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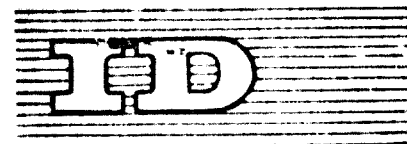
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FINANCING OF PUBLIC ENTERPRISES IN MEXICO<sup>1/</sup>

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

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## INTRODUCTION

The keynote of investments by the public sector in decentralized agencies and in enterprises producing goods and services has been harmonization with the country's development needs. The State has reserved for its direct control the strategic economic sectors, which, if operated by private persons, might constitute bottlenecks with regard to the development of other activities. The production, generation and distribution of fuel and power, control of railways, the marketing of vital consumer goods, investment in air transport and the production of steel and fertilizers are the typical fields for government investment, which have yielded highly positive results as instruments for stimulating economic growth and as means of government control.

Active participation by the State in economic life is no longer a topical issue in the country, this principle has been completely accepted and fully defined. The dispute regarding government intervention has moved to other planes in which the efficiency, expediency, amounts and purposes of investment are discussed; however, the Government's economic theory with regard to investment in productive sectors was defined several years ago: the State intervenes either in those fields in which private initiative does not engage or engages only inadequately, or else when the national interest so requires.

For a better understanding of the financing of public enterprises in Mexico, it is necessary to give some brief description of its position and operational characteristics within the public sector.

## I. CLASSIFICATION

From an organic point of view, the production units controlled by the Government fall into three categories:

1. Decentralized agencies,
2. Joint State-private enterprises,
3. Public establishments, commissions, boards and institutes.

The decentralized agencies are defined as legal entities established by the State through laws passed for that purpose by the Congress of the Union or by the Federal Executive in the exercise of its administrative powers. Decentralized agencies are a type which satisfy the following requirements:

- (a) That their resources have been or are being provided in their entirety by the Federal Government, by means of grants for the constitution of their capital, provision of assets, concessions or royalties, or budget allocations or subsidies, or out of the proceeds of a specific tax;
- (b) That their object and functions involve specialized, technical responsibilities for the adequate performance of a public or social service, the exploitation of natural resources or the obtaining of resources intended for purposes of social welfare.

The second category, that of joint State-private enterprises, is defined as consisting of those enterprises that satisfy some of the following requirements, in accordance with the legislative provisions:

- (a) That the Federal Government has the right to appoint the majority of the board of administration or board of directors, or to appoint the manager, president or director, or to veto the resolutions of the meeting of shareholders, the board of administration or the board of directors, whatever the origin of the enterprise's resources;
- (b) That the Federal Government contributes or owns 51 per cent or more of the capital or shares;

- (c) That the capital of the enterprise includes a special series of shares that can be taken out only by the Federal Government;
- (d) That by virtue of a provision of a general nature, they enjoy preference in carrying out operations or business with the Government or with the decentralized agencies or the joint State-private enterprises.

The third group is that corresponding to the public establishments, commissions, boards and institutes that are responsible to the Federal Government. These organizations may be attached to any State Secretariat, depending on their function. The public establishments included in this group are all those that do not fall within either of the other categories. Generally speaking, they are establishments working in welfare and education. The commissions are organizations engaged in maintaining or developing some activity of a technical regional character, etc., as for example the commissions for hydro-electric development, the forestry commissions, the neighbourhood roads commissions, etc. The boards are concerned with similar activities, and consist of such bodies as the local boards for the improvement of materials. The institutes, for their part, generally devote themselves to scientific research activities. This group of organizations in the decentralized sector are attached to various Secretariats and their budgets are submitted and supervised through the Secretariats to which they are attached.

## II. DEVELOPMENT PLANS AND THE "PARA-STATE" SECTOR

The decentralized agencies and the joint State-private enterprises are subject, as far as the conduct of their activities is concerned, to the national plan for economic and social development prepared by a joint committee of the Secretariats for Finance and the Presidency.

The above-mentioned development plan covers all economic sectors and is mandatory for the public sector and indicative for the private sector. It is prepared on the basis of short-term, medium-term and long-term aims.

The national development plan is the reference framework for annual plans and programmes; the latter are prepared by a commission that establishes the order of priority among investments in the light of overall development aims and in accordance with available fiscal resources and internal and external credit. This commission meets frequently with the Secretaries for Finance and the Presidency to inform them of its point of view regarding developments and the fulfilment of targets, to exchange ideas and to suggest procedures for the application of instruments of economic policy.

