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WORKSHOP ON INDUSTRIAL FINANCING OF ISLAMIC BANKS

<u>Table of contents</u>		<u>Terms of Ref. Item Page</u>
-Joint ventures	3	1 to 12
-Co-operation between Int'l Org'ns and Islamic Banks	4	13 to 19
-Methodology/questionnaire	2	20 to 25
-Problems and recommendations	1	26 to 27

Note: The Consultant Attended the Workshop and participated in its activities as directed. All the material above were submitted in their final form after several revisions based on consultations with Mr. M. Abdelmoneim.

July 1986

WORKSHOP ON THE INDUSTRIAL FINANCING ACTIVITIES OF ISLAMIC BANKS

U N I D O

(Vienna, 16-20 June 1986)

JOINT VENTURES AS A FINANCING MECHANISM
PRACTICED IN ISLAMIC BANKING
FOR INDUSTRIAL DEVELOPMENT

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A special form of financing which involves more than one source of finance for investment in an industrial undertaking is a mechanism popularly known as a joint venture. Money may be substituted for by such inputs as equipment, experience, good will, patent and similar rights, work, collaterals etc. as part of what is invested. This feature is particularly useful in satisfying one of the fundamentals of Islamic investment which requires that money by itself should not be allowed to earn unless combined with a usefull activity. The profits from a joint venture may include, In addition to money or equity, socio-economic benefits, experience, national security, technological self reliance, transfer and development of technology etc.

Each party in a joint venture may have declared or undeclared set of objectives which can be toltally different from those of the remaining parties if not contradictory.

Joint ventures have four distinguishing features:

- a) they are formed to create a new enterprise, or an expansion of an existing one which is so far-reaching that it is effectively a new enterprise.
- b) they are established by one or more partners who all intend to share in i) the initial investment in monetary terms and/or the other forms of investment (inputs) e.g. equipment, work etc., ii) the risks.

- c) they pool their managerial and technical resources and share i) the new experience gained and ii) material profits, if any.
- d) they have a set of accounting records separate from the accounting records of their promoters, in order to determine the profit or loss from the joint venture.

Since Islamic banks as well as development banks in general are distinguished with their commitment to achieving socio-economic justice based mainly on moral grounds rather than on profit making, joint ventures with the possibility of addressing a multitude of objectives, provide a convenient way for achieving those objectives which in turn, reflect, the realities of the parties concerned. Here, the sharing of management referred to in (c) above is of particular importance due to the fact that management, in order for it to be truly effective in shaping the outcome of the joint venture must include technical management. And the sharing of technical management in industry points to what is known as the unpackaging of the technology which shall be explained subsequently.

Joint Ventures vs. Co-financing

It can be said that almost all modalities of Islamic project financing are joint ventures of one kind or another. However, distinction must be made between truly joint ventured and merely co-financed projects. True joint ventures are situations where more is at stake due to the involvement which would require closer participation in activities in contrast to the case of mere co-financing where the investment remains relatively secure even without any participation in activities. The equity

participation (Musharaka) and the Mudaraba modalities require closer participation than for instance the Murabaha and the Ijara (Leasing) modalities. Co-financing is more amenable to the Murabaha or Ijara modes where joint management is not required (if not prohibited). This distinction becomes vital in ordering feasibility studies for the project and later on in providing the necessary backstopping and management. From the banker's point of view the feasibility study may emphasise different aspects of the same project depending on whether the bank is involved in joint venture or in just co-financing. In joint ventures, each party needs to make sure that the other party(ies) can deliver their inputs as expected since the fate of the bank's investment may depend on those inputs' quality and timely delivery as in the case of establishment of a factory which needs electric power and water where one party - usually the government- undertakes to provide them to the project from its own resources to represent part of its equity in that factory. In co-financing the timely supply of electric power and water may not be of the same interest to the bank if the bank has been guaranteed the return of its investment as in the case of Murabaha or some other arrangement. When the bank realizes that it is joint venturing, it may need to have the feasibility study cover the design of the electricity and water facilities and appraise their dependability.

