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Doc 370

Distr.
LIMITED

ID/WG.43/19
4 November 1969

ENGLISH
Original: SPANISH

United Nations Industrial Development Organization

Interregional Seminar on Financial Aspects
of Manufacturing Enterprises in the Public Sector

Rome, Italy, 1 - 12 December 1969

INDUSTRIAL FINANCING OF PUBLIC MANUFACTURING ENTERPRISES IN COLOMBIA[1]

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1/ The views and opinions expressed in this paper are those of the authors and do not necessarily reflect the views of the secretariat of UNIDO.

id.69-5695

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Part One

THE FINANCING OF PUBLIC MANUFACTURING ENTERPRISES

A. INTRODUCTION: GOVERNMENT INVESTMENT POLICY REGARDING PUBLIC MANUFACTURING ENTERPRISES

In every modern society, whatever its political make-up, the public sector carries out very important economic functions.

There has now been a reappraisal of the idea that the responsibility of the public sector is simply to look after the safety and defence of citizens and of their rights to property and to ensure conditions in which economic activities proper can be organized as private interests see fit.

This concept no longer corresponds to the realities of any present-day nation.

The public sector has grown and has penetrated into the field of economic activities, not only assuming tasks whose eminently social aspects rule out the possibility of leaving them in private hands, but also establishing large enterprises, generally of a pioneering nature, and even entering into competition with private enterprise.

Although the public sector has retained throughout its evolution its concern with the classic functions of safety, defence, the administration of justice, etc., which make up the broadest of its responsibilities, namely, that of watching over the continued existence of an orderly system of community life, it would not be possible to describe its activities in the field of the economy solely in terms of this role. The State now assumes other responsibilities which vary depending on the level of development of the country and its form of political and social organization, and the State is bound up in many important ways with the behaviour and development of economic variables.

The public sector can intervene in the economy of the country and more specifically in industrial development either indirectly or directly. Indirect intervention is carried out through the instruments of political economy available to the State, such as the legislation concerning taxes, foreign exchange, Customs, import regulations, credit, etc.

Direct forms of intervention include:

Dissemination of information on projects of major interest, market and marketing prospects, facilities available for specific projects, etc.;

Direct promotional activities among national and/or foreign enterprises;

Technical advice;

Assistance in finding sources of finance, including endorsements of bills and other forms of State assistance in the financing of projects of public interest;

Financial participation by the State in projects which are of interest to it;

Direct State ventures consisting mainly of investments of basic share capital.

In the Republic of Colombia, public investments in the manufacturing sector are channelled through the Instituto de Fomento Industrial (Industrial Development Institute).

It is the Industrial Development Institute which has had the task of promoting and making a large percentage of the investments in the manufacturing sector - mainly in the field of primary processing industries using national raw materials - which were not satisfactorily forthcoming from private enterprise and private capital.

This policy was initiated in 1940, when the Colombian Government established a plan for the development of manufacturing industry which was designed to promote mainly the following branches:

The iron and steel industry

The metalworking industry

The soda ash industry and associated activities

The ceramics industry

The manufacture of sulphuric acid, carbon disulphide and other basic products of the inorganic chemicals industry

The fertilizer industry and associated activities

The manufacture of mineral salt mixtures for livestock

The manufacture of fungicides and insecticides

The pulp industry

The tannin extracts industry

The *pita*, *pringamosa*, and flax industries

The industrial utilization of oil nuts

The ivory palm industry

The ensilage and scientific storage of maize and other cereals

The fruit, vegetables, etc. canning industry

The fishing industry

The wool industry

The full primary preparation of cattle, sheep, goat, etc. skins.

In accordance with this plan, the Industrial Development Institute has promoted and founded, *inter alia*, the following production units which are of primary importance for the development of the manufacturing sector in general:

Acerías Paz del Río, S.A. (steel production)

Icollantas (pneumatic tires)

Siderúrgica de la Sabana S.A. (steel production)

Forjas de Colombia, S.A. (castings)

Fábrica de Explosivos Antonio Ricaurte S.A. (explosives)

Planta Colombiana de Soda (soda ash production)

Planta de Cloruro Férrico (iron chloride production)

Cementos Boyacá, S.A. (cement production)

Industria Colombiana de Fertilizantes (fertilizer production)

Empaques del Cauca, S.A. (packing material)

Unión Industrial de Astilleros S.A. (dockyards)

Explotadora Nacional de Grasas, S.A. (lubricants)

Compañía Nacional de Cables (cable production)

Aero Industrial Colombiana S.A.