It has been mentioned that the plan is mandatory only for the public sector and that private persons engage, on the basis of its indications, in certain economic sectors that satisfy their requirements regarding security and yield, of course taking advantage of the facilities granted them by the public sector in the form of tax incentives, infrastructural works, the availability of credit, etc. On the other hand, the public sector has a detailed programme of work with very concrete objectives with regard to investments and expenditures as well as income from taxes and other revenues, products and various operations, and internal and external loans.

In orthodox terms, the national plan and the corresponding annual programmes have not been institutionalized. The Secretaries for the Presidency and Finance merely inform the chief executive regarding the nature, scope and significance of plans and it is the President of the Republic himself who decides on economic measures for the implementation of the plan for the public sector, through the State Departments and Secretariats, the decentralized agencies and the joint State-private enterprises.

In fact, the annual plans and the concrete development programmes become effective when they are incorporated in the general budget of expenditure of the Federation, which is administered through the agency of the Secretariat for Finance and Public Credit.

The national plan established a series of basic objectives and quantified the targets to be reached from the point of view of output, consumption, investment, imports, exports, tax policy, sources of finance for investments, capacity for external indebtedness, educational requirements and the need for labour, growth of population and other variables.

The needs of economic development were analysed by sector, using an input-output model and projecting the growth of the exogenous variables for the years covered by the national plan.



Private consumption was projected on the basis of the input-output table and using the coefficients for the income elasticity of demand which were obtained from a survey of family income and expenditure. Government consumption was projected by means of regression analysis over a series of fifteen years. Exports were projected according to the probable behaviour of fifty products. Stocks were projected as a proportion of gross fixed capital investment and the latter, i.e. gross fixed capital investment, was projected by means of final demand and the capital-output ratios of the base year used in the preparation of the table.

Once final demand had been established in the above-mentioned manner, the requirements of total gross production and the levels of intermediate demand were determined by working backwards from the table.

The State Departments and Secretariats, the decentralized agencies and the joint State-private enterprises formulated specific programmes, details of which were given in an annex to the national plan entitled: "Programme of the public sector 1966-1970"; the programme indicated levels of expenditure and investment for each branch and it was estimated that the requirements of public federal investments would reach an amount of 95,000 million peses in the five-year planning period and that this investment would powerfully stimulate the private sector. In one of its paragraphs, the national plan states:

".....The more favourable prospects for total demand resulting from the growth in public investments and the general promotional policies established in the plan, as well as the sectoral targets, will strengthen and encourage those decisions of the private sector that are necessary to ensure the desired expansion of investments by this sector and their orientation towards activities of high national priority. In the period 1966-1970 the entire private sector, including private construction, should make total fixed investments of 180,000 million peses, as compared with 151,000 million peses in the period 1960-1965. Should private investment not reach this level, the public sector would meet the requirements of development by means of adequate compensatory measures."

It is worth while to point out that the gross national product, in general terms has surpassed the levels provided for in the plan, though some sectors have lagged behind, causing some bottlenecks and considerable regional and sectoral disequilibria.

On the basis of the programme of the public sector, the Commission for Public Sector Programmes, requests the State Departments and Secretariats as well as the agencies and enterprises of the Federal Government to provide annual details of their investments, which are submitted to a careful process of economic and financial evaluation. When the order of priority of investments has been fixed, they are submitted for consideration to the President of the Republic, who gives final approval and orders their incorporation in the general budget of expenditure.

The "National plan for economic and social development 1966-1970" has been revised and adjusted annually for the purpose of refining or perfecting the planning methods used originally. At the moment work is proceeding with advanced econometric models and better statistical data.

### III. SYSTEMS FOR THE SUPERVISION OF THE DECENTRALIZED AGENCIES AND JOINT STATE-PRIVATE ENTERPRISES

The Act concerning the supervision by the Federal Government of the decentralized agencies and joint State-private enterprises indicates the machinery and instruments used by the public sector for reviewing, supervising and developing these bodies.

To sum up, supervision is carried out at three levels:

1. A supreme board of management for the entire para-State sector under the responsibility of the Secretariat for National Resources;
2. Supervision of the investments of the agencies and enterprises under the responsibility of the Secretariat for the Presidency;
3. Control and supervision of the budget of income and expenditure under the responsibility of the Secretariat for Finance and Public Credit.

The Secretariat for National Resources controls and supervises the operation of the agencies and enterprises by means of a permanent board of auditors and technical inspections; the purpose is to provide information on day-to-day running, to ensure the efficient functioning of the agencies and enterprises on the economic plane, to confirm that they are operating correctly, to verify compliance with the decrees issued by the Secretariat for the Presidency with regard to the supervision of investments as well as with the rules indicated by the Secretariat for Finance and Public Credit for the administration of their budgets.

