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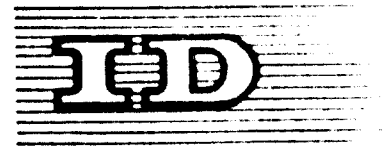
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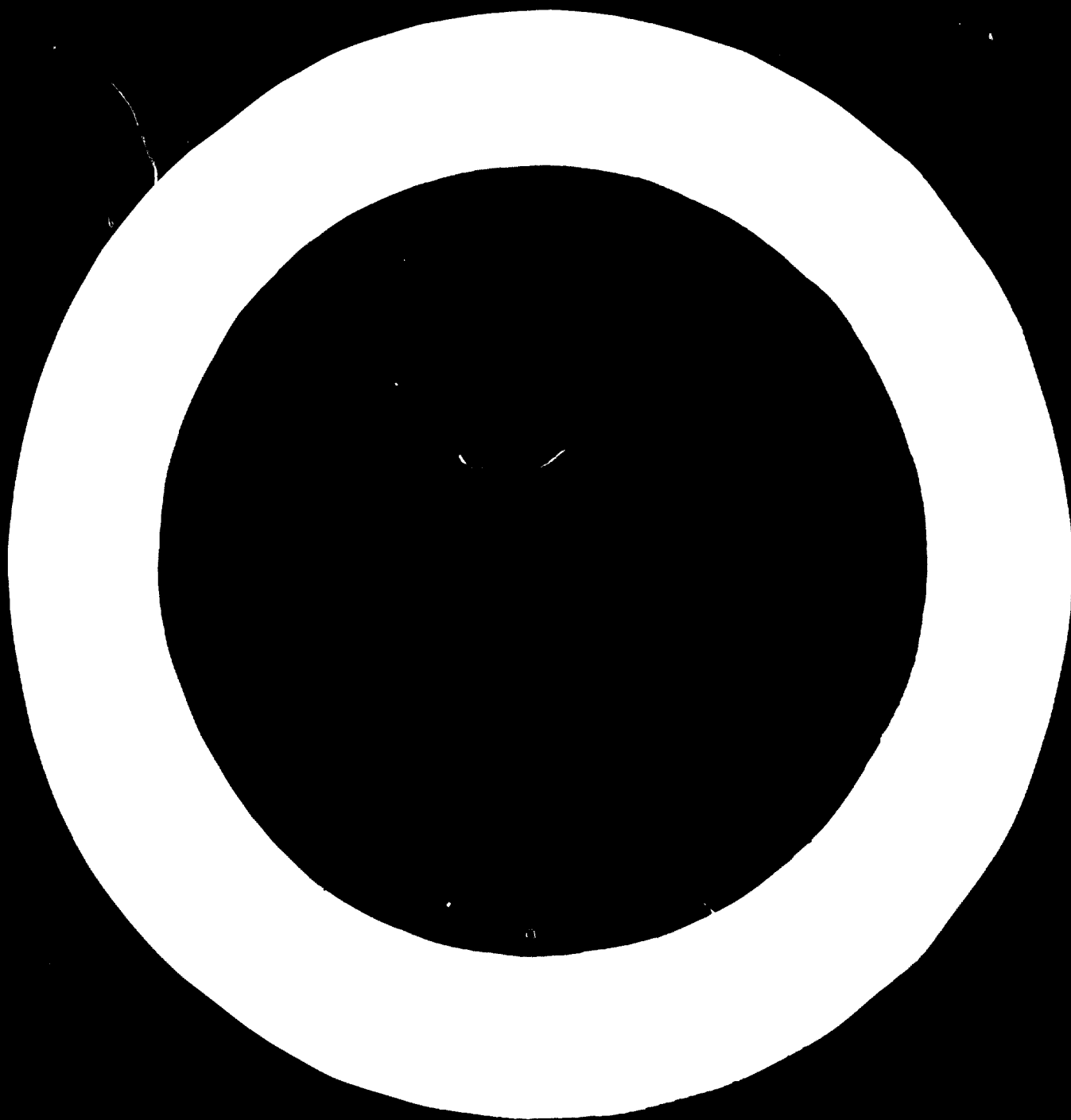
Vienna, Austria, 2 - 28 November 1970

