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D01660

*Financing of Manufacturing Industry in Selected Countries of the Middle East**

THE ACTIVITIES OF the fiscal organizations in Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and Syria which are directly or indirectly concerned with industrial financing are reviewed in this study in an effort to assess the role they are performing in the industrialization process in the Middle East. This study also attempts a quantitative description and a degree of analysis of the methods used in the financing of the manufacturing industry in each country. Three separate financial areas are examined: (*a*) the financial institutional structure and government policies designed to promote industrial financing; (*b*) the present role and relative importance of the contribution made to the financing of manufacturing by commercial banks, specialized financial institutions, the Government, foreign sources and the domestic private sector; and (*c*) the requirements and financing of working capital.

Industrial financing is relatively new in the countries of the Middle East. There is therefore an obvious need to examine present practices and to identify ways in which industrial financing can be fully developed and utilized.

THE INSTITUTIONAL STRUCTURE

The institutions playing an important role in industrial financing in the Middle East countries are the central banks and central monetary agencies, the commercial banks, the Governments, which provide financing to industry through specialized financial equity capital, the specialized financial institutions and, in the case of Lebanon, the stock exchange. The relative contributions of these organizations are examined in the following pages in an effort to focus attention on their activities and to assess their impact on the industrialization process both nationally and regionally.

Central Banks

A central bank system is maintained only in Iraq, Jordan, Lebanon and Syria—the remaining countries, Kuwait and Saudi Arabia, conduct their government fiscal operations through a Currency Board, and a Monetary Agency, respectively. In general the role of the Central Banks and monetary agencies in the Middle East area has been very limited in promoting industrial financing. This is due in part to the slow evolvement of the central banking organizations and to the circumscribed financing responsibilities which have been assigned to them. As a consequence the Central Banks have also wielded little influence on the policies of commercial banks with regard to making funds available to finance industrial development.

In contrast with the situation in the Middle East, the Central Bank is a significant factor in many countries in the promotion of industrial financing. One example which illustrates the role a Central Bank can play is that of Mexico where the Central Bank influences the composition of investments of commercial banks through control of their reserve requirements. The International Bank for Reconstruction and Development (IBRD) in a recent report on Mexico described the Bank's activities in this regard as follows:[1]

> What started as a simple control over the amount of reserves to be held in cash by the other banks in the Bank of Mexico, with time and experience has become a flexible and most effective instrument of policy. In 1949 the Bank's power to control reserve requirements was broadened to include authority to prescribe to the other financial institutions how (in percentages) they must distribute their deposits and reserves among alternative types of loans and investments. The mechanism was very simple and very effective: establish very high reserve requirements on new deposits—most of them equivalent to 100 per cent—which the Bank of Mexico could then waive provided the respective bank was willing to invest its new deposits in loans, credits and investments according to a schedule of specific proportions determined by the Bank of Mexico. This was an indirect way of carrying out a compulsory investment programme, according to priorities established by the Bank of Mexico, for the

*This study was prepared jointly by the Centre for Industrial Development and the United Nations Economic and Social Office in Beirut, as a background paper for the Conference on Industrial Development in the Arab countries, held 1-10 March 1966 in Kuwait.

[1] International Bank for Reconstruction and Development, *A Review of the Capital Market in Mexico* (Report No. EC-104, January 1962), pages 33-35.

View of crystallizers or "salt beds" of the potash works in the northern sector of Jordan's coastline in the Dead Sea region

utilization of bank deposits (including demand deposits), in the absence of a voluntary market for public securities, and medium- and long-term credit facilities.

Central banking in the Middle East is restricted to carefully defined functions. The Central Bank of Jordan, in operation since October 1964, has been engaged primarily in the issuance of currency, acting as banker to the Government, controlling foreign exchange transactions and providing clearing facilities to commercial banks. The Central Bank of Lebanon, which began operations in April 1964, is also in its initial stage of development. It took over the currency issue function from the Banque de Syrie et du Liban and provides rediscount facilities to commercial banks. The Bank has not yet invoked one of the important clauses of the Money and Credit Law which provides that all classified banks should, in due course, make a statutory deposit with the Central Bank. Although the Central Bank of Iraq has the responsibility for all monetary and credit policy matters, as well as certain authority to regulate the reserve requirements of commercial banks, final authority rests with the Minister of Finance who has veto power over decisions of the Central Bank Board.

The Syrian Central Bank, in operation since 1956, issues currency notes, conducts foreign exchange operations, acts as banker to the Government and extends credit for commercial, industrial and agricultural purposes. In addition the Bank supervises the industrial and agricultural banks. Control over the commercial banks is, however, exercised by the Currency and Credit Board rather than by the Central Bank. The Currency Board of Kuwait, in addition to issuing currency, controls and directs the deposit and cash policy of the country, and buys and sells foreign currencies to commercial banks. The Saudi Arabian Monetary Agency issues currency and acts as a banker for the Government. It is not empowered to rediscount commercial paper, since article 2 of Royal Decree No. 23 provides that "The Saudi Arabian Monetary Agency shall not pay nor receive interest . . ."

Commercial banks

With the exceptions of Iraq and Syria, commercial banks in the other Middle East countries have been the financing organizations which have provided the bulk of industrial credits for industrial development.

The Government of Iraq nationalized the banking system in 1964 and converted the ten private commercial banks (including seven foreign banks) into two government banks, to be managed and controlled by a special body, the General Bank Organization.

Of the nine commercial banks in Jordan, four are

Jordanian, three Arabian and two foreign non-Arabian. Four of these banks have their head offices in Jordan and, with the exception of one bank, they maintain more than one branch in the country. In all there are fifty-seven branches, of which fifteen are located in Amman, eight in Jerusalem and the remainder are distributed over thirteen other centres. Kuwait has four banks of which one is foreign and three national. The country with the largest number of commercial banks is Lebanon: it has more than 100, of which eighty-six are "classified" or "approved" banks which have the right to deal with the Central Bank and have clearing, rediscount and other facilities. Of the eighty-six approved banks, thirteen are foreign non-Arab banks. Most of the national banks are small and many of them are "family banks". Although the presence of a social framework in Saudi Arabia, within which the charging of any interest rate is not permissible, has hampered the development of credit institutions, there are now twelve commercial banks in existence; three are local, four Arabian and five foreign non-Arabian.

Before the additional action of nationalization of the banking system in Syria in May 1963 there were sixteen commercial banks in operation, two of which were already nationalized. After nationalization these banks were amalgamated into five government banks. Other recent measures by the Government have been the establishment of ten to twelve new branches in rural areas, the expansion of credit to cover a larger number of small borrowers and steps requiring companies to deal with only one bank. The management of the five banks is in the hands of the "Economic Organization", an organization established in 1960, but is subject to the control of the Currency and Credit Board.

Specialized financial institutions

There are two types of specialized financial institutions in the Middle East countries: those which provide finance only to industry and those which have a wider range of activities. In the former category are the Industrial Banks of Iraq, Jordan and Syria; in the latter are the Industrial Development Bank of Jordan, the Credit Bank of Kuwait, and the Banque de Crédit Agricole, Industriel et Foncier (BCAIF) of Lebanon. The oldest of the industrial banks—the Industrial Bank of Iraq—began operations in 1946 and maintains the most varied scope of activities. It has been active both in the extension of credits and in the promotion of industry through participation in the share capital of industrial companies. In Jordan, the newly established Industrial Development Bank, which began operations in 1965, is the successor to the Industrial Development Fund and the Development Bank of Jordan, both of which it absorbed.

The former Industrial Development Fund of Jordan, which extended loans to industry and to projects for developing tourism, began operations in 1953. It was established originally to finance special projects, mainly hotels, in co-operation with the United States Overseas Mission in Jordan. The new Industrial Development Bank of Jordan is a mixed enterprise with the Government subscribing one third of its authorized capital of JD 3 million the remaining JD 2 million, consisting of preference shares, is to be taken up by the private sector within three years. The Industrial Development Bank Law contains the following clauses as an incentive to the private sector to subscribe to its capital: a minimum guaranteed dividend of 6 per cent annually on preference shares only (held by the private sector) and an exemption for these dividends from income tax; where profits are insufficient to cover this minimum dividend, the Government shall pay the difference. The Government is entitled to receive dividends only if the profits of the bank exceed 12 per cent.

The Kuwait Credit Bank, a government financial institution, extends credits to government employees, agriculture, industry and real estate. In July 1965 it became a part of the newly established Credit and Savings Bank with much wider financial resources and operations.

The Banque de Crédit Agricole, Industriel et Foncier (BCAIF) of Lebanon, in which the Government has participated to the extent of 40 per cent of the equity capital, began operations in 1956. It extends short-term, medium-term and long-term credits to finance projects in agriculture, industry and real estate. Its activities have been financed mainly by loans from the Banque de Syrie et du Liban and by a $5 million loan from the United States Development Loan Fund.

The Industrial Bank of Syria was established in 1959 and began operations in the same year. It was a mixed enterprise before it was nationalized in 1961. Now, although it offers some long-term loans and participates in the capital of industrial establishments, its principal credit operations are short-term loans which normally are handled by commercial banks.

Statistical data indicate that the Beirut Stock Exchange has played a relatively insignificant role in promoting industrial financing in Lebanon. Only thirteen of the forty-seven joint stock companies quoted on La Bourse de Beyrouth in 1965 were engaged in industry, and transactions in industrial shares in 1964 amounted to £L12 million or about 15 per cent of total transactions (£L81 million).[2] However, interest in industrial shares is increasing. The number of industrial firms quoted increased from four in 1960 to eleven in 1964; the ratio of the turnover in industrial stocks to total transactions has also risen from 4 per cent in 1960 to 15 per cent in 1964, although it should be noted that the turnover figures on industrial shares may be somewhat misleading.

In Lebanon, as in other Middle East countries, there is a general preference for "closed" companies. Founders of new companies tend to provide most of the capital re-

[2] Percentages were derived by dividing the average value of industrial shares (based on the highest and lowest quotations of each share) by the total value of turnover in all shares.

quired, or at least enough of it to retain control of the company; the submission of shares for public subscription is usually done as a matter of formality. In most cases the founders of the companies concerned stand ready to take up any of these shares should public subscription be unsuccessful.

