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THE ROLE OF THE INDUSTRIAL BANK
IN THE INDUSTRIAL DEVELOPMENT OF IRAQ

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INDUSTRIAL BANK OF IRAQ

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PREFACE

The Industrial Bank has been and continues to remain an important State institution for financing the industrial development of Iraq. This study analyzes the organizational set-up and evolution of the functions and performance of the Bank over the period 1947-57.

The writer wishes to express his gratitude, for the kind help extended to him, to the Industrial Bank, the Third Technical Section of the Ministry of Development, the Directorate General of Industry, the Principal Bureau of Statistics, the Central Bank, the commercial banks, and the industrial joint-stock companies operating in Iraq.

The writer is also indebted to Professor Said B. Himadeh for his close and continuous guidance and advice in shaping the paper in its present form.

ABSTRACT

This is a study of the contribution of the Industrial Bank to the industrial development of Iraq over the period 1947-57. It starts by a review of the industrial development of the country. The organizational set-up and financial resources of the Bank are then discussed, since they constitute the framework within which the Bank functions. The paid-up capital of the Bank amounted in 1947-57 to ID 3.5 million, while its total assets amounted to ID 5.3 million.

One of the main functions of the Bank is to promote, or help in the promotion of, industrial enterprises. The Bank promoted 29 projects of which 14 were executed. They were concentrated in construction, spinning and weaving, and processing industries. One of the executed projects was shut-down while the others are going-concerns.

The second main function is equity participation in industrial companies. The Bank participates in 14 companies of which 13 are going-concerns. The total participation of the Bank amounted in 1947-57 to ID 1.9 million, which was 30 percent of the paid-up capital of the companies concerned, and 36 percent of the Bank's assets. Except in the case of one company, the Bank does not have a controlling interest. The Bank does not dispose of its shares in well-established companies.

The third main function is credit extension. In 1947-57 the total loans granted amounted to ID 0.75 million, while the accumulated balances of loans were ID 2.5 million. These loans were distributed among the following industries: building, grains-milling, printing, beer, baking, blacksmithing, spinning and weaving, ice-making, carpentry, vegetable oil extraction, and miscellaneous industries. The term of most of these loans was more than four years. Their amounts were mostly over ID 2,000. They were also concentrated in Baghdad. The Bank relies on tangible collateral in both credit extension and supervision.

The secondary functions of the Bank include the importation of industrial machinery and raw materials, and their storage as collateral behind loans. The Bank is also authorized to accept deposits, export Iraqi manufactures, and deal in securities. At present it does not perform such functions.

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CHAPTER I

GENERAL BACKGROUND

A. Availability of the Requirements for Industrialization and the Role of State Assistance:

1. Raw Materials:

Iraq is relatively rich in agricultural, animal and mineral raw materials.

Average production of agricultural raw materials in tons over the period 1953-57 was 650,000 wheat; 1,100,000 barley; 250,000 dates; 140,000 rice; 23,000 cotton; 6,000 tobacco; 7,000 lentils; about 10,000-15,000 of each of sesame, millet, giant millet, green grams and maize, and about 1,000-3,000 of each of linseed, vetch and cow peas.¹ In addition, there are fruits (other than dates), vegetables, reeds (for paper-milling) and such new industrial crops as sugar beets and sugar cane.

Animal products include meat, milk and dairy products, wool, skins and hides, bones and casings. Statistics are not available to show the volume of production

1. Government of Iraq, Ministry of Economics, Principal Bureau of Statistics, Annual Statistical Abstracts, 1953-57. Baghdad, Al-Zahra Press, 1954-58, passim. Averages were calculated by the writer. Annual statistical Abstracts will, henceforth, be referred to as Statistical Abstract, with an indication of the year. The figures for dates are estimates secured from C. Iversen, A Report on Monetary Policy in Iraq. Copenhagen, Ejnar Munksgaard, 1955, p. 74.

of each, but the quantity is known to be large, as the number of livestock is in the neighborhood of 17 million.¹

The government has been devoting much efforts for increasing the quantity and improving the quality of agricultural and animal raw materials. These include the expansion of the area under cultivation by land reclamation, combatting plant and animal pests and diseases, introduction of new industrial crops, and research and analysis carried on by the Directorate General of Industry.

The most important mineral resource presently utilized is oil. Natural gas will be exploited in the near future. Other minerals that are being utilized include gypsum and lime. Minerals whose commercial value is not yet known include sulphur, phosphatic rock containing some uranium, glass sand, salt, gravel, Tripoli rock, marble, copper, zinc, lead, iron sulphide, iron oxide, manganese, chromite, cobalt and coal.² A comprehensive mineral survey is being undertaken and is expected to be completed in the

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1. A. Al-Jalili, The Economy of Iraq. Cairo, Al-Risaleh Press, 1955, p. 36 (In Arabic).
 2. Iraq Government, Board and Ministry of Development, Industrial Program. Unpublished, 1958, p. 9. Henceforth, the Board and Ministry of Development will be referred to as BMD.

near future.

2. Labor:

The Population Census of 1957 shows a population of 6.54 million. Natural increase is at the rate of 2.3¹ per cent per annum.

It is estimated that in 1956 the number of persons engaged in economic activities were about 2.6 million, of which about 62 per cent were engaged in agriculture, 5 per cent in industry, 2 per cent in transport, 2 per cent in distributive trades, 4 per cent in personal services, 16² per cent students and 9 per cent other groups.

There is at present a great shortage of skilled labor, but this is being remedied in various ways. The government runs both industrial and commercial schools and sends students abroad for technical training. Technical schools are also conducted by the Oil Companies, the State Railways, and the Port Directorate. Moreover, most of the large industrial establishments give training³ to their employees in the factories.

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1. F. Qubain, The Reconstruction of Iraq, 1950-1957, (New York, Frederick A. Praeger, 1958), p. 51.
 2. K. Fenelon, Iraq: National Income and Expenditure: 1950-1956. Baghdad, Al-Rabitah Press, 1958, t.2, pp. 9-10. People engaged in economic activities are total population minus women engaged in unpaid work, soldiers, children below school age and retired persons not on pension.
 3. A. De Little, A Plan for Industrial Development in Iraq. Unpublished, 1956, p. 359.

3. Fuel and Power.

Iraq has abundant and cheap fuel. This includes fuel oil, gas oil and natural gas. Hydroelectric power is not yet developed.

At present electricity is generated by local power stations using dynamos drawn by steam turbines. Excluding the city of Baghdad, the supply of electricity is not steady and power rates are relatively high.¹ Industry often generates its own power and this adds to its cost of production.

The current electrification program of the Development Board includes the construction of three central power stations, using natural gas, at Dibbis (near Kirkuk), Baghdad and Basrah, with an initial total capacity of 185,000 kws. and an ultimate capacity of 500,000 kws.² Power rates for industry are expected to be as low as 2 fils per kw.³

4. Transportation:

Transport facilities in Iraq include railways, roads, the Port of Basrah, pipelines, river navigation and air transportation.

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1. A. Al-Dalli, "Problems of Industrial Enterprise in Iraq", Middle East Economic Papers, No. 1, 47 (1954).
 2. BMD, Third Development Week. Beirut, Catholic Press, 1958, p. 30. (In Arabic).
 3. A. De Little, op.cit., p. 356.

The total length of railways is 1,648 kms. (1,119 meter gauge and 529 standard gauge).¹ Standard gauge railways connect Baghdad with Mosul, along the Tigris, and reaches the Syrian border at Tel-Kotchok. There are two meter gauge lines, one extending from Baghdad to Basrah along the Euphrates and the other connects Baghdad with Arbil via Kirkuk. The construction of a standard gauge railway from Baghdad to Basrah via Kut and across the southern valley via Muntafiq is on the current development program. The Development Board also contemplates the conversion of meter into standard gauge in order to avoid the cost of transshipment.

The total length of roads in 1951 was about 8,000 kms. (5,000 earth roads, 2,500 metalled and 500 metalled and surfaced).² The length of roads has, however, been increased over the last eight years, so that the main trade and industrial centers are now connected with wide roads. Highways extend from Baghdad to Mosul, and from Baghdad to Basrah along the Tigris and the Euphrates. Feeder roads are relatively few but they are being extended.

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1. International Bank for Reconstruction and Development, The Economic Development of Iraq. Baltimore, the Johns Hopkins Press, 1952, p. 314. Henceforth, it will be referred to as IBRD.
 2. Ibid, 314.

The Port of Basrah is efficiently managed but its capacity cannot meet the increasing foreign trade. Another port at Um Qasr is on the current development program.

Pipelines are mostly owned and operated by the oil companies and they carry crude oil to the Mediterranean Sea and the Gulf of Basrah.

River navigation is underdeveloped, but attempts are being made to improve it so as to relieve the strain on other transport facilities.

5. Internal and Foreign Trade:

According to the Census of Distribution of 1956 there were about 36,000 retail shops and about 1,600 wholesale establishments in Iraq, of which more than one fourth was concentrated in Baghdad.¹ This is believed to be an excessive number.²

One of the characteristics of internal trade in Iraq is the small market dependency of agricultural products. This is due to self-sufficiency of most of the rural population and lack of specialization, the small number of hired farmers and inadequate marketing, including poor grading, transportation and storage. Recently grain storage facilities were established in Baghdad and Mosul, and others are being established in Hillah and Basrah.

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1. Iraq Government, Ministry of Economics, Principal Bureau of Statistics, A Report on the Census of Distribution: Retail and Wholesale Trade in Iraq, 1956, Baghdad, Government Press, t. 1, p. 6 and t. 12, p. 19. The Principal Bureau of Statistics will be referred to as Bureau.
 2. C. Iversen, op. cit., p. 143.

The market dependency of industrial products is also small mainly because some of the chief industries are engaged in procuring raw materials which they do not own. The channels of distribution are also inefficiently organized. Standardization is lacking and storage and transport facilities are inadequate.

A third characteristic is the narrowness of the local market. This is due to the small size of the population, the low purchasing power of the masses, the maldistribution of incomes and wealth, the fact that a large part of the economy is subsistent and the inadequacy of communications. The composition of family budgets of the masses shows that most of the expenditures are concentrated on few very essential types of food.¹ In contrast, there is the conspicuous consumption of the landlords and rich urban people which consists mostly of imported luxuries. There is at present a distinct preference for imported articles due mainly to the poor quality of local products.

An expansion in the size of the Iraq market in the near future is necessary for industrial development, though the two are interconnected. The expected rise in the standard of living and hygiene may accelerate population growth. Furthermore, the rise in the productivity of

1. Bureau, A Report on the House hold Budget Enquiry in Baghdad. Unpublished, 1954, passim.

agriculture, industry and other occupations will increase the purchasing power of the masses. The present land reform and settlement projects will increase the incomes of the farmers and reduce that of the landlords, thus providing a market for local industry in rural areas and reducing the propensity to import manufactured consumption goods.

Internal trade is also characterized by a relatively large number of peddlers, foodstuff traders and commission agents. The last indicates aversion to bear greater risks.

Foreign trade is characterized by a large and growing importance of crude oil exports and a rapidly growing import trade. In 1955 oil exports amounted to 91 per cent of total exports. The chief exports other than oil are: barley, dates and animal products. Imports are mainly consumption goods (especially textiles, sugar and tea), construction materials and machinery. The foreign trade relations of Iraq are mainly with the United Kingdom, the Netherlands, West Germany, U.S.A. and Japan. The terms of trade¹ of Iraq have deteriorated in the post-war period.

6. Industrial Finance:

There are three main sources of capital for the Iraqi industry: private, public and foreign.

1. C. Iversen, op. cit. pp. 72-84.

The size of private capital is generally small. This is due mainly to the low level of savings and the misdirection of these savings.¹ The low level of savings is a result of the low level of national income and the high propensity to consume among the rich people. The last is due to the maldistribution of income associated with a conspicuous consumption pattern of landlords and rich urban people. Savings are misdirected because of the tendency of savers to hoard a large proportion of their savings or to invest in easy commercial activities, land and buildings, where the certainty of returns is believed to be higher than in industry. Land reform, which puts a maximum limit on land ownership, will tend to divert more capital to industry. The improvement and expansion of savings institutions will also help to pool free capital and take savings out of hoards.

Sources of public capital are mainly the Development Board and the Industrial Bank.²

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1. M. Oboosy, "A Study in the Theory of Economic Development with Special Reference to Iraq", Middle East Economic Papers, No. 1, 138-144, (1954).
 2. The Treasury is not an important source because most of the capital projects have been transferred to the Development Board. The Central Bank has provided some funds to industry through loans to the Industrial Bank and to some government industries.

The Development Board has a budget of its own whose revenues are composed of a 70-per cent share in oil royalties and other minor revenues. The first amended development program extended over the period 1951-56. It provided for a planned expenditure of about ID 169 million, of which 20 per cent were devoted to industry and mining.¹ The second amended development program was for the period 1955-60 with budgeted expenditures of ID 500 million, of which 14² per cent were for industry, mining and electrification.

The Industrial Bank engages in the promotion of new industrial enterprises, participates in the equity of industrial companies, extends credit to industry and finances the importation of industrial materials and equipment. It is also authorized to accept deposits and deal in securities.

Foreign capital plays an important role in the oil industry, but is not significant in other fields of industry.

The most prevalent form of organization of industrial enterprises is sole-proprietorship. According to

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1. BMD, Compilation of the Laws of the Board and Ministry of Development. Baghdad, Al-Maarif Press, 1955, p. 4 (In Arabic). The rest of the program was distributed as follows: 2 per cent for organization, studies and administration; 34 per cent for irrigation, flood-control and drainage; 18 per cent for roads and bridges; 11 per cent for buildings; and 15 percent for land reclamation, and other projects. These percentages were calculated by the writer.
 2. BMD, Development Board Publication. Baghdad, Al-Ani Press, 1956, pp. 26-27. The rest of

the Industrial Census of 1954 there were about 22,500 industrial establishments, of which 91 per cent were sole-proprietorships, 8 per cent partnerships, 0.6 per cent government and semi-government establishments and 0.4 per cent companies.¹

Industrial joint-stock companies issue mostly common stock; there are few companies that issue founders shares and preferred shares, in addition. Except in the case of few companies, shares are not widely distributed.

At present there is no capital market in Iraq in the formal sense. There is only a small market in stocks, mainly through the commercial banks. The Rafidain Bank (a state-owned commercial bank) has been particularly active in this field. Some new enterprises, like cement companies, have found no difficulty in securing adequate subscriptions.

the program was distributed as follows: 2 per cent for organization, studies and administration; 31 per cent for flood-control, irrigation and drainage; 20 per cent for public buildings; 25 per cent for roads, railways and bridges; 5 per cent for housing; 3 per cent for the development of plant and animal resources; and 2 per cent for miscellaneous projects. Percentages were calculated by the writer.

1. Bureau, Report on the Industrial Census of Iraq, 1954. Baghdad, Al-Noor Press, 1956, t. 9, p. 22.

7. Entrepreneurship and Industrial Management:

In Iraq, entrepreneurship is scarce. The number of people who have the initiative and organizing ability and are willing to take risks is small. Thus the state has found it necessary to establish and run some of the economically necessary enterprises and to encourage the establishment of others through the Industrial Bank.

Encouragement of industry is provided for in the Law No. 72 of 1955 and its amendment No. 51 of 1956.¹ According to these laws, new industrial enterprises that fulfil certain requirements are awarded the following² benefits: (a) exemption from income taxes and surtaxes for five years; (b) exemption from import duties on machinery, materials, equipment and spare parts; (c) exemption from the property tax for ten years; and, (d) exemption from the stamp fee. It is likely that these measures

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1. Iraq Government, Ministry of Interior, Directorate General of Public Propaganda and Broadcasting, "Law No. 72 of 1955 for the Encouragement of Industrial Undertakings", Official Gazette of the Government of Iraq, V. 33, No. 3636. Henceforth, this gazette will be referred to as Official Gazette.
 2. The following industrial undertakings can enjoy these benefits: (a) those whose products meet part or all of local demand; and (b) those that strengthen the national defence. Further, they should satisfy the following requirements: (a) the principal work of the factory should be run by motive power; (b) the value of the machinery, apparatus and implements, except that of power plants, should not be less than ID 5,000; (c) 55 per cent of the capital should be Iraqi; and (d) foreign laborers and employees should not exceed 10 per cent of the total number employed.

will gradually increase the number of entrepreneurs. As the present minority of entrepreneurs succeed, others will imitate.

The present scarcity of industrial managers is another obstacle to industrialization. Industrialists are now mostly proprietor-managers. Salaried managers are few. Foreign production managers are often employed, sometimes with a share in profits.¹ Planning of future operations is rare and when done is primitive. There is little delegation of authority which tends to limit the size of plants. Again there is a great scope for improvements in the layout of machinery, flow of materials, light and noise abatement and temperature control.² Furthermore, cost accounting is not given adequate stress.

In order to meet the problem of scarcity of managerial ability, the government has been expanding the College of Commerce, adding new fields of study in business administration, and sending students for business education abroad.

B. Industrial Development:

It is estimated that industry, excluding the defence

1. A. Al-Dalli, op. cit., p. 51.
2. IBRD, op. cit., pp. 301-2.

and oil industries, contributed in 1954 about 9 per cent of national income.¹ Foreign-owned oil industry contributed about 24 per cent of national income.² Industry in Iraq may be classified into three main categories: foreign-owned, state-owned and private Iraqi-owned industries.

1. Foreign-owned Industries:

The oil industry is the main foreign industry in the country. Its capital investment amounted in 1955 to about ID 109 million.³ The total number of workers employed in that year was about 14,500 of which 860 were foreigners.⁴

2. State-owned Industries:

State industries are of three main categories: (a) defence industries for which no statistics are available; (b) public utilities and workshops of State Railways which together employed 4,650 and paid ID 0.8 million in wages in 1954;⁵ and, (c) manufacturing industries. The last are mostly financed and controlled by the Development Board. The Ministry of Economics controls the Government Oil Administration (which includes the State oil refining industry except the asphalt factories) and the Tobacco Monopoly.

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1. K. Fenelon, op. cit. 6. 4, p. 17; and, Bureau, Report on the Industrial Census of Iraq. op.cit. t. 1, p. 9. In 1952 agriculture and animal husbandry contributed about 54 per cent of national income. A. Al-Jalili, op.cit. p. 61.
 2. K. Fenelon, op.cit. t.4, p. 17; and, Bureau, Report on the Industrial Census of Iraq, 1954. op. cit. p. 209 and p. 213.
 3. Al-Jalili; op. cit. p. 68.
 4. F. Qubain, op. cit. t. 23, p. 143.
 5. Bureau, Report on the Industrial Census of Iraq, 1954, op. cit. t. 7, p. 211.

State manufacturing industry comprises the following fields: The first field is the oil refining industry. It includes the refineries of Dawrah, Alwand and Muftiyah; the asphalt factories of Qayarah and Dawrah; the lubricants factory of Dawrah; and the oil marketing facilities bought from the previous Khanaqin Oil Company. Total capital investment in 1957 amounted to about ID 24.5 million.¹ The total number of workers employed were 2,000 in 1955-56, i.e. before the completion of the Dawrah lubricants factory and the asphalt factories. When the refining industry is operating at full capacity it can employ 5,000 workers. By the end of 1957 Iraq became self-sufficient in all oil products except aviation oil.

The second field is the textiles industry which consists of one established and three planned factories. The factory already in operation is the Mosul Cotton Textile Factory which was completed in 1956 at a total cost of ID 4.9 million, including workers' housing. It has a production capacity of 20 million sq. m. of cloth a year in addition to cotton yarn of 200 tons for sale to other factories.² It initially employed 400 workers (one shift) but will gradually employ up to 1,200 workers (three shifts).

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1. Iraq Government, Ministry of Economics, Directorate General of Industry, Annual Report, No. 4, 5, (1956). (In Arabic). Also, F. Qubain, *op. cit.* pp. 169-171.
 2. BMD, Second Development Week. Beirut, Catholic Press, 1957, p. 29.

The three planned factories are the Hindiyah Rayon Factory, the Kuffa Fine Textile Mill and the Najaf Wool Textile Factory. The Hindiyah Rayon Factory will have a capacity of 25,000 tons of artificial fibers and 2,500 tons of rayon yarn per year. It will supply yarn to local rayon weaving industry. The total cost will be about ID 3.5 million.¹

The Kuffa Fine Textile Mill will produce about 9.5 million of sq. ms. of rayong cloth and 12.5 million sq. ms. of spun rayon cloth. Total cost will be about ID 3.2 million.² It will use some of the rayon fibers produced in Hindiyah.

The Najaf Wool Textile Factory will have 1,000 spindles for wool spinning for sale to handloomers in that town. The plant will include a workshop for hand-looms and will, in addition, produce carpets.³

The third field is the cement industry which consists of two factories, one established and the other being constructed. The first factory is the Sarchinar Cement Factory at Suleimaniyah, which was completed in 1956 at a total cost of ID 2.5 million. Its total capacity is 100,000 tons per annum. It is employing 285 workers.⁴ The factory under construction is the Hamman Al-Alil Cement Factory

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1. BMD, Third Annex: Industry and Electrification. Unpublished, p. 3. (In Arabic).
 2. Ibid, 3.
 3. Ibid, 5.
 4. M. Hasan, "The Crisis of the Cement Industry", New Education, V. 1, No. 6, 138 (1958). (In Arabic).

near Mosul, which will have the same capacity and capital investment as the Sarchinar Factory.

