

**THE INTER - ARAB INVESTMENT  
GUARANTEE CORPORATION**

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**THE TWENTY SECOND**

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**ANNUAL REPORT 1996**

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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 nationalization, currency inconvertibility, war, civil disturbances, cancellation of the import license and prevention of the entry of goods or their transit passage into the country. The commercial risks include insolvency of the debtor, bankruptcy, as well as default and 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.

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# ORGANIZATION AND MANAGEMENT

## **The Council :**

This is the highest authority in the Corporation . It 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, 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 .

## **The 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 Union of Chambers of Commerce, Industry and Agriculture for Arab Countries.

The Supervisory Committee supervises the activities of the Corporation and may give advice, as it may deem appropriate, to the Director-General or/and the Council of the Corporation. The membership of the current Supervisory Committee is as follows:

H.E. Mr. Fahad Rashid Allbrahim	Chairman
H.E. Mr. Jasim Rashed AlShamsi	Member
H.E. Mr. Abdel-Fattah Ben Mansour	Member
H.E. Mr. Abdel Rahman Al Seheebani	Member
H.E. Mr. Murtadha Mohamed Fadhil	Member
H.E. Mr. Burhan Al Dajani	Member

## **The Director-General**

Mr. Mamoun Ibrahim Hassan

## **The Deputy Director-General**

Mr. Giuma Said Giuma

His Excellency the Chairman of the 24th. Session  
of the Council of the Inter-Arab Investment Gu-  
arantee Corporation :

In accordance with Article (12) of the Inter-Arab  
Investment Guarantee Corporation's Conventi-  
on, it is my pleasure to submit to your hon-  
ourable Council for consideration the Annual  
Report of the Director-General for the year 1996.

Please accept my highest consideration ,

**Mamoun Ibrahim Hassan**  
Director-General

U.A.E ,May 1997 .

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# CHAPTER ONE : INTRODUCTION

## 1.1 World Economic Performance :

World economic recovery continued during 1996 with world output growing at an annual rate of 3.8% compared to 3.7% in 1994 and 3.5% in 1995. However, the annual growth rate of output in industrial countries slightly increased to 2.3% compared to 2.1% in 1995 . On the other hand, the developing countries were able to sustain a relatively high rate of output growth of 6.3% per annum , slightly more than the 5.9% achieved in 1995. Asian developing countries slightly decreased their output growth rate from 8.6% per annum in 1995 to 8% per annum in 1996. Further , output of the countries in transition (Central and Eastern Europe, Russia and Central Asia) achieved annual rate of 0.4% in 1996 compared to a negative rate of growth of 1.3% in 1995 and a negative rate of growth of 8.8% in 1994.

The volume of world trade continued to expand in 1996 recording an annual rate of increase of 6.7% in 1996, less than the rate of 8.9% achieved in 1995 and 1994. The rate of increase of industrial countries imports declined to 5.3% in 1996 compared to 7.8% in 1995 while that for developing countries decreased from 11.6% in 1995 to 11.3% in 1996. Similarly , the rate of increase of the volume of exports of industrial countries declined from 7.3% in 1995 to 4.3% in 1996 while that for developing countries declined from 11% in 1995 to 10.5% in 1996 .

## World Investment Trends :

Foreign direct investment (FDI) flows in 1996 were estimated to reach US\$327 billion, recording an annual rate of increase of 4% and continuing the recovery trend which had started in 1993. The recovery was explained in terms of the economic cycle in advanced countries as well as in terms of the pressures of increased international competition coupled with advances in communications technology .

The share of developing countries in FDI was estimated to amount to US\$121 billion in 1996 , on the assumption that the group maintained its relative share of 37% of total flows achieved in 1995. These flows continued to be characterized by their geographical bias in favour of Asian and Latin American countries such that of a total of US\$100 billion flows to developing countries Asia received US\$65 billion while Latin American and the Caribbean countries received US\$27 billion. At the other extreme it is estimated that (100) developing countries received only 1% of the total flows to developing countries . At the global level it is found that 67% of the total world FDI flows are received by ten countries while 67% of total outflows are contributed by five countries (USA, Britain, Germany, Japan and France) . FDI flows to Arab countries amounted to US\$3.15 billion in 1995 recording an annual rate of decline of 15.8%, and they are expected to stabilize at the same level in 1996 .

## **Economic and Investment Trends in Arab Countries :**

In a development parallel to the expansion of the world economy, the real GDP growth rate for the Arab countries increased from 1.98% in 1995 to about 2% in 1996 .Economic performance was positively impacted by the improved oil prices in world markets. Out of a sample of (10) Arab countries for which data was available , real GDP growth rate increased in (6) countries and declined in three countries. On the other hand and due to improved climatic conditions in North Africa, specially Morocco, high rates of growth were recorded. Morocco's rate of growth increased from 7.6% in 1995 to 9% in 1996 .

As is well-known improved economic performance is one important indicator of an improved investment climate . This prompted a re-evaluation of the investment potential of Arab countries by foreign investors. As a result of this the number of Arab countries which were given credit rating by rating agencies increased in 1996. The countries involved include Jordan, UAE, Tunisia, Saudi Arabia , Oman, Qatar, and Kuwait. Further , a number of companies and financial institutions in five Arab countries (Bahrain, Kuwait, Lebanon, Egypt, and Morocco) also received credit rating during the year.

The year also witnessed positive developments in Arab stock markets . Available information for the stock markets of Jordan, Bahrain, Tunisia, Kuwait, Lebanon, Egypt, and Morocco, shows that their consolidated capital value increased from US\$42 billion in 1995 to US\$59 billion in 1996, recording a rate of increase of about 43% . On the other hand , available information for eleven Arab stock markets, inclusive of the ones mentioned above , shows that the consolidated capital value of (257) quoted companies amounts to US\$105 billion in 1996. Moreover, Arab capital markets also witnessed positive institutional developments reflected in the signature of two agreements for linking capital markets . One of the agreements is to link markets in Kuwait, Bahrain and Oman with the objective of joint registration of public companies and encouraging inter-Arab investment . The second agreement is to link markets in Kuwait, Egypt and Lebanon . In addition a number of Arab markets introduced technologically improved systems for markets dealings.

In the area of investment legislation the year witnessed the continuation of efforts to adopt and ammend investment laws and regulations in the direction of respecting the internationally agreed principles of investment treatment . A draft unified investment code for the GCC countries was finalized during the year, a new investment law was drafted in Libya and a new investment law was adopted in Sudan .

Arab countries intensified their efforts to attract FDI through the establishment of free zones. Declarations regarding the establishment of new free zones were made in UAE, Tunisia, Algeria, Oman, Kuwait, Egypt, Morocco, and Yemen. In addition , seven joint free zones were established between a number of Arab countries.

## **1.2 Highlights of the Corporation Activities:**

The total value of guarantee contracts signed during the year 1996 amounted to US\$64,089,355 (KD.19,251,801) . The total value of current guarantee contracts as at 31/12/1996 reached US\$116,716,537 (KD.35,060,483).The value of operations executed (outstanding commitments) within the framework of current contracts amounted to US\$77,675,144 (KD.23,332,837). The Corporation has, during the year, recovered US\$475,277 for compensation previously paid for non-commercial risks realized in a member country .

Regarding its ancillary activities, the Corporation has during the year, continued its efforts of marketing its services among Arab investors and exporters . It also continued its activities in undertaking new economic and investment studies and research works in the Arab countries, in addition to completing certain ongoing research. The Corporation also promoted a number of national and regional investment projects, and carried out its technical assistance program in member countries in the area of its competence:



## CHAPTER TWO: GUARANTEE OPERATIONS

### 2.1 Guarantee Contracts:

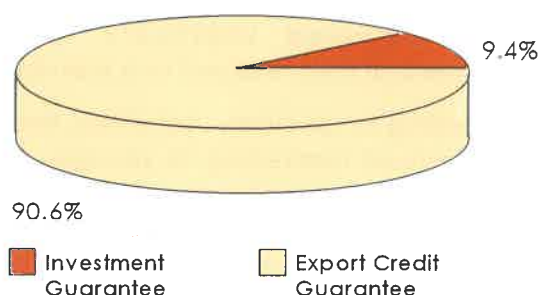
#### 2.1.1 Value of Contracts in 1996:

The value of contracts signed in 1996 amounted to US\$ 64,089,355 (KD 19,251,801)\*, one of which is a loan guarantee contract, valued at US\$ 6 m. (KD 1,802,340) or 9.4% of the total, and twenty two export credit guarantee contracts valued at US\$ 58,089,355 (KD 17,449,465) or 90.6% of the total (see table 1).

The contracts' value has increased by 1.5% as compared with 1995 whereby the contracts' value reached US\$ 63,146,159.

Fourteen recipient/importing Arab countries have benefited from the contracts signed during the year. Saudi Arabia heads the list with 33.4%, followed by Lebanon with 18.1%, Sudan 16.7%, Algeria 11.4% and Jordan 10.1%.

**% of Guarantees by kind**



#### 2.1.2 Details of Contracts Signed:

##### 2.1.2.1 Investment Guarantee

###### Contracts:

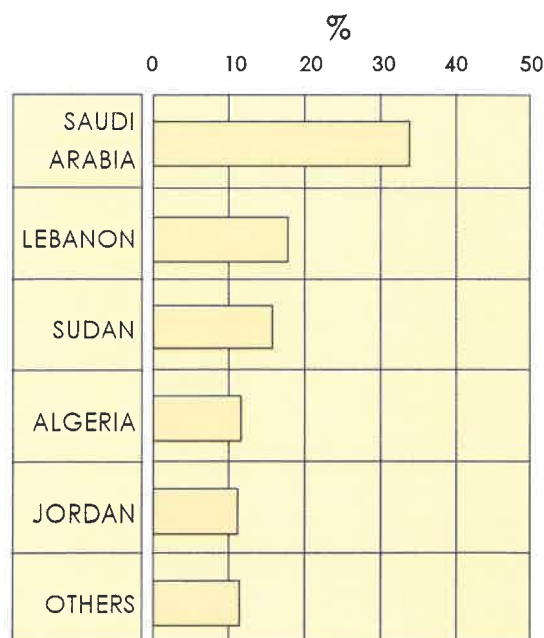
A contract to cover a loan extended by a Libyan bank to a real-estate company in Lebanon against non-commercial risks. The value of the contract is US\$ 6 m. (KD1,802,340).

