

**KUWAIT FUND
FOR
ARAB ECONOMIC DEVELOPMENT**

**EIGHTH ANNUAL REPORT
1969-1970**

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I. THE YEAR'S ACTIVITIES

Loans extended by the Fund to Arab countries increased during the financial year 1969-70 to a total of 19 loans with a value of KD. 71.61 million. This increase was the result of a KD. 3 million loan extended to the Syrian Arab Republic for financing the construction of grain silos.

The inflow of funds during the year amounted to KD. 7.28 million of which KD. 1.6 million represented interest on loans, KD. 3.48 million income from investments and KD. 2.14 million loan repayments. Disbursements on loans amounted to KD. 6.86 million, bringing total disbursements to date to KD. 51.85 million or about 72% of total loan commitments. Total expenses amounted to KD. 0.59 million, of which KD. 0.30 million represented administrative expenses. Total assets increased by KD. 5.14 million reaching KD. 88.99 million, while accumulated reserves increased by KD. 5.12 million and totalled KD. 20.91 million.

Follow-up activities on the projects financed by the Fund continued during the year. Fund missions visited Yemen (pre-investment project in Wadi Zabid), Jordan (phosphate project and Yarmouk Valley project), the Sudan (Gezira extension agricultural project), Tunisia (agricultural development project in the Medjerda Valley), Lebanon (Port of Beirut grain silo project) and the UAR (construction of cargo ships project).

The Fund participated in the meetings of the IBRD Consultative Group for Tunisia and the Consultative Group for Morocco which were held in Paris during October, 1969. The Fund also organized the Second Meeting of Arab Financial Experts which was held in Kuwait during the period 10 - 12 March, 1970, to discuss the draft convention prepared by the Fund for the establishment of an inter-Arab investment guarantee scheme.

Research conducted by the Fund on economic progress in the Arab countries continued. A survey of industrial development banks in Arab countries which aims at exploring the possibilities of cooperation between such banks and the Fund was also initiated during the year.

II. NEW LOANS

Syria

Grain Silos Project

Loan amount	KD. 3 million
Interest	3.5% p.a.
Period	11/8/69 - 1/10/1982

This project consists of three parts: the construction of eleven grain silos in different parts of the Syrian Arab Republic, the building of three seed processing plants and the erection of one animal feed mill. The silos are designed to replace present storage facilities and provide a storage capacity estimated at 300,000 tons per year. Benefits accruing from the silos will include significant savings in handling, transport and storage costs and an improvement in the country's grain marketing system. The seed processing plants have an estimated annual production capacity of 30,000 tons of selected seeds; these plants will constitute the basis for an extended program to improve the quality of grain and increase their yield. The animal feed mill with an annual production capacity of 30,000 tons will be a pilot project for the production of animal feed according to modern scientific methods. It is also part of a program designed to improve and increase the productivity of animal production by making use of possibilities available in the country.

Total cost of the project is estimated at about KD. 10.4 million of which KD. 3.3 million are in foreign exchange. The Fund loan thus covers about 29% of total cost and 91% of foreign exchange requirements.

The loan will be amortized in 20 semi-annual instalments starting from April 1973, after a grace period of about four years.

III. PROJECTS UNDER CONSIDERATION

Tunisia

Medjerda Valley Irrigation Project

The Medjerda Valley development program is one of the most important agricultural development schemes in the Tunisian economy. The Fund has previously participated in this program through a KD. 2 million loan extended to the Republic of Tunisia in 1963.

The present project will put an area of about 14,600 hectares (gross) under perennial irrigation. It includes the construction of the necessary facilities for pumping, irrigation, drainage and protection against floods and winds. It also covers works related to land preparation, road construction, electricity, the provision of drinking water, facilities for livestock, and agricultural machinery and equipment.

In addition, there will be investment aimed at improving productivity and agricultural performance in the O.M.V.V.M.* perimeter, through increasing available agricultural machinery for already developed land and through strengthening the Office's technical departments in the fields of production planning, control and marketing.

