

**KUWAIT FUND  
FOR  
ARAB ECONOMIC DEVELOPMENT**



*SIXTH ANNUAL REPORT*  
*1967-1968*

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## INTRODUCTION

The June 1967 Israeli aggression against the United Arab Republic, the Syrian Arab Republic and the Hashemite Kingdom of Jordan affected the Fund's operations to an important extent particularly in the countries which were direct victims of the aggression.

As a result of the war the Government of Kuwait assumed such financial burdens to assist the Arab States, that it had to stop temporarily its customary payments towards the Fund's paid-in capital. In addition, the war had a direct effect on some of the projects financed by the Fund. Work has been suspended on two important projects: the Yarmouk irrigation project in the Hashemite Kingdom of Jordan and the Suez Canal expansion project in the U.A.R. The post-war conditions in the area also affected some of the projects which were in an advanced stage of preparation, particularly the Potash project in Jordan. Furthermore, the progress of certain projects was adversely affected by the preoccupation of the Arab countries with the political problems and the consequences of the aggression.

## (1) THE YEAR'S ACTIVITIES

Three loans amounting to KD. 11.07 million were granted during the year, thus increasing the total number of loans granted to the end of the fiscal year 1967/68 to sixteen loans amounting to KD. 67.62 million.

These three loans were distributed as follows : KD. 2.50 million to Algeria, KD. 5.07 million to the Sudan and KD. 3.50 million to the U.A.R.

In making these loans the Fund adhered to its policy of concentrating lending activities in the basic sectors of the economy. The first loan was assigned to the expansion of the oil pipeline from the Sahara to the Mediterranean, the second to irrigation and land reclamation works in three areas in the Sudan, the third to the construction of eight cargo ships for the merchant fleet in U.A.R. shipyards.

The Fund's participation in these projects covers about 30% of their total cost which is estimated at KD. 35 million and about 55% of the required foreign exchange (about KD. 20 million).

Interest on these loans averaged 3.5% per annum and the repayment period 14 years.

Disbursements during the year amounted to KD. 6.31 million bringing the total amount disbursed by the end of the year to 55% of total loan commitments.

Throughout the year the Fund continued its other non-financial activities. Fund missions followed up the progress of work on Fund-financed projects and, in some cases, agreed with borrowers on changes to ensure more effective use of the loans and faster implementation.

Activities complementary to its basic objectives received a great deal of attention from the Fund. The Fund represented Kuwait in the meetings of the World Bank's Consultative Group for Tunisia in Tunis (February 1968) and in Paris (May 1968). The Fund intends to continue its participation in similar discussions of aid coordination in relation to Tunisia as well as to other Arab countries.

The Fund also took active part in organizing the Arab Financial Experts' Meeting in Kuwait in November 1967 to discuss the proposed agreement for the guarantee and insurance of private inter-Arab investments. This meeting approved the draft outline presented by the Fund including the principles suggested for the treatment of investments,

the organization of an arbitration mechanism and the establishment of an insurance system for protection against non-commercial risks. The conference delegated the Fund to follow up the subject and prepare drafts of the necessary agreements.

Cooperation with international agencies concerned with aid and development continued, particularly with the World Bank and FAO, in connection with certain projects and studies in the Arab countries. The Fund also continued its efforts to strengthen its relations with banks and international financial institutions.

The Fund, in cooperation with the Arab countries, has made further progress in carrying out its studies of Arab economies, the scope of which it hopes to broaden in the future through the work of its own staff as well as outside specialists.

The Fund has, for the first time, made grants for the training of nationals of Arab countries at the Kuwait Institute for Economic and Social Planning in the Middle East.

## (2) LOANS

### A — CURRENT PROJECTS

#### Algeria

##### 1. Haoud El Hamra — Arzew Oil Pipeline (Phase I)

(*Government of Algeria — KD. 7.5 million — 4% — 15 years — 1964*)<sup>(1)</sup>

Extended through the Algerian government to the Societe Nationale de Transport et de Commercialisation des Hydrocarbures (SONATRACH), this loan has financed Phase I of a crude oil pipeline project connecting the Hassi Messaoud field in the Haoud El Hamra region and the port of Arzew across over 800 km. to the Mediterranean coast. With an annual throughput capacity of 10.1 million tons for this first phase and a maximum capacity of 22 million tons eventually, this pipeline

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(1) *Borrower — Amount of the Loan — Interest rate — Repayment period — Date of the loan agreement.*

constitutes an important addition to Algeria's productive resources by increasing the country's capacity to produce and export crude oil. The implementation of this phase of the project in early 1966 has enabled production to increase by about 40%, but the need to carry out both Phases II and III in order to reach maximum capacity soon became apparent (see section on New Loans below).

