

**THE INTER - ARAB INVESTMENT  
GUARANTEE CORPORATION**

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**THE TWENTY FOURTH**

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**ANNUAL REPORT 1998**

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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 Benmansour	Member
H.E. Mr. Abdel Rahman Al Scheebani	Member
H.E. Mr. Murtadha ben 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 26th. 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 1998.

Please accept my highest consideration ,

**Mamoun Ibrahim Hassan**  
Director-General

Doha, April, 1999

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## CHAPTER ONE: INTRODUCTION

### 1.1 World Economic Performance:

The world economic slowdown deepened and broadened in 1998 surpassing earlier forecasts to a growth rate of merely 2.2% compared to 4.2% in 1997, affected adversely by the slowdown in the Asian economies, in the wake of the financial crisis, and exacerbated by the contagion effect of the crisis in Russia and Brazil. These developments contributed to weaken investors' confidence towards emerging markets, and led to dwindling private financial flows to them. Furthermore, the financial and foreign exchange markets witnessed increased turbulence and large movements of funds to mature markets. The commodity and oil prices dropped drastically, which caused deteriorating internal and external balances in several developing countries. Increased calls were staged for the adoption of measures that would address issues relevant to more transparency, accountability, and good governance, as well as to closely follow capital flows movements and fighting corruption.

The advanced economies, comprising the major industrial countries and other advanced economies witnessed a slowdown in economic growth from 3.2% in 1997 to 2.0 % in 1998. Most of the advanced economies recorded moderate improved performance throughout the year, except for Japan, which entered into recession, recording a negative growth of (2.8 %) in 1998 from 1.4 % in 1997. This was largely attributed to the slow implementation of the economic reform package, the continued weak performance of the banking sector aggravated by the accumulation of bad debts problem, and the unprecedented depreciation of the yen exchange rate against the US dollar since more than eight years, though the yen recovered part of its strength towards yearend.

The developing countries recorded a positive but slower growth in 1998 at 2.8% compared to 5.7% in 1997. The group of developing Asian countries witnessed a drastic decline in the economic growth rate from 6.6% in 1997 to around 2.6% in 1998. The Western Hemisphere developing countries economic growth dropped from 5.1% to 2.5%, while countries in transition (Russia, Central and Eastern Europe, and Central Asia) recorded a negative growth around (0.8 %) down from 1.9% in the same period. The African developing countries were the only group that registered an increase, though modest, in their economic growth as it rose by 3.6% in 1998 up from 3.2% in 1997.

Inflation receded in the advanced economies increasing by a mere 1.6% in 1998 down from 2.1% in 1997. The developing countries on the other hand, witness moderate rise from 9.2% in 1997 to 10.2% in 1998, and the countries in transition reduced their average inflation from 27.9% to 21% in the same period. However these rates remained high and in the double-digit category, especially for countries in transition, which warranted the adoption of a series of measures within the framework of their macro-economic policy.

World trade in goods and services performance was sluggish as it grew by 3.3% in 1998 down from 9.9% in 1997. Imports of advanced economies grew by 4.6% in 1998 down from 9.2% in 1997, and their exports dropped from 10.4% to 3.3% for the same period. The developing countries imports declined by 0.7% in 1998 from a remarkable growth of 10.4 %

in 1997, and the countries in transition imports dropped from 8.2% to 1.0 % for the same period. Exports of developing countries declined from 11.3% in 1997 to 2.9% in 1998, while the countries in transition exports declined from 6.9% to 3.5 % for the same period. It is noted that prices of primary, non-oil, commodities recorded a decline of 15.6% in 1998, while oil prices drastically dropped by 30.5% year-on-year.

Current account surplus in the overall balance of payments of the advanced economies declined from \$ 72 billion in 1997 to \$ 44 billion in 1998, while the recorded deficit in the current account balance of the developing countries increased from (\$ 66) billion to (\$ 95) billion. Countries in transition witnessed slight improvement in the current account deficit from (\$ 25) billion to (\$ 21) billion in the same period.

External debt for developing countries increased in 1998 to reach around \$ 1925 billion from \$ 1791 billion in 1997, and that for the countries in transition increased from \$ 286 billion to \$ 323 billion in the same period. The external debt covered 160% and 106.6% of each group exports of goods and services, recording a debt service ratio of 24.6% and 15.2% respectively.

### **World Investment Trends:**

The flow of foreign direct investments (FDI) resumed its upward trend in 1998 despite the spillover effect of the financial crisis, the divergent economic performance of major economic groups, and was driven by the strength of the internationalization of factors of production, the enhanced economic integration by increased cross-border mergers and acquisitions (M&As) of the Transnational Companies (TNCs), and absorption of a rising share of FDI into privatization programs. The year witnessed increased momentum on investment liberalization and deregulation measures, on-going efforts to reach consensus-building to develop an international agreement on investment, and deepening realization of the significance of intellectual property rights endowed in technological advancement and innovation in attracting larger share of FDI.

The global FDI inflows are expected to have reached around \$ 440 billion in 1998 up by nearly 10% from \$ 350 billion in 1997. In 1997, the developed countries share of total FDI flows remained high at 58%, while the developing countries received around 37% and the countries in transition only 5 %. The volume of cross-border M&As rose by 45% from \$ 163 billion in 1996 to \$ 236 billion in 1997 and comprised 48% and 59% respectively of total FDI inflows in 1996 and 1997.

The developing countries received estimated FDI inflows of \$ 162 billion in 1998 compared to inflows of \$ 149 billion in 1997, increasing by 8.7%. The published figures for 1997 showed that South, East, and South East Asian countries received \$ 82.4 billion and the Latin American and Caribbean countries attracted \$ 56.1 billion, such that both continued to engross the bulk of FDI inflows to developing countries, comprising around 93%. China led its group (\$ 45.3 billion) in receiving FDI inflows, while Brazil came first within its group (\$ 16.3 billion), and together they claimed more than 41% of total FDI inflows to developing countries. The developing countries in Africa, excluding the Arab North African countries, received only 3.1 % of total FDI inflows to developing countries, which was centered in South Africa (\$ 1.7 billion) and Nigeria (\$1.0 billion). FDI inflows to Russia, Central and

Eastern Europe increased from \$13.1 billion in 1996 to \$ 19.1 billion in 1997. Russia and Poland shares in 1997 were \$ 6.2 billion and \$ 5.0 billion respectively.

FDI inflows to the Arab countries were estimated to have risen to \$ 3.1 billion in 1998 from \$ 2.99 billion in 1997, yet remained marginal in terms of international FDI inflows. According to 1997 figures, the major recipients were Egypt (\$ 834 million), Morocco (\$ 500 million), Saudi Arabia (\$ 400 million), Tunisia (\$ 360 million), Lebanon (\$ 337 million), and Libya (\$110 million).

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

According to available information, the Arab countries as a group witnessed moderate rates of real economic growth in 1998 around 1.7%, down from 4.0% in 1997. However, the year witnessed several favorable developments that included stepped up efforts of structural adjustment programs, the continued implementation of privatization programs, further activation of the role of the private sector in the development process, adoption of several measures to facilitate liberalization and integration of Arab financial markets in the global economy, improved competitiveness of Arab exports, and enhanced image building to make the region more attractive for FDI. Other measures dealt with intellectual property rights, supervision, and transparency in the financial and banking system capitalizing on recent lessons learnt from South East Asia.

Inflation rate stabilized in many Arab countries around acceptable levels. While some Arab countries made significant progress in lowering their inflation rate like Sudan in which inflation dropped from 31.9% in 1997 to around 15% in 1998, Lebanon (from 9.0% to 4.5%), and Algeria (from 7.5% to 5.0%) for the same period.

The Arab oil revenues drastically dropped as a result of deteriorating oil prices by more than 30%. The oil price collapse resulted from a number of factors amongst which were the decline in Asian demand for oil in the wake of the financial crisis that bestowed their economies, the excess supply of oil from non-OPEC oil producers, and the weak adherence of OPEC members to allocated production quotas. The steep decline of oil revenues adversely affected internal and external balances of oil exporting Arab countries and caused delays in execution of several developmental projects.

Oil revenues of Arab OPEC members dropped from \$ 117 billion in 1997 to around \$ 77 billion in 1998. Within this group, the Arab Gulf countries oil revenues declined from \$ 96.9 billion to \$ 61.3 billion in the same period, which yielded a rising budget deficit of around \$ 24 billion, that comprised around 9% of their joint Gross Domestic Product.

To strengthen their internal fiscal positions, those countries adopted several measures to curtail public expenditure, attain gradual elimination for subsidized services and goods, diversify sources of public revenue from direct and indirect taxes, empower the private sector to assume more active role, and expedite the implementation of the privatization programs. Serious consideration for entering production agreements with international oil companies in upstream operations emerged.



Arab stock markets in 1998 were subjected to a major technical correction movement in response to the exaggerated levels it rose to in 1997. They were adversely affected by tight liquidity situation, weakened investors' confidence, and fell victim to low oil prices, and repercussions of the Asian financial crisis, though the latter had limited effects as Arab stock markets are not fully integrated in international financial markets. Arab stock markets encountered uneven performance as Oman, Kuwait, and Saudi Arabia markets declined steeply by 52%, 40%, and 27% respectively, while Qatar market, among others, rose remarkably by 35%.

Market capitalization of the nine stock markets monitored by the Arab Monetary Fund decreased to \$ 122.87 billion at the close of 1998 compared to \$ 145 billion at the close of 1997. The volume of trading dropped to \$ 35.54 billion in 1998 compared to \$ 63.88 billion in 1997, and the number of shares traded declined to 15.84 billion shares compared to 35.83 billion shares in the same period. The total number of companies registered in those stock exchanges reached 1446 companies in 1998 compared to 1184 companies in 1997.

The inter-Arab investments were estimated to have reached \$ 2.26 billion in 1998 compared to \$ 1.59 billion in 1997. Lebanon advanced to leading position in hosting inter-Arab investments (\$400 million), followed by Egypt, and Emirates. Saudi Arabia was the main source of investment in other Arab countries followed by Emirates and Kuwait. Most of the investments were allocated in the services(41%), industrial (29%), and agricultural (28.5%) sectors.

Investment promotion in the Arab countries evolved both qualitatively and quantitatively during the year, as reflected by increased number of Arab investment promotion agencies (IPAs), and enhanced utilization of available investment promotion techniques, while capitalizing on lessons learnt from emerging economies. The notion of "country promotion" was deepened especially in relevance to the impact of the stability of the legislative, political, and economic systems, as vital components of an enabling investment environment. On the sector and industry levels, investment promotion activities covered priority sector promotion and feasible and financially sound specific investment opportunities. These efforts were intended to attract more FDI, that would yield the added value of settlement of technical, administrative and HRD skills in addition to inbound financial resources.