The Secretariat for the Presidency, in co-ordination with the Secretariat for Finance and Public Credit, is responsible for supervising the investment programmes and plans of the agencies and enterprises and for communicating them to the Secretariat for National Resources so that they can be incorporated in its supervisory programmes.

The Secretariat for Finance and Public Credit, for its part, has budgetary supervision of the agencies and enterprises and supervises and authorizes the contracting of loans by these bodies. The Secretariat for Finance notifies the Secretariat for National Resources of the amount of the budgets and relevant financial procedures for each agency and enterprise subject to its financial supervision.

The Secretariat for National Resources has the power to submit for the consideration of the President of the Republic alterations in the structure and the organizational and operational bases of the agencies and enterprises, after hearing the opinion of those departments of the executive whose functions are related to the object or aims of the agency or enterprise in question, provided that such alterations are required for better performance of their functions, the achievement of their aims or the more efficient co-ordination of their activities with those of the various departments of the executive and of the other agencies and enterprises.

The budget of expenditure of the Federation and the law on income of the Federation cover the main agencies and enterprises in the para-State sector, which are under an obligation to deposit with the treasury of the Secretariat for Finance all income that they receive under any head whatsoever: the sale of goods and services, miscellaneous income, income for the account of third parties, domestic financing, external financing, the sale of fixed assets and income derived from recoverable outlays.

The expenditure budget of the main State enterprises and agencies is administered according to the system of budget categories and by the use of payment orders checked by the Secretariat for Finance. The expenditure budget includes various items of current and capital expenditure.

Agencies or enterprises may not make direct arrangements for internal or external financing. In every case they must seek the authorization of the Secretariat for Finance.

#### IV. TRENDS IN THE EXPENDITURE BUDGET FOR AGENCIES AND ENTERPRISES

As has been pointed out, the principal agencies and enterprises in the public sector are subject to the budgetary control of the Secretariat for Finance.

In the last four years the annual expenditure budgets have been as follows:

	<u>Expenditure budget</u>			
	(millions of pesos at current prices)			
	1965	1966	1967	1968
Decentralized agencies	22,741.7	27,013.4	33,245.9	37,655.9
Joint State-private enterprises	4,562.2	5,644.9	5,350.1	4,441.6
<b>TOTAL</b>	<u>27,303.9</u>	<u>32,658.3</u>	<u>38,596.0</u>	<u>42,097.5</u>

In the years under consideration the total budget expenditure increased by 55 per cent, but the most significant increase was in the expenditure of decentralized agencies, which increased their disbursements by more than 65 per cent.

The group of decentralized agencies includes the most progressive ones in the public sector. The most outstanding examples are: Petróleos Mexicanos, whose share last year represented 37 per cent of the total for all agencies, the Federal Electric Power Commission, representing 13 per cent of the total budget for expenditure by agencies and the Mexican Institute of Social Insurance, whose share was 15 per cent.

As regards the joint State-private enterprises the reduction in the budget of expenditure in the last year is caused by the fact that a group of regional electricity generating firms merged with the Federal Electric Power Commission. The most important firm is certainly the Compañía de Luz y Fuerza del Centro, S.A., which represented 65 per cent of the total expenditure of the group of enterprises whose budget is controlled by the Secretariat for Finance.

In general terms there is a balance between estimated income and budgeted expenditure. Although there are at present considerable problems in relating the items of income and budgeted expenditure to the final result of the accounting records of the agencies and enterprises, it must be admitted that the controls have been gradually improved and that from a strictly economic point of view the budget figures reflect the realities of the situation.

#### V. FINANCING OF AGENCIES AND ENTERPRISES

As has been pointed out, although the supervision of the agencies and enterprises rests with the three State Secretariats, the investment policy of the Federal Government as regards public agencies and enterprises is the responsibility of the Secretariat for the Presidency and the Secretariat for Finance.

The basic functions of the former are to supervise the economic and social development plans and programmes, and of the latter to control monetary and credit policy and to be responsible for fiscal policy and public expenditure.

The Secretariat for the Presidency is responsible for authorizing investments in the para-State sector in order to keep control of the progress of the National Plan of Development and of the public sector programme.

One of the functions of the Secretariat for Finance is to maintain the balance between budgetary income and expenditure and to judge the payment capacity of agencies and enterprises in the light of the possibilities of external and domestic indebtedness for the whole of the public sector.

In these circumstances, the financing of new investments using outside funds has to pass the scrutiny of the Secretariat for the Presidency and the Secretariat for Finance.

