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THE ROLE OF THE ISLAMIC DEVELOPMENT BANK IN FINANCING INDUSTRIAL PROJECTS

Clinker Grinding Plant - Case Study*

Prepared by

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ABBREVIATIONS USED IN THIS REPORT

ADFAED	Abu Dhabi Fund for Arab Economic Development
BADEA	Banque Arabe de Developpement Economique En Afrique Arab Bank for Economic Development in Africa
SDR	Special Drawing Right of IMF
ID	Islamic Dinar (Unit of Account equivalent to SDR)
IDB	Islamic Development Bank

I. THE ISLAMIC DEVELOPMENT BANK

1.1 The Islamic Development Bank is an international development financing organization established in Shawal 1395H (October 1975).

Purpose

1.2 The purpose of the Islamic Development Bank is to foster the economic development and social progress of member countries and Muslim communities, individually as well as jointly in conformity with Shariah.

Membership

1.3 The present membership of the Bank consists of 44 countries (Appendix-1). The basic condition for membership is that the prospective member country should be a member of the organization of the Islamic Conference and be willing to accept such terms and conditions as may be decided upon by the Board of Governors.

1.4 The financing outlays of IDB to-date has totalled ID 5.6 billion i.e. equivalent of approximately US$ 6.0 billion which have been approved for the following types of operations:

		Amount (US$)
(i)	Loan (interest free)	569.0
(ii)	Equity	206.0
(iii)	Line of Equity	84.0
(iii)	Leasing	489.0
(iv)	Line of Leasing	52.0
(iv)	Instalment Sale	131.0
(v)	Line of Equity/Leasing	48.0
(vi)	Profit sharing	8.0
(vii)	Technical Assistance	38.0
(viii)	Foreign Trade Financing Operations	4,191.0
(ix)	Operations for Muslim Communities in non-member countries	171.0
	Total	5,897.0

...

II. THE INDUSTRIALIZATION - AND ALL THAT

2.1 It has now become a truism to state that accelerated industrialization is the strategic element in the economic development of the developing countries. Industrial Development of the less developed territories has become one of the greatest campaign of the mid-twentieth century.

2.2 "It is an endeavour in which the people of the underdeveloped world place great hope of finding a solution to their problems of poverty, insecurity, over-population, and ending their newly realized backwardness in the modern world". 1/.

2.3 There is no longer any substantial controversy about the importance of industrialization as the main long-run path of economic growth for the developing countries. The late Pandit Jawaherlal Nehru was expressing the feelings of the underdeveloped world, when he stated:

2.4 "Real progress must ultimately depend on industrialization" 2/

2.5 "Although a number of smaller countries can continue to specialize in primary production until they reach fairly high levels of income, their population is less than a quarter of the total for the Third World. The bulk of developing countries must therefore industrialize at a rapid pace to sustain adequate rates of aggregate growth" 3/.

Reasons for Industrialization - The Panacea

2.6 The reasons for regarding industrialization as the hope and aspiration of the underdeveloped countries are well-known. The underdeveloped countries are mainly producers of primary products, the prices of which fluctuate much more than the prices for the manufactured goods. The economies which are dependent on the export of basic commodities suffer from instability of national income more than the economies which are industrialized and developed.

...

1/ Bryce, M.D. "Industrial Development" New York, 1963
2/ Nehru, J. Speeches March 1953 - August 1957, New Delhi.
3/ Chenery H.B & Hughes Helen, "Prospects for Partnership", IBRD Publication pp 4.

2.7 Economists from Developing Countries observed that there was a correlation between the wealth and standard of living of a country and the degree of its industrialization.

2.8 They also notice that the great gap in per capita incomes that divides the developed and under-developed countries is broadly paralleled by a similar disparity in the structure of their economies, the former are diversified, and largely industrial economies, while in the later, production is confined predominantly to agriculture.

2.9 Realizing these facts the people of underdeveloped countries have come to believe that industrialization is the only path that leads to greater security and a higher standard of living.

2.10 The Brandt Commission on "North-South - A Programme for Survival" gave extensive treatment to the subject of industrialization with particular reference to the plight of developing countries.

2.11 The Report States that -

. "Developing Countries have only a small share in world manufacturing" 4/

In many of the poorest countries less than five percent of the work force is engaged in manufacturing.

2.12 "The extent to which they succeed in their efforts is strongly related to the international environment and the reactions of other countries." 5/

2.13 Among the greatest challenge to the industrialization of the SOUTH is the protective Policies being practiced by the NORTH.

2.14 "It is with clothing and textiles that developing countries have penetrated the markets of the NORTH most effectively. In the mid 1970s their share of imports in apparent consumption in the EEC, United States, Canada and Japan reached 7.2 percent." 6/

...

4/ Brandt Commission "North-South - A Programme of Survival"
5/ Ibid
6/ Ibid

2.15 Restrictions were also imposed by the NORTH against the SOUTH on trade in the ship-building, footwear and electronics.

2.16 The Report throws light on the fact that

> "most industrialized countries imported from developing countries only a fraction of the manufactures which they exported to them. In 1978 total imports of manufactured and semi-manufactured goods were $32 billion compared to trade in the opposite direction of $125 billion." 7/

2.17 The Report recommends that the NORTH should roll back protectionism and pursue positive, time-bound adjustment policies. But most industrialized countries continue to practice protection under various guises, while paying lip service to liberal trade by passing several praise-worthy resolutions.

2.18 The Report also outlined a "proposal of bringing UNCTAD and GATT closer together, this would make it easier, for instance, to link commodity negotiations with the question of access to markets." The NORTH resists very severely towards the merger of UNCTAD and GATT leading to the establishment of a new International Trade Organization. The resistance to the merger is based on the pretext that "the two bodies have distinct areas of responsibility and have developed different methods of work; their amalgamation would not be in the interest of either." 8/

2.19 The Report focuses attention on the plight of the poorest countries. These countries have special disadvantages in their trade and need both finance and technical assistance.

...

7/ Brandt Commission on "North-South - A Programme for Survival"
8/ The British Memo of Foreign and Commonwealth Office July 1980, UK.

2.20 But most of the developing countries seem to wander without a sense of economic direction. Mr. Shridath Ramphel, Commonwealth Secretary General commenting on the stand of the major Western Countries states -

2.21 "The Third World has groped its way towards the still rudimentary concept of a new international economic order. The West has largely rejected it - and offers nothing in its place while the old order is everywhere in disarray. In eight years of North-South dialogue, the North has produced hardly any new ideas. It has merely dismissed the South's proposal.

2.22 The inability of a large number of the developing countries to implement viable industrial projects is attributable, to their economy being rapped by the worst crisis for a half century." 9/

2.23 The World Bank Report commenting on the situation narrates that "Many...countries entered the 1980s with a legacy of high inflation, large government deficits, misaligned prices, and excessive controls over goods and financial markets. One sided import - substitution policies and rigidities in factor markets reduced the ability of these economies to respond to external shocks." 10/

2.24 Surrounded by these gigantic economic problems, the developing countries are tempted to look up to the external sources for a panacea of their economic ills. Since the workshop is being organized at the headquarters of one of the leading UN Agencies, it may not be out of place to present the view point of one of the spokesmen for the Third World on the UN System.

2.25 "The institutions and systems established early in the post-war era changed the world. But they stand now in need of change themselves. All is not well, in particular with the United Nations, which in many areas has become situalistic, inbred and increasingly technocratic." 11/

...

9/ Ramphel.S. Commonwealth Secretary General, Financial Times, Sept. 15,1981
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2.26 The Commonwealth Secretary General maintains that "all are to blame - East and West - for the UN's image of endless, tedious, tiresome and ultimately self-defeating involving more than 6,000 meetings a year in New York and Geneva alone and one million pages of documentation. But the UN is not something apart. It is governments which have allowed it - even encouraged it - to grow away from its role. The UN can still be an invaluable forum, yet governments show little sign of being ready to strengthen it. Here again we need a new vision, a renewed sense of purpose, responsive to changed circumstances." 12/

2.27 The gesture of UNIDO to organize this workshop on "Financing of Industrial Projects" along with Islamic Banks tends to indicate the resilient response of UN agencies to the international environment. It is hoped that this meeting albeit on a modest scale may help to chalk out new and untraditional approach to the financing of industrial projects. UNIDO has substantial technical expertise and resources at its disposal in the field of industrial development. The Islamic Banks have a sense of purpose, a mission to contribute to the process of industrialization in accordance with the Islamic principles of Shariah. An amalgum of both approaches can help to inspire an intellectual framework relevant to modern problems of financing industrialization process in the Third World.

...

12/ Ramphel. S, Commonwealth Secretary General, Financial Times, Sept. 15,1981

III. THE PROMOTION OF INDUSTRIALIZATION IN IDB MEMBER COUNTRIES

3.1 The mandate given to the Bank is clear and unequivocable. Its operations have to be conducted in conformity with the principles of Shariah. The course of promotion of economic development and social progress has been traversed and chartered by the traditional development financing organization. The Islamic Development Bank has benefited substantially from the experience of these institutions led by the World Bank and the relevant UN Agencies like UNIDO. But to foster economic development and social progress in accordance with the principles of Islamic Shariah presents a challenge as the Bank has to break new ground and evolve and develop new operational parameters compatible with Shariah.

3.2 In pursuance with these objectives the Bank embarked upon a programme of trials and innovation to develop various instruments for contributing towards the industrialization process in member countries.

3.3 The main channel of financing industrial projects as enshrined in the Articles of Agreement and outlined in the Policies and Procedures for Financing Operations in Equity. But in the light of its operational experience, it developed additional modes of financing as outlined on page 19.

...

IV. EQUITY PARTICIPATION

4.1 The founders of IDB had a realistic awareness of the importance of industrialization to the process of economic development. This is reflected in the first item of Functions and Powers under Article 2 of the Articles of Agreement, which reads as follows:

> "To fulfill its purpose the Bank shall have the following functions and powers:
>
> (i) to participate in equity capital of productive projects and enterprises in member countries." 13/

Equity Investment

4.2 Equity investment is considered as one of the main types of financing to be provided by the IDB in view of its conformity with Shariah.

