

**THE INTER-ARAB INVESTMENT
GUARANTEE CORPORATION**



THE SEVENTEENTH

ANNUAL REPORT 1991



The Inter-Arab Investment Guarantee Corporation is an autonomous regional organization with a membership of all the Arab countries. The Corporation has its main office in the State of Kuwait and commenced its activities in the middle of 1975.

OBJECTIVES:

- The Corporation provides insurance coverage for Inter-Arab investments and for export credits against non-commercial risks in the case of investments, and non-commercial and commercial risks in the case of export credits. The non-commercial risks include the risks of nationalization, confiscation, compulsory seizure, expropriation, currency inconvertibility, war, civil disturbances, cancellation of the import license or the prevention of the entry of goods or their transit into the country. The commercial risks include insolvency of the debtor, his bankruptcy, his default and his abrogation or termination of the export contract.

The Corporation also undertakes the promotion of the flow of investments within the Arab countries by carrying out activities which are ancillary to its main purpose and in particular those relating to the identification of investment opportunities as well as the study of the conditions that govern the flow of investments in the said countries.

ORGANIZATION AND MANAGEMENT

The Council:

This is the highest authority in the Corporation and is entrusted with all the powers necessary for the realization of the objectives of the Corporation. Among its functions are the formulation of general policies, rules and regulations, the making of decisions pertaining to guarantee, financial and administrative matters, and appointment of members of the supervisory committee and the election of the director general and deputy director general.

The Council is composed of one representative from each member state.

Supervisory Committee:

The Committee consists of six Arab experts five of whom are of different nationalities, elected by the Council upon the recommendation of the member countries while the sixth member is appointed by the Council upon the recommendation of the General Federation of the Arab Chambers of Commerce, Industry and Agriculture.

The Supervisory Committee supervises the activities of the Corporation and may provide advice as it may deem appropriate without interference in the administration of the Corporation. The membership of the current Supervisory Committee is as follows:

H.E. MR. FAHAD RASHID AL IBRAHIM	Chairman
H.E. DR. IBRAHIM ABDUL RAHMAN AL BARRAK	Member
H.E. MR. ABDUL FATAH BIN MANSOUR	Member
H.E. DR. MOHAMED SAID AL-NABULSI	Member
H.E. MR. NOURI MOHSEN AL HILFI	Member
H.E. MR. BURHAN UDDIN AL-DAJANI	Member

The Director General

MR. MAMOUN IBRAHIM HASSAN

Deputy Director General

GIUMA SAID GIUMA

**The Chairman of the 19th Session of The
Council of the Inter-Arab Investment
Guarantee Corporation**

In accordance with Article (12) of the Inter-Arab Investment Guarantee Corporation's Convention, it is my pleasure to submit to your honourable Council the Annual Report of the Director General for the year 1991.

Please accept my highest consideration

Mamoun Ibrahim Hassan
Director General

Tunis, April, 1992.

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1.1. MAJOR ECONOMIC AND INVESTMENT DEVELOPMENTS:

During the past year, major events that took place in the world had their effects on the Arab region. These events represented in fact, a landmark in the world contemporary history. The global economic setting in 1991 was marked by the collapse of the U.S.S.R and the disintegration of its economic system. Democracy, pluralism, and market-economy systems swept Eastern Europe and have made inroads in the developing world. The year 1991 also witnessed the emergence of the so-called "The New World Order" which is characterized by the dominance of the "west" under the leadership of the United States of America.

This new environment had its repercussions on the global climate for development in different parts of the world. Ethnic uprising, regional wars and increased uncertainty had adverse effects on development, business and investments in many of the developing countries.

World economy in the year 1991 witnessed continued slowing growth. Preliminary estimates (World Development Report 1991) showed no progress achieved in that respect. Real growth rate of the combined GNP of the developed countries registered 1.4% compared to 2.4% in 1990. This was accompanied by a fall of investment in the productive sector and a decline in the private consumption rates, as well as an increase in unemployment rates to 6.6% as compared to 6% in 1990. Average inflation rate in those countries almost continued at the same pace of 1990, i.e. 5.5%.

With regard to world trade, preliminary UNCTAD reports show that the rate of growth has been falling to 3% compared to 5% in 1990, the lowest since the crisis of the early 1990's which was characterized by severe recession and high inflation.

In the developing countries, economic activity continued to increase in some areas, while major economic reforms already started in some others. These reforms include the move toward market-based economic systems, the adoption of privatization programmes, applying liberal financial and monetary policies, and liberalizing investment and trade laws and procedures.

For the developing countries as a group, growth rates during the year reached, according to the World Development Report 1991, 3.5% compared to 2.9% in 1990.

The economic performance of the Arab countries was adversely affected by the adverse development in the region. War damage in Iraq and Kuwait was extensive. Income growth, trade, production, and consumption rates declined by 5%. Also affected by the negative impact were the Inter-Arab trade, the Arab financial markets, the Arab capital flows, and the joint Arab efforts and cooperation in all its agencies and institutional structures.

Arab foreign trade declined during the year compared with the preceding year although many Arab countries tried to sustain their earlier programmes of reform. Governments policies shifted increasingly towards dependence on market forces to determine prices, exchange rates and interest rates. Liberalization of foreign trade in many Arab countries had its effect on ending governmental monopoly in that area of activity.

Early in 1991 the Arab Programme for Trade Finance started its operations. The programme received 31 applications from Arab national agencies to obtain lines of credit totaling U.S.\$ 76 m. Some of these applications were approved while

some other agreements were signed to finance qualified commercial transactions among seven Arab countries.

Inter-Arab investment flows increased. According to the Corporation's estimates total equity capital of Arab projects approved by Arab governments during the year amounted to U.S.\$ 922.6 m. compared to U.S.\$ 400.8 m. for the year 1990.

One of the favorable signs for development during the year was the continuation of the earlier programmes of reform carried out by many Arab countries. Greater liberalization achieved in international trade and finance with the adoption of market oriented economies provided a favorable investment climate and attracted more foreign investments. The year also witnessed the continuation of the earlier privatization programmes adopted by some Arab countries. Privatization has been seen in many Arab countries as a solution to bring technology, investment and new markets to local industries.

In the financial arena, efforts continued towards developing the Arab stock markets and achieving more cooperation and coordination among them. Arab commercial banks have also opted for more cooperation among themselves.

1.2 HIGHLIGHTS OF THE CORPORATION ACTIVITIES:

Total value of guarantee contracts concluded during the year 1991 was US\$ 14,577,807 equivalent to about KD 4,143,013. Total value of valid contracts as of 31.12.1991 reached US\$ 155.8 m. equivalent to about KD 44.3 m. Value of operations executed (outstanding commitments) within the framework of the concluded contracts was US\$ 133 m. equivalent to about KD 37.8 m.