INDUSTRIAL BANK OF THE UNITED ARAB REPUBLIC

- 1/ This material has been prepared as a background paper for the Workshop on the basis of information supplied by the Deputy Manager of Economic Research Department, Industrial Bank of the United Arab Republic, Mr. Abd-El-Tawab Salman. The aim is to present factual information describing the United Arab Republic's provisions as a basis for discussion of the subjects to be considered by participants. The views and opinions expressed in this paper are based on the author's original paper and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.

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## ORGANISATION OF INDUSTRIAL BANK-CAIRO

The purpose of the Industrial Bank in U.A.R. may be summarised as specified in Article 2 of its statutes, is the development of Egyptian industry and handling banking transactions relating thereto. especially it conducts the following activities:

- a) Participation in the establishment and promotion of Egyptian enterprises.
- b) Supporting Egyptian industry by providing it with its requirements of raw materials, machinery..... etc.
- c) Granting loans against collateral or personal security.
- d) Extending assistance to graduates of technical institutes to start industrial enterprises by granting them loans against collateral or personal security.

In all cases the industry under consideration must have all requirements of success and be in need of the required funds. It must also be ascertained that loans will be spent on the industrial purposes for which they were granted and not for any other purpose.

So, the organisation of the bank is planned to fulfill its above mentioned purposes.

It is divided into different divisions and sections in order to meet the necessary requirements to study the different sides (technical, financial and economic).

### 1. Economic Research Department

#### a) Guidance section

In this section the projects applied for loans is discussed from every sides (economic, financial and technical point of view), taking in consideration the potential success of the enterprise and ascertaining its needs from different types of credit.

#### b) Economic research section

One of its main jobs is setting up a priority schedule for loans, depending on locally available raw materials, required machinery, its participation in fulfilling local consumption and minimising imports, labour needed and value added to the national income.

The effect of the project on the national economy and degree of its effect on the balance of payments.

It concerns too of making economic surveys of the different industries in U.A.R., industrial planning, the role of the enterprises requiring loans in the industry and its development. Moreover, it deals with suggesting new methods of credit, proposals for easier conditions of granting credit and the credit policy of the bank.

c) Statistical section

This section is considered as a pool of statistics concerning industrial bank's activities, statistics about different industries (production, market, exports, technical co-efficients...), imports of raw materials, imports of similar products.

2. Credit Department

a) LOANS section

It concerns with the investigation of applications from financial and taxing point of views, analysing the profit and loss account and budgets during last three years, reasons of losses or high profits, depreciations....etc.

b) Engineering section

It estimates the securities offered to the bank to meet credit granted to the clients. (Lands, buildings, machines and equipments.). In order to fix the amount of loan that can be granted to them. It examines the technical organisation of the enterprise, its efficiency, the performance of the new machinery for which the loan may be demanded, and its conformity with the latest designs of its kind.

3. Legal Department

This department deals with all the legal aspects of the project and internal legal problems of the bank.

4. Accounting Department

It keeps the accounting records of clients according to a special adopted system, preparation of Balance-sheet and similar financial statements as well as management of the bank's funds.

5. Inspection Department

It investigates the different effects of loans on borrowers, and discuss the new arising problems and the means of solving them.

6. Information Bureau

It deals with all the information about the applicants, their soundness and reputation.