Advance knowledge of the objectives and realities of each party in a given joint venture should help select the most appropriate Islamic financing modality. It is therefore useful to segregate various types of entities which are likely to be interested in becoming parties to joint ventures. By way of illustration and not enumeration, the following seven types are briefly described:

1. Entrepreneurs (institutionalized or individual) who have good ideas and need both financing and technological management in a technologically dependent country where the importation of technological software and hardware are required. They seek partners to a joint venture whereby,

- a- All technological inputs are imported from a party or parties to the same joint venture who has or can provide the technology on concessional basis.
- b- Full or partial financing of the imported technologies.
- c- Realize a one shot profit .
- d- Create a continuous source of profit

2. Entrepreneurs (as above) who have good ideas and a part or all the technological inputs needed where they can truly substitute some or all the necessary importations. They seek partners to a joint venture whereby,

- a- They appear more competent towards local authorities or private investors who hesitate trusting local expertise.
- b- Partial financing of technologies- local and/or imported.
- c- Financing of working capital.
- d- Creation of an institution (industry) where their own skills could be used and converted into profit.
- e- Strengthening of their own technological capabilities.
- f- One shot profit.
- g- Continuous source of profit.

NOTE: THIS SORT OF JOINT VENTURES HAS PROVEN RESULTS IN TERMS OF FULLER UTILIZATION OF EXISTING UNDER-UTILIZED NATIONAL TRAINED MANPOWER WHO MAY NOT NEED MUCH MORE TRAINING OTHER THAN BEING GIVEN THE OPPORTUNITY TO PUT THEIR SKILLS INTO USE.

3. Exporters of technology (hardware and software, mainly capital goods and engineering) by parties from a technologically less dependent (technologically stronger) country who have the following objectives:

- a- Open a new market.
- b- Reduce initial risks by benefitting from local expertise in their knowledge of local conditions and their contacts.
- c- Expand volume of business in existing markets.
- d- Explore a new market potential. This can be extremely dangerous as they, in the process tend to practice dumping where healthy new national enterprises may become casualties.
- e- One shot profit.
- f- Continuous source of profit.

4. A technologically advanced and commercially viable enterprise which envisions the start of a new line outside its immediate competence seeking a joint venture with another technologically advanced enterprise competent in the new line to be established.. Its objectives may be;

- a- Smooth start up of the new line with minimum pitfalls.
- b- Efficient and economical production without the need for government protection.
- c- Better export possibilities of the new product.

5. Partners suffering severely from national obstacles who find in joint venturing with a foreign enterprise an instrument to by-pass those obstacles, particularly where foreign firms enjoy special concessions which nationals do not.

6. Development Banks including Islamic Banks and individual investors. Their objectives may include;

- a- Socio-economic development
- b- Profit.

They usually need;

- c- Ideas
- d- Projects
- e- Feasibility studies
- f- Technology unpackaging
- g- Engineering services and contract documents
- h- Project supervision and control
- i- Financial control
- j- Appraisal and evaluation

7. Governments of Developing Countries. Their objectives include;

- a- Transfer of technological capabilities from the foreign party to the national party of the joint venture.
- b- Savings on foreign exchange by paying the share of the national party in local currency.

Technology Unpackaging; A basic tool
for industrial joint ventures.

Since joint ventures whether in industry, agriculture or construction would normally involve technology unpackaging, an actual case which involved the division of financial responsibilities, management, technical analysis, design and manufacturing of equipment between parties to a joint venture which achieved its goals successfully is briefly presented.

Technology unpackaging is the process of analyzing the technical activities needed to realize a technological project to its elementary components; concept, analysis, design, manufacture, testing, construction, erection, start-up and operation and maintenance. Design for instance, when unpackaged, is broken down to the design of building foundation, the superstructures, the electrical control system, the transformers, motors etc. The same principle applies to construction and manufacturing and so on. Once this is achieved, a shopping list is generated for procurement of components (software or hardware) and item by item from various sources rather than from one source only as in the case of turn-key projects. The various sources may mean savings in overall costs, local manufacture and fuller utilization of endogenous capabilities. The last is in effect on the job training, reverse brain drain and freedom to response to market forces.