4.3 The Articles of Agreement establishing the Bank accords top priority to equity participation while enumerating various functions to be undertaken. It lays down that to fulfill its purpose " The Bank shall apply such terms and conditions as it deems proper, taking into account the requirements of the project or enterprise, the risks being undertaken by the Bank and the terms and conditions normally obtained by equity investors for similar financing including voting rights and the right to nominate one or more directors to the governing board of the project or enterprise." 14/

4.4 Article 17 dealing specifically with equity participation in addition to section 2.04 covers various aspects of equity participation such as obtaining controlling interest, option to sell, combination of equity with other operations, maintenance of reasonable diversification and selling of equity investment to revolve Bank's resources.

4.5 It is further emphasized in Article 16 dealing with "Considerations relevant to Financing" considering the importance of equity investment, the Bank shall seek to maintain a suitable ratio between equity investment made in, and loan granted to member countries."

...

13/ Articles of Agreement of IDB, Article 17 Sec. 3.
14/ Articles of Agreement of IDB, Article 2 Sec. 2.01

4.6 These aspects are further elaborated in the document entitled "Policies and Procedures for Financing Operations" in section 2.04 dealing with equity participation, two additional sections are included in the latter document: one dealing with the form of equity investment (section 2.05) and the other dealing with expected financial return section (2.06).

Element of Risk in Equity Projects

4.7 A number of schools of thought regard Equity as a risk capital. In view of the importance being accorded to equity participation in IDB's Articles of Agreement, IDB, as a development financing institution, had to face the challenge of risk management rather than risk avoidance.

4.8 In contrast to IDB, a number of international and regional development financing institutions have followed a rather cautious policy towards equity investment. In view of the complexity of the issue some institutions have altogether prohibited equity financing while others are doing it on a very limited scale. Some of the financing institutions hedge against the element of risk by combining loan (with guarantee or collateral) with equity.

4.9 Lately, IDB developed an approach of combining equity with leasing operation. But so far IDB has not provided any loan to industrial projects. Loans are mainly granted for infrastructure projects. In certain cases some industries benefited indirectly from the IDB financial infrastructure projects like roads, ports, electricity and water works.

4.10 The risk inherent in equity investment calls for a cautious approach. There is no such thing as an absolute guarantee in equity because by definition equity capital is risk capital. Unlike any other form of investment, one neither takes title to physical goods nor receives a guarantee for the return on capital. In addition to general business risks inherent in equity investment which are caused by a number of factors affecting a company's operational programme and its income prospects, there are two other types of risks;, political risks and foreign exchange risks. Risks against nationalization and restriction on repatriation of dividends and capital are

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generally covered for the IDB through its Articles of Agreement. Other types of political risks associated with changes in Government legislation and regulations could be covered to a limited extent through various agreements and understanding with the Government. By and large these changes are made by the Government in view of a general global consideration in the interest of the country. In most cases it is very difficult to modify them in the interest of an individual project or company.

Foreign Exchange Risk

4.11 The foreign exchange risk associated with equity investment is caused by devaluation and depreciation of local currency. In addition to reducing the value of shares and dividends in terms of US Dollars, or other major convertible currencies, devaluation reduces project profitability by increasing debt service burden and interest expense. In one member country IDB has acquired direct equity in three industrial companies. The companies are declaring dividends ranging between 20 to 50% and the value of some of the shares have increased by as much as 60 to 70%. However, as a result of over 200% devaluation of the local currency against the US Dollars the net returns as dividends have been drastically eroded. While it is difficult to generalize, the impact of devaluation on the earnings and financial position of a company, it would tend to vary according to the nature of its business, import and export mix of its sale, import contents of raw materials and the financial structure, particularly the relative share of foreign debt in the capitalization of the company.

4.12 Under the prevailing economic uncertainty and the debt burden, a number of developing countries which have already embarked upon the process of industrialization at times had to face the dilemma of its currency devaluation. This is an element of risk inherent in the process of industrial development.

...

Equity Financing Operation of the IDB - Overall Exposure

4.13 The total equity financing approved by the Bank up to-date amounted to US$316.0 million representing 20% of the total project financing approved by IDB. Of this amount, US$210 million was approved for direct equity participation in 36 projects in 19 member countries and US$116.0 million was approved for 16 lines of equity to various National Development Financing Institutions (NDFIs).

4.14 IDB has acquired direct equity in the following Islamic Banks.

Name of Islamic Bank	Amount (US$ Million)
1. Bahrain Islamic Bank	3.900
2. Islami Bank Bangladesh	0.262
3. Al Barka Turkish Finance House	2.210

4.15 The concentration of equity projects is in the middle or higher income countries among the Bank's members which account for almost 85 percent of all the equity projects approved.

4.16 As regards the size of equity participation approved, the smallest is US$0.262 million and the largest is US$13.6 million for Arab Potash Company in Jordan. The average comes to US$5.3 million. On average, the Bank's equity financing during the period under review is only 4.5% of the total cost of projects, representing investment of more than US$4.7 billion.

Sectoral Distribution of Equity Portfolio

4.17 There are two groups which account for most of the financing. The first group includes chemical and petro-chemical industries (including petroleum refining, fertilizers, rubber and synthetic fibres). These two groups together include 19 projects out of a total of 39 equity projects and

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represent 60 percent of the total financing approved for equity. The third industrial group is textiles, which includes four projects and accounts for 6 percent of the total financing:

Table-1
Sectoral Distribution of Equity Projects

Sector/Industry	No. of Projects	Amount Million ID	Amount Million US$	Percentage
Agriculture/Agro-Industry	5	11.911	14.140	6.95
Poultry/agro-industry				
- Agriculture, Livestock and Poultry	(2)	(5.651)	(7.186)	(3.30)
- Agro-industry	(3)	(6.260)	(6.954)	(3.65)
Industry	28	135.695	161.903	79.15
- Chemicals and Petro-chemicals	(9)	(49.356)	(61.200)	(28.79)
- Cement	(10)	(52.303)	(62.205)	(30.51)
- Textile	(4)	(10.673)	(12.768)	(6.23)
- Pulp Paper	(1)	(8.756)	(10.630)	(5.11)
- Engineering	(3)	(9.687)	(10.100)	(5.65)
- Pharmaceuticals	(1)	(4.920)	(5.000)	(2.87)
Utility	1	7.222	8.880	4.21
Mining	2	10.972	14.200	6.40
Banking	3	5.630	6.372	3.29
Total	39	171.430	205.495	100

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Line of Equity

4.18 IDB adopted the policy of extending line of equity to National Development Finance institutions (NDFIs) with a view to enlisting the cooperation of these banks in assisting economic development in member countries by making available additional financial resources particularly to the small scale sector. At the same time, it was expected to enlarge the scope of IDB's equity financing without unduly taxing its own organizational strength by involving itself in the identification and appraisal of small projects. In this scheme, NDFIs are entrusted with the task of identifying small scale enterprises in member countries for equity participation by the Bank. Minimum and maximum limits have been imposed for such participation - ID 100,000 and ID 2.00 million respectively.

4.19 The first line of equity was approved for the Malaysian Development Bank in 1397H (1977). Since then the Bank has approved 16 lines of equity amounting to ID 83.60 million (US$101.26 million) for 15 NDFIs in 14 member countries.

4.20 The smallest line of equity of ID 2.00 million (US$2.60 million) was approved for the Development Bank of Niger, while the largest lines of ID 10.00 million ($11.50 million) were approved for the National Development Bank of Morocco and the Industrial Development Bank of Turkey (US$11.120 million). The average size of the line of equity comes to ID 5.23 million (US$6.33 million). Six of the NDFIs received a line of equity amounting to ID 5.0 million each. The NDFIs receiving the lines of equity mainly serve the industrial sector. So far, no line has been approved for development banks serving the housing sector.

4.21 At the beginning, IDB's financing of line of equity was limited to one NDFI in a member country. However, it was realized that in some countries different development banks serve the needs of different sectors of the economy, while in others, the activities of these banks are confined to either public or private sectors or their financing is limited to a certain size of projects/enterprises or to a particular region of the country, and this policy has accordingly been changed to accommodate more than one NDFI in a member country.

...

The NDFIs receiving the line of equity facilities are entrusted with the task of identification, appraisal and follow-up of the projects. In most cases they appoint representatives on behalf of IDB on the Boards of Directors of the Companies.

Performance of Equity Projects

4.22 Normally equity projects in developing countries are beset with numerous problems. The record of IDB's performance is no exception. In general, with a few exception, the financial performance of these companies has not been very satisfactory. All the equity projects financed by IDB are organized in the form of limited companies. IDB's financing in these companies has varied from 5 to 33.3% of their total equity capital. These project companies are facing difficulties in one form or another which are related to project implementation, production, marketing and other operational or financial aspects. In some cases, the problems are inter-related and influence one another in various ways, and in certain cases, their combined impact is so strong that it poses a real danger to the future existence of the companies.

4.23 There are quite a few cases where projects have faced implementation problems causing unnecessary delays in the commencement of commercial operation and resulting in cost overruns. These delays may be the result of improper planning or coordination of various activities, or may be associated with the financing arrangement which may lead to the change in the scope of the project and technical specifications. In some cases, the changes in project scope and technical specifications, after the approval of the Bank, have caused delays in implementation. Under present day economic circumstances characterized by inflation and currency fluctuations, this poses the problem of arranging additional financing, which sometimes leads to further delay and another increase in project cost. In some cases, delay in implementation or in the starting of commercial production has been caused by problems with the supply of technical know-how and/or equipment.

...

4.24 A number of projects/companies financed by the Bank are encountering various problems related to the production or non-availability of infrastructural facilities as envisaged in the appraisal of the project. Sometimes production problems are connected with the supply of inputs or raw materials. In some cases, production is interrupted due to the non-availability of power or fuel, while sometimes labour or managerial problems are the cause of concern. A number of companies also face marketing difficulties, which are either in the form of intense price competition in the domestic or export market, depending upon their marketing domain, or in the form of restricted demand, due to various internal and external economic developments. In some cases, such marketing difficulties are related to excess supply, and in some cases they are due to weak marketing efforts.

