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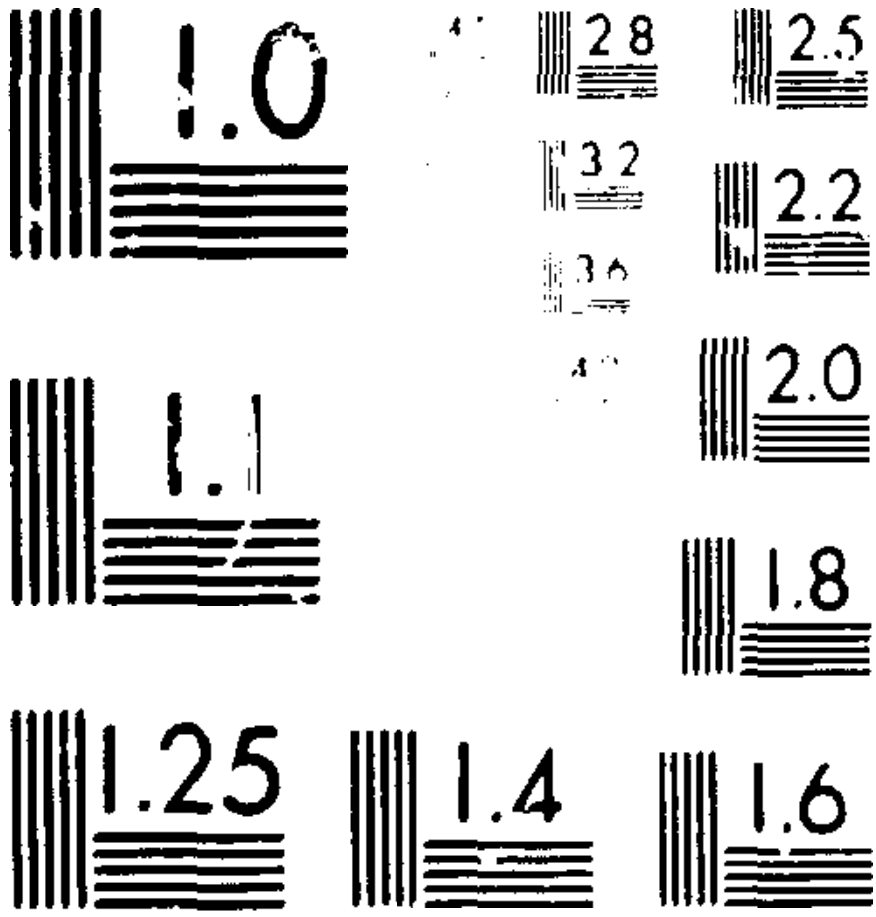
UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org



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on the Creation of a Technological Information
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COUNTRY BRIEF: EGYPT*

prepared by

George Issa**

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** General Manager, Development Industrial Bank (DIB), 110 Galaa Street, Cairo, Egypt.

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1. INDUSTRIAL DEVELOPMENT FINANCING ACTIVITIES.

1.1. Activities of the Development Industrial Bank (DIB) have to be seen in the light of political developments in the area and in the country. Only with the proclamation of Egypt's "Open-Door- Policy" in the mid-seventies a new approach to industrial development emerged after during the 1960's nationalization had led to the creation of large public sector enterprises. The most significant change therefore was the encouragement of private sector initiatives and activities.

1.2. DIB, established in 1976 as a Public Sector Institution (all shares - at present LE.25 Million- held by the Central Bank of Egypt) is financing investments mainly in the private industrial sector. As specialized financing agency DIB is executing agency for foreign and local currency loan projects and has become a reliable source for the supply of mainly Small and Medium size establishments with limited access to foreign exchange funds.

1.3. From August 1-, 1976 up to October 31, 1981 DIB approved a total of 6027 loans in a value of more than LE.351 Million, out of which 43% were foreign currency loans. 92% of the loans were given to the private industrial sector, the average loan amount of LE.58,200.- indicates the structure of the Private Sector Industry in Egypt dominated by Small and Medium Size Enterprises.

1.4. As a result of observations and experience in the past DIB established on own initiative in 1979 a "Small Scale Industries Department" which is providingnot only Financial Assistance to small and medium size companies but makes also available

Technical and Managerial Assistance as supporting services. DIB in a protocol signed with the UNIDO/ ILO - sponsored "Engineering and Industrial Design Development Centre" (EIDDC) of the Ministry of Industry obtained cooperation and assistance on behalf of the Bank's clients. Three specialized units (a technical extension unit consisting of 6 mobile teams for free diagnostic surveys, a Management Services Unit providing a range of management consulting services and a Training Unit for owners managers and employees of SMI clients) were established and assists DIB's own Engineering Section in a systematically organized Assistance Programme against an annual cash contribution by DIB to the operating budget of these units.