In summary, the role of the private sector in the countries under study is at present very important in Lebanon, Saudi Arabia and Jordan, where, in terms of invested capital, more than 90 per cent of the manufacturing industries is owned by the private sector in the first two countries, and more than 80 per cent in Jordan. With respect to Saudi Arabia, the picture might change considerably after the establishment of some large-scale Petromin industrial projects in the near future in which the Government will participate to a considerable extent. In the case of Kuwait, because of a lack of data, no proper estimate may be made of the importance of private ownership in industry. The situation in Iraq and Syria after nationalization is, of course, quite the opposite. Only one fourth of the industrial sector in Iraq is left in private hands, while in Syria virtually the entire organized industrial sector is owned by the Government.

Government measures to promote industrial financing

Government measures discussed in this section are confined to the following indirect measures which are designed to lead to an increase in industrial financing:

(*a*) Fiscal measures to promote industrial financing such as tax holidays, tax exemptions on retained profits, laws providing for statutory reserves and tax exemption on profits from exports of industrial companies;

(*b*) Promotional measures to attract foreign investment;

(*c*) Measures through the central bank to influence the composition of investments of commercial banks, in order to channel greater investments into industry.

Tax holidays

Eligible industries in Iraq may obtain tax exemption for a five-year period on profits which do not exceed 10 per cent of the company's paid-in capital. This exemption may be extended for another five-year period, but only with respect to profits amounting to 5 per cent of the paid-in capital. In the case of Jordan, exemption in full from income tax and social welfare tax (10 per cent of the income tax) is provided for three years after production is started; and to the extent of 50 per cent for the following two years. No exemption is given, however, from an 18 per cent building tax and a 10 per cent land tax.

New industries in Kuwait are exempted from taxes for a period of ten years. This is the longest period of tax exemption among the six countries under study.

Legislation introduced in Lebanon in 1954 accorded companies established during the five years after 1954 an exemption from income tax for a period of six years from the date of formation. Before the expiration of that period in 1960, the law was extended for a further period of six years ending February, 1965. This legislation applied to profits of new projects which had invested at least £L1 million in Lebanon and which paid out £L100,000 or more annually in wages and salaries to Lebanese personnel. New legislation under consideration proposes that new industries be given a five-year tax exemption on profits, to be extended to ten years if the industry is located in a region in need of special development.

In Saudi Arabia products which are produced for export may be exempted from export fees and all other taxes. In order to stimulate foreign investment in the country, existing legislation provides that "Exemption (shall be given) to the project wherein such foreign capital is invested from income and company taxes for a period of five years from the commencement of production, provided that the participation of national capital in the project shall not be less than 25 per cent of the total capital and that such participation shall be maintained during the period of the exemption". Legislation in Syria providing for tax holidays for new industries dates from 1952. Principally, it provides for an income tax exemption for three years for all new industries.

Statutory reserves and tax concessions on retained profits

The compulsory setting aside of a proportion of the profits of an industrial establishment in a reserve account to be used to finance plant expansion exists only in Jordan. Partial exemption on retained profits as a capital reserve is permitted by law in Iraq, and a draft law containing such a provision is being reconsidered in Lebanon. No known action in this regard has been taken in the other countries.

Under the 1964 Companies Law of Jordan a joint-stock company is obliged to deduct 10 per cent of its net profits annually and to allocate this amount to a statutory reserve account. Profits may not be distributed until this 10 per cent has been deducted, and the deduction of 10 per cent shall continue annually until the statutory reserve reaches 25 per cent of the company's capital. What is extracted from the statutory reserve to pay specified minimum dividends must be refunded from the profits of following years.

In Iraq the 1964 Industrial Promotion Law allows a tax exemption on profits applied in the form of reserves, provided that such reserves do not exceed 25 per cent of the total annual profits.

The draft laws introduced by the Ministry of National Economy in Lebanon in 1958 (deferred at that time and now being reconsidered) contained, among other things, a proposal that a 50 per cent tax exemption should apply to profits which would be used for further expansion.

Measures to promote foreign investment

Although in Iraq the Industrial Promotion Law of 1964 extends its concessions to both domestic and foreign industries, the attraction of such concessions is greatly diminished both by the Government's nationalization measures and by the fact that foreign ownership of the capital of an industry may not exceed 40 per cent if it is to be eligible for these concessions. Furthermore, all transfers of capital out of Iraq require exchange control approval.[3]

In 1955 the Jordanian Government declared that foreign industries established in Jordan should enjoy the same concessions available to domestic enterprises. In addition, foreign investors were guaranteed the right to transfer their annual profits in the foreign currency in which the investment was originally made, and to withdraw the capital itself in the same currency over one year, with a maximum delay retransfer schedule of four annual instalments.

The incentive for foreign investment in Kuwait has been greatly improved by the provisions of the 1965 Industrial Law which extends a ten-year tax exemption to both domestic and foreign companies. Prior to that, domestic enterprises paid a tax rate of 50 per cent on net income exceeding KD375,000. Other incentives to foreign investment are an interest rate of 3 per cent charged by the Government Credit and Savings Bank, virtually free power (gas is virtually free and electricity rates are very low), free land, and the availability of basic industrial facilities provided by the Government in the form of infrastructure and industrial estates.[4]

Foreign industrial investment in Lebanon other than in oil is greater than in any of the other countries under study. The attraction of Lebanon to foreign investors is not so much the result of deliberate measures taken by the Government but rather its excellent geographical location and the generally favourable economic environment which prevails in the country. This is reflected in a low level of income taxes, a complete free market of foreign exchange and a free enterprise atmosphere.

The Saudi Arabian Government's encouragement to foreign investment is expressed in the provisions of "The Foreign Capital Investments Regulation, 1964". These regulations extend to foreign capital all the privileges enjoyed by national capital and particularly by allowing tax exemptions to foreign firms on their exports provided that they meet a minimum Saudi capital participation of 25 per cent.

SOURCES OF FINANCE: THEIR CONTRIBUTION TO INDUSTRIAL FINANCING

Commercial banks

This section analyses in quantitative terms the role played by commercial banks and the specialized financial institutions in the financing of industry. Whereas specialized financial institutions usually publish adequate statistical information, commercial banks often do not. In Iraq, Kuwait and Saudi Arabia commercial banks are not required by the central banks or any other central government agency to submit or to publish details by sector of their loans and advances, nor do they make such an analysis for their own information.[5] The central banks of Lebanon and Jordan started to collect such breakdowns of commercial bank loans by sector for the first time in 1965 for the year 1964. Only in the case of Jordan and Syria, however, are such credits analysed both by sector and by branch of industry within the sector.

In the six countries under study almost all the loans extended by the commercial banks take the form of short-term credits, that is, credits of less than a year. However, part of such short-term loans become, in effect, medium-term loans to finance fixed investment, as many of them are subject to renewal.[6]

One reason why commercial banks in this region normally do not extend loans for more than a year is that most of their deposits are sight deposits or savings deposits which can be drawn upon at short notice. Hence, many of the banks are highly liquid, having liquidity ratios as high as 50 per cent and in some cases 70 per cent. Moreover, the generally conservative approach to banking in this region and the lack of sufficient support from the central banks in the event of financial crises tends to make commercial banks maintain a relatively high liquidity ratio.[7] A second reason (applicable particularly in the case of smaller banks) is that central banks generally rediscount only paper which is valid for less than one year. The Bank of Lebanon, for example, rediscounts only those promissory notes which are valid for 90 days, or less.[8]

The proportion of outstanding industrial credits to total claims on the private sector of the commercial banks at the end of 1964 varied from about one tenth in Kuwait and

[3] "Non-residents may import capital freely, but they must deposit it with a licensed dealer; such deposits may be converted into local currency at the official rate, and repatriation to the country of origin is permitted. One half of the profits of foreign service companies (companies rendering services only) is transferable. The transfer of profits from foreign investments in other economic activities is limited to 20 per cent per annum of the paid-up capital of industrial companies. All transfer of capital abroad by resident, whether Iraqis or foreigners, requires exchange control approval." International Monetary Fund (IMF), *Exchange Restrictions* (1965), page 278.

[4] An American Trade Mission which visited Kuwait in April/May 1965 was of the opinion that the new Industrial Law basically provides a subsidization of industry and is therefore a real incentive for joint ventures. The Mission concluded that the lack of a sufficiently large domestic market is the real problem to any company considering an investment in Kuwait.

[5] Efforts were made through the government authorities concerned in these three countries to obtain at least figures on outstanding loans extended by the commercial banks to industry.

[6] There is no way to ascertain what is the exact importance of such loans.

[7] The liquidity ratio (defined as the ratio of cash in hand and at banks to total deposits) of the Bank of Jordan as of 31 March 1965 was 52 per cent and that of the Arab Bank Ltd. as of 31 December 1964, was 70 per cent.

[8] Dr. Talhat Al-Yafi, "Strengthening the Credit Market in Lebanon" (*L'Orient*, 9 July 1965).

one eighth in Jordan and Lebanon to one fourth in Syria. (See table 1.) The relatively high proportion of industrial credits to total credits extended by commercial banks in Syria reflects the increasing indebtedness of Syrian industry to the banking system as a result of the declining role of self-financing since 1961, perhaps because of the fear of further nationalization. Reserves in the balance sheets of industrial companies have been declining, as shown in consolidated balance sheets for 1959–1963. Reserves fell from £S134·4 million in 1961 to £S89·1 million in 1962, dropping further to £S45·8 million in 1963. Another indication of the increased indebtedness of the organized industrial sector in Syria is the higher proportion of total debts relative to total liabilities which climbed steadily from 28·6 per cent in 1959 to 42·1 per cent in 1963. Unfortunately, no breakdown was available to show the indebtedness of this sector to the banking system. However, both the absolute and relative figures presented clearly indicate the rising trend of industrial credits from commercial banks which steadily increased from £S85·1 million in 1958 to £S204·6 million in 1964, or as a proportion of total credits from 16·8 per cent to 25 per cent.

An unpublished study of the financial position of eight leading Syrian industrial concerns illustrates the financial difficulties of many industries which have led them to depend more heavily than before on bank financing, since this has been a more convenient source of additional finance than that of obtaining shareholders' capital. It was estimated that the eight companies would require £S20 million to cover their shortage of capital; if they were to cover also their debts to the banking system, the amount needed would have been £S40 million. However, part of the debt of £S20 million was probably used to finance seasonal requirements and could therefore not be considered entirely as a capital shortage.