The privatization programs pace remained slow and the size modest in most of the Arab countries, with mixed performance compared to other regions of the world. The total volume in 1998 is estimated to have reached around \$1.05 billion centered in Tunis (\$ 364 million which comprised 47% of the FDI inflows to the country in 1998), Egypt (\$ 339 million), Kuwait( \$ 167 million) covering mainly financial, industrial, and service-oriented entities. The major privatization projects in the telecommunications, transport, infrastructure and utilities sectors were not fully launched yet. Reports showed that the Arab countries attracted only around 6% of FDI through the purchase of shares in the privatized entities, whereas privatization programs in Eastern Europe and Latin American and the Caribbean countries attracted around 43% and 15% of FDI inflows respectively.

The Greater Arab Free Trade Area (GAFTA) executive program entered its first year of operation as of January 1998. By yearend, a total of 14 Arab countries were committed to implement the program. These countries comprised more than 90% of Arab total external trade, and 96% of inter-Arab trade. The first year achievements included the beginning of gradual annual reductions of 10% in customs tariffs levels, submission of custom tariffs schedules, submission of negative lists, and defining rules of origin of Arab goods. Despite genuine interest in attaining seamless implementation, there remained certain areas to be duly addressed including elimination of non-tariff barriers, standardization, and issues relevant to agricultural products. The GAFTA is intended to be a leap forward towards the achievement of the Greater Arab Common Market, which in turn should lead to the consolidation of an Arab regional economic bloc that would be the primary consideration in entering into agreement with other regional groups, and in observing requirements of the World Trade Organization agreements.

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

The total value of guarantee contracts signed in 1998 amounted to (US\$123 million) around (KD. 37 million). The total value of current guarantee contracts as at 31/12/1998 reached (US\$ 158 million) around (KD 47.7 million.). The value of operations executed (outstanding commitments) within current contracts amounted to (US\$53.6 million) around (KD.16.2 million).

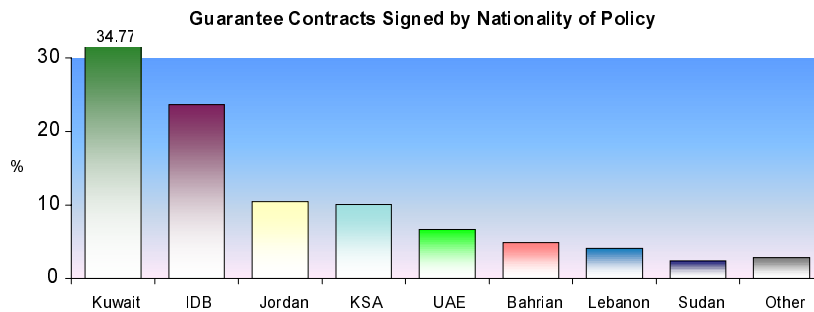
Regarding its ancillary activities and support services of its guarantee operations, the Corporation continued in 1998 to provide investment promotion services, to facilitate human resource development, to publish its annual survey that depicts the progress of investment climate in the Arab Countries, and to prepare specialized studies that aim at raising investment awareness. On the other hand, the Corporation resumed its efforts to enhance its staff professional capabilities on levels pertaining to marketing, promotion, and effective utilization of modern technology. These efforts included generalizing the use of intra-net and Internet. Further steps were taken to establish the Corporation's website in the Internet, to cope with advancements in modern technology and communications, and to expand the scope of its marketing services. The Corporation's networking activities were strengthened during the year , increasing interaction with a wide range of counterparts, including national guarantee institutions, investment promotion agencies in the member countries, Arab and joint chambers of commerce, non-Arab guarantee organizations, Arab League organizations, the Islamic Corporation for the Insurance of Investment and Export Credit, and the Multilateral Investment Guarantee Agency (MIGA). In this regard, the Corporation responded favorably to other regional initiatives that sought its advice, based on the Corporation's extensive experience and leading role in establishing the Arab guarantee system.

## CHAPTER TWO : GUARANTEE OPERATIONS

### 2.1 Guarantee Contracts:

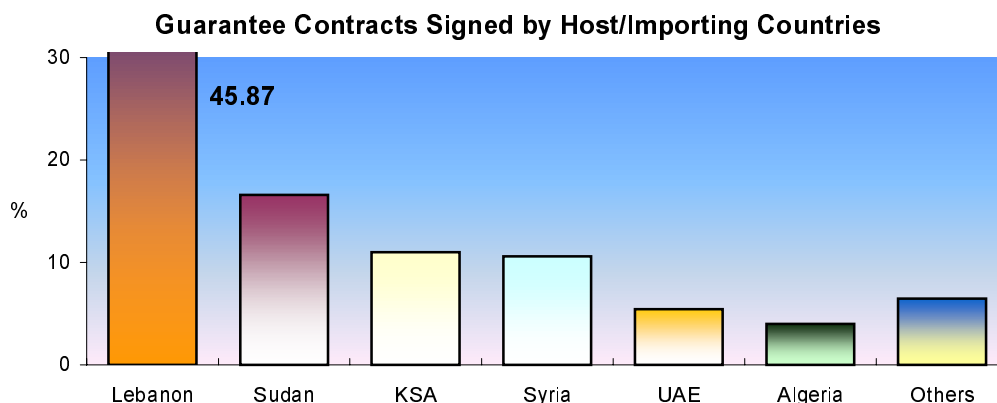
#### 2.1.1 Value of Contracts In 1998:

During the year 50 guarantee contracts amounting to US\$ 122,765,162 (KD. 37,115,596)<sup>1</sup> were signed, of which 7 contracts were within the framework of the investment guarantee scheme totaling US\$ 65,972,134 (KD. 19,945,356), and 43 export credit guarantee contracts totaling US\$ 56,793,028 (KD. 17,170,240). (See table 1).



The contracts' value has jumped by 76.1% as compared to last year's total value of US\$ 69,703,864 (KD. 21,249,223)<sup>2</sup>.

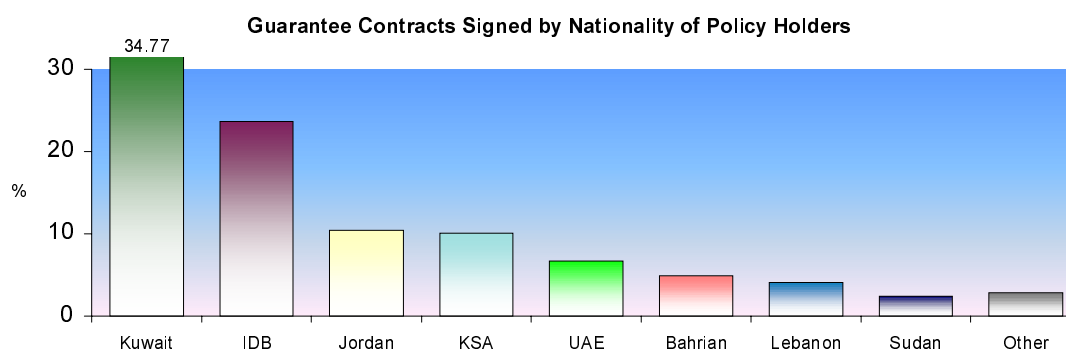
Lebanon topped the list of 17 host/importing Arab countries with 45.87%, followed by Sudan with 16.6%, Saudi Arabia 11%, Syria 10.6%, UAE 5.45%, Algeria 4%, and, another 11 Arab countries combined with 6.48%.



<sup>1</sup> US\$1 = KD. 0.30233 as at 31.12.1998.

<sup>2</sup> US\$1 = KD. 0.30485 as at 31.12.1997.

The list of donor/exporting countries comprises 11 countries in addition to the Islamic Development Bank. Kuwait topped the list with 34.77%, followed by the Islamic Development Bank with 23.66%, Jordan 10.45%, Saudi Arabia 10.12%, UAE 6.74%, Bahrain 4.89%, Lebanon 4.11%, Sudan 2.44%, then Syria, Egypt, Tunisia, and Morocco combined with 2.82%.



## 2.1.2 Details of Contracts Signed:

### 2.1.2.1 Investment Guarantee Contracts:

Kuwaiti investors held a 56% share in contracts signed, the balance (44%) was for the Islamic Development Bank. Lebanon hosted 83% of the guaranteed investments; Syria hosted the remainder (17%). (See table 3)

#### Details of the contracts signed during the year:

- 1- Loan Guarantee Contract signed with the Islamic Development Bank to guarantee a loan to Lebanon for financing a high voltage electricity network. The value of the contract is US\$ 29,052,134 (KD.8,783,332).
- 2- Direct Investment Guarantee Contract in Lebanon for the construction of a car park at Beirut International Airport, signed with a Kuwaiti company. The value of the contract is US\$ 25,700,000 (KD.7,769,881).
- 3- Equity Participation Guarantee Contract for the investment in the capital of a tourism services company in Syria, signed with a Kuwaiti company. The value of the contract is US\$ 2,200,000 (KD. 665,126).
- 4- Equity Participation Guarantee Contract for the investment in the capital of a tourism services company in Syria, signed with a Kuwaiti company. The value of the contract is US\$ 2,200,000 (KD. 665,126).
- 5- Equity Participation Guarantee Contract for the investment in the capital of a tourism services company in Syria, signed with a Kuwaiti company. The value of the contract is US\$ 4,620,000 (KD. 1,396,765).

- 6- Equity Participation Guarantee Contract for the investment in the capital of a tourism services company in Syria, signed with a Kuwaiti company. The value of the contract is US\$ 1,100,000 (KD. 332,563).
- 7- Equity Participation Guarantee Contract for the investment in the capital of a tourism services company in Syria, signed with a Kuwaiti company. The value of the contract is US\$ 1,100,000 (KD. 332,563).

#### **2.1.2.2 Export Credit Guarantee Contracts:**

Jordan topped a list of eleven exporting countries with 22.59%, Saudi Arabia with 21.87%, UAE with 14.58%, Bahrain with 10.56% followed by Kuwait with 10.15%, Lebanon with 8.89%, Sudan with 5.28% followed by Syria, Egypt, Tunisia and Morocco with 6.08%. (see table 2)

Sudan topped a list of seventeen importing countries with 35.88%, followed by Saudi Arabia with 23.77%, UAE with 11.79%, Algeria with 8.69%, Syria with 3.17%, Morocco with 2.88%, Lebanon with 2.74%, Libya with 2.6%, Egypt with 2.52%, Kuwait, Qatar, Jordan, Oman, Bahrain, Yemen, Tunisia and Mauritania with a total of 5.96%. (see table 2).