Monómeros Colombo-Venezolanos S.A. (plastics)

Consorcio de Fabricantes de Material Ferroviario (railway equipment)

Colombiana de Minería (mining)

Fábrica de Automotores, S.A. (motor vehicles)

Asbestos Colombianos S.A. (asbestos)

Some of these enterprises have passed completely or partly into the hands of private owners who have acquired them through negotiations with the State in accordan[ce] with the latter's set policy. Others of these production units, however, are mixed enterprises where State capital is associated with private capital.

Some of the production units referred to above remain public enterprises whose capital is held entirely by the State.

There is one sector - that covering hydrocarbons - which is so large and importa[nt] that a decentralized institute has been set up with the task of co-ordinating the Government's policy for this sector.

The body responsible for investments in respect of hydrocarbons is the Empresa Colombiana de Petróleos - Ecopetrol (the Colombian Petroleum Company).

To sum up, it may be stated that Government investment policy in the manufacturing sector is oriented towards assisting those industries where private investment is insufficient or totally absent because of the size of the expenditure involved, the fact that the operations concerned can only bring profits in the long run, or the risk involved. Government policy thus makes possible sound operational progress and turns such problem enterprises into foundations for the industrial development of the country.

It should also be mentioned that the Government set up the National Planning Department, attached to the Office of the President of the Republic, to programme and co-ordinate public investments in the various economic sectors.

FINANCIAL RESOURCES

I. National resources

1. Government channels

- Appropriations from the national budget

All contributions of capital by the Government of the Republic of Colombia for the establishment or expansion of manufacturing industry are made through the Industrial Development Institute, which is supplied with appropriate funds in accordance with article 30 of Decree No. 1157 adopted in 1950.

This article empowers the Industrial Development Institute to contribute capital for the establishment or expansion of industries of national importance, subject to preliminary technical studies of each case. The shares thus acquired in such enterprises can be resold when it is considered that this can be done without adversely affecting the objective for which the investment was originally made and when there is no consideration of public importance which makes such a transfer by the Government inadvisable.

- Government loan facilities

There are various Government loan institutions in Colombia for channelling financial resources towards the manufacturing sector.

The following are among the most important of these institutions:

(a) The Industrial Development Institute

The Industrial Development Institute, an official body with its own financial resources and independent legal and administrative status, is also a finance corporation set up to promote the various industrial activities of the country.

Its objectives are:

- To promote the establishment, expansion and merging of industrial enterprises through contributions of capital, loans or the endorsement of bills issued by such enterprises;

- To co-ordinate the activities of the public and private sectors in various groups of industries of special importance;
- To supervise investments made with international loans intended for infrastructural operations;
- To provide a link between the international credit organizations and the economy of the country by channelling the resources obtained from them into industry;
- To endorse or grant loans or supply investment capital to industries engaged in the production of goods which are important as import substitutes or exports;
- To give technical assistance to industrial enterprises which are in need of it;
- To grant loans for the execution of productivity studies with the object of securing better yields and outputs through proper utilization of available resources;
- To act as a financial intermediary in securing financial resources for the industrial sector from the Private Investments Fund and the social security reserves;
- To organize and promote enterprises for the prospection and operation of nationally owned mines and the beneficiation and processing of minerals extracted from them where such activities are of fundamental importance for the development of the national economy;
- To take action on the national capital market to establish effective links between national savings and national development.

In accordance with statutory rules and the policy laid down by its Board of Management, the Industrial Development Institute grants loans to or makes investments in the following branches of production:

Industries or enterprises whose operations lead to increased exports or import substitution;

Industries and enterprises engaged in the development of basic resources;

Enterprises whose activities are directed towards breaking restrictions of supply caused by monopoly situations;

Enterprises whose operations create new sources of employment;

Enterprises whose activities will result in the development of mining activities.