##### 2.1.2.2 Export Credit Guarantee

###### Contracts:

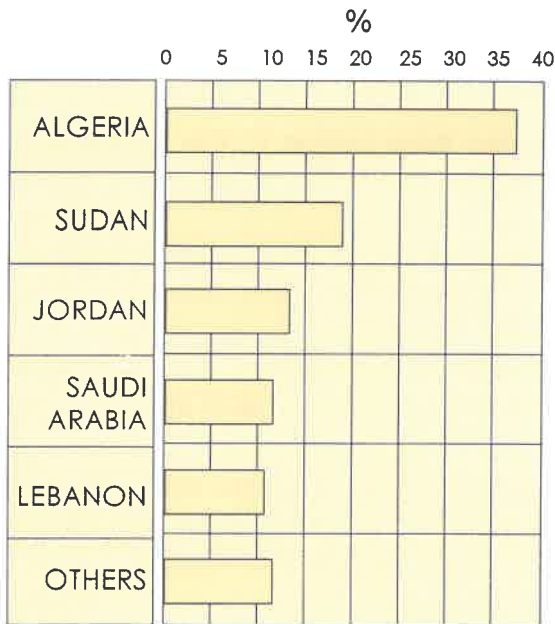
The total value of the export credit guarantee contracts reached US\$ 58,089,355 (KD 17,449,465). Fourteen Arab importing countries benefited from these contracts. Saudi Arabia comes first with 36.9%, followed by Sudan with 18.4%, Algeria 12.6%, Jord-

**Guarantee Contracts  
by Host/Importing Countries**

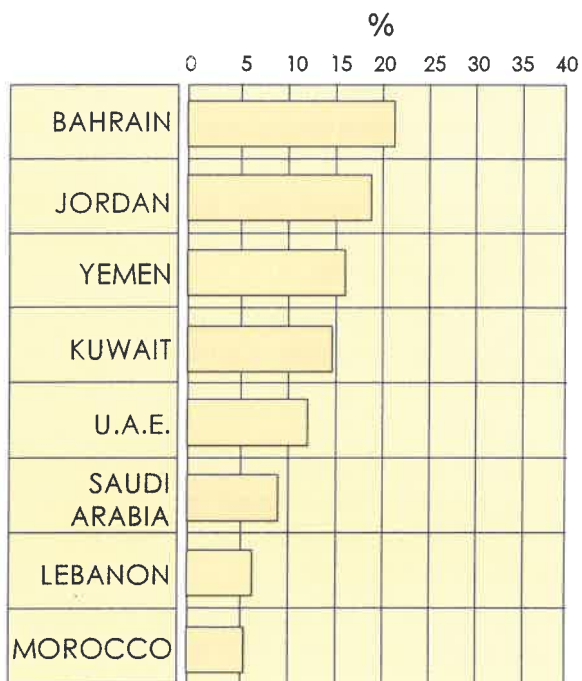


\* US\$ 1 = KD 0.30039 as at 31/12/1996 .

**Export Credit Guarantees by Importing Countries**



**Export Credit Guarantees by Exporting Countries**



an 11.2%, Lebanon 9.6% and nine other countries with 11.3% (see table 1).

Eight Arab exporting countries benefited from the contracts, of which Bahrain comes first with 20.7%, followed by Jordan with 18.6%, Yemen 15.5%, Kuwait 14%, the United Arab Emirates 12%, Saudi Arabia 8%, Lebanon 6.1% and Morocco 5.1%.

**Details of the contracts are as follows:**

- \* A comprehensive contract to cover the export of insulating materials from Kuwait to several importers in five Arab countries against commercial and non-commercial risks. The value of the contract is US\$ 4,880,322 (KD 1,466,000).
- \* A contract to cover the export of wood products from Kuwait to Lebanon against non-commercial risks. The value of the contract is US\$ 3,250,000 (KD 976,268).
- \* A contract to cover the export of textiles and carpets from Morocco to Saudi Arabia against commercial and non-commercial risks. The value of the contract is US\$ 2,986,541 (KD 897,127).
- \* A contract to cover the export of auto paints from Jordan to Saudi Arabia against commercial and non-commercial risks. The value of the contract is US\$ 200,000 (KD 60,078).
- \* A contract to cover the export of auto paints from Jordan to Saudi Arabia against commercial and non-commercial risks. The value of the contract is US\$ 300,000 (KD 90,117).
- \* A letter of credit guarantee contract to cover the export of green houses from Jordan to Lebanon against commercial and non-commercial risks. The value of the contract is US\$ 1,450,000 (KD 435,566).

- \* A letter of credit guarantee contract to cover the export of green houses from Jordan to Lebanon against commercial and non-commercial risks. The value of the contract is US\$ 800,000 (KD 240,312).
- \* A letter of credit guarantee contract to cover the export of pharmaceutical goods from Jordan to Yemen against commercial and non-commercial risks. The value of the contract is US\$ 1,355,709 (KD 407,241).
- \* A contract to cover the export of cosmetics from Jordan to the United Arab Emirates against commercial and non-commercial risks. The value of the contract is US\$ 408,486 (KD 122,705).
- \* A comprehensive contract to cover the export of paints from Jordan to several importers in three Arab countries against commercial and non-commercial risks. The value of the contract is US\$ 250,000 (KD 75,098).
- \* A contract to cover the export of pharmaceutical products from Jordan to Algeria against commercial and non-commercial risks. The value of the contract is US\$ 5,000,000 (KD 1,501,950).
- \* A comprehensive contract to cover the export of fertilizers and chemical compounds from Jordan to several importers in two Arab countries against commercial and non-commercial risks. The value of the contract is US\$ 946,000 (KD 284,168).
- \* A contract to cover the export of electrical appliances from Jordan to Lebanon against commercial and non-commercial risks. The value of the contract is US\$ 100,000 (KD 30,039).
- \* A buyer credit guarantee contract to cover the facilities extended by a Bahraini financial institution to a Saudi importer to finance the import of aluminum rods from Bahrain against commercial and non-commercial risks. The value of the contract is US\$ 12,000,000 (KD 3,604,680).
- \* A buyer credit guarantee contract to cover the facilities extended by a Bahraini financial institution to a Sudanese importer to finance the import of oil products from Yemen against commercial and non-commercial risks. The value of the contract is US\$ 9,000,000 (KD 2,703,510).
- \* A comprehensive contract to cover the export of ceramic tiles from Lebanon to several importers in Saudi Arabia against commercial and non-commercial risks. The value of the contract is US\$2,500,000 (KD 750,975).
- \* A comprehensive contract to cover the export of pharmaceuticals and cosmetics from Lebanon to several importers in seven Arab countries against commercial and non-commercial risks. The value of the contract is US\$ 1,050,000 (KD 315,411).
- \* A buyer credit guarantee contract to cover the facilities extended by a Lebanese bank to a Jordanian importer to finance the import of aluminum rods from the United Arab Emirates against commercial and non-commercial risks. The value of the contract is US\$ 6,400,000 (KD 1,922,496).
- \* A contract to cover the export of telephone cables from Saudi Arabia to Algeria against non-commercial risks. The value of the contract is US\$ 2,329,034 (KD 699,619).

- \* A comprehensive contract to cover the export of internal and external lighting fixtures from Saudi Arabia to several importers in five Arab countries against commercial and non-commercial risks. The value of the contract is US\$ 825,000 (KD 247,832).
- \* A contract to cover the export of oil products from Saudi Arabia to Sudan against commercial and non-commercial risks. The value of the contract is US\$ 1,500,000 (KD 450,585).
- \* A comprehensive contract to cover the export of packaging materials from the United Arab Emirates to several importers in four Arab countries against commercial and non-commercial risks. The value of the contract is US\$ 558,263 (KD 167,697).

### **2.1.3 Value of Current Contracts and Outstanding Commitments\*:**

The value of the current guarantee contracts as at 31/12/1996 amounted to US\$ 116,716,537 (KD 35,060,483), 30.8% of which represents investment guarantee, and the remaining 69.2% for export credit guarantee.

The value of executed operations (within the current guarantee contracts) amounted to US\$ 77,675,144 (KD 23,332,837) or 66.6% of the current guarantee contracts. This amount represents the outstanding guarantee commitments vis-à-vis the guaranteed parties as at 31/12/1996 (see table 3).

### **2.1.4 Revenues from Premia:**

The total guarantee premia realized during the year amounted to US\$ 1,287,826 (KD 386,586), decreasing by 4.1% compared to last year's premia which amounted to US\$ 1,342,655 (KD 401,449).

### **2.1.5 Compensation and Recoveries:**

#### **2.1.5.1 Compensation:**

No compensation has been paid during 1996.

#### **2.1.5.2 Recoveries:**

The Corporation has on 21/5/1996, recovered the amount of US\$ 475,277 from one of the member countries. This represents the amount paid by the Corporation to an Arab investment company on 4/6/1993 as compensation for an expropriation risk realized in that country.

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\* 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.
- Such commitments do not constitute compensation unless any of the risks covered is realized.

## **2.2 Reinsurance:**

### **2.2.1 Recovering Reinsurer's Share in Claims Paid by the Corporation:**

The Corporation has continued its efforts to recover amounts due from reinsurers members in the 'Non-Commercial Risks Reinsurance Treaty'. This has resulted in the recovery of US\$ 445,991 (KD 133,971) during the year, with a pledge from several reinsurers to settle their dues.

### **2.2.2 Outgoing Reinsurance:**

#### **2.2.2.1 Commercial Risks Reinsurance Treaty:**

The Corporation renewed this treaty for the year 1997 with a 73% placement.

#### **2.2.2.2 Reinsurance Treaty with the Lebanese Investment Guarantee Establishment:**

This treaty which avails the Corporation of reinsuring the non-commercial risks that may occur to direct investment projects in Lebanon, with the Establishment, is still valid.

