ARAB AND ISLAMIC DEVELOPMENT FUNDS AND FINANCIAL INSTITUTIONS

A GUIDE FOR CANADIAN BUSINESS

BY LEOPOLD BATTEL

EXPORT FINANCING DIVISION (TBF)
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ARAB AND ISLAMIC DEVELOPMENT FUNDS AND FINANCIAL INSTITUTIONS
ISLAMIC BANKING AND FINANCE

INTRODUCTION

This report contains information on the various Arab and Islamic financial institutions, including development funds, located in the Gulf countries (Abu Dhabi, Kuwait and Saudi Arabia and Sudan). The OPEC Fund in Vienna is included because of the important contributions made by Arab oil-exporting countries and the Fund's participation in consultative meetings with other Arab and Islamic development funds. The report also includes some Gulf-based investment institutions that are major players in the financing of industrial and infrastructure projects in the region or abroad. In addition to information on the organizational structure of these institutions and their procurement rules and procedures, the report addresses the financing of infrastructure privatization projects. This report is not meant to be exhaustive and comprehensive; some institutions may not be mentioned or are located in other Arab countries. The report should be construed as a guide in identifying alternative financial sources. We hope it will contribute to the identification of direct business opportunities for Canadian enterprises.

With the growing importance of private sources of financing for projects, including privatization programs, in the region and in developing countries, Islamic banking and its creative approaches to new trends in global markets is being examined. Islamic banks are playing an increasing role as providers of capital in the economic development of the region and even in other countries with important Islamic populations. Understanding this role will be crucial for Canadian companies and financial institutions when the financial structuring of a transaction or project proves critical in clinching a deal.

Arab and Islamic Financial Institutions

The Gulf countries, notably the six member nations of the Gulf Cooperation Council (GCC) comprising Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates, which depend on their energy sector (oil) revenues for up to 40% of their GDP in some cases, have made considerable efforts to diversify their economies away from oil through the adoption of several measures to promote trade and investment in the region. Investments in the manufacturing sector grew substantially and it seems the region is gradually recovering from the aftershocks of the Gulf War. The 1990s have witnessed new developments and efforts towards regional economic integration in the Arab world and the GCC countries: GCC members decided to harmonize trade tariffs and to promote economic cooperation among member states; the Arab League called for the creation of a free trade zone by the year 2008 through the implementation of the inter-Arab trade agreement; the Arab Fund for Economic and Social Development (AFESD) undertook preparatory work for the creation of a financing entity for private sector projects (see report on AFESD); a Business Development Department at the Islamic Development Bank was established, and a rating agency in Bahrain was created by the Arab Monetary Fund to provide ratings for Arab financial institutions.

These initiatives were accompanied by reforms for developing Arab financial markets and linking them together, improving investment codes and incentives, diversifying revenue bases (Bahrain has become a major financial centre in the region, UAE and Oman are developing gradually their tourism sector), liberalizing interest and exchange rate policies, and adopting privatization programs. The GCC countries are encouraging a greater role for the private sector, even foreign, in the development of their economies. These developments illustrate a regional commitment to liberalizing inter-Arab trade, fostering growth and accelerating some degree of Pan-Arab economic integration. There is a growing awareness of the Arab regional group's financial clout, and its determination to use revenues as investments to develop their respective economies, and also its desire to look ahead to a future with a more solid and diversified investment base and source of income.

Interestingly, the majority of Arab and Islamic development funds and regional financial institutions are based in three Gulf countries: Saudi Arabia, Kuwait and the Arab Emirates, with the exception of the BADEA (Banque arabe pour le développement économique en Afrique) and AAAID (Arab Authority for Agricultural Investment and Development) based in Sudan and the OPEC Fund in Vienna. In fact, these three Gulf countries are usually the major shareholders of the institutions mentioned in this report. Several private and religious charitable organizations complete the vast amount of financial resources made available for development assistance or for Arab economic integration and development.