Another evaluation of the importance of industrial credits is to compare them with other sources of finance. The problem is that, except for Iraq and Lebanon, there are no figures on invested capital covering the whole industrial sector of the country. In the case of Iraq, the consolidated balance sheets of thirty major industrial companies as of the end of 1962 revealed, among other things, that their combined indebtedness to the banking system amounted to only 6 per cent of their total liabilities of which 4 per cent were short-term credits from commercial banks and 2 per cent medium- or long-term loans from the Industrial Bank. In terms of paid-up capital, the thirty companies represented about one third of private industry before nationalization. Their indebtedness to the banking system could, therefore, be regarded as more or less representative for the industrial sector of Iraq as a whole. It indicates that, in comparison with the situation in Syria, it is of a different order of magnitude.

In the case of Lebanon figures on capital declared by the manufacturing establishments collected each year by the Ministry of National Economy are the only available guide to the relative importance of industrial credits. The comparability of these figures, however, is difficult and must, therefore, be used with caution. In the case of share companies, "capital" may represent paid-up capital. It is also known that some respondents have interpreted this term in different ways. Furthermore, the response to questionnaires between 1958 and 1964 has varied significantly in terms of the numbers and types of enterprises responding. Consequently, figures for the individual years are not always comparable. Except in very few cases, returns have not been checked. With these qualifications, total outstanding industrial credits of commercial banks at the end of 1964 amounted to £L236 million which was more than a fourth of total "declared capital" of £L828 million in 6,854 industrial establishments in 1964 representing the bulk of the industrial sector in Lebanon.

Two qualifications are necessary with respect to the interpretation of statistics on industrial loans extended by commercial banks in the Middle East. One is that because many industrialists in these countries are at the same time merchants or dealers in real estate (or both) it is not uncommon that a credit application for industrial purposes ends up as a commercial credit. The fact that in many cases a bank manager does not know where his money goes is of

Table 1

MIDDLE EAST: LOANS AND ADVANCES FROM COMMERCIAL BANKS BY SECTOR, AS OF 31 DECEMBER 1964[a]

(In millions of local currency units)

Sector	Jordan		Kuwait		Lebanon		Syria	
	amount	*per cent*	*amount*	*per cent*	*amount*	*per cent*	*amount*	*per cent*
Agriculture	0·86	2·9	...	...	124·2	6·6	65·3	8·0
Commerce	14·41	49·2	...	...	987·4	52·3	519·0	63·5
Construction	1·81	6·2	...	...	141·1	7·5	...	...
Industry	3·33	*11·4*	6·07[b]	*10·0*	236·0	*12·5*	204·6	*25·1*
Others	8·87	30·3	...	...	399·4	21·5	27·8	3·4
TOTAL	29·27	100·0	60·50	100·0	1,881·1	100·0	816·7	100·0

Sources: International Monetary Fund, *International Financial Statistics;* Central Bank of Jordan, *Quarterly Bulletin*, vol. I, No. 1 (Amman); Bank of Lebanon, *Annual Report for 1964*, in Arabic (Beirut); Banque Centrale de Syrie, *Bulletin Périodique*, No. IX, 1965 (Damascus).

[a] A breakdown of commercial bank loans by sector for Iraq and Saudi Arabia was not available.

[b] Based on approximate figures from the four commercial banks in Kuwait received in November 1965 and reflecting the situation as of November 1965.

course contrary to proper banking management. This phenomenon is not uncommon in the Middle East, where the standing of the customer and the quality of his security are the basic factors for extension of credit.[9] The other is that there is no way to assess the degree of accuracy of the figures on industrial credits from commercial banks.

Specialized Financial Institutions

Resources

Among the six existing specialized financial institutions in the region, three are government-owned, namely, the Industrial Bank of Iraq, the Industrial Bank of Syria and the newly created Credit and Savings Bank of Kuwait. The other three, the UNRWA Development Bank and the Industrial Development Bank of Jordan and the BCAIF, are mixed enterprises.

Except in the case of the Credit and Savings Bank of Kuwait, none of the laws creating the existing specialized financial institutions in the Middle East provides for the "establishment" of development enterprises. The laws of the Industrial Banks of Iraq, Jordan and Syria do, however, contain a provision for "participation" as founder and/or shareholder of industrial enterprises. The UNRWA Development Bank and the Industrial Development Fund in Jordan, the Credit Bank in Kuwait and the Banque de Crédit Agricole, Industriel et Foncier in Lebanon, on the other hand, are credit institutions. A promotional function, in addition to capital participation, is also provided for by the laws of the industrial banks of Iraq, Jordan and Syria and covers such activities as the provision of technical assistance and advice on economic affairs, engineering, administration, and accounting matters and the preparation of feasibility studies, marketing studies and technical studies.

All of the specialized financial institutions under study are empowered to extend short-term, medium-term and long-term loans. The Industrial Bank of Iraq is the only institution which may issue guarantees for loans given to industrial enterprises, deal in foreign exchange, provide facilities for the opening of documentary credits, and extend credits secured by goods stored in the Bank's warehouses. The only institutions which may accept deposits are the Credit Banks and the Savings Bank of Kuwait and the industrial banks of Iraq and Syria. An indication of the resources of these institutions, as of the end of 1964, is presented in table 2.

Government loans and deposits were held only by the Credit Bank of Kuwait; with a relatively small amount of government loans being made to the Syrian Industrial

[9] In Saudi Arabia it is considered indiscreet—in the case of relatively small loans—to ask a customer with a good standing for what purpose he borrows the money. On the other hand, one manager of a national bank in Jordan stated that it was the practice of his bank to make sure that credit applied for industrial purposes is used for that purpose alone.

Sudan develops its forest resources. Forests of Southern Sudan yield bark for tanning, wood for construction purposes and matches

Table 2

MIDDLE EAST: RESOURCES OF SPECIALIZED FINANCIAL INSTITUTIONS, AS OF 31 DECEMBER 1964

(In millions of local currency units)

Country and institution	*Scope of activities*	*Paid-in capital*	*Profits and reserves*	*Loans*				*Deposits*	*Total*
				Government	*Central bank*	*Private bank*	*Foreign*		
Iraq									
Industrial Bank	Industry	4·75	2·72	—	—	—	—	—	7·47
Jordan									
UNRWA Development Bank	Mixed	0·76	0·20	—	—	—	—	—	0·96
Industrial Development Fund	Mixed	0·50	—	—	—	—	0·92[a]	—	1·42
Industrial Development Bank	Industry	3·00[b]	—	—	—	—	—	—	3·00[b]
Kuwait									
Credit Bank[c]	Mixed	7·50	1·37	3·50[d]	—	—	—	—	12·37
Credit and Savings Bank	Mixed	20·00[b]	—	—	—	—	—	—	20·00[b]
Lebanon									
BCAIF	Mixed	5·00	0·73	—	—	64·87[f]	15·00[e]	—	85·60
Syria									
Industrial Bank	Industry	12·50	2·02	0·35	16·25[g]	—	0·93[e]	3·55	35·60

Sources: Annual reports of the Industrial Bank of Iraq, the UNRWA Bank, the Credit Bank of Kuwait and BCAIF; Jordan Development Board, *Monthly Economic News Bulletin*, January/February 1965.

[a] Including a KD500,000 loan from the Kuwait Fund for Arab Economic Development and KD420,000 from the KD1·0 million loan from the Kuwait Government.

[b] Nominal capital.

[c] Incorporated in the Credit and Savings Bank in 1965; the figures presented are as at 31 March 1965.

[d] Deposits of the Ministry of Finance for the financing of loans to government employees.

[e] Loan from United States Agency for International Development (USAID).

[f] Loan from Banque de Syrie et du Liban.

[g] Loans refinanced and notes rediscounted at the Central Bank.

Bank. In the former case, government deposits were specifically earmarked for financing loans to government employees. More significant, although of an indirect nature, was the guarantee given by the Lebanese Government for loans to BCAIF from the privately owned Banque de Syrie et du Liban to the amount of £L45 million and the access to Central Bank facilities enjoyed by the Syrian Industrial Bank in the form of refinancing of loans and rediscounting of notes. Foreign loans of $5 million were granted by the USAID to BCAIF and to the Syrian Industrial Bank in 1960. In contrast to the very small fraction utilized by the latter, BCAIF has extended about four fifths of the loan to industrial projects for which it was earmarked.

The nominal capital of the Industrial Bank of Iraq was originally ID500,000, but in view of its increasing activities this amount was raised several times, most recently in September 1961, when it was increased to ID10 million. However, the paid-in amount does not exceed ID4·75 million.

The capital of the discontinued Industrial Development Fund consisted of the following: an initial contribution made under the United States economic and technical assistance programme to Jordan of JD0·5 million; JD0·42 million of the JD1 million Kuwait Government loan utilized by the Jordanian Government to finance IDF projects; and a JD0·5 million loan from the Kuwait Fund for Arab Economic Development. This latter amount was earmarked in its entirety for the financing of non-industrial projects.

The new Industrial Bank of Jordan has an authorized capital of JD3 million of which JD1 million has been subscribed and paid-in by the Government, part of it in the form of the assets of the Industrial Development Fund. Of the remaining JD2 million, about JD1 million was subscribed by the private sector by the end of 1965. In the next several years the Bank is not expected to need any further government financing although it is already exploring bilateral and multilateral sources of finance for the future. Of the $35 million package-loan from USAID mentioned elsewhere in the report, $1·4 million was earmarked for the Industrial Development Bank (at an interest rate of 5 per cent). There is some possibility of obtaining a soft loan from the International Development Association (IDA), although the Jordanian quota seems to have reached its limit. A third source of foreign finance being considered is the International Finance Corporation (IFC). The Bank planned to ask IFC to subscribe for JD100,000 of its capital. Although the volume of participation sought is small, this would undoubtedly give more prestige to the Bank and would, perhaps, make other external loans easier to obtain.

The UNRWA Development Bank has a capital of JD0·76 million jointly owned by UNRWA, the Government and the private sector, and a reserve of JD0·20 million, making its total resources almost JD1 million. The newly created Credit and Savings Bank in Kuwait has an authorized capital of KD20 million, compared to the KD7·5 million of its predecessor, the Credit Bank, the assets and liabilities of which were transferred to the new bank. The remainder of the capital will be covered by the general reserves of the State. The law provides that the Bank may borrow from the Government, or from other sources with government guarantee, up to its paid-in capital; it may also issue bonds in order to increase its resources.

