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INVESTMENT MECHANISMS AND JOINT VENTURES: THE PROMOTION OF INDUSTRIAL CO-OPERATION BETWEEN MEMBER COUNTRIES OF THE ORGANIZATION OF THE ISLAMIC CONFERENCE*

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At the first annual meeting between the secretariats of the United Nations system (UNS) and the Organization of the Islamic Conference (OIC) on July 15 1983 in Geneva, it was agreed that UNIDO would act as the lead agency for follow-up action in the priority area of investment mechanisms and joint ventures.

There appears to be a lack of unanimity regarding the precise meaning of the two terms "investment mechanisms" and "joint ventures".

This paper will attempt to clarify the meaning of the two terms, and in particular whether they are separate concepts, or whether one of them subsumes the other.

Investment mechanisms

The first question to be asked is the following: Is the phrase "investment mechanism" one which is in wide current use and therefore covers approximately the same range of concepts for all users?

A search through the computerized UNIDO/IAEA joint library service catalogue did not produce any entries for the concept "investment mechanism" while the concept "mechanism" has 20 entries, and the concept "investment" 216. Nor did any of the dictionaries consulted, including ones specializing in areas of commerce and finance, contain any record of the phrase "investment mechanism."

It therefore appears necessary to give some thought to analyzing the concept of an investment mechanism as the basis for defining the activities in which UNIDO is meant to be taking the lead.

When the need to define a new concept arises, it is often helpful to return to dictionary definitions as the basic structures on which more complex meanings can be built. According to Collins English Dictionary, a mechanism is a "system, structure of moving parts that performs some function, especially in machines; a process of technique, especially of execution." The second, figurative part of the definition indicates that a mechanism is an instrument lending itself to use by human agents, but not an institution composed of human agents. Thu when we talk of investment mechanisms we appear to be talking of a process, technique or instrument of investment, and not an institution which itself makes investments of surplus funds it has accumulated from activities of its own.

Investment is defined by the same dictionary as "laying out (money or capital in an enterprise, especially by purchasing shares) with the expectation of profit." This definition would seem to exclude the lending of money for interest, since the lender of money does not expect profit, but is certain of interest (or at least thinks he is certain when he lends the money. This effectively excludes commercial banks from our definition, but not development banks, to the extent that they use their capital funds for equity investments.

Taking Collins' definition of a mechanism as a process or technique of execution, we can attempt a first definition of "investment mechanism" as a process or technique by which money is laid out in an enterprise with the expectation of profit. "Enterprise" should be taken in this context to mean a commercial venture, but not necessarily an existing business.

What then does the definition include?

The definition clearly includes any instrument or device which acts as an intermediary between sources of financial or other types of resources and applications of resources so that they can be used in a commercial venture with the expectation of profit.

At this point the question arises as to whether "profit" is to be understood in the narrow sense of profit measurable in money terms accruing to individual persons, whether legal or natural, or to a nation as a benefit not quantifiable in money terms such as investments in infrastructure, e.g. roads, schools and hospitals. A study of the documents that have so far been produced using the expression investment mechanisms , indicates that money profits are meant, and the definition will accordingly be limited to these.

Let us now consider some examples of investment mechanisms which fall within the above working definition.

- Limited Liability Companies. The limited liability company is the mechanism by which persons with surplus funds are able to participate in commercial ventures with a view to profit. Here, the purpose of the investment mechanism is to limit the liability of such person to the sum they have agreed to contribute.

- Investment Companies or Trusts. These are companies which act as intermediaries between persons (both natural and legal) holding surplus funds they wish to investmand companies or individuals seeking the use of funds for commercial ventures.

The investment company selects suitable investments for its portfolio and provides its shareholders with the service of making these selections on the basis of its alleged superior ability to forecast how the companies in its portfolio will perform. The investment company is essentially a risk-spreading device: it enables a person investing a relatively small amount - say US$1,000 - to participate in a larger number of enterprises than would be feasible if he invested direct.

- Portfolio Investment. This refers to cases where an individual, but more frequently an institution, acquires minority equity participations (normally in the form of shares) in several companies, as a means of hedging the risk attaching to such investment. The investor hopes that if one (or more) participations fails to produce income, this will be made up by income from others which are successful.

- Direct Investment. Here, an entrepreneur himself acquires the assets that will be used in operating his business and earning profits - factory buildings, machinery and equipment, e.g. a transnational corporation setting up a new operation, or purchasing outright an existing one in a developing country.

- Consortium. A consortium is a group of enterprises - usually large ones - which join forces and pool resources to increase their competitiveness in the market for their product. The reason for forming a consortium may also be to combine the skills of several branches of industry which are not all available in any one of the participating companies. For example, the building of an agro-industrial complex, or the implementation of a large infrastructural project such as a road, railway or shipping port, might require the formation of a consortium.

But the concept of investment mechanisms should not, in our view, be restricted to investments of money. If two partners combine forces to create a new enterprise, one putting in money for fixed and working capital, and the other putting in a building and machinery he owns, he is clearly as much an investor as the supplier of cash. This also applies to an investor who provides licences to work patents he owns and produce goods which can be sold at a profit. We shall assume that these types of investment are covered by the reference to money or capital in our dictionary definition. Thus the phrase "investment mechanism" may also be taken to refer to techniques of investing things other than money, provided they can be valued in money terms.

The list of investment mechanisms presented above should be regarded as illustrative. There are other mechanisms and new ones are constantly being devised. The important feature to remember is that an investment mechanism is a process, technique or instrument for the laying out of money (or things of value expressible in money terms) with the expectation of profit.

Joint Ventures

The area of follow-up for which UNIDO was designated as Lead Agency is described as "investment mechanisms and joint ventures." This suggests that joint ventures cannot be included in the concept of investment mechanisms, and accordingly are something different. But are they?

Joint ventures have three distinguishing features:

a) they are formed to create a new enterprise, as 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, ii) the management, iii) the risks and iv) the profits, if any.

c) 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 venture.

In view of these characteristics, we must ask ourselves whether joint ventures are not just another type of investment mechanism, and in our view the answer is "yes". A joint venture is a technique, process or instrument and it involves laying out money (or money's worth) with the expectation of profit.

The legal form chosen for the joint venture, e.g. a limited company, a partnership, or simply a separate set of accounting records, is of secondary importance. The main issue is that the joint venture satisfies the definition of investment mechanism, and therefore must be taken to be one.

The promotion of joint ventures in OIC member states is recognized as one of the most effective ways of promoting industrial development in these countries and has been endorsed by numerous high level international fora: the Islamic Conference of Foreign Ministers, the Third Islamic Summit Conference and the 1983 Ministerial Consultation on Industrial Co-operation among Islamic Countries, which, in the Islamabad Declaration on industrial co-operation between Islamic countries, stressed the potential for joint ventures in Islamic countries.

A joint venture may be defined as a formal association between two or more countries, or their authorised institutions or nationals, organised as an independent legal entity, pledging to share risks, profits and losses, working for an economic objective of mutual benefit in the fields of production, trade or other services.

Motivations for the establishment of joint ventures may include any one or a combination of the following:

safeguarding of markets to which goods are being exported; extention of manufacturing activities to promising new markets in other countries; safeguarding of the raw materials supply; possibility of transferring second-hand machinery (redeployment); expectation of a high return on investment; and other motives, e.g., cost and price advantages.

The establishment of joint ventures in developing countries, including OIC member countries, is constrained by several factors which include, inter alia, the following:

1. Narrow economic nationalism, lack of political will; and the false notion among some countries that their economies are competing and not complementary;

2. Administrative restrictions, bottlenecks and red tape. These may include restrictive labour laws, complex statutory requirements and uncertainties to the interpretation and application of law; undue foreign exchange restrictions on the repatriation of capital and dividends; restrictive price and monetary controls.

