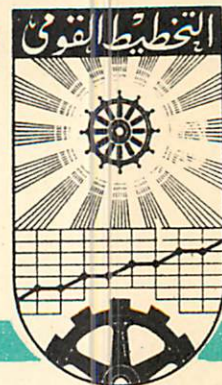


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NEW ELEMENTS IN FINANCING INVESTMENTS
IN SOCIALIST COUNTRIES

by

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The evolution of the system of planning and management in all socialist countries in Europe, observed from ten years, is directed to gradual substitution of directives given by the central planning authority by the system of parameters shaping independent decisions taken by socialist enterprises. It must be underlined, that this change of system of planning and management does not affect the role of central planning in the economic development of these countries. Independently of the system of management the central economic plan always includes most important targets of the economic development: The rate of investment, the rate of growth of the national income, the rate of growth of consumption, interbranchial relations of the increase of production etc. This general programme of economic development is always based on a certain pattern of the final production, including also a pattern of the individual consumption, both expressed in physical units, with monetary indicators applied only as instruments of aggregation of physical units. Such a detailed central economic plan is a necessary basis for all investment decisions, assuring a balanced economic development of the entire national economy, and therefore no relevant change in the system of central economic planning can be done. That is only the system of transferring targets of the central plan to enterprises and other economic units, which is gradually changed and improved.

Within the so-called centralised system of management all detailed targets of the national economic plan were transferred to enterprises as orders or directives. They determined the overall amount of production, its internal structure, the technique and the organisation of production, the amount of workers to be employed etc. The characteristic feature of this system was the neutralisation of monetary indicators and monetary flows: enterprises were expected to implement directives disregarding financial results of their activity, and the shortage of financial means in a separate enterprise was a reason for additional financing, not for limiting its activity. On the contrary, over-planned financial responsibilities in a separate enterprise did not entitle this enterprise to over-planned expenditures on its development - they were to be transferred to the disposal of the state budget.

This system had many disadvantages: it was extremely stiff and expensive; enterprises were not stimulated to economise productive factors, to improve the quality of production etc. Therefore this system is gradually substituted by the parametric system of management. Within the parametric system in its pure form no directives should be given by the central planning authority and enterprises are expected to establish their plans of economic activity independently. Their decisions are, however, shaped by the central planning authority by indirect instruments: incentives, prices, taxation, interests etc. These indirect instruments are called parameters of decisions. They have monetary character, and therefore money within the parametric system of management is no more a neutral factor.

The main incentive in this system is the participation of workers and enterprises in the net benefit gained by the enterprise. This participation stimulates enterprises to maximise the net benefit by increasing production, reducing prime costs, improving the quality of produced commodities etc. Thus, assuming that the central planned authority has balanced productive capacities within the entire national economy, no directives determining the amount of production for separate enterprises are needed, because they can be expected to utilise full capacities in order to maximise the net benefit. Furthermore, the directives determining the structure of production can be substituted by price parameters: the social preference for certain commodities can be expressed by higher prices for producers, while the reduction of prices on other commodities can break their output in a not less efficient way, than a respective order given by the central planning authority.

The parametric system is relatively easy to apply for shaping current economic decisions of enterprises, but it is not so easily applicable for the investment activity. It can be observed, that the parametric system can work effectively only within a balanced economy - when there are some disproportions in the development of different branches, the indirect parametric instruments are not sufficient in order to express adequately social preferences and some regimentation of independent decisions taken by enterprises is unavoidable. And the balance of productive capacities within the entire national economy, being a condition of the effectiveness of the parametric system of management, requires centralised investment decisions.

That is why even in the parametric system of management most important investment are decided by the central planning authority. These decisions must not be, however, completely detailed ones; they can be limited to the establishment of the necessary increase of productive capacities in a certain branch of the national economy, and to the maximum level of the investment expenditure on this increase. All technical details of investment projects can be decided within these limits by organisations responsible for this branch of the national economy (ministry, trust etc.). Still, the general decision as to the structure of investments is taken by the central planning authority, and this fact ought to assure balanced growth of all the branches of the national economy.

But not all investments have a considerable influence on the productive capacities and their inter-sectorial relations. There are investments aiming to substitute used-up productive capacities (reinvestments), there are also investments aiming to reduce prime cost of production (for instance mechanisation of certain productive processes), to improve the quality of production etc. There is no necessity to centralise decisions concerning these kinds of investments. On the contrary, within the parametric system of management these decisions ought to be decentralised, in order to enable enterprises to diminish effectively the costs of production and to improve the quality of produced commodities.

Thus, in the system of financing investments within the socialist economy, a distinction must be made between centralised investments, decided by the central planning authority or by other central organs of the State (for instance ministries) - and decentralised investments decided by enterprises. To the first category ought to be included investments considerably increasing productive capacities, to the second investments improving productive processes, diminishing prime cost of production etc. According to the division of competences in the field of investment decisions, the sources of financing both kinds of investments ought to be distinguished, too. In almost all socialist countries centralised investments were financed directly with budgetary subsidies, granted to new constructed or reconstructed enterprises. Budgetary subsidies were neither reimbursed nor charged with interests.

The system of direct budgetary subsidies is not well fitting to the parametric system of management, based on different incentives and stimulations. Thus nowadays socialist countries are looking for new ways of financing centralised investments, preserving the principle of central decision and at the same time stimulating economisation of invested means. In Poland the system of financing investments was changed from 1st January 1966, in order to assure more effective spending of means devoted for the centralised and decentralised investments.