Total cost is estimated at about KD. 10.6 million, of which KD. 9.9 million are for the works included in the Project proper and KD. 0.7 million for the improvement of agricultural performance.

Negotiations concerning the loan are expected to be finalized during the coming few months.

* Office de la Mise en Valeur de la Vallée de la Medjerda

Gas Pipeline Project

This project relates to the construction of a pipeline for the transport of natural gas from the El Borma oil field in the farthest south of the Tunisian Republic to the port of Gabes on the Mediterranean. It also includes the necessary pumping stations and installations at both the receiving and shipping terminals. The length of the pipeline is about 300 km and its annual throughput capacity about 800 million m³ which will gradually decrease to 250 million m³ starting from the tenth year onwards. Gas will be primarily used in a number of industries to be established in the Gabes region.

It is expected that the World Bank and the Kuwait Fund will collaborate in the financing required for the implementation of this project.

Bahrain

Aluminium Production Project

The Fund is currently considering the possibility of participating in the financing of a project for the construction of an aluminium smelting plant in Bahrain. Work on this project which started early in 1969 is being carried out for Aluminium Bahrain (ALBA), a joint stock company incorporated in Bahrain and whose shareholders include, besides the Bahrain Government, a number of corporations internationally active in the field of aluminium production and marketing.

Production of aluminium is expected to begin towards the end of the first quarter of 1971 and will reach its full 90,000 tons per year capacity by the middle of 1972.

Yemen

El Saleef Salt Production Project

A program submitted by the Government of the Yemeni Arab Republic for the expansion of rock salt production from the

El Saleef mines on the Red Sea is currently under review by the Fund. This program includes the introduction of new modern equipment to replace present outdated equipment and the installation of the facilities required for a more rapid shipment of the extracted salt. Significant savings in production and shipping costs are expected. The program in its present form would increase annual production from 100,000 tons to 500,000 tons, with the further possibility of doubling this volume in the future.

IV. FINANCIAL POSITION

Total assets of the Fund at the end of the year totalled KD. 88.99 million, of which 46.6% were in cash, deposits and investments, 51.3% in outstanding loans, and 2% in accrued interest on investments and loans. Disbursements during the year amounted to KD. 6.86 million, bringing total cumulative disbursements to KD. 51.86 million or 72% of total loan commitments. Repayments of loans also increased by KD. 2.14 million and reached a total of KD. 6.20 million or 8.7% of total commitments and 12% of total disbursements. Paid-in capital, which amounts to KD. 68 million, accounted for 76% of total resources at year-end, while accumulated reserves reached KD. 20.91 million or about 23% of total resources.

The most important items on the assets side continued to increase. Cash, deposits and investments amounted to KD. 41.51 million, compared to 41.07 million at the end of last year. Total loan commitments increased from 68.61 million to KD. 71.61 million, while total outstanding loans rose from KD. 40.91 million to KD. 45.63 million. Accrued interest on loans and investments slightly decreased from KD. 1.84 million to KD. 1.83 million. The Fund's fixed assets were fully depreciated during the year. Total assets increased from KD. 83.84 million to KD. 88.99 million, registering a rise of 6%.

On the liabilities side, the paid-in capital of the Fund remained at KD. 68 million or roughly a third of the declared capital. Accumulated reserves increased during the year by 32%, rising from KD. 15.79 million to KD. 20.91 million.

The year's income account shows that total gross income amounted to KD. 5.13 million, an increase of about KD. 0.6 million over the figure for the preceding year. Income from the investment portfolio (KD. 3.48 million) accounted for 68% of total gross income, while interest on loans (KD. 1.6 million) contributed the remaining 32%.

Total expenses amounted to KD. 0.59 million of which KD. 0.30 million, or about 6% of total gross income, represented administrative expenses (including depreciation of fixed assets).

