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16035

Distr.
LIMITED

UNIDO/ICPT
1986

ENGLISH

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

INDUSTRIAL PROJECT PROMOTION IN OIC COUNTRIES

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Vienna, 18 December 1986 420

INTRODUCTION

The Organization of the Islamic Conference, henceforth OIC, was established in March 1972 by the Third Islamic Conference of Foreign Ministers, meeting in Jeddah, Saudi Arabia. In its founding charter the organization's objectives were defined, inter alia, as the "promotion of Islamic solidarity in member countries, consolidation of the co-operation of member countries in economic, social, cultural and scientific and other vital fields of activity.

The OIC's main bodies are the Islamic Summit Conference, comprising monarchs and heads of government, the Islamic Conference of Foreign Ministers, the sixteenth of which met in Fez, Morocco in January 1986, and the General Secretariat, the seat of which is in Jeddah. The OIC has also set up a number of subsidiary organs such as the Islamic Solidarity Fund, a financing agency, and specialized institutions such as the Statistical Economic and Social Research and Training Centre for the Islamic Countries, the Islamic Centre for Vocational and Technical Training and Research , the Islamic Foundation for Science, Techuology and Development and the Islamic Development Bank, the leading Islamic development finance institution.

A commission of the whole, the Islamic Commission for Economic Cultural and Social Affairs, meets twice a year to supervise, co-ordinate and review the efforts to promote economic co-operation among the member States.

In 1981 the "General Agreement for Economic, Technical and Commercial Co-operation among member States of the OIC" came into being. It provides for the transfer of capital and investments, establishment of joint projects, creation of opportunities for investments in such projects and maxium utilization of the potential for food production in member states. The Agréement also envisages trade liberalization, co-ordination of trade policies, removal of customs barriers, and other measures to promote commercial co-operation. As a step towards implementation of the General Agreement, an Agreement on Promotion Protection and Guarantee of Investments among Member States was drafted, the aim of which was to foster and facilitate capital flows within the OIC member countries.

Arabian Peninsula and the Far East.

The only integration measure so far which has some more tangible content than the General Agreement is the Agreement for Promotion, Protection and Guarantee of Investments among OIC member States which, although adopted in 1981, has not yet been ratified by sufficient States (10) for it to enter into force. The aim of this Agreement is permit the flow of investment capital into the member states and to protect such investments from expropriation or discriminatory legislation by the host government. It also provides for the repatriation of capital upon termination of an investment, but does not provide for the remittance of profits.

As Prof. Nienhaus points out, usually, the pattern of integration starts with the successive reduction of intra-group tariffs, while liberalization of factor movements comes at a much later stage. The OIC has reversed this procedure, perhaps because trade liberalization would have little impact in the OIC context. Trade between Islamic countries "is, on the average and also for most individual countries, rather insignificant in quantity, highly concentrated with respect to both the number of traded goods (mainly raw materials) and the importance of particular countries in intra-Islamic trade, considerably polarised (i.e. directed mainly to only a few importing countries in the Muslim world, and growing at a slower rate than the total trade of the Islamic countries." However, liberalizing the movement of capital without a reduction in tariffs means that the production output of Islamic joint ventures is confined to to the national markets of the countries in which they are located. Liberalization of capital transfers without liberalizing the exchange of goods would merely favour the industrially more developed Islamic countries with large domestic markets, while the less developed Islamic countries would have even less chance of attracting investors and new industries.

In the view of Prof. Nienhaus, an "appropriate" trade liberalisation scheme would give the less developed OIC countries access to intra-OIC markets while affording them some measure of protection against imports to their infant industries. As will be shown below, such a liberalisation scheme would also contribute to the promotion of industrial projects in the smaller OIC

The first such annual meeting took place in Geneva in 1983 and considered "mechanisms for investment and joint ventures" as one of five priority areas for co-operation between the OIC and the UN. It was agreed that UNIDO should act as lead agency in promoting co-operation in this priority area, and a task force was set up within the organization to spearhead suitable follow-up action in this area. UNIDO's Investment Co-operative Programme (now Industrial Investment Department) was designated as the focal point for such follow-up activities.