3. Inadequate investment and marketing information in relation to the identification of viable projects;

4. Lack of specialized institutions for promoting joint ventures and hence lack of skills for organizing joint ventures, absence of an effective mechanism for bringing together prospective investors, and insufficient understanding of each other's socio-economic circumstances as well as investment rules and regulations.

5. Lack of easy communication due to linguistic differences and diversity of political and economic systems.

6. Protectionist policies of some industrialized countries frustrating the export promotion efforts of developing countries.

In spite of these constraints some joint ventures are being established. Annex (1) gives an indicative partial list of some of these joint ventures involving OIC member countries. The preparation of an inventory of joint ventures, in Islamic countries, and an analysis of the causes of success and failure cases was prepared by UNIDO in 1984. This was one of several proposals (see Annex 2), intended to facilitate the removal of constraints and obstacles preventing or limiting joint ventures as well as to promote their establishment.

It is clear from the above that the identification and promotion of an increasing number of joint ventures in OIC member countries is not an easy task and requires a great deal of time and effort. However, perhaps one of the most important constraints to the establishment of joint ventures is the absence of an effective mechanism or methodology for the identification and promotion of joint venture opportunities as well as for the identification of the policy changes required in order to make it feasible for these opportunities to be pursued further by serious prospective joint venture partners. In fulfulment of the task assigned to UNIDO and recognizing the important role which National Development Finance Institutions (NDFIs) and Islamic banks can play in the identification and promotion of joint ventures, UNIDO has inter alia:

(a) Prepared, in October 1984, a paper entitled "The role of national development finance institutions in OIC countries in promoting industrial investment, including joint ventures, and ways and means of strengthening co-operation among them;" and

(b) Organized the Workshop on the Industrial Financing Activities of Islamic Banks, (Vienna, 16-20 June 1986), in order to bring together NDFIs, Islamic banks, regional and international development and finance organizations in order to, inter alia, examine ways and means of accelerating the identification and promotion of joint ventures between Islamic countries.

NDFIs and Islamic banks can play an important role in promoting economic co-operation in OIC member states by:

- concentrating their attention on branches of industry with priority status in the national development strategy;

- identifying and/or formulating viable industrial projects in those branches suited to joint ventures. Assistance in this area can be obtained from various regional and international organizations such as UNIDO, GOIC, AIDO, etc.;

- functioning as a source of information on investment conditions in a given OIC country and on persons in that country who are seeking a partner from abroad;

- drawing on the resources of the specialized Islamic institutions such as the Islamic Development Bank Jeddah (IsDB); the Statistical Economic and Social Research and Training Centre for Islamic Countries, Ankara (SESRTCIC); the Islamic Fund for Science, Technology and Development, Jeddah (IFSTAD); the Islamic Centre for Technical and Vocational Training and Research, Dhaka (ICTVTR); the Islamic Chamber of Commerce, Industry and Commodity Exchange, Karachi (ICCICE); and the Islamic Centre for the Development of Trade, Casablanca (ICDT).

- Channelling the resources of supranational funding agencies and UN agencies into the development of individual OIC member states' industries. UNIDO as the UN organization specifically concerned with industrial development, offers a wide range of services in relevant fields such as the preparation of sectoral and country studies, the identification of investment opportunities, investment projects preparation, appraisal, implementation and management. The following are examples of some specific UNIDO activities in these fields:

    - Industrial Plant Profiles; Industrial Investment Profiles; Investment Promotion Meetings; Investment Promotion Offices; Technical Assistance; Technical Information for NDFIs and industrialists; the UNIDO Technical Co-operation Programme entitled "Strengthening the Enterprise-to-Enterprise Industrial Promotion and Joint Venture Programme of the Islamic Chamber of Commerce, Industry and Commodity Exchange."

NDFIs and Islamic banks in OIC countries could further contribute to balanced industrial development in the region by promoting co-operation between OIC member states. One proposed methodology for promoting industrial co-operation is contained in Annex 3. The objective of this methodology, which has evolved from a programme already used with success in the electronics industry of a group of developing countries in Africa and Asia, is to bring together at the earliest stage of project identification NDFIs, Islamic banks, industrialists and sponsors of industrial projects from the same branch of industry but from countries in which this branch is at different stages of development, so that the entrepreneurs from the technically less advanced countries can benefit from the higher level of technical and commercial know-how of the participants from the technically more advanced countries.

The major objectives of this proposal are therefore to:

- identify viable industrial projects with competent sponsors which can be implemented in the form of a national project or as a joint venture. Such projects may be new, or expansions/rehabilitations of existing projects;

- identify obstacles which have hitherto impeded or are likely in the future to impede the development of both national projects and joint ventures in the selected branch, and propose measures for their removal;

- strengthen co-operation and facilitate the flow of industrial branch-specific information between OIC member states by involving NDFIs, and Islamic banks, industrialists and national experts in the programme;

- provide an opportunity for Islamic banks and investment companies to participate in the ventures thus identified and thereby enhance the chances of these projects' attracting suitable financing.

In March 1985, UNIDO sent this proposal to a number of NDFIs and Islamic banks to obtain their comments. Annex 4 contains a summary of those comments which were received from eight institutions.

ANNEX I

LIST OF JOINT VENTURES INVOLVING ISLAMIC DEVELOPMENT BANK MEMBER COUNTRIES ANNOUNCED IN SOUTH MAGAZINE JANUARY 1985 - MAY 1986

Date announced	Islamic Development Bank member country/s involved	Non Islamic Development Bank member country/s involved	Project title and/or description
May 86			
	Indonesia	Finland	Peat reserves will be jointly exploited in a 30-hectare area near Palangkaraya in central Kalimantan, as part of an agreement to develop peat as an alternative energy source.
	Egypt	China	The Chinese Ningxia Islamic International Trust & Investment Company and the Egyptian Faisal Islamic Bank will set up the Islamic International Investment Company in Yinchuan, capitalised at US$40-million, to promote banking in Islamic countries
April 86			
	United Arab Emirates	India	A 1,900km underwater telephone cable will be laid from Fujairab to Bombay under a US$50-million inter-government joint venture. The 1,200 channels available will be linked to other Gulf countries.
	Pakistan	Iran	The Iran-Pak shipping company, with headquarters in Teheran will be established.
	Egypt	Romania	These two countries are jointly building the Assiut II cement plant in Egypt. It will have a 2-million tonne per year capacity.
March 86			
	Cameroon	United Kingdom	Blue Circle of the UK and various private Cameroon shareholders have established the Cameroon Portland Cement Company to build a 500,000-tpy cement plant at Limbe port.
	Mauritania United Arab Emirates		A US$40 million joint fishing company with the Abu Dhabi Development Fund has been set up.

March 86			
	Libya/Sudan		A US$25 million joint venture to develop Sudanese agriculture is planned.
Feb 86			
	Saudi Arabia	Italy/Finland	Snamprogetti of Italy has signed a contract with Saudi Arabian Basic Industries (Sabic) for the engineering and construction management of the US$300-million Ibn Zahr petrochemical project The project is a joint venture with Enichem Polimeri of Italy, Nests Oy of Finland and the Arab Petroleum Invt.Corp. Sabic holds 70 per cent of the shares and the other partners have 10 per cent each. The plant has a planned production of 500,000 tonnes a year of methyl tertiary methyl tertiary butyl ether.
	Iraq	West Germany	Baghdad and Bonn will increase their cooperation in solar energy research with a series of joint projects.
Jan 86			
	Pakistan/ United Arab Emirates	-	The Pakistan Industrial Dev.Corp will set up a US$20.8 million joint venture with Al Ghurair of UAE using magnesite deposits in Hazara, Pakistan, to manufacture high temperature refractories.
Nov 85			
	Egypt/Jordan	-	Agreement has been reached to set up a joint holding company capitalised at US$50-million to implement agricultural, industrial, animal husbandry and fishery projects in both Egypt and Jordan. It was also agreed to increase trade to US$500-million.
July 85			
	Libya	India	The International Airports Authority of India will build airports and airbases in Libya in collaboration with the Libyan company Lajnit Tanfith Mahabit.

