KUWAIT FUND
FOR
ARAB ECONOMIC DEVELOPMENT

SECOND ANNUAL REPORT

1963 - 1964

CONTENTS

SECOND ANNUAL REPORT

1963 — 1964

I. INTRODUCTION

During the financial year that ended March 31, 1964 the Kuwait Fund for Arab Economic Development experienced satisfactory growth in resources and operations. Total resources increased by KD. 12.8 million and new loan commitments by KD. 6 million. Two large loans involving additional commitments of KD. 17.3 million were in preparation and have since been concluded. Five Arab countries are at present benefiting from Fund assistance compared to two at the end of 1962/63, and the number of Fund-financed projects has increased from three to nine.

During this second year of operations the Fund devoted much time and attention to organizational problems and to the need for establishing effective contact with various Arab countries. Towards this end, the Fund has gone a considerable way. The Fund management is also gratified by the progress achieved by the wider acceptance of the Arab countries of its rules and procedures for making development loans. It has also continued to receive encouragement from a number of international development agencies, notably the IBRD. Also, the Fund established useful contact in a number of financial centres with a view to eventual close cooperation between them and the Arab countries.

Within the provisions of its statutes the Fund has maintained a flexible approach to the problems of development in the Arab countries. This has been achieved while at the same time the Fund exercised greater control over the proper implementation of Fund-financed projects. During the year, the Fund staff made end-use visits to Jordoan and at least two are planned in the current year : to Sudan and Tunisia.

The year 1964-65 promises to be one of further expansion in Fund activities. Already two new loan agreements, referred to above, have been concluded. A number of visits by Fund staff to various Arab countries are being scheduled. These include visits to Algeria, Morocco and the Sudan to study a number of projects submitted to the Fund for financing. The Fund may also during this year enter into its first technical assistance operation in an Arab country (Yemen).

II. LOAN OPERATIONS

During the financial 1963-64, loan commitments of the Fund were increased (for two projects in Tunisia) by KD. 6 million to KD.20.5 million.

Of KD. 500,000 previously committed to the Industrial Development Fund of Jordan, KD. 415,000 was allocated during the year for two projects in the Jerusalem area. There were, in addition, two major projects under preparation - in Algeria and the United Arab Republic.[1] Thus, five Arab countries are at present benefiting from Fund resources. Applications were received during the year from a number of countries including Morocco and Yemen for the first time and Algeria, Jordan and Sudan for additional projects.

Actual disbursements on loans accelerated considerably in 1963/1964. Whereas only KD. 775,000 had been disbursed in the previous period, disbursements reached KD. 4,259,000 in 1963/64 and were running at an appreciably higher rate at the end of the financial year. By March 31, 1963, disbursements amounted to about 5 per cent of total commitments; a year later they exceeded 20 per cent of total commitments. This development reflected the greater pace of implementation of projects, especially in the Sudan. The rate of disbursement is expected to be considerably higher in the financial year 1964/65.

By country, Jordan accounted for over 90 per cent of disbursements prior to March 31, 1963 whereas in 1963/64 the Sudan accounted for over 95 per cent of the year's total disbursements. Of total disbursements made by March 31, 1964, Jordan accounted for about 15 per cent and the Sudan for the remaining 85 per cent. This was due both to the satisfactory pace maintained by Sudan Railways in implementing its expansion program and to slow implementation of Fund projects in Jordan, some of which are still in the preparatory stage.

The distribution of Fund loans by country and sector is shown in the following table, including the proposed loans to Algeria and the UAR.

1/ The loan agreement with Algeria was signed on June 23, that with the UAR was scheduled for signing on July 5.

Distribution of Loans by Country and Sector

(In KD. 1000)

	Trans-port	Irriga-tion	Thermal Power	Mining	Tourism	Total	Percen-tage of Total
Sudan	7,000	—	—	—	—	7,000	18.6
Jordan	—	4,000	240	3,000	175	7,415 *	19.6
Tunisia	—	2,000	4,000	—	—	6,000	16.0
Algeria	7,500	—	—	—	—	7,500	19.9
U.A.R.	9,800	—	—	—	—	9,800	26.0
Total	24.300	6,000	4,240	3,000	175	37,715	100.0
Percentage	64.4	15.9	11.2	8.0	0.5	100	

* Not including an unallocated commitment of KD. 85,000.

