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INDUSTRIAL FINANCE IN FIVE AFRICAN COUNTRIES

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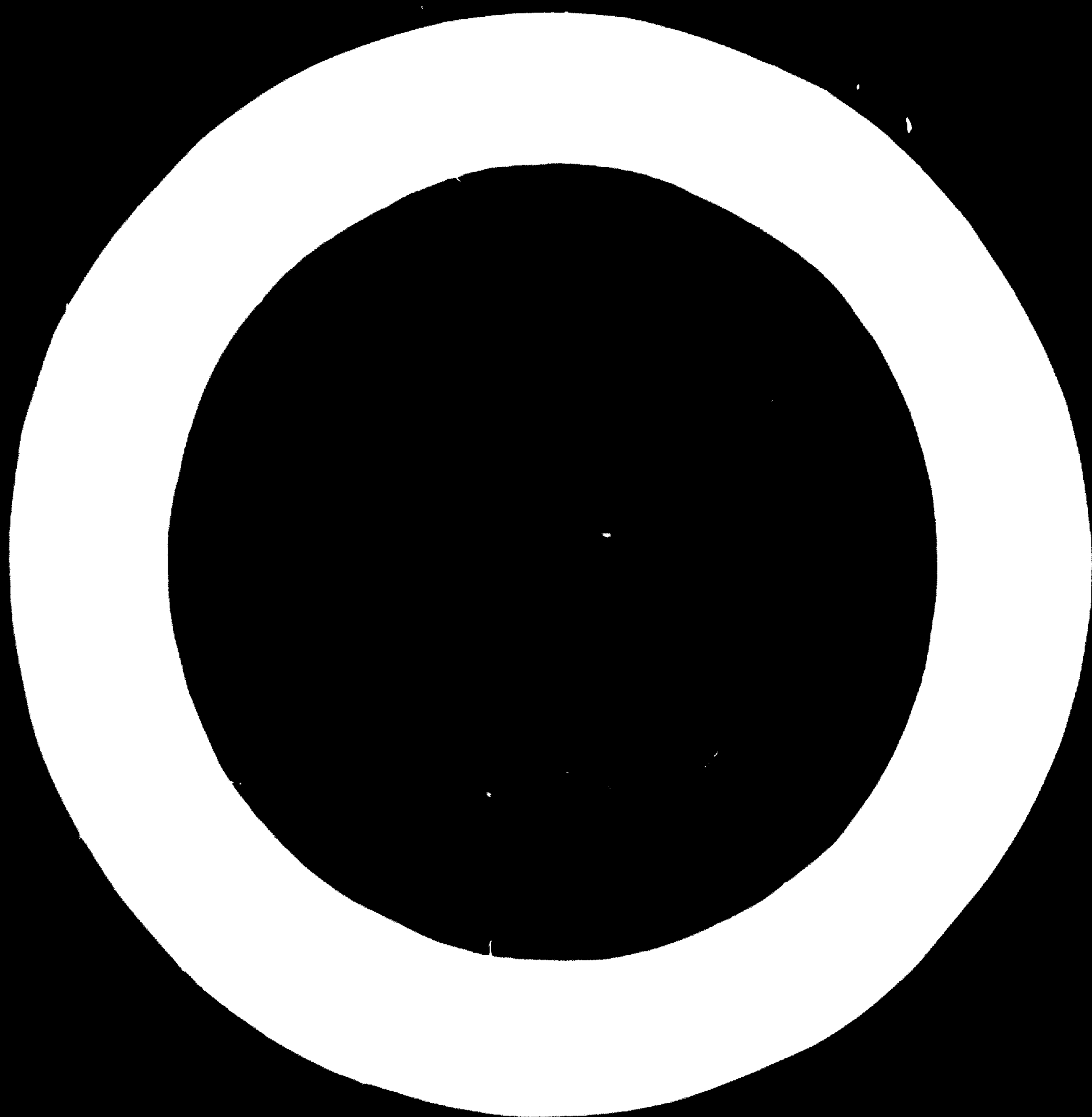

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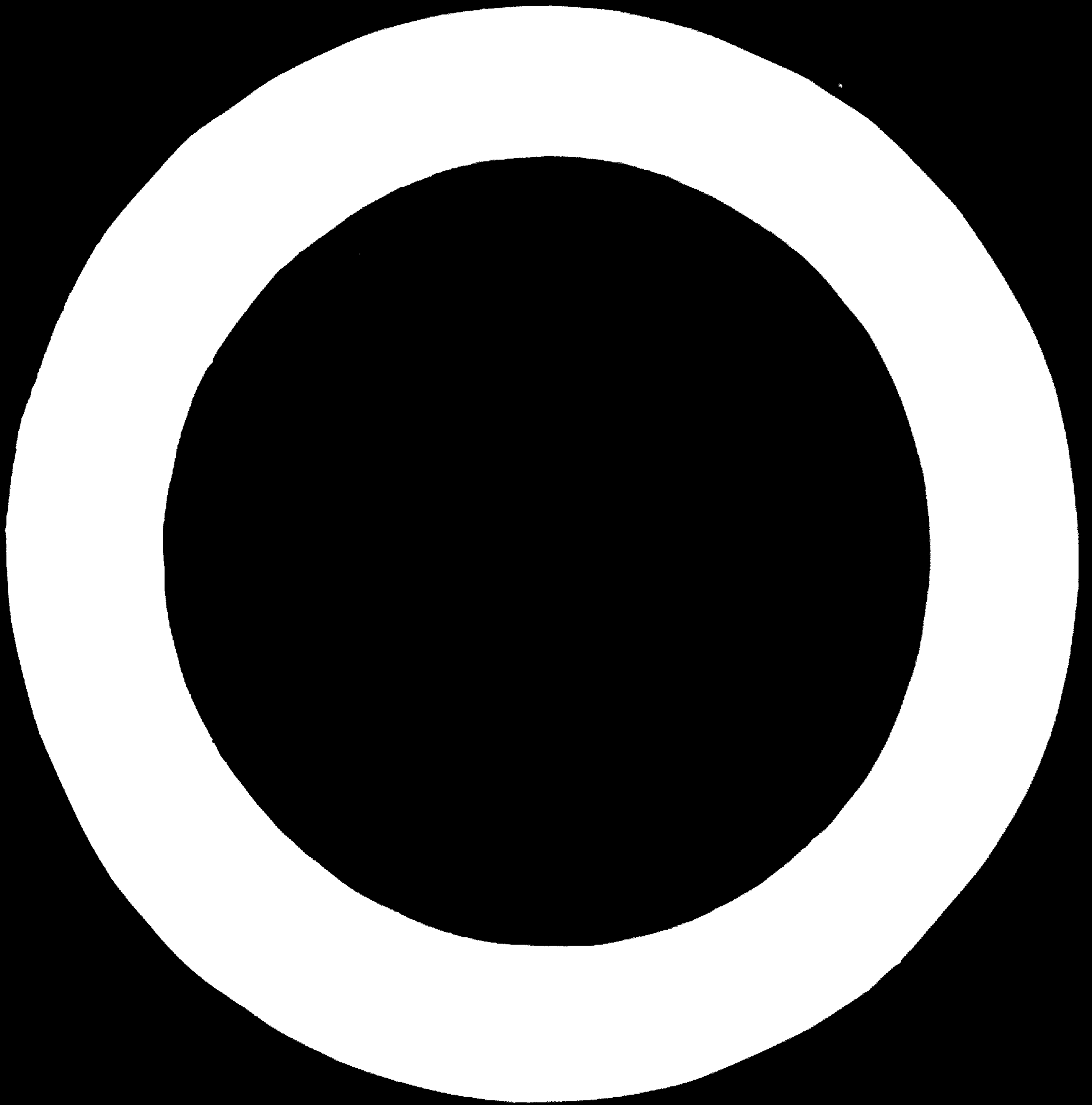

INDUSTRIAL FINANCING IN FIVE AFRICAN COUNTRIES

Introduction

A growing concern with industrialization in Africa has focused attention on the sources of industrial finance. What institutions have been established to provide or to mobilize domestic capital? Have measures been taken to attract foreign capital? To what extent has public international development finance been utilized in industrialization? Are new institutions needed? What kind of problems have different countries faced?

This paper discusses these questions in relation to five African countries: Tanzania, Libya, Senegal, Tunisia and the UAR. Although these countries have some similarities they also have many differences. The UAR is the only one of the five which was independent prior to the Second World War. Tunisia and Senegal were under French rule, Tanzania under British rule and Libya, following the defeat of Italy in the war, was administered by the British until 1951 when it achieved independence under United Nations auspices.

Each of the countries under discussion has a development plan, each has at least one financial institution directed towards furnishing industrial capital and until recently all five were net importers of capital. The discovery of oil in Libya has put that country into a unique position among the five. The UAR is the only one of the five with a substantial industrial base.

Industrial Policy

The flow of industrial finance and its source is closely related to the industrial policy of a country and to its investment climate. Private investors concerned with a profit on their investment will seek to invest in countries where they can maximise their investment profits with the least risk. There is a constant balancing between these two variables. Foreign investors unrestricted by currency controls can shop around from country to country. The indigenous African investor, frequently limited in relation to the export of his capital is faced with the options of hoarding his capital or investing it in enterprises which will provide a reasonably quick return or making a long-term

investment in industry. The traditions in most developing countries, where there is little experience in industrial investment, is generally directed to investments in which there is a quick"turn-over". There is a third group of individuals who may be an importamt source of capital and perhaps even more important a reservoir of entrepreneurial ability, the indigenous non-African which includes the Syrians and Lebanese in West Africa, the Greeks and Indians in East Africa and the Greeks, Italians and French in North Africa. This third group has played a role in African industrial development in the past but there seems to be some doubt about their future role. Sovereign States must decide on how they want to industrialize and who they want to do the industrializing. Is industry to be in the private or public sector or both? Is foreign capital welcome and if so under what conditions? Is there sufficient domestic capital to do the job? If not, should attempts be made to supplement domestic capital with public or private foreign capital or both.

Libya has not yet developed an industrial policy. After years as a "have-not" nation, oil has been discovered and Libya is now considering how to use its new-found wealth. With its limited market of less than 1.4 million people and its lack of skilled technicians and managers, Libya is concentrating on the compilation and analysis of data, the development of technically skilled individuals, the establishment of industrial estates, the exploitation of natural resources and it established an Industrial Development Organization to make loans and investments in industrial enterprises.[1]

Private capital is welcome and the State has said that it will invest in industry only when no one in the private sector is willing to do so either alone or in partnership with the Government.[2] The Foreign Capital Investment Law of 1958 offers possible concessions to private investors, assures the repatriation of capital and profits and the Constitution has a provision that property may not be expropriated unless it is in the public interest and then only in the manner determined by law. There is also a provision assuring fair compensation in case of expropriation.

1/ Five-Year Economic and Social Development Plan, 1963-68 (Kingdom of Libya - Ministry of Planning and Development), pp. 69-73.

2/ Ibid.

Tanzania is actively seeking private capital investment. Under its current Five-Year Plan (1964/65 - 1968/69) estimated investment totals £246 million of which £59.0 million is to go into industry.1/ The Government plans to raise £96.3 million from private enterprise: £72 million internally and £20.3 million in external loans and grants. Central Government investments in industry will amount to £14.6 million with £2.6 million to be borrowed internally and the rest to come from abroad. Industrial Development is a part of this new comprehensive Five-Year Plan. A private consulting group was hired by the Government and they carried out a preliminary study of bases for the expansion of industrial activities.2/ In addition, the Government has established a Development Corporation3/ and has a one-third interest with German and British capital in a Development Finance Company. Concessions are offered to approved industries.4/ The Government also pre-services industrial sites.5/

Asians and Greeks living in Tanzania have been hesitant about investing their own money in the country. Prior to independence many individuals in these communities liquidated their assets and sent their money out of the country. They have financed current business through local borrowing. This fear is partly the result of criticisms by Africans of rapacious individuals in these communities. Individuals who monopolized trade, charged high prices for goods and/or lent money at exhorbitant rates of interest. These acts resulted in sharp denunciations and Greek and Asian confidence in relation to their future has not been fully restored.

1/ Tanganyika Five-Year Plan for Economic and Social Development, 1 July 1964 - 30 June 1969, in two volumes (Government Printer, Dar-es-Salaam), 1964.

2/ Arthur D. Little and Company.

3/ Tanganyika Development Corporation (recently renamed National Development Corporation).

4/ Tanganyika Foreign Investments (protection) Act Law No. 40 of 1963.

5/ See undated mimeographed statement "Opportunities for Investment in Tanzania".

Tunisia's industry is "embryonic" in the eyes of the Government[1] and they are taking steps to expand it. When the Ten-Year Perspective (1962-1971)[2] was drafted a number of major industrial projects were being carried out or studied including a sugar factory, an oil refinery, a cellulose factory, steelworks and a truck assembly plant.

The Government stated that Tunisian planning is socialistic and defined it as follows:[3]

"...by socialism, we mean a society which is at the service of the greatest number, centered on an economy which respects man by guaranteeing him a harmonious development of his need and possibilities under conditions of justice and equality; to the extent that socialism provides the maximum efficiency with the maximum freedom..."

"...private enterprise will have to operate within the framework of the plan, but this does not mean that they will cease to exist as such."

The Tunisian Government outlined the role of the State in industrial development in its Ten-Year Perspective in these words:[4]

"The State will have to play a greater part in industrial development than it has so far. It will intervene at three levels:

"As supervisor in the key sectors forming the base of Tunisian industry.

"As partner with private investors in the creation of new industries.

"As the authority with power to discourage certain investments and encourage others by means of legislation, taxation and credit.

"(a) in the matter of direct intervention, the State intends to make investments and accept the financial sacrifices required in certain primary industries, which are the only ones capable of assisting small industries to work on a profitable basis and of leading to the establishment of complementary industries:

1/ "Tunisian Development 1962-71" (Secretary of State for Cultural Affairs and Information - 1962)

2/ "Perspectives Décennales de Développement 1962-1971" (République Tunisienne - Secrétariat d'Etat au Plan et aux Finances).

3/ "Tunisian Development 1962-71" op. cit. p. 50.

4/ Ibid. pp.76-77.

"Thus:

"Investments in the field of energy, transport and industrial water supplies, which will determine the costs of most industries, will be decided and handled in accordance with national unity and will be made by the State.

"Operations which necessitate the granting of a de facto monopoly for a key product (petroleum products, iron and steel), or concessions by the State of substantial advantages, will have to be taken out of the hands of private enterprise.

"Direct State action will take concrete form through:

"The State's or local community's equipment budget.

"National companies with industrial and commercial management. (A) State intervention as a partner of the private sector will go through channels of a joint-economy company, the Société Nationale d'Investissements (SIn.I).

"(C) Lastly the State will intervene in industrial development to encourage private initiative in certain sectors and to direct and control it in others."

In the Three-Year Development Plan (1962-64) the Government estimated that net investments would total D 270 million plus D 60 million for amortization of equipment existing in Tunisia. Total industrial investment was set at D 545 million or 20.2 per cent of the total.

Tunisia has established two institutions[1] to supply industrial finance and in addition the central bank has rediscounting facilities. In addition various privileges and facilities are accorded to industrial enterprises.

Although President Senghor of Senegal has often discussed African socialism as a goal for his country he has gone to great lengths to reassure potential and existing investors that only the agricultural sector will be socialized in Senegal.[2] The Government has passed an investment code as an inducement to investors.[3]

1/ Société Tunisienne de Banque and Société Nationale d'Investissement.

2/ Public International Development Financing in Senegal - a research project of the Columbia University School of Law - Report No. 7 (November 1963) p. 7.

3/ Ibid.