The fourth field is the sugar industry which comprises three factories, one is completed and two are planned. The first factory is the Mosul Sugar Factory which was completed in 1957 at a total cost of ID 3 million. It will produce 10,000 tons of sugar a year from locally grown beets and 25,000 tons from imported raw sugar.¹

One of the planned factories is the Liquid Sugar and Dibbis Factory in Kerbelah. It will have an annual capacity of 8,000 tons of liquid sugar and 9,000 tons of dibbis, or 16,000 tons of either one. It will consume Zahdi dates of 24,000 tons. Total cost will be ID 1.46 million.²

The other planned factory is the Suleimaniyah Beet Sugar Factory which will use beets locally grown in that liwa. Its annual capacity is scheduled at 20,000 tons, and its total cost is estimated at ID 3 million.³

The fifth field is the utilization of natural gas. This field consists of the following planned undertakings. The first is the Kirkuk Sulphur Recovery Project which will extract about 350 tons of sulphur from natural gas per day.

1. BMD, Second Development Week, op. cit., p. 29.

2. BMD, Industrial Programme, op. cit., p. 7.

3. BMD, Third Annex: Industry and Electrification, op. cit., p. 2.

It will also annually produce 300,000 Imp. Gall. of propane, butane and hydrocarbon. In addition, it will produce 600,000 c.b. of sweet gas daily. The plant was preferred to one for sulphur mining (from ore deposits) because natural gas of about 80 million c.b. is being wasted per day while ore is preserved. The cost of the plant is estimated at ID 7 million.¹

The second undertaking is the natural Gas Pipeline from Kirkuk to Baghdad which will carry sweet gas from the Sulphur Recovery Project for domestic and industrial uses. It is related to the jet-fuel project that will be established at Dawrah. The total cost will be about ID 5 million. The pipeline will initially deliver 28 million c.b. per day and ultimately 56 million c.b. per day.²

A third project is the Basrah Natural Gas Pipeline which will carry daily 63 million c.b. of natural gas from the Rumailah and Zubair oilfields to the Basrah Electric Power station and the Basrah Fertilizer Plant.³

A fourth project is the Basrah Fertilizer Plant which will produce 250,000 tons of ammonium sulphate per year. The location of the plant was chosen to serve the export market. Its total cost will be about ID 8.5 million.⁴

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1. BMD, Industrial Programme, op. cit., p.
 2. Ibid., 9-10.
 3. BMD, Third Annex: Industry and Electrification, op. cit., p. 3.
 4. BMD, Third Development Week, op. cit., p. 31.

The sixth field is the paper industry which includes a planned project located in Basrah. It will use marsh reeds (especially qasseb), rice straws, waste paper and imported chemical pulp. Its total cost is estimated at ID 10 million and its annual capacity at 25,000 tons. It will employ 450¹ persons.

The seventh field is the steel industry which will use local scrap to produce about 15,000 tons of iron products (mainly bars) annually. Some of its products will be used for the manufacture of air-coolers, kerosene heaters and stoves, refrigerators and kitchen utensils. It is contemplated to supplement this factory by another one dependent on iron mining in the north.²

The Development Board has plans for establishing factories for caustic soda and chlorine, plastic materials, glass, pharmaceuticals, building materials, date products, slaughter house and meat preparation, vegetable oil and soap, flour-milling, bakeries, fish preparation, beverages, ready-made clothing and others.

Finally, the Tobacco Monopoly is about to complete a cigarette factory at Suleimaniyah. It will have an annual capacity of 7.2 million cigarettes. Total costs amounted to ID 0.72 million.³

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1. BMD, Progress Summaries Report, Unpublished, pp. 15-16.
 2. Ibid., 2.
 3. Iraqi Federation of Industries, Second Annual Yearbook. Baghdad, Al-Rabitah Press, 1958, p. 209.

3. Private Iraqi-owned Industry:

Private industries are of two main types: modern industries and crafts.

Modern industries may be subdivided into principal industries and other industries.

The principal industries include cotton spinning and weaving, cement, wool spinning and weaving, vegetable oil, rayon weaving, soap and detergents, tanning, breweries, alcohol, and jute spinning and weaving. Total capital investment in these industries amounted in 1955-56 to ID 14 million. They employed about 7,300 workers and paid ID 1.5 million in wages. The value of their total production was ID 6.7 million.¹

Other industries include cigarette, aluminum-ware, asbestos, cotton ginning, metal windows and furniture, weaving of ready-to-wear, soft drinks and chemicals.

Crafts are of a wide variety including jewelry, watch-making, shoe-repair, motor-repair, making-up textiles and tailoring, electrical appliances, metal works, pottery and tile, paper and cardboard products, furniture and carpentry, bakeries and dairies.²

To conclude the section on industry it should be

1. Directorate General of Industry, op. cit., p. 1.
2. Bureau, Report on the Industrial Census of Iraq, op. cit., t. 15, p. 33.

mentioned that in 1956 there were about 126,000 workers engaged in industry. About 77 per cent were engaged in manufacturing industries and public utilities, 12 per cent were home-workers (loom-weaving, basket and mat-making and the like), and 11 per cent in oil fields and pipelines including state refineries.¹ Of those engaged in manufacturing and public utilities, about 30 per cent worked in establishments having one to three workers, and about 40 per cent were engaged in establishments employing 20 workers and more.

1. K. Fenslon, op. cit., t. 2, p. 9. Percentages were calculated by the writer.

CHAPTER II

ORGANIZATION AND ADMINISTRATION OF THE INDUSTRIAL BANK

A. Evolution:

State financial assistance to industry started in 1931. Major construction works' Laws No. 79 of 1931, No. 39 of 1934, and Ordinance No. 28 of 1935 provided for loans and grants to be extended to local industry according to conditions stipulated by the Minister of Finance and after approval of the Council of Ministers. Accordingly, the government budgeted ID 90,000 to aid industry over the period 1931-39. Actual expenditures over the period 1931-35 amounted to about ID 23,000. These sums were small and were arbitrarily distributed to industries.¹ The Law No. 33 of 1935 provided for devoting the remaining budgeted sums for the establishment of an Agricultural-Industrial Bank under the Ministry of Finance. This Bank was then organized according to the Law No. 51 of 1935, with an authorized capital of ID 500,000². Its functions in the field of industry were to be the establishment of new factories; expanding or improving old ones; formation of manufacturing cooperatives; importing raw materials and exporting manufactured products; and participating in the

1. M. Jamil, Iraq's Commercial Policy. Cairo, Nahdat Misr Press, 1949, pp. 298-99. (In Arabic).
2. Ibid, 296.

equity of industrial companies.¹

The Bank was, however, more concerned about agriculture than industry. Thus loans extended to agriculture over the period 1936-39 averaged ID 68,100 per year, and over the period 1940-45, ID 72,500 per annum. This is compared with loans granted to industry amounting to an annual average of ID 3,100 over the first period and ID 8,400 over the second period.² In the financial year 1945-46 there were 734 loans granted to agriculture amounting to about ID 166,000, while there were only 7 loans granted to industry amounting to ID 16,000.³ The total amount of loans granted to industry over the period 1936-45 was only about ID 64,000.⁴ All these industrial loans were concentrated in Baghdad. The outstanding participation of the Bank in the equity of industrial companies amounted at the end of the year 1945-46 to ID 118,000 out of total Bank's assets of about ID 679,000.⁵

To devote more attention to industry and to secure specialization in the operations of the Bank, it was suggested that the Agricultural-Industrial Bank be divided into two banks. By the Law No. 12 of 1940, the Industrial Bank was to be established with an authorized capital of ID 500,000.

1. Ibid., 299-300.

2. A. Al-Jalili, op. cit., p. 76.

3. Ibid.

4. F. Qubain, op. cit., p. 183.

5. Iraq Government, Ministry of Finance, the Iraqi Agricultural-Industrial Bank, Annual Report, No. 10, 24 (1947).

Article 17 of the law provided for transferring to the Industrial Bank: (1) the ownership of all industrial undertakings established by the previous Bank, together with equity participations by that Bank, all of them to be considered, at cost, as part of the capital of the Industrial Bank; (2) loans, obligations, responsibilities and contracts arising from industrial undertakings established by the previous Bank; and (3) communications, documents and reports pertaining to industrial undertakings aided by the previous Bank or in whose equity it participated, together with projects under study.

The division of the Agricultural-Industrial Bank, was however, not enforced till the year 1945-46 because of war conditions. In that year, the Industrial Bank was established as a bank fully-owned by the government and under the jurisdiction of the Ministry of Finance. In 1957 the Industrial Bank was transferred to the Ministry of Development so as to make its assistance to industry consistent with the whole development program.

B. Administration:

According to Article 8 of the Law of the Industrial Bank No. 87 of 1956, the Bank is administered by a Board of Directors appointed by the Minister of Finance. The Board has till 1956 been composed of the General Manager of the Bank (who has also been its Chairman), one senior official from the Ministry of Economics (who has been either the

Director General of Industry or the Director General of Oil Affairs), a senior official from the Ministry of Finance (who has been the Director General of Revenues, the Director General of Properties and Miri Lands, or the Director General of the Budget), a big industrialist and a big industrialist-merchant. From 1952 to 1956 a government, and later a private, commercial banker has been added to the Board.

In 1956, the Industrial Bank Law No. 87 provided for a reorganization of the Board of Directors. Article 2 of this Law provides that the Board be composed of the General Manager of the Bank, a representative of the Ministry of Development (usually, the Head of the Third Technical Section), a representative of the Ministry of Economics, a representative of the Ministry of Finance, a big industrialist and big industrialist-merchant. Four reserve members are appointed to fill vacancies when they occur. All the members of the Board have, until 1958, been appointed by the Minister of Finance. In 1958, after transferring the Bank to the Ministry of Development, these members are appointed by the Minister of Development.

Articles 5,6,7,9 and 10 of the Bank's Internal Regulations of 1954 specify the main duties of the Board of Directors as follows:

(a) To open and close branches and to appoint local committees to assist in the work of the Bank.

(b) To appoint and dismiss the officials of the Bank and to fix their duties and salaries.

(c) To sanction the annual budget of the Bank at the beginning of the financial year, and its final accounts at the close thereof, and also the monthly balance sheets.

(d) To fix the amount of advances and the rate of interest thereon, and to define the procedures to be followed in transactions connected with loans and other business.

(e) To spread any debts due to the Bank over installments or to postpone them against interest to be collected in advance or at a later date, and to cancel any debt that cannot be collected.

(f) To enter into loan agreements and to issue negotiable instruments.

(g) To prescribe the institutions with which the Bank may transact business and the conditions relating thereto.

(h) To delegate part of its powers to the General Manager, subject to such stipulations as it may decide.

(i) To appoint a person to represent the Bank at the Board of Directors of companies or undertakings in which the Bank participates.

No explicit provisions are made in the list of the duties of the Board regarding promotion of new industries, equity participation, import and export services and transacting in industrial stocks.

The General Manager of the Bank has till 1956 been also the Chairman of the Board of Directors. Article 8,6, of the Law No. 87 of 1956 provides for electing a Chairman

of the Board (and Vice Chairman) who is a different person from the General Manager.

Article 6 of the Bank's Internal Regulations of 1954 provides that the General Manager shall carry out the decisions of the Board and exercise all the powers delegated to him by the Board. He shall represent the Board in all matters affecting government departments, other institutions and persons; sign all letters, bonds and other documents; and, together with another member elected by the Board, sign the agreements of loans obtained by the Bank.

C. Internal Organization:

At present the Bank is divided into ten "sections" each of which has a direct relation with the General Manager.

(1) Administration Section: It was constituted in 1946-47 and is performing such functions as keeping personnel registers regarding efficiency and attendance, keeping the files and records of the Bank, supervising the activities of the typing and filing sections and maintaining the premises of the Bank. The Head of the Section is also the secretary of the Board of Directors.

(2) Accounting Section: It was established in 1946-47 and its present activities comprise all bookkeeping and accounting records and statements concerning the operations of the Bank.

(3) Auditing Section: This section was established in 1954-55 to perform internal auditing of the operations

of the Accounting Section; and to watch over the legal aspects of loan procuring and collection, equity participation and other activities of the Bank. The accounts of the Bank are further audited by Public Auditors and by the Directorate General of Public Accounts.

(4) Research and Translation Section: Opened in 1955-56, this section translates experts' reports, letters and bulletins and collects information regarding the activities of the Bank.

(5) Industrial Schemes Section: It was established in 1947-48 and is now conducting research to explore industrial opportunities that can be commercialized; giving advice to existing industrial enterprises; and following up participations in industrial companies. It benefits from reports submitted now and then by foreign experts engaged to conduct specific studies, and from research conducted by other government departments.

(6) Loans Section: Founded in 1946-47 it is receiving loan applications, verifying data submitted by the prospective borrowers (except the valuation of tangible collateral which is made by the Inspection Section), arranging for signing the loan agreements, and granting loans after the approval of the General Manager and the Board of Directors.

(7) Collection of Debts Section: This section was formed in 1945-46 to watch over due installments of loans granted by the Bank, to send notifications to borrowers and to take legal action in case the borrowers default or do not comply with their contracts with the Bank.

(8) Inspection Section: Constituted in 1952-53 this section performs the following functions: (a) preliminary inspection of factories applying for loans to ascertain the validity of the information submitted by the applicants; (b) supervision of the use of the loans obtained from the Bank and reporting to the General Manager on new facts cropping in the situation; and, (c) checking the state, value and changes in ownership of the collateral pledged.

(9) Trade Section: It was established in 1948-49 to import or assist in the importation of industrial raw materials, machinery and tools; and to market the products of Iraqi manufacturers both at home and abroad.

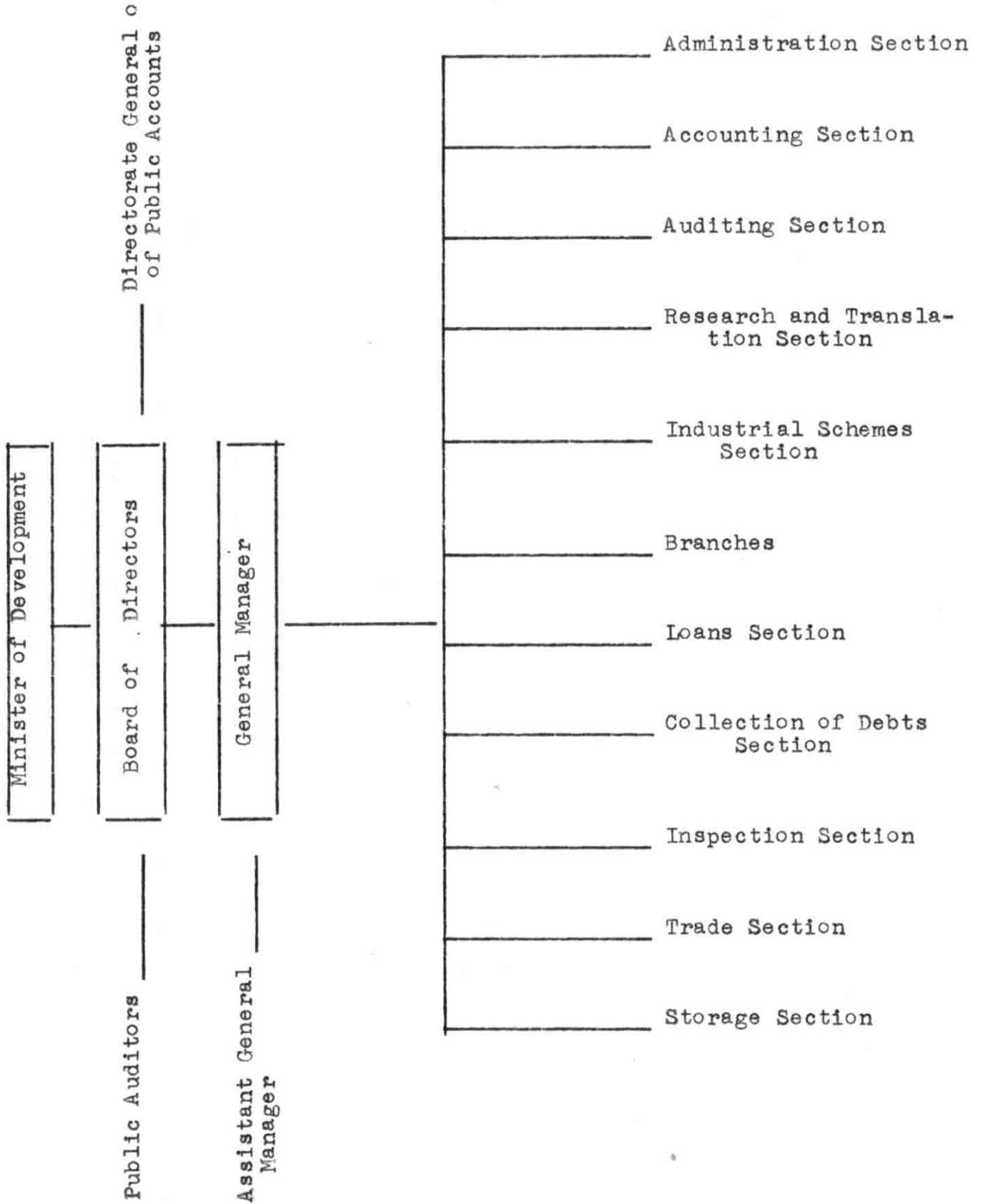
(10) Storage Section: Established in 1954-55 it receives and stores imported materials and machinery for the account of local industrialists, when the latter cannot pay for these imports on arrival.

Chart I shows the existing organization structure of the Bank.

D. Branches:

Article 1 of ~~the~~ Law No. 87 of 1956 of the Industrial Bank provides that the Head Office of the Bank shall be located in Baghdad and that it can open branches inside and outside the country after the approval of the Minister of Finance (at present the Minister of Development). Article

Existing Organization Structure of the Industrial Bank



12 (b) of the Law No. 12 of 1940 and Article 11 of the Law No. 87 of 1956 have provided that local government departments may, at the request of the Board of Directors of the Bank and after approval of the Minister of Finance, carry out industrial banking on behalf of the Bank in districts in which the Bank does not have branches.

Over a period of eleven years (1946-56) the Bank remained in a unitary condition. It used as agents the branches of the Agricultural Bank and, where the latter Bank does not have branches, the Liwa Directors of Revenues. Compensation for these services is determined annually by the Board of Directors subject to approval of the Minister of Finance (at present the Minister of Development). It has been 0.5 per cent of the amount of loans granted.

The lack of Bank branches in the Liwas has led to a concentration of the activities of the Bank in the city of Baghdad since the branches of the Agricultural Bank and the Liwa Directors of Revenues do not have the proper-facilities for undertaking industrial banking. Thus over the period above-mentioned, the Bank did not participate in the equity of any industrial company outside the city of Baghdad. Nor did it offer its import services in the other Liwas. Even its lending activity was greatly concentrated in the city of Baghdad. Thus over the period 1947-57 the number of loans granted in Baghdad ranged between 62 and 83 per cent of the total number of loans granted, while the amount of loans granted in Baghdad ranged from 70 to 90 per cent of

the total amount of loans granted.¹

In the financial year 1956-57 the Board of Directors decided to open four branches in the following Liwas:

(a) Mosul Liwa Branch, which will undertake industrial banking in the Liwa of Mosul and whose office shall be located in the city of Mosul.

(b) Basrah Liwa Branch, whose activities shall cover the Liwas of Basrah, Amarah and Muntafiq and its office is to be located in the city of Basrah.

(c) Kirkuk Liwa Branch, to be entrusted with industrial banking in the Liwas of Kirkuk, Suleimaniyah and Arbil and its office is to be established in the city of Kirkuk.

(d) Kerbelah Liwa Branch, to be located in the city of Najaf and to cover the Liwas of Kerbelah, Hillah and Diwaniyah.

In addition to these branches the Head Office in Baghdad was to undertake activities in the Liwas of Baghdad, Kut, Dialah, and Duliam. It was to be assisted by Directors of Revenues in the latter three Liwas.

There are no statistics available to show the activities of these four branches since they have been actually opened only recently.

1. These percentages were calculated by the writer from tables in nine Annual Reports of the Industrial Bank (1947-48 to 1956-57). See also Appendix III.

The unitary condition of the Bank has been one of the important contributory causes to the heavy concentration of industries in the city of Baghdad.

CHAPTER III

SOURCES OF FUNDS FOR THE INDUSTRIAL BANK

Sources of funds for the Industrial Bank include its capital, net profits, deposits, borrowings, loan repayments, disposition of equity participations and others.¹

A. Capital

Article 4, (a), of Law. No. 12 of 1940 fixed the authorized capital of the Industrial Bank at ID 500,000. This sum was to be advanced by the Ministry of Finance as a loan without interest. According to Article 4 of the Memorandum of Association of the Bank, its capital was to include all the properties transferred to it at cost from the Agricultural-Industrial Bank.² Thus in 1946 the Industrial Bank received properties at a total cost of about ID 173,237, including stocks of industrial companies (ID 160,000), industrial loans (ID 12,620), and other properties (about ID 617).³ When the Bank opened for business in 1946 its paid-up capital was ID 250,000 of which only ID 76,763 was paid in cash.