Except for the somewhat larger loan to the UAR amounting to 26 per cent of loans granted, loans to the remaining four countries fall within the range of 16-20 per cent of the total. On a per capita basis, however, Jordan is by far the highest recipient, followed by Tunisia, while the UAR is the lowest.

The distribution of loans by sector shows a predominance of transport which accounted for nearly two thirds of the total. This is not due to any deliberate policy on the part of the Fund, but the Fund has recognized the vital importance of transportation in the development plans of recipient Arab countries. Within the transport sector, the Fund restricted its operations to projects yielding revenues directly . Different phases of all three projects have been financed by international development agencies.

Irrigation projects, which account for about 16 per cent of total loans, have accounted for only about 7 per cent of loans granted since 1962/63. These projects have generally been found to have considerably longer pay-out periods, and the Fund has approved loans for them at the low interest rate of 3 per cent per annum.

The Fund has approved only one loan to develop tourism, accounting for less than 1 per cent of total loans. This is a rather low figure in view of the considerable touristic potential of the Arab countries. But tourism projects,which tend to be rather small, are normally financed from domestic savings or can easily attract international loans from other sources.

Most of the loans approved by the Fund so far are for projects that would add substantially to the foreign exchange earnings of borrower countries, either directly or by increasing the export competitiveness of these countries. The majority of Fund projects would result in an improvement of the long term balance of payments position of the Arab countries and thus enhance their ability to service and amortize external development loans.

III. FINANCIAL POSITION

Over the year 1963-64 the capital resources of the Fund increased to KD. 28,215,225. The increase resulted from an addition of KD. 12,000,000 to the Fund's paid up capital and a net income of KD. 814,179 realized during the year. 1/These additional resources enabled the Fund to accommodate the year's loan disbursements of KD 4,258,775 and to expand the investment portfolio by approximately 57 per cent to KD. 22,783,585.

The Fund maintained a highly liquid position through rational management of its investment portfolio in terms of its size and structure. The ratio of total investments to the undisbursed balance of the loan commitments was about 147 per cent at the end of of 1963-64, as compared with about 106 per cent a year before. The ratio of net liquid assets 2/ to the undisbursed balance of the loan commitments rose from about 106 per cent on March 31, 1963 to about 150 per cent on March 31, 1964.

The composition of the investment portfolio has undergone a significant change during the year in the direction of greater diversification as

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1/ Early in the current financial year the Fund received an additioanl KD. 12 million from the Kuwait Government as part of its capital subscription.

2/ The sum total of cash, investments, and short term accrued interest less short term liabilities.

to types of securities and currencies and more rational phasing and lengthening of maturities. As of March 31, 1964 the Fund's portfolio comprised four different types of securities in two different currencies with carefully and conservatively staggered maturities of up to two years. In contrast, a year before, the portfolio was comprised of a single class of three-month securities.

The new investment policy, coupled with a rise in short term interest rates in the United Kingdom, resulted in an increase in the average yield on the investment portfolio from 3.19 per cent in 1962-63 to 3.84 per cent in 1963-64.

Notwithstanding a 90 per cent increase in expenses, the 1963-64 net income figure was more than double that of 1962-63. Net income increased from KD. 401,046 in 1962-63 to KD. 814,179 in 1963-64.1/ The factors contributing to this development include, as previously indicated, the growth in the paid-up capital of the Fund , a more rational planning of the investment portfolio, and the rise of short term rates in the United Kingdom.

Whereas the interest collected on loans accounted for slightly over 6 per cent of the total gross income of 1963-64 (the balance arising from investments), the income of 1962-63 was wholly derived from the investment portfolio. Naturally, as loan disbursements accelerate, the tendency will be toward an increasing proportion of the income derived from loans matched by a decreasing proportion of the income derived from investments.

IV. FUND POLICIES AND PROCEDURES

1. Lending Policy

The Fund management is gratified to report that the Fund's lending policies and procedures are meeting with greater acceptance on the part of borrower countries. There has been very satisfactory progress in this area during the year 1963/64.