The break-up of the French West African Federation destroyed the unity of a large market and had an adverse effect on Senegalese industry which serviced a substantial part of this market.[1]

Industry still plays a minor role in the Senegalese economy. Under the Senegalese Four-Year Plan[2] fr. CFA 30 billion or 32 per cent of the total plan investment of fr. CFA 92.9 billion, have been allocated to industry, petroleum and mineral research. Over half of the investments were to be made on four projects: an extension of the phosphate works at Taiba, an oil refinery; chemical and fertilizer industry and the development of a textile industry.

Senegal created the Senegalese Development Bank to provide industrial finance. In addition the Caisse Centrale de Coopération Economique, a French overseas development bank has also been a source of industrial capital.

Finance for Industry

The decision to carry out industrial development presented each of these countries with questions relating to the organization of their capital markets. Were sufficient sources of finance available and if not, what steps should be taken to make them available? A large proportion of required industrial capital was in the form of foreign exchange and each of these countries, except Libya, was short of foreign exchange. Faced with this problem each appealed for foreign exchange through public international development finance and through the investment of private foreign capital. The industrial policy of each State becomes particularly relevant when it attempts to attract private foreign capital and inasmuch as the principal centres of private foreign capital are also the principal centres of public foreign capital this policy may also affect the flow of foreign aid. Each country under discussion has organized at least one domestic financial institution to provide industrial finance. In Senegal, Tunisia and Tanzania these

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1/ Ibid.

2/ Ibid.

institutions receive financial support, in the form of loans or equity investments from abroad. The UAR's Industrial Bank also received an international loan but was never able to utilize it. In their endeavour to mobilize domestic capital policies were formulated in some of these States in relation to local and foreign financial institutions operating within the country such as commercial banks and insurance companies. Capital markets in the sense which it is employed in western Europe and the United States are almost non-existent in Africa. Lagos, Nairobi and Cairo operate stock exchanges but the amount of local capital is extremely limited. As a result of the 1961 nationalization decrees in Egypt its stock exchange limits its activity primarily to Government issues. The major capital markets for Africa are still located in London and Paris.

(a) Senegal

Total investments required by the Senegalese Four-Year Plan amount to fr. CFA 90 billion. A substantial portion of these investments depend upon external funds, as has been the case with investments in the Senegalese economy throughout the postwar period. However, the amount of external funds called for by the Plan appear to be of no greater an order of magnitude than the flow of such funds into the country since the end of World War II. The external funds programmed under the Four-Year Plan amount to some fr. CFA 28 billion, or about 30 per cent of total investments. During the 16-year period 1946-1962, the total amount of external financial assistance received by Senegal is estimated to have been some fr. CFA 116 billion, or an annual average of fr. CFA 6.8 billion, compared to the 7 billion annual average under the Plan.1/ It is, furthermore, of interest to note that Senegal is contemplating paying its own way to a greater extent under the Plan than has been the case up to present: about two-thirds of the external funds programmed are grants, compared to the four-fifths share of grants in the external finance obtained during 1946-1962.

The Plan calls for private investments of fr. CFA 25 billion in industry and fr. CFA 5 billion in petroleum and mineral research. In addition the Government will invest fr. CFA 1 billion in petroleum and

1/ Public International Development Financing in Senegal, op.cit. p. 142.

mineral research and lend fr. CFA 2 billion to industry. Private capital has been very reticent in relation to projects under the Plan. Many in the private sector feared the socialistic goals of the Government. The Government tried to ease these fears by passing an investment code and by making statements to the private sector to assure them that the Government did not intend to nationalize their businesses. In addition the attempted Coup d'Etat of December 1962 indicated deep-seated political unrest and many investors decided to wait and see.

The Government has succeeded in attracting investment for two of its four major industrial projects:[1] the extension of phosphate exploitation at Taiba and the construction of an oil refinery. The phosphate exploration is being carried out through a joint venture between French, American and Senegalese interests. Senegal is represented by a 5 per cent investment through its Development Bank. The American Company, International Minerals Corporation, in return for a long-term loan, has secured an option to purchase 51 per cent of the shares of the Company. The oil refinery is also a joint venture in which the Senegalese Development Bank has a 10 per cent interest. Private foreign oil companies are the dominant parties in the investment.

Other joint ventures[2] have taken place for fishing boats, a refrigeration plant for fish, a factory for using scrap steel under an electrical process to make steel angles and corners, and a tomato sauce factory. The pattern is similar in each case with the foreign company taking a majority interest and the Senegalese usually taking a token interest. The scrap steel plant is slightly different with the Government taking a 49 per cent interest with the intention of selling off [illegible]4 per cent of its shares to private parties.

Industrial finance in Senegal is primarily from private foreign investors. Public funds have been provided by the French Caisse Centrale de Coopération Economique, the Central Bank of West Africa and Senegalese institutions.

1/ Ibid. pp. 5, 6.

2/ Ibid. pp. [illegible], [illegible], 9.

From 1947 through 1960 the Caisse Centrale made 44 loans to the private sector in Senegal totalling fr. CFA 4.2 billion.[1/] These loans ranged from 5 to 15 years with interest rates varying from 4½ per cent to 7 per cent. The borrowers have usually contributed at least 30 per cent of the capital for any one project. The Caisse Centrale has also been an important source of capital in the form of equity in local housing projects and electric power. Its third role has been to provide capital to the Senegalese Development Bank (BSD) and the Crédit Populaire which are Senegalese financial institutions. With the coming into existence of the BSD the Caisse Centrale stopped making any but very huge loans to the private sector. Instead they agreed to finance the BSD if it should desire to make such loans.

Senegal's Central Bank is the Central Bank of the West African States, which serves as a Central Bank for five other States as well, via the Ivory Coast, Dahomey, Upper Volta, Niger and Mauritania. Under an arrangement with the Caisse Centrale the two institutions have agreed to make ten-year loans to private parties under which the Central Bank grants the first five years and the Caisse Centrale takes up the next five years. The Central Bank also offers rediscount facilities.

Until June of 1964 Senegal had two Government-owned financial institutions[2/] as well as a commercial bank in which the Government has a majority interest. The financial institutions, the Crédit Populaire of Senegal and the Senegalese Development Bank (BSD) were merged to form the new National Development Bank of Senegal. The CPS made most of its loans for commerce, housing and small personal loans. It was permitted to make industrial loans for amounts under $40,000. The CPS was jointly owned by the Government of Senegal and the Caisse Centrale with the Government holding over 50 per cent of the shares. The Caisse Centrale also made loans to the CPS and it had rediscount facilities at the Central Bank.

1/ Public International Development Financing in Senegal, pp. 88, 89.

2/ Banque Sénégalaise de Développement and Crédit Populaire du Sénégal.

[illegible] owns [illegible] per cent of the BSD's capital and the Caisse Centrale [illegible] per cent. The remainder of the capital came from the Central Bank, the Workman's Compensation Fund, the Caisse des Dépôts and [illegible] per cent was held by the Banque Française du Commerce Extérieur. Most of the BSD's loans have been short-term loans for the agricultural sector. Almost 7[illegible] per cent went to co-operatives. The annual report of the BSD attributes this concentration of credit to the agricultural sector to the fact that 8[illegible] per cent of the population and most of the resources of the country are in this sector. With respect to the industrial sector, the report stated that the BSD was able to find only a very limited interest in this sector. As we have pointed out above, the BSD has made nominal equity investments in new industries coming into Senegal. Until 1960 the Caisse Centrale provided loan capital to the private sector. Now, except for very large loans, it is understood that such loans will be made by the Senegalese through the new National Development Bank of Senegal (BNDS). The BNDS will receive the request and analyse it. If necessary, it will be able to borrow funds for particular projects from the Caisse Centrale, which holds a line of credit for the BNDS. The Caisse charges 2½ per cent on the funds employed and no standby fee. The BNDS will probably re-lend at 5½ - 6 per cent.

The Commercial Banks in Senegal seldom make medium-term loans and thus are not a source of industrial capital.

The raising of industrial finance for Senegalese projects has not been difficult, provided that the project seemed profitable. The smallness of the Senegalese market, its limited resources and the lack of viable projects have constituted the principal limitations on industrial investment in Senegal. In addition, economic and political unrest has limited interest in Senegal. The French have been both willing and able partners in Senegalese development. It is possible that other countries in the European Economic Community will show an increasing interest in Senegal. Both the Germans and the Italians have been looking over the market.

(b) Libya

When Libya achieved its independence under United Nations auspices in 1951 the general concensus was that Libya would be dependent on external assistance just to maintain a subsistence level of existence. Fortunately the discovery of oil has freed Libya from dependence upon external capital.

Apart from petroleum services, Libya's few industries are devoted largely to services or to the processing of local agricultural commodities, mostly for the Libyan market itself. It is a limited, high cost and relatively inefficient industry with a scarcity of technological knowledge and managerial talent. These difficulties are compounded by the absence of natural resources, a small number of potential consumers, an inadequate water supply and undependable agricultural production due to climatic vagaries.

With the discovery of oil and the earmarking of 70 per cent of oil revenue to development, the Government prepared a Five-Year Development Plan in 1963.[1] The Plan is an inventory of departmental projects within the public sector. It contains no quantitative targets. Total expenditures were set at £473.2 million with approximately 4.1 per cent of total investments allocated to industry. These investments are to lay the groundwork for investment by the private sector. No target has been set for private investment during the Plan period. £ L 5 million of the £ L 6.9 of Government allocation to this sector will be for industrial loans by the Industrial Development Organization.[2]

There are no indices on industrial production in Libya. However, it is clear that there has been a substantial rise in industrial output in recent years. Only 2 or 3 factories were operating in 1956 compared with some 70 plants in 1963. The total number of people involved in industry is still low. New industrial enterprises are being supported in a variety of ways such as restricting imports, increasing

1/ Five-Year Economic and Social Development Plan, 1963-68 (Kingdom of Libya - Ministry of Planning and Development), pp. 69-73.

2/ Ibid., pp. 69-73.

tariff duties and granting tax exemptions. It is considered necessary to protect local industries because of increasing labour costs and owing to a consumer bias for imported goods.

In a more direct manner the Government is promoting industrial development in Libya through the Industrial Development Organization.1/ This is an autonomous body attached to the Ministry of Industry. The purpose of this Organization is to promote and facilitate development of new industries and the expansion of existing industries in both the public and private sectors. Under its charter the Organization can have recourse to various sources of finance; however, so far the Government has been the only source.

The IDO came into existence in February 1963 and began functioning in May 1963. In 1963 £ L 700,000 were allocated to it under the exceptional budget of which £ L 160,000 had been spent by 31 December 1963. Of that sum, £ L 100,000 was paid out in loans and £ L 50,000 for participation in a cement factory. The remaining £ L 10,000 was spent on administrative expenses. Loans in the first year went to the private sector for a canning factory and a textile mill. The cement plant will be 100 per cent Government-owned and it will be run by the IDO. The Five-Year Plan allocates £ L 5 million to the IDO.

The Organization made 20 loans through July 1964 in the first half of its second year of operations. No participations have been undertaken as of that date although 2 or 3 possibilities existed.

The Bank of Libya (formerly the National Bank of Libya) was established in 1956 and has full authority to supervise the banking system and to regulate the credit and interest policies of Libya. It has the sole right to issue banknotes, to regulate the volume of currency in circulation, to act as a banker to the Libyan Government, to set interest rates and other charges, and to provide clearing-house facilities for commercial banks. The Bank of Libya also has a branch engaged in commercial banking.

1/ Law No. [illegible] of 1[illegible].

The Libyan Banking Law of 1963, which replaced the National Bank Law of 1955 and the Banking Law of 1958 as the basic legislation governing both central and commercial banking, substantially strengthened the role of the Bank of Libya in the economic life of the country.1/ By this law the Bank of Libya was for the first time empowered to set bank interest rates on both deposits and loans; prior to this there were few restrictions on the credit operations of commercial banks. In addition the deposit of reserves with the Bank of Libya was made mandatory, while the capitalization requirements for commercial banks were set at £ L 250,000 for Libyan institutions and at £ L 1,000,000 for foreign banks. In addition foreign banks were required to hold £ L 500,000 in Libya-Actual reserves with the Bank of Libya average 12 per cent of total deposit liabilities. The maximum rate for unsecured credit was placed at 2.5 per cent above the 5 per cent rediscount rate and secured credit rates were held to 2 per cent above the rediscount rate. This was a reduction of the previous effective rates which ranged from 6 to 10 per cent. The maximum rate for deposits held for six months or more was put at 4 per cent.

Commercial banking in Libya is to a large extent tied up with the financing of imports and exports, although one finds some lending to industry, and, increasingly, building loans and consumer instalment credit.

Until recently, all commercial banks in Libya were foreign-owned. But two banks currently operating in the country have recently altered their organisation to provide for Libyan majority ownership; another Libyan majority-owned bank, the Libyan Commercial Bank (Tripoli) was licensed to operate in late 1963. In early 1964, the Bancodi Sicilia (Tripoli) joined with Libyan interests in the formation of a Libyan Bank which is also partly owned - and managed - by the Bank of America, which has become the first American bank directly represented in Libya.

1/ Monthly Economic Bulletin, Bank of Libya, Vol. III, No. 11-12, (November-December 1963).

The Société de Banque (Tripoli) was to undergo a similar transformation, although it was scheduled to maintain its French management even after the Organization becomes a Libyan majority-owned corporation. The capitalization provisions of the Banking Law of 1963 have undoubtedly been an influence in the trend towards "Libyanization" of banks; the Bank of Libya has also encouraged this trend by actively promoting such mergers as the above, while at the same time, refusing to license other foreign banks in Libya unless they agree to join with an existing bank and with Libyan investors in the formation of a Libyan majority-owned corporation.

Consolidated over-all insurance statistics and results of insurance company operations in Libya are not available. According to unofficial reports the commonly written branches of life and property insurance are available through local agents of some 25 foreign insurance companies. Most of the insurance companies are British or Italian, with French, American, Indian and Lebanese insurers also represented. It is understood that virtually all of the assets of the insurance companies are held abroad.

Libya's earnings from oil soared to $180 million in 1964 and forecasts call for over $300 million in 1965. Investment in oil facilities and exploration alone now totals almost $200 million yearly. With 70 per cent of the Government's oil revenue going into development there should be no problem in finding industrial finance. However, Libya is extremely short of trained technicians, managers and even educated individuals. Thus they still have need for external assistance but more in the form of technical rather than capital assistance.

Prior to the discovery of oil and in order to induce private investment the Libyan Government passed the Foreign Capital Investment Law of January 1958 which provides for the granting of concessions to enterprises in which 50 per cent or more of the capital is foreign owned. If such enterprises are judged useful to the economic development and improvement of Libya by the Committee on Investment and by the Minister

of National Economy, the Minister of Finance may exempt them from the payment of such custom duties, income taxes, and other fees or taxes as he sees fit, for a period to be determined by him.

The Minister of Finance is required to take all necessary measures for the transfer of foreign capital to the country of origin, the withdrawal of profits realized from foreign investment in Libya and the transfer of salaries of foreign staff. The Minister of National Economy will prescribe the conditions of operation of foreign-controlled enterprises, including the determination of the proportion of Libyan labour to be utilized, the establishment of training programmes for Libyan labour so employed, and Libyan capital participation in the enterprise. Separate legislation has been enacted to cover all operations concerning oil. It is understood that the Government is currently preparing a new investment code.

The Libyan Constitution provides that no property of any person shall be expropriated except the public interest and then only in the cases and in the manner determined by law. There is also a provision that such a person is to be awarded fair compensation.

Foreign capital has played a major role in the development of Libya's oil and Libya is now in the process of trying to determine how to use this wealth to the best advantage of its people. There is no shortage of industrial finance and with the creation of the Industrial Development Organization there is a group concentrating on possible industrial projects. Foreign capital is no longer as necessary as it was previously but "know-how" and managerial skill is even more important now that funds are available for development. Libya's capital-poor neighbours, Tunisia and the UAR, have watched enviously as Libya's capital has soared. It is quite possible that like Kuwait, Libya will become an exporter of capital. Talks were held in the summer of 1964 to see whether Libya would be interested in the creation of a joint development bank with Tunisia. To date, nothing has come of this idea.