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1. "Law No. 12 of 1940 of the Industrial Bank", "Law No. 37 of 1950 Amending Law No. 12 of 1940 of the Industrial Bank", and "Law No. 19 of 1952 Amending Law No. 12 of 1940 of the Industrial Bank", Official Gazette, *op. cit.* V. 18, No. 1738 (1940); V. 28, No. 2840 (1950); and V. 30, No. 3075 (1952).
 2. Memorandum of Association of the Industrial Bank", Official Gazette, *op. cit.* V. 25, No. 2518.
 3. Iraq Government, Ministry of Finance, Industrial Bank, Annual Report, No. 1, 12 (1947-48). Henceforth it will be referred to as Annual Report.

Since Law No. 12 was issued in 1940 while the Bank has actually started operations in 1946-47, the authorized capital was out of proportion with the changed level of prices and incomes and the expansion of industry which took place meanwhile. Furthermore, as the capital of the Bank was provided by the treasury as a loan, it was up to the treasury to decide what amounts to pay and when to pay them. Its decision often did not coincide with the Bank's requirements either for funds or for making forward plans.

Hence in the early stages of its operation the Bank was handicapped by the inadequacy of its cash resources and its role was consequently much restricted. In 1947-48, upon requests by the Board of Directors, the treasury paid to the Bank the sum of ID 200,000 in four installments, thus raising the paid-up capital to ID 450,000.¹ In 1948-49 the treasury brought up the paid-up capital to the authorized amount, i.e. ID 500,000.²

In 1950-51 the Board of Directors, even after borrowing some funds from other government departments,³ was in urgent need of additional liquid resources. The price-level continued to rise. The size of Bank profits was too small to provide a significant source of funds. In addition industry was rapidly expanding and was in great need of

1. Ibid,
2. Annual Report, op. cit. No. 2, 13 (1948-49).
3. cf. Ch. II, section D.

financial aid. Further, since the establishment of factories takes time, the Bank could not sell its equity-participations. Consequently, a sizable part of its capital was frozen in industry. Though the Bank was authorized to issue bonds, it could not raise funds in this way, because there was no capital market and because political conditions were unstable. Finally, it was difficult for it to secure foreign loans.

After many applications to the Ministry of Finance, a law was issued in 1950 which provided for a raise in the authorized capital of the Bank to ID 1,000,000.¹ The main factor behind this increase was, however, the conclusion of the Oil Agreement of 1951 which introduced the 50:50 profit-sharing formula. Shortly after the issuance of the above mentioned law, the paid-up capital was increased to ID 600,000.² At the end of the financial year 1950-51 the paid-up capital was equal to the newly authorized capital, i.e. ID 1,000,000.³ As a result, the Bank was in a sufficiently liquid position to meet legitimate demands made upon it.⁴ Thus the Bank stopped disposing of its equity-participations, reduced the size of its borrowings, purchased more shares, increased the scale of its loans and reduced its rate of interest from 7 percent to a maximum of 5 percent on all loans.⁵

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1. Official Gazette, op. cit. V. 28, No. 2840(1950).
 2. IBRD, op. cit. p. 295.
 3. Annual Report, op. cit. No. 4, 42-43 (1950-52).
 4. A. Al-Dalli, op. cit. p. 44.
 5. Annual Report, op. cit. No. 4, 7 (1950-52).

In 1951 the IBRD Mission recommended that the Development Board gradually supply the funds necessary to increase the Bank's capital to ID 5,000,000.¹ The expansion of the activities of the Bank at a time when the size of oil royalties was increasing, induced the government to increase the authorized capital of the Bank to ID 3,000,000.² The unpaid portion of the authorized capital was to be paid from the reserves of the treasury. In 1952-53 the paid-up capital of the Bank reached ID 2,000,000.³ In 1953-54, the paid-up capital was further raised to ID 2,700,000, while in the financial years 1954-55 and 1955-56 it stood at ID 3,000,000.⁴

In 1956 the Little's Report recommended that the capital of the Bank should be increased to a minimum of ID 5,000,000.⁵ Frihagen suggested that "the capital should be raised by payments from the Government in step with the increasing activities of the Bank."⁶

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1. IBRD, op. cit. p. 295.
 2. "Law No. 19 of 1952 Amending Law No. 12 of 1940 of the Industrial Bank", Official Gazette, V. 30, No. 3075 (1952).
 3. Annual Report, op. cit. No. 5, 29-30 (29-30).
 4. Annual Reports, op. cit. No. 7, 30-31 (1954-55) and No. 8, 21-22 (1955-56).
 5. A. De Little, op. cit. p. 327.
 6. A. Frihagen, The Finance of Industry in Iraq, Unpublished, 1956, p. 93.

In 1956, the authorized capital of the Bank was raised to ID 8,000,000,¹ and in 1956-57 the paid-up capital reached ID 3,500,000.²

Because the capital of the Bank was originally advanced to it as a loan by the Ministry of Finance, all its laws provided for a certain form of future repayment. Thus Article 5 of the Bank's Memorandum of Association of 1947 provided that the capital of the Bank would be repaid over a period of 60 years, beginning with the date of the receipt by the Bank of the last installment of its authorized capital (which then stood at ID 500,000). It was further stipulated that after ten years of that date the Board of Directors should annually determine the amounts that could possibly be paid to the treasury, taking into account the profits and losses of the Bank, the expansion of its activities, and its need for capital. Law No. 87 of 1956 provided for capital-repayment, through annual appropriations, out of the net profits of the Bank. Article 2 of this Law provides that the Bank shall annually pay 25 percent of its net profits to the treasury, and credit the remaining 75 percent to the capital account. This process is to be continued until the accumulated net profits are equal to the authorized capital (i.e. ID 8,000,000). Thenceforth, 50 percent of the Bank's annual net profit shall annually

1. "Law No. 87 of 1956 of the Industrial Bank", Official Gazette, V. 34, No. 3825 (1956).
2. Annual Report, op. cit. No. 9, 19 (1956-57).

be paid to the treasury, the other 50 percent being credited to a capital reserve account. When the latter account equals the authorized capital, all the annual net profits of the Bank shall be turned over to the treasury.

B. Net Profits:

Another source of funds is the accumulating net profits of the Bank. These have increased with the increase of the capital of the Bank and of its activities. By the end of 1956-57 accumulated net profits amounted to about ID 1 million and formed about 28 percent of the paid-up capital. Net profits have thus been an important supplementary source of funds, especially after the first four years.

TABLE I

ANNUAL AND ACCUMULATED NET PROFITS OF THE INDUSTRIAL BANK AS PERCENTAGES OF ITS PAID-UP CAPITAL
1946-47 to 1956-57

(1) Financial Year	(2) Accumulated Paid-up Capital	(3) Annual Net Profits	(4) Accumulated Annual Net Profits	(5) (3) As a Percentage of (2)	(6) (4) As a Percentag of (2)
1946-47	250,000	770	770	0.3	0.3
1947-48	450,000	641	1,412	0.1	0.3
1948-49	500,000	4,067	5,478	0.8	0.3
1949-50	500,000	7,746	13,224	1.5	2.6
1950-51	1,000,000	60,592	73,816	6.1	7.4
1951-52	1,000,000	99,463	173,279	10.0	17.3
1952-53	2,000,000	132,088	305,367	6.6	15.3
1953-54	2,700,000	24,581	329,949	0.9	12.2
1954-55	3,000,000	210,946	541,378	7.0	18.1
1955-56	3,000,000	286,626	827,804	7.5	27.6
1956-57	3,500,000	165,970	993,774	4.6	28.4

Source: Annual Reports, op. cit. Nos. 1-9 (1946-48 to 1956-57), passim.

It should, however, be emphasized that the Bank is not a profit-making institution. Any profits earned are only incidental upon its operations. In this respect it resembles the Central Bank. In spite of this sound principle, however, profits have often been emphasized by the Managers of the Bank.

C. Deposits:

Amending Law No. 37 of 1950, Article 2, was the first law that authorized the Bank to accept deposits and securities and to open current accounts, for a fixed term or otherwise, with or without interest.¹ This function was emphasized in the subsequent Bank Laws No. 19 of 1952 (Article 3); and No. 87 of 1956, (Article 3, d). Table II shows the growth and decline of these deposits over 7 years.

TABLE II

DEPOSITS AT THE INDUSTRIAL BANK
1950-5 to 1956-57

<u>Financial Year</u>	<u>Deposits ID</u>	<u>Financial Year</u>	<u>Deposits ID</u>
1950-51	7,905	1954-55	90,218
1951-52	56,565	1955-56	10,165
1952-53	77,589	1956-57	3,028
1953-54	71,393		

Source: Annual Reports, op. cit. Nos. 4-9 (1950-51 to 1956-57), passim.

1. Official Gazette, op. cit. V. 28, No. 2840 (1950).

The decline in the size of deposits which started in 1955-56 was a result of the deliberate policy of the Bank to close the deposits office. At present, that office is closed.

D. Borrowings:

According to Article 7 of Law No. 12 of 1940 the government might expand the financial resources of the Bank by the issue of debentures on conditions stipulated by the Minister of Finance for a maximum period of 30 years.¹ The government can guarantee both the principal and interest of the borrowings. Amending Law No. 37 of 1950, Article 5, provided that the Bank might, after the approval of the Minister of Finance, expand its activities by contracting loans through the issuance of debentures or by any other means for a maximum term of 10 years.² The terms of these borrowings are again to be stipulated by the Minister of Finance; the Government may guarantee the principal and interest (not more than 5 percent). Law No. 87 of 1956 has provided that the Bank may borrow, with or without government guarantee, a sum not exceeding two-times its capital, through the issue of debentures or by any other means.³ The terms of these contracts are to be fixed by

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1. Ibid, V. 18, 1783 (1940).
 2. Ibid, V. 28, 2840 (1950).
 3. Ibid, V. 34, 3825 (1956).

the Board of Directors of the Bank and after the approval of the Minister of Finance. Table III exhibits the amounts and sources of borrowings of the Bank over six years.

TABLE III
AMOUNTS AND SOURCES OF BORROWING OF THE
INDUSTRIAL BANK
1948-49 to 1956-57

Financial Year	Sources (Balances)						Total Balance
	Central Bank	Directorate of Awqaf	Staff Guarantee Fund	Ottoman Bank	Mortgage Bank	Development Board	
1948-49	-	100,000	-	20,000	-	-	120,000
1949-50	100,000	100,000	20,000	17,000	-	-	237,000
1950-51	200,000	100,000	30,000	-	-	-	230,000
1951-52	-	100,000	40,000	-	100,000	-	240,000
1952-53	-	-	10,000	-	-	-	10,000
1953-54	-	-	-	-	-	-	-
1954-55	-	-	-	-	-	250,257	250,257
1955-56	210,000	-	-	-	-	250,000	460,000
1956-57	430,000	-	-	-	-	250,000	680,000

Source: Annual Reports, op. cit. Nos. 2-9 (1948-49 to 1956-57), passim.

E. Loans Repayment:

The repayment of loans constitutes an internal source of funds which is a natural consequence of the extension of credit. With the recent growth in the volume of credit granted by Bank, this source has become relatively important. The following table shows the magnitude of loan repayment over 10 financial years.

TABLE IV

REPAYMENTS OF LOANS OF THE INDUSTRIAL BANK
1947-48 to 1956-57

<u>Financial Year</u>	<u>Loan Re-payment ID</u>	<u>Financial Year</u>	<u>Loan Re-payment ID</u>
1947-48	5,113	1952-53	191,737
1948-49	43,641	1953-54	274,222
1949-50	43,828	1954-55	323,217
1950-51	84,353	1955-56	526,513
1951-52	119,132	1956-57	717,268

Source: Annual Reports, op. cit. Nos. 1-9 (1946-48 to 1956-57), passim.

F. Disposition of Equity Participations:

As a source of funds, the disposition of equity participations had been relatively small. Over the period 1946-57 there were six instances of sale of Bank participations: four lots from the backlog of participations in the Iraqi Cement Company Ltd., and two lots from share-holdings in the Jute Industry Company Ltd. Disposition of shares in the Cement Company was made at appreciable profits (Table V). Information is not available to show the amount of participations disposed of in the case of the Jute Company because the Bank acquired an equal number of shares in that company within the financial year in which the sale was made. In the Annual Reports of the Bank only a reference was made to the sale transactions.

TABLE V
DISPOSITION OF BANK EQUITY PARTICIPATIONS
1950-51 to 1955-56

Financial Year	Iraqi Cement Company Ltd.		Jute Industry Company Ltd.	
	Total Sale Proceeds	Profits	Total Sale Proceeds	Profit
	ID	ID	ID	ID
1950-51	40,284	10,284	-	-
1953-54	-	-	n.a.	1,050
1954-55	44,600	28,597	n.a.	n.a.
1955-56	140,203	70,599	-	-

Source: Annual Reports, op. cit. Nos. 4-8 (1950-52 to 1955-56), passim.

G. Other Sources:

Other sources include miscellaneous current payables and irregular sources. Miscellaneous current payables include such credit accounts as the Bank employees reserve fund, provisions for income and sur taxes, the Directorate General of Public Accounts, other banks (overdrafts), deferred incomes, expenses payable, and other creditors. Though fluctuating, the size of these payables has been growing with the expansion of the activities of the Bank.

TABLE VI
MISCELLANEOUS CURRENT PAYABLES OF THE INDUSTRIAL BANK
1946-47 to 1956-57

Financial Year	Payables ID	Financial Year	Payables ID
1946-47	667	1952-53	47,203
1947-48	25,706	1953-54	116,623
1948-49	36,343	1954-55	72,487
1949-50	10,633	1955-56	138,197
1950-51	69,742	1956-57	95,577
1951-52	34,534		

Source: Annual Reports, op. cit. Nos. 1-9 (1946-48 to 1956-57), passim.

In addition to miscellaneous payables there are some irregular sources. Thus in 1950-51 the Bank sold Government Bonds, previously held, for ID 22,000.¹ In 1953-54 it sold a land of its own for ID 63,722.²

According to Article 14 of Law No. 12 of 1940 and Article 6 (b) of Law No. 87 of 1956, the Government may convey freely to the Bank such immovable properties - land and buildings - as the Bank may require for its operations. Article 16 of Law No. 12 states that the Bank may, after approval of the Minister of Finance, expropriate immovable properties for its own purposes upon the consideration that they relate to public utility. Article 16 of Law No. 87 provides that the Bank is exempted from the following fees and taxes where it is their payer: (a) Stamps needed for daily transactions; (b) Fees for collecting defaulted loans, registration, mortgage and guarantees; and (c) Income tax. After 1956-57 the Bank stopped paying annual income taxes.

1. Annual Report, op. cit. No. 4, 44 (1950-52).
2. Annual Report, op. cit. No. 6, 30 (1953-54).

CHAPTER IV

PROMOTION AND EQUITY PARTICIPATION BY THE INDUSTRIAL BANK IN INDUSTRIAL ENTERPRISES

A. Promotion of Industrial Enterprises:

One of the functions of the Industrial Bank is to conceive of ideas from which businesses are to evolve and to continue its efforts down to the point at which those businesses become fully ready to begin operations as going concerns.

According to Article 2 of Law No. 12 of 1940, the Bank was authorized to: (1) undertake industrial projects on its own account directly; (2) organize private or public industrial companies and subscribe to its shares; and (3) subscribe to the shares of industrial companies, existing or to be newly formed.¹

Article 3 of Law No. 87 of 1956 provides that the Bank shall investigate industrial projects that can possibly be established and execute them in participation with limited companies, existing or to be newly organized.²

Equity participation is also provided for in these laws and will be discussed in section B of this chapter.

Promotion and equity participation by the Bank in industrial enterprises is the responsibility of the Industrial

1. Official Gazette, *op. cit.* V. 18, No. 1738 (1940).
2. *Ibid*, V. 34, No. 3825 (1956).

Schemes Section at the Bank. The Bank is a professional promoter who is often not compensated for its services.

The Bank undertakes at present three types of promotions: (1) the organization of new industrial undertakings to produce an article for which there is already an established local market; (2) the organization of new industrial undertakings in fields where parallel and competing firms exist; and (3) the conversion of established industrial private limited companies into public joint stock companies.

The total number of projects investigated by the Bank between 1946-47 and 1956-57 reached 16. Of these, two were investigated by the former Agricultural-Industrial Bank. Of the 16 projects only one was executed. The total number of projects on which research was undertaken by the Bank in collaboration with private enterprise, over the same period, was 8, all of which were executed. There were also three other projects that were executed by the former Agricultural-Industrial Bank and which were transferred to the Industrial Bank. In addition, there were two other projects on which the Industrial Bank and other governmental authorities conducted research and were later executed. In all, the total number of projects on which research and investigation were conducted becomes 29.

Of the 29 projects, 15 comprised new industries (the first type of promotion indicated above), and 14 related to enterprises in established industries (the second type of promotion). Of the latter, three projects represented a

conversion from private to public companies (third type). None of the new industry projects was executed, while all of the existing industry projects were executed.

Of the 15 projects not executed, there were 9 transferred by the Bank to the Board and Ministry of Development and were later executed. The Board and Ministry of Development conducted further research on these projects before completing them. Two other projects were executed by private enterprise with no Bank equity participation. The rest of the projects were given up.

The 29 projects may also be classified into four major groups:

(1) In the construction field, there were 5 projects which were executed (cement, marble, gypsum, estate industries, and rivers dredging and lands reclamation) and 3 projects shelved (mechanical carpentry, steel bars to be produced from local iron scrap, and ceiling materials made of quessab).

(2) In the spinning and weaving field, there were 3 projects executed (cotton spinning and weaving, woolen textiles and jute spinning and weaving).

(3) In the processing of consumption goods field, there were 4 projects executed (dates industries, a bakery, vegetable oil extraction, and grains milling) and 5 projects which were not (date sugar, beet and cane sugar, a dairy, salt extraction from the Gulf of Basrah, and paper milling). The products of some such enterprises could also serve as industrial raw materials and supplies.

(4) The fourth field consists of miscellaneous enterprises of which two were executed (leather tanning and an insurance company) and 7 were not (rayon manufacture, linseed ginning, glass and bottle manufacture, fruits refrigeration facilities, an assembly plant for Philipps lamps, a fertilizer plant and a nicotine plant).

The number of projects not executed by the Bank is relatively large. One reason for that is because the Bank was handicapped in the early stages by the inadequacy of its financial resources and the absence of technical and marketing data by which the feasibility of proposed industrial undertakings could be judged. Moreover, the Bank still lacks a qualified economic and technical staff. It has often to rely on the judgment of the Board of Directors or the advice of other Government departments such as the Directorate General of Industry and the Directorate General of Agriculture both of which are equally badly equipped and understaffed. There has also been a strong resistance on the part of the Board of Directors to allocate money for technical staff or for technical study; often when money was allocated it could not be spent because the Board disagreed on the qualifications of the experts (foreign or national) and on the need for¹ inviting them to study particular problems.

The criteria used by the Bank in promoting industrial enterprises are mainly the following:

1. A. Al-Dalli, op. cit. p. 43.

(1) The products of the new enterprise should have an already established and growing local market. Before the establishment of the enterprise in question, the demand for the product should have been tested judging by the volume of its imports.

(2) The raw materials for the enterprise should mostly be either currently available or their future production in Iraq is technically and commercially feasible. Most of the projects depend on raw materials already available. Where local raw materials are not available, the enterprise is planned to depend on imported materials until the local production of such materials is undertaken in sufficient quantities.

(3) The utilization of raw materials in the enterprise should be technically ^{feasible} feasible. Thus, although dates, glass sand and reeds are available in Iraq, it took a long time of experimentation and research to find out the technical feasibility of their utilization for sugar-making, glass manufacturing and paper-milling respectively.

(4) The unit cost of production should generally be competitive with the prices of similar imported products. Sometimes the Bank requests the Government to protect the industry by tariffs until it could stand on its feet.

(5) The capital requirements of the project should neither be so large as to exhaust the financial resources of the Bank nor require more subscriptions than could possibly be obtained from the public.

The procedure followed by the Bank in the promotion of industrial enterprises consists of two main steps: investigation or research and assembly. Investigation is undertaken to determine: (1) the technical feasibility, (2) the marketing and economic feasibility, and (3) the financial feasibility of the project in question.

The determination by the Bank of the technical feasibility of an enterprise is at present a time-consuming process. To begin with the Bank performs a rough check on the technical ideas developed by its staff or received from outside sources. The aim here is to determine roughly whether or not it pays to make a detailed investigation. The first question the Bank seeks an answer to is whether or not the product could be manufactured in commercial quantities. This requires laboratory testing, a pilot plant study, and a commercial plant study.

The Bank forwards some of its technical problems and samples of local raw materials to laboratories and workshops abroad for experimentation and advice. It also hires specialists and consulting firms who come to Iraq in order to conduct field surveys and examine all or specific phases of a project. In addition, the Bank keeps in contact with local research institutions such as the Directorate General of Industry, the former Directorate General of Industrial Research, the Directorate General of Agriculture, and the Third Technical Section of the Development Board. Experimental work at these laboratories includes production in small quantities, under precisely controlled conditions.

The Bank rarely arranges for setting up a pilot plant. The main reason is because most of the projects promoted by the Bank alone did not go further than the laboratory stage. When set up, a pilot plant is designed in all respects similar to the factory which is to produce the article on a commercial scale. The pilot plant reveals what practical difficulties, not disclosed in the laboratory, confront the manufacturer before considerable sums of money are invested in the construction of a large-scale plant.

The location of the plant is determined by a consideration of the following factors: (a) availability of fuel and power; (b) quantity, quality and location of raw materials; (c) existence of transport facilities; (d) adequacy of labor supply and its training; and (e) the markets for the products.