#### **Details of Contracts signed during the year:**

- 1- A Letter of Credit Guarantee Contract to cover the exports of cement from Jordan to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 3,000,000 (KD. 906,990).
- 2- A comprehensive contract to cover the exports of assorted paints from Jordan to several importers in different Arab countries, against commercial and non-commercial risks. The value of the contract is US\$ 250,000 (KD. 75,583).
- 3- A specific contract to cover the exports of compounded liquid fertilizers from Jordan to Lebanon, against commercial and non-commercial risks. The value of the contract is US\$ 100,000 (KD. 30,233).
- 4- A comprehensive contract to cover the exports of car paints from Jordan to several importers in Saudi Arabia, against commercial and non-commercial risks. The value of the contract is US\$ 400,000 (KD. 120,932).
- 5- A specific contract to cover the exports of car paints from Jordan to Kuwait, against commercial and non-commercial risks. The value of the contracts is US\$ 300,000 (KD. 90,699).
- 6- A Letter of Credit Guarantee Contract to cover the exports of cement from Jordan to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 3,000,000 (KD. 906,990).
- 7- A specific contract to cover the exports of electrical appliances from Jordan to UAE, against commercial and non-commercial risks. The value of the contract is US\$ 400,000 (KD. 120,932).

- 8- A comprehensive contract to cover the exports of drip irrigation systems from Jordan to UAE and Lebanon, against commercial and non-commercial risks. The value of the contract is US\$ 380,000 (KD. 114,885).
- 9- A comprehensive contract to cover the exports of electrical appliances from Jordan to UAE and Qatar, against commercial and non-commercial risks. The value of the contract is US\$ 1,000,000 (KD. 302,330).
- 10- A specific contract to cover the exports of medicine from Jordan to Algeria, against non-commercial risks. The value of the contract is US\$ 4,000,000 (KD. 1,209,320).
- 11- A comprehensive contract to cover the exports of circular irrigation systems, deep turbo pumps and harvesting equipment from Saudi Arabia to several importers in different Arab countries, against commercial and non-commercial risks. The value of the contract is US\$ 2,850,000 (KD. 861,641).
- 12- A specific contract to cover the exports of high voltage electrical cables from Saudi Arabia to Lebanon, against commercial and non-commercial risks. The value of the contract is US\$ 1,245,413 (KD. 376,526).
- 13- A specific contract to cover the exports of solvents from Saudi Arabia to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 2,000,000 (KD. 604,660).
- 14- A comprehensive contract to cover the exports of assorted products from Saudi Arabia to several importers in different Arab countries, against commercial and non-commercial risks. The value of the contract is US\$ 3,199,488 (KD. 967,299).
- 15- A specific contract to cover the exports of primary and secondary carpet lining from Saudi Arabia to Jordan, against commercial and non-commercial risks. The value of the contract is US\$ 250,000 (KD. 75,583).
- 16- A Letter of Credit Guarantee Contract to cover the exports of gas cylinders from Saudi Arabia to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 2,376,000 (KD. 718,336).
- 17- A Letter of Credit Guarantee Contract to cover the exports of oil and lubricants from Saudi Arabia to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 500,000 (KD. 151,165).
- 18- A Letter of Credit Guarantee Contract to cover the exports of stationery products from UAE to Libya, against commercial and non-commercial risks. The value of the contract is CHF 698,880 (US\$ 507,243) (KD. 153,355).
- 19- A specific contract to cover the exports of foodstuff from UAE to Saudi Arabia, against commercial and non-commercial risks. The value of the contract is US\$ 408,437 (KD. 123,483).

- 20- A Letter of Credit Guarantee Contract to cover the exports of cutting and molding blocks from UAE to Syria<sup>3</sup>, against commercial and non-commercial risks. The value of the contract is US\$ 1,514,511 (KD. 457,882).
- 21- A specific contract to cover the exports of refined sugar from UAE to Saudi Arabia, against commercial and non-commercial risks. The value of the contract is US\$ 5,850,000 (KD. 1,768,631).
- 22- A Buyer Credit Guarantee Contract to cover the credit facilities extended by a Bahraini financial institution to a Sudanese importer, against commercial and non-commercial risks. The value of the contract is US\$ 6,000,000 (KD. 1,813,980).
- 23- A specific contract to cover the exports of oil products from Kuwait to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 500,000 (KD. 151,165).
- 24- A specific contract to cover the exports of oil products from Kuwait to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 500,000 (KD. 151,165).
- 25- A specific contract to cover the exports of prefabricated steel buildings from Kuwait to Saudi Arabia, against commercial and non-commercial risks. The value of the contracts is SAR 281,600 (US\$ 75,081) (KD. 22,699).
- 26- A comprehensive contract to cover the exports of fiberglass insulation from Kuwait to several importers in UAE, Bahrain and Saudi Arabia, against commercial and non-commercial risks. The value of the contract is KD. 1,403,000 (US\$ 4,640,624).
- 27- A contract to cover the exports of prefabricated steel buildings from Kuwait to Saudi Arabia, against commercial and non-commercial risks. The value of the contract is SAR 182,771 (US\$ 48,731) (KD. 14,733).
- 28- A contract to cover the exports of plastic display stands from Lebanon to Saudi Arabia, against commercial and non-commercial risks. The value of the contract is US\$ 250,000 (KD. 75,583).
- 29- A comprehensive contract to cover the exports of packaging materials from Lebanon to several importers in UAE and Qatar, against commercial and non-commercial risks. The value of the contract is US\$ 900,000 (KD. 272,098).
- 30- A comprehensive contract to cover the exports of organic fertilizers from Lebanon to several importers in UAE and Saudi Arabia, against commercial and non-commercial risks. The value of the contract is US\$ 600,000 (KD. 181,398).
- 31- A contract to cover the exports of industrial equipment from Lebanon to Saudi Arabia, against commercial and non-commercial risks. The value of the contract is US\$ 52,500 (KD. 15,872).

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<sup>3</sup> The guaranteed L/C was issued by a Lebanese Bank.

- 32- A comprehensive contract to cover the exports of construction equipment from Lebanon to several importers in Egypt, against commercial and non-commercial risks. The value of the contract is US\$ 800,000 (KD. 241,864).
- 33- A comprehensive contract to cover the exports of cosmetics and medicines from Lebanon to several importers in different Arab countries, against commercial and non-commercial risks. The value of the contract is US\$ 1,170,000 (KD. 353,728).
- 34- 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\$ 1,275,000 (KD. 385,471).
- 35- A contract to cover the exports of sesame seeds from Sudan to UAE, against commercial and non-commercial risks. The value of the contract is US\$ 3,000,000 (KD. 906,990).
- 36- A Letter of Credit Guarantee Contract with a Syrian national to cover the exports of medicine to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 500,000 (KD. 151,165).
- 37- A Letter of Credit Guarantee Contract with a Syrian national to cover the exports of urea to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 500,000 (KD. 151,165).
- 38- A Letter of Credit Guarantee Contract with a Syrian national to cover the exports of medicine to Sudan, against commercial and non-commercial risks. The value of the contract is US\$ 500,000 (KD. 151,165).
- 39- A specific contract to cover the exports of aluminum conductors from Egypt to Saudi Arabia, against commercial and non-commercial risks. The value of the contract is US\$ 100,000 (KD. 30,233).
- 40- A specific contract to cover the exports of steel profiles from Egypt to Morocco, against commercial and non-commercial risks. The value of the contract is US\$ 1,000,000 (KD. 302,330).
- 41- A specific contract to cover the exports of rubber tires from Tunisia to Morocco, against commercial and non-commercial risks. The value of the contract is US\$ 500,000 (KD. 151,165).
- 42- A specific contract to cover the exports of textiles from Morocco to Saudi Arabia, against commercial and non-commercial risks. The value of the contract is US\$ 150,000 (KD. 45,350).
- 43- A specific contract to cover the exports of curtains fabrics from Morocco to Saudi Arabia, against commercial and non-commercial risks. The value of the contract is US\$ 200,000 (KD. 60,466).



### **2.1.3 Classification of Goods Under the Guarantee:**

During the year, the goods under the Corporation's guarantee consisted of petrol and petrochemical products (crude oil, lubricants, paints, aromatic solvents and kerosene) representing 18.4% of total contracts, building materials (cement and ceramic tiles) 12.81%, foodstuff (potato chips and sugar) 11.02%, pharmaceuticals and cosmetics 10.86%, insulating materials 8.17%, metal products (aluminum conductors, prefabricated steel buildings, gas cylinders and steel profiles) 6.34%, and other products 32.4%.

### **2.1.4 Value of Current Contracts and Outstanding Commitments:**

Value of the current guarantee contracts as at 31.12.1998 amounted to US\$ 157,979,264 (KD. 47,761,879) 49.65% of which represents investment guarantee, and 50.35% for export credit guarantee.

The value of executed operations within the current guarantee contracts amounted to US\$ 53,607,881 (KD. 16,207,272) or 33.9% of current contracts. This amount represents the outstanding guarantee commitment vis-à-vis the guaranteed parties in 1998<sup>4</sup>. (See table 4)

### **2.1.5 Revenues from Premia :**

The total guarantee premia realized during the year amounted to US\$ 954,065 (KD. 291,427) decreasing by 10.1% of last year's premia, which amounted to US\$ 1,061,158 (KD. 386,586).

The increase of 76.1% in the contracts value during the year was not reflected on the premia the volume of which is derived from execution of the guarantee contracts. It is to be noted that 79% of the contracts signed in 1998 has witnessed no execution, but expected to yield in 1999.

### **2.2 Compensation:**

A compensation amounting to US\$ 25,490 was paid to an exporter, due to the realization of a commercial risk covered under the export credit guarantee scheme. A debt collection company has been assigned to recover the paid compensation on behalf of the Corporation. Initial indicators show good possibility for the recovery.

### **2.3 Reinsurance:**

A sizable progress has been achieved to sign a non-commercial risks reinsurance treaty, whereby the reinsurer's share amounts to US\$ 1 million in each member country. In addition to the above, negotiations are underway to sign another commercial risks reinsurance treaty which may be finalized during 1999.

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<sup>4</sup> 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.

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

Ongoing marketing efforts in various member countries during the year comprised:

**2.4.1** Field missions to 8 Arab countries which included Jordan, UAE, Bahrain, Tunisia, Algeria, Syria, Lebanon and Egypt, in addition to field visits in Kuwait and Saudi Arabia through the Corporation's regional office in Riyadh. Within this context, 285 visits had taken place.

**2.4.2** Nine introductory seminars were held in Jordan, UAE, Lebanon and Egypt, with 235 participants from banks, investment and trading companies.

