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THE ARAB GULF DEVELOPMENT FUNDS: AN ANALYSIS OF THEIR LEGAL STRUCTURE & OPERATIONS

BY

YUNIS S. ASA'AD

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ABSTRACT
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This study examines three bilateral aid funds : the Kuwait Fund for Arab Economic Development, (KFAED), the Abu Dhabi Fund for Arab Economic Development, (ADFAED), and the Saudi Fund for Development, (SFD), which were established in 1961, 1971 and 1974 respectively. It also analyses the multi-lateral Arab Fund for Economic and Social Development, (AFESD), which was established by the Arab League in 1968. Collectively they are the principal vehicles used by the Gulf states to utilize their oil wealth to promote economic development in the Third World in general and the Arab world in particular. Operating as autonomous organisations, which are able to remain neutral in the face of political and ideological pressures, the Arab Gulf Funds have proved remarkably successful and influential institutions.

This study aims at analysing the legal structure and operations of the Arab Gulf Funds. Attention is then focused on the future and the ways in which the funds can operate more effectively.

I believe that a new fund, which would be known as the Arab Gulf Development Fund, (AGDF), is required. This fund, which would be administered by the Gulf Co-operation Council, (GCC), could coordinate the Arab Gulf's aid operations. A new comprehensive strategy is required and a working plan should be prepared for the new fund to adopt and execute.

This study attempts to achieve two related objectives. The first is to propose specific amendments to the legal framework of the existing Gulf development funds. The second objective is to propose the establishment of the new Kuwait based Arab Gulf Development Fund, (AGDF). This would enable better results to be achieved in both the GCC member states and in the developing countries.

Specific recommendations are made for the Gulf's aid strategy in light of the formation of the Gulf Co-operation Council. Co-operation between the development funds and investment institutions of the industrialised countries and those in the GCC states are, however, essential. Only by joining hands and working together will progress and economic development be made possible. It should be remembered by everyone that the modern world is not only interdependent but that it is for all of humanity.

ABBREVIATIONS

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AAAID	: Arab Authority for Agricultural Investment and Development
ACTS	: Arab Company for Trading Security
ADFAED	: Abu Dhabi Fund for Arab Economic Development
AfDB	: African Development Bank
AFESD	: Arab Fund for Economic & Social Development
AID	: Arab Institute for Development
AMF	: Arab Monetary Fund
API	: American Petroleum Institute
APICORP	: Arab Petroleum Investment Corporation
AGDF	: Arab Gulf Development Fund
AsDB	: Asian Development Bank
BADEA	: Arab Bank for Economic Development in Africa
CCCE	: Caisse Central de Co-operation Economique
CDB	: Caribbean Development Bank
CDC	: Commonwealth Development Corporation
CMEA	: Council for Mutual Economic Assistance
DAC	: Development Assistance Committee (of the OECD)
DEG	: Deutsche Entwicklungsgesellschaft
Dhs	: Dirham of the United Arab Emirates
ECWA	: Economic Commission for Western Asia
EDF	: European Development Bank
EEC	: European Economic Community
EIB	: European Investment Bank
EXIM BANK	: Export-Import Bank of Japan
FMO	: Netherlands Finance Company for Developing Countries
GCC	: Gulf Co-operation Council
GDP	: Gross Domestic Product
GIS	: Gulf Investment Company
GNP	: Gross National Product
IBRD	: International Bank for Reconstruction & Development
IDA	: International Development Association
IDB	: Inter-American Development Bank
IFAD	: International Fund for Agricultural Development
IFED	: Iraqi Fund for External Development
IFC	: International Finance Corporation
ILO	: International Labour Office
IMF	: International Monetary Fund
IslDB	: Islamic Development Bank
JICA	: Japan International Co-operation Agency
KD	: Kuwaiti Dinar
KFAED	: Kuwait Fund for Arab Economic Development

KIC	:	Kuwait Investment Company
KOC	:	Kuwait Oil Company
LCs	:	Letters of Credit
LDC	:	Less Developed Countries
LNG	:	Liquefied Natural Gas
MEED	:	Middle East Economic Digest
MEES	:	Middle East Economic Survey
OAPEC	:	Organisation of Arab Petroleum Exporting Countries
ODA	:	Official Development Assistance
OECD	:	Organisation for Economic Co-operation & Development
OECF	:	Overseas Economic Co-operation Fund
OFID	:	Opec Fund for International Development
OPEC	:	Organisation of Petroleum Exporting Countries
OPEC FUND	:	OPEC Fund for International Development
SDRs	:	Special Drawing Rights
SFD	:	Saudi Fund for Development
SR	:	Saudi Arabian Riyals
TAG	:	The Technical Assistance Group
UAE	:	United Arab Emirates
UK	:	United Kingdom
UNDP	:	United Nations Development Programme
UNHCR	:	United Nations High Commission for Refugees
UNICEF	:	United Nations Childrens' Fund
US	:	United States
USA	:	United States of America
USAID	:	United States Agency for International Development

PART ONE
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ARAB GULF DEVELOPMENT FUNDS & THE GCC
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CHAPTER ONE - INTRODUCTION
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1.1 The Structure of the Study.
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This research is not intended to provide a comprehensive analysis of the Arab development funds. Instead it concentrates on the legal aspects which effect them. In addition it attempts to bring the relevant legal documents together in a single volume. At the same time a number of innovations are proposed, including the formation of the Arab Gulf Development Fund which it is intended will run by the GCC states.

Part One is divided into four chapters. This introductory chapter is followed by an analysis of the Gulf Co-operation Council, (GCC), which examines the six countries which form it. The organizational structure of the GCC and its United Economic Agreement is also included in Chapter Two. The three principal bilateral Arab Gulf funds, the KFAED, ADFAED and SFD, and the regional Arab Fund (AFESD) are analysed in Chapter

Three. In each case the history, management, structure and operations of the fund is examined. Chapter Four provides an evaluation of the role of the various Arab development funds. Their record is shown to compare with that of the other major donors. The chapter also studies the various forms of co-operation between the Arab funds and other international financial institutions.

Part Two, which is divided into three chapters, provides a comprehensive legal analysis of the Arab Gulf funds. Chapter Five examines the legal structure of the three bilateral funds and presents a comparative analysis of them. Chapter Six studies the legal issues which affect the funds, while Chapter Seven looks at the loan agreements made between the funds and the recipient countries. This includes a model for a standard loan and guarantee agreement which could be used by the proposed new Arab Gulf Development Fund, (AGDF).

Part Three deals with the future prospects for Arab aid and is divided into four chapters. Chapter Eight looks at the changes that the formation of the GCC has and will have on the future of Arab aid. It also looks in general at the prospects for the future of Arab aid. Chapter nine examines the justifications for the establishment of the new Arab Gulf Development Fund (AGDF) and its strategy including the organizational structure for the (AGDF). Having provided the justification for the (AGDF), Chapter Ten provided the proposed legal framework for A.G.D.F. It provides my suggested model for the formation of the new Arab gulf Development Fund, (AGDF) and my proposed Articles of Association.

Finally in Chapter Eleven the numerous strands of the study are brought together and certain conclusions are drawn. These include the need for both the Arab Gulf Development Fund, (AGDF), and a new Arab Institute for Development, (AID).

1.2 Aid Agencies Around the World

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There are many Aid Agencies in the World. They are listed in Four Major Groups as the following:-

1. DAC Development Agencies.
2. OPEC Development Agencies.
3. Regional Development Banks.
4. World Bank Group.

1.2.1 DAC Development Agencies:- (1)

(1) See Appendix "A" for profile Summary of DAC Development Agencies.

1 - Agency for International Development (AID)
2 - Overseas Development Administration (ODA)
3 - Commonwealth Development Corporation (CDC)
4 - Caisse Central de Co-operation Economique (CCCE)
5 - Deutsche Entwicklungsgesellschaft (DEG)
6 - Kreditanstalt für Wiederaufbau (KFW)
7 - Overseas Economic Co-operation Fund (OECF)
8 - Export-Import Bank of Japan (EXIM Bank)
9 - Japan International Co-operation Agency (JICA)
10 - Netherlands Investment Bank for Developing Countries
11 - Netherlands Finance Company for Developing Countries
12 - Swedish International Development Authority (SIDA)
13 - European Development Fund (EDF)
14 - European Investment Bank (EIB)

1.2.2 OPEC Development Agencies

There are seven OPEC Development aid agencies. The first four that summarized below are the heart of my thesis.

The following is a summary profile of OPEC Development Agencies:

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT (KFAED)

Established in 1961 as a public corporation with an independent legal personality. The fund's authorised capital (1974) reached KD 1,000 mn. The purpose of the fund is to assist Arab States and other developing countries in developing their economies by providing loans for the implementation of their development programmes. The fund may borrow and issue bonds subject to the limit of twice the amount of its capital and reserves.

ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT (ADFAED)

Established in July 1971 as a general corporation with an independent legal personality for the purpose of offering economic aid to Arab, African, Asian and other countries, either in the form of loans or participation in share-holding. The fund's capital in 1974 was Dh 2,000 mn. In September 1979, the Board of Directors took the decision to double the fund's authorised capital to Dh 4,000 mn. The fund is permitted to issue bonds to an amount not exceeding twice its capital plus reserves.

Saudi Fund for Development (SFD)

Established in 1974 as an agent of the government with authorised capital of SR 10,000 mn increased to SR 15,000 mn in 1980. The fund's purpose is to provide financing of development projects in Arab, Islamic and friendly developing countries by the provision of concessionary loans. It has no borrowing power as any additional capital must be authorised by the government and capital can only be increased by a decision of the Council of Ministers.

Arab Fund for Economic and Social Development (AFESD)

Established in July 1968 as an Arab regional financial institution with an independent legal personality. The purpose of the fund is financing development and social projects in Arab countries. Authorised capital (1975) KD 400 mn. The fund can issue bonds or obtain credits from public and private Arab institutions or from individuals or international institutions.

Arab Bank for Economic Development in Africa (ABEDA)
Established in 1973 as an independent regional financial institution, financed by member countries of the Arab League for the purpose of participating in the economic development of non-Arab African countries, encouraging the participation of Arab capitals in African developments, and participating in providing technical assistance for Africa. The initial subscribed capital of the bank ($ 231 mn) and the 1977 replenishment brought the subscribed capital to $ 738.25 mn (by the end of 1980). The bank is authorised to borrow money (through credits, long and medium-term deposits, and issuance of bonds in the Arab and international financial markets) up to twice the amount of its paid-up capital and reserves.

Islamic Development Bank (IsDB)
Established in 1975 as an international financial institution to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of the Shariah (Muslim Code of Law). Authorised capital of the

bank is ID 2,000 mn (equivalent to 2,000 mn SDR of IMF). The bank has no borrowing power, but it is authorised to accept deposits, to be used for equity investments, and to raise funds in any other manner. It turns over its undisbursed funds to the Saudi-Arabian Monetary Agency (SAMA) for investment.

Established by virtue of an agreement signed by all OPEC member countries in Paris in January 1976. The fund is not endowed with a capital structure, and its resources consist of contributions by member countries, and funds received from operations or accruing to the fund. Resources committed to the fund (1980) have reached US$ 4,000 mn. The objective of the fund is broadly defined as reinforcing financial co-operation between OPEC member countries and other developing countries by providing financial support on appropriate terms to assist them in their economic and social development efforts.

1.2.3 Regional Development Banks (2)

1.2.3.1 African Development Bank (AfDB)

1.2.3.2 Asian Development Bank (AsDB)

1.2.3.3 Caribbean Development Bank (CDB)

1.2.3.4 Inter-American Development Bank (IDB)

(2) See Appendix "A" for Profile summary of Regional Development Banks.

1.2.4 World Bank Group

International Bank for Reconstruction & Development (IBRD) The IBRD was established at Bretton Woods in July 1944, and commenced operations in June 1946. The main purpose of the bank is to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, and encouragement of the development of productive facilities and resources in less developed countries. It began its operations with an authorised capital of US $ 10bn. By 1980, the capital had reached US $ 40bn. Total membership of the bank (in June 1980) was 135 countries. In addition to its capital, borrowing through the international sale of bonds and notes, net income, sales of loans and repayments on loans are considered subsidiary financial resources.

International Development Association (IDA)

Established in 1960 as a soft-loan affiliate of the World Bank, the purposes of IDA are to promote economic development, increase productivity and raise the standards of living in the less developed areas of the World included within IDA's membership by providing finance to meet their important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of IBRD and supplementing its activities. The initial subscription of capital, in January 1960, reached $ 1,000 bn; $763.07 mn from Part I countries (most advanced) and $236.93 mn from Part II countries, of which 10 per cent of the initial subscription of each original member had to be payable in gold or free convertible currency in the case of Part I members, and in currency of the subscribing member in the case of Part II countries. Authorised capital stock reached $ 16,500 mn at fiscal year 1979. Membership of IDA is open to all members of the World Bank, and by September 1980, 121 countries had joined IDA. Funds used by IDA are called credits to distinguish them from World Bank loans, and come mostly in the form of subscriptions of capital, general replenishments from IDA's more industrialised and developed members, special contributions by IDA's richer members, and transfers from net earnings of the World Bank. IDA's Sixth Replenishment, which the executive directors approved in January 1980, for the 3-year period, FY 1981-83, calls the funding in an amount totalling the equivalent of US$12,000 mn.

International Finance Corporation (IFC)

Established in 1956 as an affiliate of the World Bank. Its aim is to encourage the flow of domestic and foreign capital into productive investments in developing countries. The IFC supplements the economic development efforts of the IBRD and IDA by filling two gaps:

(1) It supplies capital in any form, as long-term loans, equity subscriptions, or a combination of both.

(2) It invests without government guarantee of repayment. Originally the authorised capital stock of IFC was $ 100 mn, with capital resources provided by 113 member countries, 92 of which were developing.

In addition to capital and reserves the IFC can borrow from the IBRD up to four times its capital and unrestricted reserves. Repayments and sales of investment, income from loans and equities are also considered to be important financial resources of the corporation.

1.3 A Classification of the Arab funds

In order to analyse the Arab development funds, it is necessary to classify them. As this section now illustrates it is possible to put them into the three separate categories; as follows :

1.3.1 Bilateral Aid Funds.

There are the bilateral funds which are run by individual countries. These include the three principal funds which are analysed in this study; the Kuwait Fund for Arab Economic Development, (KFAED); the Abu Dhabi Fund for Arab Economic Development, (ADFAED); and the Saudi Fund for Development, (SFD). Bilateral funds are created by their respective governments for two purposes. They are the vehicle used by the lender to dispense aid finance to developing countries. In some ways they are also an extension of the donor's foreign policy arm. They enable the country to demonstrate its generosity and to reward those developing countries which it feels are worthy of its financial support. This is illustrated by the way in which aid finance can and has been turned on and off, depending on the state of relations between the donor and the recipient. Naturally the donor government's prefer to use their own bilateral fund because of the degree of control and recognition that it provides.

1.3.2 Multi-lateral Arab aid organisations

Secondly there are the multi-lateral funds which have exclusively Arab shareholders. These include; the Arab Fund for Social and Economic Development, (AFSED); the Arab Authority for Agricultural Investment and Development, (AAAID); and the Banque Arab pour le Developpement Economique en Afrique, (BADEA). Most of these multi-lateral funds were founded in the 1970s after the first oil price explosion. They are symbols of Arab unity and are led by the the comparatively richer Gulf states. Some have specific tasks; AAAID was formed to invest in agricultural projects in Sudan and create the so-called "bread-basket of the Arab world"; while it is obvious from its name that BADEA is concerned with economic development in Africa.

1.3.3 General multi-lateral funds

The third group of development funds are the multi-lateral funds which have both Arab and non-Arab share-holders. These include the Islamic Bank for Development, (IDB), which has an 82 per cent Arab share-holding, and the Opec Fund for International Development with an Arab share of about 62 per cent. These reflect two aspects of the Arab Gulf - its Islamic religion and its role as a major source of oil. In the IDB the Arabs have joined together with non-Arab Islamic countries such as Malaysia and Indonesia. The Opec Fund includes non-Arab members of Opec such as Iran, Nigeria and Venezuela.

Besides these special and predominantly Arab funds, it should also be remembered that the Arab Gulf countries are also major donors to the international multi-lateral organisations. These include the various United Nations agencies, such as Unicef, Unesco, WHO and IFAD, and the Red Crescent organisations. Each of these agencies deals with a specific issue or problem, whether it is refugees, world health, small farmers or educational programmes.

1.4 : The Aim of the Study & its Methodology

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1.4.1 Aim of the Study

This study is concerned with the legal framework of the three Arab Gulf Funds : the Kuwait Fund for Arab Economic Development, (KFAED), the Abu Dhabi Fund for Arab Economic Development, (ADFAED), and the Saudi Fund Fund for Development, (SFD). It looks at the operation of the funds in the past. The purpose is to assess the prospects for co-operation between the Arab World and Third World. In analysing the funds, the study also casts light on the funds' future prospects. This study attempts to analyse and interpret a number of issues, including the following :

1. The statutory and constitutional status of the three sister funds and their legal framework.

2. The terms and conditions of the loan agreements between the funds and the developing countries also examined because they throw light on the determining factors of :

   (i). Terms of Agreements

   (ii). Conditions of Repayments

   (iii). Settlement of Disputes

(iv). Governing Law

3. The evolution of Arab Gulf funds' operations

4. The comparative legal framework and activities of the KFAED, ADFAED and SFD.

5. The changing role of the Gulf funds in light of the formation of the Gulf Co-operation Council in 1981. The period under examination runs from 1961, when the Kuwait Fund was established until the end of 1985. It should be noted in this respect that the significance of the Kuwait Fund is vital to this study. It has provided a pioneering example of the intelligent use of Arab capital, knowledge and experience throughout the Arab and developing world in a non-ideological and rational way. Its example helped to establish a model for the formation of other Arab development funds and institutions, including the ADFAED and the SFD.

Having examined these issues and in light of the formation of the GCC, this study has two further related objectives. The first is to propose a framework for the Gulf development funds. The second objective is to propose the draft charter and the organizational structure of the new Arab Gulf Development Fund (AGDF).

It is hoped to show that this proposed fund can achieve better results both for the GCC member states and for the developing countries. The study has specific suggestions and recommendations for the Gulf aid strategy following the creation of the GCC.

A major recommendation of the thesis is my proposal of formation of the New Arab Gulf Development Fund (AGDF). This proposal is a new concept of unity related implementation of GCC United Economic Agreement. I strongly believe that the formation of the new Fund could be an important step in the achievements of these objectives.

1.4.2 Methodology

This study principally relies on both published and unpublished primary sources. Official documents from the Development Funds and their annual reports provide the principal source for the facts and figures of the analysis. Furthermore, I had the privilege of having access to some of the Loan Agreements.

I prepared questionnaires including many issues specially regarding the obstacles of the Kuwait Fund Operations, the suggestions of reforms, the number of disputes with recipient Countries through the years, the cases of recipient Countries through the years, the case of recipient Countries that refrained paying off the loans and the future plans of the Fund in the Third World and co-operation with other Aid Agencies.

This received a negative response, since these matters could only be answered by the Director General. When I contacted the Director General in his office he replied that it is not possible to help as such issues might be misused or misinterpreted. As an alternative, I had informal discussions with several individuals in the Kuwait Fund and the Arab Fund, who had served for many years previously. The former legal adviser to Kuwait Fund was one of these. Three long meetings were held with him and he clarified many points and gave me some valuable references.

Other researchers in the Kuwait Fund and Arab Fund assisted in providing documentation, including librarians in the Kuwait Fund library, which is the best endowed library on commercial, legal and economic affairs. They assisted in providing me with reports, research papers and other relevant documentation.

The main sources were utilized in the research :

a). The annual reports of the three bilateral funds.

b). Other publications and papers from the funds.

c). Annual reports of the Kuwait Central Bank

d). Published books on Arab aid financial institutions in general and in the Kuwait Fund in particular.

e). Financial operating statistics of the Arab national and regional development institutions

f). Economic of the Gulf Co-operation Council, 1982 and 1983 - published by the Arab Information Centre in Kuwait.

g) United Nations Development Information System

The author is, however, solely responsible for the interpretation of the facts presented in this study an for the conclusions drawn.

1.4.3 Economic assumptions underlying the provision of aid

It will be implicitly assumed in the thesis that an increase in the level of aid is beneficial. The benefits of aid to recipient countries are self-evident and will not be discussed. The focus of attention below will be on those issues facing donor countries.

The provision of aid by donor countries is not solely an economic issue. There are wider social welfare considerations and indeed underlying moral issues. To view aid solely within an economic framework of analysis is inappropriate. Even so the underlying economic issues facing a donor country need to be made explicit. This is done below. Firstly, there will be a brief discussion of the general issues facing donor countries situated in developed western economies. Secondly, the special economic isues facing oil rich countries in the Gulf will be outlined.

Economic issues facing donor countries in developed economies.

Within an economic framework of analysis, aid is fundamentally a means of redistributing wealth. This redistribution of wealth has both short term and long term implications for donor countries.

In the short term the provision of aid involves a direct cost to the donor country. Resources which could have been consumed by residents in the donor country are diverted to residents of the recipient country. Ultimately, aid finance derives from tax revenues raised by governments in the donor country. Hence at one level of analysis, the provision of aid is spread across the tax-paying residents in a donor country to residents in a recipient country.

In addition, in the short term, there are macro-economic issues. The significance of these macro-economic issues depends fundamentally on whether the aid being provided is tied or untied. With respect to tied aid, the funds being provided to donor countries are constrained to be spent on the goods and services of the donor country. Thus there will be no adverse effect on employment and other macro-economic factors. However, with respect to untied aid, the circle of flow of income is not assured. The recipient country may well spend the funds received on goods and services produced by other countries and thus may have adverse effects on the level of employment and other macro-economic factors in the donor country.

But in the longer term, if the provision in aid results in the development of the economy of the recipient country, these macro-economic costs may not exist. As a developing country expands it will have an increasing demand for foreign produced good and services. To some extent, this demand may be met by the donor country. There is no guarantee that the donor country will gain from this increased demand for foreign goods and services, since the ability of the donor to attract business will depend on its competitiveness relative to that of other supplying economies. Even so, there are likely to be some gains, in part due to the goodwill generated from the provision of aid.

Economic issues facing oil rich Gulf States

The position facing Gulf States as donors differs. Gulf States have derived most of their income from oil revenues. In discussing the Gulf economies, one must distinguish between two periods of time.

In the 1970s and the early 1980s, the oil revenue of the Gulf States exceeded their domestic expenditure needs. As a result, a surplus existed which was invested in foreign assets, mainly bonds and shares. As a result the opportunity cost to the Gulf States from the provision of aid was mainly the rate of return they would have earned on these foreign investments. One could also argue that there existed another opportunity cost facing the Gulf States, namely, to keep the oil in the ground rather than extract it and invest it overseas.

The other important characteristic of the Gulf States during this time, and which still exists, is the fact that they have a limited local production capability. Hence, all the aid provided was de facto of an untied nature.

The economic conditions facing the Gulf States changed in the mid-1980s onwards. This was due primarily to the fall in oil prices and the continued growth of government expenditure, in part on account of fast growing local populations. The economic consequence of this was that a number of Gulf economies began to finance current expenditure by drawing down their foreign investment holdings. The extraction of further oil was inhibited by agreements within OPEC. It can be argued that during this changed economic environment, the opportunity cost to the Gulf States of supplying aid increased. The opportunity cost was now not just the rate of return on these foreign investments but the alternative use of these funds within the domestic economies.

Thus in recent times, the economic costs to the Gulf States have become similar in nature to those facing western economies providing untied aid. Despite this increased cost, the redistrbution of wealth aspect still remains important, since the Gulf States are much wealthier than most other developing countries. This is reinforced by wider moral issues discussed earlier, which in the Gulf derives from Islamic traditions.

1.4.4 Legal Issues associated with the Proposed Arab Development Fund

Positioning the Legal Status of the Proposed Fund

The new Fund (AGDF) will operate as a separate legal entity with a high degree of autonomy.

It is proposed that the Chairman of the Administrative Committee will be the legal representative of the Fund, with the Deputy Chairman taking his place in the event of his absence.

Immunities and Exemptions of the Fund's Properties and Activities

Members of the Administrative Committee should also enjoy immunity in respect of their executive or judicial actions when acting in an official capacity on behalf of the Fund.

The provisions in the establising agreement and articles of association, should be applied to the rights of the Fund and its shareholders. These provisions should complement the current laws of the contracting countries, providing that they do not contradict the agreement clauses and the attached basic regulations.

Recognition of GCC Judgements in Foreign Country

When a judgement is rendered by a court within a GCC state, there is a need for it to be enforceable in a foreign country. This can be effected by a treaty between the foreign state and GCC member state.

In the case of Arab Monetary Fund v. Jawad Hashem, the criminal court of Abu Dhabi rendered judgement on 16th March, 1987, against its ex-Chairman and Director-General, Jawad Hashem.

In its landmark judgement in April 1990, the Court of the Old Bailey in London, issued an order to attach all his property in Britain, where he was domiciled, with a travel ban and decided its jurisdiction on the case. However, the Court of Appeal in London dismissed the case and determined that the courts of Britain have no jurisdiction, since there is no legal ground for such jurisdiction in common law, in the absence of a judicial co-operation agreement between U.A.E. and Britain.

In order to avoid such conflict of laws in future, it is my opinion that an arrangement for judicial co-operation between E.C. states and G.C.C. states be considered. Furthermore, there is a case for other similar judicial co-operation agreements to be considered with other countries, viz.

U.S.A., Canada, Australia etc..

This could be achieved by entering into a treaty or a convention which is signed by members of the participating countries. These conventions should in turn be notified to the Secretary-General of the United Nations.

1.5 Survey of the Literature
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The following is a brief literature survey of some of the most useful books on Arab development funds which are currently available in Kuwait. The emphasis is on those which analyse the KFAED, ADFAD and SFD.

1.5.1 General Works

Hassan M Selim's **Development Assistance Policies and the Performance of Aid Agencies, [01].** This is a valuable general survey by an economist who served as Assistant Director General of Operations in the Abu Dhabi Fund. Subtitled - "Studies in the Performance of DAC, OPEC, the Regional Banks and the World Bank Group" - this book examines the performance of development institutions in each member country of these four regional and international groups. Although only about a fifth of Selim's book is devoted specifically to Arab development institutions, including the KFAED, ADFAED and SFD, it does provide useful information about the organisation, performance and scope of activities of these three institutions.

The book covers the basic elements of three major aspects of aid: international finance, project appraisal and implementation, and economic development. Although it does touch on the legal aspect of the agencies' activities, the book is mainly concerned with strategic and resource issues faced by the funds.

Yusif A Sayigh's **The Economies of the Arab World : Development Since 1945 [02]**, is a general survey by another economist. Sayigh's book, however, mentions only in passing the role of the Arab development institutions in the evolution of the Arab economies. The study is also rather dated and does not discuss the Saudi Fund at all. Nevertheless it provides, in a brief and condensed form, a useful summary of the capabilities and performance of the other two funds. In addition, its historical approach helps give the existence of Arab funds a greater perspective. The book is the first to give a detailed analytical study of economic development in the twelve Arab States. However, it was written before the formation of the GCC and the statistics and tables only cover the period from 1945-1973.

Ragaei El-Mallakh's Capital Investment in the Middle East : The Use of Surplus Funds for Regional Development [03], is a more technical survey. It concerns itself mainly with the political and economic ramification of the Arab capital surplus. It is also dated and only touches on the activities of the four major Arab development institutions: the three funds of concern here plus the Iraqi Fund for External Development. The book has a stronger theoretical structure. Dr. Mallakh was Director of the International Research Center for Energy and Economic Development at the University of Colorado. Moreover, the work is written from an American viewpoint despite the author's background. The book is well documented and provides a thoughtful analysis of the regional context within which the Arab development funds operate. The book is therefore a useful complement to other sources described in this short bibliography.

Aid from OPEC Countries, [04], a report by the Organisation for Economic Co-operation and Development's secretariat presents a detailed statistical analysis of the development assistance and policies of all the OPEC countries and their aid institutions. Although placing more emphasis on multilateral agencies, there are concise quantitative studies of the bilateral development institutions' operations. Indeed, studies on the KFAED, ADFAED and SFD take up nearly a fifth of the book. In view of the shortage of other detailed information on the Saudi Fund, this study proved particularly useful. However, the book has a latent bias against Arab policies and institutions, tending to emphasise their difficulties and ignore their achievements.

A more useful general survey is Andre Simmons' **Arab Foreign Aid, [05]**. This book focuses on the national and multinational aid programmes of Arab oil-producing countries and is an excellent introduction to the Arab development funds. Simmons, an economist, presents clear descriptions, based on original sources. An important thesis of the book is its concurrence with the view expressed in 1975 by the then Director General of the Kuwait Fund, Abdlatif Y Al-Hamad, who said "the Middle East is the only region of the world that has not been able to follow the general trend towards the creation of a network of regional development institutions".

The need for a more judicious use of development financing within a regional context is one conclusion of another important work, Hazem Biblawi's **The Arab Gulf Economy in a Turbulent Age, [06]**. The book by the noted Egyptian economist and Chairman of the Export Development Bank of Egypt does not specifically deal with the development funds. It does, however, provide a systematic and critical description of the regional and international economic and political situation in which they function and with which they interact. Biblawi, whose professional experience included research for

Kuwait's Ministry of Finance and the Arab Fund, recommends a coordinated Arab Gulf investment effort in order to improve the effectiveness of the aid.

1.5.2 Individual Studies

A readable transition from general to specific surveys is provided by Robert Stephen's **The Arabs' New Frontier**, **[07]**. It is a useful introduction to the origins and development of the Kuwait Fund in particular, together with some analysis of the Arab Fund. Although more concerned with Arab aid than Arab funds, it provides a country by country examination of the impact of Kuwait Fund aid. It provides a useful, though somewhat dated, contribution by this noted British author who was foreign editor of the Observer newspaper.

Another general study that touches on the Kuwait Fund is Mohamed Khouga and P.G. Sadler's **The Economy of Kuwait**, **[08]**. Only one chapter in the book is on the Kuwait Fund, and this merely outlines the most important features of the Fund's structure and operations. It is more descriptive than analytical. Khouga and Sadler were senior economic advisors to the Kuwait Fund and World

Bank, respectively. At a more general level, the book is the most important written on the economy of Kuwait.
A more detailed study is Soliman Demir's **The Kuwait Fund and the Political Economy of Arab Regional Development, [09]**. Most of the book is devoted to the Kuwait Fund - its history, operational structure and management. Demir draws on many sources for his study, but primary documentary sources on the Funds themselves are rarely used. Nevertheless, the study is a useful source book on the organisation of the Kuwait Fund.

A slightly more recent study, also by Demir, is **Arab Development Funds in the Middle East, [10]**. It was published for the United Nations Institute for Training and Research, for which Demir worked as Research Associate. The book expands on the first study by including the Abu Dhabi Fund. Though there is discussion of organisation and operations, the book devotes more attention to the equally important juridical dimension of these development institutions, reproducing their individual charters and by-laws. Thus, although it is dated and continues to be concerned specifically with the topic of "promotion of economic and social development", the additional juridical material makes it a significant sourcebook. Unfortunately it does not cover the Saudi Fund in any great detail.

Yousef S.F. Al-Sabah's **The Oil Economy of Kuwait, [11],** presents an important point of view concerning the Kuwait Fund which warrants consideration. The author is the former Chief Economist for Oapec and Senior Advisor to the Gulf Oil Corporation. Although he is chiefly concerned with Kuwait's oil sector, Al-Sabah presents what may well be a concensus of opinion regarding what the Kuwait Fund's priorities should be. Unlike Biblawi and Simmons' position, his inclination here is more national than regional.

A very useful study is a report written by John D. Law for the Chase World Information Corporation. Law's **Arab Aid : Who Gets It, For What, and How,** [12],is an uncomplicated yet wide ranging examination of the major Arab development institutions and their aid operations. The first three chapters, which take up a third of the report, analyse the performance of the KFAED, ADFAD and SFD, while eight appendices tabulate assistance portfolios, aid programs and concessional loans.

Serious research requires original source material and among the best sources are the annual reports of the various development institutions. These are essential sources that provide detail about their respective institution's structure, objectives, activities and financing. Thus, the ADFAED's Annual Report for 1983/84 provides useful data on its projects, budget, loans and financial assistance since 1974. In addition there is a summary of current international economic developments and their impact on the Fund's current and future operations. Similarly, valuable detailed studies and statistical information are obtainable from the other funds' annual reports.

1.5.3 Articles

Although there are many articles that consider, directly or indirectly, individual Arab funds these are not readily available and are not considered in this bibliography. There is, however, a relatively recent book that contains some articles of relevance to this bibliography. **The Role of the Arab Development Funds in the World Economy, [13]**, is a small book with a disproportionately broad title. It is edited by Michele Achilli, the President of the Institute for International Economic Co-operation in Milan, and Mohamed Khaldi, the head of the Co-operation and Development Department in the same Institute. It contains 24 articles presented during a conference on the subject held in Milan, February 11-13, 1983. The articles are written by noted specialists in Arab development aid. Among the articles deserving special mention are keynote address called **"Arab Aid in the World Economy"** ; **"The Kuwait Fund for Arab Economic Development"** by its Deputy Director General Bader Al-Humaidi ; **"The Activities of the Saudi Fund for Development"** by its Director General Saleh H. Humaidan and **"Arab Development Agencies and South-South Co-operation"** by Abel Kader Sid Ahmed, an associate professor at the Institute for Social and Economic Development Studies in Paris. Unfortunately one should add that most of the articles are very general and very little is presented on the Abu Dhabi Fund.

Although Arabic sources are not considered in this study there are some which merit consideration. By way of illustration, one may mention the monthly series **Dar Al-Mar'arifah, [14]**, which is issued by the National Council for Culture, Arts and Letters in Kuwait. Useful, but general,surveys on Arab development assistance are to be found in issues 57 (July 1982) and 103 (July 1986). More specialized articles on the individual funds are also available in the periodical.

In order to put all of the sources cited in this brief bibliography into context, it is worthwhile referring to the various speeches and reports by Abdlatif Y Al-Hamad. He was the Director General of the Kuwait Fund throughout much of its history, a former Kuwait Minister of Finance and is currently a director of the Arab Fund. Amongst the accessible although unpublished of his papers are : **International Development Assistance - The Role of Arab Petrofunds,** (1980); **Perspectives on Arab Aid Institutions,** (1979); **Fifteen Years of International Development Assistance - the Kuwait Fund,** (1979); and **Toward Closer Economic Co-operation in the Middle East - Financial Aspects,** (1975), **[15]**

1.5.4 Studies and Publications in Arabic

In addition to these sources, there are many articles and books in arabic related to arab development funds and funding. Some of these are papers by individuals, others were issued by arab financial institutions and some are conference papers.

With regard to individual papers, among the more prominent are the following:

Financial Outflows from OPEC Countries to Developing Countries and the New International Economic Order

published in the Journal of Oil and Arab Co-operation 8:2, 1982, pp.123-66.

Mohammed El-Emadi: **Revenue and Development of the Third World through Arab Funds**, published in the same journal, issue number 1, 1983, pp.13-74.

Together with Abdullatiff Al-Hamad, Mohammad El-Emadi has been one of the most influential leaders in the history of arab development funds. When he wrote this important article he was serving as chairman of the Arab Fund. Subsequently, he left to become Minister of Foreign Commerce in Syria. In this article Dr. Emadi gives a careful overall evaluation of the role of arab funds. He stresses the unique role that arab funds play. They are capable of providing financial support, but they are at the same time developing countries themselves. This gives them an important intermediary role.

A paper by Mohammed El-Khoja on **The Political Returns of Kuwait's Foreign Aid**, published in the Journal of Economics and Business, 63, September 1984, pp.60-61.

Abdel Rahim El-Mirgheni's **Development Financing in Arab Funds: The Case of the Kuwait Fund for Arab Economic Development**, Kuwait, KFAED, 1985, p.24.

Abdel Karim Sadiq, **The Role of Arab Development Financing Institutions with Focus on the Activities of the Kuwait Fund**, Kuwait, , 1984, p.28.

Two papers by Ibrahim Shehateh are worthy of mention.
(1) **The Future of Arab Aid**, OPEC Fund for International Development, Vienna, 1980. The author served as legal Adviser for Kuwait Fund for several years, then becoming the Director General of OPEC Fund and, for a time, a vice president of the World Bank. The paper spans the ten year period to 1979. He stresses the need for a greater dialogue between the donor and recipient at the outset to agree on joint objectives. Failure to do so can lead to problems later. The need to focus financing on the essential infrastructure in developing countries is also stressed.

(2) The other paper by Dr. Shehateh is **Arab Development Financing Institutions.** This is a general overview which was given at the 11th Session on International Studies, National Institute for Administration and Development, Beirut, 3 June 1975.

Among the more prominent institutional reports are those produced by the Arab Fund for Economic and Social Development and the Council for Arab Economic Unity. With regard to the latter institution , an article written by H. Kharboush deserves special mention. It is entitled **The Role of Arab and International Financial Institutions in Financing Arab Economic Development Projects**, Amman, 1983, p.74. The Arab Fund has produced three useful publications on this subject :

(1) Basic Data Concerning the Fund's Developmental Efforts in the Arab World - Loans, Disbursements Repayments, Net Outflows, 1974-1983, 1984, p.27.

(2) Loans from Arab National and Regional Development Funds to Recipient Arab Countries: Basic Data, Sectoral Distribution, 1982-1983, p.58.

(3) Quarterly and annual reports of the Fund's Coordination Secretariat of Arab National and Regional Development Institutions on The Financial Operations of Arab National and Regional Development Institutions.

Regarding conference papers, among the more prominent are the following :

A paper by Abdel Emir Abboud and Abdel Jabbar Khalfi on **The Activities of Arab Gulf National Development Funds in Sub-saharan Africa,** presented to the Joint International Seminar on the Arab Gulf and Outside World, Baghdad-London-Basra, 29 April - 1 May 1984, p49.

Arab Development Funds and Financial Institutions: An Appraisal, a report submitted to the Seminar on Financial Markets and Project Financing, Sanaa, 23-28 October 1982, p14.

The Special Status of the Arab Countries in the Area of Aid from Developed to Developing Countries, a paper submitted to the 2nd Conference on Industrial Development in the Arab Countries, held in Kuwait, 10-17 October 1971 (Cairo: Arab League - Industrial Development Centre), p.3.

Two additional works in arabic, which are also more recent, are Jasim Al-Qasimi's **Economic Integration between Gulf Co-operation Council Countries** (Kuwait: National Development Institute, 1986) and Ali Khalifa Al-Kawari's **Towards an Alternative Comprehensive Development Strategy: General Guidelines for a development Strategy in the Context of the GCC and**

Integration with the Remaining Arab Countries (Beirut: Centre for Arab Unity Studies, 1986). Al-Qasimi reviews the political and economic history of the Gulf states and discusses the development of the GCC, the prospects and problems of economic integration at the national, regional and international levels and the future outlook for Gulf economic integration. Kawari's report constitutes a serious bid to develop a viable formula that can assure the development and future integration of the GCC countries, economically and politically, and in such a way as to help safeguard their Arab and Islamic identity and aspirations.

1.5.5 Concluding Remarks

This bibliographic survey is neither final or entirely up to date and there are specific drawbacks, as seen in the above text, to each source. Nevertheless, in combination the fifteen sources outlined above do provide a concise and thorough account of Arab development institutions in general and of the KFAED, ADFAED and SFD in particular.

However, most of the literature is out of date in the term of financial statements and statistics. On the other hand all of it focuses on a general Economic level noting on legal aspect. In my thesis I seek to fill a gap in the available literature by:

1. Integrating both legal and economic aspects.
2. Updating the information on the operation and structure of the Funds.
3. Suggesting changes in the strategy of the Funds and proposing the establishment of a new fund within the context of the Gulf Co-operation Council.
4. Considering the islamic view of economic aid.

1.5.6. Sources Cited

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CHAPTER TWO
****

GULF CO-OPERATION COUNCIL
****

2.1 Introduction
****

On May 25, 1981, the six leaders of the Gulf's Arab states signed a document of co-operation which would link their political and economic futures and create the most important power bloc in the Arab world. Four of the six, Saudi Arabia, Kuwait, Qatar and the United Arab Emirates (UAE), including Abu Dhabi, were among the most important oil and natural gas producers in the world and wielded considerable economic influence. Together with the other two, Oman and Bahrain, they were each heavily dependent upon the foreign oil companies in their country. In spite of their initial dependence they eventually succeeded in gaining controlling interests in their oil resources. Since then they have also realized the importance of taking political control of their region.

The Gulf Co-operation Council, (GCC), was the child of economic necessity. There were those in the Arab World who appreciated the fact that their main resource was finite and that the region was a single product exporter. By creating the GCC, the six Gulf states were looking for a method of jointly diversifying their economies They sought to create a manufacturing infrastructure which would, initially, be supported by revenues from oil. They needed to wean themselves from economic dependence upon the West.

From the start the GCC was a multi-faceted organisation. First, it would enable the Gulf states to create a coordinated alternative economic infrastructure. Second, working on the basis that there is strength in unity, they would create an economic and political bloc with an important voice on the international stage. The Gulf states hoped that such an organization, with an avowed non-aligned policy, would be able effectively to negotiate political and economic terms with the world's major power blocs. The forging of this unity was no easy task for its architects. The region's heritage was one of long standing insular tribal rule. Its continuation has been illustrated time and again within the GCC as member states have insisted that, although they have formed a federation, there has been no surrender of sovereignty is involved.

One of the clear political commitments of the GCC was that it would "employ its resources as an intra-Arab organization, to restore usurped rights and settle intra-Arab rifts." This philosophy was forged during the first six months of the organization's existence. The concept of a non-aligned federation of states was agreed upon and signed by the six heads of states at their second summit meeting in November 1981. To give dynamism to this accord an economic agreement was drafted which was to become the keystone of the GCC charter. It became the expression of a united Gulf. It is a broad based charter, covering 26 distinct sections. These include industrial integration, financial and commercial co-operation and the development of an integrated manpower programme, **[01]**.

The creation of a separate GCC identity was inevitable especially in light of both the overt and covert struggles between the superpowers in the strategic Gulf region. The stand taken by the six states against interference in the Gulf area by the "superpowers" was made clear after the first GCC meeting. They stressed that the security and stability of the Gulf was the responsibility of its own people and states, rejecting outright any foreign intervention. They also called for the entire region to be kept out of international conflicts, particularly with regard to keeping foreign fleets and military bases out of the area.

The GCC's concern is not confined to the Gulf region alone. From the beginning it affirmed that the Gulf area is part of the Arab world and its people part of "the Arab Nation". It would thus continue to adopt stands on all international and other issues in support of Arab aspirations.

The GCC has provided the Gulf leaders with a forum for dialogue. Its Riyadh based Secretariat has fostered a regional perspective and encouraged the abolition of economic and political barriers.

In spite of initial doubts and some apparently insurmountable differences, a high level of co-operation has been achieved during the past five years. The GCC has forged crucial economic agreements and has laid the groundwork for a degree of political unity necessitated by world economic conditions At the very least it is likely to create a common market for the region, thereby strengthening its trading position, while at the same time bringing a step closer the unification of the Arab people.

This chapter examines the formation of the GCC, and then analyses the numerous obstacles to its success and survival. These range from internal problems, including demography and the paucity of a skilled workforce, to external issues such as the strategic importance of the region to the superpowers. It then outlines the unified economic agreement that the GCC states signed in 1981. The GCC's organizational structure is then followed by the broad conclusions which can be reached by this chapter's analysis.

2.2 Historical Background
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Kuwait knew there would be a power vacuum in the Gulf when the British government was forced to withdraw its armed forces from the Gulf in the 1960's. Although it was deemed necessary at the time Kuwait was very concerned that the withdrawal would affect her security. It was partly due to its fear of the consequences of British withdrawal that Kuwait began an intensive effort to facilitate and promote federation and integration in the region. Kuwait had, it must be noted, always been a supportive neighbour with a long history of aid to the smaller sheikhdoms.