Implications for Canadian business

The collective developmental and financial activities of Arab financial institutions represent substantial sources of financing for projects worldwide. These in turn translate into major business opportunities for Canadian firms, suppliers and consultants, provided they have a thorough understanding of the mechanisms, structure, and procedures inherent to each institution. Furthermore, they must be made to realize the importance of networking, partnering, forming strategic alliances with local firms or individuals. Personal contact and long-term relationships are the key to developing a solid business base in the region. In most instances, the operation and mandates of these funds are not designed to exclude international involvement, and do not entail particular impediments to greater participation by Canadian firms. Counter to some beliefs, recipient country eligibility is not restricted to Arab or Islamic countries, with the exception of the Arab Fund for Economic and Social Development and the Islamic Development Bank to some degree.

Canadian business should also be aware of the ongoing, or at least frequent periodic consultative activities of these funds to aim for efficient use of Arab resources. Regular meetings are held among the development funds mentioned in this report, including the OPEC Fund, BADEA, and the Arab Monetary Fund. These meetings offer the opportunity to hold consultations on matters of common interest, to discuss co-financing strategies, to co-ordinate projects, to set-up joint missions, to follow-up on co-financed projects, to exchange information and views on various financial issues and even to compare lists of projects submitted by beneficiary countries to discuss which Fund is more suitable for a given type of project.

This consultative process is also reinforced by the co-financing requirements of each fund (most will finance only up to 50% of the cost of a project) to reduce exposure. The pivotal point of this consultative structure is the Coordination Secretariat of the Arab National and Regional Institutions Group housed in the Arab Fund for Economic and Social Development (AFESD). Consequently, where a large portion of the required project financing is to be secured, approaching several institutions is required. With a reasonable knowledge based on this report's description of each institution, a Canadian firm will be in a position to advise its client(s) on approaching the appropriate fund and also explore on behalf of its client the financing possibilities with the Coordination Secretariat.

Because procurement preferences are often given to recipient and donor nationals, consultants and contractors are advised to team up, as mentioned above, with local partners. Consultants should duly register with each institution but definitely not omit the AFESD because of the upcoming standardized registration system.

Manufacturers and suppliers should send brochures and references. Because of the lack of a diversified industrial base to protect in donor countries, the national preferential treatment should not constitute a concern for suppliers and manufacturers. Furthermore, designing Canadian specifications by consultants in tender documents has not met with any resistance from donors, and can be of great advantage to Canadian suppliers.

Generally, qualified in-house staff are spread thin and expertise is not readily available in every sector, which makes it difficult for institutions to adopt an ongoing hands-on approach to all projects, hence a substantial amount of work is off-loaded to the recipient countries and to consultants. Canadians would be at a great advantage in concentrating their efforts also on lobbying local executing agencies, particularly in Francophone Africa and the Caribbean where Canadian presence and expertise are well established and recognized. Surprisingly, many funds are in possession of lists of Canadian companies with whom they have worked with; Canadian capabilities are well accepted and generally all institutions indicated a willingness to do business with Canadians.

Arab development institutions are gradually moving to direct their attention to the promotion of the private sector as an important development engine, as witnessed by the recent creation of business development departments or funds. Still in their infancy stage, these programs are likely to evolve rapidly along the lines found in IFC projects and other privatization-type of projects. <u>Canadian companies should take early advantage of this trend by creating and sponsoring their own projects in conjunction with private sector partners.</u>

<u>Islamic Banking and Finance</u>

The growth in Islamic banking and finance initially coincided with the surplus revenues of oil-exporting Islamic countries. More recently, the globalization of the economy, the liberalization of capital movements and privatization have paved the way for the expansion of Islamic finance. The mushrooming capital requirements for infrastructure projects in the Middle East and Asia have increased the need for project sponsors to tap private sector funding. Islamic banks have welcomed project finance transactions as a religiously acceptable long-term investment alternative, although they still are in the process of coming to grips with its implications and various return on equity aspects. These banks are fairly liquid and usually enjoy a double-digit growth. With no shortage of capital, the Islamic banking sector is expected to continue its expansion at an annual growth rate of 15%.