**2.4.3** Nine Arab fairs and exhibitions were attended.

**2.4.4** Direct mailing campaigns were conducted, covering 5347 banks and companies.

**2.4.5** Seven Arab meetings and conferences were attended relating to investment, trade, and finance, to present the Corporation's services and activities.

**2.4.6** Five commission agency agreements were signed during the year, to promote the Corporation's guarantee services, raising the total number of such agreements to 36, covering 12 Arab countries.

**2.4.7** The Corporation's database of potential users of the guarantee services had been expanded extensively. More than 14,000 new companies had been identified, of which 1,150 were entered in the database, and the remaining titles will be entered duly.

**2.4.8** Presentation and marketing techniques were further developed to enhance awareness on the Corporation's services. This included informative brochures and compact discs (CDs), in addition to taking initial measures to prepare for providing services through the Corporation's website, to be established on the Internet.

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

**2.5.1** The sixth meeting of the Arab Guarantee Agencies Forum was held in Amman on 9.12.1998, whereby, participants discussed the subject of new guarantee products. An international expert in the field was invited to enrich the discussion.

**2.5.2** During the Corporation's participation in the World Bank and the IMF annual meeting held in Washington D.C., a visit was paid to the Multilateral Investment Guarantee Agency (MIGA) during which discussion was focused on various guarantee techniques and potential areas of joint cooperation.

**TABLE (1)**  
**VALUE OF GUARANTEE CONTRACTS SIGNED DURING 1998**  
**BY HOST/IMPORTING COUNTRIES**  
**(VALUE IN US DOLLARS AND EQUIVALENT IN KUWAITI DINARS)\***

HOST/IMPORTING COUNTRY	INVESTMENT GUARANTEE CONTRACTS			EXPORT CREDIT GUARANTREE CONTRACTS			TOTAL		
	US\$	KD.	%	US\$	KD.	%	US\$	KD.	%
	LEBANON	54,752,134	16,553,213	82.99	1,558,725	471,249	2.74	56,310,859	17,024,462
SUDAN				20,375,968	6,160,266	35.88	20,375,968	6,160,266	16.60
SAUDI ARABIA				13,498,549	4,081,018	23.77	13,498,549	4,081,018	11.00
SYRIA	11,220,000	3,392,143	17.01	1,797,823	543,536	3.17	13,017,823	3,935,679	10.60
UAE				6,695,818	2,024,348	11.79	6,695,818	2,024,348	5.45
ALGERIA				4,933,312	1,491,488	8.69	4,933,312	1,491,488	4.00
MOROCCO				1,633,312	493,799	2.88	1,633,312	493,799	1.33
LIBYA				1,473,883	445,599	2.60	1,473,883	445,599	1.20
EGYPT				1,433,280	433,324	2.52	1,433,280	433,324	1.17
KUWAIT				916,576	277,109	1.61	916,576	277,109	0.75
QATAR				833,296	251,931	1.47	833,296	251,931	0.68
JORDAN				449,984	136,044	0.79	449,984	136,044	0.37
OMAN				383,296	115,882	0.67	383,296	115,882	0.31
BAHRAIN				375,910	113,649	0.66	375,910	113,649	0.31
YEMEN				233,312	70,537	0.41	233,312	70,537	0.19
TUNISIA				166,656	50,385	0.29	166,656	50,385	0.14
MAURITANIA				33,328	10,076	0.06	33,328	10,076	0.03
GRAND TOTAL	65,972,134	19,945,356	100	56,793,028	17,170,240	100	122,765,162	37,115,596	100
%	53.7			46.3					

\* US\$ 1 = KD. 0.30233

**TABLE (2)**  
**GEOGRAPHICAL DISTRIBUTION OF THE EXPORT CREDIT GUARANTEE CONTRACTS SIGNED IN 1998**  
**(VALUE IN US DOLLARS, THE GRAND TOTAL IS ALSO EXPRESSED IN KD.)**

NATIONALITY OF GUARANTEED PARTIES/IMPOR TERS	JORDAN	SAUDI ARABIA	UAE	BAHRAIN	KUWAIT	LEBANON	SUDAN	SYRIA	EGYPT	TUNISIA	MOROCCO	TOTAL	
												US\$	KD.
SUDAN	6,000,000	5,675,968		6,000,000	1,000,000	200,000		1,500,000				20,375,968	6,160,266
SAUDI ARABIA	580,000		6,258,437		3,282,612	2,927,500			100,000		350,000	13,498,549	4,081,018
UAE	1,220,000	366,608			1,389,210	720,000	3,000,000					6,695,818	2,024,348
ALGERIA	4,000,000	933,312										4,933,312	1,491,488
SYRIA		233,312	1,514,511			50,000						1,797,823	543,536
MOROCCO		133,312							1,000,000	500,000		1,633,312	493,799
LEBANON	180,000	1,378,725										1,558,725	471,249
LIBYA		966,640	507,243									1,473,883	445,599
EGYPT		633,280				800,000						1,433,280	433,324
KUWAIT	300,000	566,576				50,000						916,576	277,109
QATAR	550,000	233,296				50,000						833,296	251,931
JORDAN		349,984				100,000						449,984	136,044
OMAN		383,296										383,296	115,882
BAHRAIN		233,296			92,614	50,000						375,910	113,649
YEMEN		133,312				100,000						233,312	70,537
TUNISIA		166,656										166,656	50,385
MAURITANIA		33,328										33,328	10,076
TOTAL IN US\$	12,830,000	12,420,901	8,280,191	6,000,000	5,764,436	5,047,500	3,000,000	1,500,000	1,100,000	500,000	350,000	56,793,028	
TOTAL IN KD	3,878,895	3,755,212	2,503,351	1,813,980	1,742,762	1,526,011	906,990	453,495	332,563	151,165	105,816		17,170,240
% OF TOTAL	22.59	21.87	14.58	10.56	10.15	8.89	5.28	2.64	1.94	0.88	0.62		100



**TABLE (3)**  
**GEOGRAPHICAL DISTRIBUTION OF THE INVESTMENT GUARANTEE**  
**CONTRACTS SIGNED IN 1998**  
**(VALUE IN US DOLLARS, THE GRAND TOTAL IS ALSO EXPRESSED IN KD.)**

NATIONALITY OF GUARANTEED PARTIES/ HOST COUNTRIES	KUWAIT	ISLAMIC DEVELOPMENT BANK	TOTAL	
			US\$	KD.
LEBANON	25,700,000	29,052,134	54,752,134	16,553,213
SYRIA	11,220,000		11,220,000	3,392,143
TOTAL IN US\$	36,920,000	29,052,134	65,972,134	
TOTAL IN KD.	11,162,024	8,783,332		19,945,356
% OF TOTAL	55.96	44.04		100



**TABLE (4)**  
**VALUE OF CURRENT CONTRACTS & OUTSTANDING COMMITMENTS AS AT 31/12/1998**  
**IN US DOLLARS AND ITS EQUIVALENT IN KD<sup>(1)</sup>**  
**(BY HOST/IMPORTING COUNTRIES AND TYPE OF CONTRACT)**

HOST/IMPORTING COUNTRY	INVESTMENT CONTRACTS <sup>(2)</sup>		EXPORT CREDIT CONTRACTS		TOTAL		% OF TOTAL	OUTSTANDING COMMITMENTS <sup>(3)</sup>	
	US\$	KD.	US\$	KD.	US\$	KD.		US\$	KD.
JORDAN	-	-	1,953,690	590,660	1,953,690	590,660	1.24	1,434,608	433,726
UAE	-	-	7,225,818	2,184,584	7,225,818	2,184,584	4.57	3,542,679	1,071,058
BAHRAIN	-	-	545,910	165,046	545,910	165,046	0.35	119,741	36,201
TUNISIA	-	-	166,656	50,385	166,656	50,385	0.11	-	-
ALGERIA	-	-	16,174,219	4,889,952	16,174,219	4,889,952	10.24	11,782,668	3,562,255
SAUDI ARABIA	-	-	13,783,491	4,167,165	13,783,491	4,167,165	8.72	6,623,347	2,002,437
SUDAN	-	-	27,833,257	8,414,828	27,833,257	8,414,828	17.62	19,345,218	5,848,639
SYRIA	12,688,750	3,836,190	1,847,823	558,653	14,536,573	4,394,843	9.20	2,550,000	770,943
OMAN	-	-	518,296	156,697	518,296	156,697	0.33	-	-
QATAR	-	-	940,634	284,382	940,634	284,382	0.60	-	-
KUWAIT	-	-	1,650,905	499,120	1,650,905	499,120	1.05	110,780	33,492
LIBYA	-	-	1,473,884	445,599	1,473,884	445,599	0.93	-	-
LEBANON	59,883,755	18,104,656	1,555,531	470,283	61,439,286	18,574,939	38.89	5,166,742	1,562,061
EGYPT	1,177,244	355,916	1,833,260	554,250	3,010,504	910,166	1.91	1,205,909	364,582
MOROCCO	3,000,000	906,990	1,663,300	502,865	4,663,300	1,409,855	2.95	29,988	9,066
MAURITANIA	1,696,201	512,812	33,328	10,076	1,729,529	522,888	1.09	1,696,201	512,812
YEMEN	-	-	333,312	100,770	333,312	100,770	0.21	-	-
TOTAL	78,445,950	23,716,564	79,533,314	24,045,315	157,979,264	47,761,879	100	53,607,881	16,207,272