4.25 Price competition is faced by a number of companies which find it difficult to sell their products at prices which cover the cost of production and provide a sufficient margin of profit. This has led to excessive inventory build-up and reduction in output, which have their financial consequences. In some cases, the price is controlled by the government at a very low level, and the companies are unable to increase the price. In others, the demand is restricted due to domestic or external economic developments. The low growth rate of domestic economies and recession in industrialized countries have adversely affected the demand for products of various industries such as textiles, cement, paper and pulp, etc. IDB financed-companies in these industries have to face the consequences.

4.26 Some companies are facing marketing problems due to excess supply of the product which they are producing on the national and regional level. This is particularly true of cement and textile companies. Some companies also face competition from imported goods.

4.27 A general review of the marketing problems indicates that the marketing aspect was not examined properly at the time of investment and the forecasts provided assumed that whatever was produced would be sold at the desired prices. In some cases, marketing efforts are weak and need to be intensified in order to improve the situation.

...

4.28 Competent management and the recruitment of suitable staff well-versed in corporate financing, management, marketing and engineering constitute vital factors for successful industrial ventures. The lack of these factors and the absence of business experience on the board of directors of the companies contributed to the poor performance of the companies in which the Bank acquired equity participation. The Bank is exercising greater care in appointing competent persons to the Board of Directors of the companies in which it has acquired equity position. These nominees are drawn from the Board of Executive Directors of the Bank, members of the staff or qualified and experienced persons from member countries.

4.29 In addition to the above mentioned problems related to project management, implementation, production and marketing, there are a number of other issues of a financial nature which have direct implications for the financial performance of the companies. As a result, a number of companies are incurring operating losses. Some companies cannot compete in the market because of the high cost of production, which is due either to under utilization of capacity or to the excessive cost of inputs.

4.30 Technical inefficiency can be regarded as a common factor affecting the cost of production in most of the companies, but this can be overlooked in view of the fact that most companies are new in the field. Their efficiency hopefully will increase gradually as they gain more experience.

4.31 In some cases, the higher operating costs are caused by high depreciation and interest expenses which, in some cases add up to more than 25 percent of the operating costs. In most cases, higher depreciation expenses are caused by excessive initial investment. In some cases implementation delays have caused cost overruns. Higher interest expenses have resulted from the higher cost of borrowing from commercial sources or from the impact of devaluation, and when the two are combined the effect is greatly intensified.

...

4.32 All these factors taken together, have resulted in excessive operating losses in some companies and have caused serious liquidity problems. Some companies do not have sufficient cash to pay for the obligations of their creditors or to finance their working capital. To overcome these problems, certain companies have adopted a temporary measure - to have their debt rescheduled - while others have asked for an additional injection of capital. Some companies started with a very weak equity base and a very high gearing ratio. Due to considerable delay in implementation, cost overrun, unexpected market conditions and various operational problems, companies' performance had adverse effects on profitability.

4.33 Devaluation has been a major factor causing financial difficulties for a number of equity projects in many countries. Not only devaluation increases the interest burden substantially, but it also significantly raises debt liabilities with respect to foreign exchange loans. This has, on the one hand, had a serious effect on the companies' profitability and, on the other hand, caused serious liquidity problems by increasing the debt service burden. In some cases, the whole financial structure of companies became so much unbalanced that there was no alternative but to restructure the companies through the injection of additional equity capital. In such cases, after a careful study on case by case basis IDB might concur with the decision of the companies and participate in the additional equity.

4.34 Various external factors have also affected the projects/companies financed by IDB. In some companies which were oriented towards export markets, general economic recession in industrialized countries has adversely affected the export demand and depressed the market significantly. In other cases the creation of excessive capacity in certain industries by some industrialized or industrializing countries with more efficient and advanced production techniques has made it possible to export to the developing countries at a price lower than the the cost of production of new companies in member countries. This is the case with the cement industry, where the local companies are facing serious competition from outside. The slowdown of general economic activities in many of the IDB member countries has also affected the profitability of manufacturing industries by reducing the demand for their products which in turn has reduced the level of capacity utilization.

...

4.35 The combined effect of the various factors mentioned above has been a decline in the value of IDB's equity subscription and a low return on equity investment.

4.36 The experience of IDB in the field of equity participation does not differ substantially from the experience of other older regional or international development financing institutions. The task of promoting industrial development through the medium of equity participation requires, inter alia, in-depth expertise in corporate finance, marketing and management. These resources are extremely difficult to mobilize for industrial development in developing countries.

4.37 As far as IDB is concerned, the experience of a decade in the field of equity financing appears to have sharpened its mental. In the light of its evaluation of ten years performance, IDB is in the process of re-formulating its strategy to face the challenge of industrial development in the coming years.

4.38 The performance record of IDB has not detered it from equity participation, if anything it has enabled it to modify its guidelines and appraisal procedures accordingly.

4.39 The equity participation as a mode of financing is accorded due importance in conformity with the provisions made in the Articles of Agreement establishing the Bank.

...

V. ADDITIONAL MODES OF PROVIDING FINANCE FOR INDUSTRIAL PROJECTS

5.1 The main channel of financing industrial projects from IDB is equity as envisaged in its Articles of Agreement. However, with the progress of time, IDB developed other forms of financing to supplement the resources for the process of industrial development. Some of the modes were already included in the Articles of Agreement, like, Technical Assistance and Foreign Trade Financing Operations. Other forms of financing were developed in the Bank as suitable financing operations for industrial projects in conformity with Article 2(13) of Articles of Agreement establishing the Islamic Development Bank. This Article stipulates that the Bank shall undertake any other activities which may enhance its purpose. Towards that end, the Bank so far evolved and put into practice with varying degrees of success, in accordance with the principles of Shariah, the modes of leasing, line of leasing, and instalment sale. In this respect, the Bank is continuing and will continue to improve on the application of these modes of financing and develop others in fulfillment of its objectives. And as long as it is in conformity with Shariah, there is no limit on the power of IDB to devise financial arrangements that will enable it to invest in development in its member countries.

5.2 Under the circumstances it may be deemed desirable to present the following supplementary modes of financing for industrial projects:

(i) Technical Assistance

(ii) Foreign Trade Financing Operations

(iii) Leasing

(iv) Instalment Sale.

...

VI. TECHNICAL ASSISTANCE

6.1 The Bank's policies and procedures for financing operation outlining the role of technical assistance read as follows:

> "Technical Assistance operations will play an essential role in the Bank's overall activities"
>
> These serve three objectives:
>
> (i) transfer of technology to member countries,
>
> (ii) preparation of feasibility study and formulation of bankable projects, and
>
> (iii) to help supervision of projects and enterprises during construction and initial operations." 15/

6.2 IDB endeavours to be associated with all phases of industrial development starting from sectoral studies, project identification, appraisal, financing, implementation, training of indigenous personnel and efficient operations.

6.3 In carrying out technical assistance activities, the Bank utilizes the services of consultants from member and non-member countries. The selection of consultants is based on merit, but citrus paribus consultants from member countries are given preference.

6.4 In conformity with the cooperation agreement among IDB, UNIDO and AOID, the Bank calls upon the expertise of these organizations for various activities that fall within the framework of technical assistance. In the past UNIDO has organized a number of in-house seminars at the IDB headquarters on various aspects of industrial project identification, appraisal and follow-up.

6.5 In view of the vital importance of feasibility studies and formulation of bankable projects for the success of the industrialization process, the technical assistance operations of the Bank are considered as fundamental corner stone on which the foundation of the industrialization programme is based.

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15/ IDB's Policies and Procedures for Financing Operations.

VII. FOREIGN TRADE FINANCING OPERATIONS

7.1 Foreign trade financing started in 1397H (1977), basically as a placement operation designed to provide a means of investment for surplus funds of the Bank not immediately needed for operations. As conventional forms of placement employed by other development banks and financial institutions were not available because they were not in conformity with Shariah, the Bank faced a challenge to find new modes of placement which are in conformity with Shariah, which meet the basic investment criteria and at the same time promote trade among member countries. The Bank considered that its operations could have some developmental impact, because they provided the much-needed foreign exchange for developmental imports to member countries with serious balance of payment problems and promoted the flow of trade among the member countries in general.

7.2 IDB foreign trade financing is in conformity with Shariah, as it involves the purchase of goods and their resale to the recipient member countries (Baya Murabaha) against a reasonable mark up with deferred payment arrangements. The first foreign trade financing operation started in 1397H (1977), and by the end of Ramadhan 1406H (May 1986), the total approvals for these operations reached ID. 3,742.22 million (US$4,190.35 million) for 286 operations in 29 member countries. The annual breakdown of these operations is given in the following table. Foreign trade accounts for 70 percent of total financing approved by the Bank.

Table-2
Foreign Trade Financing Operations
Approved till 1406H (20.5.1986)

Year	No. of Operations	Amount	
		ID Million	US$ Million
1397H (1977)	5	43.61	50.52
1398H (1978)	14	127.44	155.82
1399H (1979)	25	262.45	338.09
1400H (1980)	32	350.46	459.99
1401H (1981)	31	367.89	456.44
1402H (1982)	29	379.68	424.70
1403H (1983)	27	460.40	497.50
1404H (1984)	47	714.31	748.22
1405H (1985)	39	667,31	653,49
1406H(Ramadhan) (1986)	37	368.67	405.67
Total	286	3,742.22	4,190.35

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7.3 The Foreign Trade Financing Operations of the Bank serve three main purposes:

(a) utilization of IDB's funds which are not immediately needed for financing projects;

(b) provision to member countries of necessary financing facilities to import some essential commodities required in their industrial development programmes, the goods eligible for financing being essentially developmental input in nature.

(c) contribute to the promotion of trade among member countries.

