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ABBREVIATIONS

ALBA	Aluminium Bahrain
ABC	Arab Banking Corporation
AFESD	Arab Fund for Economic and Social Development
AIIC	Arab Industrial Investment Company
AIB	Arab Investment Bank (Egypt)
AISCO	Arab Iron and Steel Company
ARMICO	Arab Mining Company
BLICO	Bahrain Light Industries Company
DIB	Development Industrial Bank of Egypt
GAFI	General Authority for Investment and Free Zones (Egypt)
GCC	Gulf Co-operation Council
GOFI	General Organization For Industrialization (Egypt)
GOSI	General Organization for Social Insurance (Bahrain)
GARMCO	Gulf Aluminium Rolling Mill Company (Bahrain)
GIB	Gulf International Bank
IBK	Industrial Bank of Kuwait
IBY	Industrial Bank of Yemen
IDB (Jordan)	Industrial Development Bank of Jordan
IIC	Industrial Investment Company (Kuwait)
IMF	International Monetary Fund
ISDB	Islamic Development Bank
KFAED	Kuwait Fund for Arab Economic Development
LDC	Least developed country
NIC	National Industrialization Company
ODB	Oman Development Bank
SIDF	Saudi Industrial Development Fund
YBRD	Yemen Bank for Reconstruction and Development
YCIF	Yemen Company for Investment and Finance

INTRODUCTION

This study is concerned with the sources of finance available to the manufacturing sector and the role of financial institutions in financing industrial investment. It deals with financing policy as well as the performance of financial intermediaries in meeting the requirements of an expanding manufacturing sector. The study aims at identifying the ways and means of raising additional funds for financial institutions and channelling these funds to the manufacturing sector in order to enhance industrial development.

The manufacturing sector has been given increasing importance in the development plans of most ESCWA countries. The huge financial resources derived from oil production and the economic boom that characterized the region in the 1970s enabled oil countries as well as non-oil countries to launch large investment programmes. Furthermore, the last decade witnessed a considerable growth in the number of financial intermediaries and a great expansion of those in existence. On the one hand, several specialized financial institutions - industrial and development banks - were established with the aim of dealing with the financing and development of the industrial sector, and in addition a number of investment institutions were created at the country and regional level. On the other hand, the region witnessed a rapid expansion of commercial banks, as well as of Arab national and regional development financial institutions. Hence, various sources of finance have been made available to meet the needs of the large investment programmes launched by member countries.

This study examines the trends in manufacturing investment over the last decade, including a review of government measures to promote industrial investment. It reviews the sources of finance available and their contribution to industrial financing. Financing policy, as well as the performance of the various financial institutions with regard to the manufacturing sector, are also analysed. Particular attention is given throughout the study to the problems faced by the manufacturing sector in mobilizing financial resources. The identification of these problems helps in the formulation of recommendations on the ways and means to raise additional financial resources and their channelling into industrial development.

The study was based on desk work as well as field work. The desk work covers all ESCWA countries for which data were available. The field work covers selected countries: Jordan, the Syrian Arab Republic, Egypt, the Yemen Arab Republic, Kuwait and Bahrain. These countries were selected according to the following criteria:

(1) The first four countries have limited financial resources and are the major receivers of funds from Arab (mainly GCC) and international sources;

(2) The last two countries are among the most important financial centres in the GCC. They have developed financial institutions: commercial banks, investment institutions and regional funds. In addition, Kuwait has a well developed industrial bank, while Bahrain is the sole GCC country that does not have a specialized industrial or development bank;

(3) The countries selected belong to the three groupings: oil countries (Kuwait, Bahrain), diversified economies (Jordan, Egypt, Syrian Arab Republic) and the least developed countries (Yemen Arab Republic).

(4) The selected countries represent the free market economy (Jordan, Kuwait, Bahrain and the Yemen Arab Republic), the controlled market economy (Syrian Arab Republic) and the semi-oriented market economy (Egypt).

The study comprises six chapters:

Chapter I	:	Manufacturing investment: trends, promotion policies and measures;
Chapter II	:	Resources and financing policy of the specialized financial institutions;
Chapter III	:	Contribution of commercial banks and investment institutions to industrial finance;
Chapter IV	:	Government and private financing;
Chapter V	:	Arab and foreign financing;
Chapter VI	:	Conclusions and recommendations.

Chapter I deals with Government and central bank policies to promote investment in manufacturing, and the trends in investment allocations to the manufacturing sector over the last decade. Emphasis is placed on the investment needs of the sector during the current planning cycle.

Chapter II examines the capital structure and resources of the specialized financial institutions - industrial and development banks - as well as their policies concerning loan and equity financing.

Chapter III assesses the place of manufacturing in commercial bank lending, and the role of the banks in financing the working capital requirements of industrial establishments, as well as their contribution to project financing. It also examines the role of investment institutions in the promotion of industrial projects and in financing the equity capital of industrial enterprises at the regional, subregional and country level.

Chapter IV is concerned with the extent to which ESCWA Governments participate directly in the financing of the manufacturing sector, and deals with the role of the private sector in industrial investment, including the problems faced in the mobilization of financial resources.

Chapter V examines the financial flows of Arab national and regional development institutions to the manufacturing sector, as well as the financing policy of these institutions. This part is also concerned with trends in foreign financing and the relative importance of foreign investment in the manufacturing sector.

Chapter VI which concludes the study, identifies and recommends ways and means of raising additional financial resources for financial institutions, as well as the ways and means of channelling these resources to the manufacturing sector.

I. MANUFACTURING INVESTMENT: TRENDS, PROMOTION POLICIES AND MEASURES

A. Policies and measures to promote investment in manufacturing

Most ESCWA countries have issued laws or regulations with respect to encouraging of local, Arab and foreign investment in manufacturing activities. In addition to the promotional role of central banks, manufacturing investment is encouraged mainly through fiscal incentives. In some countries such as Jordan and the Yemen Arab Republic, Arab and foreign investment receive treatment similar to that given to local investment; in others, incentives vary according to certain conditions and criteria.

1. Role of central banks in industrial financing

The encouragement of investment in manufacturing activity through the monetary and financial policies of central banks is limited in the ESCWA region.

In Jordan, the monetary policy pursued by the Central Bank aimed at encouraging domestic investment in developmental projects. For this purpose the Central Bank decreased the legal reserve ratios, from 7 to 6 per cent on saving deposits, and from 10 to 9 per cent on demand and inter-bank deposits. In 1984, it requested commercial banks to invest 15 per cent of their capital and reserves in the stock of public shareholding companies.[1/]

The Central Bank also pursued a policy of refinancing part of commercial banks' syndicated loans. This policy consists of providing advances of up to 30 per cent of the amount of syndicated loans to commercial banks. Such advances are long-term loans provided at a low interest rate, 5.5 per cent. Syndicated loans are exempted from the required credit deposit ratio of 70 per cent, and are guaranteed by the Government.

The long-term lending extended by commercial banks also enjoys the same exemption, provided lending is oriented towards developmental projects, in accordance with the country's development plan. Loans must exceed 5,000 Jordanian dinars (JD), and must be extended for a minimum of three years.

With regard to exports, the Central Bank pursued a policy of promotion and the encouragement of exports by providing soft loans to exporters through commercial banks. The interest rate borne by commercial banks is 5 per cent, while exporters are charged and additional half a per cent, that is 5.5 per cent, which is considered to be a subsidy since it is well below the commercial rate. These loans are guaranteed by the Government. The maturity of the loan ranges from six months to 18 months, while its size is between 60 and 80 per cent of the total value of exports. In addition, the Central Bank can provide full financing for exports when they are undertaken with countries possessing bilateral payment agreements with Jordan.

1/ Jordan, Central Bank of Jordan, Department of Research and Studies, Twenty-first Annual Report 1984 (Amman).

The Bahrain Monetary Agency (BMA) plays a limited role in facilitating financing industrial development. Only in a few cases has the Agency encouraged such financing; for example, the BMA managed and guaranteed the loan granted by commercial banks to Aluminium Bahrain (ALBA) to finance the company's working capital. In this case, the Agency offered to the lending banks the possibility of reducing their deposits in legal reserves by 5 per cent of the loan. In addition, the banks are able to acquire liquidity from BMA whenever they have a need for cash. In other cases, BMA provided guarantees for loans, such as that for the offshore banks which financed the Government's purchase of the refinery from foreign companies in 1980. The main measure adopted recently by BMA is the reduction of the lending rate from 10 to 7.5 per cent in order to match the world decline in interest rates. Such a measure will reduce the cost of loans made available for economic and industrial projects.

In Egypt, monetary policy is aimed at promoting and mobilizing domestic savings and providing the necessary finance for projects within the framework of the economic and social development plans. The mobilization of domestic savings is undertaken mainly through creditor interest rates that have increased gradually over recent years, now ranging from 5 per cent a year for deposits of 7-15 days, to 11 per cent a year for deposits of one to two years, and 13 per cent a year for deposits of five years or more. By this measure the Central Bank of Egypt aims at increasing time deposits, especially those with longer maturities, and also at providing cheaper credit facilities for developmental projects. In fact, this measure was accompanied by an amendment issued by the Central Bank in November 1983, which placed a ceiling of between 11 and 13 per cent on interest rates for loans extended by banks for agricultural and industrial projects. Thus, agricultural and industrial projects were encouraged and subjected to lower interest rates than those charged on the services sectors (13-15 per cent), and on commercial loans which are subject to a minimum of 16 per cent, without a ceiling. The most important measure to be adopted recently by the Central Bank is the removal of all restrictions concerning the exchange rate and foreign currency holdings. The exchange rate is thus fixed under free market conditions.

In the Yemen Arab Republic in 1984, the Central Bank raised the reserves ratio of commercial banks from 10 per cent to 20 per cent; it is applied on demand and time deposits not exceeding nine months. Deposits in foreign currency were excluded. The objective of this measure was to encourage longer maturities and foreign currency deposits, thus enabling the banks to provide long-term lending for developmental projects. As in Egypt, the interest rate on loans extended to the industrial sector ranges between 11-13 per cent, 4 per cent below the commercial rate.

2. Encouragement of local capital investment in manufacturing

The encouragement of manufacturing investment in most ESCWA countries is applied through two main forms of fiscal incentives: (a) exemption from, or a reduction in customs duties on the machinery, equipment and spare parts needed for a project; (b) exemption from income tax (tax holidays). Tax incentives vary among ESCWA countries and, more particularly, between GCC and other ESCWA countries.

(a) Tax incentives for imports of fixed assets

In Saudi Arabia, Kuwait, the United Arab Emirates and Qatar, imports of the raw materials, intermediate and capital goods needed for an industrial project are fully exempted from duties, without a time-limit. However, in Kuwait, the tariff exemption on raw materials and semi-finished goods is limited to five years starting from the commencement of production. Exemption may be extended for an additional five years in cases where profits are less than 15 per cent of the paid-up capital. However, the Kuwait Ministry of Industry can exempt certain strategic export industries from customs duties for periods exceeding ten years.

In contrast, Bahrain and Oman provide tax incentives in accordance with certain criteria. In Bahrain, although full exemption from customs duties is applied to industries established in specific industrial zones, projects in other areas are examined on a case by case basis by the National Industry Protection and Support Committee, formed under the provisions of legislative decree No. 11 of 1985 on "National Industry Protection and Support". The Council of Ministers, upon a recommendation from the Committee, may grant total or partial fiscal exemption, according to certain criteria such as the profitability of the project, whether it is an import-substitution or export-oriented project, or creates job opportunities, especially for Bahraini manpower.

In Oman, the nature of the project in terms of its fulfilment of national development priorities constitutes the main criterion for granting partial or full exemption from customs duties.

It should be noted that attempts are being made in GCC countries to standardize the level of tax incentives.

In Jordan, the Encouragement of Investment Law No. 53 of 1972, and its amendment Law No. 6 of 1984 provide tax incentives for projects established in various economic sectors, including manufacturing. The level of incentives varies according to two main factors: (a) the size of the capital invested; and (b) the geographical location of the project. The Law distinguishes between two categories of projects: "economic" and "approved economic" projects. It divides Jordan into three development regions (A, B and C), according to their level of development, with region C being the least developed and the most favoured region. An industrial project is considered to be "economic" when its fixed assets are not less than JD 30,000 in region A, JD 20,000 in region B, and JD 10,000 in region C. It is considered to be an "approved economic" project when fixed assets are not less than JD 100,000 in region A, JD 50,000 in region B and JD 25,000 in region C.

Law No. 6 of 1984 provides more generous incentives for an "approved economic" project than for an "economic" project. This means that the Law favours the establishment of medium- and large-scale industries and discourages the establishment of small and cottage industries.

The fixed assets and spare parts of an "approved economic" project are exempted from customs duties for five years starting from the date of commencement of production, while the period of exemption is limited to three years in the case of an "economic" project. In cases of expansion, the Law does not provide any exemption from customs duties on fixed assets. However, according to the draft amendments to the Law of 1984 which have been prepared but have not yet been approved by the Government, it is anticipated that the equipment and spare parts imported for expansion will be exempted from customs duties. Another amendment aims at extending the period of exemption from customs duties of imports of spare parts for a new project from five to ten years.

In the Syrian Arab Republic, imports of the machinery and equipment needed for an industrial project are exempted from customs duties. This exemption is also granted in Iraq to new industrial projects.

In Egypt, Law No. 43 of 1974, and its amendment Law No. 32 of 1977 concerning "investment of Arab and foreign capital" provide projects owned entirely by Egyptian nationals with the same privileges and exemptions that are granted to Arab and foreign capital.1/ The Government has also encouraged investment in the six new industrial cities created in the Cairo suburbs and in other regions of Egypt. Since January 1986, the industrial projects established on these estates also benefit from certain incentives: a reduction of customs duties on machinery and equipment to 5 per cent.

In the Yemen Arab Republic, Law No. 18 of 1975 on the promotion and organization of investments and Decree Law No. 20 of 1976 on the organization and encouragement of industry provide exemption from duty for new industrial projects and for the expansion of existing industries. Such incentives are granted on condition that the size of the capital invested (machinery and equipment) is at least yemen rials (YRls) 25,000 and that the project will use local raw materials, contribute to import substitution or to exports, employ Yemeni labour, and use modern equipment and techniques. However, with the acute shortage of hard currency, the Ministry of Economy, Trade and Supply recently added additional criteria relating to the hard currency saved and the size of the value added generated by the project. Fiscal incentives include: (a) exemption of imported machinery and spare parts from customs duties and all other import taxes for five years starting from the date the project is licensed, with a possible extension for another three years; (b) reduction of import duties on raw materials and intermediate goods by 25 per cent for a period of five years starting from the date of production.

It should be noted that a new draft investment law has been prepared and is expected to come into force in the very near future. The new draft law is selective, in the sense that fiscal incentives will not be uniform for all projects, but will depend on the sector to which the project belongs, the size of the investment and the geographical location of the project.

1/ See section 3 below on encouragement of Arab and foreign investment.

In Democratic Yemen, Investment Law No. 25 of 1981 aims particularly at encouraging migrants' investment in the industrial sector, by granting several incentives, provided that the size of the capital invested exceeds Democratic Yemen dinars (YD) 5,000. These incentives include: (a) exemption from customs duties on imported machinery and equipment; (b) exemption or reduction of customs duties on raw materials for three years from the start of the production; and (c) exemption of custom duties on imported spare parts for two years from the start of the production.

(b) Income tax holidays

GCC countries offer tax holidays for industrial projects owned by nationals. In Saudi Arabia and Bahrain, exemption from income tax is granted for an unlimited period, while in Qatar and the United Arab Emirates, exemption is limited to five years (renewable), and in Kuwait to ten years.

In Jordan, tax holidays are granted only to an "approved economic" project; they include exempting net profits from taxes for a period of seven years from the date of commencement of the production in region A, 10 years in region B and 12 years in region C. However, in regions A and B, only 60 per cent of net profits enjoy tax exemptions during the last two years of this period.

In the case of expansion of an existing industrial project, the Encouragement of Investment Law does not provide generous incentives. The incentives are confined to tax exemption on 25 per cent of net profits for 2 years (region A), 3 years (region B) or 4 years (region C). Such exemption is granted on condition that fixed assets acquired for the expansion constitute no less than 25 per cent of total fixed assets in the initial project, and that the expansion will increase production capacity by 50 per cent.

Furthermore, the Encouragement of Investment Law promotes the mobilization of financial resources by exempting interest on deposits and savings made in the specialized credit institutions, Pension Fund, Social Security Corporation, and on bonds issued by public companies and the Central Bank of Jordan in favour of the Government or public institutions or specialized credit institutions from income and social welfare tax.

In the Syrian Arab Republic, the period of tax exemption is limited in time. According to Law No. 103 of 1952 regarding the encouragement of industry, new industrial projects are exempted from income tax for only three years from the commencement of the production, and from real estate tax for six years. Reinvestment of retained earnings is not really encouraged by the tax system, since only 10 per cent of total profits used for project expansion is exempt from income tax. This measure thus discourages the objective of capital formation.

In Egypt, industrial projects established in new cities enjoy exemption from taxes on commercial and industrial profits for 10 years from the commencement of production.

In the Yemen Arab Republic, the fiscal incentives provided to new industrial projects by Law No. 18 of 1975 and Decree Law No. 20 of 1976 include income tax holidays for five years after the commencement of commercial production, with possible extension for an additional five years. In the case of the expansion of an existing industry, the law can extend exemption from income tax on the whole project for another five years.

In Democratic Yemen, Investment Law No. 25 of 1981 provides new industrial projects with income tax holidays for 5 years.

(c) Tax incentives for exports

All GCC countries except Bahrain have adopted regulations concerning the removal of export taxes, in order to encourage investment in export-oriented industries. Kuwait recently exempted local industries from export taxes that previously stood at 4 per cent. In Saudi Arabia, Kuwait, the United Arab Emirates and Qatar, exemption from export taxes requires the approval of their respective Councils of Ministers, while in Oman the exemption order is granted by the Minister of Industry.

Jordan also encourages investment in export industries by providing partial tax exemption on income, which varies according to the percentage of exports to total sales.

In the Syrian Arab Republic and Iraq, export industries enjoy fiscal incentives that consist of a refund of customs duties on the import content of domestically manufactured goods. In the Syrian Arab Republic, locally manufactured products are fully or partially exempted from production tax and from fiscal and municipal fees and taxes when the products are exported.

3. Encouragement of Arab and foreign investment

In ESCWA countries, Arab and foreign investment is encouraged, but the incentives offered vary, especially between GCC countries and most of the others.

In GCC countries, foreign capital enjoys free movement, but it generally needs to be associated with national capital, or be part of a joint venture. Licences are granted only to nationals. However, in Saudi Arabia, foreign capital can be invested without the participation of Saudi Arabian nationals, but in these cases it does not benefit from the various incentives offered to foreign investment under the provisions of the Foreign Investment Code (which stipulates that foreign participation must not exceed 75 per cent). In other GCC countries, foreign participation must not exceed 49 per cent in Kuwait and the United Arab Emirates, 25 per cent in Bahrain and 65 per cent in Oman.

Saudi Arabia, under the Foreign Capital Investment Code (Royal Decree No.M/4 of 1979), offers various benefits to foreign capital invested in industry, including a ten year exemption from all income and company taxes, except the *zakat*.[1/] Industrial projects licensed under the code enjoy all

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1/ The *zakat* is an alms-tax.

the same privileges granted to national capital under the National Industries Protection and Encouragement Regulations. However, in order to be eligible for the advantages of the Investment Code, foreign capital must be invested in economic development projects (excluding the extraction of oil) that fall within the priorities of the country's development plan, and must include an element of foreign technical expertise and know-how. In 1980, the Minister of Industry and Electricity issued a list of projects that were open to foreign investment. The list included the processing of raw materials or semi-finished goods in finished manufactured goods, and also packaging processes.1/

Government regulations of the United Arab Emirates regarding foreign capital aim at encouraging its participation in industrial projects that require advanced technologies or that are considered to be important for economic development, and which cannot be implemented without its participation.

In Qatar, Law No.3 of 1985 does not allow the investment of foreign capital in small-and medium-scale industries. Foreign capital can be invested in large industries, mainly in those contributing to the economic development of the country. However, the law did not determine the rate of participation of foreign investment, as in Law No.20 of 1963 foreign investment was allowed to acquire a maximum of 49 per cent of the capital of Qatar companies.

In Kuwait, foreign capital is generally permitted, but the Commercial Company Code does not allow foreign participation in Kuwaiti shareholding companies, unless it is authorized by special decree.

Bahrain recently introduced some amendments to its Companies' Law. While in the past, foreign participation was allowed up to reach 49 per cent of Bahraini companies' capital, the new amendments stipulate that foreign capital participation may not exceed 25 per cent, and that Bahraini participation should be at least 51 per cent; the rest can be shared by Gulf investors. However, in cases where the company was founded in Bahrain, the Ministry of Commerce and Agriculture may allow some exceptions to be made to the law by allowing foreign investment to exceed more than 49 per cent of the capital of Bahraini companies.

In Jordan, Arab and foreign capital, whether invested separately or in conjunction with local capital, enjoys equal treatment with local capital when investment takes place in the sectors defined by the Encouragement of Investment Law No. 6 of 1984, which cover: industry, tourism, transport, education and health. In addition to tax holidays and exemption from duty, foreign companies are allowed to repatriate their capital and profits.

1/ International Fiscal Association, Bulletin for International Bureau of Fiscal Documentation, vol.37, No.6, (June 1983).

In Egypt, the regulation and promotion of Arab and foreign investment comes under the supervision of GAFI, which was established in 1974 under the provisions of Law No. 43 of 1974 regarding the "investment of Arab and foreign capital and the free zones". Arab and foreign capital can be invested in Egypt on condition that its participation is made with public or private Egyptian capital.

Law No. 43 of 1974 and its amendment, Law No. 32 of 1977, gave priority to projects aimed at generating exports, developing tourism, reducing the need to import basic commodities, and those requiring advanced technical expertise. In the manufacturing sector, most of projects made available by GAFI are in the engineering industry, such as the production of construction equipment, agricultural machines and metal furniture. The other major projects encouraged by GAFI include the production of edible oils, building materials, detergents, textiles and ready-made garments, electrical switchboards and reinforcement bars.

Incentives for Arab and foreign investment include tax exemption on income and on commercial and industrial profits for five years from the first fiscal year following the commencement of production or engagement in activities. However, the period of exemption can be extended to eight years on a decision of the Council of Ministers, provided that this additional period is in the public interest with regard to the nature of the project, its geographical location, importance to economic development, the size of the capital, and the extent to which it helps to exploit natural resources and increases exports. In addition, the capital assets and imported construction materials and components needed for a project can benefit from full or partial exemption from customs duties.

The law provides additional advantages with regard to the repatriation of the capital invested and the transfer of profits. The repatriation of invested capital can be authorized provided that five years have elapsed from the date the capital was imported.

Companies that enjoy the provisions of the law are considered to belong to the private sector, irrespective of the legal nature of the participating capital. Such incentives have enabled foreign capital to launch several joint venture projects with the public sector.

In the Syrian Arab Republic, Arab investment enjoys greater incentives than foreign investment. Apart from the free zones in which foreign projects are exempted from customs duties and taxation, there is no general rule to govern foreign investment. This has to be negotiated with the Syrian Government on a case by case basis. Each bilateral agreement specifies different conditions and concessions to investors. In general, bilateral agreements provide protection against nationalization, and offer advantages such as exemption from income tax and duty, and the repatriation of profits and capital.

Since the early 1970s, the Government has liberalized the regulations governing investment by Syrian emigrants or Arab nationals through the provision of following incentives: (a) repatriation of the project capital five years after its operation, and the transfer of up to 50 per cent of profits; (b) funds transferred to the Syrian Arab Republic can be repatriated no later than six months after their arrival in cases where investment has not been practically possible; (c) Arab investment is not subject to any restrictions when it concerns the import of the raw materials and equipment needed for the project; and (d) Arab investment can be granted additional privileges on a case by case basis, following recommendation by the Minister of Economy and Trade.

Government Decision No. 1,066 of 1982 defined the areas of activity of Arab and foreign investment. Priority was given to projects undertaken in the light and consumer industries such as the agro-food, wood products, paper, leather products, plastics and textiles industries.

In Iraq, Arab capital receives the same treatment as Iraqi capital in every respect (credit facilities, licences, incentives, exemption from taxes). In addition, Arab investors can repatriate their capital and transfer a part of their profits. However, foreign capital is not tolerated in Iraq.

In the least developed countries of the region, the Yemen Arab Republic and Democratic Yemen, Arab and foreign capital are provided with the same incentives as local capital. In the Yemen Arab Republic, Arab and foreign capital can be invested without the participation of local capital. A "foreign project" can benefit from the advantages of Law No. 18 of 1975 on the promotion and organization of investment, provided that the capital invested is at least $US 250,000, but only $US 125,000 when the project is a joint venture between Yemeni and foreign capital. A project is considered to be "foreign" when the share of the foreign capital is at least 90 per cent of total capital; a project is considered to be a joint-venture when foreign capital is more than ten per cent, but less than 90 per cent of total capital.

In addition to the advantages offered to Yemeni investors by the above mentioned law, Arab and foreign investors can repatriate their capital five years after the commencement of production, and can transfer their profits.

In Democratic Yemen, the Law for the Encouragement of Investment (No. 25 of 1981) did not determine the share of national capital, whether private or public, in an approved project. However, it did establish a Standing Committee to advise the Council of Ministers on almost all aspects of investment, including the proportion of foreign participation in an approved project. The Law allows the transfer of annual profits and the transfer of net capital five years after its initial investment in a particular project.

The various tax incentives provided by most ESCWA countries to the manufacturing sector have created a good investment climate for entrepreneurs, both local and foreign, to initiate and launch new investment projects. Though investment in most ESCWA countries is sufficently encouraged by their respective Governments, industrial projects enjoy additional advantages in GCC countries: full exemption from customs duties and income taxes, generally without a time limit. However, since import duties in most GCC countries are generally low, and income taxes are usually extremely moderate or even non-existent, the fiscal exemptions offered to industrial projects cannot really be considered to be generous. Nevertheless, it is worth noting that in countries where the period of exemption from income tax is limited in time (to less than 5 years), tax holidays tend to favour short-term projects that provide revenue at the beginning of the life of the project, rather than long-term, slowly maturing projects. Furthermore, tax incentives for investment favour the establishment of capital-intensive rather than labour-intensive industries, since, relative to other factors of production, namely labour they reduce the cost of using physical capital. Also, in most cases, tax incentives fail to include the training of the labour force. The lack of skills on the part of the local labour force is likely to pose a major obstacle to any new investment project. Moreover, few countries in the region have tied the level of tax incentives to the size of the capital invested - small-, medium- or large-scale industries - or to the geographical location of the project: in backward or developed areas of the country.

B. Trends in manufacturing investment and investment needs

1. Planned investment 1970-1985

Since the mid-1970s, the huge increase in oil revenues allowed the ESCWA region to direct substantial amounts of financial resources towards development. The magnitude of these resources is reflected in the oil revenues of the oil-exporting countries, which increased tremendously from $US 6.4 billion in 1972 to $US 170.8 billion in 1980. The revenues of the non-oil exporting countries were also indirectly affected by these sharp increases. This can be seen from the significant rise in income generated from workers' remittances as well as that from aid and grants. The huge financial resources that were accumulated in the region enabled most member countries to launch ambitious development plans and programmes during the planning cycles that covered the period 1975-1985.

Planned investment in the industrial sector increased significantly in both absolute and relative terms. The available data reveal that planned investment in the mining and manufacturing sectors in the ESCWA region more than doubled during the period 1981-1985, as compared with the period 1970-1980. In the manufacturing sector, planned investment amounted to $US 58.7 billion during the period 1981-1985, which exceeded that of both the mining and manufacturing sectors during the period 1970-1980 by 22.6 per cent.

The increasing priority given to the manufacturing sector is also reflected in its relative contribution to total planned investment. The highest allocation recorded were those for the United Arab Emirates (29.3 per cent), Egypt (28.4 per cent) and Jordan (17.6 per cent). In Oman, Saudi Arabia, the Syrian Arab Republic and the Yemen Arab Republic, the share ranged between 10 and 15 per cent. In the remaining ESCWA countries, Kuwait, Bahrain and Democratic Yemen, the contribution of the manufacturing sector to planned investment was relatively low, averaging less than 10 per cent.

During the 1980s, a shift in the distribution of planned industrial investment at the regional level occurred in favour of GCC countries. The contribution of GCC countries to the total planned industrial investment of the region (mining and manufacturing), jumped from 38.6 per cent during the period 1970-1980 to 78.4 per cent during the period 1981-1985. GCCs share in the region's total manufacturing planned investment accounted for 67.5 per cent during the period 1981-1985. Planned manufacturing investment was concentrated in only a few member countries namely: Saudi Arabia, the United Arab Emirates and Egypt, where together it contributed more than 83 per cent of total ESCWA manufacturing planned investment (see table 1).

Table 1. ESCWA countries: planned investment in the industrial sector for the periods 1970-1980 and 1981-1985

(Million of US dollars)

Country	Mining and manufacturing 1970-1980			Mining and manufacturing 1981-1985			Manufacturing 1981-1985		
	Value	Distribution of planned investment (Percentage)	Share in planned investment (Percentage)	Value	Distribution of planned investment (Percentage)	Share in planned investment (Percentage)	Value	Distribution of planned investment (Percentage)	Share in planned investments (Percentage
GCC countries									
Kuwait	3,850	8.0	20.0	4,069	4.0	14.1	2,566	4.4	8.9
Oman	1,354	2.8	26.1	4,697	4.6	48.8	1,162	2.0	12.1
United Arab Emirates	22	0.1	0.3	20,167	19.9	43.3	13,656	23.3	29.3
Saudi Arabia	13,235	,7.6	13.3	50,419	49.8	23.9	22,126	37.7	10.5
Bahrain				59	0.1	1.9	59	0.1	1.9
Total GCC countries	18,461	38.5	14.0	79,411	78.4	26.6	39,569	67.5	13.2
Diversified economies									
Egypt	10,188	21.3	30.2	14,067	13.9	29.9	13,353	22.7	28.4
Jordan	770	1.6	27.0	2,326	2.3	23.0	1,776	3.0	17.6
Syrian Arab Republic	3,573	7.5	22.3	4,305	4.3	16.6	3,145	5.4	12.2
Iraq	14,300	29.9	34.2						
Total diversified economies	28,831	60.3	30.5	20,698	20.4	20.4	18,274	31.1	22.0
Least developed countries									
Yemen Arab Republic	522	1.1	11.9	981	1.0	15.7	780	1.3	12.5
Democratic Yemen	64	0.1	19.8	162	0.2	11.0	81	0.1	5.5
Total LDCs	586	1.2	12.4	1143	1.1	1.1	861	1.4	11.2
Total ESCWA region	47,878	100.0	20.7	101,252	100.0	26.0	58,704	100.0	15.1

Source: General Secretariat of the Arab League, Arab Fund for Economic and Social Development, Arab Monetary Fund, Organization of Arab Petroleum Exporting Countries, Joint Arab Economic Report, various issues.

2. Shortfalls in investment implementation

The reported data on actual investment in the industrial sector are somewhat limited. The few countries which provide such data are Egypt, the Syrian Arab Republic, Iraq, the United Arab Emirates and the Yemen Arab Republic.

It can be observed that there was, in general, a common trend in actual investment in these countries during the two planning cycles 1975-1985. The economic boom in the region in the second half of the 1970s enabled these countries to increase investment in manufacturing in both absolute and relative terms between 1975 and 1980. However, while planned investment in manufacturing increased significantly during the period 1980-1985, the available data indicate that actual investment registered a net decline between 1980 and 1984. The decline stems from the recession and from the decrease in oil revenues that have characterized the region in the 1980s. The real decline in manufacturing investment is in fact, concealed, since the reported data are given at current prices. In the Syrian Arab Republic actual investment rose in absolute terms, by 6 per cent between 1980 and 1984. But, given the high rates of inflation, one can assume that no real increase in investment took place (see table 2).