In the new system centralised investments are specified in the national economic plan, while the decentralised investments are included only in overall amounts of expenditures in the entire branch of the national economy, without details. Detailed targets of centralised investments indicate the increase of productive capacity, the amount of the investment expenditure and the term of completion of construction. In the national economic plan is also indicated the "direct investor" - the enterprise or an other organisation (for instance the trust) which is responsible for the preparation of the complete technical documentation of the project, for the supervision of construction and for the financment of all expenditures during the execution of the project. According to the new financial system, there is a tax imposed on all fixed capital in state-owned enterprises, in average at the rate of 5% of the net value of the fixed capital. This tax, paid form the net benefit of each enterprise, imposes the necessity of calculation when new investments are undertaken and when techniques of production are choosen. In new conditions idle capacities are expensive, and so are investments of disadvantageous capital - output ratio. Therefore direct investors when choosing productive techniques are now constrained to calculate strictly the economic effectiveness of new investments and require centralised investments very carefully.

The centralised investments are not directly financed by budgetary subsidies. The amount of budgetary expenditure, devoted to their financment, is now transfered to specialised banks as budgetary deposits, and banks on this basis are granting credits for direct investors, up to the limit of expenditure, determined within the central economic plan for the specified project. The credit is granted

only when the entire technical documentation of the project is ready and approved by the bank. In this way banks are obliged to control the economic effectiveness of undertaken centralised investments and can refuse to grant the credit in cases, where there is some doubt as to the effectiveness of the project. These credits are granted for the planned period of construction, and during this period are not charged with interests. If however the planned period of construction were extended and the project were not completed for the planned term - credits granted for construction from the moment of planned completion are charged with interest paid by the direct investor from its net benefit. It is an incentive stimulating direct investors to assure the execution of investment projects within planned period of time. Credits are granted up to the planned amount of investment expenditure. Every additional expenditure over the planned costs of the project must be covered either from the investment reserve of the ministry (provided that this additional expenditure was approved as necessary one), or from the net benefit of the direct investor, when this expenditure was not approved. This principle constrains direct investors to a very careful examination of the scheme of costs of every project and to careful supervision of constructors executing the project. On the other hand, if the project were completed at a lower cost, a part of saving (50%) increases the net benefit of the direct investor. This is another incentive stimulating the reduction of costs of investments.

When the construction of the project is completed and the exploitation starts, credits granted to the direct investor are reimbursed at the expense of budgetary deposits in the specialised banks. It means, that credits in this case are only a supplementary instrument of financment during the period of construction, and are not reimbursed from decentralised financial funds of direct investors. Thus the necessity of reimbursment of bank loans is not an item of the calculation of the economic effectiveness of centralised investments: this role is paid by the tax on fixed capital. Its level of 5% per annum means, that in practice all funds spent on centralised investments ought to be reimbursed within 20 years.

Decentralised investments in the new Polish financial system are divided into two categories: investments of the trusts and investments of the enterprises (companies). Trusts are unions of enterprises of the same branch of the national economy, and are expected to look after common problems of the entire branch. Trusts dispose of their own investment fund, accumulated from the part of the depreciation (amortisation) fund, transferred by the enterprises, and from the part of the net benefit, also transferred to their disposal by the enterprises. This investment fund can be directed to ^{the} financment of projects, decided by the trust. These projects can be executed either by the trust itself (which in this case is playing the role of the direct investor), or by enterprise submitted to the trust. In the first case investment project serves to all enterprises united within the trust. An example of such kind of investment is the construction of a research laboratory. In other cases trust investments consist on improvements of the technical equipment in submitted enterprises, which are considered as direct investors spending trust funds on their behalf.

The direct investor is responsible for the preparation of the entire technical documentation of the project, which must be approved by the bank, in which the investment fund is accumulated. Banks can approve projects sufficiently effective, within the limits of accumulated funds. Banks can also grant a credit for the execution of approved projects in the limit of 30% of the global expenditure. These credits are reimbursable in the term up to 10 years, from the future accumulation of the investment fund, and are charged with interest during the entire period. Thus in this case bank investment credits cannot be considered as only a supplementary instrument for budgetary subsidies. They are a separate source of financement. The limit of these credits is every year determined within the national economic plan and the credit plan. Banks are entitled to grant credits over this limit only in the case, when trusts have accumulated over planned deposits on their accounts of investment funds.

Enterprises dispose of two funds, which can be used for financing investments: the fund for reinvestment accumulated of the part of the depreciation fund (the other part is transferred to trusts) and the development fund, accumulated from the net benefit, after deductions on the bonuses fund and transfers to the trust, established in fixed percentages of the net benefit. The reinvestment fund ought to assure the maintenance of productive capacities on the constant level. When the necessary expenditure on reinvestment exceeds deposits accumulated on the account of the reinvestment fund, the enterprise can apply for the credit reimbursed from the future accumulation of this fund or for the financial assistance from the trust investment fund. The fund of development is devoted for increasing own floating funds of the enterprise (own working capital) and for financing new investments. Enterprises are obliged to finance no less than 60% of stocks by own floating funds, and thus the part of the fund of development, devoted for increase of own floating funds depends on the increase of accumulated stocks. The remaining part of the fund of development can be used for financing investments decided by the enterprise itself. In this case investment projects must be approved by the bank, too. Banks can also grant credits on these investments, with the term of reimbursement up to 5 years (so the term is shorter than in the case of credits granted for the trusts), in the limits determined by the national economic plan and the credit plan for every year. These limits can be exceeded when there are over planned deposits on the accounts of the fund for development. Bank loans, granted on investments undertaken by the enterprises are charged with interest. The fund for development is first diminished by the part increasing the own floating fund of the enterprise, and only after this reduction of the fund the remaining part can be used for investments. This principle is stimulating enterprises to limit the increase of stocks, because this increase limits possibilities to finance investments. In this form - like in many other formerly mentioned forms - incentives were introduced into the system of financing investments, according to the general tendency of substitution directives by parameters within the system of planning and management, applied in Poland.