The capital of the Banque de Crédit Agricole, Industriel et Foncier in Lebanon is £L5 million of which 40 per cent is owned by the Government and the remaining 60 per cent by the private sector. According to the Bank's charter, the Government is authorized to guarantee loans borrowed from the Banque de Syrie et du Liban up to £L45 million. In fact, as at 31 December 1964, these loans amounted to a total of £L65 million. Including a $5 million loan in foreign currency, or the equivalent of about £L15 million, from the Development Loan Fund of the United States, the BCAIF resources amount to £L85 million.

The authorized and paid-in capital of the Syrian Industrial Bank is £S12·5 million; reserves and net profits amounted to £S2·0 million at the end of 1964. Other sources of finance are deposits, and loans from the Central Bank, the Government and the USAID. Total deposits were £S3·55 million; loans from the Public Debt Fund (Ministry of Finance) totalled £S0·35 million; loans refinanced plus notes rediscounted at the Central Bank amounted to £S16·2 million; and the USAID loan stood at £S0·93 million by the end of 1964. With a capital and reserves of £S14·1 million and total loans amounting to £S17·5 million, the total resources of the Bank at the end of 1964 were £S31·5 million.

Interest rates and credit operations

The prevailing rate of interest charged in 1965 on loans by the specialized credit institutions were 6 per cent with the exception of Kuwait, where it was 3 per cent, and Iraq, where the cost of borrowing funds to finance fixed assets was 4 per cent and for working capital 6 per cent. No other country makes this distinction between the uses of credit extended in setting interest rate levels. The Syrian Industrial Bank is empowered to charge 4·5 per cent, 5·5 per cent and 6·0 per cent on short-term, medium-term and long-term loans respectively.[10]

Commercial banks in this region are generally very flexible with respect to the amounts of credit they extend; there are no fixed ceilings and the major criteria are the standing and credit worthiness of the customer. Specialized financial institutions, however, apply more than one criterion in fixing their credit ceilings; these criteria are all provided for in their by-laws and vary from one institution to another. The Iraqi Industrial Bank, for example, determines its maximum amount of credit first on the value of the security offered, applying different proportions for different kinds of security, and secondly, on the type of ownership of companies; for example, the ceiling for companies in the form of sole proprietorships and partnerships is ID50,000 and for share companies is ID250,000.

Other institutions base their ceilings on such criteria as the cost of the project (in the case of newly established companies) of which a certain proportion is fixed taking into consideration the resources of the bank and the credit worthiness of the customer. Only in the case of the Industrial Development Bank of Jordan do particular rules exist with respect to the extension of credit to or participation in the equity capital of small industrial establishments. The bank would not make any loans which are less than JD1,000 or more than JD5,000 while the cost of the project should be at least JD10,000.

Security in one form or another must be presented to obtain industrial loans from specialized institutions in each of these countries. The type of the collateral required varies. The Industrial Bank of Syria and the BCAIF specify different types of securities for short-term loans and for medium- and long-term loans. The Industrial Development Fund of Jordan required different types of security for loans under JD1,000 and those above JD1,000; a responsible co-signer for the former and a first mortgage on immovable property for the latter. The by-laws of the new Jordan Industrial Development Bank take into consideration such criteria, other than the nature of the assets, as the earning potential of the enterprise and calibre of management. It is the only bank of its kind in the region that makes specific reference to these criteria.

Table 3 presents a comprehensive picture of the relative importance of the role of specialized financial institutions and commercial banks in the provision of industrial credits. A comparison is presented between industrial credits from the two types of banks and total credits extended by the banking system to all sectors. The table also shows the relative importance of industrial credits from commercial banks and specialized institutions.

For the countries for which figures are available, table 3 reveals: first, that the proportion of total industrial credits from specialized financial institutions and commercial banks to total credits extended to all sectors by the two types of banks, varied between 10 and 14 per cent in the case of Jordan, Kuwait and Lebanon and reached 28 per cent in the case of Syria; and secondly, that, contrary to expectations, it is the commercial banks and not the specialized financial institutions which provide the bulk of industrial credit. As has been pointed out earlier, although virtually all commercial bank credits are of a short-term nature, part of them are in practice medium-term loans. Industrial credits from commercial banks in Jordan, Kuwait, Lebanon and Syria are between six and eight times

[10] During an interview, at the Industrial Bank it was learned that the effective rates of interest charged were 6·25 per cent, 6·75 per cent and 9·0 per cent on short-term, medium-term and delayed loans, respectively.

Table 3

MIDDLE EAST: OUTSTANDING INDUSTRIAL AND TOTAL CREDITS OF COMMERCIAL BANKS AND SPECIALIZED FINANCIAL INSTITUTIONS AS OF 31 DECEMBER 1964[a]

Type of credit	*Iraq*	*Jordan*	*Kuwait*[b]	*Lebanon*	*Saudi Arabia*[c]	*Syria*
			In millions of local currency units			
Total credits	74·80	29·30	70·19	1,973·4	832	852·4
Commercial banks	67·83	27·66	60·50	1,881·1	832	816·7
Specialized institutions	6·97	1·64	9·69	92·3	—	35·7
Industrial credits	11·38	3·76	6·96	274·7	...	240·3
Commercial banks	4·41[d]	3·33	6·07[e]	236·0	...	204·6
Specialized institutions	6·97	0·43[f]	0·89[g]	38·7	—	35·7
			In per cent of total credits			
Industrial credits	15·2	12·9	9·9	14·0	...	28·2
Commercial banks	5·9[d]	11·4	8·6	12·0	...	24·0
Specialized institutions	9·3	1·5	1·3	2·0	—	4·2
			In per cent of total industrial credits			
Industrial credits	100·0	100·0	100·0	100·0	100	100·0
Commercial banks	38·8[d]	88·6	87·2	85·9	...	85·1
Specialized institutions	61·2	11·4	12·8	14·1	—	14·9

Sources: International Monetary Fund, *International Financial Statistics; The Industrial Bank of Iraq*, published in May 1962 and revised in March 1965 (Baghdad); Central Bank of Jordan, *First Annual Report on the Operations of the Bank during 1964/1965 (Amman)*; The Development Bank of Jordan Limited, *Fourteenth Annual Report and Balance Sheet as at 31 March 1965* (Amman); Industrial Development Fund, *unpublished figures* (Amman); Credit Bank, *Annual Report of the Board of Directors for the Financial Year Ending on 31/3/1965* (Kuwait); Special communication from the four commercial banks in Kuwait; Bank of Lebanon, *Annual Report for 1964* in Arabic (Beirut); Banque de Crédit Agricole, Industriel et Foncier, *Final Statements and Auditors Report*, 31 December 1964 (Beirut); Banque Centrale de Syrie, *Bulletin Periodique*, No. IX, 1965 (Damascus); Industrial Bank of Syria, *Annual Report of the Board of Directors 1963 and 1964* (Damascus).

[a] Total credits from commercial banks include claims on the private sector; the specialized financial institutions included are only those which extend credit to industry.

[b] As at 31 March 1965.

[c] As at 31 January 1965.

[d] Commercial banks in Iraq, Kuwait and Saudi Arabia were not required to submit breakdowns of their loans by sector, nor did they keep such statistics for their own information. In the case of Iraq, figures were estimated, based on commercial bank credits extended to thirty major industrial companies representing, in terms of paid-in capital, about one fourth of the entire industrial sector excluding the four government oil refineries. These credits amounted to about ID1·0 million in 1962–1963. Total industrial credits from commercial banks is estimated at ID4·0 million, or about 6·5 per cent of their total loans of around ID62 million to the private sector in 1962–1963.

[e] Based on approximate figures given by the four commercial banks in Kuwait for the special purpose of this study; excluding loans to construction industry.

[f] Total loans from the UNRWA Development Bank and the Industrial Development Fund.

[g] Including loans under execution.

as great as those extended by specialized financial institutions. In contrast, credits from the Iraqi Industrial Bank are estimated to be 50 per cent higher than the estimated amount of industrial credits from commercial banks.

Absolute figures on cumulative and outstanding industrial loans from specialized financial institutions are, for many reasons, not strictly comparable between countries; for example, the institutions have been established at different points of time; some operate only in industry, others have a mixed scope of activities in different sectors; short-term industrial loans constitute a large proportion of total loans in some institutions but a very small proportion in others; and, of course, conditions differ from country to country with respect to the availability of resources to the banks and the need for industrial finance. These figures are presented in table 4 which indicates credit operations of the institutions from their initial year of operation, and their credit position at the end of 1964 or later.

The activities of the UNRWA Development Bank have been concerned mainly with the provision of credit to agricultural enterprises. Out of the 757 loans extended between 1951 and March 1965, amounting to about JD1·4 million, only forty-one loans were for industrial projects, in the total amount of JD218,000.

The Industrial Development Fund of Jordan, from the time it began operations in 1953 until it was discontinued on 15 August 1965, extended loans totalling JD0·97 million, of which JD0·46 million or 48 per cent were to industry. With respect to the industrial loans only about a fourth were repaid by 15 August 1965. The Credit Bank of Kuwait has extended loans mainly to finance real estate transactions and to government employees. As of the end of financial year 1964/1965 industrial loans amounted to only 9 per cent of its total outstanding credits. During the three-year period since its establishment, i.e. until 31 March 1965, the Bank approved 60 industrial loans amounting to about KD1·6 million of which nearly KD1·0 million went to only six borrowers. The other loans varied in amount

Table 4

MIDDLE EAST: INDUSTRIAL LOANS AND ADVANCES EXTENDED BY SPECIALIZED FINANCIAL INSTITUTIONS

(In thousands of local currency units)

Period[a]	Iraq	Jordan		Kuwait	Lebanon	Syria
	Industrial bank	UNRWA bank	IDF	Credit bank	BCAIF	Industrial bank
1947–1950	487	—	—	—	—	—
1951–1955	3,775	129	30[c]	—	980[b]	—
1956–1960	4,302	81	198	—	25,648	38,979[d]
1961	1,009	1	43	—	6,507	23,546
1962	846[e]	—	117	289	8,412	22,382
1963	891	3	25	216	12,781	27,509
1964	910	4	23	461	14,038	21,895
TOTAL	12,220	218	436	966	68,426	134,311
Outstanding as of the end of 1964 or 1964/1965	4,469	78	346[f]	899[g]	38,715[h]	29,669[i]

Source: Annual reports of the banks concerned, see table 5 and unpublished figures with respect to IDF.
[a] Calendar year or financial year beginning in the year indicated.
[b] Including the second half of 1955 only, its initial year of operation.
[c] Period ending 1955.
[d] Including 1959 and 1960.
[e] Including the last nine months; previously the financial year of the Industrial Bank of Iraq was from 1 April–31 March; as of 1963 the figures are on a calendar year basis.
[f] As of 15 August 1965.
[g] Including loans under execution appearing on the balance sheet of the bank.
[h] Including £L13·7 million overdue loans and instalments as of 31 December 1964.
[i] Including £S5·04 million deferred payment loans and loans due and unreimbursed.

between KD1,000 and KD55,000. The paid amounts during the same period amounted to KD966,000 of which KD889,000[11] were outstanding at 31 March 1965.