Shortfalls in the implementation of planned investment in the manufacturing sector during the period 1981-1985 ranged from 62.2 per cent of planned manufacturing investment in the case of the Yemen Arab Republic, to 14.5 per cent in the case of the United Arab Emirates. In Egypt, while shortfalls in the order of 28.6 per cent were recorded in the public sector, on an overall level actual investment came within budget. This can be explained by the tremendous expansion in the activities of the private manufacturing sector in Egypt, which registered more than double its targeted level of investment for the period 1982/1983-1986/1987. The data available for other countries include Jordan, where the shortfall in the implementation of planned investment was less than 22 per cent. In the Syrian Arab Republic on the other hand, it exceeded 40 per cent.

The experiences of member countries in the implementation of their respective development plans during the period 1975-1985 reveal that shortfalls were not always caused by the shortage of financial resources, though non-GCC countries suffered from fluctuations in the availability of funds for development. The other factors that impeded implementation, and which were generally shared by almost all ESCWA countries, include the following:

(a) The inadequate linkages of the manufacturing sector with other economic sectors (which can be attributed to shortages in agricultural inputs), and even those within the manufacturing sector itself, which were due to shortages in spare parts. These shortages impeded the implementation of a number of industrial projects;

(b) The difficulties faced by most member countries in translating their development plans into viable projects;

(c) The shortages in technological capability, which are reflected in the problems faced in the preparation of feasiblity studies, in technical and design problems, and in quality control, management, etc.

Table 2. Selected ESCWA countries: gross fixed capital formation (GFCF) in the manufacturing sector, 1975, 1980 and 1984.

(Millions of units of the national currency)

Country	Value			Share of manufacturing in total GFCF (Percentages)		
	1975	1980	1980	1975	1980	1984
United Arab Emirates	2356.0	9983.0	6970.0	19.5	33.1	23.4
Syrian Arab Republic a/	2340.0	4044.0	4306.0	45.0	31.8	24.1
Egypt	286.8	1261.8	1444.7 a/	22.7	25.2	26.7 a/
Iraq	216.2	468.4	193.0	28.4	13.5	5.3
Yemen Arab Republic	35.0 a/	709.0 a/	168.0	6.1 a/	14.5 a/	4.4 b/

Source: United Nations Economic Commission for Western Asia, National Accounts Studies, Bulletin No.8, (Baghdad, October 1986).

a/ Including manufacturing and mining.
b/ Manufacturing and mining = 6 per cent.

3. Planned investment 1986-1990

Plans for the second half of the 1980s (1986-1990) were formulated with a new orientation in most of the countries of the region, primarily in an attempt to overcome the problems faced in the implementation of earlier plans. Hence, planning in the region has entered a new phase, that of consolidation of the achievements of the manufacturing sector over the last decade. Great emphasis has been laid on the improvement of the productivity and efficiency of existing industrial enterprises, rather than on the creation of large projects that characterized the region in the previous decade (1975-1985). Shortages in financial resources that resulted from the dramatic decline in oil prices will, however, constitute an additional constraint on those ESCWA member States wanting to embark on new large projects.

The decline in oil revenues and remittances constitutes a major impediment, more particularly for non-GCC countries, to the expansion and progress of the manufacturing sector. In fact, planned investment allocated to the industrial sector during the period 1986-1990 has declined in both absolute and relative terms. In this respect, data are available only for Jordan, the Syrian Arab Republic and Egypt. In Jordan, the latest development plan allocated JD 392 million to the mining and manufacturing sector, which constitutes about half the volume of industrial planned investment that was allocated in the previous plan. In relative terms, the share of the industrial sector in total planned investment decreased from 23 per cent during the period 1981-1985, to 12.6 per cent during the period 1986-1990. In the Syrian Arab Republic, the new plan allocates 10.4 per cent of total planned investment to the manufacturing sector, as compared with 12.2 per cent in the previous plan. Most of this investment is allocated to projects carried over from the 1981-1985 plan. In Egypt, investment allocated to the public manufacturing sector is also planned to decrease from 7 billion Egyption pounds (LE) during the plan period 1982/1983-1986/1987 to LE 5.8 billion in the new plan 1987/1988-1991/1992.

It is important to note that the allocations in these plans do not necessarily reflect the real financial needs of the manufacturing sector. In fact, the net decline in oil revenues and remittances led most member States to launch more modest plans where compared with the ambitious plans of the last decade. Thus, the reduced allocation of funds to the manufacturing sector will not necessarily lead to reduced financial obligations. In fact, the trend towards the expansion of downstream and light industries that can be observed in the region, assumed to be mainly in the private sector, will necessitate increased obligations on the part of financial intermediaries in order to provide project financing. Furthermore, the shift that has occurred in the structure of manufacturing output in favour of heavy and capital-intensive industries - iron and steel, aluminium, petroleum refining, cement, petrochemicals and fertilizers - will require large amounts of funds in order to finance expansion, renovation and the working capital of these industries. Another important financial obligation that should not be underestimated is the heavy capital needs of meeting the financial requirements of new and advanced technologies.

In an environment of tight financial resources that is coupled with the world economic recession, financial intermediaries will have to mobilize additional financial resources from domestic, as well as from external sources, in order to match the increasing financial needs of the manufacturing sector.

II. RESOURCES AND FINANCING POLICY OF THE SPECIALIZED FINANCIAL INSTITUTIONS

A. Capital structure and resources of specialized financial institutions

The effectiveness of specialized financial institutions - industrial and development banks - depends to a large extent on their ability to mobilize domestic, as well as external financial resources in order to implement projects. Moreover, financing industrial project requires the specialized financial institutions to mobilize substantial amounts of foreign exchange needed to finance the import of capital goods and raw materials.

In most ESCWA countries, government support was a necessary prerequisite for the establishment of industrial and development banks. This support took the form of direct participation in their equity capital or indirect involvement through the central banks and autonomous financial institutions. The other major sources of funds for such banks are deposits and long-term borrowing from regional and international financial institutions. Most industrial banks in GCC countries rely mainly on government sources, while the rest rely on long-term loans from regional and international financial development institutions. With the exception of the Industrial Bank of Yemen, most other industrial banks in the region accept deposits from the public.

IBK, established in 1973, increased its paid-up capital from 10 million Kuwait dinars (KD) to KD 20 million in 1981. About half the paid-up capital is distributed between the Government (31.4 per cent of total paid-up capital) and its institutions: the Central Bank of Kuwait (12.6 per cent) and the Public Institution for Social Security (5.2 per cent). The Government also holds additional shares through its partial control of industrial enterprises (the Kuwait Metal Pipes Industries and National Industries Company) that participate in the capital of the Industrial Bank. Commercial banks and insurance companies contribute the remaining share (see table 3).

However, shareholders' equity and reserves constitute only a small share of total bank resources. IBK relies mainly on deposits and long-term loans from the Government (see annex table A.1). In 1985 total shareholders' equity and reserves constituted around 6 per cent of total bank resources, down from 15.6 per cent in 1975. This decline was offset by the increased contribution of both deposits and long-term borrowing to total bank resources, which respectively represented 58.9 and 31.7 per cent in 1985. In absolute terms, IBK was significantly able to increase its resources from KD 69.4 million in 1975 to KD 586 million (see table 4).

Table 3. Industrial Bank of Kuwait: total paid-up capital and distribution of shares among shareholders 1975, and 1985
(Percentages)

Shareholders	1975	1985[a]
Government of Kuwait	35.0	31.39
Central Bank of Kuwait	14.0	12.56
Public Institution for Social Security		5.16
Commercial banks	33.0	34.08
Insurance companies	3.0	3.36
Manufacturing establishments[b]	15.0	13.45
Total-(Percentages)	100.0	100.00
Total paid-up capital (million of KD)	10.0	20.00

Source: Industrial Bank of Kuwait, Annual Report, 1975 and 1985.

a/ The capital of the IBK was increased in 1975 and in June 1981 it stood at KD 20 million, fully paid-up.

b/ Three manufacturing industries: the Kuwait Flour Mills Co., the Kuwait Metal Pipes Industries Co., and the National Industries Co., participate equally in IBKs capital.

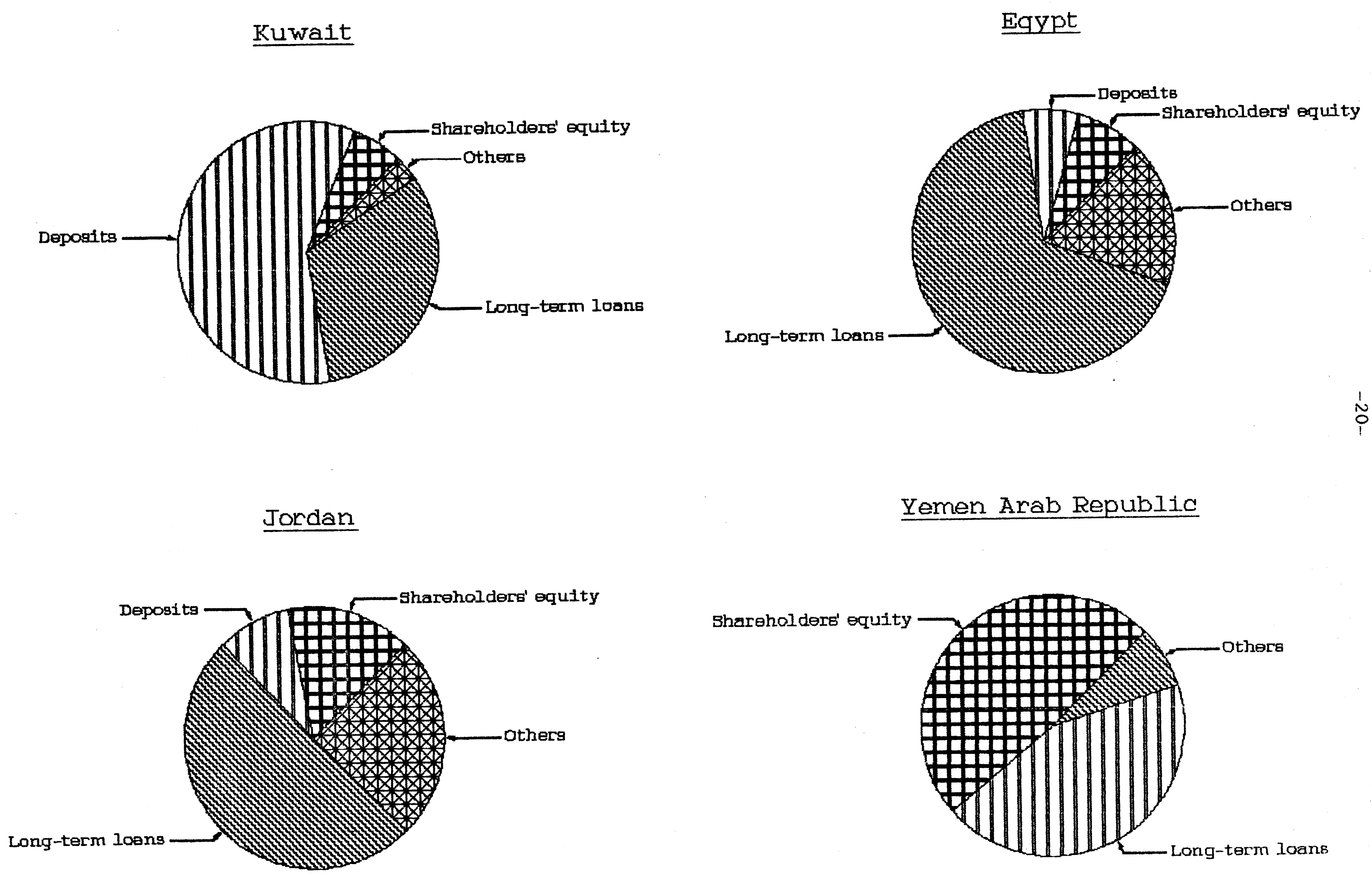
The Industrial Development Bank of Jordan (IDB Jordan) was established in 1965 with an authorized capital of JD 6 million. The Bank almost doubled its paid-up capital between 1980 and 1985, reaching about JD 5.7 million in 1985, slightly below the authorized capital. The Government holds only 19.5 per cent of the Bank's equity, while the balance (80.5 per cent) is subscribed by the general public. With the increase in equity in absolute terms, to a certain extent the Bank was able to diversify its sources of funds. In fact, the relative contribution of shareholders' equity to total bank resources decreased from 21.8 per cent in 1980 to 15.4 per cent in 1985. This decrease was in favour of a new source of funds consisting of deposits (9.3 per cent of total bank resources in 1985). However, long-term borrowing constitutes the most important source of funds, since in 1985 it accounted for more than half of total bank resources, as compared with 58.7 per cent in 1980 (see table 4). Long-term loans are provided by three major sources: the Central Bank of Jordan, the Kuwait Fund for Arab Economic Development and foreign financial institutions (see annex table A.2). The total resources of the Bank jumped from JD 20 million in 1980 to more than JD 55 million in 1985.

Table 4. Selected ESCWA countries: sources of funds of industrial banks
(Percentages)

	Kuwait Industrial Bank of Kuwait		Jordan Development Industrial Bank		Egypt Development Industrial Bank		Yemen Arab Republic Industrial Bank of Yemen	
	1975	1985	1980	1985	1980	1985	1980	1985
Shareholders' equity	15.6	6.2	21.8	15.4	17.7	7.9	96.4	48.5
Deposits	48.4	58.9	-	9.3	6.6	7.0	-	-
Long-term loans	28.8	31.7	58.7	50.1	66.4	67.0	-	43.8
Others	7.2	3.2	19.5	25.2	9.3	18.1	3.6	7.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total resources								
(million of units of national currency)	69.4	586.0	20.2	55.8	112.9	477.1	96.6	226.5

Source: Industrial Bank of Kuwait, *Annual Report*, various issues; Industrial Development Bank of Jordan, *Annual Report*, various issues; Egypt, Development Industrial Bank, *Annual Report*, various issues; and Industrial Bank of Yemen, *Annual Report*, various issues.

Figure 1. Sources of funds of industrial banks, 1985



The Development Industrial Bank of Egypt (DIB), established in 1976, is owned entirely by the Government. The total equity of the Bank increased significantly from LE 20 million in 1980 to LE 37.7 million in 1985. Paid-up capital, as a percentage of the total resources of DIB, declined from 17.7 per cent in 1980 to 7.9 per cent in 1985. DIB relies mainly on long-term borrowing from international financial institutions and foreign banks (39.8 per cent of total bank resources in 1985), and local commercial banks (27.2 per cent). Foreign long-term loans are provided mainly by the World Bank, the African Development Bank and the European Investment Bank (see annex table A.3). DIB was also able to attract savings from the public, LE 33.3 million in 1985, as compared with LE 7.4 million in 1980, but representing only seven per cent of total bank resources in 1985. These resources jumped from LE 112.9 million in 1980 to LE 477.1 million in 1985 (see table 4).

In the Yemen Arab Republic in 1976 the Government established the Industrial Bank of Yemen (IBY) with a paid-up capital of 100 million yemen rials (YRls). The Government owns the largest share, 70 per cent, while the remainder is distributed among the German Company for Development, the Yemen Bank for Reconstruction and Development and local private investors (see table 5). In contrast with the other industrial banks, the shareholders' equity of IBY represents the major source of funds, although its share in total bank resources declined from 96.4 per cent in 1980 to 48.5 per cent in 1985 (see table 4). This decline can be attributed to the ability of IBY to acquire long-term loans at concessional interest rates from the International Development Agency (IDA) and the Kuwait Fund for Arab Economic Development, which together represented 31.9 per cent of total bank resources in 1985 (see annex table A.4).

Table 5. Industrial Bank of Yemen, equity shareholders, 1986
(Percentages)

The Government of the Yemen Arab Republic	70.0
DEG (German Company for Development)	6.0
Yemen Bank for Reconstruction and Development	5.0
Private enterprises and shareholders	11.7
Unsold	7.3
	100.0

Source: Industrial Bank of Yemen, Annual Report 1986, (Sana'a).

B. Financing policy

1. Scope of loan financing

The scope of industrial banks' financing varies among ESCWA countries with respect to the economic sectors being financed, the purpose of financing (fixed assets and/or working capital), and the nature of the project (new or existing enterprises).

Most industrial banks in the ESCWA region were established with the objective of promoting private investment in the manufacturing sector through the provision of medium- and long-term loans on easy terms. In contrast with the industrial banks in the region, the Industrial Bank of Syria provides loans to both the public and private sectors. However, since the early 1980s a shift has occurred in the lending structure of the Industrial Bank of Syria in favour of the private sector, which received about 60 per cent of total loans in 1986, compared with 20 per cent in 1978. In Jordan, the Industrial Development Bank can extend loans to the mixed sector, provided that the share of the public sector does not exceed 49 per cent of the capital. DIB of Egypt restricts its activities to the private sector; the fixed assets of public enterprises are financed by the National Bank of Investment, while working capital is financed by commercial banks. The Industrial Bank of Kuwait does not restrict its activities to only local manufacturing industries; it is able to extend loans to projects in other GCC countries provided that such projects have substantial Kuwaiti participation. The Saudi Industrial Development Fund provides loans to projects that are at least 50 per cent owned by nationals. However, if Saudi shareholding is less than 50 per cent, then fund financing will be granted at a proportionally reduced level.

Although most of the loans are provided for manufacturing projects, some industrial banks such as those in Jordan and Egypt also extend soft loans to projects in the tourism sector, and that of Kuwait gives them to services projects that are mainly associated with the industrial sector, such as marine and oil field services. The Oman Development Bank covers both the agricultural and manufacturing sectors in its financing scheme. The share of the manufacturing sector in industrial banks' total loans accounted for more than 85 per cent in Jordan during the period 1975-1985, and about 90 per cent in both Kuwait and Oman in the years 1974-1985 and 1979-1984 respectively. In Egypt, the share of the manufacturing sector in total DIB loans increased from 78.7 per cent in 1979 to 92.1 per cent in 1984/1985.

Generally, the industrial and development banks of the region extend loans to new projects or for the expansion or modernization of existing enterprises; such loans aim at financing fixed assets, as well as initial working capital requirements.

In Jordan, the period 1980-1985 witnessed a radical change in the orientation of Industrial Development Bank lending. While about 65 per cent of total loans were granted to new projects during the period 1975-1979, the situation changed in the 1980s. In this period 69 per cent of total loans were granted to finance expansion and the working capital requirements of existing firms (see table 6).

Table 6. Jordan: Industrial Development Bank, loans granted to new projects and existing enterprises.

(Millions of JD, Percentages)

	1975-1979		1980-1985	
	Value	Percentage	Value	Percentage
New	11.47	64.7	13.80	31.0
Existing	6.27	35.3	30.69	69.0
TOTAL	17.74	100	44.49	100

Source: Data compiled from the Industrial Development Bank of Jordan, Annual Report (Amman), various issues.

The shift which occurred in lending orientations in favour of existing enterprises is also reflected in the distribution of loans according to their purpose: fixed assets and raw materials. In fact, IDB started to finance raw material requirements only after 1980. Although most of the loans provided during the period 1980-1985 aimed at financing machinery and equipment, the financing of raw materials accounted for the largest share in total lending in 1983 and 1984. Aggregate figures indicate that the share of machinery in total bank financing declined from a high level of 84.7 per cent during the period 1975-1979 to 53.5 per cent during the period 1980-1985 (see table 7).

Table 7. Jordan: Industrial Development Bank: approved loans classified by purpose

(million of JD, percentages)

	1975-1979		1980-1985	
	Value	Percentage	Value	Percentage
Raw materials	-	-	14.27	32.1
Machinery	13.79	84.7	23.80	53.5
Construction[a/]	2.50	15.3	6.40	14.4
TOTAL	16.29	100.0	44.47	100.0

Source: Data compiled from the Industrial Development Bank of Jordan, Annual Report (Amman), various issues.

a/ Mainly factory construction.

In Egypt the Development Industrial Bank provides loans for new projects, as well as for the expansion and modernization of existing industries. As in Jordan, available data indicate that most of the Bank's lending during the period 1983-1985 was oriented to exampsion and to the working capital of existing enterprises rather than to new projects (see table 8).

Table 8. Egypt: Development Industrial Bank: distribution of approved loans according to type of project during the period 1 July 1983 - 30 June 1985
(Thousands of LE, Percentages)

	Value	Percentage
New projects	69,533	30.1
Replacement, expansion and development	77,303	33.4
Working capital	84,326	36.5
	231,162	100.0

Source: Data compiled from the Development Industrial Bank of Egypt, Annual Report, (Cairo), issues for 1983/1984 and 1984/1985.

Working capital financing (which consists of short-term loans) is provided in local currency; it constituted about 26 per cent of the total amount of loans extended by DIB in the period 1976-1985. Project financing and expansion requirements are provided through medium- and long-term loans in local and foreign currency. Loans in foreign currency that are necessary for the importation of equipment and machinery represented a significant share of total DIB loans - around 44 per cent during the period 1976-1985. The remaining 56 per cent were extended in local currency.

In the Syrian Arab Republic, the Industrial Bank also provides soft loans for new projects, as well as for expansion and the working capital of existing industries. However, in 1984 the Bank set up a new policy that consisted of providing public enterprises with only working capital financing, while private firms were still granted project financing facilities and working capital requirements. Lending by the Industrial Bank of Syria was characterized by the predominance of short-term lending during the period 1981-1985, which constituted about 58 per cent of total Bank loans, as compared with only 29.7 per cent during the period 1976-1980. This could be explained by the shift that occurred in the 1980s in the Bank's lending structure, by which public firms were provided with only working capital financing, as was mentioned above (see table 9).

Table 9. Syrian Arab Republic: loans advanced by the Industrial Bank according to the length of maturity, 1976-1980 and 1981-1985

(Millions of SP; percentages)

	1976-1980		1981-1985	
	Value	Percentage	Value	Percentage
Long-term	-	-	21.3	1.7
Medium-term	318.0	70.3	507.6	40.4
Short-term	134.2	29.7	728.3	57.9
	452.2	100.0	1257.2	100.0

Source: Compiled from data supplied by the Syrian Arab Republic, Central Bureau of Statistics, Statistical Abstract (Damascus), issues for 1985 and 1986.

While both the Industrial Bank of Syria and the Development Industrial Bank of Egypt can extend loans for the working capital requirements of existing industries, the Industrial Bank of Kuwait (IBK) and the Saudi Industrial Development Fund (SIDF) only provide loans for the initial working capital of a project, or for fixed assets. They also cover new projects in their lending, as well as the expansion of existing industries.

The Industrial Bank of Yemen (IBY) provides loans mainly to finance the equipment of new projects, or for expansion of existing ones. The equipment generally constitutes 85 per cent of the loan, while the remaining 15 per cent covers the cost of factory construction.

From the above, a shift in the lending policies of the specialized financial institutions can generally be observed: (a) towards existing industries; and (b) towards covering the working capital needs of industrial establishments.

It is not clear, however, to what extent the coverage of working capital requirements is met, whether this is for the margin money or for total working capital . While (a) can be considered to be a healthy trend that provides support for industrial establishments to be renovated modernized or expanded, (b) does not appear desirable. This reveals both the inability of commercial banks to perform their role and the failure of industrial borrowers to generate internal cash resources needed to cover their working capital needs. Poor cash and/or inventory management and interest rate differentials could constitute further reasons to explain this shift.

2. Loan conditions

Industrial and development banks in the region play an important role in promoting investment in manufacturing by providing financial incentives for new projects and the expansion of existing ones. These incentives include: subsidized interest rates, long-term loans, and grace periods.

(a) Interest rates

The interest rate charged by the Industrial Development Bank of Jordan is not as low as that in most other ESCWA countries: 8 per cent (plus a 1 per cent charge), which is slightly below the commercial rate. However, the interest rate remains fixed during the repayment period, and is calculated on the unreimbursed amount.

The Development Industrial Bank of Egypt, which provides loans in both local and foreign currency, charges two different rates. The interest rate imposed on local currency loans is fixed on industrial loans by the Central Bank of Egypt. It ranges between 11 and 13 per cent, which is below the rate charged for tourism, trade and services projects. In this respect, loans provided by the DIB are no more advantageous than those extended to industrial projects by commercial banks and other financial institutions.

Loans in foreign currency are, however, more advantageous. Although the interest rate charged is 15 to 15.5 per cent, this can be considered to be subsidized, since the repayment of the loan is effected in local currency at the prevailing official exchange rate. With the continuous depreciation of the Egyptian pound, the actual interest rate is, in fact, well below the nominal rate.

In the Syrian Arab Republic, the lending rate of the Industrial Bank is also fixed by the Central Bank, and this is lower than the commercial rate but higher than that charged on loans in the agricultural sector. However, the rate imposed on loans extended to the private sector exceeds those offered to the public sector.

In Kuwait and Saudi Arabia, industrial projects are accorded more financial incentives than those available in other ESCWA countries. Loans extended by SIDF are charged at only two per cent, including the management fee. The interest rate charged by the Industrial Bank of Kuwait is quite higher at about 5 per cent for new projects and 6.2 per cent for the expansion of existing enterprises. Lending rates in both Kuwait and Saudi Arabia are well below commercial rates and are highly subsidized by the respective Governments. In Kuwait, the Government makes loans to IBK at a very low rate of 2.5 per cent.

However, in Oman industrial projects receive lower subsidies than those available in other GCC countries, except Bahrain. The Oman Development Bank generally imposes an interest rate of 8 per cent on industrial loans.

In the Yemen Arab Republic, the interest rate charged by IBY is fixed at 11 per cent. This rate, which is 4 per cent below the commercial rate, can be considered to be low, since inflation in the Yemen Arab Republic has been high in recent years.

(b) Maturity and grace period of loans

The maturity of industrial loans and the grace period are not uniform in all the industrial and development banks of the region. Long-term loans are mainly provided by the industrial banks of both Jordan and Saudi Arabia, while medium-term loans are available from the industrial banks of Kuwait, the Syrian Arab Republic and the Yemen Arab Republic, as well as the Oman Development Bank. In this respect, loans with a shorter maturity could discourage private investment in long-term and slowly maturing projects.

In Jordan, medium- and long-term loans are granted for periods not exceeding 15 years, where the length depends upon the nature of the project. The grace period can be as much as three years.

Medium- and long-term loans are provided by the Development Industrial Bank of Egypt for a maximum period of ten years, with a grace period that ranges between one and three years.

In the Syrian Arab Republic, project financing is generally provided through medium-term loans for periods that range between three and five years. As is indicated in table 9, few projects are financed by long-term loans; they represented only 1.7 per cent of total loans during the period 1981-1985.

In Kuwait and Oman, the maturity of a loan varies according to the nature of the project, and generally ranges between five and seven years, with a grace period of one to two years. In Saudi Arabia, the maturity of a loan can reach up to 15 years, with a two year grace period.

The Industrial Bank of Yemen provides mainly medium term lending. Most IBY loans are granted for periods ranging between three and five years, with a grace period of six months to one year. However, IBYs policy tends to be flexible, and the period of repayment or grace period may be extended in cases where the project seems viable.

(c) Credit ceiling

Generally, the ceiling of the loan is fixed according to the cost of the project, which in some cases is a percentage of the paid-up capital and reserves of the bank. The size of the loan in Jordan and the Yemen Arab Republic can reach maximums of 50 and 60 per cent respectively of the total cost of the project, but may not exceed 15 per cent of the paid-up capital and reserves of the bank. However, the ceiling of 15 per cent is rather low in the Yemen Arab Republic given the relatively small size of IBYs capital (YRls 100 million), which prevents the bank from meeting the financial requirements of large industries. This helps to explain why most IBY loans are granted to medium-scale industries, with few going to large industries. It should be noted that the average size of each loan extended to large- and medium-scale industries ranged between 30 and 39 per cent of the total project cost during the period 1982-1985.

In Egypt, the size of a loan can reach up to 25 per cent of the paid-up capital and reserves of the DIB.

In the Syrian Arab Republic, the size of medium- and long-term loans for new projects may reach a maximum of 50 per cent of the total project cost, while it can range between 60 and 70 per cent of the total cost in cases related to the expansion of existing industries. However, the Industrial Bank of Syria has not yet determined the ceiling a loan is allowed to reach in relation to the paid-up capital of the bank. But the actual size of loans granted by the Industrial Bank is relatively small, and they are generally used to finance small-scale projects.

As with the Industrial Development Bank of Jordan, SIDF finances up to 50 per cent of the cost of fixed assets and the initial working capital. However, SIDF requires that the owner's equity constitute at least 25 per cent of the cost of the project. The data indicate that the average size per loan registered a net increase in the 1980s, as compared with that for the second half of the 1970s, rising from SRls 11.9 million during the period 1974-1980 to SRls 20.1 million during the period 1981-1985. This increase can be explained by the fact that during the 1980s the private sector erected more capital-intensive projects that required a higher level of capital investment than that needed in the earlier period.

In Jordan, the Syrian Arab Republic, the Yemen Arab Republic and Saudi Arabia, the size of the loan is fixed in accordance with the cost of the project. In Kuwait, the credit ceiling is determined in accordance with two elements: fixed assets and working capital. The size of the loan granted by IBK can reach a maximum of 50 per cent of the fixed assets of the project, and one third of its working capital. Actually, the share of IBKs commitment[1/] to the total cost of projects in the whole manufacturing sector averaged 47.4 per cent during the period 1974-1985. This ranged between a minimum of 30.6 per cent in the textile industries and a maximum of 50.6 per cent in the food industries (see table 10).

In contrast with most of the industrial banks of the region, the Oman Development Bank links the ceiling of the loan to the paid-up capital of the project, and not to its cost. The size of the loan can reach up to 50 per cent of project capital, but must not exceed 10 per cent of the bank's capital. The available data indicate that the average size of the loan reached 32.6 per cent of the total cost of projects in the manufacturing sector in the period 1979-1984, but only 20 per cent in the building materials industry and 47 per cent in the food and paper products industry.

1/ Including loans and equity participation, the latter representing only 5 per cent of total bank commitment.

Table 10. Kuwait: Industrial Bank of Kuwait: cumulative loans and equity commitments by main manufacturing branches, 1974-1985
(Millions of KD, number, percentages)

ISIC Code	Branch of Industry	Number of projects	Total cost of projects	IBK financing	Percentage share of IBK in total cost of projects
31	Food, beverages and tobacco	46	93.7	47.4	50.6
32	Textile, wearing apparel and leather	8	16.0	4.9	30.6
33	Wood and wood products	21	17.1	8.2	48.0
34	Paper, paper products, printing and publishing	42	45.6	22.7	49.8
35	Chemical, petroleum, rubber and plastic products	58	90.6	40.1	44.3
36	Non-metallic mineral products	100	179.3	87.4	48.7
37	Basic metal industries				
38	Fabricated metal products, machinery and equipment	55	88.6	41.8	47.2
39	Other manufacturing industries	8	4.3	1.4	32.6
40	TOTAL MANUFACTURING	338	535.2	253.9	47.4

Source: Compiled from the Industrial Bank of Kuwait, Annual Report, (Kuwait), issues for 1984 and 1985.

3. Preferential treatment and priorities in loan financing

Project financing is extended by most of the industrial and development banks in the region according to certain criteria such as the nature of the project, whether it is import-substitution or export-oriented, its geographical location, etc.. However, only a few of the industrial banks of the region have provided incentives for projects that meet such criteria.

The Industrial Development Bank of Jordan, the Development Industrial Bank of Egypt and the Oman Development Bank encourage the regional dispersal of industrial projects at the country level, in order to promote the underdeveloped areas of their countries. IDB of Jordan gives preferential treatment to such projects by providing loans on easier terms than those generally accorded to projects established in the Amman area. The interest rate charged is 7 per cent, (which is 1 per cent below the normal rate), while the size of the loan can exceed 50 per cent and reach up to 65 per cent of the total cost of the project. The maturity and grace period of the loan are often extended.