Sept 85	United Arab Emirates	South Korea	The Hyundai Pipe Company of South Korea and the Shedco Company of the UAI have agreed to set up the Sharjah Pipe Manufacturing Company, capitalised at US$7-million. Hyundai has undertaken to build the US$30-million plant, which will have an annual production capacity of 7,200 tonnes of pipes.
	Gabon	France	A joint uranium exploration agreement with an initial investment of US$7.6-million has been signed by the Gabon government and a subsidiary of the French Board for Nuclear Energy.
August 85	Kuwait, Tunisia and Turkey		These three countries have agreed to set up the Arab-Turkish Fertiliser Company with US$230-million capital. A fertiliser factory willl be built in Mersin, southern Turkey. Kuwait owns 45 per cent of the shares in the new company, Turkey owns 40 per cent and Tunisia 15 per cent.
May 85	Egypt/Turkey	-	The Egyptian Arab Investment Bank and the Islamic Bank of Turkey will set up a joint investment bank in Istanbul.
April 85	Turkey	Iran	An agreement has been signed by Turkey and Iran to build a crude oil pipeline linking Iran with the Turkish Mediterranean coast and a natural gas pipeline across Turkey to Western Europe.
	Turkey	United Kingdom	The Air Force Reinforcement Fund, the Aircraft Corporation and the Air League, all of Turkey, have joined with General Electric of the UK to set up the Turkish Aircraft Engine Industry Corporation near Eskisehir with an initial capital of US$56-million. The corporation will produce F-110 and D-100 engines and help to modernise the Turkish jet engine industry.

April 1985 Continued

	Turkey	Canada West Germany	Two nuclear power stations will be built with Canadian and West German help in Akkuyn, Turkey, at a cost of about US$2-billion. Turkish control in both will be less than 50 per cent.
March 85	Saudi Arabia	Finland, Italy	A US$600-million petrochemical plant will be built at Jubail. Saudi Basic Industries will hold 70 per cent of the shares. The Arab Petroleum Investment Corporation, the Nestiove Company of Finland and Inkim of Italy will each have 10 per cent.
	Algeria/Tunisia	-	The two countries have agreed to build a US$90-million cement plant in Firyana, Tunisia. The plant is scheduled to come on stream by 1987. Its estimated output of 210,000 tonnes will be shared equally.
Jan 85	Pakistan	France, Finland, Yugoslavia	A joint venture agreement on the implementation of a US$400-million copper project in Saindak, Baluchistan, has been signed by Pakistan's Resource Development Corporation with the Saindak International Group, a consortium comprising PEC Engineering of France, Outokumpu of Finland and RTB Board of Yugoslavia. The European consortium will provide US$235-million in foreign exchange to set up plants and machinery.
	Sudan/ Saudia Arabia	-	The Sudanese Ministry of Energy and Mining and the Triad Holding Corporation group of Saudi Arabia are jointly setting up the National Oil Company of Sudan to boost oil development.

A N N E X II

The Promotion of Industrial Co-operation Between Member Countries of the Organization for Islamic Conference (OIC)

Some of the areas in which there appears to be need for study, investigation, analysis and the formulation of innovative proposals, are:

(1) An inventory of joint ventures (in various economic sectors) between Islamic countries and an analysis of the causes of success and failure stories, with special emphasis on constraints or incentives resulting from national legislation, regulations, taxation, etc., and the preparation of guidelines for the selection of joint ventures;

(2) An assessment of the impact of the Agreement for Promotion, Protection and Guarantee of Investments on "removing all obstructions to the transfer of funds and the expansion of various investments, sectors and opportunities between Muslim countries" , on facilitating the promotion of joint ventures; as well as a study on the usefulness and feasibility of establishing an Inter-Islamic Investment Guarantee Corporation;

(3) An inventory of consultancy capabilities in Islamic countries for the identification, formulation, appraisal and promotion of joint ventures;

(4) An inventory of associations of manu cturers, traders and other professions in the production, trade and services sectors in Islamic countries;

(5) An investigation of the usefulness and feasibility of establishing a post-university training institution, possibly under the auspices of the Islamic Development Bank (IsDB), to train nationals from Islamic countries in the identification, formulation, appraisal, promotion and fiancing of joint ventures;

(6) The role of free zones in promoting joint ventures between Islamic countries;

(7) A study of the effectiveness of investment mechanisms so far used by Islamic countries in joint ventures and the identification of new such mechanisms;

(8) The identification of priority economic sectors and sub-sectors for the promotion of joint ventures between Islamic countries;

(9) A study on ways and means of utilizing existing means for the dissemination of relevant information amongst Islamic countries and proposing new means as found necessary;

(10) A study on ways and means by which existing Islamic institutions can mobilize interest in identifying and promoting joint ventures, including the need for and availability of, financing such activities;

(11) An analysis of trading practices and partners, and goods traded in selected Islamic countries with a view to identifying opportunities for and constraints to expanding inter-Islamic trade in raw materials, manufactured goods, agricultural products, etc.;

(12) A study on the need for and feasibility of establishing an Islamic payments union;

(13) A study on the need for and feasibility of establishing an Islamic re-insurance scheme;

(14) The present and potential role of DFIs and Islamic banks in the identification, promotion and management of joint ventures;

(15) An assessment of the effectivenes of the General Agreement for Economic, Technical and Commercial Co-operation among OIC Member States in promoting socio-economic co-operation, and proposals to deal with the situation as revealed by the assessment.

ANNEX III

DRAFT PROPOSAL

Programme title: A practical methodology for promoting industrial co-operation, and facilitating the mobilization of financial resources, between member states of the OIC: a programme for the generation and promotion[1/] of national and multinational industrial investment projects in selected industrial branches.

Background and justification:

During the past decade various meetings, at levels varying from summits to experts meetings, have been held to discuss and recommend action programmes for the promotion of economic co-operation through the identification and implementation of joint ventures and investment mechanisms, between OIC member states. A summary of the major recommendations and decisions, taken during these meetings, is given in Annex I.

The subject of joint ventures and investment mechanisms was discussed at the meeting between the UN system of organizations and the OIC which took place in Geneva on 15 July 1983. This meeting decided to designate UNIDO as the lead UN agency for follow-up action in the area of "investment mechanisms and joint ventures".

During the past few years, the OIC has established a number of Specialized Institutions (SIs) for the purpose of promoting and facilitating

1/ The term "promotion" in the context of this programme does not mean promoting an investment decision regarding any specific industrial project, but rather promoting an early and serious preliminary interest in pursuing the project further by one or more financing institutions, technical partner or joint venture partner, or others.

economic and industrial co-operation between member countries. These SIs include the Islamic Development Bank, Jeddah (IsDB); the Statistical, Economic and Social Research and Training Centre for Islamic Countries, Ankara, (SESRTCIC); the Islamic Fund for Science, Technology and Development, Jeddah (IFSTAD); the Islamic Centre for Technical and Vocational Training and Research, Dhaka, (ICTVTR); the Islamic Chamber of Commerce, Industry and Commodity Exchange (ICCICE); Karachi; and the Islamic Centre for the Development of Trade, Casablanca (ICDT).

