

Financing of the Industrial Projects

Banks generally grant clients having current accounts, long and short term loans for working capital and investment purposes, open and confirm letters of credit, and perform documentary collections. Loans may be executed in local currency or foreign currencies. Credits are granted from the banks' own financial resources, as well as from foreign lenders, subject to strict criteria established by foreign institutions relating to borrowers and to the type of operation to be financed. Short term credits are easier to obtain. Amounts and rates of interest depend on the granting bank's assessment of the client's creditworthiness and the associated level of risk involved.

The Emirate of Ajman, in line with the UAE financial systems, is offering a lot of facilities to investors and businessmen to back up their investment projects. Therefore, banks and some other specialized financing institutions are providing finance to the different economic activities, particularly investment activities. The financing of such activities, particularly the industrial projects, varies according to the types of the banks. Thus the lending policy towards industrial projects adopted by commercial banks differ from that adopted by specialized banks such as the UAE Industrial Bank.

The commercial banks lending policy to different economic activities is based on the rules, priorities and rate of interest determined by the banks themselves. The rate of interest charged by some banks on the loans offered to industrial projects ranges between 7-12% as annual rate. The securities and documents required by these banks for approving a loan are governed by the individual bank's terms and conditions.

The UAE Industrial Bank is a developmental financing organization which was set up in 1982 pursuant to the Federal Law No. 1 for the year 1982, aiming to contribute in the boosting of the UAE economy and the diversification of its productive structure through the setting up of new industries and the support of those existing in UAE. The bank's activity is mainly oriented towards private establishments and companies, and the joint economy firms and companies operating in the industry sector where nationals (UAE's and GCC nationals) own at least 51% of their share capital. The bank'

The UAE Government holds 51% of the shares of the bank with the remaining shares held by some national banks and companies. The

bank provides many financial and developmental services, including:

1. Long-term loans for financing industrial projects.
2. Short-term loans for financing operating capital.
3. Renewable credit facilities for financing operating capital.
4. Financing special contracts.
5. Contribution in the capital of companies operating within the banks' activities.
6. Credit facilities for exports.
7. Loans transferable into a participation in the capital.
8. Financing of industrial projects according to Islamic Murabaha (share in profits).
9. Financing of industrial projects owned by GCC nationals and set up on UAE territory.
10. The preparation of feasibility and marketing studies for industrial projects.
11. Provision of initial letters of guarantee or performance bonds.
12. Exploration of investment opportunities in industrial fields in UAE.

The aforementioned services and facilities are provided within a general framework as follows:

- The national participation in the capital of the project should not be less than 51%.
- The project shall be set up in the UAE.
- The proportion of the direct or indirect financing of a project shall be limited to 20% of the bank's subscribed capital and its reserves, or 60% of the cost of the project including the working capital for a period of three months, whichever is less.
- A borrower shall bear an annual simple interest of 4% in addition to administrative costs at 0.5% per annum.

Facilities are granted according to the priorities which are given to the following industries :

1. Industries which depend upon modern technology and adopt capital consistency.
2. Industries using local resources and depending in marketing their products on local and foreign markets.
3. Industries producing goods alternative to the imported ones.

The bank requests the following securities (all or part thereof) for approving the finance :

- a) Bank guarantee covering the principal loan, the interests and administrative expenses for 6 months.
- b) Fix assets which should represent 70% of the book value of the machinery, equipment and civil constructions according to the bank's report.
- c) The plot of land, if owned by the owners of the project and saleable.
- d) Property mortgage, except for those properties which are used by the project owner as private residence.

The application for the financing of the project is to be submitted according to the official form prepared by the bank for this purpose. An initial project feasibility study should be submitted by using the official form prepared by the bank.