The next step is to determine the total and unit cost of production. This includes a determination of the necessary costs of raw materials, labor and overhead.

Determination of the economic and marketing feasibility of the enterprise includes three groups of studies. First are the general conditioning factors in the Iraqi economy. This comprises a study of (a) population, its growth, the present and future number of consumers, available labor force and occupational and geographical distribution of the population; (b) national income, its growth and its distribution; (c) availability of raw materials and the possibility of commercial production; and (d) miscellaneous studies including existing regulation of industry,

export and import statistics, and related development projects. Although the Bank tries to ascertain all relevant data in this field, adequate information is still lacking on national income and available raw materials.

The second group of studies is centered around the industry of which the firm is a part. The main factors considered include available and utilized capacity of the industry, the competitive structure within the industry, and the typical business risks of the industry. Where the industry is introduced for the first time, emphasis is laid on the inherent business risks only.

The third group of studies is devoted to a determination of the current and expected demand for the products. The Bank still lacks a specialized market research staff. Nor is such a staff available elsewhere in the country. The Bank has never asked a foreign market research firm to assess local demand for the products in question. When a new industry is started, and local demand is satisfied through imports, reliance is made on the average volume of imports of similar products over the recent past. A rough guess is also made of the volume of future demand. In the case of an existing industry, the information regarding available and utilized capacity, together with interviews of the main producers, give rough indications of the size of local demand.

Determination of the financial feasibility of the enterprise includes first a calculation of the total costs

of production, selling and administration. Then the cost per unit is calculated. This is compared with the average price of similar imports or the price of similar local products to determine the net profit per unit. Net profit per unit varies, of course, with the size of output. When the estimated net profit is multiplied by the expected volume of sales, the estimated net return on investment could be ascertained.

The total investment required is calculated by totaling the costs of fixed assets needed plus a certain percentage thereof for working capital requirements. When the annual net return on investment is compared with total investment, a rate of return on investment is obtained. This is compared with the risk assumed to see whether the enterprise is profitable.

Finally, the amount of capital required for the project is checked against the available financial resources of the Bank, and the expected volume of subscriptions to be obtained from the public.

When the Bank decides to execute the project being promoted, it usually seeks private persons to act as a founders group. In cooperation with this group, the elements of the project are gradually assembled. The shares of the company are then sold to the public, usually through the Rafidain Bank. The Industrial Bank takes a certain percentage of these shares in line with the decision of its Board of Directors. With funds available, the Bank and the

founders group proceed to buy the fixed assets, engage labor, purchase materials and supplies, arrange procedures, and the like. When the project becomes a going-concern, the Bank's promotional function comes to an end.

B. Equity Participation in Industrial Companies:

A second main function of the Bank is to participate in the equity of industrial companies. An industrial enterprise has to be organized in the form of a private or a joint stock company before it is eligible to enjoy Bank equity participation. According to Article 2 of Law No. 12 of 1940, the Bank was authorized to: (1) organize private or public industrial companies and subscribe to their shares; and, (2) subscribe to the shares of industrial companies, existing or to be newly formed. Article 3 of Law No. 87 of 1956 provides that the Bank shall undertake industrial projects by participating in limited companies, existing or to be newly organized.

Furthermore, majority share in the capital of the company should be Iraqi owned. Thus Article 3 of Law No. 12 of 1940 stated that the Bank could not participate in the equity of an industrial undertaking unless the majority of its capital is Iraqi owned. Article 4 of Law No. 87 of 1956 confirmed this restriction but added also "...or unless its capital is owned by the nationals of an Arab State which has reciprocal agreement with Iraq."

The main factors behind equity participation are: (1) the desire of the Government to speed up industrial development; (2) the inadequacy of entrepreneurship; (3) the inadequacy of private capital to finance relatively large industrial ventures; (4) the absence of a capital market; and, (5) the current availability of public funds.

During the period between 1946-47 and 1956-57, equity participations ranged from more than two-thirds to more than one third of the total assets of the Bank. A principal factor behind this fluctuation was the continuous and gradual increase in the paid-up capital of the Bank. When an increase in the paid-up capital took place, the ratio of existing participations to total assets of the Bank dropped and it took the Bank some time to invest the new liquid resources put at its disposal. The same phenomenon is manifested throughout the eleven-year period. (Table VII)

Another factor causing these fluctuations was the shift in the utilization of the Bank's resources from equity participations to other sources of industrial financing, mainly credit operations.¹ This can be seen upon an examination of the percentages in Table VIII, indicating a continuous decline over the past eleven years.

1. cf. Ch. V, section B.

TABLE VII

GROWTH OF PAID-UP CAPITAL OF THE INDUSTRIAL BANK
 COMPARED WITH GROWTH OF ITS EQUITY PARTICIPATIONS
 1946-47 to 1956-57

(1) Financial Year	(2) Paid-up Capital of the Bank, ID	(3) Equity Participation by the Bank, ID	(4) (3) As a Percent of (2)
1946-47	250,000	160,000	64
1947-48	450,000	245,000	54
1948-49	500,000	446,650	89
1949-50	500,000	473,490	67
1950-51	1,000,000	629,273	63
1951-52	1,000,000	896,483	90
1952-53	2,000,000	995,281	46
1953-54	2,700,000	1,139,031	42
1954-55	3,000,000	1,631,481	54
1955-56	3,000,000	1,674,756	56
1956-57	3,500,000	1,896,458	57

Source: Annual Reports, Nos. 1-9 (1946-48 to 1956-57),
passim.

TABLE VIII

GROWTH OF EQUITY PARTICIPATIONS BY THE INDUSTRIAL
 BANK COMPARED WITH GROWTH OF ITS TOTAL ASSETS
 1946-47 to 1956-57

(1) Financial Year	(2) Equity Participations by the Bank, ID	(3) Total Assets of the Bank, ID	(4) (2) As a Percent of (3)
1946-47	160,000	251,438	64
1947-48	245,000	477,189	52
1948-49	446,650	661,821	67
1949-50	473,490	760,857	62
1950-51	629,273	1,481,463	42
1951-52	896,483	1,504,378	58
1952-53	995,281	2,440,159	41
1953-54	1,139,031	3,218,064	35
1954-55	1,631,481	3,959,340	44
1955-56	1,674,756	4,472,197	37
1956-57	1,896,458	5,299,180	36

Source: Annual Reports, Nos. 1-9 (1946-48 to 1956-57),
passim.

Appendix I shows the progress of the Bank's participations in 14 industrial companies, over eleven years, while Table IX indicates these participations as they stood at the end of 1956-57. The companies in the two tables were arranged according to the absolute size of Bank's participation in their equity as of 1956-57.

TABLE IX
EQUITY PARTICIPATIONS BY THE INDUSTRIAL BANK IN
INDUSTRIAL COMPANIES AT THE END OF THE FINANCIAL YEAR
1956-1957

Companies	(1)	(2) Paid-up Ca- pital of the Companies	(3) Paid-up Equity Particip.	(4) (3) as a Percent of (2)
1. Woolen Textiles Company, Ltd.		1,050,000	525,000	50
2. Iraqi Spinning and Weaving Co., Ltd.		1,200,000	425,000	35
3. Iraqi Cement Company, Ltd.		1,750,000	380,160	22
4. Vegetable Oil Extraction Co., Ltd.		659,809	137,009	22
5. Iraqi Jute Industry Company, Ltd.		607,491	127,500	15
6. National Leather Industry Co., Ltd.		175,000	75,555	41
7. Iraqi Grains Trading and Milling Company, Ltd.		232,075	66,000	29
8. Estate Industries Company, Ltd.		216,019	50,000	23
9. Baghdad Bakery Company, Ltd.		129,470	32,500	25
10. Iraqi Gypsum Company, Ltd.		146,610	30,000	20
11. Iraqi Rivers Dredging and Lands Reclamation Company, Ltd.		125,000	15,625	25
12. National Insurance Company, Ltd.		100,000	15,000	15
13. Dates Industries Company, Ltd.		51,660	10,000	19
14. Iraqi Marble Company, Ltd.		35,992	10,000	20

Source: Annual Reports, Nos. 1-9 (1946-48 to 1956-57), passim;
and Annual Reports of the respective companies.

Participation in the first three companies accounted for 69 percent of the total Bank participations. The Woolen Textiles Company was established in 1953-54 as a private limited company, equally owned by the Army and the Bank.

This equal participation was maintained until 1956-57. Participation in this company was increased twice: once in 1954-55, by 500 percent; and another in 1956-57, by 40 percent. The Bank participation in this company in 1956-57 amounted to 27 percent of the Bank's total participations.

The Iraqi Spinning and Weaving Company was established in 1945 as a private limited company whose shares were closely held. In 1946, it was converted into a joint stock company, but its stock remained closely held. The Bank's participation in this company was transferred to it from the former Agricultural-Industrial Bank. It was also increased twice: once in 1949-50, by 38 percent; and another in 1950-51, by 123 percent. In 1956-57 the Bank's participation amounted to 22 percent of its total participations.

The Iraqi Cement Company was the first enterprise to receive equity participation from the Bank. It was established in 1938 as a joint stock company. The Bank's participation was transferred to it from the previous Agricultural-Industrial Bank. The size of the participation was increased four times: in 1947-48, by 63 percent in 1948-49, by 25 percent; in 1950-51, by 12 percent; and, in 1954-55, by 19 percent. In 1950-51 the Bank liquidated 12 percent of its equity participation in this company for lack of funds. However, the Bank increased its participation again during the same year by 25 percent, following an increase in the Bank's paid-up capital. In 1954-55 and 1955-56 the Bank sold two lots of equity shares in the

company (Table V).¹ After the first four years, the ratio of the Bank participation in the capital of the company gradually decreased because: (a) the Bank sold some of its shares, and (b) subscriptions in arrears from other shareholders were collected. In 1956-57 the Bank's participation amounted to 20 percent of its total participations.

Participation in the next four companies amounted in 1956-57 to 21 percent of the Bank's total participations. Foremost in this group was the Vegetable Oil Extraction Company. It was established in 1940 as a joint stock company, and the Bank's participation in it was transferred to it by the previous Agricultural-Industrial Bank. The Bank's participation in this company was increased four times: 100 percent in 1951-52; 50 percent in 1953-54; 25 percent in 1954-55; and, 14 percent in 1956-57. The equity share of the Bank in the capital of the company was maintained at about 20 percent throughout. In 1956-57, the participation of the Bank in this company amounted to 7 percent of its total participations.

The Iraqi Jute Industry Company was established in 1951 as a joint stock company. The size of the Bank participation in it was increased four times: in 1952-53, by 230 percent; in 1953-54, by 54 percent; in 1954-55, by 50 percent; and, in 1956-57, by 22 percent. There were also two instances of sale of shares in 1953-54 and 1954-55

1. cf. Ch. III, section F.

(Table V)¹. The equity share of the Bank in the total capital of the company was maintained at about 19 percent, except in 1956-57 when it dropped to 15 percent because the Bank failed to exercise its pre-emptive rights fully. In 1956-57, the Bank's participation in this company amounted to 7 percent of its total participations.

The National Leather Industry Company was established in 1944 as a private limited company. In 1948-49 it was converted into a joint stock company. The Bank's equity in it was maintained between 40 and 43 percent of the paid-up capital, except in 1951-52 when the equity share dropped to 32 percent because the Bank did not exercise its pre-emptive rights in full. The size of the participation was increased three times: 17 percent in 1950-51; 34 percent in 1952-53; and 8 percent in 1956-57. In 1956-57 the Bank's participation amounted to about 4 percent of its total participations.

The Iraqi Grains Trading and Milling Company was established in 1945 as a joint stock company. The Bank's participation was transferred to it from the previous Agricultural-Industrial Bank. The size of the participation was increased four times: in 1947-48, by 100 percent; in 1948-49, by 25 percent; in 1951-52, by 140 percent; and, in 1954-55, by 10 percent. The Bank's equity in the capital

1. cf. Ch. III, section F.

of the company was doubled in 1947-48; and it ranged from 20 to 25 percent over the next three years, and from 29 to 31 percent over the last six years. The main reasons for these fluctuations were: (a) the partial exercise of the pre-emptive rights by the Bank and (b) the receipt by the company of subscriptions in arrears.

The last group of companies listed in the table consists of 7 enterprises the Bank's participation in which amounted, in 1956-57, to about 20 percent of its total participations. Of these companies, one, the Iraqi Rivers Dredging and Lands Reclamation Company, is a private limited company and the rest are joint stock companies. The Bank's equity ownership in their capitals over the period being studied ranged from 15 to 30 percent. There was one instance of a 50 percent reduction in the paid-up capital of one company (the Rivers Dredging...Company), following the distribution of a liquidating dividend.

A third basis of classification for the Bank's participations is according to industry. This includes the construction industries, the spinning and weaving industries, and the ^{processing} industries. In all they cover 13 companies; the 14th being an insurance company.

The construction industry includes the Iraqi Cement Company, the Estate Industries Company, the Iraqi Gypsum Company, the Iraqi Rivers Dredging and Lands Reclamation Company, and the Iraqi Marble Company. Total investment in these companies amounted in 1956-57, to ID 2.28 million, of which the Bank contributed 22 percent.

The spinning and weaving industries include the Woolen Textiles Company, the Iraqi Spinning and Weaving Company, and the Jute Industry Company. Total investment in these companies amounted in 1956-57 to ID 2.86 million, of which the Bank contributed 37 percent.

The processing industries comprise the Vegetable Oil Extraction Company, the National Leather Industry Company, the Iraqi Grains Trading and Milling Company, the Baghdad Bakery Company, and the Dates Industries Company. Total investment in these companies amounted in 1956-57 to ID 1.20 million, of which the Bank contributed 27 percent.

The capital of the National Insurance Company amounted in 1956-57 to ID 0.10 million, of which the Bank contributed 15 percent.

When total Bank's participations in the capital of all companies is considered over the eleven years, the ratio of such participations to total capital ranges from 23 to 37 percent, i.e. from less than one fourth to more than one third. This is shown in Appendix I.

Table X shows the absolute size of dividends (after tax) received by the Bank over the eleven-year period, and their ratios to the total gross revenues of the Bank.

During the first three years, dividends were exclusively received from the Vegetable Oil Extraction Company.

TABLE X

DIVIDENDS RECEIVED BY THE INDUSTRIAL BANK AS PERCENTAGES OF ITS PARTICIPATIONS AND ITS GROSS REVENUES
1946-47 to 1956-57

Financial Year	Dividends Received by the Bank from the Companies (after tax) ID	Percentages of Return on Bank's Participations	Percentage of Bank's Gross Revenues
1946-47	3,000	0.0	75
1947-48	4,500	2	52
1948-49	4,500	1	29
1949-50	8,490	2	37
1950-51	52,323	8	63
1951-52	92,420	11	76
1952-53	121,151	12	76
1953-54	-	-	-
1954-55	147,442	11	48
1955-56	163,693	10	62
1956-57	137,326	7	65

Source: Annual Reports, Nos. 1-9 (1946-48 to 1956-57), passim.

In 1949-50 dividends were received from two companies: the Vegetable Oil Extraction Company which yielded 53 percent of total dividends received, and the Iraqi Spinning and Weaving Company, which yielded the balance.

In 1950-51 dividends were received from four companies in the following order: 52 percent from the Iraqi Cement Company, 38 percent from the Iraqi Spinning and Weaving Company, 8 percent from the Vegetable Oil Extraction Company, and 2 percent from the Iraqi Rivers Dredging and Lands Reclamation Company.

In 1951-52, dividends were received from the same companies, but in the following ratios: 46 percent from

the Spinning and Weaving Company, 44 percent from the Cement Company, 8 percent from the Oil Extraction Company, and 2 percent from the Rivers Dredging Company.

In 1952-53, again the same companies made the contribution but in varying ratios: 56 percent from the Cement Company, 35 percent from the Spinning and Weaving Company, 7 percent from the Oil Extraction Company, and 2 percent from the Rivers Dredging Company.

In 1954-55, 64 percent of total dividends were received from the Cement Company, 31 percent from the Spinning and Weaving Company, 3 percent from the Leather Company, and 2 percent from the Oil Extraction Company.

In 1955-56, 76 percent of total dividends were contributed by the Cement Company, 13 percent by the Spinning and Weaving Company, 4 percent by the Leather Company, 3 percent by the Oil Extraction Company, and 1 percent by the Rivers Dredging Company.

For 1956-57 detailed information is not available, but the Cement and Spinning and Weaving Companies continued to contribute most of the dividends received.

If annual dividends received are expressed as percentages of return on Bank's investment, the following picture emerges: for the first four years the rate did not exceed 2 percent. Over the remaining six years, the rate of return fluctuated between 8 and 12 percent. The low rate of return in the early years was due to the fact that most companies were still new and did not distribute dividends.

Dividends received by the Bank become significant when they are expressed as percentages of its gross revenues. The ratio ranged between 48 and 76 percent. This is one important reason why the Bank so far followed the policy of not disposing of its equity participations in profitable companies well established in the market.

Except for the Iraqi Woolen Textiles Company, the equity interest owned by the Bank in all companies is less than 50 percent. In all companies, except one, the representatives of the Bank are a minority on the Boards of Directors. The Bank's representatives are appointed by the Bank's Board of Directors. They are mostly members of the Bank's Board, but sometimes they are recruited from outside. The Bank's representatives are not allowed, by the Articles of Association of the companies concerned, to elect other directors. This course has been deliberately taken in order to protect private enterprise from the arbitrary action¹ by the Government.

The Bank's representatives have helped "to iron out many difficulties, to improve management, and to prevent abuses."² But as things stand, a relatively few directors have the job of keeping watch over a large and relatively diverse collection of companies. There is force in the criticism that the Bank's representatives are unable to give the necessary time and effort commensurate with the efficient operation of the companies concerned.

1. A. Al-Dalli, op. cit. p. 53.

2. Ibid.

CHAPTER V

CREDIT OPERATIONS OF THE INDUSTRIAL BANK

A. Eligibility for Borrowing:

The third main activity of the Industrial Bank is to extend credit to industry. According to Law No. 12 of 1940, the Bank is authorized to:¹

1. make loans to industrialists for the purpose of setting up, extending or improving factories.
2. make advances to factory owners against raw materials imported and against exported products.
3. make advances to merchants who deal with institutions in which the Bank has interests.

Law No. 87 of 1956 (which superseded the previous Law) prescribes that among the duties of the Bank shall be the following:²

1. To make long and medium term loans for the purpose of setting up industrial undertakings, extending or improving them or increasing their production.
2. To make loans to owners of factories and industrial undertakings for the purchase of machinery, tools and raw materials.

To be eligible for borrowing, as provided for in the two Laws, the applicant should be an industrialist or

1. Official Gazette, op. cit. v. 18, No. 1783 (1940), Article 2.
2. Ibid, v. 34, No. 3825 (1956), Article 3.

the owner of a factory or an industrial undertaking. The first Law provides, in addition, for the extension of credit to certain types of merchants.

A second condition for eligibility is the specific purpose for which the loan is to be used. Here the provisions are broad enough to cover loans for the initial establishment or expansion of industrial undertakings, and for both fixed and working capital requirements.

A third condition is that a majority share in the capital of a borrowing concern should be Iraqi-owned. Law No. 12 of 1940 provides that the Bank shall not make loans to industrial undertakings unless a majority share in their capital is Iraqi-owned.¹ The Bank's Regulation No. 41 of 1947 confirms this stipulation.² In any case, the borrower should either be an Iraqi national or a company registered in Iraq with the majority of its capital Iraqi-owned. Law No. 87 of 1956 provides that the Bank and its branches shall not make loans to an industrial undertaking unless a controlling interest in its capital is Iraqi-owned, or unless its capital is owned by nationals of an Arab state which has reciprocal agreement with Iraq.³

A fourth condition relates to the data which should be submitted by the borrower and on the basis of which, after Bank verification, credit is extended. Regulation No. 41

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1. Ibid, v. 18, No. 1783 (1940), Article 3.
 2. Ibid, v. 25, No. 2518 (1947), Article 6.
 3. Ibid, v. 34, No. 3825 (1956), Article 4.

abovementioned, provides that if the founder of a factory or an industrial undertaking desires to borrow for establishing the firm, he should submit a written application to the Manager, stating the amount of the loan desired to which should be attached a comprehensive report supported by documents, designs, etc., giving specific reference to:

1. The productive capacity of the undertaking; the expected quantity to be produced and its cost; and the markets for the products.

2. The raw materials to be used in production, whether locally produced or imported.

3. The amount of capital investment required, giving detailed costs of construction, purchase of machinery and tools, and working capital requirements to operate the enterprise

4. The sources of capital furnished, and, if from a company, the type of such a company.

5. The amount of capital available and which is expected to be available.

Among the data required above, the most difficult to obtain and to assess are the cost of production and the demand for the product. There is no local marketing research agency, to which recourse could be made. Neither the Bank nor other Government departments are equipped for this task. Foreign marketing specialists, usually expensive

1. Ibid, v. 25, No. 2518 (1940), Article 15.

to hire, have rarely if any been invited by private borrowers. With proper marketing data not available, cost calculations, which are based on an expected volume of sales, cannot be accurately made. In almost all loan applications submitted to the Bank, only a rough guess is made of both the cost and the demand for the products.