It seems that no special incentives are given by either DIB of Egypt and the Oman Development Bank to projects that are established in underdeveloped areas, though these two banks are paying increasing attention to such projects. About 53 per cent of total loans approved by DIB were established in the Cairo zone during the period 1976-1985, while the remaining 47 per cent were distributed between the Alexandria zone (16 per cent), new cities (8 per cent) and other underdeveloped areas of the country (23 per cent).

However, DIB has provided subsidized loans in local currency at a rate of only 6 per cent, as compared with the 11 to 13 per cent generally charged on industrial loans, in cases where projects are undertaken in the following three priority areas: food security, construction for low and medium-cost housing, and handicrafts and small-scale industries.

Since the beginning of 1987, the Industrial Bank of Syria has identified specific priority areas in the country's development plan. They include: food industries, capital goods and engineering industries (see table 11). Projects falling in these areas are provided with long-term loans. This is considered to be an incentive, since the Bank has generally been reluctant to provide long-term financing, and, as was indicated earlier, most of its lending consisted of medium-and short-term loans.

Although the Industrial Bank of Kuwait, the Yemen Arab Republic and SIDF have defined their lending priorities, no special incentives are offered to projects that meet the Banks' priorities. IBK considers that import-substitution projects have the highest priority in the Bank's policy. Although most of the projects approved by SIDF were also aimed at the domestic market, the Fund is placing increased emphasis on export-oriented projects and, more particularly, on those that have market opportunities in GCC countries. It is worth mentioning that SIDF has developed some criteria when granting a loan. In order to qualify for a loan, an investor must fulfil two conditions: (a) all building materials and equipment required for the project should be purchased from Saudi Arabian manufacturers if these materials

Table 11. Syrian Arab Republic: areas of activity that can enjoy long-term loans from the Industrial Development Bank, 1987

Food industries:

Dairy products
Olive oil industry

Industries related to agriculture:

Advanced crushers for oil extraction
Assembly and manufacturing units for agricultural services and machinery
Assembly and manufacturing milk units
Pesticides industry

Engineering industries:

Cooling and storage units
Machinery and equipment, excluding electrical motors
Water pumps and spare parts
Children cars and wagons
Bicycles and Motor cycles
Domestic electric ovens
Electrical generators, excluding neon generators
Washing machines, excluding motors
Electric fans,
Air conditioners
Refrigerators for storage and supermarkets
Deep freezers
Air coolers
Water heaters (ordinary and electrical)
Fruit and vegetable processors
Dry and liquid batteries
Spare parts
Store tanks and reservoirs
Various nails and screws
Welding rods
Simple agricultural and industrial tools
Locks and hatches

Source: Compiled from data supplied by the Industrial Bank of Syria.

are produced locally; (b) all engineering work related to technical feasibility, design and the supervision of construction of the project should be undertaken by Saudi Arabian consulting engineers, possibly in conjunction with foreign firms, where necessary. Exceptions are made in cases where the project is highly complex and where the required expertise is not available locally.

IBY gives priority to projects that fall within the country's development strategy. The Bank recently added other criteria for the granting of a loan: the size of the local value added generated, the hard currency saved and the creation of job opportunities for Yemeni labour.

4. Syndicated loans

Syndicated loans are considered to be an effective means for the mobilization of financial resources for large industrial projects. Since, in general, one single financial institution cannot meet the financial requirements of large projects, the effectiveness of an industrial bank depends on its ability to mobilize resources from other banks and financial institutions.

Few industrial and development banks in the region are involved in syndicated loans. The available data reveal that the Industrial Development Bank of Jordan started to provide project financing through syndicated loans in 1978, which involved commercial and investment banks and specialized financial institutions. During the period 1978-1985, IDB managed 14 syndicated loans, 10 of which were related to the industrial sector. The amount of these loans ranged between a minimum of JD 200,000 and a maximum of JD 7.5 million, while the share of IDB in syndicated loans varied from a minimum of 5.8 per cent in the Jordan Phosphate Company to a maximum of 63 per cent in Jordan Ceramic Industries. On average, the share of IDB in total syndicated loans did not exceed 16 per cent during the period 1978-1983 (see table 12).

5. Non-financial support

The provision of financial resources for industrial projects does not contribute to development unless industrial and development banks of the region perform other functions, such as the identification of development opportunities and their translation into viable projects, the promotion of priority projects, the provision of technical assistance and other support services (feasibility studies, etc.).

Feasibility studies for industrial projects seeking loans are not generally undertaken by all the industrial and development banks of the region. The Development Industrial Bank of Egypt, the Industrial Bank of Kuwait and the Oman Development Bank undertake project appraisal on the basis of the feasibility study submitted by investors. The appraisal consists of an evaluation of the technical, economic and financial aspects of the project, together with an assessment of its viability. However, in some cases DIB carries out feasibility studies for projects in need of such assistance. In this case, the Bank charges the investor only one thousandth of the amount of the loan, not exceeding LE 5,000 for any loan.

Table 12. <u>Jordan: participation of the Industrial Development Bank in syndicated loans as at 31 December 1985</u>

(Thousands of JD, percentages)

	Year	Total loan	IDB participation	Percentage share of IDB in total loan
Jordan Cement Factory Co., Ltd.	1978	7,500	500.00	6.7
Jordan Lime and Silicate Brick Co., Ltd.	1978	1,500	350.00	23.3
Arab Aluminium Co., Ltd.	1979	2,500	500.00	20.0
Jordan Ceramic Industries Co., Ltd..	...	270	170.00	63.0
National Industries Co.	1981	480	260.00	54.2
Jordan Timber Processing Industries Co.	1981	2,500	360.00	14.4
Jordan Phosphate Co., Ltd.	1982	3,500	201.25	5.8
Industrial Estates Corporation	1983	2,000	1,000.00	50.0
Jordan Glass Industries Co.	1984	400	...	...
Jordan Blending and Packing of Fertilizers Co.	1985	200	...	...
TOTAL	1978-1983	20,250	3,341.25	16.5

<u>Source</u>: Compiled from the Industrial Development Bank of Jordan, <u>Annual Report</u>, (Amman), various issues.

Feasibility studies are generally carried out by both the Industrial Development Bank of Jordan and the Industrial Bank of Yemen. IBY usually imposes a fee of 1 per cent of the loan, while IDB undertakes its studies free of charge. However, in Jordan the investor is charged one thousandth of the amount of the loan in cases where the project is not implemented.

Although the monitoring of projects during the implementation phase is undertaken by most of the industrial banks in the region, the technical assistance provided during this phase differs between banks. In 1983 IDB of Jordan established a special fund, the Technical Assistance Fund, with the objective of financing the preparation of technical studies for industrial projects that faced obstacles. For this purpose, the Bank provides long-term loans without interest (but with a 2 per cent annual service charge). Recently, the Bank created a technical unit which aimed at providing technical assistance for projects facing difficulties.

DIB of Egypt has also recently created a special department aimed at solving the problems faced by borrowers: financial, technical and marketing.

Technical assistance for projects during implementation is also provided by IBK, SIDF and the Oman Development Bank. SIDF, for example, plays an integrated role in providing technical, financial, managerial and marketing assistance. Special attention is given by the Fund to the marketing aspects of projects that seek finance, through the provision of marketing consulting services for those which face difficulties.

The identification of new industrial investment opportunities is another function performed by some industrial and development banks such as IBK, IDB, SIDF and the Oman Development Bank. In the Development Industrial Bank of Egypt, a new department that consists of a project department for the identification of projects is being created.

However, in contrast with most of the industrial and development banks in the ESCWA region, the Industrial Bank of Syria lacks the administrative, infrastructural and technical facilities to carry out the feasibility studies and appraisal of industrial projects that are needed to identify project opportunities and to provide technical assistance to industries that face obstacles.

6. Distribution of loans by major manufacturing branches

A change in the lending structure of most of the industrial banks of the region can be observed in the 1980s as compared with the second half of the 1970s. Loans were concentrated, with varying emphasis, in the food textile, chemical, building materials and engineering industries.

In Jordan, the chemical industry, and more particularly pharmaceutics, detergents, plastics and paints, received the largest share of total IDB loans -39 per cent during the period 1981-1985, as compared with 28.1 per cent between 1976 and 1980. The food, building materials and metallic industries constituted the other main recipients of the Bank's financing (see table 13 and annex table A.5).

Loans of the DIB of Egypt were concentrated in the textile, foodstuffs, chemical, building materials and engineering industries. In fact, the Bank has pursued a policy of financing import-substitution projects and those having priority in the country's national development plans, such as spinning and weaving (which received 29.4 per cent of total loans during the period 1982-1985, as compared with 19.8 per cent between 1978 and 1981). Food security projects ranked second, receiving 17.9 per cent of total loans during the period 1982-1985 (see table 13 and annex table A.6).

The spinning and textile industry was also the major branch to benefit from loans provided by the Industrial Bank of Syria. The share of the textile industry in total bank loans accounted for 46.1 per cent during the period 1981-1985, as compared with about 67 per cent between 1976 and 1980. In the 1980s, other manufacturing industries, mainly small-scale industries and handicrafts, also enjoyed a substantial share of total bank loans - 40.8 per cent (see table 13 and annex table A.7).

Loans granted by IBK were concentrated in three major manufacturing branches: building materials, chemicals and food industries. Together they received more than 70 per cent of total bank loans during the period 1981-1985, as compared with 67.3 per cent between 1976 and 1980. As table 13 indicates, building materials continue to receive the highest share of total bank lending, although the share has declined from 36.4 per cent during the period 1976-1980, to 27.1 per cent between 1981 and 1985. The most significant change is the increase in the share of chemicals in total bank loans during the 1980s, when compared with the earlier period (see annex table A.8).

The same trend can be observed in the distribution of SIDF loans among the main manufacturing branches: the declining share of the building materials industry, and the increasing share of chemicals in total loans. Engineering industries also constituted a significant share of SIDF loans (see table 13 and annex table A.9).

As in the case of Kuwait, most of the industrial loans provided by the Oman Development Bank were concentrated in the building materials, chemical and food industries, which together received about 82 per cent of total bank loans during the period 1979-1984. The building materials industry had the highest share of 29.6 per cent (see table 13).

Loans extended by IBY were mainly oriented towards the food industry, which received about a third of total loans during the period 1982-1985. The other major manufacturing branches to receive a substantial share of IBY loans were the building material and chemical industries (see table 13 and annex table A.10).

It can be observed that, in almost all cases, loans were extended to the light consumer industries. This can be explained by the fact that most ESCWA countries are still in the initial phase of industrial development. Those that are relatively advanced have no large industrial projects with technology and capital intensity (e.g. capital goods industries) in the private sector. This is owing to policies towards the private sector and to the lack of well-developed capital markets in ESCWA countries. Also, the banks' activities are not adequate to meet the needs of industrial entrepreneurial development.

Table 13. Selected ESCWA countries: distribution of loans by industrial banks by major manufacturing branches

(percentages)

ISIC Code	Manufacturing branches	Syrian Arab Republic 1976-1980	Syrian Arab Republic 1981-1985	Kuwait 1976-1980	Kuwait 1981-1985	Jordan 1976-1980	Jordan 1981-1985	Yemen Arab Republic 1977-1981	Yemen Arab Republic 1982-1985	Egypt 1978-1981	Egypt 1982-1985	Saudi Arabia 1975/1976-1979/1980	Saudi Arabia 1980/1981-1985/1986	Oman 1979-1984
31	Food, beverages and tobacco	13.5	9.5	22.5	18.6	21.4	14.3	28.9	33.1	22.1	17.9	11.5	10.2	27.3
32	Textile, wearing apparel and leather	63.9	46.1	1.6	2.5	3.1	4.9	0.4	9.9	19.8	29.4	1.7	1.9	1.3
33	Wood and wood products	0.3	0.5	3.1	2.9	3.6	6.5	0.4	-	5.2	2.4	1.1	1.1	3.2
34	Paper, paper products, printing and publishing	-	-	7.3	11.5	10.9	7.8	0.5	1.8	3.8	4.1	3.1	3.8	5.4
35	Chemical, petroleum, rubber and plastic products	1.2	0.8	8.4	24.4	28.1	39.0	18.6	17.1	13.7	16.7	12.0	22.7	25.4
36	Non-metallic mineral products	13.5	2.3	36.4	27.1	17.2	11.9	40.3	27.6	19.9	12.4	52.9	36.5	29.6
37	Basic metal industries	4.1	-	20.5	12.1	14.6	15.2	10.2	10.3	15.3	17.2	17.6	23.3	5.7
39	Other manufacturing industries	3.5	40.8	0.2	0.9	1.0	0.4	0.7	0.2	-	-	0.2	0.6	2.1
30	TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data compiled from Industrial Bank of Syria, Annual Report (Damascus), various issues; Industrial Bank of Kuwait, Annual Report (Kuwait), various issues; Industrial Development Bank of Jordan, Annual Report (Amman), various issues; Industrial Bank of Yemen, Annual Report (Sana'a), various issues; Development Industrial Bank of Egypt, Annual Report (Cairo), various issues; Saudi Industrial Development Fund, Annual Report, various issues; and J. Butler, "Industry review, Sultanate of Oman", Arab Industry Review 1985 (Bahrain, Falcon Publishing, W.L.L.).

Figure 2. Distribution of loans by industrial banks by major manufacturing branches

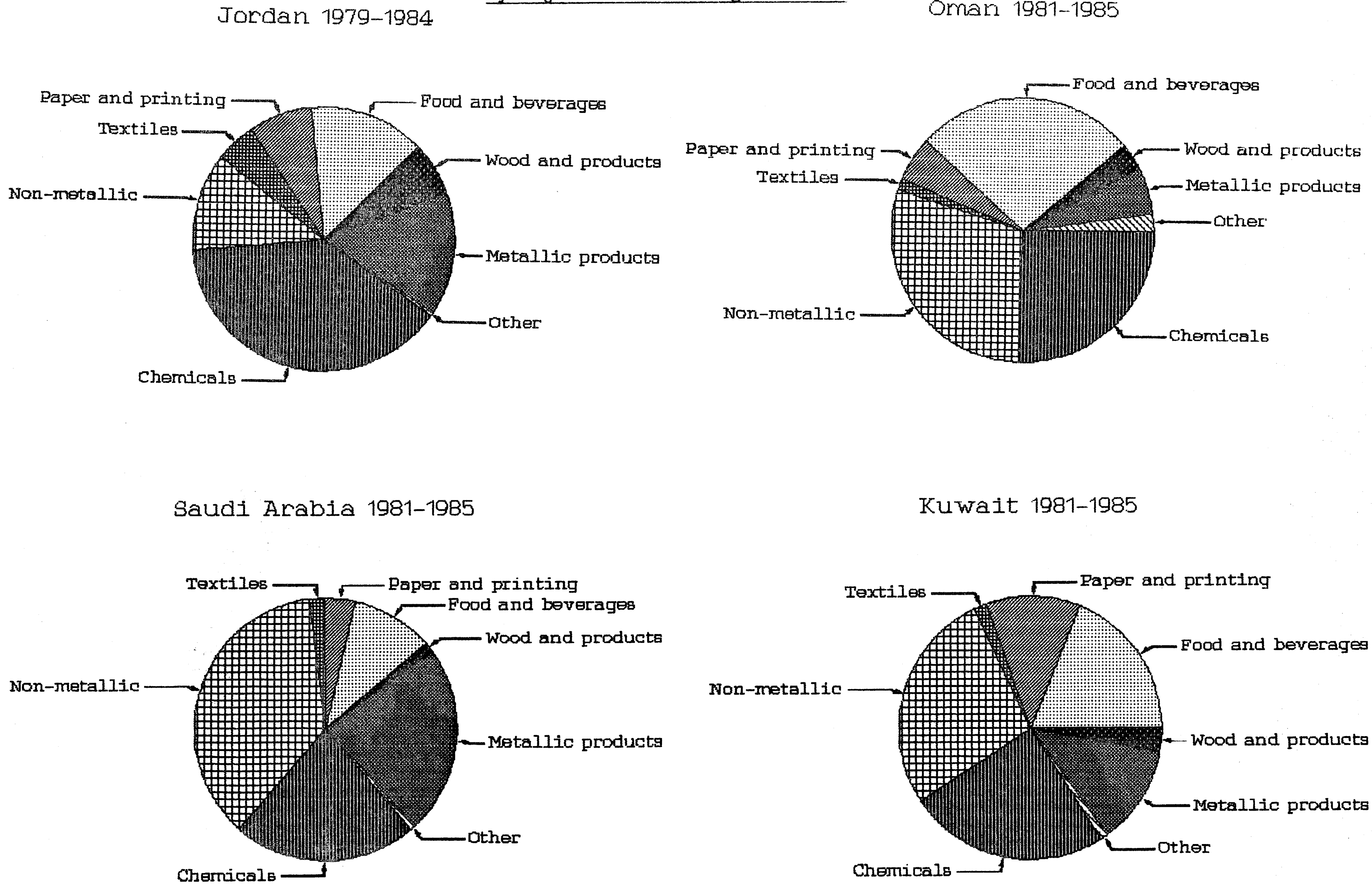
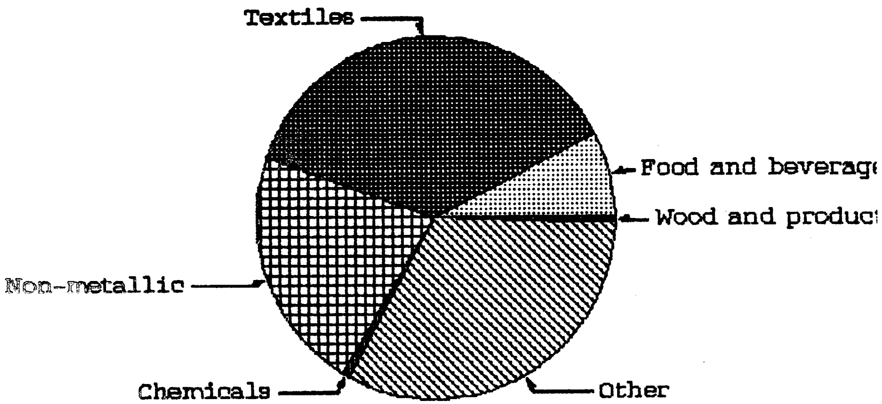
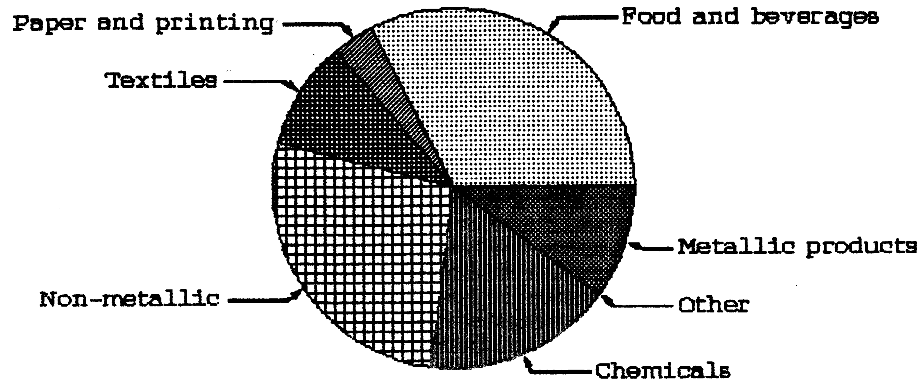


Figure 2. (Continued)

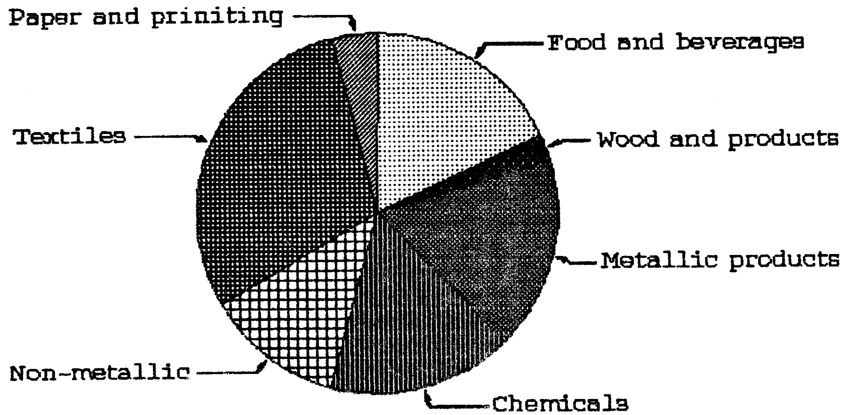
Syrian Arab Republic 1981-1985



Yemen Arab Republic 1982-1985



Egypt 1982-1985



C. Financing small-scale industries and handicrafts

1. Financing policy

Few countries in the region pay any particular attention to the financing of small-scale industries and handicrafts. With the exception of Jordan, Egypt, the Syrian Arab Republic and Oman, most specialized financial institutions in the ESCWA region are not prepared for the financing of small-scale business. This is because the financial services required by these units and their related problems are generally different from those required by medium- and large-scale industries. The administrative expenses incurred in assisting small-scale units could also help to explain why little emphasis is placed on extending finance to them.

The industrial banks of Jordan and Egypt and the Oman Development Bank provide loans at very advantageous terms for small-scale projects, while the Popular Credit Bank of Syria is a financial institution that specifically serves the needs of small-scale units.

In 1975, IDB of Jordan created a special fund for small-scale industry, the Small-scale Industries and Handicraft Fund. These industries are offered long-term loans an easier terms than those provided to medium- and large-scale industries. In addition, the Bank provides technical and management assistance to small-scale units. In order to promote the small-scale sector in underdeveloped areas of the country, IDB delegates one of the Fund's staff to set up office twice a week at branches of the Housing Bank in Irbid and Karak in an effort to stimulate small-scale and handicraft projects by making available financing opportunities. Aggregate figures indicate that slightly less than half the total loans extended to the small-scale sector were granted to areas outside Amman and its suburbs during the period 1975-1985. The contribution of these areas to total loans fluctuated during this period,and ranged between 31 and 56 per cent.

Moreover, the amount of loans provided to small-scale and handicraft projects increased significantly during the period 1975-1985, rising from JD 72,200 in 1975 to JD 491,400 in 1984, and more than doubling in 1985, to reach about JD 1.27 million (see table 14).

The increasing importance being attached to small-scale industrial projects is reflected in the larger share of these industries in total IDB loans. This share jumped from 6.4 per cent in 1984 to 14.5 per cent in 1985, while it failed to exceed 5 per cent between 1975 and 1983.

One of the main objectives of the Development Industrial Bank of Egypt is to finance artisans in order to help them to acquire modern equipment and machinery. Handicraft and small-scale projects are provided with subsidized loans at a very low interest rate of 6 per cent, as compared with the 11-13 per cent rate generally charged on loans to made medium- and large-scale industries.

Table 14. Jordan: Industrial Development Bank: approved loans to small-scale industries and handicrafts classified by location, 1975-1985

(Thousands of JD, number and percentages)

	Amman and suburbs		Other areas		Total		Share of Amman/total (Percentages)	
	No. of loans	Value	No. of loans	Value	No. of loans	Value	No. of loans	Value
1975	33	49.7	19	22.5	52	72.2	63.5	68.9
1976	65	104.9	45	64.5	110	169.4	59.1	61.9
1977	43	75.0	57	94.2	100	169.2	43.0	44.3
1978	61	116.1	68	120.6	129	236.7	47.3	49.0
1979	57	145.3	52	125.2	109	270.5	52.3	53.7
1980	53	145.3	49	148.7	102	294.0	52.0	49.4
1981	97	311.4	87	257.8	184	569.2	52.7	54.7
1982	108	338.0	119	361.3	227	699.3	45.6	48.3
1983	137	417.6	124	356.5	261	774.1	52.5	53.9
1984	97	251.9	91	239.5	188	491.4	51.6	51.3
1985	228	698.9	189	575.0	417	1,273.9	54.7	54.9
Total 1975-85	979	2,654.1	900	2,365.8	1,879	5,019.9	52.1	52.9

Source: Compiled from the Industrial Development Bank of Jordan, Annual Report (Amman), various issues.

The Bank offers managerial and technical assistance to small-scale projects in the form of specialized expertise from competent government institutions, more particularly the Engineering and Industrial Development Design Centre, which provides training programmes for labourers. IDB has also introduced mobile banking units to serve artisans and small-scale projects in the different governorates. In order to promote the development of the small-scale sector, the Bank has also participated in the financing of the capital of the Industrial and Commercial Bank for Artisans.

Loans granted to small-scale industries have gained in importance in recent years, and represented more than 43 per cent of total IDB loans in 1984/1985, as compared with 37 per cent in 1981/1982. Very small-scale industries consisting mainly of handicrafts received around 29 per cent of total IDB loans (see table 15).

Table 15. Egypt: Development Industrial Bank: distribution of approved loans according to size of industries, 1981/1982 and 1984/1985

(Thousands of LE, numbers and percentages)

	1981/1982			1984/1985		
	Number	Value	Percentage	Number	Value	Percentage
Very small industries	1,411	3,2044	29.2	825	2,9409	28.8
Small-scale industries	89	8,591	7.8	111	1,4763	14.5
Others	163	6,9031	63.0	112	5,7831	56.7
TOTAL	1,663	109,666	100.0	1,048	102,003	100.0

Source: Development Industrial Bank of Egypt, Annual Report (Cairo), issues for 1984/1985.

The Oman Development Bank is one of the few specialized institutions that has given special emphasis to the financing of small-scale industries. In 1984 the Oman Development Bank established the Small-Scale Enterprises Scheme with the objective of assisting small entrepreneurs to identify projects and to locate potential entrepreneurs. According to the Scheme, the Bank can finance 75 to 80 per cent of the total cost of the project, while the maturity of the loan may be up to 10 years.

In the Syrian Arab Republic, though the Industrial Bank mostly finances small-scale industries, it does not provide any special assistance to them. However, another credit institution, the Popular Credit Bank, is specialized in the financing of handicrafts and small-scale activities in all economic sectors, including manufacturing. Manufacturing projects received between 10 and 15 per cent of the total loans approved by the Bank during the period 1977 to 1985.

The Popular Credit Bank, which relies mainly on deposits as a source of funds, provides loans for fixed assets and the working capital requirements of industrial projects. Although short-term loans are predominant in Bank lending, medium-term loans have gained in importance in recent years. The latter's share in the total loans extended to manufacturing rose from 37.3 per cent in 1984 to 46.9 per cent in 1986 (see table 16).

In absolute terms, the volume of loans extended to manufacturing projects has also increased; it rose from 25 million Syrian pounds in 1977 to 42 million in 1980 and to 124 million in 1985. The last figure needs to be compared with the volume of loans extended by the Industrial Bank, which amounted to 347 million Syrian pounds in the same year.

Table 16. Syrian Arab Republic: Popular Credit Bank: importance of short and medium-term loans in total loans extended to manufacturing, 1984, 1985, 1986

(Thousands of Syrian pounds, percentages)

Year	Short-term loans		Medium-term loans		Total	
	Value	Percentages	Value	Percentages	Value	Percentages
1984	63,450	62.7	37,709	37.3	101,159	100.0
1985	72,979	58.9	51,014	41.1	123,993	100.0
1986 a/	81,448	53.1	71,988	46.9	153,436	100.0

Source: Data provided by the Popular Credit Bank, of Syria.

a/ From 1 January to 30 November 1986.

In most other ESCWA countries, the small-scale sector is neglected by the industrial banks. This is the case, for example, with IBY, which lacks the managerial and technical facilities to provide assistance to small-scale industrial projects. Moreover, the Bank has to bear the additional costs when dealing with small-size projects. In fact, the fee of 1 per cent of the cost of the project, imposed on the investor to cover the cost of the feasibility study, is very low in the case of small-scale industries and cannot, therefore, cover the Bank's expenditure. Thus, the share of small-scale industries in total IBY loans is very low, and actually declined from 5.2 per cent in 1978/1979 to 1.5 per cent in 1985 (see table 17).

Table 17. Yemen Arab Republic: Industrial Bank of Yemen: value of approved loans to total manufacturing by size of industries, 1977/1978-1985

(Thousands of YRls, percentages)

	1977/1978	1978/1979	1979/1980	July 1980/ December 1981	1982	1983	1984	1985
Large- and medium-scale industries	24,976	23,819	36,704	29,726	39,443	47,330	49,900	75,106
Small-scale industries	160	1,311	2,054	779	1,256	1,571	1,557	1,145
Total	25,136	25,130	38,758	30,505	40,699	48,901	51,457	76,251
Percentage share of small-scale industries in total Bank loans	0.6	5.2	5.3	2.6	3.1	3.2	3.0	1.5

Source: Industrial Bank of Yemen, Annual report (Sana'a), various issues.

Another example is the Industrial Bank of Kuwait, which in contrast to IBY, has ample financial resources. Most of IBKs loans have been also provided to medium- and large-scale industries. The minimum loan was KD 50,000 during the period 1980-1984, but only 8.1 per cent of total approved loans were between KD 50,000 and KD 100,000. Most of the loans (60.2 per cent) ranged between KD 100,000 and KD 500,000 (see table 18).

Table 18. Kuwait: Industrial Bank of Kuwait: classification of commitments by size, 1980-1984
(Number and percentages)

Size	Number of projects	Percentage
Less than KD 50,000	-	-
KD 50,000-100,000	15	8.1
KD 100,000-500,000	112	60.2
KD 500,000 to KD 1 million	20	10.7
More than 1 KD million	39	21.0
Total	186	100.0

Source: Compiled from the Industrial Bank of Kuwait, Annual report (Kuwait), various issues.

2. Distribution of loans by main manufacturing branches

Statistical data on the distribution of loans to small-scale industries by main manufacturing activities are not reported by all the specialized financial institutions, only by the Industrial Bank of Jordan, the Popular Credit Bank of Syria and the Industrial Bank of Yemen.

Available data indicate that the wood products industry received the largest share of total loans granted by the Popular Credit Bank to the manufacturing sector, it accounted for 45.5 per cent during the period 1984-1986. The other main recipients of bank loans were the textile, food and building materials industries.

In the Yemen Arab Republic, most of the lending to small-scale units was distributed among three major activities: the metal working, building materials and chemical industries. In Jordan, loans were distributed almost equally between the food, textile, wood products, building materials and metal working industries (see table 19).

Table 19. Jordan, the Syrian Arab Republic and the Yemen Arab Republic: approved loans to small-scale industries by major manufacturing branches for various periods

(Percentages)

ISIC Code	Branches of Industries	Industrial Bank of the Yemen Arab Republic 1977-1981	Industrial Bank of the Yemen Arab Republic 1982-1985	Popular Credit Bank of Syria 1984-1986	Industrial Development Bank of Jordan 1976-1980	Industrial Development Bank of Jordan 1981-1985
31	Food, beverages and tobacco	-	12.1	15.4	8.1	13.5
32	Textile, wearing apparel and leather	-	2.7	16.8	10.9	11.6
33	Wood and wood products	30.8	13.0	45.5	22.1	16.6
34	Paper, paper products, printing and publishing		6.3	2.0	12.3	5.3
35	Chemical, petroleum, rubber and plastic products	4.6	15.0	1.0	1.2	-
36	Non-metallic mineral products	30.9	17.0	14.7	16.3	17.4
37	Basic metal industries	32.0	21.7	-	18.5	15.7
39	Other manufacturing industries	1.7	12.1	4.6	10.6	19.9
30	TOTAL	100.0	100.0	100.0	100.0	100.0

Source: Data compiled from the Industrial Bank of Yemen, Annual Report, (Sana'a), various issues; Industrial Bank of Jordan, Annual Report (Amman), various issues; and data provided by Popular Credit Bank of Syria.