One way in which Kuwait's continued interest in regional bridge-building manifested itself was its continued support for the United Arab Emirates. The UAE, which was the first federation in modern Arab history, received invaluable assistance from Kuwait in the early days of its formation. Kuwaiti endorsement of the proposed federation - initially to be composed of Bahrain, Qatar, Abu Dhabi, Sharjah, Ajman, Umm Al-Qaiwain, Ras Al-Khaimah, Dubai, and Fujairah - prompted the rulers of these states to consult Kuwaiti leaders. This eventually led to the signing of a federation agreement in 1971, albeit without the participation of Bahrain and Qatar. Saudi Arabia favoured the federation and Iraq and Egypt gave reluctant approval. Syria was the only Arab state to denounce it in strong terms, although it subsequently reversed this position. The United States and Britain expressed strong support but the Soviet Union, while not opposing the creation of the UAE per se, criticized the venture as a manifestation of a residual British imperial presence.

As international tensions and superpower rivalry in the region increased after the British withdrawal Kuwait again took the lead in establishing closer ties among the Gulf States. The establishment of a Gulf University was proposed in early 1980 during a visit by the Kuwaiti

Prime Minister to the other Gulf States. Later in the year, an agreement founding the university was signed in Kuwait by seven Gulf states - Saudi Arabia, Iraq, Kuwait, Oman, UAE, Qatar and Bahrain.

In early 1981, Kuwait's Foreign Minister submitted a working paper to the Gulf governments which proposed the establishment of a Gulf Co-operation Council. Later on February 4 of the same year the Foreign Ministers of the UAE, Bahrain, Oman, Saudi Arabia, Qatar, and Kuwait met in Riyadh, Saudi Arabia, to draw up an organizational structure for the proposed council. Out of this meeting came the Council Charter which said that the "special ties" which bound them together and which arose from "their common ideology and heritage and the similarity between their social, political and demographic structure" prompted the drawing up of a "practical framework" for co-operation, **[02]**.

Those who wrote the GCC's Charter included points aimed at allaying potential Arab opposition. This was achieved by conforming with the aims of "the Arab Nation" as expressed in the Charter of the Arab League, which encourages regional co-operation as a means of strengthening "the Arab Nation". In this way, the formation of the Gulf Co-operation Council can be seen as confirming the support of the states of the Arab League, its Charter and objective, and Islam as a whole. It defined the GCC's structure and purpose as follows:

> "This organisation, to be known as the Gulf Co-operation Council, shall have its headquarters in Riyadh, Saudi Arabia. It shall be a means of achieving a greater degree of coordination and integration in all fields and of forging closer relations between its members. To this end it will form corresponding organisations in the fields of economics and finance, education and culture, social affairs and health, communications, information and media, nationality and passports, travel and transportation, commerce, customs and the movement of goods, and finally in legal and administrative affairs". **[03]**.

At the conclusion of this initial meeting, the Foreign Ministers of the six states agreed to hold their next summit meeting in Muscat, Oman, beginning on March 8, 1981. This was preceded by two organizational meetings on February 24 and March 4, 1981, in Riyadh and Muscat respectively, at which a proposed structure for the Gulf Co-operation Council was formulated. The draft was ratified by the Muscat summit meeting on March 10, thereby making the Gulf Co-operation Council a reality. Abdulla Bishara, former Kuwaiti ambassador to the United Nations, was elected the Council's first Secretary-General.

2.3 The GCC's Demographic Constraints

The GCC's major goal is the ultimate federation of all the Gulf states. The combined population of its six countries was about 15.1m in 1983 and its aggregated Gross National Product, (GNP), was estimated at about $189,789 mn, **[04]**. Each of the member states, however, faces serious weaknesses and constraints implicit in the presence of vast numbers of expatriates amid a small indigenous population. The following demographic survey of the six countries indicates the extent of the problem.

1. The expatriates are mixtures of Arabs, Asians and European. Although the GCC need the efforts of skilled labours and experts and specialists, it is necessary to keep these expatriates under control to minimize the problems related to security. For the Asians, for instance they come from very poor areas to a rich country and this factor could encourage the rise in crime and violations of the local laws.

2. As a solution the GCC should encourage the arabs and curb the asians, since the arabs have joint language and tradition.

3. If a clear policy would be drawn for man-power for long term this will be better than to depend on short term arrangements for importing man-power from Asia.

4. Recruiting on arab man-power is another way to help the origin countries since these transfers from expatriates are an important source of foreign exchange and capital.

5. Also to establish a clear policy of giving citizenship to the high skilled man-power and professionals will be a positive factor which guarantees loyalty and establishity and also provides the GCC with the needed technology at a low price.

2.3.1 Kuwait

The 1976 census placed the population of Kuwait at 1,093,900, of which 52.7 per cent were non-Kuwaitis. In one year the population had increased by nearly 10 per cent from the 1975 total of 994,837. By 1983 the total population had risen to about 1.67 mn, [05]. The

TABLE 2.1 KUWAIT OIL PRODUCTION & GDP - 1985

	Unit	1985
Population	mn	1.7
Exchange Rate	KD/$	0.301
GDP per caput	$	11,556
Energy production per $ mn of GDP	toe	2,944
Energy exports	$ bn	9.22
Share of energy in all exports	%	83.0
Energy imports	$ mn	39.0
Revenue from oil	$ bn	9.0
Oil Reserves **a**	bn b	92.5
Gas Reserves **a**	bn cu.m	1,037
GDP by Origin		
Oil & Gas		50.2 %
Industry		8.6 %
Construction		4.3 %
Services & Others		36.9 %
Total		**100.0 %**
Energy Sector		
Crude oil production **a**	mn b	387.4
Refinery capacity	mn b/y	231.4
Refined products output	mn b	206.6
Refined products consumption	mn b	35.7
Natural gas output	bn cu.m	3.99
Natural gas consumption	bn cu.m	3.99
Crude oil exports by destination		
Japan		13.6 %
Italy		10.0 %
Singapore		7.6 %
Total	**171.9 mn b**	**100.0 %**

a = Includes share of Neutral Zone

Abbreviations - toe = tonnes of oil equivalent
b = barrels of oil
cu.m = cubic metres of gas
mn = million
bn = billion (1,000 mn)

Source : Economist Intelligence Unit, **Quarterly Enegy Review - Middle East 1987.1**, Economist Publcations, 1987

population density in 1976 was 64.5 people per square kilometre. One aspect of the population distribution is especially noteworthy. In many areas Kuwaiti citizens and immigrants live apart, with the Kuwaitis generally living in suburban areas while non-Kuwaitis live in the crowded and less well planned inner city.

The 1957 population was assessed at about 206,473, but by 1965 it had reached 467,339, an increase of 44 per cent. Kuwait's population growth rate is thus one of the highest in the world - making planning extremely difficult - and the population may well double within a decade.

Immigration is a major factor in Kuwait's rapid growth. The early immigrants of the late 1940s and early 1950s were mostly Iraqis, Iranians, Omanis, and Palestinians. In 1957, Iraqis constituted 28 per cent of Kuwait's population, Iranians 21 per cent, and Palestinians 16 per cent. By 1975, however, Palestinians made up about two-fifths of the non-Kuwaiti population. While this shift was accompanied by a drastic drop in the number of Iraqis, the number of Egyptians and Syrians have steadily increased.

2.3.2 Saudi Arabia

There are no exact figures on Saudi Arabia's population and it is a highly controversial domestic issue. This is because a large number of tribes are living in the desert and continuously moving from a place to another. The Arab Desert is one area but it is connected to Jordan, Syria, U.A.E., Kuwait, Iraq and Yemen. The 1974 census put the population of Saudi Arabia at 7,012,642 and the government estimate for 1983 was 10.42 mn, [06], and has since risen to about 11.0 mn. However, these figures may be too high. According to some unofficial estimates the population is about 5.5 mn. This includes about 1.5 mn non-Saudi nationals, one million of whom are Yemenis. According to the 1974 census, the population density was 3.2 people per square kilometre, with the settled population put at 5,128,655 or 73.1 per cent and nomads at 1,883,987 or 26.9 per cent. Increased urban migration has contributed to the steady growth of Riyadh, Jeddah, Mecca, Dammam, and Tabuk. There are no detailed statistics available concerning the numbers of people in different age groups. United Nations estimates put the annual growth rate at about 3 per cent between 1970 and 1975.

TABLE 2.2 SAUDI ARABIA'S OIL PRODUCTION & GDP - 1985

	Unit	**1985**
Population	mn	11.0
Exchange Rate	SR/$	3.662
GDP per caput	$	7,642
Energy production per $ mn of GDP	toe	1,995
Energy exports	$ bn	25.9
Share of energy in all exports	%	91.3
Energy imports **a**	$ mn	379.0
Revenue from oil	$ bn	28.0
Oil Reserves **b**	bn b	171.5
Gas Reserves **b**	bn cu.m	3,543
GDP by Origin 1984		
Oil & Gas		39.5 %
Agriculture		2.6 %
Industry		7.1 %
Construction		13.2 %
Services & Others		37.6 %
Total		**100.0 %**
Energy Sector 1985		
Crude oil production **b**	mn b	1.23
Refinery capacity	mn b/y	406.98
Refined products output	mn b	320.5
Refined products consumption	mn b	312.5
Natural gas output	bn cu.m	7.14
Natural gas consumption	bn cu.m	7.14
Crude oil exports by destination		
Japan		33.7 %
USA		9.9 %
Italy		5.9 %
France		5.5 %
Total	**181.3 mn b**	**100.0 %**

a = 1984, **b** = Includes share of Neutral Zone

Abbreviations - toe = tonnes of oil equivalent
b = barrels of oil
cu.m = cubic metres of gas
mn = million
bn = billion (1,000 mn)

Source : Economist Intelligence Unit, **Quarterly Enegy Review - Middle East 1987.1**, Economist Publcations, 1987

2.3.3 Bahrain

The population of Bahrain was about 400,000 in 1983, [07]. According to the census of 1971, the population was 216,078, of which 82.5 per cent were were Bahraini and 17.5 per cent non-Bahraini. About 78.1 per cent of the population was urban, with the majority inhabiting the capital of Manama, while 21.9 per cent were rural. The annual growth rate between 1941 and 1950 was 2.6 per cent. The annual growth increased to 3 per cent during 1950-58 and to 3.3 per cent during 1959-71. The 1971-75 growth rate was 5.6 per cent.

TABLE 2.3 : BAHRAIN OIL PRODUCTION & GDP - 1985

	Unit	1985
Population	mn	0.4
Exchange Rate	BD/$	0.376
GDP per caput	$	12,378
Energy production per $ mn of GDP **a**	toe	1,582
Energy exports	$ bn	2.4
Share of energy in all exports	%	86.6
Energy imports	$ mn	1.4
Share of energy in all imports	%	46.2
Enegy imports as % of all exports	%	51.5
Revenue from oil	$ bn	1.2
Oil Reserves	bn b	155.0
Gas Reserves	bn cu.m	201.0
GDP by Origin 1983		
Oil & Gas		19.2 %
Agriculture		1.1 %
Industry		11.3 %
Construction		9.2 %
Services & Others		59.2 %
Total		**100.0 %**

Continued overleaf

Table 2.3 continued

Energy Sector 1985		
Crude oil production	mn b	34.6
Refinery capacity	mn b/y	91.25
Refined products output	mn b	60.1
Refined products consumption	mn b	2.8
Natural gas output	bn cu.m	6.33
Natural gas consumption	bn cu.m	4.64
Crude oil exports by destination		
Japan		72.8 %
Australia		8.4 %
Total		**100.0 %**

(Crude oil imports 39.0 mn b

Abbreviations - toe = tonnes of oil equivalent
b = barrels of oil
cu.m = cubic metres of gas
mn = million
bn = billion (1,000 mn)
a = 1984

Source : Economist Intelligence Unit, **Quarterly Enegy Review - Middle East 1987.1**, Economist Publcations, 1987

2.3.4 Qatar

The population of Qatar in 1982 was an estimated 260,000 with a density of about 25 per square kilometre. More than 190,000 live in the capital city, Doha, **[08]**.The remainder are largely located in Dukhan, Umm Said, and other small towns. The annual growth - 3 per cent for the nationals and 5 per cent for foreigners - was largely due to immigration in conjunction with the previous oil-based economic boom. The current number of native Qataris is estimated at no more than 80,000

TABLE 2.4 : QATAR'S OIL PRODUCTION & GDP - 1986

	Unit	1986
Population	mn	0.3
Exchange Rate	QR/$	3.64
GDP per caput **a**	$	22,100
Energy production per $ mn of GDP **b**	toe	2,763
Energy exports	$ bn	1.7
Share of energy in all exports	%	85.0
Energy imports **b**	$ mn	10.0
Revenue from oil **b**	$ bn	3.0
Oil Reserves	bn b	3.2
Gas Reserves	bn cu.m	4,305
Crude oil exports **b**	mn b	104.1
Product exports **b**	mn b	7.8
GDP by Origin 1984		
Oil & Gas		46.6 %
Agriculture		1.0 %
Industry		6.7 %
Construction		4.6 %
Services & Others		41.0 %
Total		**100.0 %**
Energy Sector 1986		
Crude oil production	mn b	121.3
Refinery capacity	mn b/y	22.6
Refined products output **b**	mn b	19.6
Refined products consumption **b**	mn b	4.5
Natural gas output	bn cu.m	5.8
Natural gas consumption	bn cu.m	5,8

a = 1984 **b** = 1985

Abbreviations - toe = tonnes of oil equivalent
b = barrels of oil
cu.m = cubic metres of gas
mn = million
bn = billion (1,000 mn)

Source : Economist Intelligence Unit, **Quarterly Enegy Review - Middle East 1987.1**, Economist Publcations, 1987

compared with an estimated 12,000 in 1940. Foreigners living in Qatar are chiefly from Pakistan, Iran, Egypt, and Lebanon and comprise over 80 per cent of Qatar's work force.

2.3.5 United Arab Emirates

By 1985 the population of the UAE was approximately 1.60 mn. The 1980 census produced populations estimates for each emirate as follows: Abu Dhabi, 359,000; Dubai, 308,000; Sharjah, 130,000; Ras Al-Khaimah, 76,000; Ajman, 33,000; Umm Al-Qaiwain, 23,000; and Fujairah, 40,000, **[09]**. The population density was 14.6 per square kilometre. The great increase in population over the 1966 total of 180,184 is essentially due to the immigration of foreign labourers. The foreign population is now about 525,000, three-quarters of whom are Pakistanis, Indians, and Iranians. The remainder are mostly Arabs and Westerners. The total annual growth of the population is about 22 per cent, of which a little over 2.5 per cent represents an increase in the indigenous population. The majority of people in Abu Dhabi and Dubai live in towns, while the northern emirates are less urbanized and have fewer foreign labourers.

TABLE 2.5 : U.A.E.'s OIL PRODUCTION & GDP - 1985

	Unit	1985
Population	mn	1.6
Exchange Rate	Dh/$	3.761
GDP per caput	$	15,967
Energy production per $ mn of GDP	toe	2,806
Energy exports	$ bn	12.5
Share of energy in all exports	%	84.0
Energy imports **a**	$ mn	709.5
Share of energy in all imports **a**	%	8.4
Energy exports as % of all exports **a**	%	3.9
Revenue from oil	$ bn	12.0
Oil Reserves	bn b	33.0
Gas Reserves	bn cu.m	928.9
GDP by Origin		
Oil & Gas		44.9 %
Agriculture		1.5 %
Industry		11.5 %
Construction		9.3 %
Services & Others		32.8 %
Total		**100.0 %**
Energy Sector		
Crude oil production	mn b	439.3
Refinery capacity	mn b/y	67.6
Refined products output	mn b	50.4
Refined products consumption	mn b	19.6
Natural gas output	bn cu.m	13.7
Natural gas consumption	bn cu.m	10.7
Crude oil exports by destination		
Japan		52.1 %
USA		9.4 %
France		8.3 %
Italy		4.5 %
Total	**353.4 mn b**	**100.0 %**
(Product exports	30.8 mn b)	

Abbreviations - toe = tonnes of oil equivalent
b = barrels of oil
cu.m = cubic metres of gas
mn = million
bn = billion (1,000 mn)
a = 1982

Source : Economist Intelligence Unit, **Quarterly Enegy Review - Middle East 1987.1**, Economist Publcations, 1987

2.3.6 Oman

Government estimates put the population of Oman at about 1.26 in 1986, but unofficial estimates put it at 600,000. The population density is about 3.76 per square kilometre. More than 80,000 people live in the so-called "capital area" of Muscat, Matra and Seeb while 50,000 live in Salalah, **[10]**. Other concentrations can be found in the Batina coastal plain and in the interior, in such towns as Nizwa. There is no shortage of native manpower in Oman, which also has about 60,000 Indian and Pakistani workers, when compared to that in Qatar and the UAE. About 75 per cent of the work force is employed in agriculture.

TABLE 2.6 : OMAN's OIL PRODUCTION & GDP - 1986

	Unit	**1986**
Population	mn	1.26
Exchange Rate	OR/$	0.385
GDP per caput **a**	$	8,154
Energy production per $ mn of GDP **a**	toe	3,107
Energy exports	$ bn	3.7
Share of energy in all exports	%	97.4
Energy imports **a**	$ mn	43.7
Revenue from oil **a**	$ bn	3,281
Oil Reserves	bn b	4.0
Gas Reserves	bn cu.m	212.4
Crude oil exports **a**	mn b	172.1
GDP by Origin 1985		
Oil & Gas		47.9 %
Agriculture		2.9 %
Industry		3.5 %
Construction		7.0 %
Services & Others		38.7 %
Total		**100.0 %**

/continued overleaf

Table 2.6 continued

Energy Sector 1986		
Crude oil production	mn b	197.4
Refinery capacity	mn b/y	17.5
Refined products output **a**	mn b	2.8
Refined products consumption **a**	mn b	4.2
Natural gas output	bn cu.m	1.36
Natural gas consumption	bn cu.m	1.36

Abbreviations - toe = tonnes of oil equivalent
b = barrels of oil
cu.m = cubic metres of gas
mn = million
bn = billion (1,000 mn)
a = 1985

Source : Economist Intelligence Unit, **Quarterly Enegy Review, Middle East 1987.1**, Economist Publications, 1987

2.4 Defence Capabilities

The small size of the Gulf's population and the region's extreme dependence upon oil makes the area vulnerable The Gulf governments have therefore given defence spending increased priority. The Gulf states would not be able to defend their territory by themselves beyond complicating or delaying the first wave of an external attack. It has been argued by the United States military authorities, however, that this capability which is being developed would make it more difficult for Soviet airborne troops to sweep into the Gulf ahead of advancing ground units. Consequently it adds to the security of airfields and other installations upon which

US forces would depend for their own entry. It is clear that from the US point of view heavy expenditure on armaments by Gulf states is justified because of the possibility of a Soviet assault even though few in the region consider such an attack likely.

2.5 GCC Oil Production & Revenues

In 1985, the countries now constituting the Gulf Co-operation Council, produced an estimated 6,305,000 B/D. Those of Kuwait were 934,000, of Saudi Arabia were 3,333,000, U.A.E. 1,202,000, Qatar 296,000, Oman 498,000 and Bahrain 420,000.

It should be noted from table 2.7 *, however, that there has been a marked decline in the GCC's Oil Production and in the Oil Revenues. Revenues decline from 60,091 $ Mn in 1984 and down to 46,673 $ Mn in 1985.

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* Gulf Co-operation Council in Figures. Published by the National Bank of Kuwait 1987.

2.6 Energy
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The Gulf States are the main suppliers of oil to Western Europe, Japan and to a lesser extent the United States. About sixty per cent of Western Europe's oil imports comes from the Gulf. In 1981 the Gulf States accounted for 26 per cent of total world oil production. But this has since fallen dramatically following the slump in both output and prices. **Table 2.8** provides a breakdown of the oil reserves of the major Gulf Arab producers in 1986, by which time production had fallen sharply. It is also significant that the Gulf has 26.2 per cent of the world's natural gas reserves. The Gulf has the world's largest oil reserves although production in the region has declined sharply. Secure supplies of oil from the Gulf remains of the utmost importance to many countries. Consequently the dependence of Western Europe and Japan upon Gulf oil, for example, is also of strategic concern to the United States. Gulf oil could also be of interest to the USSR if, as some studies project, Soviet oil supplies begin to run short by the end of the 1980's.

TABLE 2.7

G.C.C. OIL PRODUCTION AND REVENUES

	Period	S. Arabia	Kuwait	U.A.A.	Qatar	Oman	Bahrain	G.C.C.
Production (100 b/d)	1983	4,569	913	1,118	294	389	42	7,324
	1984	4,079	1,008	1,142	402	418	42	7.091
	1985	3,333	934	1,202	296	498	42	6,305
Revenue ($ mn)	1983	37,352	8,448	7,209	3,000	3,208	874	60,091
	1984	31,470	9,025	6,982	4,400	3,277	945	56,100
	1985	24,500	8,167	6,060	3,200	3,784	961	46,673

TABLE 2.8

OIL RESERVES OF ARAB OIL PRODUCING COUNTRIES - Jan 1986

(bn barrels)	Reserves 1/1/1986	% Share World Reserves c	Cumulative Production	Discovered Reserves
UAE	33.0	4.5	9.9	42.9
Iraq	65.0	9.0	18.0	83.0
Kuwait	92.5	12.8	24.3	116.8
Qatar	3.3	0.5	3.9	7.2
Saudi Arabia	171.5	23.8	56.6	228.0
Syria **a**	1.4	0.2	0.9	2.3
Oman	4.0	0.6	2.3	6.3
TOTAL b	**370.7**	**51.4**	**115.8**	**486.5**

a Excluding recent discoveries
b Excluding reserves of Bahrain of about 200 mn barrels
c World reserves amounted to about 721 bn barrels of oil as at January 1, 1986.

Source : Energy Resources Department, Organisation of Arab Petroleum Exporting Countries

2.7 Economics & Finance

The importance of the Gulf has increased in proportion to the wealth of the major oil-producing states. This followed the first oil price explosion following the 1973 Arab-Israeli war and the oil embargo of the same year. There was a substantial increase in oil-generated revenues from 1970 to 1978.

The bulk of the surplus capital from these revenues has been invested in dollar assets in banks in the United

States as well as in their overseas branches and subsidiaries. In 1981 these investment holdings were estimated to be between $150,000 mn and $250,000 mn for Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar. Any attempt to withdraw a large portion of these assets from the United States would possibly damage the American economy and the international financial market and would provoke US defensive action. A Treasury Department official stated in 1979 that ;

> "anticipated withdrawals of foreign assets of such magnitude as to threaten the economy and security of the US would justify the President's use of emergency powers.... to block transfers of property in which there is foreign interests."

In fact, the freezing of Iranian financial assets by the Carter administration on November 14, 1980 was not an act of retaliation against Iran because of that country's takeover of the US Embassy. Instead it was undertaken out of fear that a sudden withdrawal of Iranian assets might contribute to a major economic crisis in the United States.

2.8 Culture & Religion

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The Arabian Peninsula is the heart of Islam, the place where Arab and Islamic culture has flourished and to which Arabs trace their origin. The cities of Mecca and Medina in Saudi Arabia are the spiritual centres for more than 800 million people throughout the world. Each year close to two million of them travel to Mecca to perform the Hajj, one of the basic requirements of the Islamic faith. Karbala and Najaf, in Iraq, represent the second most holy places for the Shi'ite sect of Islam. The holy sites, the most important of which are under the guardianship of Saudi Arabia, contribute substantially to the area's importance.

2.9 The Strategic Importance of the Gulf, [11]

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Because of its energy resources and location as well as for economic, cultural, and religious reasons, the Gulf has become increasingly important to the Western world and to the Soviet Union in recent years. As David Newsom, then US Under-Secretary of State for Political Affairs, put it in a 1980 speech:

> "If the world were a flat circle and one were looking for its centre, a good argument could be made that it would lie in the Gulf...Nowhere in the world today is there quite such a convergence of global interests. No area is quite as central to the continued economic health and stability of the world."

Throughout history the Gulf has always had a vital geopolitic role in the region. The Gulf was important as a military and trade route at the time of the Mesopotamian civilization. In the third century BC, Alexander the Great realized the significance of the Gulf as a link between the western and eastern parts of his empire. He planned to conquer Arabia, regarding it as a vast tract inconveniently interposed between his western and eastern provinces. Nearchus, one of Alexander's trusted officers, was sent to explore the Gulf and a stone bearing a Greek inscription has been found on the north coast of Kuwait's Failaka Island. The inscription, Lockhart tells us :

> "is believed to have been cut to commemorate the rescue from shipwreck of Soteles and his companion Oistra (who may have been his wife or slave). The date cannot be determined with

exactitude, but it is thought to be between 400 BC and 100 BC. It is possible that the ship in which Soteles and Oistra were travelling when it was wrecked may have belonged to Nearchus' fleet, which reached the head of the Persian Gulf at the beginning of 325 BC".

If this account is accurate, then we can safely assume that Alexander the Great was one of the first to see the Gulf as a bridge linking the continents.

The British presence in the Gulf, which began in the nineteenth century and lasted more than 100 years, underscores the region's geopolitical importance. It was not solely because of India that Britain held onto the region for so long. Years after Britain had relinquished its rule over the subcontinent, control over the Gulf was maintained. Britain's announcement in 1968 that it would withdraw from the Gulf by 1971 threw wide open one of the world's richest and most strategic regions and created a dangerous power vacuum. Today the superpowers are engaged in rivalry over the region. It is a contest which, as far as the United States is concerned, became serious during the Carter Administration following the Russian invasion of

Afghanistan in 1979 and which intensified further after the election of Ronald Reagan as president in 1980.

2.10 The Chances of Success

The member states of the GCC generally have good long term economic prospects and are supported by good transport and communications networks. The achievement of the ultimate goal of the Gulf Co-operation Council, the social and economic integration of all the Gulf states, will however depend upon success in transcending internal and external obstacles, some of which are outlined below.

The GCC states are still young countries which, despite the development of their infrastructure, have not reached political maturity. It should not be expected that young and developing countries would be able to achieve the so-called perfect "Westminster system of democracy", which may not be suitable for them, after such a short period. Obviously it will take time before their leaders feel secure enough to allow a greater degree of participatory government. The future role of women and of the large numbers of non-Gulf nationals in each country is also yet to be determined. During this period the GCC states will continue to be reliant upon expatriate manpower until they are able to develop their own indigenous skilled and educated workforce. Although there are numerous other internal obstacles which have to be resolved the GCC states have already made significant progress.

Besides the internal obstacles to the success of the GCC, there are also a number of external ones. It has to walk a very delicate tightrope in trying to achieve a neutral foreign policy. In the past the GCC has been falsely accused of being created as part of an American plan to dominate the region. Kuwait's Foreign Minister attempted to counter this fear of possible GCC connections with an outside power by including a proposed Gulf Security Project as part of its agenda. This was justified because Gulf security is the collective responsibility of the region and should not be considered the sole responsibility of one state. Collective security is seen as the best means of ensuring the stability of the region since it is not directed against anyone in particular, but against all those who seek to disrupt the region's security. The enormous wealth and relatively small size of the states in the region makes them the object of covetous ambitions on the part of more powerful nations. The states of the region are faced with the choice of accepting the situation as it exists or of uniting and reinforcing their efforts in order to confront the challenge they face.

In February 1981, the Arab League's Secretary-General, Chedlie Klibi, expressed approval of the Council, as did Morocco and Tunisia shortly thereafter. There was also general acceptance and support from London and Washington. Iraq's response to the Council has been positive but it has not so far been invited to join. Assuming it does not lose the Gulf War, it may be brought into the Council once the conflict has ended.

For the Council to succeed, it must avoid taking sides in intra-Arab conflicts and must play the role of an honest, unbiased intermediary. It must also solidify its support for a just settlement of the Arab-Israeli crisis and expand its efforts to help the poorer Arab countries in their economic development schemes. Otherwise, the widening gap between the haves and have-not Arab states will lead to social and political unrest in the poorer Arab countries which would have an immediate adverse impact on the Gulf region.

Having analysed some of the problems facing the GCC states it is obvious that their task is not an easy one. They are attempting to create an economic and social federation in a strategically vital region. There are many forces working against such a grouping. As it has been seen there are both internal and external obstacles to such an achievement. There is little doubt, however, that if they continue to show the same resolve and determination that they have during the past five years, then the GCC will remain an essential regional alliance.

2.11 United Economic Agreement

An agreement was signed on November 11, 1981 at Riyadh, which regulated all economic procedures and steps to be taken to achieve greater efficiency among the six GCC countries. It consisted of seven sections and 28 articles covering all aspects of economic activity and included all previous agreements between GCC members. It includes:

1. The trade of goods and products between the member states and the exemptions from customs duties and the easing of transit problems for such trade.
2. The transfer of funds between individuals within the GCC.

3. A guarantee of the legality of the transfer of work, residence, capital, inheritance and properties.

4. The encouragement of each country's private sector in international joint ventures.

5. The application of the right methods of economic development coordination between the member states. This is intended to help achieve coherent and compatible plans and thus to establish a comprehensive system for joint economic, commercial and petroleum projects.

6. All fields of technical co-operation which will help prepare procedures and conditions for the transfer of technology.

7. The coordination of programmes and policies for training, technical qualification, professional handicraft and manpower.

8. Different and new transport services by land, sea and air.

9. Greater financial and monetary co-operation in order to eventually create unified economic systems and investment laws,

10. The coordination of financial transactions and banking as well as increased co-operation among established funds and central banks.

11. The eventual unification of currency.

12. Coherent policies for local and international aid.

It was confirmed that the November 11 agreement in 1981 would be given precedence where it conflicted with local laws or current practices. All GCC countries have adopted this agreement. The third GCC high-level conference decided in November 1982 to take positive steps toward ratifying the economic agreement which would take effect from 1st March, 1983. Previously, some GCC officials had said that local decrees in some of the states obstructed the agreement's implementation.

In addition to the economic agreement of November 1982 there is the Gulf Investment Corporation (GIC) with a paid-up capital of $2,000 mn for joint investment. Kuwait is treated as an experimental area in this field, which is a logical step because the GIE is also located in Kuwait.

2.12 The Organizational Structure of the GCC

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The structure of the GCC as laid down in its Charter is summarised below.

The Co-operation Council shall be composed of:

1. The Supreme Council comprising the Conciliation Commission.
2. The Ministerial Council.
3. The General Secretariat.

The Supreme Council:

1. Shall be composed of the heads of state.
2. Shall have a presidency which rotates in alphabetical order.

3. Shall hold two ordinary sessions every year with the possibility of holding extraordinary sessions as necessary.

4. Every member shall have the right to call a ministerial meeting so long as the call is seconded by at least one other member.

The Supreme Council's jurisdiction:

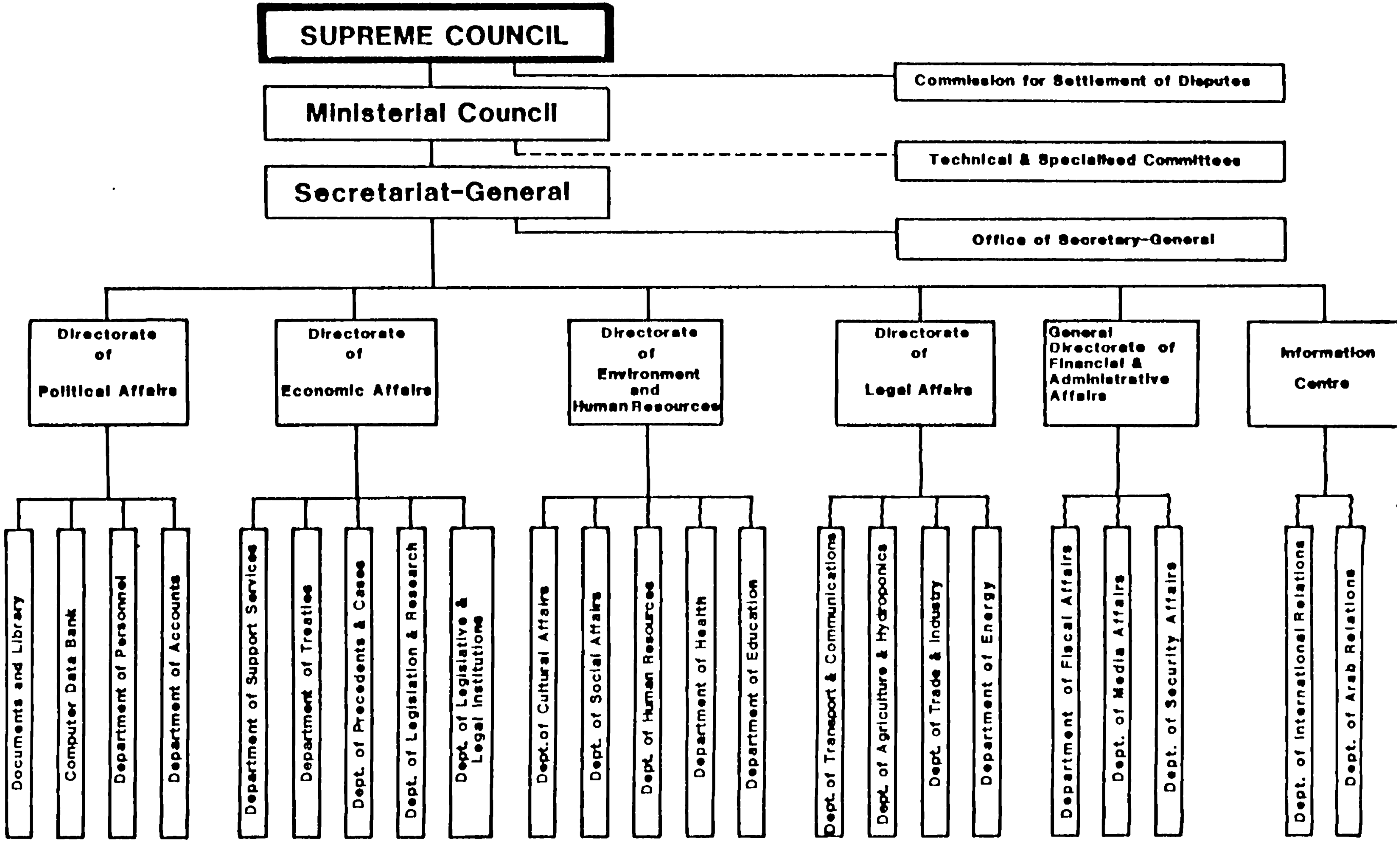
The Supreme Council shall determine the Co-operation Council's higher policies and the basic lines along which it operates. It shall discuss the recommendations, rules, and regulations submitted by the Ministerial Council and General Secretariat for approval. In addition, it shall appoint the Conciliation Commission.

The Conciliation Commission:

Annexed to the Supreme Council, this Commission shall be responsible for resolving existing or potential disputes among member states and for interpreting the Co-operation Council's basic regulations.

THE GULF COOPERATION COUNCIL (GCC)

STRUCTURAL ORGANISATION



The Ministerial Council:

1. Shall be composed of the foreign ministers or their representatives.
2. Shall draw up the organizational structure of the General Secretariat.
3. Shall prepare for meetings of the Supreme Council, a function that includes compiling projects, studies, recommendations, and agendas.
4. Shall meet six times a year - once every two months - and shall hold extraordinary meetings as and when requested by at least two member states.
5. Shall formulate policies, recommendations, and studies and suggest projects aimed at promoting co-operation among the member states in different spheres.
6. Shall encourage various forms of co-operation and coordination in the different activities of the private sector.
7. Shall ratify the regular reports as well as the internal regulations relating to administrative affairs proposed by the Secretary-General. In addition, it shall approve the budget and final accounts of the Co-operation Council's General Secretariat.
8. Shall encourage, develop, and coordinate the various fields, since these activities will be

considered binding once they are sanctioned by the Ministerial Council. It shall also charge relevant ministers with the formulation of policies and studies that aid the realization of the Co-operation Council's objective.

The General Secretariat:

The Co-operation Council shall be headed by a Secretary-General to be appointed by the Supreme Council which shall also determine the conditions and term of his office. It is a prerequisite that the Secretary-General be a subject of one of the member states. He shall be directly responsible for the functions of the Assistant Secretaries, the General Secretariat, and the progress of work in its various sectors. The General Secretariat shall have its own information bureau.

Functions of the General Secretariat:

1. Preparation of studies especially related to co-operation and coordination.
2. Following up the implementation of resolutions and recommendations proposed by the member states, and ratified by the Supreme Council and the Ministerial

Council.

3. Preparation of progress reports on the Co-operation Council's achievements.

4. Preparation of reports and studies requested by the Ministerial Council.

5. Drafting of financial and administrative regulations that help the organisation develop in accordance with the growth of the Co-operation Council and its increasing responsibilities.

The General Secretariat Budget:

The Co-operation Council's General Secretariat shall have a budget to which all member states shall contribute equally.

2.13 Conclusions

****

This chapter has dealt with the formation of the Gulf Co-operation Council, (GCC), and its role in the economic and political stability of the region. It has been seen that the withdrawal of the UK from the Gulf left a power vacuum and superpower rivalry. The GCC was designed to provide a framework for closer co-operation between the six Gulf countries which are, with the possible exception of Saudi Arabia, both vulnerable and isolated.

The chapter analysed the many weaknesses constraining the ultimate goal of a federation of the six countries. These include very small and relatively unskilled indigenous populations which necessitate the employment of millions of expatriate technicians and labourers from both the western and Asian countries. The member states are also politically and socially under-developed and still have weak educational systems. Their size and overwhelming dependence on oil make them vulnerable to attack. Almost since the creation of the GCC this danger has been exacerbated by the Gulf War.

At the same time their size and economic importance make them strategically vulnerable. The Arabian peninsula's role at the heart of Islam adds a cultural and religious dimension to the region. The chapter outlined the unified economic agreement which was signed in November 1981. It then detailed the GCC's organizational structure and the responsibilities of the Supreme Council, Ministerial Council and the General Secretariat.

This chapter has shown that the formation of the Gulf Co-operation Council was both a logical and sensible move. The GCC has succeeded in providing a framework for both economic and political development in the future. The partial unity of the Gulf states should enable them to tackle the many common problems that they face. The substantial fall in oil production and revenues in the 1980's have, however, had a major effect on the Gulf economies. At the same time it should be easier to contain the growing tide of Islamic fundamentalism as a relatively cohesive group, rather than as small, politically weak and socially underdeveloped individual states.

Footnotes
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01. **Kuwait Times**, November 27, 1984. Kuwait, p.1

02. Gulf Co-operation Council, **GCC Charter**, Riyadh, February 1981.

03. **Ibid**

04. Economist Publications, **EIU Regional Review: The Middle East and North Africa 1985**, London, 1985.

05. **Ibid**, p.123

06. **Ibid**, p.199

07. **Ibid**, p.61

08. **Ibid**, p.193

09. **Ibid**, p.249

10. **Ibid**, p.183

11. The principal source for this section of the chapter is, H.A. El-Ebraheem, **Kuwait and the Gulf**, Centre for Contemporary Arab Studies, Georgetown University, 1984, pp.56-87

CHAPTER THREE
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THE ARAB GULF FUNDS
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This chapter examines four of the most important Arab development funds. They are the Kuwait Fund for Arab Economic Development, (KFAED), the Abu Dhabi Fund for Arab Economic Development, (ADFAED), the Saudi Fund for Development, (SFD), and the Arab Fund for Economic and Social Development, (AFESD). Although they are not the only funds they illustrate how the funds are organized and operated. The KFAED was the first development fund to be inaugurated, the SFD one of the largest and the ADFAED rather more recent and modest.

The chapter takes each of the funds in turn and examines their organisation and operations. It details their histories and charters, geographical and sectoral scope of operations and their scale and methods of financing. The section analysing the KFAED provides particularly detailed analysis of the procedures which are followed in evaluating project loans and grants. It can be seen that the geographical range of countries receiving assistance from the three Gulf funds has widened substantially from its Arab origins. At the same time there has been an increase in the proportion of projects which are now co-financed with other donors and institutions.

3.1 Kuwait Fund for Arab Economic Development, (KFAED).

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3.1.1 Historical Background

The Kuwait Fund for Arab Economic Development, (KFAED) was established in December 1961 as the State of Kuwait's agency for the provision and administration of financial and technical assistance to developing countries.

Law No: 35 of 1961, which established the Fund, was only seven articles in length. It provided for the establishment of the fund as a public corporation with a declared capital of 50 mn Kuwaiti Dinars, (KD). It was given the power to borrow money and issue bonds within the limit of twice the amount of its capital plus reserves. As we shall see later, however, this power was never exercised. The law was amended twice to authorize increases in the fund's capital to KD 100 mn according to Law No: 9 of 1963 and to KD 200 mn according to Law No: 64 of 1966.

The operations of the Fund were originally confined, in accordance with its initial mandate, to Arab Countries. In July 1974 the scope of the Fund's activity was extended to the rest of the developing world and its capital was increased from KD 200 mn to KD 1,000 mn (Law No.35 of 1961 for the establishment of the Fund). However, all orders made for its implementation not in conflict with the provision of this law remain in force until superseded by new orders. In March 1981 the Fund's capital was doubled to KD 2,000,000,000. and it was given the power to co-finance development with other donors and institutions.

3.1.2 Organisation & Management

According to Article 1 of Law No: 25 of 1974, **[01]**. "The Kuwait Fund, is a Kuwaiti Public Corporation with an independent legal personality under the supervision of the Prime Minister who shall be the chairman of its board of directors". This article sets the grounds for the Fund's administrative autonomy which has been a major factor in its success. The Kuwait Fund is, therefore, governed by a board of directors which consists of eight Kuwaitis "of recognised competence" appointed by the Prime Minister who himself is ex-officio chairman of the board. According to Article 7 of the Law, **[02]**, the Prime Minister may delegate the Minister of Finance to act as a chairman in his place. The Fund's Charter provides in Article 6, **[03]**, for the appointment, by the chairman on the recommendation of the Board, of the Director-General who is in charge of administrative, financial and technical matters and is responsible for the day to day operations of the Fund. The Director-General also represents the fund in court and in its relations with any third parties.

Article 8 of the Fund's Charter provides that the Board of Directors is the supreme authority of the Fund and that it determines general policy and gives final approval to loans and to the Fund's own accounts, **[04]**.

The management of the Fund is the responsibility of the Director General, who is appointed by the Chairman of the board. One or more deputies to the Director General assist him in the management of the Fund.

Work within the Fund is essentially based on the "task force" approach with close and informal collaboration between the various departments. At present these include the operations, finance, administration, legal and research departments.

3.1.3 Objectives & Functions

The objective of the Fund is to provide assistance to developing countries. It may achieve this by any means that the Board of Directors deems appropriate, within the framework of the Law and Charter of the Fund. Such means include in particular the discharging of the following functions:

- the extension of loans, guarantees, and grants-in aid;
- the provision of technical assistance services;
- institutions and eligible corporations;
- representation of the Government of Kuwait in regional and international organizations.

In pursuing its objectives and fulfilling its functions the Fund's exclusive concern is to serve the interests of the countries with which it co-operates and to promote their friendly relations with Kuwait.

According to Article 8 of the Charter of the Fund, dated 22 March 1981, [05], the Board being the highest authority of the Fund, exercises such functions as are necessary for the realization of the objects of the Fund. In particular, it has the power to:

- formulate the general policy of the Fund;
- lay down, on the recommendation of the Director General, the administrative and financial procedures and regulations of the Fund and assure that the same are observed;

- consider and evaluate recommendations concerning loans and other forms of assistance to be provided by the Fund;
- consider and decide on the Director General's recommendations concerning the participation of the Fund in the share capital of corporate entities of a developmental nature and of development finance institutions;
- formulate the general investment policy and authorize the Director General to act in accordance with it;
- propose the general terms and conditions for borrowing an issue of bonds by the Fund and decide upon the Director General's recommendations in this respect;
- approve the administrative budget and the year-end statement of accounts;
- appoint the auditors of the Fund and determine their remuneration.