The development plans of each agency and enterprise are of course included in the long-term programme of the public sector. Nevertheless, it is necessary to adjust the individual programmes each year to the general possibilities of development in the country.

In the last two decades the Mexican Government has ensured that the total growth rate of the economy considerably exceeds the rate of population increase. There has been growing development in the strategic sectors; many economic and social activities have been pressed forward; high investment rates are being maintained in both the public and the private sectors; monetary stability has been consolidated and inflationary pressure has been controlled. Owing to the stabilized development of the national economic system, a firm position has been consolidated in the international money market and, as a result, the degree of indebtedness of the para-State sector has risen under fully controlled conditions.

The principal decentralized agencies and joint State-private enterprises have in the last three years increased their outside resources by foreign and domestic financing to the extent of 7,413 million pesos, while in the same period their own resources rose by 6,350 million pesos. This means that out of a total volume of funds received of 15,763 million pesos, 60 per cent was from public and private sources of credit and 40 per cent from an increase in capital proper.

Between 1966 and 1969 the financial resources of financing in relation to the principal agencies and enterprises were as follows:

Liabilities and bank capital (net worth) of the principal agencies  
and enterprises  
(million pesos of Mexican pesos)

	1966	1967	1969
Short-term liabilities	<u>10,892.0</u>	<u>13,514.0</u>	<u>15,535.7</u>
Other creditors	<u>321.5</u>	<u>230.1</u>	<u>599.2</u>
Long-term liabilities	<u>19,397.6</u>	<u>21,924.5</u>	<u>23,526.3</u>
Banks and official institutions	3,443.9	3,060.6	1,565.7
"Nacional Financiera"	5,473.5	6,129.2	7,433.7
National private banks	276.6	508.7	779.7
Federal Government	1,152.4	1,138.6	1,091.1
National private lending	982.6	1,117.4	1,209.7
Provision for contingent liabilities	1,185.2	1,290.9	1,247.7
Foreign banks	4,941.3	6,139.3	7,809.6
Foreign private lending	3,122.2	3,830.6	3,635.6

Deferred liabilities	<u>282.1</u>	<u>604.4</u>	<u>530.2</u>
Book capital	<u>46,700.1</u>	<u>51,564.8</u>	<u>53,042.7</u>
Capital stock	40,109.2	45,867.4	48,031.3
Operating surplus	6,590.9	5,697.4	5,011.4
Total liabilities and capital:	<u>70,528.2</u>	<u>77,121.6</u>	<u>74,574.1</u>

The table shown above indicates the persistent rise in financing provided by foreign banks and the increase in credits granted by Nacional Financiera (the National Development bank); the latter have offset the reductions in finance provided by banks and official institutions. Short-term liabilities rose by about 50 per cent as a result of the simultaneous increase in current transactions.

A highly significant fact is that, although in absolute terms the amount of credits from private banks is small, the allocation of funds by these banks to the agencies and enterprises nearly doubled between 1966 and 1967. Such factors as confidence, monetary stability and future prospects of development combined to make this increase possible.

In the aggregate the resources of the agencies and enterprises have shown constant increases; on the other hand there is a noticeable fall in profits. This is explained by the combination of two factors: first, the considerable expansion taking place throughout the para-State sector, which, in the nature of things, tends to delay the return on investments; second, the persistent rise in the deficit in running the railways, the farming subsidies and the distribution of vital foodstuffs have reduced surpluses.

The decentralized agencies have shown a trend towards a higher level of indebtedness in the last three years. Short-term liabilities have almost doubled and long-term liabilities have risen by almost 33 per cent. In the case of short-term liabilities, apart from the rise in the current operations of all the agencies, a large part was played by the transfer of debts from regional electrical undertakings to the Federal Electric Power Commission. In the case of long-term liabilities the largest increase has taken place in loans from the Nacional Financiera and from foreign banks.

The table below shows the trend in liabilities for the years mentioned:

Liabilities and Capital of the  
CFIA (Caja Costera de Fomento)  
(in millions of Costa Rican Colones)

	1957	1958	1959
Short-term liabilities	5,217.7	6,000.0	11,715.1
Other creditors	113.6	129.1	602.5
Long-term liabilities	15,353.0	17,357.1	20,330.3
Banks and official institutions	3,169.5	2,469.7	1,342.9
National Financiera	3,541.3	4,467.0	6,957.3
National private banks	276.6	508.7	679.7
Federal Government	1,152.4	1,138.6	1,076.1
National private finance	306.2	1,004.2	1,080.2
Provision for contingent liabilities	1,165.2	1,290.9	1,247.7
Foreign banks	3,644.2	4,587.1	6,251.3
Foreign private lending	2,362.3	3,121.7	2,913.1
Deferred liabilities	193.1	524.0	435.9
Stock capital	41,235.5	45,979.5	47,611.5
Surplus	36,301.9	40,706.6	43,030.6
Reserve	4,933.9	5,272.2	4,286.9
Total of liabilities and capital	64,340.0	71,015.0	82,140.0