## **Jordan**

### **1. Yarmouk River Project**

*(Government of Jordan — KD. 4 million — 3% — 20 years — 1962).*

The Yarmouk project is part of an irrigation, land reclamation and power generation programme in the Yarmouk Valley which itself forms part of a more extensive Arab scheme sponsored by the Members of the Arab League through the Jordan Valley Authority for the utilisation of the water resources in the entire Jordan Valley.

The progress of work on this project, however, has been affected by current events in the Middle East and work has stopped since June, 1967.

### **2. El Hassa Phosphate Project**

*(Government of Jordan — KD. 3 million — 4% — 10 years — 1962).*

This loan has been assigned to the development of new phosphate mines at El Hassa in the south of Jordan. After completion of the project the company exploiting the mines (Jordan Phosphate Mines Company) expanded production capacity from the initial 0.5 million tons to about 1.3 million tons per year in order to benefit from the high grade of the ore and the proximity of the mines to the port of Aqaba, thereby improving the competitiveness of the product in world markets.

### **3. Industrial Development Board Loan**

The Fund's third loan to Jordan, amounting to KD. 0.5 million, was extended to the Industrial Development Board to finance three projects all of which have already been completed; one for expanding the installed capacity of the Jerusalem Electricity Company (KD. 240,000 — 3% — 15 years — 1964), and two for the modernization of a tourist

hotel in Jerusalem (KD. 175,000 — 4% — 10 years — 1964) and another in Amman (KD. 85,000 — 3.5% — 15 years — 1965).

## **Lebanon**

### **Joun Power Plant Project**

*(Litani River Authority — KD. 2.4 million — 4% — 12 years — 1966)*

Extended to the Litani River Authority with the guarantee of the Lebanese government, this loan meets part of the cost of a hydro-power plant project at Joun near Beirut. The project which includes the installation of two 24,000 Kw. units, transmission lines and sub-stations as well as water diversion and storage works, aims at meeting the rapidly increasing consumption of electricity in the Beirut region.

Work on the project is progressing satisfactorily and actual production is expected to begin as scheduled.

## **Morocco**

### **1. Upper Tessaout Agricultural Project**

*(Government of Morocco — KD. 7.35 million — 3% — 24 years — 1966).*

This loan provides part of the investment required for the development of a particularly depressed area in the Tessaout region in Central Morocco. This investment will extend over a period of about six years and comprise the constructions of a storage dam (Ait Adel Barrage), irrigation and drainage canals as well as the extension of farm development services. Work on the dam construction and the main canals network is currently under way.

### **2. Beni Moussa West Agricultural Project**

*(Government of Morocco — KD. 2.7 million — 3% — 20 years — 1966).*

Assigned to the development of another agricultural region north of the High Atlas in Central Morocco, this loan finances part of the works needed for the provision of irrigation and drainage facilities, flood control constructions and farm extension services. Implementation of the various parts of the project is progressing satisfactorily.

There has been some delay in the preliminary stages of these two projects due to the reorganization of the administration in charge of the agricultural sector in Morocco.

## **Sudan**

### **1. Sudan Railways Project**

*(Government of Sudan — KD. 7 million — 4% — 16 years — 1962).*

This loan has financed the second stage of a ten-year modernization programme of the Sudan Railways (1961/62 — 1970/71). The second stage, which involved mainly the acquisition of various equipment (Diesel Locomotives, wagons), re-railing of the Khartoum-Atbara line, a line extension in the Khashm El Girba region as well as some harbour extension works in Port Sudan, has been completed early in 1966.