The Director General's particular tasks include:
- the implementation of the resolution of the Board,
- consideration of, and submission to, the board of the appropriate recommendations on applications for loans, financial and technical assistance and participation in the capital stock of corporations;
- implementation of agreements relating to such loans, assistance and participation;

- to introduce, without affecting their material provisions, any amendments in loan agreements made necessary by their implementation, including giving the Fund's consent to any provision;
- preparation of the administration budget and the year-end statement of accounts, and its presentation to the board;
- to issue payment orders within the limits of the administrative budget;
- any other functions delegated to him by the board or the chairman;
- to submit a detailed annual report to the board on the activities of the Fund including its final statement of accounts, certified by its auditors, **[06]**.

The Chairman, on the recommendation of the Director-General and the approval of the board, appoints one or more deputies to the director-general. Each deputy's work is specified by the director-general. The staff of the Fund is appointed according to board regulations. **[07]**.

3.1.4 Scope of Operations

The activities of the Fund can extend to any developing country. There are no sectoral limitations, but it has hitherto been active mainly in four sectors; agriculture and irrigation, transport and storage, power, and industry. Assistance can be provided for specific development projects, for programmes which include a number of such projects, or for institutional support.

The Fund exercises its functions as the Board sees fit and in particular by:

- extending loans to Arab and other developing states, corporations which are under the control of, have the nationality of any such state, or constitute a joint venture among such states. Loans only go to corporations if they contribute to economic development and are not used solely to make a profit;

- extending grants and technical assistance to such states or corporations;

- providing guarantees for the obligations of such states or corporations;

- contributing to the capital stock of corporations which are under the control, or have the nationality of any Arab or other developing state or constitute a joint venture among such states, and which are of a developmental nature;

- contributing to the capital stock of development finance institutions and other international and foreign development institutions whose object is to help developing countries. The fund may represent the State in such institutions. **[08]**.

The Fund may provide loans covering all or part of the foreign exchange costs of a project as long as no loan exceeds 50 per cent of the total cost of that project.

This provision is not absolute because the board may, for special considerations relating to the beneficiary state or to the project, finance more than 50 per cent of a project.

A charge of one half per cent a year is charged on top of the agreed interest on any loan to pay administrative expenses and the costs incurred in implementing the agreement, **[09]**.

3.1.5 The Fund's Policies

There are very few written Fund policies other than those determined by the law or laid down in the Charter.

Thus the Fund can and does handle financing problems with a great measure of flexibility. In addition, the provisions of the Charter are broadly worded and general enough not to restrict the management of the Fund in its handling of new situations. These policies will be clarified below in the discussion of the Fund's statutory limitations.

3.1.5a Eligible Recipients

As indicated in Article 2 of Law No: 25 of 1974 **[10]**,

"the purpose of the Fund is to assist Arab and developing states in developing their economies" and, in particular, to provide States with loans for their development programmes. Recipients eligible for assistance from the Fund include central governments, local authorities, public utilities, other public bodies, bilateral or multilateral development institutions and especially development finance organizations. Other potential recipients include mixed enterprises and private corporations.

In the case of a loan where the borrower is not the government of the country concerned, the Fund usually seeks a guarantee from the Government. The purpose of restricting the Fund to development projects is to avoid getting involved in purely profit motivated activities. The distinction between the two is, however, often very difficult to determine. The requirement of a guarantee is designed to protect the Fund's resources. It also ensures the recipient government knows about the new obligation and safeguard's the country's interest.

3.1.5b Forms of Aid

Assistance may be provided by:

- direct loans or guarantees,
- participation in joint or parallel financing arrangements with other bilateral or multilateral aid agencies.
- grants-in-aid to finance techno-economic studies, which may cover a variety of fields, including pre-investment studies, the identification of projects and investment opportunities, feasibility studies, project preparation, sectoral programming, etc.
- advisory services relating to the technical, financial, economic, or legal aspects of projects, programmes and policies, as well as institutions building in the development field.

- participation in the equity capital of corporations,
- contribution to the resources of development institutions.

No financial assistance for budgetary or balance of payments support is extended by the Fund.

3.1.5c Limits of Financing

The rationale for the 50 per cent funding limit for any project is not based purely on economic considerations, [11]. The Fund's view is that the proper implementation of any project requires the full support of the government of the recipient country and that this can be more readily secured when it is matching the Fund's financial input. In addition, the Fund regards itself not only as a source of finance, but also as a catalyst that helps the recipient country to mobilize additional foreign exchange financing for the project, thereby releasing some of its own funds for other projects in the same country or elsewhere.

3.1.5d Sectoral Distribution

The Fund's Charter is very general in regard to the sectors in which assistance can be provided. All projects that promote development are eligible. The policy of the Fund, however, in this connection has been rather restrictive. Assistance has been mainly confined to agriculture, transport, power, industry, storage and technical assistance. Projects in education, housing, family planning, water supply and sewerage have been almost totally excluded. The Fund recognises their importance but it feels that another Kuwaiti institution, the Gulf Authority, is responsible for such social projects and that the Fund needs to specialise in those sectors which directly affect the structure of the Arab economies, e.g. infrastructure. Moreover, it believes that education and training should be part of broader industrial, agricultural or transport projects.

The thinking is that this would avoid providing the wrong type of education or graduating a large number of students who would not have suitable employment opportunities. Fund assistance to education and training has therefore been provided only as part of its support of such major development schemes as the Rahad irrigation and Sennar sugar projects in the Sudan and the Tihama agricultural project in Yemen and to industrial development banks where resources were allocated for training and higher education of their staff. Finance for housing has also been provided on a limited scale as part of major development projects.

3.1.5e Currency of Aid

The Fund's Charter says that the Kuwaiti Dinar is to be monetary unit of account in all its assistance operations. [12]. The Fund - acting as the agent of the recipient - may however effect disbursements and accept repayments in other fully convertible currencies on the basis of the current market exchange rates.

3.1.5f Financial Terms & Conditions

The Fund's view is that the level of the grant element should be determined according to the economic conditions of the recipient country and the specific circumstances of each project. In practice, however, the Fund tries to be as consistent as possible in determining the interest rate leaving the grace and repayment periods to vary more freely.

Apart from certain cases, the Fund normally charges, excluding of the service charge, an interest rate of 2.5 per cent for agricultural projects and 3.5 per cent for industrial, transport and power projects. The grant element is the Fund's lending operations ranges from a low of 25 per cent to a high of 86 per cent with a weighted average for agricultural projects of 57 per cent, power projects 44 per cent, transportation projects 46 per cent and industrial projects 37 per cent. This leaves the overall weighted average of about 50 per cent. If grants-in-aid are taken into consideration, the grant element in the Fund's assistance operations would average approximately 60 per cent.

It should be mentioned that in view of the debt service burden of many developing countries, it would be helpful if aid institutions followed a more flexible approach in determining their terms of lending. It has been proposed that aid institutions should decide the grant element as a percentage of the proposed loan and allow the recipient to decide which of the various combinations of interest rate grace period and maturity of loan best suits its debt-service conditions.

3.1.5g Other Conditions

The loan and guarantee agreements include standard conditions. These ensure the completion of the financing plan. They establish the borrower's preparedness to make additional funds available for the project as and when required. They ensure the proper implementation of the project and that international competitive procedures would be followed in the procurement of all goods and services whose costs exceed a specified minimum limit. In addition, there are special covenants, varying according to the circumstances of the project and of the recipient, which are designed, among other things, to safeguard the financial position of the organisation or agency responsible for carrying out the project and to secure a competent management and trained staff for its operations. The agreements often also include covenants aimed at spreading the benefits of the project to as broad a base of the country's nationals as possible and at ensuring that other requirements needed to maximise the benefits of the project will be provided.

3.1.6 Co-financing

The Kuwait Fund policy favours participation in joint or parallel financing with other bilateral or multilateral aid agencies. This form of assistance has been considerably expanded in recent years and has emanated from two main considerations. Firstly the Fund's lack of famililarity with some African and Asian countries in which operations were initiated after July 1974. Secondly to overcome the constraints on its operations stemming from the shortage of staff. There were about twenty assistance operations co-financed with the World Bank, Arab Fund for Economic and Social Development, African Development Bank, Asian Development Bank and other aid institutions between 1974 and 1978. These constituted about 30 per cent of the Fund's operations during that period. This development has helped to expand the volume of lending but there are indications that the pace of disbursement has been relatively slow because disbursement procedures occasionally conflict. In view of this, there is a growing tendency in the Fund to favour co-financing on a parallel rather than a joint basis.

In addition, there has been an increasing appreciation of the importance of co-ordinating the Fund's activities with the growing number of bilateral and multilateral aid institutions. Progress has been made in this direction but there remains some degree of overlapping and duplication of effort. It is essential that institutions co-operate more effectively to streamline their activities and minimise the degree of duplication in project appraisal, follow-up and disbursement. This would reduce administrative expenses and help the recipient countries to plan their operations. It would also increase the impact of the combined financial assistance provided by the donor institutions.

3.1.7 Joint Projects

The Fund's Charter provided for the possibility of participating in the financing of projects or programmes undertaken by two or more countries in a joint venture. One of the most notable operations of this type was a loan of KD 21 mn, ($ 75 mn), promised by the Fund to the organisation for the Development of the Senegal River

Basin. This involves Mali, Mauritania and Senegal. It is a major multi-purpose development scheme with several sub-projects located in the river basin surrounded by the three countries. The organisation is empowered to borrow from external sources with the joint guarantee of the member states and will repay its financial obligations from the revenues it collects from the sale of electricity, water rights and similar dues. Major indirect benefits will also accrue to the member states, ranging from increased agricultural productivity, as in the case of Senegal and Mauritania, to obtaining an outlet to the sea as in the case of Mali.

Despite this important project, however, the Fund's role in financing joint projects has been very modest indeed. The defence of the Fund's policies normally given is that political conflicts among many neighbouring developing countries render joint projects very difficult to organize and there is no guarantee that they would operate smoothly once implemented. This is borne out to a large extent by the record of the Arab Fund which was set up in 1974 with the primary aim of promoting Arab economic integration by identifying and financing joint projects. Nevertheless, it is clear that more could be done to identify and support joint projects, particularly in the light of many small projects involving no more than two countries. Transport, power generation and water supply are notable examples that would greatly improve the allocation and utilization of resources on the regional level.

There are, on the other hand, numerous national projects with significant regional and international benefits which the Fund has supported. The Suez Canal reopening and expansion projects are examples. So, too, are the modernization of the railways in the Congo and the Kenana Sugar project in the Sudan. It was hoped that projects of this type would promote regional economic co-operation and were therefore given greater support by development finance institutions.

3.1.8 Allocation of Aid Among Recipients

The Fund's aid allocation policy is very flexible. It is apolitical. Assistance has been provided to countries with such different systems as North Yemen and South Yemen, Tanzania and Senegal, and Vietnam and Malaysia. The Fund's philosophy is that even though social and political factors have an important impact on development, it should not suggest social or political changes. Political conflicts between neighbouring countries have not affected the Fund's operations. It has funded India, Pakistan and Bangladesh as well as Thailand and Vietnam.

The Fund is considerably more selective on the basis of economic criteria such as need per capita income, population, performance, absorptive capacity and access to foreign capital. However, there are no definite and rigorous bases for its allocation. Per capita income seems to weigh heavily as a criterion but, as is often indicated, countries with a good performance in development and in their use of previous loans are not penalized for having a relatively higher per capita income than others. This explains the Fund's greater support to Tunisia compared with North Yemen. Availability of foreign capital is also an important consideration for the Fund and it is evidently related to the country's overall growth performance.

3.1.9 Lending Programme

Many donors do not respond to the developing countries' persistent calls on aid institutions to supply them with medium or long-term lending programmes. This is particularly true of many bilateral aid institutions and the Kuwait Fund's policy is no exception. It finances on a project by project basis. This is mainly because of the Fund's concern to maintain maximum flexibility in dealing with the recipient countries. Moreover, the developing countries' appreciation and understanding of the amounts of assistance forthcoming for various types of projects is apt to influence their formulation of long-term development programmes. The Fund has recently started to influence development plans by making its future operations known to the recipient countries up to two years in advance.

However, from the discussions with Advisers of the Fund it seems to be that the Fund is intending to lend the recipients on low-term lending programmes where the developing country consult with the funds relating these programmes. However, this problem will be tackled when the new proposed Arab Gulf Fund will be established. As I suggested the New Fund will have offices in most developing countries for consultancy and technical assistance in the plans and programmes. These offices will co-ordinate also with the National and Regional Funds and will serve dual aims the New Arab Fund and the present national and regional funds.

3.1.10 Project Evaluation

Owing to its nature, project evaluation is referred to in the Fund's Charter in general terms only. It is indicated that consideration of loan applications should be guided by the degree of importance of the project or programme, the completeness and accuracy of the cost estimates and the adequacy of the economic and technical evaluation of the project. Other than this, there seems to be no written guidelines concerning the approach and criteria applied in project evaluation. Nevertheless, a review of a sample of the Fund's appraisal reports of projects financed during the last fifteen years reveals clearly that the Fund has evolved a special pattern of project evaluation. Although the specific approach and criteria used differ slightly according to the circumstances of each project, the general pattern is clearly identifiable.

The Fund largely operates on the principle of respecting the priorities of the recipient country. This principle stems from a belief that the recipient countries are generally in a better position to determine their own priorities. Nevertheless, the Fund ensures that the project meets certain minimum standards of technical soundness and economic viability and determines independently whether the country's priorities are based on rational and legitimate considerations.

In establishing the technical soundness of a project, the Fund ensures that all the relevant components of the project have been properly incorporated. This is usually followed by an investigation of the salient features of the project's description and technical properties. There are clear indications that in numerous projects major technical changes were made at the request of the Fund.

Having established the project's technical soundness, the next step is to ascertain its economic viability. This is normally done by a thorough investigation of the market prospects and a projection of input and product prices. The project's economic viability is generally analysed using shadow prices of foreign exchange, skilled and unskilled labour and excluding all forms of taxes and duties. After making the necessary adjustments in a project's capital and recurrent costs and revenues, the economic rate of return is deducted and/or the benefit-cost ratio is estimated on the basis of an assumed 10 per cent opportunity cost of capital. The decision on whether or not to proceed in financing the project normally takes into account the outcome of this analysis. The Fund's project appraisal indicates however that it has no formal cut-off point for either the economic rate of return or the benefit-cost ratio. The project's economic viability is then subjected to a sensitivity analysis to determine the most probable economic rate of return for the project in the light of assumed changes in capital cost, operating cost, rate of production, product prices and date of completion.

Although the Fund attaches particular significance to indicators designed to ensure the efficient use of capital, it does not base its decisions purely on such criteria. It also takes into account the social implications of the project and its impact on employment, income distribution, rural and urban development and the attainment of balanced regional development. These implications, however, are not included in the analysis as quantifiable factors affecting the project's rate of return or cost-benefit ratio as is often suggested in manuals on project appraisal. They are normally treated in an explicit manner, particularly when it is believed that such social implications figure in a significant way in the objectives of the project under consideration. It is important to note that, apart from the greater emphasis sometimes placed on the social implications, the Fund's approach in treating such aspects in a qualitative rather than a quantitative manner resembles those of many other development aid institutions including the World Bank.

The Fund's appraisal reports also indicate that adequate consideration is given to each project's financial viability and to the safeguarding of the financial position of the organisation responsible for carrying out the project. This serves the twofold purpose of ensuring that the project and the organization concerned will not become a burden on the recipients' financial resources and secures part of the funds required for the future expansion of operations in the sector to which the project belongs. This is particularly relevant in the case of projects in power and industry. There also seems to be a recognition that tariff rates for electricity are often considered a fiscal policy instrument and hence could not be set independently of the government's other fiscal tools.

Finally, the Fund's appraisal reports indicate that attention is usually paid to managerial requirements and the capabilities of the organization responsible for carrying out and operating the project are assessed. The Fund often requires the formation of a project implementation unit to ensure its proper execution. Financing is sometimes provided by the Fund to staff such a unit with the required expatriate personnel and to cover the cost of the project's training component.

The disbursement procedures are designed primarily to ensure that the financial assistance provided by the Fund is spent on the project or programme for which the finance was originally extended. These procedures also enable the Fund to monitor the procurement of all goods and services, facilitate project follow-up and guarantee competitive international bidding, [13].

The recipient of aid from the Fund cannot make withdrawals until the Fund has declared the agreement operative. The money can be spent only on the goods, services or other purposes specified in the agreement. Standard forms of disbursement are used for:

- reimbursement of outlays effected by the recipient,
- direct payment to settle amounts due to suppliers or contractors,
- payments to banking institutions under a letter of credit arrangement.

Since it was established, the Kuwait Fund has noted the methods of other financial institutions but has not slavishly followed them. It has examined and considered the experiences of international institutions working in the field of development financing, particularly that of the World Bank, which has undertaken similar activities for more than a quarter of a century. But the Fund has also recognized the obvious differences that are bound to exist between the principles and procedure followed by such organizations and those to be followed by an establishment like the Kuwait Fund. The Fund emerged from within the Third World and hence has been more sensitive to the problems and aspirations of the developing countries.

The experiences of others led the fund to adopt the policy of project financing. Financial resources are allocated for specific projects which, if taken together, constitute a harmonious and significant contribution to development. It might be, for example, the building of a cement factory or simply an expansion in the capacity of an existing factory. On the other hand it could be a complete programme for the reclamation of a desert area providing the necessary facilities for irrigation, drainage, transport, housing, the training of farmers and the provision of various services.

Naturally the first step towards the realization of this policy is to identify the project. To do so requires a preliminary selection of projects worthy of a more thorough assessment. This process must obviously be based on the application of specific criteria, however rough, such as the ability to replace imports with local production, or the ability to protect certain areas against the threat of erosion.

Project identification is seen as a process ensuring the selection of projects most capable of serving development objectives. The Fund realized, however, that the field of project identification required much further study to control its course and shape its methods. To a large extent, countries, at present, depend on piecemeal endeavours which result in the creation of lists of projects of different value and priority. Development institutions are then faced with the problem of having lists presented to them as a "fait accompli", making it quite difficult to introduce basic changes. This is why the Fund is now stressing the need for a more careful process of project identification as well as the need for the exchange of relevant experience.

Project identification is followed by project preparation, which is a transition from the simple idea of implementing a certain project to the preparation of a set of designs for its implementation. Of course, this assumes an explicit definition of the final goal and the means of achieving it. Within the process of project preparation there are two steps. First, the preparation of feasibility studies which deal with the technical, engineering, financial, economic, managerial and organizational soundness of the project. Feasibility studies require estimates of the cost of different necessary inputs and the returns of benefits expected from the project. This is the case whether the benefits are in the form of cash income, as when the project is a plant or a farm, or in the form of non-monetary costs and benefits, as in the building of a dam or a road or in planning an educational programme.

Secondly, after establishing the feasibility of the project, the next step is to devise plans for its implementation. These include the preparation of engineering designs required for on-site work and of documents which are to be presented to the contracting parties. In most projects in which the Fund participates, contracts for implementation are awarded through international competitive bidding open to various suppliers and contractors. Projects may be prepared by government authorities in the country of implementation as long as these authorities have the necessary experience. If they do not, consultants may be engaged.

The Fund always requires that a project has been fully prepared before it agrees to provide funds. This reduces to a minimum the risks involved in its implementation and operation. The Fund's policy is to help in choosing consultancy firms but the final decision rests with the authorities of the recipient country. The Fund encourages the use of Arab firms, provided that they are qualified. It also encourages co-operation with the aim of raising local expertise to international standards. It is worth mentioning here, however, that the Fund has not adopted a list of consulting firms.

The national economy of the recipient country influences the Fund's decisions. It pays particular attention to verifying the accuracy of feasibility studies and evaluating the potential benefits of the projects. It takes into consideration not only the financial and economic impact of the project's influence on the level of national income, balance of payments and national accounts, but also their impact on employment, training and standard of living, etc. It also closely examines cost estimates to see whether they are reasonably realistic in view of the situation of the economy concerned. Finally, it undertakes a review of the necessary documents for inviting tenders and ensures their adequacy and completeness.

The Fund tries to be continuously in touch with the authorities responsible for the project in the recipient country and to exchange views with them concerning the various aspects of the project. The Fund is particularly concerned with securing the necessary finance, and encourages other parties to participate. This explains the strong relationships which the Fund has established with other international development organisations, particularly with the World Bank, the Asian Development Bank and the African Development Bank as well as other Arab funds and foreign financing organisations operating in the same field.

The final outcome of these procedures is the approval by the Fund's Board of Directors of a loan agreement. Such approval includes:

- A precise description of the project to be financed;
- The amount of the loan extended and its terms as to interest rate, grace period and repayment;
- The nature of inputs for which the loan is to be allocated and the procedure for drawing from the loan account;
- Determination of the party responsible for execution;

- Acquisition of a guarantee from the government of the country in which the project is to be implemented, if the debtor happens to be a party other than the government;
- Other financial and technical provisions which vary with the nature of the project and ensures satisfactory implementation and operation.

The Fund follows the execution of the project very closely throughout its various stages, from the time tenders are invited up until its completion. It closely examines the withdrawal orders from the loan account, which enables it to be familiar with the progress and continuity of work. Fund staff also conduct field visits to follow the progress in implementation. However accurate the preparation of the project might have been and whatever precautionary measures may have been taken, unforeseen problems may arise. Co-operation is necessary to solve and take whatever measures are necessary to prevent delays. Sometimes the need arises for an adjustment in project specifications, for a reconsideration of cost estimates, or for recruiting additional expertise. The solution of such problems requires the direct involvement of the Fund on a regular basis and its readiness to extend its help in overcoming unforeseen obstacles. **[14]**.

The methods of operation previously mentioned above were based on principles established primarily during the 1950's by the International Bank for Reconstruction and Development (IBRD) and the US Agency for International Development (USAID). They were subsequently adopted by various institutions involved in development financing. These institutions developed and adjusted these methods to suit the nature of their work, the inclinations of their administrations and the traditions and circumstances of the countries to which they offer their assistance.

During the past few years, the Kuwait Fund has assumed a prominent role in introducing this method to the Arab region. It has proved its efficiency in securing the satisfactory implementation of projects and in establishing sound relationships among the participating parties. The Fund was enabled to assume this role because of a number of factors.

The Fund was established by a developing country and staffed by Arab nationals from developing countries. It aims at handling the interests of the countries with which it deals as if they were its own. That is to say with neither indifference nor that heavy handedness which reflects lack of sympathy and understanding. The experience of the Fund has also proved that, in their relations with consultants, recipient countries are often in need of support from a third party. It is capable of persuading, bargaining, and sometimes even of applying pressure to attain the best available international conditions and thereby spare the country excessive cost and effort.

The Fund is also dedicated to strict neutrality insofar as the economic, social or political system of the recipient country is concerned. The Fund's policy is to identify with the interests of recipients. This is not the case with some other development finance institutions which favour certain systems, and sometimes conduct policies contrary to the interests of the states concerned. The Fund is not concerned with measures followed by a recipient country to solve its social and economic problems or with its ideological orientation in general provided the adopted measures do not directly undermine the security or future prospects of the financed projects.

This policy leads the Fund to co-operate with the development priorities of the recipient country. When a country submits a number of projects for consideration to the Fund it tries to acquaint itself with the country's own priorities in order to select those projects most compatible with them. Such a policy, apart from the obvious advantage of reflecting the Fund's respect for the country's preferences, has the additional advantage of avoiding indulgence in the discussion of priorities and other policy questions which should be regarded as the main responsibility of the national government. Such indulgence might arouse sensitivities for which there is no room in a relationship essentially based on mutual confidence and respect.

One application of this principle appears in the choice of sector in which the investment is to be made. In deciding which project to accept for financing, the Fund does not, as a rule, exclude any particular sector, but rather acknowledges the importance and close interdependence of all sectors. The Fund prefers to remain within the limits of its capabilities, and therefore stresses economic rather than social projects such as health, housing or education. The Fund also prefers to be involved in fields where it has sufficient experience; thus it avoids, as much as possible, those types of projects with which it is unfamiliar. If necessary, it will approach such projects, but only slowly and with great caution. Nevertheless, the Fund has been involved in agricultural and industrial projects, and the financing of industrial development banks as well as in its more accustomed sphere of infrastructural development.

The Fund has given outright grants for technical surveys and project preparation. It has also included conditional grants as part of a loan pending future decisions on a project. The recipient countries' conditions together with the nature of the financed projects vary the Fund's interest rate requirements from 0.5 per cent to 7 per cent a year. More than 50% of the loans carry interest rates of between 3 per cent and 4 per cent. The grace period is normally between 2 years and 5 years but for some loans the duration is 9 years to 10 years. Maturity ranges between 10 and 50 years. Such terms show that the grant element in the loans ranges approximately between 25 per cent and 85 per cent.

The Fund tries to simplify the procedures of withdrawal from the loan account and to adjust them as much as possible to the needs of the borrower. Although loans are always denominated in Kuwaiti Dinars as the unit of account, the borrower can draw in any currency needed to meet his obligations to the equivalent budget for goods or inputs. The borrower can also ask the Fund to reimburse it for whatever expenses it incurred. The Fund pays any amounts owed to the suppliers and contractors and may also pay part of the loan to the banking institution with whom the borrower deals, in accordance with the letters of credit.

In distributing its resources among the various countries, the Fund has adopted a policy of giving priority to the least developed. This policy is applied within the limits of the desire to assist the largest possible number of developing countries. In this respect, the Fund's policy follows the trend currently prevailing in international development financing. It is worth mentioning, however, that in defining "the least developed" countries, the Fund does not only take into account the level of per capita income (generally determined as less than $200 per year), nor does it necessarily adhere to the list issued by UN agencies. The Fund also takes into consideration the economic structure of the country concerned and the degree of progress actually achieved.

To illustrate this point, we may note that although the per capita income of a country like India or Egypt, for example, is relatively low, the Fund does not consider them as less-developed than some other Asian or African countries whose level of per capita income might be greater, but which lack the essential prerequisites of modern economic and social development. Countries of the southern Arabian Peninsula, some countries in West Africa, as well as some small countries in the Indian Ocean are obvious examples of countries which are badly in need of economic and technical assistance if they are to manage their affairs well, and to increase the number of technical and administrative cadres.

The Fund has also found it appropriate to extend its support, whenever possible, to development organisations and institutions within recipient countries. Special attention has been given to national and regional development finance institutions. Examples of the Fund's support in the latter field include its role in the establishment of the Arab Fund for Economic and Social Development, the Inter-Arab Investment Guarantee Corporation and the Arab Bank for Economic Development in Africa. On the national level, the Fund has played a significant role in encouraging the establishment of development banks in Lebanon, Kuwait and North Yemen and supported similar banks in Morocco, Tunisia, Jordan and Sudan.

Whenever the Fund considers a project for financing, it has been careful to establish that the recipient country has a sufficient number of qualified people capable of undertaking the project and of successfully operating it after completion. Needless to say, the best of projects, in preparation or execution, can not only fail but turn into an economic burden if mishandled or badly operated. In certain cases, the Fund has found it useful to fund and station technical missions in the recipient country. Such missions provide valuable technical and organizational expertise and contribute to the preparation of development programmes as well as to the organisation of economic relations between the host country and foreign countries and institutions, **[15]**.

3.1.11 Geographical & Sectoral Allocations

Between 1962 and the middle of 1985 the Kuwait Fund for Arab Economic Development, (KFAED), has provided loans for 288 projects with a total value of KD 1,305.427 mn. As **Table 3.1.1** shows almost half of this was allocated to Arab countries, (49.6%), while 30.2 per cent went to Asia, 19.0 per cent to Africa and 1.2 per cent to other nations, **[16]**. It also provides a breakdown of the sectoral allocation of aid. This indicates that, in terms of the allocation of funds, transport and communications received most loans, (30.5%), followed by electricity, (26.2%); the agricultural and primary sector, (19.9%); industry, (18.4%); and water and sewage, (4.2%), **[17]**.

In **Table 3.1.2** it can be seen that the individual countries which have received the most funds have been Tunisia, Jordan, Egypt, Sudan and Morocco, **[18]**. They have each received over KD 50 mn, while the only non-Arab countries to have received as much have been India and China. It is worth noting that the Fund has given over KD 67 mn to two of Kuwait's GCC colleagues, Oman and Bahrain. From examining **Table 3.1.2** it can also been seen that the countries which the Fund has assisted cover a very broad ideological spectrum. As examples they include left-wing countries such as South Yemen, Angola, Mozambique, China and Vietnam, **[19]**.

TABLE 3.1.1

SECTORIAL & GEOGRAPHICAL DISTRIBUTION OF KUWAIT FUND LOANS
1.1.62 - 30.6.85 (KD mn)

Sectors / Countries	1	2	3	4	5	6	7	%
Arab Countries	155.515 (32)	217.871 (48)	112.704 (18)	121.443 (31)	30.150 (5)	10.375 (8)	648.058 (142)	49.6%
African Countries	45.660 (12)	118.591 (41)	48.032 (13)	26.400 (6)	9.350 (3)	-	248.033 (75)	19.0%
Asian Countries	55.610 (11)	55.801 (11)	176.760 (25)	91.989 (12)	13.226 (3)	-	393.386 (62)	30.2%
Other Countries	3.028 (2)	5.922 (4)	4.500 (2)	-	2.500 (1)	-	15.950 (9)	1.2%
Total	259.813 (57)	398.185 (104)	341.996 (58)	239.832 (49)	55.226 (12)	10.375 (8)	1,305.427 (288)	100.0%
Percentage	19.9	30.5	26.2	18.4	4.2	0.8	100.0	

Notes: Sectors: 1 = Agriculture and Primary sector; 2= Transport & Communication; 3 = Electricity; 4 = Industry; 5 = Water & Sewage; 6 = Others; 7= Total.
(x) : Figures in parentheses refer to the number of loans.

Sources: Kuwait Fund for Arab Economic Development, Twenty Third Annual Report 1984/85, Kuwait, 1985, Table C p.50

TABLE 3.1.2

KUWAIT FUND DISTRIBUTION OF FUNDS 1962 - 1985 (KD mn)

Countries	No. of Loans	Total Funding	& of Total
Arab Countries	**142**	**648.058**	**49.6%**
Algeria	2	9.998	
Bahrain	7	30.959	
Djibouti	5	12.500	
Egypt	10	59.712	
Iraq	2	6.386	
Jordan	17	92.319	
Lebanon	2	2.465	
Mauritania	8	41.620	
Morocco	10	55.545	
Oman	7	36.273	
Somalia	4	30.044	
Sudan	13	57.078	
Syria	7	39.563	
Tunisia	23	102.043	
North Yemen	15	38.545	
South Yemen	10	33.008	
African Countries	**75**	**248.033**	**19.0%**
Angola	1	3.700	
Benin	2	5.250	
Botswana	3	6.000	
Burkina Faso	1	4.000	
Burindi	7	12.088	
Cameroon	3	12.700	
Cape Verde	1	0.970	
C.A.R.	3	3.120	
Comores	4	7.527	
Congo	3	10.700	
Gambia	3	8.239	
Ghana	2	12.970	
Guinea	2	8.571	
Guinea Bissau	3	6.290	
Lesotho	1	1.200	
Liberia	1	2.200	
Madagascar	2	4.807	
Mali	3	19.740	
Mauritius	2	5.500	
Mozambique	3	8.750	
Niger	3	8.666	

/Continued overleaf

TABLE 3.1.2 contd.

KUWAIT FUND DISTRIBUTION OF FUNDS 1962 - 1985 (KD mn)

Countries	No. of Loans	Total Funding	& of Total
African Countries contd.			
Rwanda	3	7.700	
Senegal	7	30.696	
Seychelles	1	1.620	
Tanzania	5	28.950	
Togo	2	8.000	
Uganda	1	2.900	
Asian Countries	**62**	**393.385**	**30.2%**
Afghanistan	1	8.845	
Bangladesh	7	44.676	
Bhutan	3	6.700	
China	5	52.600	
India	6	78.300	
Indonesia	4	33.500	
Malaysia	4	17.400	
Maldives	4	6.550	
Nepal	3	13.000	
Pakistan	8	47.525	
Philippines	2	5.736	
Sri Lanka	3	20.930	
Thailand	5	25.497	
Turkey	5	23.226	
Vietnam	2	8.900	
Other Countries	**9**	**15.949**	**1.2%**
Cyprus	4	8.970	
Malta	2	3.388	
Papua New Guinea	1	0.841	
Solomon Islands	1	1.550	
Western Samoa	1	1.200	

Source: Kuwait Fund for Arab Economic Development, Twenty Third Annual Report 1984/85, Kuwait, Table D, pp.52-57

From this evidence it is obvious that, during the past twenty five years, the KFAED has extended its assistance well beyond the Arab countries. Besides its fellow Arab states it also finances projects in countries ranging from the geographical and demographic giants such as China and India to island micro-states including Malta, Cape Verde, Western Samoa. the Solomons and the Seychelles. There can be little doubt that the KFAED has made a major contribution to economic development in many states which have benefitted from Kuwait's generosity.

3.2 Abu Dhabi Fund for Arab Economic Development

3.2.1 Historical Background

The Abu Dhabi Fund for Arab Economic Development, (ADFAED), was created in 1971. It had an original declared capital of 50 mn Bahraini Dinars which later, in 1974, was increased to 2,000 mn UAE Dirhams, (Dhs), in the footsteps of the Kuwait Fund for Arab Economic Development (KFAED). Its stated purpose was to offer "economic aid to Arab Countries in support of their economic development. That is, in the form of loans or participation in projects or guarantees or in other forms that shall be defined by the regulations of the Fund", [20].

3.2.2 Management & Organisation

The management of the Abu Dhabi Fund rests with the Board of Directors. As with the Kuwait Fund, the Board of Directors provides broad policy guidance and supervises its operations. The day-to-day activities are carried out by a general manager and a limited group of senior experts.

According to the third article of the Fund's Internal Regulations, [21], issued in 1971 by the Emir of Abu Dhabi, the Board of Directors is required to:

- consider and take decisions concerning applications for loans, participation in projects and other forms of assistance offered by the Fund;

- decide on the forms of participation in projects in Arab states and countries;

- approve the amounts of loans and other forms of assistance;

- fix the conditions for participation in projects within the overall regulations set for the Fund;

- determine channels for the investment of the Fund's monies;

- fix the size and conditions of the capital raised by the Fund;

- draw up staff regulations for the Fund and supervise their implementation;

- approve the Fund's annual budget and its financial statements.

The Board of Directors is required to hold at least six meetings each year, which are called for by the Chairman. The regulations authorize the board to delegate whatever it deems suitable of its powers to the general manager.

The regulations envisage the board's role as an active policy making body with a professional outlook. It is worth noting, however, that the professional outlook is limited by political considerations reflected in its composition.

The board consists of seven members in addition to the general manager. It is chaired by the Prime Minister and includes cabinet members, amongst whom are the Ministers of Foreign Affairs, Finance and Oil. The decisions of the board are made by a simple majority vote except in a few cases where a two-thirds majority is required. The general manager has no voting rights.

The internal regulations of the Fund refer to the general manager as the person directly responsible for all administrative, financial, and technical matters in the Fund, **[22]**. Specifically he is responsible for:

- carrying out decisions of the board;
- preparing the draft budget for the following year, and forwarding it to the Board of Directors at least two months before the end of the current fiscal year;
- authorizing expenditure in accordance with the budget allocations;
- appointing staff of the Fund in keeping with the provisions of article six in view;

- receiving and studying applications for loans and economic assistance and presenting them to the Board of Directors;

- implementation of loan contracts;

- perform all other duties assigned to him by the board of directors in accordance with these regulations.

The Fund has developed a workable arrangement that helps to provide continuity and smoothness of operations at top management level. This was done by developing regular monthly or fortnightly meetings that include the Minister of Foreign Affairs, who is a board member, the general manager, his deputy and a selected group of senior experts of the Fund. These meetings provide certain institutional advantages that favourably reflect on the work of the Fund by providing a vehicle for professional participation.

3.2.3 Internal Organization

The Abu Dhabi Fund was unique among Arab national aid agencies in that its top managerial post was not at first held by a national of Abu Dhabi. Later, however, an Abu Dhabi national was appointed as general manager and Nasser al Nowais now holds the position, [23], of the Abu Dhabi Fund as of March 31, 1976.

Five operational departments conduct the Fund's day-to-day operations and handle its principal work as a lending agency. This includes projects, loan-implementation, investment, accounting, and administrative departments. In addition there is a research department which engages mainly in information gathering and publishing. Policy analysis and advisory functions rest with experts, who report directly to the general manager and his deputy. The present structure of the fund militates against its overall effectiveness. The limited expertise available and the considerable work load are not distributed evenly or with balance throughout the operational departments.

The projects department has three economists, three financial analysts, and one engineer. The director has a Ph.D. in economics. This department handles the principal work load of the Fund in terms of lending and technical assistance. The staff of the projects department, especially its director, are often overworked. Such a situation usually creates either delays or a deterioration in work quality. The projects department also supervises those projects to which loans are extended. So far this has not made a major demand on the staff's time because the disbursement rate is slow in relation to total commitments. But equally supervision should, in any case, be the responsibility of the loan-implementation department.

The loan-implementation department is more of a service department than an operations department. It only has two staff members: one with private banking experience and the other, an accountant. The department handles routine questions on procurement rather than project management.

The investment department manages the Fund's portfolio. Major investment decisions, however, are made at a higher level because the department is not headed by a senior staff member. The department's five staff members include an accountant.

The research department is the second largest after the projects department. It is headed by an economist, assisted by nine junior staff member. Its work is not directly geared toward operations. It generally concentrates on the issues of oil, energy, and recent international monetary and economic developments. The department issues a monthly bulletin in English that surveys developments in the world economy and summarizes news gathered from periodicals and publications of international economic organisations. The research department occasionally produces papers on issues of interest to Abu Dhabi as an Arab oil producer.

The accounting and administration departments have four accountants and offer support services such as internal auditing and personnel administration. The administration department is not involved in operations and does not appraise projects for which the management structure needs to be evaluated.

The present distribution of staff in the various departments is unbalanced. Although the projects department has the largest staff, and probably the most qualified, it is relatively under-staffed in view of the workload it handles. The loan implementation department is limited both in staff and scope but, if properly staffed, could provide a much needed follow-up and supervision of project implementation and management.

Many of the highly qualified members of the professional staff are not assigned to the operational departments. The experts group is not an operational department, and works in an advisory capacity reporting directly to the general manager and his deputy. It includes three economists, one financial analyst, two legal experts, and one engineer. Most of them are professionals with long work experience and advanced academic degrees. Their contributions to the work of the Fund cannot easily be determined. Because of internal Fund politics these professionals are not systematically involved in the work of operational departments. There is usually continuous communication between the director of the projects department and the various experts. But these communications are sometimes channeled through the general manager or his deputy to offer the proper organizational context for the expert's contribution. This arrangement may not be the most effective. The Fund obviously suffers from a shortage of highly qualified technical experts. The few that it has are not kept in the mainstream of the its operational work and are treated as advisers outside the organizational lines of the operations departments. A reorganization bringing the experts into the mainstream of the organizational structure is both workable and desirable. It would bolster the present operations departments and make the Fund more effective. This, and the greater credibility that would accompany it, would more than compensate for the wounded pride caused to some of the staff by the changes in working practice.

The most prominent figure in the decision-making process of the Abu Dhabi fund is the general manager, who also serves as economic adviser to the country's ruler. He is highly trusted by the political decision-makers, therefore offering a necessary link between the political and professional tiers in decision-making. The creation of the post of deputy general manager was an important development of the decision-making process. The post was filled by an Abu Dhabi national. More managerial functions will be handled by the Abu Dhabi nationals in the Fund. This could lessen the politicization of the board of directors and bring a more professional composition of the board.

Because the project department handles the bulk of the day-to-day operations of the Fund, its director plays a significant role in decision-making. He joined the Fund at its inception and is more familiar with it than most of the professional staff who joined later. His professional competence and detailed knowledge of operations enable him to marshall the advice of the experts group to the benefit of the day-to-day work of the Fund.

3.2.4 Policies & Operations

The law establishing the Fund and the regulations issued by the Emir gave the Board of Directors complete freedom to decide the assistance to be undertaken by the Fund. The methods, which are outlined in Article 10 of the Fund's internal regulations, include loans, equity participation, guarantees, and any other form prescribed by the board, [24].

It is worth noting that the equity participation which the Fund has undertaken distinguishes it from the Kuwait Fund for Social and Economic Development. Its functions are not so heavily restricted by legislative policies. The only requirements are that:

- the Fund's contribution to any single project should not exceed 10 per cent of the Fund's capital;
- the Fund's contribution to any single project should not exceed 10 per cent of the total cost of the project;
- the project to which the Fund is giving assistance should not conflict with the economic interests of Abu Dhabi or any other Arab Country.

The first two conditions, which are designed to safeguard the Fund's capital can, however, be waived by a two-thirds majority of directors in relation to a specified project.

Table 3.2.1. outlines the ADFAED Operations - 1974-1986.

3.2.5 The Politics of the Abu Dhabi Fund

The organisation and management of the Abu Dhabi Fund reveal the importance of political considerations. This is evident in the composition of the Board of Directors. The majority are cabinet members including the Minister of Foreign Affairs. Technical considerations have, however, recently been assuming greater importance in the Fund's decisions. They present clear yardsticks for evaluating the projects and facilitate the decision making process. This recent development is directly linked to co-operation between the Fund and other donors and development financing agencies such as the Kuwait Fund.

3.2.6 The Project & Policy Process

The Fund's growing professionalism has focused attention on the process of identifying, selecting and appraising development projects in the recipient countries. The experience of the Abu Dhabi Fund in project selection had been dominated by an ad hoc approach to the

TABLE 3.2.1.

SUMMARY TABLE OF ABU DHABI FUND'S OPERATIONS - 1974 - 1986
(Millions of UAE Dirhams)

Description	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Authorised Capital	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00
Paid up Capital	500.00	-	37.50	100.00	155.61	692.67	416.30	419.94	-	-	-	-	-
Cumulative	580.00	580.00	617.00	717.00	873.00	1,565.78	1,982.78	2,132.02	2,132.02	2,132.02	2,132.02	2,132.02	2,132.02
General Reserves	18.72	45.21	36.90	30.99	40.87	56.36	86.19	94.89	91.92	75.67	62.01	63.69	71.08
Cumulative	22.25	67.46	104.36	135.35	176.22	232.58	318.77	413.66	505.58	581.25	643.26	706.95	778.03
Capital and General Reserves	602.25	647.46	721.86	852.85	1,049.33	1,798.36	2,300.85	2,545.68	2,637.60	2,733.84	2,775.28	2,838.97	2,910.05
Loans Signed by the Fund	232.20	175.00	645.37	539.00	836.00	402.59	375.70	271.16	242.00	84.70	105.00	62.00	55.50
Cumulative	232.20	407.20	1,052.57	1,591.57	2,427.57	2,830.16	3,205.86	3,477.02	3,719.02	3,803.72	3,908.72	3,970.72	4,026.22
Equity participation (at cost prices)	-	8.62	5.89	0.93	7.63	103.10	14.46	22.61	17.71	23.89	40.09	8.92	6.18
Cumulative	4.33	12.95	18.84	19.76	27.40	130.50	144.96	167.57	185.28	209.17	249.26	258.18	264.36
Total Loans and Participation (Cumulative)	236.53	420.15	1,071.41	1,611.33	2,454.97	2,960.66	3,350.82	3,644.59	3,904.30	4,012.89	4,157.98	4,228.90	4,290.58
Loan Disbursements	1.96	9.03	140.21	392.48	296.13	573.17	673.06	398.79	271.57	256.95	165.29	110.98	166.16
Cumulative	1.96	10.99	151.20	543.68	839.81	1,412.98	2,086.04	2,484.83	2,756.40	3,013.35	3,178.64	3,289.62	3,455.78

TABLE 3.2.1. (continued)

Description	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Ratio of Total Reserves to Paid up Capital	4%	12%	17%	19%	20%	15%	16%	19%	24%	27%	30%	33%	36%
Ratio of Total Disbursements to Total Signed Loans	1%	3%	14%	34%	35%	50%	65%	72%	74%	79%	81%	83%	86%
Ratio of Total Equity Participation (at cost price) to Paid up Capital	1%	2%	3%	3%	3%	8%	7%	8%	9%	10%	12%	12%	12%

Source: Abu Dhabi Fund Annual Report 1985 & 1986. Page 44.

financing cycle. Unfortunately the Fund does not play an active role in project identification in the recipient countries, because it has limited technical resources. This shortcoming is now being overcome through collaboration with the World Bank and other regional development financing institutions.