Regarding its ancillary activities, the Corporation continued its efforts of marketing its services among Arab investors and exporters. It also continued its activities in undertaking economic and investment research in Arab countries, completing some while starting new other research. The Corporation also assisted in the promotion of regional and national investment projects, offering its technical assistance to member countries in areas of its competence.

CHAPTER TWO: GUARANTEE OPERATIONS

2.1. GUARANTEE CONTRACTS

2.1.1 Value of Contracts in 1991:

The value of contracts signed during 1991 reached US\$ 14,577,807 (KD 4,143,013)* (see table No. 1) representing one direct investment guarantee contract, and two export credit guarantee contracts.

The reason for the drop in the contracts' value as compared to 1990 is attributed to the extra-ordinary circumstances which have been witnessed by the Corporation since the beginning of August 1990.

The fact that the Corporation has been away from its head office, resulted in the interruption of communication with a large number of its clients, in addition to, the inavailability of its documents and files till nearly the middle of 1991, has also a negative effect in this regard. For the above mentioned reasons, the Corporation has, to a great extent, adopted a conservative underwriting policy during 1991.

2.1.1.1 Investment Guarantee Contracts:

Taking the above into consideration, the Corporation has during the year signed a loan guarantee contract, valued at US\$ 12,952,807 (KD 3,681,188). The loan has been granted by an Arab-foreign consortium bank to finance the purchase of fishing boats by the Islamic Republic of Mauritania.

2.1.1.2 Export Credit Guarantee Contracts:

The Corporation has, during the year, signed two export credit guarantee contracts of a total value of US\$ 1,625,000 (KD 461,825).

The first of these contracts is a comprehensive policy to cover the exports of ceramic tiles and sanitary-ware from the Republic of Lebanon to private sector importers in the Kingdom of Saudi Arabia at the value of US\$ 1,400,000, and one importer in the Hashemite Kingdom of Jordan at the value of US\$ 200,000. The second contract is a specific policy to cover the exports of agricultural equipment from the Arab Republic of Egypt, valued at US\$ 25,000 to a private sector importer in the United Arab Emirates. (See Table No. 2).

2.1.2 Initial Guarantee Approvals

During the last quarter of the year, the Corporation has, in principle, approved to guarantee five investment loans, with a total value of US\$ 53,6 million pending completion of the necessary documents and guarantee applications by the concerned parties. Details of said loans are:

1. A loan by an Arab-foreign consortium bank to finance the purchase of capital equipment to the Egyptian Railway Authority at a value of US\$ 3,9 million.
2. A loan by an Arab-foreign consortium bank to finance the purchase of capital equipment to SONATRACH of Algeria, at a value of US\$ 16,7 million.

* The currency of the Corporation is the Kuwaiti Dinar in which all operations are evaluated and all accounts maintained.

For purposes of illustrations, the equivalent of the operations value in U.S. dollars has been stated. Comparison between the guarantee operations during the year and those of the previous years is made on the basis of the KD/US\$ conversion rate at the end of the year concerned. The exchange rates used in 1990 and 1991 are as follows:

US\$ = KD 0.2842 as at 31.12.1991

US\$ = KD 0.288 as at 31.12.1990.

3. A loan by an Arab-foreign consortium bank to finance the expansion of a ceramic and sanitary-ware factory in Lebanon, at a value of US\$ 3 million.
4. A loan by an Arab-foreign consortium bank to finance an Egyptian power project at a value of US\$ 15 million.
5. A loan by an Arab-foreign consortium bank to finance a Syrian power project at a value of US\$ 15 million.

2.1.3 Value of Current Contracts Signed by the Corporation:

The total value of the current guarantee contracts as at 31.12.1991 amounts to US\$ 155,8 million (KD 44,3 million), 48,7% of which represents direct investment guarantee and 51,3% represents export credit guarantee.

The value of operations executed within this framework amounts to US\$ 133 million (KD 37,8 million) or 85,3% of the value of current contracts. Such amount represents the outstanding guarantee commitments at the end of 1991*. (Table 3).

2.1.4 Revenue from Guarantee Premia:

The total guarantee premia realized during the year amounted to US\$ 1,865,324 (KD 530,125), decreasing by 26,8% over last year premia which amounted to US\$ 2,549,788 (KD 734,339).

2.1.5 Compensation Paid:

The total value of compensation paid during the year for non-commercial risks (inconvertibility) realized in a member country, within the export credit guarantee framework, reached US\$ 24,101,190.56 (KD 6,849,558).

Various guaranteed parties from seven nationalities received the following percentages of compensation:

Tunisians 24,69%, Kuwaitis 19,30%, Bahrainis 18,67%, Lebanese 17,20%, Saudis 13,75%, Egyptians 5,43%, and Moroccans 0,96%.

The re-insurers' share of the paid compensation reached US\$ 12,050,595 (50%).

2.2 REINSURANCE:

As indicated hereabove, the re-insurers' share of the compensation paid during the year amounts to US\$ 12,050,595 (KD 3,424,779). The Corporation requested the re-insurers to pay an amount of US\$ 5,724,906 representing their share of the first payment of the paid claims. Till 31.12.1991, an amount of US\$ 1,004,580.34 was paid by the re-insurers out of their share. Follow-up measures by the Corporation to secure payment of the rest of said share have been undertaken**.

2.3 MARKETING THE GUARANTEE SERVICES:

During September 1991, the Corporation addressed letters to all its representatives and commission agents (totalling 32) informing them of the cancellation of agreements signed with them, in accordance with the terms and conditions of

* The outstanding guarantee commitments represent:

- For Investment Guarantee Contracts: the value of investments executed.

- For Export Credit Guarantee Contracts: the value of shipments executed but not yet repaid.

** During the period 1.1-31.3.1992 the Corporation received other payments by the re-insurers, thus increasing the amount of their share to US\$ 3,439,729, as at 31.3.1992.

said agreements. By taking such a step, the Corporation deemed it unnecessary for this system of business promotion to continue, although it was of utmost importance during the first few years of implementing the Export Credit Guarantee Scheme. Since the Scheme became well known and widely spread, which resulted in receiving a good volume of guarantee applications surpassing the guarantee capacity, the viability of representation and commission agreements is no longer valid.

On the other side, and in order to continue its marketing efforts of previous years, the Corporation has accomplished the following during the second half of the year:

A. The Corporation has intensified its direct contacts with investment and financial circles. This has been accomplished by visits locally made by the Corporation's temporary office in Cairo, its regional office in Riyadh and its contact office in Amman, Jordan, as well as by missions dispatched to the Democratic and Peoples Republic of Algeria, the Republic of the Sudan, the Syrian Arab Republic, the Republic of Lebanon and the Islamic Republic of Mauritania.