1/ The 1963-64 net income figure takes account of KD. 56,038 of interest collected during the year but not of an increase of KD. 70,934 in the accrued interest on loans which, owing to its long term nature, has been left out of the reported income of the year in keeping with conservative accounting practice.

A number of criteria are applied by the Fund in the selection and appraisal of projects and in fixing the terms of its loans. The Fund, however, maintains a flexible approach to these criteria which the management keeps under continuing review and study.

In selecting projects, the Fund has insisted that any project it finances must be technically and economically sound and should have high priority in the economic development program of the borrowing country. Furthermore, the Fund has restricted its loans to projects which yield a satisfactory direct return on investment thus avoiding projects of a social welfare type such as housing, health, education, etc. This is not due to any underestimation on the part of the Fund of the vital importance of this type of projects. It is rather due to the fact that at this early stage in the history of the Fund, it is unable to cope with this very broad and complicated area of development. The Fund has practically no other restrictions on the types of projects it may choose to finance.

Also , in selecting its projects, the Fund views its role as a supplementary source of capital for the the Arab countries and perhaps as an essential ingredient in attracting additional capital into the region, not in replacing such capital. Where there are good prospects that foreign capital would be forthcoming for a project on reasonable terms, the Fund has indicated preference to apply its financial resources elsewhere in the borrower country concerned.

The Fund operates within the conditions stipulated in its Charter that no project could receive more than 10 per cent of its total capital and reserves. The proposed loan to the Suez canal Authority comes closest to this limit as it amounts to 9.6 per cent of the Fund's capital and reserves.

While this is Fund policy, certain practical limitations must be recognized. The number of countries that could benefit from Fund assistance and their requirements have not been completely surveyed yet. Until this is carried out for the majority of countries, it would be most difficult for the Fund to enter into commitments in any one country that exceed the range that has so far been set by practice.

The Fund has during the financial year given priority in allocating its time and resources to countries that have applied for loans for the first time. This is due to the Fund's desire to spread its operations throughout the Arab countries before entering into new commitments in countries that have already received Fund assistance. The Fund will, however, continue to give serious consideration to worthwhile projects submitted to it. The Fund management maintains that this policy is both fair and in the best interest of the Arab countries as a whole.

As a general rule, specified in the Fund Charter, the Fund finances only the foreign exchange cost of projects or 50 per cent of the total cost whichever is lower. The Fund has consistently sought reasonable assurance that the domestic currency component be raised largely from domestic savings. While the Fund has consistently adhered to this general policy and has not requested the Board to waive this rule under Article 16 of its Charter, adherence to this policy has not always been easy to achieve.

In the past year a number of Arab countries experienced balance of payments or budgetary problems while the external resources that could be mobilized in foreign exchange for development financing on a project basis were not necessarily diminished. Their ability to make use of these credits on the other hand was greatly diminished.

The Fund management notes that in this respect, the practice of other international development lending agencies is by and large becoming increasingly more flexible.

Once a provisional selection of project is made, the Fund gives detailed consideration to the engineering, economic and financial studies needed to make a judgement on its technical and economic feasibility and to agree with the borrower country on a sound financial plan. In the majority of cases in which the Fund has been directly involved it was found that while the technical parts of the feasibility studies are satisfactory, the economic feasibility analyses are deficient. This has had to be supplemented by studies carried out by the Fund or by outside consultants at the request of the Fund.

When the above-mentioned studies are completed, the Fund determines the terms, duration and other conditions of its loan primarily in the light of the needs of the project. The Fund applies no rigid rules in this respect. It has often accommodated its terms to the requirements of other creditors in such manner as to induce maximum inflow of development capital into the Arab countries.

With regard to interest rates, the Fund has applied rates ranging between 3 per cent and 4 per cent per annum including all charges. Practically the main consideration taken into account in fixing an interest rate is the potential of the project with regard both to earnings and cash availability. The Fund may also take into account the long term balance of payments prospects of borrowing countries.