(c) Tunisia

Tunisia is planning, during the ten-year period from 1962 to 1971, to increase the value of its industrial production 276 per cent over the 1957 figure of 120.8 million dinars.[1] The Ten-Year Perspective called for a sugar factory at Beja, an oil refinery at Dizerta, a cellulose factory at kasserine and a truck assembly plant at Sousse and many other projects. Total net investments over the ten-year period are to equal 896 million dinars. Most of the finance is to come from domestic savings (D 801 million) and the remainder from foreign assistance (D 375.8 million). Industrial investment is in the order of D 140 million or 15.6 per cent of net investments. The greatest amounts going into chemical products (D 42.3 million), metallurgical products (D 24.0 million), extractive industries (D 23.0 million), textiles (D 15.2 million), petroleum derivatives (D 10.0 million) and others (D 25.5 million).

The underlying theory of the industrial policy was summarized in the Ten-Year Perspectives as follows:[2]

1. Agricultural and mining products were to be transformed as much as possible within Tunisia before exportation.

2. A greater part of Tunisia's domestic requirements are to be covered by diversifying and increasing industrial produotion as a result of whioh imports will be reduced.

3. The present disequilibria between regions will be correoted through industrialization to the extent possible.

4. Industry is to make a substantial contribution to the employment problem.

The Government outlined the general obstaoles to development as: shortage of skilled personnel; shortage of available capital; too narrow a local market with a majority of poor people making up the market; dependency on the outside world; and a dearth of natural resources. In the industrial sector it was noted that Tunisian industry was almost exclusively extraotive until 1945 (lead, phosphates, iron) and the transformation industry which

1/ "Tunisian Development, 1962-71", op. cit. p. 174 et seq.

2/ Ibid. p. 40.

grew up from 1945 on was not created on a very rational basis. In addition, it was noted that development which did exist was primarily in the coastal zone.

The Government drafted a three-year plan (1962-64) to implement the first part of its Ten-Year Perspectives.1/ This Plan was not intended to establish a detailed rigid plan, but rather to be a "pre-plan" which could be a preparation for real planning policy by ensuring better economic co-ordination in the immediate future.2/

Total estimated net investments for the three-year pre-plan period are D 270 million plus D 60 million for amortization of equipment now in Tunisia. The amortization was to be carried out "normally by the Administration, business enterprises and individual households, therefore deducted from domestic savings". As to the net investments, they were to be achieved either:

"(a) through public and private domestic savings with local medium-term loans;

"(b) through external means (supply credits, loan aid)."3/

Total industrial investment was set at D 54.5 million or 20.2 per cent of the total, broken down on an annual basis as follows:4/ 1962 - D 19.3 million; 1963 - D 20.3 million; and 1964 - D 14.9 million. Major investments included: enrichment of phosphates and modernization. Sfax - Gafasa (D 3.24 million), oil research (D 6 million), Beja Sugar Refinery (D 1.5 million), cotton weaving (D 1.22 million), cellulose plant (D 2.15 million), new super phosphate plant at Gafasa (D 4.95 million), nitrate fertilizer plant (D 5.5 million), Cement Works of Tunis (D 1.1 million), steelworks (D 8.0 million). The plan does not specify which projects are to be in the private and public sector.

1/ Plan Triennal 1962-64 (République Tunisienne, Secrétariat d'Etat au Plan et aux Finances) 1962.

2/ Comprehensive Economic Planning in Tunisia, Economic Commission for Africa, Document No. E/CN.14/CP/10, 5 October 1962, p. 11.

3/ "The Three-Year Plan, Detailed Table of Investments 1962-64" English Summary of Three-Year Plan Translated by USAID Mission, p. V.

4/ "L'Aide de l'Etat Tunisien aux Entreprises Industrielles" by Arvids Kalnins (Les Presses Modernes - Tunis), undated. See also "Tunisia Work" (Secretary of State for Information of the Tunisian Government 1960) pp. 172, 173, and the Annuaire Economique de la Tunisie 1964, p. 84 et seq.

The 1963 Annual Report of the Central Bank reviewed the progress of the Plan. The total net investment during the three-year period was to be D 270 million: D 80 million in 1962, D 90 million in 1963, and D 100 million in 1964, with 57 per cent (D 155 million) of the total to be financed from foreign resources. Actual net investment amounted to D 100 million in 1963 compared with D 72 million in 1962; and by the end of 1963 although D 180 million had been committed to Tunisia in foreign aid only 35 per cent of total investment was financed from abroad, against 43 per cent in 1962. The public sector's share of total net investment in 1963 was D 60 million and that of the private sector D 40 million.

A number of important industrial projects were completed in 1963 - an oil refinery, a ship repair complex, a paper factory, and a fruit juice factory. Other projects under construction included a textile factory and a steel complex.

Tunisia continued to face a balance of payment problem in 1963, chiefly because of a general stagnation in exports and an increase in the demand for imports, the latter was associated to a great extent with the investment programme under the Three-Year Plan. The deficit of D 45 million on goods and services account in 1963 was of about the same magnitude as in 1962. About half of the 1963 deficit was financed from official foreign aid and loans (mainly from the United States), about 28 per cent from long-term investments and the remainder by a decline in the country's net foreign monetary assets. The Central Bank believes that in order to check the inflationary expansion in the money supply and in order to alleviate the balance of payments problem, the three-year investment programme should be slowed down and more use should be made of foreign aid.

The Central Bank, the Société Tunisienne de Banque (STB) and the Société Nationale d'Investissement (SNI) are the principal sources of industrial finance within Tunisia. In addition there are other commercial banks, the Banque Nationale Agricole (BNA), the Caisse Nationale de Sécurité Sociale (CNSS) and the Société Tunisienne d'Assurance et de Réassurance (STAR).

The Central Bank was created by the Government in 1958 to take over the note issue functions of the French-owned Banque d'Algérie et de Tunisie, and now performs all normal central banking functions. The Bank is interested in arrangements to improve the supply of medium- and long-term capital to industry and offers rediscount facilities. To be eligible for rediscount at the Central Bank, a credit must receive the prior approval of the Central Bank, and bear two acceptable signatures. The Bank follows French procedures. However unlike in France where an intermediary institution appraises each loan, in Tunisia this is a task which must be performed by the Central Bank. The second signature is usually that of the signing borrower or a second commercial bank. The official rediscount rate has been 4 per cent since 1958.

At the time of independence most banks in Tunisia were either branches or subsidiaries of foreign banks, mostly French. As commercial banks they provided short-term capital primarily to finance imports and exports. The Government decided to create a Tunisian bank with commercial and investment bank functions. It intended the new bank to make equity investments and to provide long- and medium-term loans for new and existing industry. In addition, acting as a commercial bank, it was to make short-term loans.

The Government formed the Société Tunisienne de Banque (STB) in 1956.[1] Its initial capital was 400,000 dinars and the Government subscribed to 52.4 per cent of the capital and the remainder was offered to the public. Subsequently the capitalization was raised to one million dinars with the Government maintaining 52 per cent of the shares, semi-public institutions holding 8 per cent and 40 per cent being held by the private sector.

The bank's major source of funds is deposits of individuals and companies. These totalled D 24.8 million at the end of 1963, 26.3 per cent of total bank deposits in the country.

Medium-term funds have come from the United States, and the Tunisian and the French Governments. Tunisia provided the STB with over 2 million

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1/ See the Annual Reports of the Société Tunisienne de Banque.

dinars. Three-fourths were [illegible] relent for special construction loans and the remainder [illegible] letters of guarantee. The United States has provided the [illegible] with [illegible] million in local currency for loans to private industry in a Special Revolving Fund. This currency had been generated as [illegible] funds from United States Commodity Assistance. Generally speaking, loans from this fund have been for five years. In addition the Development Loan Fund of the United States made a $ 5 million 15-year loan to be utilized for the foreign exchange component of industrial projects. All loans over $100,000 are restricted to United States procurement. Generally sub-loans from the DLF loan are for five years or less. In 1959 the STB floated 15-year 5 per cent bonds and realized over 860,000 dinars. Total resources of the STB at the end of 1963 were D 53.2 million.

Since its inception, STB has approved medium- and long-term loans to industrial and related enterprises totalling D 13.3 million. Most of the lending occurred in 1961, 1962 and 1963 (over D 3 million each year) with a peak in 1962. Of the D 13.3 million approved, only about D 5 million had an original duration of over five years and of this, all but D 800,000 were under the rediscountable letter of guarantee and construction loan schemes. Of [illegible] loans approved of D 13.3 million, an estimated 5-6 million (about 40 per cent) were made to enterprises in which the Government and/or its agencies owned more than 50 per cent of the capital stock. Under terms of the agreement with the United States in respect to the Special Revolving Fund and the DLF loan, the proceeds of these resources may be used only for lending to enterprises in which private investors have 50 per cent or more of the stock. Allowing for a few companies falling within this definition of "private" but in which the Government's voice was probably controlling, STB's medium- and long-term lending to generally private industrial and related enterprises has probably been running at about D 1.5 - 2 million a year on the average over the years 1961 through 1963. D 7.9 million was outstanding on 31 December 1963; of this, only D 2-3 million were held by STB, the balance having been rediscounted by the Central Bank.

STB's equity investments started in 1959 and by the end of 1963, STB was holding shares in 32 companies, costing D 861,000. These investments continued to rise in 1964.

Investments in five companies accounted for 70 per cent of STB's investments at the end of 1963. These investments were in a commercial bank, Government-sponsored steel and sugar companies and two hotel ventures. Twenty per cent of total investments were in five other companies: a cotton mill, a planned fertilizer project, an insurance company, a truck assembly plant and the Niger Development Bank. STB's holdings in these companies averages about 8 per cent of the equity. The STB is frequently a joint investor with the Government and the Société Nationale d'Investissement. STB has the majority of shares or is involved with the management of three companies: a furniture factory, a company producing industrial and domestic hardware, a company promoting a large nitrogen fertilizer project and a commercial bank.

The second major source of industrial finance in Tunisia is the Société Nationale d'Investissement (SNI).1/ It was created by the Government in 1959 to act as a stimulus to industrialization. It was expected to provide up to 50 per cent of the required equity finance and loan financing was to come from the STB or elsewhere. Once an industry was established SNI was to sell its interest and thus have funds for a new investment.

SNI was organized in April 1959 with an initial capital of D 250,000 of which 86 per cent was owned by the State and 8 per cent by STB. A few months later the capital was raised to D 2 million and after a campaign was waged to bring in small investors 83,000 subscribers provided D 830,000. The Government's share was 33 per cent, the Central Bank 22½ per cent, the STB 1½ per cent, STAR (State-controlled insurance company) ½ per cent, STEF (State power company) 1½ per cent, private Tunisian 41½ per cent and private foreign ½ per cent. Thus the State and its agencies control 58 per cent of the total shares. SNI's share capital is its only source of funds.

1/ See the Annual Reports of the Société Nationale d'Investissement.

SNI has been investing in equity at the rate of D 400,000 - 600,000 per annum. By the end of 1963 total investments in 33 companies equalled D 1.98 million. D 423,600 of these investments were sold to the National Social Security Fund leaving SNI with an equity portfolio of D 1.56 million on 31 December 1963. SNI has made only one loan for D 44,000. In addition SNI has guaranteed suppliers' credits and other loans of its clients totalling D 925,000. Thus virtually all of its funds are tied up.

Investments in five companies represent half of the total investments of SNI. These are the sugar company, steel mill, a salt factory, a cork agglomerate plant and a cotton textile mill. Five more companies set up to manufacture glass bottles, radio sets, fruit juice, jute bags and a company for the building and management of hotels account for close to 25 per cent of SNI's investments. Ten others account for another 20 per cent. Thus over 90 per cent of SNI's investments are in 20 companies. On the average SNI's holding does not exceed 20 per cent. In eight of the companies in which it has invested private shareholders are the majority. In the remaining companies SNI either has or shares the majority of the stock with either the Government or a Government-controlled entity. Ten of these investments are still in the planning stage and 16 are in operation with 7 in various stages of construction.

Eight of SNI's investments were promoted and put together by SNI and in the rest SNI was approached from without and participated by providing capital.

As can be seen by the discussion of the STB and SNI the Government is playing an important role in stimulating and financing the growth of industry in Tunisia. Funds have been supplied by the Government and by external agencies through Government-controlled institutions. Both the National Social Security Fund and the State-run insurance company have also utilized their capital to aid in industrial development.

The Government asked the International Finance Corporation of Washington, D.C. to review its financial institutions and to advise the Government on whether they needed any modifications. It is understood

that the IFC found that there was sufficient medium-term credit and sufficient institutions for promoting new industries. However, the IFC is understood to have suggested the need for an institution to make objective and critical appraisals of new industrial proposals and to be able to give planning, technical and managerial assistance to the promoter of new projects and in addition to act as a source for long-term loans. These problems could be handled by a new institution, the re-organization of the SNI or STB or by the merger of the SNI into the STB.

Foreign aid and investments are to provide 57 per cent of the total investments under the three-year pre-plan. This is equal to D 155 million ($372 million). The Government was successful in obtaining commitments for $549.6 million by the end of 1963 including $98.2 million in suppliers' credits. All of the suppliers' credits and $268.8 of the public foreign aid has been committed for specified purposes. Virtually all of the suppliers' credits are for industry and include loans for the N.P.K. fertilizer plant, the E.N.I. refinery, the steel mill, the textile factory, etc. The Americans committed $180 million to the Three-Year Plan. When this is added to previous commitments which had not been disbursed the total assistance over the Plan period rose to $286.6 million. France which had cut off foreign aid to Tunisia in 1957 agreed in 1963 to resume aid and commited $38,5 million, of which about half was to finance public investments by the Tunisian Government and the remainder would consist of medium-term export credits guaranteed by the French Government. However, following the nationalisation of land owned by French nationals in Tunisia in May 1964 the French Government suspended all economic assistance to Tunisia. Other large loans are to come from the Soviet Union ($27.5 million), Kuwait ($16.8 million), Germany ($12.5 million), Italy ($10 million), Poland ($10 million) and Czechoslovakia ($10 million).

Two of the American loans have assisted industrial development directly and two others have assisted it indirectly. We have already discussed the $5 million loan to the STB, the other direct loan for industry was a $6.25 million DLF loan to the Société Nationale

Tunisienne de Cellulose in 1958. In 1963 an additional $800,000 loan was made to this project. The factory was inaugurated by the Tunisian President in November 1963. Indirect assistance came in the form of the non-project loans signed in 1962 and 1963 for the import of needed goods totalling $10 million and $15 million respectively. In addition the United States has a Public Law 480 programme in Tunisia which permits the Government to buy needed food without expending foreign exchange. This permits the Government to use its foreign exchange for the import of industrial equipment. Counterpart funds in local currency generated by the United States Public Law 480 aid is utilized for loans and grants to Tunisia and loans of local capital to American businessmen.

One of the larger projects under the Three Year Plan is the NPK Engrais S.A.T., a Tunisian Company which will construct and operate a triple superphosphate fertilizer plant at the Port of Sfax.[1] Total investment in the company is the equivalent of $14.12 million, including $6 million in share capital. A Swedish company Forenade has $3.5 million in shares and is lending the company $2.15 million. The International Finance Company has equity of $2 million and is lending $2 billion. Freeport International, an American Company, has equity of $1 million and is lending $600,000. The remainder of the finance is a $1.92 million suppliers credit and a $1.45 million mortgage credit. Each of the shareholders has agreed to reserve one-tenth of its stock for sale to Tunisian private investors, initially at a price of par.