(1) US\$ 1 = KD. 0.30233

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

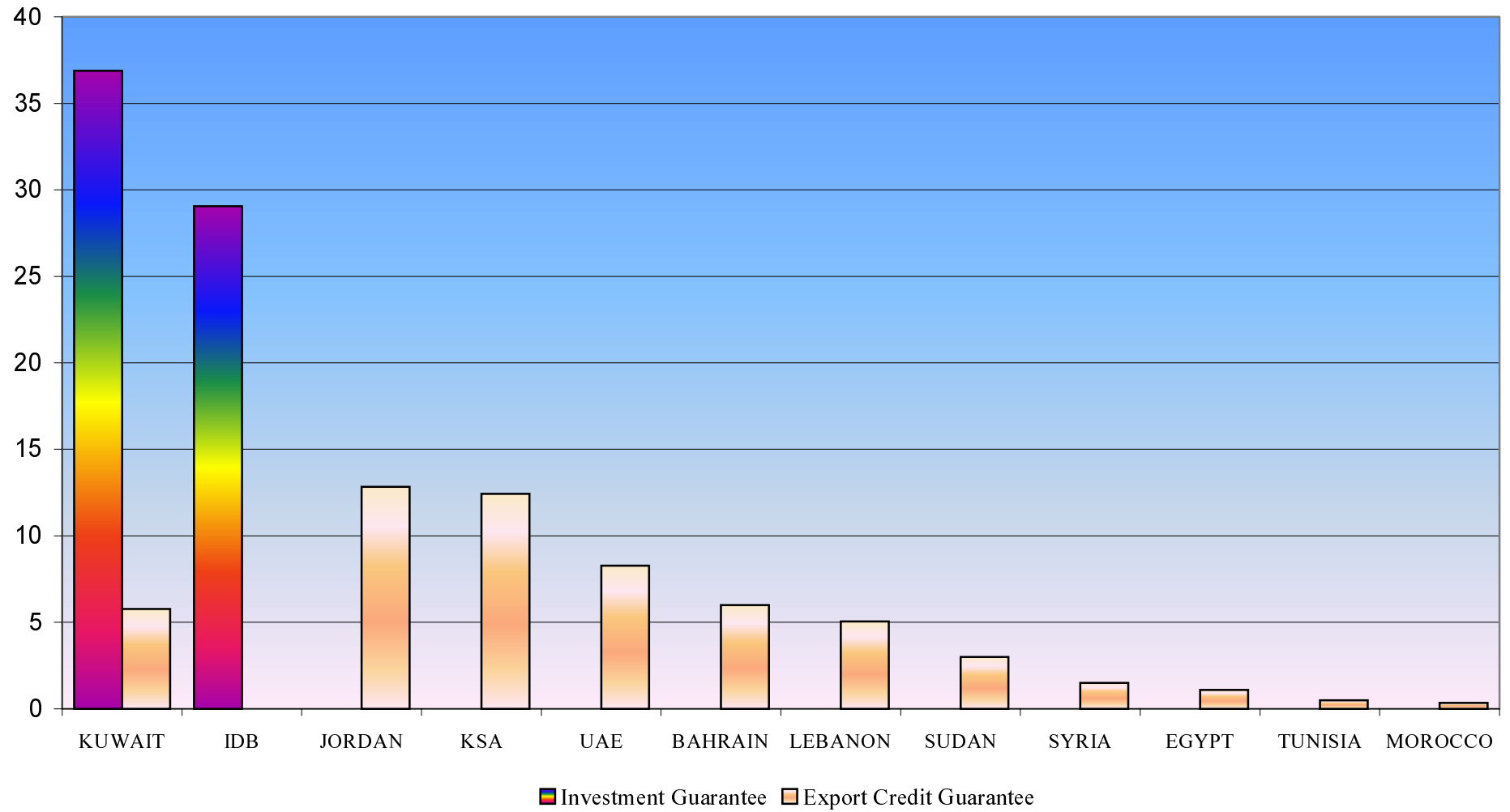
(3) The Outstanding Commitments represent:

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



## GUARANTEE CONTRACTS SIGNED DURING 1998 (BY NATIONALITY OF THE GUARANTEED PARTIES)

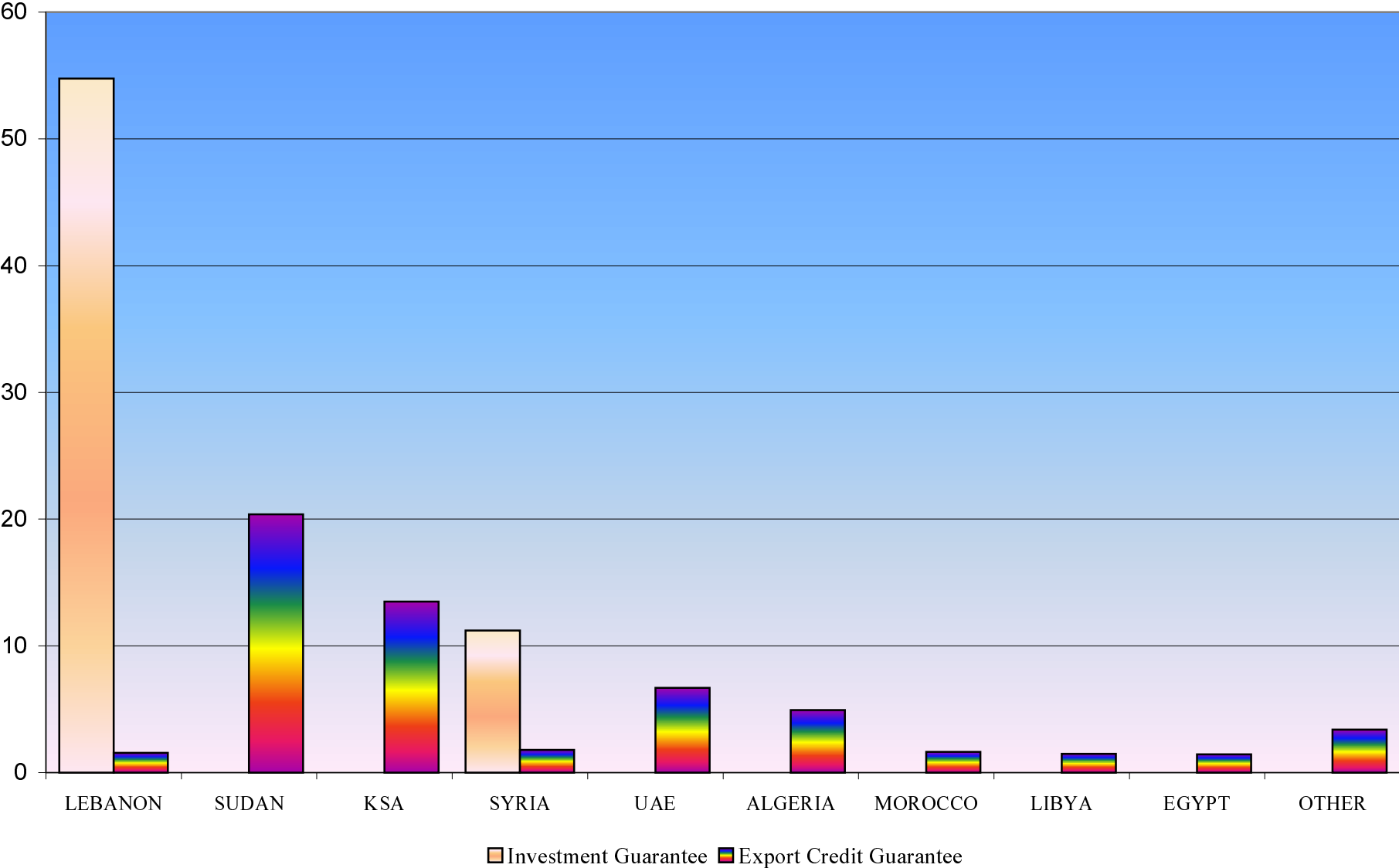
VALUE (US \$ MILLION)



# GUARANTEE CONTRACTS SIGNED DURING 1998

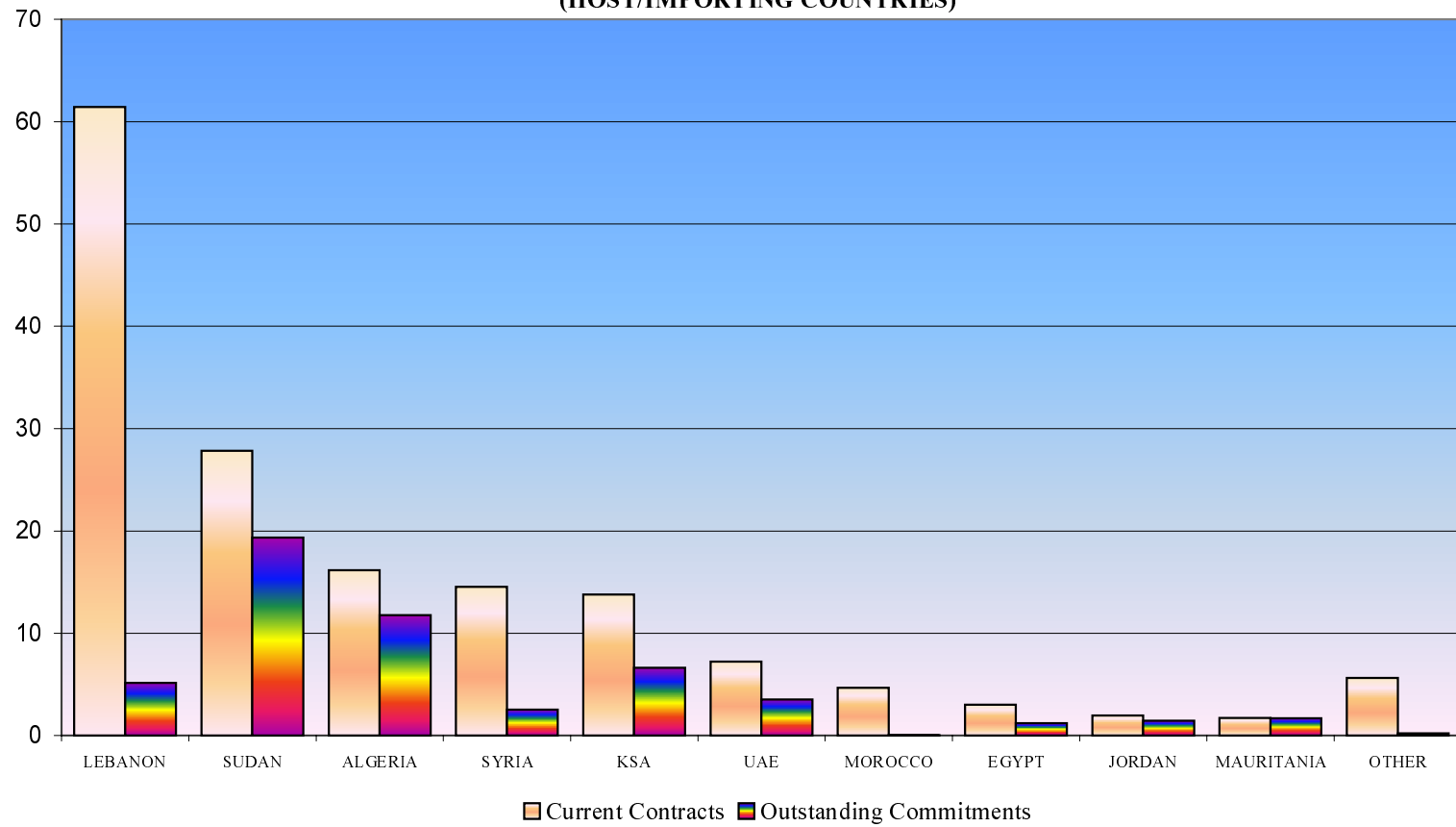
(BY HOST/IMPORTING COUNTRIES)

VALUE (US \$ MILLION)



**CURRENT CONTRACTS AND  
OUTSTANDING COMMITMENTS AS AT 31.12.1998  
(HOST/IMPORTING COUNTRIES)**

VALUE (US\$ MILLION)





## CHAPTER THREE: ANCILLARY ACTIVITIES AND SUPPORT SERVICES

### 3.1 Reports, Studies and Publications:

During 1998 the Corporation continued to pursue its objective to disseminate information and raise awareness on investment issues in the Arab Countries through the publication and development of the Annual Report on Investment Climate, the Capsule Series, the Monthly Bulletin, and the publication of three specialized reports and seven promotional papers.

