requirements are not available in its markets. This type of loans facilitates the process of economic development since the acceptance of the loan would mean obtaining the necessary facilities without undue delay. However, one of its disadvantages is the inflexibility regarding the choice of the best source for importing the requirements, whether with regard to the type of equipment, the quality, or the price.

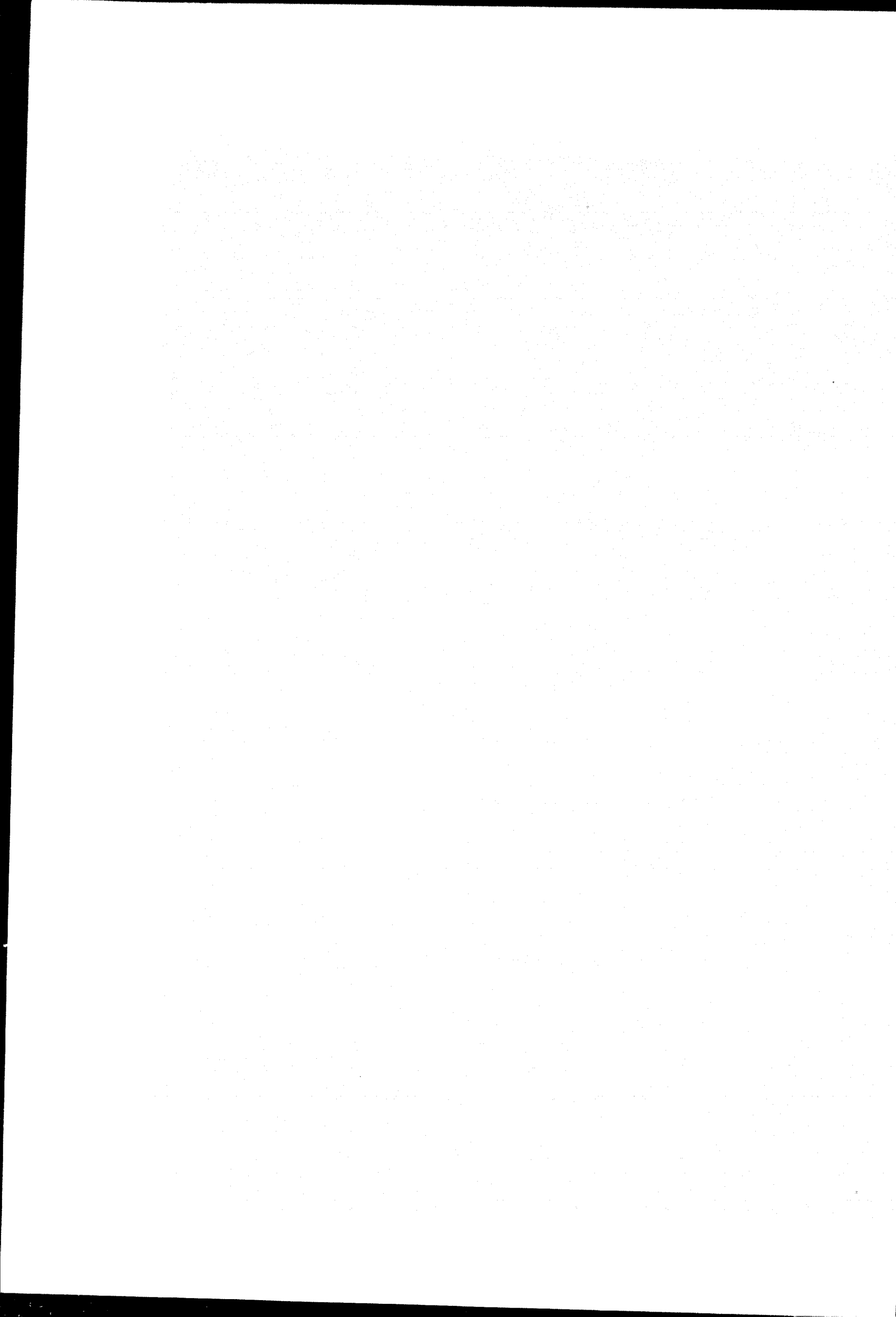


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(c) The loan may take the form of supplying the U.A.R. with complete projects together with the necessary experts for setting up the projects and operating them, and training the national personnel for operating them. This form of loans is considered to be a purchase of equipments by credit facilities since the U.A.R. does not really get a loan but it purchases a complete project and pays back its price and accrued interests during future periods of time as agreed upon in the purchase contract.

But whatever the form of the loan which is received from foreign sources, there should be some control **since\***over their size\*they put pressure on the balance of payment at the time of repayment. Besides, the shortness of the period of repayment and the high rate of interest which may have to be paid increases the burden at the time of **repay**ment which may force the government to reconsider some of the projects included in the plan or to postpone some other projects by giving priority to projects which require less foreign finances.

Foreign loans or credit facilities which are obtained in that restricted form is governed by political considerations which may direct the type of agreement and the source especially the bilateral agreements, even though these agreements are reached on commercial basis.

### Private Foreign Investment

There are no private foreign investment in the industrial sector of the U.A.R. except in the sector of petroleum. Some of the disadvantages of foreign private investments are the following:

1. This type of foreign investment is not usually satisfied with the mere participation in establishment of new projects but it also participates in the management and administration of these projects which, accordingly, become types of foreign subsidiaries rather than national enterprises. foreign\*
2. The main objective of private \* capital is always the maximization of profits. Accordingly, private capital is mostly attracted to the exploitation of natural resources and raw material industries which could be exported. Also, light industries with high and quick returns may attract foreign capital to some extent. The nationalization and Egyptionization of foreign private capital in the U.A.R. and the fear of future nationalization has constrained the flow of private foreign capital to the U.A.R.

From the economic point of view, the objective of private foreign investment which is profit maximization and its flow towards projects of high return prevent its expansion or utilization in the U.A.R. due to some considerations of economic development which would not allow the structure of the economy to be dominated by one type or one group of commodities. The priorities of investment in the framework of economic development and national planning and the balance of payment considerations discourage private foreign investments from flowing to the U.A.R.

3. Most of the profits realized by private foreign capital is transferred abroad and are not reinvested in the economic activities of the U.A.R. Therefore the country does not benefit from the existence and the accumulation of private foreign capital.



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