The Tunisian Government has played an increasingly important role in industry. As we have indicated in the previous section this is by design. No clear lines have been drawn as to which industries will be principally in the private sector. Just prior to independence private investment fell off as the investors waited to see what the new Government would do. It began to build up again in the late 1950's and in 1960 only to drop sharply following the Bizerte Base incident. As a result of this incident there was an outflow of French capital and entrepreneurs and once again capital investment declined. It began to pick up with the institution of the Three-Year Plan. In 1963 relations with the French improved and economic aid was provided for the first time since 1957. However, in 1964 the Nationalization of French owned land created new fears on the part of some potential investors and French economic assistance was once again terminated.

Since independence the Government has nationalised a number of companies, primarily electric companies and transport and has taken over the management of others. Although compensation has been promised in the case of nationalized industries, as of July 1964, the owners of the ten nationalized electric and transportation companies had not

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1/ International Finance Corporation Press Release No. 62/9 November 9, 1962.

yet received compensation. Some companies were placed under management of the Government following the military action at Bizerte, e.g. Usines à Tuyaux de Ben Arous, Ripoll Montero et Garcia and Societé des Mines de Douaria, others had been taken over prior to that incident, e.g. Compagnie des Eaux Thermales et du Domaine de Korbous, Societé des Magasins Géneraux et Entrepôt Réel de Tunis, Societé Tunisienne d'Equipement et de Modernisation Industriels et Agricoles and Les Pêcheries Tunisiennes. There are also examples of industries placed under the control of the Government and later returned to the full control of owners such as Societé Tunisienne de l'Accumulateur, La Dépeche Tunisienne and the Sociéte Tunisienne du Liège.

Pursuing its independence goal to replace French with Tunisians where possible, operating licenses of a number of businesses owned by French nationals were not renewed in tobacco shops, liquor shops and in taxi companies and following the Bizerte incident a number of drug stores and two medical clinics were sequestered.

The Government used one additional technique to give Tunisia a more important role in industry. The Government purchased enough shares in a number of important enterprises to give it control. Included in this group were: the Compagnie des Phosphates et du Chemin du Fer de Gafsa; Ets Schwich and Raizeau; Cie Royale des Mines, S.A., the Cie Nouvelle de Phosphates du Djebel M'Dila-CIPD and the Cie Générale des Salines de Tunisie.

Thus the role of foreign private capital was substantially reduced by Government stock purchases, nationalization, the taking over of the management of some companies and the refusal to renew foreign licences. Many of these acquisitions were in service industries and in industries which the Government decided were critical.

The establishment of new industries in the public sector has been implemented through the two State controlled financial institutions discussed above, i.e., the STB and the SNI.

On August 30, 1961 a decree was passed relating to the Tunisification of certain commercial activities. It does not apply to manufacturing, mining or other types of industry. The thrust of the decree was directed at control over retailing, wholesaling, importing, exporting and warehousing which had, for the most part, remained in the hands of French companies or nationals.

The Government has also regulated the number of middlemen to one and their mark-up has now been limited to 10 per cent. Retailers are limited in their mark-up to 30 per cent if imports are from abroad and 20 per cent if purchases are made from a factory in Tunisia.

In 1962 the Government authorized unions to establish committees in companies employing over 50 workers. The Committee meets at least once a month and the Committee can make recommendations to the company's president which he is free to reject. If he does so the recommendations may be submitted to a Divisional Works Inspector. His powers are not defined in the decree.

These many actions on the part of the Government are directed towards a closer relationship between Government and business and business and the people. In a sense they are replacing external influence with Tunisian influence. It is difficult to evaluate to what extent these measures are restricting private sector investments.

Since April 3, 1962 all new industry as well as expansions, conversions and replacements of existing industry must be approved by the Government.

On the positive side the Government has passed a number of laws and decrees as incentives to private enterprise.[1] These include the Letter of Establishment, a Letter of Guarantee and a Letter of Approval.

1/ "L'Aide de l'Etat Tunisien aux Entreprises Industrielles" by Arvids Kalnins (Les Presses Modernes - Tunis), undated. See also "Tunisia Work" (Secretary of State for Information of the Tunisian Government 1960) pp. 172, 173, and the Annuaire Economique de la Tunisie 1964, p. 84 et seq.

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All of these decrees were passed prior to independence to encourage the investment of French capital. Some of the decrees have been amended since independence.

The Letter of Establishment which is granted for new investments or expansions of existing investments gives the investor a 5 year exemption from corporate income tax for the initial five years of investment, a carry over for 5 years, of any deficit balance from the first 5 years of operations thus reducing the net taxable profits during the second five years, a 5-10 year exemption from stamp taxes, etc. The investor may also negotiate provisions for unlimited repatriation of capital, profits, dividends and interest, a 15-20 year guarantee against any increases in taxes on profits, dividends and interest; a guarantee against expropriation or nationalization; a rebate or exemption from import duties on initial equipment and materials; protective tariffs, exemption from land and rental taxes; accelerated depreciation of plant and equipment and special governmental financial support on site costs and on bringing utilities to the site. These conditions will only be granted to approved industries which the Government believes are important to the economic development of the country.

Letters of Guarantee facilitate firms in obtaining medium- and long-term capital for investing in land, buildings and equipment for the construction or expansion of industrial plants.

The Letter of Approval permits firms to use warehouse receipts as collateral for short-term loans, to make short term loans from the Caisse des Marches d'Etat (a State-controlled entity) and at times enables a company to make a guaranteed sale of its production to the Government at a minimum price for a given period of time.

In 1962 a decree was passed which gave income tax on reinvested profits, provided the re-investment is approved by the Government.

This is an impressive list of investment incentives. Provided that the Government approves a new investment or an expansion of the old investment the investor should have no complaints as to legislative incentives.

Tunisia has set forth a plan for its development, organized its domestic capital market to provide finance, created a number of industries in which the Government has an interest and secured external assistance to meet the external costs of the plan. A recent study by the International Finance Corporation may result in the reorganization of existing financial institutions or in the creation of a new institution to assist in industrial finance. Various statements and actions of the Government in recent years indicate that the state will be playing an increasingly important role in industry.

(d) Tanzania

In 1964 Tanganyika adopted a Five-Year Plan for Economic and Social Development. (1966/65 - 68/69).[1] It was the country's first comprehensive development plan, covering both the public and private sectors. Total investments under the Plan are estimated at £246 million with almost 50 per cent of total or £116 coming from the private sector. Public sector investment will average £26 million per year compared with the previous Three-Year Plan[2] target of £8 million per year. The distribution of planned capital formation by sources of financing is as follows:

1/ Tanganyika Five-Year Plan for Economic and Social Development, 1 July 1964 - 30 June 1969. op. cit.

2/ Development Plan for Tanganyika 1961/62 - 1963/64 (Government Printer) 1961.

	£ (millions)	Percentage
Public resources	149.5	60.8
internal	41.3	16.8
external	108.2	44.0
Private resources	96.5	39.2
internal	76.2	31.0
external	20.3	8.2
Total Capital Formation	246.0	100.0

The Plan discusses the sources of private sector investment in the following terms: "Private sector investment which is expected to reach £96. 1/2 million during the five years of the Plan (£ 116 million, less £19.5 million for funds drawn from the private sector by parastatal organizations) is thought likely to be financed as to 75 per cent (or £72 million) out of the re-investment of profits. Some £3.4 million appears to be forthcoming in grants from overseas sources to assist voluntary agencies operating in the field of Education and Health. It is further envisioned that about one-fifth of the remaining £21 million (or £4 million) will be found from domestic borrowing or new domestic investment and four-fifths from overseas either in the form of loans or investment."[1]

Speaking pragmatically on the role of the private investor in Tanzania's Plan President Nyerere declared:[2]

> "Private investors can provide this quantity of money. They will do so only if they believe that they can make a profit and they will be allowed to export their profit if they wish to do so. These conditions we must accept; we can do nothing about them. The question we must ask ourselves in every separate case is whether we also benefit in proportion. When we benefit - by increased employment opportunities, by increasing government revenue, by the increase of wealth produced locally and so on, then we should welcome private enterprise as much as we welcome loans from friends abroad. This is one of those matters about which we must start with the world the way we find it. To be truly revolutionary we must be absolutely realistic and use what opportunities the world provides.

1/ Five-Year Plan, Vol. I, p. 96.

2/ Ibid. p. XIV.

> "It is on this basis that our ministers will work to attract investors from other countries, and we will encourage local people to start their own industries. This does not, of course, affect our intention also to expand co-operative and government activities in commerce and industry as well as agriculture. There is room for all; we have to expand by every possible means."

This dependency on external finance is a result of the size of the Plan and the limited capacity for savings in the country.[1/] The Government believes that savings "could be increased substantially without reaching an excessive rate which could impose an effective brake on economic growth."[2/] It intends to take the following steps: to provide an annual contribution from recurrent revenue to development purposes; to issue Government securities totalling £14 million to local financial institutions, companies, provident funds and individuals; and to create new institutions for the mobilisation of capital.[3/] "In spite of these efforts, it seems likely that only some £22.5 million will be raised in local currency out of a total capital requirement of the Government and parastatal organisations during the five years of the Plan of £102 million, including a local currency requirement of rather more than £50 million."[4/] It is hoped that some of these problems shall be overcome by securing assistance from bilateral and international aid sources. However, many donors of aid supply assistance only for external costs and Tanzania needs funds for both external and local costs.

The Government has been considering the creation of an open end investment trust within the National Development Corporation and a Worker's Investment Corporation under the control of the National Union of Tanzanian Workers. Both of these institutions would be created as part of a campaign to mobilise savings. As of July 1964 these ideas had not been implemented.

1/ Ibid. p. 89.

2/ Ibid.

3/ Ibid.

4/ Ibid.

One of the main features of the plan is the importance given to the industrial investment from the private sector. The target is to triple the value of industrial production by 1970. "The Plan calls for £59 (or 24 per cent of the total capital expenditures) for the expansion of processing, manufacturing and mining activities and the purchase of construction equipment. Three quarters of this sum is expected to come from the private sector."[1]

The Government intends to make investments of £17.8 million in industry, mineral resources and power. The major part of these funds will go to the Tanganyika Development Corporation (£13.1 million) and the Tanganyika Electric Supply Company (T.A.N.E.S.C.O.) (£4.0).

The Plan states that, "Because of T.D.C.'s (it has recently been renamed National Development Corporation after the merger between Zanzibar and Tanganyika) involvement with private investors, both Tanganyikan and foreign, in its ventures, the programmes of investment and their timing must be regarded as conjectural. They are, however, an indication of the Government's intentions as to how the £13,127,000 it aims to provide for the Corporation during the Plan should be invested."[2]

The Plan lists the proposed allocation of the Government's contribution to TDC as follows:

	(£ millions)
Processing Industry	3.0
Manufacturing:	
Metal products	.17
Textiles and Clothing	2.35
Building Materials	.375
Chemicals	1.25
Wood and Paper Products	2.0
General - Contingencies and Reserves	.855

1/ Five-Year Plan, Vol.1, p. 3.

2/ Five-Year Plan, Vol. II, p. 59.

	(£ millions)
Mining and Quarrying	1.8
Tourism	.473
Transport	.05
Agricultural administration and reserves	.854
	£13.177

Major schemes include a sugar plantation and mill (£2.16 million), quality textiles (£2.0), oil refinery (£0.5 million), fertilizer plant (£0.5 million), sisal, paper and pulp mill (£2 million), a tea scheme (£0.4 million) and a cashew shelling plant (£0.3 million).

T.A.N.E.S.C.O. will spend £6.7 million during the Plan by adding £2.7 million of its own capital to the Government's contributions. These funds will be employed to increase the power supply to Dar-es-Salaam, Moshi and Arusha.

The potential for additional industrial development was investigated by a private American consulting firm[1] and its findings were published.[2] This study was carried out in 1961. Its findings included the following facts. At the end of 1960 less than 1 per cent of the nine million people in the country were reported as factory workers. More than half were in primary processing and the rest were in secondary processing or in other manufacture of products for use by consumers, industry or the building trades. It was noted that manufacturing would expand more rapidly than the population and economy as a whole but to a considerable extent growth rate would depend upon the "cash crop" farming agriculture.[3]

The general outlook for industry was limited and this section of the report concluded:

1/ Arthur D. Little and Company.

2/ Tanganyika Industrial Development, Arthur D. Little, Inc. 1961.

3/ Tanganyika Industrial Development, op. cit. p. 18.

"There is little reason to believe that Tanganyika can become a manufacturing centre, processing imported materials for re-export. Tanganyika's industrial activities will be based either on (1) partial or complete processing for export of raw materials originating in the country or (2) manufacture for the local market. Though some locally manufactured goods will go to Kenya, Uganda, adjacent parts of the Congo, the Rhodesias, Nyasaland and Mozambique, they will probably be exceeded by imports from these areas, particularly Kenya because of the substantially greater impetus Nairobi already had as a processing centre." 1/

The Report suggests major steps which might be taken to encourage the flow of private capital including: suggestions on the reorganization of the ministry of industry; the setting up of an industrial development corporation; tax and other incentives, and in addition it furnished an extensive outline of industrial processing opportunities. With this report in hand supported in addition by the findings of the World Bank Mission,[2/] the Government had a basis on which to develop an industrial programme. Some of the projects and suggestions in the Report found their way into the Three-Year Plan (1961/62 - 1963/64) and many more are incorporated in the Five-Year Plan (1964/64 - 1968/69).

Prior to independence the limited existing industry was controlled by Asians, Greeks and British. During the period from 1959 - 1961 many of these investors, most of whom were permanent residents in Tanganyika, became uncertain about their future in light of impending independence. There was a fear that non-Africans would be discriminated against because of the excesses of a few. Many investors began retrenching by stopping new investments, liquidating their assets and sending the funds out of the country. Financing which did take place was with advances from the local banks. The Government gave assurances after coming into power, in December 1961, that there would be no discrimination on a racial basis. However, as late as July 1964, there was still a reticence within these communities in relation to bringing

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1/ Tanganyika Industrial Development, op.cit., p. 18.

2/ The Economic Development of Tanganyika (Johns Hopkins) 1961.

their capital back into the country. The potential importance of these people at this stage of the country's development should not be underestimated. They represent most of the local entrepreneurial ability and capital.

Industrial finance has come, in recent years, from commercial banks, the Tanganyika Development Corporation (now the National Development Corporation), the Tanganyika Development Finance Co. Ltd. (TDFL), the Commonwealth Development Corporation (CDC), the Industrial Finance Corporation (IFC), bilaterial and multilateral foreign assistance and private investors.

Up to the present time all of the commercial banks are expatriate institutions the liabilities of which are backed by external assets. Eight commercial banks were operating in Tanganyika in 1961, with total assets of £39.1 million at the end of that year.[1] Five of the banks are British, two Indian, one Pakistani and one Dutch. In 1962 a ninth bank came into the country with the formation of the Commercial Bank of Africa, which is financed by an international banking consortium which includes US, Belgian and Swiss interests. The commercial banks, as such, concentrate on working capital and other short-term loans. At times, 2-3 year loans are made for existing plantation industry. Some of the banks have as much as 87 per cent of their deposits out on loan during peak periods. Both Barclay's and the Standard Bank have development institutions for overseas investment. Funds for these development institutions come from the bank's own resources and can be utilized for long-term development loans. Occasionally they have each financed schemes with the TDC or the TDFL. These development finance loans are usually for amounts of £50,000 and up and are 10-15 year mortgage type loans. Recently interest rates have run about 7 1/2 per cent plus a 1 per cent commitment fee. The bankers in Dar-es-Salaam believe that any potentially profitable project can find finance. However in the case of large

1/ Statistical Abstract, 1962 (Government Printer, Dar-es-Salaam), 1962.

projects there would probably have to be a consortium to raise the total amount. In 1961 there was a Treasury directive advising banks not to lend to people with capital overseas. This was to discourage the flight of capital and to bring back into the country money which had been sent abroad.