For enterprises which come under any of the above headings the Industrial Development Institute provides finance to cover expenses in respect of:

Construction of buildings

Importation of machinery and equipment

Acquisition of foreign-made machinery within Colombia

Acquisition of Colombian-made machinery

Installation of services

Purchase of ground

Establishment of working capital

Other purposes, of which details must be given when the loan request is made.

Generally speaking, the Industrial Development Institute requires part of the finance to be provided by the enterprise itself, but in special cases where such participation by the enterprise is not possible, the Institute may consider financing the whole of the project. The Institute does not accept any requests for refinancing of debts previously contracted by the applicant.

(b) <u>The Private Investments Fund</u> (FIP)

The object of this Fund is to provide the private sector with financial resources for top priority investments which come within the framework of the General Development Programme, are particularly directed towards diversifying and promoting exports from Colombia, and comply with the requirements and conditions laid down in the Programme. The Private Investments Fund will be built up from the Colombian-currency counterpart funds of foreign loans and from foreign currency resources derived from external loans made to the Private Investments Fund or such money from other sources as the Central Bank may decide to accept or transfer to the FIP system.

<u>Investments eligible for financing</u>

The Private Investments Fund will use its resources mainly for financing investments in the field of primary industrial activities or industrial processing activities which come within the following order of general priorities:

(a) Diversification and promotion of exports;

(b) Elimination of bottlenecks in the production of goods or provision of services;

(c) Import substitution;

(d) Plants for integration with neighbouring countries.

Loans from the Private Investments Fund are to be used solely for the acquisition of capital goods (Colombian or foreign-made machinery and equipment), the financing of construction, assembly and installation work necessary for launching or expanding economically desirable production enterprises, and payment for certain technical studies which are essential for the proper execution of investment projects.

In the case of agricultural, fishing and stock-raising activities, the Central Bank may, exceptionally, authorize the granting from the Private Investments Fund, for later recovery, of loans in connexion with projects not coming under the above-mentioned headings but which are an integral part of a medium or long-term investment.

In no case may loans be made in respect of short-term or easily recovered capital requirements, as these must be satisfied from other means of financing.

The resources of the Private Investments Fund are distributed through the banking system - that is to say, the system of banks having access to the services of the Central Bank - and through the development finance corporations.

Operations involving the Private Investments Fund can only be transacted by legally established institutions which can show that they have the resources, skill and absolute impartiality needed to deal with all the various stages of such transactions and which also comply fully with the basic criterion of applying the money obtained from the Private Investments Fund to the financing of bona fide private activities.

(c) The Export Promotion Fund

The object of this Fund is to increase Colombia's foreign trade and strengthen its balance of payments by promoting and diversifying exports.

The financing operations carried on by this Fund may be summarised as follows:

Loans to cover pre-investment studies;

Loans for the promotion of exports;

Financing of national or imported raw material or component requirements;

Storage costs;

Storage of products abroad;

Loans on security of tax exemption certificates;

Elimination of external liabilities;

Discounting of bill purchases

Advances in respect of letters of credit.

(d) <u>The Industrial Finance Fund</u>

The objective of the Industrial Finance Fund (FFI) is the rediscounting of loans granted by banks and finance corporations for the financing of small and medium-scale manufacturing industry. These loans are intended to assist enterprises producing goods which are of economic importance from the point of view of the development policy of the country and the priorities of that policy, and they are granted in order to fulfil working capital requirements or to pay for technical assistance, where such assistance is necessary for the establishment or expansion of production.

(e) <u>The Central Bank (Banco de la República)</u>

The Central Bank is the central issuing bank and is the hub of the entire Colombian financing system. It therefore carries out the following operations with commercial and development banks and finance corporations:

(i) Rediscounting of transactions carried out by these banks from their own regular resources.

(ii) Granting and authorizing loans from special funds drawn from its own and other resources in accordance with banking law and the resolutions of the Monetary Board.

(iii) Managing certain special funds such as the Private Investments Fund, the Export Development Fund and the Industrial Finance Fund.

(iv) Administering the granting of finance under agreements with European banks, offset agreements and agreements with AID.

In some cases, the Central Bank grants financial assistance directly to private individuals, as in the case of:

Loans to co-operatives and official bodies;

Loans from the Export Promotion Fund, and

Loans in respect of imports under the terms of agreements (through its Overseas Department).