Since then, UNIDO has devoted considerable effort to the promotion of industry in OIC countries, in particular through joint ventures between partners in different countries. Five substantive papers have been prepared[2] and an inventory of UNIDO documentation relevant to the subject of investment mechanisms and joint ventures - model contracts, know-how agreements, manual on joint ventures, country investment profiles was drawn up. The Task Force also compiled a list of ongoing technical co-operation activities of UNIDO substantive divisions, especially those projects likely to lead to investment and joint ventures, and of meetings, seminars, workshops and training programmes to be organized for the Islamic specialized institutions. Proposals for future technical co-operation to be implemented in OIC countries by UNIDO alone or with UN sister organizations were submitted to UNIDO's Executive Director for discussion with the OIC.

Co-operation between UNIDO and the OIC progressed a stage further with the holding of the Second General Meeting between the Secretariats of the United Nations and other organizations of the UN System and the Secretariat of the OIC in Geneva on 28-30 July 1986. Reviewing progress in the area of investment mechanisms and joint ventures, the meeting noted "with deep satisfaction the close and wide-ranging co-operation between UNIDO and the various OIC agencies and specialized institutions such as the Statistical Economic and Social Research and Training Centre for the Islamic Countries, the Islamic Centre for Vocational and Technical Training and Research, the Islamic Centre for Development of Trade, the Islamic Chamber of Commerce, Industry and Commodity Exchange and the Islamic Development Bank, and encouraged in particular the ongoing study of UNIDO's proposals for the development of an integrated mechanisms to evolve joint ventures in the production of specified commodities

The commitment to Islam as a force for change should however not be underestimated: progress may be slow, but it is there, and may be expected to gain momentum as the political organs and specialized institutions of the OIC mature. Pakistan provides an example of a country which is leading the way in Islamicizing its commercial and banking sectors.

Many people think that the only difference between Islamic and traditional banking is the prohibition of interest on loans in the case of the latter. Although this is an important difference, it is by no means the only one. Commercial relations in Islamic countries are based far more on solidarity and partnership concepts than in the West. Thus for a bank to put a company into bankruptcy for non-payment of interest on a loan, thereby putting hundreds of people out of work, would be nothing out of the ordinary in some western industrialized countries. In an Islamic context, such action would not be acceptable on ethical grounds, and also probably not be feasible since Islamic banks do not normally grant loan finance, but share in the profits (and losses) of an enterprise, either as shareholders or on the basis of a profit-sharing agreement.

There are problems in basing all financing on profit-and-loss sharing concepts: profits can only be ascertained over a certain period of time, they can be easily manipulated by an unscrupulous entrepreneur, and they can fluctuate over short periods; however, in some Islamic countries, notably Pakistan, considerable progress has been made in finding solutions to these problems and it is already clear that an interest-free banking system is a viable alternative to the interest-based system.

In the course of the next few years, therefore, the adoption of Islamic financing techniques may be expected to make rapid progress in OIC countries as the number of Islamic financing institutions and the scope of their activities expands. Already, there are 30 such institutions operating in the OIC countries and a further 20 operating in other countries. The total value of the funds they manage is estimated at between 13 and 15 billion (thousand million) US dollars. The further development of Islamic banking in the OIC countries is likely to be a significant factor in promoting industrial development in these countries, since only these banks will be able to

- financially viable, i.e. that

  the total investment in buildings, machinery, pre-operating expenditures and working capital will ultimately be recovered by the net profit on sales, after deducting operating expenditures and taxes, and allowing for a return on investment which is competitive with alternative uses of the funds

  the funds contributed by the project promoters and those it generates from operations will at all times be sufficient to satisfy its financial obligations to third partiessuch as trade creditors, equipment suppliers a banks.

If the project is to receive finance from official sources such as a State development corporation or bank, its economic viability will also be evaluated at the preparation stage by performing a social cost/benefit analysis. This means that its effect on the national economy will be measured. Since most developing countries are net importers of capital, the project's effect on the balance of payments will be crucial to its economic viability. It will therefore be necessary to compute the total foreign currency outflows caused by the project over its expected lifetime, e.g. for machinery and equipment and for raw materials, and compare these with the foreign currency inflows over its life, e.g. from export sales. A saving in imports (the "import substitution" effect) would also be regarded as an inflow for this purpose. In order to even out the effects of different timing of the outflows and inflows they would normally be discounted back to present values at a rate representing the opportunity cost of capital to the investors. If this computation results in a net inflow, the project will merit further consideration.