### **2. Khashm El Girba Sugar Plant**

*(Government of Sudan — KD. 1.7 million — 4% — 15 years — 1965).*

This project is based on the cultivation of 45,000 feddans, half of which is constantly allocated to the production of sugar cane for processing by the plant. It is part of a programme originally conceived for resettling the Wadi Halfa population displaced by the construction of the Aswan High Dam in Nubia.

The construction of the plant is already completed and its production, which started in early 1966, currently covers about 50% of sugar consumption in Sudan.

Part of the loan has been re-allocated by agreement with the Borrower to works designed to provide facilities for the export of molasses produced by the plant. Improvement in the production of the project and in its direct economic returns is expected to result from this adjustment.

## **Tunisia**

### **1. La Goulette II Power Project (Stage A)**

*(Government of Tunisia — KD. 4 million — 4% — 15 years — 1963).*

This loan has financed part of the first stage of a new power station (La Goulette II) which, since 1966, replaced the old (La Goulette I)



station as the main source of power generation in Tunisia and satisfies at present about 50% of total consumption requirements in the country.

The project includes mainly the construction of two generating units with a capacity of 25,000 Kw. each, and the installation of high tension lines to Tunis and Bizerte.

Recently an amount of KD. 140,000 of this loan was cancelled on the request of the Borrower, as a result of savings in expenditures.

## **2. Medjerda Valley Development Project**

*(Government of Tunisia — KD. 2 million — 3% — 24 years — 1963).*

This loan finances part of the long range programme for the development of the Medjerda Valley, a major area in Tunisia's agricultural plans. It aims at bringing under irrigation about 8,000 hectares, as well as improving agricultural techniques on about 4,500 hectares of non-irrigated land. Works include the extension of irrigation and drainage constructions, soil conservation and flood control measures, the construction of roads, and the creation of rural centers and on-farm development activities.

The project financed by the Fund's loan has been completed. Other stages of the development programme are under way.

## **3. La Goulette II Power Project (Stage B)**

*(Societe Tunisienne de l'Electricite et du Gaz — KD. 4.6 million — 4% — 15 years — 1967).*

This loan was made to STEG under the guarantee of the Tunisian government for the construction of Stage B of La Goulette II power station. The expansion involves the installation of two additional steam units of 27,500 Kw. each, transmission lines, and the extension of the transformer capacity.

Work on the project started in February 1966, and is now proceeding as scheduled.

## **U. A. R.**

### **Suez Canal Expansion Project**

*(Suez Canal Authority — KD. 9.8 million — 4% — 15 years — 1964).*

This project aims at the modernization and improvement of the Suez Canal in order to accommodate the larger size of modern ships, and improve the Canal's related facilities. It involves mainly works for the deepening of the canal and its approaches, the construction of additional deep quays and the expansion of the workshops and shipyards in Port Fouad. The project was nearing completion before the June war suspended all work. When activity is resumed, some additional works for the reopening of the Canal are expected to precede the completion of the project.

## **B — NEW PROJECTS**

### **Algeria**

#### **Haoud el Hamra-Arzew Pipeline (Phases II and III)**

*(Government of Algeria — KD. 2.5 million — 4% — 12 years — 1967).*

This loan was made to finance Phases II and III of the above-mentioned project. Phase II is designed to increase the capacity of the pipeline from 10.1 to 18.7 million tons annually, a target which is expected to be reached during the current year. The works involved in this phase include the addition of three pumping stations, each equipped with three gas turbine pumps, three crude oil tanks at the receiving terminal, five at the shipping terminal and one offshore berth with the necessary port facilities.

Phase III aims at attaining the maximum capacity of the pipeline of 22 million tons annually. The facilities to be added under this phase include one pump at each of the six pumping stations, one crude oil tank at the receiving terminal and two at the shipping terminal and an additional offshore berth.

The total costs of executing the two phases are estimated to be KD. 13.46 million of which KD. 9.60 million for Phase II and KD. 3.86 million for Phase III. About 70% of the cost of Phase II and 57% of the cost of Phase III, *i.e.*, a total of KD. 8.9 million for the two Phases, will be in foreign exchange. Thus, the Fund loan will cover about 18.5% of the total cost and 28% of its foreign exchange component.

