REAL ESTATE INDUSTRIAL BANK : A Geographical Study

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This bank was established in September 1965, replacing the former Industrial Development Corporation with the aim of meeting the short and long-term credit needs of housing and industry. The primary purpose of this fully-fledged development bank was to encourage the housing and the industrialization of the country. In order to achieve this, the bank was permitted to make loans to industrial enterprises, to participate in the equity capital of industral companies, and to facilitate the import of machinery and raw materials for indusarial purposes. It was also permitted to encourage a large number of new entrants in the industrial field by proving financial assistance and technical, econmic and administrative advice, as well as the preparation of feasibility studies.(1) Thus the framework for this bank is broader than the mere provision of capital. It incorporates such activities as stimulating investment through the provision of capital, passing judgement on the feasibility of new projects, and developing technical and administrative help for the private sector. The following discussion examines the role and achievement of the bank in industrial development during the first seven years of its operation.

Table I itemizes the Structure of the industrial bank's sources of funds during 1965-73. The paid-up capital increased more than ten times from LD 790,000 to LD 8 millions. This was due to the large sums of money for investment in the industrial sector, which

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resulted from government policy of industrializing Libya as rapidly as possible. Another improvement was the reduction in the percentage unrepaid credit in industrial loans from 45 percent in March 1968 to about 18 percent in March 1970, and from 4 percent to 2,7 percent in the same period for real estate loans. (2) It is quite clear that the bank was conceived as a government institution. Thus the act gives the government, through the Minister of Industry and Minerals, the right to appoint the board of directors and the managing director of the bank, besides the right to give the board of directors instructions of a general character. Resulting from government control, its order cancelled the rate of interest for the bank loans from 1967. This affected the sources of the bank's capital which can be obtained from public and private corporations, and from private individuals besides the paid-up capital from the government. Therefore, the bank became completely dependent on government resources. This dependence seems to have had a serious effect, in that unnecessary delay is involved in distributing the loans to borrowers, thus delaying establishments from starting operations on schedule. In addition, owing to the lack of resources, the bank cannot meet all demands. For example, in Benghazi, the bank loaned only 48 percent of the applications prior to November 1971.(3) Most of the loans were never used for industrial purposes, but were spent on real estate. It is clear from Table 2 that the bank failed from an industrial point of view. It did not grant 50 percent of its loans to industry as was stipulated in Article 6 of its ordinance. (4) In all years except 1968-70, when the bank's board clamped down on housing loan applications, more than 90 percent of its loans were given to housing. Two factors may help to explain this:

(a) the simplicity of making housing loans, and

(b) the inefficiency of the bank staff employed to examine the industrial loans.

Table 1 The Paid Up Budget Of Real Estate Industrial Bank Up To 1973 (in LD,000).

Year	Total	Government Paid up	For Real Estate	For Industry	% 4 to 1
	1	2	3	4	
1965-66	790	790	–	–	–
1966-67	3,540	3,540	–	–	–
1967-68	10,095	10,095	–	–	–
1968-69	6,000	6,000	–	–	–
1969-70	6,000	6,000	–	–	–
1970-71	11,500	11,500	8,000	3,500	30
1971-72	9,000	9,000	8,000	1,000	11
1972-73	8,000	8,000	8,000	–	0

Sources: 1. R. E. I. B. Report Of The Board Of Directors From 7/9/65 to 31/3/70, Tripoli, 1970.

2. Ministry of Industry, **Achievements Of The Industrial Sector:** Tripoli, 1972.

Although the yearly paid-up amount was increased, and it might have been expected that the share of the industrial sector would increase as a result of the new attitude of the government, Table 2 shows that no improvement was made in industrial loans, whose share declined by about 20 percent in 1973 relative to the 1972 value. This might be explained by the factors mentioned before, or perhaps the bank's board could not understand the new policy when they provided for industrial loans only the amount which was only paid-up yearly from the government for this sector from 1970-71. In the case of real estate loans, the bank provided the yearly paid-up amount besides the capital which it had. The paid-up capital provided for industry loans decreased from 30 percent of the industrial share in 1970-71 to 11 percent in 1971-72, and to zero in 1972-73, and so the bank had to start to give loans from its own finances.(5) It might be explained also by the new policy itself, which defined the amount of the loan, as mentioned earlier, causing the bank to concentrate on small industrial loans and to give priority to projects with low capital requirements.