Case study in joint venture

DESIGN, MANUFACTURE, CONSTRUCTION
AND ERECTION OF A PUMPING STATION

A joint venture was formed in 1969 between an entrepreneur in an Islamic country and a trade organization in a European country which acted as an umbrella for several manufactureres. The parties to the joint venture and their objectives were along the description items 2.a,b,d & g and 3.a,b & f respectively as described earlier. It was specifically designed to respond to a specific project requirement in the islamic country whose government became the client. In no way any party to the joint venture could have responded to the clients call for offers on its own and much less achieved its objectives without the other. Thanks to the joint venture, all objectives were met and the client got its project realized at about half the estimated cost as result of this joint venture.

Description of the rationale

Which lead to the joint venture.

1. In order to be competitive enough to win an attractive contract and drawing on his knowledge of the country, the local entrepreneur needed to introduce new technical ideas never applied before in the country for irrigation pumping. The ideas encompassed structural, hydraulic, mechanical and electrical

aspects of the projected pumping plant which was of major dimensions. The European party, thanks to its flexibility as a private concern and competence accepted the ideas. This helped the client accept them as well (objective 2.a) since the wisdom has been that a reputable European company wouldn't agree to technologically unsound ideas. As a result, the offer was based on those new technical ideas which deviated drastically from the clients original specifications. The bid was for a total of half a million 1969 US dollars down from around one million bid other international consortia who based their price on the original specifications. The other international consortia were in effect joint ventures as well but did not utilize fully the advantages of joint ventures.

2. The national entrepreneur encountered a financing problem. In order for him to be accepted as credible candidate suitable to undertake a one million dollar contract, he was expected to set aside at least \$200,000 in cash and much more in assets and collaterals. This was far beyond his ability, and even the European party was not prepared to risk such capital in a new venture and in a new country. Co-operation between the two parties and mutual trust enabled them to circumvent the problem. They planned the cash flow based on the terms of payment by the client. And they adjusted the manufacturing and construction schedules so that accrued payments would ensure the planned cash flow - something not likely to implement had it not been for the sense of partnership embodied in the spirit of joint venture - and they exercised some, but legitimate flexibility in pricing. With

that only a small fraction of the said amount (the normally required capital) was actually needed (2.b) of the objectives referred to earlier.

3. The division of technical activities based on unpackaging of the technology enabled the local entrepreneur to reserve the following to his discretion which meant net transfer of technological responsibilities to nationals:

- All field work from site survey, geology, site planning and preparation, civil, structural, hydraulic design and execution, acceptance of machinery, inspection, erection, testing and a two year general supervision of operation and maintenance.

- Design of part of the mechanical equipment such as cranes and trash-racks which were entrusted to local multipurpose workshops and manufactured according to specifications with considerable savings in cost and time. The saving in time was a great bonus since having the cranes ready, installed in place prior to arrival of the heavy machinery made erection work easier and faster.

This aspect provided proving grounds and created demand for services and products of national engineers, manufacturers and objective (2.d).

4. The European party wanted to extend its line of production

from turbines for hydro-electric power generation to propeller pumps in the international market. It had never executed any projects in the country of the entrepreneur, and much less had it competed in the field of irrigation pumping. In that respect it was opening a new market as well. By joint venturing, it achieved doing both in a very competitive field where several giant transnationals were firmly in control of the market. It succeeded in avoiding labour problems, the high cost of representation and knowing the country- objectives (3.a & b).

5. Both parties realized their intended profits after all accounts being settled with no need for arbitration or court action- objectives (2.f and 3.e).

ONE MINOR DIFFICULTY

Manufacturers of plants especially during the process of expansion into new markets try to ensure that upon completion, the plant runs smoothly with minimum trouble which might harm their reputation. When the local party to the joint venture undertakes the responsibility for erection of the plant, and since the performance of the machinery depends to a large extent on the quality of erection work they (the manufacturers) try to reserve to themselves a controlling role in the erection process. This role may prove to be quite costly due to the high cost of travel, per diem and remuneration for members of the erection team of engineers and technicians. The instrument commonly used

by the manufacturer to impose his role is threatening to escape from his responsibility for repair or replacement in cases of major malfunction during the maintenance period of the plant's operation- the usual guarantee. To resolve this problem, use was made of the United Nations approved general conditions for international trade which covered responsibilities in the case of major failures. This document - commonly used in international trade ascertained the responsibility of the manufacturers for proper performance of the machinery they supply unless the malfunction is proven to a result factors unrelated to the manufactureres work or it is proven that faulty foundations or structures was tjhe cause. The local party, confident of the quality of his work agreed to the limited protection provided by the UN document which was accordingly attached to the joint venture agreement. No failure of either kind occured and responsibility for all minor repairs and maintenance remained with the local party.