3.2.7 Development Strategy

The existence of an identifiable strategy designed to achieve certain objectives is necessary. The Fund concentrates, like other similar institutions, on infrastructural projects because they are prerequisites of economic development in any country and normally require huge amounts of capital. This trend, however, is not the result of a well considered or coherent strategy. In broad terms the present situation in the Abu Dhabi Fund as well as other Arab development funds, mainly reflect piecemeal efforts and loosely coordinated priorities. Moreover, the financial resources of the Abu Dhabi Fund are too small to allow it to influence any development strategy in the recipient countries.

3.2.8 Geographical & Sectoral Allocations

Between 1974, when it was established, and 1986 the Abu Dhabi Fund loaned a total of Dh 4,291 mn. Of that 74.99 per cent went to Arab countries, 12.20 per cent to Asia, 9.17 per cent to Africa and 3.67 per cent to other countries, **(Chart 1) [25].** In terms of individual recipients Oman was the largest, followed by Tunisia, Egypt, Morocco and Yemen PDR. In total thirteen Arab countries received more than 3,117 of U.A.E. Dirhams **(Table 3.2.2.) - [26].**

In terms of the sectoral distribution of the loans during the period of 1974 - 1986, (As outlined in Chart 2) 45.35 percent went to extractive and manufacturing industries. Water and electricity received 22.37 per cent; transport, communications and storage 16.32 per cent; agriculture, fisheries and rural development 14.05 per cent; and tourism, hotels and housing the remaining 1.92 per cent, **(Table 3.2.3.) - [27].** Of the 88 projects which were partly financed by the Abu Dhabi Fund between 1974 and 1986, 48 were in the Arab countries, more than half in the industrial, water and electricity sector. Of the 26 African loans 11 were in transport, communications and storage projects, while industry was predominant in the Asian countries, (11 loans) - **[28].**

Chart No. (1)
Geographical Distribution of the Fund's Loans
1974 - 1986

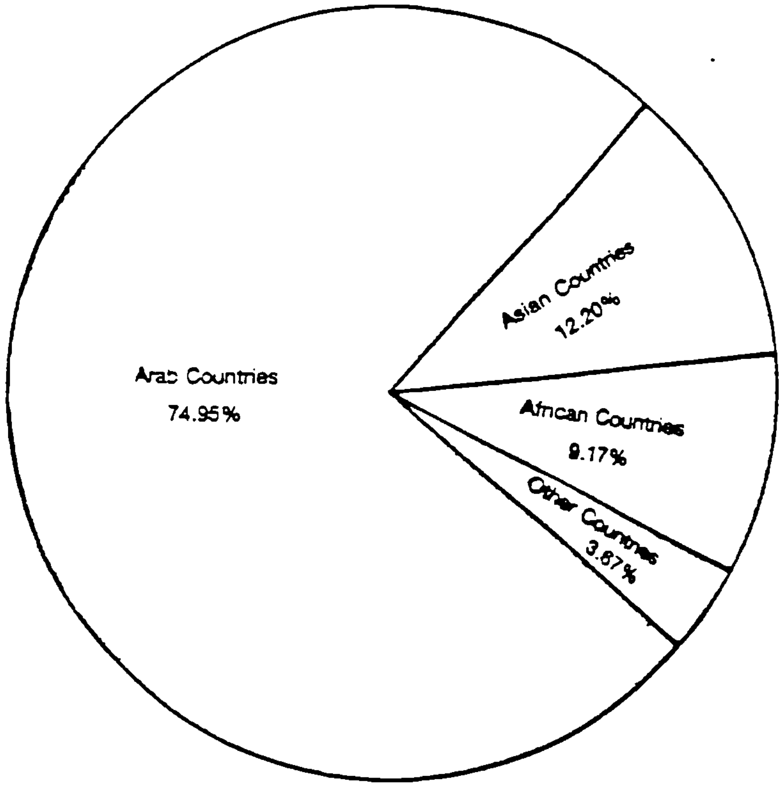
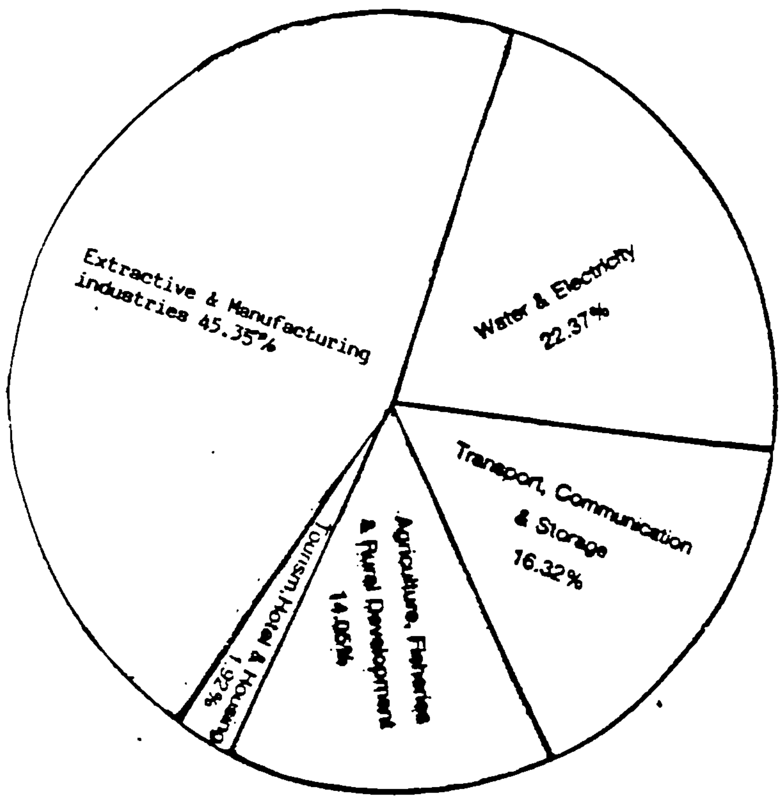


Chart No.(2)
Distribution of the Fund's Loans by Sector
1974 - 1986



Source Abu Dhabi Fund Annual Report 1985 & 1986 Page (45)

TABLE 3.2.2

DISTRIBUTION OF THE ABU DHABI FUND'S LOANS BY SECTOR ARAB COUNTRIES 1974 - 1986
(Millions of UAE Dirhams)

Sector / Country	Agriculture, Fisheries & Rural Development	Transport, Communication & Storage	Water & Electricity	Housing	Tourism & Hotels	Manufacturing & Extractive Industries	Total
Jordan	21.5	5.0	-	-	-	119.0	145.5
Bahrain	-	-	160.0	-	-	60.0	220.0
Tunisia	74.0	60.5	-	-	20.7	224.6	379.8
Sudan	-	40.0	-	-	-	100.5	140.5
Syria	-	-	107.5	-	-	-	107.5
Oman	-	105.0	-	-	-	733.7	838.7
Lebanon	-	40.7	27.1	-	-	-	67.8
Egypt	-	60.0	130.0	-	16.6	58.4	265.0
Morocco	140.0	-	-	40.0	-	70.0	250.0
Mauritania	24.0	40.0	-	-	-	96.0	160.0
Yemên AR	82.5	-	96.5	-	-	-	179.0
Yemen PDR	29.1	97.0	112.5	-	-	6.6	245.2
Djibouti	-	18.5	-	-	-	-	18.5
Total Arab Countries	371.1	466.7	633.6	40.0	37.3	1,468.8	3,017.5

Source: Abu Dhabi Fund Annual Report 1985 & 1986. Page 85

TABLE 3.2.3

DISTRIBUTION OF THE ABU DHABI FUND'S PROJECTS BY COUNTRY AND SECTOR 1974 - 1986

Sector / Country	Agriculture, Fisheries & Rural Development	Transport, Communication & Storage	Water & Electricity	Housing	Tourism & Hotels	Manufacturing & Extractive Industries	Total Number Projects
1st Arab Countries - 13							48
1 Jordan	1	1	-	-	-	2	4
2 Bahrain	-	-	3	-	-	1	4
3 Tunisia	1	2	-	-	1	2	6
4 Sudan	-	1	-	-	-	1	2
5 Syria	-	-	2	-	-	-	2
6 Oman	-	1	-	-	-	3	4
7 Lebanon	-	1	1	-	-	-	2
8 Egypt	-	1	1	-	1	1	4
9 Morocco	2	-	-	1	-	1	4
10 Mauritania	1	1	-	-	-	2	4
11 Yemen AR	3	-	3	-	-	-	6
12 Yemen PDR	1	2	1	-	-	1	5
13 Djibouti	-	1	-	-	-	-	1

Continuing...

TABLE 3.2.3 Continuing

Sector / Country	Agriculture, Fisheries & Rural Development	Transport, Communication & Storage	Water & Electricity	Housing	Tourism & Hotels	Manufacturing & Extractive Industries	Total Number Projects
2nd African Countries - 19							26
14 Burundi	1	-	-	-	-	1	2
15 Mali	1	1	-	-	-	-	2
16 Gambia	-	1	-	-	-	-	1
17 Tanzania	-	-	-	-	-	1	1
18 Guinea	-	-	-	-	-	1	1
19 Malagasy	-	-	1	-	-	-	1
20 Comoro Islands	-	1	-	-	-	-	1
21 Seychelles	-	1	2	-	-	1	4
22 Uganda	-	-	-	-	-	1	1
23 Senegal	2	-	-	-	-	-	2
24 Lesotho	-	1	-	-	-	-	1
25 Cape Verde Islands	1	-	-	-	-	-	1
26 Guinea Bissau	-	1	-	-	-	1	2
27 Niger	-	-	1	-	-	-	1
28 Rwanda	-	1	-	-	-	-	1
29 Cameroon	-	1	-	-	-	-	1
30 Congo-	1	-	-	-	-	-	1
31 Mauritius	-	-	1	-	-	-	1
32 Kenya	-	1	-	-	-	-	1

Continuing...

TABLE 3.2.3 Continuing

Sector / Country	Agriculture, Fisheries & Rural Development	Transport, Communication & Storage	Water & Electricity	Housing	Tourism & Hotels	Manufacturing & Extractive Industries	Total Number Projects
3rd Asian Countries - 8							11
33 Bangladesh	-	-	1	-	-	2	3
34 India	-	-	1	-	-	-	1
35 Maldives	-	1	-	-	-	-	1
36 Malaysia	-	-	-	-	-	2	2
37 Sri Lanka	1	-	-	-	-	-	1
38 Indonesia	-	-	1	-	-	-	1
39 Afghanistan	-	-	-	-	-	1	1
40 Pakistan	1	-	-	-	-	-	1
4th Other countries - 2							3
41 Malta	-	1	1	-	-	-	2
42 Turkey	-	-	-	-	-	1	1
Grand Total (No of Projects By Sector) 42 Countries	16	23	20	1	2	26	88

Source: Abu Dhabi Fund Annual Report 1985 & 1986. Page 92.

3.3 The Saudi Fund for Development (SFD)
****

3.3.1: Introduction

When developing countries started to face the need for increasing external financing for implementing their development projects, the Kingdom of Saudi Arabia took the initiative and attached priority to this aspect in its international relations. It started to allocate parts of its resources with a view to participate in the implementation of those projects in developing countries at various stages of development.

Assistance from the Kingdom of Saudi Arabia to developing countries in 1984 amounted to about SR 12,000 million, equivalent to US $ 3,3 million of 3.3 per cent of GNP. This represents 9.2 per cent of total world Official Development Assistance (ODA) amounting to $ 36,000 million in 1984 and 72.7 per cent of the $ 4,450 million provided by OPEC countries.

The United Nations target for ODA from different donors is 0.7 per cent/GNP **[29]**. Saudi Arabia has gone substantially above this target, tenfold in some years.

Source: SFD Annual Report 1984 - 1985 Foreword - by

Mohammad Aba Alkail Minister of Finance and National Economy and Chairman of Saudi Fund for Development - p3. For the period 1973-84 the Saudi assistance to developing countries was $ 46.000 million, 56.0 per cent of total OPEC aid. Out of the $ 46.000 million, 47.0 per cent was given as outright grants and the remaining 53.0 per cent in the form of highly concessional united loans for high priority development projects and programs in developing countries. The bulk of aid was given to support the economies of 7 developing countries, 38 in Africa, 25 in Asia and 7 in other parts of the world.

The long standing problems of Africa and the horror of famine which has been aggravated by the drought have concerned the government of Saudi Arabia. Therefore, special Saudi efforts have been exerted for Sub-Saharan Africa. In addition to normal bilateral aid and aid provided through a variety of channels, since 1981 special allocation of funds has been made. In 1981 $ 100 mn was allocated to provide potable water and food for the Sahel Countries and was later increased by $ 30 million. During the past three years $ 240 million, in money and in kind, was provided to 16 affected Sub-Saharan countries. Another $ 80 million was given to alleviate the problems of refugees and affected people in Chad, Somalia and Sudan. Also $ 100 million is to be provided through the Saudi Fund for Africa arranged by the World Bank. Furthermore, at the public level, generous donations have been made for the famine areas in Africa, $ 62 million in only two months last year.

SFD started operation in 1975 and by the end of fiscal year 1984-85 it had allocated SR 20,749.21 mn to finance 266 development projects. Out of the total, 46 per cent was for 154 projects in 37 African countries and 51 per cent for 103 projects in 18 countries in Asia. About 55 per cent of the total allocations went to Low Income Countries about half of which to countries classified by the U.N. as the Least Developed [30].

SFD financing was allocated to different development sectors. Because of the sizeable investment by developing countries in Transport and Communications, that Sector received 38.3 per cent of the total, followed by Agriculture and Rural Development, with 2 per cent, and 15 per cent for the Social Infrastructure. During the same period 196 Loan Agreements were signed for SR 15,259.24 mn.

During the fiscal year 1984-85 16 Loan Agreements were signed for a total of SR 1,118.6 mn, 8 loans for SR

381.1 mn for Africa, 7 loans for SR 720.1 mn for Asia and one loan for SR 17.4 mn for Jamaica.

The Saudi Fund for Development (SFD) was chartered by Royal Decree on 14 Sha'ban 1394 AH corresponding to 1 September 1974. The Fund commenced operation with effect from 18 Safar 1395 AH (1 March 1975).

Aims and Objectives of the Fund

As defined in its charter the basic objective of the Fund is to "participate in the financing of development projects in developing countries through granting of loans to said countries". The emphasis is on development projects that promote the social and economic well being of the people in low income countries.

Capital Structure:

The SFD operates from a capital provided by the Government of Saudi Arabia. The initial authorised capital was ten billion Saudi Riyals in 1394 AH (1974) which was raised to fifteen billion Saudi Riyals in 1400 AH (1980) and again to twenty-five billion Saudi Riyals in 1401 AH (1981, to meet the growing needs of developing countries.

Organisation and Management:

SFD has a legal entity with autonomous financial status. It is governed by its charter and is administered by a Board of Directors chaired by the Minister of Finance and National Economy. The Board of Directors of the Fund is the Supreme Authority that administers the Fund's affairs.

The Vice-Chairman and Managing Director assumes the executive authorities of the Fund and is responsible for implementing the decision of the Board of Directors.

Nature of Assistance:

SFD assistance carries high grant element and is united in procurements. The Fund's activities have no geographical or sectoral limitations. SFD deals directly with the governments of the developing countries and the assistance is provided for the development projects. SFD project financing priorities closely follow those selected by the recipient country's governments. By the nature of its regulations, financing facilities are concentrated on the least developed countries and other adversely affected low income countries in Africa, Asia and Latin America.

Statutory Framework:

SFD Charter also sets the basic rules that regulate its operation. Prior to granting a loan, the Fund has to investigate the productivity of the project to be financed, after taking into consideration, inter alia, the financial standing of the borrowing government with reference to size of loan and adequacy of financial and economic resources that ensures its repayment. The Fund also takes into account the availability to the borrowing country of funds required for the execution of the project in addition to the amount of the loan.

According to Article 7 of the Charter the Fund grants loans after assuring fulfilment of the following conditions:

a) That the project to be financed contributes to the economic and social well-being of the borrowing country.

b) That the loan is paid and repaid in Saudi Riyals.

c) That amount of loan granted to any project does not exceed five per cent of the total capital of the Fund and fifty per cent of the total cost of the project for which the loan shall be effected.

d) That total amount of loans granted to any country shall not exceed ten per cent of the Fund's capital at any one time.

Within the statutory framework, the Fund designs strategy and frames policies to assist the developing countries in achieving their socio-economic objectives. The Fund, however, gives special consideration to the needs of those low income countries that have suffered most on account of international environmental changes and have basic limitations in accomplishing development objectives.

3.2: The Financing Operations:

Since 18 Safar 1395 AH (March 1, 1975), by which date SFD commenced operation, till the end of fiscal year 1404-05 AH (1984-85), there have been great changes in the pattern of the world economic development affecting both the sources and uses of capital funds. Developing countries have now become more dependent upon external sources of finance, and as the international review in the preceding pages has shown, their development policies are more exposed to international environmental changes.

The Saudi Fund for Development, right from its inception, has been aware of the basic truth that the global economic development is impeded if the resources do not flow in areas of relative scarcity and growth. It has therefore adapted flexible policies in each case tailored to suit the specific needs of developing countries.

To foster balanced regional economic growth, SFD has diversified its assistance to a large number of developing countries in Africa, Asia, Latin America and Oceania. For promoting socio-economic harmony, its assistance encompasses wide sectoral range, social and physical infrastructures, such as health, education, housing, water supply, energy, transport, communications, basic industries, irrigation and agriculture.

During this period a nucleus organisation has been created. Whereas in the period beginning 18 Safar 1395 AH (1 March, 1975) till 30 Jumada'11 1396 AH (27 June 1976), four loan agreements were negotiated and commitments to 15 other projects were made, by the end of fiscal year 1404-05 AH (1984-85), the Fund has on its record, 196 signed Loan Agreements involving SR 15,259.24 mn. By the end of the fiscal year 144-05 AH (1984-85), SFD has committed SR 2,749.212 mn, for 266 projects spread over 59 developing countries of Africa, Asia, Latin America and Oceania.

Judged from any parameter, SFD has a record of steady growth during the period of operation. Not only the number of countries receiving aid has increased from 7 in 1395-95 AH (1974-75) to 59 in 14004-05 AH (1984-85) - more than eight fold increase - the number of projects financed has been increasing at an annual average rate of 167 per cent and the financial commitments at an annual average rate of 113 per cent. During the period under review, there has been 4,800 per cent increase in the number of loan agreements signed and a 3,059 per cent increase in the amount involved in the signed agreements. This growth record compares favourably with other aid agencies, in fact very few donors have the distinction of achieving such a high growth rate.

1. Net Cumulative Commitments:

The net cumulative commitments are shown in **Table 3.3.1.** The Fund's lending is mainly concentrated in Low Income

Countries. Of the total loans approved during the period 1394-95 to 1404-05 AH (1974-75 to 1984-85), more than 55 per cent has been allocated to LIC's of which a location to Least Developed Countries (LLDC's) categorised by UN as the poorest account for more than 26 per cent of the total commitments. Allocation to Lower Middle Income Countries is 8.3 per cent and to Upper Middle Income Countries 36.5 per cent.

(32)

Source: SFD Annual Report 1984 - 85. Page 24

TABLE 3.3.1
NET CUMULATIVE COMMITMENTS 1974/75 - 1984/85

	1	2	3	4	5	6
Africa	37	9,541.07	46.0	154	57.9	62.0
Asia	18	10,661.34	51.4	103	38.7	103.5
Others	04	546.80	2.6	009	3.4	60.8
Total	**59**	**20,749.21**	**100.0**	**266**	**100.0**	**78.0**

1 - No. of countries in region receiving assistance
2 - Financial commitments in SR mn
3 - Financial commitments
4 - Number of projects
5 - Number of projects as percentage of total
6 - Average size of project - SR mn per project

2. Disbursement:

SFD maintains a high ratio of disbursement against the effective loans. By the end of the fiscal year 1404-05

AH (1984-85) the Fund had disbursed SR 8,329.22 mn, 37.30 per cent of the Effective Loans.

Of the total disbursement of SR 8,329.22 mn during the period 1394-95 AH to 1404-05 AH (1974-75 to 1984-85), SR 3,841.02 mn have been disbursed to countries in Africa. SR 4,306.94 mn to countries in Asia and SR 181.26 mn to countries in other regions.

3. Co-Financing :

SFD avails every opportunity to channel funds needed to remove regional disparity and with this aim in perspective it maintains the level of high-priority assistance to the poorest countries. In this connection, regular coordination and frequent consultations with other donors, have been increasingly emphasised. The number of co-financed operations have considerably increased as out of 266 projects financed by SFD during the period 1394-95 AH to 1404-05 AH (1974-75 to 1984-85), 163 projects involving SR 13,604 mn are in collaboration with other development agencies. It can be seen from **Table 3.3.2** that the largest number of co-financing operations are in Africa where project costs are shared by a variety of donors.

Table 3.3.2 : SFD Co-financed Projects 1974/5 to 1984/5

Region	No.of Co-financed Projects	Value
Africa	103	SR 7,479 mn
Asia	56	SR 5,772 mn
Others	4	SR 353 mn
Total	**163**	**SR 13,604 mn**

[33]

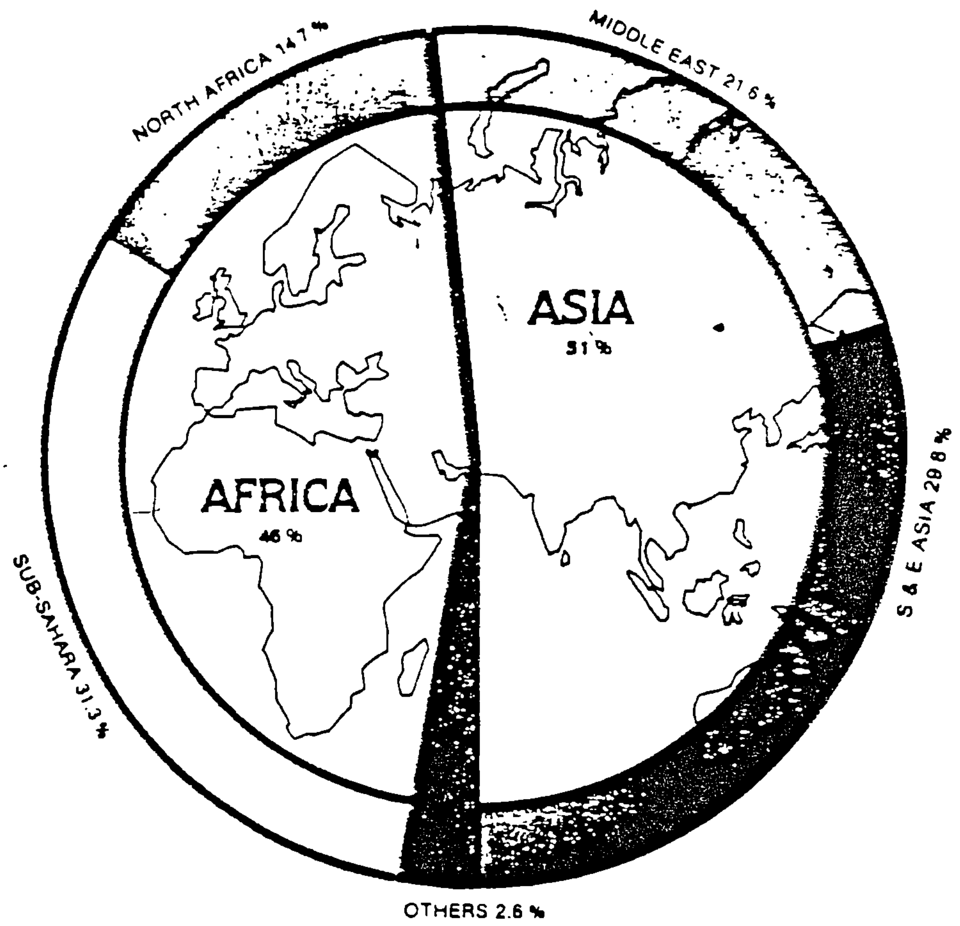
4. Geographical Distribution:

The Fund's area of operation extends to 37 countries in Africa; 18 countries in Asia and to 4 countries in other regions of the World. The geographical distribution of the net cumulative commitments is displayed in **Figure 3.3.1**

According to the figures of the Annual Report of SFD, **Table 3.3.1** also indicates that of the total projects approved during the period 1395-95 AH to 1403-04 AH, 1974 - 75, - 1984 - 85, 60.5 per cent are financed in Africa; 36.9 per cent in Asia and 2.6 per cent in other regions.

FIG. 3.3.1

FIG. 3. GEOGRAPHICAL DISTRIBUTION (SDF)
1394-95 AH TO 1404-05 AH (1974-75 TO 1984-85)



3.3.3: Allocations to Countries:

1. Allocation to Countries in Africa:

SFD is financing 154 projects in 37 countries of Africa. A relatively large number of projects is financed in African countries because of the backward economic conditions of the continent. In recent years, however, the relative share in financial commitments to the continent has declined from 50 per cent to 46 per cent.

[34]

The deteriorating economic conditions accompanied with natural calamities - drought and famine - has forced many African governments to seek assistance for relief measures. Their demand for development projects has declined. Despite these obvious constraints, SFD is increasing its development finance to Africa, wherever it becomes possible. This can be seen by the fact that the absolute amount of assistance to Africa has been increasing during the period under review.

2. Allocation to Countries in Asia

Table 3.3.1 also showed that aid to Asian countries now constitutes more than 51 per cent of total commitments made during the period 1394-95 AH to 1404-05 AH (1974-75 to 1984-85). This trend reflects the increasing demand for resources from countries in Asia for development projects.

3. Allocation to Other Regions

The major concentration of SFD assistance is in Africa and Asia where the largest number of low income countries are located. However, SFD has not ignored the needs of developing countries in other regions. It has allocated more than 3 per cent of its assistance to the developing countries in Latin America and Oceania.

3.4 The Arab Fund for Economic & Social Development

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1. Policy and Administrative Measures

Introduction

The Arab Fund for Economic and Social Development (AFESD), is a multilateral development institution founded in 1968 by Arab League member states for the purpose of "financing economic and social development projects in the Arab states and countries by:

1. "Financing economic projects of an investment nature by means of loans granted on easy terms to governments and to public or private organisations and institutions, giving preference to the economic projects that are vital to the Arab entity, and to joint projects".

2. "Encouraging, directly or indirectly, the investment of public and private capital in such a manner as to ensure the development and growth of the Arab economy".

3. "Providing technical expertise in various fields of economic development". **[35]**

The AFESD is the oldest regional development institution in the Arab world, beginning its operations in 1974. Its authorised capital was set initially at 100 mn Kuwaiti Dinars, but was subsequently increased to KD 400 mn. In 1981 it was increased again to KD 800 mn in order to meet the rising demand for loans and to finance certain agricultural projects to enhance Arab food security. By the end of 1985 the Fund's subscribed capital and capital reserves, which together make up its resources, had reached KD 797.4 mn. **[36]**. **Table 3.4.1** below illustrates the distribution of the Fund's subscribed capital.

TABLE 3.4.1
Subscription to Authorized Capital of the Arab Fund

Member Countries	Subscribed Capital Shares	Value KD mn
Jordan	1,730	17.30
Tunisia	616	6.16
Algeria	6,487	64.78
Sudan	1,264	12.64
Iraq	6,352	63.52
Saudi Arabia	15,907	159.07
Syria	2,400	24.00
Libya	9,612	96.12
Egypt	4,050	40.12
North Yemen (YAR)	432	4.32
Kuwait	16,970	169.70
Lebanon	200	2.00
Morocco	1,600	16.00
South Yemen (PDRY)	20	0.20
United Arab Emirates	4,320	43.20
Bahrain	216	2.16
Qatar	900	9.00
Somalia	21	0.21
Mauritania	82	0.82
Oman	1,728	17.28
Palestine	110	1.10
Djibouti	2	0.02
TOTAL	**75,010**	**750.10**

Source : Agreement Establishing the Arab Fund, addendum

Organisation of the Fund

The Arab Fund is a regional Arab development institution controlled by member countries and incorporating a voting structure based on the relative financial contribution of each country. Each member country appoints a Governor and Alternate Governor to the Board of Governors, and the Governor enjoys the voting power that his country represents; that power is a combination of 200 votes, which is an equalising flat rate for each member, plus one vote for each share the country has in the Fund's capital.

The Board of Governors is the highest authority and is considered as the general assembly of the Fund. Its members are frequently the Ministers of Finance of Planning or Economy of their respective countries. The Board's functions include accepting new members, authorising increases in capital, suspending a member state, resolving disputes related to interpretation of the articles of agreement, concluding treaties with other international institutions, and dissolving the Arab Fund - terminating its operations and specifying how the Fund's net income should be dispensed with, [37].

The next layer of decision making after the Board of Governors is the Fund's Board of Directors, who execute the policies of the Board of Governors. The Board of Directors comprise six full-time Directors and Deputy Directors, elected by the Board of Governors for two-year terms which are subject to renewal.

Chairing the Board of Directors is the Director General of the Fund, who is appointed by the Board of Governors and charged with directing the Fund's operations. He is the Chief Executive of the Fund and is assisted by professional and administrative staff organized in such a way and including such members as he considers necessary for the efficient running of the Fund.

General Functions and Policy Considerations

The Fund's functions and objectives are implemented through five Departments - Operations, Research and Studies, Finance, Legal Affairs and Administration. As it will be seen the Fund's activities are very much in line with Technical Co-operation among Developing Countries, (TCDC) assumptions. These include the promotion of information and skills exchange between less developed countries for the sake of their mutual development; the fact that the Fund's TCDC is initiated, organized, managed and financed by the concerned developing countries themselves, with UN and developed countries' contributions supplementing and not replacing these efforts, and the fact that Fund assistance is of both promotional and operational character.

With regard to general policy considerations, loans from the Fund are directed to projects of a priority nature for the requesting party or Arab government. The Fund's lending is characterised by easy terms. Interest rates are low being 4 per cent for less developed Arab countries and 6 per cent for the remaining countries, grace periods are from three to six years, and maturities extend from 13 to 25 years. Moreover, the Fund lays no policy or ideological conditions on beneficiaries and its assistance is untied, while procurement under its loans are open to international competitive bidding.

Infrastructure development remains the main thrust of Fund assistance although, since 1981 and especially in 1984-85, productive sectors, especially agriculture, took the lead, averaging 67.3 per cent of total loans extended between 1984 and 1986. Assistance devoted to enhancing Arab food security has been a priority matter, as has assistance for preparing feasibility studies on inter-Arab projects. To quote the Fund's Director General and Chairman of the Board of Directors, Mr. Abdlatif Y. Al-Hamad:

"In response to the growing Arab concern about food security and shortage of food supply, the Fund gave top priority to the agriculture sector, which is considered vital for the Arab economy. Accordingly, 83 per cent of the loans of the Fund during this year **[1985]** were allocated to financial projects in this sector. Such projects covered agricultural production, animal and fish resources and rural development.

In the field of technical assistance, the Fund gave special consideration to the preparation of techno-economic feasibility studies for Arab and pan-Arab projects. It was particularly concerned about the development of human resources, especially in the fields of education, illiteracy eradication, training and institutional support. **[38]**

The broad policies and priorities of the Fund's Board of Governors are evident in the minutes of their annual meetings, in particular those of April 1984, July 1985 and April 1986. By virtue of the policies and priorities laid down, the type and thrust of the Fund's TCDC efforts becomes immediately evident. During the past few years the TCDC has focused on; enhancing Arab economic co-operation and integration and the development of human resources, the productive sectors and infrastructure. In addition it includes the enhancement of economic self-reliance which reduces foreign debt and the enhancement of Arab food security. Project proposals are made on the basis of resource availability, the degree of productivity of the project, its technical and economic viability and its utility for the recipient Arab country or community.

2. Development Loans and Technical Assistance Provided by the Fund

The AFESD works jointly with and also supports certain multilateral development organisations which are involved in Arab economic and social development efforts. The Fund also works jointly with the United Nations organisations' operational programmes and of course in inter-Arab development ventures. These activities have not encountered any major change between 1984 and 1986 except for the increased emphasis on the productive sectors and inter-Arab economic co-operation and integration.

Although mainly a lending institution, the Fund's activities include four areas, all of which are pertinent to TCDC. These are its lending, technical assistance, conferences, seminars and studies, and finally co-operation and coordination with Arab and international organisations.

a) Lending Operations

Between the beginning of its activities in 1974 and the end of 1985, the Fund extended 171 project loans, at a total commitment of about KD 716.8 mn or $ 2.436 bn to 17 Arab countries **[see Table 3.4.2]**. The least Arab developed countries, which are Djibouti, Somalia, Mauritania, South Yemen, North Yemen and Sudan, loans about 39 per cent of this total.

These loans went into financing 131 projects, costing a total of KD 3,640 mn, of which, 38 projects have been completed. In the area of joint Arab projects the Fund extended 47 loans totalling about KD 102.2 mn over the same period. Eighteen joint projects were financed in telecommunications, roads, water, manufacturing and natural resources sectors.

TABLE 3.4.2 : Summary of Arab Fund Loans Extended to Member Countries 1974-1985 (Millions of Kuwaiti Dinars)

Country	1	2	3	4	5	6	7
Jordan	14	53,650	7.5	48.650	91	28,082	58
Tunisia	15	58,470	8.1	44.470	76	23,990	54
Algeria	10	46,316	6.5	38.816	84	13.983	36
Sudan	13	69.643	9.7	69.643	100	30.997	45
Iraq	4	24.425	3.4	15.525	64	3.212	21
Syria	15	64.364	9.0	62.463	97	28.729	46
Egypt	8	67.900	9.5	67.900	100	35.142	52
N.Yemen	17	65.100	9.1	50.900	78	34.715	68
Lebanon	2	11.000	1.5	11.000	100	8.467	77
Morocco	13	79.344	11.1	64.344	81	42.386	66
S.Yemen	20	53.500	7.5	53.500	100	28.479	53
Bahrain	3	11.000	1.5	8.000	73	8.000	100
Somalia	12	39.449	5.5	37.949	96	23.281	61
Mauritania	13	42.800	6.0	39.400	92	21.709	55
Oman	5	16.483	2.3	16.483	100	12.566	76
Djibouti	6	10.400	1.4	10.400	100	4.601	44
Palestine	1	3.000	0.4	3.000	100	-	-
TOTAL	**171**	**716.843**	**100.0**	**642.443**		**348.339**	

1 Number of loans
2 Total amount
3 Percentage of total loans
4 Amount of effective loans
5 Percent of effective extended loans
6 Disbursements
7 % Disbursements to effective loans

In the early years most of the Fund's loans went to developing Arab infrastructures, which is where the major bottleneck to Arab economic development was seen to lie. In recent years, however, there was a shift to productive sectors such as agriculture. Of the total loans extended since 1974, 58.6 per cent were funneled into infrastructure with most of the remainder going to agriculture and animal resources and to industry and mining [39]. **Table 3.4.3** shows the sectoral distribution of Fund loans to beneficiary countries, 1974-1985.

TABLE 3.4.3 : Sectoral distribution of Arab Fund loans among beneficiary countries, 1974-1985. (KD mn)

Country	1	2	3	4	5	6	7	8	9
Low income Arab Arab countries	**86.0**	**19.9**	**53.6**	**34.3**	**57.4**	**23.5**	**6.2**	**280.9**	**39.**
Sudan	33.6	5.8	-	1.8	14.9	13.5	-	69.6	9.
North Yemen	11.5	1.4	21.7	18.9	11.0	-	0.6	65.1	9.
South Yemen	14.4	2.5	11.4	8.2	15.9	-	1.1	53.8	7.
Somalia	16.5	2.9	6.8	5.0	8.3	-	-	39.5	5.
Mauritania	8.5	3.3	10.7	0.4	5.4	10.0	4.5	42.8	6.
Djibouti	1.5	4.0	3.0	-	1.9	-	-	10.4	1.
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Other Arab Countries	**61.2**	**39.3**	**75.4**	**50.0**	**146.6**	**51.0**	**12.5**	**436.0**	**60.**
Jordan	9.0	6.0	16.9	2.8	13.5	5.0	0.5	53.7	7.
Tunisia	3.8	4.7	6.0	7.9	28.5	7.0	0.6	58.5	8.
Algeria	16.4	7.7	-	-	12.5	-	9.7	46.3	6.
Iraq	-	5.0	-	-	18.9	-	0.5	24.4	3.
Syria	15.0	3.7	19.0	20.0	2.0	4.1	0.6	64.4	9.
Lebanon	5.0	-	6.0	-	-	-	-	11.0	1.
Egypt **a**	12.0	-	12.0	18.0	-	25.9	-	67.9	9.
Morocco	-	3.2	-	1.3	65.2	9.0	0.6	79.3	11.
Bahrain	-	6.0	5.0	-	-	-	-	11.0	1.
Oman	-	3.0	10.5	-	3.0	-	-	16.5	2.
Palestine	-	-	-	-	3.0	-	-	3.0	0.
TOTAL	**147.2**	**59.2**	**129.0**	**84.3**	**204.0**	**74.5**	**18.7**	**716.9**	**10**
Percentage %	**20.5**	**8.3**	**18.0**	**11.8**	**28.4**	**10.4**	**2.6**	**100.0**	

1 = Transportation
2 = Telecommunications
3 = Energy (electricity, gas and gas)
4 = Water and sewerage
5 = Agriculture and irrigation
6 = Industry and mining
7 = Others
8 = Grand Total
9 = Percentage
a = Loans extended from 1974 to April 1979

Concerning the period 1984-86, in 1984 the Fund extended 26 loans amounting to KD 84.2 mn, or about $ 286 mn, to finance 19 projects in 14 Arab countries. The total cost of these projects, including the AFESD contribution, was estimated at about KD 474 mn. The least developed Arab countries, (LDAC), received 42 per cent of the share of these loans. All 26 loans constituted promotional TCDC. **[Table 3.4.4]**, inasmuch as they sought to develop the infrastructure, productive and human resource bases of the beneficiary countries or regions concerned. Besides the Fund and the relevant Arab government, the other institutions contributing to financing the projects were the International Development Agency, the UNDP, the International Bank for Reconstruction and Development, the Saudi Development Fund, the Agricultural and Rural Development Bank, the Syrian-Jordanian Company for Industry, and various European governments as well as the government of Japan.

In 1985, 15 loans totalling KD 90 mn ($ 306 mn) were extended to finance 15 projects in 13 Arab countries with a total cost of KD 727 mn. These are detailed below in **Table 3.4.5**. The LDAC's share of the Fund's loans was about 30 per cent. The major co-financing institutions which were involved were generally the same as for 1984, although there was greater involvement by the OPEC Development Fund, the Kuwait Fund for Arab Economic Development and the African Development Bank. Significantly, in some cases the communities of individuals who stood to benefit from the project also shared in the costs. [40]

TABLE 3.4.4 : Loans extended during 1984, (KD mn)

Country	Project	KD mn	Sector
Oman	Sohar-Buraimi Power Station	3.000	Electric
Djibouti	Animal Health Development	1.900	Agricult
S.Yemen	Wadi Hadramaut Agricultural Development	3.700	Agricult
N.Yemen	Geological & Water Mapping of N Yemen	1.200	Water
S.Yemen	Geological & Water Mapping of S.Yemen	1.200	Water
Morocco	Second Agricultural Credit	8.000	Agricult
Mauritania	Development Credit	2.000	Agricult
Sudan	Rehabilitation of Gezira Scheme	8.000	Agricult
Somalia	Expansion of Gezira Power Station	4.800	Electric
S.Yemen	Development of Health Institute	1.100	Services
Mauritania	Education, Health and Veterinary Services	4.500	Services
Algeria	Agricultural Credit	6.000	Agricult
Iraq	Fifth Pan-Arab Telecommunications Earth Satellite - Arab Sat	5.000	Telecomm
Bahrain	Submarine Gulf Cable Project	3.000	Telecomm
Somalia	Fisheries Development in the North	1.500	Agricult
Tunisia	Burj Tomi, Mater & Sajnan irrigation	6.000	Agricult
Jordan	Central Ghor Irrigation	6.000	Agricult
Syria	Maharda Power Station Extension	6.500	Electric
N.Yemen	Sana'a-Taiz road resurfacing	5.600	Transpor
Jordan	The mitigation of earthquake risks	0.450	Services
Tunisia	The mitigation of earthquake risks	0.575	Services
Iraq	The mitigation of earthquake risks	0.525	Services
Syria	The mitigation of earthquake risks	0.575	Services
N.Yemen	The mitigation of earthquake risks	0.600	Services
Morocco	The mitigation of earthquake risks	0.600	Services
Syria	Pesticides Arab Joint Venture	1.900	Industry
TOTAL		**KD 84.225 mn**	

TABLE 3.4.5 : Loans extended during 1985, (KD mn)

Country	Project	KD mn	Sector
Sudan	Rehabilitation of Gezira Scheme	4.400	Agricultu
Syria	Mehardeh Power Station Extension	4.500	Power
N.Yemen	Grain silos	8.000	Agricultu
Palestine	Wadi Fara'a Irrigation	3.000	Agricultu
Djibouti	Submarine Cable (SEA-ME-WE)	1.900	Telecomm.
S.Yemen	Wadi Hajar Agriculture	3.500	Agricultu
S.Yemen	Aden-Abyan Electrification Scheme	5.900	Power
Oman	Fisheries Development	3.000	Agricultu
Mauritania	Oases Development	3.400	Agricultu
Syria	Damascus Water Supply	3.000	Water
Jordan	Lower Zarqa River Supply	5.000	Agricultu
Tunisia	Integrated Rural Development	14.000	Agricultu
Algeria	Mina Irrigation	6.500	Agricultu
Morocco	Ait Ayoub Dam, Irrigation & Electricity	15.000	Agricultu
Iraq	Deep Freeze Store in Nenawa	8.900	Agricultu
TOTAL		**KD 90.000**	

In 1986 the 20 loans were extended by the Fund at a total cost of KD 81.9 mn or about $ 278.5 mn. These financed 20 Arab projects, which were predominantly in infrastructure and agriculture, and whose total cost has been estimated at KD 467 mn. The LDAC's share of the Fund's loans reached 46.8 per cent in 1986. Between 1974 and 1986 the Fund therefore provided 191 loans with a total value of about KD 800 mn which was allocated to 147 projects in 17 Arab countries whose overall cost exceeded KD 4.1 bn. **[41]**

b) Technical Assistance

The Fund's technical assistance is subdivided into two main categories - regional or inter-country technical assistance and country technical assistance. Between 1976 and 1981 there was also a third category, namely the assistance allocated within the framework of the Arab Fund/UNDP Joint Regional Programme. This programme, which totalled over 20 projects and amounted to KD 676,000 in commitments, represented a successful bid at translating the Fund's objectives of strengthening inter-Arab ties into action. By the end of 1985 the Fund's overall technical assistance had reached 141 projects with a total value of KD 10.03 mn, of which 105 were by country (KD 5.09 mn) and 36 were inter-country (KD 4.09 mn).