2. <u>Private sector channels</u>

- <u>Mobilization of private savings for public manufacturing enterprises</u>

The most important channel of transferring private savings to manufacturing industry, both public and private, is the Constant Value Bonds system. Through Decree-Law No. [illegible] of [illegible] April [illegible], the Colombian Government decided to invest the Colombian Social Security Institute's reserves, which consist of money paid in for insurance in respect of disablement, old age and death. The objectives of this legislation are, <u>inter alia</u>:

(a) To maintain the real value of the reserves by taking measures to avoid their depreciation in value;

(b) To help to ensure, through safe and profitable investments, that the Colombian Social Security Institute will be able to meet all the demands likely to be made on it adequately and will be able to extend insurance benefits to sectors of the population not yet covered by them;

(c) <u>To channel national savings into the industrial sector</u>;

(d) To contribute to the solution of the housing problem by increasing the financial resources available for the building of houses; and

(e) To expand and improve social welfare services through the construction and equipment of hospitals and to secure monetary stability by channelling national savings towards the investments mentioned above.

It is laid down that the reserves of the Colombian Social Security Institute should be invested as follows: 80 per cent in "Constant Value Social Security Bonds"; 10 per cent in contributions to the "National Hospital Fund" for the construction and equipping of hospitals, and 10 per cent in bank deposits and easily-realized Central Bank bonds to take care of the immediate needs of the Institute.

The "Constant Value Social Security Bonds", which are issued by the Government only for acquisition by the Colombian Social Security Institute and cannot be transferred or negotiated, are used only by the Colombian Social Security Institute, as security for its liabilities. In order to avoid depreciation of the reserves, the nominal value of these bonds is adjusted annually by 70 per cent of the variation of the national wholesale price index for general Colombian trade, as worked out by the Central Bank. The Bonds bear interest at 6 per cent per annum on the adjusted value and are gradually amortized over 25 years in equal annual instalments from the second year of issue onwards (likewise on the basis of the adjusted value). The resources deriving from this Bond investment (80 per cent of the Social Security reserves) are divided equally between the Industrial Development Institute and the Central Mortgage Bank. The funds received by the Industrial Development Institute are used for making medium- and short-term industrial loans, mainly for the establishment of new industries or the expansion of existing ones in the public and private sector.

Not more than [illegible] per cent of the funds may be represented by bonds of the Industrial Development Institute itself, issued under State guarantee. If the funds in the Industrial Development Institute's possession are more than it can currently invest, the surplus may be transferred to private Colombian finance corporations.

Another way in which private savings are channelled towards this type of enterprise is through the finance corporations.

The finance corporations [illegible] bodies which promote economic and social progress by carrying out the important task of attracting private savings from the community and channelling them into productive investment over the whole range of manufacturing industry.

For the most part, these corporations' funds come from the private sector, but there are other finance corporations which receive contributions from the public sector in their capacity as decentralized Government agencies for promoting the industrial development of the country.

Finance corporations were first set up in Colombia at the end of the 1950's and now number 13. A large proportion of the public manufacturing enterprises have received loans from such bodies.

Finance corporations are development agencies whose objective is to give impetus to the economic development of the country by providing resources for effecting the investments required in connexion with the establishment of economically desirable industries.

In order to achieve their objectives, these development agencies promote industrialization by the following means:

- Promoting the establishment, reorganization and modification of enterprises;
- Direct participation in the capital of enterprises;
- Granting loans for specific purposes;
- Negotiating the participation of third parties;
- Providing technical assistance as part of their promotional function.

3. <u>Internal financing</u>

- <u>Retention of profits</u>

The policy of retaining such profits as may be made by public manufacturing enterprises helps to build up these enterprises' resources for investment in expansion programmes or new developments.

Generally speaking, these investment programmes are carried out in accordance with plans previously prepared by the enterprise in co-operation with the Administrative Planning Department, which is responsible for regulating public investment policy.

As a general rule, 50 per cent of the value of investment programmes must be financed from funds generated by the public body itself. Public bodies are permitted to contract external or domestic loans to make up the total amount needed for the planned expansion.