Regulation No. 41 provides further that the Board of Directors may refer loan applications to a specialized economist(s), the Ministry of Economics, or the Chamber of Commerce, for investigation and recommendations.¹

It is also provided in the same Regulation that when an already established undertaking applies for a loan to supplement its working capital, the Board may require it to submit all the necessary information about its plant.

In a subsequent Regulation, No. 55 of 1954 (which cancelled Regulation No. 41 of 1947), the three provisions relating to borrowing procedures, referred to above, were omitted because they proved to be impractical.

The fifth condition relating to eligibility is concerned with the limits of advances to be made to different types of borrowers. Regulation No. 55 provides that:³

1. Industrial sole-proprietors should not be granted loans beyond ID 20,000.

1. Ibid, Article 16.

2. Ibid, Article 19.

3. Ibid, v. 32, No. 3451 (1954), Article 6.

2. Limited industrial companies, whether private or public, should not receive loans exceeding ID 120,000.

3. Companies in which the Bank is a co-shareholder should not be lent more than ID 250,000.

These limitations excludes the Bank's activity in imports and exports. The difference between the amounts permitted to companies in which the Bank participates and those in which it does not is due mainly to the fact that the Bank is better acquainted with the former. Consequently, this has led to some concentration of loans in the former type of companies.

The sixth condition on which the Bank puts major stress in its legislation is the security to be pledged by the prospective borrower. Regulation No. 41 provides that the Bank shall not make loans without specific liens.¹

Pledged property acceptable to the Bank includes:

1. Immovable properties which are neither fore-closed nor pledged in favor of another person with priority claims.

2. Rights of title in immovable property acquired by a valid contract.

3. Utensils, jewels, gold and silver coins.

4. Factories and industrial undertakings; industrial machinery, tools and instruments; and other movable properties.

5. Bank deposits.

1. Ibid, v. 25, No. 2518 (1947), Article 8.

6. Share and bond certificates, drafts and coupons acceptable to the Bank.

The Regulation provides, in addition, that the amount of the advance shall be related to the value of the security and it should not exceed the following percentages:¹

75 percent of the value of Iraq Government Bonds.

70 percent of the value of gold, whether in bullion or in jewels.

60 percent of the value of silver, whether in bullion or in jewels.

60 percent of the value of drafts, shares, desposits, and bills.

60 percent of the value of immovable properties.

Percentages relating to the value of other types of properties pledged, which should not exceed 40 percent, will be fixed by the Board of Directors.

Regulation No. 55 prescribes that the Bank shall accept as security behind its loans the following, provided that the amount of such loans does not exceed the percentages specified below:²

60 percent of the value of immovable properties which could be disposed without any limitation.

50 percent of the value of factories or industrial undertakings.

50 percent of the value of industrial machinery, tools

1. Ibid, Article 10.

2. Ibid, v. 32, No. 3451 (1954), Article 2.

and instruments.

75 percent of the value of gold, in bullion or in jewels.

75 percent of the value of negotiable Government bonds.

60 percent of the value of silver, in bullion or in jewels.

60 percent of the value of bills, shares, bonds and coupons.

50 percent of the value of goods stored with the Bank.

60 percent of the amounts of banks' guarantees.

Among the properties listed above, those most likely to be owned by industrial undertakings in Iraq are lands and buildings, machinery and equipment, and merchandise. Although banks' guarantees are the most reliable pledge behind Bank loans, the Regulation provides for loans up to 60 percent of their values only. It should be noted that borrowers will rarely submit bank guarantees as a pledge, since, unless the term of the loan is relatively long, other banks may themselves be willing to advance the full amounts of such guarantees.

Regulations Nos. 41 and 55 both prescribe that the following properties shall not be acceptable as security¹ behind Bank loans:

1. Movable and immovable properties, when mortgaged, foreclosed, or are undergoing litigation.

1. *Ibid.*, v. 25, No. 2518 (1947), Article 28; and v. 32, No. 3451 (1954), Article 4.

2. A share of less than one fifth in a collective (mesha) property, except when other co-owners agree to pledge their respective shares, until the equity is, in the aggregate, not less than one fifth of the total.

3. Waqf estates.

The two Regulations state also that industrial machinery, tools, and instruments shall not alone be accepted as security behind loans unless the borrower offers in addition a joint guarantor acceptable to the Bank. Joint stock companies are excluded from this provision unless the Board of Directors specifically decides otherwise.¹

Again, the Regulations provide that the Bank shall not accept as security immovable property which is subject to the risk of fire or damage unless such property is insured with a reliable insurance company, and unless the insurance policy is endorsed in favor of the Bank.²

Regulation No. 41 provides that when it becomes clear that movable property pledged with the Bank is exposed to the danger of loss, the debtor is warned to take the necessary precautions within five days. If the debtor does not respond, the Bank is authorized to undertake the proper measures at the debtor's expense. The Bank is also authorized to sell the pledged properties immediately after the expiration of warning period, if he so wishes.³

1. Ibid, v. 32, No. 3451 (1954), Article 5.
2. Ibid, v. 25, No. 2518 (1947), Article 11; and v. 32, No. 3451 (1954), Article 12.
3. Ibid, v. 25, No. 2518 (1947), Article 12. and

Regulations No. 41 and 55 prescribe that the valuation of the immovable properties shall be undertaken by a committee composed of a representative of the Bank, a representative of the Tapu Department under whose jurisdiction¹ the properties fall, and an expert chosen by the Manager.

In addition, the Regulations provide that valuation may be waived if the Bank had inspected the property within the past year -- two years in the case of companies in which the Bank is a shareholder -- and when the Bank is convinced that no appreciable change in its prices had taken place in the meantime. Valuation can also be dispensed with when the amount of the loan does not exceed ID 100.²

In some cases the Bank is authorized to lend without a tangible security. Law No. 12 prescribes that the Bank may make short term advances to industrial undertakings for amounts not exceeding ID 1,000, against promissary notes and bills. The loan should be repaid within one year.³ Regulation No. 41 provides for making loans to owners of industrial undertakings on the strength of their financial standing up to a maximum of ID 3,000 to be repaid within one year.⁴

It is evident from the above provisions that the main, if not the only, assurance for loan repayments on which the Bank dwells is the tangible security pledged by the borrower. Most of the securities pledged so far have

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1. Ibid, v. 25, No. 2518 (1947), Article 29; and v. 32, No. 3451 (1954), Article 9.
 2. Ibid, v. 25, No. 2518 (1947), Article 30; and, v. 32, No. 3451 (1954), Article 10.
 3. Ibid, v. 25, No. 2518 (1947), Article 15.
 4. Ibid, Article 19.

been immovables, machinery and merchandise. The more specialized such securities are, the lower turns to be the proceeds realized from their liquidation upon sale.

The best assurance for the repayment of an industrial loan is, in the final analysis, the revenue-generating power of the enterprise. A profitable and solvent industrial undertaking could repay its loan even if its tangible assets were not extensive. On the other hand, an unprofitable or an insolvent undertaking, or both, could not repay its obligations even if it had expensive equipment and machinery. When liquidated, such assets will not yield more than their junk values.

The last condition for the eligibility of the borrower is his willingness to withstand liability for interest changes and for expenses incidental to the loan application. Regulation 41 provides that no loans could be made without interest. From time to time, the Board of Directors will specify the rates of interest chargeable on all types of loans, with one rate applicable to all loans of the same type.¹ Regulation No. 55 provides in addition that the rate of interest should not exceed 5 percent. Furthermore, it prescribes that all expenses incidental to a loan application should either be paid in advance by the borrower or added to the principal of the loan.²

1. Ibid, Article 7.

2. Ibid, v. 32, No. 3451 (1954), Article 14.

B. Credit Extension:

Loan balances at year ends, expressed as a percentage of total Bank assets increased in importance over the recent years. Among the first seven years (Table XI), these percentages ranged between one sixth and one third. At the end of the last three years, they were around one half. This conclusion is closely linked to the inference drawn from Table VII which showed a gradual decrease, percentagewise, in equity participations by the Bank to total assets outstanding.

TABLE XI
ACCUMULATED BALANCES OF LOANS COMPARED TO ACCUMULATED
BALANCES OF TOTAL ASSETS OF THE INDUSTRIAL BANK
1947-48 to 1956-57

(1) Financial Year	(2) Accumulated Bal- ances of Loans ID	(3) Accumulated Ba- lances of Total Assets, ID	(4) (2) as a per- cent of (3)
1947-48	154,210	477,119	32
1948-49	148,132	661,821	23
1949-50	219,068	760,857	29
1950-51	236,069	1,481,463	16
1951-52	378,557	1,504,378	25
1952-53	830,776	2,440,159	34
1953-54	1,245,061	3,218,064	32
1954-55	1,897,084	3,954,340	48
1955-56	2,202,430	4,472,197	50
1956-57	2,510,380	5,299,180	47

Source: Annual Reports, op. cit. Nos. 1 - 9 (1946-48 to 1956-57), passim.

Table XII reveals the relative size of annual interest earned expressed as a percentage of the Bank's annual gross revenue. Over the first three years, this percentage ranged

between two-fifths and two-thirds. The principal factor behind this relatively high ratio, in comparison with the next three years, was the fact that dividend income, the second main source of revenue, had not yet been developed. During the three years 1950-51 to 1952-53, the ratios stood at about one fifth. The last three years showed again a relative increase in that ratio, mainly because credit operations of the Bank were expanded, as inferred from Table XI above. Because no dividend income was received during 1953-54, the ratio stood at more than three-fourths.

TABLE XII

ANNUAL INTEREST REVENUE COMPARED WITH ANNUAL GROSS
REVENUE OF THE INDUSTRIAL BANK
1947-48 to 1956-57

(1) Financial Year	(2) Annual Interest Revenue of the Bank	(3) Annual Gross Re- venue of the Bank	(4) (2) as a per- cent of (3)
1947-48	3,676	8,626	40
1948-49	9,971	15,563	64
1949-50	10,924	23,006	47
1950-51	16,342	83,678	19
1951-52	22,030	121,632	18
1952-53	30,512	159,824	19
1953-54	48,424	62,908	77
1954-55	71,838	265,391	27
1955-56	104,901	308,055	34
1956-57	73,937	266,857	28

Source: Annual Reports, op. cit. Nos. 1 - 9 (1946-48 to 1956-57), passim.

The fluctuations in the average amount per loan granted are demonstrated in Table XIII, while the distribution of loans according to their size - brackets is

shown in Appendix II. The years in which the average amount per loan was relatively high were 1947-48 and 1951-55; while those in which the average amount was relatively low were 1948-51 and 1955-57. The reason behind these fluctuations is explained by Appendix II. The main bulk of loans granted was concentrated in the bracket "More Than ID 2,000". A relative increase in the amount granted within this bracket was reflected, over the same years, in an increase in the average amount per loan granted.

TABLE XIII

TOTAL AMOUNT; TOTAL NUMBER AND AVERAGE AMOUNT
PER LOAN GRANTED BY THE INDUSTRIAL BANK
1947-48 to 1956-57

(1) Years	(2) Total Amount of the Loans Granted	(3) Total Number of the Loans Granted	(4) Average Amount Per Loan Granted
1947-48	172,120	54	3,187
1948-49	50,298	35	1,437
1949-50	132,110	81	1,613
1950-51	131,950	93	1,419
1951-52	281,225	87	3,232
1952-53	656,950	153	4,294
1953-54	734,140	181	4,056
1954-55	1367602	242	5,660
1955-56	735,041	457	1,609
1956-57	745430	369	2,001

Source: Annual Reports, 1 - 9 (1946-47 to 1956-57),
passim.

The geographical distribution of loans is indicated in Appendix III. Over the period 1947-48 to 1956-57,

the number of loans granted in the Baghdad Liwa ranged between 62 and 83 percent of the total number of loans granted, and between 70 and 90 percent of the total amount of loans granted. This high degree of concentration of Bank loans in the Baghdad Liwa is being diluted through the recent opening of four branches, as was mentioned in Chapter II.

The distribution of loans according to type of security pledged is given in Appendix IV. Except for 1951-52, there has been a gradual decline in loans secured by "immovable" properties. This was in sharp contrast to loans secured by "movable" properties which showed a continuous increase. The main factor behind this development in 1954-56 was the expansion of Bank storage facilities and the increase in the volume of merchandise pledged as security with the Bank. "Immovable and movable" properties pledged (Column 4) fluctuated sharply; and then declined to nil in the last two years. Other types of securities, such as promissary notes and banks guarantees, were relatively unimportant over the ten-year period. A maximum of 16 percent of the total amount of loans granted was secured by such properties.

There was a gradual increase in the term of loans granted. Column 7 of Appendix V shows a recent concentration of loans within the bracket "More Than Four Years". The first three columns show a sharp decline in recent years in the amount of loans running for two years and less. The

main reason behind this phenomenon was the recent policy decision of the Bank to go out of commercial banking operations gradually. Loans granted within "Three Years" bracket fluctuated sharply over the ten years, ranging between 3 and 5 percent. Loans running for four years were less than 10 percent of total loans throughout the ten-year period.

Appendix VI is arranged according to size of loans granted in each industry for the period 1947-48 to 1956-57. Column 13 accommodates a diversified collection of industries termed "Miscellaneous". The building industry (Column 2) was one of the main industries receiving Bank loans. The amount of loans extended in this area grew rapidly over the first three years, averaging more than one third of total Bank loans in 1949-50. During the following year, the ratio stood at one fourth. In 1951-52, the industry received only 1 percent of total Bank loans, a reflection of the slump in building activity in that year. Over the last five years, the percentage continued to increase until it reached 44 percent in 1956-57.

Grains milling was the second main industry receiving Bank credit. Loans granted to it, expressed as percentages of total Bank loans, ranged between 7 and 21 percent over the ten-year period. In 1956-57 the ratio stood at 15 percent.

The third main industry was printing. Over the first six years, the industry received varying amounts, ranging

from 1 to 15 percent of total loans. Beginning with 1953-54, the ratio grew continuously until it was 8 percent in 1956-57.

The beer industry received bank loans during three years only. In 1947-48, the industry was the most important recipient of Bank credit -- 24 percent of the Bank's total loans. In 1955-56, the ratio declined to 3 percent; and in 1956-57 it stood at 6 percent.

Blacksmithing and related fields received declining amounts of Bank loans. In 1948-49 the industry received 26 percent of Bank loans -- the highest percentage. Over the next 8 years, the ratio fluctuated between 5 and 16 percent; and in 1956-57 it stood at 5 percent.

The spinning and weaving industry received Bank loans in eight out of ten years. The amounts received during the first two years and the last two years were relatively small. During the years 1951-52 to 1954-55, the industry was the largest recipient of Bank loans, the ratios ranging between 32 and 58 percent of total loans. In 1956-57 the ratio was only 4 percent.

Ice-making and related industries received sharply fluctuating amounts of Bank credit. In 1950-51, they ranked as the second largest recipient of Bank loans -- 18 percent of total loans. In 1956-57 the ratio stood at 4 percent.

Over the first five years, carpentry received between 2 and 9 percent of total Bank loans. Beginning with 1952-53 it received declining proportions: from 14 percent

in that year to 2 percent in 1956-57.

Tanning and shoe-making was the third main recipient of Bank loans in 1947-48. The proportions received in later years gradually declined, with few exceptions, until 1956-57 when the ratio stood at less than 1 percent.

Except for 1952-53, vegetable oil extraction and soap manufacturing was not an important beneficiary of Bank credit. Whereas in 1952-53 it was the second main industry in this regard, in 1956-57 it received a negligible amount.

The group of miscellaneous industries includes cotton-ginning; paper, carton and book-binding; dairy and chicken breeding; tailoring and ironing; dates procuring; plastics; sulphur extraction; oxygen-making; salt-extraction; jewelry; glass-manufacture; animal feed processing, and the making of gypsum mills. The reason why they are grouped together is because the proportions of annual loans they received throughout the period were very small. In 1956-57 this group received 3 percent of the Bank's total loans.

Before concluding this section, one final point should be mentioned. Prior to 1949-50 all loan applications should be approved by the Board of Directors before the extension of credit. In 1949-50 the Manager was authorized to lend for a maximum of ID 500 without recourse to the Board of Directors.¹

1. Annual Report, op. cit. No. 3, 20 (1949-50).

C.
3. Credit Supervision and Collection:

a. Credit Supervision:

The Bank performs at present a primitive form of credit supervision. This is the responsibility of the Inspection Section at the Bank, whose duties were already discussed.

Most of the emphasis in credit supervision is laid upon the state of the security pledged behind loans. Although the Inspection Section is responsible for supervising the use of credit obtained from the Bank, its activity has so far been confined to the technical aspects relating to the operation of industrial undertaking, and the change in ownership of fixed types of collateral. Even here, there has not been anything like sound and constructive advice; it is only a check performed to make sure that the capacity of machinery pledged did not deteriorate in the meantime. Most Iraqi industrial concerns are badly in need of technical, marketing, and financial advice on the use of loans.

Regulations Nos. 41 and 55 provide that if the value of movable or immovable property pledged as security behind Bank loans decreases by 15 percent or more (compared to its value at the time the loan was made), the Bank Manager should demand of the debtor to increase, within 15 days, the security pledged by the amount of the decline or pay in cash an amount equal to such reduction. Failure to comply with this request renders the principal plus interest on the loan, due; and permits sale of pledged property to satisfy Bank claims.

1. Ibid, v. 25, No. 2518 (1947), Article 13; and v. 32, No. 3451 (1954), Article 13.

The Regulations state, in addition, that the Board of Directors may consider all loan installments due and generate proceedings for their collection together with interest and other expenses; if:¹

1. The borrower does not abide by the terms of the loan or misuses the funds received;

2. the borrower mismanages his industrial enterprise to the extent of reducing it to a non-operative condition except when the cause of trouble is beyond the control of the borrower; and when a new system of management could be applied which would enable the firm to resume its normal operations;

3. the securities pledged behind loans and maintained by the borrower, are damaged, burnt or drowned, unless the debtor pledges additional collateral.

b. Credit Collection:

Law No. 12 of 1940 provides that the maximum term of a loan should not exceed 10 years during which time the loan should be repaid in installments not more than one year apart. It also states that it is possible to postpone payment in full or part, of a due installment for a maximum period of three years.²

According to the same Law the Bank is authorized to make advances for short terms, secured by promissary notes

1. Ibid, v. 25, No. 2518 (1947), Article 21; and v. 32, No. 3451 (1954), Article 11.
2. Ibid, v. 23 18, No. 1783 (1940), Article 8.

and bills, to be repaid in installments over a period not to exceed one year. The maximum amount of loans permitted in this instance is ID 1,000.¹

Regulation No. 41 provides that no loan could be granted for a term exceeding three years unless the security pledged behind it consists of immovable property or an industrial plant.²

It also states that when a debtor fails to pay a due installment at maturity, all the remaining installments and interest accrued shall fall due and should be immediately collected. The only exception is when the debtor agrees with the Bank on a suitable form of settlement which insures the collection of the loan.³

In addition, the Regulation sanctions one-year loans for a maximum of ID 3,000 to any one borrower on the strength of financial standing.⁴

Regulation No. 55 prescribes that the term of a loan shall not exceed:⁵

1. five years, for loans secured by movable property, except when the borrower is a company whose capital is not less than ID 100,000 in which case it could require loans for a term not exceeding ten years.

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1. Ibid, Article 15.
 2. Ibid, Article 4.
 3. Ibid, Article 31.
 4. Ibid, Article 19.
 5. Ibid, v. 32, No. 3451 (1954), Article 7.

2. ten years, for loans secured by immovable property.¹

Law No. 87 provides that the term of loans:

1. should not exceed 20 years when half or more of the security pledged consists of real estate.

2. should not exceed ten years when the value of real estate is less than one half the total value of all collateral pledged, or when the collateral consists of machinery used in production.

3. should not exceed three years when the collateral consists of other types of properties.

The same Law states that it is possible to postpone the whole or part of a due installment three times within one year.²

Prior to 1950-51, the Manager could not extend a due installment without the approval of the Board of Directors. In that year, he was authorized to postpone such installments, which do not exceed ID 1000, for a maximum of one year.³

Regulations No. 47 and 55 prescribe that one month before the maturity of a loan, the Manager should serve notice, by registered letter, upon the debtor demanding payment of the debt at maturity. Should the debtor fail to pay, all the installments shall fall due. If the debtor is unable to pay due to force majeure, the Board of Directors

1. Ibid, v. 34, No. 3825 (1956), Article 17.

2. Ibid,

3. Annual Report, op. cit. No. 4. 20 (1950-52).

is authorized to grant him a period of grace or extend the date of maturity.¹

Laws Nos. 12 and 87 provide that when the debt falls due and it is not repaid, the Bank shall sell the pledged movable properties in the following manner:²

1. the debtor is notified by registered letter that if he does not settle his obligation, the Bank will take steps to sell the pledged properties. Sale shall not be effected except after the elapse of 30 days from the date the letter is registered at the Post Office.

2. the procedure and place of sale shall be announced by a notice to be posted eight days before the sale.

