

**THE INTER-ARAB INVESTMENT  
GUARANTEE CORPORATION**

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**THE TWENTY THIRD**

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**ANNUAL REPORT 1997**

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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 AlIbrahim    | 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 25th. 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 for consideration the Annual Report of  
the Director-General for the year 1997.

Please accept my highest consideration ,

**Mamoun Ibrahim Hassan**  
Director-General

Beirut ,May 1998 .

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# CHAPTER ONE : INTRODUCTION

## 1.1 World Economic Performance:

The world economic recovery continued for the fifth consecutive year in 1997, with world output growing at an estimated rate of 4.1 %, close to the revised growth rate of 4.0% in 1996, but higher than 1995 rate which was 3.6%.

The year ended with a major uncertainty in the global financial markets because of the outburst of the Asian financial crisis, which brought to a halt a decade of export-oriented high economic growth of the so-called Asian Tigers. The crisis first started in Thailand and then engulfed other East Asian countries. Spillover effects were spread to some emerging markets, whereas the major industrial countries were able to contain the impact of the crisis on their economies, except for Japan where domestic demand remained sluggish, exports to neighboring countries slumped, and the banking system suffered from a series of bankruptcies, aggravated by accumulation of outstanding short-term bad debts. Nevertheless, the full-fledged implications of the Asian financial crisis on various world economic sectors should remain to be seen.

The advanced economies, including the newly industrialized Asian economies (Hong Kong, Korea, Taiwan and Singapore) witnessed a slightly higher growth rate at 3% in 1997, compared to 2.7% in 1996. Most of the advanced economies recorded improved performance throughout the year, except for Japan, whose economic growth faltered to 1% in 1997 down from 3.5% in 1996 for the reasons previously mentioned.

The developing countries, as a group, sustained stronger growth rate at 5.9% in 1997, though below the level of 6.4% in 1996, with the Asian countries leading the growth at an average rate of 6.8%, yet down from 8.1% in 1996. The ASEAN (4) group (Thailand, Indonesia, Malaysia, and the Philippines) growth dropped dramatically to 4% in 1997 from 7.4% in 1996, upon the onset of the Asian financial crisis which contributed to this group weakened performance, severe depreciation of their national currencies, change of investor's sentiment for the short-term, and heavy losses in the banking and real estate sectors. Decisive measures and stabilization rescue programs were adopted, financed mainly by the IMF, to contain the crisis and restore confidence focusing on fiscal adjustment, stricter monetary policy to curtail sharp declines in the exchange rates of their local currencies, restructuring of the financial sector, lifting of subsidized support to fledgling companies, and adoption of measures that would increase public sector transparency, accountability and good governance.

The developing countries in Africa maintained the upward trend in their economic revival that started in 1994, though growing at a slower rate of 3.4% in 1997 from 5.3% in 1996. Many African countries continued to benefit from the momentum generated in the last few years, aiming to achieve political stability, liberalize their economies, modernize the institutions, and enhance investment opportunities by resolving the chronic problems that belated their economies.

The countries in transition (Central and Eastern Europe, Russia, and Central Asia) grew at a moderate rate of 1.9% in 1997 from a recorded decline of (- 0.1%) in 1996, however economic performance remained buoyant due to successful and gradual implementation of privatization programs and market liberalization measures.

The world trade volume of goods and services grew by 8.6% in 1997 from 6.2% in 1996, however the terms of trade continued to deteriorate. Imports of advanced economies grew by 8% in 1997 from 6.1% in 1996, whereas exports rose markedly by 9.3% from 5.6% for the same period. The developing countries imports grew by 8.3% in 1997 from 8 % in 1996 and the countries in transition imports rose by 8.8% from 6.8% for the same duration. Exports of developing countries rose by 9.6% in 1997 from 8.6% in 1996 and the countries in transition exports grew by 5.2% from 3.8% for the period mentioned.

### **World Investment Trends:**

Global economic activity in 1997 remained concomitant with the 1990s underlying trend of increased flow of foreign direct investments (FDI), which reflected the performance of international production, and was enhanced by on-going investment liberalization and government promotional efforts to facilitate FDIs, with special attention by policy makers to address anti-competitive practices, and promote efficiency. Globalization of world economic and financial activities resumed at a strong pace, along with increased cross-border mergers and acquisitions (M&As) of the Transnational Companies (TNCs).

The flow of global foreign direct investment (FDI) reached an estimated US\$ 364 billion in 1997 up by 4% from US\$ 350 billion in 1996. In 1996, the developed countries share of total FDI flows remained high at 60%, while the developing countries received 37% and the countries in transition only 3%. The share of cross-border M&As rose to 47% of total flows in 1996 from 44% in 1995, maintaining the rising trend that started in the eighties.

The developing countries received estimated FDI inflows of US\$ 135 billion in 1997 compared to inflows of US\$ 129 billion in 1996. The published figures of 1996 showed that both South, East, and South East Asian countries (US\$ 81.2 billion) and the Latin American and Caribbean countries (US\$ 12.3 billion), engrossed the bulk of flows where both comprised 73% of total FDI inflows to developing countries. China led its group (US\$ 42 billion) in receiving FDI inflows, while Brazil came first within its group (US\$ 9.5 billion), and together they claimed more than 40% of total FDI inflows to developing countries. The developing countries in Africa, excluding the Arab North African countries, received only 3.8% of total FDI inflows to developing countries, and was centered in Nigeria (US\$ 1.7 billion), Angola (US\$290 million), and Ghana (US\$ 255 million).

FDI inflows to the Arab countries were estimated to have risen to US\$ 5.9 billion in 1997 from US\$ 2.3 billion in 1996, yet remained low compared to the size of international flows. According to 1996 figures, the major recipients were Egypt (US\$ 740 million), Morocco (US\$ 400 million), and Tunisia (US\$ 370 million).

More than (70) industrial and developing countries, amongst which are some Arab countries, signed towards the end of the year the Treaty on Liberalization of Financial Services within the framework of the World Trade Organization. The signing of this important agreement is considered a major stride towards the globalization and liberalization of world financial markets for the banking, insurance and financial intermediation services. The total value of the services under these three activities are

estimated to exceed US\$ 58.5 trillion worldwide, of which US\$ 38 trillion in banking facilities, US\$18 trillion in equity and US\$ 2.5 trillion in insurance premiums . This clearly reflects the growing interdependence of the offered services and the size of this vital sector in international financial markets.

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

The Arab countries witnessed moderate average growth rate in 1997 around 4%, up from 2% in 1996, owing to favorable developments led by those countries that adopted structural adjustment programs, and financial sector reforms, as well as the successful implementation of privatization programs that aimed to limit the role of public sector and enhance the role of the private sector, in addition to passing a host of investment promotion laws and fiscal stimuli to attract foreign direct investments. On the other hand, the political stability of the region was undermined by the faltering peace talks in the Middle East.

Some Arab countries have made significant progress in lowering inflation as a result of more prudent monetary policies. The inflation rate for the Arab countries dropped to 10.5% in 1997 from 13% in 1996.

Following more consolidated fiscal policies in most Arab countries, budget deficits were reduced to 1.5% of total GDP in 1997 compared with 3.1 % in 1996. As to the external debt burden, it was reduced to 32.9% of GDP in 1997 from 35.7% in 1996.

The overall performance indicators of the achievements in 1997 contributed to a favorable investment climate in most of the Arab countries with few exceptions, added to that the relentless efforts to reform and amend regulatory structures in accordance with international standards requirements.

Eleven Arab countries were classified by credit rating agencies in 1997 for their sovereign debt and both long-term and short-term positions, compared to (7) Arab countries rated in 1996. Several Arab financial institutions received positive credit ratings for their long-term and short-term debt and financial strength. To meet the rising need for rating services within the Arab region, the Arab Credit Rating Holding Company, established through the initiative of the Arab Monetary Fund, in association with IBCA and IFC, branched into an affiliate company named AlMagreb Rating Company, which started the provision of the rating services in north Africa, and will follow with the Nile Rating and Classification Company, to be based in Egypt, to expand the coverage to the rest of the Arab countries.

IFC included Egypt, Jordan and Morocco within other (26) emerging countries listed in its Investment Index for Emerging Markets, which resembled a positive indicator of investment confidence, and would encourage more FDI flows into these countries based on their monitored performance.

The Arab oil exporting countries received higher oil revenues during 1997 as a result of stable oil prices in the international markets, which strengthened their internal fiscal positions and consolidated their external positions, thus enabling the local governments to meet their outstanding commitments, and to pursue a policy of diversification of their productive base, encouragement of more effective private sector involvement, curtailment of current non-productive expenditure, and



containment of potential inflationary pressures.