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

- The report on **Investment Climate in the Arab Countries** was approved in its final form on April 30, 1998, and was then distributed to government agencies and institutions in charge of investment, institutional and individual investors, select readership, Arab and international organizations. On the Other hand, work on the 1998 report was initiated.

#### 3.1.2 Capsule Series:

The Corporation issued these summaries during the year directed towards reviewing and analyzing economic reports and studies that are deemed conducive to enriching the knowledge base relevant to both its core business and broader objectives. This comprised the following summaries under its Capsule Series:

- **“Credit Rating in Emerging Markets and in the Arab Countries”**: which was based on a specialized report published by Financial Times on the subject of credit rating, explaining the various ratings criteria and its relevance to the Arab Countries.
- **“Entrepreneurship in Small and Medium Enterprises in the USA”**: which was based on an OECD publication titled “USA Economic Survey, 1997” in which the importance of individual initiative and entrepreneurial spirit were emphasized as means to enhance the creation of innovative businesses and new jobs.
- **“Mergers and Acquisitions: a Point of Entry to the 21st Century”**: which was based on various articles and reports from specialized magazines and newspapers explaining this phenomenon in view of increased globalization of the world economy.
- **“The Euro: Motives and Benefits”**: which was based on various reports on the issue reviewing historical background and the impact of the Euro internationally and regionally.
- **“The Composite Indicator for Economic Policy Components of the Investment Climate in the Arab Countries”**: which reviewed the existing efforts conducted within the Corporation to develop the rationale and methodology of such an index that would be eventually utilized to describe characteristics of investment climate in the Arab Countries and detect changes, therein.
- **“ILO World Employment Report for 1998/1999”**: which provided a focused summary of the main factors and issues relevant to employment in the world as foreseen

by the International Labor Organization, identifying the most vulnerable groups affected by unemployment, and possible ways of improving education and training systems to cater for labor market needs.

### **3.1.3 The Monthly Bulletin “Daman Al-Istismar”:**

Twelve bulletins were issued during the year. The bulletin was widely circulated at an average of 5500 copies monthly for public and private Arab investment institutions and concerned investors and decision-makers.

- The bulletin tackled several issues among which were: Factors for the Success of the Greater Arab Free Trade Area, Lessons Learnt from the Asian Crisis, Adjustment of the Arab Insurance Sector to New Challenges, Transformation of Family-Owned Companies into Public Companies, Private Investment in Infrastructure Projects and Non-Commercial Risks involved, Country Promotion as an Umbrella for Sector and Project Promotion: the Case of Algeria, etc.
- The bulletin detected emerging issues relevant to investment internationally and regionally such as: Developing Countries Efforts to Eliminate Corruption, Challenges Facing the Arab Financial Sector, Franchise in the Arab Countries, the Age of Electronic Commerce, The Evolving Role of Islamic Banking, etc.
- The bulletin referred to several new developments relevant to investment potential and trends in the Arab Countries, and added two new features: Issued Recently, and Out of Borders. The first reviews recent publications that tackle a subject of concern, and the other depicts interesting international issues of relevance.

### **3.1.4 Specialized Publications:**

- The Corporation issued three specialized publications, entitled **Investment Promotion: Techniques and Experience, Arab Cross-Border Trade and New International Trade Developments, Cross-Border Leasing**. These publications captured the main points in the deliberations and documents of three workshops that were sponsored or co-sponsored by the Corporation at different times. The publications were distributed to more than 500 institutions and individuals to maximize the benefit in the subject matters elaborated.

### **3.1.5 Promotional Papers:**

- **“The Unified Agreement on Investment of Arab Capital Between Arab Countries”:**

This paper presented the general terms of the Unified Agreement on Investment of Arab Capital between Arab Countries of 1980. This paper was presented to the expert meeting on **International and Regional Investment Agreements and its Development Implications** held in Geneva between 1-3/4/1998.

- **“Investment Guarantee in Fisheries Sector”:**

This paper reflected on the significance of the fisheries sector in the Arab Countries given the abundant resources of fish stock for commercial use. The paper reviewed the Corporation’s role in promoting this sector and encouraging inter-Arab investments. It further detailed the potential services it could offer to Arab investors, exporters and financiers in terms of investment and export guarantee services, the nature of risks covered and procedures followed.

This paper was presented to both **“The First Arab Conference on the Development of Fisheries in the Arab Countries”** held in Tripoli/Libya between 25-27/5/1998 jointly organized by the Arab Fisheries Union and the Center for Marine Life Research in Libya, and to **“The First Conference on Encouragement of Investment and Trade in Fisheries in the Arab Countries”** held in Nouakchott between 2-5/11/1998.

- **“IAIGC and Arab Exports Credit Guarantee and Long/Medium-Term Loans Guarantee”:**

This paper presented the general terms and conditions for inter-Arab trade finance guarantee, and the kinds of commercial and non-commercial risks covered by the guarantee and eligibility criteria. The paper reviewed in detail the Corporation’s guarantee operations in inter-Arab trade finance and size of compensations till end of 1997. The paper reviewed the Corporation’s experience in loan guarantees against non-commercial risks and indicated the volume of loan guarantees and compensations paid.

This paper was presented to **“The Arab International Conference and Exhibition for Food Industries, Packaging and Rapping”** held in Beirut between 25-30/6/1998 jointly organized by Al-Iktisad Wal-Aamal Magazine, ESCWA, and the Arab Food Industries Union.

- **“The Evolving Regional Role of the IAIGC”:**

This paper introduced the Corporation’s establishment, objectives and the services it provides in investment and export credit guarantees. The main focus however was on the evolving regional role of the Corporation in providing support services aiming at enhancing investment activities through dissemination of information, provision of technical assistance, human resources development. Furthermore, the paper presented the Corporation’s investment promotion activities on the country, sector, and investment opportunity levels especially in promoting projects that are technically and economically feasible and financially sound.

In addition to this, the paper reflected on the Corporation’s policy of capitalizing on internal efforts and enhancing coordination with national, regional and international counterparts.

This paper was presented to the Regional Workshop on **“Policies Attracting Investment in the Arab Countries”** held in Beirut between 28-30/9/1998 jointly organized by UNCTAD, Beirut and Mount Lebanon Chamber of Commerce and Industry, and Bank of Lebanon.

- **“Investment Guarantee: Agreements and Reality”:**
- **“Investing Arab Capital in Arab Countries”:**

The first paper reviewed the importance of guarantees, the role of the Corporation in creating an Arab guarantee scheme, the identification of terms and conditions, rules and

procedures, and dispute settlement mechanisms. The second paper depicted current international arrangements to attain a unified international framework on investment, the corresponding regional efforts and the agreements established especially the Unified Agreement on Investment of Arab Capital in the Arab Countries and the rules that it instated.

Both these papers were presented in the training course on **“Analyzing FDI”** held in Kuwait between 31/10-4/11-1998 by the Arab Planning Institute.

- **“Investment Incentives and Obstacles in the Arab Countries”:**

The paper reviewed the concept and components of enabling investment environment and the main incentives and obstacles that affect its general characteristics positively or adversely in the last two decades as well as the role of the Corporation in following up and coping with these developments.

This paper was presented at the conference on **“Investment Environment in the Arab Countries in View of Recent Economic and Political Developments in the Region”** held in Irbid/Jordan between 23-25/11/1998, and organized by College of Economics and Administrative Sciences at Yarmouk University.

### **3.1.6 Studies:**

- A study on the **“Impact of Exchange Rate Stability in Attracting FDI in Selected Arab Countries”**. The initial concept for the intended study was developed, the terms of reference outlined, and the country experts assigned.
- A study on the **“Private Investment Opportunities in Education and Training”**. Initial contacts were established with UNESCO regional office in Beirut, and two meetings were held to discuss the concept.
- A study on **“FDI in the Arab Countries”** was the subject of discussion with the Arab Planning Institute as part of activating cooperation between both parties. The definition of FDI, identification of its resources and current status of FDI in Arab countries will be the focus of the proposed study.

### **3.2 Investment Promotion:**

IAIGC’s activities in this aspect focused on the following:

#### **3.2.1 On Promotion of Investment Opportunities:**

The Corporation covered in its monthly bulletin more than 48 investment opportunities and 10 trade opportunities. The last issue focused on 8 investment opportunities in Algeria as presented in the Conference on **“Investment Opportunities in Algeria”** which the Corporation co-organized with other parties.

#### **3.2.2 On Country Promotion:**

The Corporation co-organized the **“Investment Opportunities Conference in Algeria”** held in Bahrain between 5-6/12/1998 along with the Gulf International Bank, Arab Monetary Fund, Arab Banking Corporation, Arab Investment Company, Arab Petroleum



Investment Corporation, and Bahrain Chamber of Commerce and Industry. The participants acknowledged the effective role the Corporation played in the Conference preparatory committee, in encouraging participation, and assuming the Rapporteur function of the Conference, preparing the Final Communiqué in Arabic, English, and French, and distributing it to all parties concerned.

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

**3.3.1** A Memorandum of Understanding (MOU) was signed with Al-Ahram Establishment in Egypt to encourage cooperation between the two groups in areas related to exchange of information, conduct of studies, organizing workshops and seminars, and in printing, publishing and distribution activities.

**3.3.2** An MOU was signed with the Arab Trade Financing Program on exchange of information related to Arab Trade.

**3.3.3** During 1998 the Corporation participated in several conferences and meetings on regional and international levels. The main objective for taking part in these meetings was to introduce the Corporation and the nature and scope of its business and to market its services. Other objectives included being closely oriented with various productive and service sectors in the Arab countries, assuming active participation in the on-going discussions on issues relevant to investment and trade in inter-Arab perspective, and strengthening relations and coordination with international and regional organizations. Of special importance to the Corporation were the meetings conducted in the realm of the Economic and Social Council and the annual meetings of the Arab organizations and unions which enhance Arab joint action. The Corporation took part in the sponsoring organizations meeting for the Eighth Conference for Arab Investors and Businessmen and in the preparatory committee of the Conference on Investment Opportunities in Algeria. More than half the meetings attended were in Kuwait where the Corporation is sited. On international level, the Corporation participated in the annual meeting of the IMF and the World Bank Group, and the twenty third annual meeting of the Board of Governors of the Islamic Development Bank.