It should be noted that the majority of the Fund loans are being granted at the higher interest rate i.e. 4%. In fact, of the total commitments so far undertaken by the Fund and including the scheduled loan agreements, only KD. 6.24 million have been made at the rate of 3% and the balance (KD. 30.56 million) at 4%, indicating an average interest rate on all Fund loans of 3.75%. Thus the Fund has so far charged 4% interest in all cases except where there are special factors justifying a lower rate.

The three loans which the Fund has approved at the lower interest rate of 3% include the two irrigation projects in Jordan and Tunisia where the rate of return on investment was found to be rather low. These two loans amount to KD 6 million. The third loan amounting to KD 240,000 was made to Jordan for the Jerusalem Electricity Company.

The Fund is guided primarily by the needs of the project and in certain cases by balance of payments considerations in fixing the duration of its loans and the period of deferment of repayment of principal. Fund loans have been granted for periods ranging between 10 and 25 years, although the typical loan is approximately for 15 years including about 3 years of deferment.

Because the Fund escalates repayments, starting with low instalments in the earlier years, Fund loans are considerably longer term than they appear at first glance. For instance, in the recently concluded agreement for a loan of KD 7.5 mililion with Algeria, only about 13 per cent of the principal will have been repaid by the time half of the 15 year duration of the loan expired. This liberal provision has been incorporated into most of the loan agreements of the Fund. Although the Fund has preference for level payments as a general rule, it has been willing to accommodate borrower countries where other creditors are involved, or where there are special considerations justifying relief in the earlier years of repayment.

It remians to comment on the credit worthiness criteria applied by the Fund . The Fund staff give careful consideration to long range balance of payments prospects of borrower countries, to fiscal and monetary developments and to economic policies that may impinge on a country's ability to service and amortize a Fund loan. Where the Fund is more flexible and accommodating in its approach to the creditworthiness of borrower countries is in its acceptance of the undertaking of Arab countries to service and amortize Fund loans emphasizing those projects that enhance their ability to pay. Within this framework, the Fund applies its creditworthiness criteria primarily on a project by project basis. In the majority of cases it has selected projects that would greatly enhance a country's balance of payments prospects and the fiscal position of the Government.

2. Financial Policy

The financial policy of the Fund continues to be conservative with regard to the safety and liquidity of the funds at its disposal. The Fund has taken important steps to diversify its portfolio and towards its rational management to achieve higher earnings. The Fund gives primary consideration to its ability to meet on demand and promptly all requests for drawings by borrower countries. For this reason the Fund has restricted its dealings to prime securities of governments and first rate banks.

At the end of 1962/63 practically the entire Fund portfolio was held in the form of short term securities of foreign governments. While the Fund has continued to hold over half of the portfolio in this form, it has acquired a number of other short term assets, including a small direct placement in Austria, a small position in IBRD bond , holdings of U.K. Local Authority deposits and escalator mortgages and time deposits in a number of banks in the United Kingdom and elsewhere. None of the Fund's assets have a maturity in excess of two years, and as an added measure of security, the Fund has in most cases reserved for itself the option to withdraw at least part of its deposits on demand in case of emergency.

Within this overall policy the Fund has established contact with a number of financial institutions. These continuing contracts are proving of great value to the Fund in its operations especially in coordinating its loan operations with other international agencies in the field.

3. Administration and Management

The Fund staff was strengthened considerably during the year 1963/64 and the Fund continued to benefit from the cooperation of international institutions.

Despite certain additions to its staff, the Fund was under considerable pressure as the number of projects under active consideration and the number of applications increased. During the year the Fund staff visited Tunisia, Jordan, Algeria, the UAR and the Sudan in connection with existing and new projects. Four project reports were completed and two were in an advanced state of preparation. This essential work which has absorbed considerable time and effort is bound to increase as new countries apply for loans. Furthermore, the nature of Fund operations requires close follow-up of the utilization of loans to ensure that the credits granted are being used as agreed and that the projects sanctioned are progressing well. This type of work is essential to the success of all Fund operations. Necessarily, it calls for frequent visits to various Arab countries by Fund staff. Such visits were started during 1963/64 (to Jordan) and similar visits are planned in 1964/65 (Sudan, Tunisia, etc.).