Both the World Bank Mission and the Arthur D. Little consulting group advised Tanganyika to establish a development corporation.[1] Exploratory talks were held between the Government, the Colonial Development Corporation (recently renamed the Commonwealth Development Corporation) and subsequently with the Germany Government. Tanganyika needed external capital to assist in the establishment of the Corporation but wanted at the same time to maintain control over its development policies. The external groups in turn were wary of becoming minority partners in an institution which might have other than purely developmental goals. Differences were resolved when the Government decided to form two institutions: the Tanganyika Development Corporation (TDC) and the Tanganyika Development Finance Company Ltd. (TDFL).

The TDC is wholly Government-owned and the TDFL is a jointly-owned company with one-third of the capital coming from TDC, one-third from the CDC and one-third from Germany. To minimise misunderstandings the three parties have agreed that any project proposal which appears to have merit will be submitted to each party. Each party will then notify the other two parties, in writing, that it has no objection to the investigation of the project or that it does not wish the investigation to proceed on the ground that it would be contrary to that party's policy to be associated with the promotion of the project in question. Objections are not to relate to commercial prospects of the proposal. The total capitalization of the TDFL is £1.5 million and participation by other governmental or non-governmental agencies is welcomed. The

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1/ The Economic Development of Tanganyika, op. cit. p. 215.
Tanganyika Industrial Development, op. cit. p. 39 et seq.

TDC began with an initial capital contribution from the Government of £300,000. Under the current 5 year plan, as noted above, the TDC is to receive over £13 million from the Government. Half of these funds will be in share capital and half in loans.[1]

The theory behind this compromise is that there are some projects which may be better handled by a wholly government-owned corporation, e.g. projects with political significance; projects to carry out planned policies, investments in utilities; projects in which the Government does not want outside partners; and smaller enterprises where there might be more risk than a jointly-owned group would want to assume. On the other hand the capital and perhaps more important the experience of outside groups was seen as a definite advantage in having the TDFL too.

Neither institution has issued a public report. However we were advised that as of June 1961 the TDC held loans or investments in 11 companies. It is understood that some of these loans were made by the Government prior to the establishment of the TDC and have now been handed over to the Corporation. Equity totalling over £220,600 is held in 12 companies and loans totalling over £220,000 have been made to 6 companies. In five of these enterprises the TDC holds a majority of the capital, i.e., Lake Manyara Hotels Ltd., Northern Dairies Ltd., Tanganyikan African Finance Co. Ltd., Intrata and Tanganyika Wildlife Development Ltd. It held £24,000 of the £60,000 of authorised capital in Tanganyika Tegry (plastics) Ltd. However the share capital was to be expanded to £100,000. If this is done the TDC's interest will drop to 24 per cent. TDC has paid up only £25,000 of its share capital in TDFL. As of July 1964, TDC had paid up shares equal to £40,000 out of a total of £80,000 of subscribed shares in Tanganyika Portland Cement Co. Ltd. This was 20 per cent of the capital. This company has had also requested a loan from TDC.

1/ Five-Year Plan, Vol. I, p. 96.

Minority interests were held in a Cashew Nut Factory and the Instant Coffee, Bukoba scheme. TDC has also guaranteed one loan which was made by a commercial bank to a district development board.

The TDC has had some difficulties in organizing and establishing its policies. There were three general managers in its first year of operations and the Ministry's role in day to day activities has not been defined.

As of June 1, 1964 the TDFL had made nine commitments totalling £16,500 in equity and £277,000 in loans. Loans have range in amount from £15,000 to £60,000 over periods of 4 to 15 years at interest rates from 7 1/2 - 7 3/4 per cent. Six of the nine loans were secured. Generally TDFL has the right to appoint a Director to the Board of a borrowing company. Its minimum investment in any one project is £10,000. These loans and investments were for hotels, printers, enamelware, motor assembly, rubber goods, fishing and fish processing, and ranching. Both Standard Bank Finance and Development Corporation and Barclay's Overseas Development Corporation have participated with TDFL on particular loans. Some substantial loan requests were under study in the summer of 1964.

The Tanganyika African National Union, (TANU), the ruling political party, has formed a private development corporation, the Mwananchi Development Corp., Ltd. TANU holds virtually all of the Corporation's shares. The Corporation has formed publishing, engineering and contracting ocean products, and trading companies. The Corporation develops projects and finances them by loans from the TDC or other financial groups. It also tries to include training for Africans in its projects. The Trading Corporation was formed as a joint venture with an existing trading company. It trains Africans in trade and business in addition to carrying on trade, acting as commission agents and merchant shippers. Mwananchi Ocean Products Ltd. is a joint venture in the fishing of lobsters, prawns, crayfish, etc. In addition to improving the fishing in the area the Corporation intends to

improve the conditions of the fishermen. The Engineering and Contracting Company has received a number of contracts to build housing and it received a loan from the TDC to put up a block of flats for United Nations experts. It is a stated intention of the Mwananchi Development Corporation to reinvest all earnings; no dividends will be paid out. Thus the Corporation acts not as a provider of industrial capital but more as an entrepreneur in seeking out projects.

The Commonwealth Development Corporation, a public corporation set up by the UK Government, which obtains its capital from loans by the United Kingdom Treasury, has as its main purpose to assist the economic development of countries within the Commonwealth. In Tanganyika it has made loans and equity investments in 11 different projects. As of December 31, 1963 total investments were £7.9 million with £5.1 million in the form of loans and £2.8 million in the form of equity. The largest investments were in a joint venture for sugar growing refining, wattle (high quality tanning extract), gold mining and the TDFL. There is also a substantial credit to the Tanganyika Electric Supply Company. Mineral exploration, sisal and coffee production, milling and a small investment in pyrethrum round out the investments.

Tanzania has had a substantial inflow of public international development finance. Very little has been directed to industry as such but the receipt of this aid has permitted the Government to divert local funds from aid supported projects to industry. Prior to independence the UK was the principal provider of external assistance and smaller amounts came from the United States, the UN Special Fund and Specialized Agencies. UK assistance to Tanganyika jumped from approximately £3.9 million in 1960/61 to almost £10 million in 1961/62, and approximately £11 million in 1962/63. Part of this increase was to provide for transitional expenses following independence and will not be repeated. Part is to provide funds for retaining and/or pensioning former British Civil Servants. In addition, this includes a special allocation from the UK at the time of independence.

The United States has provided Tanzania $19.7 million worth of assistance with the bulk of it being provided after independence. The International Development Association made two loans to Tanganyika totalling $18.6 million. The International Finance Corporation has invested £1.8 million in the Kilombero Sugar Company. This is a joint venture with the CDC, Standard Bank, and two Dutch groups. Total investments in the project amount to £4.8 million. £1.5 million of IFC's investment is indebt and £ .3 million is in equity. West Germany provided $10 million plus the £500,000 which was invested in the TDFL. In 1964 the People's Republic of China offered Tanganyika a £10 million credit and Zanzibar a £ 5 million credit. In addition Tanzania has been offered a £1.0 million grant.

These figures indicate that there has been a substantial flow of public international capital to Tanzania in recent years. The Government has requested that more of the assistance be made available for local costs and that less of it be tied to purchases within the donor country. There seems to be a growing flexibility in the policies of donors in relation to both of these points.

The Government, pursuing its policy to encourage more private foreign investment, enacted legislation to give protection to certain approved foreign investments. Provisions have been made for the repatriation of capital and profits and investors are assured that in case of compulsory acquisition of their assets they will be fully compensated. Any disputes over compensation are to be settled by arbitration. This Act has been supplemented by various statements by the Government including one undated statement entitled "Opportunities for Investments in the United Republic of Tanzania." In addition to a general picture of the investment climate it outlines limited tax relief measures available to investors and discusses mentions that tariffs may be instituted to protect new industries and import duties on certain materials may be waived for investors.

Prior to independence there were only three industries of any size in Tanzania: a brewery, a meat canning factory and a metal box factory. They were supplemented by a shoe factory and a tobacco factory which opened around the time of independence. Since then substantial foreign capital has been invested or earmarked for an oil refinery, the sisal-spinning factories and a sugar company. Other new investments include factories for: Portland cement, enamelware, galvanizing, shirt-making, razor blades, wood screws, plastics, plywood, and an aluminium rolling mill. Many other projects are in the process of negotiation.

The attempt made by the Kilombero Sugar Company to attract private African investors demands special attention for it is the only example which we have come across in Tanzania to do so.

When initial discussions were held in relation to the projected scheme, the original investors and the Government agreed that it would be a good idea to attempt to bring African investment into the project. The idea presented a number of problems. First, the Government wanted to make sure that the Africans received some return on their investment annually. Secondly, it wanted the Company to prepare a prospectus in Swahili which would clearly explain to the investors in what circumstances they would be able to recover the money they had invested in the scheme. These measures were suggested because very few of the Africans had more than a rudimentary knowledge of financial practices. It was believed that most of the Africans who invested would look upon the Company as a kind of savings bank, and they would expect to be able to withdraw their money on demand. Because it was to be the first investment for most of the Africans the Government believed that it would be wrong to give encouragement to Africans to participate in any speculative venture from which their money could not be withdrawn, and which might incur losses. The Company suggested that there could be preference shares reserved for Africans only, which would pay a minimum dividend of 5 per cent during the first four years. The

Government pointed out that preference shares could only pay dividends out of profits, and since the company's objective was to ensure that the African shareholders should receive some payment whether or not it was making a profit, it might be more suitable to achieve the objective by the issue of convertible loan stock. This was not possible because the IFC, from which the Company was negotiating a loan, required that at least 50 per cent of the company's capital must be in the form of equity and this could not be done if the African's shares were in the form of convertible loan stock. By a number of changes in its capital structure it was finally decided to issue a £700,000 7 per cent cumulative convertible preference share for local residents. These shares were underwritten to the extent of £250,000 by the Standard Bank and £450,000 by the CDC and they were then issued to the public by these two groups.

The decision was taken to reserve the shares for "local residents" instead of "Africans" because no one wanted to set the precedent of employing a racial clause in a prospectus.

The underwriting became necessary to assure the Company of the total capital required for the project. The Government had refused to guarantee the stock when they were asked to do so by the Company because of the reservation of the shares for Africans.

The experiment was not particularly successful. Only £35,855 of the £700,000 issue was subscribed and for the most part the investments were made by non-Africans. Nevertheless, it was an important step and indicates an approach to involving local investors in the capital market.

Material for this report was gathered in June 1964 only two and a half years after Tanganyika attained independence. The results achieved by the Government in this short time are impressive. The comprehensive Five-Year Plan is an impressive document. The targets are high as is the dependence on external finance. It is too early to comment seriously on the mobilization of industrial finance. The

Government has defined its targets with the Plan and new financial institutions such as the TDC and TDFL are steps in the right direction for mobilizing industrial capital. The Arthur D. Little report set forth the possibilities and some of the limitations of industrialization in Tanzania and the Government has heeded the comments of these consultants. Domestic savings are very low in Tanzania and they are not likely to rise sufficiently to make a marked impact on industrialization. The Government is already considering means to make whatever increases are possible through new institutions. The one potential source which does not appear to have been courted as fully as it might be is the capital in the hands of indigenous non-Africans. However, this is a problem with a history and perhaps no more can be done than to wait for better understanding with the passage of time.

The principal problems in Tanzania relate to the dearth of skilled manpower and individuals trained to a professional level. The demand for such people exceeds the supply. Training facilities have been substantially increased since independence. However, it will take some time before the demands can be met.

We have concentrated our comments on Tanzania but we cannot close our discussion without commenting on its neighbours, Kenya and Uganda, who together with Tanzania form a Common Market, share common services, utilize a common currency and meet together in a Central Legislative Assembly. Tanzania has felt for many years, with some justification, that it has not received its fair share of industry within the Common Market. Nairobi, as the former centre of British rule, in East Africa, with its bracing climate and developed facilities has always attracted a greater proportion of capital investment in industry than its neighbours. Unsuccessful attempts have been made to produce a more equitable allocation of industry within the common market by a system of industrial licensing. In the beginning of 1964 tensions came to a head when Tanganyika treatened to withdraw from the Common Market. Meetings were held and a compromise was reached which allocated five of ten new potential industrial investments to Tanganyika.

However, in early 1965 there was still substantial discontent in Dar-es-Salaam and new statements have been made calling for the end of the Common Market. East Africa as a whole is a much more attractive market than any one of its constituent parts would be alone. It would be a serious blow to Tanzania's investment hopes, if this structure should fall apart.

(e) United Arab Republic

The attitude of the Egyptian Government towards the role of industry in national development is set forth in the Five-Year Plan as follows:[1]

> "While agriculture is considered as the first sector, which constitutes the framework of the whole of production, industry is considered as the only path to economic progress and continued development."

Industry has become increasingly important in Egyptian thinking following the seizure of political power by the military in 1952. In that year the value of industrial production was £E 313.8 million and by 1963 it had climbed to £E 952.6 million.[2] New industrial investments during 1951/52 amounted to only £E 2.2 million whereas during 1963/64 they amounted to £E 155 million.[3]

The shift in emphasis towards more industrialization went hand in hand with the development of new institutions, experimentation with investment incentive laws, the drafting of an Industrial Development Plan and subsequently a comprehensive Development Plan. The Government's attitude towards the financing of industry moved from substantial private sector support to a complete domination of the industrial sector by the Government. Domestic savings augmented by a considerable inflow of external assistance has helped to provide capital to achieve the goals of the Government.

The First Five-Year Industrial Development Plan

In July 1956 a Ministry of Industry was created [4] and, among other things, it was responsible for drafting the five Five-Year Industrial Plan which was accepted by the Government in November 1957.[5] The Plan called for 502 projects and investments of £E 330.5 million of which £E 144 million or 47 per cent was in foreign exchange.[6]

1/ Twelve Years of Industrial Development in the United Arab Republic, 1952-1964 (Ministry for Industry and Mineral Resources), Cairo, 1964, p.31.

2/ Ibid., p. 32.

3/ Ibid., p. 174.

4/ Ibid., p. 175.

5/ Ibid., p. 180.

6/ Ibid., p. 181.

Although the National Production Council desired to give special attention to basic industries, political factors forced equal attention to consumer goods. Thus there was a balance between the development of basic industries and the development of consumer goods industry. The Government set itself three goals:

> "To realize self sufficiency in all goods which could be produced locally and which were imported for local consumption. . . The expansion of industries which can find favourable export markets as long as the elements of success of these industries exist in the country. . . Establishment of basic industries which are the foundation of industrial progress. . ." 1/

At the time of this Plan industrial activity contributed about 11 per cent of national income and it aimed at increasing the contribution of the sector to the national income from 11 per cent to 19 per cent.2/

It was divided into four major parts as follows:3/

First Five-Year Industrial Plan

Industrial Sector	No. of Projects	Total Cost (£E million)
Manufacturing Industries	456	258.1
Mining Industry	14	15
Petroleum Industry	14	55.7
Training Centres	18	1.7
Total	502	330.5

A special organization, affiliated to the Ministry of Industry and called the Organization for Executing the Five-Year Industrial Plan was established towards the end of 1957 for implementing the Plan.4/

1/ Ibid., p. 178, 179.

2/ Ibid., p. 179.

3/ Ibid., p. 180.

4/ Ibid., p. 180.

Foreign exchange for the Plan totalling £E 126 million of loans came from: the Soviet Union (£E 61 million); £E 45 million from the Federal Republic of Germany for the establishment of chemical and engineering industries; £E 12.5 million from Japan for building a sugar mill, spinning factory and fish canning factory; and, £E 7.5 million from the German Democratic Republic for the establishment of chemical and engineering industries.1/

On 1 July 1960 the Government put into operations its first Comprehensive Five-Year Plan for Economic Development (as distinct from the more limited Industrial Plan referred to above). This Plan was the first half of a ten-year programme. Residual projects of the Five-Year Industrial Plan which had not started production as of 30 June 1960 were integrated into the industrial sector of the new Plan.