## **2.3 Marketing the Guarantee Services:**

The Corporation's continued effort to market its guarantee services in the various Arab countries included:

**2.3.1 Mailing:** Conducting two mailing campaigns during March and July. Informative brochures were sent to parties interested in investment project and trade finance, and exporters in all Arab countries based on updated mailing lists.

**2.3.2 Advertising:** An advertising campaign was launched in mid March and lasted till the end of May. The campaign consisted of placing 36 ads. in the economic sections of five Arab dailies.

**2.3.3 Field visits:** During the year, field missions were sent to seven Arab countries namely Jordan, the United Arab Emirates, Tunisia, Libya, Lebanon, Egypt and Morocco where two seminars were held in Tangiers and Rabat. The Corporation also sent a marketing delegation to the Eleventh Joint Exhibition for G.C.C. Countries organized in Bahrain. Promotional activities in Kuwait, the seat of the Corporation, and in Saudi Arabia through the Corporation's regional office in Riyadh, were closely pursued.

**2.3.4 Conferences:** The Corporation participated in a number of Arab meetings and conferences related to investment, finance and trade, to present the range of services it offers.

**2.3.5 Commission Agents:** The Corporation signed three commission agency agreements, making their number reach twenty six in ten Arab countries.

## **2.4 Development of Guarantee Services:**

**2.4.1** The Corporation has, during the year, issued a new contract for the guarantee of letters of credit, issued by the importer's bank in favour of the exporter, against commercial and non-commercial risks. The new contract has been well received by Arab exporters, with whom three contracts have been signed during the year , totaling US\$ 3,605,709 (KD 1,083,119).

**2.4.2** Due to the increasing number of inquiries about the possibilities of guaranteeing financial leasing contracts, the Corporation organized an experts meeting in Tunisia during 13-14 April 1996 . The aim of the meeting was to study and identify the types, techniques, and risks associated with such contracts , and to explore the possibilities of availing the Corporation's guarantee to this potentially growing source of project and inter-Arab trade finance. Experts from the International Finance Corporation, the Islamic Development Bank, international leasing companies, Arab leasing companies as well as representatives of some Arab guarantee agencies and other foreign experts participated in the meeting.

The Corporation is currently studying the issuance of a new contract to cover financial leasing contracts against commercial and non-commercial risks.

## **2.5 Cooperation with Arab Guarantee Agencies:**

The Corporation organized the fourth meeting of Arab Investment and Export Credit Guarantee Agencies Forum, which was held at the Corporation's headquarters in Kuwait on 9/12/1996. The main theme of the meeting was 'the basis and criteria for determining guarantee premia'. During the meeting, papers presented by member agencies, on the subject were discussed. The discussion also focused on the possibilities of convergence and coordination of premium rates and guarantee conditions adopted by various agencies. It was agreed that the next meeting will focus on 'marketing guarantee services'.

On 10/12/1996 the Corporation also organized, at its headquarters, a joint meeting between the Arab Guarantee Agencies and Credit Information Companies operating in the Arab world . The purpose of the meeting was to explore the possibilities of improving the quality of reports supplied by the said companies on the credit worthiness and commercial morality of importers, in order to further improve the assessment of their commercial risk.



Table (2)  
GEOGRAPHICAL DISTRIBUTION OF THE EXPORT CREDIT GUARANTEE CONTRACTS SIGNED IN 1996  
(VALUE IN DOLLARS, THE GRAND TOTAL IS ALSO EXPRESSED IN KD)

From To	BAHRAIN	JORDAN	LEBANON	KUWAIT	SAUDI ARABIA					U.A.E.	Total	
					MOROCCO	U.A.E.	U.S\$	KD	U.S\$		KD	
SAUDI ARABIA	12,000,000	680,000	3,000,000	2,530,044	-	2,986,541	217,859	21,414,444	6,432,685			
SUDAN	9,000,000 <sup>(1)</sup>	-	200,000	-	1,500,000	-	-	10,700,000	3,214,173			
ALGERIA	-	5,000,000	-	-	2,329,034	-	-	7,329,034	2,201,569			
JORDAN	-	-	6,500,000 <sup>(2)</sup>	-	-	-	-	6,500,000	1,952,535			
LEBANON	-	2,350,000	-	3,250,000	-	-	-	5,600,000	1,682,185			
U.A.E	-	428,486	-	882,186	200,000	-	-	1,510,672	453,791			
YEMEN	-	1,355,709	100,000	-	-	-	-	1,455,709	437,281			
BAHRAIN	-	-	50,000	565,931	120,000	-	-	735,931	221,066			
QATAR	-	50,000	-	465,074	120,000	-	108,929	735,003	220,788			
OMAN	-	-	-	446,087	135,000	-	122,546	703,633	211,365			
MOROCCO	-	491,000	-	-	-	-	-	491,000	147,491			
EGYPT	-	455,000	-	-	-	-	-	455,000	136,677			
KUWAIT	-	-	50,000	-	250,000	-	108,929	408,929	122,838			
SYRIA	-	-	50,000	-	-	-	-	50,000	15,021			
Grand Total (US\$)	21,000,000	10,810,195	9,950,000	8,130,322	4,654,034	2,986,541	558,263	58,089,355	-			
Grand Total (KD)	6,308,191	3,247,275	2,988,882	2,442,267	1,398,026	897,127	167,697	-	17,449,465			
% of Total	36.15	18.61	17.13	14.00	8.00	5.14	0.96	-	100			

(1) Buyer's Credit Guarantee Contract, exports are of Yemeni origin.

(2) Amount includes a US \$ 6.4 m. Buyer's Credit Guarantee Contract, exports of which are of UAE origin.



Table (3)  
 VALUE OF CURRENT CONTRACTS AND OUTSTANDING COMMITMENTS AS AT 31.12.1996  
 IN US DOLLARS AND ITS EQUIVALENT IN KD<sup>(1)</sup> (BY HOST/IMPORTING COUNTRIES AND TYPE OF CONTRACT)

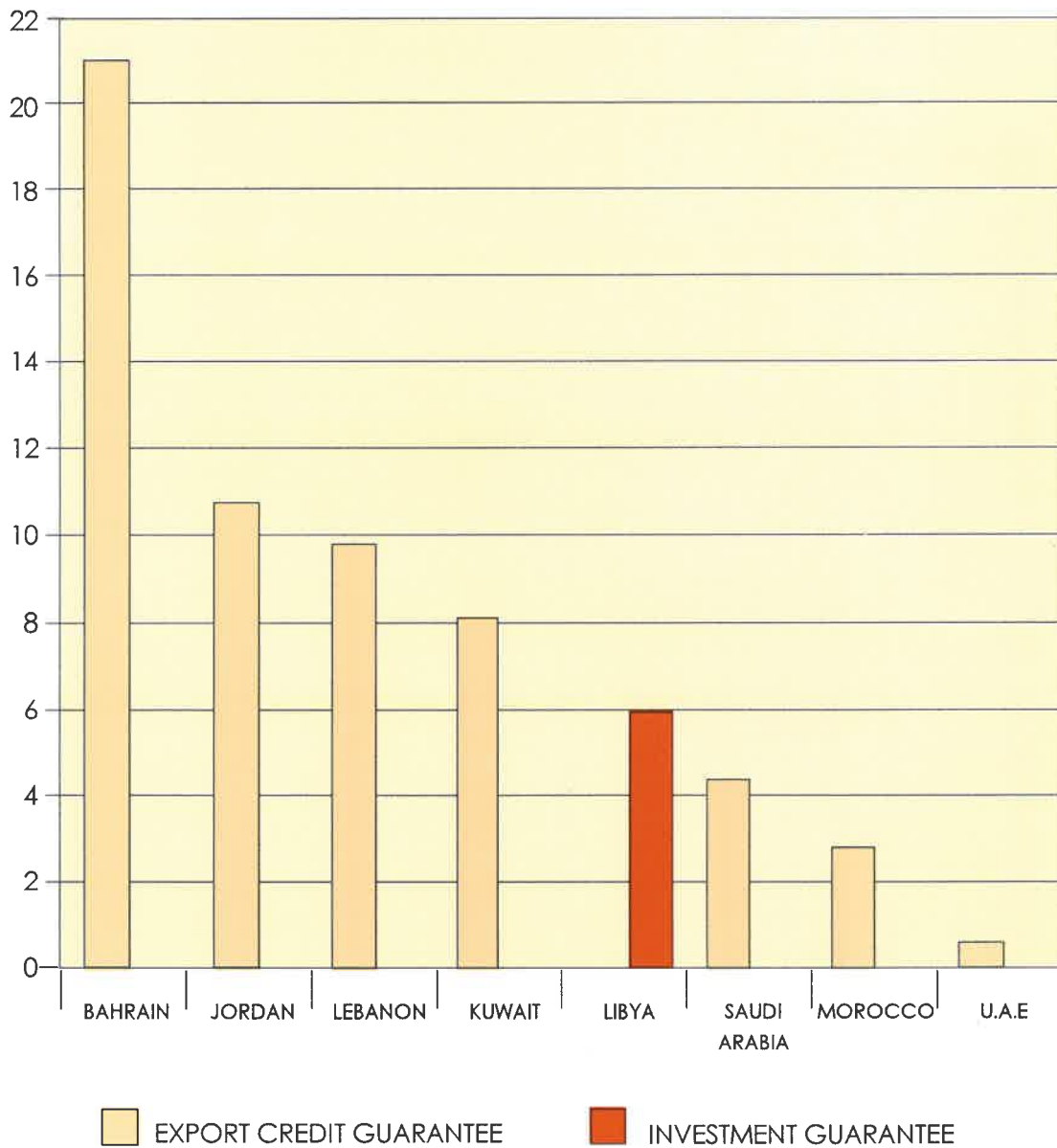
Host/Importing Countries	Investment Contracts (2)		Export Credit Contracts		Total		% To Total	Outstanding Commitments (3)	
	US \$	KD	US \$	KD	US \$	KD		US \$	KD
JORDAN	-	-	6,500,000	1,952,535	6,500,000	1,952,535	5.57	1,671,793	502,190
U.A.E.	-	-	1,607,591	482,905	1,607,591	482,905	1.38	-	-
BAHRAIN	-	-	615,931	185,020	615,931	185,020	0.53	-	-
ALGERIA	146,561	44,025	21,648,416	6,502,968	21,794,977	6,546,993	18.67	17,657,950	5,304,271
SAUDI ARABIA	-	-	20,375,027	6,120,454	20,375,027	6,120,454	17.46	12,484,481	3,750,214
SUDAN	-	-	16,700,000	5,016,513	16,700,000	5,016,513	14.31	14,624,400	4,393,024
SYRIA	1,468,750	441,198	50,000	15,020	1,518,750	456,218	1.30	-	-
OMAN	-	-	567,709	170,534	567,709	170,534	0.49	-	-
QATAR	-	-	614,182	184,495	614,182	184,495	0.53	-	-
KUWAIT	-	-	158,108	47,495	158,108	47,495	0.14	13,476	4,048
LEBANON	13,185,428	3,960,771	9,860,696	2,962,055	23,046,124	6,922,826	19.75	12,692,400	3,812,670
EGYPT	12,804,676	3,846,396	455,000	136,677	13,259,676	3,983,073	11.36	12,814,231	3,849,266
MOROCCO	3,000,000	901,170	491,000	147,491	3,491,000	1,048,661	2.99	-	-
MAURITANIA	5,397,003	1,621,206	-	-	5,397,003	1,621,206	4.62	5,397,003	1,621,206
YEMEN	-	-	1,070,459	321,555	1,070,459	321,555	0.92	319,410	95,948
Total	36,002,418	10,814,766	80,714,119	24,245,717	116,716,537	35,060,483	100	77,675,144	23,332,837

