# The Effectiveness of Public Financing in the Growth of Emerging Industries

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## ABSTRACT

The goal of our research is to clarify the concept of public financing, in addition to clarifying the concept of emerging industries, and the effectiveness of financing in developing emerging industries in the country. And an attempt to highlight the results that help in the growth and development of these industries on the economic structure, while working to explain the role of public financing in the transition to the country's industrial economy. The research questionnaire was prepared and distributed to male and female employees within government banks. 50 samples were selected using a simple random sampling method. The questionnaire was distributed to them, and the results of the research sample were circulated to society as a whole.

A number of important results were reached as follows:

1- It was noted that there is an important role for public financing in developing emerging industries.

2- Emerging industries have a major role in economic development.

3- There is ambiguity among some about the concept of emerging industries.

## INTRODUCTION

Emerging industries occupy a very important role in the economies of all societies, regardless of their degree of development, the differences in their economic systems and concepts, and the varying stages of their development. They play an important role in the process of economic and social development in most countries of the world, which requires them to create suitable climates for their development and provide appropriate protection in order for them to It rises, develops and enters the field of competition, and plays a role in emerging industries in providing very wide job opportunities due to its effective role in employing workers, as projects provide small amounts of capital invested for the worker and thus contribute effectively to solving the problem of unemployment and maximizing output, as well as their contribution to the birth of projects. New ones that support economic growth.

The responsibility for establishing large industries is usually entrusted to governments due to the large financial and human needs in addition to other supplies and requirements, which are difficult for the individual investor to secure, leaving the task of establishing these industries to the private sector.

Based on the important role that these projects can play and in contributing to achieving the economic and social goals of those countries, many developed countries have supported and encouraged this type of project, and this is what has

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helped in achieving an important and significant qualitative breakthrough at the economic and social levels in these countries.

The emerging industry is considered the largest in number, the most dependent on local services and competencies, and the most widely used of the technology available to it. Given this role and this importance, small and medium enterprises have received significant attention in most industrialized countries and some developing countries, and at the level of the Arab countries, the industry has led (especially in the industrial sector) It plays a significant role in achieving some economic and social development goals, but it still suffers from many problems and obstacles.

## RESEARCH PROBLEM

Emerging industries suffer from a lack of access to financing, which leads to a decline in their numbers and spread. Accordingly, the research problem begins with the extent of difficulty for these emerging industries to obtain financing from the public sector and the extent to which investment capital contributes to their financing process.

## RESEARCH IMPORTANCE

The importance of the research stems from the importance of these industries and the role they play in their contribution to reducing the amount of unemployment on the one hand, and on the other hand their contribution to the country's gross domestic product, as well as their contribution to increasing the supply of goods and services, which is reflected in reducing the demand for imported goods and increasing the volume of exports and thus the impact on Trade balance and balance of payments.

**Research Objective**: The research aims to reach:

- Identifying the most important problems facing emerging industries, especially financing problems
- Proposing ways and procedures that could contribute to the development and advancement of these industries

### Research hypothesis:

The research hypothesis is based on the important role that banks play in financing emerging industries in the economic development process of each country, and their contribution to the gross domestic product, which makes it necessary for the state to develop financing policies that help these industries to rise and develop, as well as providing the necessary protection for them from external competition for their products.

## RESEARCH METHODOLOGY

Relying on the descriptive and inductive analysis method to present and explain the problem and to verify the research hypothesis and objectives.

### Research Structure

The research topic was dealt with in the form of three main sections, each section consisting of demands. The first section included a review of the basic theoretical framework for financing, while the second section reviewed the nature of emerging industries and ways to protect them. As for the third section, the importance of investment capital as a mechanism for financing emerging industries was reviewed. The research concluded with the results and recommendations reached by the researcher

## THE FIRST SECTION: THE BASIC THEORETICAL FRAMEWORK FOR FINANCING

### The first requirement: the concept and importance of financing.

1- **The concept of financing**: Financing is one of the main principles for any organization or institution to continue its work by providing sufficient money for its needs at the appropriate times. The institution's needs appear through its need for adequate financial coverage for any step it takes through economic policy, which tries to obtain all available opportunities to exploit. All possibilities for providing financial liquidity help expand its activity further.