During the two and one half years of the Five-Year Industrial Plan a total of 105 projects were put into operation at a total cost of more than £E 83 million and most of the remaining projects had been contracted or were actually under construction.2/

The completed projects were in the following fields:3/

Industry	No. of Projects	Total Cost (£E)
Petroleum	3	9,166,000
Mining Industry	9	416,000
Manufacturing Industries:		
Food Industries	24	2,478,000
Chemical Industries	16	8,929,000
Metallic Industries	30	34,687,000
Metallurgical Industries	1	395,000
Textile Industry	17	27,100,000
Training Centres	5	294,000
Total	105	83,465,000

1/ Ibid., p. 181.

2/ Ibid., p. 182.

3/ Ibid.

Five-Year Plan for Economic Development

The Five-Year Plan for Economic Development was drawn up with total investments estimated at about £E 1.7 billion over the peiod from 1 July 1960 to 1 July 1965. The industrial sector investments were set at £E 434 million (25.5 per cent). This amount covers both new projects in the Comprehensive Plan and obligations left over from the Industrial Plan.1/ It was estimated that £E 286.3 million (65.2 per cent) would have to be in the form of foreign exchange.

The industrial investments were allocated to the following industries:2/

Allocation of Industrial Investments in the Five-Year Plan for Economic Development

	£E million
Petroleum Industries	82.5
Mining Industries	36.7
Chemical and Pharmaceutical Industries	83.2
Food Industries	30.1
Textile Industries	43.8
Metallurgical Industries	46.8
Metallic Industries	57.5
Rural Industries	1.9
Vocational Training	3.5
Small Unforeseen Projects	16.0
Renewals and Replacements	30.0
The Central Laboratory for Metrology and Testing of Materials	2.0

The Plan contains 735 projects and when the working capital is added to the above figures, total investments increase to £E 801.8 million.3/ Subsequent to the publication of the Plan industrial projects were augmented by 78 complementary projects and 537 small projects costing £E 100 million

1/ Ibid., p. 185.

2/ Ibid., p. 186.

3/ Ibid., p. 187.

and LE 35.7 million respectively.[1] Thus total industrial projects to be undertaken during the Plan period were 1,350 at a cost of LE 937.5.

As of 31 December 1963, 322 projects contained in the Plan costing LE 243.3 million were in production and another 15 involving LE 23.8 million were ready for test runs.[2] The completed projects were distributed as follows:[3]

Completed Projects in the Plan

	No. of Projects	Cost (LE million)
Petroleum	8	41.156
Mining	17	7.403
Chemical	33	59.588
Food	34	32.954
Metallic	42	49.508
Metallurgical	9	9.522
Textile	41	38.723
Vocational Training	17	3.013
Rural	121	1.421
Total	322	243.288

In addition 26 of the complementary projects and 257 of the small projects costing LE 8.8 million and LE 10.4 million respectively were in production by the end of 1963.[4] Thus 605 projects costing LE 262 million were in production.

During 1964 the Government planned to complete 254 industrial projects whose total cost was to equal LE 145.2 million.[5]

1/ Ibid., p. 192.
2/ Ibid., p. 188.
3/ Ibid., p. 191.
4/ Ibid., p. 192.
5/ Ibid., p. 193.

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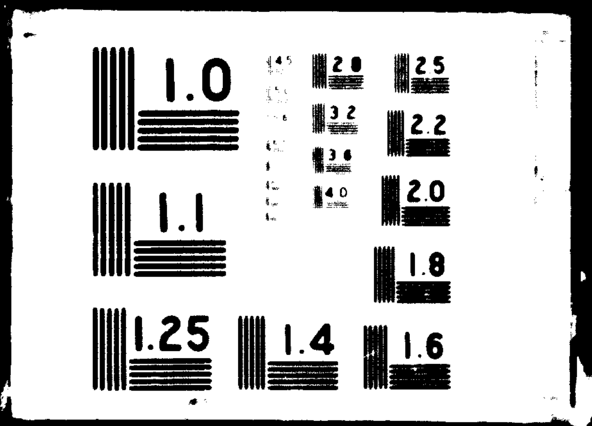

The Plan proposes to raise the GNP from 4.4½ per cent per annum to 7.2 per cent, an ambitious goal. The investment ratio was estimated at 16 per cent in 1959/1960 rising to 20 per cent by the conclusion of the Plan. Savings were to be increased from 14 per cent to 20 per cent.

Foreign exchange requirements of the Plan were put at £E 646 million. Foreign aid plus an increase in exports and a decrease in imports was to make this goal possible. The Plan projects an optimistic 36 per cent increase in exports and a 6 per cent decrease in imports with the proportion of investment goods increasing from 34 to 43 per cent over the Plan period.

Industry, including electricity, is to receive 33.7 per cent of total investment over the Plan period. It is hoped that this investment will increase net industrial output by 98 per cent.

<u>Third Industrialization Programme</u>

A third industrialization programme has been drawn up to be implemented within the framework of the Second Five-Year Plan for Economic and Social Development (1965-70). The programme includes 835 projects at an estimated cost of £E 1 billion.[1]

<u>Public and Private Sectors</u>

At the end of World War II almost all industry in Egypt was in the private sector. Post-war nationalism tended to favour local over foreign investors and in 1947 a law was passed requiring that a majority interest in Egyptian companies must be held by Egyptians. Mining and quarrying laws were also restrictive.

Following the Revolution of 1952 the Government began to offer incentives to both domestic and foreign investors.[2] Foreign investors were permitted majority control in new companies and they were granted new exploration concessions with liberal renewal terms. A seven-year

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1/ Ibid., p. 256.

2/ Issawi, Charles, <u>Egypt in Revolution - An Economic Analysis</u>, Oxford University Press, London, 1963, p. 236 et seq.

tax exemption was offered to new companies promoting economic development and new investments by existing companies received a five-year exemption. Tariffs were introduced to protect domestic industries and import duties on goods and materials needed by industry were reduced. Taxes on undistributed profits were halved. In addition the Government established a Permanent Council for Production to study and promote new projects. These measures did not bring about a substantial increase in new investments.

In 1956 the Government was confronted with a series of political problems. Following a military agreement between Egypt and Eastern Europe the United States withdrew its support from one of Egypt's most important projects - the Aswan Dam. The World Bank and United Kingdom followed suit. At this point the Egyptians nationalized the Suez Canal. Subsequently, Israel, France and the United Kingdom invaded Egypt. Hostilities ceased following the intervention of the United Nations backed by the support of the United States and the Soviet Union.

Following these events there was an Egyptianization of foreign establishments, closer State control of business, nationalization and sequestration of British and French assets, an intensification of Government efforts in industrialization and an increase in taxes. From 1957 through 1961 the Government gradually absorbed the private sector. By 1965 90 per cent of industry was under the control of the Government.

Government control over business began slowly. First, the Government required approval of all new investments and expansions of existing investments. Government approval was also required to stop production. Internal management was limited when the Government set a maximum and minimum number for directors; companies were required, after certain conditions precedent, to purchase Government securities; the amount of dividends was limited; the Ministry of Industry was authorized to determine the volume of production and the number of working shifts of each company; companies were required to allocate a proportion of profits, after certain deductions had been made, to workers in the plant; and earnings of company directors and employees were limited. Finally, in

1961 there was a wholesale nationalization of industry. Professor Issawi writes[1] that the market value of the shares of companies nationalized in 1961 "...has been officially put at £E 258 million, of which 33 million belonged to foreigners". He continues, "...the Government took over, in all, £E 124 million of shares, and acquired control over 70 per cent of Egyptian company capital...".

Compensation under the 1961 laws was in the form of fifteen-year negotiable Government bonds, bearing 4 per cent interest and redeemable after ten years.[2]

The Economic Development Organization was created to administer sequestered French and British businesses and in addition took charge of holdings in joint stock companies and certain publicly-owned corporations. It continued to expand by reinvestments and the acquisition of additional nationalized companies. Its total investments rose from £E 51 million in 1957 to £E 60 million in 1960 in banking, insurance, mining, petroleum, manufacturing, commerce and transport.[3]

In March 1961 two new bodies with functions similar to the Economic Development Organization were created: the Misr Organization and the Al-Nasr Organization.[4] The Misr Bank was founded in 1920 and one of its main objectives was the fostering of Egyptian industry. It was "...the first purely Egyptian-owned and managed institution, which constituted one of the main nuclei around which the new Egyptian bourgeoisie was formed and which did important pioneering work in credit and industry".[5] The Bank established twenty-seven Misr companies with an aggregate paid-up capital of £E 20 million and their activities ranged from spinning and weaving to insurance, fisheries, airlines and films.[6] This background gives some indication of why it was chosen for this new role.

1/ Issawi, Charles, Egypt in Revolution - An Economic Analysis, Oxford University Press, London, 1963, p. 60.

2/ Ibid., p. 59.

3/ Central Bank of Egypt, Economic Review, Vol. I, No. 2, 1961, p. 246 et seq.

4/ Central Bank of Egypt, Economic Review, Vol. I, No. 1, 1961, p. 63.

5/ Issawi, p. 40.

6/ Ibid., p. 264, 265.

The new Misr Organization was primarily responsible for:

> "The development of the national economy through commercial, industrial, and financial activities, the administration, supervision and the drawing up of investment policies of Bank Misr and other public institutions on behalf of the Government, and the organization of the participation of Government, public and private institutions in economic activities."1/

At the end of 1960, the assets of the Misr Bank and its holdings in Misr and other companies totalled £E 331 million.2/

Al-Nasr Organization "...is concerned with the development of industrial and financial activities of the companies established by the General Organization for the execution of the Five-Year Plan as well as with industrial projects entrusted to it".3/ The assets of Al-Nasr Organization were twenty-four companies with combined capital of about £E 40 million.4/

> "By the autumn of 1961 these three bodies each of which was headed by a Cabinet Minister, controlled the bluk of Egypt's economic activity." 5/

Friction developed between the three organizations and various Government departments, and in December 1961 a decree was issued establishing the Supreme Council for Public Organizations under the chairmanship of the President of the Republic. The Council's functions are to define the objectives, approve the budgets, co-ordinate the activities and supervise the implementation of the programmes of thirty-nine organizations, grouping 435 companies under thirteen ministries. The activities of the Supreme Council radically reduced the importance of the Misr, Nasr and Economic Development Organizations.6/

1/ Central Bank of Egypt, Economic Review, Vol. I, No. 1, 1961, p.63

2/ Issawi, p. 65.

3/ Central Bank of Egypt, op.cit., p. 63.

4/ Issawi, p. 65.

5/ Ibid.

6/ Ibid.

Industrial Finance

Following the nationalization decrees of 1961 industrial financing in Egypt has become primarily a question of public finance.

Prior to the movement of industry into the public sector industrial finance came principally from domestic and foreign private investors. Commercial banks, insurance companies, the Industrial Bank and to some extent Government-controlled funds from the Post Office Savings Bank, pension and social insurance organizations were additional sources of industrial finance. The nationalization decrees affected all of these sources of finance too. Thus, by the end of 1961 not only was all industry in the public sector, but in addition virtually all of the institutional sources of finance were there too.

A picture of Egypt's present and past public finances may be gleaned from the following table.

Public Finance

Actual Public Revenue and Expenditure (£E million)[a]

End of Fiscal Year	Revenue	Expenditure	Surplus/Deficit
1955/56[d]	292.8	340.3	- 47.5
1956/57[d]	276.3	358.1	- 81.8
1957/58[d]	333.9	335.3	- 1.4
1958/59[d]	403.2	430.2	- 27.0
1959/60[d]	444.8	511.1	- 66.3
1960/61[d]	540.5	700.1	- 223.3
1961/62[d]	550.3	779.7	- 229.4
1962/63	727.5[c]	970.0	- 242.5[b]
1963/64	775.3[c]	1,079.4	- 304.1[b]
1964/65	829.3[c]	1,184.4	- 355.1[b]

Source: Economic Bulletin, National Bank of Egypt, Vol. XVIII, Nos. 1 and 2, 1965, Table 2/1 in Statistical Section.

a/ An aggregation of net revenue and expenditure of all budgets after deducting inter-budget subsidies and transfers. Figures as from 1957/58 are budgetary estimates as final accounts are not yet available.

b/ This figure represents the total of internal loans, credit facilities and foreign loans included in the revenue of both the services and business budgets, plus the deficit in the services budget.

c/ A residual figure reached by deducting the sum of internal and foreign loans plus the deficit in the services budget from the budget's total.

d/ Development budget revenue is not included while expenditure is. The revenue was not indicated in the annual budget reports and was composed mainly of foreign aid and loans, internal borrowings and monetary expansion.

Additional insight may be gained by reviewing the situation for two recent budgets in more detail. In 1962/63 and 1963/64 net expenditures were £E 970.0 million and £E 1,079.4 million respectively. Deficits in these years were £E 180.5 million in 1962/63 and £E 240.3 million in 1963/64. Aggregate revenue and expenditure estimates for these years were as follows:

Aggregate Revenue and Expenditure Estimates
For 1962/63 and 1963/64

£E million

	Services budget 1963/64	Services budget 1962/63	Enterprises budget 1963/64	Enterprises budget 1962/63	Total all budgets 1963/64	Total all budgets 1962/63
I. Expenditure						
Current outlay	478.2	432.0	651.8	545.9	1,130.0	977.9
Investment outlay	62.2	87.3	348.7	275.1	410.9	362.4
Total	540.4	519.3	1,000.5	821.0	1,540.9	1,340.3
Adjustment for double counting	-	-	461.5	370.3	461.5	370.3
II. Net Expenditure	540.4	519.3	539.0	450.7	1,079.4	970.0
III. Net Revenue	501.0	474.8	338.1 a/	314.7 a/	839.1	789.5
IV. Net Deficit	-39.4	-44.5	-200.9	-136.0	-240.3	-180.5
V. Financing:						
(i) local loans	+39.4	+44.5	+144.5	+105.1	+240.3	+180.5
(ii) foreign loans			+56.4	+30.9		
Total	+39.4	+44.5	+200.9	+136.0	+240.3	+180.5

Source: Economic Review, Central Bank of Egypt, Vol. III, No.3, 1963, p. 246.

a/ Including the real resources available for investment which consist of the surplus of the revenues over expenditure of the Post Office Savings Bank, the General Insurance and Pensions Authority, and the General Organization for Social Insurance amounting to £E 4.3 million, £E 31.7 million, and £E 27.8 million respectively in 1963/64, comapred with £E 6.2 million, £E 27.9 million and £E 20.6 million in 1962/63.

An analysis of this chart reveals that the Government is utilizing funds from the Post Office Savings Bank, the General Insurance and Pension Authority and the General Organization for Social Insurance. These funds are included under the general category "Net Revenue". They are allocated to the Enterprises Budget which "comprises all budgets of autonomous public authorities and organizations exercising economic activities and covers the related companies, whether wholly- or partially-owned by the public sector".[1/] The deficit is financed by local and foreign loans.

Revenue for industry under the Enterprises Budget of 1962/63[2/] and 1963/64[3/] was estimated as follows:

1/ Central Bank of Egypt, Economic Review, Vol. III, No.3, 1963, p. 253.

2/ Central Bank of Egypt, Economic Review, Vol. II, No.3, 1962, p. 295.

3/ Central Bank of Egypt, op.cit., p. 257.

Industrial Revenue

Enterprises Budgets

1963/64-1962/63

	Own Revenues	Investment Income	LOANS		Grants	OTHER RESOURCES			
			Local	Foreign		Investment of Related Companies	Drawings on Reserves	Others	Total
1963/64 Industry	105.4	12.3	60.3	13.2	-	82.6	0.1	16.9	290.8
1962/63 Industry	87.0	10.5	41.3	14.6	0.9	68.0	1.7	12.4	236.4

In 1962/63 foreign loans were one-third of total loans: in 1963/64 they had dropped to a little over 20 per cent.

In summary, industrial finance in Egypt today is primarily a question of public finance. Recent budgets have had large deficits and these have been financed by local and foreign borrowing. Included in net revenue of the budgets are various Government-controlled funds.