Table 2 The Distribution Of The Loans By R. E. I. B. Prier To 1973

(In LD)

Year	Total amount of loans (1)	Real estate loans (2)	Industrial loans	% of industrial loans to total
1965-67	6,573,224	5,981,225	591,999	9.0
1967-68	5,436,301	5,138,111	298,290	5.5
1968-69	5,084,455	3,704,519	1,379,936	27.1
1969-70	5,812,432	4,744,618	1,067,814	18.4
1970-71	11,133,775	10,091,525	1,042,250	9.4
1971-72	17,483,134	16,396,468	1,094,666	6.3
1972-73	20,810,115	19,932,826	877,283	4.2

Sources: (1) Ministry of Industry, **Achievement of the Industrial Sector**, Tripoli, 1972.

(2) R. E. I. B. **Industrial Loans, 1972-73**, unpulished paper.

In order to devote more attention to industry and to secure specialization in its operations, the government should separate the bank into industrial and real estate banks, as in many other countries. Since the bank is the only specialized financial institution granting industrial loans to the private sector without interest, it should examine its policy, which might dissuade the entrepreneurs from investing in medium and large projects. Here the bank is competing wiith the commercial banks.

There are no data to show the average loan size since 1970, but according to the new policy the bank should have directed the bulk of its financial assistance to small and medium sized projects to the compartive neglect of larger projects. This concentration on the small projects may be justified in a developing economy where industrial investment may logically be expected to progress from small to large projects. It may take some time for private investors to gain the necessary skills and abilities to sponsor and finance larger industrial projects.

However, by limiting itself to these projects involving relatively high overhead costs in loan investigation and supervision, the bank had to operate at a continual loss.(6) Table 3 reveals that during the period 1966-69 over 60 percent of the total individual investments were of more than LD 50,000. However, the bank authorities did not realize the failure of the bank to assist the small industries prior to 1970. The administration takes a long time over the routine approval of each loan issued by the bank, and the bank's policy requires every applicant to offer assets as security. It may be that the medium and largest size industries receive the greatest percentage of loans because they meet the security requirements more easily than the smaller investors, particularly if the latter are entering the industrial field for the first time. Under these circumstances, it was apparently logical for the Real Estate Industrial Bank to change its policy, to concentrate

Table 3 The Amount Of Loans Approved By

The R. E. I. B. By Size Of Loans Up To 1969 (in LD

Size	1966-67 amount	1967-68 amount	1968-69 amount	Total amount	% to the total
1- 5,000	25,460	44,576	110,526	180,562	8.0
5,001-10,000	49,039	26,400	77,910	153,349	6.8
10,001-20,000	45,500	16,000	46,500	108,000	4.8
20,001-50,000	94,500	188,814	170,000	453,314	20.1
More than 50,000	377,500	22,500	960,000	1,360,000	60.3
Total	591,999	298,290	1,364,936	2,255,225	100.0

Source: R. E. I. B. **Report of Board of Directors on Period 1965-1970,** Tripoli, 1970.

on the provision of larger loans for the larger industries, while the Central Bank should have encouraged commercial banks to provide loans for small industries.

Regarding the period of the loans, it can be seen from Table 4 that only 36 percent of the total investment was lent for more than eight years, whereas 47 percent was for three to seven years. The bank loans were thus chiefly for medium terms. This may be explained by the fact that the industrial sector in Libya consists mainly of light industries which have a quick turnover of capital. It can also be seen from the table that the share of long loans was very high in 1968-69, but this was due to the high proportion of loans of more than LD 50,000 (see Table 3).

Breakdown of the loans sanctioned by the bank provides more details about other aspects of the bank's loan activities. Study of the data presented in Table 5 reveals that also there is a significant diversification among the industries financed. Food processing (mainly tomato canning, olive oil processing, bakery and soft drinks) alone claimed about 54 percent of the total amount advanced by the bank, none of the remaining industries having received any substantial amount. Thus, the bank did little to develop the other, relatively neglected industries, which were no less important, since their development would increase Libya's independence. It appears, therefore, that the bank had no blueprint for its activities, and its loans were decided on in a rather haphazard way.