The Fund is also in the process of planning visits to consider new projects in Morocco, Algeria and the Sudan from which applications have already been received. A survey mission to Yemen will be organized as soon as approval of the authorities for such a project is obtained.

V. PROJECTS IN PROGRESS

During the financial year 1963/64 the Fund had six projects in progress. Disbursements were made to three projects. Of these the Sudan Railways was progressing on schedule.

SUDAN

Railways

Amount of loan KD. 7,000,000 Disbursed to March 31, 1964 KD. 4,228,000

This loan was extended for expansion and improvement of the railway system, including the purchase of 35 large diesel electric engines, a large addition to rolling stock, machinery and equipment for repair shops, two additional berths at port Sudan and a large amount of rail. The project makes possible a considerable improvement of operation and maintenance efficiency of the Sudan Railways. The Fund project is part of a ten-year modernization program (1961/62-1970/71), which is estimated to cost about 30 million Sudanese pounds. The Fund project is the second phase in this ten-year program, of which the third phase has been financed with a World Bank loan.

The project has progressed on schedule and the results achieved have been highly satisfactory. It is expected that the entire loan would be drawn out well before the end of the current financial year.

JORDAN

Amount of Loan KD. 7,500,000 Disbursed to March 31,1964
KD. 806,000

The progress of Fund-financed projects in Jordan has generally been slow. The two major projects approved by the Fund, the Yarmouk Irrigation and Hydro-electric Power Project and the Al-Hasa Phosphate Project, are still in the preparatory stage and are not expected to move into the actual implementation phase during the current year. Disbursements to Jordan will continue to run at a comparatively low level.

Yarmouk

Amount of Loan KD. 4,000,000 Disbursed to March 31, 1964
KD. 8,000

The Yarmouk Project comprises the utilization of the waters of the Yarmouk river for irrigation in the Jordan Valley, and the generation of hydro-electric power. The Yarmouk will be regulated by the construction of large storage reservoirs, new diversion structures and canals will be built, and the existing irrigation structures will be extended.

A total area of some 45,000 hectares will be brought under irrigated cultivation, thus making provision for farm unit development on a large scale and a substantial increase of the agricultural output of the valley. Hydro-electric power plants will be built on the River providing for a total capacity of about 60 MW. The implementation of this project will be a basis for the creation of a consolidated power system and distribution grid for the whole country.

The studies necessary for the project consist of reviewing the existing reports, as well as working out new designs and final recommendations. As suggested by the Kuwait Fund the studies will be supplemented with economic studies in agriculture and power . Eventually, this project is expected to be fitted in as a part of the larger overall Arab program,still in its planning stage.

The total cost of the project is presently estimated at KD 40 - 50 million, and the construction period is estimated at 8 - 10 years. The complete and final financing of the project has yet to be worked out.

The Phosphate Project

Amount of Loan KD 3,000,000 Disbursed to March 31,1964
KD 798,000

Phosphate rock extracted chiefly from a mine north of Amman is Jordan's major single export. The Fund loan was made primarly to develop the new rich deposits at Al-Hasa, about 125 kms. south of Amman. The project would initially double Jordan's production of phosphate and ultimately increase production three-fold. Phosphate from the new mines would, on account of higher grade, greater proximity to the Aqaba Port and lower costs at the mines, enhance Jordan's competitiveness in the world markets.

There are a number of important developments in the phosphate industry during the past year. The consultants commissioned to carry out the needed studies on the Al-Hasa mines completed their feasibility, marketing and transportation studies. Preparation of the designs and tender documents is now proceeding and is expected to be completed in the summer of 1964. Barring any obstacles or delays, the contract for the construction of the plant could be awarded in November 1964, and it is reported that a number of foreign concerns have expressed interest in participating in the new mines. During the year the Jordan Phosphate Mines Company completed repayment of a loan of nearly KD. 450,000 with the help of the Fund loan in accordance with the provisions of the loan agreement with Jordan.

The Kuwait Fund has recommended to the Jordan Development Board that intensive specific marketing studies be made in advance of the starting of operations and that production engineering, financial and management studies be carried out as soon as possible to determine the organizational set up of the phosphate industry. Steps are being taken to carry out these studies prior to taking a decision on the merger of the existing company with the new operation.