## **Sudan**

### **Agricultural Development Project**

*(The Government of Sudan — KD. 5.07 million — 3% — 21 years — 1967).*

This loan represents the Fund participation in financing a project aimed at developing and providing irrigation for a total area of about 260,000 feddans located in the three following regions :

- Gezira/Managil : 100,000 feddans on the west bank of the Blue Nile north of Khartoum.
- Guneid : 53,000 feddans on the east bank of the Blue Nile facing the main Gezira area.
- Khashm El Girba : 107,000 feddans on the left bank of the Atbara river in the Kassala province.

In all three areas the project involves works related to irrigation as well as other agricultural activity. Irrigation works mainly include digging canals, the provision of equipment, the construction of barrages and gates, installing electrical pumping stations and building offices and houses. Agricultural works on the other hand involve the provision of agricultural equipment and parts, transport equipment as well as provision of water, electricity and telephone services for the villages. In addition, certain extensions of the cotton ginneries and ground-nuts decortication plants are also included.

The cost of the project is estimated at KD. 12.90 million of which about 48% is in foreign exchange. The Fund loan will cover about 39% of the total cost and 80% of its foreign exchange component.

## **U. A. R.**

### **Maritime Fleet Project**

*(Egyptian General Maritime Organization — KD. 3.5 million — 4% — 15 years — 1968).*

This loan is made to the Egyptian General Maritime Organization with the U.A.R. Government as guarantor. The proceeds of the loan will be allocated for the benefit of the United Arab Maritime Company and will finance part of a ship-building project to be executed in the shipyards of the Suez Canal Authority.

The part of the project in which the Fund participates, involves the building of eight cargo ships, four of which are of 6,500 tdw, and the other four of 4,000 tdw. The ships will be operated by the United Arab Maritime Company on a number of important international lines.

The Fund loan covers 49% of the estimated total cost (KD. 8.19 million) and about 75% of its foreign exchange component, which is estimated at KD. 4.58 million.

The project will enable the U.A.R. to increase the relative share of its merchant fleet in carrying the country's foreign trade ; at present, this share stands at a very low level as a result of the inadequacy of the fleet's units, both in number and in size. Apart from its favourable effects on the balance of payments, the project will contribute substantially to increasing the utilization of the shipbuilding facilities in the U.A.R.

### **(3) PROJECTS UNDER CONSIDERATION**

#### **Lebanon**

##### **Beirut Silo Project**

To meet the country's increasing imports of grain by sea, Lebanon proposes to construct at the Port of Beirut a silo, with a gross storage capacity of 105,000 tons as a part of the Port's expansion scheme. It will be one of the largest and most up-to-date silos on the Eastern Mediterranean, and is estimated to cost about LL. 19.5 million (about KD. 2.25 million), 50% of which is in foreign exchange.

The silo is expected to create considerable savings particularly in the handling and shipping costs of grain imported by sea. It will also tend to reduce quay time occupancy, thereby increasing the port's maximum handling capacity, and help to promote transshipment activity in grain through Beirut.

Fund missions visited Lebanon to study the project, discuss its various aspects and determine the amount and terms of the loan. It is expected that all formalities for the loan will be completed in the course of the coming few months.

## **Yemen**

### **Survey of the Agricultural Potential of Wadi Zabid**

The purpose of this project is to prepare preliminary studies of the agricultural potentialities and improvement for future investment in the Wadi Zabid region. The works proposed to be carried out under the project's Plan of Operation, which was approved and signed at the end of 1967, include an aerial survey covering an area of 600 sq.km., the establishment of hydrological gauging points and meteorological stations at suitable places for the collection and analysis of data, as well as other works concerned with irrigation, flood control and groundwater investigations.

In addition, studies will be carried out on the existing irrigation systems, classification of soil, methods of production and marketing, and the development of some pilot schemes. It is expected that the end results of the various studies will serve as the basis for the preparation of feasibility studies for future agricultural development not only in Wadi Zabid but also in other areas in the Tihama region.

The project is financed jointly by the United Nations Special Fund (UNDP) and the Kuwait Fund. The Fund will finance the Yemen Government counterpart contribution which is 39 per cent of the total project cost. A loan of KD. 190,000 is proposed to be extended to the Yemen Government free of interest for a period of 50 years including 10 years' grace period. The execution of the project will be carried out by the United Nations Food and Agriculture Organization (FAO).