The total increase in short-term liabilities during the period was in excess of 100 per cent. There was a deficit in Mexico of 200 million Colones in 1957, 200 million in 1958 and 200 million in 1959. The Federal Electric Power Commission was established in 1957 with 1,000 million Colones of capital and the Government of Costa Rica (Caja Costera de Fomento) with 500 million.

Among long-term liabilities, credits granted by National Financiera almost doubled in the three years and the total liability thereon was to this institution (1,987.5 million pesos), 25 per cent represents credits granted to the Federal Electric Power Commission as supplementary funds for the national electrification program.



The debts to foreign banks are owed by three agencies: the Federal Electric Power Commission, Petróleos Mexicanos and the Federal Toll Roads and Bridges. In absolute terms the largest increase occurred in the case of the Federal Electric Power Commission, whose debt rose from 2,776.4 million in 1966 to 4,690.0 million in 1968, representing 75 per cent of the total for all agencies.

The foregoing comments show that the fullest use of long-term credits was made by the Federal Electric Power Commission, owing to the fact that it had to carry out a large expansion programme, its main task being to double the electricity generating output in six years. Apart from raising loans from national and foreign development banks, this agency has increased its bank capital from 8,928.9 million pesos to 11,325.2 million, of which 10,868.5 million represent capital stock and 456.7 million the accumulated surplus.

Another important item in the long-term liabilities consists of the credits granted by foreign private lenders: of the total used by the agencies 70 per cent was absorbed by Petróleos Mexicanos in the final year and covers primarily credits for the purchase of machinery and equipment. This heading also includes large balances incurred for the same purpose by the National Railways of Mexico.

The credits granted by national private banks were mainly to Petróleos Mexicanos (533 million) and to the National Institute of Housing.

Of the liability reserves shown in the table the greater part relates to Petróleos Mexicanos and covers reserves for compensation and for miscellaneous credits.

Parallel with the development of the agencies there has been an increase in their net resources, bank capital having risen by 16 per cent between 1966 and 1968. Capital stock rose by 6,720.7 million and the accumulated surplus was reduced by 19.3 million in the years under review.

The major increases in capital stock were in the National Railways of Mexico (to absorb the accumulated deficit), the Federal Electric Power Commission, the Institute of Social Security for State Employees, and Airports and Auxiliary Services.

As regards the decentralized enterprises, the absorption of regional electrical undertakings by the Federal Electric Power Commission somewhat distorted the comparability of liability accounts. In the final year the only survivors in this group were the Compañía de Luz y Fuerza del Centro, which supplies power to the Federal District, three regional railway systems and Aeromexico de México, the State airline.

The liabilities of the principal decentralized enterprises are shown below, expressed in millions of pesos at current prices:

	1965	1967	1968
Short-term liabilities	4,724.6	4,820.9	3,820.6
Other creditors	150.4	101.0	97.0
Long-term liabilities	4,044.6	4,527.3	3,195.5
Banks and official institutions	274.1	590.9	223.8
National Financiera	1,537.2	1,662.1	446.4
National private banks	-	-	100.0
Federal Government	-	-	15.0
National private lending	176.3	113.2	129.5
Foreign banks	1,297.1	1,452.2	1,558.3
Foreign private lending	759.8	708.9	722.5
Deferred liabilities	89.0	80.4	94.3
Bank capital	5,464.3	5,585.3	5,238.2
Stock	3,507.9	5,160.7	5,007.7
Surplus	1,656.4	424.6	230.5
Total of liabilities and capital:	14,480.9	15,115.0	12,445.7

It will be observed that the decentralized enterprises under budgetary control last year made only moderate use of short-term or long-term outside funds.

The most noteworthy fact regarding the liabilities of the enterprises is the increase of more than 400 million pesos as a result of borrowing from foreign banks by Aeromexico de México for the primary purpose of modernizing and extending the national air fleet.

## VI. CONDITIONS OF FINANCING

The financial resources channelled to the public sector agencies and enterprises are supplied subject to a careful study of investment programmes and projects. As has been mentioned, apart from the central level administration and efficiency exercised by the Secretariat for National Resources, the Secretariats for the Presidency and for Finance are responsible for verifying conformity with the general plan for the public sector and analysing the payment capacity of each public entity and the country's indebtedness capacity.