The intensification of efforts will continue in 1992 in accordance with a defined program.

B. Before the year came to a close, the Corporation took the necessary arrangements to re-issue its monthly Newsletter "Daman Al Istithmar". The Corporation considers the newsletter as an important means of communication with commercial, investment, and financial institutions, eligible to the Corporation's guarantee, and thus, an effective tool for marketing the Corporation's services.

TABLES

TABLE (1)
 VALUE OF GUARANTEE CONTRACTS SIGNED DURING 1991
 (HOST/IMPORTING COUNTRIES AND TYPES OF CONTRACTS)
 (VALUE IN US DOLLAR AND EQUIVALENT IN KUWAITI DINAR)*

Host/Importing Countries	Investment Contracts		Export Credit Contracts			Total		%
	US\$	KD	US\$	KD	US\$	KD		
Jordan (2)	—	—	200,000	56,840	200,000	56,840	1.37	
U.A.E.	—	—	25,000	7,105	25,000	7,105	0.17	
Saudi Arabia (2)	—	—	1,400,000	397,880	1,400,000	397,880	9.61	
Mauritania	12,952,807	3,681,188	—	—	12,952,807	3,681,188	88.85	
Total:	12,952,807	3,681,188	1,625,000	461,825	14,577,807	4,143,013	100.00	

(1) 1 US\$ = K.D. 0.2842
 (2) Within a Comprehensive Export Credit Guarantee Contract.

TABLE (2)
 GEOGRAPHICAL DISTRIBUTION OF EXPORT CREDIT GUARANTEE
 CONTRACTS SIGNED IN 1991
 (THE VALUE IN US\$ EXCEPT IN THE TOTAL COLUMN WHERE KD EQUIVALENT IS ALSO GIVEN)⁽¹⁾

From	Egypt	Lebanon	Total	
To	(US\$)	(US\$)	(US\$)	(KD)
Jordan	—	200,000	200,000	56,840
U.A.E.	25,000	—	25,000	7,105
Saudi Arabia	—	1,400,000	1,400,000	397,880
Total In US\$	25,000	1,600,000	1,625,000	—
Total In KD	7,105	454,720	—	461,825

* The original value of contracts is denominated in US dollars and its equivalent in Kuwaiti Dinars.

TABLE (3)
VALUE OF CURRENT CONTRACTS(1) AND OUTSTANDING COMMITMENTS(2) AS AT 31.12.1991
(BY HOST/IMPORTING COUNTRIES AND TYPES OF CONTRACTS)

Host/Importing Countries	Investment Contracts		Export Credit Contracts		Total		% Of Total	Outstanding Commitments	
	US\$	KD	US\$	KD	US\$	KD		US\$	US\$
Jordan			200,000	56,840	200,000	56,840	0.13	33,884	9,630
U.A.E.			476,024	135,286	476,024	135,286	0.31	24,250	6,892
Bahrain			60,802	17,280	60,802	17,280	0.04	60,802	17,280
Tunisia	2,105,190	598,295			2,105,190	598,295	1.35	986,200	280,278
Algeria	2,573,336	731,342	6,999,000	1,989,116	9,572,336	2,720,458	6.14	7,611,504	2,163,190
Saudi Arabia			3,400,000	966,280	3,400,000	966,280	2.18	2,075,227	589,780
Sudan	6,896,552	1,960,000			21,497,010	6,109,450	28.393,562	8,069,450	18.22
Syria	6,811,115	1,935,719			6,811,115	1,935,719	4.37	1,697,370	482,392
Somalia	2,000,000	568,400			2,000,000	568,400	1.28	930,000	264,306
Iraq			44,936,504	12,770,954	44,936,504	12,770,954	28.83	44,936,504	12,770,954
Oman			2,040,000	579,768	2,040,000	579,768	1.30	1,340,000	380,828
Qatar			61,660	17,524	61,660	17,524	0.04	61,660	17,524
Kuwait			351,865	100,000	351,865	100,000	0.23	27,220	7,736
Egypt	34,218,551	9,724,912			34,218,551	9,724,912	21.96	30,793,911	8,751,630
Morocco	21,226,856	6,032,673			21,226,856	6,032,673	13.62	13,944,381	3,962,993
Murthania (3)	—	—	—	—	—	—	—	—	—
Total:	75,831,600	21,551,341	80,022,865	22,742,498	155,854,465	44,293,839	100	132,916,475	37,774,863