The two Laws provide that the loans of the Bank shall have priority second only to those of the Government, and that such loans should be collected in accordance with the current Law for the Collection of Debts Due to the Government.³

Law No. 12 and Regulations Nos. 41 and 55 all provide that the Bank may acquire title to real estate pledged with it should the highest bid to such estate fall below the principal, interest and expenses combined. It is the duty of the Bank, however, to dispose of such property as soon as possible. The former owner (debtor) is entitled to reacquire the property upon payment of the due amounts, within one year from the date the property was registered in the name of the Bank.⁴

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1. Official Gazette, *op. cit.* v. 25, No. 2518(1947), Article 33; and v. 32, No. 3451 (1954), Article 15.
 2. *Ibid*, v. 18, No. 1783 (1940), Article 11; v. 34, No. 3825 (1956), Article 15.
 3. *Ibid*, v. 18, No. 1783 (1940), Article 9; and v. 34, No. 3825 (1956), Article 13.
 4. *Ibid*, v. 18, No. 1783 (1940), Article 12; and v. 34, No. 3825 (1956), Article 7.

Regulations Nos. 41 and 55¹ prescribe the following collection procedure for debts:

1. when the debt is secured by movable property, or is unsecured, the Manager should prepare a list of debts due and send it to the Mutassarif or Qaymaqam under whose jurisdiction the property to be sold is located, or where the debtor resides. The Mutassarif or Qaymaqam should immediately start collection proceedings according to the current Law for the Collection of Debts Due to the Government.

2. when the security consists of both movable and immovable property, the Manager should notify the respective court to initiate proceedings for the sale of all the property.

3. when the collateral consists only of immovable property, the Manager should notify the Tapu Department concerned to sell the property and to carry out the sale transaction to its final stage.

The two Regulations state that a debtor who pays off his debt before maturity shall be charged interest up to the date of settlement plus one month. When the remaining period is less than one month,² interest shall be charged for the full term of the loan.

In addition, they prescribe that when the debtor or his guarantor repay the due installments, interest thereon, and expenses, before the actual sale of the collateral, then

1. *Ibid*, v. 25, No. 2518 (1947), Article 35; and v. 32, No. 3451 (1954), Article 16.
2. *Ibid*, v. 25, No. 2518 (1947), Article 33; and v. 32, No. 3451 (1954), Article 18.

the execution of the sale and the auction shall be stopped.¹

Actual credit collection is demonstrated in Table XIII. The proportions of installments received over the 10-year period ranged from 47 to 84 percent of total installments due. Due installments which were not collected were either postponed or underwent litigation during which time they were accommodated in a suspense account. Often the debtor who is unable to repay agrees to a certain form of future settlement agreeable to the Bank. Extended installments ranged between 15 and 43 percent of total due installments over the ten-year period. Since the annual Balance Sheets of the Bank do not include any provisions for bad debts, and since there were no bad debt expenses in its Profit and Loss Statements, it could be inferred that the suspended amounts must have been collected in full. In 1956-57, there was no balance outstanding for such amounts.

1. Ibid, v. 25, No. 2518 (1947), Article 36; v. 32, No. 3451 (1954), Article 18.

TABLE XIII
 INSTALLMENTS DUE, AMOUNTS RECEIVED, AMOUNTS POSTPONED, AND
 AMOUNTS SUSPENDED
 1948-49 to 1956-57

Years	No.	I.D.	Amounts Due	Amounts Received	Percent of amounts due	Amounts Postponed	Percent of amounts due	Amounts Suspended	Percent of amounts due
1948-49	80	72,642	43,641	60	24,005	34	4,995	6	
1949-50	205	93,340	43,823	47	40,220	43	9,297	10	
1950-51	277	167,648	84,353	50	50,573	30	32,722	20	
1951-52	298	160,414	119,132	74	30,428	18	10,854	8	
1952-53	302	229,496	191,737	84	34,526	15	3,232	1	
1953-54	305	394,554	274,222	69	119,192	30	11,400	1	
1954-55	460	517,600	323,217	62	193,807	38	5,760	0.0	
1955-56	775	778,858	526,513	68	243,419	31	8,926	1	
1956-57	1265	956,817	717,268	75	239,549	25	-	0.0	

Source: Annual Reports, op. cit. Nos. 2 - 9 (1948-49 to 1956-57), passim.

CHAPTER VI

MISCELLANEOUS FUNCTIONS OF THE INDUSTRIAL BANK

Miscellaneous functions of the Industrial Bank include the importation of machinery, tools, and raw materials; their storage; the exportation of products manufactured in Iraq; accepting deposits; and dealings in industrial stocks.

A. Importation of Machinery and Raw Materials:

Importation of machinery, tools and raw materials is the responsibility of the Trade Section of the Bank. Law No. 12 of 1940 authorizes the Bank to act as an agent in the importation of raw materials for the account of factory owners.¹ Law No. 37 of 1950 broadened this authority by permitting the Bank to act as agent in the importation of machinery, tools and raw materials for the account of factory owners and industrial undertakings, and Government and quasi-Government Departments.² This provision has been confirmed in the current Law, No. 87 of 1956.³

An industrialist, a Government or a quasi-Government Department who wishes to import through the Bank should, according to Regulations Nos. 41 and 55:⁴

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1. Official Gazette, op. cit., v. 18, No. 1783 (1940), Article 2, (f).
 2. Ibid, v. 28, No. 2840 (1950), Article 2, (f).
 3. Ibid, v. 34, No. 3825 (1956), Article 2, (d).
 4. Ibid, v. 25, No. 2518 (1947), Articles 22 and 23; and, v. 32, No. 3451 (1954), Articles 20 and 21.

1. submit a written application specifying the quantity and details of the items to be imported;
2. pay a certain margin on the documentary letter of credit to be opened; and,
3. undertake to receive the required imports and pay their price in full.

In case the goods arrive and the importer is unable to pay the balance due, an arrangement could be made whereby the Bank retains a part of the imported items for future delivery in lots upon payment of the price of each lot. The imported items should, of course, be divisible and not subject to damage.

The Bank charges commission of 1 to 2 percent based on the value of imports and 5 percent on sums advanced to finance them.

Upon arrival of the imported items, the Bank, according to Regulations Nos. 41 and 55, sends a registered letter¹ to the importer to settle the amounts due. If the importer does not pay within 10 days, or refuses to receive the goods and pay their price, the Bank could sell the goods by public auction, after advertising them in a local newspaper for 4 days. All amounts due to the Bank are then deducted from the proceeds. If the latter are not sufficient to cover all the amounts advanced by the Bank, recourse could be made to the other properties of the importer.

1. *Ibid*, v. 25, No. 2518 (1947), Article 24; and v. 32, No. 3451 (1954), Article 22.

Appendix VII shows the growth in the volume of imports made through the Bank over 9 years. Imports had grown to a peak in 1954-55, but declined gradually thereafter. This followed the Bank's recent policy of going out of the field of commercial banking.

Column 2 of the same Appendix also shows current decline in the volume of private imports against growth in imports by Government and quasi-Government Departments. Private industrialists complain of the long delays in the Bank's import procedures. This is because the Bank has not yet exercised its right to deal in foreign exchange, for lack of authority to do so from the Central Bank. Consequently, the Industrial Bank has to import through commercial banks, especially the Rafidain Bank.

The classification of imports shown in column 3 of the Appendix indicates that about two-thirds of the imports, during the last two years, consisted of machinery and equipment.

Table X V exhibits the growth in revenue from imports as compared with total Bank's revenue. The ratio was less than 1 percent during each of the 8 years covered. In 1953-54, it exceeded the 1 percent mark because no dividends were received in that year from companies in which the Bank participated.

TABLE X V

GROWTH OF IMPORTS REVENUE COMPARED WITH GROWTH OF
TOTAL REVENUES OF THE INDUSTRIAL BANK
1948-49 to 1956-57

Financial Year	Commissions Earned on Imports, ID	Interest Earned on Imports ID	Total earned from Import Activities, ID	Percent of Total Bank's Revenues
1948-49	540	177	717	0.5
1949-50	1,025	447	1,472	0.6
1950-51	2,919	938	3,857	0.4
1951-52	3,703	2,814	6,157	0.5
1952-53	2,930	2,354	5,284	0.3
1953-54	3,567	3,597	7,163	1.1
1954-55	6,988	5,926	12,914	0.4
1955-56	n.a.	8,430	n.a.	n.a.
1956-57	n.a.	n.a.	n.a.	n.a.

Source: Annual Reports, op. cit. Nos. 2 - 9 (1948-49) to 1956-57), passim.

In addition to acting as an agent, the Bank is authorized, according to Regulations Nos. 41 and 55, to conclude agreements with agents or owners of factories, within Iraq or abroad, to purchase or import industrial machinery, instruments and raw materials, and to sell them for cash or by installments. The buyer should make a downpayment equal to 25 percent of the price of these goods and pledge a security acceptable to the Bank, for the balance until all installments are paid. This function was restated in Law No. 87 of 1956,² but the Bank has so far not exercised this right.

1. Ibid, v. 25, No. 2518 (1947), Article 10, (d); and v. 32, No. 3451 (1954), Article 19.
2. Ibid, v. 34, No. 3825 (1956), Article 3, (e).

B. Storage:

Before the Storage Section of the Bank was established in 1954-55, the Trade Section assumed responsibility for storing imported goods, unpaid for by the importer. At present, this is the responsibility of the Storage Section. According to Law No. 37 of 1950 and Law No. 19 of 1952, the Bank is authorized to make advances against raw materials imported by factory owners; and to subscribe to, or make advances for, establishing storage facilities to accommodate goods produced or needed by factories.¹

It often happens that, upon arrival of imported items, the industrialist is unable to settle the balances due on the documentary letter of credit. In this event, the Bank arranges for storing the items, which are considered as a security pledged behind a loan, and agrees with the debtor on future payment in installments. The pledged items are delivered in lots -- if divisible -- to the importer upon payment of the amount due on each lot.

The volume of imports so pledged with the Bank is shown in Appendix VIII. Within the last two years, the volume had gradually declined, due to the Bank's policy of quitting commercial banking operations. Goods may be stored at the premises of the importers in temporary field-warehouses supervised by the Bank, or at the stores of the Bank, or at the stores of a third party, i.e., a bonded warehouse company.

1. Ibid, v. 28, No. 2840 (1950), Article 2; and v. 30, No. 3075 (1952), Article 4.

C. Exportation of Iraqi Manufactures:

Although the Bank is authorized to export Iraqi manufactures it has not, as yet, performed this function. Law No. 12 authorizes the Bank to act as an agent for the exportation of manufactured products of Iraqi factories. It is also authorized to make advances against those exported products.¹ According to Laws Nos. 37 and 87, the Bank could serve as agent for the distribution of Iraqi manufactured products,² both locally and abroad.

When requesting the Bank to serve as his agent, the exporter should specify the quantity to be sold, together with samples, as specified by the Bank's instructions. The Bank thereafter proceeds to contact companies, merchants and brokers who deal in similar products, within Iraq or abroad, and fixes the commissions to be charged upon consumation of the sale.³

The Bank does not hold itself responsible for refusal of the goods by the buyer, or for losses and damages, unless these are caused by the Bank itself.⁴

D. Accepting Deposits:

This function was discussed in Chapter III, under "Sources of Funds..." and is referred to here simply to complete the list of functions performed by the Bank.⁵

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1. Ibid, v. 18, No. 1783 (1940), Article 2;
 2. Ibid, v. 28, No. 2840 (1950), Article 2; and v. 34, No. 3825 (1956), Article 2.
 3. Ibid, v. 25, No. 2518 (1947), Article 6.
 4. Ibid, v. 25, No. 2518 (1947), Article 25; and v. 32, No. 3451 (1954), Article 23.
 5. cf. Ch. III, section C.

E. Dealings in Industrial Stocks:

According to Law No. 19 the Bank was authorized to deal in the sale and purchase of shares of industrial companies for the account of others, whether or not the Bank had participations in these companies.¹ The Bank did not exercise this function, however; and Law No. 87 of 1956 waived this provision from among the functions of the Bank.

Disposition of shares owned by the Bank in industrial companies has so far been carried out by public auction, according to the current Law for the Disposition of Government Properties. The distribution of stocks of new companies in which the Bank participates has usually been done through the Rafidain Bank.

1. Ibid, v. 28, No. 3075 (1952), Article 5.

CHAPTER VII

EVALUATION

A. Organization and Administration of the Industrial Bank:

1. The recent transfer of ownership and control of the Industrial Bank from the Ministry of Finance to the Ministry of Development has been made with the purpose of coordinating the activities of the Bank with those of the industrialization program of the Board and the Ministry of Development.¹ It remains, however, the only Bank owned by the Ministry of Development. Although the latter is responsible for the agricultural development and housing projects, the Agricultural Bank and the Estate Bank are exclusively owned by the Ministry of Finance.

The reorganization of Ministries which is contemplated would seem to necessitate a reconsideration of the ownership and control of the Industrial Bank. The Development Board, the Ministry of Development and the Ministry of Economics will shortly be dissolved.² Instead of the Development Board, a High Planning Council will be created and granted wider authorities. Financing development projects, which has so far been the responsibility of the Development Board, will be transferred to the Ministry of Finance. The latter will prepare two budgets, an ordinary budget and a development budget. The Ministry of Development

1. Cf. Ch. II, section A.

2. There are other Ministries that will be reorganized in the near future, but their discussion is not relevant here.

will also be replaced by a Ministry of Planning, again with wider planning authority. Its functions will include planning, coordination, and supervision of execution of development projects. Development projects will be executed by the Ministries concerned, each receiving the necessary financial allocations assigned to it in the two budgets of the Ministry of Finance.

The Ministry of Economics will be replaced by three new ministries: the Ministry of Industry, the Ministry of Oil, and the Ministry of Commerce. The Ministry of Industry will be a combination and expansion of the present Directorate General of Industry under the Ministry of Economics, and the Third Technical Section of the Ministry of Development. Among other functions, the new Ministry will finance new and existing industrial projects.

No information has as yet been released concerning the future ownership and control of the Industrial Bank. But with the creation of the new Ministry of Industry with its new functions spelled out, it is only logical to expect the Industrial Bank--a State industrial financier--to be owned and controlled by the Ministry of Industry.

2. The Board of Directors of the Industrial Bank is composed, as already pointed out, of six members: the General Manager of the Bank, two private independent industrialists, and a representative of each of the Ministries of Finance, Development, and Economics.¹ All mem-

1. Cf. Ch. II, section B.

bers have since 1957 been appointed by the Minister of Development; but with the creation of the Ministry of Industry and the assignment of the Bank to it, appointments are expected to be made by the Minister of Industry.

It would seem better for the Board of Directors of the Bank to consist of five members only: The General Manager of the Bank, a representative of each of the Ministries of Finance, Industry, and Planning, and a representative of the Federation of Iraqi Industries. The representative of the Ministry of Finance should be retained to facilitate provision of the necessary budgetary funds. As owner, the Ministry of Industry should also be represented, especially as it is taking over the industrial affairs from the Ministry of Economics (which at present has a member on the Board of Directors). The Ministry of Planning should, just like the existing Ministry of Development, be represented in order to coordinate the activity of the Bank with the whole planning program.

The two independent industrialists included in the existing Board of Directors serve to establish contact between Government officials and private industry.

The interests of industrialists are currently represented by the Federation of Iraqi Industries which includes most industrialists in the country. This institution has been giving valuable advice to both private industry and Government, on industrial problems.

It would seem more appropriate to have the Federation represent industrialists on the Board. The experience and opinion of a whole organization of industrialists are likely to be more representative than those of two independent industrialists. In addition, the present two industrialists operate in a few fields of industry and are, consequently, likely to be biased in their judgments. This is in contrast to the Federation which presumably represents the interests of most Iraqi industries.

3. One problem which is facing the Bank at present is the delay resulting from the lack of proper delegation in its decision making process. The Regulations of the Bank prescribe that the Board of Directors should meet whenever the interests of the Bank require, provided that at least one meeting is convened every month. In practice, the Board meets, on the average, once a month. This is because the representatives of the three Ministries are most of the time occupied with their respective ministerial duties. Besides, the decisions of the Board are not final; the Minister of Development has the right of veto within seven days from the date the decisions of the Board are communicated to him. With few exceptions, the General Manager has to get the approval of the Board of Directors on the daily transactions of the Bank. The same holds true of actions of Branch Managers which should be approved by the General Manager.

The main bulk of Bank transactions involves relatively small amounts. Decision-making at the Bank could be facilitated if authority of the Board is required only when transactions reach or exceed a certain limit. Below that, final authority could be vested in the General Manager or the Branch Managers depending upon the size of the funds involved in the transactions. At present, the General Manager can lend up to ID 500, or postpone a due installment not exceeding ID 1,000, without recourse to the Board of Directors. These limits are very modest and should be increased if decision-making and execution are to be facilitated. There are some who propose that the Board of Directors should not refer decisions to the Minister of Development. For example, "De Little" suggests that

The board of directors of the bank should be given final authority on all loans and investments and all the activities of the bank. The relation of the government to the bank should be limited to appointment of the board of directors and to prescribing the basic statutes under which the bank operates. 1

This arrangement, however, removes the direct contact between the Minister of Development (the Minister of Industry in the future) and the Board of Directors of the Bank. If the Minister concerned is to be held responsible for framing the broad lines of policy of the Bank, he should have the authority, within limits, to reject those transactions, involving large sums of money, which are

1. A. De Little, op. cit. p. 327.

not in agreement with the policy of the Ministry. Financial decentralization in decision-making, as suggested by "De Little" has not yet been accepted by public administrative authorities in Iraq.

4. The Assistant to the General Manager consults with the General Manager on all transactions. He is not assigned a specific field of activity—his assistance comprises all functions of the Bank.

The activities of the Bank are classified into two main fields: administration of the bank organization, and industrial banking proper. Administrative affairs comprise at present the activities of the Administration section, the Accounting Section, the Auditing Section, and the Research and Translation Section. Banking activities include those performed by the Industrial Schemes Section, the Loans Section, the Collection of Debts Section, the Inspection Section, the Trade Section, and the Storage Section.

The classification of Bank's activities into two main groups and the delegation of authority in each group to a responsible deputy will insure more specialization, will give each deputy more opportunity to concentrate on problems arising in his own field, thus increasing the efficiency of the Bank's operation, and, in addition, reduce the amount of paper routine flowing to the General Manager.

The expected increase in the number of branches of the Bank will generate the need for a third Assistant to the General Manager.

5. Continuity of employment at the Bank, especially at the managerial level, should also be sought to take advantage of the experience gained. Over the period 1946-56, seven persons occupied the post of General Manager, a phenomenon detrimental to the long-range policies of the Bank.

The technical and economic staff of the Bank needs also to be strengthened so as to cope with its increasing and expanding activities. Promotions, equity participations and their follow-up, and credit analysis and supervision, all require the employment of well-trained personnel.

The Third Technical Section of the Ministry of Development, which, after dissolution of that Ministry, will be transferred to the Ministry of Industry, has at present a good technical and economic staff for the promotion of industrial enterprises. After the establishment of the Ministry of Industry and the assignment of the Bank to it, some of these might be profitably employed at the Bank in order to strengthen its promotion staff.

6. Another improvement which could be introduced to advantage in the internal organization of the Bank would be a re-examination of the number and scope of activity of the different sections of the Bank. The Research and Translation Section, for example, is now responsible for

the preparation of Annual Reports and the translation of experts' reports submitted to the Bank. The former is clearly a function of the Accounting Section. The latter could be delegated to the Administration Section where the typing and filing work is done.

To be more indicative of the true nature of its job, the Auditing Section should be named the Internal Auditing Section.

The Industrial Schemes Section is at present responsible for promotion, equity participation, and advice. Research to explore industrial opportunities may or may not materialize in industrial enterprises. It is different in nature from the follow-up of participations in existing industrial companies. The staff needed for each type of activity is also different. The follow-up of participations will be increased in magnitude in the near future, especially if some of the industrial projects established by the Board and Ministry of Development are transferred to the Bank for ultimate disposition to private enterprise.¹

This classification of the duties of the Industrial Schemes Section would necessitate its dissolution and the establishment of two sections instead: Research and Promotion, and Equity Participation. The functions of the Research and Promotion Section will include:

1. Cf. Ch. VII, section D.

a. Promotion of industrial enterprises that will be executed by the Bank alone, by private enterprise alone, or by both. The section will also render advice on promotions privately carried out.

b. Conducting research to determine the feasibility of "existing" companies in which the Bank will participate. This is done upon request by the proposed Equity Participation Section.

c. Credit analysis for determining eligibility for borrowing. This is conducted upon request by the proposed Credit Section.

The functions of the Equity Participation Section will comprise:

a. The purchase of shares, in whole or in part, in existing or newly established industrial enterprises.

b. The follow-up of the progress of those industries with a view to deciding on the proper time to dispose of the equity in them.

c. Receipt of industrial projects, established by the Board and Ministry of Development or other Government agencies, when it is the intention of the Government to turn over these projects to private enterprise.¹

d. Cooperation with members of the Bank's Board of Directors in representing the Bank on the boards of directors of companies in which the Bank is a participant.

1. Cf. Ch. VII, section D.

e. Disposition of equity participations in those companies which become well-established in the market. Actual sale of securities is to be effected by the proposed Securities Section.¹

The Loans Section is at present responsible for verifying the data (except the valuation of the tangible property to be pledged behind loans, which is performed by the Inspection Section) supplied by the borrower; submit loan applications to the General Manager for approval; and, arrange for signing the loan agreement.

Credit analysis should be the responsibility of the proposed Research and Promotion Section, which is the Bank's research center. Arrangement for the signing of loan agreements should be the responsibility of the proposed Legal Section. It follows that the Loans Section, with its present duties, will be superfluous.