Another important criterion of economic viability is the amount of wealth or value the project will create locally, usually described as "value added." Value added, put simply, is the excess of the selling price of an items over the cost of the raw and other bought-in materials from which it is made.

under the following headings:

Project background and history
Market and plant capacity
Materials and other inputs
Location and site
Project engineering
Plant organization and overhead costs
Manpower
Implementation scheduling
Financial and economic evaluation

A study which will provide reliable information on all the above topics in detail needs to be prepared by experts and is expensive to produce. The waste of resources resulting from an industrial investment which ends in failure is however far more expensive, so that financial support towards the cost of a feasibility study is often provided by development finance institutions and multilateral development aid organizations within the framework of their technical assistance programmes. UNIDO attaches great importance to the preparation of high quality pre-investment studies, having set up a department devoted to this activity and developed software aimed at standardizing the format of such studies and eliminating time-consuming manual computations of the various parameters.

A full feasibility study, while always desirable, may not always be a realistic option in view of the cost involved. In the example of the proposed shoe factory mentioned above a pre-feasibility study, covering the same topics as a full feasibility study, but in less detail, might be sufficient to satisfy the financing institution that the opportunity is so promising that an investment decision can be taken on the basis of the information ascertained at the pre-feasibility stage. This might be the case in the example of the shoe factory where the project sponsor has years of experience in selling to the target market, is familiar with consumer preferences and already possesses a sales network. Here, the main concerns of the financing institution would be to ascertain the cost which tends to increase exponentially with the passage of time, the number of years for which operating results will be predicted is unlikely to exceed ten. Because of this, it is generally true that the shorter the pay-back period, the less risky the investment.

Apart from pay-back period, the financing institution will apply a number of other criteria to its appraisal of the project. Discounted cash flow (DCF), internal rate of return (IRR) and return on equity investment (ROIeq)[4] are all techniques in common use for this purpose. In the case of a development finance institution which is committed to implementing national economic policies and planning goals, this is the point at which the socio-economic benefits of the project in terms of balance of payments effect and national value-added will be evaluated.

From its appraisal of the data submitted, the financing institution will arrive at a decision on whether to participate financially in the project. This is by no means a foregone conclusion. The pre-investment studies and forecasts may reveal that the project ideas is either not a viable proposition or not sufficiently attractive in terms of its financial and/or economic return to justify funding. A decision will then be required as to whether to abandon it or endeavour to redesign it to overcome its weaknesses.

Returning to the example of the shoe factory, the pre-investment studies might reveal that the limited size of the market, the level of technology the project could afford, the skills of the local workforce and the price of imported raw materials would not permit the manufacture of shoes capable of matching in price and quality those available from competitors abroad. If however it was discovered that a relatively modest improvement in the quality of hides produced by the local tannery would permit their use for footwear manufacture, the project could be redesigned to incorporate some additional investment in tannery facilities and thereby gain access to a lower-cost source of raw materials and one which would not absorb foreign exchange, a modification which might suffice to render the project viable.

Group B comprises the oil exporting OIC countries (e.g. Algeria, Indonesia, Kuwait, Gabon). These countries are members of OPEC and/or countries where the oil sector has an overwhelming impact on the overall economic activity due to the fact that most of them are sigle-product economies based on oil.

Group C includes the remaining member countries which might be called "middle income" countries (e.g. Bahrain, Cameroon, Egypt, Malysia, Morocco, Turkey). They have a relatively more developed infrastructure, including skilled manpower, a comparatively more diversified economy with rapidly developing manufacturing activity and, for some of them, an important oil sector.

The process of industrial development in most OIC countries, and particularly those in Group C, is hampered by a number of obstacles found in most developing countries - lack of infrastructure, institutional weaknesses and human resource constraints. To these should be added the inability to attact foreign capital and know-how and the lack of success in eliminating trade and other barriers to economic co-operation between of the OIC countries. As already pointed out, the only concrete integrative measure so far adopted by the OIC, the Investment Guarantee Agreement, has not yet been ratified by sufficient countries to enter into force. There are no trade agreements between OIC countries affording preferential access to their markets. This means that the output of industry in the poorer OIC countries cannot benefit from the markets of the larger and richer countries, thereby reducing the scope for implementing new industrial projects.

A further obstacle lies in the risks attaching to investment in countries which are facing such severe economic problems that their economic stability may be in jeopardy. These risks include depreciation of currencies, foreign currency shortages which hamper the import of essential inputs and postpone indefinitely remittances of profits, loan service charges and repatriation of capital, changes in legislation adversely affecting the assumptions on which a project has been based and the inability of governments to provide essential infrastructure financial participation.