There are an estimated 140 Islamic financial institutions with total assets of more than US$110 billion and capital of US$5 billion in more than 40 countries offering some form of Islamic finance. Many are located in Sudan, Pakistan and Indonesia but the largest in terms of assets are concentrated in Bahrain, Kuwait, Saudi Arabia and Iran. Abu Dhabi has just launched one such bank while Dubai has had a dynamic bank since 1975. Bahrain alone is the base for 11 Islamic financial institutions, including one set up by Citibank in 1996. A number of other Western financial institutions have followed suit by offering Islamic mutual funds and other investment products in an attempt to attract liquidity from this growing market. The growing sophistication of Islamic banks is leading an increasing number of Muslims to invest money in them.

The Islamic financial system is founded on the absolute prohibition of the payment or receipt of any predetermined, guaranteed rate of return. This closes the door to the concept of interest charges and precludes the use of debt-based instruments. The system encourages risk-sharing, promotes entrepreneurship, discourages speculative behaviour, and emphasizes the sanctity of contracts. Some banks that are not entirely "Islamic" do have an Islamic window to accommodate Muslim clients.

Islamic banks operate through Islamic financial instruments described below, being equity (same as conventional mutual funds), commodity and leasing. The future of Islamic finance seems bright, partly owing to the privatization trend under way in some Muslim countries such as Egypt, Jordan and Morocco, and in high-growth Islamic countries such as Malaysia and Indonesia, where the demand for Islamic financial products is growing rapidly.

While Islamic finance meshes well with project finance, observers don't expect projects costing more than $200 million to be financed by Islamic funds alone. Given the capital requirements of many deals, especially in the Middle East's oil and gas sectors, most will need to combine Islamic financial products with conventional financing. Islamic finance is relatively inexperienced when it comes to project finance and privatization financing which implies a long-term commitment not characteristic of Islamic banking. In terms of participating in project finance deals, perhaps the most perplexing challenge facing Islamic banks lies in the Islamic investors' preference for investing their money short-term, whereas BOT projects, for example, are for the long-term.

Despite the mounting competition in the market and the gradual number of ground-breaking deals, further development of Islamic finance depends on how successful the Islamic banks can develop their ability in finding solutions to their shortcomings. They still are faced with a slow pace of innovation, new instruments are needed, a uniform regulatory environment and legal framework have yet to be developed. The development of an interbank market is another challenge, and, finally, there is a lack of uniformity in the religious principles applied by different Shariah Boards. Nevertheless, Islamic banks are becoming resourceful. Some institutions have raised project-specific funds or special pools of funds which are deployed for project financing. Some are planning to set up unit trust or mutual fund types of investment vehicles aimed at longer-term investors.

International and regional institutions are cooperating with Islamic finance and are contemplating the introduction of various products and syndication to enhance project finance. The IFC has executed several transactions in the Middle East and other Muslim countries, that conform to Islamic principles. Ultimately, securitization might prove to be the most appropriate solution. Banks will be in a position to take a lease on a project and issue paper that will be priced. With the expansion of securitization, the customer base of Islamic financial systems will grow as institutional investors, with access to broader maturity structures, are attracted to the market.

Leopold Battel
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IFI Section/TBF
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February 1999

2. BILATERAL ARAB DEVELOPMENT INSTITUTIONS

ABU DHABI FUND FOR DEVELOPMENT (ADFD)

P.O. Box 814, Abu Dhabi, United Arab Emirates (UAE)
Tel: (971)-2 725800; Fax: (971)-2 728890

The Abu Dhabi Fund for Development was established in 1971 as an autonomous national development institution of the Government of Abu Dhabi. Its objective is to assist LDCs in the development of their economies by extending project loans, guarantees, technical assistance grants and equity participation. The Fund is uniquely financed by the Emirate of Abu Dhabi, one of the seven emirates that constitute the United Arab Emirates. As such, it is a personal foreign policy arm of the State.

The Abu Dhabi Fund also administers other development assistance extended directly by the Government of Abu Dhabi.

The Fund is managed by a Board of Directors, an Executive Committee and a Director General, all of whom are government officials. H.H. Sheikh Khalifa Bin Zayed Al Nahyan, the Crown Prince, is Chairman of the Board, which provides broad policy guidance. The Executive Committee plays an active role in decisions on loan recipients.