Jerusalem Intercontinental Hotel

Amount of Loan KD 175,000

Of the KD 500,000 committed by the Fund to projects of the industrial Development Fund in Jordan, KD 175,000 was allocated to finance a first class hotel project in Jerusalem. The hotel is located on the Mount of Olives with an open view in all directions. There are 204 guest rooms with provision for expansion to 300. The hotel was completed in March 1964. Of the total cost of about KD 1.2 million the U.S. Eximbank supplied about 50%.

Jerusalem Electricity Project

Amount of Loan KD 240,000

Another allocation from the KD 500,000 committed to the Industrial Development Fund, was KD. 240,000 made to the Jerusalem Electricity Company. The project comprises the installation of 2 diesel generating units of 1,280 kW each in the Company's central power station at Shufat, north of Jerusalem, the extension of 33 kV high tension lines to the neighbouring areas and a new distribution system for the town of Jericho. The project will serve a larger number of consumers as well as provide power for small irrigation schemes and will eventually form an important part of an overall national power system. The project is part of a 3-year expananSion program designed to meet the rapidly expanding demand for electric power in the Jerusalem area.

The total cost of the project was estimated at JD 325,000 and the Kuwait Fund loan covered the entire foreign exchange cost. The project has since been completed, and the Fund loan has been disbursed in full.

TUNISIA

La Goulette Power Project

Amount of Loan KD 4,000,000

The Fund loan has been extended to Societe Tunisienne de l'Electricitie et du Gaz (STEG) for modernization and expansion of electric power. The loan covers the entire foreign exchange component of the Project. The Project comprises 2 generating units of 25MW each, in a power station at La Goulette, near Tunis and high tension lines (90,000 volt) from the power station to Tunis and Bizerte. It is part of an overall program which also includes, a high tension line (150,000 volts) from La Goulette power station to Sousse, Sfax, and to Metlaoui in the mining area in the south, and developmént of the distribution network all over the country. It will serve two major industries : a steel works near Bizerte and a phosphate industry near Metlaoui.

Medjerda Agricultural Project

Amount of Loan KD 2,000,0000

A loan of KD 2 million has been extended to "Office de la Mise en Valeur de la Vallee de la Medjerda" for an irrigation and land settlement project in the Medjerda Valley at a total cost of KD 5.6 million. The project is part of the country's Three year Plan (1962-64) setting out a long range program for irrigation and agricultural development in the Valley. It is designed to bring 8,000 hectares under irrigation and improve agriculture on about 4,500 ha. of non-irrigated land. About 1,030 new farms will be created by changing the cropping pattern to more intensive cultivation methods.

Two major projects were in preparation during the financial year. A loan agreement was signed with Algeria on June 23, 1964 and a loan agreement was scheduled to be signed with the Suez Canal Authority in early July.

ALGERIA

Haoud El-Hamra-Arzew Oil Pipeline

Loan Amount KD 7,500,000

The project consists of a 28 inch crude oil pipeline, 805 km. long, from the Hassi Messaoud field in the Sahara to Arzew on the Mediterranean coast, complete with receiving and shipping terminal installations and 3 pumping stations. The line is designed for an initial annual throughput capacity of 10.1 million tons of Sahara crude and provides for future increase of the capacity to 22 million tons.

The total cost of the project is KD 34.5 million of which the foreign exchange component will be about 80%. The proposed Kuwait Fund loan will be for 15 years at 4% per annum. It will cover about 27% of the foreign exchange cost of the project. Actual construction of the pipeline is expected to begin in September 1964, and operation to start in the fourth quarter of 1965. The pipeline will be owned and operated by the Algerian Government which has set up a company for this purpose — Societe Nationale de Transport et de Commercialisation des Hydrocarbures (SONATRACH).

The project was selected primarily because it would add materially to Algeria's foreign exchange earnings from its chief export by removing the major bottleneck impeding larger exports. Eventually, the pipeline would almost double Algeria's present rate of oil exports.