Thus adequate preparation is an essential pre-requisite of successful project promotion. But what is meant by "promotion" in this context ? It can be said to encompass all the efforts undertaken by project sponsors (who may be the entrepreneurs themselves or development institutions who view the project in the context of the country's overall economic development) to secure the inputs needed to implement a specific industiral investment project, whether in the public or private sector. Such inputs include funds, plant and equipment and the know-how to operate it, technical know-how in the form of licences, patents or simply manufacturing experience; experience in selling or distributing in the target markets, whether domestic or export, managerial skills with particular emphasis on financial planning, control and management and on handling the cash inflows and outflows resulting from operations. In developing countries there is frequently a human resource input. The need to train locally recruited staff to take over from expatriates - a process generally known as localization.

The critical input in most projects is the financial one, and it is therefore necessary to involve those who will contribute money from the earliest stage of project preparation activities in order that their concerns regarding such topics as source and quality of raw materials, appropriateness of techaology and size of plant, realism of assumptions regarding market penetration may be taken fullest account of. The predominance of the financial aspects accounts for the use of the expression "investment promotion" to describe project promotion activities

Figure (1) shows project promotion activities starting soon after the commencing the pre-feasibility study, reaching a peak during the project formulation and evaluation phases and ending when negotiations and contracting are concluded, since by then the implementation of the project has been decided and the problems to be faced are those of implementation, rather than promotion.

attract the necessary funding has led the Organization to set up a specialized unit, the Industrial Investment Division (previously the Investment Co-operative Programme) to assist entrepreneurs, development banks and planning authorities in developing countries with all aspects of project identification, preparation and promotion.

The Department pursues this general objective by means of activities such as its Industrial Sector Missions, whereby UNIDO staff members and/or consultants visit a given country or region to identify and prepared industrial investment projects in a given sector. This type of assistance has been given to a number of OIC countries including Morocco, Egypt, the Sudan, the Yemen Arab Republic, Djibouti and Somalia.

UNIDO can also provide experts to set up and operate within a given industry ministry, planning commission or development bank an Industrial Advisory Unit with the task of strengthening national capabilities in identifying, preparing, evaluating and promoting industrial projects. Such a unit normally comprises an industrial economist, a market analyst, a financial analyst and an engineer. The experts work closely with national specialists who run the unit after the UNIDO experts' departure. Through these units UNIDO finances or co-finances the preparation of many pre-investment studies. To date, such units have been established in a number of OIC countries, including Mauritania, Saudi Arabia and Oman.

Training courses to upgrade national skills in project identification and preparation are arranged by UNIDO on a national and/or regional basis. In 1983 a training course for this purpose was conducted for the staff of the IDB at the Bank's headquarters in Jeddah.

Project Promotion Activities Specific to OIC Member States

UNIDO is conscious of the special problems of industrial project promotion in OIC countries and has accordingly initiated and carried out technical assistance activities in and on behalf of many OIC countries.

also generate ideas for establishing manufacturing plants. Country presentation meetings, such as the one organized for Bangladesh, can also serve as a prelude to subsequent investment promotion meetings or as a substitute for such meetings where none is planned

These activities together have resulted in the identification of 744 projects in 22 OIC countries. Of these 125 had been successfully completed by the end of 1985, i.e. implementation was underway. A full list is attached as Annex 2. Details of these projects are held in the Industrial Investment Division's INPRIS ("Investment Promotion Information System") data bank. It is significant that of the 744 projects by far the greater part, 531, are in Group A countries, i.e. those which are economically less strong countries, while only 104 are in Group B countries, the oil exporters, and 91 are in Group C countries, the middle income member states.

Analysis of the type of assistance required broken down by the following criteria shows that 664 of the 744 require some form of financial inputs, as compared to 551 which are seeking know-how and technology. From this it is clear that for promoters of industrial projects in OIC countries finding appropriate sources of medium and long-term finance is a major concern.

UNIDO has long been aware that industrial project financing is one of the major problems of industrial development in newly-emerging countries, and has devoted considerable effort to providing support in this area. In addition to the information on projects referred to above, the INPRIS data bank contains details of some 600 international, regional and national development finance institutions, together with details of their geographical and sectoral lending policies, so that a project sponsor can, upon request to UNIDO, obtain basic information on all financing institutions that are prepared in principle to consider financing projects in his country and economic sector. In addition, there is an investor file containing the names of some 3,000 public and private enterprises that have indicated a willingness to consider participation in industrial projects in developing countries.

A number of papers on topics relevant to industrial financing in an Islamic context were presented at the workshop, which was attended by representatives of Islamic and traditional banks, international and regional financing institutions and development agencies.