- (1) US \$ 1 = KD 0.30039  
 (2) Current contracts represent the value of the guarantee contracts, whether executed or not.  
 (3) The Outstanding Commitments represent:  
 - For Investment Guarantee Contracts: the value of investment realized.  
 - For Export Credit Guarantee Contracts: the value of shipments executed but not repaid.

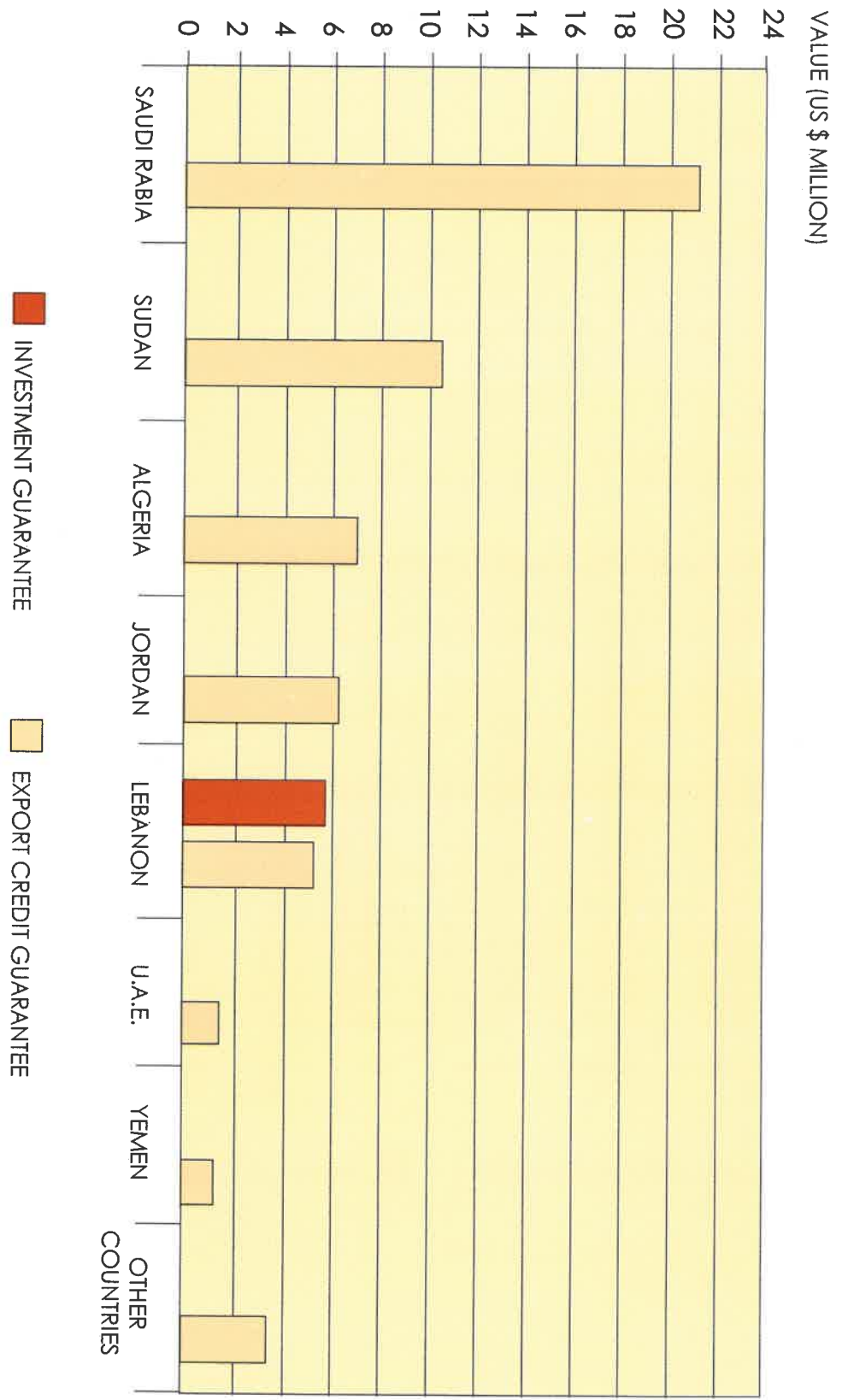
# GRAPHICS

## INVESTMENT AND EXPORT CREDIT GUARANTEE CONTRACTS SIGNED DURING 1996 (EXPORTING COUNTRIES)

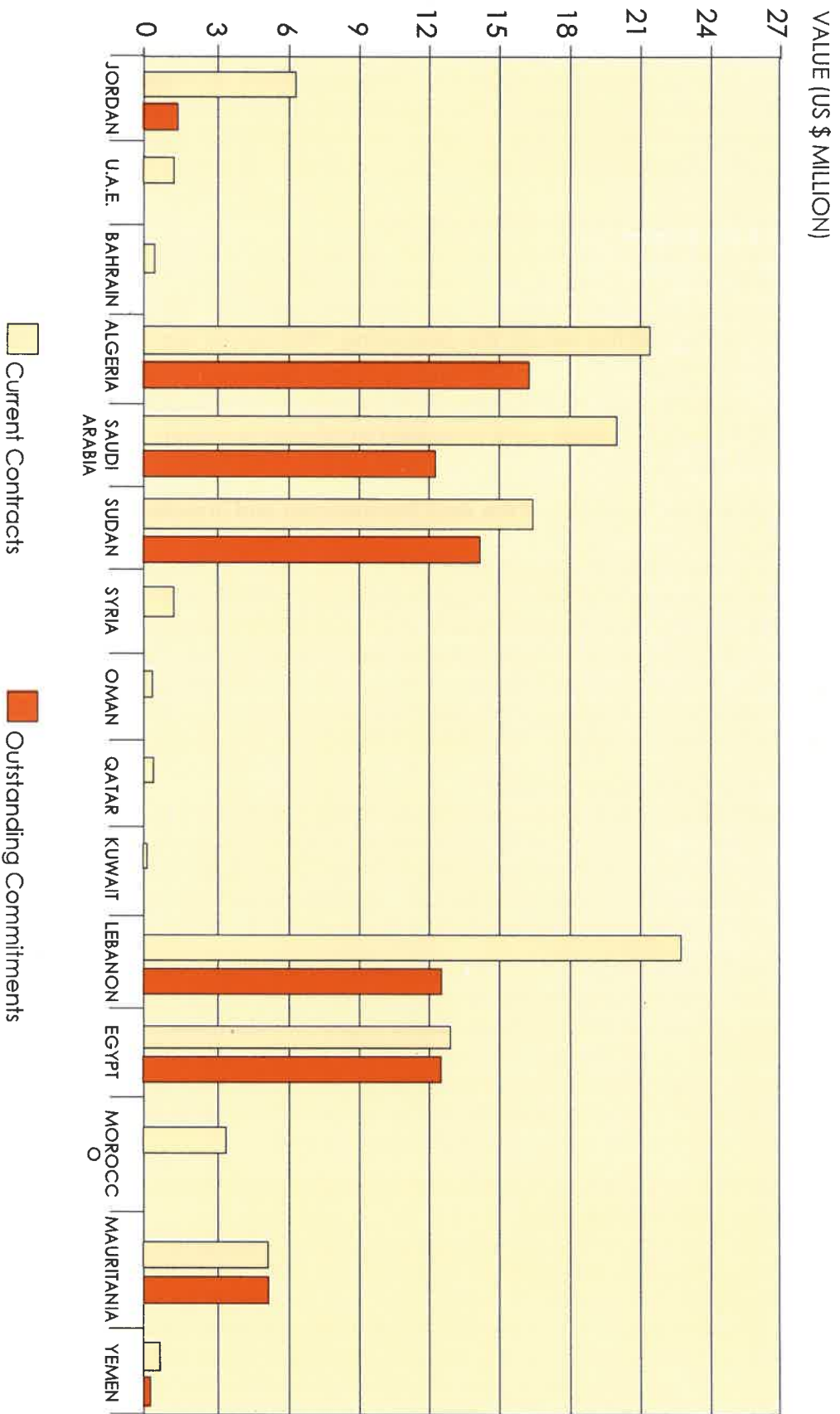
VALUE (US \$ MILLION )



## INVESTMENT AND EXPORT CREDIT GUARANTEE CONTRACTS SIGNED DURING 1996 (Host/Importing Countries)



**CURRENT CONTRACTS AND OUTSTANDING COMMITMENTS AS AT 31.12. 1996**  
( Host/Importing Countries)



## CHAPTER THREE : ANCILLARY ACTIVITIES

Ancillary activities are mainly information generating efforts undertaken by the Corporation in support of its operational programs. Central to these activities is the research conducted, as well as sponsored, in the specialized areas of investment climate including macro-economic policies. The activities also include efforts directed towards the identification and promotion of investment opportunities in the Arab countries.