7.4 As outlined in Table-2 since 1397H. the Bank has approved 286 FTFO amounting to US$ 4,190.35 million.

One of the reasons for undertaking foreign trade financing operations was to provide a source of income for the Bank derived in conformity with Shariah. The income generated from these operations is presented in the following table

Table-3
Yearly Income on Foreign Trade Financing Operations
(ID Million)

Year	Total Income	Income from FTFO
1398H (1978)	2.97	1.88
1399H (1979)	9.75	6.39
1400H (1980)	19.65	14.15
1401H (1981)	26.13	21.58
1402H (1982)	30.23	22.84
1403H (1983)	26.18	16.08
1404H (1984)	35.53	22.24
1405H (1985)	62.69	42.94
1406H (1986) (up to 2nd quarter)	40.39	27.72
Total		

Terms of Financing

7.5 Repayment is normally made within 9 to 18 months from the date of disbursement depending upon the commodities which include cement, jute, fertilizers, crude oil and refined petroleum products, etc. As regards capital goods imported from member countries, the maximum allowable repayment is 30 months.

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Size of the Mark-up

7.6 The prevailing mark-up at present is 7 percent per annum.

7.7 The experience of IDB in carrying out its foreign trade financing operations has so far been useful, varied and interesting. However, there seems to be some room for improvement in its scope, coverage and service to the member countries. The issues which are receiving Bank's consideration in this context relate to:

(i) diversification of commodities including food stuff;

(ii) inter-marriage between trade financing of consumer goods and development of their production within member countries;

(iii) financing of exports from one member country to another;

(iv) promotion of trade of capital goods among member countries leading to fostering of growth of capital goods industries in the member countries;

(v) liberalization of the terms and conditions of the foreign trade financing operations.

Table-4

Breakdown of Foreign Trade Financing Operations by commodity in 1405H and during 1397-1406H (US$ Million)

No.	Commodities	1405H Amount	1405H %	Total Since 1397H Amount	Total Since 1397H %
1.	Crude oil	346.00	52.47	1,856.62	49.05
2.	Intermediate Industrial Goods	112.06	16.99	671.17	17.73
3.	Refined Petroleum Products	51.00	7.73	411.30	10.87
4.	Vegetable Oil	72.00	10.92	281.50	7.44
5.	Cement	-	-	125.68	3.32
6.	Fertilizers	24.00	3.64	114.93	3.04
7.	Jute	31.34	4.75	106.18	2.80
8.	Cotton	9.00	1.37	72.30	1.91
9.	Sulphur	5.00	0.76	45.00	1.19
10.	Lead Ore	-	-	15.00	0.40
11.	Rock Phosphate	5.00	0.76	28.34	0.75
12.	Ammonia	4.00	0.61	24.00	0.63
13.	Clinker	-	-	19.00	0.50
14.	Capital Goods	-	-	10.40	0.27
15.	Bicycles	-	-	1.76	0.05
16.	Others	-	-	2.00	0.05
		659.40	100	3,785.181	100

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VIII. LEASING

8.1 Leasing as a method of financing equipment and tangible asset, has been a widely practiced financing norm. Basically, a lease is a contract between lessor and lessee giving the lessee possession and use of a specific asset on payment of rentals over a period. The lessor retains ownership of the asset so that it never becomes the property of the lessee, at least until the end of the lease period and payment of the scheduled rentals when the property reverts to the lessee. This approach as practiced by IDB incorporates in the lease contract that after payment of scheduled rentals, property shall revert to the lessee.

8.2 The separation of ownership and use during the lease period is central to the whole concept of equipment leasing and distinguishes it from instalment sale operation.

8.3 The cradle of modern leasing is the United States; from there the concept spread to Europe and the Far East to such an extent that today few advanced countries do not share their benefits. Leasing was introduced in IDB in 1397H (1977) as a source of medium term financing in conformity with Shariah.

8.4 During the initial years the number of leasing operations undertaken by the Bank was limited, when the emphasis was placed on the consolidation and refinement of the basic features of leasing as an instrument of development financing.

8.5 From a modest beginning IDB's lease financing approvals grew to a significant amount (US$489 million) by the end of Ramadhan 1406H. This amount which represents 32% of total project financing covered 48 operations in 18 member countries. This trend tends to underline IDB's endeavours to introduce and nurture new financing modalities in conformity with Shariah in order to cater for the needs of industries in member countries. The leasing mechanism complies with IDB's strategy to assist capital formation in member countries with the desire of these countries to have a degree of freedom in the procurement of machinery and equipment - a feature not normally associated with suppliers/buyers credit or bilateral funding. An important characteristic

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of IDB leasing is that rental schedules are based entirely on project implementation profiles, the first rental falling due six months after the leased facility goes into operation. Schedules are drawn in a flexible manner so as to accommodate possible delays in project implementation. IDB-leased assets are exempt from customs duties which results in lower costs to the beneficiary companies. In addition to tax-related benefits, leasing derives its attraction from other advantages such as impact on earnings, cash flow improvements, off-balance sheet 100 percent asset financing and a positive effect on return-on-assets.

Basic Terms and Conditions

8.8 A number of refinements have been introduced into the terms and conditions governing IDB's lease financing over the past ten years, but there does seem to be room for improvement. The prevailing basic terms and conditions are :

(a) a guarantee of the Government or a first class commercial bank acceptable to IDB to effect payment in accordance with the repayment schedule agreed upon as per Agreement;

(b) IDB provides financing in any currency required by the lessee for the purchase of equipment or assets, but the repayment schedule is based on Islamic Dinar, which is a unit of account equivalent to SDR of the IMF;

(c) the mark-up in the leasing operation at present ranges between 7 and 8 percent per annum;

(d) The period varies between 3 to 10 years.

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IX. LINE OF LEASING

9.1 In order to cater for the needs of small and medium sized projects in the private sector, IDB in 1403H (1983) introduced line of leasing as a new mode of financing industrial projects. So far, IDB has approved five lines of leasing to National Development Finance Institutions in member countries for a total allocation of US$42.0 million. In four cases, approved lines of equity were converted into a combination of lines of leasing and equity, mainly to add flexibility to the line financing arrangement.

9.2 One of the features of the line of leasing is that NDFIs are entrusted with the task of identification, appraisal and follow-up of line projects. For these services, they receive a very modest fee representing a percentage of IDB's return.

9.3 All the basic terms and conditions applicable to direct leasing operations are also applicable to line projects. The minimum amount of financing that could be provided under this facility for a project is ID 250,000 and the maximum amount is ID 2.0 million. Should the financing requested exceed ID 2.0 million, it will fall under direct equity participation.

9.4 The prevailing IDB practice demands that NDFIs participate financially in line projects and guarantee rental payments under lease.

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X. INSTALMENT SALE AS A MODE OF FINANCING INDUSTRIAL PROJECTS

10.1 The Bank's experience with lease financing has been generally satisfactory. However, in the light of IDB's practical experience it became apparent that the existence of one single mode of medium term financing for industrial projects does not allow IDB the necessary flexibility that would enable it to finance industrial projects, where leasing, for one reason or another, is not suitable. For instance the asset in question may not be eligible for leasing either because it is not separately identifiable or because of its short useful life span. On the other hand, the legal or tax requirements of the lessee may not make leasing an attractive proposition to him.

10.2 Moreover, many a prospective lessee failed to get a commercial bank guarantee as required by IDB terms and conditions of leasing because, not being the owner of the assets to be leased, he could not give the guarantor back a mortgage or other charges over the asset in consideration of its giving the guarantee. In the experience of the Bank, almost all such prospective lessees were private sector companies. This in turn has constrained IDB from extending assistance by way of leasing to private sector projects.

10.3 These limitations of lease financing have inhibited the participation of IDB in otherwise viable projects. In order to widen and diversify its modes of financing and to circumvent some of the operational and legal constraints that inhibited leasing operations in certain cases, IDB in 1405H (1985) introduced Instalment Sale as a mode of medium term financing of industrial projects.

10.4 Instalment sale is a contract of sale whereby the ownership of the asset is immediately transferred to the buyer while the purchase price is payable by instalments. Under this mode of financing IDB buys the asset and as soon as it is delivered, resells it to the recipient of its financing facility (buyer) at a higher price to be paid in instalments over a period of time.

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The difference between this mode of financing and leasing is that in an instalment sale, unlike leasing, IDB does not retain the ownership of the asset until the payment of the last instalment. Though this means on the one hand, that IDB cannot re-possess the asset if the buyer defaults in any instalment, it also means, on the other hand that IDB does not have to worry about the risks associated with ownership of assets which it normally requires the lessee to cover by insurance.

10.5 The procurement of the assets is in conformity with Bank's procurement procedures and the negotiations of the contracts with the supplier takes place in consultation and subject to the approval of IDB.

The payment of the price instalments is guaranteed by a first class commercial bank acceptable to IDB. The maximum repayment period is 7 years and the prevailing mark up is between 7 to 8% per year.

So far IDB has approved 13 instalment sale operations for 8 countries amounting to US$131.0 million.

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Table-5
THE RECORD OF IDB FINANCING OPERATIONS
FOR THE PROCESS OF INDUSTRIALIZATION

	No. of Operations	No. of Countries	US$ Million
1. Equity	39	19	206
2. Line of Equity	13	12	84
3. Leasing	37	16	352
4. Line of Leasing	6	5	52
5. Lines of Leasing/Equity	6	6	48
6. Instalment Sale	10	8	64
7. Technical Assistance	24	17	11
9. Foreign Trade Financing Operations	285	28	4,191
Total:			5,008

XI. A CLINKER GRINDING PLANT - A CASE STUDY

11.1 In 1977 IDB received an application to finance a Clinker Grinding Plant in a member country. After reviewing the feasibility study which was financed by BADEA and the relevant documents, the Bank mounted pre-appraisal mission to explore the possibility of financing in the form of equity participation.

Project Description

11.2 The annual clinker grinding capacity of the plant is 250,000 metric tons. After grinding the clinker, which is basically calcium carborate, gypsum, pozzolene and other additives are added to produce cement, which is badly needed in the country for the construction industry.

11.3 In 1977 IDB hosted a co-financiers meeting in Jeddah and was attended by:

- BADEA, which took the initiative of financing the feasibility study and is regarded as the leading Arab Development Financing Institution in Africa,
- ADFAED, a reputable Arab Development Financing Institution which provides development financing to Arab and non-Arab countries of the Third World,
- Representatives of the Government concerned.