Both the papers presented and the ensuing discussion showed that the provision of long-term finance for the fixed investment and working capital requirements of industry still accounts for only a very small part of Islamic banks' outlays, the greater part being for financing foreign trade and for investment in activities with a fixed return, such as leasing, hire purchase and arrangements involving purchase of industrial inputs and their resale to the user at a profit. The reasons for this reluctance to invest in industrial projects appear to lie in the view that equity investments offer uncertain returns, both as regards amount and time-frame of receipt.

In contrast to types of financing offering a fixed return, the choice of equity investments requires a degree of project analysis and appraisal in terms of its technical, financial and marketing viability which few Islamic banks have the capacity to execute. Moreover, the real problems commence only after implementation: in order to safeguard their interests, banks may have to monitor and even participate in the management of projects, an activity for which they lack both the human and technical resources.

The view of many workshop participants was that the Islamic banks would welcome UNIDO's continuing involvement in a number of areas, such as assessing the viability of industrial project proposals submitted to them, or management training to enable the banks' staff to intervene where a project that has got into difficulties.

However, further research is also needed to refine the existing Islamic financing mechanisms, and particularly to find ways of satisfying the long-term financing requirements of industrial projects - given a deposit base which is essentially short-term.

Islamic banks, many of which are actively seeking to diversify their investments, are useful potential partners for NDFI's in OIC countries. By purchasing NDFI's mature industrial investments they could help them recycle their funds to new projects more rapidly.

2. Organizing co-ordination meetings between the top management of Islamic banks and other financing institutions (national, regional and international).

Such meetings should be held from time to time to discuss problems of industrial financing in an Islamic context and develop strategies to bring about a broader engagement in industry by Islamic banks. The meetings would also provide a forum where structural problems of specific industry sectors in OIC member countries could be discussed with UNIDO experts, and proposals for appropriate technical assistance programmes drafted. Each such meeting should centre on a specific topic, of which the following are examples:

Case studies on the experiences of Islamic banks with their investments in industrial enterprises in Islamic countries;

Techniques for evaluating the profitability of industrial investment project proposals in an Islamic context

Preparation of industrial investment projects using specialized software for sensitivity analysis and scenario building

Utilizing and refining Islamic financing mechanisms for industrial investment

3. Investigating ways of establishing secondary markets in Islamic countries to mobilize small investors' funds for industrial projects

There are a number of mechanisms in use in industrialized countries to channel small investors' funds into types of financing based on behind their further development. They are also privileged in having access to a large and powerful group of financing institutions - the Islamic banks - which are committed to funding on a profit-and-loss sharing basis, rather than an interest basis. Many Islamic banks have been hesitant to engage in industrial financing activities because these were considered more difficult and more risky than their traditional engagements in property, commerce and foreign trade.

The shortage of well-prepared projects which is a widespread feature of developing countries is generally regarded as more of a problem than any shortage of funds. However, the shortage of well-prepared industrial investment projects is not only the manifestation of the lack of the necessary skills, but also of the fact that in many OIC countries - and particularly those of Group A - profitable investments in industrial projects are not easily found. The continuous depreciation of local currencies, restrictions on repatriation of earnings and capital, inadequate physical and institutional infrastructures, a shortage technical and managerial staff the possibility of unpredictable legal and fiscal changes are among the factors which make foreign investors - even from other OIC countries - wary of an engagement. The limited scope of domestic markets and the lack of preferential to each other's markets among OIC countries are other factors which hamper the promotion of industrial projects.

Co-operation between the OIC and UNIDO has contributed substantively to recognition of these problems and to identifying possible solutions. It is to be hoped that this co-operation will be pursued and expanded in the interests of the OIC member states and their peoples.

Annex 1

COMPOSITION OF GROUPS OF OIC MEMBER STATES

Group A Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Niger, Senegal, Sierra Leone, Somalia, Sudan, Uganda, Yemen AR and Yemen PDR.

Group B Algeria, Brunei, Gabon, Indonesia, Iran, Iraq, Libya, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Group C Bahrain, Cameroon, Egypt, Jordan, Lebanon, Malaysia, Morocco, Pakistan, Syria, Tunisia and Turkey.