D. Participation in the equity capital of industrial enterprises

Specialized financial institutions can also promote industrial development through direct participation in the equity capital of new projects or of existing industries. As a major source of funds, these institutions can contribute to the financing of large industrial projects that require diversified and sizeable amounts of funds. Their participation can encourage entrepreneurs to invest and embark on new projects. Most specialized financial institutions in the ESCWA region participate directly in the equity capital of industrial enterprises, though equity investment still constitutes a small share of total financial commitments.

Total equity participation as a percentage of total commitments was the highest in Jordan (11.5 per cent) as compared with Kuwait, Egypt and the Yemen Arab Republic. In addition to their participation in the equity capital of industrial enterprises, industrial banks have also acquired shares in financial companies and tourism projects. Equity participation in industrial enterprises as a percentage of total equity participation, varies between industrial banks. It constitutes a substantial share in Jordan (91.6 per cent) and the Yemen Arab Republic (88.6 per cent), but less than 33 per cent in Kuwait and Egypt (see table 20). It should be noted that, since 1985 the Industrial Bank of Kuwait has restricted its activities to loan financing, whereas equity participation constituted about 5 per cent of total IBK commitments. IBK has left these activities to a newly established financial institution, the Industrial Investment Company, in which IBK holds a 21 per cent share of its capital.

The average contribution of industrial banks to the equity capital of industrial companies differs widely between the four industrial banks mentioned above. The average is high for IBK (23.9 per cent) and very low for IDB of Jordan (1.7 per cent). It is relatively modest for DIB of Egypt (4.4 per cent) and IBY (7.9 per cent).

The Industrial Bank of Kuwait participated in the equity capital of 13 industrial companies, mostly large-scale units. The capital of these companies ranged between KD 500,000 to KD 20 million. The share of IBK in the equity capital of these enterprises generally ranged between 12 per cent (in the Gulf Aggregate Company) to 33.3 per cent (in the Kuwait Metal Decorating Company). An exception is the Gulf Paper Manufacturing Company in which IBK participation reached about 82 per cent (see annex table A.11).

In Egypt, the Development Industrial Bank has participated in only five industrial companies with a total capital of LE 57.5 million. The capital of these companies ranged between LE 300,000 and LE 25 million (see annex table A.12).

The Industrial Development Bank of Jordan has participated in the equity capital of 21 medium- and large-size industrial companies, which were engaged in various manufacturing activities such as food products, chemicals, fertilizers, glass products, aluminium and cement. An analysis of 18 of these companies reveals that the share of IDB ranged between 5 and 10 per cent in seven companies, and did not exceed 5 per cent in 11. (see annex table A.13).

The Industrial Bank of Yemen has participated in a limited number of industrial companies. The Bank acquired shares in four companies, but IBYs share in one of these companies, the Marib Poultry Company, was sold to the Government in 1985. These companies are large-scale units with a capital that ranged between YRls 18 million and YRls 40 million. Moreover, in 1985 the Bank, in co-operation with the Ministry of Economy, Trade and Supply and the private sector, embarked on the foundation of three new companies (ceramic products, gypsum and lime and glass products), which are expected to start operation during the Third Five Year Plan 1987-1991 (see annex table A.14).

From the above, it would appear that most industrial banks in the region are not performing their function fully as a source of equity financing for industrial projects. Apart from IBK, the average share of the banks in the equity capital of industrial companies is quite low. Also, equity financing only constituted a secondary activity, since it represented a small share of total bank financial commitments. In this respect, it is worth mentioning that the banks' participation in the equity capital of industrial enterprises is, in many cases, more important than the provision of loans, since it has encouraged entrepreneurs to invest. The lack of the commitment of the industrial banks can be explained on the one hand by the lack of viable projects, and on the other by the fact that these banks do not play a significant role in the identification and promotion of projects.

Table 20. Selected industrial banks: relative importance of equity participation in industrial enterprises and total commitments*, 1985

(Percentages)

	Average share in the equity capital of industrial companies	Share of the industrial sector in total equity participation	Total equity participation as a percentage of total commitments
Industrial Bank of Kuwait	23.9	32.7	5.2
Industrial Development Bank of Jordan	1.7 a/	91.6 b/	11.5
Industrial Bank of Yemen	7.9	88.6 c/	2.0
Development Industrial Bank of Egypt	4.4	29.0	1.9

Source: Industrial Bank of Kuwait, Annual Report, (Kuwait), issues for 1984 and 1985; Industrial Development Bank of Jordan, Annual Report, (Amman), issues for 1984 and 1985; Industrial Bank of Yemen, Annual Report, (Sana'a), issues for 1984 and 1985; Development Industrial Bank of Egypt, Annual Report, (Cairo), issues for 1984 and 1985;

* Including loans and equity participation.

a/ This figure represents the share of IDB in 18 companies; no complete data are available for the three other companies in which IDB holds equity participation.

b/ Including 20 per cent that represents the share in the Jordan Industrial Estate Corporation.

c/ The remaining share, 11.4 per cent, represents the contribution of IBY to the capital of the Yemen Company for Investment and Finance, which mainly undertakes industrial financing.

III. CONTRIBUTION OF COMMERCIAL BANKS AND INVESTMENT INSTITUTIONS TO INDUSTRIAL FINANCING

A. Role of commercial banks in industrial financing

In the second half of the 1970s the ESCWA region witnessed the expansion of existing commercial banks and the establishment of large ones. Loans provided by commercial banks to the industrial sector are considered to be an additional source of finance, along with the soft loans granted on easy terms by the specialized financial institutions of the region. Commercial banks, which mainly offer short-term loans and overdraft facilities, constitute the major source of finance for the working capital of industrial firms. In some cases, through medium-term loans, they financed the fixed assets of a number of industries. These loans were generally extended at prevailing commercial rates or in some countries at the rate fixed by the Central Bank for the industrial sector. On the one hand, many industrialists in the region prefer to borrow from commercial banks, owing to the fact that the regulations and procedures of such banks are less complex than those of the specialized financial institutions. On the other hand, while the latter mainly finance medium-scale industries, and in some cases have only limited resources, commercial banks have been able to provide syndicated loans for certain large industrial projects and complexes that were established in the region.

1. Importance of the manufacturing sector in commercial bank financing

A large part of the advances of commercial banks consists of trade financing, and the share of the manufacturing sector in total financing varies from country to country. The advances of commercial banks to the industrial sector are relatively more important in countries such as Egypt and the Syrian Arab Republic where state-owned enterprises that are dominant in manufacturing activities mainly rely on financing from nationalized commercial banks. The available data indicate that in 1985, the share of the industrial sector in total commercial bank credits accounted for 31.4 per cent in Egypt and 15.8 per cent in the Syrian Arab Republic. Advances to the industrial sector in the Syrian Arab Republic have continuously declined in absolute and relative terms since 1980, owing to the slow activity experienced by this sector following problems related to foreign exchange. In 1980, the share of the industrial sector in total commercial bank advances accounted for 38.8 per cent. It should be noted that data on the advances of commercial banks in the Syrian Arab Republic include the advances of: the Commercial Bank of Syria, the Industrial Bank, the Co-operative Agricultural Bank, the Real Estate Bank and the Popular Credit Bank. The Commercial Bank is the largest bank in the Syrian Arab Republic, and provides more than three quarters of total bank loans. It is also the major source of funds for the industrial sector, as loans extended by both the Industrial Bank and the Popular Credit Bank did not exceed 8 per cent of total bank loans to the industrial sector in 1985, while the two other banks, the Co-operative Agricultural Bank and the Real Estate Bank, did not provide any loans to industry.

Table 21. Selected ESCWA countries: commercial bank advances to the industrial sector* and their relative importance in total loans

(Millions of national currency units and percentages)

	Value 1980	Value 1985	Percentage share in total loans 1980	Percentage share in total loans 1985
Kuwait				
Industry	159.2	122.2	6.6	2.9
(Manufacturing)	-	-	-	-
Saudi-Arabia				
Industry	5,969 a/	7,503	12.9a/	12.3
(Manufacturing)	(4,587)a/	(5,427)	(9.9)	(8.9)
Egypt				
Industry (Manufacturing)	3,244.1b/	5,703.2	34.2b/	31.4
Bahrain				
Industry	57.68	96.44	12.7	14.2
(Manufacturing)	(57.68)	(96.44)	(12.7)	(14.2)
Jordan				
Industry	73.08	189.24	13.0	14.8
(Manufacturing)	(68.7)	(157.2)	(12.2)	(12.3)
Syrian Arab Republicc/				
Industry	6,640.0	3,644.9	38.8	15.8
(Manufacturing)	-	-	-	-
Yemen Arab Republic				
Industry	219.3d/	348.7	10.6d/	7.9
(Manufacturing)	-	-	-	-

Source: Compiled from the Central Bank of Kuwait, Monthly Monetary Review, (Kuwait), various issues; Saudi Arabia Monetary Agency, Annual report, (Riyadh), various issues; Central Bank of Egypt, Annual report, (Cairo), various issues; Bahrain Monetary Agency, Annual report, and Quarterly Statistical Bulletin, (Manama), various issues; Central Bank of Jordan, Annual Report, (Amman), various issues; Syrian Arab Republic, Central Bureau of Statistics, Statistical Abstract, (Damascus), various issues; and Central Bank of Yemen, Financial Statistical Bulletin, and Annual Report, (Sana'a), various issues.

* Including mining and manufacturing.
a/ 1981/1982.
b/ 1983.
c/ Including Commercial Bank of Syria, Industrial Bank, Co-operative Agricultural Bank, Real Estate Bank and Popular Credit Bank.
d/ Excluding medium- and long-term loans.

In 1985 in the other countries of the region, the share of the industrial sector in total commercial bank loans accounted for 12.3 per cent in Jordan, 9 per cent in Saudi Arabia, 7.9 per cent in the Yemen Arab Republic, 3 per cent in Kuwait, but was over 14 per cent in Bahrain, where the industrial sector relied almost entirely on commercial bank financing, given the absence of a specialized industrial or development bank (see table 21).

2. Financing policy of selected commercial banks

The financing policy of commercial banks is reviewed here on the basis of selected commercial banks, including one regional, one international and a few local commercial banks. The commercial banks selected include: the Yemen Bank for Reconstruction and Development, the National Bank of Bahrain, which both operate mainly at the country level, the Gulf International Bank and the Arab Banking Corporation, which operate respectively at the regional and international level.

(a) Local commercial banks

(i) The Yemen Bank for Reconstruction and Development (YBRD)

The most important commercial bank in the Yemen Arab Republic is the Yemen Bank for Reconstruction and Development, the first commercial bank to be established in the Yemen Arab Republic. YBRD is the principal bank which has financed commercial activities, housing, infrastructural projects, the electricity company, etc. The Bank financed and still continues to finance developmental activities, namely agricultural and industrial projects. It plays a significant role in financing large industries. Many industrialists prefer to deal with commercial banks, due to the promptness with which such banks provide loans. However, the share of the industrial sector in total YBRD loans does not exceed 4 per cent.

Most industrial loans were provided to finance working capital requirements and, in a certain number of cases, the expansion of existing industries. The bank is reluctant to finance the fixed assets of new projects; its policy is to extend loans only to industries that have a good performance record. Loans are generally granted on the basis of a feasibility study, submitted by the industrialist. YBRD appraises the project, but does not have any special unit to carry out feasibility studies.

The interest rate charged by the bank is generally the same as the commercial rate, 15 per cent, but in many cases, industrial loans for fixed assets have been provided at 12 per cent. The rates charged by YBRD can be considered to be relatively low, owing to the continuous deterioration of the Yemen rial, but the Bank is not allowed to exceed the 15 per cent rate fixed by the Central Bank.

The maturity of project financing loans ranges from two to five years. Their size depends on the performance of the industries seeking the finance. They may range between YRls 10 million and YR/s 40 million for successful industries, and under YRls 10 million for less successful industries. YBRD loans have been concentrated in dairy products and the biscuit, ghee, detergent, cosmetic, shampoo, paint and plastic industries (see table 22).

Table 22. Yemen Arab Republic: loans granted by the Yemen Bank for Reconstruction and Development to major manufacturing companies, 1983-1986

(By value and period of maturity)

Company	Products	Value of loan (million of YRls)	Year of lending	Maturity of loans (in years)	Purpose of loan
Dairy and Food Company	Dairy products	25	1983	5	New project: equipment
Industry and Trading Company	Biscuits	25	1984	2	Expansion of company: equipment
Ghee and Soap Company	Oils, ghee and soap	25	1984	3	Expansion of company: equipment
United Industries Company	Tobacco (cigarettes)	40	1986	2	Expansion and working capital
Industrial Products Company	Cosmetics, shampoo	15	1983	5	Expansion of company: equipment
Plastics and Sponge Company	Plastics and products	15	1984	3	Expansion of company: equipment
National Painting Company	Paints	5	1985	2	Expansion of company: equipment
Al-Rammah Company	Detergents, cosmetics and shampoo	10	1985	4	New project: equipment
Blits Company for Industrial Development	Domestic utensils	15	1985	5	Expansion

Source: Compiled from data supplied by the Yemen Bank for Reconstruction and Development.

It is worth mentioning that YBRD has ample resources in local currency, but few oportunities to invest. In contrast to the policy of the Central Bank, that of the Bank consists in discouraging time deposits in favour of demand deposits, for which the Bank bears a lower interest rate than on time deposits.

(ii) National Bank of Bahrain

The National Bank of Bahrain is considered to be one of the most important commercial banks operating at the country level. Through syndicated loans the Bank has participated with other commercial banks, in the financing of large industries in Bahrain, such as ALBA, GARMCO, AISCO and the Gulf Petrochemical Industries. The loans granted to AISCO, GARMCO and the Gulf Petrochemical Industries were for project financing purposes (equipment and initial working capital). The maturity of these loans varied from five to ten years, with a grace period that ranged between two and five years. The loan granted to ALBA aimed at financing equipment for the expansion of the company, as well as working capital requirements. This loan has a maturity of nine years.

However, some of these industries still face serious problems of finance. Commercial banks are becoming reluctant to finance AISCO, which is facing management, technical and marketing problems. Other large industries such as GARMCO have faced certain problems in financing their working capital, due to the fact that these industries did not initially pay particular attention to their working capital requirements.

These financial constraints have been aggravated by the fact that the Government has generally been reluctant, except in the case of ALBA, to provide guarantees for commercial bank loans. In this respect, the role of the Government could be of particular importance: it could raise additional financial resources for large industries through loan guarantees and the issue of bonds for long-term financing.

With respect to medium- and small-scale industries in Bahrain, commercial banks are generally reluctant to provide long-term loans, especially in the absence of government support. The National Bank of Bahrain, in line with other commercial banks, has limited its lending to the working capital requirements of manufacturing activities. Short-term loans were provided by the National Bank of Bahrain for several downstream aluminium factories, air conditioner assembly factories and carpentry shops. In a number of cases, the Bank has extended medium-term loans for project financing, especially to existing cumstomers who were initially involved in trade activities; these loans were extended to finance manufacturing plants such as factory blocks. Hence, medium- and small-scale industries in Bahrain face serious obstacles: the absence of an industrial or development bank to provide soft loans, and the reluctance of commercial banks to finance the fixed assets of industrial projects.

The available data indicate that the total direct lending of the National Bank of Bahrain to the manufacturing sector as at 31 September 1986 amounted to 40 million Bahrain dinars (BD). This constituted about 22 per cent of total bank lending. Moreover, the Bank has participated in the equity capital of industrial shareholding companies, such as BLICO (11 per cent of its total capital) and AISCO (0.5 per cent).

(b) A regional commercial bank: the Gulf International Bank

Established in 1975, the Gulf International Bank (GIB) is one of the major regional commercial banks. It has a capital of $US 530.5 million and is equally and wholly owned by the Governments of GCC countries and Iraq. The major source of funds of the Bank is deposits, which constituted 83.7 per cent of total liabilities and shareholders' equity in 1985. In fact, the Bank was able to attract a continuous flow of deposits from GCC countries and from an increasing number of depositors world-wide. Total deposits amounted to $US 6.5 billion in 1985.[1/]

GIB has aimed more particularly at promoting the financial market and industrialization of the region. Lending is the main activity of the Bank: the share of loans in total assets accounted for more than 53 per cent in 1985. About 25 per cent of total Bank loans are provided to the industrial sector. However, shareholding countries and other Arab countries respectively received 17 and 11 per cent of total loans.[2/]

GIB has been active in financing manufacturing activities in the Gulf region, especially large industries and joint-venture projects. It is heavily involved in the petrochemical industry, participating in the financing of most of the projects of SABIC in Saudi Arabia, and petrochemical projects in Qatar, the United Arab Emirates and Bahrain.

GIB has been also involved in the financing of the aluminium industry in Bahrain, more particularly ALBA and GARMCO. While most of the loans extended to SABIC projects were aimed at financing working capital requirements, those granted to ALBA and Gulf Petrochemical Industries in Bahrain were project financing for equipment and initial working capital. Loans extended to heavy manufacturing projects are generally syndicated, involving several local and regional banks.

The terms of the Bank's loans vary according to the project. The maturity of a loan for project financing ranges between five and eight years, with a grace period generally of two years. For example, in 1982 Gulf Petrochemical Industries received a loan for five years, with a grace period of two years. The interest rate charged by GIB is generally the prevailing and commercial market rate.

GIB generally requires a guarantee from a State as a condition of providing the loan. As was indicated earlier, this was the case with ALBA.

(c) An international commercial bank: the Arab Banking Corporation (ABC)

In contrast with local and regional banks, international commercial banks in the region do not generally finance manufacturing activities: rather they are active in the recycling of the important financial resources available in GCC countries.

1/ Gulf International Bank, Report and Accounts 1985.

2/ Ibid.

Established in Bahrain in 1980, the Arab Banking Corporation is an international commercial bank equally owned by three Arab Governments: Kuwait, the Libyan Arab Jamahiriya and the United Arab Emirates; it has a paid-up capital amounting to $US 750 million.

ABC operates as a private bank but restricts its lending to public sector enterprises. It is engaged in offshore banking and its main activities are oriented towards the international market. Only a few loans such as those for AISCO in Bahrain and the tobacco industry in Egypt, have been extended to manufacturing firms in the ESCWA region. These were medium-term loans that were extended to finance equipment and working capital. The maturity period of the loan granted to Egypt for the expansion of the tobacco plant was five years.

The above review of selected commercial banks in the region indicates that these banks constitute the major source of finance for the working capital requirements of the industrial sector; they have also contributed to the financing of the fixed assets of some large industries in the region. However, the higher interest rates charged by these banks for project financing have increased the cost of capital and, hence, the debt burden of large industrial projects. This shows the inability of some industrial and development banks in the region to deal with large industries. In contrast with most other ESCWA countries, Bahrain has no industrial or development bank; hence, commercial banks constitute the main source of finance for the industrial sector. Relative to other industries in the region, this situation discriminates against Bahraini industries, which do not have access to soft loans.

B. Contribution of investment institutions to equity financing

Oil revenue surpluses could help to explain the rapid development and expansion of the investment banks and institutions in the ESCWA region in the late 1970s and early 1980s. The latter constitute an important source of funds for manufacturing projects, especially for medium- and large-sized industries. The major role of investment banks and institutions is to participate in the equity capital of industrial enterprises, but some of them also perform another function, which is the provision of medium- and long-term loans for developmental projects.

The financing policy of investment banks and institutions is presented below on the basis of an analysis of selected institutions that operate at the regional, subregional and country level.

1. Regional investment institutions: the Arab Industrial Investment Company and the Arab Mining Company

(a) The Arab Industrial Investment Company (AIIC)

The Arab Industrial Investment Company was established in 1979 on the basis of a decision of the Arab Economic Unity Council, with the objective of sponsoring, establishing and financing industrial projects in Arab countries in engineering industries, including the mechanical, electrical and electronic industries. The activities of AIIC include the carrying out of techno-economic feasibility studies, the promotion of projects and participation in the equity capital of industrial establishments.

The paid-up capital of the Company, as of 31 December 1985, was 16.8 million Iraqi dinars (ID), or 20 per cent of the subscribed capital. Until now only nine Arab countries have subscribed to the company's capital, with Iraq and Saudi Arabia having the largest shares (Iraq has a 28.6 per cent and Saudi Arabia a 26.8 per cent share).

Up to 1985 AIIC has participated in six projects, three of which are in the ESCWA region. These include: the Arab Axles Manufacturing Company (Saudi Arabia), the Arab Engineering Industries Company (Jordan) and the Arab Engineered Systems and Control Company (Bahrain). The share of AIIC in the capital of these companies is 25 per cent in the first two companies, and 20 per cent in the last (see table 23).

AIIC undertakes the promotion of projects that have been studied and found to be viable, in order to raise the capital required for their establishment. So far this has been confined to the telephone exchange project which is currently being implemented at the country level in Egypt and Algeria, AIIC is trying to convert it into a joint Arab project.

In addition, AIIC is involved in studying the following projects:

(i) alloy and special steels; (ii) mobile cranes; (iii) circuit breakers and kiosks; (iv) ductile pipes; (v) antifriction bearings; (vi) sprinkler and dip irrigation equipment; (vii) water pumps; and (viii) diesel engines and spare parts.

(b) <u>The Arab Mining Company (ARMICO)</u>

The Arab Mining Company is another regional investment company established by the Arab Economic Unity Council in 1974. It has a capital of KD 120 million and is owned by several Arab States.

The Company is allowed to undertake all technical, industrial and commercial operations relating to mining activities, including exploration, extraction, processing, manufacturing, transportation and marketing.

Since 1976, its first year of operation, ARMICO has participated in 19 projects, of which eight were implemented in ESCWA countries (Jordan, the Yemen Arab Republic, Bahrain and Iraq). ARMICOs total participation in the Arab region as of 31 December 1986, amounted to KD 58.6 million of which 58.5 per cent was in ESCWA countries. However, manufacturing projects in the ESCWA region constituted about 46 per cent of ARMICOs participation. The remaining share went to mining industries in Jordan. Table 24 indicates the share of ARMICO in the equity capital of manufacturing enterprises.

Table 23. Arab Industrial Investment Company: projects being implemented in ESCWA countries

	Arab Axles Manufacturing Company		Arab Engineering Industries Company		Arab Engineered Systems and Control Company	
Products	Axles for trailers up to 16 tons		Iron castings		Process control systems and instrumentation	
Start of production	June 1986		1988		December 1985	
Location	Saudi Arabia		Jordan		Bahrain	
Investment (million of $US)	16.3		53.0		31.5	
Capital (million of $US)	4.3		26.0		20.0	
Shareholders (percentage)	AIIC	25	AIIC	25	AIIC	20
	Iraq	10	Arab Mining Co.	25	APICORP[a/]	30
	Saudi Arabian investors	43	Jordanian Pension Fund	10	NIC	10
	Kuwaiti investors	18	Others	40	Combustion Engineering (USA)	40
	Others	4				

Source: Arab Industrial Investment Company, Annual Report 1985 (Baghdad).

a/ Iran Petroleum Investments Corporation (APICORP).

Table 24. Arab Mining Company: participation in the equity capital of manufacturing companies as at 31 December 1986

(Millions of KD and percentages)

	Paid-up capital	ARMICO participation Value	ARMICO participation Percentage
Arab Engineering Industries (Jordan)	12.496	3.124	25.0
National Company for Industrial and Construction Materials (Yemen Arab Republic)	1.240	0.435	35.0
Arab Iron and Steel Company (Bahrain)	47.670	5.959	12.5
Arab Company for Chemical Detergents (Iraq)	34.690	3.469	10.0
Glass Sheets project (Iraq)	29.250	2.925	10.0
	125.346	15.912	12.7

Source: Compiled from data provided by the Arab Mining Company.

2. A subregional investment institution: the Gulf Investment Corporation (GIC)

In an effort to achieve further co-operation, in 1984 GCC established a subregional investment company in Kuwait, the Gulf Investment Corporation, with a capital of $US 2.1 billion, subscribed to equally by GCC Governments. However, any shareholding Government is able to transfer ownership of a portion that does not exceed 49 per cent of its total share to its own nationals, individuals or institutions.

The aim of this corporation is to contribute towards the development of the economic and financial resources of the shareholding States. It is able to invest its funds in various investment activities either in GCC countries or outside. More particularly its activities include: participation by loan funding and equity in the capital of various companies, industrial and other; the promotion of projects and the establishment of companies in various fields of activities; the investment of funds on international financial markets; the conducting of studies and surveys related to the investment of capital, etc. Particular emphasis is placed by GIC on promotion and investment in GCC joint projects that could serve the aim of co-operation among GCC countries and could contribute to achieving integration between them. It should be noted that this corporation aims at promoting and participating in profitable projects.

In its first year of operation (1985), the Projects Department of GIC reviewed some 34 projects; by the end of 1985, five of these had reached an advanced stage of commitment. These included the financing of a two-phase modernization scheme for the ALBA, a multi-million dollar project for GARMCO to finance the extension of their production capability into aluminium foil and an equity participation and loan provision for the establishment of the National Wire Drawing and Products Company (ASLAK) in Jubail, in conjunction with NIC of Saudi Arabia and a number of European partners. Other major projects in Oman, Qatar and the the United Arab Emirates are are also being considered and reviewed.[1/]

3. Local investment companies

(a) Kuwait: Industrial Investment Company (IIC)

At the initiative of the Kuwaiti government and the Industrial Bank of Kuwait, a specialized investment institution, the Industrial Investment Company, was established in 1983 as a private company, with the objectives of undertaking direct investment of industrial nature, financing trade in industrial commodities and managing the investment of funds in the industrial sector. The main source of funds of the company is constituted by shareholders' equity which amounted to KD 8 million in 1985, representing more than 93 per cent of total company's resources (see annex table A.15). The major shareholders are Kuwait Investment Authority (31 per cent) and the Industrial Bank of Kuwait (21 per cent). The remaining shares are distributed among the Public Institution for Social Security, commercial banks, insurance and industrial companies (see table 25).

Table 25. Kuwait: Industrial Investment Company: shareholders relative participation in equity capital, 1985

	Percentage
Kuwait Investment Authority	31
Industrial Bank of Kuwait	21
Public Institution for Social Security	10
Commercial banks	18
Insurance companies	8
Industrial establishments[a/]	12
TOTAL	100
Authorized capital (millions of KD)	20
Paid-up capital (millions of KD)	8

Source: Industrial Investment Company, Annual Report 1985 (Kuwait).

a/ The share of major industrial establishments in the capital of the Industrial Investment Company is distributed as follows: the Kuwait Metal Pipes Co. owns 4 per cent of capital, while the Kuwait Cement Co., United Fisheries of Kuwait, Refrigeration Industry and Cold Storage Co., and Gulf Cables and Electrical Industries Co. each participate with 2 per cent.

1/ Gulf Investment Corporation, Annual Report 1985.

The main criteria applied by IIC for it participation in the equity capital of industrial enterprises is the economic and financial feasibility of the project, and its ability to yield substantial profits. IIC may participate with up to 50 per cent of the equity of local and regional projects, and up to 30 per cent of foreign projects.

Although IIC operates in local, regional and international markets, its major priority is to invest in the local market. However, only about one third of the total investment made by IIC were in Kuwaiti industrial companies. The remaining two-thirds consisted of equity participation in foreign enterprises together with portfolios and foreign securities. According to IIC, the importance attached to investment in foreign industrial enterprises stems from the fact that they can help in the transfer of technology to Kuwait. On the other hand, attempts are being made to invest in industrial projects in other Arab countries. The two projects submitted by countries in the region, Oman and Egypt, were rejected by the company, on the grounds that they were not economically or financially feasible. The company considers for example, that the project submitted by Egypt for the establishment of a polypropylene factory to manufacture plastic sheets could have been expected to have experienced marketing problems, as at the same time three similar projects were under consideration in Egypt.1/

In 1985, after two years of operations, IIC has participated in six Kuwaiti industrial companies with a total paid-up capital of KD 9.5 million. On average, the company's share in the total paid-up capital of these companies was about 22 per cent (see table 26).

Table 26. Kuwait: Industrial Investment Company: equity participation in Kuwaiti industrial companies as at 31 December 1985

(Thousands of KD and percentages)

Company	Paid-up capital	IIC participation: In paid-up capital	IIC participation: Rate of participation (percentage)
Gulf Glass Manufacturing Company	4,621.3	693.2	15.0
Kuwait Blanket Manufacturing Company	700.0	175.0	25.0
Technological Investment Company	1,500.6	125.0	8.3
Electrical Boards Manufacturing Company	1,100.1	500.0	45.5
Kuwait Industrial Refinery Maintenance and Engineering Company	1,251.9	200.3	16.0
Kuwait Leather Industries Company	389.9	389.6	99.9
	9,563.8	2,083.1	21.8

Source: Industrial Investment Company, Annual Report 1985 (Kuwait).

1/ Information made available by the Industrial Investment Company.

(b) Egypt: Arab Investment Bank (AIB)

Established in 1978, the Arab Investment Bank is owned equally by Egypt, the Syrian Arab Republic and the Libyan Arab Jamahiriya. Following the deterioration of Egypt's relations with both the Syrian Arab Republic and Libyan Arab Jamahiriya, the Bank has only operated in Egypt. In 1986, its paid-up capital reached $US 20 million, in addition to reserves amounting to $US 15 million, which together constitute about 10 per cent of total Bank liabilities. The major source of funds for AIB consists of demand and time deposits, which represent about 60 per cent of total assets.

AIB operates both as a private investment institution and as a commercial bank. Although it provides medium- and long-term loans for project financing, its major activity is participation in the equity capital of new projects. The Bank's investments are mainly oriented to tourism and industrial projects, but recently more emphasis has been placed on industrial projects, as the tourism sector is becoming saturated. It should be noted that AIB carries out feasibility studies on development projects, and that it pays particular attention to the identification and promotion of projects. The Bank undertakes investments in projects that fall within the priorities of the country's development plan.

Until the end of 1985, AIB participated in the equity capital of 15 companies, with a total investment of $US 22 million, of which four companies belong to the industrial sector. However, the Bank's new orientation to invest primarily in manufacturing activities is reflected in the number of industrial projects being implemented - seven of a total of 12 projects. The food, textile and building materials industries constituted the main recipients of Bank financing. The share of the Bank in the total capital of industrial companies ranged between 10 and 25 per cent (see annex table A.16).

AIB provides medium-term loans to finance the equipment and working capital of industrial enterprises. The maturity of its loans ranged between three and six years, with a grace period of about two years. AIB lends at the rate fixed by the Central Bank on loans for industrial activities, and this ranges between 11 and 13 per cent. This interest rate, which is lower than that charged by the services (13-15 per cent) and trade sector may explain the Bank's preference of participating in the equity capital of companies, rather than providing loans, and its preference of granting loans to the services and trade sectors rather than for industrial projects. This is reflected in the low number of industrial projects financed by medium-term lending (four) as compared to the total number of loans (13 projects). Two of these loans took the form of syndicated loans, and consisted of financing two large industrial projects: a rolling mill plant with a capacity of 90,000 tons/year, and a plant to produce plastic syringes with a capacity of 60 million units/year.

It should be noted that AIB has recently faced problems regarding the availability foreign exchange. Before 1984, while most of the loans were issued in foreign currency, the Bank has recently become reluctant to lend in foreign currency, unless the loan is reimbursed in the same unit of currency.

(c) Egypt: Misr Iran Development Bank (MIDB)

The Misr Iran Development Bank is owned by four public financial institutions: the Misr Insurance Company, Bank of Alexandria, the Bank Melli Iran and the Industrial and Mining Development Bank of Iran. Established in 1975, the Bank was initially owned equally by both Iran and Egypt. However, the Egyptian share is now 75 per cent of total bank capital, which was a result of the increase of the subscription of Egyptian shareholders in the initial capital. This rose from the $US 20 million to $US 40 million in 1980.