According to the modern perspective, financing is the process of searching for the optimal combination of sources of funds that achieve the objectives of financial management

2**- The importance of financing**: The importance of financing is generally evident in the following points:

– Providing the necessary capital to complete various projects

- Achieving the goals set by the state

- Achieving well-being for community members by improving their living conditions (providing housing, work

**The second requirement: classifications of funding sources.**

According to prevailing studies in this field, funding sources are classified into different groups, each of which specializes in a specific characteristic, and this is in line with the nature of the completed study. Among the most important classifications found in the references, we mention:

1**- Public financing**

It is financing issued by the public (governmental) sector through state institutions such as private and public banks and other government financial institutions.

2-**Private financing**

This financing is issued by the private sector, that is, financial institutions and private banks that are owned by individuals.

**Funding sources according to time classification**

A- Classification according to time or duration: Funding sources are classified according to this element into three main types

1- Short-term sources of financing: Short-term financing means those funds that the institution obtains from others provided that they are returned within a period of time not exceeding one year, and those funds are directed to exploitation activity. Among the most important sources of these financing we mention commercial credit.

2- Medium-term financing sources: What distinguishes them is that the financing period for these sources is relatively longer than the previous ones, as they usually range between two and seven years. These sources are generally represented in loans.

3- Long-term sources of financing: This is the financing that the institution obtains from banks and financial institutions, which is amortized over a period that usually exceeds seven years.

B- Classification according to funding source: This classification means categorizing funding sources relative to the issuing entity. Generally, funding sources are classified according to this standard into internal financing and external financing.

ϖ Internal financing: It is usually called self-financing. This type of financing means those sources that the institution resorts to to finance its investments without resorting to the outside world. The process of withholding profits, depreciation and provisions are internal sources obtained from the exploitation cycle.

ϖ External financing: It consists of obtaining funds from external sources, either through borrowing such as loans and issuing bonds, or from ownership sources such as issuing common and preferred shares.

C - Classification according to ownership: In this framework, funding sources are classified into: -

1- Ownership financing sources: These are the sources that the institution obtains from others and which give their owner a share of the company's capital. Holders of ordinary and preferred shares are considered owners or owner of the institution as a result of their purchase of its shares, which gives them this right.

2- Sources of debt financing: They are the sources that the institution obtains from others and which give their owner or donor the status of a lender. Among the most important of these sources we mention loans of all kinds and bonds

**Third requirement: traditional financing sources.**

During this, financing sources will be reviewed relative to the ownership criterion, which has been divided into: sources of financing through ownership and sources of financing through debt

**A - Ownership financing sources**: They are divided int]o:

**1- Internal sources of financing:**

It is the total amount of money that the institution obtains from its exploitation cycle, and it expresses the institution's ability to finance itself on its own without resorting to external sources, which is expressed as (self-financing), which is represented in: -

**A-** Depreciation: Depreciation is considered one of the most important sources of financing that is obtained independently and automatically, which is defined as ((the decline in the value of investments as a result of use, wear and age)). Depreciation is also considered the most important source of financing investments and installations, as it allows the institution to obtain new investments. It compensates for investments that have been completely depreciated and are no longer valid.

**B-** Provisions of a reserve nature: Provisions are those amounts that have been allocated to confront any risk or decrease in the value of a specific item. If the risk occurs, the allocation will cover it, but if it is eliminated, the allocation will be integrated into the reserves account after a tax is imposed on it and it becomes a source. Self-financing.

**C-** Net undistributed profits: Undistributed profits are considered an important financing source that contributes to raising the financial independence of the economic institution.

**2- Sources of financing through external ownership:**

Source: This financing relates to the existence of a financial market in which various financial products are traded. Shares are considered the most important type of long-term financing that the institution resorts to as one of the alternatives in order to raise its capital without resorting to loans of all kinds, as they are distributed between the two types of ordinary and preferred shares.

**A** - Ordinary shares: Owners of ordinary shares hold the status of owners of the institution as a result of their purchase of its shares. This type of shareholder comes in the third degree after creditors and preferred shareholders in terms of their recovery of their invested funds in the event of the institution's liquidation.