11.4 In the light of the co-financiers meeting, a joint appraisal mission was mounted to appraise the project and based on the findings of the appraisal mission, IDB, ADFAED and BADEA agreed to finance the project as follows:

	US$ Million	
- ADFAED	4.00	Long term loan
- BADEA	4.68	Long term loan
- IDB	4.68	Equity

11.5 A company was established. IDB and the Government of the country were the only shareholders.

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Project Financing Plan
during Appraisal

	Local currency	Component %	F...	Component	Total	%
Govt.	1.45	100	9.46	66.9	10.92	70
IDB	-	-	4.68	33.1	4.88	30

11.6 The loan provided by ADFAED and BADEA were utilized by the Government to acquire shares in the Clinker Grinding Company. A firm of independent consultants was engaged to supervise the implementation phase of the project. When the plant reached completion, the Government of the country informed IDB that although during the project appraisal phase the Government agreed to provide:

- the electric power required for the plant
- unloading facilities of clinker at the port

due to circumstances beyond its control the Government was unable to provide these facilities. The water level in the reservoir of the dam was drastically reduced and the generators were damaged, hence the power authority in the country could not meet additional electric power demand of the clinker plant. The country's precarious economic situation did not enable it to provide port handling facilities . IDB in order to save the plant from closure, studied the proposal and after due appraisal agreed to provide an amount of US$8.0 million on the basis of leasing for the purchase and leasing of the following equipment:

(i) Electric generator for the supply of power;
(ii) Port Handling Equipment.

11.7 After the provision of all the above mentioned equipment before the plant could be commissioned, it was brought to the notice of IDB that due to the project cost over run, the company did not have sufficient working capital to buy the raw materials (clinker). IDB through the foreign trade financing facilities provided a sum of US$7.0 million for the importation of clinker.

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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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XII. CONCLUSION

12.1 The paper endeavours to shed light on IDB's diversified activities in the field of industrial development.

12.2 IDB is a unique institution among the development financing organizations, as it undertakes development financing operations in conformity with Islamic principles of Shariah.

11.3 The case study of a Clinker Grinding Plant to produce cement tends to indicate the comprehensive and serious manner in which IDB faces the challenge of industrial development in the less developed member countries.

12.4 The opportunities provided by the meeting to exchange views and opinions and to coordinate activities by Islamic Banks, UNIDO and other institutions associated with the process of industrialization in the Third World is a step in the right direction. In this context a realistic understanding of the financing modalities in accordance with Shariah as adopted by Islamic Banks is deemed important.

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APPENDICES

APPENDIX I

MEMBER COUNTRIES OF IDB

1. Republic of Afghanistan
2. Democratic and Popular Republic of Algeria
3. State of Bahrain
4. People's Republic of Bangladesh
5. People's Republic of Benin
6. Negara Brunei Darassalam
7. Burkina Faso
8. Republic of Cameroon
9. Republic of Chad
10. Federal Islamic Republic of Comoro Islands
11. Republic of Djibouti
12. Arab Republic of Egypt
13. Republic of Gabon
14. Republic of Gambia
15. Republic of Guinea
16. Republic of Guinea Bissau
17. Republic of Indonesia
18. Republic of Iraq
19. Hashemite Kingdom of Jordan
20. State of Kuwait
21. Republic of Lebanon
22. Socialist People's Libyan Arab Jamahiriyah
23. Malaysia
24. Republic of Maldives
25. Republic of Mali
26. Islamic Republic of Mauritania
27. Kingdom of Morocco
28. Republic of Niger
29. Sultanate of Oman
30. Islamic Republic of Pakistan
31. Palestine
32. State of Qatar
33. Kingdom of Saudi Arabia
34. Republic of Senegal
35. Republic of Sierra Leone
36. Somali Democratic Republic
37. Democratic Republic of Sudan
38. Syrian Arab Republic
39. Republic of Tunisia
40. Republic of Turkey
41. Republic of Uganda
42. United Arab Emirates
43. Yemen Arab Republic
44. People's Democratic Republic of Yemen

APPENDIX-II

ISLAMIC DEVELOPMENT BANK

PROCEDURAL MATTERS

REGARDING

THE APPRAISAL

OF

INDUSTRIAL PROJECTS

GUIDELINES OF INDUSTRIAL PROJECT EVALUATION

(a) Guidelines for Mission Preparation

1. All relevant available documents related to the project have been examined and a brief review on the same is prepared.

2. The country concerned has been contacted earlier to prepare all documents, field visits and interviews with authorities concerned as to avoid any loss of time preparing for such measures.

3. The country concerned has been informed in time about the date of arrival of mission and a reply is already received welcoming the proposed mission's schedule.

4. The official request by IDB Governor in the country concerned for IDB financing of the project is already received by the Bank.

5. Detailed terms of reference of the mission is already prepared by the mission members in consultation with the Section Heads involved.

6. The guidelines for appraisal of the project in case of appraisal missions will be taken by the mission for reference purposes.

7. Contacts are made with the foreign trade unit with the purpose of following-up any outstanding issues related to foreign trade operation, if any in the country concerned.

8. Contacts are made with the disbursement unit with the purpose of following-up any outstanding operational disbursement issues, if any in the country concerned.

9. Contacts are made with the Legal Department in case no Legal Officer is accompanying the mission in order to find out the necessary legal documents that will be required to be collected for them for examination.

10. Remarks, if any.

(b) Guidelines for Appraisal of an Industrial Project for IDB's Equity Participation

1. INTRODUCTION

2. BACKGROUND

2.1 Financial Features of the Country's Economy

(a) Brief analysis on:

- Principal geographical features viz. location, areas, population;

  - Economic features such as GNP/GDP, growth rate trend, output and productivity trend in major sectors, inflation, balance of payment, financial resource postion of the Government (domestic and foreign), debt service, money and capital market situation;

  - Economic Development policies and plans;

  - Investment climate and opportunities;

  - Resource mobilization capacity in the public and private sectors, saving and investment and domestic capital formation.

(b) Assessment of the economy's past performance and future outlook:

(required only for the first project in a country and should cover only the summarized conclusions from a detailed Economic Memorandum to be prepared separately for each country).

2.2 The Industrial Sector

Brief analysis on:

- Industrial policies in the private and public sectors;
- Domestic and foreign investment laws;
- Government Industrial Investment Schedule;
- Industrial sectoral Performance;
- Relevance and importance of the project to the Sector and the economy;

3. THE PROJECT

3.1 Objective, Scope and Coverage

- A brief description of the project with indication of scope and coverage and proposed capacity;

- State of readiness of project preparation and implementation;

- Detailed feasibility study and related reports on the project;

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- Project's effect on ecology and other environmental implications;

- Scope for future expansion.

3.2 Manufacturing Process

- Details of the technology selected, alternatives available and the capacity justification;

- Details of the major components including the major groups of equipment, plant and machinery.

3.3 The Market

- Market prospect for the product/products and by-product/by-products both at home and abroad.

3.4 Projected Supply and Demand

- Long range projection of demand and supply for the product/products and by-product/by products;

- Assessment of competition and the long range market outlook.

3.5 Distribution System and Prices

- Marketing Channels and contracts;

- Transportation arrangements;

- Pricing policies and structures;

- Production and related costs and selling cost both for domestic and foreign market.

3.6 Raw Materials & Utilities

- An assessment of present availability and future prospect and measures for future expansion if deemed necessary;

- An assessment of the present and future availability and water and power supply to the project;

3.7 Technical Justification

- An assessment of the technical soundness and the suitability of engineering and other needs of the project;

3.8 Capital Cost Estimate

- Detailed item-wise breakdown of cost estimate both in local and foreign currencies;

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- Basis of cost estimates* and provision for contingencies (both price and physical contingencies).

- Basis for indirect foreign exchange (if relevant) estimate.

3.9 Financial Plan

- Financial needs;

- Sources of Fund (equity, long-term loan, internal cash generation and short term fund to meet working capital requirement);

- Details of equity source and terms and conditions of equity (if relevant);

- Details of long term loans with source and terms and conditions;

- Details of the short-term fund with source and terms and conditions;

- Current status of commitment of funds (if any) or of negotiations with different institutions for the committed funds;

- Proposed measures to meet the financing gap and the outlook;

- Drawdown schedule and disbursement need.

4. PROJECT IMPLEMENTATION

4.1 The Executing Agency

- Principal executing agency and its relationship with the project Sponsors/Company.

- Minutes of the meeting of the Board and Resolution that may have a favourable or adverse effect on the Bank's Equity participation.

- Ownership details of the profile of the company with indication of capital structure, dividend and other operating policies,

- The legal and other status of the Company itself and the Memorandum and Articles of Association;

- Details of other equity holders and their background;

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* May include the custom duties, import and export surcharges. Government incentive measures including tax holidays need to be taken into account in cost estimate as well as in working out rate of return.

- The management structure and the details of the organization for implementation at both construction and operation phases;

- Management contact (if any) with foreign or local partner or expert bodies;

- Agreement or Contract with foreign Company for transfer of technology or patent right or advisory service, etc.

- Staff recruitment and training arrangement;

- Assessment of the operational arrangement for running the project.

4.2 Procurement and Implementation Arrangements

- Details of Procurement Procedures for the project;

- Supply and services arrangement;

- Maintenance facilities;

- Disbursement requirement as per work schedule.

4.3 Implementation Schedule

- Details of Project Implementation Schedule with major work plans/programmes.

4.4 Progress Report

- Detailed arrangement about progress reporting and the flow of information for proper monitoring.

5. FINANCIAL JUSTIFICATION

5.1 Accounts and Audit

- Audited Balance Sheet and financial statement for on-going project;

- Arrangem . for audit and proper accounts keeping.

5.2 Basis for financial projection

- Estimated life of the project;

- Assumptions about price, projected volume of sales and revenues;

- Sensitivity analysis of revenue and other parameters;

- Details of operating expenditures for 10 to 15 years;

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5.3 Financial Projection

Assessment of over-all financial standing of the project especially focussing on -

- Estimated balance sheet over few years;
- Estimated income statement over few years;
- comparative and analytical ratios (if relevant) covering the liquidity, operating efficiency and leverage aspects of the project;
- Cash flow statement;
- Profit and loss statement.