Country	Project	Value (US $ mio)	IPS/Year
Indonesia	Sheetglass	24.0	Brussels 1980
	Shipbuilding (small boats)	60.0	Brussels 1981
	Veneer wafer board	27.6	New Uork 1981
	Elevator assembly	5.0	New York 1982
	Refractory materials	16.5	Tokyo 1982
	Filter aids production	0.7	Tokyo 1983
	Filter rods	9.5	Tokyo 1983
	Cashew nuts and processing	n.a.	Tokyo 1983
	Production of wood products	0.3	Cologne 1983
	Oil industry processing	1.5	New York 1984
	Scrap steel processing	4.2	New York 1984
	Automotive components	48.8	New York 1984
	Automobile engines	240.0	Tokyo 1985
	Pump manufacturing (iron casting)	5.0	Tokyo 1985
	Liquid frozen eggs	6.2	Tokyo 1985
	Ferro-silicon	54.3	Tokyo 1985
Iraq	Data Processing	6.0	Zurich 1980
	Vaccine production	4.6	Cologne 1981
Jordan	Cold store	0.24	Paris 1983
	Industrial bakery	2.4	Paris 1983
	Truck repair workshop	4.4	Cologne 1985
	Commercial and workshop centre	10.0	Cologne 1985
Socialist People's Libyan Jamahirya	Poultry	120.0	Cologne 1980
Malaysia	Small forging plant	2.3	Zurich 1980
	Tyre retreading and rubber	2.3	Cologne 1981
	Battery manufacturing	1.6	New York 1981
	Electric typewriter cassettes	0.12	Vienna 1982
Mali	Shea-nut extraction	4.0	Brussels 1980
Mano River Union	Dry cell batteries	2.9	Zurich 1980
Mauritania	Fish processing	69.0	Cologne 1981
Morocco	Chemical plant	1.0	New York 1980
	Distribution and copying equipment recycling plant	4.0	New York, 19[illegible]
	Repair shops	2.5	Zurich 1980
	Seaweed harvesting	0.8	New York 1981
	Biscuit factory	1.2	New York 1981
	Steel structures	n.a.	Zurich 1982
	Phosphates	0.4	Brussels 1983

Country	Project	Value (US $ mio)	IPS/Year
Tunisia	Construction of engines and trucks	19.0	Cologne 1981
	Leather finishing and shoe design	3.7	Brussels 1982
	Tannery	1.2	Brussels 1983
	Plastic factory for toys	0.36	Cologne 1985
Uganda	Truck maintenance and repair service	24.0	Cologne 1985
	TV assembly and repair service	0.6	Cologne 1985
	Maize mill	0.84	Cologne 1985
	Soap factory	1.0	Cologne 1985
	Waste plant for tea plantations	1.0	Cologne 1985
	Wolframite mining	12.0	Cologne 1986
	Marble mining	8.0	Cologne 1985
	Bulb factory	1.0	Cologne 1985
	Fish factory	1.3	Cologne 1985
	Extension of coffee processing plant	1.2	Cologne 1985
	Organic waste plant for national coffee association	1.1	Cologne 1985
Yemen	Bulb factory	1.1	Cologne 1985
	Carpet factory	0.72	Cologne 1985
	Cattle farming	2.4	Cologne 1985
	Bottling plant	0.88	Cologne 1985
	Five wheat mills	4.4	Cologne 1985
United Arab Emirates	Oil recycling plant	3.5	Cologne 1981
Turkey	Meat and meat products	11.4	Vienna 1981

11.8 While the clinker was being imported a need was felt for providing training facilities for the local personnel. IDB within the framework of its technical assistance facilities arranged the training of the local personnel in one of the member countries of IDB with similar plant facilities for on-the-job training.

11.9 Eventually after all these efforts, the plant was commissioned and started producing cement which was badly needed for the various developments projects. The overall exposure of IDB to the project reached a figure of about US$20.0 million.

11.10 The plant has been operating on and off and IDB is represented on the Board of Directors of the Company.

11.11 The case study tends to shed light on four important factors:

(i) the hazard of equity financing in developing countries;

(ii) the effective and coordinated role of Arab and Islamic Development Financing Institutions;

(iii) The comprehensive and dedicated manner in which IDB endeavours to address itself in financing the challenge of industrial development in its member countries;

(iv) The manner in which all modes of financing being in conformity with Islamic principles of Shariah (Islamic jursiprudence) contribute in a comprehensive manner to ensure the success of industrial projects.

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Fig. 1 - Project Development Cycle

Pre-investment phase				Investment phase				Operational phase
Identification of Investment opportunities (project ideas)	Initial selection (preliminary feasibility or pre-investment study)	Project Preparation (technical and economic feasibility study	Appraisal and investment decision (appraisal) report)	Finalizing Project design	Negotiation and contracting	Construct-ion	Start-up of operations