Throughout the OIC efforts to promote joint ventures, the Islamic Development Bank (IsDB) was considered a focal point and was entrusted with the task of practical implementation of various recommendations concerning the identification and promotion of joint ventures between OIC member states. In July 1983, IsDB organized a three-day workshop on joint ventures which was attended by private industrialists and public sector industrial development officials. The purpose of the Workshop was for the IsBB to seek guidance from participants in identifying the specific actions which the IsDB can take to promote co-operation among OIC member countries for socio-economic development. Discussions covered: definition and forms of joint ventures, ways and means for promoting joint ventures and the role of IsDB in the promoting of joint ventures.

Furthermore, a large number of Islamic banks, investment companies and financing institutions are now operating in member countries of OIC as well as in non-member countries. These financing institutions are ready and willing to finance viable projects in OIC member countries.

Special Considerations:

The Islamabad Declaration called for the Identification and promotion of joint ventures between OIC member countries and for examination of the role of national development finance institutions (NDFIs) in preparing bankable projects.

The promotion of industrial joint ventures between OIC member countries cannot be successfully achieved unless the relevant industrial branch in the member country where the venture is to be located is operating with a reasonable degree of efficiency. Therefore the implementation of effective joint ventures is inextricably tied to the state of affairs in the relevant industrial branch at the national level in individual OIC member states. Hence this programme is designed to lead to the generation and promotion of both national and multinational investment projects through the full and active participation of national development finance institutions and other national Islamic financing institutions, as well as of OIC SIs.

The lack of identified and well substantiated industrial projects backed by competent local private or public sponsors is being more and more singled out as a major handicap facing the operations of national, regional and international financing institutions in developing countries. The identification and promotion of an increasing number of viable industrial investments in many OIC countries is hampered mainly by weaknesses in capabilities to independently identify viable investment projects. This same weakness is also hampering the rehabilitation of the many under-utilized existing industrial plants in the same countries. At the same time a great deal of the inter-disciplinary and complex know-how required for effective project identification is available to national development banks and enterprises in some of the more advanced OIC member countries. It is therefore expected that this Programme's "project generation" methodology, by bringing together from the very early stages of project identification, NDFIs and potential industrialists from OIC member countries at different stages of development, will automatically enhance the chances of more and better quality projects being identified and promoted. Each programme will concentrate on one specific industrial branch with growth potential and in which small and medium-size industries predominate. The programme's "project generation" methodology aims at bringing the following two specific groups together from the very early stages of project identification:

- the first group consists of NDFIs and industrialists from one or more OIC member country(ies) where a specific industrial branch has reached a relatively high level development, and

- the second group consists of NDFIs, industrialists and potential industrialists from a manageable number (e.g., five) of OIC member countries where the same specific industrial branch has considerable potential but is presently at a lower level of development than in the first country or group of countries.

The serious commitment of the private and public sectors [2/] concerned with the selected industrial branch in each participating OIC country, throughout the implementation of the entire programme, is essential to its achieving the stated objectives. Furthermore, the programme's implementation also requires the joint sponsorship, and active participation of all concerned SIs, such as IsDB, ICCICE, SESRTCIC, IFSTAD, ICDT, ICTVTR, and other Islamic banks and investment companies. These SIs and UNIDO will be referred to in this document as the Programme Sponsors.

Objectives

The industrial plans of OIC member countries usually identify a number of priority industrial branches for further development work. However, the transformation of objectives described in these development plans into real life industrial plants operating with a reasonable degree of economic and financial efficiency has been difficult to achieve. Unutilized capacities and "white elephants" exist in many developing countries. This situation is caused by many factors, such as physical infrastructural problems, some of which are beyond the scope of this programme. The major development objective of this programme is to assist a selected number of OIC member countries to generate and promote better quality national and multinational industrial investment projects with improved chances of efficient operation after implementation, and thereby facilitate the mobilization of the required financial resources. Other objectives include the dissemination of information among concerned institutions and industrialists, thereby promoting and initiating more effective industrial co-operation, and removing constraints, or at least, alleviating their effect on restraining the momentum of OIC actions aimed at achieving self-sustaining industrial growth through the promotion of national and multinational projects (joint ventures).

[2/] This includes national manufacturers associations, ministries of industry, applied R&D institutions, etc.

Immediate Objectives

To carry out a programme of activities aiming at:

(a) upgrading the quality of OIC member countries "pipeline " or "stock" of national and multinational industrial investment projects thereby considerably enhancing the "promotability" or ability of these projects to attract missing inputs (financing, technology, management, etc.), required to bring about the implementation of an increasing number of efficient industrial production units;

(b) strengthening co-operation between OIC member countries by involving NDFIs, Islamic banks, SIs, national experts and industrialists from OIC member countries to the fullest extent possible in order to achieve maximum demonstration and on-the-job training effects, to facilitate exchange of information and to promote co-operation in a specific industrial branch;

(c) identifying specific problem areas hampering the development of national and joint venture projects in the selected specific industrial branch in the participating OIC member countries, and the latter's ability to attract an increasing amount of foreign and domestic investments; identifying solutions for these specific problem areas which would constitute a "pipeline" of required technical assistance. This will include the identification of industrial branch "programme lending" needs for later submission to financing institutions.

Programme Outputs

(i) A country paper, for each participating OIC member country, parts of which can later be used as a promotional brochure for the selected industrial branch;

(ii) a number of small and medium-size national and multinational industrial investment projects (new, redeployed, expansion or rehabilitation projects), identified for participating OIC member countries, with an enhanced chance of being implemented as joint ventures, or under other forms of co-operation;

(iii) closer and direct co-operation between NDFIs, SIs, enterprises and other organizations concerned with the selected industrial branch in participating OIC member countries;

(iv) more skillful and more experienced OIC participating countries' nationals in preparing, presenting and promoting bankable projects;

(v) identified specific problem areas and weaknesses in the selected industrial branch, as well as proposed remedial actions, technical assistance needs, and "programme lending" needs, required to alleviate or remove these weaknesses and problem areas;

(vi) a set of substantive documentation (see items [iv]a-3) which can be used by other OIC member countries, and can be published as "guidelines for the generation and promotion of industrial investment projects in Islamic countries" . Each volume of these guidelines will cover one specific industrial branch.

Programme Activities

(i) Selection of the industrial branch

Through consultations between concerned OIC organizations, regional and national Islamic financing institutions, NDFIs and UNIDO, a specific industrial branch which meets the priority criteria already established by OIC member countries will be selected. A likely candidate for the first programme is a food processing branch, such as fruits and vegetables processing.

(ii) Selection of participating OIC member countries

Through the same consultations procedure referred to in (i) above, NDFIs and Islamic financing institutions in member countries where the selected industrial branch is known to be operating at a relatively high level of efficiency will be identified and contacted in order to ascertain their interest in participating in the programme. These will constitute the 1st group NDFIs. Similarly NDFIs in countries where the selected industrial branch has considerable development potential but is either inactive or is operating at a low level of efficiency will be identified and contacted in order to ascertain their interest in participating in the programme. These will constitute the 2nd group NDFIs. The number of participating countries will depend upon practical considerations for its successful implementation. Each participating country will be represented by one or more NDFIs, Islamic banks, investment promotion agency or similar organization, but only one lead organization will be selected for each participating country. These lead organizations are referred to in this document as 1st group NDFIs or 2nd group NDFIs.

Each NDFI will nominate several candidates for the selection of a specialized team (ST) of three persons (one technologist, one economist and one financial analyst), who posses, as extensive as possible, project experience in the selected industrial branch.

(iii) Preparations by participating NDFIs

Each ST from 1st group NDFIs will:

(a) prepare a "study" on the selected industrial branch in their own country. This study will cover, inter alia, the following:

(i) detailed information on the structure of the branch in their country including number and capacity utilization of existing plants, quality of products and whether for local or export markets, plants under implementation, etc.