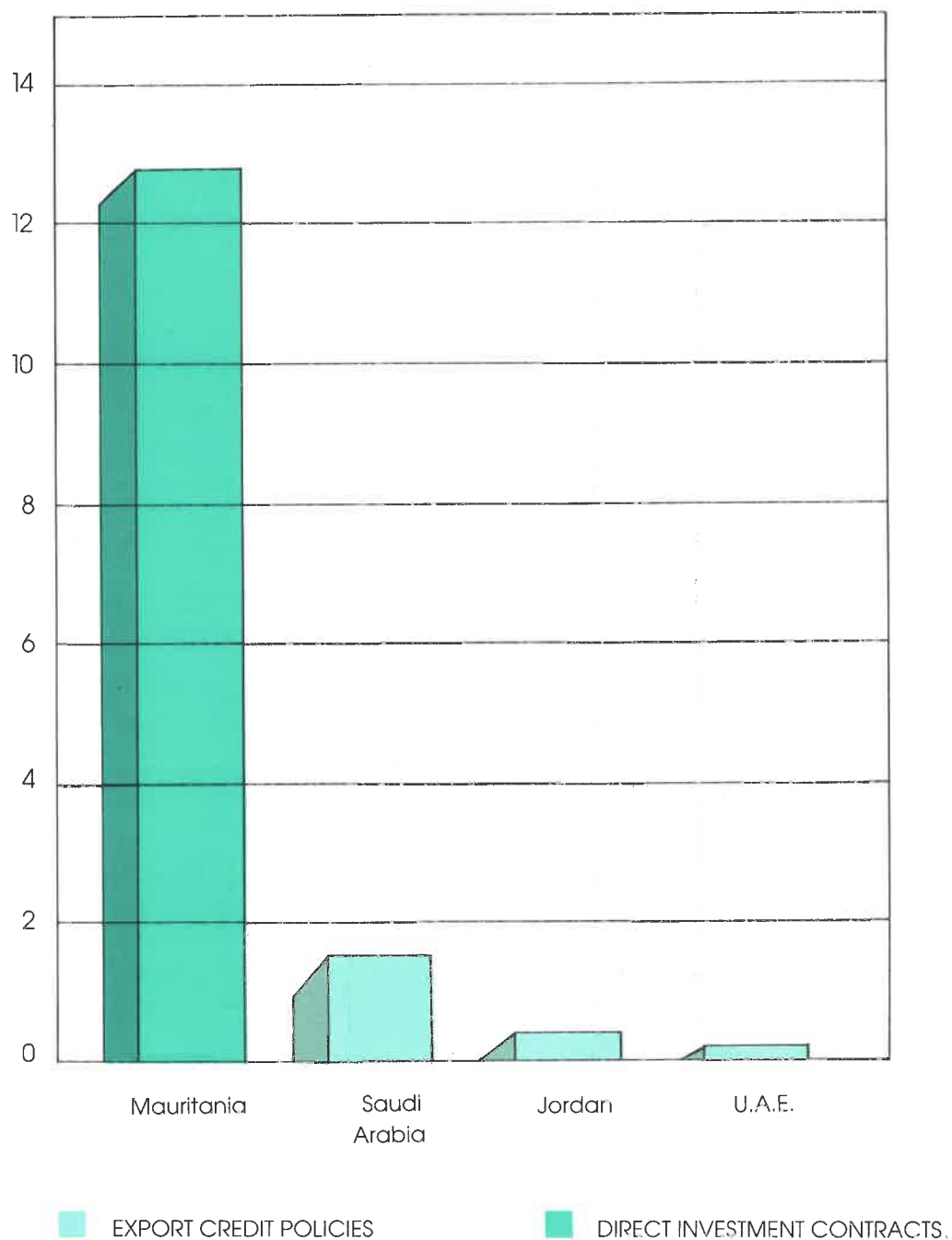
1 US\$ = K.D. 0.2842

- (1) Current contracts represent the value of guarantee contracts.
(2) The outstanding guarantee commitments represent:
- For Export Credit Guarantee Contracts: the value of shipments executed but not repaid.
- For Investment Guarantee Contracts: the value of investments realized.
(3) As for Mauritania, a loan guarantee contract for US\$ 12,952,807 (KD 3,681,188) was signed by IALGC near the end of the year. Due to the applied procedures, the value of this contract was not added to the value of current contracts as at 31.12.1991. Such addition will be effected when IALGC receives a copy of the contract signed by the guaranteed party.

GRAPHICS

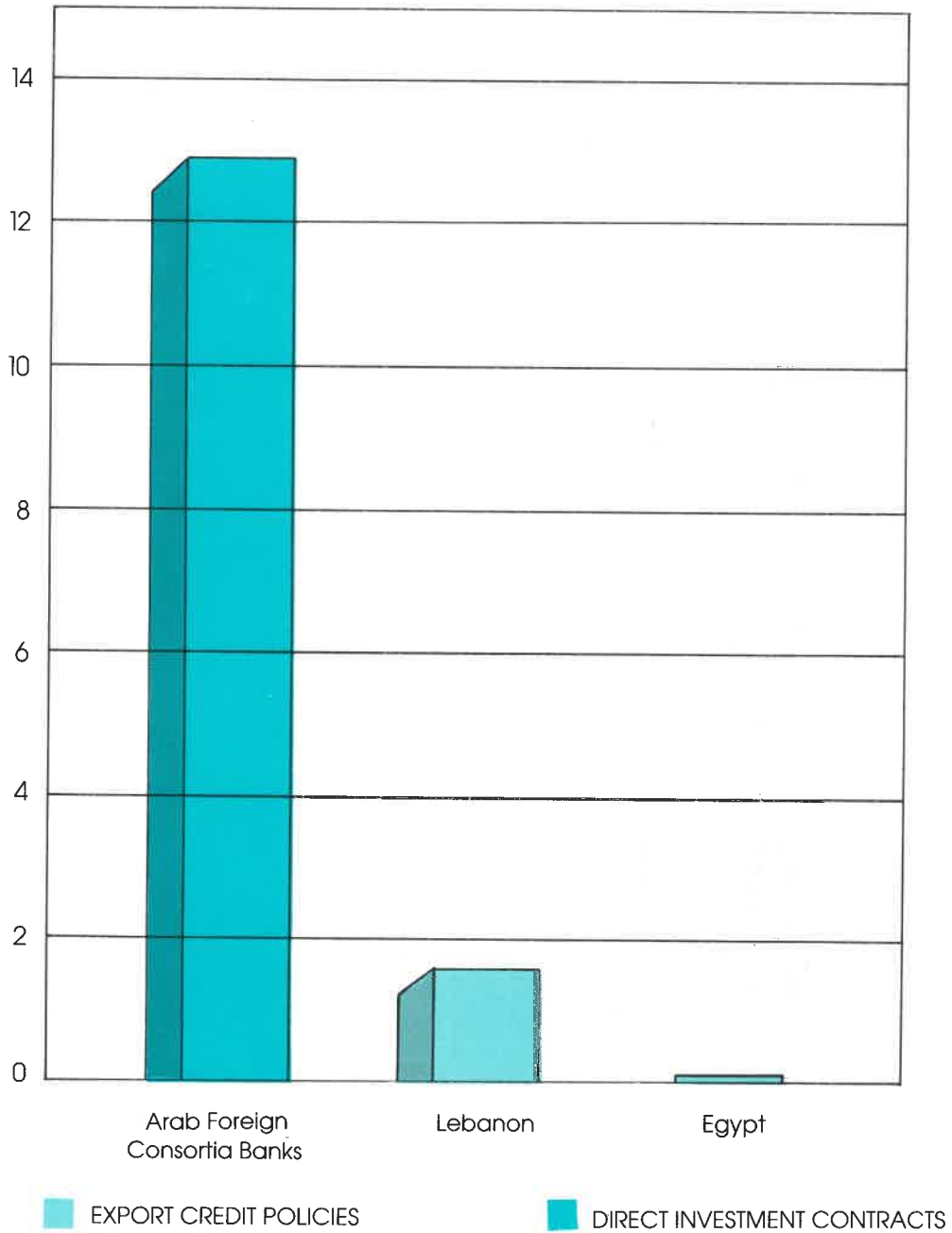
INVESTMENT & EXPORT CREDIT GUARANTEE CONTRACTS SIGNED DURING 1991 (HOST/IMPORTING COUNTRIES)

VALUES (US\$ Millions)