### **3.4 Computerization:**

**3.4.1** A specially designed in-house **Accounting Program** was written and installed for accounting staff and relevant training was given.

**3.4.2** A **Marketing Program** was completed for the Operations Department. One staff member in the Saudi Arabia Office received training to operate the program. The **Country Risk Analysis Program**, **Personnel Program** and the **Payroll Program** were reviewed.

**3.4.3** **Staff Training Follow-up Program** was written, and it was incorporated with the **Personnel Program**.

**3.4.4** Work proceeded on the **Media Database**, which holds basic information on Arabic and foreign media (including newspapers, magazines, TV channels, and others).

**3.4.5** Preparations were initiated to establish the Corporation website which will include the essential information on the Corporation, its mission, objectives, contact persons, publications and investment opportunities. Four specialized companies were contacted to deliver a technical and financial proposal and one of them was selected.

**3.4.6** Some of the hardware equipment was upgraded to keep up with the new technology and to speed up the functions. The Corporation purchased an Apple Mackintosh machine for the pre-press purposes and a staff was trained on using it.

**3.4.7** Facilities were provided to enhance external connection to the Internet through the Corporation's network.

**3.4.8** Full backup was conducted for the Corporation's documents as part of a disaster recovery plan.

### **3.5 The Library**

**3.5.1** The Corporation continued its efforts to expand and enrich the Library resources. New additions to the Library collection included the following:

- 340 books, bringing the total number of books to 7672 (Arabic, English and French titles).
- 150 annual reports of Arab and international organizations.
- Documents and papers of 11 conferences convened in Arab and foreign countries.
- 11 periodicals, bringing the subscription list to a total of 135 specialized periodicals.

**3.5.2** "The Seventeenth Index to Selected Arabic Periodical Titles", covering the year 1997 was issued early in the year. Currently, the next issue is being prepared.

**3.5.3** Separate Databases on CDS/ISIS Library System for periodical articles indexing and for conference documents were established. Furthermore a study to automate the handling of newspapers clippings was initiated.

### **3.6 Training:**

In its pursuit to enhance the efficiency of its employees, the Corporation enrolled 43 staff members in 24 training courses. Among those, some have participated in more than one program. The courses encompassed the following fields:

#### **3.6.1 Professional Courses:**

- A staff member of the Economics Department attended the annual program organized by the Malaysian Industrial Development Authority in Kuala Lumpur for officials of Investment Promotion Agencies during the period from 27/7 to 8/8/1998.
- Two staff members participated in a workshop organized by the Export Credit Guarantee Department in London from 30/9 to 1/10/1998.
- Two staff members attended a specialized course on the Instruments of Guarantee Services Marketing organized by the Indian Guarantee Corporation in Bombay from 16/11 to 18/11/1998.
- A staff member participated in a specialized course in Internal Network Security and Internet Network organized in Dubai by Project Management Systems Ltd. from 5/12 to 10/12/1998.

- Eight staff members benefited from a course about CD/ISIS System run by an expert from the Documentation and Information Center of the League of the Arab States at the Corporation's premises, from 12/12 to 16/12/1998. The course aimed at familiarizing participants with the latest developments of the System and its application in solving the problems that had arisen on implementation.
- An employee participated in a specialized course on "Treasury Risk Management" organized by I.I. Holdings Ltd., in Dubai from 26/10 to 27/10/1998.
- Five employees participated in a one-day specialized workshop on "**Defusing the Year 2000 Time Bomb**". The workshop was conducted by the Institute of Banking Studies, Kuwait on 6/10/1998.
- Two members attended the "**Kuwait Conference on the Problem of the Year 2000**" organized by the Kuwait Institute for Scientific Research from 7/12 to 9/12/1998.

### **3.6.2 Computer Courses:**

Four employees attended six advanced computer courses, and other seven staff members benefited from seven basic computer courses (Windows, Excel, WinWord...etc.)

### **3.6.3 English Language Courses**

Six staff members participated in three English Language courses held by the British Council, Kuwait.

### **3.7 Information Activities:**

Information activities were focused on enhancing the role of the Corporation within the institutions of the Arab System, supporting internal efforts to market its services, and raising awareness on its potential. The follow-up analysis indicated that the Corporation was referred to in more than 150 news items, namely at an average of 12.5 times per month. The news items generally covered convening of the meetings of the Corporation's Governing Council and its Supervisory Committee, excerpts from the Corporation's various publications, the Report on Investment Climate, Capsule Series, Monthly Bulletin and other special publications.

## CHAPTER FOUR : FINANCIAL REPORT

The paid-up capital increased from KD. 24,480,137 (US\$ 80,971,577) as of December 31,1997 to KD 24,689,871 (US\$. 81,665,302) as of December 31,1998, with an increase of KD. 209,734 (US\$ 693,725) which represented 0.86 percent. The said increase in the Corporation's capital was the result of three payments against the subscription of the Republic of Sudan.

The revenue of 1998 which amounted to KD. 4,204,899 (US\$ 13,908,309), had dropped by KD. 898,753 (US\$ 2,972,755) in comparison with the revenue of 1997, which was 5,103,652 (US\$ 16,881,064). The 17.61 percent decrease in revenue was mainly due to the global turmoil in the financial markets during 1998.

Another factor which had contributed to the decrease of the 1998 revenue was due to the KD exchange rate against US. Dollar which had its negative effect on the results expressed in K.D., despite that fact the U.S. Dollar was strong enough against major currencies. This had resulted in loss of KD 240,182 (U.S.\$ 794,440) through the conversion of U.S Dollar funds into KD., while in 1997 similar conversion resulted in profit amounting to KD 395,465 (US\$ 1,188,982). However, adjustments of KD. 160,093 (US\$ 529,534) related to previous years had also contributed to the said decrease.

Revenue of 1998 is composed of KD. 3,913,472 (US\$ 12,944,372) being the gain from the investment of the Corporation's financial resources, and KD. 291,427 (US\$ 963,937), being the net insurance premiums.

The total expenditure in 1998 amounted to KD. 1,814,534 (US\$ 6,001,832) compared with KD. 1,623,912 (US\$ 5,371,322) in 1997, with an increase of KD. 190,622 (US\$ 630,510), representing 11.74 percent. The increase was mainly due to the rise in post service benefits resulting from treating the additional housing allowance as part of the salary in compliance with the Corporation's Council resolution no.7 in 1998.

The balance sheet as of December 31,1998 showed that the total financial resources are KD. 66,182,750 (US\$ 218,908,980) consisting of KD. 36,252,127 (US\$ 119,909,132), being the value of the financial resources, and KD. 29,930,623 (US\$ 98,999,848), being the value of the commercial bills and recoverable claims.

The net revenue in 1998 amounted to KD. 2,390,365 (US\$ 7,906,476) compared to KD. 3,479,740 (US\$ 11,509,741) in 1997, with a decrease of KD. 1,089,375 (US\$ 3,603,265) representing 31.31 percent.

## 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, 1998 and 1997 and the related Statements of Revenues and Expenditures, Changes in 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 134,582,266 (equivalent to KD. 40,688,256 at the rate of exchange prevailing as of December 31, 1998) 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, 1998 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.1,172,000 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, 1998 and 1997, the results of its operations, changes in its shareholders equity 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 consistent basis.

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, 1998 or 1997 which would materially affect the Corporation's activities or its financial position.

**Jassim Ahmad Al-Fahad**

License No.53-A

Kuwait

February 10, 1999

**BALANCE SHEETS AS OF DECEMBER 31, 1998 AND 1997**

	<b>DECEMBER 31,</b>	
<b>ASSETS</b>	<b>1998</b>	<b>1997</b>
	<b>KD.</b>	<b>KD.</b>
Cash and cash equivalents (Note 3)	2,283,068	3,843,721
Investment in bonds	2,153,212	2,287,801
Investment portfolios and funds (Note 4)	31,039,153	27,953,146
Other deposits (Note 5)	398,781	398,781
Promissory notes receivable (Note 6)	3,896,884	3,929,365
Investment in Arab Trade Finance Program (note7)	377,913	381,062
Recoverable claims (Note 8)	26,033,739	26,242,968
Accrued interest	10,826,183	9,353,535
Account receivable – re- insurance claims (Note9)	4,878,285	4,878,285
Share of the joint building (Note 10)	1,284,984	1,321,698
Accounts receivable and other debit accounts	61,295	62,743
<b>TOTAL ASSETS</b>	<b>83,233,497</b>	<b>80,653,105</b>
Investments of provident and Social Security Fund (Note 16)	1,345,495	1,228,454
<b>TOTAL BALANCE SHEETS</b>	<b>84,578,992</b>	<b>81,881,559</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE BALANCE SHEETS

	<b>DECEMBER 31,</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1998</b>	<b>1997</b>
<b>LIABILITIES:</b>	<b>KD</b>	<b>KD</b>
Accounts payable and other credit Accounts (Note 11)	1,776,520	1,796,227
Re-insurance claims payable (Note 9)	7,676,285	7,676,285
Provision for contingencies	150,000	150,000
Total liabilities	9,602,805	9,622,512
<b>SHAREHOLDERS' EQUITY:</b>		
Capital issued (Note 12)		
(KD. 25,189,871)		
Called-up capital	24,689,871	24,783,735
Less: Unpaid capital	-	( 303, 598)
Paid-up capital	24,689,871	24,480,137
General reserve (Notes 6,8 and 14)	48,940,821	46,550,456
Total shareholders' equity	73,630,692	71,030,593
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>83,233,497</b>	<b>80,653,105</b>
Payable to participants of the Provident and Social Security Fund (Note 16)	1,345,495	1,228,454
<b>TOTAL BALANCE SHEETS</b>	<b>84,578,992</b>	<b>81,881,559</b>

**STATEMENTS OF REVENUES AND EXPENDITURES  
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

	Year Ended December 31,	
	1998	1997
	KD.	KD.
<b>REVENUES:</b>		
Net premiums from guarantees	291,427	323,493
Interest from promissory notes and Recoverable claims (Note 8)	1,496,531	1,508,616
Interest on call accounts	20,746	46,240
Interest on time deposits	128,421	200,195
Interest on bonds	190,865	284,377
Income from investment portfolios and funds	2,459,898	2,248,606
Income from trading, redemption of bonds	17,286	61,683
Exchange (loss) gain (Note 13)	( 240,182)	359,465
Other	( 160,093)	70,977
<b>TOTAL REVENUE</b>	<b>4,204,899</b>	<b>5,103,652</b>
<b>EXPENDITURES:</b>		
First Section – Salaries, wages and bonuses	1,034,996	869,009
Second Section – General and administrative expenses	658,194	620,266
Third Section - Capital Expenditure	73,259	54,792
Fourth Section – Provision for contingencies And arbitration fees	48,085	79,845
<b>TOTAL EXPENDITURE</b>	<b>1,814,534</b>	<b>1,623,912</b>
<b>NET REVENUES</b>	<b>2,390,365</b>	<b>3,479,740</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS



**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED  
DECEMBER 31, 1998 AND 1997**

	<b>CAPITAL ISSUED KD.</b>	<b>CALLED-UP CAPITAL KD.</b>	<b>UNPAID CAPITAL KD.</b>	<b>PAID-UP CAPITAL KD.</b>	<b>RETAINED EARNINGS KD.</b>	<b>GENERAL RESERVE KD.</b>
<b>Balance – January 1, 1997</b>	<b>25,283,735</b>	<b>24,783,735</b>	<b>( 368,395)</b>	<b>24,415,340</b>	<b>-</b>	<b>43,070,716</b>
<b>Capital contribution received</b>	<b>-</b>	<b>-</b>	<b>64,797</b>	<b>64,797</b>	<b>-</b>	<b>-</b>
<b>Net revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,479,740</b>	<b>-</b>
<b>Transferred to general reserve</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>( 3,479,740)</b>	<b>3,479,740</b>
<b>Balance – December 31, 1997</b>	<b>25,283,735</b>	<b>24,783,735</b>	<b>( 303,598)</b>	<b>24,480,137</b>	<b>-</b>	<b>46,550,456</b>
<b>Reduction of capital (Note 12)</b>	<b>( 170,364)</b>	<b>( 170,364)</b>	<b>170,364</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital contributions received</b>	<b>-</b>	<b>-</b>	<b>133,234</b>	<b>133,234</b>	<b>-</b>	<b>-</b>
<b>Capital contributions received in excess of the called-up capital (Note 12)</b>	<b>76,500</b>	<b>76,500</b>	<b>-</b>	<b>76,500</b>	<b>-</b>	<b>-</b>
<b>Net revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,390,365</b>	<b>-</b>
<b>Transferred to general reserve</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>( 2,390,365)</b>	<b>2,390,365</b>
<b>Balance – December 31, 1998</b>	<b>25,189,871</b>	<b>24,689,871</b>	<b>-</b>	<b>24,689,871</b>	<b>-</b>	<b>48,940,821</b>

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS**



**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

	<b>Year Ended December 31,</b>	
	<b>1998</b>	<b>1997</b>
	<b>KD.</b>	<b>KD.</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net revenues	2,390,365	3,479,740
Adjustments for:		
Depreciation	73,259	54,792
Income from investment portfolios and funds	(2,459,898)	(2,248,606)
Gain on sales of assets acquired in settlement of debt	-	( 54,634)
Other adjustments	35,630	( 63,061)
Operating revenues before changes in operating assets and liabilities	39,356	1,168,231
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>		
Recoverable claims	209,229	(3,325,323)
Accrued interest	(1,472,648)	(1,449,954)
Accounts receivable re-insurance claims	-	85,320
Accounts receivable and other debit accounts	( 35,097)	( 14,490)
Accounts payable and other credit accounts	( 10,065)	( 37,912)
Net cash flows used in operating activities	(1,269,225)	(3,574,128)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Decrease in investment in bonds	134,589	2,271,154
Increase in investment portfolio	( 626,109)	(3,250,016)
Proceeds from sales of assets acquired in settlement of debt	-	129,634
Cash and cash equivalents released during the year	-	1,680,243
Net cash flows (used in) from investing activities	( 491,520)	831,015
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal paydowns on finance lease	( 9,642)	( 9,012)
Capital contributions received	209,734	64,797
Net cash flows from financing activities	200,092	55,785
Net decrease in cash and cash equivalents	(1,560,653)	(2,687,328)
Cash and cash equivalents beginning of year	3,843,721	6,531,049
Cash and cash equivalents – end of year	2,283,068	3,843,721
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:</b>		
Interest paid on finance lease	100,513	101,143
Interest received	363,915	589,474
<b>NON-CASH FINANCING AND INVESTING ACTIVITIES:</b>		
Release of certain assets during the year	-	5,285,747

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 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. Reinsurance agreements provide a maximum cover of US\$ 500,000 per importer for commercial risks on export credit guarantees insured by the Corporation.

During 1998 the Supervisory Committee engaged independent consultants to study the Corporation's activities and objectives and report back to the Committee.

### 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 and Funds

Investment portfolios and funds managed by independent agents are valued at their market price or their net asset value, as appropriate. 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 realized and unrealized gains or losses are 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, 1997 were reclassified to conform with current year's presentation.

### 3. CASH AND CASH EQUIVALENTS

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

	December 31,	
	1998	1997
	KD.	KD.
Current and call accounts with banks	404,543	642,127
Time deposits	1,878,525	3,201,594
	2,283,068	3,843,721

### 4. INVESTMENT PORTFOLIOS AND FUNDS

Investment portfolios' market values amounted to KD.31,039,153 as of December 31, 1998 (KD. 27,953,146 at December 31, 1997) whereas the cost amounted to KD. 19,403,869 as of the same date (KD.18,807,825 at December 31, 1997).

### 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

	U.S. Dollars
Promissory notes are composed of the following:	
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. 3,896,884 at the rate of exchange prevailing as of December 31, 1998) (KD.3,929,365 at December 31, 1997)	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. 377,913 at the rate of exchange prevailing as of December 31, 1998 and KD. 381,062 at the rate of exchange prevailing as of December 31, 1997).

During 1997, the Corporation received 24 bonus shares from the program. Accordingly, the Corporation's share represents 274 shares as of December 31, 1998 (274 shares as of December 31, 1997) of the program's Capital composed of 100,000 shares authorized and issued (1997-shares issued 100,000) 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:

	1998	1997
	U.S.Dollars	U.S.Dollars
Recoverable claims – beginning of the year	86,084,852	76,292,967
Recoverable claims paid during the year – net	25,490	10,041,885
Claims collected during the year	-	( 250,000)
Recoverable claims - end of year	86,110,342	86,084,852
Total recoverable claims – equivalent to KD. at the rates of exchange prevailing at the respective year end	KD. 26,033,739	KD. 26,242,968

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 are included in accrued interest and has not yet been collected. The details of such interest are as follows:

	1998	1997
	U.S.Dollars	U.S.Dollars
Balance - beginning of year	30,451,068	25,160,119
Interest charged for the year	5,131,352	5,290,949
Balance - end of year	35,582,420	30,451,068
Equivalent to KD. at the rates of exchange prevailing at the respective year end	KD. 10,757,633	KD. 9,283,008

## 9. ACCOUNTS RECEIVABLE - RE-INSURANCE CLAIMS AND RE-INSURANCE CLAIMS PAYABLE ( SEE NOTE 15 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, 1998.

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 of KD. 3,855,425 was discounted to KD.1,426,250.

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 (11) 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>
1999	110,155
From 2000 to 2009	1,101,550
From 2010 to 2033	2,643,720
Total minimum payments	3,855,425
Less: imputed interest	(2,429,175)
Present value of minimum payments	1,426,250

## **11. ACCOUNTS PAYABLE AND OTHER CREDIT ACCOUNTS**

	<b>1998</b>	<b>1997</b>
	<b>KD.</b>	<b>KD.</b>
Due to Arab Fund for Economic and Social Development (Note 10)	1,426,250	1,435,893
Due to re-insurance companies	72,667	76,020
Provision for staff leave	87,756	89,936
Provision for encyclopedia	57,486	62,694
Other	132,361	131,684
	1,776,520	1,796,227

## **12. 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.

During 1998 the shares of one member country were reduced by the unpaid amount of its called up capital based on resolution No. 2/1998 of the Corporation's Council. Such reduction amounted to KD. 170,364. Additionally such member country increased its subscription in the capital, after the above mentioned Corporation's Council resolution, by an amount of U.S. Dollars 250,000 equivalent to KD. 76,500. The capital of the Corporation is as follows:

	1998	1997
	KD.	KD.
Capital issued	25,189,871	25,283,735
Unpaid capital	-	( 303,598)
Uncalled capital	( 500,000)	( 500,000)
Paid up capital	24,689,871	24,480,137

#### (B) Member Countries Shareholdings

	CAPITAL ISSUED	CAPITAL DUE AS OF	PAID-UP CAPITAL AS OF
	KD.	DECEMBER 31, 1998	DECEMBER 31, 1998
	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	1,156,136	1,156,136	1,156,136
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 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
<b>Total</b>	<b>25,189,871</b>	<b>24,689,871</b>	<b>24,689,871</b>

### 13. EXCHANGE (LOSS) GAIN

Exchange (loss) gain resulted from the conversion of the recorded assets and liabilities at December 31, 1998 and 1997 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:

	1998	1997
	KD.	KD.
Deutsche Mark	50,302	( 95,907)
U.S. Dollar	( 297,916)	591,534
European Currency Unit	4,734	( 64,567)
Japanese Yen	22,380	( 59,842)
Gt. Britain Pound	( 14,154)	( 3,752)
Other currencies	( 5,528)	( 8,001)
	( 240,182)	359,465

### 14. 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.

### 15. CONTINGENT AND UNRECORDED LIABILITIES

(A) The contingent liabilities for the current guarantee contracts signed by the Corporation with other parties as of December 31, 1998 amounted to KD. 47,701,413 out of which executed guarantee operations amounted to KD. 16,111,255. Approximately KD. 1,920,363 of this amount is re-insured against commercial risks. This represents total outstanding contingent guarantees as of December 31, 1998.

(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. 327,119 and KD. 309,565 at the rate prevailing as of December 31, 1998 and 1997 respectively). As a result the Corporation's assets which were restricted in certain banks 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. 441,249 at the rate prevailing as of December 31, 1998). The claim is still pending before the court.

(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.314,423 at the rate of exchange prevailing as of December 31, 1998). 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, 1998 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. During 1998 the award was issued in favor of the claimant for such amount plus interest of 7% from the date the amount became due until payment is made. 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.

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

Following is cumulative proceeds for the fund and its assets at December 31, 1998:

	<b>KD.</b>
Employees' contributions	202,885
Employees' indemnities	823,531
Earnings from investments	319,079
	1,345,495
Assets at:	
Investments	879,044
Loans due from participants	466,451
	1,345,495

The loans due from participants are non-interest bearing and are due within ten years by deducting 5% from the employees monthly salaries.

#### **17. SIGNIFICANT INSURED PARTIES**

Two insured parties accounted for 39% of the total premiums earned during the year ended December 31, 1998. In 1997 there was one of the above insured parties accounted for 61% of the total premiums earned.