The Administrative Planning Department authorizes or approves loans on the basis of the following criteria:

- Implications of the operation for the external or internal public debt;
- Capability of the enterprise in question to service the debt incurred;
- Economic consequences of the operation from the point of view of the development of the country;
- Adequacy of the enterprise's financial structure.

II. External resources

1. Loans and other types of financial facilities

The external financial resources available to Latin America for its general financing can be divided into public and private resources.

- Public financial resources

  These consist of two types:

  (a) Bilateral resources;

  (b) Multilateral resources.

  (a) Bilateral financial resources can come from:

  1. The United States, through Treasury, AID and Eximbank loans;
  2. Canada, through the overseas office of AID in Canada (EAO);
  3. Germany, through the Kreditanstalt für Wiederaufbau (KFW);
  4. Other countries, through offset agreements.

(b) Multilatoral resources

(i) World resources

International Monetary Fund (IMF);

International Bank for Reconstruction and Development (IBRD);

International Finance Corporation (IFC);

International Development Association (IDA).

(ii) Regional resources

Inter-American Development Bank (IDB);

Central American Bank for Economic Integration (BCIE).

Private financial resources

(i) Direct resources

Direct capital investments;

Latin American Economic Development Association (ADELA);

ADGE ACT.

(ii) Indirect resources

Supplier credit;

Banks.

Public manufacturing enterprises have access to credit from the following international organizations whose nature and policies are described below:

1. International Bank for Reconstruction and Development (IBRD)

A. Object: to help the development of production facilities and resources of member countries.

B. Criteria used in analysis of applications:

Projects: technical, institutional and financial feasibility and return on investments.

Countries: economic performance and credit capacity.

C. Sectoral preferences: large infrastructural projects such as those concerning transport, electric power, communications, agriculture, industry and education.

D. Nature of loans: loans to member Governments, or to other public bodies or private individuals if guaranteed by the Government.

E. Eligibility for submitting applications: applications may be submitted by member Governments, public bodies and private individuals guaranteed by member Governments.

F. Guarantees: member Governments.

G. Duration of loans: generally 15-25 years.

H. Applicable rate of interest: at present 6 per cent.

I. Currency of repayment: currency in which loan is made.

J. Conditions regarding expenditure of funds: purchases must be made through international tender competitions.

2. International Development Association (IDA)

A. Objective: to promote the economic development of member countries by providing them with finance on terms which cannot be offered by IBRD (to which IDA is affiliated).

B. Criteria used in analysis of applications:

Projects: technical and institutional feasibility and economic return on the investment.

Countries: economic performance and credit capacity.

C. Sectoral preferences: mainly for infrastructural projects such as transport, electric power, communications, agriculture, industry and education.

D. Nature of loans: loans are provided for member Governments or their territorial divisions.

E. Eligibility for submitting applications: applications may be submitted by member Governments, public bodies or private individuals backed up by a guarantee from the member Government.

F. Guarantees: not applicable in respect of loans to Governments.

G. Duration of loans: all loans are granted for 50 years, with a period of grace of 10 years.

H. Applicable rates of interest: servicing commission of 0.75 per cent; no interest charge.

I. Currency of payment: the currency in which the loan is made, or such other currency as IDA may deem to be easily convertible or freely exchangeable for IDA operations.

J. Conditions regarding expenditure of funds loaned: purchases must be made through international tender competitions.

3. Inter-American Development Bank (IDB)

(a) Object:

1. Ordinary capital and National Operations Fund: helping to speed up the economic development of member countries.
2. Trustee Fund for Social Progress: providing capital and technical assistance to back up the efforts of Latin American countries to achieve better social progress and balanced economic growth.

(b) Criteria used in analysing applications:

1. The profit/cost ratio, other quantitative criteria, and the sectoral priority.
2. The profit/cost ratio, the balance of payments position, and the difficulty of obtaining financing under normal market conditions.

(c) Sectoral preferences:

1. There is at present a preference for the promotion of export industries, agriculture, direct production industries, and projects of a multi-national character.

2. Under an agreement with the United States, preference is given to projects for the settlement and utilization of land, low-cost housing, water supplies, sanitary facilities and higher education.

(d) Nature of assistance provided: loans for projects and/or technical assistance are available to member countries or their political subdivisions and to private and public bodies. Limited free technical assistance may be provided.