1.5. As the first Egyptian Bank DIB introduced a "Hire Purchase System" for small enterprises (lacking otherwise adequate loan securities) under which DIB retains ownership of equipment until fully "Paid" for. Approx. 20% of all loans approved making up for approx. 3.5% of the total loan amount were made under this system, with an average loan amount of only L.E.9,400 proving the necessity of Financial Assistance also to smallest productive units which could not find support from other banks.

1.6. It can be stated that DIB gained recognition as a specialized Development Bank promoting private sector industrial development throughout the country and the rapid growth of its loan portfolio proves the adequacy of its leading policies and programmes in view of the country's needs. Repeater loans from Worldbank, African Development Bank, US-AID, European Investment Bank, Governments are a sign for international recognition of DIB's efforts and capacities.

2. EXPERIENCE WITH AND METHODOLOGY OF EVALUATION OF TECHNICAL ASPECTS OF INDUSTRIAL PROJECTS.

2.1. As any other Development Bank, DIB depends on careful preparation and appraisal of projects proposed for financing both from the economic/financial and the technical point of view. However, taking into consideration nature and structure of its clients in most cases DIB has already to assist in the preparation of projects and therefore combines the usual feasibility studies and the consequent appraisal reports in a "Project Report" prepared by a loan officer in cooperation with the client. Technical aspects of a project such as capacities, requirements, proposed technology, suitability and the choice of equipment are contributed by the Engineering Section of the Bank assisting the loan officers.The method of combined preparation and appraisal cuts short red tape and delays in processing loan applications and possibly can protect client and Bank from wrong decisions. However in many cases the client has selected the type of equipment and the potential supplier prior to the first contact with DIB. In such cases DIB has limited influence and can raise objections only if the Bank feels that the chosen equipment is not suitable.

2.2. After loan approval the implementation of projects is supervised by the Bank. This supervision by regular field visits is done in cooperation with the Engineering Section, thus keeping the technical staff in touch with Developments and Technical changes and providing valuable information on

innovations and problems involved. The cooperation with EIDDC and if required with technical consultants on a Free-Lance basis enables DIB to cover various sectors with adequate expertise. The backfeeding of observations as a side effect of loan supervision allows for adjustment of procedures and improves the capabilities in project preparation and appraisal.

2.3. Technical aspects can often contradict socio-economic aspects, for example the creation of new job opportunities in developing countries is an aspect which is favoured. However, the replacement of obsolete equipment and technologies by appropriate advanced technology may require skilled labour but simultaneously set free a number of unskilled labourers employed in the past for manual work. Here is a genuine conflict situation in which a Bank has to find a balanced judgement.

2.4. Many developing countries are short of foreign exchange and simultaneously dependent on imported raw materials for their industrial production. A Bank therefore has to give consideration to the availability of foreign exchange for such imports prior to the approval of a project and has sometimes even to refuse loans for such considerations or to assist on alternative solutions cutting imports and/or improving exports.

3. INFORMATION REQUIRED FOR TECHNOLOGICAL APPRAISAL AND EVALUATION

3.1. From the banking point of viewa wide range of various information should be available for the preparation of decisions. One of the most important information necessary is the intimate knowledge of possible technologies and their alternatives. In a world of permanently changing developments bringing about innovations and new discoveries it is often difficult to be up-to-date. Without a systematic

collection of data and information and the establishment of an information centre with quick reference facilities an institution faces great difficulties. On the other hand such an information centre needs well trained staff and costs money to be earned. This "indirect" benefits for clients are as a rule not honoured and may often exceed the financial capacity.

3.2. Information on a case-to-case basis needed for loan decisions are normally to be collected in cooperation with the client and local institutions. They are concerning type and volume of production, production programmes, organization of flow of work (layouts) installed and used capacities, raw material supplies, labour requirements (including training facilities) infrastructure requirements and utilities, marketing system, quality controls and after sales services in order to decide on suitability of the chosen equipment.

3.3. A major constraint in particular with regard to Small Scale Enterprises is very often the lack of accounting systems allowing for proper cost accounting as basis for price calculations and the determination of break-even points. Similarly small entrepreneurs are often good craftsmen but poor managers which may determine the success of a project.

3.4. A very important also technical aspect is the necessary transfer of technology from the suppliers of imported equipment to the developing countries. The Bank has to insist as far as possible on the sale of know-how together with the hardware supplied and installed and has to be prepared to finance higher procurement costs caused by the supply of instructors for a certain period.

Such higher costs are often pre-condition for the success of a project and can result in improved quality and higher productivity.