Net income for the year amounted to KD. 4.54 million, or KD. 0.36 million higher than net income during the preceding year.

V. THE INTER-ARAB INVESTMENT

GUARANTEE SCHEME

The First Arab Financial Experts Meeting which convened in Kuwait in November, 1967, discussed a preliminary study prepared by the Fund's staff for the establishment of an inter-Arab investment guarantee scheme covering non-commercial risks in host countries. The meeting requested the Fund to pursue the idea further and commissioned it to prepare a draft for a collective agreement on the guarantee of investments to be considered at a subsequent meeting. This second meeting was held in Kuwait during March, 1970. The draft prepared by the Fund was reviewed and a number of modifications were adopted. The final draft is to be submitted to the Arab governments during the coming few months.

The proposed agreement would establish an inter-Arab organization for the guarantee of investments with a capital of KD. 10 million. One half of the capital would be paid-in and the other half would remain subject to call. The main function of the organization would be to issue guarantees in favour of Arab investors wishing to invest their funds in Arab member countries. These guarantees would offer protection against losses sustained by the investor as a result of the following non-commercial risks :

—Actions taken by the host country which would deprive the investor of his substantial rights over his investment, such as expropriation, nationalization or confiscation of property.

—Inability to transfer income or principal of the investment out of the host country as a result of additional restrictions in exchange control regulations.

—Losses due to acts of war, military operations or civil disturbances.

The organization would, in addition, be assigned other complementary functions, of which the most important include preparing the necessary studies for the evaluation of the investment climate and investment opportunities in member countries, promoting the movement of capital between such countries and the conclusion of bilateral or multilateral agreements regulating the treatment of foreign investment.

The Kuwait Fund has been given the mandate to take **whatever further preparatory steps that might be needed for the creation of the proposed organization.**



TABLE (1)
Distribution of Loans
31.3.1970

(Million KD.)

Country	S e c t o r				Total	%
	Agriculture	Transport	Power	Industry		
Algeria	...	7.50				
	...	2.50			10.00	(14.0)
Jordan	4.00		0.24	3.00	7.50 ⁽¹⁾	(10.5)
Lebanon	...	1.00	2.40		3.40	(4.7)
Morocco	7.35					
	2.70				10.05	(14.0)
Sudan	5.07	7.00		1.70	13.77	(19.2)
Syria	...	3.00			3.00	(4.2)
Tunisia	2.00		3.80			
	...		4.60		10.40	(14.5)
U. A. R.	...	9.80				
	...	3.50			13.30	(18.6)
Yemen	0.19				0.19	(0.3)
Total	21.31	34.30	11.04	4.70	71.61	
%	(30.0)	(48.0)	(15.4)	(6.6)		(100.0)

(¹) This total includes two loans with a value of KD. 260,000 for financing two small projects in Jordan's tourism sector.

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Status of Loans
 31.3.1970

(KD. 1000)

Loan No.	Country/Project	Amount	Disbursements	Repayments	Project Status
<u>ALGERIA</u>					
7	Pipeline Phase I	7,500	7,498	300	completed
14	Pipeline Phase II & III	2,500	2,500	430	completed
<u>MOROCCO</u>					
10	Tessaout Agricultural Project	7,350	3,106	—	under construction
11	Tadla Agricultural Project	2,700	1,395	—	under construction
<u>SUDAN</u>					
1	Sudan Railways	7,000	7,000	1,200	completed
9	Sugar Plant	1,700	1,543	200	completed
15	Agricultural Development... ..	5,070	2,974	—	under construction
<u>JORDAN</u>					
2	Yarmouk Project	4,000	1,226	—	under construction
3	Phosphate Mines	3,000	2,989	1,000	completed
4a	Jerusalem Electricity	240	240	68	completed
4b	Jerusalem Hotel	175	175	70	completed
4c	Jordan Hotel	85	85	20	completed
<u>YEMEN</u>					
17	Wadi Zabid Project	190	155	—	under construction