APRAISING REQUESTS FOR FINANCING

The application is submitted on a special form ( four coppies) obtainable from the bank's main office or its office at Alexandria. It comprises some questions, their answers allow the bank to have an idea about the project applying for credit, to enable the bank to estimate the potential success of the enterprise from both economic and technical sides. The application is discussed in the guidance section, all documents about the project are requested. One copy is submitted to the statistical section for statistical purposes, the other three copies are submitted to the following departments:

- 1) loans department,
- 2) legal department,
- 3) Information bureau. }

In the first two dept., the application is studied from financial and legal points of view.

The information bureau is responsible for collecting information about the reputation of the client, its dealings and the weight of his project.

The other three copies are sent to different departments in order to be studied and their decision be given at the same time, while the engineering section examines the technical organisation of the enterprise, its efficiency, the performance of existing machines, new machines, needed.

All the results of this study, concerning the applicant economic, financial and legal conditions are to be included in a report which is submitted to a special committee to give the recommendation and then presented to the managing director or the board of directors.

If the application concerns the establishment of a new industry or the participation by subscribing for a special ratio, in its capital, the bank undertakes, by its own technical staff, thorough investigation of the various aspects of the projects. In certain cases, it may seek the advice of experts specialised in the particular field under consideration.



When the decision for loan from different aspects is made , the matter is referred to the legal department which undertakes the required formalities.

The credits extended by the Industrial Bank are used for different purposes according to the requirements of industrial enterprises as follows:

- 1) long-term loans for the purpose of establishment, renovation and expansion. These loans range between 10 and 20 years.
- 2) Medium-term loans for assistance already established industries to expand or to introduce renovation or to face permanent or semi-permanent deficiency in the resources for operation. These loans range between one and ten years.
- 3) Short-term loans for emergency in deficient means of financing special operations, such as financing contracts for a period not exceeding one year.

Generally the bank takes in consideration some factors for supporting industrial enterprises. The most important factors are:

- 1) The requirement of the home market to which the requesting unit is affiliated.
- 2) The soundness of the financial position of the firm.
- 3) The availability of raw materials necessary for the production (local, foreign) and other factors of production such as know-how and skilled labour.
- 4) The weight of requesting unit between other competitive units.
- 5) The possibility of solving problems facing industrial units other than financial problems.

The different studies (economic and financial) are based on detailed factors and criteria for extending different credit facilities to national industry.

## CONTROL OF UTILIZATION OF LENDING OPERATION

To control the use of lending operation three processes are adopted:

### 1. Before lending

Details studies made about the project before lending (theoretical and applied studies) aiming the determination of the project requirements are considered as a guarantee for potential success of the project. This factor differentiate between normal lending banks and the industrial ones, as the first kind of banks grants their loans as long as the collateral guarantee exists, but the decisive factors in case of the industrial banks is the potential success of the project, in other words its real needs from different kinds of credit facilities (establishment, renovation, replacement and current operation). In some cases applicants request more resources than their need while others ask for less than their need, here the job of the control to determine before lending their exact need.

### 2. During lending

When the loan is approved, it is not granted directly to the applicant except in some cases, in other words, if the loan is required for renovation or replacement of machines, it is paid to the machinery suppliers, the same is valid for raw materials...etc. It is only granted to the applicant for paying wages or for other current expences. This kind of control is taken to ascertain spending the loans in their proper purposes.

### 3. After lending

The aim of control, after the loan is given, is to pursue the effects of the bank's loans on the industrial enterprises, whether they have benefited or still have some other problems handicap their developments.

Regular inspections as well as sudden ones are carried out during the loan duration so as to be sure of the progressing state of the project and to understand the problems which it faces and trying to advise remedial measures and present the necessary recommendations to governmental authorities concerned with the objective of facilitating its solution.

During the inspection, the inspector could, whenever possible, offer technical and accounting guidance to project's leaders trying to acquaint them with other producers to obtain some of their requirements at better prices and suitable conditions and opening new markets for their products.