The inter-Arab investments were estimated to have reached US\$ 2.5 billion in 1997 compared to US\$ 2.1 billion 1996. Egypt maintained leading position in hosting inter-Arab investments (US\$ 1.4 billion), followed by Syria and Morocco. Saudi Arabia was the main source of investment in other Arab countries followed by Kuwait, UAE, and Lebanon. Most of the investments centered in industrial and service-oriented projects and to a lesser extent agricultural projects.

With increased stability and structural reforms that contributed to resolve imbalances and provide various stimuli to improve the overall investment climate, it is expected that the Arab countries should attract more FDI, specially in the vast opportunities available through enhanced privatization and infrastructure projects particularly telecommunications and energy, for which the World Bank, in a recent report, estimated the region's requirements to exceed US\$ 350 billion over the next ten years.

On the other hand, it is hoped that these favorable developments would reverse the migration of Arab investments abroad, which were estimated to range between US\$ 670-850 billion, of which the Gulf Arab countries share was estimated to be more than US\$ 350 billion.

The Arab stock markets (there are until now (15) stock markets of which (8) are members of the Union of Arab Stock Exchanges and Securities Commissions) exhibited remarkable performance in 1997, witnessing appreciation in equity values and growth in turnover, although ended the year with a more cautious note induced by the fear of spillover effects of the Asian financial crisis. During the year the official opening of Palestine Stock Exchange took place along with the Doha Stock Exchange and Algeria's Bourse.

There were several cross-trading agreements signed, one of which links Kuwait, Egypt, and Lebanon stock exchanges, and another links Kuwait and Bahrain stock exchanges. The need was recognized for a pan-Arab clearing mechanism to execute and coordinate clearances and settlements. By December the Arab Clearing Banking Corporation was established to be located in Beirut.

On the other hand, to cope with rising trend of financial innovation, the Arab Financial Engineering Society was established in Cairo/ Egypt towards the end of the year.

The Arab countries consolidated their position in international financial markets through issuing various bonds and financial debt instruments, however towards the end of the year some issues scheduled to be launched were postponed to avoid the turbulence that struck through various international financial markets. Reforms were introduced to improve the efficiency and transparency of the Arab equity markets. Extensive efforts were exerted to amend the rules and regulations that govern the operations of the Arab equity markets, especially in defining new listing requirements and more transparent reporting practices for quoted companies, and in enhancing supervision and control procedures on trading activities.

Market capitalization of the nine stock markets monitored by the Arab Monetary Fund increased from US\$ 107.8 billion at the close of 1996 to US\$ 145 billion at the close of 1997. The total number of companies registered in those stock exchanges reached

(1184) companies.

The Greater Arab Free Trade Zone was declared in 1997 to be implemented in January 1998 to enhance economic integration and consolidate efforts to invigorate inter-Arab trade movement. The Arab Gulf Countries Council, as an evolving regional sub-group, adopted during the year further measures to advance the implementation of the economic agreements instated, among which the enactment of the unified law for shareholding companies.

To enhance Arab integration efforts, and the joint capability to efficiently compete in the emerging global market, and to adhere to the international standards of financial markets, plans were announced to establish an Arab "MEGA bank" with a total capital of US\$ 500 million. This bank is expected to provide comprehensive banking services and particularly to finance inter-Arab trade and Arab exports to international markets.

Several conferences and seminars were held throughout the year, which focused on tackling prevalent issues of relevance to the advancement of Arab region, within the context of increased globalization and liberalization. One of the most significant events of the year was the Seventh Arab Businessmen and Investors Conference held in October 1997 in Lebanon. The meeting emphasized the role of the private sector in attaining sustainable economic development and safeguarding the progress of the implementation of the liberalization policies and instatement of market mechanisms. The meeting focused on several subjects which aimed at encouraging effective cooperation amongst Arab countries at all levels, individual and Pan-Arab institutions, associated with the fundamental objectives of economic development and integration among Arab countries at a time of enhanced globalization and rising strong regional blocks.

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

The total value of guarantee contracts signed during the year 1997 amounted to US\$ 69,703,864 (KD. 21,249,233). The total value of current guarantee contracts as at 31/12/1997 reached US\$ 104,626,274 (KD. 31,895,320). The value of operations executed (outstanding commitments) within the framework of current contracts amounted to US\$ 51,251,286 (KD. 15,623,956).

The Corporation has, during the year, paid a compensation against the realization of a non-commercial risk in a member country, amounting to US\$ 10,041,885 and recovered US\$ 250,000 as a portion of a compensation previously paid for non-commercial risks in another 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 work 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 1997 :

During the year 38 export credit guarantee contracts were signed , the value of which amounted to US\$ 69,703,864 (KD 21,249,223)\* (see table 1).

The contracts' value has increased by 8.8% as compared to last year's total value, which reached US\$ 64,089,355 .

Sudan headed the list of seventeen importing countries during the year with 33.6% followed by Libya with 18.5% , Algeria 14.9% , Saudi Arabia 8.4% , Mauritania and Morocco with 4.3% each , Jordan 3.2% , Tunisia and Kuwait with 2.9% each , U.A.E 1.8% , Egypt 1.6% , and 3.6% for six other Arab countries .

Saudi Arabia headed a list of seven exporting countries during the year with 46.3% followed by Bahrain with 25.5%, Lebanon 14.9% , Jordan 11.4% and UAE with 1.2% .

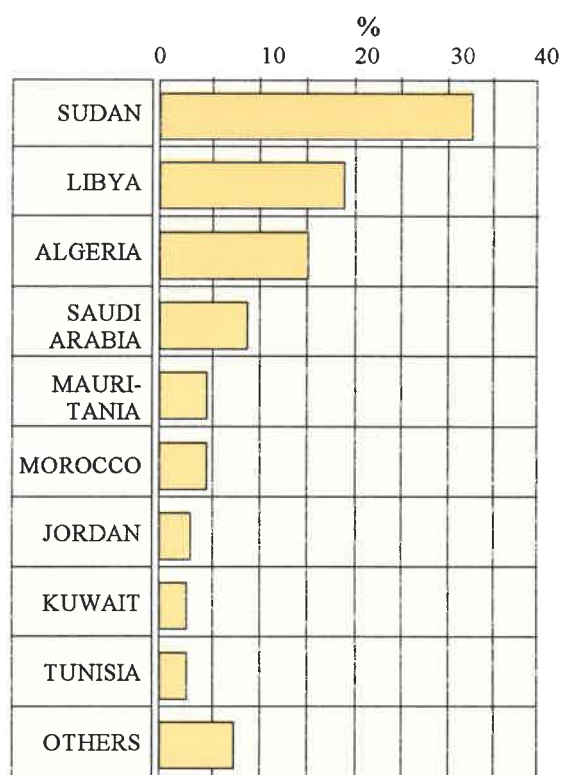
#### 2.1.2 Details of Contracts Signed:

\*A comprehensive export credit guarantee contract against commercial and non-commercial risks signed with a Saudi Company to guarantee its export credit of petroleum products to several private sector importers in Algeria and Mauritania. The value of the contract is US\$ 8,000,000 (KD. 2,438,800) .

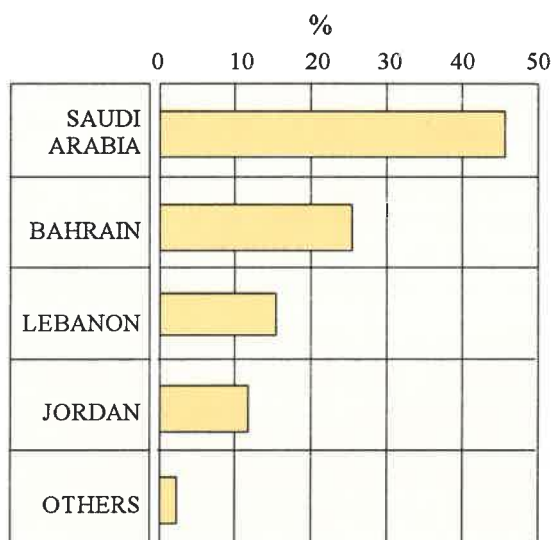
\*A letter of credit guarantee contract against commercial and non-commercial risks signed with a Saudi Company to guarantee its export credit of petroleum products to a Tunisian importer . The value of the contract is US\$ 2,000,000 (KD. 609,700) .

\*A letter of credit guarantee contract to cover the exports of petroleum products

**Guarantee Contracts by Importing Countries**



**Guarantee Contracts by Exporting Countries**



\* US\$ 1 = KD 0.30485 as at 31/12/1997.

from Saudi Arabia to Morocco against commercial and non-commercial risks . The value of the contract is US\$ 3,000,000 (KD 914,550) .