Initially, the Fund's assistance was restricted to Arab countries. However, in 1974, coinciding with a substantial increase in resources, the mandate was enlarged to cover all developing countries. The activities now include 47 countries notably in Africa and Asia. Presently, 80.5% of total loan commitments are for Arab countries, with Asia and Africa receiving 9.5% and 7% respectively. The balance of the committed loans, i.e. 3%, has gone to countries such as Malta and Turkey.

Although the Fund has no particular sectoral preference, its activities have so far emphasized infrastructure, agriculture, and industry. About one third of total commitments support extractive and manufacturing industries. Energy and water supply account for 27%. Transport, communications, fisheries and rural development also benefit from the Fund's interventions.

As at the end of 1997, the Abu Dhabi Fund extended loans totaling approximately US$1.8 billion. As well, the volume of grants reached US$130 million at the end of 1997, and benefited 11 Arab and African countries. Equity participation amounted to US$121 million, while loans and grants administered on behalf of the Government totalled CAN$2.2 billion. In 1997 alone, the

ADFD committed US$68 million and disbursed a total of US$74 million (mainly due to an increase in grants).

The Fund's loan maturities range from 10 to 25 years, depending on the recipient country and the type of project, and include a grace period of 3 to 10 years. The interest rates including a fee of 0.5% vary from 2 to 6%.

The terms and conditions of each lending operation are determined by the Board of Directors. More concessional terms are given for infrastructure and rural development projects; less concessional terms are for industrial and tourism projects. Loans are normally extended for major infrastructure projects while grants cover social projects. The Fund does not do program lending.

Loans are made to a government, to a company or to a public institution assisted by the guarantee of the Government. Procurement is subject to international bidding procedures.

The Fund entertains regular consultations with other sister Arab development institutions such as the Kuwait Fund for Development, the Saudi Fund for Development and the Arab Fund for Development. The Abu Dhabi Fund is also an active member of the Coordination Group of the Arab national and regional development institutions.

Prospective recipient countries need to forward their request for assistance directly to the Director General of the Abu Dhabi Fund. After assessing the economic and technical viability of a project, the Fund presents its recommendations to the Executive Committee for approval.

The Abu Dhabi Fund's paid in capital is approximately US$581 million (soon to be raised to US$1,089 million). The Fund has no annual lending program. By charter, the Fund may not contribute more than 10% of its capital to any one single project. In addition, the maximum contribution to any project is limited to 50% of its total cost.

The Abu Dhabi Fund has had forms of cooperation with CIDA in the past. The ADFD does co-financing with other Arab funds and IBRD.

Interest for Canadian firms:

Canadian companies and capabilities are well known to the Fund. While Asian and EU consultants and firms are aggressive, the Fund would like to see more Canadian firms approach it. They are keenly interested in keeping their consultant and supplier rosters up to date and would welcome any indication of interest on the part of Canadians. The Fund needs expertise from Francophone-speaking firms to work in Francophone West Africa. So far, the Fund uses the World Bank DACON registration system for its searches; obviously, firms who visit the Fund have the advantage of establishing a personal contact and relationship. Except for large projects where tenders apply, very often work on projects begins on short notice and firms who are known and registered have an edge. Firms should complete the forms of the "Fédération internationale des ingénieurs-conseils" and send information to:

The Director General
Operations & Loans Department
Abu Dhabi Fund for Development
P.O. Box 814
Abu Dhabi, United Arab Emirates
Tel: (971)-2 725800; Fax: (971)-2 728890

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KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT (KFAED)

P.O. Box 2921, 13030 Safat, Kuwait
Tel: (965) 246-8800 241-8980
Fax: (965) 243-6289 241-9090

Established in 1961, the Kuwait Fund was the first of the development finance institutions created by an OPEC member country. Initially, its mandate was to finance development projects in other Arab countries, hence the word "Arab" in its name. All developing countries became eligible in 1974 following a massive increase in its capital which currently stands at US$ 6.1 billion. The KFAED assists developing countries in their economic development by extending loans, guarantees and grants as well as providing technical assistance grants required to facilitate the implementation of development plans. Due to its statutory limitations it will not participate in equity. Furthermore, the Fund avoids potentially sensitive projects in social areas, as well as projects without adequate cash flow. The lending conditions depend basically upon the nature of the project and the beneficiary country's overall economic situation.