5.4 Financial rate of return

- Accounting rate of return for over-all investment in the project;
- Rate of Return on equity (after tax);
- Profitability indicators like breakeven production level and payback period (if relevant).

6. ECONOMIC ANALYSIS

6.1 International Economic Rate of Return

- Estimate of reate of return to the economy as a whole with clear and specific mention of the main assumptions.

6.2 - Employment and income generation, improvement of income distribution pattern, development of economically depressed areas and increase in the earning and saving of foreign exchange, etc.

6.3 General Benefits

- General impact on the economy as a whole;
- Non-quantifiable benefits;
- Impact on social aspects;

7. CONCLUSIONS AND RECOMMENDATIONS

8. ANNEXES

(c) GUIDELINES FOR APPRAISAL OF A LEASING/INSTALMENT SALE PROJECT

1. INTRODUCTION

2. BACKGROUND

2.1 General Features of the Economy

An assessment of the country's economy by analyzing the key economic indicators and data viz. trend in population growth, GNP growth, output and productivity trend in major productive sectors, inflation, balance of payment, financial resources position of the Government (domestic and foreign), debt service, liability, money and capital market situation, resources mobilization capacity in the public and private sectors, savings and investment and domestic capital formation.

2.2 Economic Development Policies, Strategies and Plans

(Required only for the first project in a country and should cover only the summarized conclusions from a detailed Economic Memorandum to be prepared separately for each country).

2.3 The Sector

Brief analysis on:

- The relevant sector, its present state and future plans;
- Critical role of the sector in the economic and social development of the concerned economy;
- Relevance and importance of the project to the sector and the economy.

3. THE SPONSORING AGENCY

3.1 Objectives and Activities

- Should include a description of the Government/Semi Government/ Autonomous or Private agency with its Charter and Statutory and operational responsibilities;
- Operational policies and procedures of the agency (if relevant);
- Whether Government approval is obtained for private sector project.

3.2 Organization Structure and Management

- Management Structure and details of the management organization;
- Assessment of the management ability of the sponsoring agency.

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3.3 Licensing arrangements and other incentives from the Government

- The details of the licence and other rights granted;
- Special privileges and other incentive elements granted or assigned to the project;
- Obtaining assurances about guarantee about repatriation of capital and rental.

4. THE PROJECT

4.1 General Description

- Feasibility study, other reports on the project;
- Details of the Operation, Scope and Coverage;
- Present status of preparation of the project;
- Project relationship with the economic sector/sectors;
- Location and infrastructure support facilities.

4.2 Technical Description

- Comprehensive Technical Specification;
- Technical process involved with indication of raw materials available (if relevant);
- Description of the major equipment and machinery meant for the project;
- Identification of the suitable item/items involved in lease with indication of make, source, price and other detai's;
- Full technical justification of the project including alternatives available and the capacity justification.

4.3 Project Cost Estimates

- Detailed item-wise breakdown of cost estimated in local and foreign currencies for the project/lease item;
- Basis of cost estimates* and provision for contingencies (both price and physical contingencies).
- Basis for indirect foreign exchange estimate (if relevant).

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* May include the custom duties, import and export sur-charges and the validity of price quotation, etc. Government incentive increases including tax holidays for the enterprise or exemption of import from import duties need to be taken into account in cost estimate as well as in working out the rate of return.

4.4 Financing Plan

The project as a whole

- Financing need for both foreign and local costs and sources of finance;
- Details of other funds as available with detailed terms and conditions;
- Current status of commitment of funds and of negotiations with prospective participants;
- Existing financing gap.

For the lease item/items

Details of the financing need for the lease item/items with breakdown of foreign and local currencies.

4.5 Procurement

- Analysis of source, price and methods and terms of delivery of the lease item/items;
- Registration and other detailed processes for ownership and subsequent transfer of ownership;
- IDB's involvement in the procurement process vis-a-vis the sponsoring/executing agency.

4.6 Executing Agency and Implementation

- A description of the executing agency and its relationship with the sponsoring agency/department (if relevant).
- Its organization and other administrative arrangements for execution and operation of the project. The quantity and quality of staff have to be assessed.
- Assessment of a suitable comprehensive insurance cover for the assets during the period of lease.
- Assessment of the sponsoring/executing agency's ability to purchase the assets at the end of the lease period.
- Assessment with regard to capacity utilization, maintenance needs an adequacy of operational arrangements related to running the projects.
- Disbursement Schedule tied up with procurement and delivery schedule.

...

5. FINANCIAL JUSTIFICATION

Advantages of leasing vis-a-vis other modes of financing.

- Assessment of overall financial rate of return for the project.

5.1 Financial Viability of the project

- Analysis of the projected cash flow for the enterprise/operations.
- Details of the generated revenue to be attributed to the lease item/items (if relevant) over the life of the project and the profit stream with clear cut bases*
- Details of the operating cost over the life of the project with clear cut bases*
- Net profit after tax related to period of recovery of capital and rental.

5.2 The Lease Proposals

- Explicit statement of the lease proposal with clear terms and conditions.

5.3 Profitability Aspect

- of the project
- of the owners
- of the IDB

will include an analysis of overall profitability aspects of the sponsors and IDB.

6. CONCLUSIONS AND RECOMMENDATIONS

7. ANNEXES

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* All the detailed bases of revenue earning (before and after tax) and operating costs have to be tabulated and the assumptions used need to be spelt out. Sensitivity tests (if any) used also need to be mentioned. Risk element (if any) need to be indicated.

Appendix-III

FORMAT OF APPRAISAL REPORT
(a) For Equity Participation in an Industrial Project

I. TABLE OUTLINING OPERATIONS CARRIED OUT IN THE COUNTRY CONCERNED.

II. SUMMARY OUTLINING MAIN FEATURES OF THE PROJECT

1. INTRODUCTION

2. BACKGROUND

2.1 Principal Features of the Country's Economy
2.2 The Industrial Sector
2.3 Growth & Contribution
2.4 Recent Major Developments & Future Prospects
2.5 Corporate Financing & Capital Market

3. THE COMPANY

3.1 Brief History of the Company
3.2 Ownership Structure
3.3 Management
3.4 Past & Current Operations (if any)
3.5 Audit Arrangement

4. THE PROJECT

4.1 Objective & the Scope
4.2 Project Description (design, plant site, layout, raw material, utilities)
4.3 Government Regulations & Incentives Subsidies (if any)
4.4 Manufacturing Process
4.5 Market Analysis
4.6 Projected Supply & Demand
4.7 Distribution System and Prices
4.8 Raw Materials & Utilities
4.9 Technical Justification
4.10 Capital Cost Estimates
4.11 Environmental Aspect
4.12 Energy Impact

...

5. PROJECT IMPLEMENTATION

5.1 The Executing Agency
5.2 Procurement & Implementation Arrangements
5.3 Implementation Schedule
5.4 Progress Reports

6. FINANCIAL JUSTIFICATION

6.1 Project Cost Estimates
6.2 Financing Plan
6.3 Accounts & Audit
6.4 Basis for Financial Projections
6.5 Financial Projections
6.6 Financial Rate of Return

7. ECONOMIC ANALYSIS

7.1 Internal Economic rate of Return
7.2 Economic Justification
7.3 Project Benefits

8. SENSITIVITY ANALYSIS & SENSITIVITY INDICATORS

9. RISKS

8.1 To the Bank the Company covering foreign exchange devaluation, management, commercial and technological aspects,

10. ISSUES

11. CONCLUSION AND RECOMMENDATIONS

11.1 Main Features of Govt. Industrial Development Strategy
11.2 Industrial Sector
11.3 Corporate Financing & Capital Market
11.4 Curriculum Vitae of Key Personnel of Management
11.5 Balance Sheets (past and projected)
11.6 Income Statements (past and projected)
11.7 Sources and Application of Funds (past and projected)
11.8 Assumptions for Projection
11.9 Financial Ratios
11.10 Assumptions - Financial & Economic Rates of Return and other Benefits.

...

FORMAT OF APPRAISAL REPORT PREPARATION
(b) Leasing/Instalment Sale

I. TABLE OUTLINING OPERATIONS CARRIED OUT IN THE COUNTRY CONCERNED.

II. SUMMARY OUTLINING MAIN FEATURES OF THE PROJECT.

1. INTRODUCTION

2. BACKGROUND

   2.1 General Features of the Economy
   2.2 The Development Strategy
   2.3 The Industrial Sector
   2.4 Supply & Demand Analysis
   2.5 Prices & Distribution Structure.

3. THE EXECUTING AGENCY

   3.1 Objectives & Activities
   3.2 Organization Structure & Management
   3.3 Licencing Arrangements & Other Incentives from the Government

4. THE PROJECT

   4.1 General Description
   4.2 Technical Description & Production Process - Specification of the object of Lease.
   4.3 Project Cost Estimates
   4.4 Financing Plan
   4.5 Procurement
   4.6 Implementation
   4.7 Revenues & Incomes Streams
   4.8 Insurance

5. FINANCIAL JUSTIFICATION

   5.1 Financial Viability of the Project
   5.2 The Lease Proposal
   5.3 Profitability Aspects - Of Project
       - Of Project Owners
       - Of the IDB

6. CONCLUSIONS AND RECOMMENDATIONS

7. ANNEXES

APPENDIX-IV

INDUSTRIAL PROJECTS
EQUITY PARTICIPATION

SUBSCRIPTION AGREEMENT

BETWEEN

THE ISLAMIC DEVELOPMENT BANK, JEDDAH

AND

____

____

SUBSCRIPTION AGREEMENT

THIS AGREEMENT is made on ______________________________ 140 H, corresponding to ______________________________ 198 between, The Islamic Development Bank (hereinafter referred to as the "Bank") and ______________________________, a Company incorporated and existing under the Laws of ______________________________ (hereinafter referred to as the "Company".