**CO-OPERATION BETWEEN INTERNATIONAL ORGANIZATIONS
AND ISLAMIC BANKS

In their endeavor to foster industry in their respective countries and other countries of the OIC member states, the Islamic banks have a definite need for technical support from various international organizations which have more experience in industrial development among which the most relevant is UNIDO.

UNIDO is an organization established by Governments to promote, co-ordinate and support industrial development. It extends technical assistance to almost all countries of the world including the Developed nations, but mostly to the developing countries. And funding for its activities in this respect is derived mainly from the following three sources:

1. UNIDO's own regular budget including the UN Industrial Development Fund (UNIDF);
2. UNDP allocations of the Indicative Planning Figures (IPF), and the various financing mechanisms it administers, such as the UN Capital Development Fund, the UN Financing System for Science and Technology for Development, etc.
3. Cost-sharing with recipient or with other donor countries.

In 1985, UNIDO executed 1,694 projects costing US\$94.5 million. And the distribution by source of funding in the same period was as follows:

<u>SOURCE OF FUND</u>	<u>SHARE OF TOTAL (%)</u>
United Nations Development Programme	67.2
UN Industrial Development Fund (UNIDF)	11.6
Regular programme of the United Nations for technical assistance	9.6
Other funds	11.6

And the expenditure breakdown was as follows:

<u>Distribution by project component</u>	<u>Share of total (%)</u>
Project personnel (experts)	46.9
Equipment	23.9
Training and fellowship	14.3
Subcontracts	12.5
Miscellaneous	2.4

<u>Distribution by geographical area</u>	<u>Share of total (%)</u>
Africa*	39.4
Asia and the Pacific	32.1
Arab Countries	3.1
The Americas	12.7
Europe	3.3
Global and interregional projects	9.4

* 9.6% of African Arab States are included

<u>Distribution by sector and programme</u>	<u>Share of total</u> (in millions of US dollars)
Chemical industries	24.5
Engineering industries	13.9
Agro industries	9.9
Institutional infrastructure	9.8
Metallurgical industries	7.2
Training	5.8
Feasibility studies	5.3
Industrial planning	7.3
Factory establishment	3.9
Other	6.9

Most costs of expert advice, equipment and other forms of technical co-operation (in partnership with, and at the request of, developing countries) are met by UNDP, for which UNIDO is an executing agency. Special UNIDO projects use the Industrial Development Fund, established in 1976 with a "desirable funding level" of \$50 million annually. Voluntary contributions to the Fund began at about a fifth of the target but are rising and provide more resources than previous voluntary funds. Some other programmes are financed from the United Nations Regular Programme of technical assistance.

TYPES OF SERVICES OFFERED BY UNIDO

The types of services offered by UNIDO have ranged from those having very general nature to the most country and situation specific. For instance, as example of the first type has been development of methodologies for analyzing mathematical models and for testing them on applied problems of practical value which was performed in co-operation with the International Institute for Applied Systems Analysis (IIASA) and the Academy of Sciences of the USSR. An example of the second more specific type is the actual management and technical manning of an entire industry in one developing country where physical development outpaced the development of its human resources.

More generally speaking, UNIDO undertakes support activities and special programmes.

Support activities include Global, regional, national and sectoral studies and surveys. A recently completed sectoral study covered the Multipurpose approach for the manufacture of agricultural machinery in developing countries which do not possess the necessary industrial base for manufacturing agricultural machinery in the conventional way. UNIDO performs studies of technical advances, technology acquisition, technology development and applications, industrial and technological information bank (INTIB); investment promotion services, sponsors expert meetings and industrial forums, solidarity meetings for co-operation between developing countries; and it renders special services for the least developed countries. On short notice, sometimes as little as 48 hours UNIDO may field experts or teams of experts from among its own staff to deal with an urgent problem facing an industry or a country.