THE UNITED ARAB REPUBLIC

The Suez Canal

Amount of Loan KD. 9,800,000

A loan of KD 9.8 million to the Suez Canal Authority of the United Arab Republic was scheduled to be signed on July 5, 1964 for financing an expansion and improvement program of the Suez Canal and related activities. This would be the first loan made by the Fund under the Government guarantee to an agency other than the Government itself.

The project consists of deepening the Canal, its approaches and the Port Said Harbour so as to permit an increase in the size of transiting fully laden tankers from46,000 tons d.w. to 55,000 tons d.w. The project also provides for widening the inner part of Port Said Harbour; the construction of additional deep quays in Port Fouad shipyard so as to allow the building simultaneously of 2 ships of up to 12,000 tons each, and general expansion of repair shops including the purchase of machinery, tools and equipment. The total cost of the project is estimated at KD 30 million, and the Kuwait Fund loan covers the foreign exchange component. Construction work by the Authority has already begun and the project is expected to be completed in two years. It is the second phase of a long range expansion program of the Suez Canal that is designed to prepare the Canal to handle the expansion in world maritime traffic. The first phase was financed by a loan from the IBRD.

The Suez Canal is the UAR's second largest single source of foreign exchange earnings accounting for nearly one third of total visible exports. The project would help the Canal to maintain its competitive position as a major transport route especially for petroleum.

YEMEN

Economic Survey

The Fund has received an application for development loan's to Yemen, notably for the construction of a modern port at Mokha. In view of the present stage of development in Yemen, the Fund decided that prior to entering into substantial development operations in Yemen an economic survey of the country would be needed to draw up the framework of a development program. Preparations are at present in progress to carry out this survey at an early date with outside assistance. The survey would be financed by the Fund as a technical assistance project. This will be the first technical assistance project undertaken by the Fund, and the survey should serve as a sound basis for the selection of projects by the Fund as well as by other international development agencies.

June 30th. 1964

Appendix I

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

BALANCE SHEET AS AT 31st MARCH 1964

	KD.	KD.
CURRENT ASSETS		
Cash on Hand & at Banks	170,094	
Sundry Debtors & Prepayments	4,167	174,261
INTERIM INVESTMENTS		
"Securities & Time Deposits"	22,783,585	
Accrued Interest on Investments	302,849	23,086,434
LOANS — Principal	20,500,000	
Less: Amounts not yet withdrawn	15,465,391	
Amounts withdrawn and outstanding		5,034,609
FIXED ASSETS — at cost less depreciation		9,364
CONTRA ACCOUNT		
Accrued Interest on Loans	88,617	
		28,304,668

	KD.	KD.
CURRENT LIABILITIES		
Advance from Ministry of Finance & Industry	50,000	
Sundry Creditors & Accrued Charges	35,626	85,626
Provision for Staff Indemnities		3,817
CAPITAL, RESERVES AND NET INCOME		
Capital :		
Authorized	100,000,000	
Paid up	27,000,000	
Reserve as at March 31,1963	401,046	
Net Income 1963-64 as per statement of income and expenses annexed	814,179	28,215,225
CONTRA ACCOUNT		
Deferred Interest on Loans	88,617	
		28,304,668

AUDITOR'S REPORT

We have examined the above Balance Sheet and the annexed Income and Expenses statement of the Kuwait Fund for Arab Economic Development and have obtained all the information and explanations considered necessary for the purpose of our audit. The Fund has kept proper books of account and the Financial Statements are in accordance therewith.

Our examination was conducted in accordance with the generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion and to the best of our knowledge and belief and the information and explanations given to us, the above Balance Sheet shows a true and fair view of the financial state of affairs of the Fund as at 31st March 1964 and the Statement of Income and Expenses reflects net income for the year then ended in conformity with the books.

Kuwait, 4th June 1964

Prof. Y. Nawar, F.C.A.
Nawar & Co.
Chartered Accountants (London)

Appendix II

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

STATEMENT OF INCOME AND EXPENSES

FOR THE YEAR ENDED 31st MARCH 1964

	KD.	KD.		KD.	KD.
EXPENSES			INCOME		
Salaries, Wages & Bonuses	69,961		from Investments	874,969	
Travel, Transport & Accommodation Expenses	19,366		from Loans	56,038	931,007
Rent, Water & Electricity	11,718				
Sundry Expenses	6,221	107,266			
Provision for Staff Indemnities		1,570			
Depreciation of Fixed Assets		7,992			
Net Income		814,179			
		931,007			931,007

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

COMPARATIVE BLANCE SHEET

(In KD.)