The KFAED has accumulated extensive operational experience through joint operations with the World Bank and other international, regional and bilateral development aid institutions: AfDB, AsDB, KfW, CIDA, UN agencies,etc.

Total financial assistance extended by the KFAED during 1962-1996 stood at 514 loans with a total value of KD 2639.6 million (approx.US$ 8,874 million). The total number of beneficiaries of these loans reached 86 countries including 16 Arab countries, 35 African, 22 Asian and European countries, and nine Latin American and Caribbean countries. During 1997,the Fund extended its development operations to cover new countries such as Bosnia, Kyrgyz Republic, Azerbaijan, Lithuania, Uzbekistan, Mongolia, Malawi and Kenya. Cumulative total assistance since 1962 totalled US$ 10 billion in commitments and US$ 7 billion in disbursements. For 1997 alone, commitments amounted to US$ 481 million. As to the overall sectoral distribution of the total loans committed since the Fund commenced activities, the transport and communications sector ranks first (32%), followed by the energy sector (23%), the industrial sector (17%), agricultural sector (17%), the water and sewerage sector (10%) and other sectors (1.8%). More recently, in 1997, the water sector has overtaken agriculture (13% against 8% respectively). The KFAED has also contributed US$25 million to the World Bank's Palestine Fund for projects in the social sector.

With regard to the terms of the loans extended by the KFAED, maturity ranges from 12 to 55 years and grace period from three to six years; interest rates (inclusive of 0.5% annual service charge) ranged between 0.5% and 7.0%. The terms of these loans reflect a grant element ranging from 16% to 85% of the value of loans. The Kuwait Fund does not finance local costs as a rule, and its share in the financing of a project must not exceed 50%. These limitations may be waived when necessary. It is not involved in assistance to the private sector for the moment, with the exception of situations where the country's institutions are involved in helping SMEs and micro-entreprises (micro-credit).

The Kuwait Fund also contributes to the resources of multilateral development institutions. Total contributions to other institutions amounted to US$987 million at the end of 1997 and were distributed among the Arab Fund, BADEA, the African Development Bank and Fund, the Inter-Arab Investment Guarantee Corporation, the International Development Association (IDA) and IFAD. The KFAED collaborates with several national, regional and international development institutions with the objective of co-ordinating efforts and participation in the financing of projects. Accordingly, the Fund has co-financed 275 projects in 1997 with such institutions. Co-financing is estimated at about 54% of the total amount of KFAED's financial assistance.

Twice a year, the Coordinating Group of the National and Regional Development Institutions meets. The Group comprises the Kuwait, Abu Dhabi, Saudi and Arab Funds (the latter being the Secretariat) as well as the OPEC Fund for International Development (based in Vienna) and the Islamic Development Bank. The KFAED being the longest established member (1961), and recognized as the best staffed, often takes a lead role. *It would therefore be advantageous for Canadians seeking joint regional financing to attempt to interest the KFAED in seeking co-financing from its sister institutions*.

In addition to project financing, the Fund provides funding for pre-investment and feasibility studies under its technical assistance mandate. In 1997, 19 grants amounting to US$224 million were administered by the KFAED. *Some Canadian consulting firms have made use of this facility, but there is much scope for increased participation*. It is the Fund's policy to convert the technical assistance loan into a project loan in the event of the project materalizing, otherwise it is considered a non-repayable grant.

The Fund is entrusted with the management of grants directly extended by the State of Kuwait and as such is an arm of the

State's foreign policy, with the proviso that a project to be considered must be deemed viable. *This has opened new opportunities for Canadian companies since many Caribbean countries, for example, within easy reach from Canada, are now encouraged to seek project financing.* Since they do not have a long established history of receiving funds from KFAED, Canada's chances of successfully taking advantage of these new opportunities is as good as the competition's.