The other major source of funds for MIDB is the deposits of the general public. In 1985, these stood at over seven times the value of equity shares, and represented about 80 per cent of total Bank resources. In 1980, MIDB was able to mobilize additional financial resources by concluding a loan agreement with the World Bank, whereby the latter agreed to extend a line of credit of $US 30 million, to MIDB. The loan is repayable over 15 years and has a grace period of five years. It is important to note that this is the first loan to be extended by the World Bank to a private financial institution in Egypt. The only financial development institution that has received financial assistance from the World Bank is the Development Industrial Bank, which is totally owned by the Government. In 1985, MIDB succeeded in being selected as one of four participating banks through which a new World Bank line of credit of $US 125 million was to be channelled and used for export manufacturing projects.

MIDB operates as a financial institution for the private sector, and it is not allowed to make a loan to an institution in which the public sector owns more than 30 per cent of capital. The main objectives of MIDB are to encourage the growth of productive private investment and to assist enterprises which contribute to the economic development of Egypt. In pursuit of this objective, MIDB assists in identifying projects, undertakes feasibility studies and examines the viability of proposed projects. It participates in the equity capital of viable projects and mobilizes the necessary medium- and long-term debt finance either directly, or through syndicated loans. It participates in the management of projects and closely monitors the project during its implementation.

The industrial sector constitutes the main area of MIDBs financing activities. The share of the manufacturing sector (excluding the food processing and building materials industries) in total Bank investments (equity and loans) accounted for 42.3 per cent during the period 1975-1985. Food processing (including agricultural projects) and building materials (including housing projects) accounted for 18.4 per cent of total bank investments. The remaining share was distributed among the tourism and services sectors.

Lending is the main activity of MIDB. Loans accounted for more than 81 per cent of total Bank investments in the manufacturing sector (excluding the food processing and building materials industries) for the period 1975-1985. The investment priorities of the Bank are generally those set by the country's development plan. The main branches that enjoy MIDBs financial support include: the food, construction and building materials, textile and ready-made garments and engineering industries (see table 27 and annex table A.17).

Table 27. Egypt: Misr Iran Development Bank: investments by major manufacturing branches, 1975-1985

(Thousands of $US and percentages)

Branch	Total investment cost(1)	MIDB participation			Percentage (4)/(1)	Percentage (2)/(4)	Structure of (4)
		Equity (2)	Loans (3)	Total (4)			
Textile industries	159,296.00	500.0	15,052.0	15,552.0	9.76	3.21	16.22
Wood-working industries	34,481.10	696.0	4,327.4	5,023.4	14.56	13.85	5.24
Chemical industries	15,986.90	-	8,904.5	8,904.5	55.69	-	9.30
Pharmaceutics industries	41,908.60	4,812.0	12,124.0	16,936.0	40.41	28.41	17.67
Metallurgical industries	71,262.25	607.0	4,644.0	5,251.0	7.36	11.55	5.48
Engineering industries	69,837.00	5,968.4	11395.0	17,363.4	24.86	34.37	18.11
Other industries	160,948.30	5,421.4	21,415.0	26,836.4	16.67	20.20	28.00
Sub-total	553,720.15	18,004.8	77,861.9	95,866.7	17.31	18.78	100.00
Food and food processing	126,006.30	6,509.5	9,648.4	16,157.9	12.82	40.28	
Construction and building materials sector	1,158,825.00	9,232.7	16,367.0	25,599.7	2.20	36.06	
Sub-total	1,284,831.30	15,742.2	26,015.4	41,757.6	3.30	37.70	
TOTAL 1,838,551.40	33,747.0	103,877.3	137,624.3	7.50	24.50		

Source: Misr Iran Development Bank, Annual Report 1985 (Cairo).

Loans are provided for a period of up to 10 years with a two year grace period. The interest rate for the industrial sector is fixed by the Central Bank. The size of the Bank's participation, including loan and equity, in the manufacturing sector as a whole accounted for 17.3 per cent of the total cost of projects. It was highest in the chemical industries (55.7 per cent), then the pharmaceutics industries (40.4 per cent) and engineering industries (24.9 per cent).

(d) Yemen Arab Republic: The Yemen Company for Investment and Finance (YCIF)

YCIF was established in 1981 by a commercial bank, the Yemen Bank for Reconstruction and Development. Its paid-up capital amounts to YRls 100 million; the other resources of YCIF consist of loans granted by commercial banks at an interest rate of 10 per cent.

The Company gives assistance to projects in various fields including agriculture and industry and services, through equity participation and loan financing for both equipment and working capital. The Company's investments in all economic sectors are distributed almost equally between loan commitments and equity participation. The industrial sector received the largest part of loans, 65.7 per cent in 1985, as compared with 30 per cent for agriculture and 4.3 per cent for services. However, the Company's equity participation in industrial enterprises did not exceed 15 per cent of total company commitments in the industrial sector.

YCIF participated in the equity capital of medium and large industrial companies with a paid-up capital ranging between YRls 2 million and YRls 36 million. YCIFs average share in the paid-up capital of these companies accounted for 10.3 per cent, but went up to 30 and 35 per cent respectively in the Leather and Tanning Company and the Yemen Drug Company for Industry and Commerce (see table 28).

Loans are offered to new industrial projects at an interest rate of 12 per cent, including all charges, while those for the working capital requirements of existing industries are charged 15 per cent. The maturity of a loan for fixed assets may be as long as five years, with a grace period of one year starting from the commencement of production. The size of a loan can range between 50 and 60 per cent of total project cost; in 1985, the average size was 65.7 per cent. However, the amount of the loan must not exceed YRls 15 million, that is 15 per cent of total YCIF capital.

Since its establishment, YCIF has provided loans to 38 industrial projects, totalling YRls 73.6 million. The majority of loans were for the building materials (34.2 per cent of total loans), food (28.8 per cent) and chemical (14.3 per cent) industries. The average size of loans in the manufacturing sector was about YRls 2 million, though they exceeded YRls 5 million in the chemical and YRls 4 million in the food and paper industries (see table 29).

Table 28. Yemen Arab Republic: The Yemen Company for Investment and Finance: equity participation in industrial enterprises as at 31 December 1985
(YRls and Percentages)

Name of company	Nominal capital	Paid-up capital	Investment company participation	
			Value	Percentage
Yemen Drug Company for Industry and Commerce	8,400,000	8,400,000	2,940,000	35.0
National Tobacco and Matches Company	20,000,000	19,077,836	3,750,000	12.5
Salt Refining and Packing Company	18,000,000	10,817,810	1,223,073	13.7
Sana'a Beverage Company	40,000,000	36,209,075	1,000,000	2.5
Yemen Feed Company[a/]	20,000,000	6,000,000	322,500	7.5
Leather and Tanning Company[a/]	30,000,000	6,450,000	1,935,000	30.0
Yemen Batteries Company	32,000,000	31,400,000	793,333	7.2
Yemen Printing Company	10,000,000	2,000,000	437,000	18.0
TOTAL 158,400,000	120,354,721	12,400,906	10.3	

Source: The Yemen Company for Investment and Finance, The Fifth Annual Report 1985 (Sana'a).

a/ Under establishment in 1985.

(e) Jordan: Pension Fund

Established in 1976 as a national investment institution, the Pension Fund is totally owned by the Jordanian Government. The main source of financing is paid-up capital, which amounted to about JD 51 million in 1985, and represented 89.5 per cent of total assets.

The Fund operates in all economic sectors through equity participation. It gives priority to new projects and supports the expansion schemes of existing companies. Emphasis is placed on activities that are in harmony with the country's development plan.

The Pension Fund constitutes a major source of funds for industrial development. About 50 per cent of total investments were in industrial activities.

The general policy of the Fund is to support the private sector by participating in the equity capital of industries, especially those which face financial problems. In contrast with the past, the Pension Fund concentrates its financing on medium- and small-scale industries, and more particularly on those, that use advanced technologies. This policy, which is in line with the new plan 1986-1990, stems from the fact that large projects, especially those relying on exports, have experienced certain marketing problems.

Up to 31 of December 1985, the Fund participated in the equity capital of 21 manufacturing companies with paid-up capital ranging from JD 1 million to JD 60 million. Of this total, seven companies had paid-up capital in excess of JD 10 million. The Fund's average contribution to the total paid-up capital of industrial companies was 7.2 per cent, but in some cases it was as high as 22 per cent (see annex table A.18).

The Pension Fund carries out its activities through three departments: (i) the research department, which identifies projects and prepares pre-feasibility studies; (ii) the technical department which undertakes feasibility studies; and (iii) the follow-up department, which is responsible for the promotion as well as the monitoring, of projects.

The Fund has initiated and completed several studies on cable manufacturing, pumps, a foundry, glass containers and electrical tools and motors, etc.

(f) Jordan: Social Security Corporation

The Social Security Corporation which relies mainly on resources made available by its members, undertakes various investment activities through its participation in the equity capital of companies. The share of the industrial sector in total investment accounted for about 50 per cent as at 31 December 1985, which represented about JD 8 million.[1]

1/Social Security Corporation, Second Report 1984-1985 (Amman) (in Arabic).

Table 29. Yemen Arab Republic: The Yemen Company for Investment and Finance: loans classified by main manufacturing branches for the period 1983-1985

(YRls and percentages)

Sector	No. of projects	Value of loans	Average size of the loan	Lending structure (Percentage)
Food and beverages	5	21,180,000	4,236,000	28.8
Textiles	2	1,200,000	600,000	1.6
Paper products	2	8,500,000	4,250,000	11.6
Chemicals	2	10,500,000	5,250,000	14.3
Furniture	1	500,000	500,000	0.7
Building materials	20	25,156,008	1,257,800	34.2
Metallic industries	6	6,550,000	1,091,666	8.9
TOTAL	38	73,586,008	1,936,474	100.0

Source: Compiled from the Yemen Company for Investment and Finance, Annual Report 1985 (Sana'a).

The Social Security Corporation invests in activities that yield high profits and security of investments, as it is reluctant to participate in the financing of risky projects owing to the obligations of the Corporation towards its members.

The Corporation participated in large industrial companies with paid-up capital, that ranged between JD 2.5 million and JD 32 million. The major participation was in the Jordan Cement Factories, the Agricultural Marketing and Processing Company and the Arab Company for White Cement Industries. However, the average share of the Corporation's participation in the total paid-up capital of industrial companies did not exceed 6 per cent (see table 30).

(g) Bahrain: General Organization for Social Insurance (GOSI)

The General Organization for Social Insurance invests its important financial resources in several economic activities in Bahrain. However, investment in manufacturing is insignificant compared with total investment. GOSI participated in the equity capital of five industrial companies: AISCO, BLICO, the Saudi Bahraini Cement Company, the Bahrain Repair Yard and Engineering Company, and the General Company for Trade and Food Industries.

It is worth mentioning that GOSI could be considered to be an important potential source of funds for the manufacturing sector and possibly for an industrial or development bank in Bahrain.

The above review of the financing policy of selected investment institutions in the ESCWA region shows that increasing importance has been attached to the manufacturing sector. These institutions have played a prominent role in the identification of industrial projects, the carrying-out of pre-feasibility and feasibility studies, the promotion of projects and participation in the equity capital of industrial enterprises at the regional, subregional and country level.

At the regional level, AIIC has contributed significantly to the identification of regional projects in the field of engineering and capital goods industries. However, AIIC has promoted and participated in the financing of only a few projects in the region. At the subregional level, GCC countries recently witnessed the establishment of an investment company, the Gulf Investment Corporation, which constitutes an important step towards the promotion of regional co-operation in the area of industry. Finally, at the country level, positive trends can be observed: (i) the recent establishment in Kuwait of a financial institution (IIC), specialized in the equity financing of industrial enterprises; and (ii) the good performance of AIB (Egypt), MIDB (Egypt) and the Pension Fund (Jordan) in financing industrial enterprises, more particularly the agro-food and capital goods industries.

Table 30. Jordan: Social Security Corporation: participation in major industrial projects
(Thousands of JD and percentages)

	Paid-up capital	Social Security participation Percentage	Social Security participation Value
Jordan Cement Factories Company	22,500	5.2	1,170
Jordan Petroleum Refinery	32,000	1.0	320
Jordan Pipes Manufacturing Company	2,500	4.0	100
Arab Pharmaceutical Manufacturing Company	4,000	1.0	40
Jordan Glass Industries Company	4,998	10.0	499.8
Jordan Timber Processing Industries Company	6,200	7.0	434
Agricultural Marketing and Processing Company of Jordan	9,000	12.5	1,125
Jordan Pre-cast Concrete Industry Company	3,037	15.0	455.6
Arab Company for White Cement Industry	10,000	10.0	1,000
Engineering Industries Company	5,000	10.0	500
TOTAL	99,235	5.7	5,644.4

Source: Data provided by the Social Security Fund of Jordan.

IV. GOVERNMENT AND PRIVATE FINANCING

A. Direct government financing

ESCWA Governments generally constitute a significant source of finance for manufacturing industries, either directly through the financing of public-owned industries or participation in the equity capital of manufacturing enterprises, or indirectly through participation in the equity of specialized financial institutions, such as the industrial and development banks, as well as some of the commercial and investment banks or autonomous public institutions such as social security funds. This part of the study is only concerned with the direct participation of Governments in the financing of industrial enterprises.

Generally, ESCWA Governments participate directly in the financing of large industries. The degree of their involvement varies from one country to another, but it is generally more pronounced in the controlled market economies than in free market economies.

In Jordan, the Government participates jointly with the private sector in the equity capital of large enterprises, especially those where the private sector was reluctant to undertake their financing alone. Government participation also aims at generating revenue for the State budget, and at supporting industries that face financial difficulties.

Government participation in the paid-up capital of joint-sector manufacturing firms varies from below 25 per cent in 17 companies, between 25 and 50 per cent in five companies, and more than 50 per cent in five companies. However, average government participation in all 27 manufacturing firms is over 38 per cent. The Government has the largest share in the following enterprises: Arab Potash Company, Jordan Cement Factories, Jordan Glass Industries, Jordan Brewery Company, Agricultural Marketing and Processing Company, South Cement Company and Jordan Timber Processing Industries (see table 31).

Table 31 indicates that most of the companies are large-scale units. Only three companies have paid-up capital below JD 1 million, while in 18 companies the paid-up capital ranges between JD 1 million and 10 million, and in six companies between JD 10 million and JD 63 million.

It should be noted that the Government participates in a range of industries, light as well as heavy industries, such as tobacco, dairy products, textiles, cement, batteries, pharmaceutical products, potash and fertilizers.

In the Syrian Arab Republic, the Government still plays the leading role in financing industrial investments. The Government is expected to finance more than 77 per cent of planned investment in manufacturing during the new plan period 1986-1990, as compared with 88 per cent during the previous plan.

Table 31. Jordan: government participation in manufacturing companies of the mixed sector

(Thousands of JD and percentages)

	Paid up Government capital	Percentage share	Government participation in paid-up capital
Jordan Tobacco and Cigarette Co.	15,000.00	33.40	5,010.00
Jordan Cement Factories	22,500.00	57.94	13,036.50
Jordan Brewery Co.	675.00	56.77	391.10
Arab Potash Co.[a/]	63,000.00	51.77	32,615.10
Jordan Petroleum Refinery	32,000.00	14.60	4,672.00
Jordan Tanning Co.	1,000.00	15.38	153.80
Woollen Industries	481.00	23.50	113.04
Arab Pharmaceutical Manufacturing	4,000.00	6.38	255.20
Jordan Worsted Mills Co.	900.00	24.50	220.50
Jordan Ceramic Industries Co.	2,000.00	1.20	24.00
Jordan Dairy Company	1,750.00	22.42	392.35
Jordan Paper and Cardboard Factories	1,500.00	7.40	111.00
Jordan Pipes Manufacturing	2,500.00	3.13	78.25
Jordan Glass Industries	4,998.02	76.30	3,813.49
Jordan Spinning and Weaving Co.	4,000.00	21.67	866.80
Arab Aluminium Industry (ARAL)	4,000.00	1.00	40.00
Jordan Timber Processing Industries	6,200.00	42.10	2,610.20
Orient Dry Batteries Factory	1,000.00	1.00	10.00
Arab Paper Converting and Trading Co.	1,000.00	2.20	22.00
National Steel Industry Company	4,000.00	0.50	20.00
Jordan Fertilizer Industry	55,000.00	26.00	14,300.00
Intermediate Petrochemical Industries Co.	3,429.13	4.20	144.02
South Cement Co.	48,309.33	48.90	23,623.26
Jordan Industries and Match (JIMCO)	1,700.00	2.94	49.98
Jordan Ready-to-wear Manufacturing	1,099.73	27.50	302.43
Jordan Pre-cast Concrete Industry	3,037.37	16.10	489.02
Agricultural Marketing and Processing Co.	9,000.00	51.00	4,590.00
Total	294,079.58	38.70	113,954.04

Source: Compiled from the Amman Financial Market, Department of Studies and Research, Companies Guide (Fourth Part), (Amman, 1985).

a/ Company performing mining and manufacturing activities.

The public sector is dominant in large-size industries, including heavy and light industries such as chemicals, petroleum refining, fertilizers, textiles, cement, building materials and the food industry. The development projects related to these industries are financed by the State budget. Table 32 provides data on the actual expenditure for development projects by industrial establishments and companies. It indicates that total actual expenditure in the manufacturing sector declined at current prices from £S 1.5 billion in 1981 to about £S 911 million in 1985. At constant prices, the decline is more pronounced owing to the high rates of inflation in the Syrian Arab Republic. Decreasing allocations for public sector enterprises reflect the financing problems that are faced by the Government, which are the result of the economic recession and the acute shortage of foreign currency.

Analysis by sub-sectors indicates that in 1985, most expenditure was aimed at financing development projects in the food industry and petroleum refining, which together constituted more than 77 per cent of total expenditure. In 1981, expenditure was concentrated in the food industry, chemicals and cement, which together accounted for 76 per cent of total expenditure.

Table 32. Syrian Arab Republic: actual expenditure for development projects in the industrial public sector

(Thousands of Syrian pounds and percentages)

	1981		1985	
General establishments for:	Value	Percentage	Value	Percentage
Cereals processing and trade	73,372	4.9	14,000	1.5
Mills	-		60,000	6.6
Bakery	253,580	16.8	163,316	17.9
Cotton ginning and marketing	20,819	1.4	9,445	1.0
Tobacco	9,983	0.7	8,108	0.9
Food industries	16,192	1.1	155,812	17.1
Sugar	151,235	10.0	12,642	1.4
Textile industries	110,708	7.3	23,385	2.6
Engineering industries	4,969	0.3	12,347	1.4
Chemical industries	324,904	21.5	51,432	5.6
Cement	339,116	22.4	77,888	8.5
General Companies for:				
Banias Refinery	88,271	5.8	47,845	5.5
Homs Refinery	70,600	4.7	252,540	2,7.7
Tractors industries	17,170	1.1	5,435	0.6
Ministry of industry projects	30,655	2.0	16,802	1.8
TOTAL	1,511,574	100.0	910,997	100.0

Source: Syrian Arab Republic, Central Bureau of Statistics, Statistical Abstract (Damascus) issues for 1982 and 1986.

In Egypt, state-owned enterprises continue to play a major role in the manufacturing sector; the public sector is still dominant in the financing of medium- and large-scale industries that consist mainly of heavy industries such as iron and steel, fertilizers, aluminium, engineering, cement and some light industries such as food and textiles.

However, the public sector is expected to finance only 30 per cent of total planned industrial investment during the plan period 1987/1988-1991/1992,1/ as compared with about 55 per cent during the previous plan period 1982/1983-1986/1987; the actual figure in 1981 was 70 per cent.2/ In this respect, it should be noted that the low level of planned investments in the public sector during the 1987/1988-1991/1992 plan can be explained as follows:

(1) The fact that the emphasis of the new plan is placed more on the improvement of the productivity and efficiency of existing industries and on renovation, rather than on the establishment of large new projects;

(2) The liberalization of the economy and the trend towards the adoption of a free market economy, where the private sector is expected to play a significant and increasing role;

(3) The efforts that are being made towards the "privatization" of the operations of public sector enterprises. Privatization means that public sector companies will be managed as private firms and transformed into corporations, and then the shares will be sold wholly or partly to the general public. Law No. 97 of 1983 on Public Authorities and Public Enterprises gave each public authority the status of a holding corporation, and the respective public enterprise the status of subsidiary companies. Under the law, public enterprises can sell shares of their equity to the general public and can issue bonds; they are also given greater managerial independence in order that they can be managed as private firms. However, privatization also means that public enterprises will receive no further subsidies from the Government; they will then have to rely on commercial banks to finance their activities, and not on the State budget; they can also be liquidated when they suffer continuous financial losses.

In Iraq, the State is the major source of funds for the manufacturing sector since it controls all heavy industry and most of the large light industries. In addition, the Government has an equity participation in mixed sector enterprises through the Industrial Bank.

In the Yemen Arab Republic, the public sector is dominant in large-scale industries. Its share in total manufacturing investment increased from 14.6 per cent in 1977/1978 to a peak of 46.8 per cent, but then declined to 15.8 per cent in 1984. However, official estimates indicate a sharp increase in the public sector's share, which amounted to 60.6 per cent in 1985. Although in recent years the Government appears to have launched a number of large industrial projects, this figure may just be a statistical anomaly.

1/ Information provided by the General Organization for Industrialization (GOFI).

2/ United Nations Industrial Development Organization (UNIDO),Industrial Development Review Series, Egypt, (Vienna, UNIDO, May 1986), (UNIDO/IS.637).

The Government has financed the establishment of large industries, especially in the cement, petroleum refining and textile industries. In addition to the expansion of the Bajel cement plant capacity from 80,000 tons to 330,000 tons per year (completed at the end of 1984), in 1982 the Government also completed the construction of a new 500,000 tons per year plant in Amran. A third 500,000 tons cement factory, with an estimated cost of YRls 800 million, is expected to be established in Mafraq during the plan period 1987-1991. The public sector will establish a second refinery during the period 1987-1991. It has also financed the establishment of the largest textile factory in the country, the National Spinning and Weaving Mills Company, with a capacity of 13 million square metres.

In a few cases, the Government has participated jointly with the private sector in the equity capital of industrial companies. In fact, the mixed sector is of little importance in the Yemen Arab Republic, as only four industrial companies belong to this sector: the National Tobacco and Matches Company, the Yemen Drug Company, the Yemen Salt Company and the National Company for Industrial and Construction Materials. The Government's share in the capital of these enterprises varies from a minimum of 26 per cent in the National Tobacco and Matches Company, to a maximum of 75 per cent in the Yemen Salt Company. These enterprises are generally large-scale units, since individually their capital is in the region of YRls 18 to 20 million (see table 33).

In Democratic Yemen, the Government continues to play a dominant role in manufacturing industry, since in 1984 its share in total manufacturing output reached 74.7 per cent.

Large-scale industries that are in the hands of the public sector include the Aden refinery, the largest industrial unit in the country, followed by a textile factory which employs more than 700 persons, two fish canning plants, a tomato canning plant, a sea-salt factory and milk products and soft drinks factories. The Government has also a majority share in the equity capital of 15 joint-venture industrial establishments such as a cigarette and matches factory, a perfume and cosmetics factory, processed food, clothes, pottery, furniture and paints.

In GCC countries, the government is the dominant investor in heavy and large-scale industries. In fact, the huge financial resources derived from oil production have enabled GCC Governments to launch large industrial projects based on the cheap available energy: oil and gas. These resources have been to establish oil refineries and petrochemical industries, as well as energy-intensive industries. However, the decrease in oil prices and revenues has led most GCC countries to reconsider their budget expenditures and to rely more on private investment and entrepreneurship.

In Bahrain, the Government has played a major role in the financing of large-scale industries. The Government participates in the equity capital of large aluminium industries and petrochemicals. These projects are mostly joint-ventures with other GCC Governments and foreign private companies. The Government holds the largest share in ALBA (57.9 per cent), Bahrain Atomisers International (51 per cent), and has total ownership of the Bahrain Aluminium Extrusion Company (BALEXCO). In GARMCO and Gulf Petrochemical Industries, the respective capital share of the Government is 20 and 33.3 per cent (see table 34).

Table 33. Yemen Arab Republic: government equity participation in manufacturing enterprises of the mixed sector

(Millions of YRls and percentages)

Company	Year operations began	Capital	Equity participation: Public sector (percentage)	Private sector (percentage)	Public sector (value)	Private sector (value)
Yemen drug company	1963	20	40	60a/	8.0	12.0
National tobacco and matches	1964	20	26	74b/	5.2	14.8
Yemen salt company	1973	18	75	25	13.5	4.5
National company for industrial and construction materials	1978	20	51	49c/	10.2	9.8
Total		78	47.3		52.7	36.9
41.1						

Source: Data provided by the Yemem Arab Republic, Ministry of Economy, Trade and Supply.

a/ The private sector share is distributed among the following investors: the Yemen Bank for Reconstruction and Development (YBRD) (35 per cent) and other shareholders (25 per cent).

b/ The private sector share is owned by: YBRD (12.5 per cent), Rothmans Company (25 per cent) and other shareholders (36.5 per cent).

c/ The private sector share is owned by the Industrial Bank of Yemen (7 per cent), the Housing Bank and the Arab Mining Company (42 per cent).

It should be noted that a shift in government policy is taking place. The Government is now giving a major role in the financing of the manufacturing sector to the private sector. According to the "Strategic Options of Bahrain 1986-2000", investment in manufacturing should come mainly from the private sector.

Table 34. Bahrain: government participation in large industrial projects

(Millions of BD and percentages)

Company	Capital	Shareholders	Percentage share
ALBA	25.00	Government of Bahrain	57.9
		Government of Saudi Arabia	20.0
		Kaiser Aluminium	17.0
		Breton Investments	5.1
Bahrain Atomizers International	..	Government of Bahrain	51.0
		Breton Investment	49.0
BALEXCO	6.30	Government of Bahrain	100.0
GARMCO	22.37	Government of Bahrain	20.0
		Government of Saudi Arabia	20.0
		Government of Iraq	20.0
		Government of Kuwait	20.0
		Government of Oman	10.0
		Government of Qatar	10.0
Gulf Petrochemical Industries	160.00a/	Government of Bahrain	33.3
		Government of Saudi Arabia	33.3
		Government of Kuwait	33.3

Source: Bahrain, Ministry of Development and Industry, Aluminium Industry in Bahrain - Facts and Figures, 1984, (Manama); and data provided by Bahrain, the Directorate of Industry, Ministry of Development and Industry.

a/ In millions of US dollars.

The same trend can also be observed in Saudi Arabia, which considers that the private sector should make a significant contribution to the achievement of the new development plan's priorities and objectives through its involvement, not only in downstream petrochemical and light industries, but also in several of the activities previously undertaken by the Government.

The Government has already involved the private sector in heavy industry. In fact, 20 per cent of SABIC was sold to Saudi Arabian private investors.

Established by the Government in 1976, SABIC is responsible for most heavy processing industries (petrochemicals, refineries, fertilizers and iron and steel). Most of these industries are joint ventures with foreign companies.

In Kuwait, the State totally controls hydrocarbon-based industries such as refining and petrochemicals. In contrast with Saudi Arabia, Kuwait stood back from the further local downstream industrialization of the oil and gas sector in recent years, and gave preference to investment in foreign industrial companies in Europe and the United States of America. However, the Government has encouraged the mobilization of private sector investment in manufacturing through the establishment of mixed sector companies, in which the State has a substantial equity participation. On average, the share of the Government in the paid-up capital of eight public industrial shareholding companies accounted for 43.3 per cent in 1986. The share of the Government ranged between 16.5 per cent in the Kuwait Metal Pipes Industries to 66.6 per cent in the Refrigeration Industry and Cold Storage. Mixed companies are generally large-scale units with a paid-up capital that in four companies ranges between KD 5 million and KD 8 million, KD 15 million and KD 25 million in four others (see table 35).

Three joint stock companies ceased their activities and were liquidated in 1986: the Kuwait Melamine Industries Company, the Kuwait Tyre Company and the Kuwait Petrochemical Products Company. Another joint stock company, the National Automotive Manufacturing and Trading Company, is expected to be liquidated soon.

As in other GCC countries, the public sector in Oman, Qatar and the United Arab Emirates is dominant in heavy industry, and more particularly in oil refining, fertilizers, petrochemicals, iron and steel and cement industries. However, in Qatar the first non-oil industry, cement, was established in the late 1960s as a joint venture between the Government and the private sector.

B. Private financing

1. Role of the private sector

In most ESCWA countries a trend towards the greater involvement of the private sector in manufacturing activities can be observed. This has been encouraged by: (a) the completion of the large infrastructural and basic industrial projects, mainly established through government financing; and (b) the sharp decline in oil revenues which has led many governments to rely more on private investment.

The private sector is being called upon to play a major role in manufacturing investment, especially in Egypt, Jordan and most GCC countries; other countries such as the Syrian Arab Republic, Iraq and Democratic Yemen continue to stress the leading role of the public sector, though they put more emphasis than before on the role of the private sector in industrial development.

The Governments of most ESCWA countries have encouraged the mobilization of private sector investment in manufacturing through the establishment of mixed companies in which the State has a substantial equity participation. However, there are indications that there will be a steady shift towards the private sector playing a greater role.

Table 35. Kuwait: government participation in public industrial shareholding companies, 1986

(Millions of KD and percentages)

	Paid-up capital	Government share (Percentage)	Government participation
National Industries Company	24.3	59.22	14.4
Kuwait Metal Pipes Industries	15.2	16.56	2.5
Kuwait Cement	25.6	34.58	8.9
Refrigeration Industry and Cold Storage	6.4	66.59	4.3
Gulf Cable and Electrical Industries	5.6	35.76	2.0
Kuwait Pharmaceutical Industries	5.5	54.94	3.0
Kuwait Shipbuilding and Repair Yard	25.1	45.29	11.4
Contracting and Marine services	7.5	45.00	3.4
	115.2	43.30	49.9

Source: Compiled from data provided by the Kuwait Stock Exchange Market.

In Jordan, the private sector is dominant in manufacturing investment and is expected to remain so in the near future. The contribution of the private sector to total planned industrial investment is expected to reach more than 86 per cent during the new development plan period (1986-1990). According to the plan, the private sector is expected to establish a range of small- and medium-scale industries such as pharmaceutics, foodstuffs, ready-made garments, electrical and medical appliances, paints and metal furniture.

A review of the industrial licences issued to the private sector reveals that their number and the corresponding amount of capital to be invested fluctuated from year to year during the period 1980-1985. Aggregate figures for this period indicate that approved investment was concentrated in the engineering industry, which represented 45.1 per cent of total investment. The other main areas of activity, by order of importance are: chemicals (21.6 per cent), food industries (17.8 per cent) and building materials (8.7 per cent).1/

1/ Data provided by Jordan, the Ministry of Industry.

In Egypt, although the public sector is dominant in manufacturing activities, a trend towards the privatization of the economy can be observed. The private sector is expected to assume a greater role during the plan period 1987/1988-1991/1992, during which most industrial investment by the private sector is planned to take place (70 per cent),1/ as compared with about 45 per cent during the previous plan 1982/1983-1986/1987. The activities of the private sector are concentrated in small-scale industries, and consist of about 250,000 artisan establishments each employing less than 10 workers, and some 7,000 establishments that employ 10 or more workers.2/ Such activities mainly include the food, garments, wood and paper products, leather and building materials industries.

The increasing involvement of the private sector in industrial investment is reflected in the number of approved projects and the average investment per project. Thus, projects approved for the private sector have expanded in terms of the number and amount of capital invested during the period 1976-1985. The number of projects licensed in the manufacturing sector increased from 346 in 1974 to 882 in 1980, and 1,519 in 1985. Most of the investment approved for the private sector has been in the food, chemical and building materials industries, which together represented more than three-quarters of total investment in 1985. In 1985, the average size of investment per project increased tenfold from its level of 1974, especially in the food, textile and ready-made garments, chemical and building materials industries; the average for the engineering, metallurgical and electrical industries has increased twentyfold.3/

In the Yemen Arab Republic, the private sector is predominant in the manufacturing sector, particularly in medium- and small-scale industries. Its share in total manufacturing investment ranged between 53 and 84 per cent during the period 1978/1979-1984.