#### **(4) FINANCIAL OPERATIONS**

The Fund's gross income during the year amounted to KD. 4.37 million, of which KD. 1.28 million was interest on loans and KD. 3.08 million income from investments. The Fund's current expenses amounted to KD. 266,000, leaving a net income of KD. 4.10 million. Reserves (after adjustment for the devaluation of sterling in November 1966) thus reached KD. 11.60 million, representing 17% of paid-in capital and 5.8% of the declared capital.

Loan disbursements increased by KD. 6.31 million reaching KD. 37.06 million by the end of the year, while loan maturities, and repayments, during the year amounted to KD. 1.10 million.

Liquid assets and investments at the end of the year amounted to KD. 42.50 million comprising deposits and other liquid balances to the extent of 76% of the total, and the balance in short, medium, and long-term securities. The total investment portfolio represented 53% of the Fund's total assets.

The Fund has continued during the year the diversification of its portfolio both in terms of currencies and in terms of maturities, adapting it to changing circumstances and disbursements expectations.

**TABLE (1)**

**Description of Loans**

**March 31, 1968.**

Country (Borrower)	Loan No.	Purpose	Amount (KD. 1000)	Date of Agreement	Interest <sup>(1)</sup> %
<b>Algeria</b>					
(Government)	7	Oil Pipeline (Phase I)	7,500	23. 6.1964	4
(Government)	14	Oil Pipeline (Phase II & III)	2,500	20. 5.1967	4
<b>Jordan</b>					
(Government )	2	Irrigation and Land Reclamation (Yarmouk Valley)	4,000	3. 4.1962	3
( " )	3	Phosphate Mines	3,000	3. 4.1962	4
( " )	4a	Jerusalem Electricity	240	5. 2.1964	3
( " )	4b	Jerusalem Hotel	175	5. 4.1964	4
( " )	4c	Urdun Hotel	85	8. 3.1965	3.5
<b>Lebanon</b>					
Litani Authority	12	Joun Power Station	2,400	4. 7.1966	4
<b>Morocco</b>					
(Government )	10	Irrigation and Land Reclamation (Tessaout region)	7,350	29. 5.1966	3
( " )	11	Irrigation and Land Reclamation (Tadla region)	2,700	29. 5.1966	3

**TABLE (1) — Contd.**

Country (Borrower)	Loan No.	Purpose	Amount (KD. 1000)	Date of Agreement	Interest <sup>(1)</sup> %
<b>Sudan</b>					
(Government)	1	Railways modernization	7,000	25. 3.1962	4
( „ )	9	Khashm El Girba Sugar Plant	1,700	15. 7.1965	4
( „ )	15	Irrigation and Land Reclamation	5,070	14. 8.1967	3
<b>Tunis</b>					
(Government)	5	La Goulette II Power Station (Stage A)	4,000 <sup>(2)</sup>	21. 12.1963	4
(STEG)	13	La Goulette II Power Station (Stage B)	4,600	21. 1.1967	4
(Government)	6	Irrigation and Land Reclamation (Medjerda Valley)	2,000	21. 12.1963	3
<b>U. A. R.</b>					
(Suez Canal Authority)	8	Suez Canal Expansion Project	9,800	5. 7.1964	4
(Maritime Organization)	16	Construction of 8 Cargo Ships	3,500	24. 1.1968	4

(1) *including service charge*

(2) *KD. 140,000 has been cancelled from this loan.*



**TABLE (2)**  
**Distribution of Loans**

Country	Sector (Million K.D.)				Total Million K.D.	Percentage
	Transport	Power	Irrigation	Industry		
Algeria .. .. .	7.50	—	—	—	10.00	14.9
Jordan .. .. .	2.50	—	4.00	3.00	7.50 <sup>(1)</sup>	10.4
Lebanon .. .. .	—	2.40	—	—	2.40	3.5
Morocco .. .. .	—	—	7.35	—	10.05	14.9
Sudan .. .. .	7.00	—	2.70	1.70	13.77	20.5
Tunis .. .. .	—	4.00	2.00	—	10.60	15.8
U.A.R. .. .. .	9.80	4.60	—	—	13.30	19.8
	3.50	—	—	—		
Total .. .. .	30.30	11.00	21.12	4.70	67.62 <sup>(1)</sup>	
Percentage .. .. .	45.00	16.40	31.40	7.00		100.00