The increased demand for industrial credits in Lebanon is indicated by the fact that industrial loans extended by the Banque de Crédit Agricole, Industriel et Foncier has increased steadily from £L1·0 million during the first six months of its operation in 1955 to an average of £L5·1 million *per annum* between 1956 and 1960 and £L14·0 million in 1964. Of the cumulative total of £L68·4 million, including £L14·8 million in foreign currency, extended to industry between 1955 and 1964, £L38·7 million were outstanding by the end of 1964. This amount included overdue loans and instalments due in December 1964 which together amounted to £L13·0 million. As has been pointed out, BCAIF's credit operations in the field of industry are only part of its activities; total credits extended as from its initial year of operation until the end of 1964 were divided among the following three sectors as follows: agriculture 47·7 per cent, industry 40·5 per cent and tourism 11·8 per cent.

Table 5 presents the relative importance of the various types of credits extended by the four financial institutions

[11] The figure includes industrial loans under execution listed as a separate item in the balance sheet of the Bank.

Table 5

MIDDLE EAST: DISTRIBUTION OF LOANS FROM FINANCIAL INSTITUTIONS WITH A MIXED SCOPE OF ACTIVITIES, AS OF 31 MARCH 1965

(In per cent)

Sector	Jordan		Kuwait	Lebanon
	UNRWA Bank	IDF[a]	Credit Bank	BCAIF[b]
Industry	9	45	9	42
Agriculture	89	—	2	45
Real estate	—	—	37	13
Tourism	—	55	—	—
Government employees	—	—	35	—
Other	2	—	17	—
TOTAL	100	100	100	100

Source: Annual reports of the banks concerned (see table 4) and unpublished figures with respect to the Industrial Development Fund.
[a] As of 15 August 1965.
[b] As of 31 December 1964.

Al Hasa, Saudi Arabia. Repairing a pumping unit at the Ras Tanura refinery

with a mixed scope of activities. Industrial credits from the UNRWA Development Bank in Jordan and the Credit Bank of Kuwait outstanding at 31 March 1965 were less than one tenth of their total loans. In the case of the Industrial Development Fund of Jordan and the BCAIF of Lebanon these proportions were considerably higher but still less than one half, being 45 per cent and 42 per cent, respectively.

Short-term, medium-term and long-term loans

With the exception of the Banque de Crédit Agricole, Industriel et Foncier of Lebanon and the Industrial Bank of Syria, virtually no short-term loans are extended by the specialized financial institutions under study. In the case of the BCAIF, short-term loans represented about one eighth of its outstanding credits by the end of 1964, but with respect to the Syrian Industrial Bank such loans combined with discounted industrial bills constituted nearly three fifths of its total credit operations. Even excluding discounted bills, short-term loans still represented the largest segment of its total credit operations, in particular in 1960–1961 when the proportion of short-term loans was about 48 per cent of its total credits.

Because short-term loans are "revolving" in nature—if not renewed they are repaid within the year and new loans are given—the proportion of the cumulative total of short-term loans to the cumulative total of all loans of a bank is much greater than if it is based on the outstanding figures at the end of one period, say 1964. The reason such a large proportion of the loans extended by the Syrian Industrial Bank is in the form of short-term credits is explained on the one hand by the continued need for working capital by most industrial concerns in this country and on the other hand, by a lack of demand for medium-term and long-term loans. Since the bank is under an obligation imposed by the provisions of its founding act to distribute a minimum 5 per cent dividend to its shareholders (presently the state-owned Syrian Economic Organization), the Bank invests such idle funds in short-term loans rather than foregoing some profit opportunities.

The Industrial Bank of Iraq does not keep records of its loans according to term of maturity. However, it was estimated that about one half of its loans were for one to four years, 25 per cent for five to eight years and 25 per cent for longer periods up to twelve years. A breakdown of the time span of loans from the Industrial Development Fund of Jordan is available only with respect to aggregate loans, including those extended to touristic projects. On this basis, one third of these loans were medium-term, and two thirds long-term. For the Credit Bank of Kuwait, it was estimated that most of its loans were for three to five years' duration.

The Syrian Industrial Bank is the only specialized institution which provides facilities for the discounting of industrial bills. The Iraqi Industrial Bank extends credit facilities for the opening of documentary credits and against bonded goods stored in the Bank's warehouses, up to an amount of 40 to 50 per cent of the value of the goods; services with respect to documentary credits were stopped in 1958 and resumed in August 1961.

Equity capital participation

Both the Industrial Bank of Iraq and the Industrial Bank of Syria participate in the equity capital of industrial enterprises. Whereas activities in this field were negligible in the case of Syria—amounting to only a small fraction of one per cent of its total operations—those of the Iraqi Industrial Bank reached about one third of its total investments in 1964. When bank nationalization was decreed in Iraq in July 1964, the Industrial Bank had invested in 13 industrial and three non-industrial enterprises. Its share in the capital of these companies varied between 12·5 and 49 per cent, amounting to ID2·19 million. Most of these companies were subsequently nationalized. In 1965 the only non-nationalized companies in which the Bank participated were the Light Industries Company, National Chemicals Company, Date Industries Company and the Construction Materials Company. The Bank has recently decided to participate in two other companies: the Al-Hilal Industrial Company and the Northern Wood Company. The Bank is also planning, in co-operation with private capital, to found two new industrial companies: the Fibre Compressed Wood Company for which feasibility studies have reached the final stage, and a bicycle company which is being established. Under consideration are four other projects which would be jointly owned with the private sector and which would produce tubes and tires for bicycles, starch from maize, citric acid, and sewing machines.

The Industrial Bank of Iraq has a small statistical, economic and technical staff, which undertakes or participates in feasibility studies as well as gives technical and economic assistance. The Bank's participation in industrial enterprises is therefore not confined to a passive financial interest. It also plays an active role in the founding of new enterprises although it does not undertake responsibility with regard to their management.

Government financing

In Lebanon, where industry is completely in the private sector, the only government role in industrial financing is the 40 per cent participation in the share capital of the Banque de Crédit Agricole, Industriel et Foncier (BCAIF). All Governments in the region, except Saudi Arabia, provide financing to industry through a development finance institution which is entirely government-owned or owned jointly with the private sector. Except for Lebanon, all the Governments have established one or more government manufacturing industries. Apart from financing industries which are 100 per cent government-owned, the Governments of Jordan, Kuwait and Saudi Arabia have also participated in the founding and/or in the share capital of major manufacturing industries. After the nationalization measures in Iraq and Syria, the bulk of the industrial sector of both countries came under government control, and hence its financing.

Among the six countries under study the Government of Iraq was the most active in establishing government industries. In 1963 there were eighteen such industries in this country with a total paid-in capital of ID47·5 million of which an estimated ID30·0 million were invested in the four government oil refineries, ID3·0 million in the government sugar factory in Mosul, ID3·2 million in the government spinning and weaving administration, ID6·0 million in the cement factories, ID3·6 million in a cigarette factory, ID1·5 million in the Dairy Administration of Baghdad, ID1·05 million in the Army Martyrs Administration producing textile fabrics, ID0·4 million in one canning factory and the remaining ID0·7 million in three date processing plants, one medical cotton plant and two small dairy plants.

The bulk of the investment of the Iraqi Government in industry is in the four government oil refineries, constituting about one third of the total capital invested in the entire industrial sector in Iraq, estimated by the Central Bank to be around ID87 million in 1964.[12] The largest refinery, the Daura Refinery near Baghdad, was initially financed by loans from the Development Board and the Central Bank totalling ID14 million. In 1957, an additional ID4 million were obtained from the Development Board for a lubricating oil plant and just before the 1958 revolution another ID4 million were spent on expansion from retained profits. There have been additional capital expenditures during the past 10 years on housing, warehouses, etc., making the total value of the fixed assets of the Daura Refinery about ID25 million. The loans to the Development Board and the Central Bank have been repaid three years ahead of time. By October 1965 all loans were repaid with the exception of ID3 million.

The Al-wand Refinery was originally capitalized at ID2 million but its present value does not exceed ID0·5 million. The Development Board provided the capital for the Al-qayara Refinery in the amount of ID2·5 million. The asphalt plant was also financed by the Development

[12] The total paid-in capital in 1963 of the member companies of the Iraqi Federation of Industries, excluding government industries, amounted to ID35·8 million; the total invested capital in government industries was ID47·5 million.

Board in the form of a grant of ID1·5 million. The Muftia Refinery, formerly owned by the Iraqi Petroleum Company (IPC), and now worth considerably less than the capital invested in it, was obtained by the Government from IPC by mutual agreement free of charge in the middle of 1965.

The plans to build a new refinery in Basra in 1962 at a total cost of ID15 million were postponed due to lack of funds. The Government Oil Refinery Administration (GORA) was asked to supply part of the financing and has since 1963 paid ID1 million a year to the Ministry of Planning for that purpose. In 1964 it was decided to build another ID4·5 million lubricating oil plant to be financed by GORA from retained profits. Because of the demands of the Ministry of Planning, the financial situation of GORA has become rather tight and it may be difficult for this administration to finance new projects at this time.