Table 4 The Amount of Loans Approved By R. E. I. B. By Period Of Loans Up To 1969 (in LD)

Period	1966-67 amount	1967-68 amount	1968-69 amount	The total amount	% of the total
1 - 3 year	81,250	20,003	210,899	312,152	13.8
4 - 7 year	462,249	221,287	448,537	1,132,073	50.2
more than 8	48,500	57,000	705,500	811,000	36.0
Total	591,999	298,290	1,364,936	2,255,225	100.0

Source: R. E. I. B. **Report of Board Of Directors On Perioed 1965-70, Tripoli, 1970.**

On the other hand, most of these loans were for new projects Despite the fact that the bank has limited its financial assistance to the traditional groups of manufacturing industries, it has directed a large proportion of its loans to new industrial projects.

Regarding the regional distribution of the loans made by the bank, (Figure 1) indicates marked inequalities in the distribution of the loans made by the bank to industry throughout the country. Thus, of the total advanced by the bank up to 31 March 1973, 52 percent went to Muhafadat Tripoli, and 21 percent to Muhafada El-Zawi (Figure 2), and was mostly used for food processing, Tripoli and El-Zawia being situated in the best agricultural areas and the central markets of agricultural production. Furthermore, applications from eastern muhafadats were not rapidly received, and were sometimes deferred until the next meeting of the bank board in order to query some requirement,

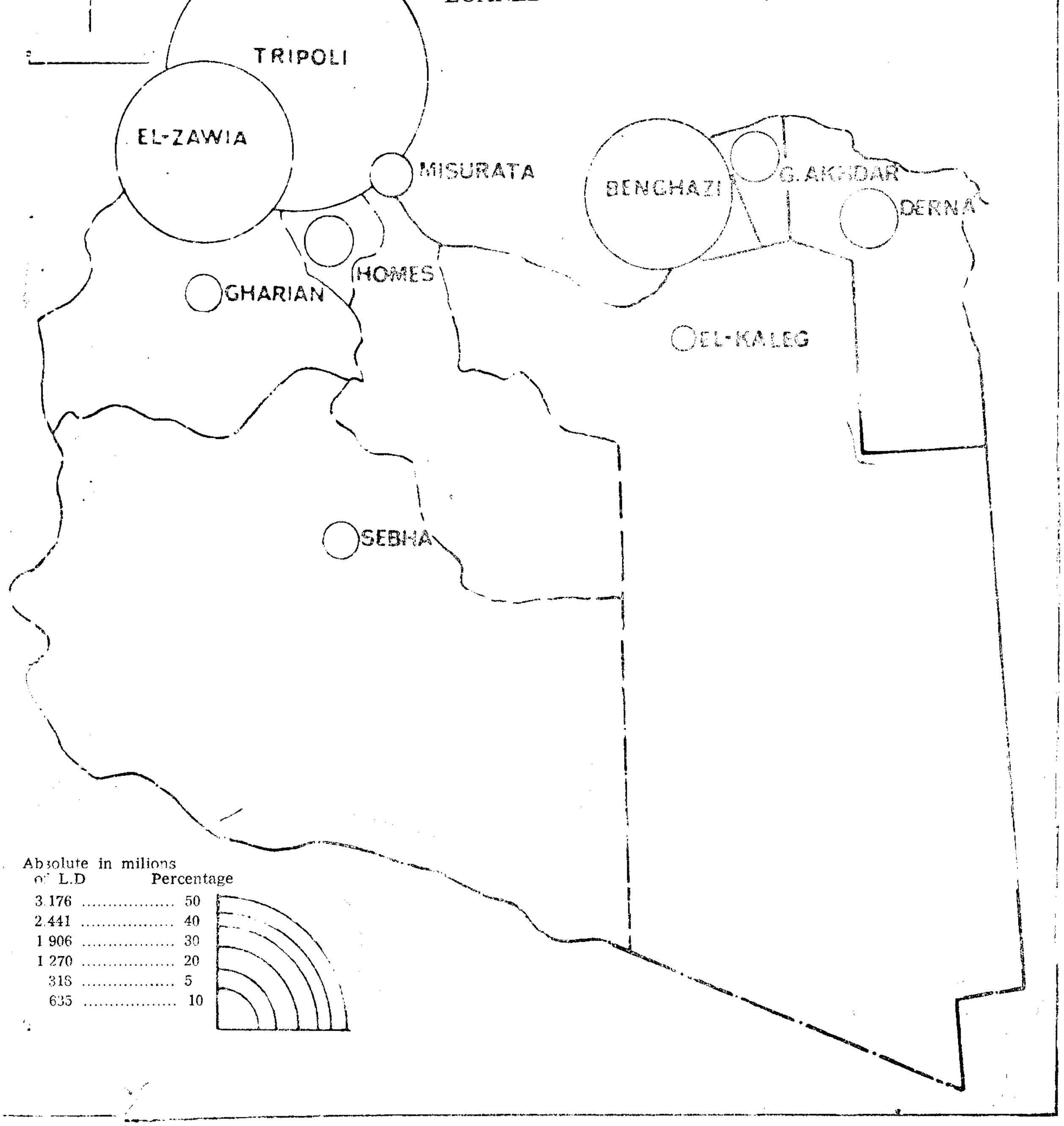
Table 5 The Distribution Of R. E. I. B. Loans Among Industrial Groups Up To 1973 (in LD)