The private sector expanded its activities with the significant increase in remittances for Yemeni migrants. Generally, private industrialists were former traders or agents for several food items and other consumer goods. The good investment climate which prevailed in Yemen led several traders to establish local processing plants. The activities of the private sector are concentrated in food and building materials industries, except for cement. Most of the food industries such as juices, milk, mineral water, soft drinks, biscuits and vegetable oils are in private hands. On the other hand, the private sector has erected several building materials factories, following the increased demand for the materials that were required for the construction of houses, which were partly financed by the remittances of Yemeni migrants.

1/ Data provided by the General Organization for Industrialization.

2/ United Nations Industrial Development Organization, Industrial Development Review Series, Egypt, (Vienna, UNIDO, May 1986), (UNIDO/IS 637).

3/ Information provided by the General Organization for Industrialization.

The activities of the private sector expanded rapidly in the 1980s. The volume of approved investment jumped from YRls 42.9 million in 1978 to YRls 348.6 million in 1981, and YRls 1,021.1 million in 1985. Capital investment was mainly concentrated in the food industry, which represented 42.3 per cent of total investment during the period 1981-1985, followed by chemicals (12.8 per cent), the engineering industry (12.5 per cent) and building materials (11.1 per cent).1/

In GCC countries, the role of the private sector in manufacturing activities has been emphasized more by the respective development plans.

Bahrain, in its Strategic Options 1986-2000, considers that investment in manufacturing should come mainly from the private sector. The private sector is dominant in light industry and, more particularly, in downstream industries. The most important private manufacturing company is BLICO, established in the late 1970s with the aim of developing a range of light industries. BLICO, with a BD 2.5 million paid-up capital, is owned by a number of major private institutions and individuals: the Gulf Investment Corporation (48 per cent), the General Organization for Social Insurance (15 per cent), the National Bank of Bahrain (11 per cent) and around 800 private investors (26 per cent). Another major private company is the Gulf Acid Company, which has capital of BD 1.25 million and is owned by five private investors.

In Saudi Arabia, the private sector concentrates its activities in downstream oil industries and light industries. It is expected that the role of the private sector in manufacturing investment will increase with the establishment, by a number of Saudi investors, of a joint stock company, NIC, which became fully operational in May 1985. NIC, with an authorized capital of SRls 600 million, is expected to play a role equivalent to that of SABIC. The Company was established with the objective of developing intermediate industries through the implementation of its own projects, or through its participation in the financing of new or existing ones. It is expected that NIC will establish large-scale projects in several fields such as the petrochemical, chemical and engineering industries. Projects have been already planned or initiated in steel and metal products, control instruments, synthetic rubber and polyester fibres. NIC also recently acquired shares in a number of existing industrial firms, particularly medium-sized industries. NECs first acquisition was a 20 per cent participation in the equity capital of the Saudi Vitrified Clay Pipe Company. It also acquired a 10 per cent share in the National Plastic Company, recently established by SABIC. NIC is expected to be an effective vehicle for the mobilization of private national financial resources and their direction towards industrial investment.

The private sector is also becoming involved in heavy industries owned by the public sector. In 1984 20 per cent of SABIC was sold to private Saudi Arabian investors.

1/ Information provided by the Yemen Arab Republic, Ministry of Economy, Trade and Supply.

The increasing involvement of the private sector in manufacturing investment is also reflected in the size of capital invested, as specified in the industrial licences issued by the Government. Thus, the accumulated capital invested jumped from around SRls 10 billion in 1975 to SRls 42 billion in 1980 and SRls 55 billion in 1984. The concentration of investment has been in chemicals (36.2 per cent of total capital invested), building materials (30.3 per cent) and metal products (18.2 per cent).1/

In Kuwait, the private sector controls a range of medium- and small-scale industries including foodstuffs, clothing, building materials, metal products, detergents and plastic products. In Oman and Qatar, the private sector played a significant role in the development of light industries which are generally small-scale in nature.

In the controlled market economies, the Syrian Arab Republic, Iraq and Democratic Yemen, the private sector continues to play a modest role in manufacturing investment, although, to varying degrees, some liberalization measures have been introduced in these countries.

The private sector's activities are generally modest in scope. In the Syrian Arab Republic, the private sector has expanded its activities since the early 1970s. The number of industrial licences issued for the private sector increased from 1,259 projects in 1975 to 2,324 in 1981, but since 1982 it has dropped continuously, reaching 1,002 projects in 1984. In 1985, the number of projects rose significantly by 25 per cent and capital investment more than doubled. Activities were concentrated in the textile, chemical and engineering industries.

In Democratic Yemen, private investment is rather limited. The contribution of the private sector to total manufacturing output, which is very low, did not undergo any significant change, and ranged between 4.4 and 4.8 per cent during the period 1980-1984.

In Iraq, the private sector was expected to increase its investment in light industry. However, it has faced numerous problems largely owing to foreign exchange constraints. The activities of the private sector are concentrated in clothing and ready-made garments, soft drinks, paper products and foodstuffs.

2. Private sector and the mobilization of financial resources

(a) Relative absence of capital markets

The relative absence of capital markets in the region could help to explain why the private sector's activities are concentrated in small-scale industry. Capital markets could contribute to the mobilization of small-sized savings and the financial resources required for the establishment of medium and large industries. In such markets, borrowers can mobilize long-term financing, which would constitute the equity capital of the business.

1/ Saudi Arabia, Ministry of Industry and Electricity, Industrial Statistical Bulletin, 1984.

Few industrial stock shareholding companies have been established in ESCWA countries. The private sector was only able to establish such companies in Jordan, Kuwait, Egypt and, to a lesser extent, Bahrain. It should be noted that capital markets cannot be developed unless they operate in a free-market economy.

Jordan has a relatively more developed capital market compared with other ESCWA countries. About 50 manufacturing companies are registered in the Amman Financial Market. The creation of the Stock Exchange in Jordan was a major factor in the establishment of large private enterprises.

In Kuwait, the new Stock Exchange Market, opened in September 1984, was designed to prevent a recurrence of the Souk Al Manakh collapse of 1982, facilitate the rapid transfer of information to investors, and contribute to the mobilization of additional financial resources for economic projects. About 12 industrial shareholding companies are registered in the Kuwait Stock Exchange Market. All of these companies are partly owned by the Government. The Stock Exchange Market is planning to extend its activities beyond Kuwait; an attempt is being made to attract Arab joint-ventures as enterprises that could be registered on the Stock Exchange.

In Bahrain, there is an informal Stock Exchange in the Ministry of Commerce and Agriculture. Its role is to provide continuous information for brokers on the operation of the financial market. The general public deals with the purchase or sale of shares through these brokers. At present, public shareholding companies do not take advantage of the law that would enable them to issue bonds for long-term financing. In Bahrain there is a total of 36 public shareholding companies: 14 are joint venture Bahraini-Gulf companies, and 22 are Bahraini companies. However, there are a few industrial public shareholding companies, three Bahraini and one which is a joint-venture project.

The Ministry of Commerce and Agriculture recently prepared a project for the establishment of an official exchange market, expected to be in operation by the end of 1987. The stock exchange is expected to have a board of directors from both the public and private sectors, and to be under the supervision of the Ministry of Commerce and Agriculture.

Since 1974, Egypt has taken several measures to promote the development of a capital market. Most of the stock shareholding companies established since 1974 under the provisions of the Foreign Investment Law and the new Companies' Law, did not offer equity shares to the public. The slow development of a capital market in Egypt can be attributed to several factors:

(1) Egypt is not yet operating under a full free market economy system, though several steps and changes have been introduced in an attempt to liberalize the economy;

(2) Companies are not allowed to borrow by issuing bonds because of the maximum legal interest rate imposed by the Central Bank. Companies have, therefore, to depend exclusively on direct borrowing from the banking system;

(3) The tax system does not encourage the development of a capital market, since it provides preferential tax treatment to income from deposits with banks. While such income is exempted from the moveable capital tax, Law

No. 157 regarding income tax treats share dividends in the same way as returns on bonds which are exempt from tax up to the interest rate on deposits of comparable maturity.[1/] The Law did not, therefore, take into account the higher risks involved in investing in shares.

(b) Sources of funds of private enterprises: case studies of selected industries

Given the relative absence of capital markets in most ESCWA countries, industrial firms have to rely on the banking system and other sources for their borrowing requirements. Private or mixed companies have various sources of funds: self-financing, private individual investors, specialized financial institutions and development banks, commercial banks and investment companies. The sources of funds of private enterprises are here analyzed on the basis of the balance sheets of selected industrial stock shareholding companies in three ESCWA countries: Jordan, Kuwait and the Yemen Arab Republic.

Consolidated data on the balance sheets of 44 stock shareholding companies in Jordan clearly show the dominant role played by total liabilities, relative to shareholders' equity. The total debt constitutes 60.9 per cent of total assets, of which 32.3 per cent are long-term debts (see table 36). However, analysis by individual companies indicates that 12 major industrial companies provide examples of firms that have little need for external financing, and which rely mainly on equity capital in order to finance their fixed assets and working capital requirements. The net worth of these companies varies from 75 to 100 per cent of total assets. They include companies such as the the Jordan Chemical Industries, the Jordan Pipes Manufacturing, the Jordan Brewery Company, the Jordan Dairy Company and the Jordan Pre-cast Concrete Company.

Relatively few companies rely on long-term debts to finance their fixed assets. Six out of 44 companies incurred substantial long-term debts, that ranged between 35 and 52 per cent of total assets (see annex table A.19).

In Kuwait, consolidated data on the balance sheets of six Kuwaiti stock shareholding companies reveal that the greater part of company resources consists of shareholders' equity (57.3 per cent of total assets). The long-term borrowing required to provide additional financing for fixed capital represents only 19.5 per cent of total assets (see table 36). Analysis at the company level indicates that two of six companies finance their working capital from equity, which constitutes more than 76 per cent of total assets. Other companies, such as the Pharmaceutical Company and Storage and Freezing Industry rely mainly on long-term debts (40-45 per cent of total assets). One company, the Metal Pipe Company obtained substantial short-term loans in order to finance its working capital (see annex table A.20).

Consolidated data on three industrial companies in the Yemen Arab Republic and analysis, company by company, indicate that they rely heavily on current debt, which represents between 45 and 49 per cent of total assets. Shareholders' equity contributes between 25 and 41 per cent of total assets (see table 36 and annex table A.21).

1/ N. Mohareb, "Policy measures for development of money and capital markets", Middle East Executive Report, (May 1986).

Table 36. Jordan, Kuwait and the Yemen Arab Republic: source of funds of industrial stock companies, 1985

(Thousands of units of national currency and percentages)

	Jordan a/		Kuwait b/		Yemen Arab Republic c/	
	Value	Percentage	Value	Percentage	Value	Percentage
Paid-up capital	244,278.8	35.4	82,653	29.6	50,600.0	22.2
Retained earnings	-27,672.3	-4.0)	77,594	27.7	32,661.5	14.3
Reserves	53,079.3	7.7)				
Total shareholders' equity	269,685.8	39.1	160,247	57.3	83,261.5	36.5
Long-term liabilities	222,869.8	32.3	54,268	19.5	37,821.1	16.6
Current and other liabilities	196,764.8	28.6	64,958	23.2	107,123.8	46.9
Total liabilities	419,634.6	60.9	119,226	42.7	144,944.9	63.5
Total Shareholders' equity and liabilities	689,320.4	100.0	279,473	100.0	228,206.4	100.0

Source: Data compiled from the Amman Financial Market, Department of Studies and Research, Companies Guide (Fourth Part), 1985; data compiled from balance sheets provided by the Kuwait Stock Exchange Market; and the Yemen Arab Republic, Ministry of Economy, Trade and Supply, Companies Department.

a/ Consolidated data for 44 companies.
b/ Consolidated data for six companies.
c/ Consolidated data for three companies.

V. ARAB AND FOREIGN FINANCING

A. Contribution of Arab national and regional development financial institutions to industry

1. Financial flows to ESCWA countries

The Arab national and regional development financial institutions1/ constitute an important source of finance for economic development projects in the Arab region and other developing countries. Financial development institutions perform several operations, including the provision of loans to establish or expand projects, equity participation, foreign trade financing, leasing and profit-sharing. Financial operations are generally undertaken following a government request.

By the end of 1985, regional financial institutions had contributed a cumulative total of about $US 22 billion, of which slightly more than 50 per cent was to finance operations in Arab countries. The ESCWA region received 26.3 per cent of total financial flows and 51.3 per cent of the financial flow into Arab countries. About three quarters of total financial flows to the ESCWA region were provided by four regional institutions: AFESD (21.6 per cent), KFAED (20.9 per cent), the Islamic Development Bank (IsDB) (17.1 per cent), and the Saudi Fund for Development (16.7 per cent).

Most of the financial flows were directed to non-GCC countries, which received 86.1 per cent of total flows into the ESCWA region. Four countries - Jordan, the Syrian Arab Republic, Egypt and the Yemen Arab Republic - were the largest beneficiaries, receiving 70 per cent of the total financial assistance extended to the ESCWA region.

The distribution of financial assistance among major economic sectors reveals that little emphasis was placed on projects related to agriculture, mining and manufacturing. The share of these sectors in total ESCWA financial flows only accounted for about 20 per cent, while the share of mining and manufacturing together accounted for 10.7 per cent (see table 37). In contrast, two major economic sectors: power (electricity and gas) and transport and telecommunications, received about 60 per cent of the region's financial flows. However, the share of mining and manufacturing varied widely among member countries. It exceeded the region's average in only four countries: the United Arab Emirates (74.5 per cent), Iraq (28.4 per cent), Egypt (19.3 per cent) and Jordan (16 per cent).

The contribution of each of the regional development institutions to the financing of the industrial sector differs among those institutions, and comes almost entirely from four regional financial institutions: AFESD, KFAED, the Abu Dhabi Fund for Economic Development and IsDB. The other funds, such as the OPEC Fund and the Saudi Fund, provide very little financial assistance to the manufacturing sector. Hence, the analysis of financial flows to the manufacturing sector in the region will be concerned with the four institutions mentioned above.

1/ They include: the Islamic Development Bank, the Abu Dhabi Fund, the OPEC Fund for International Development, the Saudi Fund for Development, Iraqi Fund for External Development, the Arab Fund for Economic and Social Development (AFESD), and the Kuwait Fund for Arab Economic Development (KFAED).

Table 37. Arab national and regional financial development institutions: relative importance of the industrial sector* in total cumulative financial flows and distribution of financial flows among ESCWA countries as at 31 December 1985

(Millions of US dollars and percentages)

Country	Total financial flows: Value	Total financial flows: Percentage distribution	Financial flows to the industrial sector: Value	Financial flows to the industrial sector: Percentage distribution	Financial flows to the industrial sector: Percentage share in total flows
Jordan	1,397.91	24.2	224.02	36.1	16.0
United Arab Emirates	20.13	0.3	15.00	2.4	74.5
Bahrain	265.65	4.6	19.35	3.1	7.3
Syrian Arab Republic	708.89	12.3	64.58	10.4	9.1
Iraq	216.58	3.7	61.56	9.9	28.4
Oman	520.38	9.0	42.29	6.8	8.1
Palestine	9.84	0.2	-	-	-
Lebanon	101.49	1.8	-	-	-
Egypt	762.77	13.2	147.02	23.7	19.3
Democratic Yemen	602.39	10.4	9.78	1.6	1.6
Yemen Arab Republic	1,172.75	20.3	37.30	6.0	3.2
TOTAL ESCWA region	5,778.78	100.0	620.90	100.0	10.7

Source: Compiled from data supplied by the Co-ordinating Secretariat of Arab National and Regional Development Institutions, Arab Fund for Economic and Social Development, Statement of Financing Operations up to 31 December 1985.

* Including mining and manufacturing.

2. Arab financial flows to manufacturing projects

(a) Scope of financing

While AFESD restricts its activities to Arab countries, KFAED and the Abu Dhabi Fund for Arab Economic Development extend aid to both Arab and developing countries. The Arab Fund, which is totally owned by Arab Governments, participates in the financing of economic and social development projects in Arab countries through the extension of loans on easy terms, the provision of technical assistance in the various fields of economic development and the identification of viable joint Arab projects. AFESD provides only project financing and does not participate in the equity capital of economic projects. Loans are granted either to governments or to public and private institutions and enterprises provided they are guaranteed by the former.

KFAED and the Abu Dhabi Fund for Arab Economic Development are fully owned by the respective Governments of Kuwait and Abu Dhabi. Their objective is to assist Arab and other developing countries in their development efforts by providing them with loans on easy terms. Loans are extended for economic development projects through governments and specialized financial institutions. While KFAED restricts its activities to loan financing, the Abu Dhabi Fund for Arab Economic Development also promotes development projects through equity participation and guarantees.

(b) Loan conditions

Loans are extended by the Arab development financial institutions at subsidized interest rates and with long-term maturity. Loans are granted at modest interest rate that vary between 4 and 6 per cent, depending on the country; the lower interest rate is charged on loans provided for the least developed countries of the region.

The interest rates charged by KFAED range from 1 to 6 per cent, depending upon the country and the nature of the project. The lower interest rate is generally charged on loans extended to the least developed countries. Industrial loans usually carry the highest interest rate. Nevertheless, these interest rates are still subsidized and are well below commercial rates. All industrial projects financed by KFAED in the ESCWA region were charged at a rate of 4 per cent. The grant element, which equals the difference between commercial rate and the KFAED rate, ranged from 33 to 40 per cent of the commercial interest rate, depending upon the project and the country.

Loans for industrial projects generally have a maturity period of 15 to 43 years, with a grace period of three to five and a half years, starting from the commencement of production. Industrial projects in the ESCWA region were granted loans for periods ranging from 15 to 20 years, with a grace period that varied from 2.7 to 5.7 years.

The size of loans did not generally exceed KD 10 million. But recently, with the drop in oil revenues, KFAED followed a new policy that consisted of limiting the size of a loan to a maximum of KD 5 million, and the number of loans to one per country.

Table 38. AFESD, KFAED and the Abu Dhabi Fund for Arab Economic Development: relative importance of the industrial sector* in total loans and distribution of industrial loans among ESCWA countries

(National currency units and percentages)

Country	AFESD a/			KFAED b/			Abu Dhabi Fund for Arab Economic Economic Development a/		
	Value (Millions of KD)	Percentage distribution	Percentage share in total loans	Value (Millions of KD)	Percentage distribution	Percentage share in total loans	Value (Millions of Dh c/)	Percentage distribution	Percentage share in total loans
Yemen Arab Republic	-	-	-	7.0	10.6	18.1	-	-	-
Democratic Yemen	-	-	-	-	-	-	6.6	0.7	3.2
Jordan	5.0	14.3	9.3	35.7	54.3	38.6	119.0	12.2	81.8
Iraq	-	-	-	3.8	5.7	58.9	-	-	-
Syrian Arab Republic	4.1	11.7	6.4	1.4	2.1	3.5	-	-	-
Egypt	25.9	74.0	38.1	8.8	13.4	14.8	58.4	6.0	22.0
Bahrain	-	-	-	1.5	2.3	4.8	60.0	6.1	27.3
Oman	-	-	-	7.6	11.6	21.1	733.7	75.0	87.5
Total ESCWA region	35.0	100.0	9.4	65.8	100.0	19.4	977.7	100.0	42.1

Source: compiled from the Arab Fund for Economic and Social Development, Annual Report 1985, (Kuwait); Kuwait Fund for Arab Economic Development, Annual Report 1984/1985, (Kuwait); Abu Dhabi Fund for Arab Economic Development, Annual Report (Abu Dhabi), issues for 1983/1984 and 1984/1985.

* Including mining and manufacturing.

a/ Period 1974 to 1985.

b/ Period 1962 to 1985.

c/ United Arab Emirates dirham (Dh).

It is interesting to note that KFAED insists on two agreements when granting a loan for a given project: the loan agreement with the Government and the project agreement with the enterprise. While the loan agreement specifies the conditions of the loan, the project agreement specifies the obligations of the enterprise towards the Government and KFAED.

Generally, KFAED maintains its control over a loan through continuous monitoring that is accomplished through two main channels: (i) the enterprise has to submit a progress report three or four times a year; and (ii) there are follow-up missions to the field. In addition, KFAED provides technical assistance to a project that faces difficulties and problems.

Long-term loans are also provided by the Abu Dhabi Fund for Arab Economic Development for industrial projects in the ESCWA region at interest rates that vary between 4 and 5.5 per cent. The maturity of the loan can be as long as 25 years, with a grace period that ranges between two and five years. The size of a loan is limited to 50 per cent of the total project cost, provided that this does not exceed 10 per cent of the fund's capital.

(c) Criteria and priorities

AFESD allocates its loans according to certain criteria such as the level of national income and size of the population of the country. The amount of loans allocated therefore varies from country to country. The fund gives priority to the promotion and financing of joint Arab projects. However, the areas of priority at the country level are not determined by the fund, but rather by governments. The fact that most of the loans were extended for infrastructure projects reflects the priorities previously set up by the respective development plans of member countries. Loans granted to the manufacturing sector have generally been of little importance.

Projects that hope to benefit from KFAED's loans have to fulfill the requirements of the country's development objectives. The utilization of loans extended to certain industrial banks in the region is, however, subject to certain conditions. The industrial banks have to get a priori approval from KFAED with respect to the industrial projects they hope to finance. The feasibility and the viability of the project are the major criteria. In this respect, it should be noted that KFAED encourages the establishment of small-scale industries, and considers that the private sector has an important role to play in the development process.

(d) Distribution of loans

The relative importance given to the financing of the manufacturing sector varies widely between AFESD, KFAED and the Abu Dhabi Fund for Arab Economic Development. The share of the manufacturing sector in total loans granted by AFESD to ESCWA countries accounted for 9.4 per cent during the period 1974-1985. However, the industrial sector of only three ESCWA countries, Jordan, the Syrian Arab Republic and Egypt, benefited from these loans, with Egypt receiving about three-quarters of industrial loans. The distribution of AFESD's loans among these three countries indicates that more than 38 per cent of loans provided to Egypt were oriented to the manufacturing sector, as compared with 9.3 per cent and 6.4 per cent in Jordan and the Syrian Arab Republic respectively (see table 38). It is worth mentioning that, when comparing ESCWA countries with the Arab region, it would appear that the former received less than half (47 per cent) of the total industrial loans granted by AFESD to the Arab region.

The Arab region received a significant share of KFAED and the Abu Dhabi Fund for Arab Economic Development's financial assistance - respectively 50 and 75 per cent during the period 1962-1985 and 1974-1984. During the period 1962-1985, the ESCWA region received around half of the KFAED loans extended to the Arab region, that is 25 per cent of its total loans. While the share of ESCWA countries in total loans provided by the Abu Dhabi Fund to the Arab region amounted to 68.6 per cent during the period 1974-1984, that was more than 51 per cent of the Fund's total loans. An analysis of the distribution of the Abu Dhabi Fund's loans among the major economic sectors reveals that the industrial sector was a priority area, since its share in total loans to the ESCWA region accounted for 48.1 per cent during the period 1974-1984, as compared with the 20 per cent of KFAEDs loans between 1962 and 1985.

An analysis of the distribution of industrial loans among ESCWA countries reveals that Jordan was the most favoured country, receiving more than 54 per cent of total KFAED industrial loans during the period 1962-1985. The other major beneficiaries were Egypt (13.4 per cent), Oman (11.6 per cent) and the Yemen Arab Republic (10.6 per cent).

The distribution of KFAEDs loans at the country level indicate that the share of the industrial sector in total loans was the highest in Iraq (58.9 per cent), followed by Jordan (38.6 per cent) and Oman (21.1 per cent). The share was less than the region's average (20 per cent) in the Yemen Arab Republic, Egypt, Bahrain and the Syrian Arab Republic (see table 38).

Most of the industrial loans provided by the Abu Dhabi Fund for Arab Economic Development to the ESCWA region were directed towards Oman, which obtained the lion's share, 75 per cent, during the period 1974-1984. The other countries to benefit from industrial loans were Jordan, Bahrain, Egypt and Democratic Yemen. Most of the loans provided to Oman and Jordan were aimed at financing industrial projects, and respectively consisted 87.5 and 81.8 per cent of total loans. The share of industry in total loans in Bahrain, Egypt and Democratic Yemen was less than the region's average (see table 38).

(e) Projects financed

Industrial loans from the Arab Fund were extended to Egypt to finance a fertilizer project, and the textile and cement industry. However, disbursements did not exceed 56 per cent of total industrial loans. It should be noted that three projects in Egypt were financed during the period 1974 to 1976.

In Jordan in 1982, AFESD disbursed almost the entire KD 5 million of a loan on the White Cement project, a joint project between the Syrian Arab Republic and Jordan. Two loans were granted to the Syrian Arab Republic, one for the Damascus Garbage Composting Company in 1981, and the second for a pesticides factory in 1984. However, by the end of 1985, the loans had still not yet been disbursed (see table 39).

Table 40 indicates that slightly less than half of total KFAED industrial loans were provided for manufacturing projects, while the remainder was distributed among the Industrial Banks of Jordan and the Yemen Arab Republic, the Sitra Industrial Estate in Bahrain, and a potash project (mining) in Jordan.

Table 39. Arab Fund for Economic and Social Development: loans and disbursements to manufacturing projects in ESCWA countries, 1974-1985

(Millions KD)

Project	Country	Year	Value of loan	Disbursements up to 31 December 1985
Talkha Fertilizer Plant II	Egypt	1974	6.5	6.500
Tourah Cement (expansion)	Egypt	1975	6.7	5.029
Talkha Fertilizer Plant II (supplementary)	Egypt	1976	2.7	1.562
Kafr el Dawar Textiles	Egypt	1976	10.0	1.289
White Cement (joint project Jordan-Syrian Arab Republic)	Jordan	1982	5.0	4.998
Damascus Garbage Composting	Syrian Arab Republic	1981	2.2	-
Pesticides Factory (joint project Syrian Arab Republic-Jordan)	Syrian Arab Republic	1984	1.9	-
Total			35.0	19.378

Source: Compiled from the Arab Fund for Economic and Social Development, Annual Report, various issues.

About 50 per cent of the industrial loans granted by the Abu Dhabi Fund for Arab Economic Development were oriented towards manufacturing projects. The major projects financed by the Abu Dhabi Fund were generally large-scale industries, except for Bahrain where a loan of 60 million UAE dirhams was allocated to small-scale industrial projects (see table 41).

In contrast with AFESD and KFAED, the Abu Dhabi Fund for Arab Economic Development participates in the equity capital of development projects. However, the Abu Dhabi Fund participated in the capital of only one manufacturing project (in 1984), the Reysut Cement Company in Oman. The Fund's equity participation amounted to Dh 10.6 million.

Table 40. Kuwait Fund for Arab Economic Development: loan commitments to ESCWA countries in manufacturing projects, 1974-1985

(Millions of KD and percentages)

Project	Country	Year	Value	Percentage interest	Maturity (years)	Grace period (years)	Grant element (Percentage)
Al-Rusayel Cement	Oman	1982	8.20	4.0	16.7	2.7	34.3
Operations of the Industrial Bank	Yemen	1982	4.00	4.0	18.5	4.2	38.0
North Sitra Industrial Area	Bahrain	1980	6.16	4.0	16.7	2.7	34.0
Phosphate fertilizer project	Jordan	1979	2.90	4.0	15.0	3.3	33.0
Potash project	Jordan	1979	10.00	4.0	20.0	5.7	40.0
Talkha Fertilizer Plant II (second stage)	Egypt	1976	3.20	4.0	18.0	2.7	-
Industrial Development Bank	Jordan	1976	2.50	4.0	16.0	3.7	-
Industrial Development Bank	Jordan	1974	1.00	4.0	17.0	5.0	-
Talkha Fertilizer Plant II	Egypt	1974	7.00	4.0	20.0	4.7	-
Total			44.96				

Source: Compiled from the Kuwait Fund for Arab Economic Development, Annual report, various issues.

3. Financial flows of IsDB to manufacturing

Created in 1976, the IsDB extends assistance to Islamic member countries through its financing of various projects aimed at accelerating economic and social development. IsDB provides various forms of assistance: project financing, technical assistance, foreign trade financing and special assistance.

Project financing, which consists of long-term investment includes: loans, equity participation, the leasing of premises and equipment, the sale of facilities and materials on an instalment basis and profit-sharing. Most of IsDB industrial investment in ESCWA countries took the form of leasing and equity participation in new projects. These two forms of financing respectively accounted for 49.4 and 44.3 per cent of total IsDB financial participation in manufacturing projects for the period 1977-1985.

The leasing method of finance, which is practised exclusively by Islamic banks, consists of leasing to the client on a regular payment basis for a predetermined period a specified commodity purchased by the Bank . Industrial projects that enjoyed the lease mode of financing were: an electrical cables project in Bahrain, the Jordan Cement Factories, a new porcelain factory in the Syrian Arab Republic and a building materials plant in the Yemen Arab Republic.

IsDB also has an equity participation in large manufacturing projects such as a Jordan fertilizer project, a sugar-beet project in Egypt, a cement plant in Oman and the Gulf Pharmaceutical Company in the United Arab Emirtes (see table 42).

It is interesting to note that IsDB charges no interest. Loans are subject to a small charge in order to cover administrative expenses. This may help to explain why only one industrial project amounting to $US 4.66 million (which represented 6.2 per cent of IsDBs financial participation in industrial projects) enjoyed loan financing during the period 1977-1985 (see table 43). Although the Bank's objective is not to make profits, equity participation and leasing are profit-makers that help the Bank to cover the losses it incurs in loan financing and other forms of financial assistance.

On the other hand, IsDB is ready to co-finance development projects, and collaborates with other financial institutions that provide loans on an interest basis. For example, the Bank co-financed the Jordan Fertilizer Industry together with the Arab Mining Company and the French Government.

4. The role of the Inter-Arab Investment Guarantee Corporation

Inter-Arab financial flows are encouraged through guarantees, mainly given against political risks, as well as through the promotional activities undertaken by the Inter-Arab Investment Guarantee Corporation. Established in 1975 by member countries of the Arab League, the Corporation aims at promoting and encouraging the flow of inter-Arab investment, particularly private and semi-private flows, and government funds that are channelled to the private sector. The activities carried out by the Inter-Arab Investment Guarantee Corporation in an effort to realize these objective can be summarized as follows:

Table 41. Abu Dhabi Fund for Arab Economic Development: commitments and disbursements in ESCWA countries 1974-1984

(Millions of Dh and percentages)

Project	Country	Year	Loans	Disburse-ments	Percentage interest rate[a]	Biannual repayment instalments	Grace period (years)
Phosphate fertilizer	Jordan	1980	19.0	19.0	5.5	24	3
Small-scale industries	Bahrain	1976	60.0	56.1	4.5	18	4
Reysut Cement	Oman	1983	10.7	10.7	5.0	14	2
Talkha Fertilizer Plant	Egypt	1974	58.4	58.4	4.0	26	5
Three sugar factories[b]	Syrian Arab Republic	1976	130.0	..			
Paper factory[b]	Syrian Arab Republic	1976	220.0	..			
Total			498.1				

Source: Abu Dhabi Fund for Arab Economic Development, Annual Report, (Abu Dhabi), issue for 1982 and 1983/1984.

a/ Excluding 0.5 per cent administrative charges.

b/ Loans financed by the Abu Dhabi Government, and administered by the Abu Dhabi Fund.