(1) *This total includes a KD. 500,000 loan to the Jordanian Industrial Development Board for the finance of three small projects (see Table 1).*

## APPENDIX 1

## THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

## BALANCE SHEET AS AT 31st MARCH, 1968

	KD.	KD.	KD.		KD.	KD.	KD.
<b>CAPITAL &amp; RESERVE</b>				<b>CASH &amp; INVESTMENTS</b>			
Declared Capital		200,000,000		Cash on Hand & at Banks		168,368	
Paid-Up Capital		68,000,000		Investments — Deposits & Bonds		42,347,339	
<b>RESERVE</b>				Loans — Committed	67,480,000		
Brought Forward From Previous Years Less Sterling Devaluation Loss	7,507,286			Less — Undisbursed Balance	30,417,134		
Net Income For Current Year Per Account Annexed.	4,101,754			Withdrawn to date	37,062,866		
		11,609,040		Instalments Due & Redeemed	1,848,800	35,214,066	
<b>TOTAL CAPITAL &amp; RESERVE</b>			79,609,040	Accrued Interest on Investments & Loans		1,914,608	
<b>CURRENT LIABILITIES</b>				Sundry Debtors & Prepaid Expenses		2,142	
Banks — Current Accounts		501		<b>FIXED ASSETS</b>			
Sundry Creditors Including Accruals		8,823		at Cost Less Depreciation			8,846
		9,324					
Provision for Staff Indemnities & Leave		37,005	46,329	<b>CONTRA ACCOUNTS</b>			
<b>CONTRA ACCOUNTS</b>				Irrevocable Commitments		762,800	
Banks — Irrevocable Commitments		762,800		Ministry of Finance & Oil—Pensions Fund		2,494	
Staff Pensions Fund		2,494					
		765,294	79,655,369			765,294	79,655,369

**AUDITOR'S REPORT**

We have examined the Balance Sheet of the Kuwait Fund for Arab Economic Development as at 31st March, 1968, and the Income and Expenditure Account for the year ended at that date. We have obtained all the information and explanations deemed necessary for the purposes of our audit.

In our opinion the Fund has kept proper books of account and the Balance Sheet and the Income and Expenditure Account are in accordance therewith. Our examination was conducted according to generally recognized Auditing standards and therefore included such tests of the Accounting Records and such other Auditing Procedures as we considered necessary in the circumstances. Investments were valued on the same basis used in the previous years.

In our opinion and according to information and explanations given to us the Balance Sheet gives a true and fair view of the Financial Situation of the Fund as at 31st March, 1968, and the Income and Expenditure Account shows the net income for the year then ended according to information and explanations given to us and as shown by the books of the Fund.

**PROF. Y. NAWAR,**  
 Ex. Prof. of Accountancy & Auditing — Cairo University  
 SENIOR PARTNER — NAWAR & Co.,  
 Chartered Accountants (London)

Kuwait 23rd. May 1968.

**THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT**  
**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDING**  
**31st. MARCH, 1968.**

**APPENDIX 2**

<u>EXPENDITURE</u>	KD.	<u>INCOME</u>	KD.	KD.
Salaries, Wages & Honorariums	159,985	Income and Earnings from Deposits & Investments	3,083,050	
Travel, Transport & Accommodation Expenses	35,713	Interest on Loans ( Including Interest Payable with Loan Instalments )	1,289,227	4,372,277
Rent, Water & Electricity	27,878	Exchange Differences — Profit		1,623
Sundry Expenses	13,723			4,373,900
Provision for Staff Indemnities & Leave	18,185	Balance b/d	4,107,556	
Depreciation of Fixed Assets	10,860	<u>LESS</u> —		
Balance c/d	4,107,556	Economic Survey Expenses		2,149
	<u>4,373,900</u>	Cost of Scholarships — Institute of Planning		4,783
Net Income—Carried to Balance Sheet	4,101,754	Miscellaneous Income	6,932	4,100,624
				1,130
	<u>4,101,754</u>			4,101,754