	March 31, 1963		March 31, 1964	
ASSETS				
Cash on Hand and at Banks		106,290		170,094
Sundry Debtors and prepayments		2,089		4,167
Interim Investments-Sescurities and Time Deposits		14,503,935		22,783,585
Accrued Interest on Investments		67,510		302,849
Loans-Principal	14,500,000		20,500,000	
Amounts not yet withdrawn	13,724,166		15,465,391	
Amounts withdrawn and outstanding		775,834		5,034,609
Fixed Assets-at cost less depreciation		7,838		9,364
CONTRA ACCOUNTS				
Accrued Interest on Loans	17,683		88,617	
		15,463,496		28,304,668

	March 31,1963		March 31,1964	
LIABILITIES				
Advance from Ministry of Finance and Industry		50,000		50,000
Sundry Creditors and accruals		10,203		35,626
Provision for Staff Indemnities		2,247		3,817
		62,450		89,443
CAPITAL,RESERVES AND NET INCOME				
Capital				
Authorized	50,000,000		100,000,000	
Paid up	15,000,000		27,000,000	
Reserve			401,046	
Net Income of the Year	401,046	15,401,046	814,179	28,215,225
CONTRA ACCOUNTS				
Deferred Interest on Loans	17,683		88,617	
		15,463,496		28,304,668

Appendix IV

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

COMPARATIVE STATEMENT OF INCOME AND EXPENSES

FOR YEARS ENDED MARCH 31,1963 & 1964

(In KD.)

	1962 - 63	1963 - 64		1962-63	1963-64
EXPENSES			INCOME		
Salaries, Wages and Bonuses	38,829	69,621	from Investments	462,344	874,969
Travel, Transport, and Accommodation expenses	6,242	19,366	from Loans		56,038
Rent , Water & Electricity	3,187	11,718			
Sundry Expenses	6,367	6,221			
Provisions for Staff Indemnities	2,247	1,570			
Depreciation of Fixed Assets	4,426	7,992			
	61,298	116,828			
Net Income	401,046	814,179			
	462,344	931,007		462,344	931,007

Appendix V

STATUS OF KUWAIT FUND LOANS

Borrower *	Project	Date of Loan Agreement	Amount of Loan in KD. 1000	Term of Loan (years)	Interest Rate	Repayment Dates	Amounts Disbursed to 31st March 1964 in KD. 1000	Balance in KD. 1000
Republic of Sudan	Sudan Railways	25/ 3/1962	7,000	16	4%	31/12/1966 31/12/1977	4,228	2,772
Hashemite Kingdom of Jordan	Yarmouk River	3/ 4/1962	4,000	20	3%	31/ 3/1968 31/ 3/1982	8	3,992
—do—	Al Hasa Mines	3/ 4/1962	3,000	10	4%	31/ 3/1966 31/ 3/1972	798	2,202
—do—	Jerusalem Electricity	5/ 2/1964	240	17	3%	1/11/1975 1/ 5/1981	—	240
—do—	Jerusalem Intercontinental Hotel	5/ 2/1964	175	12	4%	1/ 5/1966 1/11/1975	—	175
Republic of Tunisia	La Goulette Power	21/12/1963	4,000	15	4%	15/ 1/1968 15/ 7/1979	—	4,000
—do—	Medjerda Valley	21/12/1963	2,000	25	3%	15/11/1968 15/ 5/1968	—	2,000
Republic of Algeria	Crude Oil Pipeline	23/ 6/1964	7,500	15	4%	1/10/1967 1/ 4/1980	—	7,500
Total			27,915				5,034	

* A Loan of KD. 9.8 million to the United Arab Republic's Suez Canal Authority was scheduled to be signed on July 5, 1964. The loan is for a duration of about 16 years and carries interest at 4% per annum.