In Jordan there are no fully government-owned industries with the exception of those owned by the army. The Government has, however, participated in the share capital of eight major industrial companies which have a combined authorized capital of JD9·9 million of which JD9·2 million are paid-in. The Government's paid-in share in these eight companies by the end of 1965 amounted to JD2·2 million or about one fourth of the total paid-in capital. The proportion of the Government's share varies from as low as one per cent of the authorized capital in the case of the Industrial, Commercial and Agricultural Company, to 49·5 per cent in the case of the Jordan Cement Company.

In Kuwait the Ministry of Guidance and Information owns the largest printing press in the country and the Ministry of Electricity owns the well-known water distillation plant and an integrated plant for the production of chlorine. Although the water distillation plant in the strict sense is a manufacturing industry—it transforms sea water into sweet water—it might more properly be regarded as a public utility.[18] In this case, the chlorine and salt plant remains the only government manufacturing enterprise.

The main product of the Kuwait Chlorine and Salt Plant is chlorine, produced for the water distillation plant. Salt, a raw material for chlorine, is manufactured in a separate plant. Two by-products are caustic soda and hydrochloric acid. The total cost of the two plants was KD750,000 ($2,100,000) financed by the Ministry of Electricity and Water. At present the plant operates at a loss of about KD11,000 a year, based on an estimated revenue for 1965/1966 of KD144,000, a running budget of KD95,000, and a depreciation of 8 per cent on the plants amounting to KD60,000 a year. This loss does not, however, involve additional financing by the Government at the present time since part of the cost calculated consists of depreciation. The Government may have to furnish additional funds in the future when replacement of the plant becomes necessary.

The establishment of share companies in Kuwait (in a number of which the Government has participated) is only a very recent development. There are twenty-four share companies of which eleven are industrial establishments, six of which were established by the Government or jointly with private *entrepreneurs*. Without direct government finance the establishment of such capital-intensive industries such as the Petrochemical Industry and the Kuwait Chemical Fertilizer Company would probably not have been possible. The government share varied between 50 per cent in the Kuwait Flour Mills Co. and 80 per cent in the Petrochemical Industries Co. In the case of the Kuwait Asbestos Co. and the Kuwait Chemical Fertilizer Co., the share of the Government is of an indirect nature since it is owned by other companies in which the Government has a direct participation.

The need for government financing of capital-intensive industries in Kuwait was especially felt since the beginning of 1965 when the early enthusiasm for investment in share companies among the private sector almost completely disappeared. An explanation for this may be found in the fact that private investors still lack an appreciation of the long-term benefits of investing in the domestic economy. They expect the same immediate high dividends realized from trading and real estate transactions to arise as quickly and in the same volume from industrial investment. Furthermore, there is still a preference by Kuwaitis to invest their money abroad.

The Government of Saudi Arabia has established one date factory, one printing press in Mecca, one fertilizer company owned by the municipality in Riyadh and one soap factory. The fertilizer factory, installed in 1962, was still not in operation in 1965. The soap factory was a complete failure and has been inactive.

The Saudi Government has, through the General Petroleum and Mineral Organization (PETROMIN), embarked on the promotion and establishment of a considerable number of large enterprises. Of these Petromin projects, twenty-seven in all, fourteen are manufacturing industries consisting of two refineries, three stages of the Jeddah Steel Rolling Mill, the Dammam ammonia and sulphur plant, another sulphur plant in Abqaiq, a polyvinyl chloride plant, one urea plant, one salt plant and three other minor establishments.

Of these fourteen industrial projects the establishment of three is well under way. The steel rolling mill which will have a fixed capital investment of SR30·8 million will be wholly financed by the Government. The Jeddah refinery and the ammonia and sulphur plant, involving fixed investments of SR40 and SR122 million respectively, will be mixed enterprises in the sense that Petromin will finance 75 per cent of the fixed investment of the refinery and the

[18] The Kuwait Water Distillation Plant has now five producing units with a combined capacity of 6 million gallons a day purchased at a total cost of KD5·46 million. Two new units are under construction with a combined daily capacity of 5 million gallons and purchased for KD2·15 million.

Saudi private sector 25 per cent in the form of equity capital. In the case of the ammonia and sulphur plant, the Government's participation of SR61 million is 51 per cent; the Government and the private shareholders will in addition provide loan capital in the amount of the equity capital based on a ratio of three to one.

With respect to the other Petromin projects most of them are in the study stage. In the case of the polyvinyl chloride (PVC) project, it was envisaged that financing would be obtained from foreign sources. In all other cases, except for the steel rolling mill, the industries will be jointly owned by the Government and the Saudi private sector. The ratio of government and private shares in the equity capital varies between 75 : 25 and 25 : 75 while in the case of loan capital this ratio is 3 : 1 in most cases.

In Syria, before the first nationalization measures of 1961, there was only one industry established and fully owned by the Government, namely, the Homs Oil Refinery. Since then the Syrian Government has not established any new industries. The Homs Refinery is controlled by the General Petroleum Authority.

Reference was made earlier to the large indebtedness of the Syrian industrial sector to the banking system. The shortage of capital in these industries arises from a lack of funds to finance working capital requirements and, in many cases, from insufficient capital to finance the fixed assets of the company.[14]

The Syrian Government is presently faced with the problem of securing adequate finance for many of the nationalized industries, the solution of which will also relieve the pressure on the banking system. The Industrial Sector General Authority, the body set up by the Government to control the nationalized industrial sector, was planning in September 1965 to undertake a detailed study of the financial position of each nationalized industry.

Foreign financing

Foreign private investment

The principal direct foreign private investments in the manufacturing industries in the countries in the area relate mainly to oil refining. There are five foreign-owned oil refineries in the Middle East with a combined refining capacity in January 1965 of 643,000 barrels a day. The two largest are the Ras Tanura Refinery near Dhahran, owned by the Arabian American Oil Co. (ARAMCO), with a capacity of 255,000 barrels a day, and the Kuwait Oil Company (KOC) Refinery, at Mina al-Ahmadi outside Kuwait City, with a daily capacity of 250,000 barrels. ARAMCO is 100 per cent American-owned and KOC is 50 per cent British and 50 per cent American.

Two other foreign refineries, located in Lebanon, are relatively small in size, with a daily capacity of 13 to 15 thousand barrels. One is in Sidon and is owned by the Mediterranean Refining Company (MEDRECO); the other is in Tripoli, owned by the Iraqi Petroleum Company (IPC). IPC is an international combine of the British Petroleum Company, Royal Dutch/Shell Group, Compagnie Française des Pétroles and Near East Development Corp., each owning 23·75 per cent and Participants & Explorations Corp. (C. S. Gulbenkian Estate) holding the remaining 5 per cent. MEDRECO is totally American, ownership being divided equally between Caltex and MobilOil.

The bulk of fixed investments in the oil refineries consists mainly of refinery units, refinery tanks and pipelines to the piers. Total fixed investments of KOC at the original cost is estimated to be £14·3 million (or $39·0 million) invested in refinery units, refinery tanks and refinery pipelines to the piers. Over-all gross investment in fixed assets of AMINOIL amount to $43·7 million of which $14·8 million is invested in the new refinery now in use and in refinery tanks and terminal facilities.

Foreign private investment in Iraq exists mainly in small establishments such as bakeries, confectioneries, carpentry shops, small shoe factories, etc., which are owned by nationals from neighbouring countries. According to a survey of Small Industrial Establishments in 1963, total capital invested by these foreign nationals amounted to ID145,000 compared to about ID6 million for all small establishments surveyed. Among the large industries which have been nationalized, apart from a Pakistani interest in the Iraqi Jute Industries Company, there was no other direct foreign private investment. There was, however, some loan capital from Unilever of £300,000 in the Cottonseed Products Company. This loan was settled between the Iraqi Government and Unilever.

Foreign private investment in the manufacturing industry in Jordan involving foreign ownership or shareholding is negligible. As far as it could be ascertained from various sources in Amman, there are only two companies in which there is direct foreign investment involved: the National Tobacco and Cigarette Company, with a paid-in capital of JD100,000 controlled by the British American Tobacco Co. (BAT) and the Central Agency Ltd., with a paid-in capital of £10,000. Foreign interests in other companies are by means of a licence or royalty agreement with no foreign investment involved. Examples of such companies are the Jordan Clothing Company ("Van Heusen" shirts), the Jordan Worsted Mills (under licence from Hield Bros.), the Industrial, Commercial and

[14] Before nationalization, a number of industries, in meeting part of their capital requirements, relied on the financial ability of their owners or principal shareholders to provide loans to the company out of their own private resources or by borrowing in their personal capacity from the banks. In another group of industries the capital shortage was due to the fact that these companies had executed an expansion programme which was to be financed by an increase in equity capital. However, in many cases, shareholders did not pay up, or only partly paid up, the additional shares for which they had subscribed. All these factors resulted in a shift from self-financing, so to speak, to bank financing. The financial difficulties of these industries have, in turn, affected the liquidity position of the banking system, including that of the Syrian Industrial Bank, since many outstanding loans are more or less "frozen".

Agricultural Co. (under licence of Unilever and Carson paint), the Jordan Amstel Company and a few others.

Foreign private industrial investment in Kuwait, aside from the oil industry, is insignificant. Apart from the participation by the Gulf Oil Company and the British Petroleum Company in the Kuwait Chemical Fertilizer Company, each for 20 per cent of its present paid-in capital of KD4 million, there is only one other small joint venture (The Kuwait Felt Company) in which an American individual owns 30 per cent of its KD40,000 capital.

Among the six countries under study, Lebanon has received the largest amount of foreign private investment in industry, other than oil refining. The total paid-in capital of the companies in which there is direct foreign investment is estimated at around £L100 million of which roughly 50 per cent represents foreign participation.

The law in Saudi Arabia does not permit 100 per cent foreign-owned industrial companies except in the case of ARAMCO. Joint ventures between foreign and Saudi *entrepreneurs*, however, are permitted and to stimulate such arrangements, the maximum foreign share stipulated by law was changed in May 1965 from 49 per cent to 75 per cent. From 1954 until the first half of 1964, twenty establishments registered as joint ventures. The capital involved in these ventures was, however, small in most cases. Total registered investment of these 20 companies amounted to only SR7·3 million.[15]

In Syria there was only one industrial company, the Arab Matches Company, in which there was non-Arab foreign investment. Foreign Arab capital in industry was mainly owned by Kuwaitis, Saudis, Lebanese and Iraqis, which altogether was estimated at 2 per cent of total capital invested in the Syrian industrial sector.