The project cycle is similar to that of the the World Bank, but faster and less complex. The project appraisal is done mostly by a resident specialist, with outside support where needed. *Again, this is an advantage to Canadian companies that are familiar with World Bank procedures and the various parties that are responsible for each phase of the project cycle.* A roster of consultants (not suppliers), kept by the KFAED, can be referred to directly or may be used by the recipient country which normally has a say in the selection process. Registration is a must. Information and curriculum should be sent directly to the Fund. Copies of the registration forms are available either at the Department of Foreign Affairs and International Trade or at the Embassy in Kuwait. Information on pre-pipeline projects is also available. Canadian firms experienced in dealing with potential recipient countries, should encourage them to use the same approach with the KFAED as with other multilateral development institutions and have them apply for loans.

When a study is financed by the Fund, a short list of ten consulting firms from a variety of countries must be submitted by the recipient executing agency and approved by the Fund. Preference is given to local and Kuwaiti firms, as well as Kuwaiti firms in joint-venture with foreign consultants, as it is a bilateral aid fund similar to CIDA. *Obviously, it would make sense for Canadian consultants new to this part of the world, to seek alliances or partnering with Kuwaiti firms. In the selection of a consultant, 80% of the appraisal points are allocated to technical expertise, and 20% to the financial proposal, with an additional 7% on top if the consultant is a Kuwaiti national. This measure would be a further advantage to Canadians in highly technical sectors.*

The KFAED has a long term positive relationship with Canada. Canada's Executive Director at the African Development Bank also represents Kuwait.

THE SAUDI FUND FOR DEVELOPMENT (SFD)

P.O. Box 50483, Riyadh 11523
Kingdom of Saudi Arabia
Tel: (966) 1 464-0292; Fax: (966)1 464-7450

Established in 1974, the Saudi Fund for Development (SFD) extends concessional loans for financing projects that contribute to the social and economic well-being of the beneficiary countries. Although all developing countries are included, assistance is concentrated primarily on the least developed countries (LDCs), particularly the low income countries (LICs) and most seriously affected.

The terms and conditions of SFD financing depend on the type of project and the economy of the beneficiary country. SFD assistance is only in the form of soft loans with a 2 to 2.5% average interest rate, with maturity at between 20-30 years and grace periods of 5 to 10 years, representing a de facto 65-70% grant element. The Saudi Fund's share in the financing of a project will not exceed 50% of its total cost, and overall financial assistance provided to any country must not exceed 10% of the SFD capital, which currently stands at US$ 8,3 billion. By the end of 1997, the Saudi Fund had signed loan agreements for a total cumulative value of close to $US6 billion with 63 countries. During 1997, total disbursements amounted to approximately $US 200 million to support development projects and economic programs in 27 countries.

The SFD policy of providing assistance to LDCs does not accord any preference or priority to any region or sector. The Fund will give due consideration to the priorities of the recipient countries and only deals in sovereign loans. It will agree to finance a private sector project but only if the recipient country agrees; the loan agreement still have to be signed by the host country. The Saudi Fund privileges infrastructure projects essentially. Sectoral distribution in 1997 was 44.8% for energy, 19.3% for agriculture and irrigation, transportation 12.4% and 19.7% for social infrastructure (health, water, education). Cumulatively, the energy and social infrastructure have registered a marked increase from 19% and 13%. Geographical distribution of loans during 1997 indicates that Asia received the greater share with 56.8%, while 40.4% of SFD loans went to Africa and 2.8% to other regions, including Bosnia and Malta. The SFD recently indicated it will not favour involvement in the Americas and Caribbean. Arab countries are due to receive a larger share of its assistance in the future. Lebanon has received recently substantial loans; other Arab beneficiaries include the Maghreb countries, Yemen and Egypt. In Africa, assistance is mostly concentrated in West Africa and the Sahel; and in Asia, Nepal and Bangladesh. Countries with arrears in repayments will not receive further assistance.

The Saudi Fund has a policy of participating in co-financing for most of its projects, usually with other Arab or Islamic bilateral or regional funds, but also with the World Bank, the African Development Bank and even CIDA.