- \*An annex to a contract to cover the exports of telephone cables from Saudi Arabia to Algeria against commercial and non-commercial risks . The value of the annex is US\$ 390,186 (KD 118,948) .
- \*A contract to cover the exports of petroleum products from Saudi Arabia to Sudan against commercial and non-commercial risks . The value of the contract is US\$ 500,000 (KD 152,425).
- \*A contract to cover the exports of petroleum products from Saudi Arabia to Sudan against commercial and non-commercial risks . The value of the contract is US\$ 7,000,000 (KD 2,133,950) .
- \*A letter of credit guarantee contract to cover the exports of lubricants from Saudi Arabia to Libya against commercial and non-commercial risks . The value of the contract is CHF 11,250,000 (US\$ 7,734,600) (KD 2,357,892) .
- \*A letter of credit guarantee contract to cover the exports of gas cylinders from Saudi Arabia to Libya against commercial and non-commercial risks . The value of the contract amounted to CHF 3,675,000 (US\$ 2,526,636) (KD 770,245) .
- \*A comprehensive contract to cover the exports of interior and exterior lighting fixtures equipment from Saudi Arabia to several importers in different Arab countries against commercial and non-commercial risks . The value of the contract is US\$ 825,000 (KD 251,502) .
- \*A letter of credit guarantee contract to cover the exports of input materials for carpeting from Saudi Arabia to Kuwait against commercial and non-commercial risks . The value of the contract is US\$ 300,000 (KD 91,455) .
- \*A comprehensive contract to guarantee the exports of packaging materials from Lebanon to Saudi Arabia and UAE against commercial and non-commercial risks. The value of the contract is US\$ 900,000 (KD 274,365).
- \*A letter of credit guarantee contract to cover the exports of agricultural pumps from Lebanon to Libya, against commercial and non-commercial risks . The value of the contract is DM 4,762,431 (US\$ 2,659,532) (KD 810,758) .
- \*A comprehensive contract to cover the exports of ceramic tiles from Lebanon to several importers in Saudi Arabia against commercial and non-commercial risks . The value of the contract is US\$ 1,960,000 (KD 597,506) .
- \*A comprehensive contract to cover the exports of industrial equipment from Lebanon to several importers in Saudi Arabia and UAE against commercial and non-commercial risks . The value of the contract is GBP 400,000 (US\$ 663,040) (KD 202,128).
- \*A comprehensive contract to cover the exports of cosmetics from Lebanon to several importers in UAE against commercial and non-commercial risks . The value of the contract is US\$ 120,000 (KD 36,582) .
- \*A comprehensive contract to cover the exports of stationary from Lebanon to several

- importers in Saudi Arabia against commercial and non-commercial risks . The value of the contract is US\$ 200,000 (KD 60,970) .
- \*A letter of credit guarantee contract to cover the exports of paints from Lebanon to Egypt , against commercial and non-commercial risks . The value of the contract is US\$ 599,000 (KD 182,604).
  - \*A comprehensive contract to cover the exports of cosmetics and pharmaceuticals from Lebanon to several importers in many Arab countries against commercial and non-commercial risks . The value of the contract is US\$ 1,170,000 (KD 356,676).
  - \*A buyer credit guarantee contract to cover the credit facilities extended by a Lebanese bank to a Jordanian importer, against commercial and non-commercial risks. The value of the contract is US\$ 2,100,000 (KD 640,185) .
  - \*A comprehensive contract to cover the exports of auto-paints from Jordan to Saudi Arabia against commercial and non-commercial risks . The value of the contract is US\$ 500,000 (KD 152,425) .
  - \*A contract to cover the exports of lighting materials from Jordan to Kuwait against commercial and non-commercial risks . The value of the contract is US\$ 434,000 (KD 132,305) .
  - \*A contract to cover the exports of building materials from Jordan to UAE against commercial and non-commercial risks . The value of the contract is US\$ 50,000 (KD 15,243) .
  - \*A contract to cover the exports of carpets from Jordan to Saudi Arabia against commercial and non-commercial risks . The value of the contract is US\$ 300,000 (KD 91,455) .
  - \*A comprehensive contract to cover the exports of water pipes from Jordan to UAE, Kuwait and Lebanon against commercial and non-commercial risks . The value of the contract is US\$ 510,000 (KD 155,474) .
  - \*A contract to cover the exports of foodstuff from Jordan to Saudi Arabia against commercial and non-commercial risks . The value of the contract is US\$ 400,000 (KD 121,940) .
  - \*A contract to cover the exports of fertilizers from Jordan to Lebanon against commercial and non-commercial risks . The value of the contract is US\$ 200,000 (KD 60,970) .
  - \*A contract to cover the exports of pharmaceutical products from Jordan to Algeria against commercial and non-commercial risks . The value of the contract is US\$ 1,000,000 (KD 304,850) .
  - \*A contract to cover the exports of stationary products from Jordan to Saudi Arabia against commercial and non-commercial risks . The value of the contract is US\$ 100,000 (KD 30,485) .
  - \*A contract to cover the exports of pharmaceutical products from Jordan to Algeria against commercial and non-commercial risks. The value of the contract is US\$ 4,000,000 (KD 1,219,400) .
  - \*A contract to cover the exports of fertilizers from Jordan to Egypt against commercial and

non-commercial risks. The value of the contract is US\$ 455,000 (KD 138,707).

\*A buyer credit guarantee contract to cover the facilities extended by a Bahraini bank to Sudan to finance the import of crude oil against commercial and non-commercial risk . The value of the contract is US\$ 6,000,000 (KD 1,829,100).

\*A comprehensive contract to cover the exports of furniture from Bahrain to five different Arab countries against commercial and non-commercial risks . The value of the contract is US\$ 1,750,000 (KD 533,489) .

\*A comprehensive contract to cover the export of sea boats from Bahrain to seven different Arab countries against commercial and non-commercial risks . The value of the contract is US\$ 1,000,000 (KD 304,852) .

\*A buyer credit guarantee contract to cover the facilities extended by a Bahraini bank to Sudan to finance the import of crude oil against commercial and non-commercial risks . The value of the contract is US\$ 9,000,000 (KD 2,743,650) .

\*A contract to cover the exports of foodstuff from UAE to Qatar against commercial and non-commercial risks . The value of the contract is UAE Dirham 2,500,000 (US\$ 680,725) (KD 207,519) .

\*A contract to cover the exports of foodstuff from UAE to Saudi Arabia against commercial and non-commercial risks . The value of the contract is UAE Dirham 500,000 (USD 136,145) (KD 41,504) .

\*A contract to cover the exports of electrical fittings from Egypt to Saudi Arabia against commercial and non-commercial risks . The value of the contract is US\$ 40,000 (KD 12,194) .

\*A contract to cover the export of oil from Kuwait to Sudan against commercial and non-commercial risks . The value of the contract is US\$ 500,000 (KD 152,425) .

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

Value of the current guarantee contracts as at 31/12/1997 amounted to US\$ 104,626,274 (KD 31,895,320) , 20.9% of which represents investment guarantee , and 79.1% for export credit guarantee .

The value of executed operations , within the current guarantee contracts amounted to US\$ 51,251,286 (KD 15,623,956) , 49% of the current guarantee contracts . This amount represents the outstanding guarantee commitments vis-à-vis the guaranteed parties in 1997 (see table 3) .

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

The total guarantee premia realized during the year amounted to US\$ 1,061,158 (KD 323,494) , decreasing by 17.6% compared to last year's premia, which amounted to US\$ 1,287,826 (KD 386,586) .

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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 Compensation and Recovery:**

### **2.2.1 Compensation:**

On 7/4/1997, a compensation amounting to US\$ 10,041,885 was paid to a bank after the realization of a non-commercial risk within the framework of a loan guarantee contract .

The loan was extended by the bank to a governmental institution in an Arab country.

### **2.2.2 Recovery:**

An amount of US\$ 250,000 was recovered by the Corporation from one of the member countries on 24/6/1997. This represents part of the amount paid by the Corporation to an Arab investment company on 23/3/1995 after an inconvertibility risk has been realized in that country .

## **2.3 Reinsurance:**

### **2.3.1 Amounts due from Reinsurers Against Non-Commercial Risks:**

During the year , the Corporation recovered an amount of US\$ 285,000 , thus increasing the total amount recovered from reinsurers to US\$ 10,614,761 .

### **2.3.2 Renewal of the Commercial Risks Reinsurance Treaty for 1998:**

The Corporation has renewed this treaty for the year 1998 , with a placement of 57%.

### **2.3.3 Incoming Reinsurance :**

Within the context of availing underwriting extra capacity to national export credit guarantee agencies, the Corporation has accepted facultative reinsurance for an export credit guarantee contract signed by a national export credit guarantee agency. The value of the reinsured contract amounts to US\$ 250,000 , repeatable as long as the importer meets his obligations vis-à-vis the exporter .

## **2.4 Marketing the Guarantee Services:**

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

**2.4.1** Several field missions were sent to UAE, Jordan, Lebanon, Morocco and Spain in addition to visits in Kuwait and in Saudi Arabia through the Corporation's regional office in Riyadh .