### **3.1 Specialized Reports and Contributed Papers:**

During 1996 the Corporation produced one report, namely:

- The 1995 Annual Report on "Investment Climate in the Arab Countries" :

The report is an outcome of efforts to improve and upgrade both the methodology and information content of the report. The preceding 1994 report was the first in this recently adopted concept.

In the meantime, seven papers were written and presented to specialized meetings held in the region. Two other papers were prepared as reference papers. Below is a list of the aforesaid contributions:

#### **a) "Towards an Objective Evaluation of the Arab Businessmen and Investors Conferences" :**

The paper aimed at reviewing the experience of the past Arab Businessmen and Investors Conferences through analysing the main themes, resolutions and recommendations and other indicators. The paper suggested a number of indicators whereby the conferences can be evaluated in a systematic manner. These include " set of organizational indicators" , set of objective indicators" and "set of investment indicators". The paper was presented to the meeting of the steering committee of the Arab Businessmen and Investors Conference held in Cairo on 1/10/1996.

#### **b) "Investment Trends in the Arab Countries":**

The paper is a preliminary trial to survey investment trends in the Arab countries, based on analysing a random sample of Arab investors. It concentrated on the five most important aspects in investment, namely, the basic information about the investor and the project, the investor's investment policy, the inducing motives for investment, information about the host country, and investment obstacles.

The study revealed that, as regards the nature of investment activity, the services sector is ranked the first, followed by the industrial sector. As for future activity preference and the number of projects financed, the industrial sector comes in the first rank.

On the other hand, the study stressed that results of the sample surveyed showed that Arab investors prefer large and medium sized projects. As regards countries more preferred, the study revealed that Arab investors prefer to invest in Maghrib states, GCC states, Sham region, and the Nile valley countries consecutively.

#### **c) "Investment Climate in the Arab Countries and its Development Prospects to Attract Investment in the Industrial Sector":**

The study dealt with the industrial sector (manufacturing and extraction ) in the Arab countries and its contribution to the Arab and country GDP. It also dealt with the concept of foreign direct investment as the stimulator of economic growth, observing the vigorous world competition for foreign investments on the one hand and the big surge in investment opportunities on the other. The paper also reviewed all the political economic and legislative aspects of investment climate in the Arab countries,

in addition to inter-Arab investment flows. The paper was presented to the "Experts Meeting on Investment Climate in the Arab Countries" held in Rabat during 23-24/10/1996.

**d) "Investment Climate and IAIGC Experience in Project Promotion":**

The paper aimed at shedding light on three topics: the first is the annual report on Investment Climate in the Arab countries prepared by IAIGC and the recent economic and legislative developments in the Arab countries. The second topic dealt with dairy production and manufacturing and food security and its latest developments. The third topic was IAIGC experience in project promotion. The paper was presented to the "Symposium of Businessmen and Executives in the Dairy Manufacturing Sector" held in Damascus during 21-23/12/1996.

**e) "The Role of IAIGC in Encouraging Inter-Arab Investment and Trade" :**

The study reviewed guarantee services rendered by IAIGC to businessmen, investors and exporters in the process of encouraging inter-Arab capital and investment flow, as well as enhancing inter-Arab trade. The study also tackled investment guarantee against non-commercial risks as well as exports guarantees against commercial and non-commercial risks. The paper was presented to the conference on "Electricity in the Middle East and North Africa" held in Manama during 21-22/5/1996.

**f) "IAIGC and its Role in Encouraging Investment Among the Arab Countries and Development of Inter-Arab Trade":**

The paper reviewed the importance of the guarantee services by the Corporation in encouraging the Arab investor to invest in the Arab countries. It also stressed the role of guarantees in enabling the Arab exporter increase his exports to Arab markets. The paper was presented to the workshop on "Means of Encouraging Private Foreign Investment in GCC Countries" held in Doha during 21-22/12/1996.

**g) "IAIGC Investment Promotion Efforts":**

The paper reviewed the Corporation's efforts in the field of promotion since its establishment to the end of 1995. These were classified under eleven types of promotion. The paper also reviewed different kinds of promotion services which can be rendered by the Corporation. More details of these efforts were mentioned in (14) annexes.

**h) "Investment Guarantee: Its Importance and Practical Aspects":**

The paper stressed that the importance of investment guarantee against non commercial risks stems from the fact that such risks are beyond the investor's control. It also reviewed the guarantee agencies which render such services, quoting IAIGC as one of them. The paper also explained the Arabic system for investment guarantee pointing the kinds of investments and investors eligible for guarantee, the types of guarantee contracts, the nature of risks covered, guarantee installments and compensation operations. The paper also dealt with the Corporation's financial resources and guarantee operations ceilings as well as guarantee procedures and the Corporation's experience in this field.

The paper was presented to the Sixth Annual Conference of the Arab Academy for Banking and Financial Sciences on "The Role of Banks and Financial Institutions in Investment" held in Cairo during 2-4/12/1996.

### **i) "Information Series on Recent International Economic Developments":**

Over the past few years, the world economy witnessed fundamental transformations towards globalization, market mechanism and resource appropriation. Accordingly, the size and direction of foreign direct investment changed drastically. In an attempt to study and evaluate these changes a number of specialized reports were published during the past decade. The Corporation introduced a series of memoranda in an effort to review and analyse the results of these reports. The following recapitulations were issued during 1996:-

- "Economic Freedom in the World 1975-1995": Canadian Frazer Institute.
- "The World Competitiveness Report 1994": World Economic Forum.
- "For a Better Future: Choosing Prosperity in the Middle East and North Africa": The World Bank.
- " FT 500 Biggest Companies" : Financial Times Supplement.
- "Prospects of Arab Cooperation in Industrial Development": Arab Industrial Development and Mining Organization (AIDAMO).
- "Arab Food Security Situations": Arab Agricultural Development Organization.
- "Investment Systems in Algeria": The Algerian Government.
- "Secretary General's 22nd Annual Report-Organization of Arab Petroleum Exporting Countries 1995": OAPEC.
- "World Investment Report 1996": UNCTAD.
- "World Investment till the Year 2000": Ministry of Economic Affairs Investment Studies Centre, France.

### **3.2 Investment Encouragement and Projects Promotion:**

Activities by IAIGC in this aspect included the following :-

- "Experts Group Meeting on Issues Related to incentives to foreign Direct Investment". The Corporation continued its efforts to organize the meeting at Hammamat, Tunisia during 24-25/3/1997.
- The Corporation participated in the first preparatory meeting of the Seventh Arab Businessmen and Investors Conference held in the League of Arab States premises. The meeting discussed all the related organizational and technical issues.
- Within its efforts to furnish up-to-date information about investment opportunities in the Arab countries, The Corporation began a genuine work to collect, and up-date the necessary information available about investment projects. In the Arab states 1343 projects from (16) countries were identified, and the Corporation intends to contact the parties concerned to up-date the information about these projects in order to present them to the potential investors.
- Likewise, the Corporation started an in-depth effort to up-date and review all information concerning Arab businessmen. In this context , the names of (1150) investment companies and businessmen and (318) financial institutions were enumerated.
- As regards projects promotion, the Corporation promoted for (29) investment projects through its "Investment Guarantee" newsletter which is distributed among all interested investors in the Arab countries.

### 3.3 Cooperation with Arab and International Organizations:

Every year, the Corporation participates in a number of Arab regional and international conferences and meetings which are related to its activities. These conferences and meetings can be categorized according to their nature. Generally speaking, meetings which bring together exporters, investors and businessmen are of special interest to the Corporation because they avail it the opportunity to introduce its services to the conferees. Moreover, the Corporation participates, in its capacity as an Arab economic organization, in other specialized Arab and international meetings such as the regular meetings of the Arab Economic and Social Council of the League of Arab States, the annual meetings of the IMF and the World Bank and the Islamic Development Bank .

A record of the meetings attended by the Corporation during the year is given below:-

Conference or Workshop	Place	Date
<b>1. Meetings related to IAIGC Services:</b>		
- Workshop on "Arab Exports Guarantees...."	Manama (Bahrain)	17-18/6/1996
- Electricity in the Middle East and North Africa Conference"	Manama (Bahrain)	21-22/5/1996
- "Iron and Steel Fifth International Conference"	Cairo (Egypt)	20-22/10/1996
- Workshop on "Means of Encouraging Private Foreign Investment in GCC Countries"	Doha (Qatar)	21-22/12/1996
- Symposium of Businessmen and Executives in the Dairy Manufacturing Sector"	Damascus (Syria)	21-23/12/1996
<b>2. Meetings on Sector and Project Promotion:</b>		
- Workshop on Industrial Sector Development Strategy"	Kuwait	11/1/1996
- Conference on "Promotion of Industrial Investment in GCC States"	Manama (Bahrain)	22/4/1996
- The Twenty First Conference of the Arab Insurance Federation"	Amman (Jordan)	14-16/5/1996
- Workshop on "Private Financing of Infrastructure in the Middle East and North Africa"	Washington (USA)	10-14/6/1996