(A) WHEREAS, the Government of ________________ has requested the Bank to extend financing to the Company by way of equity participation;

(B) WHEREAS, the Company has been incorporated to establish and run the Project described in Annexure-I to this Agreement;

(C) WHEREAS, the Bank is satisfied that the Project is technically sound and economically and financially viable;

(D) WHEREAS, in the light of the Recommendations of the President of the Bank, the Board of Executive Directors of the Bank vide its Resolution No.________ approved the participation by the Bank in the capital of the Company in the amount of (local currency) ________ (approximately equivalent to ________) to acquire (number) of the Company's Shares on the terms and conditions hereinafter set forth.

NOW IT IS HEREBY AGREED AS FOLLOWS:

ARTICLE - I

Section 1.01 Definitions

Whenever used in this Agreement, unless the context otherwise requires, the following terms shall have the following meanings:

(a) "Shares" means the shares of the Company with a par value of (local currency) per share, all of one class and ranking pari passu inter se;

(b) "   " means ________________ in the currency of and the sign "________"

(c) "Bank Shares" the Shares to be subscribed by the Bank pursuant to this Agreement and includes any additional Shares the Company may offer to the Bank for subscription and the Bank agrees to subscribe therefor;

(d) "Disbursement" the disbursement of the value of Bank Shares under this Agreement;

(e) "Project" the Project described in Annexure-1 to this Agreement;

(f) "Financial Plan" the Financial Plan described in Annexure-II to this Agreement;

...

(g)	"Prospective Lenders"	the Prospective Lenders enumerated in the Financial Plan;
(h)	"Prospective Shareholders"	the Prospective Shareholders enumerated in the Financial Plan;
(i)	"Suppliers Credit"	the Suppliers Credit to be made available to the Company by the persons enumerated in the Financial Plan;
(j)	"Financial Year"	the period of twelve months adopted by the Company for accounting purposes starting on ________________ in any year and ending on _____________ or any other period approved by the Company.

ARTICLE - II
AGREEMENT FOR SUBSCRIPTION

Section 2.01

(a) The Company offered for subscription and the Bank agreed, subject to the terms and conditions herein set forth, to subscribe and pay at par the Bank Shares, namely, a total of (number) (number in wroting) shares, a total of (local currency amount in numbers) (local currency in writing)

(b) Payment of the value of the Bank Shares shall be made by the Bank in accordance with the call or calls as may from time to time be made by the Board of Directors of the Company in accordance with the Articles of Association of the Company an with due regard to the progress of work in the project.
Provided that:

(i) The Bank shall only be required to pay for the Bank shares at the same time and in the same proportion as is applicable to the other shareholders. Every call for payment from the Bank shall be accompanied by a certificate signed by the Managing Director of the Company or any other official of the Company duly authorized to act on its behalf confirming that the call complies with this requirement;

(ii) Notice for payment must have been delivered to the Bank at least 21 days prior to the proposed date of payment specified in the call. Such notice shall specify the name and address of the Bank in_____________(place)_____________ and the account number in the name of the Company with such bank to which payments shall be made;

...

(c) The Company may require the Bank to pay for the Bank shares in any convertible currency of its choice, and the bank shall make such payment at the rat of exchange between that currency and the _______(local currency) ________ prevailing at the time of disbursement;

(d) Upon each disbursement being made by the Bank to the Company, the Company shall issue to the Bank, a Share certificate or certificates or interim Share certificate or certificates in respect of the number of Shares paid for by the Bank evidencing valid title to such Shares such certificate or certificates to be endorsed with the amount per Share paid by the Bank. Each such Shares is to rank in pari passu in all respects with all other Shares of the Company;

(e) Upon full payment by the Bank of the full par value of the Bank Shares, the Company, if requested by the Bank, shall cause the Share certificate or certificates referred to in paragraph (d) of this sub-section to be replaced without cost to the Bank, with a Share certificate, showing on the face thereof, payment in full of the par value of the Bank Shares to which such certificate or certificates relate;

(f) Upon request by the Bank, the Company shall furnish without cost to the Bank a legal opinion from a reputable and recognized firm of Advocates in ________ (place) ________ certifying that all legal, corporate and other official formalities relating to the issue of the Bank Shares or the certificates or interim certificates relating thereto have been complied with;

Section 2.02

Until all of the Bank Shares have been subscribed or the subscription is suspended or cancelled as provided for under Section 2.03 of this Article whichever may occur first, the Company shall not unless the Bank shall otherwise agree:

(a) issue any Shares, except in accordance with the provisions of this Agreement,

(b) increase its authorized capital except in accordance with the provisions of this Agreement;

(c) change the par value of, or the rights attached to, any of the Shares, or

(d) take any other action by amendment of its Articles of Association or by-laws, if any, or through reorganization, consolidation, sale of capital stock, merger or sale of assets, or otherwise which might result in a dilution of the interest in the Company represented by the Bank Shares.

...

Section 2.03

The Bank may, by notice to the Company suspend or cancel the right of the Company to the subscription and to disbursements thereunder as follows:

(a) If the Company is in breach of any of its obligations under this Agreement;

(b) If any representation or warranty made by the Company herein, or any information given or document or certificate delivered by it in connection with the execution of this Agreement, or the Bank Shares, or in connection with any request for disbursement hereunder, shall be found to have been incorrect in any material respect and shall continue to be incorrect for a period of 30 days after notice thereof shall have been given to the Company by the Bank;

(c) If any of the Prospective Shareholders enumerated in the financial Plan fails to subscribe in the Capital of the Company the amount specified against his name in the said Plan unless the Company furnishes evidence satisfactory to the Bank that other shareholders acceptable to the Bank have subscribed in the Capital of the Company the proportions that the said Prospective Shareholders have failed to subscribe.

(d) If any of the Prospective Lenders or providers of Suppliers' Credit enumerated in the Financial Plan fails to make a binding legal commitment to provide the amounts of funds specified against his name in the said Plan, or, if he has already executed an agreement with the Company relating thereto, cancels such agreement unless the Company furnishes evidence satisfactory to the Bank of the alternative measures it has taken or intends to take to bridge the financial gap created by such failure or cancellation;

(e) If, at any time in the reasonable opinion of the Bank there shall existing any situation which indicates that performance by the Company of its obligations under this Agreement cannot be expected.

Upon the giving of such notice, the right of the Company to the Subscription shall be suspended or cancelled as the case may be. The exercise of the Bank of its right of suspension shall not preclude the Bank from exercising its right of cancellation as provided herein, either for the same or another reason, and shall not limit any other provision of this Agreement.

ARTICLE - III
OBLIGATIONS OF THE COMPANY

Section 3.01

(a) The Company shall as long as the Bank remains a shareholder in the Company reserve a seat for the Bank in the Board of Directors of the

Company and, if the percentage of the Bank's subscription in the Capital of the Company entitles it for more than one seat in the Board of Directors of the Company, shall reserve to the Bank the additional seats to which the percentage of its participation in the Capital of the Company entitles it, and the Company hereby undertakes that:

(i) The Bank shall be accorded the right to appoint the Director or Directors to fill the seat or seats reserved for it in the Board of Directors of the Company in accordance with Sub-Section (a) of this Section, and to replace any of them at any time without assigning any reason. The Company further undertakes that the Bank will be accorded the same right where the Office of a Director appointed by the Bank falls vacant under the Articles of Association of the Company or where he is disqualified from holding office for any reason;

(ii) The Director or Directors appointed by the Bank at any time shall hold office for the full term of office for a Director as laid down in the Articles of Association of the Company, and shall not be subject to any provision in the Articles of Association of the Company relating to removal of Directors by any organ of the Company, share qualification for holding the Office of Director or rotation of Directors, but shall otherwise be subject to the same duties and shall enjoy the same rights and privileged to which other Directors of the Company may be entitled to from time to time;

(b) If the performance by the company of the obligations it has undertaken under this Section requires the amendment of the Articles of Association of the Company or any other constitutive document of the Company or its By-Laws (if any), the Company hereby undertakes to make all the necessary amendments to enable the Company to perform these obligations and inform the Bank of the same before making any call on the Bank in respect of the payment of the value of the Bank Shares.

<u>Section 3.02</u>

Unless the Bank shall otherwise agree, the Company shall:

(a) Carry out the Project and conduct its business with due diligence and efficiency and in accordance with generally accepted engineering, financial and business practices; and shall carry out the Project in accordance with the Financial Plan and cause the financing specified in the Financial Plan to be applied exclusively to the Project;

(b) maintain records and procedures adequate to monitor the progress and cost of the Project;

(c) promptly inform the Bank of any circumstances that interferes or threatens to interfere in a material manner with the carrying out of the Project or which will increase or threaten to increase materially the estimated cost of the Project;

...

(d) at the request of the Bank furnish to the Bank promptly all programmes, plans, specifications, reports and contract documents relating to the Project or any part thereof in such detail as the Bank may reasonably require;

(e) within 60 days after the end of each quarter of each Financial Year furnish to the Bank a Project Status Report substantially in the form attached in Annexure-III hereto on the implementation and progress of the Project (showing inter alia actual costs of work performed against estimated costs thereof and showing the status of actual funds statement in comparison to projections as well as an updated implementation schedule, highlightening any problems and bottlenecks thereof) and on factors materially affecting or likely materially to effect the Company's business.

(f) promptly after completion of the Project prepare and furnish to the Bank a completion report of such scope and in such detail as the Bank may reasonably request on the execution and initial operation of the Project;

(g) promptly inform the Bank of any proposed change in the nature or scope of the Project or business operations of the Company;

(h) give notice to the Bank by telex equivalent to not less than any applicable notice period provided for under the Articles of Association of the Company of the calling of any meeting of the Board of Directors or the shareholders of the Company indicating the agenda thereof, and shall promptly transmit to the Bank and by the most expeditious mode the reference documents pertaining to the agenda of the said meetings;

(i) furnish to the Bank copies of all reports and communications from time to time sent to the Company shareholders or to the members of its Board of Directors, and copies of the minutes of all meetings of the shareholders and the Board of Directors of the Company;

(j) furnish to the Bank such other information as the Bank may from time to time reasonably request.