The Collection of Debts Section is at present responsible for sending notifications to borrowers for paying due installments, and for taking legal action in case of default or breach in loan agreements. The first function would be the proper responsibility of the Credit Section proposed below. Legal action will be the responsibility of the proposed Legal Section. The Collection of Debts Section, in its present form, should thus be dissolved.

1. Cf. Ch. VII, section F.

The Inspection Section is at present responsible for both preliminary inspection of tangible property to be pledged by the borrower and subsequent checking on the use of loans. The first duty should be the responsibility of the Research and Promotion Section, since it is part of credit analysis. The second function should be delegated to the proposed Credit Section.

The proposed Credit Section will perform the following functions:

- a. Receive loan applications from prospective borrowers.
- b. Refer loan applications to the Research and Promotion Section for determining eligibility for borrowing,
- c. Submit the applications of eligible borrowers, together with recommendations, to the General Manager.
- d. Request the Legal Section to accomplish the legal requirements of loan agreements. In case of breach of those agreements, or default, the Credit Section will request the Legal Section to take the necessary legal measures.
- e. Follow-up due installments and send notifications.
- f. Check on the use of loans and offer constructive advice.

The Trade Section is authorized to import, or act as an agent in the importation of, machinery and raw materials, and to export Iraqi manufactures. So far it has only imported for the account of private or Government bodies. If the present policy of discontinuing commercial banking operations is continued, the Section will eventually

be dissolved.

Some of the duties of the Storage Section will also disappear when the Trade Section is finally closed. In this event, the operation of a bonded warehouse by the Bank becomes superfluous and could better be performed by private enterprise. There is at present a modern bonded warehouse under construction by a private company. The Bank could either sell its storage facilities to this company or help organize another company for the purpose.

The distribution of industrial securities (whether issued by companies which are promoted by the Bank, or by those privately promoted), and the disposition of Bank share-holdings will, in the near future, be an important function performed by the Bank. The establishment of a securities section would seem to be necessary.

Promotion, equity participation, credit operation and the distribution of industrial securities require continuous legal advice. At the moment, only the Collection of Debts Section and the Inspection Section enjoy legal advice. The expanding activities of the Bank will necessitate the organization of a separate Legal Section.

The reorganization proposed above will result in the following sections:

a. Administrative Section: Administration Section, Accounting Section, Internal Auditing Section, and Legal Section.

b. Banking Sections: Research and Promotion Section, Equity Participation Section, Credit Section, and Securities Section.

7. The Head Office of the Bank in Baghdad is now engaged in industrial banking both as a unit and as a Head Office. As the number of branches multiplies, the need will arise for a separate branch in Baghdad independent of a Head Office for all branches. This has been the case with the Rafidain and Estate Banks, both of which are State-Banks, following the increase in the number of their branches.

An increase in the number of branches and an expansion in Bank facilities will gradually lead, if other facilities such as power and transportation are available, to a dispersion of industries all over the country. The Bank will also become more familiar with the local problems of industry. Furthermore, branches will become training centers for employees with chances of promotion to positions of higher responsibility at the Bank.

Regulation No. 55 of the Bank provides that the Board of Directors may appoint local committees to orient Branch Managers in the local problems of industry, but this provision was never enforced. In 1956 Frihagen and the Third Technical Section of the Ministry of Development revived the idea and detailed it, but so far nothing in concrete form has emerged.¹

1. J. Goutail, Reorganization of the Industrial Bank. Unpublished, 1956, p. 1.

B. Sources of Funds for the Industrial Bank:

1. The Bank had up till now modest financial resources to cope with its increasing role in industrial financing. In 1951, the IBRD Mission proposed that the paid-up capital of the Bank be increased to ID 5 million. At that time, the paid-up capital of the Bank was ID 1 million.¹ After six years, it amounted to ID 3.5 million. It is evident that the Bank is held up from assuming its proper role because of the lack of adequate financial resources.

The Laws of the Bank provide that its capital is a loan which should be repaid out of the annual net profits of the Bank. These provisions are not sound in two respects. First, they are not consistent with the expanding activities of the Bank which require increasing financial resources. Second, they put emphasis on net profits as a source to be counted upon in capital-repayment. Such an emphasis is not in line with the principle that the profits of the Bank should be considered incidental to its operations.²

The activities of the Bank in every year should be planned and included as an integral part of the whole industrialization program. The funds needed to finance

1. IBRD, op. cit. p. 295.

2. Cf. the following item 2.

these activities should also be budgeted. When the financial resources of the Bank fall short of the budgeted sums, its paid-up capital should be increased accordingly.

2. The Bank seems to set a premium on profits and has a tendency to measure its success in that context. Thus, one General Manager, who managed the Bank from 1947 to 1952, remarked that the Bank itself is, in the last analysis, a profit-making institution and, therefore, will not stand in the way of measures likely to increase its profits.¹ The reader of the Annual Reports of the Bank gets a similar impression from the emphasis placed on the amount of profits realized.

Although the Bank should make some profit, in order to create public confidence in its operations, it was not established essentially to make money but rather to assist and develop industry. Hence it should lend and participate not only in ventures with an established earning record but also in industries which benefit the country as a whole, even though their profit margin might be low. This observation was supported by Iversen who remarked that profits:

... might be taken as a sign that the Industrial Bank has been promoting the right sort of industries. This, however, is true only on the assumption that the profit of an industry might be taken as an indication of the needs of the country for the products of that industry. One might even argue that if the Bank constantly makes profits, this would

1. A. Al-Dalli, op. cit. p. 54.

be an indication that the Bank has not been guided by the proper principle of a state bank. It must readily be recalled that its object is to create industries which can be to the benefit of Iraq as a whole. But in certain cases, this may very well mean industries which are unable to make any significant profits but which instead give general assistance to the whole economy of Iraq. ¹

3. The issue whether or not it is preferable for the Bank to accept deposits was settled recently by closing the deposits office. The small size of the deposits received and the probable high cost of running the deposits office, may have contributed to this decision. Another factor was the decision of the Bank, recommended by "De Little", to leave commercial banking gradually. ²

4. In 1956-57, borrowings of the Bank amounted to mark 20 percent of its paid-up capital. ³ The funds were supplied, with interest, by the Central Bank and the Development Board. The payment of interest on loans is closely linked to the weight attached to the net profits agreement. The Bank's fixed charges, it is assumed, should be paid out of annual net profits. One remedy suggested is to waive the interest requirement on loans extended to the Bank. Another and a better solution would be to increase the paid-up capital of the Bank so as to permit repayment of outstanding loans.

1. C. Iversen, op. cit. p. 33.

2. A. De Little, op. cit. p. 328.

3. Cf. t. III.

5. If the Bank follows the policy of selling its shares in those companies which become well-established in the market, its participations will provide it with a revolving fund. This proposal will be discussed later.¹

6. Frihagen and the Third Technical Section of the Ministry of Development have recommended that expenses incurred in staffing the Bank with competent personnel should be provided for from the Development Board in the form of grants-in-aid.² If the premise is accepted that the Bank is not to be considered as a profit-seeking concern, it follows that expenses would not be sufficiently covered by the Bank's net profits. In order to avoid deficit accounts, and at the same time encourage the Bank to expand its personnel and facilities, this extra item of cost should be borne by the Development Board. "De Little" estimates such expenses at about ID 0.025 to ID 0.050 million per annum.³

C. Promotion of Industrial Enterprises by the Industrial Bank:

1. The number of projects which were conceived by the Bank, as well as those which were executed by it, have⁵ been relatively small.⁴ The following factors are responsible for this situation:

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1. Cf. Ch. VII, section D, item 5.
 2. J. Goutail, op. cit. p. 2.
 3. A. De Little, op. cit. p. 328.
 4. Cf. Ch. IV, section A.

a. The understaffing of the Industrial Schemes Section, which includes at present one chemist, as Head of the Section, one economist, and two clerks. The Head of the Section places much emphasis on the technical aspect of promotion, and favors chemical projects. In addition, proper technical, marketing, and financial research institutions are lacking in Iraq. The Bank could, at best, get modest advice, mostly technical, from the Directorate General of Industry, the Directorate General of Agriculture, and the Third Technical Section of the Ministry of Development, most of which are badly equipped and ill-staffed. Recourse to a foreign expert is usually expensive. The Bank's procedures for contacting those experts are also time consuming.

It follows that strengthening of the research and technical staff is a necessary prerequisite for meeting the present requirements of Iraqi industry.² The research staff should be chosen according to the functional decisions of the Research and Promotion Section, namely, technical research, marketing research, and financial research.

b. The inadequacy of the financial resources of the Bank to execute even those projects which are technically and commercially feasible. Many such projects were transferred to the Development Board for execution

1. Ibid,

2. Cf. Ch. VII, section A, item 5.

because of the lack of resources at the Bank. Here again the need for increasing the paid-up capital of the Bank becomes clear.¹

Industrial research, quite often costly, need not and does not always materialize in going-concern enterprises. To devote more money for the promotion of industrial opportunities, the Bank, as a non-profit seeking institution, ought to be reimbursed for at least some of such overhead. Hence the need for defraying this overhead, among other items, by annual allocations to the Bank.²

c. The crowding of the duties of the Industrial Schemes Section which cover, at present, promotional research as well as the follow-up of the progress of existing industries in which the Bank is a shareholder. The need for separating these two functions was already emphasized.³

d. Limitations in the Bank's criteria for promotions. The Bank maintains that there should be a local market for the products of enterprises to be promoted. But this condition is not consistent with Iraq's growing petrochemical industry whose products are mostly destined for export.

A minor limitation is the Bank's insistence that the raw materials required for the enterprise should be

1. Cf. Ch. VII, section B, item 1.
2. Cf. Ch. VII, section B, item 6.
3. Cf. Ch. VII, section A, item 6.

produced locally. This criterion seems to have developed recently. It rules out the possibility of financing prospective assembling plants.

e. The present concentration on promoting relatively large projects. Iversen testifies that:

It might also be an appropriate policy for the Bank not to concentrate its activities on the establishment of large-scale industries, but, in addition, to assist in the promotion of small handicraft enterprises, repair shops, etc. Such small enterprises may be easier to manage at an early stage of the industrial development than big industries, and they may, furthermore, contribute to social stability by assisting in the creation of a class of independent craftsmen in the towns. 1

f. The lack of any promotion of combinations of small and established industries into larger and modern enterprises, with assembly lines and cost-saving devices. There has been no instance of the promotion of conversions from sole-proprietorships and partnerships to joint stock companies, while there were only three conversions from private to public companies.

2. One of the main functions of the proposed Research and Promotion Section is the promotion of industrial enterprises. Promotion comprises: (a) determination of the technical feasibility of industrial opportunities; (b) ascertainment of the economic and marketing feasibility of the project; (c) assessment of the financial feasibility of the venture; and (d) assembling--in cooperation

1. C. Iversen, op. cit. p. 34.

with the Equity Participation Section, the Legal Section, the Securities Section, and the founders' group--the elements of the new venture up to the point when it becomes a going concern.

In addition to promotions that will be carried out by the Bank itself, the Section will give advice free of charge, on private promotions.

a. Ability to conceive of new technical ideas requires the availability of competent staff and adequate facilities.¹ New ideas are either developed by such staff or are received from outside sources--i.e. private industry, other local private or government concerns, and foreign expert. This requires a close and continuous contact between the Bank, on one hand, and private industry and other concerns, on the other. The Section should be a source of supply of new ideas to industrialists. It should establish a much stronger contact with foreign research laboratories and workshops to keep informed about new technical developments, new products and processes. The technical staff may themselves judge the technical feasibility of some of the ideas developed locally or abroad, if those ideas do not require complicated technical research.

Due to the limitations in existing technical research facilities, the experimental research required for

1. Cf. Ch. VII, section A, item 6.

determining the suitability of local raw materials for prospective industries should, for some time to come, be conducted abroad and/or by foreign experts. The Industrial Schemes Section follows at present the practice of engaging foreign experts to carry out the necessary research.¹ The present procedures are, however, time-consuming, requiring on the average, about eight years to complete one project. Improvement in these procedures will enhance the value of research and reduce the time required to arrive at conclusions in this field.

The Section should also try to arrange for the establishment of a pilot plant for every project. The benefits of such a practice were referred to above.²

After the expected volume of demand is ascertained, the technical staff should proceed to calculate the production cost per unit.

b. Because local marketing experts do not exist, the Section should develop a competent market research staff. This is a prerequisite for the achievement of proper promotions. To day, modern marketing research is developed to the extent of giving valuable aid on marketing problems. Among its tools are market sampling and analysis.

Because it takes time to build up the necessary

1. Cf. Ch. IV, section A.

2. Ibid,

local staff, the Section could initially invite foreign market research firms to carry out the necessary studies.

Ascertainment of the expected volume of demand is the starting point for all subsequent cost calculations. The present dependence on the volume of imports to ascertain the size of the market is defective especially for products with a growing local demand, products newly introduced to the local market, and products for export.

To supplement the Bank's proposed marketing research staff, it might be advisable for the Bank to induce well established foreign marketing firms to open branches in Iraq. Equally important is the improvement of industrial statistical data compiled by the Bank. The Bank's research staff should continually collect all available current statistics on the capacity of existing industries, number of workers engaged in specific fields, the state of the market, foreign trade statistics, export markets potentialities, state of competition in certain fields of industry, existing substitutes for certain products, and thousand of other magnitudes which could only be obtained by a resourceful staff.

c. Assessment of the financial feasibility of enterprises requires an ascertainment of: (i) the total investment required for the project; (ii) the profitability of the enterprise; and, (iii) the appropriate pattern of financing the venture.

i. The total investment required consists of fixed assets, working capital, and payment for intangibles. With the expected volume of demand approximated, the capacity of the firm could be ascertained. Then follows a totaling of the costs of land, buildings, machinery, equipment and tools. Determining the amount of working capital needed is rather difficult. The present procedure of adding 8-10 percent of total fixed assets to estimate working capital needs is too arbitrary. A better alternative would be to estimate the production, sale, and collection periods for the products of the enterprise; and then to calculate the working capital turnover. For more details, the reader is referred to ¹ standard literature on business finance.

Investment in intangibles covers expenses of promotion, organization expenses, cost of floating new issues of securities, payment for intangible assets such as patents and goodwill, and operating losses (excluding depreciation) up to the point when the promoted enterprise becomes financially self-sustaining.

ii. Profitability of the venture is at present calculated by ascertaining unit cost, profit per unit, total net profit, and rate of return on investment. This is matched with the risk assumed to judge whether the enterprise is profitable.

1. For example, W. Eiteman, "Financial Aspects of Promotions", Essays on Business Finance. Ann Arbor, Masterco Press, pp. 1-17.

iii. The appropriate pattern of financing is ascertained by considering two sets of factors; internal and external. Internal factors stem from the nature of the firm being promoted. They include the size of the funds required initially, the prospective rapidity of the growth of the firm, the expected rate of return on investment, the stability of expected earnings, and the ratio of expected sales to investment in operating assets (the operating asset turnover).

External factors include the impact of income tax which discriminates in favor of debt financing, Government regulations, and the prevailing capital market outlook and rates of interest.

d. The final stage in promotions is the assembling of the elements of the enterprise. The Research and Promotion Section will collaborate with the other sections of the Bank and with the founders' group in this job.

After the technical, marketing and financial studies are concluded, the joint staffs meet together and prepare a joint promotion report which is submitted to the Board of Directors for approval.

The proposed Legal Section will see to it that all legal formalities are met (registrations, incorporations, patents, options, leases, issue of securities, etc.)

The proposed Securities Section will undertake, with the help of branches, the distribution of securities all over the country.

The proposed Equity Participation Section will buy its share in those securities, in line with the decision of the Board of Directors or the Manager (where delegation is in order).

The proposed Credit Section will lend, for the establishment of the new enterprise, the amount approved by the General Manager.

The technical, marketing, and financial staff will give their advice, in their respective fields, during the operational stage.

In addition to promotions that are carried out by the Bank itself, the Research and Promotion Section should render advice, free of charge, to promotions that are undertaken by private enterprise. "De Little" states that:

Even in highly industrialized countries it has been found necessary to supply technical and management aid to new and growing enterprises, both to assist them to grow and to improve their ability to raise capital.... Assistance of this sort cannot be paid for by the recipients. There are many enterprises in Iraq that could be expanded if proper managerial and technical advice and analyses could be supplied without charge by the Industrial Bank.... It is recommended, therefore, that the present new enterprises section (i.e. Industrial Schemes Section) of the bank be re-organized and expanded to provide management and technical assistance to new enterprises in the fields of marketing, production control, budgeting and accounting, engineering, cost analysis, management organization, personnel relations and such other fields as experience demonstrates may be required. 1

D. Equity Participations by the Industrial Bank in Industrial Companies:

1. A. De Little, op. cit. p. 328.

1. The Bank has a tendency to participate only in fairly large enterprises. Favoring enterprises that look big and grandiose, involving much capital, is again not consistent with the meagre size of the Bank's paid-up capital. This attitude is also linked to the Bank's emphasis on promoting large projects, referred to earlier.¹

2. It was already pointed out that the ratio of the size of equity participations to total assets of the Bank has gradually declined over the eleven-year period.² The main factor behind this relative decline has been the establishment of the Board and Ministry of Development which assumed the function of establishing industrial projects. The Bank has even transferred nine projects, on which it conducted research, to the Board and Ministry of Development for execution. While the lack of adequate funds and understaffing were important factors behind the transfer, the Bank should not take the view that the establishment of the Board and Ministry of Development should mark the end of its promotion or equity participation functions. For one thing, the Development Board tries at present to establish State-owned industries while the Bank tries to encourage private industry. The Government is trying at the moment to develop the private industrial sector; and the need for Government equity-participation in private industries is felt.

1. Cf. Ch. VII, section C, item 1.
2. Cf. Ch. IV, section B, t. VIII.

3. It is proposed here that the following types of industrial enterprises should be owned and operated by the Industrial Bank, but to be sold to private enterprise when they possess an established market.

a. Industrial undertakings established by the Board and Ministry of Development (BMD), intended to be turned over to private enterprise at the end.

b. Industrial enterprises which, after the July Revolution, were expropriated and assigned to the Ministry of Finance (e.g. the Iraqi Spinning and Weaving Company, Ltd.).

c. The cigarette factory, which is owned by the Tobacco Monopoly. Except for this factory, all the cigarette industry is privately owned.

Of all three categories, the most important are those of the BMD, listed in Chapter I, section B. According to Law No. 83 of 1956, all BMD industrial projects should be organized as autonomous units (public bodies), enjoying financial and administrative independence.¹ Members of their Boards of Directors are appointed, for a term of three years,² by the Council of Ministers. Each Board consists of five members, excluding the General Manager, three of whom must not be Government officials, and should have experience in the specific field of industry.

1. "Law No. 83 of 1956 for the Administration of Government Industrial Undertakings", Official Gazette, v. 32, No. 3827 (1956), Article 4 a.
2. Ibid, Article 4 c.

Each unit is provided with funds to cover the cost of its fixed assets and the initial working capital needed. Each is authorized to borrow additional funds with authorized capital serving as ceiling limit.¹

The Board of Directors of each unit is authorized to delegate the management of any one of its factories to a private company or to a technical committee.² Subject to the approval of the Council of Ministers, each unit could organize its plants into companies with share-certificates owned by the Government (Ministry of Finance), and the Government could sell part or all such shares to the public.³

"De Little" suggests that the BMD industrial undertakings should be classified into two main groups: (a) those whose ownership and control should be retained by the Government; and, (b) others to be ultimately turned over to private enterprise.⁴

The first group includes such projects as electric power stations, gas distribution systems, oil refining, and similar others of the public utility type and State-owned enterprises deliberately run at a loss. The "unit" type, referred to above, seems to be a suitable form of organization and management.

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1. Ibid, Article 3.
 2. Ibid, Article 7.
 3. Ibid, Article 11.
 4. A. De Little, op. cit. p. 325.

The second group of enterprises, to be ultimately owned by private firms, such as textiles, cement and sugar, should first be transferred to the Industrial Bank. There is always the risk, however, that their present Boards might attempt to perpetuate themselves. Qubain comments on that in the following words:

1. Experience in other countries has shown that once an organization is created, it becomes extremely difficult to dislodge it, for it generally entrenches itself and develops vested interests. Particularly in Government, temporary measures and organizations have a way of becoming permanent.

2. Ownership of industry by the state may become more and more attractive as a revenue-raising instrument. As the volume of profits from state industries increases, there will probably be considerable reluctance to give up this lucrative source of revenue. On the contrary, this may provide further temptation to increase state industrial holdings.

3. Although there is no conclusive evidence based on actual study, there is reason to believe that, generally speaking, the vocal segments of the Iraqi public and particularly the intelligentsia, would prefer state ownership of the important industries to private ownership. Conceptually, state ownership has the advantage of appealing to the public in terms of 'public property' to be used for the general good rather than to enrich the few. Conversely, private ownership of industry brings with it mental association with 'capitalism', a term which in the Middle East carries unpleasant and sometimes even sinister connotations. 1

The present preference of Iraqis for State ownerships of important industries implies that they would not prefer the transfer of State-industries (e.g. BMD industries)

1. V. Qubani, op. cit. pp. 188-89.

to private enterprise. As for the Government, it has clearly declared its intention to encourage and develop both the private and the State industrial sectors. In addition, it has ruled out the ownership of industries which private enterprise is able to own and manage.

"De Little" supports the initial transfer of enterprises to the Industrial Bank on the basis of the following advantages:

1. The development and expansion of economically sound industries in Iraq at a faster rate than could be achieved by present methods.