Conference or Workshop	Place	Date
- ICC Third Private Sector Symposium	Djakart (Indonesia)	21-23/10/1996
<b>3. Country Promotion:</b>		
- Workshop on "Industrial Investment Opportunities in U.A.E"	Dubai (U.A.E.)	27-29/5/1996
- "The Second Conference on the Arab Capital Markets "	Beirut (Lebanon)	24-29/6/1996
- Workshop on "Investment Opportunities Under Economic Reform in Egypt"	Kuwait	16/9/1996
- "The Second National Economic Conference"	Khartoum (Sudan)	21-24/10/1996
- Workshop on "Investment Climate and Horizon of Investment and Partnership in Tunisia"	Kuwait	22/12/1996
<b>4. Economic Issues:</b>		
- Seminar on "The Expected Effects of the Peace Treaties on the Economies of the GCC"	Kuwait	16/1/1996
- Workshop on "GCC Economies Facing the Challenges of an Era of Regional and International Economic Blocks"	Dammam ( Saudi Arabia)	5-6/3/1996
- Symposium on "Investment Climate in the Arab Countries"	Rabat (Morocco)	23-24/10/1996
- Workshop on "Structural Adjustment Programs and Their Impact on Human Development"	Kuwait	17-18/11/1996
- Seminar on "Inter-Arab Transit Treaty"	Cairo (Egypt)	18-19/11/1996
- Conference on "Arab Banks and Economic Reform: Reconstruction and Development"	Beirut (Lebanon)	19-20/11/1996
- The Sixth Conference on "The Role of Banks and Financial Institutions in Investment"	Cairo (Egypt)	2-4/12/1996
- Workshop on "Privatization Program: Performance and Prospects"	Kuwait	17/12/1996
<b>5. Meetings in the Context of the League of Arab States:</b>		
- "Meeting of the Steering Committee		

Conference or Workshop	Place	Date
of the Arab Businessmen and Investors Conference"	Cairo (Egypt)	10/1/1996
- "The 27th Meeting of the Higher Coordination Committee of the Joint Arab work	Cairo (Egypt)	16-17/6/1996
- "Meeting of the Preparatory Committee of the 7th Arab Businessmen and investors Conference"	Cairo (Egypt)	12/9/1996
- "The 58th Meeting of the Arab Economic and Social Council"	Alexandria (Egypt)	14-19/9/1996
- Coordination Meeting for the Workshop on "Investment and Trade Treaties and their Impact on Arab Economic Integration"	Cairo (Egypt)	16/10/1996
<b>6. International Organizations Meetings:</b>		
- "IMF/ World Bank Annual Meetings"	Washington, D.C. (USA)	1-3/10/1996
- "Annual Meeting of the Islamic Development Bank"	Conakry (Guinea)	26-27/11/1996

### 3.4 Media :

During 1996, media activity was characterized by intense concentration on recent developments in the field of investment both in the Arab countries and globally with the aim of introducing these developments to the Arab countries and Arab-joint institutions, and reflecting how they react and adjust to those developments. This was undertaken through publishing in the 'Investment Guarantee' Newsletter, press interviews and other newsletters, where different activities in which the Corporation participated were thoroughly covered. Services rendered by the Corporation were fully explained during all of those activities.

### 3.5 Information and Documentation

#### 3.5.1 Computerization

Many computer applications have been developed covering several activities, e.g. investments, field visits, guarantee operations, risk analysis and investment promotion.

The internal network has been expanded to include all employees. Various

applications and software -including training packages- have been loaded to meet staff's requirements and business objectives.

A contract was signed with the Regional Information Technology and Software Engineering Center (RITSEC) to study all the financial and technical aspects of the Arab Investment Network Project.

### **3.5.2 The Library**

The stock of books at the end of 1996 in the library reached (7010) titles (Arabic, English and French), including (288) new titles which have been accessioned during the year, in addition to documents and papers of (25) Arab and international conferences. Annual reports of (201) international and Arab organizations, banks and companies were added to the library collection.

Further, twenty new periodical titles have been subscribed to during the year, bringing the total to (108) periodicals covering various aspects of economic activities relevant to the Corporation's work. The year also saw the publication of the fifteenth issue of the "Index to Selected Arabic Periodical Articles" covering the period January -December 1995. The sixteenth issue for 1996 will be issued early in 1997.

### **3.6 Training :**

In pursuance to its efforts to enhance the performance of its employees, the Corporation enrolled thirty three staff members in thirty two training courses most of which were held in Kuwait. Some of the participants attended more than one course .

The courses encompassed various fields among which were computer and information training which included 10 courses; English language courses attended by 16 staff members in Kuwait, and a senior members of staff attended an advanced course in England. Other topics covered were: Leasing; International Intellectual Property Law; Foreign Trade Financing with emphasis on the innovations in Documentary Credit and Collections; Contemporary Banking Issues; Credit Analysis; Foreign Trade Financing; Managed Portfolios and Mutual Funds; International Banking Settlement Procedures; Work Methods; Financial Reports; Cedel Operations; Banking and Country Risk Analysis.

## CHAPTER FOUR : FINANCIAL REPORT

The paid-up capital of the Corporation increased from KD. 24,333,531 (US\$ 81,111,770) as at 31/12/1995 to KD. 24,415,340 (US\$ 81,278,804) as at 31/12/1996 i.e. an increase of KD. 81,809 (US\$ 272,343) representing the last capital instalment paid by the Islamic Republic of Mauritania and a payment of part of the capital instalments of the Republic of the Sudan.

The revenue for 1996 amounted to KD. 3,772,951 (US\$ 12,560,175) compared with KD. 4,349,582 (US\$ 14,498,606) for i.e. a decrease of KD. 576,631 (US\$ 1,919,608) at a decline rate of 13.25% . The decrease in income resulted from a reduced return on investment portfolios for 1996 and from a small loss due to fluctuations in currencies. The 1996 revenue is composed of KD. 3,377,534 (US\$ 11,243,830) realized from the Corporation's investment of its financial resources, while the balance of KD. 395,417 (US\$ 1,316,345) represents a net return from the Corporation's guarantee services and other revenues.

Total expenditure for 1996 amounted to KD. 1,706,036 (US\$ 5,679,403) compared with KD. 1,581,797 (US\$ 5,272,656) in 1995, i.e. an increase of KD. 124,239 (US\$ 413,592) at a rate of 7.8%, due mostly to the payment of KD. 182,578 as arbitration's fees in 1996.

The balance sheet for the year ended 31st December 1996, showed that the value of the Corporation's total resources is KD. 62,863,563 (US\$ 209,273,155) of which KD. 36,074,040 (US\$ 120,090,682) are financial resources and KD. 26,789,523 (US\$ 89,182,472) are in promissory notes and recoverable claims.

The net revenue transferred to the general reserve for the current year amounted to KD. 2,066,915 (US\$ 6,880,772).

The accumulated general reserve at the end of 1996 reached KD. 43,070,716 (US\$ 143,382,650) compared with KD. 41,003,801 (US\$ 136,679,336) for the year 1995 i.e. an increase of 5%.



## AUDITOR'S REPORT

The Chairman and Members of the Council  
The Inter-Arab Investment Guarantee Corporation  
An Arab Corporation with a Special Independent Legal Status  
Kuwait

We have audited the Balance Sheets of THE INTER-ARAB INVESTMENT GUARANTEE CORPORATION (An Arab Corporation with a Special Independent Legal Status) - Kuwait as of December 31, 1996 and 1995 and the related Statements of Revenues and Expenditures, Shareholders' Equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As shown in the accompanying Notes (6) and (8), the financial statements include assets in the aggregate amount of U.S. Dollars 114,342,590 (equivalent to KD. 34,347,371 at the rate of exchange prevailing as of December 31, 1996) due mainly from two of the member countries on promissory notes and recoverable claims in addition to related interest accrued thereon up to December 31, 1996 which was recorded to income and included in the statements of revenues and expenditures. The payment of such amounts and related interest has not been effected except for an amount equivalent to KD.1,228,000 which is being contested by the member country. Management of the corporation continues to believe that such amount will be recovered in the future.

In our opinion, except for the effect of the preceding matter on the financial statements, such financial statements present fairly, in all material respects, the financial position of The Inter-Arab Investment Guarantee Corporation as of December 31, 1996 and 1995, the results of its operations and its cash flows for the years then ended, in conformity with the accounting policies referred to in Note (2) of the notes to the financial statements which have been applied on a basis consistent with that of the preceding year.

We are also of the opinion that proper books of account were kept by the Corporation and we obtained all the information necessary for the satisfactory performance of our assignment. We further believe, according to the information given to us, that no contraventions of the Corporation's convention occurred during the years ended December 31, 1996 or 1995 which would materially affect the Corporation's activities or its financial position.

**Jassim Ahmad A. Al-Fahad**  
License NO.53-A  
Kuwait  
February 2, 1997

## BALANCE SHEETS AS OF DECEMBER 31, 1996 AND 1995

<b>ASSETS</b>	<b>DECEMBER 31,</b>	
	<b>1996</b>	<b>1995</b>
	<b>KD</b>	<b>KD</b>
Cash and cash equivalents (Note 3)	6,531,049	10,844,013
Investment in bonds	953,451	642,251
Investment portfolios (Note 4)	22,454,524	17,808,178
Assets acquired in settlement of debt	75,000	75,000
Other deposits (Note 5)	398,781	398,781
Promissory notes receivable (Note 6)	3,871,878	3,866,851
Investment in Arab Trade Finance Program (Note 7)	375,488	375,000
Recoverable claims (Note 8)	22,917,645	23,030,473
Accrued interest	7,903,581	6,596,400
Accounts receivable-re-insurance claims (Note 9)	4,963,605	4,991,249
Share of the joint building (Note 10)	1,358,412	1,395,126
Accounts receivable and other debit accounts	66,331	95,258
Restricted assets (Notes 11 and 16)	5,285,747	4,938,242
<b>TOTAL ASSETS</b>	<b>77,155,492</b>	<b>75,056,822</b>
Investments of provident and social security fund (Note 17)	1,261,718	1,117,967
<b>TOTAL BALANCE SHEETS</b>	<b>78,417,210</b>	<b>76,174,789</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE BALANCE SHEETS

	<b>DECEMBER 31,</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1996</b>	<b>1995</b>
<b>LIABILITIES:</b>	<b>KD</b>	<b>KD</b>
Accounts payable and other credit		
accounts (Note 12)	1,843,151	1,893,205
Re-insurance claims payable (Note 9)	7,676,285	7,676,285
Provision for contingencies	150,000	150,000
Total liabilities	9,669,436	9,719,490
<b>SHAREHOLDERS' EQUITY:</b>		
Capital issued (Note 13)		
(KD.25,283,735)		
Called-up capital	24,783,735	24,783,735
Less: Unpaid capital	(368,395)	(450,204)
Paid-up capital	24,415,340	24,333,531
General reserve (Notes 6,8 and 15)	43,070,716	41,003,801
Total shareholders' equity	67,486,056	65,337,332
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>77,155,492</b>	<b>75,056,822</b>
Payable to participants of the provident and		
social security fund (Note 17)	1,261,718	1,117,967
<b>TOTAL BALANCE SHEETS</b>	<b>78,417,210</b>	<b>76,174,789</b>