UNIDO has accumulated considerable experience in the field of industrial check-up and rehabilitation. For equity owners in industrial ventures in developing countries, this experience is of paramount importance since the return on investment and its recovery depend on the efficient utilization of the factory. The situation in developing countries speaks for itself. Many new and old factories have fared very hard during recent years and some are either closed or in a stage of semi-bankruptcy. The most tragic situation is when investment in a new plant is followed by the need for additional investment only for covering the annual losses caused by the first. There are characteristic signals which precede such situation which, if detected and their causes identified and rectified in time the tragic situation can be averted. Irregular supplies of spare-parts and material, superficial maintenance, decreasing sales volume and prices, drastic changes in personnel and management discontinuity in general, mounting production costs, only to name a few. Basic to reducing the risks in this respect is application of a system of continuous monitoring and reporting followed by the application

of corrective measures. For more details on this type of service are given in Workshop Paper No.8 dated June 1986.

To respond to changing needs, particularly where expertise from several different areas is required, UNIDO undertakes a number of special programmes such as: the System of Consultations (studies and international consultation on basic industries aimed at harmonious relocation of production industry in developing countries), investment co-operation (identification, generation and promotion of investment projects), technology (advances, acquisition, development, application and co-operation), energy (energy for industry), economic and technical co-operation among developing countries, the Industrial Development Decade for Africa, assistance to the least developing countries, and the integration of women in industrial development.

Assistance to the Islamic Banks

As a general rule, the extension of technical assistance may be considered by UNIDO only in response to a formal request by the government concerned through the UNDP Resident Representative in that country. Islamic banks therefore, need to submit their requests for technical assistance to their governments first. There can be deviation from this rule however, if the bank as a non-governmental organization, agrees with UNIDO to meet the cost of such assistance.

Perhaps the most relevant need for UNIDO technical assistance to the Islamic banks is in project identification, preparation and appraisal. Since appraisal in the form of feasibility studies can be a costly exercise, UNIDO must first approve the undertaking and allocate the necessary resources for it. This needs a project document where the extent of work needed for the feasibility study, its duration, personnel requirements and costs are determined. The project document must include enough information to justify UNIDO's involvement in the exercise. In another words, long term development objectives which the project is intended to serve, its immediate objectives, how it falls within UNIDO's own mandate, etc. are to be given and from all such information the project document is prepared according to a special format which is easily understood by UNDP and other interested UN bodies. This is called project preparation and approval of the project to be taken for performance of the feasibility study is based on this, or a modified version of the project document.

Once the go ahead for the feasibility study preparation is given with the necessary funding secured, the expert(s) is/are recruited, fielded if necessary, information gathered and the study prepared in accordance with a methodology developed by UNIDO and published in the form of a manual on which base recommendations are made for or against the project. One expert, a multidisciplinary team or a consulting firm can be the entity which carries out the study under the supervision of experienced UNIDO staff.

To facilitate all this, and enable national expertise be utilized in preparing feasibility studies, UNIDO has developed a computer programme called Computer Model for Feasibility Analysis and Reporting (COMFAR). The software is made available to users from all countries at cost since UNIDO is a non-profit organization.

Details on what COMFAR can do are given in document under symbol UNIDO/IO.587 dated 20 July 1984 in English. In addition UNIDO offers courses from time to time at various localities for training on the use of COMFAR. A desk-top computer (PC) is needed to run the software with total cost of hardware under US\$10,000.

In addition, a simpler programme called Project Profile Screening and Pre-appraisal System (PROPSPIN), has been recently developed and is now available as powerful investment project analysis tool. It can help project sponsors and promoters to organize and speed the preparation of a credible and verifiable profile for a

