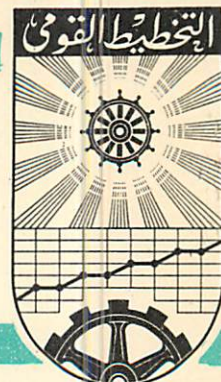


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THE REFORM OF THE FINANCIAL SYSTEM
OF STATE-OWNED ENTERPRISES IN POLAND

by

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The general tendency of substituting directives by parameters within the system of planning and management of socialist enterprises in Poland¹ required also some adjustments of the financial system of state-owned enterprises to new principles of management. The reform of the financial system, undertaken during 1965 and applied in practice from 1st January 1966 aimed to increase the influence of incentives and stimulate over the economic activity of enterprises, within the same framework of already existing institutions².

The most important changes were made in the field of the division of the benefit of state owned enterprises, especially industrial ones. The general principle, that the net benefit is divided among workers (bonuses fund), the enterprise (development fund) and trust (transfer to the trust, from which a certain part of the aggregated net benefit of the entire industrial branch is then retransferred to the state budget) remains unchanged, but the principles of the formation of all these parts have been changed considerably.

These changes are connected with the changes in the system of directives and parameters of decision, transferred to enterprises by the central planning authority on the basis of the annual national economic plan. Within the new system the most important directive, given to enterprises, is the rate of the net benefit to be attained within the planned period. Enterprises, when establishing their own economic plans, have to determine the targets as to the volume and structure of production, as to the level of prime-cost etc. in the way assuring the financial result of their activity at the level not worse, than the directive rate of the net benefit. This rate is measured either in relation to global prime costs of production, or in relation to the value of fix and working capital, engaged by the enterprise in its economic activity. For the time being prevails the system of obligatory rates of the net benefit related to global prime costs of production, and the obligatory rates related to engaged capital are only experimented, but in future this second kind of directive indicators of rentability is to be introduced generally.

Enterprises, having implemented this planned target (i.e. enterprises having attained the obligatory rate of the net benefit, according to their balance-sheet) are entitled to transfer a part of the net benefit to the bonuses fund. This part is determined for every enterprise separately, according to its economic and technical conditions, within the limits from 3,5 to 5,5% of the annual planned wage-fund. It must be underlined, that the net benefit is a condition of accumulation of the bonuses fund, but the amount of means transferred to this fund depends directly on the wages-fund of the enterprise. This principle is aiming to assure equal possibilities for every enterprise to grant bonuses for their workers, provided, that the directive level of rentability was attained. The increase of the rentability over the directive entitles enterprises to increase transfers on bonuses fund, in limits from 0,2 to 0,8% of the annual planned wages fund for every additional percent of the rate of rentability.

In this way the system of accumulation of the bonuses fund was considerably simplified when compared with old principles, according to which there were many indicators determining the right of an enterprise to accumulate this fund. The system of distribution of already accumulated funds has not been changed. Up to 75% of the fund can be divided among workers in the form of individual bonuses, remaining 25% have to be devoted for construction of dwellings for workers.

The net benefit, diminished by the transfer to bonuses fund, is divided among the enterprise and the trust, according to determined percentage share for each of them. This percentage is now determined for at least two years, in order to enable enterprises to establish the plan of accumulation and division of the development fund for no less than two years ahead. The share of enterprises in their net benefit is determined in most cases in limits from 30 to 50%. Every month, the net benefit established in the financial balance-sheet of the enterprise, is divided according to this percentage: a part belonging to the enterprise is transferred on the special account of the development fund in the bank, the other part is transferred to the bank account of the trust. This division is made when the net benefit was already diminished by the transfer to the bonuses fund, determined according to above described principles.

The accumulation of the development fund during the operational year is proceeding on the separate A account of this fund. Means accumulated on this account are not disposable up to the end of the operational year and up to the moment of the approval of the final annual balance-sheet of the enterprise. Once the balance-sheet approved by the control authority, the amount of means accumulated on the account A is transferred to the account B, and from this moment the enterprise can dispose of its development fund.

Financial means, accumulated on the account B of the development fund, must be first used for the increase of own floating funds of the enterprise. This increase depends on the increase of stocks of raw materials, half finished and finished products. Every industrial enterprise is obliged to finance 60% of value of accumulated stocks by own floating means (capital). The remaining 40% of this value are financed by the bank credits. Only seasonal stocks are exempt from this rule and can be financed in 100% of their value by bank credits. The increase of stocks is now measured by figures, included in the annual balance-sheet of the enterprise, and thus the basis of the division of the development fund is the real increase of stocks, not the planned one. Before the reform the development fund used to be divided according to planned increase of so-called standard stocks, and the enterprises in many cases determined in their plans this increase on a very low level, in order to accumulate more money for financing investments. Now the possibilities of financing investments depend not on planned, but on real increase of stocks. It is considered as a strong incentive stimulating enterprises to limit the increase of stocks to the really necessary amount.

The part of the fund of development, remaining after the transfer of 60% of the value of the increase of stocks on the current account (increasing in this way the floating fund) can be devoted for decentralised investments. The enterprise is getting interest for funds, remaining on the account B of the development fund. This interest is an incentive to abolish investment projects, assuring the increase of rentability less than this rate of interests. Enterprises now compare advantages of undertaking investments with advantages of earning interests for accumulated funds, and examine very carefully economic effectiveness of investment projects.

The part of the fund of development, devoted for financing investments and remaining on the account B after the transfer of the part, increasing floating funds, can still be diminished during the operational year, when the planned increase of stocks is in reality exceeded. In such a case the bank may require additional increase of the floating funds of the enterprise, at the expense of its means for investments. This principle constrains enterprises to manage very carefully their stocks and to undertake investments also very carefully, preserving a certain reserve on the account B of the development fund for not forecasted needs.

The enterprises working in bad technical and economic conditions, reflected in a low level of rentability, can be granted for financial assistance by trusts. Trusts preserve a part of net benefits transferred by enterprises on the reserve fund, and another part on the investment fund. Only the remaining part (determined by a percentage share) of net benefits transferred to trust is then retransferred to the state budget. The reserve fund can be used by trusts for subsidies granted to poorly working enterprises, in order to increase their development fund and to enable them to modernise their technical equipment and increase in this way their rentability. The reserve fund is also used for reimbursement of not planned financial losses (deficits) of enterprises, or for reimbursement of bank loans in cases, when enterprises are not able to settle their payments to banks from own funds. In every case, when granting a subsidy or a loan from the reserve fund to the enterprise, the trust has to examine in a detailed way the reasons of poor financial efficiency of the enterprise in question, and to apply appropriate organisational and economic measures, assuring the improvement of its activity in the future. The role of the reserve fund, accumulated by trusts, has not considerably changed within the new financial system when compared with the old one.

The new principle, introduced from 1-st January 1966, is the participation of the net benefit, transferred by enterprises, in accumulation of investment fund by trusts. Formerly this fund was accumulated exclusively from transfers of the part of amortisation (depreciation) fund - now it has a new source of accumulation, the net benefit. This new principle is another example of the general tendency to increase the material interest of enterprises and trusts in the benefit, considered now as the most general and important indicator of the economic effectiveness of their activity.

- 1- See the lecture on new elements in financing investments in socialist countries.
- 2- This lecture is a supplement to the memo. no. 502 "Financial Mechanism of a Social Economy", where the old financial system of enterprises was described.