(e) Eligibility for submitting applications: applications may be submitted by member Governments, their subsidiary bodies and subdivisions; by individual national firms guaranteed by the member Government or by recognized banking institutions; or by private or public agencies operating on the basis of secondary loans.

(f) Guarantees: as seen fit.

(g) Duration of loans:

1. Ordinary capital: 10-20 years.
   National Operations Fund: in accordance with the requirements for the movement of cash.
2. Trust Fund for Social Progress: generally 15-30 years, with periods of grace of 2-5 years.

(h) Rates of interest:

1. For ordinary capital: rate of interest based on the cost of money on the capital market.
2. For the National Operations Fund: 3 per cent for social projects and 4 per cent for economic projects, inclusive of 0.75 per cent of servicing commission.
3. For the Trust Fund for Social Progress: generally 1.25-2.75 per cent payable in national currency, plus a servicing commission of 0.75 per cent per year, payable in dollars.

(i) Currency of payment:

1. Ordinary capital: ordinary national currency; National Operations Fund: entirely or partly in the currency in which the loan was made.

2. The currency of the borrower country.

(j) Conditions regarding expenditure of funds:

1. Ordinary capital: no conditions in respect of purchases in the United States; National Operations Fund: purchases must be made in the United States or in member countries.

2. Trust Fund for Social Progress: purchases must be made in the United States or member countries.

Bilateral agreements

The bilateral loans most frequently used by public manufacturing enterprises are those provided by AID and the Kreditanstalt für Wiederaufbau (KFW).

The Industrial Development Institute acts as trustee for dollar loans obtained by the national Government from AID for the import of capital goods. Public manufacturing enterprises have received funds under a number of these loans.

The Industrial Development Institute has various lines of credit which are used from time to time by public enterprises. Details of these lines of credit are as follows:

Line of credit	Proportion of expenditure financed	Total amount of line of credit (millions of dollars)
Interamerican Development Bank	50 per cent IDB 25 per cent client 25 per cent IFI	IDB US$10.0
AID credits 514-L-049-051 and 052	90 per cent of CIF cost of imports	US$25.0
Banque de Paris et des Pays-Bas	85 per cent of FOB cost of each order	US$ 5.0

Cont'd

Line of Credit	Proportion of expenditure financed	Total amount of line of credit (millions of dollars)
Agreement with Holland	90 per cent of FOB cost of each order	US$ 2.7
Agreement with Denmark	100 per cent of CIF cost of each order	US$ 1.8
Kreditanstalt für Wiederaufbau	100 per cent of CIF cost of each order	US$ 2.5

The Republic of Colombia also has offset agreements with the following countries: East Germany, Bulgaria, Denmark, Spain, Finland, Hungary, Poland, Romania, USSR and Yugoslavia. Under these agreements, Colombia exports coffee, tobacco, bananas, etc. and imports machinery and capital goods for both public and private industry.

2. Joint Ventures

In the light of the lines laid down in the General Development Plan for Colombia, the Government has established an order of priorities covering very wide sectors of production. It must be stressed that while financial assistance may be arranged at the initiative of the private sector or through programmes submitted by the Government itself, it is always essential to ensure equitable distribution of assistance resources so as to avoid excessive concentration of industrial development or duplication of investments. The main method of doing this is to analyse the impact of the assistance on the hoped-for economic benefits, on social considerations, and on the possibility of bringing areas with good natural resources into the economy of the country.

Joint Venture contracts are generally concluded when it is essential to bring in foreign investments and assistance in order to complete a specific programme. The Colombian Government recently concluded a Joint Venture contract with the Renault Company of France for the erection of a factory to produce motor vehicles in Colombia.

Part Two

FINANCIAL PLANNING AND OPERATION OF PUBLIC MANUFACTURING ENTERPRISES

A. INTRODUCTION

Public manufacturing enterprises are considered to be those in which the State holds the entire capital or at any rate more than 50 per cent of it. When State participation is 50 per cent or less, the enterprises assume the nature of "mixed economic enterprises" and are considered as private enterprises.