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## INDUSTRIAL BANKING ACCOUNTING SYSTEM

The accounting system is based on double entry system; it is derived basically from usual purposes and transactions of the bank. As the system of the industrial bank is consisting usually of:

- a) granting loans and advances
- b) issuing letters of credit
- c) discounting bills of exchange
- d) financing purchase of some machines and raw materials
- e) acting as referee to customers,

so the accounting system must include all these operations from one side and the resources of the bank from the other side.

The principle sources from which the bank derives its income are:

- 1) interests on loans granted
- 2) discount on bills purchased
- 3) commissions charged for conducting different operations.

As the transactions of the bank chiefly relate to moneys received, moneys paid, moneys lent, interest received and allowed, discount and commissions earned and office establishment charges; the system of the bank book-keeping naturally resolves itself into an elaborate analysis of money received and paid.

The principle books kept by banker are:

- a/ daily counter receipts book
- b/ daily counter payments book
- c/ sectional cash books
- d/ cash balance books (L)
- e/ general cash book, 'bill diaries
- f/ securities register
- g/ loans ledger
- h/ Investment ledger
- i/ private ledger
- j/ general ledger
- k/ signature book.

(L)

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Table I

Illustration of the Balance sheet of the Industrial Bank.

Table II

Illustration of the profit and loss account of the Industrial Bank.

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Table I

Balance Sheet at June .....