(ii) how the branch was developed, what problems and difficulties were faced and how these were solved, policies and incentives adopted, etc.;

(iii) a detailed description of advisory services, training facilities, equipment, etc. which can be made available to other OIC member countries;

(iv) specific proposals for national and joint venture projects;

(v) assist, to the extent possible, in the preparations by the Programme Sponsors.

Each ST from 2nd group NDFIs will:

(a) draw up a list of qualified nationals and organizations (economists, technologists, financial analysts, industrialists, legal experts, government officials, etc), who have experience and expertise in the selected industrial branch. This list will be known as the National Roster (NR) for the selected industrial branch;

(b) prepare, in close consultation and co-ordination with members of the NR, a Country Paper (CP) on the selected industrial branch in their country, in accordance with an annotated outline to be provided by the Programme Sponsors. The CP is intended to:

(1) facilitate the joint identification or generation of opportunities for new investments, redeployments, expansions or rehabilitations, (2) to identify bottlenecks, difficulties, etc., facing existing industrial plants in the selected branch and hampering further investments, and to propose ways and means of removing these bottlenecks including the preliminary formulation of technical assistance and "programme lending" needs.

(c) identify, in close consultation and co-ordination with members of the NR, specific investment projects, and projects sponsors, in the selected industrial branch, for establishment in their country, and prepare an Industrial Investment Project Questionnaire (IIPQ) on each identified project. This IIPQ will also be provided by the Programme Sponsors.

(iv) Preparations by the Programme Sponsors

In order to guide and assist the specialized teams in undertaking their preparatory work, the Programme Sponsors will provide each team with:

(a) A background paper on the characteristics of the selected industrial branch, covering, inter alia, considerations determining the establishment, rehabilitation or redeployment of plants; recent global, regional or national trends in production, consumption and international trade; technical and economic factors of special relevance to developing countries, possible UNIDO assistance,etc. This paper will concentrate mainly on the range of products to be covered by the programme listed under (c) below, and will include relevant findings and recommendations of relevant UNIDO and other studies and reports. It will provide information on how other developing countries started their own production, what difficulties they faced and what successes were achieved. It will also provide some guidelines and criteria for developing countries to start production at various technology levels.

(b) An annotated outline of the CP, which will consist of two main parts. The first part is intended to (1) facilitate the identification or generation of opportunities for new investments, redeployments, expansions or rehabilitations, and (2) to serve as a document for promoting local and foreign investments in the selected industrial branch. Therefore, this first part will provide, inter alia, detailed information on all relevant preinvestment data such as imports, local production, exports and market potential (local and export), raw materials availability, specifications and cost, skilled manpower availability and cost, utilities availability and costs, plants already in operation, projects under implementation or under consideration, incentives extended through investment encouragement legislation or others, assessment of interest of public and private sectors in joint ventures, and availability of full or partial local financing.

The second part of the CP is intended to assess progress achieved, in developing the selected industrial branch in each country, to benefit as fully as possible from the country's potential. It will provide information on difficulties facing existing industrial plants and hampering further development and investments. This second part will identify and analyse these problem areas, propose specific remedies including technical assistance and "programme lending" needs;

(c) A list of the industrial branch products which will be covered by the programme with a brief description, including brief standard specification, of each product;

(d) Industrial profiles (see sample attached) on a selected number of the more common types of products to be covered by the programme;

(e) A sample of the Industrial Investment project Questionnaire, which will be a specialized version (for the selected industrial branch) of UNIDO's existing Projects Questionnaire.

(f) A list of all UNIDO and other Programme Sponsors' documents relevant to the selected industrial branch. Copies of selected documents will also be sent to NTs. These will include sector papers, manuals on joint ventures, and preparation of feasibility studies, as well as UNIDO computer software for use in pre-investment activities.

(g) In addition to the above, the SIs will provide the STs with relevant information on OIC member countries such as:

(1) the structure of the selected industrial branch in other non-participating OIC member countries (SESRTCIC);

(2) trade between OIC member countries in the products of the branch as well as trade promotion and financing facilities available to OIC member countries (ICDT);

(3) new projects being considered or under implementation by non-participating OIC member countries (ICCICE);

(4) training facilities in OIC member countries (ICTVTR);

(5) applied R&D facilities and availability of machinery and equipment for the selected branch in OIC member countries (IFSTAD).

The implementation of the following programme activities will be supervised through periodic visits by staff from the Programme Sponsors to participating OIC member countries:

(a) assign experts for varying periods of time, from 1st group NDFIs to 2nd group NDFIs in order to assist in the preparation of CPs and IIPQs. The experts, with the assistance of Programme Sponsors, may also organize and conduct practical and specialized on-the-job training programmes in the countries to which they are assigned. These training programmes may cover different aspects related to projects formulation, preparation of feasibility studies, projects appraisal, negotiations as well as to national and multinational promotion policies.

If required, a team of qualified international experts, especially technologists, will also be provided, to assist STs in the preparation of their documentation, in the implementation of the specialized on-the-job training programmes, and in the national workshops described below.

(b) exchange CPs and IIPQs and the "study" between all the NDFIs participating in the programme. Copies of CPs and IIPQs will also be sent to all Programme Sponsor.

(c) arrange for the travel of the specialized teams from 2nd group NDFIs to 1st group countries participating in the programme, and whose industrial branch is relatively more advanced, in order to become better acquainted with how the branch was developed, to meet industrialists, financiers, potential joint venture partners, and government officials to discuss specific topics and specific projects, and to visit operating Plants. The programme of these visits by the specialized teams will be organized by the NDFIs in the countries hosting the teams. Selected members of the National Roster may also join these visits.

(d) identify, and inform of the programme, all national, regional and international financing* institutions whose mandate allows project, programme or technical assistance financing in the selected industrial branch in the participating OIC member countries. Subsequently, with the assistance of IsDB, a document will be prepared listing the identified financing institutions and explaining how they can be approached, their method of financing, etc. This document will also include information on Islamic investment mechanisms, joint Islamic financing institutions, etc., and will be distributed during the workshop described in para (e) below.

(e) organize in each participating OIC member country a national workshop on the selected industrial branch. This workshop will bring together members of the National Roster, OIC and foreign partners already operating in the country, new potential foreign partners, financing institutions, research and development institutions, the experts mentioned in para (a) above, staff of Programme Sponsors and any other organization or individual concerned with any aspect of the development of the specific industrial branch. These workshops will combine plenary type sessions (e.g., during the mornings) and the bilateral type of discussions (during the evenings) which usually predominate during the investors' fora regularly organized by UNIDO in developing countries. The dates of the workshop will be publicised through the Programme Sponsors (e.g., UNIDO/ICP Investment Promotion Services), in order to allow participants from all interested countries to attend the workshop at their own expense. The duration of each workshop will depend upon the size and potential of the specific industrial branch in each country.

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* Financing institutions are extending lines of credit, lines of leasing and lines of equity to NDFIs. A group of projects identified through this programme may be a justification for a participating country to request one of these lines of financing.

The purpose of these national workshops will be (a) to allow the national teams to present their CPs and IIPQs for review and discussions with a view to modifying, adding, changing or confirming any of their contents by the workshop; (b) to agree on recommendations, for developing the branch, related to local policies, and incentives, setting up of joint investment companies, training, R&D, technical assistance and "programme lending" needs, etc.; and (c) to make progress for following up the promotion of specific projects.

Depending on the number and quality of the multinational (joint venture) projects identified by the programme, the Programme Sponsors may decide to organize a regional workshop in one of the OIC member countries. The purpose of such a regional workshop will be the same as that of the national workshops (see item v(e) above), but covering mainly multinational or regional projects and investment related issues.