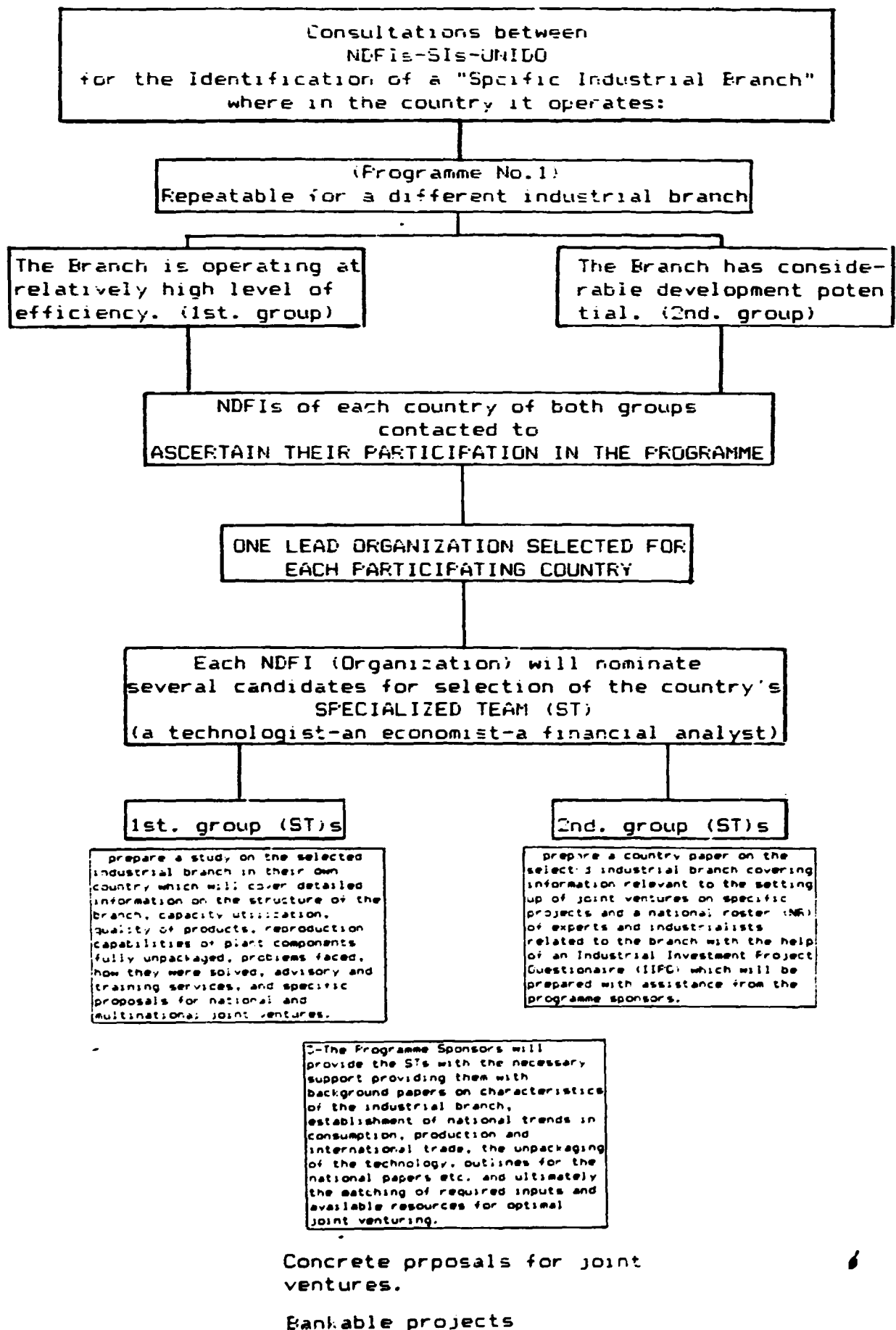
proposed industrial investment project. Its application require less input, cheaper software and hardware than COMFAR does. More details on this and on COMFAR, are obtainable from UNIDO.

Special feasibility studies for industrial rehabilitation which was referred to earlier are offered by UNIDO as well.

The cost of UNIDO's technical assistance to recipients is far below actual costs incurred by UNIDO itself. They range from 13% overheads in expert intensive services to about 2% in equipment intensive cases, not to mention benefits resulting from UNIDO's better negotiations position and skills in obtaining prices and delivery conditions from both the international expertise and good markets which are passed on to the recipients.

25

SCHEMATIC OUTLINE OF METHODOLOGY
FOR PROMOTING INDUSTRIAL CO-OPERATION BETWEEN
MEMBER STATES OF THE OIC



*Prog is file opened June 3 1986 for notes on UNIDO/ICF proposed workshop on the role of NDFIs in joint ventures and IsDB