**STATEMENTS OF REVENUES AND EXPENDITURES  
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995**

	Year Ended December 31,	
	1996	1995
<b>REVENUES:</b>	<b>KD</b>	<b>KD</b>
Net premiums from guarantees	383,811	399,185
Interest from promissory notes and recoverable claims (Note 8)	1,339,476	1,391,897
Interest on call accounts	26,346	18,271
Interest on time deposits	427,915	518,728
Interest on bonds	332,687	331,445
Income from investment portfolios	1,279,193	1,578,263
Income from trading, redemption and unrealized appreciation on valuation of bonds	10,794	251,639
Exchange (loss) gain (Note 14)	(38,877)	100,927
Prior year's adjustments	-	(260,193)
Other	11,606	19,420
<b>TOTAL REVENUE</b>	<b>3,772,951</b>	<b>4,349,582</b>
<b>EXPENDITURES:</b>		
First Section - Salaries, wages and bonuses	890,224	849,558
Second Section - General and administrative expenses	554,024	597,394
Third Section - Capital expenditure	79,210	61,576
Fourth Section - Provision for contingencies and arbitration fees	182,578	73,269
<b>TOTAL EXPENDITURE</b>	<b>1,706,036</b>	<b>1,581,797</b>
<b>NET REVENUE</b>	<b>2,066,915</b>	<b>2,767,785</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

**STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED  
DECEMBER 31, 1996 AND 1995**

	CAPITAL ISSUED KD.	CALLED-UP CAPITAL KD.	UNPAID CAPITAL KD.	PAID-UP CAPITAL KD.	NET REVENUE KD.	GENERAL RESERVE KD.
Balance - January 1, 1995	25,283,735	24,783,735	(700,204)	24,083,531	-	38,236,016
Capital contribution received	-	-	250,000	250,000	-	-
Net revenues	-	-	-	-	2,767,785	-
Transferred to general reserve	-	-	-	-	(2,767,785)	2,767,785
Balance - December 31, 1995	25,283,735	24,783,735	(450,204)	24,333,531	-	41,003,801
Capital contribution received	-	-	81,809	81,809	-	-
Net revenues	-	-	-	-	2,066,915	-
Transferred to general reserve	-	-	-	-	(2,066,915)	2,066,915
Balance - December 31, 1996	25,283,735	24,783,735	(368,395)	24,415,340	-	43,070,716

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 1996 AND 1995**

	Year Ended December 31,	
	1996	1995
	KD	KD
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net revenues	2,066,915	2,767,785
Adjustments for:		
Depreciation	79,210	98,290
Income from investment portfolios	(1,279,193)	(1,578,263)
Unrealized appreciation on valuation of bonds	-	(232,189)
Other adjustments	(5,515)	8,767
Operating revenues before changes in operating assets and liabilities	861,417	1,064,390
<b>Changes in operating assets and liabilities:</b>		
Recoverable claims	112,828	1,153,748
Accrued interest	(1,307,181)	(1,009,213)
Accounts receivable re-insurance claims	27,644	752,845
Accounts receivable and other debit accounts	(13,569)	(23,399)
Accounts payable and other credit accounts	(41,632)	14,227
Re-insurance claims payable	-	(637,915)
Net cash flows (used in) provided by operating activities	(360,493)	1,314,683
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Decrease in investment in bonds	389,645	466,674
(Increase) decrease in investment portfolio	(3,367,153)	2,176,845
Decrease in assets acquired in settlement of debt	-	75,000
Cash and cash equivalents restricted during the year	(1,048,350)	(631,893)
Net cash flows (used in) provided by investing activities	(4,025,858)	2,086,626
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal paydowns on finance lease	(8,422)	(15,227)
Capital contribution received	81,809	250,000
Net cash flows fom financing activities	73,387	234,773
Net (decrease) increase in cash and cash equivalents	(4,312,964)	3,636,082
Cash and cash equivalents - beginning of year	10,844,013	7,207,931
Cash and cash equivalents - end of year	6,531,049	10,844,013
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:</b>		
Interest paid on finance lease	101,733	205,083
Interest received	819,243	1,251,128
<b>NON-CASH FINANCING AND INVESTING ACTIVITIES:</b>		
Restriction of certain assets during the year	347,505	4,938,242

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

# 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 between its member countries.

The majority of the Corporation's current insurance contracts are primarily a cover for risks associated with actions taken by public authorities in the host country of the insured investor or certain military actions and these contracts are not re-insured as the re-insurance agreements for non-commercial risks which previously covered investment and export credit guarantees of the Corporation expired September 30, 1993 and have not been replaced. For the commercial risks on export credit guarantees the Corporation maintained during the period from 1988 to 1993, reinsurance agreements which provided a maximum cover of US\$ 5,000,000 per importer for commercial risks on export credit guarantees insured by the Corporation. Beginning 1994 the maximum amount of cover for reinsurance was reduced from US\$5,000,000 to US\$ 500,000.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) Accounting Convention

The financial statements are prepared in accordance with the historical cost basis.

### (B) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and highly liquid investments that mature within 3 months from the date of acquisition.

### (C) Investment In Bonds

Bonds are valued at the lower of aggregate cost or market price.

### (D) Investment Portfolios

Investment portfolios managed by independent agents are valued at their market price or their net asset value. Any appreciation or depreciation in the portfolios during the year is credited or charged to current operations.

### (E) Investment In Arab Trade Finance Program

This investment is held by the Corporation for long-term objectives and is stated in the balance sheet at cost unless there has been a decline in value which is other than temporary in which case it is written down to its estimated net realizable value.

### (F) Recoverable Claims

The Corporation charges the related member countries with claim amounts at the time of payment of such claims by the Corporation to the insured parties.

### (G) Fixed Assets

Fixed assets are fully depreciated at the time of their purchase except for the amount associated with the Corporation's proportionate share of the joint building and its

furnishings which will be charged against revenues on a straight line basis over their estimated useful lives.

**(H) Revenue Recognition**

Interest, premiums from guarantees and income from portfolios are recorded on the accrual basis of accounting.

**(I) General Reserve**

Article (24) of the Corporation's convention states that "Net revenues realized from the Corporation's operations is to be accumulated to establish a reserve equal to three times the capital", after which time, the council shall decide the manner of utilization or distribution of the realized annual profits, provided that no more than 10 percent of such profits shall be distributed and that the distribution shall be made in proportion to the share of each member in the capital of the Corporation.

**(J) Translation of Foreign Currency**

The accounts of the Corporation are maintained in Kuwaiti Dinars. Assets and liabilities in foreign currencies are converted into Kuwaiti Dinars at average rates of exchange prevailing at the end of each month. Resulting unrealized gains or losses are credited or charged to current revenue. Gains or losses from foreign currency transactions during the year are also credited or charged to current revenue.

**(K) Provision for Contingencies and Other Payable Accounts**

The Corporation provides for seen and unforeseen expenditures by charging against the statement of revenues and expenditures. These amounts are included in "Provision for contingencies" and "Accounts payable and other credit accounts" under liabilities in the accompanying balance sheets.

**(L) Provident and Social Security Fund**

The net assets of the provident and social security fund which was established by the Corporation for the benefit of its employees except for the General Manager and Deputy General Manager, consist of the following:

1. A fixed percentage deducted monthly from the participating employees' salaries;
2. Staff termination indemnities provided by the corporation are calculated in accordance with the employee policy adopted by Council Resolution No. (6) of year 1981;
3. Revenues resulting from investing the amounts under (1) and (2) above;
4. Loans to participants

The fund is managed by the Corporation on behalf of its employees.

**(M) End of Service Indemnities**

The end of service indemnities for the General Manager and Deputy General Manager are calculated in accordance with Article No. (6) of the resolution made by the Arab Ministers of Finance and Economics in Abu Dhabi.

**(N) Comparative Figures**

Certain comparative figures for the year ended December 31, 1995 were reclassified to conform with current year presentation.

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, consist of the following:

	December 31,	
	1996	1995
	KD.	KD.
Current and call accounts with banks	649,634	347,182
Time deposits	5,881,415	10,496,831
	6,531,049	10,844,013

### 4. INVESTMENT PORTFOLIOS

Investment portfolios' market values amounted to KD. 22,454,524 as of December 31, 1996 (KD. 17,808,178 at December 31,1995) whereas the cost amounted to KD. 15,370,669 as of the same date (KD.13,810,267 at December 31,1995).

### 5. OTHER DEPOSITS

Other deposits represent two deposits placed in banks in two member countries and were deposited by the member countries in favor of the Corporation against partial settlement of unpaid capital. Such deposits amounted to KD.398,781 as of December 31,1996 and 1995 and cannot be currently transferred outside the two countries.

### 6. PROMISSORY NOTES RECEIVABLE

Promissory notes are composed of the following:

	U.S. Dollars
Five promissory notes of U.S. Dollars 6,444,752 each	32,223,760
Three installments collected within the period from 1988 to 1990	(19,334,256)
Balance (equivalent to KD. 3,871,878 at the rate of exchange prevailing as of December 31,1996)	
(KD.3,866,851 at December 31,1995)	12,889,504

An agreement signed between the Corporation and the representatives of the member country dated December 20,1989 states that the remaining amount of the promissory notes along with any other due amounts should be settled in equal quarterly installments of U.S. Dollars five million each starting from July 1,1990; however, no amounts of the promissory notes or installments due have been settled. The Ministry of Finance of the member country advised that these debts will be paid as soon as the reasons preventing payments are no longer valid.

## 7. 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. 375,488 at the rate of exchange prevailing as of December 31, 1996 and KD.375,000 at the rate of exchange prevailing as of December 31, 1995) which represents 250 shares of the program's capital composed of 100,000 shares at a nominal value of U.S. Dollars 5,000 each.