**2.4.2** Promotional seminars were held in Jordan, Sudan, Oman and Yemen to present the various services of the Corporation.

**2.4.3** Marketing missions were sent to the Algerian products exhibition in Bahrain, the Saudi products exhibition in Kuwait, the Saudi industrials exhibition in Jordan, in addition to visits performed by the regional office in Riyadh to five exhibitions held in Saudi Arabia, four of which concerning Saudi products and one for Egyptian products.

- 2.4.4 Three mailing campaigns were conducted in March, June and November covering 3500) parties interested in investment, exports and trade finance in several Arab countries. Many inquiries were received as a result of said campaigns. Moreover, all news related to investments, trading and finance were followed up, and the necessary contact took place to introduce the Corporation's services.
- 2.4.5 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.
- 2.4.6 During the year , four commission agency agreements were signed to promote the guarantee services, thus lifting their number to 29 in 11 Arab countries.

## **2.5 Development of Guarantee System:**

The Corporation has accomplished two new leasing guarantee contracts , the first covers commercial and non-commercial risks, and the second covers non-commercial risks. Leasing guarantee is still under close study for more development, and to explore the possibilities to reinsure the two new contracts when put into force.

## **2.6 Cooperation with Guarantee Agencies:**

- 2.6.1 The fifth meeting of Arab guarantee agencies forum was held in Muscat on 10/12/1997, during which discussion was focused on marketing the guarantee services, and the individual experience of each member agency .

The foreign experience in this regard was also presented by an international expert in marketing who was invited to participate, enriching the Forum's work.

- 2.6.2 On the occasion of the Corporation's participation in the World Bank and the International Monetary Fund annual meetings held in Hong Kong , visits were paid to the Export Credit Guarantee Agency in India and in Hong Kong , and a meeting took place with officials of the Multilateral Investment Guarantee Agency (MIGA), during which discussions were focused on various guarantee technical aspects and possibilities of joint cooperation .



TABLE (1)  
 VALUE OF GUARANTEE CONTRACTS SIGNED DURING 1997  
 BY HOST/IMPORTING COUNTRIES  
 (VALUE IN US DOLLARS AND EQUIVALENT IN KUWAITI DINARS)\*

| IMPORTING COUNTRY | EXPORT CREDIT CONTRACTS |            |       |
|-------------------|-------------------------|------------|-------|
|                   | US\$                    | KD         | %     |
| SUDAN             | 23,450,000              | 7,148,732  | 33.64 |
| LIBYA             | 12,920,768              | 3,938,896  | 18.54 |
| ALGERIA           | 10,390,186              | 3,167,448  | 14.91 |
| SAUDI ARABIA      | 5,867,665               | 1,778,758  | 8.42  |
| MAURITANIA        | 3,000,000               | 914,550    | 4.3   |
| MOROCCO           | 3,000,000               | 914,550    | 4.3   |
| JORDAN            | 2,200,000               | 670,670    | 3.16  |
| TUNISIA           | 2,000,000               | 609,700    | 2.87  |
| KUWAIT            | 1,984,000               | 604,822    | 2.85  |
| UAE               | 1,271,520               | 387,623    | 1.82  |
| EGYPT             | 1,104,000               | 336,554    | 1.58  |
| QATAR             | 1,000,725               | 305,071    | 1.44  |
| OMAN              | 585,000                 | 178,337    | 0.84  |
| YEMEN             | 400,000                 | 121,941    | 0.57  |
| LEBANON           | 310,000                 | 94,504     | 0.44  |
| BAHRAIN           | 170,000                 | 51,825     | 0.24  |
| SYRIA             | 50,000                  | 15,242     | 0.07  |
|                   | 69,703,864              | 21,249,223 | 100   |

\* US\$ 1 = KD. 0.30485

TABLE (2)  
GEOGRAPHICAL DISTRIBUTION OF THE EXPORT CREDIT GUARANTEE CONTRACTS SIGNED IN 1997.  
(VALUE IN DOLLARS, THE GRAND TOTAL IS ALSO EXPRESSED IN KD.)

| NATIONALITY OF<br>GUARANTEEED<br>PARTIES/ IMPORTERS | SAUDI<br>ARABIA | BAHRAIN    | LEBANON    | JORDAN    | UAE     | KUWAIT  | EGYPT  | TOTAL      |           |
|---|-----------------|------------|------------|-----------|---------|---------|--------|------------|-----------|
|   |                 |            |            |           |         |         |        | US\$       | KD        |
| SUDAN   | 7,500,000       | 15,250,000 | 200,000    | -         | -       | 500,000 | -      | 23,450,000 | 7,148,733 |
| LIBYA   | 10,261,236      | -          | 2,659,532  | -         | -       | -       | -      | 12,920,768 | 3,938,896 |
| ALGERIA   | 5,390,186       | -          | -          | 5,000,000 | -       | -       | -      | 10,390,186 | 3,167,448 |
| SAUDI ARABIA  | -               | 700,000    | 3,691,520  | 1,300,000 | 136,145 | -       | 40,000 | 5,867,665  | 1,788,758 |
| MAURITANIA  | 3,000,000       | -          | -          | -         | -       | -       | -      | 3,000,000  | 914,550   |
| MOROCCO   | 3,000,000       | -          | -          | -         | -       | -       | -      | 3,000,000  | 914,550   |
| JORDAN  | -               | -          | 2,200,000  | -         | -       | -       | -      | 2,200,000  | 670,670   |
| TUNISIA   | 2,000,000       | -          | -          | -         | -       | -       | -      | 2,000,000  | 609,700   |
| KUWAIT  | 550,000         | 750,000    | 50,000     | 634,000   | -       | -       | -      | 1,984,000  | 604,822   |
| UAE   | 200,000         | -          | 771,520    | 300,000   | -       | -       | -      | 1,271,520  | 387,623   |
| EGYPT   | -               | 50,000     | 599,000    | 455,000   | -       | -       | -      | 1,104,000  | 336,554   |
| QATAR   | 120,000         | 200,000    | -          | -         | 680,725 | -       | -      | 1,000,725  | 305,071   |
| OMAN  | 135,000         | 450,000    | -          | -         | -       | -       | -      | 585,000    | 178,337   |
| YEMEN   | -               | 300,000    | 100,000    | -         | -       | -       | -      | 400,000    | 121,940   |
| LEBANON   | -               | 50,000     | -          | 260,000   | -       | -       | -      | 310,000    | 94,504    |
| BAHRAIN   | 120,000         | -          | 50,000     | -         | -       | -       | -      | 170,000    | 51,825    |
| SYRIA   | -               | -          | 50,000     | -         | -       | -       | -      | 50,000     | 15,243    |
| TOTAL IN US\$                                       | 32,276,422      | 17,750,000 | 10,371,572 | 7,949,000 | 816,870 | 500,000 | 40,000 | 69,703,864 |           |
| TOTAL IN KD   | 9,839,467       | 5,411,087  | 3,161,774  | 2,423,253 | 249,023 | 152,425 | 12,194 | 21,249,224 |           |
| % OF TOTAL  | 46.31           | 25.46      | 14.88      | 11.4      | 1.17    | 0.72    | 0.06   |            | 100       |

TABLE (3)  
 VALUE OF CURRENT CONTRACTS AND OUTSTANDING COMMITMENTS AS AT 31/12/1997  
 IN US DOLLARS AND ITS EQUIVALENT IN KD<sup>(1)</sup> ( BY HOST/IMPORTING COUNTRIES AND TYPE OF CONTRACT)