Industrial group	Total amount of the loans	% of the total
Food and soft drinks	3,447,097	54.3
Wood (carpentry)	234,710	3.7
Chemicals	174,500	2.7
Building materials	848,307	13.4
Metal work	80,000	1.3
Industrial services	720,026	11.3
Handicrafts	207,293	3.3
Miscellaneous	640,305	10.0
Total	6,352,238	100.0

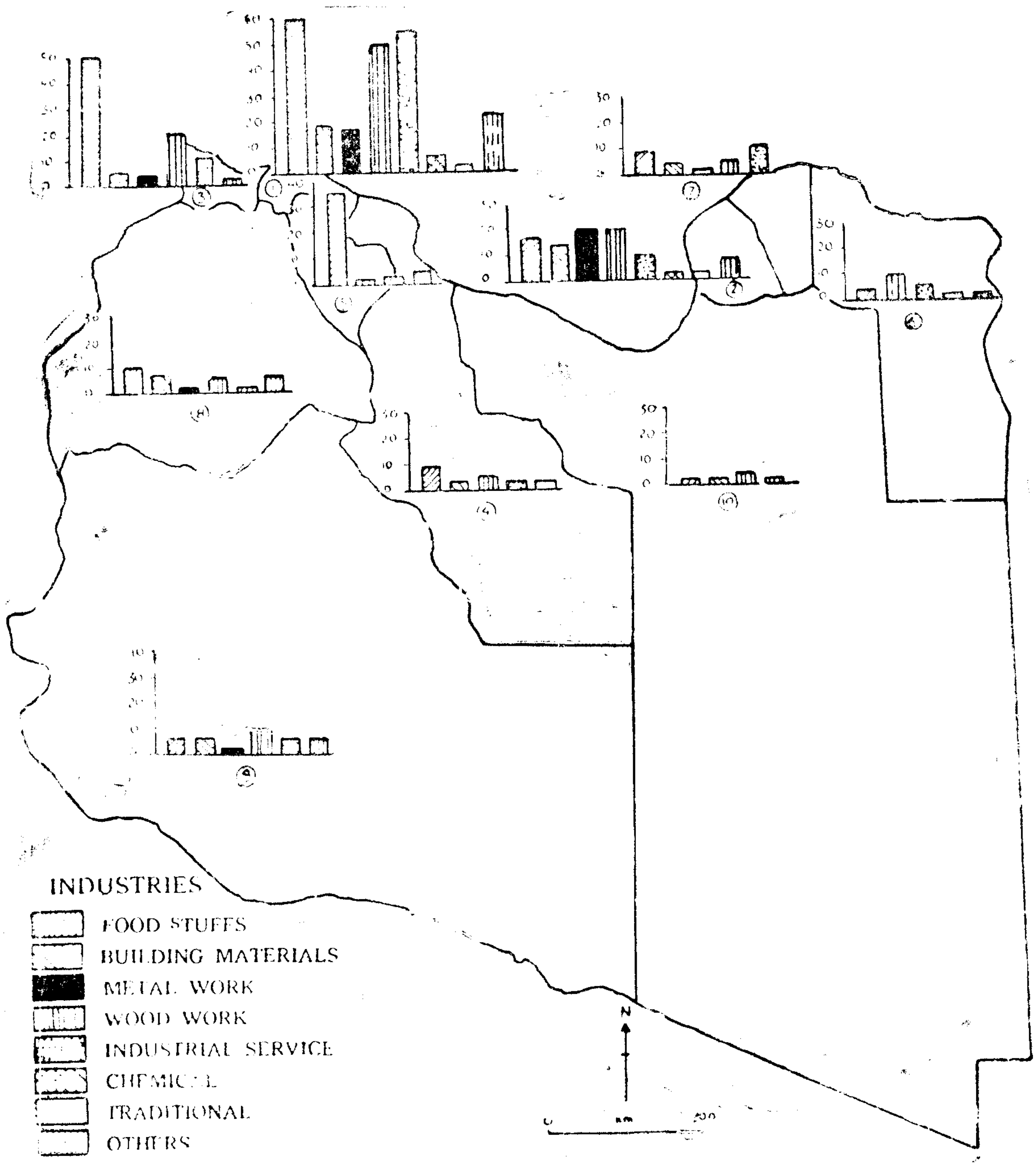
Sources: 1. Ministry of Industry, **Achievement of Industrial Sector, Tripoli, 1972.**