Appendix 6 of the Fund's 1985 Annual Report **[42]** details the kinds of activity, type and amount of support provided to beneficiary countries through this assistance. For the period 1984-85, 27 projects were financed, being 20 inter-country and seven country, amounting to approximately KD 2.69 mn ($ 9 mn), almost all such assistance, both present and past, falls under the "promotional TCDC" category.

In 1986, 27 technical assistance grants were extended by the Fund, valued at KD 3.27 mn ($11 mn), of which 16 were inter-country (KD 969,000) and 11 countries (KD 2.3 mn). In the latter case the beneficiary countries were Bahrain, Palestine, Sudan, Iraq, Morocco, North Yemen and Mauritania, whereas the assistance focused on studies and project preparation of the latter seven studies related to mining, infrastructure, water resources and manufacturing projects as well as providing institutional support and training while four grants were for census taking in Mauritania and institutional support in both North Yemen and Palestine.

This brings the total technical assistance provided by the Fund since its inception until 1986, **[43]** to 168 grants amounting to roughly KD 13.3 mn ($ 45 mn), of which 121 or 45.6 per cent were inter-country (KD 6.062 mn) and 47 or 54.4 per cent were country (KD 7.24 mn).

c) Conferences, Seminars and Studies

This aspect of Fund activities is also pertinent to promotional TCDC. As **Table 3.4.6** shows, a significant portion of the Fund's effort is devoted to research and co-sponsorship of general meetings and conferences with other Arab institutions.

TABLE 3.4.6

AFESD Technical Distribution by Activity 1974-85 (KD mn)

Regional Technical Assistance

Activity	Amount	%
Inter-Arab Project Studies	2.0740	41.9
Research	0.9820	19.8
Training and education	0.8620	17.4
Institutional support	0.6662	13.5
Conference and seminars	0.3638	7.4
Total	**4.9840**	**100.0**

Country Technical Assistance

Activity	Amount	%
Feasibility studies	3.1800	64.4
Institutional support	1.7600	35.6
Total	**4.9400**	**100.0**

In 1984 this effort was included:

1. Co-operation with the Arab Monetary Fund, General Secretariat of the Arab League and OAPEC to produce the fifth (1984) edition of the **Joint Arab Economic Report** - a technical periodical serving as a common data base and single source of information on Arab economies for the benefit of Arab ministers and other interested officials or institutions. **[44]**

2. Co-operation with the Council of Arab Economic Unity and Arab Organisation for Agricultural

Development to complete a general report on **Phases and Modalities of Co-ordination of Arab Agricultural Integration.**

3. Internal report on **The Status of Agriculture, Industry and Foreign Trade in the Syrian Arab Republic.**

4. At least six regional conferences and meetings.

In 1985 this aspect of the Fund's promotional TCDC was manifest in:

1. Production of the sixth (1985) edition of the **Joint Arab Economic Report.**

2. Internal reports and studies on Arab development financing, Arab economic self-reliance, investment in the Arab energy sector, inter-Arab trade exchange and the use of computers in education.

3. Six regional conferences and meetings.

More detailed information regarding these conferences can be obtained from the respective annual reports of the Fund.

d) Co-operation and Co-ordination with Arab and International Organisations

This aspect of the Fund's operations is also closely connected with promotional TCDC. The functions involved here are threefold; the Fund's role as Secretariat of the Coordination Group of the Arab National and Regional Development Institutions; the administration of the International Fund for Agricultural Development (IFAD) operations in Arab countries, and traditional direct and indirect co-operation with Arab and international organisations involved in TCDC.

Regarding the Fund's role as Coordination Secretariat, several high level meetings are held each year to discuss such key topics as lending policies, project selection, regional development patterns, avenues for Arab aid, joint financing, and the exchange of information. Four such meetings were held in 1984 and seven in 1985.

Concerning IFAD's operations, the Fund was entrusted with the task of administering its loans to Arab countries as of 1980, in accordance with a Co-operation Agreement approved by the Board of Governors. Eight such loans had been administered by the end of 1985.

Co-operation and coordination efforts of this kind are a fundamental element of Arab Fund activities. In addition to the many institutions already mentioned, the Fund co-operates with the General Secretariat of the Arab League especially its Food Security Working Group, the Arab Industrial Development Organisation (ALECSO), the Arab Thought Forum, UNESCO, the UNDP, the Organisation for Economic Co-operation and Development, the Commission of the European Communities, and the African Development Bank.

Finally, the Fund also participates regularly in regional and international conferences that discuss matters associated with TCDC. Fourteen such conferences were attended, in 1984 and sixteen in 1985.

3. Progress in Achieving TCDC

As lending operations have increased in gross value over the past years, the relative decline in 1986 being due more to it being a transition year for national development plans than to setting any new trend, and as technical assistance has also been increasing in gross value, the Fund's contribution to TCDC has clearly been growing in a dynamic and favourable way. At the same time, the Fund's sensitivity to Arab economic needs and aspirations, as manifest in its Charter, Board of Governors and Management decisions and policies, and lending and assistance criteria, are additional indicators of its key role in TCDC efforts, both operational and promotional.

Beyond these facts and trends, however, it is very difficult to precisely evaluate the Fund's contributions. Despite its age, the Arab Fund has not been in operation for a sufficiently long time to enable us to gauge results with absolute confidence. Nevertheless, there is no doubt that the Fund has contributed much toward TCDC in the Arab world, as verified by the slow but steady growth in its activities and allocations. A more detailed examination of aid impact must await completion of more projects than have been completed thus far, as well as high level decisions to examine the local, national or regional impact of Fund activities, especially in the two main areas of infrastructure and agriculture.

TABLE 3.5 : COMPARATIVE SUMMARY OF THE FOUR FUND'S MAJOR ISSUES

1. Term and Conditions

Kuwait Fund for Arab Economic Development (KFAED)	Abu Dhabi Fund for Arab Economic Development (ADFAED)	Saudi Fund for Development (SFD)	Arab Fund for Economic and Social Development (AFESD)
Interest rate: 0.5-7% Repayment period: 10-50 years Grace Period: Under a year - 10 years Guarantee by the government of the recipient country is required. The fund does not participate in equity financing. It may not finance by means of a loan more than 50% of the total costs of any project or programme.	Repayment periods are likely to be over 10-15 years at interest rates ranging from 3.5%-5.5%. The Fund may require guarantees by any co-financing international or regional organisation. Participation in any project may not exceed 10% of the fund's capital and may not exceed 50% of the total cost of the supported project.	Repayment periods range between 15-25 years. Grace period between 3-5 years. Interest rates usually between 2-4%. The fund provides its assistance only to governments for projects in the public sector. The amount of lending to any one country should not exceed more than 10% of the authorised capital, and lending to any project should not exceed 5% of the authorised capital. In addition, the fund provides no more than 50% of the total costs of a project. It does not guarantee loans by other Saudi institutions although equity participation is possible. The fund does not make technical assistance grants.	Repayment periods 15-25 years. Interest rate 4% for least developed countries and 6% for other Arab countries. Grace period 4-6 years. The fund requires the recipient governments guarantee for all loans and special guarantees for projects in the private sector. It may modify the terms of the loan contract at the borrower's request without prejudice to its interest or that of other members.

2. Approaches and Techniques Applied

Kuwait Fund for Arab Economic Development (KFAED)	Abu Dhabi Fund for Arab Economic Development (ADFAED)	Saudi Fund for Development (SFD)	Arab Fund for Economic and Social Development (AFESD)
Based upon the preference that the fund waits for governments to submit projects rather than acting as a catalyst. The fund's appraisal procedures are flexible as its appraisal mission has the authority to negotiate all the issues. If, during negotiations, a borrower indicates that the interest rate is too high, the fund might agree to lower the rate provided the maturity is shortened.	The fund selects development projects from those presented to it officially, either by delegations visiting the fund, or missions from the fund visiting countries. The fund carries out technical appraisal studies on three levels: macro (national), sectoral, and micro (project). The fund also benefits from feasibility studies done by well-sounded consultants as guidlines but carries out parallel studies based upon consultations in developing countries and field missions. The fund is giving the economic criterion more emphasis.	Projects, usually submitted by host governments, should have high economic or social priority. The fund is adopting a co-ordination policy with other experienced aid institutions and is willing to co-finance projects recommended to it by them.	Member countries submit loan requests to the fund which, according to the inter-secoral priorities within a country identified by the Programme Department, studies the request with the Project Department and submits a country programme paper. An appraisal mission is sent to appraise the project in the field, submitting the result to the management of the fund. The fund applies its own appraisal of projects on the basis of pre-investments study in the form of appraisal reports. Projects should be technically sound and economically viable for the country, and must be able to stand on their own feet financially. The fund attaches great importance to the country approach in project appraisal.

3. Strategy for Financing and Technical Assistance

Kuwait Fund for Arab Economic Development (KFAED)	Abu Dhabi Fund for Arab Economic Development (ADFAED)	Saudi Fund for Development (SFD)	Arab Fund for Economic and Social Development (AFESD)
The fund does not follow a medium- or long-term strategy for financing and technical assistance. However, it is following a one-year programme to finance approximately 20-25 projects amounting to KD 80-100m.	The fund makes no distinction between developing countries in the provision of financial assistance. Special commitments towards developing countries most seriously affected by crisis or towards least developed countries are felt to be the responsibility of both the government and the Fund.	The fund does not follow a medium- or long-term strategy regarding the amount of aid disbursed in the following 3-5 years, nor does it provide technical assistance. Its policy is mainly based upon year-to-year operations and balanced amounts of of loans to be provided to Asian and African countries.	The fund adopts a regional integration approach for inter-Arab and regional project identification and promotion. A key principle of the fund's strategy is to channel its resources, wherever possible, into the least developed countries of the Arab members.

4. Problems of Implementation and Remarks from field Experience

Kuwait Fund for Arab Economic Development (KFAED)	Abu Dhabi Fund for Arab Economic Development (ADFAED)	Saudi Fund for Development (SFD)	Arab Fund for Economic and Social Development (AFESD)
Problems are mainly related to delays in ratification, appointments of consultants, issue of tenders, and analysis of bids. Morover, there are problems related to submission of withdrawal application and progress reports.	Problems of implementaion of projects are most likely the same problems as in the case of KFAED. The fund's field experience with developing countries is mainly related to problems of project selection and appraisal, of priority areas, of implementation and decision-making, and of a need for an effective machinery for project implementation.	Similar problem of implementation as for in KFAED and ADFAED. These are particular problems related to the selection of foreign consultants and their preference, and to agreements between host governments and contractors. The fund considers most contractors' agreements between Third World countries and European contractors unfair in that advantage is taken of the postition of the developing countries.	The fund shares with other Arab/OPEC funds the common problems of implementation. As a co-ordinator among other Arab funds, it has a difficult task, especially with relation to the procedure for the withdrawal of loans and procedures for implementation.

3.6 Recommendations

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Since 1974 KFAED has extended its mandate to provide foreign assistance to all developing countries in the world. Problems of implementation from the fund's own experience are mainly related to delays in ratification, appointments of consultants, issue of tenders, analysis of bids, submission of withdrawal applications, and progress reports.

The AFAED fund's problems of implementation of projects are probably the same as in the case of the Kuwait Fund. Moreover, ADFAED's field experience with developing countries is mainly related to problems of priority areas, implementation and decision-making. I therefore recommend the creation of effective machinery for joint project implementation and follow-up between all Gulf funds.

SFD's particular problems are related to the selection of foreign consultants and their preference, agreements between host governments and contractors. The fund also believes that contractors are considered to be unfair as they take advantage of the position of the developing countries. As SFD does not follow a strategy for financing or provide technical assistance, and as its activities are related mainly to the transportation sector, it is recommended that if the fund were to follow a programme of lending for this sector as a key sector for development with its good impact upon foreign trade among least developed countries, it could, then gain great experience in feasibility studies of projects related to this sector, playing a leading role, and hence providing technical assistance in this field.

AFESD shares with other Arab funds the common problems of implementation, however, as a co-ordinator among other Arab funds, it has a difficult task, especially with relation to the procedure for the withdrawal of loans and procedures for implementation. The performance of AFESD revealed that it has a still larger role to play in fostering Arab regional projects in different sectors and in different Arab countries, as well as in Arab joint co-ordination policies, foreign aid policies and financial policies. It should become more active in playing a pioneer role for suggesting an Arab aid development strategy and in establishing an Arab machinery for follow-up and implementation of development financing. In addition, the fund has not yet proved to be active in the field of Arab social development, an important area that will be of great importance in the years to come.

3.7 Conclusions

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This chapter has outlined the organisation and activities of four of the Arabian Gulf's development funds. Besides detailing the objectives which are included in their constitutions, the division of responsibilities between the various departments were examined. Although it may appear that the three funds are very similar, the chapter showed that there are some major operational differences between them.

The Kuwait Fund for Arab Economic Development, (KFAED), which was formed in 1961, was the first Arab development fund and became the model for many of the others. Since the first oil price explosion in the early 1970's, when there was a substantial increase in the level of aid, there has been a gradual geographical spread in the countries assisted by the KFAED.

Between 1962-84 the Fund provided 50.3 per cent of its loans to Arab countries, 29.9 per cent to Asian countries, 19.0 per cent to non-Arab nations in Africa, and 0.8 per cent to other countries. During this period a total of KD 1,266.8 mn was used to help fund 271 projects, of which 138 were in Arab nations. Of these 30.7 per cent went on the transport and communications sector with electricity (24.4 per cent) agriculture (21.0 per cent) and industry (18.8 per cent) being the other principal recipients.

Besides bilateral loans the KFAED has also provided KD 152 mn to Arab bilateral funds, of which KD 127.3 mn went to the Arab fund for Economic and Social Development, (AFESD), **[45]**. Its terms and conditions for each loan vary from country to country and project to project. In 1983-84 the grant element ranged from 25.8 per cent to 67.0 per cent, the maturity period from 14.4-34.0 years and the grace period from 2.4-5.4 years. The interest rates on these loans varied from 1.5 per cent - 5.0 per cent including the loan service charges, **[41]**.

The KFAED is the most experienced and, in many ways, the most professional of all the Arab development funds. It has a skilled and dedicated staff who, although working within political constraints, appear to have acted in an unbiased and relatively apolitical way. While still concentrating on fellow Arab and Islamic countries, it has also assisted such ideological "enemies" as Afghanistan, Angola, Mozambique and Vietnam. In order of magnitude, however, its largest recipients have been "moderate" Arab states such as Tunisia, Jordan, Egypt and Sudan. Although other funds, most notably the Islamic Development Bank and the Saudi Fund for Development, are beginning to catch up the KFAED remains the largest of the Arab development funds.

The chapter has shown that the Abu Dhabi Fund for Arab Economic Development, (ADFAED), has been far more modest than the Kuwait Fund. From its inception in 1974 to the end of 1986 this second oldest Arab fund disbursed 3455 millions of U.A.E. Dirhams to 88 projects in 42 countries, **[47]**. It has tended to concentrate its loans to extractive and manufacturing industries which received 45.35 per cent of its total loans and secondly on water and electricity which received 22.37 per cent.

Arab countries have received 74.95 per cent of the total, with neighbouring Oman taking more than a quarter of this. The non-Arab countries of Africa received almost exactly half of what Oman received and Asia only 12.20 per cent. The lion's share of the loans to Asia, went to two fellow Muslim countries, Bangladesh and Pakistan, **[48]**.

It has been seen that the AFAED is a smaller and less experienced fund than the KFAED. The statistics show that politics played an important role in determining which countries and projects receive assistance. The largest recipients have been "moderate" Middle East and North African countries while fellow Islamic countries have dominated loans to Asia. Furthermore the fund has concentrated on major industrial projects, particularly in the oil, phosphate and electric sectors, rather than rural development projects.

The Saudi Fund for Development, (SFD), lies somewhere between the KFAED and ADFAED. It is not yet as experienced, large and geographically diverse as the Kuwait Fund, but is more so than the Abu Dhabi Fund. The section dealing with the SFD showed that it has increased its scale and diversity of operations. Sub-Saharan Africa accounted for the 157 of the 263 projects supported by the SFD. The emphasis has been on transport, communications and energy. Co-financing has also been a major plank of the SFD's lending policy, with 61.2 per cent of the projects and 65.56 per cent of its money being committed to co-financed ventures, **[49]**.

It has been shown that the three funds have played an important role in developing the economies of poor African and Asian countries. Although they have expanded the geographical scale of operations all three have concentrated on the Middle East and North Africa.

The Kuwait Fund in particular has extended its operations to include distant countries with diverse political systems. Despite the current fall in oil revenues it is to be hoped that the three funds as well as other Arab development funds will continue to shoulder their burden of responsibility to those less fortunate countries which have suffered in the past from substantial oil price increases.

Footnotes
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01. State of Kuwait, **Law No.25**, Kuwait, 1974

02. **ibid**

03. State of Kuwait, **Order of the Prime Minister, establishing the Kuwait Fund for Arab Economic Development**, Kuwait, March 22, 1981.

04. **ibid**

05. **ibid**

06. **ibid**, Article 14

07. **ibid**, Article 15 & 16

08. **ibid**, Article 17

09. **ibid**, Article 18 & 19

10. State of Kuwait, Law No.25, **op cit.**

11. State of Kuwait, Order of the Prime Minister, **op cit**, Article 18

12. **ibid**, Article 25

13. M.K.Khouja & P.G.Sadler, **The Economy of Kuwait development and its role in international finance,** Macmillan Press Ltd, 1979, pp. 227-239.

14. Al Hamad Abdlatif, **The Kuwait Fund for Arab Economic Development,** Petroleum & Arab Economic Development Review, 1979, pp.208-213.

15. **ibid**, pp.213-217

16. Kuwait Fund for Arab Economic Development, **23rd Annual Report 1984/1985**, Kuwait, p.50

17. **ibid**, p.50

18. **ibid**, p.52-57

19. **ibid**, p.52-57

20. Abu Dhabi Fund for Arab Economic Development, **Articles of Association**, 1971, Article 3, Law No.3.

21. Abu Dhabi Fund for Arab Economic Development, **Internal Regulations**, 1971, Article 3.

22. **ibid**

23. Abu Dhabi Fund for Arab Economic Development, **Annual Report 1982**, Abu Dhabi, p.14.

24. Abu Dhabi Fund for Arab Economic Development, Internal Regulations **op cit**, Article 10.

25. Abu Dhabi Fund for Arab Economic Development, **Annual Report 1985 & 1986**, p.44

26. **ibid**, p.85

27. **ibid**, p.45

28. **ibid**, p.92

29. **SFD Annual Report 1984 - 1985**, p.3

30. **ibid**

31. **ibid**

32. **ibid.**, p.24

33. **op. cit.**

34. **ibid.**, p.24

35. AFESD, **Agreement Establishing the Arab Fund for Economic and Social Development**, (Beirut: Elia Zakka, n.d.), p.10

36. AFESD, **Annual Report - 1985**, p.5

37. AFESD, Article 19 of Agreement, **op. cit.**, p.20

38. **ibid**, p.17

39. AFESD, **Annual Report**, p.18

40. AFESD, **Annual Report - 1985**, p.13

41. **ibid**, p.16

42. **ibid**, pp. 78 - 79

43. See pp. 78-87 of **Annual Report - 1985**

44. AFESD, preliminary report, **op. cit**

45. KFAED, **22nd Annual Report, op. cit.**, p.56

46. **ibid**, p.49

47. ADFAED, **Annual Report 1985 & 1986**, p.92

48. ADFAED, **Annual Report 1985 & 1986** Abu Dhabi, p.45

49. SFD, **Annual Report 1984 - 1985**

CHAPTER FOUR
****

AN EVALUATION OF THE ROLE OF ARAB DEVELOPMENT FUNDS
****

4.1 Introduction
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Development finance has always been important to all countries whether they are rich and industrialised or poor and developing. Its importance has grown as the world has become an interlocking system of interdependent nations. For the least developed countries in particular it is crucial because of its role in providing the capital needed to conquer the evils of poverty, hunger, illiteracy and disease. It also has a role in furthering the structural changes which are needed to make these countries more self-sufficient and to start them on the road to self-sustaining growth.

Since the early 1960's Arab economists and bankers have joined in the Third World's attempts to establish a new international economic order. They have begun to introduce changes in the mechanisms and the institutions of development finance that will help give the developing countries greater responsibility for decision-making as well as control and management of the existing international finance and monetary institutions. The intended changes are designed to affect not only the volume and kinds of finance but also the relationship between lenders and borrowers.

Since the Marshall Plan, under which the USA helped in the post-war reconstruction of Western Europe, aid has been a cornerstone of development finance. It has, however, created an unequal relationship with the industrial nations not only giving aid but also dictating their terms to the recipient poor countries which have little or no say in shaping the international economic order. This relationship was partly changed by the appearance in the developing countries of the South of major new donors and financiers, chiefly from among the Arab oil countries. This new South-South aid alignment helped spur a call for a new type of relationship, not yet defined, between North and South and also affected North-North relations, **[01]**.

This chapter analyses the role of the Arab development funds in international development assistance. It examines the proposition that they represent a major change in the relationship between the North and South.

Their record during the past twenty-five years is scrutinized and is compared with the other donors. This is done in terms of both the total volume and per capita level of aid, as well as its geographical and sectoral distribution. The terms and conditions attached to the aid are included.

4.2 History & Development

Soon after Kuwait achieved independence 25 years ago it established the Kuwait Fund for Arab Economic Development. It was the first of its type.

> "The establishment of the Kuwait Fund and the expansion in both its resources and activities signify the pioneering initiative taken by the State of Kuwait - a developing country itself - to promote economic solidarity in the Arab region and among the developing countries at large. Such an initiative to establish the Fund long before the oil era is only an example of the "collective self-reliance" that Third World nations need to pursue in order to strengthen their co-operation and inter-dependence and to reduce their economic dependence on the developed world". **[02]**.

A decade after the establishment of the KFAED several other Arab national and multinational development finance institutions were inaugurated. The national ones included : the Abu Dhabi Fund for Arab Economic Development (ADFAED) (1971), the Iraqi Fund for External Development (1974), and the Saudi Fund for Development (SDF) (1974). The multinational ones included: the Arab Fund for Economic and Social Development (AFESD) (1971), the Arab Bank for Economic Development in Africa (BADEA) (1973), the Islamic Development Bank (1975), and the Opec Fund for International Development (1976).

There are also several other national and multinational Arab organizations, funds and programmes which are smaller in terms of their capital and operations. They are not included in this study which is limited to the eight Arab aid institutions which are members of the Arab Coordination Group. Data about their activities and operations is compiled by the Coordination Secretariat at the Arab Fund for Economic and Social Development (AFESD).

The authorized capital of the eight institutions included in **Table 4.1** reached the equivalent of $25,900 mn at the end of 1982. Table 4.1 shows the authorized capital and the paid-up capital of the eight

TABLE 4.1 ARAB AID INSTITUTIONS
(Amounts in million US$ equivalent)

Institution	Establishment	Purpose	Authorized	Paid-up	Reserves	Paid-up Capital
1. Kuwait Fund for Arab Economic Development	31.12.1961	To assist Arab and other developing countries in developing their economies, inter alia, by providing them with such loans as may be necessary to facilitate the implementation of their development programmes.	7000.00	2733.00	1171.00	3804.00
2. Abu Dhabi Fund for Arab Economic Development	15.07.1971	To provide assistance to Arab, African and Asian countries for the development of their economies, through financial contributions and loans for the necessary capital investment in development projects and through providing technical advice and assistance for the carrying out of field studies.	1089.03	580.46	112.62	693.08
3. Arab Fund for Economic and Social Development	18.12.1971	To participate in the financing of economic and social development projects in the Arab states by means of loans granted on easy terms.	2760.00	1291.00	389.00	1680.00
4. Arab Bank for Economic Development in Africa	28.11.1973	To contribute to the economic development of non-Arab African countries and to strengthen the ties of friendship and solidarity between the Arab and African communities.	738.25	735.48	208.52	944.00

TABLE 4.1 ARAB AID INSTITUTIONS continued
(Amounts in million US$ equivalent)

Institution	Establishment	Purpose	Authorized	Paid-up	Reserves	Paid-up Capital
5. Iraqi Fund for External Development	06.06.1974	To participate in financing part of economic plans by implementing, expanding and developing projects in Arab States and developing countries.	924.00	610.00	6.00	616.00
6. Saudi Fund for Development	01.09.1974	To participate in the financing of development projects in developing countries through granting of loans to said countries.	7288.63	4810.00	1462.40	6272.40
7. Islamic Development Bank	20.10.1975	To foster economic development and social progress of member countries and Muslim coummunities individually as well as jointly in accordance with the principal of the Shari'ah.	2146.00	1072.00	223.53	1295.53
8. The OPEC Fund for International Development	28.01.1976	To reinforce financial cooperation between OPEC Member Countries and other developing countries by providing financial support to assist the latter countries on appropriate terms in their economic and social development efforts.	4000.00	1929.00	145.00	2074.00

Source: Based on basic indicators for each institution contained in the Statment of Financing Operations of Arab National and Regional Development Institutions, Coordination Secretariat of Arab national and Regional Development Institutions, Arab Fund for Economic and Social Development, December 31, 1982.

institutions at the end of 1985. At the same time their combined paid-up capital and reserves stood at about $17,500 mn, **[03]**. Two of these institutions, the Islamic Development Bank and the Opec Fund for International Development are included among the Arab aid institutions because they receive significant financial contributions from Arab countries.

4.3 Aid Philosophy

The Deputy Director General of the KFAED has described the Arab aid fund philosophy in the following terms:

> "The basic tenets behind aid-giving in the Arab world differ substantially from the aid motivations of the industrialized countries. Humanitarian considerations, moral, ethical, and religious factors, as well as a sense of belonging to the Third World constitute the essential elements of Arab aid initiatives and efforts. Apart from certain humanitarian aspects, aid from the industrialized nations, however, is motivated by a sense of obligation to former colonies, an interest in deriving commercial benefits by the creation and expansion of markets for their own products,

and facilitating access to the raw materials in the recipient countries, as well as the furtherance of political and strategic interests." [04].

This could be construed as a rather subjective view. Nevertheless there is no doubt that the first oil price explosion in 1973-74 gave the Arab oil-exporting countries the financial means to demonstrate their deep interest in strengthening solidarity with Third World countries and promoting the objective of "collective self-reliance" through development assistance. Thus, the oil surpluses have been the enabling factor, and not the "raison-d'etre" for Arab aid efforts.

It is very important, however, that the so called wealth of the Arab oil-exporting countries should not be confused with that of the industrial nations. Some Arab-oil exporting countries were able to accumulate large foreign exchange surpluses by depleting their oil reserves but none of them has so far acquired economic strength, or even realized the long sought target of a well diversified economy. Indeed it can be clearly demonstrated that oil wealth has harmed the region's agricultural and traditional sectors. The Opec countries have become more, rather than less dependent upon their oil sector, which has become progressively more dominant and crucial. Despite this they have made impressive efforts and achieved some progress in certain aspects of their social and economic development. The challenges they now face are infinitely greater than they were a few years ago because the major fluctuations in world crude oil prices have hit their development budgets.

Despite these problems, the Arab-oil exporting countries have recognized the importance and advantages of aid. Although aid levels are now being forced down the Arab funds still appear willing to support the development efforts of other nations. According to Al-Humaidhi, a primary consideration underlying Arab assistance is,

> "the concept of belonging to the developing countries in which both donors and recipients are of the same community of nations with similar economic interests, aspirations, and aims." **[05]**.

4.4 The Aid Record
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The three main groups of donors who transfer concessional resources to Third World countries are the West's Development Assistance Committee (DAC) of the

Organization for Economic Co-operation and Development (OECD), the Organization of Petroleum Exporting Countries (Opec), and the Soviet bloc's council for Mutual Economic Assistance (CMEA). Only ten of the thirteen members of Opec are participants in that organization's aid efforts, of whom seven are from the Arab World including five Arab Gulf countries, **[06]**.

In introducing and evaluating the aid efforts of the Arab Gulf states, this chapter considers the donors efforts in both absolute and relative terms. Governments and institutions of the Gulf countries provide development assistance. This review examines the overall magnitude of the resources transferred, but pays particular attention to the institutions.

Immediately after the oil price adjustment in 1973-74 aid from the Opec group accelerated rapidly. It grew 17-fold from $398 mn in 1970 to $6,800 mn in 1982. Total Opec aid between 1970 and 1983 was almost $68,000 mn The Arab Gulf states provided 91.26 per cent of this, **[07]**. Arab Funds Concessional flows to Developing Countries and Multilateral Institutions are shown in **Table 4.2** for the period 1978 - 1984.

TABLE 4.2 : ARAB FUND CONCESSIONAL FLOWS TO DEVELOPING COUNTRIES AND MULTILATERAL INSTITUTIONS (IN MILLIONS OF US.$)

	ADFAED	KFAED	SFD	AFESD
Commitments				
1978	44.6	169.5	529.9	1.4
1979	47.1	356.4	453.3	70.6
1980	96.4	260.0	331.9	77.1
1981	75.8	741.1	301.0	111.1
1982	65.9	632.5	611.8	172.9
1983	20.1	361.3	375.5	189.2
1984	29.0	258.4	352.6	187.4
Net Disbursements				
1978	61.8	182.6	199.6	174.6
1979	46.6	194.6	302.9	103.3
1980	54.9	279.4	308.3	75.3
1981	65.6	225.6	318.1	89.3
1982	57.4	260.0	263.3	52.6
1983	46.5	214.9	225.0	56.1
1984	13.6	265.7	138.3	35.9
Balance	32.3	1126.8	1200.1	222.5

Source : United Nations Conference of Trade and Development - 1986 Supplement - United Nations 1986 - From Tables 8 to Table 50

As it can be seen **Table 4.3** shows disbursements by individual Gulf donors in some selected years. The comparative volume of major donor groups is shown in **Table 4.4**, **[08]**. On the basis of figures in **Table 4.3** and **Table 4.4** , **[09]**, the volume of aid given by the Gulf countries can be seen in **Table 4.5** as a percentage of the aid volume relating to each major donor group.

TABLE 4.3 : OPEC AID THROUGH NATIONAL & NATIONAL MULTI- LATERAL INSTITUTIONS : TOTAL CONCESSIONAL COMMITMENTS & THE GRANT ELEMENT OF COMMITMENTS 1977-1983

	1977	1978	1979	1980	1981	1982	1983
Total concessional commitments $ mn							
Multilateral agencies	644	245	351	434	593	640	525
National agencies **a**	1270	773	858	671	1118	1345	757
Grant Element of Aid %							
Multilateral agencies	**50.0**	**54.2**	**51.7**	**46.5**	**52.9**	**51.9**	**42.3**
AFESD	34.7	100	35.3	34.4	36.3	33.4	35.1
BADEA	41.4	53.4	35.3	36.1	33.5	32.0	31.5
IsDB	52.8	49.7	53.1	53.7	53.7	64.1	48.9
OPEC Fund	68.2	55.0	57.5	51.8	57.9	61.0	52.5
National agencies	**46.5**	**47.0**	**48.3**	**46.7**	**49.6**	**54.4**	**47.3**
ADFAED	39.2	39.3	37.8	41.3	42.0	41.3	34.3
KFAED	44.1	45.7	47.7	45.8	49.8	54.1	45.6
SFD	48.8	48.1	50.0	48.9	51.1	56.3	49.6

Source : UNCTAD Secretariat **a** - Excluding IFED

TABLE 4.4 : OFFICIAL DEVELOPMENT AID : TOP TEN DONORS

Net disbursements as a percentage of GNP 1984	
Kuwait	3.81 %
Saudi Arabia	3.29 %
Netherlands	1.02 %
Norway	0.99 %
Denmark	0.85 %
Sweden	0.80 %
Belgium	0.56 %
France	0.52 %
Canada	0.50 %
West Germany	0.45 %

Average for OPEC countries - 0.86 %
Average for OECD countries - 0.36 %
Average for CMEA countries - 0.16 %

Source : OECD Financial Resources of Developing Countries, OECD, Paris, June 1985

Table 4.5 : THE WORLD'S MAJOR AID DONORS IN 1982 & 1983

Net concessional disbursements to developing countries and multilateral institutions. ($ mn)

1982		1983	
United States	7,412	United States	6,699
Saudi Arabia	4,445	Saudi Arabia	4,361
Japan	3,033	Japan	3,761
West Germany	3,023	West Germany	3,101
France **a**	2,616	France **a**	2,498
United Kingdom	1,805	United Kingdom	1,609
Netherlands	1,470	Canada	1,429
Kuwait	1,230	Netherlands	1,194
Canada	1,197	Kuwait	1,052
Sweden	986	Italy	826

Official Development Assistance / GNP Ratio (%)

1982		1983	
Kuwait	4.02	Kuwait	3.59
U.A.E.	3.22	Saudi Arabia	3.40
Qatar	2.84	U.A.E.	1.62
Saudi Arabia	2.80	Norway	1.05
Netherlands	1.08	Netherlands	0.91
Sweden	1.02	Sweden	0.85
Norway	0.98	Qatar	0.76
Denmark	0.76	Denmark	0.73
Belgium	0.59	Belgium	0.59
Australia	0.56	Australia	0.49

Source : UNCTAD Secretariat and OECD, **Geographical Distribution of Financial Flows to Developing Countries 1980/83**, (Paris 1984); **Development Co-operation 1984 Review**, (Paris 1984).

a Excluding French aid to overseas departments and territories.

The figures in **Table 4.5** illustrate the striking performance of the Gulf countries. On average, their aid is equivalent to nearly 33 per cent of DAC's, over 90 per cent of Opec's, and something like 350% of CMEA's. A comparison such as this in absolute terms ignores the underlying structural differences between Opec donors and the other major donor groups, but it does show the extremely laudable role of the Gulf donors, in official development aid (ODA).

Their performance appears even more impressive if aid figures are related to GNP. As a group the Gulf countries provided aid equal to 7.3 per cent of their combined GNP in 1975, 4.13 per cent in 1980 and 2.34 per cent in 1983. In the case of certain individual Gulf donors the ODA/GNP ratio far exceeded the group's average. As **Table 4.6** shows, Qatar and the U.A.E. gave 14.17 per cent and 10.38 per cent respectively in 1975. Kuwait gave 6.91 per cent and Saudi Arabia gave 7.60 per cent in the same years. This was the highest percentage on GNP. When we reach the year of 1986, it was the lowest Aid as a percentage of GNP (except of Saudi Arabia). It shows; Qatar gave 0.08, U.A.E. gave 0.34, Kuwait gave 2.99 and Saudi Arabia gave 4.52.

TABLE 4.6

CONCESSIONAL ASSISTANCE BY ARAB GULF COUNTRIES 1970 - 1986
(Net Disbursements as Percentage of GNP)

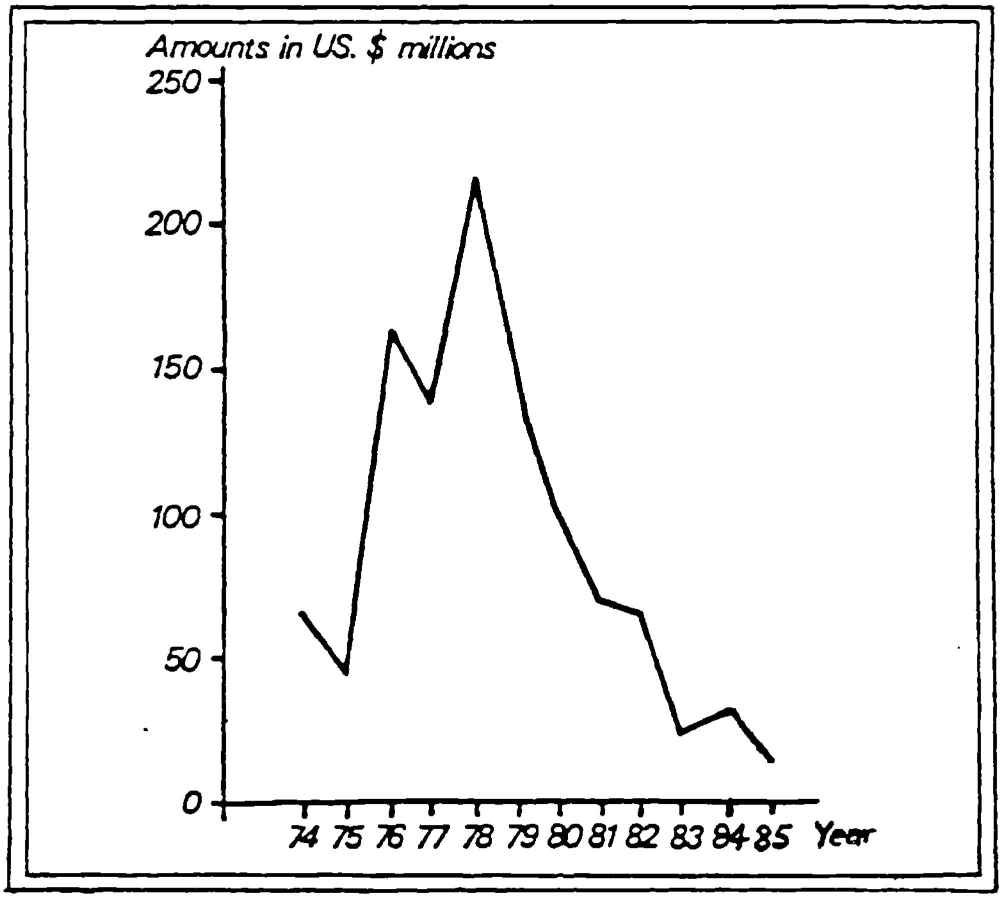
	1970	1975	1980	1981	1982	1983	1984	1985	1986p*
Kuwait	6.19	6.91	3.52	3.65	4.34	3.69	3.83	3.25	2.99
Qatar	-	14.17	4.16	3.50	2.22	0.40	0.18	0.18	0.08
Saudi Arabia	5.57	7.60	4.87	3.45	2.50	2.82	3.10	2.85	4.52
United Arab Emrates	0.00	10.38	4.06	2.57	1.39	1.31	0.34	0.29	0.34
Sub - Total	5.15	8.10	4.48	3.36	2.57	2.65	2.67	2.40	3.41
Total OPEC with Other Gulf Members	0.79	2.86	1.84	1.46	0.99	0.86	0.82	0.65	0.95

*p = Provisional

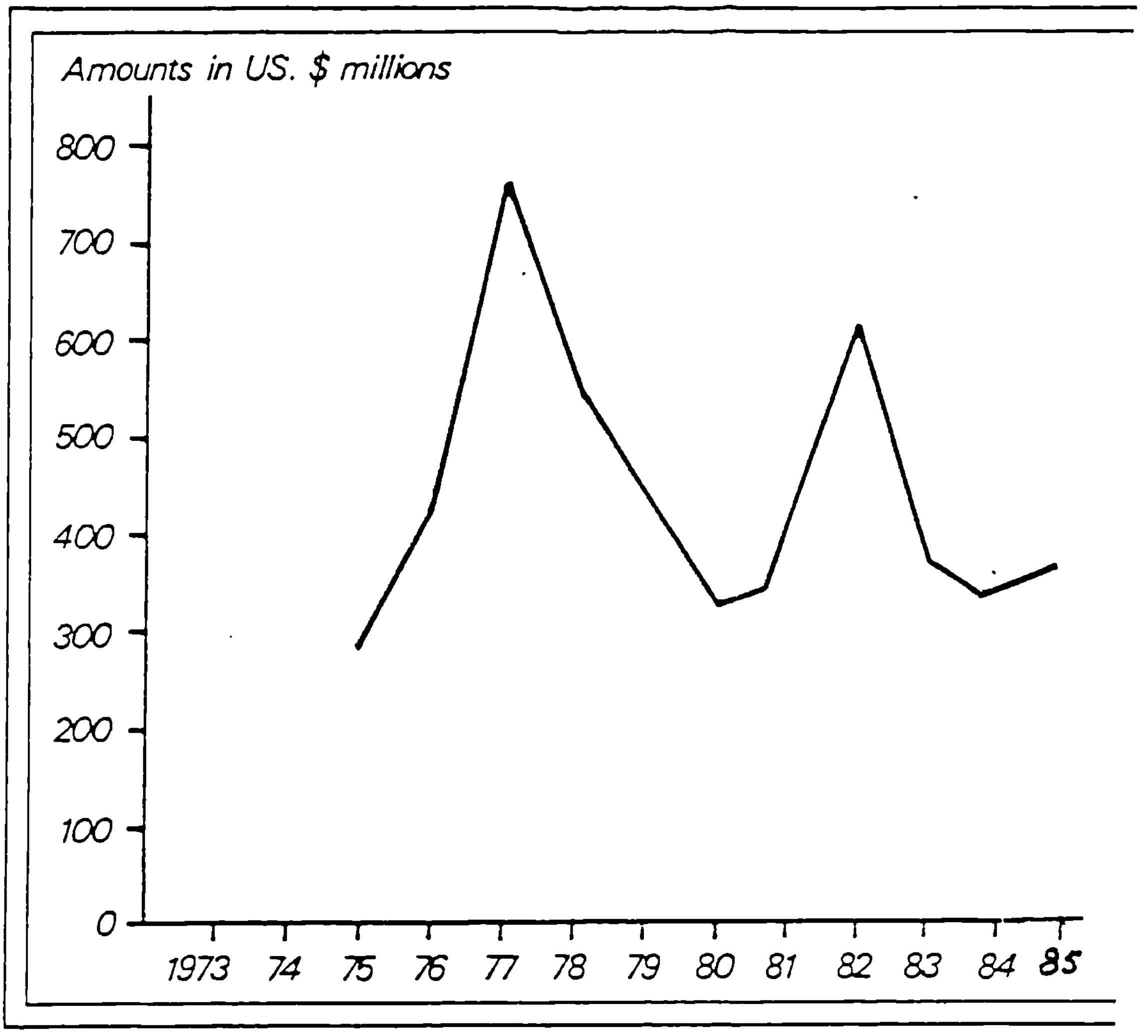
Source: OECD, Development Cooperation, 1986 review. Page 230.

Graph 1. Ku ait Fund for Arab Econo...ic Development (KFAED).
Financing Operations.

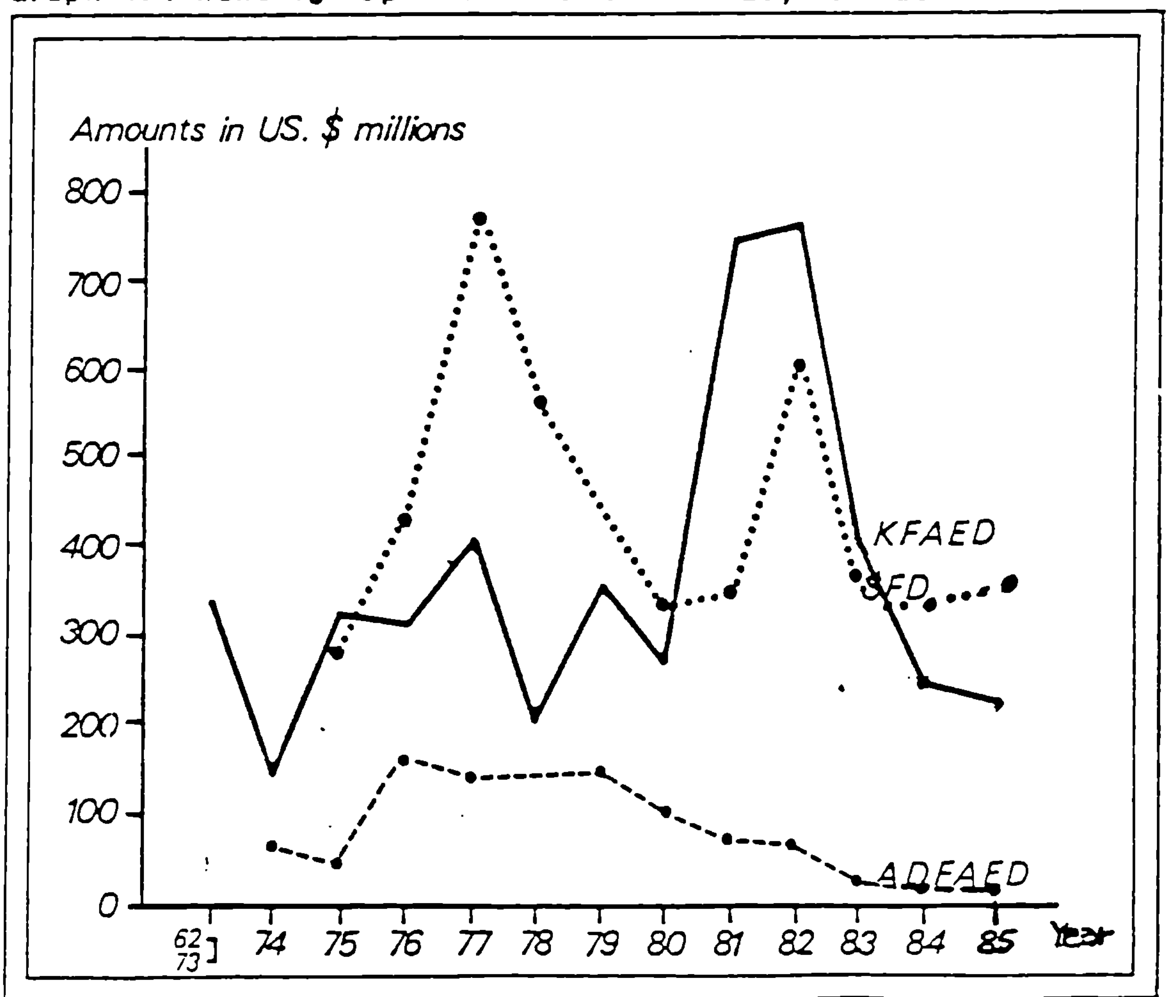
Graph 2.
Abu Dhabi Fund for Arab Economic Development (ADFAED).
Financing Operations.