Section 3.03

The Company agrees and undertakes that as long as the Bank remains a Shareholder in the Company:

(a) it will procure that its accounts for each Financial Year are audited by a reputable and independent firm of auditors satisfactory to the Bank;

(b) as soon as they are available and in any case within 120 (one hundred and twenty) days after the end of each Financial Year of the Company, furnish to the Bank two copies of the audited accounts of the Company for such year together with two copies of the auditors' report thereon and any documents referred to therein;

...

(c) it will furnish to the Bank copies of any other report or communication received by the Company from its auditors relating to the financial position or affairs of the Company which are of a material nature. The Company shall authorize its auditors to communicate directly with the Bank at any time regarding the Company's accounts and operations.

(d) at least one month before the beginning of each Financial Year of the Company two copies of each of the Company's projected balance sheet at the beginning and end of such Financial Year and the programme upon which it is based, an estimated trading and profit and loss account for the year and a statement showing the estimated source and application of funds of the year;

(e) it will permit duly authorized representatives, agents and the staff of the Bank at any time and from time to time during the Company's normal business hours to have access to and to inspect the Company's fixed assets, books of accounts and related documents and will permit them to take extracts from any such books and documents as aforesaid;

(f) it will insure and keep insured its assets and business with a reputable insurance company against all risks normally insured against in respect of assets and a business of a similar nature such insurance to be effected in such manner and to such value as may be generally accepted in conformity with sound business practice;

(g) it will promptly inform the Bank of the happening of any material adverse change in the financial condition of the Company or any event likely to lead to such a change;

(h) when it is permissible to do so, it will re-evaluate its assets whenever devaluation of the local currency is deemed to have a material effect on the value of the assets.

ARTICLE - IV
NEGATIVE COVENANTS

Section 4.01

The Company shall not procure any goods from South Africa or Israel nor shall it deal with any supplier of goods or services in contravention of the Boycott Regulations of the Organization of African Unity and the Arab League regarding the Boycott of South Africa and Israel.

Section 4.02

Unless the Bank otherwise agrees, the Company shall not:

(a) change the nature of the scope of the Project or of its intended business, increase its authorized capital, or sell, transfer, lease or otherwise dispose of all or a substantial part of its capital assets, or undertake or permit any merger, consolidation or reorganization;

...

(b) enter into any agreement or arrangement to guarantee, or in any way or under any condition, to become obliged for all or any part of the debts of another;

(c) enter into any agreement for any purpose with any entity or person in which the Company is aware that any Director of the Company has a direct or indirect material interest;

(d) purchase, redeem or otherwise acquire any shares in its capital or any option over the same.

ARTICLE - V
WARRANTIES AND REPRESENTATIONS

Section 5.01

The Company warrants and represents as follows:

(a) that it is a Limited Liability Company duly incorporated under the laws of ________________ and has the corporate power to own its assets and property, to carry out its business, to implement and carry out the Project and to enter into this Agreement;

(b) that this Agreement has been duly authorized, executed and delivered by the company and constitutes valid and binding obligations of the Company enforceable in accordance with its terms;

(c) that neither the making of this Agreement nor the compliance with its terms will conflict with or result in a breach of any of the terms, or conditions of any contract or other undertaking binding on the Company, or violates any of the terms or provisions of the Company's Articles of Association or any judgement, decree or order, or any statue, rule or regulations applicable to the Company.

(d) that it is not engaged in any significant litigation or arbitration proceedings and is not aware of any facts likely to give rise to any significant litigation proceedings.

ARTICLE - VI
CONDITIONS OF DISBURSEMENTS

Section 6.01

Without prejudice to the provisions of Section 2.03, the obligation of the Bank to make the first disbursement shall be subject to the performance by the Company of all its undertakings theretofore to be performed under this Agreement, to the disbursement being related to the implementation of the Project, and to the fulfillment, to the satisfaction of the Bank prior to or concurrently with the request for such disbursement of the following conditions:

...

(a) the Company shall have furnished to the Bank copies of the following documents duly certified;

- (i) The Memorandum of Association of the Company;
- (ii) The Articles of Association of the Company;
- (iii) The by-laws of the Company (if any);
- (iv) The Certificate of Registration of the Company;
- (v) Minutes of the meeting of the Board of Directors of the Company in which the call for disbursement was made;

(b) the Company shall have furnished to the Bank, not later than four weeks before it calls upon the Bank to make the first disbursement, evidence showing that each of the Prospective Lenders and the providers of Suppliers of Credit enumerated in the Financial Plan has made a legally binding commitment to provide the Company with the funds shown against his name on the said plan on terms acceptable to the Bank. As part of this evidence the Company shall furnish to the Bank two copies of the agreement or agreements concluded with the Company by each of the aforesaid;

(c) the Ccmpany shall have furnished to the Bank the latest Project Status Report referred to in Section 3.02(e) of this Agreement;

(d) the Company shall have furnished to the Bank evidence that the Capital of the Company, other than the part subscribed by the Bank, has been fully subscribed by the Prospective Shareholders enumerated in the Financial Plan or other shareholders acceptable to the Bank and in the proportions shown in the said Financial Plan;

(e) the Company shall have certified to the Bank that all the shareholders, other than the Bank, have paid in cash at par on each f the Shares they have subscribed an amount not less than the amount the Bank is being called upon to pay in respect of each of the Bank Shares, or have made legally enforceable commitments to pay the same on or before the last date specified for payment in the notice for the call;

(f) the Company shall certify to the Bank that it has reserved for the Bank a seat or seats in the Board of Directors of the Company in conformity with the terms and conditions provided for in Section 3.01 of this Agreement and that all necessary corporate actions required to enable the Bank to exercise the rights stipulated in the said section have been duly taken;

(g) the Company shall have furnished to the Bank sufficient evidence of the authority of the person or persons who will sign the disbursement requests under this Agreement or who will on behalf of the Company take any other action or execute any other documents required or permitted to be taken or executed by the Company under this Agreement, and the authenticated specimen signature of each such person.

...

Section 6.02

Without prejudice to the provisions of Section 2.03, the obligation of the Bank to make any subsequent disbursement shall be subject to the performance by the Company of all its undertakings theretofore to be performed under this Agreement, to the disbursement being related to the implementation of the project, and to the fulfillment, to the satisfaction of the Bank prior to or concurrently with the request for such disbursement of the following conditions:

(a) the Company shall have delivered to the Bank or to such depository as the Bank may designate share certificate or certificates or interim share certificate or certificates in respect of Shares paid for by the Bank in conformity with the provisions of Section 2.01(d);

(b) the Company shall have furnished to the bank a duly certified copy of the minutes of the meeting of the Board of Directors of the Company in which the call for disbursement was made;

(c) the Company shall have certified to the Bank that all the shareholders, other than the Bank, have paid in cash at par on each of the Shares they have subscribed an amount not less than the amount the Bank is being called upon to pay in respect of the Bank Shares, or have made legally enforceable commitments to pay the same on or before the last date specified for payment in the notice for the call;

(d) the Company shall have furnished to the Bank the latest Project Status Report referred to in Section 3.02(e) of this Agreement.

ARTICLES - VII
RIGHT OF THE BANK TO SELL ITS SHARES

Section 7.01

The bank retains the right to sell the Bank Shares to any person on such terms and conditions as it may consider appropriate. The bank hereby agrees that it will not sell any part of the Bank Shares to a non-national of______________________________except with the consent of the Government of______________________________.

ARTICLE - VIII
EFFECTIVENESS OF THE AGREEMENT

Section 8.01

This Agreement will not become effective until:

(a) The Government of________________________________ shall have executed with the Bank a Guarantee Agreement in respect of the repatriation of the dividends and sale proceeds of the Bank Shares in conformity with Articles 25, 53, 56 and 59 of the Articles of Agreement Establishing the Bank and on such other terms and conditions as the Bank deems proper;

...

(b) The Company shall have furnished to the Bank a Legal Opinion from the Legal Counsel of the Company certifying that the signature, execution and delivery of this Agreement have been duly authorized or ratified by all necessary corporate action. The Opinion should also certify that this Agreement constitutes a legally binding, and enforceable obligation of the Company in accordance with its terms.

(c) Any other conditions stipulated by the Board of Executive Directors.

ARTICLE - IX
SETTLEMENT OF DISPUTES AND APPLICABLE LAW

Section 9.01

The parties hereto shall endeavour to settle amicably any dispute regarding the interpretation or implementation of this Agreement. Any dispute that cannot be resolved amicably shall be referred to arbitration in accordance with the Arbitration Procedures set out in Section 9.04 of the Islamic Development Bank's General Conditions applicable to Loan and Guarantee Agreements dated 8th November, 1976. References therein to the "Borrower" shall be construed as reference to the Company.

Section 9.02

This Agreement shall be governed and construed in accordance with the laws of ________________________.

ARTICLE - X
MISCELLANEOUS PROVISIONS

Section 10.01

Failure of the Bank to exercise or assert any of its rights under this Agreement or its delay in the same or its failure to exercise or assert any remedy it may have against the Company or its delay in the same, shall not prejudice such right or remedy and shall not be construed as a waiver of such right or remedy.

Section 10.02

(a) This Agreement shall remain in full force and effect as long as the Bank remains a Shareholder in the Company;

(b) This Agreement shall bind and insure to the benefit of the respective successors of the parties hereto.

...

Section 10.03

Any notice or request required or permitted to be given or made under this Agreement to any of the parties hereto shall be in writing and such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand, mail, cable or telex to the party to which it is required or permitted to be given or made at such party's address specified below or at such other address as the party to whom such notice or request is required or permitted to be given may designate by notice to the party giving the notice or making the request.

For the Bank:
Postal: Islamic Development Bank
P.O.Box 5925, Jeddah 21432
Kingdom of Saudi Arabia
Cable: BANKISLAMI - JEDDAH
Telex: 401137 ISDB SJ

For the Company:
Postal:
Cable :
Telex :

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed on the day and year first above written.

FOR AND ON BEHALF OF THE ISLAMIC DEVELOPMENT BANK	FOR AND ON BEHALF OF THE COMPANY__________

OP46/04

ANNEXURE - I

THE PROJECT

(A) Description of the Project

(B) Estimated Costs of the Project

ANNEXURE - II

FINANCIAL PLAN