2. R. E. I. B. **Industrial Loans 1972-1973,** Unpublished paper.

(Fig 1) REGIONAL DISTRIBUTION OF THE AMOUNT LOANED BY R.E.I.B. (1965 to May 1973)



(Fig 2) THE DISTRIBUTION OF THE NUMBER OF INDUSTRIA L BANK LOANS BY MAJOR GROUP OF MANUFACTURING INDUSTRIES IN EAC H MUHAFADA, 1965-MAY 1973.



while applicants for loans duly approved by the Tripoli branch (headquarters) were received more quickly, and were therefore granted accordingly. Another possible factor is that before the local loyalties in Libya were very strong, the Libyans themselves acknowledging that their ties were first to their regions and second to the nation.

Industrial activities tend to concentrate in urban centres with attractive facilities. This does not contribute to the integration of the internal economy, nor has the government yet reduced very much the serious disequilibrium in the development of the component regions, or the disparity between their production and consumption capacities. (7) Private invectors, presented with a variety of opportunities, selected those which assured the highest profits with the least organizationl effort and minmum investment. Although this was wise investment policy from the standpoint of the individuals concerned, it did not lead to balanced industrial development from the standpoint of the country.(8)

The bank's objective should henceforth be to remove economic disparity between different regions by assisting less developed regions with a view to maintaining a regional balance in industrial development, The bank should give priority to rural industries and it might be advantageous for it to put a rate of interest on loans allocated to be the cities such as Tripoli, while providing interest-free loans for rural areas.

In terms of participation, the bank has done little. Prior to 1971 the bank had taken in just one enterprise, a dry battery factory, by paying LD 232,000. The failure of the bank is attributable to its lack of technical staff and to the hesitation of the private sector in investing, the latter due to lack of confidence in industrial establishments controlled by companies or by the government. A good example is the cement company (Homes Factory) which has failed to encourage private investors, and has also been afraid of nationalization. Thebank should participate in more profit-making industries in order to inspire confidence among the investors, and should disregard those industries which are unable to make any significant profit. Because the Libyans were, understandably, reluctant to invest in co-operative and joint-project industries, it is necessary to encourage more private investment in industrial establishments, and the government should attract the talent of private entrepreneurs.

The bank has only a small technical staff which is unable to provide technical assistance or professional advice to industries. In 1973 the bank carried out preliminary studies into about sixteen projects, including electric bulbs, bicycles, crown-cap, electric fittings, metal parts in carpentry, sandpaper, barbed wire, cotton, plastic bags and boxes, toilet soap, perfumes, chocolate and sheet metal work. However, these were not comprehensive studies undertaken by experts in the field. They did not consider the location or size of the project, its prospects, its profit potentiality or its importance from the standpoint of the national interest. Since the bank is the only organization to deal with this kind of work for the private sector, it should have realized that there is more to industrial development than the granting of loans, and should have gone further in the provision of technical assistance. Lewis has stated that the mistake of most agencies which deal with industrial development.

> " Was not that they lent money, but that they lent money without supervision......, had the emphasis been more on managerial assistance and less on lending money, the result would have been different."(9)

It is clear that the industrial bank's contribution to industrial develpment and location was limited as to the amount of loans granted. The bank limited its aid to those establishments with a capital investment of around LD 100,000, mostly plants for processing agricultural products, building materials and wood products. It did not pay any attention to regional location, providing technical information or market research. Its role in the location and development of industry was conservative and limited.

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