(vi) The Programme Sponsors will provide follow-up assistance to project sponsors in promoting their specific projects through various means including the UNIDO Investment Co-operative Programme's network of Investment Promotion Services and the Investment Promotion Information System (INPRIS); assist in contacts with financing institutions to secure required financing; and ensure that technical assistance and "programme lending" needs are communicated to the concerned financing institutions and other organizations.

Evaluation of Programme

Special evaluation questionnaires will be prepared by the Programme Sponsors in order to obtain evaluations from the Specialized Teams, participating NDFIs, and other government authorities. Each organization of the Programme Sponsors will also prepare its own evaluation of the Programme.

Programme Budget

As indicated above, this programme is intended to be implemented for groups of countries and for a specific industrial branch for each group. Each programme unit will therefore cover a specific group of countries (e.g., five) and a specific industrial branch. The cost of the first programme unit covering a specific industrial branch will always be higher than the cost of subsequent programme units covering the same industrial branch but a different group of OIC member countries. This is due to the fact that most of the documentation prepared for the first unit can be used for subsequent units without, or with very small additional costs.

The budget items given below are for the first programme unit and five OIC member countries covering one specific industrial branch such as fruits and vegetables processing:

(i) Preparation of substantive documentation, described under item (iv), page 9 above ....

(ii) Honorarium for national specialized teams 5 x 3 x $ 1,000 ....

(iii) Two experts from 1st group NDFIs (salary, travel and DSA) - 2 x 4 man/month ....

(iv) Two international experts, to be selected from OIC countries (if required) -salary, travel and DSA 2 x 2.5 man/month ....

(v) One-way travel of national specialized teams 10 x $) ....

(vi) Travel of staff from the Programme Sponsors ....

(vii) Reports preparation ....

<u>Inputs by Participating OIC Member Countries</u>

OIC member countries from the 1st group will:

- Provide substantive inputs during the preparation of the substantive documentations;
- Ensure that the NTs, other participants and representatives of manufacturing enterprises attend the national workshops.
- Plan for, organize and implement the programme for the 2nd group national teams visit to first group countries.

OIC member countries from the 2nd group will:

- Provide salaries and other normal payments in the NT's home countries
- Enable each NT to complete the substantive work required to prepare the Country Paper and Projects Questionnaires:
- Provide support facilities for two international experts
- Provide all local costs for the organization and holding of the national workshop
- Pay for the air travel of the NT from home country to participating first group OIC countries.

Islamic Banking and the Promotion of Industrial Co-operation: Facilitating the Mobilization of Financial Resources between Member States of the Organization of the Islamic Conference

In May 1984 UNIDO's Investment Co-operative Programme (ICP) prepared a draft proposal entitled

> "A practical methodology for promoting industrial co-operation. and facilitating the mobilization of financial resources, between member states of the Organization of the Islamic Conference (OIC): a programme for the generation and promotion of national and multinational industrial investment projects in selected.industrial branches."

The programme evolved out of the Islamabad Declaration (First Ministerial Consultation on Industrial Co-operation among OIC member states, Islamabad, February 1982) which called, inter alia, for the identification and promotion of joint ventures between OIC member countries and for the examination of the role of national development finance institutions (NDFI's) in preparing bankable projects. This programme was incorporated in a document[1] submitted to the Second Ministerial Consultation on Industrial Co-operation, held in Istanbul, November 14-16 1984. The Consultation agreed that the national institutions concerned with project identification and promotion should endeavour to improve the quality of projects presented to the financing institutions, and that the latter should endeavour to disseminate information on the availability of financing, opportunities for investment and guidelines on the preparation of investment projects. In this connection it was decided that UNIDO's "Programme for the Generation and Promotion of Industrial Investment Projects" could be made use of.

The above programme recognizes on the one hand that joint ventures in industry between OIC member countries cannot be successful unless the branch of industry concerned is capable of effective operation at the national level, and on the other that a lack of properly formulated industrial projects backed by competent local sponsors is hampering the efforts of national and regional financing institutions to channel funds into the expansion of industry in OIC countries.

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[1]The Role of National Development Finance Institutions in OIC Countries in Promoting Industrial Investment, Including Joint Ventures, and Ways and Means of Strengthening Co-operation Among Them (UNIDO/IO.599)

The aim of the programme is therefore to select a specific branch of industry in a given OIC member state which is still at a relatively early stage of development, but which has growth potential and in which small and medium-size enterprises predominate. Individuals and organizations concerned with the growth of this branch are brought into contact with their counterparts in another OIC member country where the same branch is at a more advanced stage of development, the aim being to promote co-operation between them in such areas as:

- identifying specific national and multinational investment opportunities and sources of finance;

- setting up joint ventures for the benefit of industrialists in both countries;

- exchanging technical and commercial know-how.

At its meeting in Ankara, July 26 to 27, 1984, the Working Group set up by the third meeting of the Task Force on Industrial Co-operation "noted with appreciation" the proposed programme, and requested UNIDO to finalize it expeditiously in the light of the comments to be received from members of Task Force.

The programme was also introduced and briefly discussed at the 6th annual meeting of NDFI's from IsDB member countries held in Dhaka, Bangladesh, in February 1985 concurrently with the IsDB's 9th annual meeting.

At that stage it was considered timely to distribute the draft proposal to a number of NDFI's and obtain their comments. It was therefore decided that the proposal should be sent to NDFI's in OIC member countries with a request for views and comments on the implementation of the programme in their respective countries and suggestions on improving the methodology and the programme of implementation. A complete list of the 18 institutions to whom this proposal was sent by UNIDO on 20 March 1985 is to be found in Annex 1.

To date (29 November 1985) replies have been received from:

- Islamic Development Bank, Jeddah
- Islamic Fund for Science, Technology and Development, Jeddah
- Statistical Economic and Social Research and Training Centre for Islamic Countries, Ankara
- Turkiye Vakiflar Bankasi, Ankara
- Industrial Development Bank of Turkey, Istanbul
- State Industrial and Labour Investment Bank, Ankara
- Bank Pembangunan Indonesia, Jakarta
- Bangladesh Shilpa Bank, Dhaka

The comments of these institutions may be summarized as follows.

Islamic Development Bank

1. Financial Resources

The paper does not specify the sources from which the industrial projects generated by the programme will be financed. Further elaboration on this point is desirable.

2. Role of Islamic Development Bank and of Other Programme Sponsors

The precise role to be played by the Islamic Development Bank and other programme sponsors (p.2) needs to be more closely defined.

The list of "programme sponsors" (p.4) seems rather long. Instead, a committee might be constituted from representatives of three institutions and entrusted with programme implementation and follow-up.

3. Multinational Large-scale Projects

The programme's emphasis on small and medium-scale industries (p.7) should not be at the expense of large-scale industries, since the latter are better suited to taking part in multinational projects. i.e. joint ventures.

4. Selection of Member Countries

The member countries that are relatively advanced in specific industrial branches needed to be identified on the basis of carefully defined criteria.

5. Financial Obligations

The financial obligations of each participant need to be clearly defined.

Islamic Fund for Science, Technology and Development

Support for the Programme

IFSTAD considers the draft proposal sound, and is willing to provide such services as lie within its sphere of competence.

Statistical Economic and Social Research and Training Centre for Islamic Countries, Ankara

1. NDFI's as Intermediaries

NDFI's, and particularly 1st group NDFI's, should promote the programme among enterprises in the selected branch.

2. Number of Countries to Participate in Programme

It may be preferable to implement the Programme in one 1st group country and several 2nd group countries. This could simplify the process of selecting the appropriate industrial sector and identifying the list of products to be included.