Savings

The Government's goal is to increase savings from 12-15 per cent of national income to 20 per cent. In line with this policy a programme of forced savings was introduced in 1965. Under the programme all civil servants and employees of nationalized companies are required to contribute a half.day's pay monthly to a Compulsory Savings Plan. The employees will receive 5 per cent interest on their deposits and will be entitled to make some withdrawals after five years.

The volume of savings has been increasing annually in Egypt. However, nationalization, stamp duties and the liability of bank deposits to seizure by the Department of Taxation have probably limited the rate of growth.

Savings for recent years were as follows:

Savings
(£E million)

Year	Banks	Post Office	Investments of Insurance Companies	Insurance and Pension Funds	Institute for Social Insurance	Total
1956	55.4	32.6	33.2	24.4	0.9	146.5
1957	61.5	37.8	41.4	36.9	2.4	180.0
1958	73.2	41.5	47.1	49.2	4.9	215.9
1959	88.1	45.7	53.5	54.4	8.0	249.7
1960	94.2	47.4	57.5	71.3	11.0	285.6
1961/2	104.0	53.0	58.0	126.0	21.0	362.0

Source: Issawi, Charles, *Egypt in Revolution - An Economic Analysis*, Oxford University Press, London, 1963, p. 255.

The current programmes to increase savings to 20 per cent of national income will solve a part of Egypt's investment problems. However, in addition to domestic savings Egypt has a great need for foreign exchange. The nationalization of industry does not make Egypt very attrative to foreign private capital. Thus, if Egypt is to obtain needed foreign exchange it will have to come in the form of foreign public assistance or export earnings.

Foreign Aid

Almost one-third of the UAR's investments in the First Five-Year Plan were made from foreign aid funds. A similar proportion will be required for the Second Five-Year Plan.[1]

The emphasis on industrialization has increased the demand for imported capital goods, spare parts and raw materials. Egypt's exports have not kept pace with these imports. Although the Government has attempted to narrow the foreign exchange gap by reducing imports and increasing exports it has been unsuccessful and the reliance on external assistance is on the increase.

Egypt has received foreign assistance totalling almost $1.8 billion from 1952 through 1962. The sources and their relative contributions are as follows:

1/ National Bank of Egypt, Economic Bulletin, Vol. XIV, No. 2, 1961, p. 131.

Total Aid Committed by Country

	Country	Million Dollar	Percentage of Total
A. Bilateral			
	USA	706.7	40.0
	USSR	500.0	28.2
	West Germany	152.5	8.6
	Italy	98.4	5.6
	Japan	48.4	2.7
	France	28.7	1.6
	East Germany	27.2	1.5
	Czechoslovakia	26.4	1.4
	Yugoslavia	20.0	1.2
	Hungary	16.9	1.0
	UK	15.5	0.9
	Netherlands	14.3	0.8
	Switzerland	11.5	0.7
	Sweden	9.4	0.5
	Other countries	18.6	1.1
	Total bilateral	1,694.5	95.8
B. Multilateral			
	World Bank	56.7	3.2
	EPTA	11.6	0.7
	UNSF	6.2	0.3
	Total multilateral	74.5	4.2
	Grand Total	1,769.0	100.0

Source: Said El-Naggar, "Foreign Aid to United Arab Republic", UAR Institute of National Planning, p. 62.

Bilateral sources provided almost 96 per cent of the total assistance during this period, and over 82 per cent of total aid was from four countries: the United States, the Soviet Union, West Germany and Italy.

Approximately 11 per cent of the aid has been in the form of grants with almost 90 per cent of this form of assistance coming from the United States. The percentages would be appreciably higher if one were to include the $487.1 million of commodities supplied to Egypt under P.L 480 assistance.

This assistance is treated by the OECD and others as "grant-like" assistance, inasmuch as it is paid for in local currency.

Almost 40 per cent of the total aid supplied to the UAR has been allocated to industry.

Soviet aid has been concentrated on the Aswan Dam ($325 million) and industrialization ($175 million). As of 31 December 1961 Soviet aid had been utilized in the following industries: petroleum (32.1 per cent); engineering (30.0 per cent); chemicals (15.6 per cent); metallurgy (10.3 per cent); mining (4.4 per cent); textiles (3.4 per cent); and food (2.2 per cent). In 1963 the Soviet Union offered the UAR a $50 million loan for the construction of power lines and transformers.[1]

American aid has been employed in agriculture and natural resources; industry and mining; transportation and communication; health and sanitation; education; public administration; community development and housing; participants training programmes and commodity procurement. During fiscal years 1963 and 1964 Egypt received another $487 million of US aid bringing the total to $1.2 billion.[2] Industrial aid has provided a telecommunications training centre; engineering faculty; industrial engineering planning assistance; institute for management development and loans to: a pulp mill, industrial bank, food canning and freezing plant, a cellophane plant, grain storage facilities, a power plant and a cardboard plant.

Italian aid has gone to land reclamation, equipment for the Nasser Automobile factory, goods and services related to a petrochemical plant and oil drilling.

The Germans have provided a dry dock in Alexandria, a river fleet for the transport of iron ore, a syphon under the Nile in Cairo, various electricity projects, an irrigation pumping station, and a bridge over the Nile. In April 1963 the Kreditanstalt provided $57.5 million for

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1/ El-Naggar, Said, Foreign Aid to United Arab Republic, Institute of National Planning, Cairo, 1962, p. 44 et seq.

2/ US Economic Assistance to United Arab Republic, US Aid Mission, Cairo, 1964, charts on p. 13-14.

twenty-five infrastructure projects bringing their total assistance to over $200 million. At the same time the UAR was offered $62.5 million of Hermes suppliers' credits by the West Germans. East Germany offered a loan of $67.4 million to Egypt in early 1965 to finance the import of industrial equipment. This loan would bring East German assistance to almost $120 million.

Yugoslavia provided a $20 million credit for a tractor factory at Helwan, mining equipment and equipment for a water pumping station. In 1964 an additional $17.5 million loan was offered to pay for a land reclamation project.

Kuwait has made loans totalling 35 million dinars with 25 million going for general development and 10 million to deepen the Suez Canal.

The Japanese have supplied a $30 million credit for a cotton spinning plant, sugar manufacturing plant, tin can plant, canning factory, a frozen food plant, and a plant to manufacture fish nets.

In 1960 Poland gave Egypt a $20 million credit and $6-7 million has been used for a dye plant. In January 1965 $40 million in additional credits were offered for industrial projects.

Czechoslovakia offered credits of £ 7.5 million and £ 20 million in 1960 and 1962. These credits were for a power station, sugar factory, and a motor cycle factory.

Communist China agreed in December 1964 to supply Egypt with up to $80 million in industrial equipment.[1]

The important point to note is that Egypt has succeeded in attracting external assistance from many sources and a great deal has been concentrated on industry. Assistance has come from both the Western and Soviet blocs.

In addition to the above-mentioned sources of assistance the UAR has had recourse to the International Monetary Fund.

1/ AFRICA - Economic, Financial and Technical, Vol. I, No. 12, p. 221.

In May 1962 the UAR concluded a stand-by arrangement with the IMF. By common agreement the following steps were taken for the purpose of stabilizing the economy:

> "The Central Bank's discount rate was raised from 3 per cent to 5 per cent; the creditor and debtor rates of interest of the commercial banks were also revised; the reserve ratio of the commercial banks was increased from 12½ per cent to 17½ per cent; ceilings were imposed on the credit facilities which commercial or specialized banks could grant; and the exchange system was simplified by the adoption of the single rate of $2.30 per Egyptian pound..."1/

In 1964 the UAR entered into new standby arrangements with the IMF authorizing drawings up to the equivalent of $40 million over a twelve month period.2/

> "The stabilization programme aims at improving the balance of payments by reducing the pressure exerted by the Government's financial needs on the domestic credit system. It provides for increased taxes on imports, a new tax on payments for certain invisible transactions, and a substantial increase in social security taxes. An important feature of the programme is a general review of pricing policy. The programme is designed to achieve its objectives over a period of several years without impairing the country's recent rate of economic growth."3/

As of April 1964 the UAR's quota in the Fund was raised to $120 million and its outstanding drawings on the Fund stood at $124.2 million.

It is understood that as a part of the 1964 agreement with the Fund the UAR agreed to limit its expansion of credit, both domestic and foreign by not increasing short- and medium-term credit beyond the amount outstanding in March 1964. Other items in the Agreement related to liquidity, the size of the investment budget, the amount of bank credit, restrictive exchange policies, pricing policies, and bilateral payment agreements.

1/ National Bank of Egypt, Economic Bulletin, Vol. XVI, Nos. 1 and 2, 1963, p. 1.

2/ International Financial News Survey, Vol. XVI, No. 22, 1964, p. 181.

3/ Ibid.

Financial Institutions[1]

In addition to the Central Bank the United Arab Republic has the following financial institutions: five Government-owned commercial banks, an industrial bank, and a number of specialized banks which are not relevant for the present study.

Central Bank

The National Bank of Egypt functioned as a central bank for Egypt from 1898 through December 1960. It was the Government banker, held cash reserves of commercial banks, issued notes, and acted as a lender of last resort.

The powers of the National Bank were rather limited until central banking legislation was passed in late 1951. From that time on commercial banks were required to maintain interest-free deposits with the National Bank. The actual percentage of deposits was determined by a Supreme Monetary Committee consisting of three representatives of the Government and three of the Bank under the chairmanship of the Minister of Economy. The commercial banks were also required to hold liquid assets in the form and proportion fixed by the Supreme Monetary Committee. As its central banking powers increased the National Bank became more restricted as to its commercial banking operations.

The National Bank also gained the power to rediscount treasury bills and approved commercial bills. In 1957 the Bank was permitted to carry out open market operations but due to the narrowness of the Egyptian stock exchange, this had no great effect. At the same time it was authorized to fix interest and discount rates and in exceptional cases to make advances to commercial banks without demanding the usual security. In addition the Bank was put in charge of all firms undertaking banking operations and its authority was required for mergers and opening of new branches.

1/ See, Sanchiz, José C., "Money and Banking in the United Arab Republic," International Monetary Fund Staff Papers, Vol. XII, No.2, 1965, p. 314 et seq.; and Issawi, Egypt in Revolution (supra), p. 246 et seq. See also the Economic Review of the Central Bank of Egypt and the Economic Bulletin of the National Bank of Egypt.

The Bank's authority over other banks was extended to cover reserve and liquidity ratios and it was given very extensive powers in the determination of the nature and evaluation of assets held by banks and in the maximum amount of the facilities they were authorized to extend to the various sectors of the economy.

Eventually the Supreme Monetary Board was abolished and full authority was given to the Bank's Board of Directors. The Government appointed the Governor, Deputy Governor and two members of the Board.

In February 1960 the National Bank was nationalized and its shares were converted into 5 per cent Government bonds redeemable over twelve years. A new bank called the Central Bank of Egypt was established. It acquired certain assets and liabilities of the National Bank and the National Bank was turned into a commercial bank.1/

Commercial Banks

At the time of the 1952 revolution almost all of Egypt's commercial banking was controlled by non-Egyptians. Only the Misr Bank and the National Bank of Egypt had substantial Egyptian capital.

In January 1957 following the Suez crisis the Egyptians promulgated a law which provided that all commercial banks must take the form of joint stock companies with a paid-up capital of not less than LE 500,000 in the form of nominative shares owned by Egyptian subjects with Egyptian management. Existing banks were given five years to carry out these changes.

In 1960 both the National and Misr Banks were nationalised and soon thereafter the Banque Belge et Internationale en Egypte suffered the same fate. Finally in July 1961 all banks were nationalized.

Following the nationalization of all of the commercial banks the entire system was reorganized and as of 1963 there were only five distinct commercial banks. This change came about because the smaller banks were concentrated in the major cities where the larger banks existed

1/ Central Bank of Egypt, Economic Review, Vol. I, No. 1, 1961, p. 1 et seq.

and it was decided that this "unwarranted duplication in banking services and the lower efficiency of some of the smaller banks called for correction".1/

This left the structure of the banking system as follows:2/

"1. The Central Bank of Egypt.

"2. The Egyptian Public Organization for Banks, which is a supervisory body of the following institutions:

(a) five commercial banks;

(b) the Industrial Bank;

(c) four mortgage banks.

"3. The Crédit Agricole et Coopératif, which is supervised by the Egyptian Public Co-operative and Agricultural Organization."

In April 1964 another major change was made when the Egyptian Public Organization for Banks was abolished, leaving the control of the banking system (with the exception of the Crédit Agricole et Coopératif) in the hands of the Central Bank.3/ It was felt that the administrative functions of the Public Organization duplicated those of the Central Bank.

The Government then decided that as of 1 July 1964 each sector of the economy would channel all of its activities through only one of the commercial banks. The purpose of this specialization

> "... is to facilitate financial control over the different branches of the economy, or in other words some degree of 'control by the pound' is intended to secure better adherence to the requirements of the Development Plan. . ."4/

The financing and marketing of major agricultural crops will continue to be undertaken by all five commercial banks.

The actual mechanics of industrial finance were unclear as of July 1964.

1/ National Bank of Egypt, Economic Bulletin, Vol. XVI, Nos. 3 and 4, 1963, p. 158.

2/ Ibid., p. 159.

3/ National Bank of Egypt, Economic Bulletin, Vol. XVII, No. 2, 1964, p. 127 et seq.

4/ Ibid., p. 128.

Industrial Bank

In 1947 a law was passed authorizing the Government to participate in the establishment of an Industrial Bank and in 1948 the statutes were ratified. The Bank began its activities in October 1949.

The Bank is an Egyptian joint stock company with a capital of £E 1,500,000 made up of 375,000 shares of £E 4 each. The Government's share in the capital was 51 per cent with the balance being subscribed by banks, insurance companies, chambers of commerce, industrial concerns, individuals and others. Nineteen per cent of the shares went to individuals.

> "The Government guaranteed a 3.5 per cent dividend on share capital, as well as the principal and interest on debentures up to five times the Bank's capital, and was authorised to advance up to £E 2 million for working capital. This was subsequently increased and at the end of 1960 the Bank's balance sheet showed a debt of £E 6.9 million to the National Bank, guaranteed by the Government. Moreover in 1959 the Bank was authorised to issue up to £E 3 million of bonds guaranteed by the Government, and did so in 1960; in the latter year the authorisation was increased to £E 7.5 million."1/

The Bank is authorized to: participate in the establishment and consolidation of Egyptian industrial enterprises; grant short-, medium- and long-term loans; extend assistance to graduates of technical institutes to start industrial enterprises by granting them loans against collateral or personal security, or without security. The Bank may also invest surplus funds in shares and bonds of industrial companies.

The general criterion for bank loans is that "the concerned line of activity should involve an appreciable use of labour power and a considerable amount of value added".2/ Extractive and mining activities are also eligible for bank loans while construction and building industries are granted loans if their services are earmarked for industrial projects. Thus residential building is excluded from bank financing.

1/ Issawi, p. 265.

2/ The Industrial Bank, UAR, 1963, p. 13.

The Bank's record as of 1962 may be summarized as follows:[1]

Industrial Bank

Disbursed Loans, Distribution According to Term (£E '000's)

Term	1959	1960	1961	1962
Short-term	1,438	1,505	1,203	529
Medium- and long-term	60	1,030	412	143
Advances	135	195	250	277
Total	1,633	2,730	1,865	949

Distribution According to Types of Industry (£E '000's)

Sectors of Loans	1959	1960	1961	1962
Textiles	259	920	1,230	763
Engineering and Metal	592	837	298	31
Construction & Building Material	502	506	26	—
Foodstuffs	79	266	183	100
Chemicals	194	200	112	31
Other	7	1	16	24
Total	1,633	2,730	1,865	949

There are stock exchanges in Cairo and Alexandria. They were closed in July 1961 but are now reopened. The great transformation in the economy has changed the nature of the exchanges' business very radically. It now handles Government bonds and securities of nationalised and non-nationalized companies. The markets are rather narrow. Until 1961 Government intervention in the market had taken the form of occasionally fixing minimum quotations as well as forbidding future operations.