## 8. RECOVERABLE CLAIMS

(A) Recoverable claims as of December 31, are as follows:

	1996	1995
	U.S. Dollars	U.S. Dollars
Recoverable claims - beginning of the year	76,768,244	80,447,813
Recoverable claims paid during the year - net	-	4,094,513
Claims collected during the year	(475,277)	(7,774,082)
Recoverable claims - end of year	76,292,967	76,768,244
Total recoverable claims - equivalent to KD. at the rates of exchange prevailing at the respective year end	KD. 22,917,645	KD. 23,030,473

The above amounts represent payments made to several parties of Arab nationalities and are related to risks realized in three of the member countries.

(B) The accrued interest on promissory notes, recoverable claims and delay interest on such accounts is included in accrued interest and has not yet been collected. The details of such interest are as follows:

	1996	1995
	US.Dollars	US.Dollars
Balance - beginning of year	20,722,401	17,281,201
Interest charged for the year	4,437,718	4,482,887
	25,160,119	21,764,088
Interest collected during the year	-	(1,041,687)
Balance - end of year	25,160,119	20,722,401
Equivalent to KD. at the rates of exchange prevailing at the respective year end	KD. 7,557,848	KD. 6,216,720

## **9. ACCOUNTS RECEIVABLE - RE-INSURANCE CLAIMS AND RE-INSURANCE CLAIMS PAYABLE**

Accounts receivable - re-insurance claims represent total amounts claimed by the Corporation from re-insurance companies being their share of the compensation paid by the Corporation up to December 31, 1996.

On the other hand, re-insurance claims payable represent obligations of the Corporation that will become due to the re-insurance companies at the time of settlement of claims by the member countries that were previously paid by the Corporation. When any amounts are received from such claims, the Corporation will pay the net amount due to re-insurance companies after taking into consideration the amounts due from such companies that are included in accounts receivable - re-insurance claims.

## **10. PROPORTIONATE SHARE OF THE JOINT BUILDING OF THE ARAB ORGANIZATIONS.**

The Corporation has its offices in a building which it jointly owns with Arab organizations. The Corporation's share of the building represents 9.61% of the total cost of construction of the building and is based upon allocated space that the Corporation occupies in the building. The Corporation's share of the total costs is payable in 40 equal installments through year 2033 of KD.110,155 after which time the ownership of the building will revert to the Kuwaiti government.

In accordance with finance lease accounting, the Corporation's future minimum payments as of December 31, 1996 of KD. 4,075,735 was discounted to the present value of the Corporation's future payments of KD. 1,444,905.

The beneficial rights of use of the building are being amortized over the 40 year term of the agreement using the straight-line method. The recorded present value liability as shown in Note (12) of the notes to financial statements is also being amortized over the 40 year term of the agreement using the effective interest method.

The minimum future payments and present values of the minimum payments are:

Period	Amount KD.
From 1997 to 1999	330,465
From 2000 to 2009	1,101,550
From 2010 to 2033	2,643,720
Total minimum payments	4,075,735
Less: imputed interest	(2,630,830)
Present value of minimum payments	1,444,905

## **11. RESTRICTED ASSETS**

Restricted assets, as of December 31, include certain current and call accounts, time deposits and bonds which are restricted as disclosed in Note 16 (B) and cannot be used by the Corporation.



	1996	1995
	KD.	KD.
Current and call accounts with banks	1,253,046	216,371
Time deposits	427,197	415,522
Straight bonds	3,605,504	4,306,349
	5,285,747	4,938,242

## 12. ACCOUNTS PAYABLE AND OTHER CREDIT ACCOUNTS

	1996	1995
	KD.	KD.
Due to Arab Fund for Economic and Social Development (Note 10)	1,444,905	1,453,327
Due to re-insurance companies	72,613	84,404
Provision for staff leave	107,340	100,318
Provision for encyclopedia	65,549	93,359
Other	152,744	161,797
	1,843,151	1,893,205

## 13. CAPITAL

(A) The capital of the Corporation is open-ended and is based on an initial amount of ten million Kuwaiti Dinars according to the official exchange rates prevailing at the time of signing the convention and is divided into ten thousand nominal shares of Kuwaiti Dinars one thousand each.

The Council of the Corporation issued resolution No.2/1975 with recommendation to the member countries to increase their subscriptions in the capital to the extent of 25 million Kuwaiti Dinars. Also the shares of two member countries were reduced by the unpaid amount of their called up capital based on resolution No. 3/1993 of the Corporation's Council. Such reduction amounted to KD. 741,265. The capital of the Corporation is as follows:

	1996	1995
	KD.	KD.
Capital issued	25,283,735	25,283,735
Unpaid capital	(368,395)	(450,204)
Uncalled capital	(500,000)	(500,000)
Paid up capital	24,415,340	24,333,531

**(B) MEMBER COUNTRIES SHAREHOLDINGS:**

	CAPITAL ISSUED	CAPITAL DUE AS OF DECEMBER 31,1996	PAID -UP CAPITAL AS OF DECEMBER 31,1996
	KD.	KD.	KD.
The Hashemite Kingdom of Jordan	525,000	525,000	525,000
United Arab Emirates	1,500,000	1,500,000	1,500,000
State of Bahrain	500,000	500,000	500,000
The Republic of Tunisia	1,250,000	1,250,000	1,250,000
Peoples' Democratic Republic of			
Algeria	1,250,000	1,250,000	1,250,000
Republic of Djibouti	200,000	200,000	200,000
Kingdom of Saudi Arabia	3,750,000	3,750,000	3,750,000
Republic of Sudan	1,250,000	1,250,000	881,605
Syrian Arab Republic	500,000	500,000	500,000
Somali Democratic Republic	58,735	58,735	58,735
Republic of Iraq	500,000	500,000	500,000
Sultanate of Oman	750,000	750,000	750,000
State of Palestine	500,000	-	-
State of Qatar	2,000,000	2,000,000	2,000,000
State of Kuwait	3,000,000	3,000,000	3,000,000
Republic of Lebanon	500,000	500,000	500,000
The Socialist Peoples's Libyan Arab			
Jamahiriyah	2,500,000	2,500,000	2,500,000
Arab Republic of Egypt	1,250,000	1,250,000	1,250,000
Kingdom of Morocco	2,000,000	2,000,000	2,000,000
The Islamic Republic of Mauritania	500,000	500,000	500,000
The Republic of Yemen	1,000,000	1,000,000	1,000,000
Total	25,283,735	24,783,735	24,415,340

#### 14. EXCHANGE (LOSS) GAIN

Exchange (loss) gain resulted from the conversion of the recorded assets and liabilities at December 31, 1996 and 1995 and transactions during the years then ended denominated in currencies other than the Kuwaiti Dinars to the reporting currency. Following are the major changes by year:

	1996	1995
	KD.	KD.
Deutsche Mark	( 65,477)	90,300
U.S. Dollar	16,771	(76,901)
European Currency Unit	( 20,548)	74,404
Japanese Yen	( 57,743)	(59,983)
Canadian Dollar	( 8,244)	36,107
G. Britain Pound	110,141	10,119
Other Currencies	( 13,777)	26,881
	( 38,877)	100,927

#### 15. PROVISION FOR UNEXPIRED RISKS

Effective 1994, the Corporation stopped making any provisions for unexpired risks as it is considered that the general reserve is the basic source of meeting all the obligations resulting from commercial and non commercial risks. During the 1994 year the corporation reversed the balance of the provision which resulted in additional income of KD. 344,448. See Note (1) for explanation of insured risks.

#### 16. CONTINGENT AND UNRECORDED LIABILITIES

- (A) The contingent liabilities for the current guarantee contracts signed by the Corporation with other parties as of December 31, 1996 amounted to KD. 35,060,483 out of which executed guarantee operations amounted to KD. 23,332,837. Approximately KD. 817,600 of this amount is re-insured against commercial risks. This represents total outstanding contingent guarantees as of December 31, 1996.
- (B) The Corporation has an outstanding obligation resulting from a claim raised by a bank which was arbitrated and awarded in favor of the bank. The amount of the original claim was U.S. Dollars 10,042,165 equivalent to KD. 3,016,566 at the rate of exchange prevailing as of December 31, 1996) including interest to December 31, 1994. As a result of the award to the claimant, some of the Corporation's assets in certain banks, amounting to KD. 5,285,747 at the rate of exchange prevailing as of December 31, 1996 are restricted from use by the Corporation. The interest generated from these assets during the years 1995 and 1996 were charged to the statements of revenues and expenditures. The Corporation has appealed against the award made in favor of the bank and has challenged the validity of the arb-

itation proceedings. The appeal is still pending before the court. It is the policy of the Corporation not to record such obligation until payment is made and the related member Country is charged with such amount.

- (C) There is a claim from an Arab exporter and one of the Arab banks for an amount of U.S. Dollars 1,040,000 (equivalent to KD. 312,406 at the rate of exchange prevailing as of December 31, 1996). The award was issued in favor of the claimants for such amount plus interest of 21% from the date the amount became due until payment. The Corporation has challenged the validity of the arbitration proceedings and the matter is still pending before the court.
- (D) There is a claim raised by an Arab Company for an amount of KD. 982,175 plus interest from May 26, 1996 until payment. The claim is still pending before the arbitration.

## 17. PROVIDENT AND SOCIAL SECURITY FUND

Following is cumulative proceeds for the fund and its assets at December 31, 1996:

	KD.
Employees' contributions	160,196
Employees' indemnities	794,623
Earning from investments	306,899
	1,261,718
Assets at:	
Investments	638,515
Loans due from participants	623,203
	1,261,718

The loans due from participants are non-interest bearing and are due within ten years

## 18. SIGNIFICANT INSURED PARTIES

Three insured parties accounted for 48% of the total premiums earned during the year ended December 31, 1996. In 1995 there was one insured party different from those in 1996 which accounted for 41% of the total premiums earned.

## 19. EMPLOYEES INVESTMENTS

The Corporation acts as a custodian for certain of its employees' investments in an investment fund with a value of KD. 221,463 as of December 31, 1996 the accounts of which are excluded from these financial statements. The investments are jointly made with those of the Corporation's and the Provident and Social Security Fund.