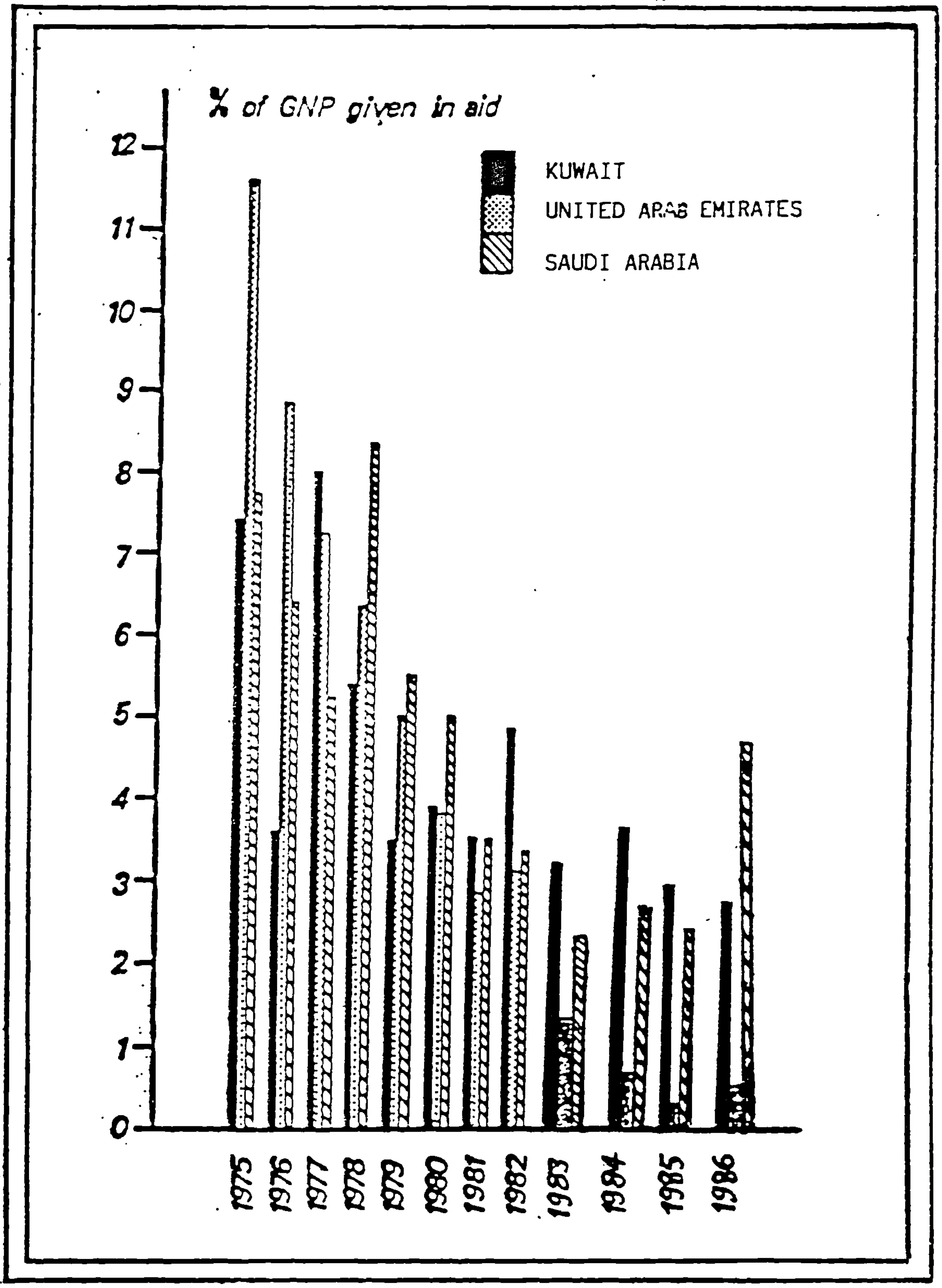
Financing Operations.



Graph 4. Financing Operations of the KFAED, ADFAED and SFD.



Graph 5. The Arab Gulf Countries' Development Aid as a Percentage of GNP 1970-1986



Despite the decline in their ODA/GNP ratio in recent years, the Gulf donors maintained relatively high performances. The 1983 figure of 2.33 per cent, which until recently was the lowest for over a decade as an average for the group still represents about 330 per cent of the target of 0.7 per cent of GNP set by the United Nations in 1970. Furthermore as **Table 4.4** illustrated comparison with similar figures for the West's major donor group (DAC) shows that the Gulf Group's 2.32 per cent is over six times the 0.38 per cent figure for the DAC. Few of the 17 DAC donors achieved an ODA/GNP ratio which exceeded the already 0.7 per cent target. Those which did slightly exceed the target in 1983 were Denmark (0.73 per cent), Sweden (0.85 per cent), the Netherlands (0.91 per cent) and Norway (1.05 per cent). Among the DAC donors, however, Switzerland and the United States recorded the lowest percentages of ODA in terms of GNP; 0.25 per cent and 0.27 per cent respectively, **[10]**.

To make a more detailed comparison Japan can be taken as an example of both an industrial country and a member of the DAC group. In 1981 Japan's gross national product was $1,186,000 mn which was more than four-and-a-half times that of the combined GNP ($268,000 mn) of five Arab Gulf countries; Iraq, Kuwait, Saudi Arabia, Qatar and the United Arab Emirates. Despite this enormous difference Japan's net ODA assistance was $3,171 mn in 1981, less than 40 per cent of the $8,025 mn given by the five Arab Gulf countries, [11].

Furthermore, because of the special nature of oil revenues the conventional computation of GNP leads to highly overstated figures. In the case of Arab Gulf donors it could be argued that such figures are far from being truly representative of income levels. This is because the reported GNP has not adjusted downward to take account of the fact that the transformation of an exhaustible resource into financial assets does not constitute income as appropriately defined. If such an adjustment were made Kuwait's GNP, for example, would be only 42 per cent of its reported value, and hence Kuwait's ODA/GNP ratio would rise to about 9 per cent in 1981 instead of a reported figure of 3.55 per cent. Were similar downward adjustments to be made for other Gulf countries' their ODA/GNP ratios would also rise accordingly, [12]. It is debatable, however, whether such adjustments are valid. It would be possible to argue for example that the very high per capita incomes enjoyed in the Gulf countries give them a healthy financial surplus, part of which can be given in the form of aid.

4.5 Multilateral Arab Aid Institutions
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The four Arab Gulf countries which established national Funds for channelling bilateral aid are also major contributors to four Arab multilateral development institutions. These were established, organized, and structured to administer and distribute aid resources. All were founded as autonomous entities with their own management and resources and with independent legal identities. This was to ensure continuity in aid operations while also protecting the organizations from political interference.

These institutions were given vast resources. The authorized capital of the eight major Arab aid institutions included in **Table 4.1** was about $25,900 mn at the end of 1982. Their combined paid-up capital and reserves reached around $17,500 mn at the same time. Two of the multilateral institutions, the Islamic Development Bank and the Opec Fund for International Development are included among the Arab aid institutions. This is because of the significant contribution made by the Arab world in general and the Gulf countries in particular, to their capital resources. The eight institutions are now closely linked through their Coordination Secretariat hosted by the Arab Fund for Economic and Social Development (AFESD). They coordinate their activities by holding a meeting every six months at director level and another meeting, usually annually at the level of the institutions' heads.

These meetings have been taking place for several years and are designed to coordinate the institutions' activities as much as possible. They have through their joint efforts been able to achieve considerable results, standardizing their loan agreements, unifying their disbursement procedures and establishing broadly similar principles, procedures, methods, and policies. In this respect, the experience of the oldest, the Kuwait Fund, was a valuable guide to the other members of the coordination group.

Despite the similar aims and objectives of Arab aid institutions there are some difference between their mandates for aid. These appear, in particular, in the geographical scope and form of financing operations. The AFESD is limited to assisting Arab countries only, the Arab Bank for Economic Development in Africa (BADEA) assists only non-Arab African countries, and the Islamic Development Bank's assistance is confined to member countries only. The other institutions, particularly the Arab Gulf institutions and the Opec Fund have a much wider geographical scope. There are also differences in the forms of assistance provided (project and/or non-project aid) and in the method of financing (loans and/or equity participation). Differences of this nature are not a constraint on the collective efforts of the institutions. On the contrary they constitute a broadly positive orientation which results in a wide ranging combined scope of operations covering a large geographical area of the developing world.

4.6 Operations
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A review of the combined efforts of the institutions since they began shows that by the end of 1984 they had concluded 1597 financing operations with a total value of $20,376.95 mn in favour of 99 Third World countries as shown in **Table 4.7. [13].**

Their commitments included various forms of financing such as loans, equity participation, foreign trade financing, and leasing. Each institution provides only those forms of assistance which are consistent with its mandate and power. Loans are provided by all institutions. Equity participation are undertaken only

TABLE 4.7

GEOGRAPHICAL DISTRIBUTION OF THE FINANCING OPERATIONS OF ARAB DEVELOPMENT INSTITUTIONS UP TO DECEMBER 31, 1984

Region	Number of Countries	Number of Operations	Amount ($m)	%
1. Arab Countries	18	665	10,436.47	51.2
2. African Countries	39	537	3,993.82	19.6
3. Asian Countries	23	326	5,507.17	27.0
4. Latin American Countries	17	60	359.31	1.8
5. Other Countries	2	9	80.18	0.4
TOTAL	99	1597	20,376.95	100.0

Source: Arab Fund, Coordination Secretariat of Arab National and Regional Development Institutions, "Financing Operations of Arab national and Regional Develpment Institutions", December 1986.

by the Islamic Development Bank and the Abu Dhabi Fund for Arab Economic Development. Foreign trade financing and leasing are only undertaken by the Islamic Development Bank.

TABLE 4.8

SECTORIAL DISTRIBUTION OF THE FINANCING OPERATIONS OF ARAB DEVELOPMENT INSTITUTIONS UP TO DECEMBER 31, 1984

Sector	Amount	% of Tota
1. Infrastructure		
- transport and telecommunications	5,058.34	24.8
- power (electricity, oil & gas)	5,588.81	27.4
- water and severage	1,011.56	5.0
Sub-total	11,658.71	57.20
2. Productive		
- agriculture and livestock	3,122.01	15.3
- industry and mining	3,406.21	16.7
Sub-total	6,528.22	32.0
3. Others	2,190.02	10.80
TOTAL	20,376.95	100.00

Source: Arab Fund, Coordination Secretaria of Arab National and Regional Development Institutions, "Financing Operations of Arab and Regional Development Institutions", December 1986.

The commitments by economic sectors are shown in **Table 4.8.** It indicates that 57.2 per cent of commitments went to infrastructure and 32 per cent went to productive sectors. The high proportion was absorbed by infrastructure because it is often a prerequisite for the successful development of other sectors such as agriculture and industry.

The yearly financing operations of each Arab development institution are presented in **Table 4.9** and the sectors benefiting from the total operations are shown in **Table 4.10**. These Tables also show the share of each institution in total commitments up to the end of 1984. There are wide differences among the institutions. They range from 3 per cent for the Arab Bank for Economic Development in Africa to 22.1 per cent for the Kuwait Fund, **[14]**. These commitments reflect, to a large extent, differences in the capital resources of the institutions, the geographical scope of their operations, and the time period over which the financing operations were undertaken. Nevertheless, the tables show that the combined efforts and activities of these institutions show that they contribute substantial levels of aid with a wide geographical and sectoral distribution.

TABLE 4.9

SUMMARY OF THE FINANCING OPERATIONS : BY YEAR AND INSTITUTION

Development Institutions	No. of countr.	No. of oper.	1961 - 1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Total	%
1. Islamic Bank	36	341	-	-	-	-	119.34	158.70	496.73	475.39	549.05	519.83	571.21	816.56	3868.81	19.0
2. Abu Dhabi Fund	40	84	-	64.29	44.18	163.73	138.82	215.95	145.14	100.61	69.88	65.68	25.76	28.56	1062.60	5.2
3. OPEC Fund	81	370	-	-	-	42.70	243.01	155.01	212.80	250.77	700.88	323.72	212.85	94.39	1936.13	9.5
4. Saudi Fund	55	202	-	-	282.75	432.58	770.04	561.68	447.01	331.89	348.61	611.33	372.26	351.72	4509.87	22.1
5. Iraqi Fund	31	69	-	30.00	-	15.00	26.30	101.20	406.30	743.26	373.30	37.66	-	-	1733.02	8.5
6. Arab Fund	16	150	-	114.89	193.44	331.59	362.60	-	70.23	111.72	145.40	232.75	309.74	283.39	2158.75	10.6
7. Kuwait Fund	64	282	342.90	130.86	322.11	318.70	410.99	200.17	353.68	268.68	741.38	763.11	189.95	252.56	4508.09	22.1
8. Arab Bank	18	99	-	-	-	79.40	77.04	66.92	20.20	81.02	69.70	80.00	67.15	68.25	609.68	3.0
TOTAL	-	**1597**	**342.90**	**348.04**	**847.48**	**1383.70**	**2148.14**	**1489.63**	**2154.09**	**2363.34**	**2801.20**	**2614.08**	**1945.92**	**1915.43**	**20376.95**	**100.0**
Percent			1.7	1.7	1.2	6.8	10.5	7.3	10.6	11.6	13.7	12.9	9.6	9.4 .	100.0	

Source: Coordination Secretariat of Arab National & Regional Development Institutions, Arab Fund for Economic and Social Development. "Financial Operations. Arab National & Regional Development Institutions", 1986, p.6

TABLE 4.10

SUMMARY OF SECTORAL DISTRIBUTION OF FINANCING OPERATIONS : BY INSTITUTION

Development Institution	No. of Countr.	No. of Oper.	Transport & Teleco-mmunicat.	Power (Elect. Oil & Gas)	Water & Sewerage	Agri. & Livestock	Industry & Mining	Others*	Total	&
1. Islamic Bank	36	341	208.10	1870.17	62.18	262.32	1317.22	138.82	3858.81	19.0
2. Abu Dhabi Fund	40	84	160.41	395.15	40.23	108.12	333.50	25.19	1062.60	5.2
3. OPEC Fund	81	370	215.64	560.42	52.84	161.55	155.65	786.03	1936.13	9.5
4. Saudi Fund	55	202	1911.12	924.31	356.39	760.72	322.06	235.27	4509.87	22.1
5. Iraqi Fund	31	69	220.75	124.16	5.00	320.70	186.30	876.11	1733.02	8.5
6. Arab Fund	16	150	702.07	429.07	284.13	440.40	227.68	75.40	2158.75	10.6
7. Kuwait Fund	64	282	1361.08	1208.41	184.92	942.42	773.06	38.20	4508.09	22.1
8. Arab Bank	38	99	279.17	77.12	25.87	125.78	86.74	15.00	609.68	3.0
Grand Total	-	**1597**	**5058.34**	**5588.81**	**1011.56**	**3122.01**	**3406.21**	**2190.02**	**20376.95**	**100.0**
Percent			24.8	27.4	5.0	15.3	16.7	10.8	100.0	

* Includes financing operations for support of national development institutions, health, education, training, housing, tourism, etc. and balance of payments support.

Source: Arab Fund, Coordination Secretariat of Arab National and Regional Development Institutions, "Financing Operations of Arab National and Regional Development Institutions", December 1986.

It is important to note that the the four bilateral Arab Gulf Funds contribute as much as 58 per cent of total commitments. The contribution of the Arab Gulf countries becomes even more conspicuous and impressive when their substantial donations to Arab regional development institutions **(Table 4.9 and 4.10)** are borne in mind.

Arab development institutions also provide technical assistance grants for financing feasibility studies and experts' missions and for helping recipients strengthen their technical and administrative capabilities. By the end of 1982 the total sum provided for technical assistance grants reached $205 mn of which about half had been disbursed.

The development institutions also provide advisory and consultation services. These includes advice on how recipients should conduct the various stages of the financed projects. Although it is difficult to quantify the value of these services or measure their real impact there is no doubt of their benefit. Very often the benefits attributable to these services are embodied in feasibility studies, concepts of projects, choices of technology and design, project costs, terms and conditions of contracts etc.

It is important to point out that the efforts made by the institutions constitute only part of the overall assistance extended by Arab donors. Net disbursements of aid by seven Arab nations during 1973-1982 were over $63,000 mn of which nearly 87 per cent was provided by four Arab Gulf Countries - Kuwait, Saudi Arabia, Qatar, and the United Arab Emirates. The other Arab donors include Algeria, Iraq and Libya, **[15]**.

4.7 Co-ordination between Arab Development Funds & International Finance Institutions

The success of Arab development institutions in co-ordinating their activities has led several international institutions such as the Organization for Economic Co-operation and Development (OECD, the European Economic Community (EEC) and the World Bank Group (IBRD) to co-operate with them. During the past three years it has been increasingly evident in planning, policy review and operations.

4.7.1 Co-Financing

The Arab development funds were the first institutions within the Arab world to consider co-financing arrangements with other development financiers. The

Funds have evolved a distinctive style of co-operation and special priority areas for joint financing. In recent years co-financing between Arab institutions and with other non-Arab institutions have increased. It is considered helpful in improving the efficiency of aid programmes and mobilizing additional funds. Approximately 80 co-financed projects had been undertaken up to 1981 with Arab contributions.

The experience gained has been valuable in improving the understanding of the needs of developing countries. It has encouraged an appreciation of assistance philosophies and aid expectations and has ensured consistency of approach and operation. A continuous flow of project information has been developed among the Arab institutions and between them and other major donors such as the World Bank Group or the OECD. Co-financing has also improved the bargaining position of recipients. It has given them more control over the formulation of projects and improved the terms they are able to secure. This is possible because Arab funds, as development agencies, can perhaps identify themselves more readily with the interests of their borrowers than can other foreign sources of finance. Occasionally an Arab fund plays two distinct and seemingly incompatible roles: that of potential co-lender and that of the promoter of the borrower's interest vis-a-vis the other co-lenders.

Multi-participant operations have taken the form of co-financing and parallel financing. Co-financing, in which the participants share the financing of a list of goods and services required, has been common among Arab institutions. But when co-financiers are non-Arab institutions parallel financing, in which the lending parties finance distinct packages, has been used. It is also important to note that co-financing has involved, in the majority of cases, not only financial institutions but also different aid sources such as international, regional and national banks, bilateral sources, government budgetary contributions and investment companies, **[16]**.

Normally the financing of large-scale projects such as for the development of infrastructure, agriculture, power and other multi-purpose projects is beyond the means of any single donor. In these cases close co-operation and coordination among co-financiers becomes essential, especially among donors with dissimilar policies and procedures. Operations co-financed by Arab aid institutions have fewer problems because they co-operate closely and have similar procedures and largely harmonized policies.

Non-Arab donors, particularly those tying aid to the purchase of goods and services from their own markets, limit the scope for joint-financing. In these circumstances Arab aid institutions often resort to parallel-financing. To improve co-ordination on a wider front however, the Arab/Opec donors have been exchanging views on co-financing and other aspects of development co-operation with their counterparts in the DAC and EEC groups. The Arab donors have consistently urged less restrictive tied aid policies as being more beneficial to recipients and better suited to the co-financing efforts of all donors. Despite these efforts it is distressing to note that some non-Arab donors are increasingly tying their aid. Unless the providers of tied aid relax their policies Arab donors may be discouraged from co-financing, [17].

4.7.2 Third Parties

The activities of Arab aid institutions normally involve third parties - consultants, contractors and suppliers from the industrialised countries. This begs the question - who are ultimate beneficiaries of Arab aid ? Goods and services which are necessary for development projects in the Third World still largely come from the industrialised countries. Rich countries therefore derive benefits from Arab aid. The real value of these benefits is hard to measure but there is no doubt that the supply of goods, consulting services and contracting works has a direct positive impact on the economies of the industrial countries by promoting their industries and boosting employment. Between 1st January, 1983 and 31st October, 1984 the Kuwait Fund disbursed nearly $660 mn against loans extended to finance projects in various developing countries. The Fund's records show that over 50 per cent of this was paid to contractors and suppliers from the developed countries. The chief beneficiaries were West German, French, Japanese, American, British and Italian contractors and suppliers, **[18]**. Payments from Arab aid to the industrial nations could run into billions of dollars a year if disbursements by all Arab development institutions and Arab governments were included.

Arab development institutions recognize that aid payments must be supplemented by efforts to promote local capabilities and enterprise in developing countries and to foster and strengthen collaboration among them. So the institutions encourage consultants from the Third World to participate by submitting proposals for the services required. Contractors, too, are encouraged to bid for the whole, or part of, a project. The main goal of those efforts is to accelerate development and to promote closer co-operation, **[19]**.

4.8 Performance of Aid to Arab Countries

More than ten years have gone by since the Arab countries started to play an important part in international aid but the scope and the magnitude of their contribution to Third World development are not widely recognised. It is, therefore, important to draw international attention to the innovation, issues and positive results of Arab aid.

"The real test for any transfer of resources in the long run is its ability and efficiency in helping recipient countries fill their resources gap within a given time in order for them to attain adequate levels of self-sustainable growth", **[20]**. In fact, the purpose of aid as laid down by the Pearson Report "is to help the poorer countries to move forward in their own way into the industrial and technological age so that the world will not become more and more starkly divided between the haves and the have nots, the privileged and the less privileged".

A detailed evaluation of Arab aid against this yardstick is, however, beyond the scope of this study. Arab aid is still a new phenomenon. It is being directed to a large number of countries and its impact cannot be assessed in all of them. Nor can all aspects of its impact in even a limited group of countries be covered. But Arab aid accounts for 82 per cent of all aid channelled to Arab countries. This study therefore confines itself to an assessment of the impact of Arab aid on the Arab world. It is further confined to an analysis of the broader aspects of the subject, namely the volume of the transfers vis-a-vis the needs of the countries and their resource gap and the impact of the transfers as reflected in the overall performance of the recipient countries' economies.

A distinction must be made between short and long-term considerations when considering the objectives of inter-Arab aid. Immediate objectives of Arab assistance include the establishment of a basic social and physical infrastructure able to support commercial projects and having the ultimate purpose of linking the domestic and regional development phases of the Arab region. The long-term objectives are:

1. the economic development and integration of the Arab region in co-operation with the Third World.

2. the establishment of regional institutions and the strengthening of flexible national and pan-Arab development mechanisms which will have to assume a specific development function both within the present circumstances and within the framework of a more integrated Arab world;

3. bridging the gap between the haves and the have nots; and

4. full utilization of human, physical and financial resources.

It has already been suggested that the purpose of aid is to help the poorer countries attain adequate levels of self-sustainable growth. The performance of Arab aid can be assessed quantitatively in terms of the volume of aid compared to the overall needs of a country and qualitatively in terms of its impact on the overall development path of a country's economy.

Arab aid accounted for 82 per cent of total aid directed to Arab countries during the decade to 1982 and 33 per cent of total investment allocated in the plans of the 16 recipient countries during the last decade, **[21]**. By the end of 1984 the eight major Arab development finance institutions had given 665 loans worth $ 10,436.47 mn to 18 countries. Of this 36 per cent was directed to the poorest countries; Djibouti, Sudan, Somalia, Mauritania, North and South Yemen, **[22]**. If we make the safe assumption that these loans covered 30 per cent of the total cost of the projects it appears that Arab financial institutions have participated and, more often than not, played a crucial role in the financing of development projects, the total value of which amounts to over $30,000 mn. The number of projects financed is not, however, an indication of performance. It should also be pointed out that all the funds assist recipient countries by providing project development and management consultancy services, helping to introduce appropriate technical and/or marketing technologies by transferring the execution of construction projects to local contractors and by training manpower. The Arab institutions have also evolved a flexible functionalism and an innovative approach to identify and test appropriate development devices capable of achieving satisfactory solutions to the problems of Arab industrialization, development and integration.

They have also used integrated sectoral studies with project orientation in the poorest Arab countries; Mauritania, Sudan, Somalia, North and South Yemen, to identify the constraints hindering development and have proposed practical solutions to overcome them. It is, however, difficult to measure the benefits accruing from all these partially Arab aid financed projects because their effects are so far-reaching. They assist the financial, economic, social and even political spheres and are so intermingled that they almost defy measurement.

The record in terms of growth rates is underpinned by concrete achievements and is not merely a paper performance or statistical illusion. The achievements are manifest in the building of schools, hospitals, irrigation networks and training institutions. Basic needs have been given adequate attention and living standards in terms of goods and services as well as educational and health conditions, reflect what the figures report.

Many projects in the transportation and telecommunication sectors were assisted. For example, 4,000 km of roads have been paved during the last ten years. More than 25 per cent were in the Sudan and Mauritania. A major proportion of the road building projects were partially financed with Arab aid. A study to set up a framework for an integrated land transport system of roads and railways in the Arab world has recently been completed. It focussed on the links between Arab countries and those which connect them with neighbouring countries. In addition an inter-Arab telecommunication network linking the Arab countries in Asia and another linking the Arab countries in Africa are being completed.

Attention has also been devoted to basic needs and the Arab funds' record of achievements is impressive. Most of the Arab countries have been assisted in improving the supply of safe drinking water, supplying electric power to remote rural areas, expanding schooling and training centres, improving medical facilities and other social services. The contribution of such projects to overall development of a country is difficult to assess but they cannot be ignored. The Arab world achieved record levels of GDP growth during the decade following the oil price explosion. It has helped lay the foundation for industrialization. New opportunities for the export of goods and services have emerged and the physical quality of life has improved as must relevant indices indicate.

Economic performance, however, should not be assessed in terms of growth rates only. Structural changes, inflation, the balance of payments, income distribution, changes in savings and investment ratios, the behaviour of exports, productivity growth, industry and agriculture should also be taken into account for a balanced and meaningful appraisal. Of course it is impossible to review all these aspects in detail in this study.

No matter how huge the sums involved it is obvious that aid cannot bring about all of the desired structural changes or bridge the income gap. Physical and human resources still remain under-utilized and the resources gap is increasing and will continue to increase in the near future if Arab countries are to achieve desired growth. This is because capital is neither the sole, nor always the most essential, ingredient of economic development. The resource gap which constrains development in the Arab world involves manpower, institutions, natural resources in general and water in particular, and other factors. Time is essential for optimal utilization of resources and productivity growth. It could also be argued that where the long-term objectives of aid are concerned it is too early to pronounce judgement.

Innovative forms of co-operation, more integrated than the approaches prevailing at present, are called for to maximise development potential. This may, in the immediate future, be in the form of sectoral programmes or regional projects both within and outside the Arab region.

The flow of Arab funds permits an accelerated industrialization process simultaneously with an economic integration in the Arab region. Each country has some degree of development potential that could be realized with properly structured concerted actions from inside and outside the area. Further coordination of development activities, institutionalisation of tasks and allocation of funds in a regional approach is required to enhance and accelerate regional integration and industrialization, **[23]**.

4.9 Problems of Implementation and Remarks from Field Experience

4.9.1 : Kuwait Fund

The Officials of the Kuwait Fund indicate that problems are mainly related to delays in ratification, appointments of consultants, issuer of tenders, and analysis of bids. Moreover, problems related to submission of withdrawal applications and progress reports have also occurred. In addition to the above, other problems based upon the experience of co-financing and meetings can be identified, summarised as follows:

1) Inability of some developing countries (especially the least developed ones) in following up and managing projects.

2) Lack of efficiency in project management due mainly to lack of proper supervision in some recipient governments.

3) Delays in withdrawal procedures and incomplete procedures in some cases.

4) Lack of well-prepared feasibility studies for projects (especially in some LLDCs).

5) Problems of security and stability in some areas.

6) Delays in the implementation of projects and their impact on cost escalation.

7) Delays in repayment loan instalments and interest rates in some cases LLDCs.

8) Problems related to the efficiency of local consultants and contractors especially those in LLDCs.

4.9.2 : The Abu Dhabi Fund for Arab Economic Development

Problems of project implementation are similar, in general, to the problems of other Arab funds and, in particular, to problems indicated by the Kuwait Fund. As for remarks from field experience, the following are a set of problems in developing countries which, the author believes, from his experience in the field with the fund, should be given the utmost consideration.

Problems of Project Selection and Appraisal

To select projects on a rational basis is rather a difficult task, but a well-defined strategy of which planning is the key can cease this task in LLDCs. Planning by itself cannot do miracles to make such projects productive or valuable, but planning as a tool of public purpose can aid in the easy implementation of such a task. Moreover, the institutional set-up and the machinery for project appraisal provide additional hindrances to wise selection and appraisal. The lack of economic and social criteria based upon well defined and sound parameters is again one of the main problems facing these countries in the field of project appraisal and implementation.

Problem of Priority Areas

Priority areas from which a policy-maker or planner could select the best projects on a rational basis constitute another important problem which has to be solved before any decision can be taken, a matter which might lead to economic and social reactions. The history of many LLDCs is rich in such matters and the trauma of bad projects could be avoided well before implementation or even before the decision-making. It is the policy-maker who will have the main responsibility for zone areas and their priorities, and he in turn should be well informed on different sections of the economy, their needs an capacities, based upon a well-defined programme or plan for each sector. This inter-relationship between different sectors of the economy is the key element for solving problems of priority areas.

Problems of Implementation and Decision-Making

This is the problem of the utmost importance: the implementation of decision-making. Is it the problem of the policy-maker, the manager, the economist or of all of them? Naturally it is the problem of all, but not to the same extent. The decision which the policy-maker is going to take should be implemented by his staff who, amongst them the economist and the manager, should advise him whether or not to take such a decision. The time gap between taking the decision and the implementation of that decision should be an important concern in these countries.

A Need for an Effective Machinery

This does not mean that LLDCs have reached deadlock in this field. It only pinpoints the circumstances of the main problems that impede progress in this important field of project appraisal and implementation. A well-defined and effective machinery for project selection and appraisal could be the main solution in this respect. The operation of the whole economy would work better if very project in each sector were functioning well. The role of such machinery for project selection and implementation should be equipped with better and efficient factors such as:

a) well-trained staff
b) balance between duties and responsibilities
c) a well-defined public purpose for each project
d) a leading role for the project in the sector concerned not only economically but also socially as well.

Although many of these countries understand such problems and try to find their own solutions, they all lack the machinery for follow-up based upon gradual and efficient implementation.

4.9.3 : The Saudi Fund for Development

As in the case of the other two national Arab funds the Saudi Fund faces similar problems regarding delays in ratification, tenders and bids, withdrawal applications, progress reports, problems of security, management, etc. On the other hand, the Saudi Fund's officials have also indicated in several meetings the existence of problems related to the selection of foreign consultants and their preference, agreements between host governments and contractors, cost duties and rights and the problems of relying on sub-contractors, contractors' agreements between Third World countries and European contractors who take unfair advantage of the position of the developing countries. Problems of local taxes, availability of local materials, local components, currency fluctuations, cost escalations and fulfilling of the host government's obligations regarding employment and financing have also been identified.

Strategy for Financing and Technical Assistance

The Saudi Fund does not follow a medium- or long-term strategy regarding the amount of aid to be disbursed in the next three to five years nor does it provide technical assistance. Its policy is mainly based upon year-to-year operations in the field of project lending, and, as indicated before, is based upon balanced amounts of loans to be provided between Asian and African Countries. The fund should perhaps give more attention in future operations to the most seriously affected and least developed countries among the Third World. If it follows a programme of lending for the transportation sector as a key sector for development with its good impact upon foreign trade among those countries the fund could implement and follow a strategy for aid and development in the future. The fund could also gain great experience in feasibility studies of these projects and could play a leading role in this sector, and it could then provide technical assistance in this field.

A Proposal for Establishing a Joint Technical Resource Centre

During a conference of the presidents of Arab Development Funds in Riyadh in June 1976, the Saudi Fund was invited to study the establishment of an Inter-Arab consultative agency-joint Technical Resource Centre. The conclusions of the study revealed that the size of the centre is not beyond the absorptive limit of the seven Arab funding institutions (Abu Dhabi Fund, Arab Bank, Arab Fund, Islamic Development Bank, Kuwait Fund, Iraq Fund and Saudi Fund). It produces a net chargeout saving of about 18 percent per staff member for 49 man-year of contract work, which would result in annual savings of $1.3m. The study also concluded that if professional staff functions were to be performed by those funding institutions, and if only five of these institutions were each to develop its own minimum staff code of 10 members each, a saving of nearly 25 man-years would result. Most fundamentally, the centre would resolve a critical shortage of services and personnel which it would not be reasonable to expect could otherwise be overcome.

The study was, in general, acceptable, but comments were made in the meeting that too much theoretical thinking should be avoided and a pragmatic approach based upon the different experiences of the development funds should be adopted.

4.9.4 : The Arab Fund for Economic and Social Development, (AFESD).

AFESD shares with other development funds in the field of financing projects the common problems from the recipient countries outlined in the previous chapters. However, the Arab Fund, as a regional organisation, faces more problems than the national funds, due mainly to the fact that it concentrates on a country approach and regional projects rather than a project approach and national projects. As a co-ordinator among other Arab funds AFESD has a difficult task, especially with relation to the procedure for the withdrawal of loans and procedures for the withdrawal of loans and procedures for implementation. It also places emphasis on the financing of infrastructural projects which are complex and huge, requiring close supervision and updated information on the country and sectoral levels, as well as on the project level.

Technical aspects for these types of projects are considered to be of vital importance, which has led the fund to choose the best sort of technology suitable for implementation and supervision. Moreover, as the fund's future strategy seems to be concentrated on least developed Arab countries, it has to cope with the need to provide these countries with technical assistance. As the fund's most important future role is to act as a financial catalyst, it has to equip itself with the most recent information gathered from the financial markets regionally as well as internationally. It also has to carry out regular studies and surveys on recent economic developments in the Arab countries and to appraise the viability of huge regional projects with their future effects and the economies of scale that could foster the process of Arab economic co-operation and integration. The fund is actually making considerable efforts to achieve this target especially in 1981. The new Arab development decade is evidence of this trend. To prepare for the new era of Arab Economic and social development, the fund has published several important studies.

A study on Arab economic development in the 1970's and prospects in the 1980s has been carried out by the fund as a guideline for its future activities and for encouraging utilization of public and private capital and technical assistance for Arab economic development in the 1980s [24]. AFESD has also published a study on the flow of Arab private capital to evaluate its pattern, size and characteristics for the purpose of encouraging Arab capital to play an active effective role in Arab economic and social developments as an important tool for achieving Arab economic co-operation and integration [25]. The fund has also, in co-operation with the Arab Monetary Fund, published its first Annual Economic Report, for 1980. The Report aims to provide basic information on Arab economic and social developments and the main economic issues facing the Arab countries [26]. Moreover, the fund has published a study on development problems in the least developed Arab countries, related to the economic and social situations of these countries, their infrastructural problems and productive sectors, and their procedures, recommendations, needs and finance [27]. Another publication was a study on the development of human resources and labour forces in the Arab region. The study focused on the problems facing the development of human resources and the labour force in Arab countries and the institutional mechanism suitable for carrying out this development[28].

AFESD has a still larger role to play in fostering Arab regional projects in different sectors and in different Arab countries, as well as in Arab joint co-ordination policies, foreign aid policies and financial policies. It should become more active in playing a pioneer role for suggesting an Arab aid development strategy and in establishing Arab machinery for follow-up and implementation for development financing. One way to achieve these targets would be through direct contact with the Arab governments and their financial institutions, to play an active important role in fostering regional economic co-operation among Arab countries. This could be implemented through the opening up of viable economic sector channels for economic co-operation not only for the infrastructural sector but also for other sectors, mainly agriculture, industry, tourism and finance. In addition, the fund has not yet proved to be active in the field of Arab social development, an important area that will be of great importance in the years to come. Such a wide scope of activities, however, would require substantial new sources of funds.

4.10 Conclusions

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This chapter has attempted to analyse the role of the most important Arab development funds. It concentrated on the four bilateral Gulf funds and four of the most important Arab multilateral funds, in which the Gulf countries play a major role. After providing details of history and purpose of each fund, the chapter dealt with the differences between their philosophy and those of the western donors.

The heart of the study dealt with the record of the Arab funds and a comparison with the other aid donors. In a series of statistical tables it was seen that since the early 1970's they have provided substantial aid finance to the developing countries. Their record was impressive in absolute terms, but it was seen that on a per capita basis the Gulf countries are the world's leading aid donors. Although they have very high per capita incomes most of the Arab donors put both the western and Soviet bloc donors to shame.

An analysis of the geographical distribution of Arab aid showed that by the end of 1984 the eight funds had given and lent a total $20,377 mn for 1,597 projects in 99 countries. Of this, however, 51.2 per cent went to Arab countries, 27.0 per cent to Asian countries including Turkey, and 19.6 per cent to non-Arab African countries. The power and the transport and communications sectors received the lion's share of the total with 27.4 per cent and 24.8 per cent respectively. It was noticeable, however, that the vital agricultural sector only received 15.3 per cent of the total which was just less than the industry and mining sector, **[29]**.

A summary of the eight fund's financing operations showed that aid commitments increased from $ 348 mn in 1974 to $ 2,801.2 in 1981 but that it has fallen since then because of the declining oil revenues. The commitments of Abu Dhabi and Iraq have fallen more sharply than the others during the 1980's. The Saudi Fund for Development has now matched the KFAED, which began thirteen years earlier, and has become the largest single Arab fund, **[30]**.

The chapter examined the growth of co-financing operations with other donors and outlined the benefits, not only for the Arab funds but also for the recipient countries. It argued that the Arab funds also benefited western construction and consultancy firms since a major proportion of the cost of the projects they finance go to such companies.

In order to analyse the importance of the Arab funds, the chapter examined their role in the Arab recipient countries. Up to the end of 1984 the eight funds had provided 665 loans in 18 Arab countries with a total value of $ 10,436 mn. Of this only 36 per cent went to the poorest countries while Jordan, Morocco and Tunisia received almost as much with over $ 1,000 mn each. Other Arab members of OPEC received $ 1,613,3 or 15.6 per cent of the total, **[31]**.

The study showed that Arab aid has played a major part in the economic development of the Arab countries since the oil price rises of the early 1970's. It has helped them to develop vital infrastructure but the analysis also showed that social and economic weaknesses will remain. The chapter argued that it will take many years and substantial investment to accelerate the process of regional integration and industrialization.

This analysis of the role of the major Arab development funds has shown that since the early 1970's they have played a major and vital part in development finance. In the early years aid was concentrated in the middle income Arab countries but it has since been expanded to cover 99 countries. Having noted this, however, the

Arab development funds have continued to concentrate their efforts in fellow Arab and Islamic countries. It could also be argued that the high per capita incomes enjoyed by the oil producers and the substantial oil price rises, which have effected the developing countries particularly badly, have obliged the Arab countries to increase their developing finance. Despite these factors, however, the role of the Arab development funds cannot and should not be overlooked or underestimated.

FOOTNOTES
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09. **ibid**, Table 1.1. & 1.2

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16. Dr. M. Imady, **op cit**, pp.65-66

17. B. Al-Humaidhi, **op cit**, p.17

18. **ibid**, pp.18-19

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20. Dr. M. Imady, **op cit**, pp.67-68

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31. **ibid**, p.9

PART TWO
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LEGAL ANALYSIS AND LEGAL ISSUES PERTAINING TO ARAB GULF FUNDS
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CHAPTER FIVE : THE LEGAL STRUCTURE OF THE FUNDS
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5.1 The Legal Structure Of The Kuwait Fund
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5.1.1 The Constitutional and Statutory Limitations of the Kuwait Fund

The Kuwait Fund is a national institution of the State of Kuwait. It was established by Law No. 35, of 1961, as a public corporation, endowed with an independent juridical personality, for the exclusive purpose of assisting in the economic development of Arab States. In July 1974 the scope of the Fund's activity was extended to the rest of the developing world.

As a national institution the Fund is subject to the municipal law of Kuwait and to the provisions of the Kuwaiti constitution requiring parliamentary approval of public budgets. The Fund, in practice, submits only the administrative budget which refers to revenues and current expenditures but does not include details of the size of financial assistance to be disbursed **[01]**. In this way the Fund's operations remain free from the interference of internal politics.

5.1.2 The payment of the Fund's capital

The Fund, although an independent juridical personality, is closely linked to the Kuwaiti Government in at least two ways. The chairman of the Board of Directors is the Prime Minister who delegates office to the Minister of Finance. Secondly the sole source of the Fund's capital is the Kuwaiti Government. This is particularly significant because the amount of financial aid granted by the Fund depends partly on the amount of capital paid by the Government. By Decree Law No. 18 of 1981 the Fund's capital was increased to KD2,000 mn. There is, however, no set formula which determines how much is to be paid each year. The law simply states that the budget of the ministries and government departments should determine the proportion of annual public revenues to be appropriated. Generally, the amount depends on practical limitations and other government commitments in the region.

5.1.3 Codified policy limitations

The Fund is governed by its Charter, a broadly worded document which details the limits of the Fund's activities. The Charter may be amended in whole or in part by the Minister of Finance who is also, by delegation, the chairman of the Fund. Thus the Fund functions in an atmosphere of great flexibility with only the following limitations provided for in the charter.

1. Form of aid

By defining the purpose of the Fund Article 2 of Law No. 25 1974 provides the only legislative limitation. It says:

> "The purpose of the Fund is to assist Arab states and developing states in developing their economies and, in particular, to provide such states with loans for the implementation of their development programmes, in accordance with the provisions of a Charter to be made by order of the Prime Minister" , **[02]**.

Article 6 of the charter gives the Board of Directors the power to determine general policy and in particular to

> "consider and decide on the Director-General's recommendations concerning loans and other forms of assistance to be provided by the Fund;

"consider and decide on the Director-General's recommendations concerning the participation of the Fund in the share capital of corporate entities of a developmental nature and of development finance institutions", **[03]**.

Article 17 was intended to broaden the Fund's functions and provides an insight into the forms of aid. It states that the Fund should act as the Board sees fit and in particular by:

(a) extending loans to Arab and other developing states or to corporate bodies which are under the control or have nationality of any such state, or constitute a joint venture among such states provided that such corporate bodes contribute to the economic development of such states or any of them and that their objectives are not restricted to the more making of profit;

(b) extending grants and technical assistance to such entities as are enumerated in paragraph (a) of this section;

(c) providing guarantees in respect of obligations of such entities as are enumerated in paragraph (a) of this section;

(d) contributing to the capital stock of corporate bodies which are under the control, or have the nationality of any Arab or other developing state or constitute a joint venture among such states, and which are of a developmental nature;

(e) contributing to the capital stock of development finance institutions and other international and foreign development institutions whose objective is to assist developing countries or any of them in developing their economies. The Fund may represent the State in such institutions, **[04]**.