Key to symbols

OIC	Organization of Islamic Conference
NDFIs	National Development Finance Institutions
NIDA's	National Industrial Development Agencies
IsDB	The Islamic Development Bank
BAFINDO	The Development Bank of Indonesia
SMIs	Small and Medium-scale Industries
ICF	The UNIDO Investment Co-operative Programme
INPRIS	UNIDO's Investment Promotion Services & IP Promotion Information System
<u>Specialized Institutions of the OIC</u>	
IsDB	The Islamic Development Bank
SESRTCIC	The Statistical, Economic and Social Research and Training Centre for Islamic Countries-Ankara
IFSAD	The Islamic Fund for Science, Technology and Development - Jeddah
ICTVTR	The Islamic Centre for Technical and Vocational Training and Research - Dhaka
ICCICE	The Islamic Chamber of Commerce, Industry and Commodity Exchange -Karachi
ICDT	The Islamic Centre for the Development of Trade- Casablanca
SIe	The Islamic Specialized Institutions
ST	Sozialized teams (from 1st.group and 2nd. group)
NR	National Roster (from 2nd. group)
IIPQ	Industrial Project Investment Questionaire
CP	Country papers
NTs	National teams
DSA	Daily Subsistance Allowance

SUMMARY OF INFORMATION RECEIVED FROM ISLAMIC BANKS BASED ON UNIDO QUESTIONNAIRE

NAME OF BANK	REF. NO.	CLASSIFIED BY CONTRAL BANK AS	NO. OF EMPLOYEES ON PAYROLL
FAISAL ISLAMIC BANK EGYPT	1	Special Law No. 48 Ref. 1977	1040
FAISAL ISLAMIC BANK SUDAN	2	Sudaneese Company Law 1925	847
AL BARAKA BANK (SUDAN)	3	Commercial Bank	170
QATAR ISLAMIC BANK (Q.S.C.)	4	Reg'd. Law (II) 1981	45
SUDANESE ISLAMIC BANK	5	Commercial Bank	312
ISLAMIC BANK INT. OF DENMARK	6	Commercial Bank	19
ISLAMIC INT. BANK FOR INVEST. AND DEVELOPMENT (I.B.I.D.)	7	Invest. Dev. Bank, Law 43, 1974 (Egypt)	500
	8		

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A

Bank by Ref. No.

	1	2	3	4	5	6	7	8
Date banking operation commenced	5.7.79	15.3.84	-	7.7.83	10.5.83	18.4.83	Oct.81	
Date of adoption of Islamic banking principles: since establishment	5.7.79	15.3.85	-	7.7.83	10.5.83	18.4.83	1980	
A.8 Authorized share capital (paid)	\$ 500 (70)	LS 100 (58.4)	\$ 200 (42.5)	QR 200 (50)	\$ 20 (17)	DKK 40 (40)	\$ 100 (12)	
A.9 Total share capital and reserves	96.6	134	42.5	61	24.0	45.0	14.0	

22

A.10 Total financial and investment commitments outstanding at 31.12.1984	1910.0	459	22.7	-	0.5	224	667.5
A.11 Total new facilities granted	-	106	37.4	-	0.4	154	487.8
A.12 Net pre-tax profits for year ended 15 09 1985	8.5	15	2.0	8.7	0.03	1.1	3.3
A.13 Percentage of share (equity) capital at 3% owned by government or parastatals	0	-	0	0	0	0	0
A.14 Total No. of shareholders	8 600	11 409	45	6 320	1 512	one	1 500

B. Islamic financing mechanisms engaged in

P.1 Cost-plus trade financing of:							
domestic trade	X	X	X	X	X	X	
foreign trade	X	X	X	X	X	X	
equity capital	X	-	-	-	-	X	
B.2 100% (mudaraba)	X	X	X	No	X	0	X
B.3 up to maximum of % (musharaka)			50-60	No	75	8	X
B.4 rental financing (ijara)	X			No	No	X	X
B.5 lease purchase financing	X			No	No	X	X
B.6 interest-free loans	X	X		No	X	X	X
B.7 other Islamic financing mechanisms	No	No	Yes	No	No	-	Yes

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B.7 % of total facilities by type of
(a) Islamic financing mechanism

	1	2	3	4	5	6	7	8
Murabaha	50		69.9	-	62	80	35.9	
Musharaka	20		28.5	-	34	1	20.6	
Mudaraba	20		1.6	-	4	-	4	
Ijara	1		4	-	-	19		
Leasing	4			-	-	-		
Equity	5			-	-	-		

B.8 (a) Special problems

Usual problems of accounting basis concerning
musharaka and mudaraba profits

Reported by Bank No.