Table 42. Islamic Development Bank: financial participation in industrial projects in ESCWA countries, 1977-1985

(Millions of US dollars)

Project	Country	Year	Nature of operation	Total cost of project	Bank participation
Electrical cables project	Bahrain	1985	Loan	48.92	4.66
Electrical cables project	Bahrain	1985	Leasing	48.92	16.05
Jordan fertilizer project	Jordan	1978	Equity	277.50	5.24
Jordan fertilizer project	Jordan	1981	Additional equity	277.50	2.10
Timber processing	Jordan	1982	Equity	42.00	1.80
Extension of Fuhais Cement Plant (Jordan Cement Factories Ltd.)	Jordan	1982	Leasing	183.18	12.00
New porcelain factory	Syrian Arab Republic	1985	Leasing	13.50	7.00
Building materials plant	Yemen Arab Republic	1982	Leasing	5.44	1.80
Sugar-beet project	Egypt	1978	Equity	124.33	6.00
Raysut Cement Plant	Oman	1982	Equity	58.00	2.89
Fujairah Cement Plant	United Arab Emirates	1979	Equity	101.40	10.00
Gulf Pharmaceutical Co.	United Arab Emirates	1985	Equity	52.50	5.00
Total					74.54

Source: Compiled from the Islamic Development Bank, Annual Report, various issues.

(a) Offer a guarantee against political risks, with regard to direct investment, both equity participation and loan financing, to contractors equipment and export credit (only for inter-Arab trade). In the case of export credit, guarantees are given against both political and commercial risks. The commercial risk is limited to the risk of insolvency; political risks are those related to nationalization, confiscation, war and revolutions and the risk of the inconvertibility of local currency.

(b) Undertaking research and studies with the aim of informing prospective investors about investment opportunities and the investment climate that prevails in the Arab countries.

(c) Helping to promote investment opportunities by bringing the concerned parties together: investors and the initiators of projects.

(d) Providing technical assistance in areas directed at improving the investment climate, particularly in giving help on the institutional aspects of an investment loan, the procedures for approving investment applications, the tax aspects of investment, investment negotiations, etc.

The main criterion used by the Corporation to provide a guarantee for a project is related to its economical and financial feasibility. In addition, the project has to fall within the development strategy of the country. The Corporation limits the guarantee to a maximum of 25 million dollars, without making any distinction between member countries. In the case of loan financing, guarantees are given only if Arab participation in the bank that extends the loan exceeds 50 per cent of bank capital.

It should be noted that the annual premium applied by the Corporation is the same for all Arab countries. This means that the Corporation regards risks as being equal in all Arab countries. In other words, countries subject to political risk are subsidized.

The large amount of funds made available to Arab national and regional development financial institutions have enabled them to expand their services in the ESCWA region, more particularly in non-GCC countries. However, the industrial sector received only a small share of the total financial assistance extended to the ESCWA region by the majority of these institutions, with the exception of the Abu Dhabi Fund which channelled slightly less than 50 per cent of its total loans to the industrial sector. The small share received by the industrial sector can be attributed less to shortages in financial resources than to the lack of bankable and well-prepared projects to be submitted to these institutions, in spite of the very low interest rates charged on these loans. On the other hand, it can be observed that, with the exception of IsDB, loan financing is the major activity of Arab financial development institutions. Participation in the equity capital of industrial projects, which is considered to be essential for the promotion of private sector investments, is not practised by most of these institutions.

B. Foreign sources of financing

1. Trends in foreign financing

Foreign financing takes the form of foreign investment, official development assistance and international commercial bank lending. While in the 1950s and 1960s direct foreign investment was the main source of external financing for developing countries, in the 1970s a shift occurred in favour of commercial bank lending, which was subject to rapid expansion. This was accelerated by the huge increases in oil prices after 1974.[1/] Thus, the lending of international commercial banks to developing countries increased, while direct private foreign investment declined in both absolute and relative terms. Official development assistance grew more rapidly than direct investment during the 1970s and early 1980s.[2/] The slow growth of direct foreign investment can be explained by the new international political climate that has emerged since the early 1970s, and by the increasingly important role played by developing countries in the world economy.

In the ESCWA region, foreign investment in the 1960s was mainly concentrated in the petroleum sector. However, in the early 1970s, oil-producing countries prohibited foreign investment in the oil industry (oil extraction and production), in an attempt to increase national control of natural resources. At present, private direct foreign investment takes the form of joint-ventures with national capital in several industrial projects, primarily in the free market economies of the region. Official development assistance (e.g. from the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF)) grew significantly in the 1980s and constituted an important source of external financing in countries such as Jordan, Egypt and the Yemen Arab Republic. In particular, IMF, has been able to increase lending because of the increased availability of resources, mainly provided by the Organization of Petroleum Exporting Countries (OPEC). However, IMF loans are characterized by their high "conditionality",[3/] e.g. the borrowing country has to pursue a certain economic policy, loans are granted mostly for specific projects, the use of loans is closely monitored, etc. IMF assistance for Egypt, for example, was accompanied by high conditionality, e.g., the liberalization of its exchange policy and the use of loans in export-oriented projects.

1/ United Nations Industrial Development Organization, International Financial Flows to Industry: some sectoral trends, Vienna, September 1984, (UNIDO/PC. 104).

2/ International Monetary Fund, Foreign Private Investment in Developing Countries, Occasional Paper No. 33, (Washington D.C., January 1985).

3/ See: S. Griffith-Jones and E. Rodriguez, "Private international finance and industrialisation of LDCs", in R. Kaplinsky, ed., Third World Industrialisation in the 1980s: Open Economies in a Closing World, (London, Frank Cass, 1984), pp. 47-74.

Private bank lending, mainly through euro-Arab banking, grew rapidly in the late 1970s and early 1980s. International commercial banks provided long-term loans for industrial projects in a number of ESCWA countries with a reduced risk owing to a newly practised technique - "roll-over credit". This technique is based on a floating interest rate that varies with the lenders' cost of money obtained on the short-term inter-bank market. This means that the interest rate changes every time the credit is rolled-over (usually every three or six months).1/ However, deficit countries prefer official assistance to private loans, since the former has longer maturities (up to 40 years) and lower interest rates. In other countries such as the Syrian Arab Republic, Iraq and Democratic Yemen, bilateral assistance constitutes the main source of foreign financing.

It should be noted that the rapid expansion and development of national and regional financial institutions in the second half of the 1970s was a major factor in the increase of financial flows ESCWA countries and other developing countries, both in absolute and in relative terms. Thus, these institutions have tended to replace foreign financial institutions as a major source of external financing for non-GCC countries.

2. Relative importance of foreign investment

The degree of involvement of foreign capital depends on several factors such as the political orientation of the country, the size of the local market, the potential for an export industry, the natural resource endowment, exchange rate policies, the economic environment, the existing infrastructure and government regulations with respect to foreign investment.2/

Countries with small internal markets, an underdeveloped infrastructure and limited possibilities for exports, such as the Yemen Arab Republic and Democratic Yemen, have not been able to attract substantial direct foreign investment, despite the fact that they are well endowed with natural resources and offer generous incentives. The Yemen Arab Republic, for example, also has liberal regulations and a good investment climate. On the other hand, Egypt's scant success in attracting sizeable foreign investment was mainly the result of the absence of appropriate exchange policies, of the long procedures required to establish a project, and a lack of confidence in the stability and durability of its open-door policy. Nevertheless, the existence of a large local market and the provision of generous incentives were major factors in attracting foreign investment. This was primarily undertaken in order to serve the growing local market and was often made in response to the trade restrictions imposed by Egypt as part of a strategy of import-substitution industrialization in the 1970s and early 1980s.

1/ International Monetary Fund, Foreign Private Investment in Developing Countries, Occasional Paper No. 33 (Washington, D.C., January 1985).

2/ Ibid.

The free market nature of GCC countries and their policy of developing as export centres by offering generous incentives, coupled with their natural resource endowments, have been responsible for attracting an inflow of foreign investment. Some GCC countries such as Saudi Arabia established heavy industries with the participation of foreign companies as shareholders, in order to guarantee greater collaborator commitment, marketing success and technology transfer. In contrast, Kuwait built its plants on a turnkey basis, and hired technical assistance on a fee basis.

To sectoral distribution of foreign capital differs among ESCWA countries with respect to the areas of priority determined by each member State. Some countries such as Saudi Arabia, Qatar and Egypt have drawn up lists of priority industrial projects in which foreign capital can be invested and where it can enjoy special incentives.

In Saudi Arabia, foreign investment is concentrated in the chemical industry, including the petrochemical and fertilizer, building materials and metal industries, which together contributed more than 92 per cent of total foreign investment in non-oil manufacturing. The chemical industry has the largest share, with 71.1 per cent of total foreign investment. There is substantial foreign investment participation in the capital of industrial enterprises. The share of foreign investment amounted to 37.3 per cent of total capital investment in non-oil manufacturing in 1984. The heaviest involvement of foreign capital was in wood products (56.8 per cent of total capital investment), the chemical industry (48 per cent), paper products (43.1 per cent), ready-made clothes (37.7 per cent) and building materials (28.2 per cent) (see table 43).

In Egypt, foreign investment, undertaken under the provisions of the Law No. 43 of 1974, "Investment of Arab and Foreign Capital and the Free Zones", has been limited in comparison with Egyptian and Arab participation. No data are available on the participating share of foreign capital in the manufacturing sector. Available data give only the total capital invested in approved projects in the whole economy. The share of national capital in total capital invested in "inland" projects (projects established outside the free zones) accounted for 71 per cent during the period 1974-1986, as compared with 14 per cent for Arab capital and 15 per cent for foreign capital. In the free zones, Arab capital was dominant: 48 per cent of total capital invested, followed by that of the nationals (30 per cent) and foreign capital (22 per cent).

However, the data are given with respect to the distribution of total investment (national, Arab and foreign investment) among the major economic sectors. The share of the industrial sector in the total investment of (inland) projects, as approved by GAFI, accounted for 50 per cent; this rate fell to 38.3 per cent of total investments of projects in operation. When industrial projects in free zones are taken into account, the share of industry was 49 per cent of the total investment of projects in operation (see tables 44 and 45).

It should be noted that several projects were undertaken in the capital goods and engineering industries sector, including the assembly and manufacture of electronics and electrical consumer products, the manufacture of tractors and the production of cars and trucks. Other recent projects include textiles and ready-made garments, food processing, chemicals, building materials and pharmaceutics.

Table 43. Saudi Arabia: foreign investment shares in non-oil manufacturing industries, 1984

(Millions of SRls and percentages)

Industrial Activity	No. of factories	Total capital investment	Foreign partner share	Percentage share of foreign partner
Foodstuffs, beverages and tobacco	38	1,216	306	25.2
Ready-made clothes and textiles	8	244	92	37.7
Leather products	-	-	-	-
Wood products	13	118	67	56.8
Paper and paper products, printing and publishing	16	478	206	43.1
Chemical industries, including petro-chemicals, coal, rubber and plastics	90	15,968	7,662	48.0
Manufacture of china, earthenware, pottery, porcelain and glass	1	21	3	14.3
Building materials	65	4,167	1,174	28.2
Metal industries	152	6,524	1,169	17.9
Other products	5	150	78	52.0
Storage	1	20	12	60.0
Total	389	28,906	10,769	37.3

Source: Saudi Arabia, Ministry of Industry and Electricity, Industrial Statistical Bulletin, 1984.

Table 44. Egypt: participation of Egyptian, Arab and foreign capital in projects approved by GAFI, 1974-1986

(Percentages)

	Inland projects	Free zones	Total
Egyptian	71	30	66
Arab	14	48	18
Foreign	15	22	16
Total	100	100	100

Source: Data provided by the General Authority for Investment and Free Zones.

In the Yemen Arab Republic and Democratic Yemen in spite of the incentives offered by the respective laws for the encouragement of investment, the inflow of foreign investment is still limited owing to several factors. Among these are the poor infrastructure and facilities, the absence of skilled labour and high wages. Investment of foreign capital in the Yemen Arab Republic, has taken place in only a few industrial projects, e.g. the participation of the Rothman International Company (25 per cent) in the capital of the National Tobacco and Matches Company.

Foreign investment in the Syrian Arab Republic is still low, although since 1977 a number of free zones that cover trade, banking and industrial activities have been created. In general, foreign investment is made through bilateral agreements with the Government.

Table 45. Egypt: projects approved and projects in operation up to to 31 December 1986

(Millions of LE)

Sectors	Approved projects					Projects in operation				
		Capital					Capital			
	No.	Local currency	Foreign currency	Total	Total investment cost	No.	Local currency	Foreign currency	Total	Total investment cost
Inland										
Industrial projects	581	1,063	1,321	2,384	6,337	307	403	533	936	2,329
Agricultural projects	106	176	173	349	764	43	98	68	166	372
Others	668	1,597	1,834	3,431	5,554	456	985	1,240	2,225	3,228
Total	1,355	2,836	3,328	6,164	12,655	806	1486	1,841	3,327	5,929
Free zones										
Total	268	4.8	926	930.8	1,195	241	4.8	872.5	877.3	1,108.9
GRAND TOTAL	1,623	2,840.8	4,254	7,094.8	13,850	1,047	1490.8	2,713.5	4,204.3	7,037.9

Source: Supplied by the General Authority for Investment and Free Zones.

VI. CONCLUSIONS AND RECOMMENDATIONS

Following the increase in oil revenues, during the 1970s the ESCWA region witnessed the establishment of various financial institutions and the expansion of existing ones. Most of these institutions substantially increased substantially their resources, and subsequently more funds have been made available to the manufacturing sector. This is more evident in GCC countries, where huge financial resources are still available, despite the sharp decrease in oil prices and revenues during the 1980s. In non-GCC countries, financial institutions and more particularly industrial and development banks, are facing problems of a shortage of funds, especially in foreign exchange. Nevertheless, GCC and non-GCC countries share similar problems with regard to the channelling of funds to industry, namely the shortage of sound, viable and well-prepared projects. Thus, the availability of financial resources alone cannot contribute to industrial development in the absence of adequately formulated projects. Hence, the conclusions and recommendations will focus on two main issues: first, the ways and means of raising additional financial resources; and secondly, ways and means of channelling additional financial resources into industrial development.

A. Ways and means of raising additional financial resources

The financial institutions in the region, and industrial and development banks in particular, need to increase their resources significantly in order to meet the requirements of an expanding manufacturing sector. The structural changes registered in a number of ESCWA countries in favour of heavy industry will require larger capital investment, in addition to large amounts of working capital. On the other hand, these changes require the establishment of new financial intermediaries and the strengthening of existing ones.

1. Increasing the resources of specialized financial institutions

The proper functioning of financial intermediaries depends on the existence of a continuous flow of savings and other resources. In most ESCWA countries, commercial banks have absorbed most of the savings and are primarily channelling them into unproductive sectors, namely trade, services and real estate. The specialized financial institutions - industrial and development banks - need to mobilize additional financial resources in order to satisfy the needs of the industrial sector. The effectiveness of these institutions depends, to a large extent, on their ability to mobilize and diversify domestic and external financial resources in order to implement projects.

However, aside from the Industrial Bank of Kuwait, only a small number of industrial banks in the region such as IBY, IDB of Jordan and DIB of Egypt have been able to mobilize substantial savings and diversified sources of funds. They rely heavily on just one or two sources: equity capital and/or long-term borrowing. The Industrial Bank of Yemen does not accept deposits, whereas in Egypt and Jordan, deposits constitute a modest share of the respective industrial banks' resources. The main obstacles to the mobilization of domestic savings stem from the competition for such savings from commercial banks, the low level of per capita income in non-GCC countries, and also the weaknesses in the policies applied by some industrial banks.

Industrial banks should, therefore, rely more on the contribution of deposits from the general public as one of the major sources of funds, and should not depend too heavily on a limited number of sources. The mobilization of large public deposits depends on the financial incentives and facilities these banks are able to offer savers.

Although most industrial banks have been able to borrow on a long-term basis from external sources (mainly from KFAED, IsDB and the IMF), the ability of these banks to continue to act as intermediaries between local project promoters and regional and international development finance institutions, as well as to mobilize additional external financial resources, depends on the credit worthiness of the ultimate borrower and on bankability and viability of projects.

Anther external source of funds is long-term borrowing from foreign commercial banks; this is the case of the Industrial Development Bank of Jordan and the Development Industrial Bank of Egypt. The high interest rates charged by international banks are likely to increase the debt burden of these two industrial banks. This may partly help to explain the relatively high interest rate charged by IDB of Jordan on loans for industrial projects, and the recent difficulty of IDB of Egypt of providing finance in foreign currency. Under current world economic conditions, industrial banks should avoid depending on long-term borrowing from foreign banks.

The Industrial Bank of Kuwait issues bonds in order to increase its sources of long-term funds. Other industrial banks should follow the same policy, but this should be accompanied by the provision of government guarantees and exemption of the interest on bonds from income tax.

An improvement in the liquidity of the specialized financial institutions could be also achieved through the rediscounting and refinancing facilities offered by central banks, which would thus enable these institutions to generate liquidity for new projects.

2. Development of syndicated lending

Since a financial institution on its own might not be willing to bear the risk of extending big loans to large-scale industrial projects, or in some cases, may only have limited resources, syndicated loans involving several financial institutions would be an effective means of mobilizing large amounts of funds.

The Industrial Development Bank of Jordan manages and participates in syndicated loans. The reason that this mode of financing has not generally been adopted in the region could be partly explained by the fact that most industrial banks are not yet prepared for such activities, and also by the fact that most of the large projects financed through syndicated loans in the region are state-owned enterprises. On the other hand, the lending activities of industrial banks, with the exception of the Industrial Bank of Syria, are confined to the needs of the private sector. In general, commercial banks and investment companies, including foreign banks, have been involved in such loans. In GCC countries, for example, commercial banks such as the Gulf International Bank and the National Bank of Bahrain, have contributed to the financing of the fixed assets of some large joint venture projects, namely the

Gulf Petrochemical Industries, the Arab Iron and Steel Company and Aluminium Bahrain through syndicated loans. In Egypt, investment institutions such as the Arab Investment Bank and Misr-Iran Development Bank, which are mainly involved in financing the industrial sector, have contributed with commercial banks through syndicated loans to the financing of large projects.

The Central Bank of Jordan, for example, provides the following facilities to the financial institutions involved in syndicated loans: (i) the refinancing of a part of these loans on a long-term basis at low interest rates; (ii) the exemption of financial institutions from the required credit deposit ratio; and (iii) government guarantees.

Since specialized financial institutions - industrial and development banks - are better equipped than commercial banks to deal with industrial projects, it is imperative that these institutions co-ordinate and manage syndicated loans in order to encourage private investment in large industrial projects. The effectiveness of these institutions depends, therefore, on their ability to mobilize resources from other financial institutions and from commercial banks that are generally reluctant to finance industrial projects. On the other hand, syndicated loans cannot be developed in the region unless they are given government support. Governments ought to guarantee such loans and Central Banks should provide incentives in order to encourage commercial banks to participate in long-term loans.

3. Development of capital markets

In the ESCWA region, capital markets are not very well developed, and only a few of the stock shareholding industrial companies in existence were established through them, mainly in Jordan, Kuwait, Egypt, and, to a lesser extent, Bahrain. Several constraints help to impede the development of capital markets in the region: monetary and foreign exchange policies, and tax systems and regulations that prevent companies from issuing bonds. Furthermore, capital markets cannot be developed in a controlled market economy.

The relative absence of capital markets may help to explain why the private sector's activities are concentrated in small-scale industries. The development of capital markets in the region would facilitate the mobilization of small savings and channel them into medium- and large-scale industries. On this market, borrowers could mobilize long-term financing and constitute or expand the equity capital of their businesses.

4. Establishment of investment trusts

The ESCWA region, both at the country and regional levels, lacks investment trusts that could provide small savers with the opportunity to make an equity investment in industrial enterprises. In contrast with other investment institutions in the region, these trusts are designed to manage the funds deposited by savers, to invest them in the shares of industrial companies and to distribute to savers the returns yielded by these investments. It is proposed that investment trusts be promoted under government umbrellas in order to avoid financial mishandling and individual conflicts of interests, whilst bearing in mind that they operate as private companies. Hence, investment trust companies could contribute to the mobilization of domestic and regional financial resources in favour of the manufacturing sector.

5. Promotion of regional projects

At the same time as they promote industrial development and co-operation in the region, joint ventures could be considered to be one of the principal vehicles for mobilizing financial resources. Financial institutions, more particularly specialized institutions and regional investment companies, could play a significant role in promoting joint venture projects by identifying viable regional industrial projects and encouraging the flow of funds from the countries endowed with a surplus of capital, to others that suffer from a shortage. Currently, some institutions such as AFESD, IsDB, the Arab Industrial Investment Company and a newly established institution, the Gulf Investment Corporation, assist and promote joint venture projects at the regional and subregional level.

Industrial and development banks in the region are not active in identifying and promoting joint venture projects. This is due to the fact that the regulations of industrial banks prevent them from aiding projects that are not fully- or majority-owned by nationals. In this respect, industrial and development banks need to modify existing regulations in order to favour the establishment of regional projects.

6. Participation in the equity capital of industrial enterprises

The equity participation of specialized financial institutions in industrial enterprises still constitutes a relatively minor share of their total financial commitments. Their main activities are concentrated in the extension of medium- and long-term loans. However, national investment institutions such as the Industrial Investment Company (Kuwait), the Arab Investment Bank (Egypt), the Misr Iran Development Bank (Egypt), the Yemen Company for Investment and Finance (Yemen Arab Republic) and the Pension Fund (Jordan), have all been active in promoting new industrial projects and in participating in the equity capital of industrial firms, mainly in medium- and large-scale industries.

The participation of financial institutions and, more particularly, of industrial and development banks in the equity capital of industrial enterprises is one of the effective means of mobilizing additional financial resources. Participation such as this would encourage private investors to acquire shares, which in many cases is more important than the provision of loans, since it can motivate entrepreneurs to launch new projects and to become less reluctant to invest in industrial projects, even those involving relatively greater risk.

B. Ways and means of channelling additional financial resources into industrial development

The effectiveness of financial institutions in the region depends not only on their ability to mobilize domestic and external financial resources, but also to channel these resources into industrial development. This cannot be achieved without the identification and promotion of viable projects, the existence of bankable and well-formulated projects, and the availability of entrepreneurs. The success of financial institutions in investing or in promoting investment in industrial projects depends, to a large extent, on the financing policy they pursue, the monitoring and control of the projects they effect, and the technical assistance they provide in an effort to safeguard against the failure of the project. It also depends on the existence of an adequate mechanism in this regard within the financial institutions.

1. Extending the maturity period of loans

The maturity of loans provided by the various industrial and development banks of the region differs among ESCWA countries. While the loans extended by the industrial banks in Jordan and Saudi Arabia have long-term maturity, those of the Syrian Arab Republic and the Yemen Arab Republic have medium-term maturity that does not exceed five years. The maturity of the loans extended by the Industrial Bank of Kuwait and the Oman Development Bank ranges between five and seven years. The differences in policy with regard to loan maturity can be partly explained by the differences in the maturity period of bank resources. In this context, attempts should be made to raise the maturity period of the loans in order to encourage private investment in long-term, slowly-maturing projects.

2. Provision of incentives to projects that meet specific criteria

Most industrial and development banks have defined their lending priorities in relation to specific criteria such as the orientation of the project, whether the project concerns import-substitution or is export-oriented, geographical location and the fulfilment of a country's development objectives and priorities. However, only a few banks provide incentives for projects that meet these criteria. The Industrial Development Bank of Jordan gives preferential treatment - loans on easier terms - to projects established in backward areas; the Development Industrial Bank of Egypt provides incentives for projects that fall into the following priority areas: food security projects and construction projects for cheap and medium-cost housing. The Industrial Bank of Syria started only recently (1987) to provide long-term loans for projects that fall in the area of the food as well as capital goods and engineering industries.

In order to promote industrial development, industrial and development banks should grant loans on easier terms to projects that meet the following criteria:

(a) Projects should be established in the underdeveloped areas of a country in order to promote the regional dispersal of industries and more balanced regional development;

(b) Projects should meet the requirements of a country's industrial plan objectives;

(c) Projects should generate high local value added, making use of local raw materials and should save hard currency;

(d) They should be import-substitution or export-oriented projects.

3. Identification of investment opportunities and promotion of entrepreneurship

The main impediment to industrial development in the region, in many cases, is not a shortage of funds but the lack of sound and well-prepared investment projects. The fact that most of the loans provided by the industrial banks of Egypt, Jordan and the Syrian Arab Republic in the 1980s aimed at financing existing industries, rather than new projects could be partly owing to the lack of projects, in terms of quantity and quality that were submitted for financing, it could also be the result of recent government policies of consolidating and supporting existing industries, rather than promoting the establishment of new ones. The lack of bankable projects is mainly owing to the fact that entrepreneurship is still insufficiently developed, as the private sector is mainly involved in activities such as trade, services and real estate that yield quick returns. The other impediment is the scant attention paid by the industrial banks of the region to the identification of projects, although some do have special units or departments for project identification. In contrast, a number of institutions such as the Arab Industrial Investment Company (AIIC), the Arab Fund for Economic and Social Development, the Arab Investment Bank (Egypt) and the Misr Iran Development Bank have played a significant role in identifying new investment opportunities at the regional and country level. On the other hand, few industrial banks are involved in the preparation of feasibility studies. Their activities are confined only to project appraisal. Industrial and development banks should become involved in the identification of viable projects that meet the requirements of national development priorities and objectives. Entrepreneurial development should constitute one of the main activities of these banks. This could be achieved through the extension of assistance to entrepreneurs in the preparation of feasibility studies and the supply of information consisting of economic and technical data.

Project promotion is another important function that is not generally performed by most industrial and development banks. It consists mainly of identifying and persuading an entrepreneur to undertake a project. The promotion of projects has been a major activity of the national and regional funds and investment institutions. Although AIIC identified a range of investment opportunities, it has been involved in only a few industrial projects in the ESCWA region.

The specialized financial institutions - industrial and development banks - should pay more attention to project promotion, especially as entrepreneurship is generally lacking in several ESCWA countries. It is worth noting that the provision of financial incentives (soft loans) and the existence of investment opportunities are not in themselves sufficient to create entrepreneurs. And financial resources cannot contribute to the success of a project unless there is adequate entrepreneurship.

In this respect, these institutions could co-operate with regional and international organizations such as AIDO and ESCWA with regard to promotional activities.

4. Realization of effective monitoring and assistance to existing industries

Although most industrial and development banks in the region follow up on the implementation of projects, it would appear that this monitoring has not been entirely effective, since a number of projects have shown signs of failure. This can be attributed to the lack of a proper monitoring and control mechanism. The participation of these banks in the equity capital of industrial firms could constitute a way of carrying out effective monitoring and control. This could also be effective if the bank had the option of converting loans to equity shares in cases where the firm showed signs of a possible failure. This convertibility would thus have a dual effect - giving both effective monitoring and relief for projects suffering from a delayed payment situation.

On the other hand, few industrial and development banks in the region provide technical assistance for projects already in operation that face difficulties. Special funds should be created within the banks with the aim of financing techno-economic studies related to industries facing obstacles. The newly established "Technical Assistance Fund" in the Industrial Development Bank of Jordan is a good example of a Fund that aims at financing the preparation of technical studies for projects in difficulty, through the provision of long-term loans free of charge.

5. Raising the qualification of staff in the industrial banks

Some industrial banks in the region face the problem of having to use incompetent technical staff to undertake project identification, preparation and monitoring. The Industrial Banks of the Yemen Arab Republic and the Syrian Arab Republic are examples of specialized financial institutions that suffer from a shortage of adequate administrative, managerial and technical skills with which to undertake feasibility studies and the appraisal of projects, to identify investment opportunities and to provide technical assistance to projects that face obstacles. The present level of salaries in these banks, as in some other industrial banks of non-GCC countries, may partly explain the shortage of qualified staff. The effectiveness of industrial and development banks depend, therefore, on their ability to recruit well-qualified staff in order to provide high quality services to their clients. These banks should also establish training programmes for their staff in various fields: feasibility studies, management, marketing, etc.

6. Creation of specialized financial institutions for small-scale industries

Only a few industrial banks in the region pay due attention to the financing of small-scale industries and handicrafts. The industrial banks of Jordan and Egypt and the Oman Development Bank give preferential treatment to these industries through the provision of loans on very advantageous terms and, in some cases, the extension of technical and management assistance. But little is done with respect to the identification and promotion of projects, or the promotion of entrepreneurship.

The promotion of small scale industries is of particular importance in the industrialization process; its role in industrial development is widely recognized and cannot be over-emphasized. Since the financial services required by these industries are radically different from those provided to medium- and large-scale industries, there is a need to establish a specialized financial institution for small-scale and cottage industries at the country level. In fact, these industries face different problems than those encountered by medium- and large-scale industries, namely:

(a) They have little access to commercial credit;

(b) They face difficulties in raising equity;

(c) They are generally unable to formulate industrial projects that reach the standards requested by the industrial and development banks;

(d) They lack financial experience and are unfamiliar with project preparation techniques and the computation of investment costs.

(e) They lack administrative and managerial experience.

A specialized institution for small-scale industries could provide a number of services, ranging from project identification, assistance in the preparation of feasibility studies and marketing and the training of workers in management and finance. Such an institution could contribute significantly to the promotion of small-scale industries, mainly by supplying imported, as well as local, machinery and equipment on a hire-purchase basis consisting of easy payment instalments, and through raw material banks. In addition, an institution such as this could help in the marketing and exporting of products of small-scale industries.

ANNEX TABLES

Table A.1. Kuwait: Industrial Bank of Kuwait: sources of funds - liabilities and shareholders' equity

(Thousands of KD and percentages)

Liabilities	1975 Value	1975 Percentage	1980 Value	1980 Percentage	1985 Value	1985 Percentage
Deposits and other accounts	33,588.6	48.4	250,510.6	57.7	345,212.2	58.9
Bonds and certificates of deposits issued	5,000.0	7.2	37,530.0	8.6	17,037.5	2.9
Long-term loans from the Government of Kuwait	20,000.0	28.8	121,000.0	27.9	186,000.0	31.7
-principal amount	(100,000.0)		(200,000.0)		(200,000.0)	
-less repayment	-		(4,000.0)		(14,000.0)	
-amount undrawn	(80,000.0)		(75,000.0)		-	
Proposed dividends	-		1,557.5	0.4	1,500.0	0.3
Total liabilities	58,588.6	84.4	410,598.1	94.6	549,749.7	93.8
Shareholders' equity						
Paid-up capital	10,000.0	14.4	15,575.0	3.6	20,000.0	3.4
Statutory reserves	85.0	0.1	2,537.4	0.6	4315.9	0.8
Voluntary reserves	690.0	1.0	5,190.0	1.2	11,170.0	1.9
Undistributed profits	53.3	0.1	54.4	-	781.0	0.1
Unrealised gain on securities	13.4	-	-	-	-	-
total shareholders' equity and reserves	10,841.7	15.6	23,356.8	5.4	36,266.9	6.2
Total liabilities and shareholders' equity	69,430.3	100.0	433,954.9	100.0	586,016.6	100.0

Source: Industrial Bank of Kuwait, Annual Reports, (Kuwait), issues for 1975, 1980 and 1985.

Table A.2. Jordan: Industrial Development Bank: sources of funds - liabilities and shareholders' equity

(JD and percentages)

Current liabilities	1980 Value	1980 Percentage	1985 Value	1985 Percentage
Fixed deposits			5,201,546	(9.3)
Accounts payable and provision	3,714,842		12,385,682	
Short-term advances from Central Bank of Jordan			1,316,625	
Other liabilities	238,991		366,528	
Total current liabilities	3,953,833	19.5	19,270,381	34.5
Long-term liabilities (loans)				
National Planning Council loan	50,000		-	
Kuwait Fund for Arab Economic Development	3,640,834	18.0	2,045,691	
Foreign loans	4,244,474	20.9	10,276,725	
Advances from Central Bank of Jordan	3,958,074	19.5	13,427,402	
Others a/	-	.	2,228,623	
Total long-term liabilities	11,893,382	58.7	27,978,441	50.1
Shareholders' equity				
Paid-up capital b/	3,499,982		5,691,101	
Statutory reserves	854,870		2,838,510	
Voluntary reserves	73,001		86,680	
TOTAL SHAREHOLDERS' EQUITY	4,427,853	21.8	8,616,291	15.4
Total liabilities and shareholders' equity	20,275,068	100.0	55,865,073	100.0

Source: Industrial Development Bank of Jordan, Annual Reports (Amman), issues for 1980 and 1985.

a/ Balance of Royal Scientific Society, interest 8 per cent.

b/ Authorized capital = 6,000,000.