The Fund's activities are not therefore confined to loans.

2. Recipients of aid

Both the Fund's law and Charter specify that the aid should go to "Arab states and developing states" - categories which are determined in practise by the government. Article 17 (a) supra of the Fund's Charter provides a general break-down of the eligible entities which include private and public corporations in eligible states. The amended charter allows a wide range of beneficiaries including:

1. Central governments, local authorities, public utilities, and other public bodies.
2. Development institutions, whether international,

regional or national and especially development finance organisations.

3. Mixed enterprises and private corporations whose activities have development impact and which are not exclusively geared to profit. Such enterprises and corporations must be under the control either of a developing country or nationals of such a country or be jointly owned by a number of developing countries, **[05]**.

Where there is more than one possible recipient in a given country the management of the project is considered more important than its ownership even if that means that the money goes to a private rather than public enterprise.

3. Amount of loan

The Fund is precluded by its charter, as a rule, from financing more than 50 per cent of the total cost of any project or programme and from financing local costs. These limitations may be waived, however, in special circumstances, **[06]**.

4. Currency of aid

The Kuwaiti Dinar is the monetary unit of account and payment in all assistance operations, [07]. The Fund may however act as an agent of the recipient and effect disbursements and accept repayments in other fully convertible currencies at prevailing market exchange rates. In order to protect itself from future devaluation the Fund has, in the past, considered the amount borrowed as being that amount of Kuwaiti Dinars needed to purchase foreign currency. No loans per se have been made in the recipient's local currency, but the method of disbursement has allowed the borrower to withdraw what amounted to a local expense.

5. Service charges and interest on loans

Article 20 of the Fund's Charter states that the loan agreement shall provide the financial conditions including dates and terms for the payment of principal, interest and other charges. In determining the interest rates, maturities and grace periods of its loans the Fund gives due consideration to the concessionary nature of its lending operations. This produces a significant grant element in the loans. The level of the grant element is determined in the light of economic conditions in the recipient country and the specific circumstances of each operation. Article 20 provides that the Board may approve interest-free loans. There are no commitment charges.

6. Financial and economic conditions of the lending operations

In considering an application for assistance the Fund makes a thorough investigation of the project covering all aspects. The applicant must submit documentary evidence about the project. This includes adequate description of its technical, financial, economic and legal aspects. Other determining factors include the importance and priority given to the project, its economic justification, financial soundness and the estimated costs, both foreign and local. The recipients must have sufficient complementary resources to pay its share of a project's final cost.

The documentary evidence and the findings of feasibility studies, field missions and other investigations are gathered into an appraisal report. This is submitted to the Board of Directors together with the recommendations of the Fund's management. These procedures are provided for in the form of general guidelines in Article 22 of the charter.

7. Mandatory stipulations in agreements with recipients

All agreements between the Fund and the recipient must include at least nine stipulations required in Article

20 of the Charter. These fall into three categories:

1. Provisions relating to terms and conditions of withdrawal of funds and of their repayment.

2. Provisions aimed at insulating the relationship between donor and recipient from the effects of certain municipal laws in order to protect the rights of the Fund. The recipient must undertake to lift exchange restrictions on the Fund's documents and correspondence as confidential and free from censorship, and exempt the Fund's assets, property and income from all taxes and impositions as well as from nationalization, confiscation and seizure.

3. Provisions relating specifically to the funded project cover the beneficiary's obligations to furnish adequate information concerning the project. They specify its duty to allow information about the progress of the project. They also lay down the appropriate arrangements needed to ensure that all the funds are used only to finance the agreed project. They also cover the recipient's undertaking that no other external debt will have priority over the Fund against the Fund's

wishes.

In those cases where the recipient is not the state itself, stipulations falling under the secondary category are incorporated in the guarantee agreement. The loan agreement is considered an integral part of the guarantee agreement in which the government also assumes the role of a joint debtor. These are only the required minimum provisions. The Fund can, and does, require a lot of other undertakings depending on the nature of each operation.

8. Fund's power to borrow

The statutory ceiling for the Fund's power to borrow money and issue bonds is twice the amount of its capital and resources. This power may be used within terms and conditions decided by the Prime Minister after the Board of Directors have made its recommendations.

5.2 The legal structure of the Abu Dhabi Fund
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5.2.1 Law No. 3, 1971 of Abu Dhabi

The Abu Dhabi Fund is a public establishment of independent character, with its headquarters stationed in Abu Dhabi, established by Law No. 3 of 1971. Its objective is to offer economic aid to Arab countries to support their development. Law No. 3 of 1971 became effective on the date it was issued and published in the Official Gazette. No further parliamentary approval was requested.

5.2.2 Internal regulations of Abu Dhabi Fund

On 15th July 1971 the Ruler of Abu Dhabi ordered the promulgation of internal regulations for the Abu Dhabi Fund. These consist of 25 articles which are divided into three sections.

Articles 1-9 in Section One deal with management. Article 1 stipulates that the Fund is to be administered by a board chaired by the Prime Minister and composed of seven directors. The Board of Directors is the highest authority for deciding and administering fund policy.

Articles 10-20 in Section Two explain the function of the Fund which is to participate in Arab projects in the form of loans, active involvement, guarantees, or any other form prescribed by the Board. As a rule, participation in any project may not exceed 10 per cent of the capital of the Fund or 50 per cent of the total cost of the project.

Article 18 of the internal regulations lays down that all contracts between the Fund and beneficiary states should include:

(a) Conditions and provisions of drawing the loan, repayment of capital, interest, and other expenses.

(b) An undertaking by the beneficiary to provide the Fund with adequate information on the progress of work from the date the contract is signed until the final settlement of the loan.

(c) An undertaking by the beneficiary to provide all facilities necessary for Fund representatives to inspect and check records of the project at any time until the loan is settled.

(d) Procedures to ensure that all amounts drawn on account of the loan are used to finance the project for which the loan was approved.

(e) Exemption of the Fund's assets, properties and income, related to the operations carried out by the Fund in the beneficiary state, from all taxes, duties, and other similar liabilities.

(f) An undertaking by the respective monetary authorities in the beneficiary states to facilitate all financial transactions of the Fund, and to exempt it from all restrictions on foreign exchange with regard to direct and indirect transfers relating to the implementation of the loan contract.

(g) An undertaking by the beneficiary state to treat all documents, records and correspondences of the Fund, etc., as confidential, and to grant the Fund the right of immunity against control and inspection of its printed materials.

(h) An undertaking by the beneficiary state that the capital and income of the Fund shall not be subject to nationalization, confiscation or sequestration **[08]**.

Article 20 of the internal regulations says that when considering applications for loans the fund should be guided by:

(a) The sound position of the borrower and the guarantor,

(b) The soundness and adequacy of financial guarantees submitted by a third party,

(c) The relative importance and priority of the project to be financed.

(d) A complete and thorough estimate of the cost of the project,

(e) A thorough economic and technical study of the project, including a feasibility study if necessary.

(f) Availability of the money required for carrying out and completion of the project, over and above the proportion financed by the Fund,

(g) A concern that the project does not contradict economic interest of Abu Dhabi or any other Arab state [09].

The general provisions in Articles 21-25, of Section Three, ensures that the Fund has a separate budget and can borrow money, issue bonds and give guarantees not exceeding twice the value of its capital and reserve. The conditions and circumstances where this is allowed are specified by the board of directors and with the guarantee of the Government of Abu Dhabi.

5.2.3 Law No. 7 of 1984

This law amends some provisions of Law No. 3 of 1971.

Article 2 of Law No. 3 1971 defined the objective of the Fund as the provision of economic aid to Arab countries in support of their economic development.

Article 1 of Law No. 7 of 1974 goes wider and explains the purposes of the Fund.

It says that the purpose of the Fund is to:

1. Offer economic aid to the Arab countries in support of their economic development, in the form of loans or participations in projects;

2. Offer aid to the African, Asian and other Islamic countries in support of their economic development in the form of loans or participation in projects;

3. Establish or participate in the establishment of financial institutions which compliment the purposes of the Fund and help create and foster a financial market in Abu Dhabi;

4. Issue guarantees and other undertakings specified in the executive regulations to compliment the purposes of the Fund;

5. Employ temporary available liquidity in various remunerative types of investment;

6. Provide expertise and technical assistance in various fields of economic development;

7. Perform any other activities or services that may be necessary for the realization of the purposes of the Fund [10].

Article 3 of Law No. 7 of 1974 added the following new paragraph to Article 4 of Law No. 3 of 1971:

> "The Fund may also accept deposits from the Government and public organisations according to the terms and conditions determined by the Board of Directors", [11].

5.3 The legal structure of the Saudi Fund for Development

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5.3.1 The Charter and status of the Fund [12]

The Charter of the Saudi Fund for Development was sanctioned on 1 September 1974 by Royal Decree. It declares that the Fund is an autonomous organisation with its headquarters in Riyadh and it is a legal entity with an autonomous financial status. It also says that the Fund should participate through loans in the financing of development projects in developing countries.

Article 2 of the Charter provided that the capital of the Fund should be SR10,000 mn and that its capital could be increased by a resolution of the Council of Ministers.

5.3.2 The management of the Saudi Fund

Article 3 laid down that the Fund should be administered by a Board of Directors with supreme authority over its administration chaired by the Minister of National Economy.

5.3.3 Factors affecting the granting of a Loan

Article No. 6 of the Charter stipulates that prior to granting a loan the Fund has to investigate its benefit to the recipient and the security of its repayment. It says that the Charter must consider:

(a) The financial standing of the borrowing government and its ability to repay a loan of the size proposed.

(b) The significance of the project for which a loan is to be made in terms of its priority over other projects and its integration with other economic activities of the borrowing country.

(c) The effectiveness of appraisal and analytical studies supporting the project from economic and technical points of view.

(d) The availability to the borrowing country of sufficient funds to complete the project, in addition to the sum of the loan.

5.3.4 Conditions of grant loans

Article 7 of the Charter states:

(a) That the project to be financed must contribute to the economic and social well-being of the borrowing country.

(b) That the loan is to be paid and repaid in Saudi Riyals.

(c) That the amount of the loan granted to any project should not exceed 5 per cent of the total capital of the Fund and 50 per cent of the total cost of the project.

(d) That the total amount of the loans granted to any country should not exceed 10 per cent of the Fund's capital at any one time.

The Council of Ministers may waive any one of these conditions if it is warranted and if it is recommended by the Board and proposed by the Minister of Finance and National Economy.

5.3.5 Stipulations in all loan agreements

All loan agreements state that the recipient :

(a) Must allocate all of the loan to the project for which it was lent and submit to the Fund a statement showing its applications and expenditures and inform the Fund of plans for coordination with other financial sources.

(b) Must provide all relevant information and whatever else is required by the Fund to assess the progress on the project from the date the agreement is signed until the loan is fully repaid.

(c) Must grant facilities to Fund staff, so that they can perform their duties in the borrowing country, and provide them with immunities identical to those granted to a diplomatic mission.

(d) Must facilitate all the Fund's financial operations, by exempting the loan and the Fund's assets in the borrowing country from direct or indirect control.

(e) Must exempt the Fund's transactions and revenues in the borrowing country from taxes, fees or any other official charges.

(f) Must exempt all the Fund's assets from expropriation, nationalization, sequestration, custody or seizure.

(g) Must treat the Fund's documents, records, and correspondence as confidential, and provide it with full immunity from censorship or inspection of printed matter, **[13]**.

5.3.6 Fund's right to terminate the loan agreement

Article 10 of the Charter reads:

> "Without violation of the Fund's claims emanating from the loan agreement, or as provided in the principles of public law or international convention, if the borrowing country violates any commitment relevant to the contract, the Fund may terminate payment of remaining instalments and consider the amount already paid as immediately due to be paid back after adding all expenses incurred by the contracting of the loan. This action may be taken without any prior notice of probation and without need for taking any judiciary action". **[14]**.

5.3.7 Fund's budget

Article 11 of the Charter says that the Fund's fiscal year shall be the financial year of the State. By the end of each fiscal year, the Minister of Finance and National Economy submits to the Council of Ministers a detailed annual report on the Fund's operations, incorporating a comprehensive survey of the Fund's activities completed by the end of the year and those planned to be executed in the ensuing year and the Fund's budget and statement of final account.

TABLE 5.4 COMPARATIVE ANALYSIS OF THREE FUNDS

	Kuwait Fund for Arab Economic Development	Abu Dhabi Fund for Arab Economic Development	Saudi Fund for Development
	Law & Charter	Law & Regulation	Charter
1. Date of Issue of the Charter/ Regulation	Established by Law No. 35 of 1961 (7 Articles) Capital KD 50,000,000 Amended: 1963: Increased capital to KD 100 Million 1966: Increased capital to KD 200 Million 1974: Scope to cover the Third World (in 9 Articles) Capital: KD 1,000,000 1981: New Charter (32 Articles) Capital: KD 2,000,000	Law No. 3 of 1971 (9 Articles) Amended in 1974 and in 1975 (25 Articles) Capital was BD 50,000,000 Amended Law of 1971 in 1974 to cover African, Asian and Islamic countries. Increased Capital to AD 2,000,000	The Charter of 1971 (12 Articles)
2. Consitutional and Statutory	1. Public Corporation with with an independent personality 2. The Law of Land is applicable.	A Public Establishment of independent charter.	Legal Entity and autonomous financial status

/continued

TABLE 5.4 COMPARATIVE ANALYSIS OF THREE FUNDS continued

	Kuwait Fund for Arab Economic Development	Abu Dhabi Fund for Arab Economic Development	Saudi Fund for Development
	Law & Charter	Law & Regulation	Charter
3. Budget	The requirement of Parliamentary approval of the Fund's Budget.	The Board endorses the Budget. No Parliamentary requirement regarding the Budget.	The Board submits the Budget to the Council of Ministers.
4. Board of Directors	Prime Minister is the Chairman.	Prime Minister (Crown Prince) is the Chairman.	Chaired by the Minister of Finance.
5. Authorised Capital in the Present Time	KD 2,000,000	2,000,000 Dirhams	25,000,000 Saudi Riyal
6. The Right to Borrow and Issue Bonds	Yes	Yes	No Provision
7. The Right to Accept Deposits	No	Yes	No
8. Location	Kuwait	Abu Dhabi	Riyadh

/continued

TABLE 5.4 COMPARATIVE ANALYSIS OF THREE FUNDS continued

	Kuwait Fund for Arab Economic Development	Abu Dhabi Fund for Arab Economic Development	Saudi Fund for Development
	Law & Charter	Law & Regulation	Charter
9. Charter/ Regulations/ By-Laws	Charter of 1981 laid down by Order of the Prime Minister (32 Articles).	Internal Regulations of 1971 by Head of State Chart to be drawn up by Adviser (Dr Hassan Abbaszaki) Law No. 39 of 1971 in 25 Articles	Board of Directors approve By-Laws of the Fund.
10. Delegation	The Prime Minister may delegate his power to the Minister of Finance.	No provision.	No provision.
11. The Administration	By Board of Directors Prime Minister (Chairman) Director-General to be appointed by the Chairman (Prime Mininster).	Board of Directors Appointed by decree by the Head of State General Manager to be appointed by decree by the Head of State.	Board of Directors Vice-Chairman and Managing Director.
12. The Object of the Fund	1. Extending loans to Arab and other developing states amd corporate bodies.	1. Offering Economic Aid to Arab Countries in support of its Economic Development in the form of Loans or of participation in projects.	Participating in the Financing Development Projects in the Developing Countries through granting of Loans to said countries. (Article 1 of the

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TABLE 5.4 COMPARATIVE ANALYSIS OF THREE FUNDS continued

	Kuwait Fund for Arab Economic Development	Abu Dhabi Fund for Arab Economic Development	Saudi Fund for Development
	Law & Charter	Law & Regulation	Charter
			Charter).
12. continued	2. Extending Grants and technical assistance.	2. Offering Economic Aid to the African, Asian and other Islamic countries.	
	3. Providing Guarantees.	3. Organising Financial Establishment to create and support a Financial Market in Abu Dhabi.	
	4. Contribution to capital stock of corporate bodies.	4. Issueing Guarantees, etc.	
	5. Contributing to capital stock of development Finance Institution and represent Kuwait in such Institution.	5. Investment.	
		6. Providing Experience and Technical Aids.	
		7. Performing Services, etc. (Articl 1 - Law No. 7 of 1975 amending Article 2 of Law No. 3 of 1971).	

/continued

TABLE 5.4 COMPARATIVE ANALYSIS OF THREE FUNDS continued

	Kuwait Fund for Arab Economic Development	Abu Dhabi Fund for Arab Economic Development	Saudi Fund for Development
	Law & Charter	Law & Regulation	Charter
13. Limitation of total cost	1. 50 % of the Project.	1. 10 % of the capital of the project.	1. 10% of the capital.
	2. Board may in exception exceed the ratio of 50%.	2. Not exceed 50% of total cost.	2. 50 % of the total cost of the project.
		3. Board may forego the 50%.	3. With exceptions.
14. Loan Agreements	Article 20 of the Charter:	Article 18 of Internal Regulations:	Article 8 of Charter:
	Loan Agreement shall:	All Contracts shall include:	all Loan Agreements shall stipulate:
1. Financial Conditions .	1. The financial conditions (terms of payment, interest, etc..).	1. Financial conditions.	1. Loan only for the project.
2. Information	2. Undertaking by the Borrower to furnish sufficient information.	2. Information undertaking by beneficiary states.	2. Informations.
3. Represent-ative	3. Undertaking by the Borrower to extend facilities to the Fund's Representatives.	3. All facilities for Fund Representatives.	3. Facilities.
4. Use of Loan	4. Ascertaining the use of the Loan for the project.	4. Use of the Loan for the project.	4. Exemption of foreign exchange restriction.

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TABLE 5.4 COMPARATIVE ANALYSIS OF THREE FUNDS continued

	Kuwait Fund for Arab Economic Development	Abu Dhabi Fund for Arab Economic Development	Saudi Fund for Development
	Law & Charter	Law & Regulation	Charter
14. continued			
5. Priority	5. No other debt will have priority over the Fund's Loan.	5. Priority not included.	5. Priority provision not included.
6. Taxes	6. Transaction is exempted from all taxes.	6. Exemption of taxes.	6. Exemption of taxes.
7. Foreign	7. Exemption of restriction with regarding of foreign exchange.	7. Exemption of restriction of foreign currency.	7. Exemption of restriction of foreign currency.
8. Confidentiality	8. Confidentiality and records with full immunity.	8. Confidential records and correspondances.	8. Confidentiality.
9. Nationalization	9. Undertaking to exempt assets from nationalization.	9. Income of the Fund shall not be nationalized.	9. Exemption of nationalization.
Notes:	If the borrower is not state 6, 7, 8 and 9 conditions to be incorporated in the guarantee agreement.	This regulation did not include (e) 20 of Kuwait Charter relating to the Priority Clause. (No other external debt will have Priority over the Fund's Loan.	This Charter did not include provision relating to Priority.

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TABLE 5.4 COMPARATIVE ANALYSIS OF THREE FUNDS continued

	Kuwait Fund for Arab Economic Development	Abu Dhabi Fund for Arab Economic Development	Saudi Fund for Development
	Law & Charter	Law & Regulation	Charter
15. Interest/ Charges	Not specified in the Charter.	Article 17 refers to "interest" prescribed in each contract + charges of half per cent.	Not specified in the Charter.
16. Language	Loan Agreement shall be in Arabic language.	No provision.	No provision.
17. Currency	Kuwaiti Dinar shall be the unit account of the Fund.	Sterling Pounds as rule with exceptions.	Saudi Riyals.
18. Profits	The net profits of the Fund shall be transferred to a reserve account.	No provision.	No provision.
19. Amendment	The Charter may be amended by an Order made by the Prime Minister upon the recommendation of the Board.	No provision (means Amiri Decree).	No provision (it is by Royal Decree).

5.4.1 Major Differences

In comparing the Charters of the three Funds we find out that:

1. The Abu Dhabi Fund's Internal Regulations includes a very significant sub clause [20(g)] which says that the Fund, when considering loans shall be guided by the following economic consideration: "that the project in question does not contradict the economic interest of Abu Dhabi or any other Arab State".

   The Charters of the Kuwait Fund and Saudi Fund would be improved by the addition of similar provisions.

2. The Saudi Fund Charter includes the following significant Termination Clause: Article 10: "Without violation of the Fund's claims emanating from the loan agreement, or as provided in the principles of public law or international convention, if the borrowing country violates any commitment relevant to the contract, the Fund may terminate payment of remaining instalments and consider the amount already paid as immediately due to be paid back after adding all expenses incurred by the contracting of the loan. This action may be

taken without any prior notice or probation and without need for taking any judiciary action". This provision is proposed to be added to the Kuwait Charter and Abu Dhabi Charter when amended.

3. The Kuwait Charter, in Article 23, stipulates that: "Loan Agreements shall be in the Arabic Language". This provision is to be included in Abu Dhabi and Saudi Funds.

(A) Recommendation for the amendment of the Kuwait Charter

1. Article 17 should include the words: "The Fund may accept deposits from Government and Public Organisations and from Individuals according to the terms and conditions determined by the Board of Directors".

2. Article 22 should include the provision: "That the project in question does not contradict the economic interest of Kuwait or any other Arab State".

3. To add the "Termination Clause" referred to in Article 10 of Saudi Charter.

(B) Recommendations for the amendment of Abu Dhabi Fund Law

1. To add the following provision: "All Contracts shall be in the Arabic language". (Similar to Article 23 from Kuwait Charter.)

2. To amend paragraph 2 of Article 2 of Law No. 3 of 1971 as amended by Law No. 7 of 1975 to read: "2(2): Offering economic aid to Arab, Islamic and other developing countries."

3. Article 14 which deals with currency transactions should state: "The UAE Dirham shall be the unit of account to the Fund" (in light of Article 25 of Kuwait Fund Charter).

4. The "Termination Clause" referred to in Article 10 of Saudi Fund should be added to the Abu Dhabi Fund's Charter.

(C) Recommendations for the amendment of the Saudi Fund:

1. The Saudi Riyal should be the unit of account of the Fund.

2. An Article specifying the Fund's functions (in the light of Kuwait Article (17)) should be added.

3. The Fund should be authorised to accept deposits from governments, agencies and individuals.

4. Contracts should be in Arabic language.

5. It should be stated clearly that the project should not contradict the economic interests of Saudi Arabia or any other Arab State.

In all Charters, an article should be added relating the co-operation and coordination with Arab Gulf financial institutions, Islamic development funds and other national, multinational and international aid institutions.

FOOTNOTES
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01. Dr I F Shihata, **"The Kuwait Fund for Arab Economic Development: A Legal Study"**, KFAED, Kuwait, October 1968.

02. State of Kuwait, **"Law No. 25 of 1974"**, Article No.2.

03. KFAED, **"KFAED Charter"**, Kuwait 19 , Article 18, ibid, Article 25.

04. **ibid**

05. **ibid**

06. KFAED, **"KFASED Charter"**, Kuwait, Article 18

07. **ibid**, Article 25

08. ADFAED, **"Internal Regulations"**, Abu Dhabi 17/7/74, Article 18

09. **ibid**, Article 20

10. State of Abu Dhabi, **"Law No. 7 of 1974"**, Abu Dhabi, 1974, Article No. 1

11. **ibid**, Article No. 3

12. Saudi Fund for Development, **"Charter of the Saudi Fund for Development"** Riyadh, 1/9/74

13. **ibid**, Article 8

14. **ibid**, Article 10

15. **"Articles of Agreement of the International Bank for Reconstruction and Development"** (hereinafter cited as IBRD Charter)

16. **"IBRD Charter"**, Article III S1

17. **"IBRD Charter"**, Article V S3 (a)

18. **"IBRD Charter"**, Article V S2 (a)

19. **"IBRD Charter"**, Article V SJ (a)

20. **"IBRD Charter"**, Article V S5 (a) - (b)

21. **"IBRD Charter"**, Article II S 8 b

22. **"IBRD Charter"**, Article II S4 (VII)

23. **"IBRD Charter"**, Article IV S3 (C)

24. **"IBRD Charter"**, Article II S4 (i)

25. Manson and R Asher, **"The World Bank Since Bretton Woods"**, PP 210 - 217

CHAPTER SIX
****

LEGAL ISSUES AFFECTING THE GULF FUNDS
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6.1 Introduction
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In the last chapter, the legal structure of the Arab Gulf funds was analysed. Attention is now turned to the various legal issues which affect them. The chapter examines the procedures which have to be followed when a project is going to be financed by one of the funds. It also turns to the terms and conditions attached to the loans. The chapter then analyses the terms and conditions applied by the three major Gulf funds.

6.2 Procedures
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For the most part, the basic procedures of project identification, loan implementation, and follow-up are similar within all the Funds, and are based mainly on World Bank guidelines. The same is true of project appraisals in the case of those Funds which make their own.

Each fund receives many direct and unsolicited requests from governments to examine projects. It learns of others from various Middle East development funds, from foreign assistance agencies in other countries, and from international organisations such as the World Bank, particularly when co-financing is being sought. In addition, a Fund will send "identification missions" into the field to consult with local government officials and private businessmen on likely projects in need of concessional funding.

If an identified project has been the subject of a feasibility study, as is usually the case, the Fund will review it before making its own appraisal. It might, at this point, decide that the feasibility study has been poorly or inadequately done, and suggest changes. If no feasibility study exists, the Fund will request one. Sometimes it will provide a grant for financing the study, although if the project later gets a loan from the Fund, the grant, sometimes known as an "engineering credit", usually becomes repayable as part of the loan.

For the investors or contractors trying to identify projects for financing from Funds, local businessmen in the developing country can be a key source of guidance. In the case of a proposed joint venture, a good local partner can determine whether it fits into national development priorities. He can try to persuade the government to pass the project over to one or more of the development funds for consideration in their lending programs.

6.3 Disbursement

The loans, however denominated, are generally disbursed in any currency agreed upon. A Fund may also permit repayment in a different currency from the loan. The disbursement system generally follows is that of the World Bank, with payment usually being made directly to suppliers. However some Funds are ready to modify disbursement procedures to make them easier for inexperienced borrowers to follow. One official of the Arab Fund has said that: "In some countries they have not had much experience in preparing disbursement documents. We do not wait until a country has learned how. We will even send people to a borrowing country to prepare the documents required."

A fund monitors the way in which its loans are proceeding by means of periodic progress reports submitted by the borrower and by sending supervisory missions into the field to see for itself what is happening. Supervision of the project is continued for as long as a loan is outstanding. Covenants are in force for the life of a loan. These covenants outline the terms and conditions under which the loans are made. The financial terms and conditions including the dates and terms of the payment of the principal sum, interest, and other charges are laid out. The covenant includes an undertaking from the borrower to furnish the fund with sufficient information about the progress of the project throughout its development. The borrower also guarantees that the fund's assets and income will be exempt from taxes and free from nationalization, confiscation or seizure. If a fund ever feels that there has been a serious breach of commitment, it can hold up disbursement and even after disbursement has been completed, it can always call in the loan.

6.4 General policies

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The prevailing principle seems to be that almost nothing is inflexible. One of the few rules that is never broken, however, requires project approval from the government of the country in which a project is being undertaken. In every case, the government must be either the borrower or guarantor of the loan. Only when assistance takes the form of equity participation, carried out by only two of the Funds, is no government guarantee required.

The regulations limiting the proportion of capital that may be loaned to any single project and the proportion of any given loan which may be financed vary from one Fund to another. The Arab Fund has no project lending limit. The Saudi Fund has a project limit of 5 per cent and a country limit of 10 per cent. The Abu Dhabi Fund limit is 10 per cent. Most Funds place a limit of 50 per cent on the portion of a project they will finance, but the ruling is often more honoured in the breach than in the observance and in the past Funds have gone higher than 90 per cent. Loans are also supposed to be, in principle, for foreign currency costs only, but often local costs are financed and the Kuwait Fund has gone as far as to allow 99.5 per cent of a loan to be used in local currency for local costs.

6.5 Terms of loans
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Funds can be divided into those that levy interest and those that take no interest but impose a service charge.

Of the no-interest funds, the OPEC Fund makes the smallest charge for covering its costs - either 0.5 per cent or 0.75 per cent. The IDB charges 2.5 per cent or

3 per cent, and the Saudi Fund 3 per cent, 3.5 per cent or 4 per cent. The Kuwait Fund tends to have the lowest interest rates - usually from 0.5 per cent to 4 per cent, although it has gone higher on occasions. There is also a 0.5 per cent service fee. Abu Dhabi Fund rates are 3 per cent to 5 per cent, and the Arab Fund loans are either 4 per cent or 6 per cent.

Loan maturities are usually in the 20 to 30 year range. The Kuwait Fund has given as long as 50 years, and the Islamic Development Bank says it can go as high as 40 years, although it has not done so yet. Ten years is about the minimum maturity for any loan.

Grace periods run from as little as a year or less, up to a dozen years. The length of the grace period is based on the required time expected for completion of the project. Often a year is added to allow a new enterprise to come fully on stream before it has to begin repaying principal. Interest payments become due six months after the first disbursement.

As a rule, the degree of concessionality of a loan, or the proportion of the finance which is provided as a grant rather than as a loan which has to be paid back, with or without interest, is influenced by the degree of poverty of the country where the project is located. However this is not the case with the Abu Dhabi Fund, which says that it only takes the type of project into account. Funds tend to give their hardest loans to projects designed to bring a financial and not just an economic return, such as an industrial enterprise. They do, however, exercise a wide degree of discretion.

6.6 The Kuwait Fund for Arab Economic Development

The Fund was envisaged from the outset as a quasi-business-like agency for promoting economic development in the Arab World on rational and fully studied economic grounds. The Fund's charter and the law creating the Fund provide a flexible framework which allows it freedom of action. The Fund itself has followed principles of policy which reflect its pragmatic attitude towards the role it can best play and which may be subject to review particularly with the potential increases in it resources.

6.6.1 Object of financing

The Fund's activities can extend to any sector in any developing country's economy. There are no sectoral limitations which restrict its activities. As seen in the previous chapters, however, the Fund has been active hitherto mainly in agriculture, irrigation, transport and communications power and industry. Assistance can be provided for specific development projects or for programmes which include a number of such projects. Assistance can also be provided for institutional support.

6.6.2 Choice of borrower

Typically loans are extended directly to governments or to government-owned corporations. Government agencies may not have the legal power to receive foreign loans. The choice is based on practical considerations. The Fund may insist that the borrower change its organisation in a way which makes it better able to achieve the purposes of the project.

6.6.3 Terms of financing

The Fund's loan terms are usually described as concessionary in that they attempt to minimize the burden of debt service on its borrowers. It has not, however, yet reached the level recommended by the United Nations Conference on Trade and Development (1964) or the Development Assistance Committee (1965).

A summary of the Fund's policy may be gleaned from the provisions of its loan agreements:

(a) As a general practice, no non-repayable grants are given by the Fund. Repayment of loans must, furthermore, be made in the amount of Kuwaiti Dinars paid by the Fund on purchasing the currencies disbursed to the borrower.

(b) Interest rates are around 3.5 per cent a year on the principal amount withdrawn and outstanding. Interest may be waived, however, if circumstances make it seem fit.

(c) A service charge of half a per cent a year is added to the interest rate.

(d) A further charge of half a per cent a year is payable on the principal of any special irrevocable commitment entered into by the Fund upon the borrower's request. Such special commitments ordinarily take the form of agreements to reimburse with a commercial bank issuing a letter of credit for the benefit of the borrower.

(e) No commitment charge, other than the one above, is imposed on the unwithdrawn portions of the loan because it would increase the burden on the borrower who is sometimes forced to delay a project for reasons beyond its control.

(f) Repayment periods range from 10 to 25 years depending on the nature of the project. In exceptional circumstances however, a much longer period may be allowed. In addition convenient grace periods are generally granted. Authorization schedules are drafted on a bi-annual basis and tend to allow lower instalments in the early years.

(g) Borrowers do not have to give bonds for the principal of the loan to the Fund, although the Fund has the power by its charter to receive such bonds.

6.6.4 Joint operations

Generally the Fund operates on its own as a sole lender through bilateral agreement with the borrower. As a policy the Fund welcomes joint operations with international lending institutions.

6.6.5 Lending from reserves

The Charter, as amended in 1974, provides that the Fund's net profits be transferred to a reserve amount (Article 30). There is no mention of a limit below which the Fund cannot use its reserve account to finance assistance operations. In practice the Fund in the past has not used its reserves for its operations in an attempt to keep a sizeable cushion against losses on loans and investments.

6.6.6 Safeguarding the Fund's interest

Like all loan agreements, the Fund's loan agreement includes extensive and detailed provisions to safeguard the Fund's interests. These are in part imposed by the Fund's charter and are included by the Fund to ensure the proper administration of the loan.

1. Project delays

The financial operations of the Fund are influenced by withdrawal or drawdown dates as it has to make sure of holding money available for withdrawal in the right time. The period of the project must be ascertained in advance and is ordinarily estimated in the "description of the project" annexed to the loan agreement. This period normally bears on the period of the loan, the grace period and the dates of the amortization schedule. Problems of delay are sometime inevitable. Other institutions have solved this by the imposition of a commitment charge. The Fund does not impose such a charge. Instead it tries to protect itself by detailed covenants in the loan agreement regarding efficiency and diligence in execution of the project according to agreed schedules.

2. Force majeure

The loan agreements include a standard provision (taken from Article V of the World Bank Loan Regulations No. 3) which allows the Fund to suspend the right of the borrower to make withdrawals from the loan if "an extraordinary situation shall have arisen which shall make it improbable that the borrower will be able to perform its obligations under the agreement" **[01]**). If this situation continues for a period of 60 days after notice of it is given by the Fund to the borrower, the Fund may declare the principal of the loan to be due and payable immediately. Furthermore, if the borrower's right to make withdrawal remains suspended for a continuous period of 30 days or an amount of the loan remains unwithdrawn by the time fixed in the agreement as the closing date for withdrawal, the Fund is empowered to cancel the remaining unwithdrawn amount. Such provisions remain, however, of little help in defining the legal rights of the parties in the case where the Fund chooses not to cancel the unwithdrawn amount of the loan or to declare its principal immediately repayable.

Theoretically a force majeure event may have rendered the execution of the project impossible, thereby freeing the parties from the contractual obligation of executing the project. However, repayment of a loan guaranteed by a government's credit can be frustrated only if a force majeure event results in a complex or major loss of all government resources. In cases of force majeure events resulting in the frustration of the performance and execution of the project. The borrower has the option of asking for the cancellation of the unwithdrawn amount. Thus reducing the sum of each maturity of the principal amount of the loan.

6.7. The Abu Dhabi Fund for Arab Economic Development
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6.7.1 Policies and operations

The law establishing the Fund and the regulations issued by the Emir gave the fund management, represented by its Board of Directors, complete freedom to determine the forms of assistance to be undertaken for achieving the Fund's goals. The forms indicated in Article 10 of the regulations are loans, equity participations, guarantees, or any other form prescribed by the board.

Equity participation is a distinguishing factor between the Abu Dhabi Fund and the Kuwaiti Fund.

The Fund functions are not greatly restricted by legislative policies. The only requirements are:

1. The Fund's contribution to any single project should not exceed 10 per cent of the Fund's capital.

2. The Fund's contribution should not exceed 10 per cent of the total cost of the project.

3. The project to which the Fund is giving assistance should not be in conflict with the economic interests of Abu Dhabi or any other Arab Country.

The first two conditions, which are designed to safeguard the Fund's capital, can be waived by a two-thirds majority of directors for each specific point.

6.7.2 The politics of the Abu Dhabi Fund

The organisation and management of the Abu Dhabi Fund reveal the weight given to political consideration. This is evident in the composition of the Board of Directors in which the majority are cabinet members including the Minister of Foreign Affairs. Recently technical considerations have been assuming greater importance in the Fund's decisions because they present clear yardsticks for evaluating the projects and make the decision-making process easier. This recent development is directly linked to co-operation between the Fund and other development financing agencies such as the Kuwait Fund.

6.7.3 The project and policy process

The combination of greater experience and economic necessity have resulted in the Fund paying greater attention to the process of identifying, selecting and appraising development projects in the borrowing countries. The experience of Abu Dhabi Fund in project selection is dominated by an ad hoc approach to the project financing cycle. The Fund does not play an active role in project identification in borrowing countries, due to its limited technical resources. This shortcoming can be overcome through collaboration with the World Bank and other regional development financing institutions.

6.7.4 Development strategy

The existence of an identifiable strategy designed to achieve certain objectives is desirable. At the moment the Abu Dhabi Fund does not have such a strategy although it will eventually become necessary. Such a strategy usually entails translating policy goals into logical operational steps.

The Fund concentrates like any other similar institution on lending to infrastructure projects because they offer the prerequisites for the economic development of any nation. Moreover these projects require a high volume of capital. This trend, however, is not the result of a well studied strategy. In broad terms the present situation in the Fund and in the other two Arab Funds mainly reflect individual efforts by the various Funds in pursuing loosely coordinated priorities. In any case the financial resources of the Abu Dhabi Fund are too small to allow it to influence development performance in the region through adopting a strategic plan.

6.8 The Saudi Fund for Development, (SFD)

The Fund only provides assistance to governments for public sector projects. The amount of lending to any one country does not exceed more than 10 per cent of the authorised capital and lending to any project does not exceed 5 per cent of the authorised capital. In addition, the Fund provides no more than 50 per cent of the total costs of a project. Loans are normally extended and repaid in Saudi Riyals. The Fund does not guarantee the loans of other Saudi institutions, although equity participation is possible under its charter. As a general rule the Fund does not make technical assistance grants.

6.8.1 Terms and conditions

The terms and conditions depend upon the economic situation of each recipient country, its classification as a "most seriously affected", or as a "least developed" one. Repayment periods range between 15 and 25 years and grace periods between three and five years. The principal of the loan, loan charge and other charges are payable in Saudi Riyals.

6.8.2. Management and administration

Like the other two national Arab Funds, the Saudi Fund has a Board of Directors, chairman of the board, vice-chairman and managing director. It is the board which has the final decision on loan commitments. Besides the chairman, there are five members, holding renewable three-year terms. The Fund's managing director, who is also deputy chairman, sits on the board and casts a deciding vote in the event of a tie. The organizational structure of the Fund is based mainly upon capital and loan administration, documents and information, legal advice, evaluation and follow-up.

6.8.3 Approaches applied

The Fund adopts a simple approach to operations. Projects submitted by borrower governments should have high economic or social priority. The government encourages regional projects and supports them through the Saudi Fund for Development , (SFD). The Fund adopts a co-ordination policy with other experienced aid institutions and is willing to co-finance projects recommended to it by organisations such as the World Bank, Asian Development Bank, BADEA and others. This has helped its aid operations to run smoothly.

6.8.4 Problems of implementation and follow-up

As in the case of the other two national Arab Funds, the Saudi Fund faces problems of delays in ratification, tenders, bids, withdrawal applications, progress reports, and problems of security, management, etc. The Saudi Fund's officials have also indicated problems including the selection of foreign consultants, agreements between host governments and contractors, and reliance on sub-contractors, In addition there are the general problems of Third World countries faced with Western contractors who take unfair advantage of the position of the developing countries. There are also problems posed by local taxes, availability of local materials, local components, currency fluctuations, cost escalations and the host government's obligations regarding employment and financing.

6.8.5 Strategy for financing and technical assistance

The Saudi Fund does not follow a medium or long-term strategy regarding the amount of aid to be disbursed in forthcoming years. Nor does it provide technical assistance. Its policy is mainly based upon year to year operations in the field of project lending and, as previously indicated, is based upon balanced amounts of loans to be divided between Asian and African countries. The Fund should perhaps pay more attention in future operations to the most seriously affected and least developed countries among the Third World. The provision of aid to develop the vital transport sector would also stimulate foreign trade. The Fund could also gain great experience from feasibility studies for these projects. It could play a leading role in this sector and would then be ideally suited to provide technical assistance.

Footnote
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1) IRBD, "**World Bank Loan Regulations No. 3**", Washington, Article 5.

CHAPTER SEVEN

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ARAB GULF FUNDS' LOAN AGREEMENTS

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In this chapter, the loan agreements of Arab Funds will be analysed together with that of World Bank. Furthermore, the major legal issues related to the arbitration (jurisdiction) and the applicable law (choice of law) will be discussed. Finally, a model of a new standard loan guarantee agreement is presented which might be used in future by the Arab Funds.

7.1 Analysis of Arab Funds' loan agreement

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The terms and conditions of the loan agreements of the three Funds are very similar. Their charters lay down the compulsory terms and conditions which should be included in the loan agreements. Beside the loan agreement there is a loan guarantee to safeguard repayment.

The contents of the loan agreement

When we analyse a standard loan agreement of the Kuwait Fund, for example, we find out that it contains the following terms and conditions. Examples of these terms are provided later in this chapter in the model agreement.

Article I : The amount of the loan, rate of interest and other charges, repayment details and place of payment.

Article II : Currency provisions.

Article III: Withdrawal and use of proceeds of the loan.

Article IV : Particular covenants.

Article V : Cancellation and suspension.

Article VI : Enforceability of agreement, failure to exercise rights, arbitration.

Arbitration Clause

In the Fund's loan agreement, the following is the standard form of arbitration clause:

1. Any controversy between the parties to this agreement and any claim by either party against the other arising out of this agreement shall be

determined by agreement of the parties, and failing such agreement the controversy or claim shall be submitted to arbitration by an arbitral tribunal as provided in the following section.

2. The arbitral tribunal shall consist of three arbitrators. The first arbitrator shall be appointed by the borrower, the second arbitrator shall be appointed by the Fund; and the third arbitrator (hereinafter sometimes called the umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice at the request of either party. If either of the parties shall fail to appoint an arbitrator, such arbitrator shall be appointed by the President of the International Court of Justice upon the request of the other party. In case any arbitrator appointed in accordance with this section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as prescribed herein for the appointment of the original arbitrator and such successor shall have all the powers and duties of the original arbitrator.

Arbitration proceedings under this section may be instituted by either party upon giving notice to the other. Such notice shall contain a statement setting out the nature of the controversy or claim to be submitted to arbitration, the nature and extent of relief sought, and the name of the arbitrator appointed by the party instituting such proceedings. Within thirty days after the giving of such notice, the other party shall notify to the party instituting the proceedings of the name of the arbitrator appointed by such other party.

If within sixty days after the giving of the notice instituting the arbitration proceedings the parties shall not have agreed upon an umpire, either party may apply for the appointment of an umpire as provided in the first paragraph of this section. The arbitral tribunal shall convene at such time and place as shall be fixed by the umpire. Thereafter, the arbitral tribunal shall determine where and when it shall sit.

Subject to the provisions of this Section and except as the parties shall otherwise agree, the arbitral tribunal shall decide all questions relating to its competence and shall determine its procedure. All decisions of the arbitral tribunal shall be by majority vote. The arbitral tribunal shall afford all parties a fair hearing and shall render its award in writing. Such award may be rendered in default of appearance of one of the parties. An award signed by a majority of the arbitral tribunal shall constitute the award of the tribunal. A signed copy of the award shall be delivered to each party. Any award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to this agreement. Each party shall abide by and comply with the award rendered by the arbitral tribunal.

The parties shall fix the amount of the remuneration or fees of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amounts before the arbitral tribunal shall convene, the arbitral tribunal shall fix such amounts as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the arbitral tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the arbitral tribunal or the procedure for payment of such costs shall be determined by the arbitral tribunal.

The arbitral tribunal shall apply the principles common under the current laws of the borrower and the state of Kuwait, as well as the principles of justice.