Multilateral and bilateral finance

In the past the role of international financial institutions (IBRD, IFC, IDA, etc.) in financing industry in the countries under study was negligible. The IBRD sent a mission to Lebanon in 1963 to advise the Government on the establishment of a new Industrial Bank, in which IFC was prepared to subscribe in its equity capital. The Lebanese Government is still (December 1965) considering proposals which are partly based on the IBRD recommendations.

In 1959, the Soviet Union and the Iraqi Government signed an agreement involving the supplying by the Soviet Union of ID50 million, raised later to ID65·2 million, in the form of capital goods for the establishment of the following 11 projects: steel, foundry, electrical technical equipment, cotton textiles, woollen textiles, fertilizers, sulphur recovery, canning factory, sewing plant, and a hosiery plant. Four of these projects have been completed, some others are under construction, while certain others were cancelled.

Jordan has been receiving substantial aid from the United States and the United Kingdom, of which JD0·5 million was to the Industrial Development Fund. The USAID made a tentative arrangement with the Government in 1965 for a $35 million package loan, of which $1·4 million was earmarked for the new Jordan Industrial Development Bank.

Trainees working on lathes at the Dokki Metal Trades Training Centre, Cairo

With the exception of the $5 million loan from USAID to BCAIF in 1960, Lebanon has not received any bilateral assistance for industrial financing; in the case of Kuwait and Saudi Arabia, no bilateral aid to finance industry has ever been received.

The only bilateral aid for the manufacturing industry which Syria has received was a loan from USAID of $5 million to the Industrial Bank. Due to various reasons, only a small proportion of this loan was utilized. There are now a number of government industrial projects under way, involving foreign assistance, such as the establishment of five flour mills with East German help and the second part of a nitrogenous fertilizer plant at Homs with USSR aid.[16] The USAID made available a loan in foreign and in local currency in the amounts of $14·7 and $27 million, the latter from counterpart funds from the sale of agricultural products. Part of these loans will finance a fodder plant.[17]

[15] Erwin S. Penn (United Nations Adviser), *To Accelerate the Industrial Growth in Saudi Arabia*, July 1965, page 21.

[16] Economist Intelligence Unit, Quarterly Economic Review, *Syria, Lebanon, Jordan*, October 1965.

[17] The other projects to be financed by these loans were three research stations and eleven silos.

Foreign suppliers' credit

Payment for imported capital goods is usually made on an instalment basis, in particular when large sums of money are involved, such as in the case of petroleum refining plants and machines for large textile mills. For smaller equipment, foreign suppliers' credit is usually given through local importers. In most cases, the foreign manufacturer of capital goods or the exporters concerned make use of bank facilities abroad to finance such transactions. The interest charged is either included in the sales price of the goods or charged separately. An example of such a transaction was the purchase of the machinery for the Homs Refinery in Syria of which the terms of payment were as follows: 10 per cent within fourteen days of date of contract; 15 per cent documentary letter of credit within three months of date of contract; 75 per cent in seven equal instalments of 10 per cent each and one instalment of 5 per cent.

Domestic private financing

The present role of the domestic private sector in industrial financing varies from country to country. In Lebanon, all industrial establishments are privately owned except for foreign private investment in the two small oil refineries and a few other industries. In Syria, virtually the whole organized industrial sector came under the control of the Government after the nationalization measures taken early in 1965, leaving only the small industrial establishments in private hands.

In Iraq, the role of the private sector in industry before nationalization, in terms of paid-in capital, was already less important than that of the Government, mainly due to the large government investment in the four refineries. The nationalization of large industrial companies reduced the share of the private sector still further. However, the nationalization measures in this country were not as far-reaching as in Syria. In terms of paid-in capital, these measures involved less than one half of the member-companies of the Iraqi Federation of Industries. The total paid-in capital of the nationalized industrial companies amounted to about ID16·5 million, whereas the total paid-in capital of the private member companies of the federation in 1963 was ID35·8 million. Considering that paid-in capital in government industries before nationalization was ID47·5 million, industries which are still in private hands constitute, in terms of invested capital, about one fourth of the entire industrial sector.

Statistical data on paid-in capital in industrial companies in Jordan are available only for some of the principal industries. The total paid-in capital of these companies was JD11·8 million. Of the shares of the eight large companies, in which the Government has participated and which have nearly four fifths of the total paid-in capital of the 38 principal companies, the bulk (about three fourths) is owned by private shareholders. The other 30 industrial companies have a combined paid-in capital of about JD2·7 million. Of the capital invested in these thirty-eight principal industries about four fifths is owned by the domestic private sector. This proportion is, of course, higher if all establishments are included, since virtually all small establishments are privately owned.

Similarly statistical data on paid-in capital in Kuwait are available only for a limited number of companies, namely, those which are organized as joint stock companies. The eleven companies concerned had a total paid-in capital of KD19·7 million of which the Government owned KD11·4 million or 58 per cent, the foreign sector KD1·6 million or 8 per cent and the domestic private sector KD6·7 million or 34 per cent. This proportion of roughly one third for the private sector is not representative for the industrial sector in Kuwait as a whole. Most of the establishments are not organized as share companies but rather as partnerships between Kuwaitis and nationals of neighbouring Arab countries. In the majority of cases the foreign partners provide their technical know-how and the Kuwaitis the capital. For the industrial sector as a whole the role of private Kuwaiti capital is therefore considerably higher than the proportion indicated above.

In Saudi Arabia where, so far, both the Government and the foreign sector, with the exception of the ARAMCO oil refinery, has played a minor role in the financing of manufacturing industry, private ownership of shares in joint stock companies and private owners' capital in partnerships and sole proprietorships are dominant. Of the 150 principal companies, with a combined invested capital of SR177 million, the Government owns only one printing press and one date factory.[18] The proportion of invested capital owned by the Saudi private sector in these 150 companies appeared to be more than 90 per cent.

In Syria, before the nationalization in 1961 of the largest industrial company, the Khumassiyah Textile Company, there was only one government-owned industry, namely, the Homs Petroleum Refinery. The role of foreign private investment in Syria both before and after nationalization was negligible. Thus, manufacturing industry was almost completely left to the domestic private sector. This situation has of course completely changed after the series of nationalization measures that took place between 1961 and 1965. In 1963, the latest year for which information is available, total paid-in capital in the "organized" industrial sector amounted to £S194 million. The total paid-in capital of the forty-six nationalized industrial companies was £S188 million. The extent of nationalization of these companies was as follows (in millions of Syrian pounds):

Companies	*Degree of nationalization (Per cent)*	*Total paid-in capital*	*Remaining private share*
24	100	169·1	—
11	90	13·0	1·3
11	75	5·8	1·5
46		187·9	2·8

[18] Between 1954 and 1964 there were 20 private companies registered as joint ventures with foreign partners with a total capital of SR 7·3 million.

In addition to the above forty-six companies, four others, which were in process of establishment, with a combined paid-in capital of £S11·0 million were nationalized. The nationalization measures have therefore affected virtually the whole "organized" industrial sector, leaving only the small establishments in private hands.

Financing of selected industries

Working capital requirements and their financing[19]

Planners in developing countries tend to concentrate on ways and means of financing fixed capital investment and devote less attention to the equally vital question of working capital requirements. For example, the estimated figure for working capital requirements provided for in the Jordanian plan for new industries was calculated on the basis of 25 per cent of the value of the estimated required fixed capital. This estimate was used in the absence of studies on working capital requirements.

The latest Iraqi five-year plan published in 1965 provides a similar example. The amount allocated for fixed investment in manufacturing industry over the plan period is ID141 million with only ID5 million provided for working capital.

It is well known that many failures of new enterprises are caused by the lack of funds for working capital. These failures sometimes occur when, contrary to expectations, industrialists are unable to obtain the necessary working capital from the banks. To obtain such capital depends first on whether banks in a particular country are able (depending on their resources) or willing to extend such funds and, secondly, with respect to private industry, whether the *entrepreneurs* concerned have the credit-worthiness and assets to offer as collateral.

The amount of working capital in industry is usually underestimated not only by *entrepreneurs* but also by economic planners in developing countries. An attempt is therefore being made to illustrate the variation of such requirements on the basis of balance sheet data of individual companies taken from published sources and of approximations thereof obtained during interviews. For comparative purposes, working capital is expressed as a ratio of the value of current assets to gross fixed assets.[20] A more refined ratio is that of the value of current assets to that of machinery and equipment, rather than to total fixed assets, since the last include land and buildings in one company but not in another depending on whether these assets are owned or rented.

Working capital requirements in manufacturing industry differ from enterprise to enterprise depending on many factors, such as capital intensity, location, seasonality, technology, business practices and other factors,[21] but these differences tend to be relatively small between enterprises in a particular branch of industry. For example, relative magnitudes of working capital of industries producing soft drinks in a particular country tend to vary within a narrow range. There are, however, considerable differences between relative working capital requirements of, e.g., cement industries and those engaged in spinning and weaving. This is mainly because the former are much more capital intensive. The ratio of the value of current or revolving assets relative to the value of fixed assets in the textile industries is, as a result, much greater than in the cement industries.

Another factor which influences working capital requirements is the location of the enterprise in relation to its sources of raw material and its markets. For example, inventory requirements of two companies producing exactly the same product such as Coca-Cola could vary a great deal, depending on whether the enterprise is located in Kuwait or in Beirut. It takes about one month for Coca-Cola concentrate, chemicals and other supplies (crowns, bottles and wooden cases) to arrive in Kuwait from Beirut. Therefore, the company in Kuwait must hold more inventories, equivalent to at least one month's production, compared to the one located in Beirut due to a longer "procurement lead time".

Another interesting example which illustrates the need for holding large inventories caused by an unfavourable location is that of a furniture factory in Kuwait. Upon inquiry, it was learned that it was necessary to maintain extra inventories, mainly of raw materials, for emergencies. Experience has shown that the interest paid for bank credits to finance these extra stocks is much less than the amount that may have to be paid for the difference between import and local prices if, in an emergency, raw materials have to be bought from the local market in Kuwait.