The short-term and long-term investment projects are in line with the goals which the public sector has set itself. Investment programmes are guided by technical, economic and financial studies; the direct and indirect effects and social and political repercussions are naturally taken into account.

The para-State sector has established direct relations with international financial organizations and, on several occasions, the agencies and enterprises have obtained credit without the requirement of direct backing from the Federal Government; at other times, financing was obtained with the help of a guarantee from Nacional Financiera, which is the national development institution.

Procedures for the obtaining of credit extend from direct loans to the issue of bonds and mortgage debentures, and credits granted directed by suppliers of plant and equipment.

The cost of funds from outside sources varies. Choice of the source of financing depends on the purpose of the investment, the amount, the maturity stage, the source of the equipment, and a comparative study of the financing conditions: whether the financing is "tied" or free of conditions, the repayment period, amortization, the cost of the funds, the currency in which they are made available, etc.

State agencies and enterprises are obliged to satisfy the Secretariat for the Presidency and the Secretariat for Finance that the borrowing is justified, and to present a comprehensive programme showing the order of priorities for the capital expenditure, together with an opinion as to whether or not the investment will be self-liquidating as a result of the products generated.

The opportunity cost of financing from the resources of the enterprise and from profits is obviously high; however, it must be borne in mind that the production of goods and services by the para-State sector has in itself a very important social function and, not infrequently, sales prices and rates are lower than production costs because the supply of inputs at reduced prices acts as a stimulus for the development of other economic sectors.

This point is frequently a target of criticism on the part of private enterprise but this is because of a failure to take into account the function performed by the State in the promotion of development and its entrepreneurial role in which what is important is not monetary profits but the direct or indirect impetus which its activities will provide. For example, private entrepreneurs have recognized that the part played by Petróleos Mexicanos, the Federal Electric Power Commission and the Railways has been decisive in the industrialization of the country, and has accepted the fact that if these activities had been left to private initiative the process would have slowed down.

#### VII. THE SITUATION WITH REGARD TO PUBLIC MANUFACTURING ENTERPRISES IN MEXICO

So far the discussion has been concerned with the classification of public sector enterprises in Mexico, their importance in the country's development plans, the control systems in existence, and the general question of the financing of State enterprises.

We shall now discuss manufacturing industry, the problems of financing it and the participation of the Government in this industrial sector.

Within the Mexican national economy, manufacturing industries contributed 28.5 per cent to the gross domestic product in 1965. Various factors have helped to maintain a high rate of growth in the industrial sector. The economic infrastructure projects carried out by the Federal Government in the fields of communication, transport, energy, irrigation, etc., have enabled the public sector itself and, especially, the private sector to invest productively in various industrial branches and economic foundations. At the same time, the high yield of public investments in basic industries, such as petroleum and petrochemicals, basic chemicals, iron and steel, electric power, gas, etc., has stimulated the growth of the whole sector.

Similarly, the policy of industrial protection adopted by the Government has acted as a powerful spur to the development and diversification of national industry. This policy has been embodied in legal provisions to encourage industrialization, such as the Act for the encouragement of necessary new industries and of reinvestment and the Act on income tax, and also in the system of tariff protection and import control."

"In general, the private sector has seized the opportunities offered by the policy of industrial promotion, investing in trenches which require more and more capital and technical knowledge. It must be further pointed out that government investments in other sectors of the economy, such as education and social welfare, have an undeniable - although not easily measurable - indirect effect on industrial productivity. It may be said that, in the case of Mexico, the difficult stage of industrialization based on the replacement of imports of consumer goods has been completed. One need only point out that most of the consumer goods required, of all kinds, are now produced in the country. Of total imports, about four-fifths are represented by industrial raw materials and capital goods."

"With a relatively diversified industrial foundation on which to build, the country is now on the threshold of a second stage of industrialization, a stage which will have to be characterized, firstly, by the devotion of special attention to every industry for the purpose of replacing imports of capital goods and, secondly, by a steady rise in productivity levels in the various trenches of industry so that Mexican manufactures can win a growing share of world markets."

The financing of this industrial sector is obtained through the national private banking system and, to some extent, through loans from abroad. Much of the financing of State manufacturing enterprises takes place through Nacional Financiera. In 1966 alone, this institution paid out 5,169 million pesos, representing 19 per cent of total financing.

In Mexico, most of the manufacturing industry is in the hands of private entrepreneurs and the Government intervenes directly in this field only by way of exception, in view either of the social importance of the industry, as in the case of the production of fertilizers for agriculture, or of the risks involved in a very large undertaking, such as a shipyard, or of the need to preserve non-renewable natural resources, as in the case of the working of sulphur deposits.