3. The provisions for arbitration set forth in the previous section shall be in lieu of any other procedure for the determination of controversies between the parties to this agreement and any claim by either party against the other party arising there under.

Article VII : Miscellaneous provisions.

Article VIII: Effective date, termination.

Article IX : Definitions.

7.2 World Bank Legal Instruments - Loans

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Introduction

The International Bank for Reconstruction and Development (IBRD or the World Bank) was created at the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, in July 1944. It was established in part for the purpose of meeting the capital needs for economic reconstruction in those countries devastated by World War Two. Today the Bank's principal activities consist of financing development projects in its developing member countries. The world Bank family consists of three financial institutions, the IBRD itself and two affiliates; the International Finance Corporation (IFC). Each institution has its own special function, but all are devoted to the same general objective of promoting economic development by providing loans and technical assistance to developing member countries. Generally the IBRD may be described as an inter-governmental institution, corporate in form, with all capital stock subscribed by the member countries. It is the senior World Bank Institution and makes long term loans to governments, or to other entities backed with government guarantees. Its rates of interest are somewhat lower than, but are related to, market rates for high priority projects designed to increase output of useful goods and services and to raise standards of living.

The IDA on the other hand makes concessionary loans, called credits, to countries whose per capita incomes are exceptionally low. The IFC supplements the activities of the Bank and IDA by making encouraging investments on commercial terms to productive private enterprise in developing member countries.

The Bank has served as a model for the creation of several regional development banks such as the Inter American and Asian Development Banks. In addition, and as part of its aim of encouraging and facilitating the flow of capital from the developed to the developing countries, the Bank sponsored the establishment of the International Centre for the Settlement of Investment Disputes (ICSID). The centre which came into being in 1966 and provides facilities for the arbitration or conciliation of international investment disputes between private investors and governments. Since the Bank is the Model for the other development Institutions. It is essential in this study to include analysis of the loan agreements and guarantee agreements of the Bank, to enable us to have a comparative view between the legal instruments relating loan of the Bank and those of Arab Fund's Loan Agreement.

It is worthwhile to refer to the fact that the standard provision of loan and guarantee agreements of Kuwait Fund, for instance are heavily influenced by the World Bank's loan regulation.*

Principal instruments

The principal instrument used in connection with the Bank's loan transactions include a loan agreement with the borrower and if the borrower is not the member of the World Bank in whose territories the project is located, a guarantee agreement with that member; the Bank's general conditions applicable to loan and guarantee agreements (to the extent, and subject to modifications, if any, agreed upon for the purposes of the particular loan and/or guarantee agreement); and, if the beneficiary of the loan is not the borrower, a project agreement with the beneficiary.

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* Foot Note: See Ibrahim F.I. Shihata - The Kuwait Fund for Economic Development - A Legal Study - Kuwait, 1968 - p.65.

Loan agreement

Besides the financial terms, such as commitments, charges, interest and amortization, the loan agreement typically covers additional matters. These include the following :

* conditions of effectiveness;
* disbursement;
* procurement;
* execution of the project;
* depending on the type of borrower and project, financial covenants such as rate covenants, **(a)**, debt limitations, **(b)** and dividend restrictions;
* negative (pari passu) pledges, **(c)** or, in the case of non-governmental borrowers, positive in rem security, and
* events of suspension, cancellation and/or acceleration, including in appropriate cases adverse changes in legislation or contractual arrangements essential to the project.

(a) Rate Covenants mean the interest at the rate of six and one-half percent (6.5 %) per annum on the principal amount of the loan, withdrawn and outstanding from time to time, as agreed upon in the loan agreement. It also includes the undertaking of the borrower to pay the Bank a commitment charge at the rate of three-quarters of one percent (0.75 %) per annum on the principal amount of the loan withdrawn from time to time.

(b) Debt. The term "debt means all debt of the borrower maturing by its terms on demand or more than one year after the date of its incurrence.

(c) Negative Pledge ((Pari Passu). Typically defined as "assets of the guarantor, of any political or administrative subdivision thereof and of any entity owned or controlled by, or operating for the account or benefit of, the guarantor or any such subdivision, including gold and foreign exchange assets held by any institution performing the functions of a Central Bank or exchange stabilization fund, or similar functions, for the guarantor".

Guarantee agreement

This agreement, including the general conditions to the extent applicable thereto, provides for an unconditional payment guarantee as an indemnity rather than purely as a guarantee. It also typically contains a negative pledge (pari passu) clause, widely drawn to cover all public assets, and an undertaking not to interfere with the borrower's performance and to facilitate such performance. In some instances of loans to public sector borrowers, such as government owned parastatal companies, the Bank requires a full performance guarantee, including a specific obligation to cover a shortfall of funds required for the project.

Project agreement

Where the project entity (the beneficiary) is not itself the borrower it has been found convenient to deal with matters relating to the project in an agreement between the Bank and that entity. Breaches of the project agreement constitute events of default under the loan agreement. As already noted the borrower usually covenants to see that the terms of the project agreement are observed.

Applicable law

Each loan by the Bank involves either a loan agreement or a guarantee agreement with a member government. The bank has an international personality and is capable of creating international rights and obligations in its dealings with other international persons, e.g. its members. The Bank has from the start taken the position that its loan and guarantee agreements do create such rights and obligations. In language substantially unchanged since 1947 the Bank's general conditions provide:

> The rights and obligations of the Bank, the borrower and the guarantor under the loan agreement and the guarantee agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any State, or political subdivision thereof, to the contrary **[01]**.

In accordance with their status as international agreements, the Bank's loan and guarantee agreements with members are registered with the Secretary-General of the United Nations pursuant to Article 102 of the U.N. Charter and the regulations of the General Assembly issued thereunder.

Arbitration

Controversies under loan and guarantee agreements are to be submitted to arbitration to the exclusion of any other remedy. The parties will be the Bank on one side and the borrower (and guarantor, if any) on the other. Each side appoints one arbitrator and the third arbitrator, referred to as umpire, is to be appointed by agreement of the parties, or if they do not agree, by the president of the International Court of Justice in the Hague or, failing appointment by him, by the Secretary-General of the United Nations. In case of disagreement between the borrower and the guarantor concerning the appointment of an arbitrator, the guarantor makes the appointment. In case of failure of one of the sides to appoint an arbitrator, the latter will be appointed by the umpire whose appointment by the president or the Secretary-General may be requested by either party if the parties have not reached agreement on the umpire within 60 days after the institution of proceedings. These provisions for the constitution of the tribunal and a further provision permitting awards to be rendered by default guard against frustration of the arbitration undertakings. All decisions of the tribunal are to be by majority vote and are final and binding. In case the award is not complied with within 30 days, any party may seek to enforce the award in any court of competent jurisdiction or pursue any other appropriate remedy, subject to one qualification, viz that this provision "shall not authorise any entry of judgement or enforcement of the award against any party that is a member of the Bank except as such procedure may be available otherwise than by reason of the provisions of this section", **[02]**.

The effect of this qualifying language is that the arbitration provisions are not to be considered as a waiver of sovereign immunity by member governments, but that they permit enforcement where such enforcement is charter to specify the procedure. The charter requires only the signature of the chairman of the board after the board's approval has been given for each agreement. The Saudi Fund for Development, (SFD), and the Abu Dhabi Fund for Arab Economic Development, (ASFAED), have no provisions for ratification. The charters require the signature of the chairman of the board in each Fund.

For the recipient state, however, agreements with the Funds fall within the sphere of foreign relations and affect its credit. Constitutional requirements are vital. The need for ratification depends upon the borrowing state's constitutional characterization of the loan agreement. The Fund usually requires certain conditions which can only be effected by legislation such as tax exemptions, exemption from nationalization, etc.

In practice the Funds have always required the borrowing or guaranteeing government to obtain legislative ratification. Only when legislative powers in the benefitting state were delegated de jure or de facto to the head of the executive was parliamentary approval not sought by the receiving state.

possible under the law of the forum. On the other hand, Section 10.04 (k) does constitute a waiver by the Bank of its jurisdictional immunity from action by members.

The arbitration provisions in the Bank's (and IDA's) more than 2,600 lending agreements have never been invoked **[03]**.

7.3 Legal nature of agreements with recipients

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The majority of the various Arab aid funds are national agencies and are not international bodies. Consequently agreements entered by them are not treaties. Nor are they municipal contracts per se since both ratione personae and ratione materia in the Funds' agreements are of transnational character.
Four elements are relevant in this area:

7.3.1 The requirement of ratification

This involves the identification of the proper authority for approving the loan for both parties. By Article 137 of the constitution of Kuwait, public corporations, such as the Fund of that country may grant and guarantee loans according to the procedure set out in the law which creates it. The Fund's law leaves it to the charter to specify the procedure. The charter requires only the signature of the chairman of the board after the board's approval has been given for each agreement. The Saudi Fund for Development, (SFD), and the Abu Dhabi Fund for Arab Economic Development, (ASFAED), have no provisions for ratification. The charters require the signature of the chairman of the board in each Fund.

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In practice the Funds have always required the borrowing or guaranteeing government to obtain legislative ratification. Only when legislative powers in the benefitting state were delegated de jure or de facto to the head of the executive was parliamentary approval not sought by the receiving state.

7.3.2 Applicable law

The Funds' agreements are clear in denying any inference of submission to a municipal law. The agreements include provisions excluding the application of certain municipal laws of the recipient state. The Funds' agreements read as follows:

> "The rights and obligations of the Fund and the borrower under this agreement shall be valid and enforceable in accordance with their terms notwithstanding any local law to the contrary. Neither the borrower nor the Fund shall be entitled under any circumstances to assert any claim that any provision of this agreement is invalid or unenforceable for any reason". This ensures that the agreement will not be frustrated by a conflicting domestic law.

This provision included in the Arab Gulf Funds Agreement is similar to that of sections 7.01 and 7.02 of loan Regulations No.3 of the World Bank. **[04]**
The Funds' Loan Agreement are characterised as non treaties. If we investigate in the Kuwait Constitution for instance, we reach this conclusion.

Article 70 of the kuwait Constitution provides for the conclusion of treaties by Amiri decrees and requires legislative action for the ratification of certain types of treaties including "treaties which entail additional expenditures not provided for in the (State) budget". The same agreements, being made with a foreign recipient by an entity other than the Kuwait Government" do not involve "public loans" or "loans granted by the Government" in the sense of Article 136 of the Constitution. This Article stipulates that public loans and loans granted or guaranteed by the Government shall be concluded by a law. Rather, the Fund's loan operations fall under Article 37 simply stating that public corporations may "grant or guarantee loans according to law. The Fund's charter, through delegation by its law, empowers the chairman of the Board to sign loan agreements after the Board's approval of each operation. No further procedure is thus followed in Kuwait for the ratification of the Fund's loan and guarantee agreements. The autonomy of the Fund in this respect was duly recognised by the National Assembly after a brief legal controversy over the matter in 1962/1963 **[05]**.

If agreements concluded by the Fund are not "treaties" in the conventional sense of this term, this fact does not necessarily result in subjecting such agreements to the municipal law of either of the parties thereto or in excluding any application of international law to them.

The opposite view, traditionally upheld in the past, is now giving way to the more convincing trend which allows the parties to mixed transactions of this kind to be free to borrow from either system of law the rules most suitable to regulate their relationship **[06]**, or if necessary, to refer to an autonomous legal system independent of both **[07]**.

In the context of settlement of disputes between the parties by means of arbitration the agreements uniformly provide that "the arbitral tribunal shall apply the general principles common under the current laws of the borrower (a guarantor) and the (state of Kuwait/or Saudi Arabia/or U.A.E.), as well as the principles of justice".

This means that each agreement has a legal system of its own, depending on the general principles common between Kuwaiti, Saudi Arabian or U.A.E. law and the municipal law of the other party.

7.3.3 Conciliation and arbitration

The standard clause provides first for amicable settlement, then arbitration. Such a procedure applies to all loan and guarantee agreements regardless of the character of the borrower. It is also an exclusive procedure, "In lieu of any other procedure for the determination of controversies between the parties". Detailed provisions of the arbitral procedure provide in each agreement for the composition of the tribunal, its procedures, the apportionment of the cost of the proceedings and the applicable law.

7.3.4 Registration

The legal department of the Kuwait Fund believes that there is not requirement to register the Fund's agreements with the UN secretariat pursuant to Article 102 of the UN Charter which requires the registration of every treaty and every international agreement with the UN secretariat. SFD and ASFAED similarly do not require registration of their agreements with UN secretariat.

7.4 Legal issues and the need to take care of them

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It goes without saying that the resolution of the legal issues, the anticipation of any legal problems likely to arise and the making of necessary provisions to meet and/or resolve them, as well as the documentation of the contract, have necessarily to be done by legal experts.

The loan contract of a fund is not the document for a domestic loan transaction. It is an international contract and the details of each and every term of the contract have to be worked out very carefully.

The following matters should be considered in the structuring of the loan agreements [08]:

1. The Fund's loan agreement should, besides setting out the terms of the loan, also provide the ground rules, procedures and mechanisms for the fulfilment, performance and enforcement of the different provisions of the contract. The contract should be structured so as to minimise the impact of any changes in the political conditions of the different countries involved.

2. While the major objective of the contract should be to safeguard the lender's interests, particularly with regard to the repayment and enforcement of the loan, the contract should also seek to strike a balance between the interests of the lender and those of the borrower and have due regard to the conditions of the market and the political and economic conditions of the different countries involved.

3. Identification, description and representation of the parties is one of the basic minima of a loan agreement. Where the borrower is a sovereign state or a government it is particularly important for its borrowing powers to be ascertained and it is necessary to specify the governmental or other entity which can borrow and by which which the contract is to be entered. In syndicated loans the manager(s) (including, if any, co-managers and lead managers), agent bank(s) (and lead banks) will have to be identified and described. It has to be ensured that an authorised representative of the borrower executes the documents on behalf of the borrower.

4. A typical loan agreement will contain representations and warranties given by the borrower - i.e. statements concerning various matters.

These warranties may be legal or commercial. Legal warranties usually include matters relating to the status of the borrower and its power and authority to borrow, execution of the contract; the conformity of the contract with the laws of the country of the borrower; the legal validity and enforceability of the contract; the obtaining and subsistence of official consents; and the private and commercial nature of the act of borrowing. Commercial or financial warranties will include statements about the business and financial condition of the borrower.

Legal warranties may be qualified as being subject to the qualifications, reservations and observations contained in legal opinions taken before the loan agreement is executed. Some agreements may require warranties to be repeated periodically so that they become so-called "evergreen" warranties remaining in force throughout the life of the agreement.

The purpose of the warranties is to provide an estoppel against the borrower; to provide a checklist of items required from the borrower; to make the continued correctness of representations and warranties conditions precedent to further drawdowns and to make any failure to comply with representations and warranties a default entitling the loan repayment to be accelerated.

5. The borrower is also required to give undertakings, known as covenants, which relate to the ranking of obligations, the giving of a negative pledge, the responsibility for notifying a default, the

furnishing of information on the business or financial position of the borrower and the maintenance of a ratio of liabilities to assets. These fulfil similar functions to representations and warranties but in addition a break entitles the lender to sue for breach of contract.

6. A borrower defaults on the agreement by failure to repay on the due date and to comply with other provisions, representations and evergreen warranties, covenants and so on, or it may commit anticipatory breach of the contract, such as announcing the suspension of repayments. It is necessary that, where there is an anticipatory breach by supervening circumstances, there should be a provision in the contract constituting it as a default. Besides non-payment of the loan, common defaults include breach of warranty, breach of covenant and breach of material obligations.

7. The law governing the interpretation, performance and enforcement of the contract must be chosen and set out in the agreement. Where no choice of law has been made there will be complications in ascertaining the law and interpreting the contract.

8. There should be a specific provision that the agreement should benefit, and be binding upon the successors and assignees of rights and obligations of the parties under the agreement. The borrower can assign its right to payments only by prior consent of other parties. Once any consents required from the borrower are obtained, the transfer of obligations by a lender will only be effective when the assignee has agreed to perform such obligations.

9. All notices and communications should be made by telex or in writing. The addresses of parties to receive notices and communications should be specified.

10. The agreement may be signed in counterparts.

11. Project finance agreements normally stipulate the purpose of the loan and how the money should be spent.

12. All notices and documents should be in arabic or accompanied by a certified translation into arabic. In any conflict, the arabic translation should prevail.

13. Normally no provision for arbitration is made in a Fund's loan agreement.

14. Besides the loan agreement there are also ancillary documents, mainly security documents, comfort letters, legal opinions from the borrower's in-house legal specialists and outside lawyers of the borrower's country.

7.5 Choice of law - the concept of the Proper Law

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1. Generally

The most significant legal system connected with an agreement is its "Proper Law". The Proper Law is the law which the parties expressly state will apply to the agreement or, if they omit to specify a proper law in advance, it is the law which is deemed to apply on the basis of local rules applying in the absence of express choice of law.

Practically every developed legal system recognises that issues in contract must be governed by some system of law, such as the law of England or the State of New York or even in some legal systems "general principles of law recognised by all civilized nations" **[09]**.

Market practice shows that the lender's view as to the appropriate proper law usually prevails over that of the borrower in the event of conflict, partly because a lender often has an edge in bargaining power before the loan is made and partly because in the context of international finance (as opposed to consumer finance) it is usually the lender who is in need of the greatest protection once he has parted with the money.

It must be admitted that non-legal preferences, such as patriotism, tradition, familiarity and convenience, play a major role. Banks and investors generally prefer that their agreements and securities be subject to "home" systems of law with which they are familiar and with which they therefore feel safe to a system of law which has been habitually applied to financial transactions. A massive and costly investigation of the pertinent provisions of the foreign legal system is thereby saved. From the administrative point of view the practical task of preparing the documents makes it convenient to select the law of the country where these activities will be carried out, usually where the lenders happen to be situated [10].

2. Waivers of immunity

The most important distinction in questions of sovereign immunity is that between public and governmental acts of a sovereign power (acts jure imperii) and its commercial or private acts (acts jure gestonis). Under the restrictive view of immunity of courts common to many modern legal systems will arrest suit or prevent execution only where the activity or property is of a governmental nature [11].

2.1 Examples of waivers of immunity

The following is an example of a United States waiver clause attached to a jurisdiction clause.

> "The borrower agrees that should the Bank bring legal action or proceedings against it or its assets in relation to any matters arising out of this agreement, no immunity from such legal action or proceedings (which shall be deemed to include, without limitation, suit, attachments prior to judgement, other attachments, the obtaining of judgement, execution or other enforcement) shall be claimed by or on behalf of the borrower or with respect to its assets. The borrower hereby irrevocably waives any such right of immunity which it or its assets now has or may hereafter acquire."

An English waiver might state :

> "The borrower hereby consents generally in respect of any legal action or proceedings arising out of or in connection with this agreement to the giving of any relief or the issue of any process in connection with such action or proceedings including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement which may be made or given in such action or proceedings".

2.2 Warranties

In loan agreements these jurisdictional waivers are often buttressed by a warranty to the following effect:

> "The borrower is subject to civil and commercial law with respect to its obligations under this agreement. The execution, delivery and performance of this agreement by the borrower constitute private and commercial acts rather than governmental or public acts. The borrower and its property do not enjoy any right of immunity from suit, set-off or attachment or execution on judgement in respect of the obligations of the

borrower under this agreement. The waiver contained in this agreement by the borrower of any such right of such immunity is irrevocably binding on the borrower [12].

7.6 Model of standard loan and guarantee agreement for Arab development funds

To set up a standard agreement for all Arab Funds which includes all terms of borrowing, lending and guarantees is a difficult task because of the differences between these Funds' activities, status and policies. For instance, some of these financial institutions grant loans only to governments and some of them levy charges on the unwithdrawn amounts of the loan with or without interest. Furthermore, some Funds have their own regulations related to currency.

Although the setting up of a standard loan agreement is not an aim per se of this study there is no doubt that it would be of great help to the parties to have a well prepared guideline at their disposal.

The following model was drawn up in the light of the loan agreement and guarantee agreement of the KFAED and the loan agreement of SFD, ADFAED and IBRD. This standard form of agreement includes the condition of loans and guarantees following the method adopted in the World Bank and International Development Fund.

Standard Loan Agreement

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The below are my view on a possible new Standard Loan Agreement, which derives from my analysis of the different types of loan agreements including those of IBRD.

A loan agreement for a Fund should have a standard form and should comply with international terms and conditions suitable to both the donor and the recipients.

Article 1

The application of general conditions to loans (and guarantee of loans) [13].

1. The terms of the model agreement shall be applied to any loan agreement entered by the Fund, and to any government guarantee of such a loan, provided that each agreement shall be bound by the model

agreement only if the agreement in question expressly adopts the model agreement. The adoption of the model agreement shall have the effect of adopting whatever amendments to the model agreement are in force at the time. In case the loan agreement is between the Fund and the government, and not to another legal entity guaranteed by the government, reference in these conditions to "guarantor" or "government guarantee" or "guarantee agreement" shall not apply.

Rationale

(i) For a project to prove successful it should be governed by terms and conditions which must be approved and fully understood by all concerned before the documents which constitute their agreement are signed.

(ii) It is expressly provided that when the loan agreement is between the Fund and a government, no reference should be made to the guarantee agreement or guarantor. This is reasonable because when the government is the borrower no other legal entity will guarantee it.

Article II

Definitions

In this document the following terms shall bear the meanings here given wherever used except where the otherwise requires :

1. The term "model agreement" means the terms and conditions set out in this document and also all the supplementary agreements and appended schedules.

2. The term "Fund" means...................

3. The term "loan agreement" means any loan agreement providing for the adoption of the model agreement as may be amended from time to time, and also all the supplementary agreements and appended schedules.

4. The term "loan" means the loan provided to be given according to the "loan agreement".

5. The term "borrower" means that party who will be the beneficiary in the "loan agreement".

6. The term "guarantee agreement" **[14]** means any agreement between the Fund and any government to

guarantee any loan and providing for the adoption of the model agreement.

7. The "guarantor" means the government party in any agreement to guarantee any loan granted by the Fund.

8. The term Kuwaiti Dinar/Saudi Riyal/Arab Emirate Dirham means the currency ....

9. The term "Project" means the project or purpose for which the loan is granted, as described in this agreement and as amended from time to time by agreement between the Fund and the borrower.

10. The term "goods" means equipment, supplies and services which are required for the project and wherever reference is made to the cost of any goods, such cost shall be deemed to include the cost of importing such goods into the territories of the borrower or the "guarantor" **[15]**.

11. The term "closing date of withdrawal from the loan" means the date specified in the loan agreement for the borrower to withdraw from the loan as may be amended from time to time.

12. The "amount of the loan" shall be that specified in the loan agreement.

Rationale

In fact this Article is of the greatest importance to the parties of the agreement because it is necessary to understand the various expressions used and to identify clearly their respective meanings and limitations.

Article III

The loan; interest and other charges; repayment; place of payment

Section 3.1 The Fund shall allocate the amount of the loan into a special account to be opened for this purpose in the records of the Fund and the borrower will withdraw from this account according to the terms and conditions set forth in this agreement.

Section 3.2 The borrower shall pay interest at the rate provided in the loan agreement per annum on the principal amount of the loan withdrawn and outstanding from time to time. Interest shall accrue from the respective dates on which amounts shall be so withdrawn.

Section 3.3 An additional charge of one-half of one per cent (1/2 of 1 per cent) per annum on the amount of the loan withdrawn and outstanding from time to time shall be paid to meet the administrative expenses and the expenses of implementing this agreement **[16]**.

Section 3.4 The charge payable for special commitments entered into by the Fund at the request of the borrower pursuant to Section 4.2 of this agreement, shall be at the rate of one-half of one per cent (1/2 of 1 per cent) per annum on the principal amount of any such special commitments outstanding from time to time.

Section 3.5 Interest and other charges shall be computed on the basis of a 360 day year of twelve 30 day months for any period less than a full one half of a year.

Section 3.6 The borrower shall repay the principal of the loan in accordance with the amortization schedule set forth in schedule attached to this agreement.

Section 3.7 The borrower upon approval of the Fund shall have the right to repay in advance of maturity, all of the principal amount of the loan at the time outstanding; or all of the principal amount of any one or more maturities, provided that before the date of such prepayment the borrower shall pay all accrued interest and other charges.

Section 3.8 The principal of, and interest and other charges on, the loan shall be paid at..... or at such other places as the Fund shall reasonably request.

Rationale

This Article is very similar to the text of Article 1 of KFAED Loan Agreements and to Article 11 of the IBRD's Loan Agreement.

It is necessary to make proper provision for the matters related to the loan; the amount of the loan, rate of interest, administrative charges, repayment schedule and the place of payment.

Article IV

Currency provisions

Section 4.1 All accounts of the financial transactions made pursuant to this agreement shall be, and all sums falling due thereunder shall be payable in..............(currency name).

Section 4.2 The Fund will purchase, at the request of and acting as an agent for the borrower, such currencies as may be required for payment of the cost of goods to be financed from the loan under this agreement, or for reimbursement of such cost in the currency in which it was actually incurred. The amount which shall be deemed to have been withdrawn from the loan in any such case shall be equal to the amount of............(currency) required for the purchase of the respective amount of foreign currency.

Section 4.3 When repayment of principal or payment of interest and other charges on the loan is being made, the Fund may, at the request of and acting as an agent for the borrower, purchase the amount of......... (currency) required for such payment by the borrower of the amount required for such purchase in an currency or currencies as may be acceptable from time to time to the Fund.

No payment to the Fund required under this agreement shall be deemed to have been effected except from the time and to the extent that............... (currency) has actually been received by the Fund.

Section 4.4 Whenever it shall be necessary for the purposes of this agreement to determine the value of one currency in terms of another, such value shall be reasonably determined by the Fund according the value of currency in the stock markets at the previous day of determination of the value of currency.

Rationale

This provision is not included in the IBRD Loan Agreement. Similar provisions are included in the loan agreements of KFAED, SFD and ADFAED. Each Fund will add the currency of its country which is fair because the Lender will not agree to lend or be repaid in an alternative currency. Through this provision the Funds will not be effected by the foreign currency fluctuations.

This provision will be a major issue when adopted after the proposed Arab Gulf Development Fund is created. What currency will be used ? There are six countries and six different currencies. This, however, should be no obstacle since the Fund will be able to nominate the currencies it will use. Alternatively the calculations could be made on the basis of a basket of currencies. The US dollar would probably also be used since the capital of the proposed Fund is to be paid in US dollars. It is hoped, however, that the GCC will eventually have its own single unified currency as it used to in the past.

Article V

Withdrawal and use of proceeds of the loan

Section 5.1 (a) The borrower shall be entitled to withdraw from the loan amounts expended or to be expended for the project in accordance with the provisions of this agreement.

Except as the Fund may otherwise agree, no amount shall be withdrawn from the loan on account of expenses prior to date of the loan, or to finance local costs of goods purchased by the currency of the borrower.

(b) No amount shall be withdrawn from the loan on account of tax levied by the borrower or the guarantor [17] or effected in their territories on goods or imports of purchase of product of the goods.

Section 5.2 Upon the borrower's request and upon such terms and conditions as shall be agreed upon between the borrower and the Fund, the Fund may enter into special commitments in writing to pay accounts to the borrower or others in respect of the cost of goods to be financed under this agreement notwithstanding any suspension or cancellation thereof.

Section 5.3 When the borrower shall desire to withdraw any amount from the loan or to request the Fund to enter into a special commitment pursuant to Section 5.2, the borrower shall deliver to the Fund a written application in such form, and containing such statements and agreements, as the Fund shall reasonably request. Applications for withdrawal, with the necessary documentation as hereinafter in this article provided, shall, except as the borrower of the Fund shall otherwise agree, be made promptly in relation to expenditure for the project.

Section 5.4 The borrower shall furnish to the Fund such documents and other evidence in support of the application for withdrawal as the Fund shall reasonably request, whether before or after the Fund shall have permitted any withdrawal requested in the application.

Section 5.5 Each application for withdrawal and the accompanying documents and other evidence must be sufficient in form and substance to satisfy the Fund that the borrower is entitled to withdraw from the loan the amount applied for and that the amount to be withdrawn from the loan is to be used only for the purposes specified in this agreement.

Section 5.6 The borrower shall cause all goods financed out of the proceeds of the loan to be used exclusively in the carrying out of the project.

Rationale

This Article is of great importance. A similarly titled article occurs in Article 111 of the IBRD Standard Loan Agreement, Article 111 of the KFAD Loan Agreement, Article V of the SFD Loan Agreement and Part Four (Articles 12-16) of the ADFAED Loan Agreement.

This Article is at the heart of the agreement. It is the tool by which the Funds ensure continuous supervision of the loan under the terms of the agreement.

It is also a very important clause for keeping control over expenditure, particularly in some developing countries where the executive branch is not subjected to the control of the legislative branch.

Article VI

Priority of the loan, taxes, restrictions, immunities

and liens

Section 6.1 It is the mutual intention of the borrower (or the guarantor) **[18]** and the Fund that no other debt shall enjoy any priority over the loan by way of lien hereafter created on the assets of the borrower. To that end, the borrower undertakes that, if the borrower (or guarantor) shall create any lien on any assets of the borrower or guarantor as security for any external debt such lien will ipso facto equally or ratably secure the payment of the principal of, and interest and other charges on, the loan, and that also undertakes in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to:

(i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property;

(ii) any lien on commercial goods to

secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of the sale of such commercial goods; or

(iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the borrower (or guarantor) as used in this Section includes assets of the borrower of any political or administrative subdivision thereof or of any entity owned or controlled by the borrower or by any other institutions performing the functions of a central bank.

Section 6.2 The principal of, and interest on the loan and all other charges shall be paid without deduction for, and free from any taxes, or charges imposed under the laws of the borrower (or guarantor) or laws in effect in its territories, whether at present or in the future.

Section 6.3 This agreement shall be free from any taxes, imposts, levies, fees and dues of any nature that shall be imposed under the laws of the borrower (the guarantor) and the borrower shall pay or cause to be paid all such taxes, imposts, levies and dues, if any, imposed under the laws of the country or countries in whose currency the loan may be repaid or laws in effect in the territories of such country or countries.

Section 6.4 The principal of, and interest and other charges on the loan shall be paid free from all restrictions, imposed under the laws of the borrower (or guarantor) or laws in effect in its territories, whether at present or in the future.

Section 6.5 All Fund documents, records, correspondence and similar material shall be considered by the borrower as confidential matters, the borrower shall accord the Fund immunity from censorship and inspection.

Section 6.6 All Fund assets and income shall be exonerated from nationalization, confiscation and seizure in territories of the borrower (or guarantor).

Rationale

When we compare the loan agreements of the IBRD, KFAD, SFD and ADFAD we note that the ADFAED has a clause concerning the priority of the loan and lien in Article 26, SFD in Article V111 and KFAED in Article 1V. It seems necessary to have this provision in the Standard Loan Agreement to protect the Fund's interests.

Article VII

Exchange of informations and consultations

Section 7.1 (a) The borrower (the guarantor) and the Fund shall co-operate fully to assure that the purpose of the loan will be accomplished. To that end, each party shall furnish or cause to be furnished to the other party reports on the implementation of the project, and the general positions of the loan in addition on the implementation of the obligations of each party. The Fund and borrower (guarantor) representatives will consult and exchange opinions related to such matters.

(b) The borrower undertakes to inform the Fund or cause it to be informed of any condition which interferes or threatens to interfere with the accomplishment of the purposes of the loan (including substantial increase in the cost of the project) or the maintenance of the service thereof.

Section 7.2 The borrower (the guarantor) shall afford all reasonable opportunity for accredited representatives of the Fund to make visits to its territories for purposes related to the loan.

Rationale

This provision will assist the Fund in evaluating the projects and in matters relating to the implementation of all phases of the project.

It is noted that the Kuwait Fund's Agreement includes this provision in Article IV "Particular Covenants", while the Abu Dhabi Fund includes it in Article 25 and the Saudi Fund in Clause IX.

Another opinion which represents the borrowers side believe that this provision could interfere in the borrowers' affairs. When this Article becomes standard, however,then it will be understood that it is acceptable to the majority of the borrowers.

Article VIII

Cancellation and suspension

Section 8.01 The borrower may by notice to the Fund cancel any amount of the loan which the borrower shall not have withdrawn prior to the giving of such notice, except that the borrower may not so cancel any amount of the loan in respect of which the Fund shall have entered into a special commitment pursuant to Section 5.02 of this agreement.

Section 8.2 If any of the following events shall have happened and be continuing, the Fund may by notice to the borrower suspend in whole or in part the right of the borrower to make withdrawals from the loan.

(a) A default shall have occurred in the payment of the principal or interest or any other payment required under this agreement or any other loan agreement/or guarantee agreement between the borrower and the Fund;

(b) A default shall have occurred in the payment of principal or interest or any other payment required under this agreement or any between the guarantor and the Fund;

(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the borrower under this agreement or any other loan agreement or guarantee agreement between the Fund and the borrower or between the Fund and the guarantor;

(d) The Fund shall have suspended in whole or in part the right of the borrower to make withdrawals under any other loan agreement between the borrower and the Fund because of a default on the part of the borrower;

(e) An extraordinary situation shall have arisen which shall make it improbable that the borrower will be able to perform their obligations under this agreement;

(f) The resolution or cancellation or liquidation of the borrower [19];

(g) A reason shall have arisen provided in the loan agreement for the purposes of this Article.

Section 8.3 The right of the borrower to make withdrawal as under the loan shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to such suspension shall have ceased to exist or until the Fund shall have notified the borrower that the right to make withdrawals has been restored; provided, however, that in the case of any such notice or restoration the right to make withdrawals shall be restored only to the extent and subject to the conditions specified in such notice.

Section 8.4 If (a) the right of the borrower to make withdrawals from the loan shall have been suspended with respect to any amount of the loan for a continuous period of thirty days, or (b) by the date specified in the agreement as the closing date an amount of the loan shall remain unwithdrawn, the Fund may by notice to the borrower terminate the right of the borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the loan shall be cancelled.

Section 8.5 No cancellation or suspension by the Fund shall apply to amounts subject to any special commitment entered into by the Fund pursuant to Section 5.2 except as expressly provided in such commitment.

Section 8.6 Any cancellation shall be applied pro rata to the several maturities of the principal amount of the loan as set forth in the amortization schedule to this agreement.

Rationale

It is necessary to make proper provision to be adopted when a borrower defaults in the payment of principal, interest or in the performance of any other covenant or agreement. This is a justified provision to oblige the borrower to respect the terms and conditions of the loan agreement.

Article IX

Acceleration of the loan

Section 9.1 If any of the following events shall happen and be continuing for the period provided in, if any, the Fund may determine that the principal and (all costs, charges and other payment) become due and payable immediately notwithstanding any contradictory provision in the loan agreement.

(a) A default shall have occurred in the payment of principal or interest or any other payment required under this agreement or any other loan agreement/or guarantee agreement between the borrower and the Fund and be continuing for 30 days after the Fund sends notice to the borrower.

(b) A default shall have occurred in the payment of principal or interest or any other payment required under this agreement or any other guarantee agreement between the guarantor and the Fund; and be continuing 30 days after the Fund sends notice to the guarantor.

(c) a default shall have occurred in the performance of any other covenant or agreement on the part of the borrower under this agreement or any other loan agreement or guarantee agreement between the Fund and the borrower or between the Fund and the guarantor; and be continuing for 60 days after the Fund sends notice to the borrower or guarantor.

(d) An extraordinary situation shall have arisen which shall make it improbable that the borrower will be able to perform its obligations under this agreement and to be continuing 60 days after the Fund sends notice to the borrower.

(e) The resolution or cancellation or liquidation of the borrower [20].

(f) A reason shall have arisen provided in the loan agreement for the purposes of this Article and to be continuing for the period provided in this agreement, if any.

Rationale

This provision is similar to Article VII of the SFD Loan Agreement. The notice in the event of a default by the guarantor is 30 days whereas it is 60 days in the case of default by the borrower. The reason is that the guarantor is always a government ,and the period of 30 days is enough time to comply with the obligations.

Article X

Enforceability of this agreement - failure to exercise rights and arbitration

Section 10.1 Notwithstanding any cancellation or suspension or acceleration, all the provisions of this agreement shall be continued in full force and effect except as in this Article specifically provided or as in Articles VIII and IX.

Section 10.2 The rights and obligations of the Fund and the borrower or the guarantor under this agreement shall be valid and enforceable in accordance with their terms notwithstanding any local law to the contrary. Neither the borrower nor the Fund shall be entitled under any circumstances to assert any claim that any provision of this agreement is invalid or unenforceable for any reason.

Section 10.3 No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this agreement upon any default shall impair any such right, power or remedy, or be construed to be a waiver thereof or any acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 10.4 Any controversy between the parties to this agreement and any claim by either party against the other arising out of this agreement shall be determined by agreement of the parties, and failing such agreement the controversy or claim is to be submitted to arbitration by an arbitral tribunal as provided in the following section.

If within 30 days after the giving of the notice instituting the arbitration proceedings the parties shall not have agreed upon an umpire, either party may apply for the appointment of an umpire as provided in the first paragraph of this section.

The arbitral tribunal shall convene at such time and place as shall be fixed by the umpire. Thereafter, the arbitral tribunal shall determine where and when it shall sit.

The arbitral tribunal shall decide all questions relating to its competence and shall determine its procedure. All decisions of the arbitral tribunal shall be by majority vote. The arbitral tribunal shall afford all parties a fair hearing and shall render its award in writing.

An award signed by a majority of the arbitral tribunal shall constitute the award of the tribunal. A signed copy of the award shall be delivered to each party.

Section 10.5 The arbitral tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by the borrower (or guarantor), the second arbitrator shall be appointed by the Fund; and the third arbitrator (hereinafter sometimes called the umpire) shall be appointed by agreement of the parties, or if they shall not agree, by the request of either party **[21]**.

In case any arbitrator appointed in accordance with this section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as prescribed herein for the appointment of the original arbitrator and such successor shall have all the powers and duties of the original arbitrator.

Arbitration proceedings under this section may be instituted by either party upon giving notice to the other. Such notice shall contain a statement setting out the nature of the controversy or claim to be submitted to arbitration, the nature and extent of the relief sought, and the name of the arbitrator appointed by the party instituting such proceedings. Within thirty days after the giving of such notice, the other party shall notify to the party instituting the proceedings of the name of the arbitrator appointed by the party. Any award rendered in accordance with the provisions of this section shall be final and binding upon the parties to this agreement. Each party shall abide by and comply with the award rendered by the arbitral tribunal.

The parties shall fix the amount of the remuneration or fees of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amounts before the arbitral tribunal shall convene, the arbitral tribunal shall fix such amounts as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the arbitral tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the arbitral tribunal or the procedure for payment of such costs shall be determined by the arbitral tribunal.

The arbitral tribunal shall apply the applicable law and principles of the loan agreement.

Section 10.6 The provisions for arbitration set forth in the previous section shall be in lieu of any other procedure for the determination of controversies between the parties to this agreement and any claim by either party against the other party arising thereunder.

Section 10.7 Service of any notice or process in connection with any proceedings under this article may be made in the matter provided in Section 11.1. The parties to this agreement waive any and all other requirements for the service of any such notice or process.

Rationale

10.02 the manner in which this agreement and its conditions become enforced is established through its terms and conditions which govern the agreement and it is therefore of first and primary importance that this provision is made clear.

It is noted that the provisions of conditions of the agreement will prevail over the law of the borrower.

10.04 In the event of a disagreement of any sort which just cannot be solved between the parties for the execution of the agreement there exists the opportunity of referring such matters to arbitrators.

10.05 It is noted that this provision is related to arbitration and is very similar to the text of Article X in the SFD Loan Agreement, Articles 30-43 of the ADFAED Loan Agreement and Article VI of KFAED.

(i) In the case of KFAED the Umpire to be appointed by the President of the International Court of Justice.

(ii) In the case of the SFD Loan Agreement the Umpire is appointed by the President of the Islamic League.

(iii) In the case of the ADFAED the Umpire is appointed by the President of the International Court of

Justice.

(iv) In the case of the Arab Fund for Economic Development the Umpire is appointed by the President of the Arab League.

(v) In the Standard Loan Agreement it is suggested that the Umpire should be appointed by the Secretary General of the GCC. This provision will give special importance to the agreement and to the role of the GCC.

Article XI

Miscellaneous provisions

Section 11.1 Any notice or request required or permitted to be given or made under this agreement shall be in writing. Except as otherwise provided in Section 10.3, such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable or fax to the party to which it is required or permitted to be given or made at such party's address specified in this agreement, or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

Section 11.2 The borrower shall furnish to the Fund sufficient evidence of the authority of the person or persons who will sign the applications provided for in Article IV or who will, on behalf of the borrower, take any other action or execute any other documents required or permitted to be taken or executed by the borrower under this agreement, and the authenticated specimen signature of each such person.

Section 11.3 Any action required or permitted to be taken, and any documents required or permitted to be executed, under this agreement on behalf of the borrower or the guarantor may be taken or executed by any person thereunto authorised in writing by him. Any modification or amplification of the provisions of this agreement may be agreed to on behalf of the borrower (or the guarantor) by his aforementioned representative or any person thereunto authorised in writing by him; provided that, in the opinion of such representative, such modification or amplification is reasonable in the circumstances and will not substantially increase the obligations of the borrower under this agreement. The Fund may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative any modification or amplification of the provisions of this agreement affected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the borrower (or the guarantor) hereunder.

Rationale

The implication of the Loan Agreement demands a system of communication which cannot be shortened or ignored without putting at risk the rights of any party to the agreement and therefore it is important to remember that when communications are required to be in writing. This means precisely that, and in like manner, the giving of notices or payments should follow the timing and procedures precisely as dictated by conditions of the agreement, and in the required detail.

Article XII

Effective date; termination

Section 12.1 This agreement shall not become effective until evidence satisfactory to the Fund shall have been furnished to the Fund that:

(a) The execution and delivery of this agreement on behalf of the borrower and guarantor have been duly authorised or ratified by all necessary governmental action;

(b) The execution of other conditions in accordance with the provisions of this agreement related to enforceability has been duly executed.

Section 12.2 As part of the evidence to be furnished pursuant to Section 11.1 the borrower shall furnish to the Fund an opinion or opinions of competent authority showing that this agreement has been duly authorised or ratified by, and executed and delivered on behalf of, the borrower and constitutes a valid and binding obligation of the borrower in accordance with its terms.

Section 12.3 This agreement shall come into force and effect on the date upon which the Fund dispatches by telex or cable to the borrower notice of its acceptance of the evidence required by Section 12.1.

Section 12.4 If all acts required to be performed pursuant to Section 11.1 shall not have been performed before the specified period after the signature of this agreement or such other date as shall be agreed upon by the Fund and the borrower, the Fund may at any time thereafter at its opinion terminate this agreement by notice to the borrower. Upon the giving of such notice, this agreement and all obligations of the parties thereunder shall forthwith terminate.

Section 12.5 If and when the entire principal amount of the loan and all interest and other charges which shall have accrued on the loan shall have been paid, this agreement and all obligations of the parties hereunder shall forthwith terminate.

Conclusion
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This proposed Standard Loan Agreement has sought to identify the various contractual relationships and responsibilities of the parties to the agreement and to others contributing their particular skills and expertise. Provided these are followed correctly and at the appropriate time then the completion of the project should prove a satisfactory achievement for all involved.

If, however, these relationships and responsibilities are not observed then problems will arise which, inevitably, will get out of proportion and become extremely difficult to resolve without on party or another involving themselves in unnecessary additional

time and problems.
The Standard Form constantly will recognize that frequency of use provides the best way of understanding the document. It is important to remind such users that the most important feature of international agreements is always to recognize the supremacy of the terms and conditions of such agreements.

Another important feature is the need to study very carefully all modifications to the clauses in the document, the additional items including the addenda and many other variations to the Standard Form which are introduced by lender and borrower that can significantly change the nature of the agreement.

FOOTNOTES
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05. **ibid**, pp.58-59

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