**B-** Preferred shares : Perhaps the only difference between the two types is that preferred shareholders have priority in obtaining the profits scheduled for distribution, as well as priority in recovering the invested funds in the event of the company's bankruptcy. They also have the right to annual profits determined at a percentage of the nominal value of the share. Given the characteristics of preferred shares, they are usually You are not deprived of the right to vote, except in very special cases, such as the company being in difficult circumstances

**B- Sources of debt financing**

When private funds are not sufficient to finance the institution's investments, or for the purpose of achieving a specific goal, the economic institution resorts to banks and financial institutions to finance its investments by obtaining loans of all kinds. In this area, the sources of financing through debt have been divided according to time into:

1- Short-term sources: The economic institution resorts to this type of financing for the purpose of financing its needs during the exploitation cycle. Therefore, the duration of this credit cannot, under any circumstances, exceed one cycle, which is usually estimated at one year.

2- Medium-term financing sources: These are the loans that the institution obtains for the purpose of financing the permanent portion of current investments and to finance additions to its long-term assets.

2- Long-term sources: These are the funds that the institution obtains and is committed to repaying within a period of more than seven years. This type of financing is represented by long-term loans and bonds.

• Long-term loans: They are used to finance increases in fixed assets. They are repaid in installments or during the end of the loan term according to the agreement between the institution requesting the loan and the bank or financial institution. The institution bears financial burdens represented by paying the loan interest.

• Bonds: They are a type of loan that an organization resorts to to obtain money and use it in exchange for annual interest. Thus, bondholders are in fact nothing but creditors to the company, unlike shareholders who represent the owner of that company. Bondholders also have precedence in the event of liquidation and in the distribution of profits.

## THE SECOND SECTION: THE GENERAL FRAMEWORK FOR EMERGING INDUSTRIES AND WAYS TO PROTECT THEM

### The first pitfall: the concept and life cycle of the emerging industry.

1- **The concept of emerging industry:**
An emerging industry is an industrial company or institution that is at the beginning of its establishment and development, and the good or service for which this industry was established may not be widely known to the public.

**2- Industry life role**: The life cycle in emerging industries consists of five stages that differ from each other through their stages, which are initiation, establishment, growth, development, shake-up, maturity, and then decline. Emerging industries are considered part of the establishment and start-up stage because these companies generate minimal financial revenues, contain a lot of shortages in the consumer base, and the various processing and supply chains and need publicity and advertising for new products.

### The second requirement: characteristics and obstacles of the emerging industry.

First: Characteristics: Emerging industries are characterized by a set of characteristics that distinguish them from other industries, including:

**1- Minimum competition**: The industry, which is in its first stage of development, consists of a small number of companies. As a result, competition between companies is minimal.

**2- Growth potential**: New industries can expand the labor market by creating job opportunities for individuals. If the industry becomes profitable, it can continue to grow and expand.

**3- High risks and volatility.**

4- **High prices due to the absence of economies of scale**

Companies in the emerging industry lack economies of scale because they are still in the process of establishing an effective supply chain and distribution channel.

**5- Low barriers to entry :** Entering a market may be easy because there are few competitors. As long as companies have sufficient resources and knowledge to develop a product, they will be able to enter the market.

**Second: Obstacles to the emerging industry**.

There are a number of obstacles facing emerging industries at the beginning of their journey:

**1- Lack of consumer awareness and consumer loyalty**.

**2- Lack of funding :** Investors may be reluctant to invest in industries that are not yet fully developed, as there are greater financial risks associated with these companies.

**3- Restrictions and regulations :** Because the industry is new and unfamiliar, the government may impose restrictions or regulations on business activities.

**4- High research and development costs :** New companies may not have enough employees, resources, and knowledge to create a new product, so they need to spend a lot on research and development

**5- Lack of suppliers**. Suppliers may be reluctant to work with a company due to the level of difficulty in obtaining appropriate raw materials.

**Third requirement: Advantages and potential strategies for emerging industries.**

**First: Advantages of emerging industries.**

Emerging industries are characterized by high growth potential rather than actual high growth as follows:

1- It is usually formed on the basis of a new product, service or idea and comes into existence when consumer needs change or when new social and economic conditions arise.

2- Emerging industries tend to be research and knowledge-intensive.

3- They usually take into account the spirit of initiative and creativity, where entrepreneurs are the main actors.

5- It is characterized by a state of imbalance, as its appearance often results from a disruptive idea that affects value chains, social acceptance, and market demand.

6- They have a great tendency to cluster, as companies in emerging industries tend to cluster

**Second: Possible strategies:**

1- Low costs: Looking for a new strategy to reduce costs for the purpose of obtaining a lower price, which leads to an increase in market share and an increase in production and sales.