Default in payment

1
2, 3, 4, 5

Delay in payment

2, 3

Inadequate return

2, 3, 7

Loans in some operations

2, 3

B.8 (b) Sources and duration for different
types of deposits in % of total
deposits

	1	2	3	4	5	6	7	8
Current a/c	4	-	-	32	84.4	-	14.4	
Savings a/c	-	-	-	24	1.4	-	85.4	
Invest./fixed deposits	96	-	-	44	14.2		0.2	

24

C. Industrial Financing

C.1 Have you had experience in financing investment in industrial facilities

- Yes Yes No Yes Yes Yes

C.2 - C.6 Please see note*

C.7 New industrial projects

Yes Yes Yes Yes Yes - Yes

C.8 Expansions of existing industrial facilities

Yes Yes Yes Yes Yes - Not yet

C.9 Modernizations of existing industrial facilities

Yes Yes Yes Yes Yes - Not yet

C.10 Relocation of industrial facilities within your country or from abroad

Yes - Yes - - - Yes

C.11(a) Other types of industrial projects

- - - - - -

C.11(b) Industrial financing as % of total in recent years

26 170 29 0 1 0 -
(Nos.)

Note* : No reply contained any reason for not financing industry, except Bank No. 6 which indicated problem of mixing with Riba

A CONSOLIDATED SUMMARY OF THE MAIN PROBLEMS AND OBSTACLES
TO INDUSTRIAL FINANCING GIVEN BY THE ISLAMIC BANKS
IN RESPONSE TO THE UNIDO QUESTIONNAIRE FOR THE
UNIDO WORKSHOP OF VIENNA, 16-20 JUNE 1986

The issues raised are put in sets with regards to their likely target for action and suggestions:

1. Government Regulations

Investment climate, operating environment, official policies and communications. Suggestions include;

- a- Simplification of procedures (licences, customs, etc.)
- b- Monetary policy.
- c- Foreign currency control policy.
- d- Fiscal policy (Direct and indirect taxation).
- e- Interest in bilateral joint ventures.
- f- Investment policies.
- g- Appropriate transfer of technology and management.
- h- Allocation of land with infrastructures.
- i- Availability of equity finance (risk capital).

2. Business Community

- a- Lack of entrepreneurs competent to set up and operate manufacturing industries.
- b- Lack of innovation.
- c- Lack of team work in project promotion campaign.
- d- Lack of team work in project co-financing, parallel and joint financing (Inter-bank relations).

Note: To the question whether there was lack of staff qualified and experienced in the appraisal of industrial projects within the institution there was general agreement that no lack of such staff existed.

3. Technological Community

- a- Lack of good industrial projects.
- b- Lack of training and skill building facilities for persons wishing to start manufacturing facilities.

Note: The replies received indicate little complaint about availability at the local level of technical skills needed for the setting up and efficient operation of industries to ascertain optimum investment and profitability.

4. Special Problems with Islamic Financing

- a- Default in payment.
- b- Delay in payment.
- c- Inadequate return.
- d- Losses in some operations.

The Workshop identified the following areas where action would be needed:

1. Development and perfection of Islamic financial mechanisms in industrial finance;

2. Development of interface mechanism between Islamic banks and traditional financial institutions;

3. Conducting necessary research for establishment of Islamic capital and money market including the formation of a secondary market;

4. Conducting necessary research for establishment of investment guarantee institutions to foster Islamic industrial financing activities;

5. Information dissemination on technical assistance available within the United Nations system, the Opec Fund and other international organizations for project identification and preparation needed for industrial financing.

6. Co-ordination of mutual co-operation between Islamic banks on one hand national development finance institutions (NDFIs), international finance institutions, the UN system and regional development funds and institutions in the following fields:

- Identification of bankable industrial projects
- Identification of competent entrepreneurs
- Conducting pre-feasibility and feasibility studies
- Evaluation of feasibility studies
- Unpackaging of the technologies involved
- Identify the sources of technological inputs -
- Resource mobilization
- Support activities for the upgrading managerial competence in industrial financing

7. In order to achieve the above-mentioned objectives a dedicated entity is to be identified/established in Vienna under the sponsorship of interested Islamic international organizations to supervise and implement the necessary activities.