| HOST/IMPORTING COUNTRIES | INVESTMENT CONTRACTS <sup>(2)</sup> |           | EXPORT CREDIT CONTRACTS |            | TOTAL       |            | % TO TOTAL | OUTSTANDING COMMITMENTS <sup>(3)</sup> |            |
|--------------------------|-------------------------------------|-----------|-------------------------|------------|-------------|------------|------------|--|------------|
|                          | US\$                                | KD        | US\$                    | KD         | US\$        | KD         |            | US\$                                   | KD         |
| JORDAN                   | -                                   | -         | -                       | -          | -           | -          | -          | -                                      | -          |
| UAE                      | -                                   | -         | 4,752,677               | 1,448,854  | 4,752,677   | 1,448,854  | 4.54       | 2,552,677                              | 778,184    |
| BAHRAIN                  | -                                   | -         | 1,151,520               | 351,042    | 1,151,520   | 351,042    | 1.1        | 106,830                                | 32,567     |
| TUNISIA                  | -                                   | -         | 170,000                 | 51,825     | 170,000     | 51,825     | 0.16       | -                                      | -          |
| ALGERIA                  | -                                   | -         | 2,000,000               | 609,700    | 2,000,000   | 609,700    | 1.91       | -                                      | -          |
| SAUDI ARABIA             | 42,762                              | 13,036    | 21,537,726              | 6,565,776  | 21,580,488  | 6,578,812  | 20.63      | 11,793,876                             | 3,595,363  |
| SUDAN                    | -                                   | -         | 9,648,479               | 2,941,339  | 9,648,479   | 2,941,339  | 9.22       | 4,189,536                              | 1,277,181  |
| SYRIA                    | -                                   | -         | 21,751,445              | 6,630,929  | 21,751,445  | 6,630,929  | 20.79      | 15,040,852                             | 4,585,203  |
| OMAN                     | 1,468,750                           | 447,748   | 50,000                  | 15,243     | 1,518,750   | 462,991    | 1.45       | -                                      | -          |
| QATAR                    | -                                   | -         | 585,000                 | 178,338    | 585,000     | 178,338    | 0.56       | -                                      | -          |
| KUWAIT                   | -                                   | -         | 1,000,728               | 305,072    | 1,000,728   | 305,072    | 0.96       | -                                      | -          |
| LIBYA                    | -                                   | -         | 1,984,000               | 604,824    | 1,984,000   | 604,824    | 1.9        | 13,985                                 | 4,263      |
| LEBANON                  | -                                   | -         | 10,261,207              | 3,128,129  | 10,261,207  | 3,128,129  | 9.81       | -                                      | -          |
| EGYPT                    | 5,318,624                           | 1,621,383 | 300,674                 | 91,662     | 5,619,298   | 1,713,045  | 5.37       | 5,159,523                              | 1,572,881  |
| MOROCCO                  | 8,488,649                           | 2,587,765 | 1,137,443               | 346,750    | 9,626,092   | 2,934,515  | 9.2        | 8,817,417                              | 2,687,990  |
| MAURITANIA               | 3,000,000                           | 914,550   | 3,029,988               | 923,692    | 6,029,988   | 1,838,242  | 5.76       | 29,988                                 | 9,142      |
| YEMEN                    | 3,546,602                           | 1,081,182 | 3,000,000               | 914,550    | 6,546,602   | 1,995,732  | 6.26       | 3,546,602                              | 1,081,182  |
| TOTAL                    | -                                   | -         | 400,000                 | 121,941    | 400,000     | 121,941    | 0.38       | -                                      | -          |
|                          | 21,865,387                          | 6,665,664 | 82,760,887              | 25,229,666 | 104,626,274 | 31,895,330 | 100        | 51,251,286                             | 15,623,956 |

(1) US \$ 1 = KD 0.30485

(2) Current contracts represent the value of the guarantee contracts, whether executed or not.

(3) The Outstanding Commitments represent:

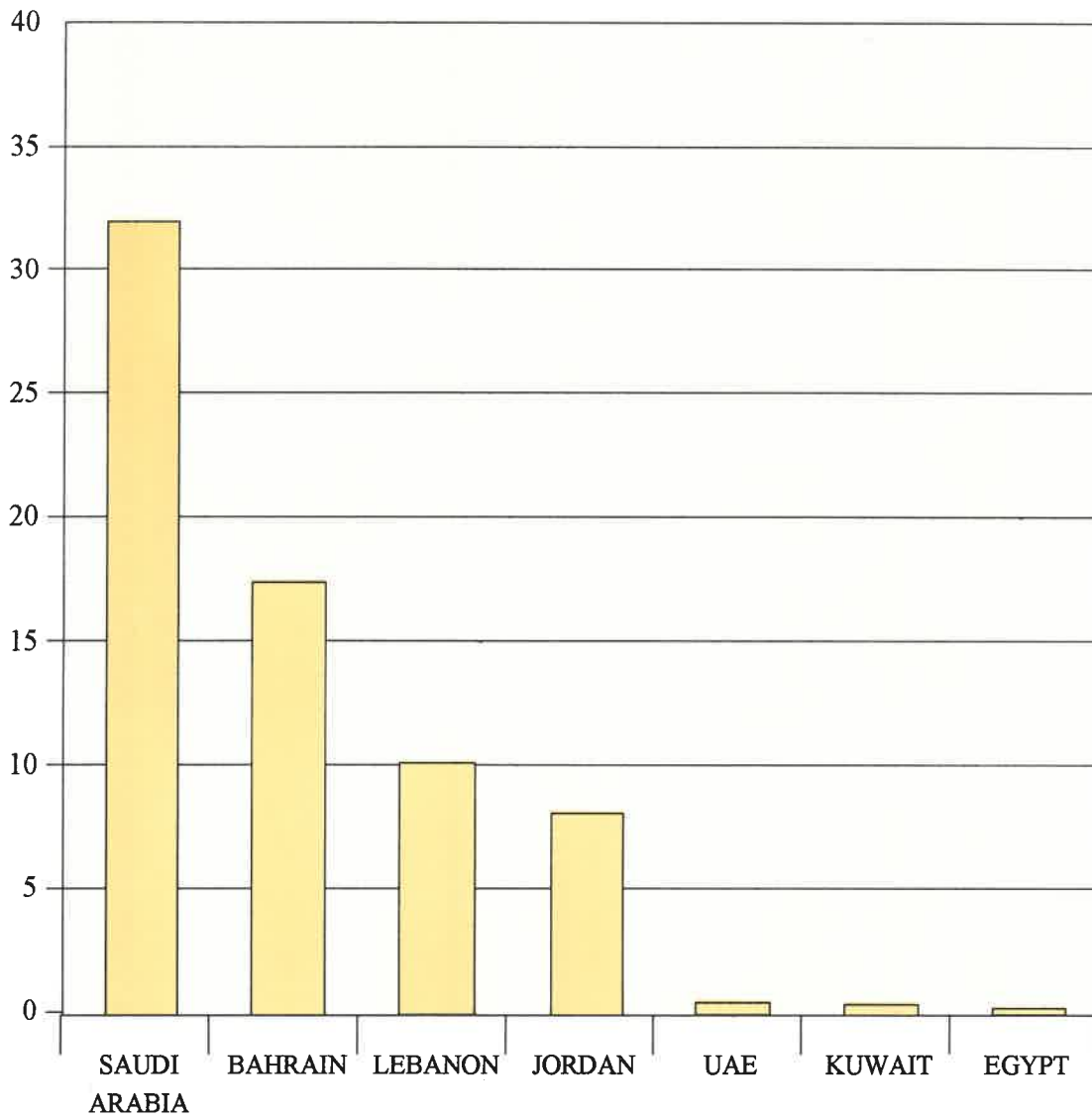
- For Investment Guarantee Contracts: the value of investment realized.