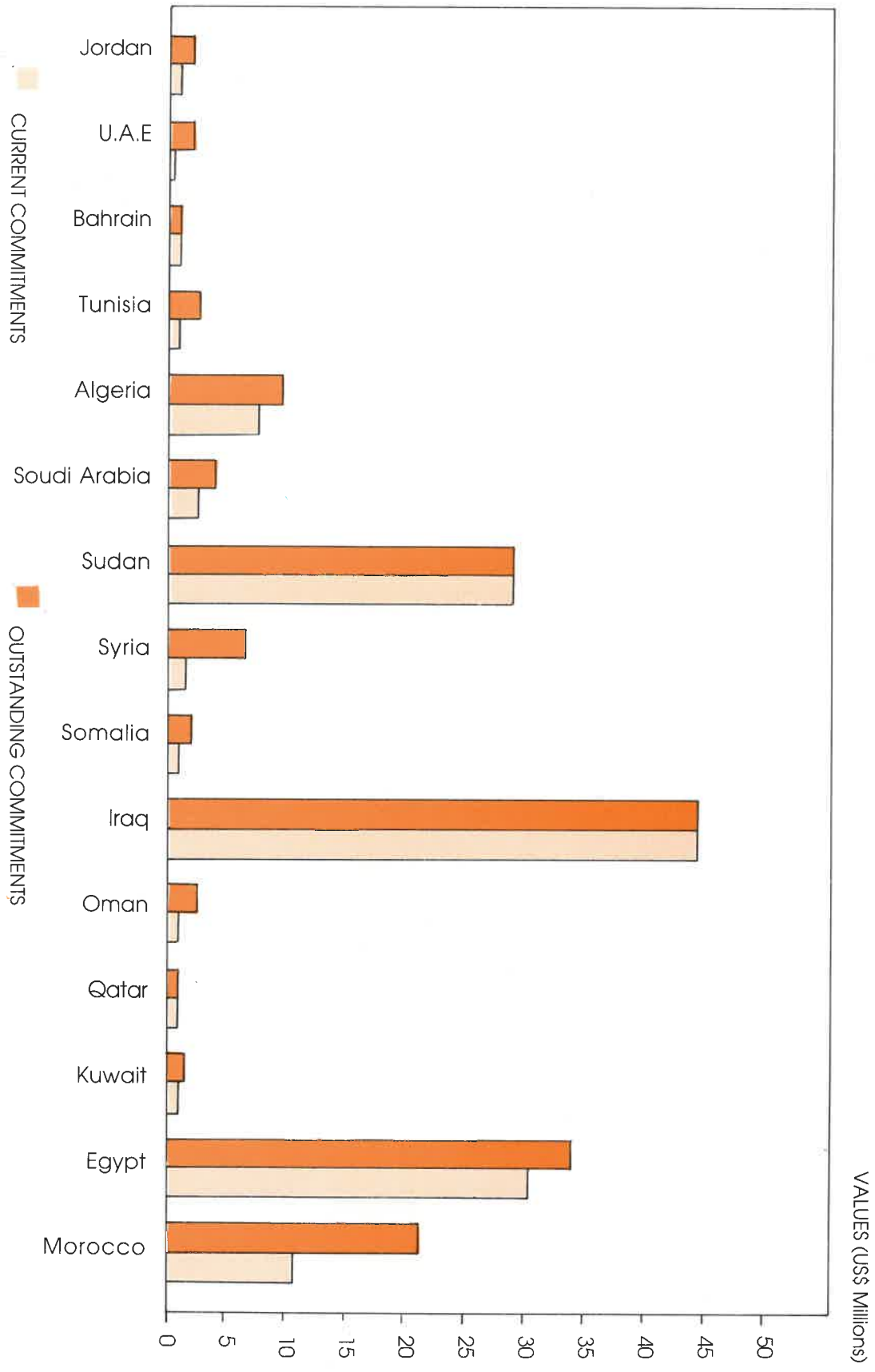
INVESTMENT & EXPORT CREDIT GUARANTEE CONTRACTS
SIGNED DURING 1991
(EXPORTING COUNTRIES)

VALUES (US\$ Millions)



* Banks Located Outside the Arab Countries, and eligible to the Guarantee.

CURRENT & OUTSTANDING COMMITMENTS AS AT 31.12.1991
 (HOST/IMPORTING COUNTRIES)



CHAPTER THREE: ANCILLARY ACTIVITIES

3.1 SPECIALIZED STUDIES:

3.1.1 Report on the Investment Climate in the Arab Countries:

Within the efforts exerted by the Corporation aiming at compiling information on the investment climate in the Arab countries, work was underway at the end of the year for the preparation of the draft report for 1991. Report on the investment climate for 1990 was published.

3.1.2 Sectoral Studies on Investment Opportunities in Egypt:

Taking into consideration the vital role of the sectoral studies as a key promotional factor which provides the investor with the necessary background that could help him take his investment decisions, the Corporation thought fit to conduct such studies in Egypt and then repeat the studies in some other Arab countries.

Five sub-sectors which feature prominently in the investment programme in Egypt were identified and agreed upon with the General Authority for Investment of Egypt. Terms of reference of these studies were prepared by the Corporation. Some selected consultancy institutions were invited to submit their technical and financial offers to accomplish these studies. Proper consultants were selected to carry out the studies.

The Corporation is at a stage of revising the interim reports prepared by the consultants, holding meetings with the concerned experts to discuss the contents.

The whole project is being undertaken in collaboration with the General Authority for Investment of Egypt, and the Islamic Development Bank.

3.2 TECHNICAL ASSISTANCE TO MEMBER COUNTRIES:

During the visit of the Corporation's delegation to the Republic of Lebanon in December 1991, the competent Lebanese Authorities asked the Corporation to make use of its expertise in organizing an investment promotion conference in Lebanon. In the light of the present conditions in Lebanon, the Corporation presented its proposals and the outline of a programme for such a Conference. The programme included: the identification of foreign institutions, businessmen and investors to be invited, promotional brochures to be prepared, projects for investment to be identified, field visits to some of the potential investors to be arranged, and the subjects and topics to be discussed during the conference sessions.

3.3 CO-OPERATION WITH ARAB AND INTERNATIONAL INSTITUTIONS:

The Corporation participated in the following meetings during the year:

- Seminar on "The Importance of resorting to Commercial Arbitration within the Region Instead of resorting to Arbitration in foreign countries" held in Alexandria 19-21/10/1991.
- The Seventh Conference of the Egyptian Chambers of Commerce held in Cairo on 22/10/1991.
- The Technical Committee preparing for the meeting of the Higher Coordination Committee of the Arab League held in Cairo 13-14/11/1991.
- The Twenty First Session of the Higher Coordination Committee of the Arab League held in Cairo on 17/11/1991.

- The Twelveth session of the Arab Group for Food Security held in Cairo 19-20/11/1991.
- "Ways and means to develop small scale industries" seminar held in Dakahliya Governorate, Egypt, on 23/12/1991.

3.4 "INVESTMENT GUARANTEE" NEWSLETTER:

After re-establishing the distribution list for its newsletter "Investment Guarantee" the newsletter has resumed publication again starting January 1992 with more concentration on subjects dealing with investment guarantee services offered by the Corporation, providing some additional services in the areas of direct investment, inter-Arab trade and the promotion of existing investment opportunities in the Arab countries. Efforts have been also exerted to provide international and Arab news agencies with up-to-date material on the Corporation's activities.