**2-** Differentiation: These industries attempt to produce diverse and unique goods and services for the purpose of distinguishing themselves from competing companies in order to obtain a competitive advantage.

**3-** Strategic alliance: Emerging industries tend to create conglomerates and group together to control the market or obtain a larger market share. And increase sales.

4- Joint venture: A joint venture includes at least two companies coming together to form a separate business entity to combine assets, resources, and operations. Doing so results in companies accessing a market and sharing financial risks.

**Fourth requirement: Investment financing in emerging industries**

Venture capital is a new model for managing emerging industries. It is more effective than the classic management model, and it represents a safe source of capital as it contributes to meeting the investment financing needs of emerging industries. It is considered a financing alternative in the event of a weak financial market and the institution’s inability to issue and offer shares. To subscribe.

Investment capital also allows the emerging institution to benefit from more connected officials because they invest their capital in the institution’s projects and are more efficient because they possess the necessary experience in their areas of investment. Moreover, it is considered one of the most important sources of financing for emerging industries, and it is also one of the most important means of growth and establishment of institutions, because its activity is directed at emerging industries, venture capital is one of the main channels for financing innovation and entrepreneurship. It is considered a real alternative to the banking sector, which has begun to give up financing the emerging industries sector in order to avoid the risks of financing them, especially in the early stages of its establishment .

## THE THIRD TOPIC: THE IMPORTANCE OF FINANCING EMERGING INDUSTRIES

**The first requirement: the concept of investment capital and its importance.**

**First: the concept of capital**

It is a method or technique for financing emerging industries, through institutions called venture capital institutions. These institutions are not based on capital in the form of loans, as is the case in bank financing, but rather are based on participation, where the participant finances emerging industries without guarantee. The return is not in its amount,

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and thus he is risking his money, as it helps most of the new emerging or expanding industries that face difficulties in this field, as the banking system refuses to grant them loans due to the lack of guarantees .

**Second: The economic importance of venture capital institutions for emerging industries**

1- Venture capital carries a new model for managing emerging industries. It is more effective than the classic management model, as it is considered a financing alternative in the event of a weak financial market and the institution's inability to issue shares and offer them for subscription.

2- Investment capital allows the emerging institution to benefit from more connected officials because they invest their capital in the institution's projects and are more efficient because they possess the necessary experience in their areas of investment.

3- It provides financing for emerging and high-risk industries that have growth potential and high returns

4- The venture capital institution, as an institution that helps in emerging industries, does not benefit from guarantees in exchange for its financing intervention, or in exchange for its assistance in framing, given that the funds it pumps to the institutions are contributions and not loans.

5- Venture capital institutions provide private funds to institutions that are not listed on the stock exchange, financing the growth and expansion of emerging industries by following a clearly defined strategy.

**The second requirement: Stages of financing and evaluating investment capital:**

**1-** Distinction between traditional forms of financing and investment capital: Venture capital is not considered a form of traditional financing, as there is no correspondence between them in terms of the method of intervention, the level of risks taken into account, the sequence of financial support according to the financing cycle, or the gains. achieved. Although in practice there may be a kind of convergence between traditional financing forms and venture capital financing forms, there are nevertheless major differences between the traditional financing offer and the venture capital offer, which are represented in the following points:()

A- Eliminating the banking financing cycle.

Investment capital provides loans only rarely, and the principle is that it participates in the institution's capital (shares) or quasi-capital (such as bonds that can be converted into shares). This is on the one hand, and on the other hand, investment capital does not depend on the traditional standards of lenders. Especially in the direction of the organization's results in the past, but it depends on other criteria that depend on the future more than the past.

B-: Timing of intervention: The intervention of venture capital comes after the intervention of traditional financial institutions, as it is assumed that the emerging industries financed by venture capital do not respond to the traditional standards required by the capital market.

C - The goal of intervention: The main incentive for the intervention of venture capital institutions is represented by the surplus capital profit value expected to occur upon exit from the institution, and not the current returns on which the loan is based.

D - The size of the risk component: The assistance achieved through investment capital is subject to a higher level of risk and is potentially compensated by a huge variation in expected revenues.