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[1] Ibid., Table 1.

Concluding Observations

Egypt has placed substantial emphasis on industrialization following the revolution of 1952. During the early 1950's an attempt was made to attract private foreign capital by replacing the more nationalistic laws of the late 1940's with incentive legislation. Almost before the world could adjust and react to these changes Egypt was plunged into the political crises of 1956. Following United Nations intervention hostilities ceased. Reacting to the events Egypt sequestered all French and British assets in the country. Soon thereafter insurance companies and banks were advised that they must Egyptianize. Then in 1961 the Government introduced nationalization decrees which brought most of the industrial sector and virtually all of the institutional finance sector under Government ownership and control.

In the early 1950's private domestic and foreign capital were the principal sources of industrial finance. These efforts were supplemented by loans from the commercial banks and the Industrial Bank. In addition there was a small stock exchange. Insurance companies, the Post Office Savings Bank and various pension and social security funds were other potential sources of capital.

Following the nationalization decrees of 1961 industrial finance became primarily a question of public finance. Industry became one of the many sources competing for Government funds. As a favoured sector industry has not fared too badly.

One of Egypt's principal problems is to find enough revenue to carry out its ambitious development plan. On the domestic side various measures have been taken to stimulate savings. In relation to foreign exchange the Government is faced with a serious problem. Imports are increasing more rapidly than exports and reserves are falling to a dangerous low. External assistance from Western and Soviet bloc sources as well as the International Monetary Fund have been of crucial importance to the Government. Approximately 40 per cent of this assistance has gone to industry. In spite of this there are still shortages of spare

parts and raw materials which prevent Egyptian industry from running at full capacity. This has resulted in a search for new external capital. The United States and United Nations tend to support the proposition that private capital, given proper incentives, could help to solve this problem. It is doubtful however that there would be a rush of private capital to Egypt even if the Government's attitude changed. Many investors would still remain wary because of the stated policies of the Government.

When the material was gathered for this study in 1964 the Government of the UAR was still in the process of experimenting with its newly acquired financial institutions and it was exploring ways to utilize existing institutions such as the Industrial Bank. Comments on these institutions will have to await more experience.

Egypt is fortunate to have many highly skilled and well-trained administrators and technicians. This is offset however by the fact that only a little over 3 per cent of her land is arable and the population is increasing at the rate of 3 per cent per annum.

It is too early to judge whether Egypt's experiment with public sector industry is the best approach for the most rapid and equitable development of the society.

CONCLUDING OBSERVATIONS

The scope for industrialization varies widely in the five countries under discussion. The United Arab Republic is the only one of the five countries with a substantial industrial base. Fifteen years ago even Egypt had little industry. This transformation has come about in Egypt because of available resources, trained personnel and a will to industrialize. Will alone would have been insufficient. Egypt has experimented with different approaches to industrialisation and the experiments continue. In the other four countries there are minimal physical resources and Tunisia is the only country among the others with a substantial number of educated, experienced administrators.

Planning

Each of the countries has a development plan. Generally speaking they are well formulated documents but they are often based upon insufficient data and tend to be over-optimistic. Libya's Plan is the weakest of the Group. It is a list of sectoral investments with no targets and it only covers public sector investment. Senegal, Tunisia and the UAR are pursuing plans which are a part of a longer plan.

Industry plays an important role in each of the plans with 20 per cent - 32 per cent of investment allocated to industry except in Libya, where no estimates are made for private investment and Government investments are equal to only 4.1 per cent.

Emphasis has been placed on industrialisation to escape the problems which flow from a dependency on agriculture. However, one may question whether this stress is being pursued in a rational manner. Each small country appears determined to develop its industry without discussing its approach with its neighbours. Tanzania has formed a Common Market and shares common services with its neighbours Kenya and Uganda. However, recent announcements indicate that these arrangements may be coming to an end. Senegal, once the Federal capital of French West Africa and then a partner in the Mali Federation has now returned

to the status of a small West African State. It shares a common currency with five other States and is a member of a Customs Union but these countries have not been able to agree on a regional approach to industrialisation. Both the Ivory Coast and Senegal have built small refineries. Both want industries to develop within their respective countries. Millers and shoe producers were told that they could not ship their goods from Senegal to the Ivory Coast. They were required to move in and build a factory. Tunisia is another small country which has discussed federation with its neighbours Morocco and Algeria. This possibility appears remote at this time. Libya, in spite of its new-found wealth, has neither the resources nor the market for a major industrial programme. If some way could be found for Libya to work with its neighbours, it is probable that more development would take place. Egypt is the only country of the five which has a relatively large market, resources and the capacity to implement the necessary steps to carry out a major industrial programme.

The Economic Commission for Africa has instituted a series of studies on regional co-ordination of development. It would be beneficial to all concerned if this approach to development was studied and acted upon. For many countries in Africa this is the only hope for an industrial programme where products would be able to circulate in world markets under international competition.

Industrial Finance

With the exception of Libya, all of these countries are extremely short of capital. Various attempts are being made to mobilise domestic capital but it would appear that increases will be marginal in relation to needs.

Commercial banks, insurance companies, social security funds and personal funds of individuals are potential sources of capital. In the three North African countries under discussion, efforts have been made by the Governments to see that more of these funds are utilised domestically. The banks and insurance companies have generally been

foreign owned and both reserves and assets have been held outside of Africa. Laws in Egypt, Tunisia and Libya have begun to regulate this situation. In Egypt, after first requiring that majority rule be in the hands of Egyptians, the Government has nationalized all banks and insurance companies. Libya now requires that banks be controlled by Libyans and they have raised the capitalization minimum for foreign banks and increased the reserves which must be maintained with the Central Bank. Tunisia has used a different approach. The Government has formed its own commercial bank and it is now the most important bank in the country. Senegal has also formed its own commercial bank. Social security funds are being used for industrial investment in both Egypt and Tunisia.

Banks and insurance companies have contributed to development by purchasing Government securities from time to time.

Egypt is the only one of the five countries which has a stock market and even there it was primarily used by foreigners. Attempts have been made to interest the public in the purchase of securities both in Tunisia and Tanzania. They have not been very successful. With industry nationalized the Egyptians have been looking for techniques to being private investors into public sector investments by issuing investment certificates for as little as £E 2. The value of the certificate is to increase gradually to 50 per cent in ten years and the appreciation in value is not taxable. There are restrictions on cashing certificates in £E 50 for three years, but they may be used as collateral for bank loans.

The Egyptians have excluded private capital investment from all but small industry. Tunisia with a mixed economy approach invites private capital but it requires prior approval on a project-by-project basis. The State is playing an increasingly important role in industrial investment in Tunisia and this tends to make private investors wary. Senegal's President Senghor is a strong advocate of African socialism and although he has stated that only agriculture will be nationalised,

to private investor is hesitant. One of the reasons for this is that those within Senegal who have money to invest generally made their money in agriculture which is now being nationalized and they follow the axiom once bitten twice shy. Libya has had a large inflow of capital for oil exploration, but for little else. The State has plenty of funds to invest in industry but to date its policy has been to leave industry to the private sector and to intervene only if there is no private interest. Tanzania offers a friendly atmosphere for private capital.

Each of these countries, except Egypt, has an investment code to attract and assure investors. Although much stress has been put on this formalistic approach to investment in recent years, it should be stressed that these codes provide at best a small inducement for investment. Countries would be wiser to think through the shortcomings of the "investment climate" rather than relying on codes alone.

An important source of capital in some of these countries are the indigenous non-African communities such as the Greeks and Asians in Tanzania and the Syrian-Lebanese in Senegal. These groups frequently have money and entrepreneurial ability, but they are often resented by the Africans because they are the merchants and the money-lenders.

In all of the countries under consideration there are strong and at times dominant attitudes which favor a socialistic approach to development. It is a socialism which grows out of communal feelings rather than ideology (although there are ideological socialists too). There is a strong concern for social welfare and a great deal of scepticism and fear in relation to private capital investment.

Limited savings and low rates of foreign private investment has led each of these countries to a strong dependence on foreign aid. Libya, which was once considered to be the poorest of the five, is the only one of the group which no longer has need for external capital assistance. However, it has at least as great a need for technical assistance as any of the five.

The principal aid sources vary with each of the five countries. In Tanzania, the UK, U.S, IDA and West Germany are the principal donors. More recently the People's Republic of China has come into the picture. In Senegal, the French and the European Development Fund are the major sources. Libya until recently received aid from the U.S., UK, the United Nations Special Fund and Specialized Agencies. Tunisia, originally highly dependent on French assistance, has become more involved with the Americans over the years. Smaller sums have come from the Soviet Union, Kuwait, West Germany, Italy, Poland and Czechoslovakia. Egypt has received substantial assistance from the United States, Soviet Union, West Germany, Italy and Japan.

A great deal of aid has not been directed to industry as such but has nevertheless aided in industrialisation. For example, the Americans sell Egypt many necessary commodities under Public Law 480, which provides foreign exchange to buy machinery, tools, and replacement parts with funds which would otherwise have been spent on food or other commodities.

The need for foreign exchange has led some of the five countries into accepting a substantial number of suppliers credits. These credits are usually for shorter periods of time and at higher rates of interest than Government-to-Government loans or loans from international organizations. When Egypt entered into a stabilisation agreement, one of the conditions was a limitation on these expensive credits.

The tying of aid to purchases in the country supplying the aid is a frequent complaint of the recipient countries. The complaint is based on the fact that at times the same amount of money will buy more goods in another market. (However, it is doubtful that these policies will be changed in the near future).

Credit Institutions

Commercial banks in Africa usually supply only short-term industrial funds. In order to provide medium and long-term industrial

funds as well as equity capital each of the five countries has created at least one development bank or corporation. The functions of these institutions usually go beyond the provision of capital alone and includes managerial advice, promotion of schemes and frequently they act as a centre for information for both domestic and foreign investors.

Egypt's Industrial Bank is in somewhat an anomolous position at this time. Some have suggested that it be liquidated and others have proposed that it be utilised for financing State enterprises. In Senegal the Development Bank has not been able to find many entrepreneurs interested in industrial investment and as a result, the Bank's funds have been almost fully employed in agriculture. Libya's Industrial Development Organisation is just getting under way. Tunisia and Tanzania have two organisations concerned with industrial finance. The Societé Nationale d'Investissement concentrates on equity investment and the Societé Tunisienne de Banque makes medium-term loans and at times equity investments. The S.N.I. has committed almost all of its funds to equity investments in new enterprises. It is supposed to sell off its holdings and invest the proceeds in new enterprises. To date only a small amount of its investments have actually been sold. In Tanzania the purpose of the dual structure was to attract and utilise external capital for commercially viable projects through one institution and to carry out priority and political projects of a non-commercial nature through the other institution.

The Future

Experience and experimentation is giving each of these five countries an opportunity to learn how to maximise their industrial capital.

Banks, insurance companies and social security funds will probably play a more important role in the supply of capital in the future than they do at present. There will probably be more stringent requirements on foreign financial institutions to see that they utilise funds derived from a country within the country.

The early experiments at involving local people in investments in industry will probably continue and as these ideas become less unusual they will probably become more successful. The Egyptians have been inventive both in relation to encouraging investments in public enterprises and in postal savings. These techniques will undoubtedly be followed by others.

The creation of the African Development Bank, the activities of the ECA and the Organisation of African Unity should aid in creating a broader and more rational approach to industrial development. A regional approach rather than a national approach to industry would be more rational, more competitive and probably lead to a greater flow of private capital to Africa.

There is still too much concern over the political power of private capital. These exaggerated fears limit capital inflow. Each of the States we have discussed has sufficient power to exercise controls against exploitation without cutting off an important source of capital. There will probably be increasing pressure in countries such as the United States to channel aid into countries where there is more sympathy for private capital investment. This is particularly true in relation to countries which are not strategic in the present "Cold War" struggle.

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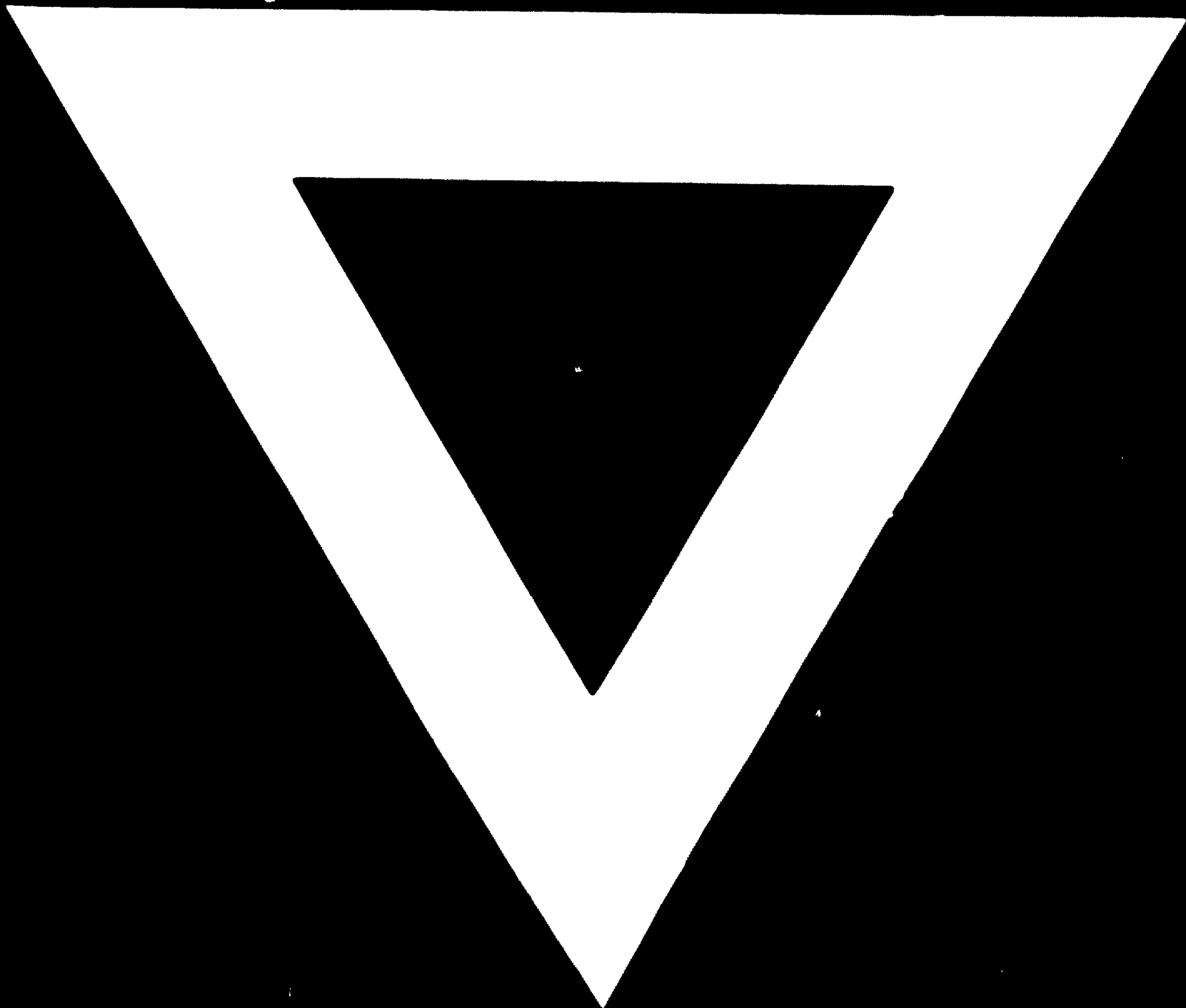

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