3. Arousing Interest of Potential Investors

The Specialized Team from 2nd group countries should, after completing the country paper, organize with the assistance of the Programme Sponsors promotional activities aimed at interesting potential investors in the Programme.

3. Turkiye Vakiflar Bankasi

1. Financial resources

The lack of response on the part of the advanced and industrialized countries of Europe to the financial needs of developing countries has led to an increase in the number of Islamic financing institutions. It is to these institutions that OIC member states must now look for the provision of low-cost, long-term finance for the development of their industries.

2. Characteristics of suitable projects:

To qualify for financial support, projects should:

- harmonize with the economic and industrial endowment of the sponsor country;

- be capable of implementation within a relatively short space of time; and

- lend themselves to implementation using the human resource potential of the sponsoring country. In this connection, the training of local staff, whether at home or abroad, is an essential pre-requisite of industrial development.

3. Importance of establishing a specialized working group in each country

The draft programme should be modified to include a specialized working group in each participating country for purposes of co-ordination and the exchange of technical and other information with other participating countries. These working groups should be strengthened by the inclusion of experts from developed countries whose knowledge, experience and technical skills will increase the chances of success for a given investment project.

Industrial Development Bank of Turkey

1. Co-ordination of activities of co-operating institutions

A practical and workable system of interrelationship between the various institutions envisaged by the programme, both in group 1 and group 2 countries, and a means of co-ordinating their work must be devised. If this is not forthcoming, efforts at co-operation by the participating institutions may lack a sense of direction and in consequence be less productive than is desired.

2. Possible role for the newly-established association of NDFI's in OIC countries

The Association of NDFI's in OIC Countries, founded on 1 February 1985, counts among its objectives the promotion of joint venture projects "with a view to accelerating the process of economic integration of the (OIC) member countries" and "to exchange information with a view to promoting possible joint financing between enterprises through its members."

Upon commencing operations, the Association could play the co-ordinating and guiding role mentioned in 1. supra, while the specialized institutions (including UNIDO) to which reference is made in the draft programme could pool their technical, commercial and financial expertise under the aegis of the Association.

State Industrial and Labour Investment Bank, Ankara

1. Factors tending to hamper implementation of the draft proposal

At present the OIC member countries do not have adequate machinery for disseminating and exchanging relevant economic data. This means there is a danger that meetings and consultations may fail to produce any tangible results. It is therefore essential to curtail the procedure for decisions to proceed with joint venture projects, yet without endangering their viability.

2. Fuller utilization of existing capacities

Special attention must be given to rehabilitating inactive or underutilized capacities before promoting new investments in the branch of industry selected.

3. Intensifying relations between NDFI's in OIC countries

Bearing in mind that NDFI's are the main source of new projects and the principal protagonists of industrial investment, the programme should encourage closer contacts between them.

Bank Pembangunan Indonesia

1. Inclusion of priority-setting and licensing agencies in programme

In view of the programme's orientation towards the identification of suitable industrial branches, rather than specific business ventures and industrial projects, national agencies concerned with licencing and setting priorities for industrial development should be included among the institutional collaborators.

2. Preparing new entrepreneurs

In some OIC countries the lack of capable entrepreneurs is a more keenly felt constraint than any lack of good projects. Experience shows this to be a common phenomenon in predominantly agricultural economies, where entrepreneurship mostly takes the form of trading. The proposed programme might therefore be expanded to include fostering entrepreneurial talent through training courses, exhibitions of new inventions, provision of venture capital, etc.

3. Proposed sequence of "Country Paper" preparation

The drafting of the country paper (CP), envisaged under the section entitled Programme Activities, Preparations by participating NDFI's (p. 8), could be divided into two stages:

(i) Macro-level profiles of the investment requirements and market potentials of selected industrial branches. The documentation proposed by the UNIDO programme would assist national agencies accomplish this first task.

(ii) Micro-level profiles of specific projects within the industrial branches specified in (1) supra. This is the juncture at which NDFI's could offer assistance to the new entrepreneur in such areas as project preparation and financing, and training in operations and management.

Bangladesh Shilpa Bank, Dhaka

1. The role to be played by the lead NDFI's in implementing the programme

The programme envisages that NDFI's will constitute specialized teams of technologists, economists and financial analysts to study specific industrial branches in depth, preparing country papers on these branches in close consultation with members of a national roster composed of professionals, industrialists and government officials. These activities will concern not only new industrial projects, but also the expansion and rehabilitation of existing ones.

The work of rehabilitation is however so arduous that countries such as the UK, Italy and India have set up specialized institutions to do it and the question arises whether it will not overburden the human and material resources of some of the NDFI's. It might be preferable for NDFI's jointly to set up specialized units for this task, rather than each one pursuing it individually.

2. Financial aspects of the proposed programme

The successful implementation of the programme will require substantial expenditures: on fees and travel expenses for the members of the specialized teams, for the international experts assigned from 1st group to 2nd group NDFI's, for the international experts provided to assist ST's in the preparatic of their documentation, etc. and possibly for selected members of the National Rosters. The organization of the regional workshop will also absorb substantial funds. These expenditures may strain the financial resources of NDFI's in less advanced OIC member countries. The proposal should therefore include more details on the likely cost of the main programme actities and the sources from which it is proposed to finance them.

Preliminary UNIDO Evaluation of Comments by Islamic Financing Institutions and NDFI's

- Islamic Development Bank

1. Financial Resources

The industrial projects generated by the Programme will in the first instance be financed by the industrialists or businessmen sponsoring them and the partners whose interest they are able to arouse. To the extent their combined resources are not sufficient, they will submit them to the financing institutions which the Programme will identify for them.

2. Role of Islamic Development Bank and of other Programme Sponsors

Each organization which decides to support the Programme will itself define its role and the scope of its participation. The UNIDO proposal merely aims to describe the scheme in sufficient detail for interested organizations to meet and discuss their respective roles and responsibilities. Such a meeting can either bring together all those listed as programme sponsors in the proposal, or may be restricted to representatives of three institutions, as suggested.

3. Multinational Large-scale Projects

The terms "small," "medium" and "large" are relative when applied to industries, and what is considered small in one country could count as medium or even large in another. The UNIDO programme proposal does not intend to exclude large-scale industries or to concern itself exclusively with multinational joint venture projects. These details will need to be modified to suit the specific industrial branch covered and the individual OIC member countries to be covered by the Programme.

4. Selection of Member Countries

The selection of member countries that are relatively advanced in specific industrial branches will be carried out by UNIDO, utilizing the very extensive data in the industrial resource base of developing countries it has accumulated, and acting in consultation with other project sponsors.

5. Financial Obligations

The suggested financial inputs by participating OIC countries are set out under this heading in the draft proposal. The financial inputs of Programme Sponsors will be determined by themselves in consultation with the others.

Statistical Economic and Social Research and Training Centre for Islamic Countries

1. NDFI's as Intermediaries

The Programme specifies under (iii) Preparations by participating NDFI's that the study on the selected industrial branch to be prepared by the Specialized Team (ST) will cover inter alia "specific proposals for national and joint venture projects." The task of the ST from the 2nd group NDFI's includes identifying "specific investment projects and project sponsors, in the selected industrial branch, for establishment in their country..."

2. Number of Countries to Participate in the Programme

The question of whether one or more group 1 countries will participate in the programme is one to be decided at a later stage by consultations between the Programme Sponsors. It will depend on the level of sophistication of the industrial branch selected in potential group 1 countries and on the number and stage of industrial development of the 2nd group countries.

3. Arousing Interest of Potential Investors

This activity will be a pre-requisite of the Country Paper (CP) to be prepared by the ST from 2nd group NDFI's since, as mentioned above, the CP will serve to identify "specific investment projects and project sponsors, in the selected industrial branch, for establishment in their country..."