The State participates to the extent of acquiring the entire capital of enterprises in two cases:

1. When the production and distribution of the goods in question must be a State monopoly according to the national Constitution, as in the case of the manufacture of alcohol, firearms or explosives. These enterprises will always be of a public nature and there can be no private participation unless the Constitution is first amended.

   These enterprises generally have administrative autonomy, but are not financially independent, as their income and expenditure are controlled by the budgets of the body to which they are subordinated (municipality, department or Government). Such enterprises are directly controlled through the respective municipal, departmental or national controllers' offices.

2. When private enterprise plays no part in promoting an industry, mainly because of the financial risks involved, the State promotes the industry through the Industrial Development Institute and participates in its establishment by investing capital. Thus, the enterprise can be directly administered by the Industrial Development Institute or it can form an administratively and financially independent unit. Fiscal supervision is exercised through an auditor and the necessary auxiliary personnel from the Office of the Controller-General of the Republic. Private enterprise may participate at any time in such companies and may eventually acquire the entire capital (example: Paz del Río Steelworks).

Mixed companies constitute administratively and financially independent joint stock or limited companies subject to the companies legislation. Further fiscal supervision is exercised through the Office of the Controller-General of the Republic. When these mixed companies are joint stock companies, their operations are supervised by the Office of the Superintendent of Joint Stock Companies. The Industrial Development Institute can sell its shares or participation in such companies when it considers that it has fulfilled its mission as a promoter. It may be noted that such enterprises have access to most of the loans available to enterprises in the private sector.

B. PROGRAMMING OF FINANCIAL REQUIREMENTS FOR NEW ENTERPRISES

The programming of financial requirements is mainly carried out after the total investment plan has been prepared.

Before beginning consideration of a manufacturing project, it is necessary first of all to define clearly what part of the investments involved are required in respect of fixed assets and what part is to be used to provide working capital.

Requirements for funds are programmed in the light of sound financial criteria on the basis of the specific application of each investment, and a specific relationship is kept between the sources of financing and its application.

Fixed investments must be financed with loans obtained from financial bodies (finance corporations, the Industrial Development Institute, etc.) or machinery suppliers, or else by means of contributions of capital. That part of this financing obtained from external sources is kept on a long-term basis so as to preserve acceptable financial liquidity.

In addition to being drawn from enterprises' own resources, working capital can be obtained through loans from Colombian or foreign suppliers of raw materials or short-term loans.

C. EVALUATION OF COMMERCIAL PROFITABILITY AND THE NATIONAL ECONOMY

In evaluating the commercial profitability of public manufacturing enterprises, these must be divided up into two classes:

1. Those enterprises which were not set up with the specific aim of obtaining maximum profits, but with the objective of providing some form of social service. The profitability of such enterprises is naturally quite low or even non-existent. An example of such an enterprise is Curtientes Vegetales S.A. (Vegetable Tanning Agents Ltd.) which was set up by the Department of Guajira in order to promote the development of the area in question.

2. The second class of public manufacturing enterprises seek maximum profit in their operations and compete openly with the private sector. In this type of enterprise, the profitability increasingly tends to exceed the prevailing market interest rates. It is normal to meet with yields on capital of more than 35 per cent in this type of enterprise.

In order to carry out their function of producing goods, the public manufacturing enterprises mobilize labour and use capital and natural resources of which they may or may not be the actual owners. In addition, they acquire raw materials and semi-finished goods produced by private enterprise for processing in their production units. By absorbing such intermediate products, the public enterprises are responsible for a considerable part of the demand for intermediate goods. From this point of view, these enterprises help, through this turnover, to pay wages and interest and provide profit for the private sector also.

D. OPERATIONAL EFFICIENCY AND INCENTIVES

Public manufacturing enterprises have been organized on the basis of the criterion of the best possible operational efficiency, so that their industrial development should achieve truly sound and positive objectives in the national sphere.

It should be noted that while the technical and administrative structure of the public enterprises is similar to that of enterprises in the private sector, there is no doubt that much State legislation hinders rapid action by the public enterprises in setting up firms, contracting loans, and even laying down expansion programmes.

It is worth mentioning that public manufacturing enterprises enjoy the entire wide range of privileges and incentives which the State has established and promoted for private production units, and they also have the great advantage that they are exempt from taxation, thus enabling them to build up in a short period their own internal capital resources.

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