**Practical framework for research**

The study refers to the practical side of the research, as the researcher used a questionnaire and applied it to a sample of employees at Al-Rasheed Bank for Industrial Finance. The size of the sample on which the study was applied was 50 male and female employees, and we circulated the results to the entire community represented by all employees of the bank. We tested the research hypotheses using the Chi-square test by comparing the probability value with the common value of p, which is 0.05.

From the practical study we found the following:

Demographic characteristics:

Regarding the gender variable:

**Sex**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | **male** | 28 | 52.8 | 56.0 | 56.0 |
| | **feminine** | 22 | 41.5 | 44.0 | 100.0 |
| | Total | 50 | 94.3 | 100.0 | |
| Missing | System | 3 | 5.7 | | |
| Total | | 53 | 100.0 | | |

*Through the outputs of SPSS, we will notice there, according to the table, which indicates that the largest group participating in answering the questionnaire axes for the study was the share of males, as their percentage amounted to about 52.8%, and the remainder was the share of females, with a percentage of 14.5%.*

Regarding the age variable:

the age

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 35 - 25 year | 7 | 13.2 | 14.0 | 14.0 |
| | 45 - 36 | 16 | 30.2 | 32.0 | 46.0 |
| | 52 -46ة | 20 | 37.7 | 40.0 | 86.0 |
| | 52 | 7 | 13.2 | 14.0 | 100.0 |
| | Total | 50 | 94.3 | 100.0 | |
| Missing | System | 3 | 5.7 | | |
| Total | | 53 | 100.0 | | |

In this table, we will notice that the most participating age group is 46-52 years, with a percentage of about 37.7%, followed by the 36-45 years age group, with a percentage of 30.2%, and the least participating age group is 25-35 years, with a percentage of about 13.2%.

Regarding educational level:

Educational level

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | secondary | 5 | 9.4 | 10.0 | 10.0 |
| | University | 31 | 58.5 | 62.0 | 72.0 |
| | Master's | 10 | 18.9 | 20.0 | 92.0 |

| | | | | | |
|---|---|---|---|---|---|
| | Ph.D | 4 | 7.5 | 8.0 | 100.0 |
| | Total | 50 | 94.3 | 100.0 | |
| Missing | System | 3 | 5.7 | | |
| Total | | 53 | 100.0 | | |

Most of our participants were university degree holders, at about 58.5%, followed by master's degree holders at 18.9%, and the lowest participation group were secondary school degree holders at 9.4%.

Regarding the job experience variable:

**Experience Functional**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Vali | 5 year | 5 | 9.4 | 10.0 | 10.0 |
| | 10 - 6 year | 19 | 35.8 | 38.0 | 48.0 |
| | 15 -11 | 22 | 41.5 | 44.0 | 92.0 |
| | 16 A year or more | 4 | 7.5 | 8.0 | 100.0 |
| | Total | 50 | 94.3 | 100.0 | |
| Missing | System | 3 | 5.7 | | |
| Total | | 53 | 100.0 | | |

From controversy, we note that the most participating group is the 11-15 year old group with a rate of about 41.5%, followed by the 6-10 year old group with a rate of 35.8%, and the least participating group is the 5-year old group with a rate of 9.4.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

1-Emerging industries suffer from a lack of financing.

2- Emerging industries suffer from dumping and competition from large industries that enjoy economies of scale, which makes the prices of their products lower.

3- Emerging industries suffer from the problem of financing and administrative routine, which causes delays in obtaining sufficient financing.

4- These industries are distinguished by their geographical distribution, which makes them an important factor in developing the areas in which they are located

5- It is characterized by its low founding capital compared to other large industries.

6- The consumer style prevails in its products, in addition to the availability of raw materials for its products locally.

7- Emerging industries contribute to reducing unemployment by providing job opportunities for the unemployed.

8- Emerging industries contribute to the country's gross domestic product.

## Recommendations

1-The government must provide the necessary protection for these industries at the beginning of their inception, which is necessary for their success and advancement.

2- The state must allocate crisis funds to support it within government spending programs, as well as stimulate the private sector to contribute to financing it.

3 Providing financial support to it in order to develop its products to the extent that allows it to compete with the products of other industries.

4- Enacting laws and legislation that create suitable climates to encourage the increase of these industries in the country, which increases the use and demand for the elements of production.

5- Develop a customs policy commensurate with the requirements of protecting the emerging industry.

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