3.5 THE DATA BANK:

Technical work to re-start operating the Data Bank has been accomplished, involving hardware maintenance and upgrading the capacity of the hard disks to store all data in a single disk. In addition, all the disks have been arranged and technical problems have almost been overcome. Thus the Data Bank now is operating at a comparable level to that prior to August 1990.

CHAPTER FOUR: FINANCIAL REPORT

The paid-up capital of the corporation at the end of 1991 amounted to KD 22,760,359 (U.S.\$ 80,085,710) with an increase of KD 350,322 (U.S.\$ 1,232,660) over 1990. This was achieved after the payment by the Republic of The Sudan and the Islamic Republic, of Mauritania of their capital instalments due in accordance with the two instalment agreements signed on 15th May and 22nd May 1991 respectively. The Arab Republic of Egypt has also paid the first capital instalment rescheduled in accordance with the Corporation's Council resolution no. (3) for 1989.

The total revenue realized during the year was KD 3,679,909 (U.S.\$ 12,948,307), compared with KD 4,363,151 (U.S.\$ 15,149,829) in 1990, i.e. a decrease of KD 683,242 (U.S.\$ 2,403,919) or 15.6%. A total amount of KD 3,436,654 (U.S.\$ 12,092,378) was realized from the corporation's investment of its financial resources, while the balance of KD 243,255 (U.S.\$ 855,928) represents a net return from the Corporation's guarantee services, adjustment in previous years' accounts and other revenues.

The net revenue transferred to the general reserve for the current year amounted to KD 2,358,168 (U.S.\$ 8,297,565) compared with KD 2,887,417 (U.S.\$ 10,025,753) in 1990, i.e. a decrease of KD 529,249 (U.S.\$ 1,862,110) or by 18.3%.

Meanwhile the total expenditure for the year 1991 amounted to KD 1,321,741 (U.S.\$ 4,650,742) compared with KD 1,475,734 (U.S.\$ 5,124,076) in 1990 i.e.. a decrease of KD 153,993 (U.S.\$ 541,847) or by 10.4%.

The balance sheet for the year ended 31st December 1991, showed that the value of the corporation's total resources were KD 52,876,210 (U.S.\$ 186,052,814), of which KD 12,159,486 (U.S.\$ 42,784,961) was in time deposits, KD 14,533,138 (U.S.\$ 51,137,009) in bonds, KD 10,870,301 (U.S.\$ 38,248,771) in investment portfolios held with banks, KD 764,225 (U.S.\$ 2,689,039) in current and call accounts. The resources also included KD 268,057 (U.S.\$ 943,198) invested in Arab government bonds, KD 355,275 (U.S.\$ 1,250,000) subscribed to the capital of the Arab Trade Finance Programme and KD 13,925,728 (U.S.\$ 48,999,746) paid as compensation. The total revenue realized from the investment of these resources were KD 3,436,654 (U.S.\$ 12,092,378) an average return of resources were KD 3,436,654 (U.S.\$ 12,092,378) an average return of 7.9%.

The accumulated general reserve at the end of the year reached KD 29,858,854 (U.S.\$ 105,062,821) in 1991 compared with KD 27,500,686 (U.S.\$ 95,488,493) in 1990, an increase of KD 2,358,168 (U.S.\$ 8,297,565) or by 8.5%.

AUDITOR'S REPORT

**The Chairman and Members of the Council,
Inter-Arab Investment Guarantee Corporation**

An Arab Corporation with a Special Independent Legal Status
Kuwait

We have audited the Balance Sheet of Inter-Arab Investment Guarantee Corporation (An Arab Corporation with a Special Independent Legal Status) Kuwait as of December 31, 1991 and the related statements of revenue and expenditure shareholders' equity and changes in financial position for the year then ended. Our audit was made in accordance with international auditing guidelines and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As shown in the accompanying notes (3) and (6), an amount of U.S. Dollars 53,232,126 (equivalent to KD 15,129,634 at the rate of exchange prevailing as of December 31, 1991) is due from one of the member countries on promissory notes and recoverable claims in addition to related interest accrued thereon to December 31, 1991. Because of the current situation in the Gulf region, reimbursement of the said amount had not been effected.

In our opinion, subject to the preceding paragraph, the accompanying financial statements present fairly the financial position of Inter-Arab Investment Guarantee Corporation as of December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended, is in conformity with the accounting policies as set out in Note (2) to the Financial Statements. We are also of the opinion that proper books of account were kept and that the accompanying financial statements are in agreement with those books.

Jassim Ahmad Al Fahad

Licence No. 53 - A
of JASSIM AHMAD AL FAHAD & CO.
MEMBER FIRM OF DELOITTE & TOUCHE

Cairo, Arab Republic of Egypt
March 4, 1992

BALANCE SHEET AS OF DECEMBER 31, 1991

ASSETS	December 31	
	1991	1990
	KD	KD
Current and call accounts with banks	764,225	3,706,511
Time deposits	12,159,486	11,069,735
Investment in bonds	14,533,138	17,759,760
Investment portfolios	10,870,301	9,916,567
Accrued revenue	1,783,365	1,484,059
Promissory notes (Note 3)	3,663,455	3,712,177
Government bonds (Note 4)	268,057	254,174
Investment in Arab Trade Finance Program (Note 5)	355,275	360,000
Recoverable claims (Note 6)	10,262,273	3,500,490
Provident and social security fund	1,158,381	1,866,824
Accounts receivable and other debit accounts (Note 7)	1,261,239	1,253,537
Accounts receivable - Re-insurance claims	1,378,236	—
Accounts receivable - Re-insurance claims, under settlement	1,850,586	—
Total Assets	KD. 60,308,017	KD. 54,883,834

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS REPORT

LIABILITIES AND SHAREHOLDERS'	December 31	
EQUITY	1991	1990
LIABILITIES:	KD	KD
Accounts payable and other credit accounts (Note 7)	1,698,345	1,712,038
Recoverable re-insurance claims	3,437,829	—
Provision for unexpired risks	344,448	344,448
Provident and social security fund	1,158,381	1,866,824
Provision for contingencies and foreign currency fluctuations	1,049,801	1,049,801
Total liabilities	7,688,804	4,973,111
SHAREHOLDERS' EQUITY:		
Capital authorized (Note 8)	25,000,000	25,000,000
Capital issued	25,025,000	25,025,000
Called-up capital	24,525,000	24,525,000
Less: Unpaid Capital	1,764,641	2,114,963
Paid-up capital	22,760,359	22,410,037
General reserve	29,858,854	27,500,686
Total shareholders' equity	52,619,213	49,910,723
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	KD. 60,308,017	KD. 54,883,834

**STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED DECEMBER 31, 1991**

REVENUE:	Year Ended December 31	
	1991	1990
Premiums from guarantees:	KD	KD
Provision for unexpired risks - beginning of year	344,448	344,448
Premiums earned	185,677	389,891
Gross premiums from guarantees	530,125	734,339
Share of reinsurance companies	(106,000)	(155,000)
Premiums retained	424,125	579,339
Provision for unexpired risks - end of year	(344,448)	(344,448)
Reinsurance commission after deducting the commissions paid and other insurance expenses	79,677 35,000	234,891 51,873
Net premiums from guarantees	114,677	286,764
Interest on call accounts	78,048	33,625
Interest on time deposits	1,175,358	991,507
Income from bonds	1,169,810	1,306,668
Income from investment portfolios	953,734	474,774
Income from sale and redemption of bonds	192,293	56,699
Interest from promissory notes and government bonds	539,984	224,829
Exchange gain (loss) (Note 9)	672,573	981,178
Prior years' adjustments	118,917	—
Other	9,661	7,107
Total revenue	KD. 3,679,909	KD. 4,363,151
EXPENDITURE:		
First Section - Salaries, Wages and bonuses	900,863	992,304
Second Section - General and administrative expenses	410,250	472,990
Third Section - Capital expenditure	10,628	10,440
Total expenditure	KD. 1,321,741	KD. 1,475,734
Net income	KD. 2,358,168	KD. 2,887,417

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

**STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1991**

	Year Ended December 31	
	1991	1990
Sources of Funds:	KD.	KD.
Net Income	2,358,168	2,887,417
Depreciation	10,628	10,440
Funds provided from operations	2,368,796	2,897,857
Decrease in time deposits	—	801,784
Decrease in investment in bonds	3,226,662	383,116
Decrease in promissory notes	48,772	1,096,087
Decrease in accrued revenue	4,725	5,731
Increase in recoverable - Re-insurance claims	3,437,829	—
Increase in accounts payable and other credit accounts	—	730,011
Decrease in provident and Social Security Fund	708,453	117,319
Increase in paid-up capital	350,322	179,350
Total funds provided	10,145,469	6,211,255
Application of Funds:		
Increase in recoverable claims	6,761,783	1,382,249
Increase in investment portfolios	953,734	431,575
Increase in government bonds	13,883	23,107
Increase in time deposits	1,089,751	—
Increase in accounts receivable - Re-insurance claims	1,378,236	—
Increase in accounts receivable - Re-insurance claims, under settlement	1,850,586	—
Decrease in accounts payable and other credit balances	13,693	—
Increase in accrued income	299,306	452,611
Decrease in provident and social security fund	708,453	117,319
Increase in accounts receivable and other debit accounts	18,330	334,469
Decrease in provision for contingencies and foreign currency fluctuations	—	357
Total funds applied	13,087,655	2,741,687
Increase (decrease) in current and call accounts with banks	(2,942,286)	3,469,568
Current and call accounts with banks at beginning of year	3,706,511	236,943
Current and call accounts with banks at end of year	(764,225)	3,706,511

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE TWO YEARS ENDED DECEMBER 31, 1991 AND 1990

	Capital Authorized KD.	Capital Issued KD.	Called-Up Capital KD.	Unpaid Capital, KD.	Paid-Up Capital KD.	Net Revenue KD.	General Reserve KD.
Balance as of December 31, 1989.	25,000,000	25,025,000	24,525,000	2,294,313	22,230,687	—	24,613,269
Capital payment	—	—	—	(179,350)	179,350	—	—
Net income	—	—	—	—	—	2,887,417	—
Transferred to general reserve	—	—	—	—	—	(2,887,417)	2,887,417
Balance as of December 31, 1990	25,000,000	25,025,000	24,525,000	2,114,963	22,410,037	—	27,500,686
Capital payment	—	—	—	(350,322)	350,322	—	—
Net income	—	—	—	—	—	2,358,168	—
Transferred to general reserve	—	—	—	—	—	(2,358,168)	2,358,168
Balance as of December 31, 1991	25,000,000	25,025,000	24,525,000	1,764,641	22,760,359	—	29,858,854

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

NOTES TO FINANCIAL STATEMENTS

1. ACTIVITIES OF THE CORPORATION

The Corporation is an Arab Corporation with a Special Independent Legal Status and is located in the State of Kuwait. Its main objectives are to provide insurance coverage for Arab investments and trade financing between member countries for both commercial and non-commercial risks as defined in its articles of incorporation. The Corporation also promotes investments and trade exports between its member countries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Accounting Convention:

The financial statements are prepared in accordance with International Accounting Standards as issued by the International Accounting Standards Committee.

(B) Investment in Bonds:

Bonds are stated at cost since the intention is to hold them until their maturity dates. The difference between the cost of the bond and its nominal value is reflected in the statement of revenue and expenditure at the time of its maturity or redemption.

(C) Investment Portfolios:

The investment portfolios managed by agents are valued at the lower of market price or net asset value at year end.

(D) Fixed Assets:

Fixed assets are fully depreciated at the time of its purchase.

(E) Recognition of Income:

The Corporation follows the accrual basis of accounting for the interest earned, premiums from guarantees and portfolios managed by agents.

(F) General Reserve:

Article (24) of the Corporation convention states that "Net income realized from the Corporation's operations are to be accumulated to establish a reserve equal to three times the capital".

(G) Foreign Currency Translation:

The accounts of the Corporation are maintained in Kuwaiti Dinars. Assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at average rates of exchange prevailing at the end of the financial year. Transactions during the year are translated into Kuwaiti Dinars at rates ruling at the date of each transaction, except for the period from January 1, 1991 to October 31, 1991, fixed rates as of December 31, 1990 were used for all foreign currencies. All realized and unrealized gains or losses are reflected in the current year's statement of revenue and expenditure. Furthermore, additional provision is taken against unforeseen fluctuation in foreign currencies and is reflected in current year's statement of revenue and expenditure and included in provision for contingencies and foreign currency fluctuations under liabilities in the accompanying balance sheet.

(H) Provision for Contingencies and other Accounts:

The Corporation provides for contingencies and other accounts against seen and unforeseen expenditure which is reflected in current year's statement of revenue and expenditure. This amount is included in "Provision for contingencies and foreign currency

fluctuations" and "Accounts payable and other credit accounts "under liabilities in the accompanying balance sheet.

(I) Provident and Social Security Fund:

The income of the provident and social security fund which was established by the Corporation to the benefit of its employees consists of the following:

1. A fixed percentage deducted monthly from the employees' salaries.
2. The provision for staff termination indemnity.
3. Revenues resulting from investing the amounts under (1) and (2) above.