The above examples illustrate the need for maintaining relatively high levels of inventories, which in most industries constitute the major portion of working capital, due to locational factors. The Chlorine and Salt Plant in Kuwait provides an extreme example of the advantage of being located near its source of cheap raw material and at the same time near its market. Its main product, chlorine, is delivered daily to the Water Distillation Plant nearby. There is, therefore, no need to maintain stocks of its fin-

[19] The main components of working capital are inventories, receivables and cash (on hand and in banks). A distinction is often made between permanent and variable or seasonal working capital. The former constitutes the minimum amounts of current assets held by the enterprise at all times. The additional amounts needed for seasonal requirements constitute the variable working capital.

[20] Gross rather than net fixed assets are used, because of the differences in methods and rates of depreciation, differences in age of companies and consequently differences in the relative amounts of depreciation between companies; and, because this ratio may be more useful for planning purposes.

[21] Two of these are worth mentioning: (*a*) inflationary tendencies, and (*b*) certain government regulations and administrative procedures. Where inflationary pressures are great, the incentive to overstock may be strong. Industries which depend on imports or exports in countries where the administrative and customs procedures are very complex and involve considerable delays also tend to be overstocked.

ished product. An additional advantage for this plant is that gas is used both as energy and raw material, and is virtually free in Kuwait while salt, a raw material for chlorine, is produced internally from sea water. The combined original cost of the chlorine and salt plants amounted to KD750,000 while the running budget, i.e. total annual operating costs, for 1965/1966 is KD95,000. Working capital requirements of this enterprise are probably around one tenth of the original cost of its fixed assets since the operating costs of KD95,000 are spread over one year.

The Kuwait Chemical Fertilizer Company which is being constructed is another example of an industrial enterprise requiring an extremely low level of working capital relative to the value of its fixed capital. Excluding land which is rented, the value of the plant will be about KD12 million whereas the required working capital was estimated to be between KD0·5 to KD1·0 million or less than one tenth of the value of its fixed assets. This extremely low amount of working capital requirements is explained by the fact that the main raw material and source of energy in producing chemical fertilizers is gas, which is virtually free in Kuwait.

By contrast, working capital requirements of such industries producing, e.g., leather, carpets, vegetable oil, cigarettes and textiles are relatively high. The following examples are based on balance sheet figures of thirty major Iraqi industrial companies. The findings should only be regarded as illustrative for two reasons: (*a*) the use of balance sheet data to assess working capital requirements is inadequate, e.g., short-term loans received and repaid within a year do not appear on the balance sheet; (*b*) the number of industries included is not large enough and the ratio for each industry refers only to one particular year.

The current assets of the National Leather Industries Company amounted to more than double the value of its gross fixed assets. In the case of the Iraq Carpet Company, this ratio was 1·33 and those of the two companies producing vegetable oil were both 1·24. The high levels of working capital in the above industries, all exceeding the value of their gross fixed capital, are, on the one hand, caused by the fact that, relatively, they are not capital intensive and, on the other hand, must hold large amounts of inventories.

It is interesting to note that in the case of industries producing the same or similar products, the ratios vary within a narrow range. Apart from the two companies producing vegetable oil mentioned above, the two industries engaged in spinning and weaving have also exactly the same ratio (0·82); the ratios of the two tobacco companies vary from 0·93 to 1·02; the ratios of six beverage industries vary between 0·50 and 0·76; those of four cement factories between 0·29 and 0·44.

Within a certain type of industry, differences in the relative levels of working capital could be caused either by objective factors such as, e.g., location or, if the industries are located in the same country and work under the same conditions, it could be due to differences in efficiency. The "working capital cycle" or the turnover of working capital (i.e., the length of time of the circular flow of working capital in an enterprise between cash—buying—inventory—production—finished goods—selling—receivables—collection—cash) of establishments working under approximately the same conditions should be about the same. The relative length of the working capital cycle of an enterprise could therefore be an indication of its relative efficiency. Due to the fact that a large proportion of working capital consists of inventories[22] the efficiency of stock management is of great importance.[23] Comparative studies of working capital requirements of establishments within a particular branch of industry could lead to a detection of differences in efficiency and the underlying reasons. The results of such studies would, therefore, be useful also as a basis to improve efficiency of working methods.

It is hoped that such studies will be undertaken in the future, especially in Iraq and Syria, where during the transition period the efficiency of nationalized industries may be declining. The availability of certain objective criteria for efficiency for particular types of industry would be very helpful not only for the managing/controlling government agency concerned but also for the management of individual companies. These studies will also be very useful for bank managers to serve as a guide in judging credit applications.

As mentioned earlier working capital can be divided into permanent and variable working capital. Since the available information does not provide such a breakdown, it may be useful to discuss briefly the different ways of financing working capital in general.[24]

The relative amounts of the major components of assets, equity and liabilities of thirty Iraqi industrial companies shows clearly the dominant role played by owners' equity relative to other sources of finance. The average proportion of net worth (i.e., the total of paid-in capital, undistributed profits and capital reserves) to total assets for the thirty companies is 81 per cent. Total debt thus constitutes 19 per cent, of which 3 per cent was medium-term/long-term debt and 16 per cent current debt. Half of current debt consists of debts to suppliers; one fourth is debt to banks, while the remainder is mainly reserves for income tax.

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[22] The consolidated balance sheet of thirty Iraqi industrial companies shows that inventories made up one third of total assets and two thirds of current assets.

[23] ILO is especially concerned with this problem. In some of their productivity centres they devote much attention to the teaching of stock management rules.

[24] Since permanent working capital must be available in an enterprise at all times, it is similar to fixed capital. Short-term borrowing to finance it is, therefore, undesirable. The logical way to finance permanent working capital is by preferred or common stocks or reinvested earnings. Alternatively, medium-term borrowing may be employed either through the issuance of bonds or in the form of medium-term loans from a bank. Variable working capital is usually financed from suppliers' credit and short-term borrowing. There are, however, many industrialists who prefer to finance part of it by more permanent sources of finance.

Only in the case of three of the thirty companies in Iraq is net worth less than the sum of net fixed capital plus intangible assets (mainly investment in other companies). However, all three companies have incurred medium-term loans to provide additional financing for fixed capital. In the case of most of the thirty companies, a considerable proportion of their working capital was financed by equity capital. Financing of working capital from temporary sources (current debt) was done to a larger extent by four beverage industries.

Four major Jordanian industrial companies, enjoying concessions from the Government, with a monopoly position and consequently high profit margins, provide examples of companies which have little need for external financing. These are the Jordan Petroleum Refinery, the Jordan Tanning Company, the Jordan Cement Factories Co. and the Jordan Vegetable Oils Factories Co.

As in the case of most of the Iraqi companies, the four Jordanian enterprises rely mainly on their equity capital. The net worth of the refinery, cement and vegetable oil companies varies from 84 to 88 per cent of total assets; that of the tanning company was 75 per cent. These companies have, in addition, other internal sources in the form of income tax and other reserve allocations. None of them required any bank financing.

The only country among the six under study where field visits were paid to a number of industries was Kuwait. Interviews were conducted with managers of twelve large establishments including two oil refineries, a flour company, a furniture company and the government chlorine and salt plant. The extremely low level of working capital required by the last could be financed wholly from its current sales revenues.[25] In the case of the flour mill, its working capital plus a portion of its fixed capital are financed by short-term borrowing from commercial banks. The furniture industry financed its working capital, which equals the value of the original cost of its fixed assets, through trade and bank credits.

One major company which is expected to rely heavily on medium-term or long-term borrowings is the Kuwait National Petroleum Company. The KNPC was established in 1960 for the purpose of engaging in the oil industry at home and abroad, and was designated as the sole distributor of petroleum products in Kuwait. It is planning to build a large oil refinery in Kuwait which will have a capacity of 95,000 barrels a day. It will have full facilities to produce high quality petroleum products with a minimum of fuel oil. The financing plans of the KNPC refinery, of which the capital cost is expected to be about \$95 million with additional working capital requirements of about \$30 million, or KD45 million altogether, are not complete as yet. Basically, it will be financed by its capital of KD7·5 million and its retained profits and depreciation allowance of about KD6 million. A direct loan from the Kuwaiti Government has been negotiated. The National Bank of Kuwait offered KD10 million at current interest rates. Moreover, a loan of \$25 million was under discussion from the Eximbank at 5·5 per cent. Another possibility was a loan from the Chase Manhattan Bank.

The total assets of the Kuwait Asbestos Company in 1965 were about KD1,200,000 of which nearly two thirds was in the form of fixed assets, the remainder constituting its working capital. With its capital of KD360,000 and a reserve of KD180,000 it was indebted to the banks to the extent of KD240,000 in the form of a medium-term loan (three years) from the Government Savings and Credit Bank, and KD420,000 from two national private banks which provided the company with overdraft facilities. By contrast, the Kuwait Chemical Fertilizer Company will rely wholly on the resources of its owners. It has an authorized and fully paid-in capital of KD4 million of which 60 per cent is owned by the Petrochemical Industries Company, 20 per cent by the British Petroleum Company and 20 per cent by the Gulf Oil Company. Its fixed investment will be about KD12 million and its required working capital will be between KD0·5–1·0 million. It is clear that this company will need additional financing since its own capital covers only one third of the value of fixed assets. It is planned to issue new shares in the amount of KD2 million. The rest of the required financing will be in the form of loans, from its owner-companies.

An example of an over-capitalized company in Kuwait is the National Industries Company, producing sandlime bricks and cement. It was established in 1960, at a cost of KD650,000, for the specific purpose of taking over the two government factories producing these products. This company has a fully-paid-in capital of KD1,500,000. It purchased through use of its surplus capital 75 per cent of the shares of the Kuwait Asbestos Company which has a paid-in capital of KD360,000. After this it was still financially self-sufficient and needed no bank financing whatsoever.

While the four Jordanian and the majority of the thirty Iraqi companies rely mainly on internal sources of finance, the financing pattern of the Kuwaiti industries mentioned above varies considerably. One would expect to find enterprises over-capitalized in this capital-rich country but the examples given above indicate that this is not the case.

[25] Its main product, chlorine, is delivered daily to the Water Distillation Plant for which no actual payments are made since both plants are under the administration of the Ministry of Electricity and Water. Funds for the running budget of the Chlorine and Salt Plant are provided by this Ministry.

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Printed in the United Kingdom
14200—April 1968—4,000

Price: $U.S. 2.00
[redacted] in other currencies)

United Nations publication
Sales No.: E.67.II.B.10

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