In manufacturing enterprises properly so called, the State has intervened in many cases in order to protect a centre of employment, as with some textile companies or enterprises concerned with forestry products; it can be assumed that its presence in these industrial branches is merely incidental and temporary, while the conditions of normal operation are being restored.

It may be concluded from the foregoing that substantial participation in manufacturing industry is not an objective of the economic policy of the Mexican Government and consequently the financing of this type of enterprise is not a problem of national importance. When problems of financing arise in this sector, they are normally solved through the financial organs of the Federal Government, which is Nacional Financiera.

For purposes of illustration, we shall now consider the enterprise Altos Hornos de México, S.A., which can be described as follows:

#### Backer and

Altos Hornos de México, S.A., was set up in 1942 with a capital of 22 million pesos; its present capital is 500 million pesos. In order to protect its supplies and services and avoid dependence on third parties at critical levels, it has organized or acquired various undertakings and thus formed an "economic unit", entitled AHMSA, in order to facilitate its iron and steel making activities. This entity includes iron mines, coal concerns, real estate concerns, commercial undertakings, etc.

#### Powers

Altos Hornos de México, S.A., is a decentralized public agency, endowed with legal personality and its own resources, with the following purposes:

1. Iron and steel making activities, and the principal derivative or related activities, including the following: the preparation, production and sale of raw materials and other materials required for iron and steel making and the manufacture of iron and steel products; the production, transformation, finishing and sale of primary finished or semi-finished iron and steel products and of articles, machinery, tools or accessories made totally or partially of iron or steel;

- II. The production, transformation, finishing and sale of non-ferrous metals and articles manufactured from such metals;
- III. The installation, purchase or rent and operation of all kinds of industrial units connected with the activities mentioned above.

Organic structure

- 1.0. Meeting of Shareholders
- 1.1. Director-General
- 1.2. General Manager
  - 1.2.1. Administrative Manager
  - 1.2.2. Operational Manager
  - 1.2.3. Financial Manager
  - 1.2.4. Sales Manager
  - 1.2.5. Manager for Legal Questions

Functions

1.0. Meeting of Shareholders:

As in any joint-stock company, the supreme organ is the Meeting of Shareholders, which freely appoints the governors (12 votes) and commissioners (numbering 3) responsible respectively for the administration and oversight of the enterprise, without any reservations or limitations.

1.1. Director-General:

He is responsible for administering the operations of the composite entity AHMSA and of its assets, taking into account the decisions of the Governing Board; he is responsible for carrying out the decisions of the Meeting of Shareholders and of the Board, representing the company with all powers to act for it in regard to property transactions, administration, litigation and action to recover debts, and signing certificates of indebtedness; he is also empowered to sign the firm name.

**1.2. General Manager:**

He is responsible for the planning, installation, organization, operation and technical, administrative and commercial management of the mining and metal-working components of AHMSA, in conformity with the instructions of the Governing Board and the Director-General; he is also responsible for purchases of machinery and equipment and for sales abroad.

**1.2.1. Administrative Manager:**

He is responsible for organizing the human, natural, financial and industrial resources involved in production, and the activities indicated by his title, particularly those relating to personnel, work, internal organization, transport, publicity and fixed assets.

**1.2.2. Operational Manager:**

His functions are to programme, organize and supervise production and ensure the execution of the production plans of the components of AHMSA, in order to obtain maximum efficiency in manufacture, in the light of installed capacity and the requirements of the market; in general, he is in charge of all matters related to the technical and operational activities of the mining and metal-working components of AHMSA.

**1.2.3. Financial Manager:**

His tasks are to keep a check on the financial situation of AHMSA and, in particular, its funds and its lending and borrowing operations; he also supervises the accounts, tax statements and payment of taxes.

**1.2.4. Sales Manager:**

He is in charge of distribution and sale within the country of the products of AHMSA, advertising, storage, credit for purchases, relations with customers and marketing.



**1.2.5. Manager for Legal Questions:**

He interprets and applies the by-laws and statutes and insures compliance with acts and contracts to which AHMSA is a party or which concern or involve it. He has power of attorney and represents AHMSA in relations with authorities of all kinds and private individuals.

AHMSA has achieved steady increases in its industrial capacity over the last ten years. Up to 1958, its investments totalled 682 million pesos, whereas by 1968 they had reached the figure of 2,667 million pesos - that is to say, the resources invested in the last ten years were four times those invested in the first eighteen years of the existence of this enterprise.