(J) Provision for Unexpired Risks:

The Corporation calculates the provision for unexpired risks for the guarantee operations executed during the year on each operation separately taking in consideration the nature of the guaranteed risk and the insured period.

3. PROMISSORY NOTES

(A) Promissory notes amounting to U.S. Dollar 12,889,504 (equivalent to KD. 3,663,455 at the rate of exchange prevailing as of December 31, 1991) were obtained by the Corporation as a result of commercial transactions by one of the governments of the member countries which were settled by the Corporation to three banks on behalf of that country upto December 31, 1991 for their financing of exports to that country. There was a guarantee from that country's bank to settle the whole commitment due to the Corporation in five equal semi-annual instalments of U.S. Dollars 6,444,752 each, starting July 1, 1988. The first instalment was collected in due date, the second and third instalments were collected in 1990. A new agreement was signed between the Corporation and the representative of that member country in December 20, 1989 which states that the remaining amount of promissory notes with other amounts due should be settled in quarterly instalments of U.S. Dollars five million each starting July 1, 1990. The fourth and fifth instalments were settled by the Corporation on behalf of that country on January 3, 1991 and July 31, 1990 respectively. The member country will settle these amounts in accordance with the above mentioned agreement, but due to the current situation in the Arabian Gulf, none of these instalments were collected.

(B) The accrued interest on promissory notes as of December 31, 1990 amounting to U.S. Dollars 4,235,827 (equivalent to KD. 1,203,906 at the rate of exchange prevailing as of December 31, 1991) which was included in accrued revenue has not yet been collected. The details of the above mentioned amount are as follows:

	U.S. Dollars
Balance as of January 1, 1991	2,384,792
Interest collected during the year 1991	—
	2,384,792
Interest due for the year ended December 31, 1991	1,851,035
Total	4,235,827

4. GOVERNMENT BONDS

The Corporation obtained a government bond from one of the member countries due in June 25, 1990 at interest rate of 10 per cent per annum as part settlement of the unpaid capital due from that country. The note was valued at KD. 231.067 based on the rate of exchange agreed upon between the two parties. In August 14, 1990, a decree was issued by the Government of that country banning the use of interest from all government transactions. Consequently, no interest was calculated on that bond starting from the abovementioned date. Consequently, the whole amount, was deposited in one of the member countries local banks in its local currency equivalent to KD. 268.057 maturing on December 6, 1991. The bond is renewable for the same period of six months and the investment yield will be credited to the principle amount.

5. INVESTMENT IN ARAB TRADE FINANCE PROGRAM

This program was established within the framework of the Arab Monetary Fund, to stimulate inter-Arab trade. The Corporation has settled its share in the above mentioned program amounting to U.S. Dollars 1,250,000 (equivalent to KD. 355,275 at the rate of exchange prevailing as of December 31, 1991) which represents 250 shares of the program's capital totalling 100,000 shares at a nominal value of U.S. Dollars 5,000 each.

6. RECOVERABLE CLAIMS

(A) Included in recoverable claims is an amount of U.S. Dollars 12,005,604 (equivalent to KD. 3,412,233 at the rate of exchange prevailing as of December 31, 1991) being compensation made by the Corporation to a joint Arab foreign bank against the down payment and the first, second and third instalments due on the Corporation against its guarantee of the loan given from the above mentioned bank to one of the member countries. The instalments due in accordance with the new agreement mentioned in Note (3) above have not been settled by that member country.

(B) Total claims settled to other parties by the Corporation during 1991 amounted to U.S. Dollars 24,101,191 (equivalent to KD. 6,850,040 at the rate of exchange prevailing as of December 31, 1991).

The total claims stated in paragraphs (A) and (B) above amounting to U.S. Dollars 36,106,795 (equivalent to KD 10,262,273 at the rate of exchange prevailing as of December 31, 1991) represent claims settled by the Corporation on behalf of one of the member countries. No amounts have yet been collected from that member country.

	December 31	
	1991	1990
Fixed assets at cost	KD . 247.694	KD. 335.737
Less: Accumulated depreciation	247.693	335.736
Net fixed assets	KD. 1	KD. 1
Joint building	674.373	674,373
Accounts receivable - trade	148.947	219.457
Accounts receivable - UBAF Limited - London	334.893	319.361
Other debit accounts	103.025	40.345
Total accounts receivable and other debit accounts	KD. 1,261.239	KD. 1,253.537

7. ACCOUNTS RECEIVABLE AND OTHER DEBIT ACCOUNTS

A provision for the joint building was included in accounts payable and other credit accounts under liabilities in the balance sheet amounting KD. 615,218 also there is a contra account against the receivable of UBAF Limited - London included in accounts payable and other credit accounts.

8. CAPITAL

(A) The capital of the Corporation is variable and is set at an initial Ten Million Kuwaiti Dinars according to the official exchange rates prevailing at the date of signing the agreement and is divided into Ten Thousand nominal shares of Kuwaiti Dinars, one thousand each. The Board of the Corporation recommended in its meeting dated October 14, 1975 to increase the capital to KD. 25,000,000. Some of the member countries agreed to increase their shareholding making the total capital subscribed for KD. 25,025,000. As of December 31, 1991 an amount of KD. 24,525,000 was called-up of which KD. 1,764,641 represents instalments due and not settled by some of the member countries.

9. EXCHANGE LOSS

The exchange loss of KD. 672,573 for the year ended December 31, 1991 consists of losses resulting from transfer of assets and liabilities denominated in foreign currencies to Kuwaiti Dinars amounting to KD. 186,080 based on the average rates of exchange prevailing at the end of each month during the year and losses resulting from transfer of transactions in foreign currencies to Kuwaiti Dinars during the year amounting to KD. 486,493 based on the rates of exchange prevailing at the date of each transaction.

10. CONTINGENT LIABILITIES

(A) Current guarantee contracts amounted to KD. 44,293,839 of which, operations amounting to KD. 37,774,863 were executed as of December 31, 1991 representing the total Corporation contingent liabilities as of that date. The above amount includes contingent liabilities amounting to U.S. Dollars 44,423,109 (equivalent to KD. 12,625,936 at the rate of exchange prevailing as of December 31, 1991) due in 1992 on behalf of the same member country mentioned in Notes (3) and (6) above.

(B) There is a claim from one of the Foreign Arab Joint Banks for an amount of U.S. Dollars 8,917,051 (equivalent to KD. 2,534,404 at the rate of exchange prevailing as of December 31, 1991). From the legal point of view of the Corporation, the bank is not entitled for a compensation as it had lost the nationality condition prior to making the claim, and because of loss of nationality condition the contract was rescinded by the Corporation.