3.5. With imported equipment another aspect is to be considered: The availability of spare parts and after sales services through local agents. Such agents should be not merely commercial sales representatives but preferably small factories producing spare parts locally if necessary under licenses and operating a reliable service in maintenance and repair. Suppliers from industrialized countries could promote private sector industrial development in developing countries by taking such an approach. Mainly car manufacturers have so far applied such methods often in joint ventures and benefitted from the availability of service stations as pre-condition for future sales. Contracts with local workshops for the production of such spare parts could substitute imported parts which are usually higher in price including customs duties.

3.6. Gaps for obtaining information exist almost everywhere and in all aspects it needs efforts from any institution seriously promoting industrial development. Organization, motivation, approach and skills have to be mobilized in order to bridge gaps. However, international cooperation should coordinate and harmonize efforts and relieve local institutions from undue burdens.

4. PROPOSALS FOR UNIDO AND THE TECHNOLOGICAL EXCHANGE NETWORK.

4.1. In consequence of the views expressed above DIB would like to see UNIDO accepting the role of coordinator of international cooperation in the field of industrial development in a most efficient way.

In general UNIDO should initiate and maintain contacts with governments and TIEN service institutions. Among its main topics UNIDO should aim at the preparation of internationally recognized agreements ratified by member states on all aspects of industrial development. This could lead to a more harmonious cooperation and a codification of standards. After special surveys and studies questions like :

- Generally accepted standards for engineering offices as technical inspectors on behalf of clients in developing countries prior to shipment of goods ordered
- Technology transfer, patents and licenses
- Joint Ventures
- Industrial Development Policies
- Tax and Custom duties regulations
- Relations with commercial sections of embassies
- Policies regarding industrial zones and related legislation
- Free trade zones

could be answered and results made available. Recommendations to the governments on a standardization of procedures, valid definitions and finally internationally accepted guidelines for relations are the targets of such activities. Preferably regional classifications should be used.

4.2. Within UNIDO, TIEN could provide, in a systematic (loose-leaf) edition, institutions with the information on issues resolved by UNIDO and its member countries. Regularly up-dated address lists, dates of exhibition and fairs, tax and tariffs regulations etc. could form

the basis for reference materials for institutions which simultaneously would be correspondents to TIEN in providing standardized information and reports. Regional and sectoral information, so far available in a great number of specialized periodicals and bulletins could thus be compiled and give the daily user of such information valuable assistance. Industrial profiles also under regional and sectoral aspects could help to give comparative material and alternatives. Of utmost importance, however, would be information on the latest technological developments. In an easy to understand presentation non-specialized decision makers should be able to compare advantages, disadvantages, costs and efficiency of production techniques.

4.3. It is obvious that the ideas expressed here constitute tremendous task. However, without serious efforts and a clearly defined target an efficient and worldwide information system cannot be established. The North-South dialogue has to lead to an approach aiming at equal footing of all countries and a neutral institution, unbiased by interests and political considerations should become a link between industrialized and developing countries. Only a comprehensive information system based on the principle of give and take can prepare development and give hope for future cooperation.

5. THE ROLE OF FINANCING INSTITUTIONS IN PROMOTION OF INDUSTRIAL DEVELOPMENT

5.1. Irrespectice of political systems and national interest any institution is the link between development ideas and targets and the practical implementation of projects. Any institution therefore is a more or less active promotor of development. Financial institutions providing financial sources for projects always have to be double faced. On the one side is the interest of

the environment and the society in which a Bank has to work, on the other side there are economic aspects which have to be considered. Industrial development financing institutions further have to find a balance between economic, social and technological priorities and may face conflicts. No prestige projects with superlatives are to be encourages or financed, but a just and humanly distribution of funds activating efforts for continuous development is advised. Therefore permanently up-dated lending programmes according to changing needs have to be developed and implemented.

5.2. Despite of the need for a conservative approach to development financing industrial banks should not hesitate to make use of modern instruments. In particular in developing countries confronted with a shortage of accumulated funds and the lack of private initiative the instrument of "leasing" could become a stimulant for development. Combined with industrial zones reducing the use of valuable arable land the long-term leasing of buildings and equipment it could provide its impact.

5.3. Joint ventures face very often the problem of finding competent and potential partners in developing countries. Irrespective whether a joint venture with foreign partners resulting in the transfer of technology or a joint venture between local public and private sector partners for the exploitation of domestic sources development banks should be enabled to act as intermediate partners. Funds could be allocated with which a Bank could participate in equity until individuals can afford to buy shares. As a Quasi Trustee for future partners the Bank has then to act in the interest of those future partners but also would have to bear all possible risks.

5.4. Both leasing and equity participations are certainly not instruments commonly used in development banking. However, if the results are serving the development objectives they should not be denounced as "Commercial" Banking, and these results are counting in the context of financial, economic, technical and social progress.