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

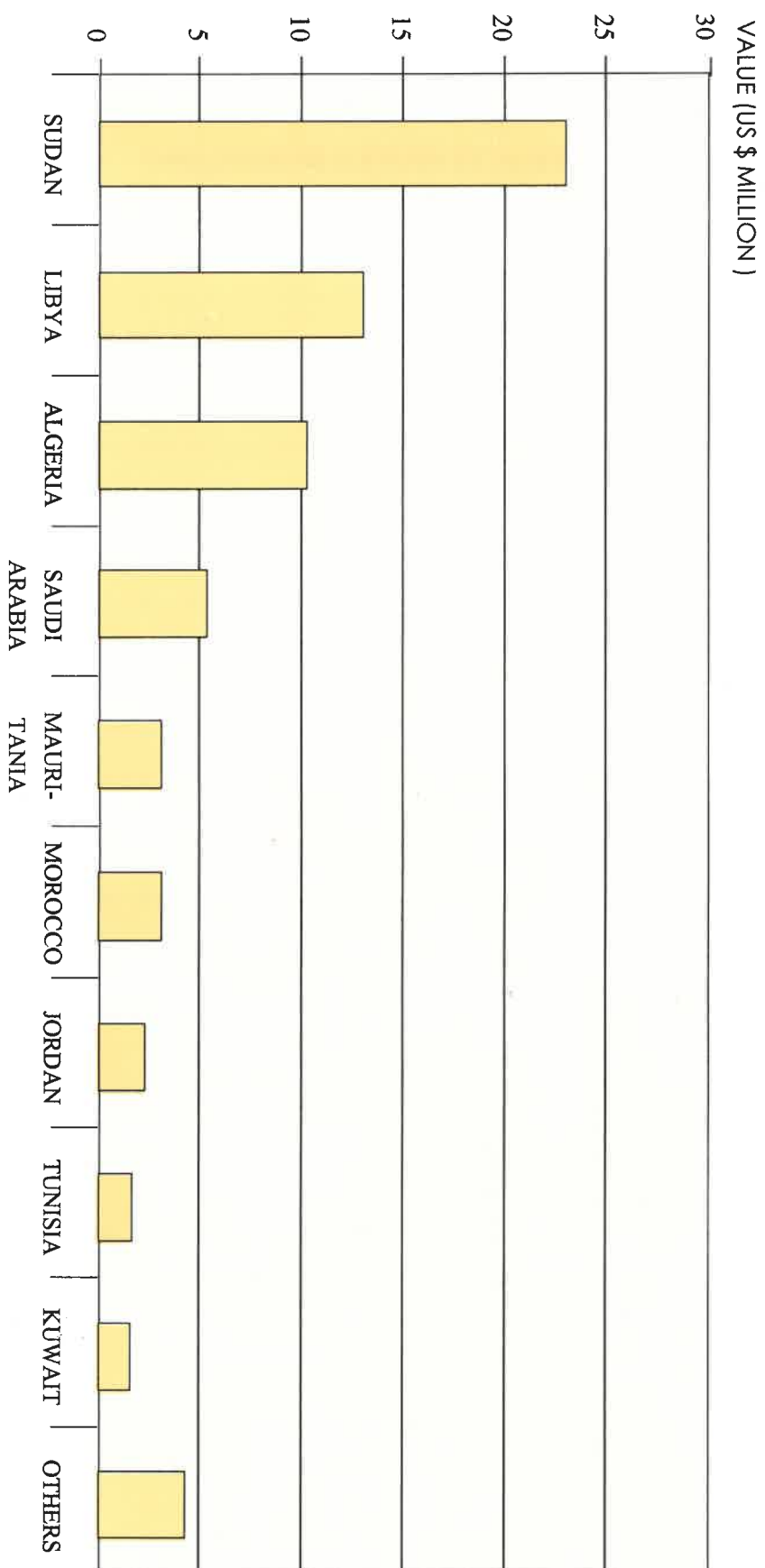
## GRAPHICS

### EXPORT CREDIT CONTRACTS SIGNED DURING 1997 (EXPORTING COUNTRIES)

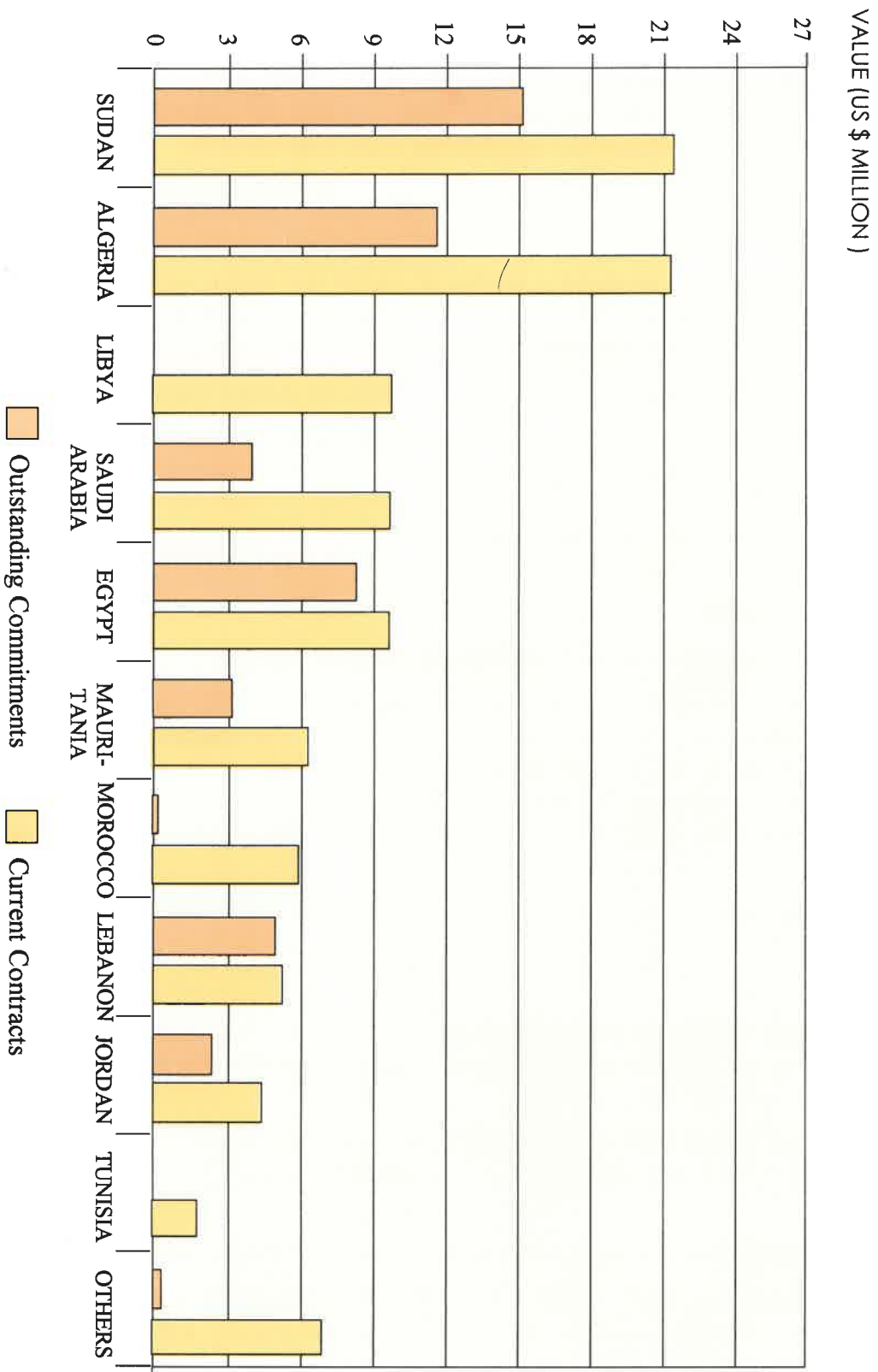
VALUE (US \$ MILLION)



**EXPORT CREDIT GUARANTEE CONTRACTS SIGNED DURING 1997**  
 ( IMPORTING COUNTRIES )



**CURRENT CONTRACTS AND  
OUTSTANDING COMMITMENTS AS AT 31.12. 1997  
(HOST/IMPORTING COUNTRIES )**



## CHAPTER THREE : ANCILLARY ACTIVITIES

In compliance with its convention, the Corporation conducts and sponsors some research activities which are ancillary to its main purpose. These activities are undertaken as part of efforts to identify and promote investment opportunities in the Arab countries.

### **3.1 Reports and Studies:**

During 1997 the Corporation produced a number of reports and studies which dealt with recent developments in investment climate and trends in the Arab countries, as well as issues directly related to the Corporation's domain of activity. Below is a list of these contributions:

#### **3.1.1 The 1996 Annual Report on Investment Climate in the Arab Countries:**

The report, which was thoroughly revised and hence approved by the concerned authorities in the Arab countries, was distributed among governmental institutions in charge of investment, as well as universities, research centres, businessmen, investment companies and Arab and international organizations. On the Other hand, work is now in progress to issue the 1997 report.

#### **3.1.2 Specialized Papers:**

##### **3.1.2.1 "Structural Adjustment and Investment in the Arab World":**

This specialized study covered (10) reforming countries namely, Jordan, Tunisia, Algeria, Sudan, Syria, Lebanon, Egypt, Morocco, Mauritania and Yemen. The objective of the Study is to explain the recent evolution of private investment in the Arab world and the role of structural adjustment programs in this change, besides assessing the potential for promoting investment in the reforming Arab countries to levels consistent with adequate and sustained growth.

In an attempt to highlight the findings of the study, the Corporation organized a workshop in Kuwait in March 1997.

#### **3.1.3 Capsule Series:**

The series is mainly information-generating efforts, which aim at reviewing and analysing related country, regional and international economic reports and studies. The following three contributions were produced during the year:

- 1 -"Egypt Economic Profile 1996" – Ministry of Economy and International Cooperation, in collaboration with the Economic Research Forum for the Arab countries, Iran and Turkey (ERF) 1996.
- 2 -"Education in Middle East and North Africa Region (MENA)" – The World Bank.
- 3 -"Global Competitiveness 1997", which is drawn from two separate reports: "The Global Competitiveness Report" issued by the World Economic Forum; and "The World Competitiveness Yearbook" issued by the International Institute for Management and Development (IMD).

### **3.1.4 IAIGC Services Informational Papers:**

#### **3.1.4.1 "The Role of IAIGC in Encouraging Inter-Arab Investment and Trade":**

The paper reviewed the Corporation's goals and activities, shedding light on investment guarantee against non-commercial risks as well as exports guarantee against commercial and non-commercial risks. The paper was presented to the First Arab Businessmen Society Symposium held in Amman during 6-8/1/1997.