Turkiye Vakiflar Bankasi

1. Financial resources:

The vital role to be played by Islamic financing institutions is indicated on pp. 2, 5, 6 and 7 of the draft proposal.

2. Characteristics of suitable projects:

On p. 8 para (c) should be modified to read: "identify, in close consultation.....for establishment in their country. As far as possible, such projects should:

- suit the country's economic and industrial endowment;
- lend themselves to rapid implementation;
- utilize, subject to appropriate training, the human resource potential of the sponsoring country.

An Industrial Investment Project Questionnaire (IIPQ) form should be prepared for each identified project. This form will also be provided by the Programme Sponsors.

3. Importance of establishing a specialized working group in each country.

The draft proposal envisages the creation of specialized teams (ST's) for each participating country from candidates nominated by NDFI's (p. 7) with the task of studying the selected industrial branch in their country and making information on it available to other participants in the programme.

The task of co-ordination is primarily that of the Programme Sponsors - UNIDO and the specialized institutions established by the OIC to promote and facilitate economic and industrial co-operation between member states. The Programme Sponsors may also assign, in case of need, experts from developed countries to assist the ST's in carrying out their task (p. 11).

Industrial Development Bank of Turkey

1. Co-ordination of activities of co-operating institutions:

The function of establishing a system of interrelationship between the various institutions participating in the programme and of co-ordinating their work will fall primarily upon UNIDO, designated as lead agency at the first meeting between the UN system of organizations and the OIC in Geneva in July 1983. In carrying out this function UNIDO will liaise closely with the other Programme Sponsors. The details of this co-ordination function are set out on pp. 11-13 of the draft proposal.

2. Possible role for the newly-established Association of NDFI's in OIC Member Countries:

It is to be hoped that this new organization will rapidly progress to a point where it can participate or take a lead role in the proposed programme. Its precise role will then be defined in consultation with its senior executives.

State Industrial and Labour Investment Bank, Ankara

1. Factors tending to hamper implementation of the draft proposal:

One of the objectives of the proposed programme is to "identify specific problem areas hampering the development of national and joint venture projects...in the participating OIC member countries." (p. 5). It is for this reason that the specialized teams from the 2nd group NDFI's will, inter alia, "identify bottlenecks, difficulties, etc., facing existing industrial plants...and hampering further investments, and propose ways and means of removing these bottlenecks..."

2. Fuller utilization of existing capacities:

Emphasis could be placed on the importance of ensuring that existing capacities are fully utilized before new investments are made in the same branch. Some developing countries have suffered setbacks owing to a tendency to pursue "prestige projects" at the expense of obtaining the maximum return from existing investments.

Para (ii) of Programme Outputs (p. 5) could therefore be re-drafted to read: "a number of small and medium-size national and multinational industrial investment projects identified for participating OIC member countries, with a greater chance of being implemented as joint ventures, or under other forms of co-operation. Priority will be on rehabilitating inactive or under-utilized capacities and only then will new investments in the selected branch of industry be promoted."

3. Intensifying relations between NDFI's in OIC countries:

One of the effects of the proposed programme, thanks to its "project generation" methodology, is expected to be closer co-operation between NDFI's in OIC member countries (pp. 3, 5 and 6). Implementation of the programme activities envisages, inter alia, the assignment of experts from 1st group NDFI's to 2nd group NDFI's, not only to assist them in the preparation of country papers and of industrial investment project profiles, but also to conduct on-the-job training programmes in project formulation and appraisal, negotiations and investment promotion policies. The possible participation of the newly-created Association of NDFI's in OIC Member Countries may further intensify contacts between such NDFI's.

Bank Pembangunan Indonesia

1. Inclusion of priority-setting and licensing agencies in programme:

The programme's objective in selecting an industrial branch suitable for further development is to identify a number of small and medium-size national and multinational industrial investment projects in the branch which will have a good chance of being implemented as joint ventures, or under other forms of co-operation (p. 5 under Programme Outputs). However, the process of selecting an appropriate industrial branch could be facilitated by co-operation with national industrial development agencies (NIDA's) having a licencing and priority-setting function. References to such co-operation could usefully be included on p. 5 para (b), p.6 under (i) Selection of the industrial branch, p. 7 para (ii), p. 8 para (a) and p. 12 para (e).

2. Preparing new entrepreneurs:

The lack of local sponsors competent to set up and operate an industrial enterprise is one of several factors which are known to hamper the growth of industry in certain OIC countries. Training for existing industrialists to broaden their skills and for would-be entrepreneurs who perceive investment opportunities but do not have the formal skills to implement them, may well be one of the principal needs which the programme will identify in the course of its implementation.

In the light of the above remarks, the second sentence in the third para of Special Considerations (p. 3) could be expanded to read: "The identification and promotion of an increasing number of viable industrial investments in many OIC countries is hampered partly by a shortage of industrial entrepreneurs, but mainly by an inadequate capability to identify viable investment projects."

3. Proposed sequence of "Country Paper" preparation:

The procedure to be adopted for the preparation of the CP could usefully be modified to distinguish between a macro-economic and a micro-economic level. The last sentence of para (b) on p. 8 would accordingly read "At the macro-economic level the CP is intended to facilitate the joint identification or generation of opportunities for new investment on the one hand, and for the redeployment, expansion or rehabilitation of existing capacities on the other. At the micro-economic level it will serve to

- (1) pinpoint bottlenecks, difficulties, etc., facing existing industrial plants in the selected branch and hampering further investments, and propose ways of removing these bottlenecks, including the preliminary formulation of technical assistance and "programme lending" needs;

- (2) identify, in close consultation and co-ordination with members of the NR, specific investment projects and project sponsors, in the selected industrial branch, for establisment in their country, and prepare an Industrial Investment Project Questionnaire (IIPQ) on each identified project. This IIPQ will also be provided by the Programme Sponsors; and

- (3) arrive at an assessment of the quantity and quality of entrepreneurs available in the country to start new industries, and define skill-building and training needs."

Bangladesh Shilpa Bank

1. The role to be played by the lead NDFI's in implementing the programme

In its present form, the programme envisages the following inputs from NDFI's:

1. Participation in consultations with other OIC organizations and UNIDO to arrive at a selection of the most appropriate industrial branch

2. Nomination of one or more candidates for the ST's which will operate in the 1st group (industrial branch more advanced) and in each of the 2nd group (industrial branch less advanced) countries.

3. Help the ST (2nd group NDFI's only) identify specific investment projects and project sponsors in the selected industrial branch.

4. Agree to the assignment of their staff (1st group NDFI's) to 2nd group NDFI's in order to assist in the preparation of CP's and IIPQ's. These staff members may also run training programmes on matters related to promotion of industrial projects in the countries of the NDFI's to which they are assigned.

5. Release their staff (2nd group NDFI's) for missions to the 1st group country or countries to learn more about how the branch developed there, to meet persons active in the branch and visit manufacturing plants.

6. Participate in a national workshop on the selected industrial branch to be held in each participating country.

Thus the NDFI's are not expected to become engaged in the actual work of expansion and rehabilitation of existing facilities, but only to participate in identifying opportunities for expansions and rehabilitations. This would appear to lie within the normal terms of reference of an NDFI and not impose an undue burden on it.

2. Financial aspects of the proposed programme:

The programme proposal includes a section on the programme budget (p 14) and on the inputs to be supplied by the participating OIC member countries. Because the costs, particularly travel and subsistence, will differ from country to country, estimates of the local costs of the workshop should be prepared by the participating NDFI's themselves, since they are in a better position to make an accurate forecast of them.