TABLE (2) (cont'd)

Loan No.	Country/Project	Amount	Disbursements	Repayments	Project Status
<u>TUNISIA</u>					
5	La Goulette Electricity Phase I	3,803	3,801	803	completed
13	La Goulette Electricity Phase II... ..	4,600	3,970	152	nearly completed
6	Medjerda Valley Project	2,000	2,000	90	completed
<u>U.A.R.</u>					
8	Suez Canal Expansion	9,800	8,651	1,500	under construction
16	Cargo Ships Construction	3,500	1,006	—	under construction
<u>LEBANON</u>					
12	Joun Electricity	2,400	1,552	199	nearly completed
18	Grain Silos	1,000	—	—	nearly completed
<u>SYRIA</u>					
19	Grain Silos	3,000	—	—	under construction
	Total	<u>71,610</u>	<u>51,866</u>	<u>6,232</u>	

THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT
BALANCE SHEET AS AT 31st. MARCH, 1970

	K.D.	K.D.	K.D.		K.D.	K.D.	K.D.
<u>CAPITAL & RESERVES</u>				<u>CASH & INVESTMENTS</u>			
Declared Capital		200,000,000		Cash on Hand & at Banks		228,484	
Paid - Up Capital		68,000,000		Investments in Deposits & Securities		41,287,517	
							41,516,001
<u>RESERVE</u>				<u>LOANS</u>			
Brought Forward from Previous year after adjust. for FF deval. & DM reval.	16,373,562			Loans Committed		71,611,115	
Net income for current year per Account Annexed	4,544,147			<u>Less - Undisbursed Balance</u>		19,744,823	
		20,917,709	88,917,709	Withdrawn to date		51,866,292	
<u>TOTAL CAPITAL & RESERVE</u>				Instalments Due & Redeemed		6,232,215	
<u>CURRENT LIABILITIES</u>							45,634,077
Banks - Current Accounts	2,937			Accrued Interest on Investments & Loans			1,839,483
Sundry Creditors Including Accruals	10,514			Sundry Debtors Including Deposits and Prepaid Expenses			3,534
		13,451		<u>FIXED ASSETS - at cost</u>		57,691	
Provision for Staff Indemnities & Leave		61,935	75,386	<u>Less - Depreciation</u>		57,691	
<u>CONTRA ACCOUNTS</u>				<u>CONTRA ACCOUNTS</u>			—
Banks - Irrevocable Commitments		1,415,276		Irrevocable Commitments		1,415,276	
Staff Pension Fund		5,781		Ministry of Finance & Oil - Pension Fund		5,781	
		1,421,057	88,993,095			1,421,057	88,993,095

AUDITOR'S REPORT

We have examined the Balance Sheet of the Kuwait Fund for Arab Economic Development as at 31st. March, 1970, 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 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 year.

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, 1970 and the Income and Expenditure Account shows the net income for the year then ended subject to information and explanations given to us and shown by the books of the Fund.

Prof. Y. NAWAR

Ex. Prof. of Accountancy & Auditing - Cairo University
SENIOR PARTNER — NAWAR & CO.
CHARTERED ACCOUNTANTS (LONDON)

THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT
INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDING 31st. MARCH, 1970

	K.D.		K.D.	K.D.
<u>XPENDITURE</u>		<u>INCOME</u>		
Salaries, Wages & Honorarium	176,735	Net Income & Earnings from Deposits & Investments	3,487,558	
Travel, Transport & Accommodation Expenses	32,901	Interest on Loans (Including Interest Payable with loan Instalments)	1,649,514	
Rent, Water & Electricity	25,915			
Sundry Expenses	60,782	Miscellaneous Income		5,137,072
Exchange Differences	270,355			210
Provision for Staff Indemnities & Leave	14,908			
Depreciation of Fixed Assets	11,539			
Net Income Carried to Balance Sheet	4,544,147			
	5,137,282			5,137,282