#### **3.1.4.2 "The Role of Guarantee in Encouraging Arab Petrochemical Industries":**

The paper stressed the importance of guarantee services rendered by the Corporation in enhancing investment in petrochemical industries. The paper was presented to the workshop on "Integration of Petrochemical Industries in the Arab Countries" held in Manama during 6-8/1/1997.

#### **3.1.4.3 "IAIGC and Arab Exports Credit and Long-and Medium-Term Loans Guarantee":**

The paper reviewed the importance of finance and guarantee in boosting mutual trade shedding light on the Corporation's experience in inter-Arab trade finance guarantee. The paper reviewed in detail the Corporation's two guarantee schemes, namely investment guarantee scheme, and export credit guarantee scheme, as well as the values of guarantee operations and compensations paid. The paper was presented to the Technical Meeting of Cement Producers in GCC states held in Beesha, Saudi Arabia on 24/3/1997.

#### **3.1.4.4 "Recent Developments in Investment Climate in the Arab Countries and the Role of IAIGC":**

The paper is an attempt to survey the positive effects of economic reform policies and structural adjustment programs on investment climate in the reforming Arab countries. It also referred to the role of IAIGC in encouraging inter-Arab investment. The paper was presented to the Fourth Symposium of the Private Sector in the Islamic Countries, held in Karachi during 27-29/10/1997.

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

IAIGC activities in this aspect include the following:

**3.2.1** Workshop on "Incentives to Foreign Direct Investment in the Arab Countries" in collaboration with the Islamic Development Bank and the United Nations Conference on Trade and Development (UNCTAD), held in Hammamat, Tunisia During 24-25/3/1997.

**3.2.2** The Corporation co-organised the Seventh Arab Businessmen and Investors Conference held in Beirut during 18-20/10/1997.

**3.2.3** The Corporation promoted (37) investment projects through its Bulletin "Daman Al-Istismar" which is distributed among all interested investors researchers and concerned governmental organizations.



**3.2.4** Within its efforts to reinforce relations with investment promotion agencies, the Corporation contacted the Malaysian Industrial Development Authority to provide training opportunities for Arab trainees. Nine Arab trainees from seven Arab countries participated in the training program held in Kuala Lumpur during the year.

### **3.3 Cooperation with Arab and International Organizations:**

During 1997 the Corporation participated in (36) conferences and meetings of various nature. Of special importance to the Corporation are those meetings which bring together exporters, businessmen and investors, because they avail it the opportunity to introduce its services to the conferees. Below is a record of the aforesaid conferences and meetings:

| <b>Conference or Workshop/Organizer</b>  | <b>Place</b>          | <b>Date</b>   |
|--|-----------------------|---------------|
| <b>1. Meetings related to IAIGC Services:</b>  |                       |               |
| -Workshop on "Integration of Petrochemical Industries in the Arab Countries" (Arab Industrial Development and Mining Organization-AIDMO)             | Manama                | 6-8/1/1997    |
| - "The First Arab Businessmen Society Symposium" (Jordanian Businessmen Society)   | Amman                 | 6-8/1/1997    |
| - "The Technical Meeting of Cement producers in G.C.C. States" (Gulf Organization for Industrial Consulting- GOIC)                                   | Beesha (Saudi Arabia) | 24/3/1997     |
| - The Second Symposium on "Exports Finance and Guarantee in G.C.C. States" (G.C.C. and Islamic Development Bank)                                     | Jeddah                | 11-12/10/1997 |
| <b>2. Economic Issues:</b>   |                       |               |
| - The First Annual Conference on "Trade and Management in the Middle East-Globalization of Arab Trade". (Kuwait Centre for Conference Organization ) | Kuwait                | 6-8/1/1997    |
| - Workshop on "Kuwait-Government Program: Reality and Prospects".  | Kuwait                | 16/2/1997     |
| - Workshop on "Arab Banking in the World of Informatics and Modern Communication" (Union of Arab Banks)  | Beirut                | 12-16/5/1997  |
| - The Third Arab Money Markets Conference (Al-Iktisad Wal-Aamal)   | Beirut                | 21-23/5/1997  |
| - Workshop on "Trade and Investment"   | Cairo                 | 25-26/5/1997  |

| Conference or Workshop/Organizer  | Place  | Date          |
|---|--------|---------------|
| (League of Arab States)   |        |               |
| - Workshop on "Opportunities of Industrial Investment" (GOIC)   | Manama | 27-28/5/1997  |
| - Conference on "Linking Arab Money Markets: Mechanism and Goals" (Union of Arab Stock Exchanges and Securities Commissions)  | Cairo  | 15-17/6/1997  |
| - Workshop on "Cement Marketing" (Arab Union for Cement and Building Materials)   | Tunis  | 30/6-3/7/1997 |
| - "Palestinian Expatriate Businessmen Conference" (Ministry of Planning and International Cooperation/Palestine)  | Gazza  | 21-24/7/1997  |
| - "The Second Arab Ceramic Industries Conference" (Arab Union for Cement and Building Materials)  | Beirut | 15-18/9/1997  |
| - Workshop on "Developing Financial Infrastructure in the Arab Countries" (Arab Society for Economic Research)  | Amman  | 17-18/9/1997  |
| - Conference on "Means of Marketing Bahraini Industrial Products in International Markets" (Ministry of Oil and Industry-Bahrain)   | Manama | 20/9/1997     |
| - International Conference on "Globalization : Challenges and Opportunities for Development in the ERF Region" (College of Administrative Sciences: Kuwait University)      | Kuwait | 18-20/10/1997 |
| - Workshop on "Information Services in the Twenty First Century" (The British Council)  | Kuwait | 25/10/1997    |
| - Experts Meeting on "World Trade Organization: Opportunities and Challenges for the ESCWA Region" (ESCWA)  | Kuwait | 24-26/11/1997 |
| - The Fourth Scientific Conference on Evaluation of Economic Reform Programs and Structural Adjustment Policies in the Arab Countries" (Arab Society for Economic Research) | Cairo  | 2-3/12/1997   |
| - The Seventeenth GOIC Workshop on Industrial Investment Opportunities" (GOIC)  | Muscat | 9-10/12/1997  |
| - Conference on "Means of Scientific Research" Ministry of Higher Education- Kuwait)  | Kuwait | 28-29/12/1197 |

- The Investment Arab Network Study, has been finalized and introduced to the Arab League, to be submitted to the Arab Board for the Investment Convention.

### **3.5.2 The Library**

The stock of books at the end of 1997 in the library reached (7332) titles (Arabic, English and French), including (323) new titles which have been accessioned during the year, in addition to documents and papers of (17) Arab and international conferences. Annual reports of (166) international and Arab organizations, banks and companies were added to the library collection.

Further, Fourteen new periodical titles have been subscribed to during the year, bringing the total to (125) periodicals covering various aspects of economic activities relevant to the Corporation's work. The year also saw the publication of the sixteenth issue of the "Index to Selected Arabic Periodical Articles" covering the period January-December 1996. The seventeenth issue for 1997 will be ready early in 1998.

### **3.6 Training:**

In Pursuance to its efforts to enhance the performance of its employees, the Corporation enrolled thirty six staff members in twenty six 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 (11) courses and English Language courses attended by (12) staff members in Kuwait.

Other courses attended in Kuwait, Tunis, Amman and Cairo covered the fields of Marketing, Competitive Marketing Strategies, Training and Job Development, Development of Administrative Skills for Office Managers, Banking Marketing Systems, and Secretarial and Office Skills.

### 3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consist of the following :

|                                      | December 31, |           |
|--------------------------------------|--------------|-----------|
|                                      | 1997         | 1996      |
|                                      | KD.          | KD.       |
| Current and call accounts with banks | 642,127      | 649,634   |
| Time deposits                        | 3,201,594    | 5,881,415 |
|                                      | 3,843,721    | 6,531,049 |

### 4. INVESTMENT PORTFOLIOS AND FUNDS

Investment portfolios' market values amounted to KD. 27,953,146 as of December 31, 1997 (KD. 22,454,524 at December 31, 1996) whereas the cost amounted to KD. 18,807,825 as of the same date (KD. 15,370,669 at December 31, 1996).

### 5. OTHER DEPOSITS

Other deposits represent two deposits placed in banks in two member countries which were deposited by the member countries in favor of the Corporation against partial settlement of unpaid capital in accordance with the Corporation Council resolutions and the agreements between the Corporation and each member country. The utilization of these deposits by the Corporation continues to be limited.

These deposits are in the local currency of each member country and are translated into Kuwaiti Dinars in the Corporation's records at the fixed exchange rate stated in the related agreements.

During 1997, a bank in one of the countries acknowledged accumulated interest in local currency equivalent to KD. 832,122 based on the abovementioned exchange rate. Such interest will be recorded in the statements of revenue and expenditures by the Corporation when it and the related deposit are able to be utilized outside of that country.