Table A.3. Egypt: Development Industrial Bank: sources of funds - liabilities and shareholders' equity

(Thousands of LE and percentages)

	30 June 1980		30 June 1985	
	Value	Percentage	Value	Percentage
Deposits and credited current accounts	7,433	6.6	33,314	7.0
Bank dues			129,605	27.2
Creditors			35,919	7.5
Provisions	10,507	9.3	50,835	10.6
Loans from international organizations	75,038a/	66.4	189,796	39.8
Total equity	20,000	17.7	37,685	7.9
	112,978	100.0	477,154	100.0

Source: Development Industrial Bank of Egypt, Annual Report (Cairo), issues for 1980-1981 and 1984-1985.

a/ Including loans from banks.

Table A.4 Yemen Arab Republic: Industrial Bank of Yemen: sources of funds - liabilities and shareholders' equity

(YRls. and percentages)

	30 June 1980		1985	
	Value	Percentage	Value	Percentage
Current liabilities	2,233,207	2.3	16,068,127	7.1
Provision for indemnity	388,476	0.4	456,648	0.2
Borrowing	-		72,230,078	43.8
Loan from Central Bank			5,666,667	
IDA credit			54,964,694	
Kuwait Fund for Arab Economic Development			38,500,057	
UNCDF[a] management grant	905,000	0.9	905,000	0.4
Shareholders' equity	93,095,260	96.4	109,991,985	48.5
Fully paid[b]	88,293,300		93,030,000	
Reserves	4,801,960		16,961,985	
Total liabilities and shareholders' equity	96,621,941	100.0	226,553,178	100.0

Source: Industrial Bank of Yemen, Annual Reports (Sana'a), issues for 1981 and 1985.

a/ United Nations Capital Development Fund (UNCDF).

b/ Seventy per cent of capital is subscribed by the Government.

Table A.5. Jordan: Industrial Development Bank: number of approved loans by major industrial branches

(Millions of JD)

Code	1975		1976		1977		1978		1979		1980		1981		1982		1983		1984		1985	
ISIC	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
31	7	0.72	4	0.36	8	0.59	7	0.48	10	0.96	11	1.72	15	0.66	25	1.51	21	0.89	12	0.69	24	1.59
32	4	0.09	9	0.12	7	0.18			3	0.07	3	0.27	3	0.07	10	0.49	12	0.62	5	0.12	23	0.15
33	2	0.05	4	0.27			3	0.11	3	0.07	5	0.22	4	0.38	4	0.33	6	0.90	10	0.64	10	0.14
34	1	0.15	1	0.01	3	0.34	4	0.56	9	0.36	5	0.87	6	0.60	8	0.61	3	0.28	4	0.31	6	1.08
35	15	0.91	10	0.37	15	1.35	9	0.58	9	1.13	17	1.93	14	2.35	21	3.64	12	1.98	27	3.35	22	3.04
36	3	0.19	23	1.07	8	1.05	3	0.95	2	0.23	1	0.03	15	1.79	12	0.82	14	1.28	6	0.26	11	0.25
38	4	0.14	11	0.38	10	0.37	12	1.10	4	0.68	8	0.25	15	1.67	13	1.48	24	1.27	11	0.75	17	0.39
39	3	0.16	3	0.03	5	0.04	5	0.09	1	0.01					3	0.09	1	0.01			2	0.04
Total	39	2.40	65	2.61	56	3.92	43	3.87	41	3.51	50	5.29	72	7.52	96	10.04	98	7.23	75	6.12	115	7.04
Services and others	2	0.07	9	0.91	5	0.78	11	1.27	6	0.30	6	1.22	7	0.73	7	0.27	4	0.22	9	0.99	11	0.22
Grand total	41	2.47	74	3.52	61	4.70	54	5.14	47	3.81	56	6.512	79	8.25	104	10.31	98	8.45	85	7.12	129	7.48

Source: Industrial Development Bank of Jordan, Annual Report, (Amman), various issues.

Table A.6. Egypt: Development Industrial Bank: distribution of approved loans by type of industry*

	1978		1979		1980/1981		1981/1982		1983/1984		1984/1985	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Food	10492	82	17464	100	11474	145	23967	207	15450	117	14458	91
Textiles	10259	201	7393	201	17698	316	26461	321	39562	208	22788	165
Wood	2740	75	1418	116	5183	154	3469	233	2741	96	1007	70
Printing	1698	27	1637	45	3487	70	1169	62	4445	46	6796	43
Chemicals	5413	80	5054	75	13913	107	14029	115	22547	113	13744	110
Non-metallic	2006	30	6767	38	26721	97	9101	74	10234	61	17951	90
Engineering	6826	277	2699	346	17812	494	19373	456	13917	373	18585	301
Sub-total	39434	772	47432	921	98290	1383	97569	1468	113896	1014	95329	870
Tourism and hotels	6368	38	9874	300	12031	67	6115	41	4616	24	1125	14
Others	2152	63	2929	110	4853	195	5982	154	10647	161	3049	164
Sub-total	8520	101	12803	160	16884	262	12097	195	15263	185	6174	178
Grand total	47954	873	60235	1081	115174	1643	109666	1663	129139	1199	101503	1048

Source: Development Industrial Bank of Egypt, Annual Report (Cairo), various issues.

* Figures for 1982/1983 are not available.

Table A.7. Syrian Arab Republic: Industrial Bank: investments by major manufacturing branches

(Millions of Syrian pounds and percentages)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Food manufacturing											
Value	18.8	34.9	30.7	30.4	33.4	30.9	35.9	33.7	33.6	35.6	-
Percentage	(8.4)	(14.6)	(10.9)	(11.4)	(15.2)	(17.4)	(23.4)	(11.2)	(10.3)	(10.6)	
Spinning and textiles											
Value	87.9	123.7	169.9	189.9	144.8	129.8	109.2	129.0	145.6	160.8	129.7
Percentage	(39.3)	(51.9)	(60.3)	(71.0)	(65.9)	(72.8)	(71.0)	(43.4)	(44.9)	(47.9)	(37.3)
Cement											
Value	71.3	50.2	54.8	31.8	19.6	3.1	7.1	-	-	-	27.2
Percentage	(31.9)	(21.0)	(19.4)	(11.9)	(8.9)	(1.7)	(4.6)	-			(7.8)
Iron											
Value	16.2	18.8	15.1	4.8	10.2	0.1	-	-	-	-	-
Percentage	(7.2)	(7.9)	(5.4)	(1.8)	(4.7)	(0.1)	-	-			-
Wood											
Value	2.3	2.7	0.6	0.5	-	-	0.5	0.7	-	-	5.4
Percentage	(1.0)	(1.1)	(0.2)	(0.2)	-	-	(0.3)	(0.2)	-	-	(1.6)
Rubber and plastics											
Value	6.6	-	0.7	2.8	1.6	8.7	1.0	-	5.1	5.1	
Percentage	(2.9)	-	(0.8)	(1.0)	(0.7)	(4.9)	(0.7)	-	(1.6)	(1.5)	
Others											
Value	20.8	8.3a/	10.0	7.1	10.0	5.6	-	137.1	140.0	134.2	185.0
Percentage	(9.3)	(3.5)	(3.5)	(2.7)	(4.6)	(3.1)	-	(45.6)	(43.2)	(40.0)	(53.3)
Total	223.9	238.5	281.8	267.3	219.6	178.2	153.7	300.5	324.3	335.7	347.3
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

Source: Syrian Arab Republic, Central Bureau of Statistics, Statistical Abstract 1985 (Damascus).

a/ Bank investment for the private sector.

Table A.8. Kuwait: Industrial Bank of Kuwait: number and value of approved loans classified by major manufacturing branches

(Millions of KD)

Code ISIC	1974/1975		1976		1977		1978		1979		1980		1981		1982		1983		1984		1985	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
31	1	0.050	1	0.100	3	3.250	6	8.000	1	0.600	13	15.106	3	0.485	4	4.470	3	1.698	6	4.535	7	11.040
32											3	1.915	2	1.900			1	0.080	2	1.040		
33					3	1.940	1	1.650	1	0.100	1	0.050	4	2.100	4	0.605	1	0.120	3	0.520	1	0.190
34	1	0.260	1	0.225	3	1.160	2	0.185	5	6.034	3	1.166	7	4.490	7	1.869	3	0.560	5	3.687	5	3.110
35	5	0.720	2	0.350	10	6.075	6	0.815	4	0.635	4	2.240	10	6.785	4	7.245	4	3.435	7	11.39	2	0.385
36	4	10.423	10	6.695	21	10.055	6	11.445	12	6.020	9	9.47	3	0.900	8	13.585	12	12.735	8	3.965	4	1.201
38	6	3.550	5	11.910	5	2.090	6	3.185	2	5.316	7	2.09	7	3.830	3	0.842	8	3.599	3	1.060	8	5.155
39							1	0.150	2	0.07	1	0.060	1	0.400	1	0.145	1	0.110	1	0.470		
Total	17	15.003	19	19.280	45	24.570	28	25.430	27	18.780	41	32.105	37	20.890	31	28.761	33	22.157	35	26.672	27	21.081
Services and others			3	3.700	1	1.300	1	1.050	1	0.825			2	11.500			4	7.200	3	3.490	1	0.600
Grand total	17	15.003	22	22.98	46	25.870	29	26.480	28	19.605	41	32.105	39	32.390	31	28.761	37	29.357	38	30.162	28	21.681

Source: Industrial Bank of Kuwait, *Annual report* (Kuwait), various issues.

Table A.9. Saudi Arabia: Saudi Industrial Development Fund: number and value of approved loans 1974/1975-1981/1982

(Millions of SRls)

Code ISIC	1974/1975		1975/1976		1976/1977		1977/1978		1978/1979		1979/1980		1980/1981		1981/1982		1978/1979		1979/1980		1980/1981		1981/1982	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
31	1	10	8	101	3	31	18	218	26	159	23	252	18	171	13	185	6	103	9	85	7	116	10	142
32	-	-	3	47	-	3	-	-	1	21	5	42	4	40	2	28	7	37	1	18	-	-	4	17
33	3	16	4	12	4	31	3	6	-	6	3	19	2	15	5	13	-	4	-	15	2	26	1	4
34	-	-	1	6	6	47	7	74	7	41	5	38	7	38	5	22	9	51	5	88	5	48	6	22
35	3	13	14	66	19	321	17	75	14	194	20	139	14	96	24	251	14	567	13	349	9	210	7	249
36	6	87	18	534	72	580	57	1,380	42	415	22	595	11	674	4	461	3	571	1	331	3	333	6	69
38	8	24	17	262	26	165	34	337	20	149	31	252	17	221	19	441	23	320	23	336	14	194	19	249
39	-	-	-	-	2	5	-	1	1	2	1	2	-	4	2	15	1	9	1	1	2	12	-	-
Total	21	150	165	1,028	132	1,183	136	2,091	111	987	110	1,339	73	1,259	74	1,416	63	1,662	52	1,223	40	939	47	752
Shipping	-	-	-	-	2	68	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand total	21	150	65	1,028	134	1,251	136	2,091	111	987	110	1,339	73	1,259	74	1,416	63	1,662	53	1,223	42	939	53	752

Source: Saudi Industrial Development Fund, Annual Report 1985.

Table A.10. Yemen Arab Republic: Industrial Bank of Yemen: number and value of approved loans classified by major manufacturing branches for large- and medium-scale industries 1977/1978-1985

(Thousands of YRls.)

Code ISIC	1977/1978		1978/1979		1979/1980		July 1980 to Dec. 1981		1982		1983		1984		1985	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
31	3	7,150	3	7,500	3	6,315	6	12,303	4	14,464	1	6,000	3	16,600	4	33,000
32					1	415					2	8,000	2	13,000		
33					1	400										
34					1	627					1	3,913				
35			3	3,605	3	8,570	6	9,215	3	5,875	3	6,784	4	13,905	4	9,609
36	5	15,000	7	10,149	8	14,892	5	6,450	6	13,858	8	17,445	4	4,400	13	22,793
38	1	2,000	3	2,565	7	5,485	3	1,758	3	5,246	4	5,188	2	1,995	6	9,344
39	1	826													1	360
Total	10	24,976	16	23,819	24	36,704	20	29,726	16	39,443	19	47,330	15	49,900	28	75,106

Source: Industrial Bank of Yemen, Annual Report (Sana'a), various issues.

Table A.11. Kuwait: Industrial Bank of Kuwait: participation in industrial companies as at 31 December 1984*

(Thousands of KD and Percentages)

Company	Capital (1)	Bank participation: Nominal value (2)	Bank participation: Paid-up capital (3)	Bank participation: Participation rate (2)/(1) Percentage
Kuwait Industrial Refinery Maintenance and Eng., Co.	500	80	149	16.0
Kuwait Insulating Materials Manufacturing Co.	2,650	636	636	24.0
Arabian Transportation Vehicles Industrial Company	1,600	320	320	20.0
Gulf Paper Manufacturing Company	3,000	2,453	1,383	81.8
Kuwait Technology Investment Co.	3,000	600	300	20.0
Kuwait Desalination Plants Fabrication Company	1,000	250	250	25.0
Al-Rawdatain Water Bottling Co.	1,050	315	315	30.0
Kuwait Petrochemical Products Company	4,000	1,000	500	25.0
Gulf Aggregate Company	10,000	1,200	300	12.0
Gulf Glass Manufacturing Company	5,250	1,155	1045	22.0
Kuwait Metal Decorating Company	800	267	67	33.3
Industrial Investment Company	20,000	4,200	1,680	21.0
Kuwait Blankets Manufacturing Company	2,800	840	210	30.0
Total	55,650	13,316	7,155	23.9

Source: Industrial Bank of Kuwait, Annual Report 1984 (Kuwait).

* Since 1985, IBK has no longer participated in the equity of other industrial companies.

Table A.12. Egypt: participation of the Development Industrial Bank in the equity capital of industrial companies as at 31 December 1986

(Thousands of LE and percentages)

Company	Capital	Bank's share in capital	
		Value	Percentage
Wilcon Company for Industrial Development	300	102	34.0
National Company for Corn Sugar	20,000	1,000	5.0
Misr Gulf Company for Oil Manufacturing	9,744	877	9.0
Misr Company for Clay Bricks	25,000	300	1.2
Benisouef Company for Clay Bricks	2,500	250	10.0
Total	57,544	2,529	4.4

Source: Compiled from data supplied by the Development Industrial Bank of Egypt.

Table A.13. Jordan: Industrial Development Bank: equity investment in industrial projects, as at 31 December 1985

(Thousands of JD and Percentages)

	Paid-up capital	Bank's equity investment	Bank's share in paid-up capital Percentages
Jordan Dairy Company	1,750.0	125.5	7.2
Jordan Phosphate Mines Company	20,000.0	32.7	0.2
Jordan Paper and Cardboard Factory Co.	1,500.0	142.2	9.5
General Mining Company	1,000.0	7.5	0.8
Jordan Ceramic Industries	2,000.0	136.9	6.8
Jordan Polymers and Intermediate Chemical Company	1,363.4	34.6	2.5
Jordan Timber Processing Company	6,200.0	344.0	5.5
Jordan Wood Industries Company	1,500.0	122.3	8.2
Jordan Fertilizer Industries Company	55,000.0	340.0	0.6
Jordan Lime and Silicate Brick Company	4,726.3	423.8	9.0
Jordan Glass Industries Company	4,998.0	50.0	1.0
Jordan Petroleum Refinery Company	32,000.0	85.0	0.3
Arab Aluminium Industry Company	4,000.0	8.1	0.2
Jordan Spinning and Weaving Company	4,000.0	223.3	5.6
Jordan Cement Industries Company	22,500.0	562.5	2.5
Intermediate Petrochemicals Industry Company	3,429.1	100.0	2.9
Yarmouk Dairy and Food Industry Company	1,750.0	25.0	1.4
Jordan Pre-cast Concrete Industry	3,037.4	75.0	2.5
Sub-Total I	170,754.2	2,838.4	1.7

Table A.13 (Continued)

	Paid-up capital	Bank's equity investment	Bank's share in paid-up capital Percentages
Jordan Clothing Company	..	75.0	
Arab Engineering Industries a/	..	200.0	
Jordan Blending and Packing of Fertilizers Company a/	..	56.3	
Glass Containers Project b/	..	200.0	
Soup and Dehydrated Food Project b/	..	125.0	
Sub-total		656.3	
Total		3,494.7	

Source: Industrial Development Bank of Jordan, Annual Report 1985 (Amman); Amman Financial Market, Department of Studies and Research, Companies Guide, Fourth part (Amman, 1985).

a/ Partially paid shares.

b/ Projects under study.

Table A.14. Yemen Arab Republic: Industrial Bank of Yemen: equity investment in industrial companies as at 31 December 1985

(Thousands of YRls. and percentages)

Name of company	Location	Capital	Bank participation: Year	Committed	Paid-up	Participation rate Percentage
National Co. for Industrial and Construction Materials	Sana'a	20,000	1978/1979	1,400	1,400	7.0
Yemen Co. for Salt Refining and Packing	Hodeida	18,000	1983	2,475	2,475	13.75
Yemen Co. for Glass Manufacturing		40,000	1984	3,000		7.5
Marib Poultry Company[a/]	Sana'a	66,135	1978/1979	4,500	4,500	6.8
Total		144,135		11,375		7.9
New projects						
Ceramic products			1985		47	
Gypsum and lime			1985		358	
Glass products			1985		120	

Source: Industrial Bank of Yemen, Annual Reports (Sana'a), issues for 1984 and 1985.

a/ IBYs share in the Marib Poultry Company was sold to the Government in 1985.

Table A.15. Kuwait: Industrial Investment Company: sources of funds - shareholders' equity and liabilities

(Thousands of KD and percentages)

Shareholders' equity	1984 Value	1984 Percentage	1985 Value	1985 Percentage
Authorized capital	20,000.0		20,000.0	
Capital Paid	8,000.0	96.7	8,000.0	93.8
Statutory Reserve	24.0	0.3	24.0	0.3
Voluntary Reserve	24.0	0.3	24.0	0.3
Retained Earnings	181.4	2.2	15.2	0.2
Total shareholders' equity	8,229.4	99.5	8,063.2	94.6
Liabilities				
Long-term loans[a/]	-	-	400.0	4.3
Other liabilities	41.6	0.5	59.7	0.7
Total liabilities	41.6	0.5	459.7	5.4
Total shareholders' equity and liabilities	8,271.0	100.0	8,522.9	100.0

Source: Industrial Investment Company, Annual Report 1985 (Kuwait).

a/ Loan was granted by the Industrial Bank of Kuwait to the Kuwait Leather Industries Co., which was purchased (99.9 per cent of its capital) by the Industrial Investment Company.

Table A.16. Arab Investment Bank: participation in the equity capital of manufacturing enterprises

(Millions of LE and percentages)

	Date of establishment	Capital	Bank participation	Bank's share percentage
Misr-Aswan Fishing and Fish Processing Co.	1979	12.00	LE 0.116 + $US 871.428	
Vestia Co. for Ready-made Garments	1980	1.80	0.360	20.0
Tenth of Ramadan Co. for Building materials	1982	3.00	0.750	25.0
Misr El-Khalig Co. for Edible Oils	1985	9.74	0.974	9.9
Alum Project implemented	Being	6.28 a/	1.633 a/	26.0
Arab Company for Plastic Production	Being implemented	1.25	0.325	26.0
Agro-Industrial Complex Project	Being implemented	10.00		15-20
Melamine Project implemented	Being	4.80	0.960	20.0
Tuna Production Project implemented	Being	6.60	1.320	20.0
Sports-wear Project	Being implemented	1.50	0.300	20.0
Egyptian Co. for Printing Equipment	Being implemented	6.00	0.900	15.0

Source: Arab Investment Bank, Annual Report 1985.

a/ In millions of US dollars.

Table A.17. Misr Iran Development Bank: industrial projects financed

Industry and name of company	Activity	Date operation began	Planned annual capacity	Capital (Millions)	Bank exposure (US dollars)	Jobs offered
Textiles						
Misr Iran Textile Co.	Cotton and/or blended yarn	1981	12,000 tons	LE 97.4	14,928,200	3,181
Nile Clothing Co.	Manufacture of ready-made clothing from local cotton fabrics	Jan. 1981	1 million pieces	LE 3.5	459,200	313
Ready Made Garments (Tadroskin)	Shirts for exports	Apr. 1984	1.2 million shirts	$US 3.7	3,042,400	245
Wood						
Arab Timber Ind., Co. (ATICO)	Manufacture of massive and veneered wooden boards, furniture and packing boxes	May 1980	Value of output estimated at LE 67.8 million	LE 35.3	13,992,700	1,558
Misr Iran Furniture Co. (MIFCO)	Manufacture and Marketing of standardized furniture	Jan. 1983	Value of output estimated at $US 15.2 million	$US 7.8	5,031,700	260
Engineering						
Misr Air-conditioning Manufacturing. Co. (MIRACO)	Assembly and manufacture of air-conditioners and under-fitting and maintenance services	Mar. 1979	14,000 units	LE 14.1	4,540,300	600
Societe Egypto-Francaise du Caoutchouc (SEFCA)	Manufacture, production and marketing of moulded spare parts for cars, profiles for industrial usage, car carpets, battery boxes and latex gloves	Apr. 1983	10,000 tons	LE 47.6	2,717,300	582
Metallurgy						
Egyptian Co. for Aluminium Products (ALUMISR)	Production and marketing of anodized and non-anodized profiles and other aluminium products	Oct. 1979	3,900 tons	LE 11.8	2,157,500	302
Agro Food						
Roma Macaroni Factory	Production of macaroni	Mar. 1980	12,000 tons	LE 4.5	582,164	104
Construction and building materials						
Arab Co. for Ceramic Products	Production of ceramic drainage pipes, refracting bricks and sanitary ware	Apr. 1981	7,000 tons	LE 3.0	2,160,000	170

Table A.17 (Continued)

Industry and name of company	Activity	Date operation began	Planned annual capacity	Capital (Millions)	Bank exposure (US dollars)	Jobs offered
Acrow Misr	Manufacture of steel scaffolding and form work	May 1979	218,000 m^2	LE 9.0	1,720,000	300
Misr Financing Co. for Construction and Building Materials (MIFIC)	Financial holding co., aimed at establishing and participating in share capital of companies in field of construction, contracting and building materials.	June 1978		$US 4.4	758,000	
Other						
Dar El-Shorouk Printing Press	Opertion of modern printing press	Jan. 1979	Value of output estimated at LE 1.35 million	LE 2.541	490,500	117
Textiles[a]						
The International Blankets and Textiles Co.	Production and marketing of high quality blankets	1986	300,000 blankets	$US 5.878	4,378,000	111
Other[a]						
Arab Porcelain Co.	Production of fine quality porcelain tableware	July 1985	300 tons	$US 3.098	900,000	50
Pyramids paper mills project	Aims at constructing and operating tissue paper manufacturing plant	Dec. 1986	8,500 tons	LE 11.598	7,363,400	105
Construction and Building materials[a]						
Misr Iran Co. for Building Materials	Production of 69 million standard bricks	1985	69 million bricks	$US 16.1	13,289,300	110
The Egyptian Co. for Float Glass	Production of clear and coloured float glass		100,000 tons	LE 222.9	LE 4.5 million	360
Agro-Food[a]						
Agro and Food Industrial Investment Co.	Identification and financing agro industrial and food projects			$US 10	20 per cent stake	
Ismailia Misr Poultry Company	Production of eggs, poultry and fodder		3,400 feddans	LE 13.2	LE 355,512	

Table A.17 (continued)

Industry and name of company	Activity	Date Opera-tion began	Planned annual capacity	Capital (Millions)	Bank exposure (US dollars)	Jobs offered
Pharmaceutics[a/]						
South Egypt Drug Industries Co.	Production of 80 pharmaceutical drugs			LE 34.5	LE 2.8 million	430
Petroleum[a/]						
National Drilling Co.	Drilling oilfields			$US 2.48	793,500	
Other[a/]						
Arab Co. for Packaging and Wrapping	Production of high quality cartons and egg trays			LE 5,702	LE 2.462 million	

Source: Misr Iran Development Bank, Annual report (Cairo), issues for 1984 and 1985.

a/ Projects being implemented.

Table A.18. Jordan: Pension Fund: investments in manufacturing companies as at 31 December 1985

(Thousands of JD and percentages)

Name of company	Paid-up capital	Fund participation	Percentage participation rate
Jordan Cement Factories Co.	50,000	6,842	13.68
Jordan Petroleum Refinery Co.	32,000	1,946	6.08
Jordan Fertilizer Industry Co.	55,000	2,817	5.12
Engineering Industries Co.	15,000	1,500	10.00
Timber Processing and Manufacturing Co.	6,200	1,413	22.79
Jordan Glass Industries Co.	5,000	1,033	20.66
White Cement Manufacturing Co.	10,000	1,000	10.00
Jordan Tobacco and Cigarette Co.	1,500	250	16.67
Jordan Lime and Silicate Brick Industries Co.	4,000	553	13.82
Glass Containers Manufacturing Co.	4,500	400	8.89
Jordan Paper and Cardboard Co.	1,500	300	20.00
Jordan Spinning and Weaving Co.	4,000	220	5.50
Jordan Pre-cast Concrete Industry Co.	4,000	200	5.00
Arab Company for the Drug Industry and Medical Appliances	60,000	150	0.25
Jordan Ready to wear Manufacturing Co.	1,100	83	7.54
International Chemicals Industry Co.	1,100	8	0.72
Intermediate Petrochemicals Co.	3,500	8	0.22
Jordan Ceramic Industry Co.	2,000	6	0.30
Jordan Dairy Co.	1,750	112	6.40
National Food Processing Co.	1,500	125	8.33
Jordan Agricultural and Processing Co.	10,000	750	7.50
Total manufacturing	273,650	19,716	7.2

Source: Jordan, Pension Fund, Annual Report and Balance Sheet, 1985.

Table A.19. Jordan: sources of funds of stock shareholding companies, 1985
(Percentages)

Company	Shareholders equity	Long-term debt	Current debt	Total
Jordan Tobacco and Cigarette Co.	32.0	6.9	61.1	100
Jordan Cement Factories	35.6	42.4	22.0	100
Jordan Brewery Co.	75.2	-	24.8	100
Jordan Petroleum Refinery	37.1	23.3	39.6	100
Jordan Tanning Co.	55.5	7.0	37.5	100
Wollen Industries	62.6	5.3	32.1	100
Industrial Commercial and Agricultural Co.	43.3	7.9	48.8	100
Arab Pharmaceutical Manufacturing Co.	55.0	15.8	29.2	100
Jordan Worsted Mills Co.	27.6	-	72.4	100
Jordan Ceramic Industries Co.	66.0	6.5	27.5	100
Jordan Dairy Co.	82.0	-	18.0	100
Jordan Printing and Packaging	61.8	6.1	32.1	100
Jordan Paper and Cardboard	62.7	3.3	34.0	100
Arab Chemical Detergents	42.0	-	58.0	100
Jordan Pipes Manufacturing	81.5	-	18.5	100
Rafia Industrial Co.	86.5	-	13.5	100
Jordan Glass Industries	30.8	51.7	17.5	100
Jordan Spinning and Weaving Co.	76.9	13.1	10.0	100
Jordan Lime and Silicate Brick Industry Co.	64.6	10.7	24.7	100
Dar al-Dawa Development and Investment	64.6	1.8	33.6	100
Arab Aluminium Industry (ARAL)	39.2	35.1	25.7	100
Livestock and Poultry	82.1	7.2	10.7	100
Jordan Timber Processing	4.2	50.0	45.8	100
Orient Dry Batteries Factory	40.1	-	59.9	100
Mas Industries Co.	42.6	-	57.4	100
Arab Paper Converting and Trading Co.	30.4	6.2	63.4	100
National Steel Industry Co.	53.7	-	46.3	100
Jordan Fertilizer Industry	25.8	49.7	24.5	100
Intermediate Petroleum Chemical Industries Co.	56.3	11.9	31.8	100
Jordan Chemical Industries	85.7	-	14.3	100
Universal Chemical Industries	65.0	20.7	14.3	100
National Industries	42.1	11.9	46.0	100
South Cement Co.	42.4	40.1	17.5	100
Aladdin Industries	54.7	2.7	57.4	100
Jordan Rockwool Industries	66.5	24.1	9.4	100
Jordan Match Industries (SIMCO)	55.8	6.3	37.9	100
Jordan Ready-to-wear	34.4	-	65.6	100
Jordan Wool Industries	45.2	9.0	45.8	100
National Cable and Wire Manufacturing	70.6	-	29.4	100
Jordan Pre-cast Concrete Industry Co.	98.3	-	1.7	100
Arab Industrial Group Co.	99.8	-	0.2	100
Jordan Sulpho Chemicals	93.5	-	6.5	100
Arab Centre for Pharmaceutics and Chemicals	97.9	-	2.1	100
Agriculture Marketing and Processing	100.0	-	-	100

Source: Compiled from balance sheets provided by the Amman Financial Market, Department of Studies and Research, Companies Guide (Fourth Part), (Amman, 1985).

Table A.20. Kuwait: sources of funds of stock shareholding companies, 1985

(Thousands of KD and percentages)

Company Liabilities	Kuwait Cement Company Values	(%)	Gulf Cable and Electrical Industries Value	(%)	National Industries Co. Value	(%)	Metal Pipe Company Value	(%)	Kuwait Pharmaceutical Industries Value	(%)	Refrigeration Industry and Cold Storage value	(%)	Total Value	(%)
Paid-up capital	25,616	44.0	5,634	16.6	24,298	26.6	15,207	23.4	5,531	48.6	6,367	32.4	82,653	29.6
Reserves	2,192	3.8	20,979	61.8	45,452	49.8	6,026	9.3	513	4.5	2,432	12.4	77,594	27.7
Total shareholders' equity	27,808	47.7	26,613	78.4	69,750	76.4	21,233	32.7	6,044	53.1	8,799	44.8	160,247	57.3
Current liabilities	9,424	16.2	6,138	18.1	8,628	9.5	37,667	58.0	280	2.5	2,821	14.4	64,958	23.2
Long-term liabilities	21,047	36.1	1,200	3.5	12,876	14.1	6,067	9.3	5,056	44.4	8,022	40.8	54,268	19.4
Total liabilities	30,471	52.3	7,338	21.6	21,504	23.6	43,734	67.3	5,336	46.9	10,843	55.2	119,226	42.7
Total shareholders' equity and liabilities	58,279	100.0	33,951	100.0	91,254	100.0	64,967	100.0	11,380	100.0	19,642	100.0	279,473	100.0

Source: Compiled from balance sheets provided by the Kuwait Stock Exchange Market, Kuwait.

Table A.21. Yemen Arab Republic: sources of funds of stock shareholding companies, 1985

(Percentages)

Company	Shareholders' equity	Long-term debt	Current debt	Total
Saba Poultry Co.	25.6	25.2	49.2	100
Plastics Products Co.	38.4	14.5	47.1	100
Dairy Products Co.	41.1	13.0	45.9	100

Source: Compiled from balance sheets provided by the Yemen Arab Republic, Ministry of Economy, Trade and Supply, Companies Department.