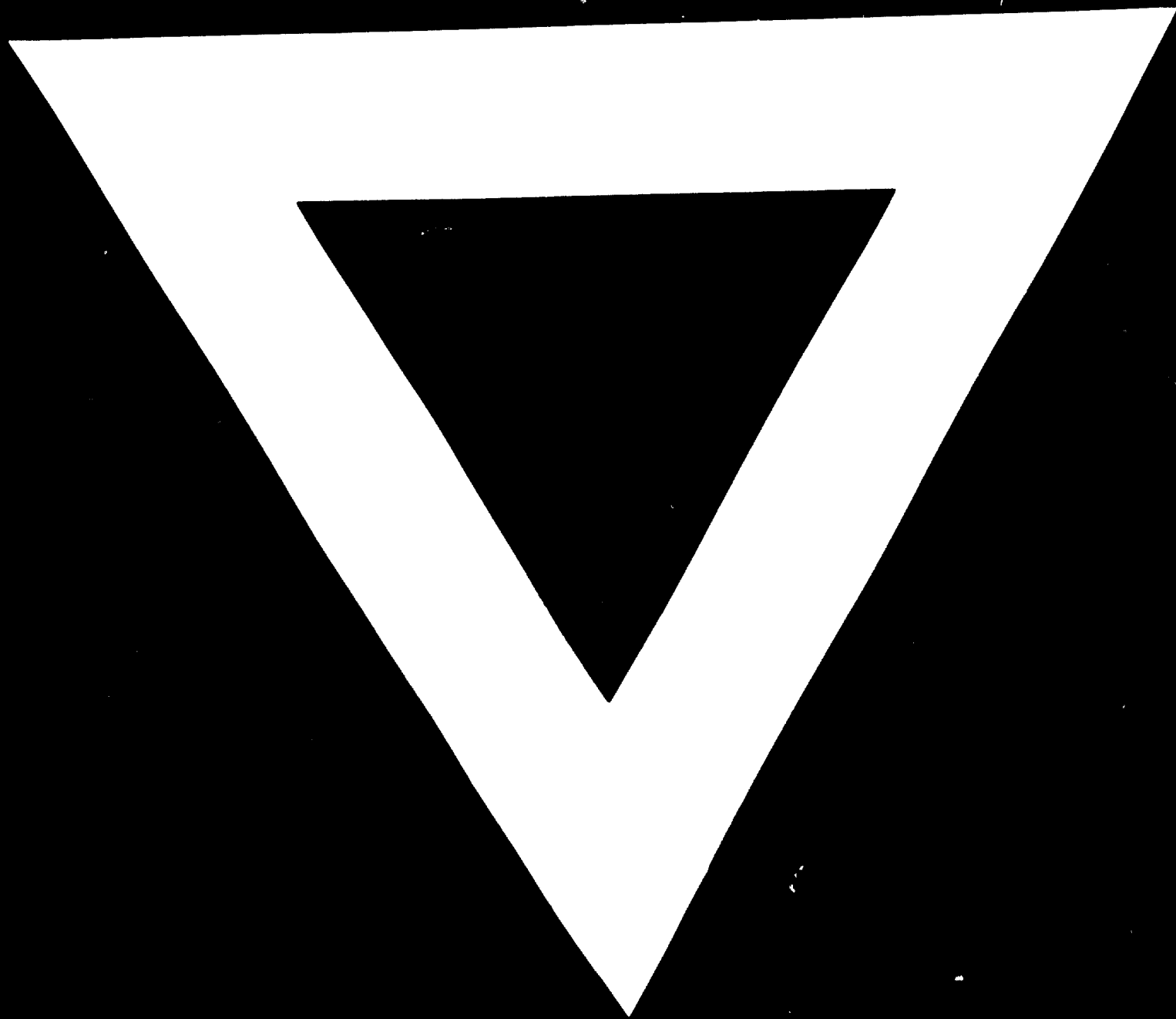
at	year	year	year
<p>Cash in bank and on hand</p> <p>Investments at cost</p> <p><u>Industrial advances and loans secured by various guarantees</u></p> <p>-short term loans</p> <p>-medium term loans</p> <p>-long term loans</p> <p>-advances</p> <p>-Loans under settlement</p> <p>-small loans</p> <p>-(Post passed loans)</p> <p>+Instalments &amp; Interest</p> <p>-<u>Sundry debit accounts.</u></p> <p>-<u>Fixed Assets at costs after depreciation</u></p> <p>Land</p> <p>Buildings and furniture</p> <p><u>Contra Accounts.</u></p> <p><del>S.E. 766945</del></p> <p>Sundry Accounts</p>			<p><u>Capital</u>(Authorized and issued 375,000 shares of L.E. 4 each fully paid</p> <p><u>Reserves</u></p> <p>-Statutory reserve</p> <p>-For buying governmental Bonds</p> <p>-General reserve</p> <p>-For facing highes prices of fixed assets.</p> <p>-For support.</p> <p><u>Loans and debentures:</u></p> <p>-Central bank of Egypt guaranteed by government</p> <p>-Commercial Banks</p> <p>-Debentures issued 62/70</p> <p>-Debentures issued 69/78</p> <p><u>Provisions:</u></p> <p>- Provision for taxation</p> <p>-provision for staff indemnity</p> <p>-Provision for decrease in investments values.</p> <p>-Provision for doubtful debts</p> <p>-Provision for interest difference on loans from central bank of Egypt.</p> <p>-<u>Creditors and sundry credit balances.</u></p> <p><u>Profit and loss Account.</u></p> <p>-Profit brought forward from previous year</p> <p>-Profit for the year</p> <p><u>Contra Accounts</u></p> <p><del>S.E. 766945</del></p> <p>Sundry accounts.</p>

Table II

Profit and loss account of the year ended June....

	June.. L.E.	June.. L.E.	June.. L.E.
<u>Interest on Loans and debentures:</u>			<u>Interest on advances and loans</u>
Interest on loans & debentures			Interest on loans
General & administrative			Interest on advances
Board of directors remuneration			Commission receivable
<u>Depreciations:</u>			Interest on loans from previous years
The Building			Profit from installment sale system.
Furniture			Penalty interest
Building.			Interest on deposits at banks
<u>Provisions:</u>			Investments' Revenues.
For staff indemnities			Buildings' net income
For doubtful debts			Miscellaneous income
For taxation.			Profit on sale of assets
Net Profit carried to Balance sheet			Interest on nationalized debentures.





**7. 10. 71**