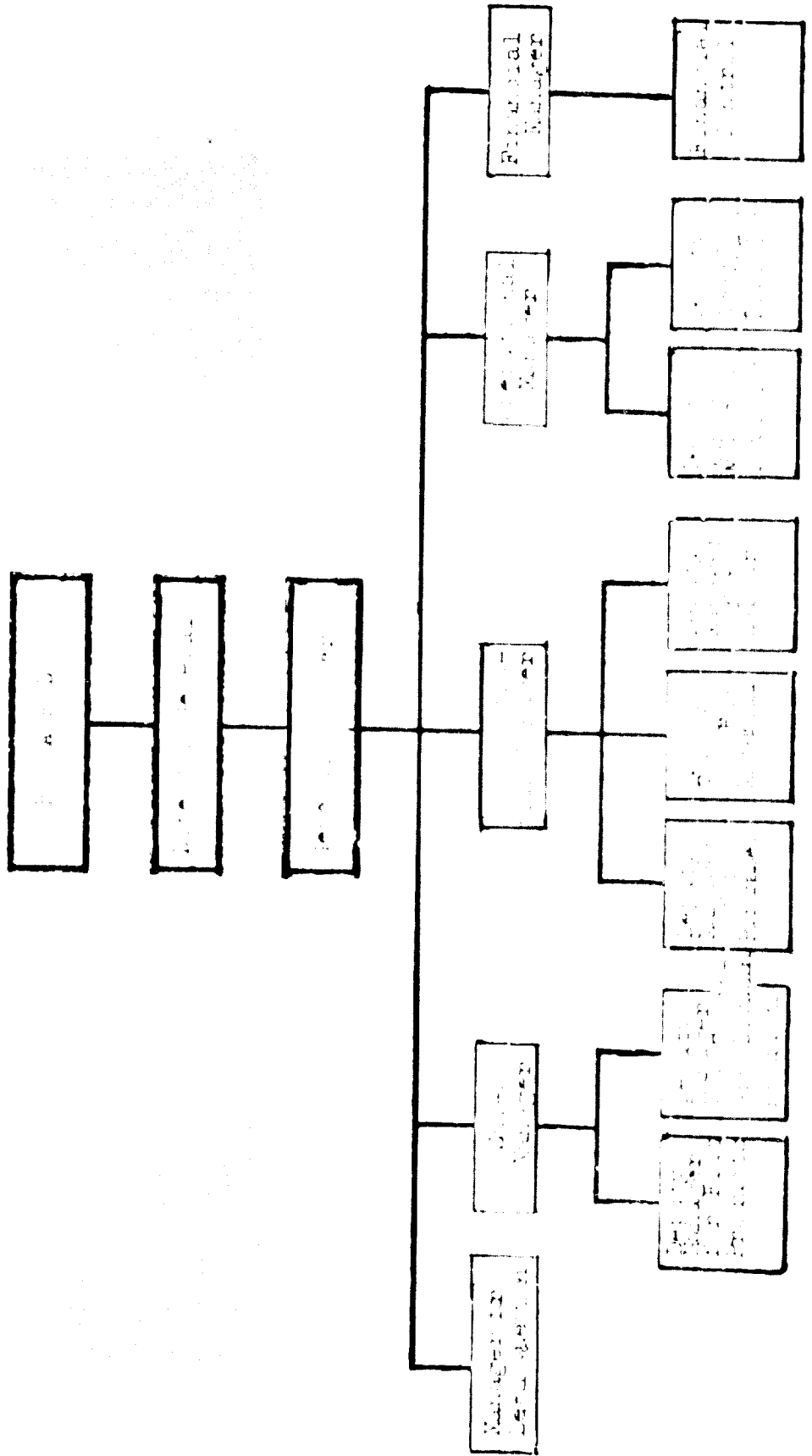
AHMSA, as an individual enterprise, is the largest producer of steel at the present time in the whole of Latin America.

The sales of the enterprise in 1967-1968 came to more than 2 million pesos, of which only 7 per cent were payable to the public sector and 78 per cent to the private sector, exports accounting for 9 per cent.

As on 31 December 1968, the assets of the enterprise were 3,331 million pesos and its liabilities 1,995 million pesos; among liabilities, debts with maturities of less than a year accounted for 215 million pesos and short-term indebtedness for 1,411 million pesos.

Of the long-term indebtedness, 30 per cent is represented by mortgage bonds placed on the domestic securities market in Mexico, 18 per cent by credit in the form of foreign loans granted by the Export-Import Bank (Eximbank) of the United States of America, and 30 per cent by credit from national credit institutions and suppliers.

ALTOS HORNOS DE MEXICO, S. A.





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