### 6. PROMISSORY NOTES RECEIVABLE

Promissory notes are composed of the following:

|   | December 31, |
|---|--------------|
|   | U.S. Dollars |
| Five promissory notes of U.S. Dollars 6,444,752 each  | 32,223,760   |
| Three installments cwithin the period from 1988 to 1990   | (19,334,256) |
| Balance (equivalent to KD. 3,929,365 at the rate of exchange prevailing as of December 31, 1997) (KD. 3,871,878 at December 31, 1996) | 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 paid its share in the above mentioned program amounting to U.S. Dollars 1,250,000 (equivalent to KD. 381,062 at the rate of exchange prevailing as of December 31, 1997 and KD. 375,488 at the rate of exchange prevailing as of December 31, 1996).

During 1997, the Corporation received 24 bonus shares from the program. Accordingly, the Corporation share represents 274 shares as of December 31, 1997 (250 shares as of December 31, 1996) of the program's Capital composed of 100,000 shares authorized and issued (1996-shares issued 90,735) at a nominal value of U.S. Dollars 5,000 each. No revenue has been recorded as a result of receiving the bonus shares.

## 8. RECOVERABLE CLAIMS

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

|   | 1997          | 1996          |
|---|---------------|---------------|
|   | U.S. Dollars  | U.S. Dollars  |
| Recoverable claims – beginning of the year  | 76,292,967    | 76,768,244    |
| Recoverable claims paid during the year - net (see Note 17 B)   | 10,041,885    | -             |
| Claims collected during the year  | (250,000)     | (475,277)     |
| Recoverable claims - end of year  | 86,084,852    | 76,292,967    |
| Total recoverable claims - equivalent to KD.<br>at the rates of exchange prevailing at the<br>respective year end | KD.26,242,968 | KD.22,917,645 |

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:

|  | 1997         | 1996          |
|--|--------------|---------------|
|  | U.S. Dollars | U.S. Dollars  |
| Balance - beginning of year  | 25,160,119   | 20,722,401    |
| Interest charged for the year  | 5,290,949    | 4,437,718     |
| Balance - end of year  | 30,451,068   | 25,160,119    |
| Equivalent to KD. at the rates of exchange prevailing at the respective year end | KD.9,283,008 | KD. 7,557,848 |

#### **9. ACCOUNTS RECEIVABLE - RE-INSURANCE CLAIMS AND RE-INSURANCE CLAIMS PAYABLE ( SEE NOTE 17 C)**

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, 1997.

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 back to the Kuwaiti government.

In accordance with finance lease accounting, the Corporation's future minimum payments as of December 31, 1997 of KD. 3,965,580 was discounted to the present value of the Corporation's future payments of KD. 1,435,893.

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:

| <b>Period</b>                     | <b>Amount KD.</b> |
|-----------------------------------|-------------------|
| From 1998 to 1999                 | 220,310           |
| From 2000 to 2009                 | 1,101,550         |
| From 2010 to 2033                 | 2,643,720         |
| Total minimum payments            | 3,965,580         |
| Less: imputed interest            | (2,529,687)       |
| Present value of minimum payments | 1,435,893         |

#### **11. RESTRICTED ASSETS**

Restricted assets as of December 31, 1996 include certain current and call accounts, time deposits and bonds which were restricted from the Corporation's use during 1996 and released during 1997 as disclosed in Note 17 (B).

|                                      | <b>KD.</b> |
|--------------------------------------|------------|
| Current and call accounts with banks | 1,253,046  |
| Time deposits                        | 427,197    |
| Straight bonds                       | 3,605,504  |
|                                      | 5,285,747  |

## 12. ACCOUNTS PAYABLE AND OTHER CREDIT ACCOUNTS

|  | 1997      | 1996      |
|--|-----------|-----------|
|  | KD.       | KD.       |
| Due to Arab Fund for Economic and Social |           |           |
| Development (Note 10)                    | 1,435,893 | 1,444,905 |
| Due to re-insurance companies            | 76,020    | 72,613    |
| Provision for staff leave                | 89,936    | 107,340   |
| Provision for encyclopedia               | 62,694    | 65,549    |
| Other                                    | 131,684   | 152,744   |
|  | 1,796,227 | 1,843,151 |

## 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 No2./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.741,256. The capital of the Corporation is as follows:

|                  | 1997       | 1996       |
|------------------|------------|------------|
|                  | KD.        | KD.        |
| Capital issued   | 25,283,735 | 25,283,735 |
| Unpaid capital   | ( 303,598) | ( 368,395) |
| Uncalled capital | ( 500,000) | ( 500,000) |
| Paid up capital  | 24,480,137 | 24,415,340 |



(B)Member Countries Shareholdings:

|   | CAPITAL<br>ISSUED<br>KD. | CAPITAL<br>DUE AS OF<br>DECEMBER<br>31,1997<br>KD. | PAID-UP<br>CAPITAL AS<br>OF DECEMBER<br>31,1997<br>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<br>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  | 946,402  |
| 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' Libyan Arab<br>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   | 24,480,137   |

#### 14. EXCHANGE (LOSS) GAIN

Exchange (loss) gain resulted from the conversion of the recorded assets and liabilities at December 31, 1997 and 1996 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:

|                        | 1997      | 1996      |
|------------------------|-----------|-----------|
|                        | KD.       | KD        |
| Deutsche Mark          | ( 95,907) | ( 65,477) |
| U.S. Dollar            | 591,534   | 16,771    |
| European Currency Unit | ( 64,567) | ( 20,548) |
| Japanese Yen           | ( 59,842) | ( 57,743) |
| Canadian Dollar        | 2,535     | ( 8,244)  |
| Gt. Britain Pound      | ( 3,752)  | 110,141   |
| Other currencies       | ( 10,536) | ( 13,777) |
|                        | 359,465   | ( 38,877) |

#### 15. OTHER REVENUES

In 1997 other revenues include a gain of KD. 54,634 resulting from sales of assets acquired in settlement of debt.

#### 16. PROVISION FOR UNEXPIRED RISKS

Effective 1994, the Corporation discontinued its policy of making 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. See Note (1) for explanation of insured risks.

#### 17. CONTINGENT AND UNRECORDED LIABILITIES

(A) The contingent liabilities for the current guarantee contracts signed by the Corporation with other parties as of December 31, 1997 amounted to KD. 31,895,330 out of which executed guarantee operations amounted to KD. 15,623,956. Approximately KD.303,440 of this amount is re-insured against commercial risks. This represents total outstanding contingent guarantees as of December 31, 1997.

(B) During 1997 the Corporation paid a claim of U.S. Dollars 10,041,885 equivalent to KD. 3,061,269 at the rate prevailing as of December 31, 1997) including interest to December 31, 1994 to a bank in connection with an arbitration award. In addition to this payment the Corporation was also required to issue a letter of guarantee to the bank for French francs 6,084,575 (equivalent to KD. 309,565 at the rate prevailing as of December 31, 1997). As a result the Corporation's assets which were restricted in certain banks during 1996 were released. The Corporation charged the related member country with such claim according to its policy not to record the obligation until payment.

The bank has appealed before the court claiming for a delay interest on the above mentioned claim. The delay interest amounted to U.S. Dollars 1,459,495

(equivalent to KD. 444,927 at the rate prevailing as of December 31, 1997). The claim is still pending before the court.

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.317,044 at the rate of exchange prevailing as of December 31, 1997). 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 is made. As a result of the award the Corporation's rights to claim against the insurance companies in one of the member countries are restricted. Such rights amounted to KD. 1,167,195 as of December 31, 1997 and are included in accounts receivable-reinsurance claim balance. The Corporation has challenged the validity of the arbitration proceedings and the matter is still pending before the court.

(D) Another claim has been raised by an Arab company in the amount of KD. 982,175 plus interest from May 26, 1996 until date of payment. The claim is currently pending before the court.

#### **18. PROVIDENT AND SOCIAL SECURITY FUND**

Following is cumulative proceeds for the fund and its assets at December 31, 1997:

|                             | KD.       |
|-----------------------------|-----------|
| Employees' contributions    | 187,106   |
| Employees' indemnities      | 748,334   |
| Earning from investments    | 293,014   |
|                             | 1,228,454 |
| Assets at:                  |           |
| Investments                 | 722,769   |
| Loans due from participants | 505,685   |
|                             | 1,228,454 |

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

#### **19. SIGNIFICANT INSURED PARTIES**

One insured party accounted for 61% and 32% of the total premiums earned during the two years ended December 31, 1997 and 1996 respectively.

#### **20. EMPLOYEES INVESTMENTS**

The Corporation acted as a custodian for certain of its employees' investments in investment funds as of December 31, 1996. The accounts of which were excluded from these financial statements. The investments were jointly made with those of the Corporation's and the Provident and Social Security Fund. During 1997 the Corporation discontinued this practice.