2. Industrial progress without a severe drain on the resources of the Development Board or its technical and professional staff, whose time is already taxed by other essential projects.

3. Accomplishment of the industrialization program at less cost to the Government than under present procedures; more industry would be achieved for the amount of money available.

4. The attraction of more private capital into industry than the present program under which it is not clear whether private enterprise will have competition from government-owned plants. Thousands of intelligent private people would thus be attracted to work on these problems...¹

Another argument in favor of the suggested procedure is that the present composition of the Boards of "units" does not give the Government definite authority over the operations of the enterprise it owns. The Board of Directors is the final authority in decision-making. Three out of six of Board members are private industrialists. The Chairman has the casting vote; but there is no assurance that the Chairman will be from among the Government officials. In addition, the member industrialists

1. A. De Little, op. cit. p. 326.

should, as provided for in Law No. 83 of 1956, be experienced in the specific industry of which the project is a part. But there remains the risk of a possible clash between the personal interests of a private industrialist and his duties as a member of the Board.

When it is decided to adopt the proposed procedure, the BMD enterprises in question will be transferred to the Industrial Bank who will reimburse their costs to the Development Board. But since the Bank's present financial resources are inadequate, its capital should be increased so as to permit acquisition of such enterprises. This is an additional factor calling for an increase in both the authorized and the paid-up capital of the Bank.¹

When a BMD enterprise is acquired by the Bank, the latter will organize a joint stock company and follow one of three courses of action: (a) Sell all the shares of the enterprise to the public and dispose of the enterprise at once to private management; (b) Retain all the shares in the hope of a subsequent gradual sale to the public; or, (c) participate in part in the equity of the enterprise and sell the remaining shares to the public. The choice made will depend upon the nature of the enterprise, and upon the amount of subscriptions expected.

The same procedure described above should apply to industries which were expropriated after the July Revolution

1. Cf. Ch. VII, section B, item 1.

and presently owned by the Ministry of Finance. The latter is not a specialized institution to manage such industries. To continue operating them, they should be transferred to the Industrial Bank in the manner above-mentioned.

A similar arrangement is also true of the cigarette factory presently owned by the Tobacco Monopoly. Private cigarette manufacturers are afraid that state ownership in this industry will ultimately lead to a state monopoly of tobacco manufacturing. On the strength of such doubts, private investment in this field has been checked, though the Government has denied its intention of nationalizing the cigarette industry and has prohibited the importation of foreign-made cigarettes. The transfer, by the state, of the cigarette factory to private hands will help to alleviate the present fears of the industrialists.

4. The Industrial Bank has often been urged, as a shareholder in many industries, to exercise control over their pricing and sales policies.¹ One of the Bank Managers remarked that this suggestion derives from the prestige which the Bank has acquired in relation to industrial development. The Bank has helped to iron out many difficulties and improve management.² But it is going too far,

1. A. Al-Dalli, op. cit. p. 53.

2. Ibid,

he thought, to suppose that the Bank can actually control the pricing, sales, and purchases policies of those industries. Except for one enterprise, the Bank's representatives are a minority on the Boards of Directors; and they have no right in the election of other directors.

The situation is expected to be different when State industries are transferred to the Bank, as proposed earlier. Here, the Bank will become a majority shareholder in most instances and will exercise control over a significant sector of Iraqi industry. To expedite work it is suggested that the Boards of Directors of new companies be vested with final authority in decision-making on the operational levels. On major decisions, the approval of the Bank's Board of Directors will have to be secured.

A related problem is staffing the Bank with competent persons to serve on the Boards of these companies. The Bank Directors will not have the time to attend meetings of a large number of companies owned by the Bank, or in which the Bank is a shareholder. An Equity Participation Section, when established, would offer the necessary personnel to serve on the Boards of such companies. The staff of this Section will cooperate with the Bank's Board of Directors on the composition and manning of company Boards. This will add to the responsibility of the Section and would require staffing it with competent

people. The Section may, after the approval of the Bank's Board of Directors, appoint outside directors (as the Bank does currently), provided the recruitment of these outsiders does not prejudice the competitive position of the companies concerned.

5. As a permanent arrangement, the mixed ownership of industries, i.e. partial equity participations by the Bank, appears to have definite disadvantages. A public enterprise is designed to accomplish mainly a public purpose; profits, if any, being incidental. On the other hand, the object of a private enterprise is to earn profits to the proprietors. A mixed enterprise is not likely to accomplish either objectives satisfactorily.

Moreover, the Bank cannot manage a large number of industrial enterprises; and will be forced, sooner or later, to liquidate some of its interests in order to relieve itself of complicated managerial loads.

It is quite possible that the disposition of Bank security holdings will gradually help to create a capital market in Iraq. Iversen argues that:

The Industrial Bank should... expand its practice of selling part of its holdings of shares on the capital market in order to assist in educating the public to possess shares. At present the number of private shareholders appears to be very small in Iraq. A broader recruitment to this group would provide a basis for future industrial development. 1

1. C. Iversen, op. cit. p. 207.

He also states that such a policy:

contributes to the highly needed creation of a capital market by making the public more accustomed to the holding of shares and other securities. In the long run, more widespread familiarity with securities may make it easier to float new issues of shares and bonds without the assistance of the Industrial Bank. But this should in no way be regretted. On the contrary, to put it a little pointedly, it may be said the main function of the Industrial Bank is to make itself superfluous as regards the field of 'profitable' industries. ¹

Another drawback emerges from the fact that the capital of the Bank should be used as a revolving fund.

The IBRD Mission suggested that:

The Bank's capital should primarily be used as a revolving fund. The Bank should generally dispose of its industrial shares whenever an enterprise becomes profitable and, therefore, capable of attracting more private capital. ²

In reply to the above argument, one Bank Manager remarked that this view is no doubt inspired by the shortage of capital from which the Bank, as well as other financial institutions, had suffered prior to the Oil Agreement of 1951. ³ It is clear that the Bank must not, however, hastily dispose of its shares if it is to perform its important function of encouraging enterprises and capital investment in industry. The Manager offered four reasons for this contention. First, most of the industrial concerns in which the Bank participates are still under construction, ⁴ a process which requires two to four years

1. *Ibid*, p. 34.

2. *IBRD*, *op. cit.* p. 295.

3. A. Al-Dalli, *op. cit.* p. 45.

4. He refers here to the year 1954, in which the article was written.

in Iraq. The few firms which already started production have only recently started to distribute profits. Any large sell-out of their shares by the Bank is likely to shake confidence in them and to create unforeseen difficulties. Secondly, there is no organized stock exchange in Iraq. The market for shares is so limited that any large sale of shares is likely to generate substantial decline in security prices which thing would hit small investors, benefit speculators, and harm the credit standing of the Bank. Thirdly, the high stake which the Government now has in the capital of so many industrial concerns will help to assure private enterprise that the Government will not retreat from its present sympathetic policy towards industry. The fourth consideration is that Government participation in industry, through the Bank, gives it a useful instrument, if it wishes to make use of it, for the supervision and control of industry.

The Bank's Manager, whose viewpoints were reproduced, conceives of the disposition of participations as being inspired by the shortage of the Bank's capital. Availability of capital should not, however, be the governing factor in such dispositions. The solid criterion to use is whether or not the firm in question is well-established in the market. If this is the case, the

Bank should sell its shareholdings in it even if it has ample financial resources. Despite this principle, the Bank seems to have followed the policy expressed by the Manager quoted above. Thus in 1950-51 it disposed of some of its shares in the Iraqi Cement Company, Ltd., on the ground of lack of funds. When the paid-up capital of the Bank was increased in that year, the Bank not only stopped that sale but reacquired more shares in that Company.

The Manager's argument that most of the companies in which the Bank participates are still under construction does not contradict the principle already laid down that the shares are to be sold when the company becomes firmly established in the market.

The second argument of the Manager refers to the possible decline in the prices of shares consequent upon a "large" sell-out by the Bank. What is proposed here, in reply, is not a large sell-out but a gradual liquidation commensurate with the interests of the companies concerned and under favorable market conditions.

The third argument also does not seem to contradict the principle proposed for dispositions. When the firm is established in the market, a gradual sale of Bank participation in it is not likely to shake the confidence of private industry in the continued support of Government

to industry. This is especially true if the Bank keeps on using the freed funds in new participations; and if it publicizes its policy of continued participation until each company concerned is firmly established.

The last argument about Government regulation of industry is superfluous since the Bank, a minority shareholder in most existing companies, does not intend to exercise its control over those companies.

One factor not mentioned by the Manager is the political pressure exercised by influential figures for continued Bank participation. These people see in Bank participation a cheap source of funds. They also fear a decline in the price of their shares following liquidation of the Bank's equity in their companies.

Another factor, also not referred to by the Manager, is that the Bank, being profit conscious and proud of stating a large amount of profit in its Annual Reports, does not favor disposing of the shares in companies which have been responsible for the bulk of its revenues.

A third factor overlooked, which is closely related to the second, is the Bank's unwillingness to dispose of its participations except at an appreciable profit. The reader can refer to Table V to see the volume of such profits that were realized upon sale.

Profits realized upon the sale of shares would

give another conclusion. They mean that the companies are well-established in the market and that the Bank's participation in them is superfluous.

A fourth and final factor emerges from the fact that since equity participations by the Bank are considered Government property, they should be disposed of in public auction--a time consuming and complicated procedure.

The main conclusion to be drawn from the above is that the Bank should gradually dispose of its participations when the companies concerned become firmly established in the market. This principle should be embodied in the Laws and Regulations of the Bank, a provision which does not exist at present.

E. Credit Operations of the Industrial Bank:

1. To be eligible for borrowing, certain specified data must be submitted by the prospective borrower, to be verified by the Bank, in addition to an acceptable security to be pledged behind the loan.

On grounds of unpracticability, Regulation No. 55 of 1954 waived the requirement to submit information about the market for the product, the cost of production, and the amount of capital available or expected to be available. It left the type of information to be submitted to the discretion of the Board of Directors.¹

1. Cf. Ch. V, section A.

The Bank puts much emphasis on the tangible collateral to be pledged behind loans. Valuation of tangible assets serves as the starting point in the processing of a loan. All other information are relegated to a minor position. Goutail, a former member of the Bank's Board of Directors, testified that:

By studying the several loan requests submitted to the Board during the last months, it appears that the method of analysis has for its essential object, apart from checking the veracity of data supplied by the borrower, to ascertain the value of the properties offered as securities.... In fact, this is the only information supplied to the Board for their decision towards the grant of the loan. 1

The Board of Directors has no means to ascertain that the proposed establishment of a new industry, or the proposed extension of an existing one, is technically, economically, and financially justified. It has to rely on the valuation of the security, made by the Inspection Section, and the supplementary data collected by the Loans Section. Compliance with Bank Laws and Regulations is observed. The available financial resources of the Bank are reviewed; and the Board decides whether or not to grant the loan, in full or in part, and whether or not the proposed term of the loan is acceptable.

It was already mentioned that the main justification for a long term loan should be the earning power

1. J. Goutail, op. cit. p. 2.

of the enterprise.¹ Profitability and solvency are key factors which should be assessed before deciding to grant a loan. Tangible collateral is of secondary importance.

It was also proposed earlier that the Inspection Section should be dissolved, and that the responsibility for preliminary valuation of the collateral should be transferred to the Research and Promotion Section. Examination of such property should form a part of the credit analysis required before credit extension. The Research and Promotion Section will be the only body that will pass judgment on the economic justifiability of the enterprise, both existing and prospective.

Research conducted by this Section to determine the technical, marketing, and financial feasibility of a "new" enterprise applying for a loan would be similar to that suggested in section C of this chapter, namely, research performed in promoting a new enterprise. Of special significance here should be a study of the ability of the prospective enterprise to bear the fixed charges imposed upon it by Bank credit.

Determination of the eligibility of an "existing" enterprise for Bank credit is somewhat different since it would have a record of management performance behind it to appraise.

1. Ch. V, Section A.

Technical feasibility of an existing enterprise is assessed by considering such factors as available and utilized capacity, need for expansion and modernization, the state of maintenance and repairs, the system of production control, the operative efficiency of the production processes, and the estimated value of the tangible collateral which is to be pledged.

Marketing analysis centers around the ascertainment of the volume of demand for the products of the firm, the growth and stability of such demand; the growth of the industry, of competition in the specific industry, and the competitive power of the prospective borrower.

Financial advisability comprises an examination of the financial statements of the borrower over an extended period. Where such statements are not available, the Research and Promotion Section should prepare rough statements from available data. Projected statements should be prepared to determine the profitability of the enterprise and the volume of funds expected to be generated from operations. The latter helps to check on the technical solvency of the business.

The recommendations of the Research and Promotion Section should indicate whether or not it is advisable to extend financial aid, in the form of a loan or equity participation and, if the former, the terms and conditions of the loan.

2. Many industries, often of considerable size and market standing, are organized in Iraq as sole-proprietorships. Regulation No. 55 sets a loan ceiling limit of ID 20,000 to any one concern in this category. Some industrialists consider this limitation unjustified. They argue that once the Bank is satisfied of the eligibility and need for credit, the form of business organization should not serve as a deterrent. To offer credit below the amount needed may force the borrower either to give up the idea of borrowing or to use the amount offered to finance partial expansion with concomitant lost opportunities. "De Little" argues that "the limit... on loans to any one person should be removed. This limit... is unnecessarily restrictive..... The Bank should develop principles by which to judge the appropriate amounts to be loaned."¹

Others, including Bank management, maintain that the limit is justified on two grounds: (a) that more than ID 20,000 should not be tied in a sole-proprietorship which depends for its continuity of existence upon the life of the owner; and, (b) that sole-proprietorships which could profitably utilize loans exceeding ID 20,000 should be encouraged to convert into limited companies thereby enjoying a higher line of credit (ID 120,000) and possible Bank participation.

1. A. De Little, op. cit. p. 328.

3. Some industrialists are of the opinion that the Bank concentrates its credit extensions on relatively large firms. It was already pointed out that the bulk of Bank loans falls within the "ID 2000 and More" bracket.¹ The main question here is whether the Bank deliberately follows this policy, or is forced to do so due to the lack of "eligible" small borrowers. One main requirement stressed by the Bank is the availability of tangible collateral acceptable to the Bank. It is probable that most of the smaller firms do not have such collateral, even though they are profitable going-concerns.

One argument held by the Bank at present is that the cost of research and analysis on most of the smaller loans is not commensurate with the interest earned on them. The deciding factor should be whether or not the firm in question falls within a class of enterprises which the Government is trying to develop. If it does, then the enterprise should be studied to determine its eligibility for Bank credit. The Bank could be reimbursed for the extra cost involved from the allocations proposed to be granted to it to meet such expenses.²

4. The present distribution of loans among industries does not seem to be the outcome of a planned policy.

1. Cf. Ch. V, section B.

2. Cf. Ch. VII, section B, item 6.

Rather, it is a random result of applying the rules of eligibility and the availability of funds at the time the loan applications are submitted to the Bank. It is expected that the transfer of ownership of the Bank to the Ministry of Industry will insure coordination in the whole industrialization program. The latter classifies Iraqi industry into categories according to their priority. Bank credit should be consistent with such a classification and policy.

5. The stress laid on tangible collateral is continued through the subsequent credit supervision. The Bank calls such credit supervision "inspection". It is, in essence, a check on the technical performance and the change in ownership of the tangible security pledged. Goutail comments on this situation and argues that such inspection should:

... not only be made in the interest of the Bank but also in the interest of the borrower. These inspections should assume the form of a continuous and constructive assistance to the industrialist towards a better organization and a better management. This kind of assistance is as much in the interest of the Bank, because it serves the Bank to help making of a customer's plant a profitable enterprise. 1

Commenting on small-sized firms, Goutail has the following to say on how such enterprises are run:

1. J. Goutail, op. cit. p. 6.

... expenses are (recognized) when paid... and not in relation to a given production. No proper evaluation of stocks is worked out. The difference between depreciation and maintenance costs is not properly understood. It is then practically impossible to work out a cost of manufacturing; and the company is unable to adjust properly its operation costs. The results can lead to a failure of the company. 1

We visited a company in which economizing was poor. Upon examination of several months' expenses, we found out that, in order to save money, management purchased inferior quality raw materials. Subsequently, the quality of the manufactured products dropped sharply, and unsold inventories piled up. The remedy utilized accelerated the failure; and the company was unable to control its costs because it failed to set up a proper system of industrial accounting. 2

There are a lot of enterprises in Iraq which could be improved or even saved by providing them with assistance in the fields of production control, budgeting and accounting, cost analysis, management skills, and marketing techniques. The Bank may use the proposed Credit Section as a "feeler" for the state of industry. Its findings may be useful in dealing with other customers. If the Bank establishes and maintains an intimate touch with its borrowers, it can develop a sensitivity to the state of industry and advise its borrower accordingly.

Because Bank credit is of the medium and long-term types, the need is great for careful and continuous

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1. Ibid,
 2. Ibid, the paragraph was paraphrased.

scrutiny of the reports submitted by the borrower, or prepared by the Credit Section itself. Since long-term credit analysis places more emphasis on earnings, an examination of the earnings potentials is paramount. A verification is needed of profit distribution, maintenance of the plant in good condition, and the over-all financial condition of the enterprise. The budget prepared for the borrowing firm should be followed up to see whether deviations are due to external factors or to internal factors within the specific firm. Competitiveness, profitability, solvency, and managerial ability should be appraised at regular intervals.

Corrective action should also be carefully put into force. No factor should be permitted to accelerate the deterioration of the condition of the borrower. The Bank should render constructive advice with the aim of keeping the enterprise in a healthy condition and add to its efficiency. Legal action should be resorted to only when the borrower does not comply with the advice of the Bank; and when management is lax in its operations.

6. The recent development in the number and scale of activities of commercial banks in Iraq, and the gradual extension of short term credit to industry, was a main factor behind the recent decision of the Bank to concentrate on long and intermediate credit only. "De Little"

approved of such a policy and stated that the Bank should¹ not compete with commercial banks in short term credit.

7. The term of loans extended is at present largely dependent upon the life of the security pledged-the longer the expected service life of the asset, the longer the permissible term of the loan.² This is definitely an arbitrary criterion. Every specific case should be studied on its merits. Flexibility should be introduced in setting up limits to the terms of loans extended, depending upon the circumstances of each situation.

Deferrment of settlement of due installments should be closely integrated with credit supervision. Legal rules should be made flexible so as to allow postponement of settlement for legitimate causes. Sometimes a growing firm needs not only a postponement of due installments but also additional borrowing of Bank funds. Decision on such matters should rely on the specific conditions of the firm rather than on rigid limits set for all types of loans.

F. Miscellaneous Functions of the Industrial Bank:

1. The importation of machinery, and raw materials; their storage; the authority to export Iraqi manufactures; and the accepting of deposits from the public,

1. A. De Little, *op. cit.* p. 328.

2. Cf. Ch. V, section C.

have either been discontinued by the Bank or are being discontinued. It was the recommendation of "De Little" which encouraged the Board of Directors of the Bank to decide on such a policy. "De Little" stated that:

It would seem to be inconsistent for the bank to be carrying on activities in competition with the commercial banks, if these activities can be performed by the commercial banks. The financing of import and export trade, for example, could be conducted by the commercial banks for customers of the Industrial Bank unable to secure credits on their own names, if the Industrial Bank were willing to guarantee the credits. A policy under which the Industrial Bank does not compete with.... the commercial banks.... would make for better working relations among all institutions concerned. 1

2. It was proposed earlier that a Securities Section should be established to:²

a. Distribute new industrial securities issued by companies promoted by the Bank.

b. Sell share-holdings of the Bank in existing, well-established companies.

c. Distribute securities of other industrial companies, existing or to be formed.

The Rafidain Bank is currently the only outlet for the sale of new issues of securities.³ When liquidation of share-holdings is effected by the Industrial Bank, public auction is resorted to.

1. A. De Little, *op. cit.* p. 328.
2. Cf. Ch. VII, section A, item 6.
3. Cf. Ch. VI, section E.

The proposed Securities Section should remain in continuous touch with the gradually developing capital market of the country, and should follow up the developments in the principal capital markets abroad. The Section should gradually develop a competent staff for the distribution of securities.

The proposed Section could render the following types of aid to industry:

a. Offer an effective securities merchandising organization able to secure the best possible prices and widest distribution.

b. Render advice on the floatation of new issues, with reference to the type of security, timing, interest rate, etc.

c. Check on financial condition of the issuing company.

d. Arrange with the issuer on maintaining the market by pegging the price of the issue for the account of the issuer.

Finally, the Bank should apply for a waiver of the public auction requirement in the sale of securities since it is both very crude and time-consuming.

APPENDIX VIII
 IMPORTS PLEDGED WITH THE INDUSTRIAL BANK
 1953-54 to 1956-57

Finan- cial Year	No. of Trans- actions	Amount ID	Imported by Bank		Imported by Others		Stored at Customers' Premises		Stored with Third Per- sons		Settled dur int the yea	
			No.	Amount ID	No.	Amount ID	No.	Amount ID	No.	Amount ID	No.	Amount ID
1953-54	26	50416	n.a.	n.a.	n.a.	n.a.	19	31752	10	18664	11	26513
1954-55	65	304368	45	237886	n.a.	66482	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1955-56	87	263103	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1956-57	50	70819	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Annual Reports, op. cit. Nos. 6-9 (1953-54 to 1956-57), passim.

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