Procurement is untied and International Competitive Bidding (ICB) procedures apply. There is no pipeline of projects as such as each project is dealt with on a case by case basis and the SFD does not release procurement information. The SFD appears to delegate to the recipient country most of the administration of the project, retaining only a macro, at arms-length role. This applies equally to the pre-qualification and short-listing of firms. For these reasons, approaching the SFD would not prove productive. *It is preferable for Canadian companies to explore avenues with the recipient country. The latter only can present a request for funding. Usually, an evaluation mission follows to assess the merits of the project. the process may take several months. Feasibility studies submitted in the request with co-financing saves much time. Those seeking to bid on SFD-funded projects must promote their qualifications and secure an invitation to bid from the executing agency of the recipient country. Information may however be obtained through the list published twice a year by the Coordination Secretariat for Arab & Regional Development Institutions following their consultative meetings, normally held in Kuwait at the Arab Fund for Economic & Social Development.*

The Saudi Fund may in some cases propose to the recipient country a short list if the country requires one. The SFD keeps a list of registered companies, mostly consultants, valid for three years. *Forms for registration with the Fund may be obtained by writing to the Technical Department. Registration is necessary for consultants*; *contractors need only to send brochures*. The SFD has had good experience with Canadian companies so far.

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THE ZAYED BIN SULTAN AL NAHAYAN CHARITABLE AND HUMANITARIAN FOUNDATION

P.O. Box 41355
Abu Dhabi, United Arab Emirates (U.A.E.)
Tel: (971-2) 656700
Fax: (971-2) 657571

The Foundation was established IN 1993 on a personal initiative by Emir Zayed, Head of State of the U.A.E., for charitable purposes. It finances small and medium-sized projects such as mosques, cultural centres, food aid, hospitals, medicines, equipment for the handicapped, etc. The Foundation cooperates with the Red Cross, NGOs, and the HCR in their humanitarian work.

The Zayed Foundation has a capital of $1 billion of which about a third is paid up.

There are normally no restrictions regarding the beneficiaries as long as the project serves a humanitarian purpose. NGOs or consultants working in a humanitarian field could suggest to a potential beneficiary country that it approach the Foundation. The same applies for suppliers. Examples of assistance provided are medicines to Iraq and Bosnia, tents for refugees, foodstuffs for Iranian refugees, etc. Projects are normally decided by the Emir.

The Foundation, in principle, can accept proposals by Canadian NGOs. At first glance, there are few direct business opportunities for Canadian firms but as the Foundation is relatively new, it might eventually adopt new assistance approaches where it may purchase medicines and foodstuffs itself and have them shipped directly to the beneficiaries. Project proposals should be directed to the Director General at the above-mentioned address.

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January 1999

3. MULTILATERAL ARAB/ISLAMIC FINANCIAL INSTITUTIONS

3.1 MULTILATERAL DEVELOPMENT AID INSTITUTIONS

ARAB BANK FOR ECONOMIC DEVELOPMENT IN AFRICA (BADEA)

Abdel Rahman El-Mahdi Street
P.O. Box 2640, Khartoum, Sudan
Tel: (249-11) 770-498/773-709; Fax: (249-11) 770-600

Established by Arab oil-rich countries in the aftermath of the 1973-74 petroleum crisis, BADEA (Banque Arabe pour le développement économique en Afrique, as it is commonly known, or ABEDA in English) seeks to promote economic, financial and technical cooperation between African and Arab countries. Operations began in 1976. It is the first institution to institutionalise the interests of the sub-Saharan African countries and the development commitment of the Arab oil-exporting countries.

BADEA's major roles are:a) it is an instrument dispensing and coordinating Arab aid to non-Arab Africa; b) to encourage the participation of Arab and international capital in African development projects; c) is a forum for broad discussion of cooperation between African and Arab countries.

More specifically, BADEA has had a special interest in trilateral co-operation arrangements, the motivation being:

i) to mobilise additional funds for the development of sub-Saharan Africa and simultaneously benefit from the experience of co-financing institutions;

ii) to rationalise the Arab-African co-operation and increase the pace and impact of operations;

iii) to extend the scope of operations to as many recipient countries and sectors, and cover as many projects, as possible in Africa;

iv) to reinforce the negotiating power of inexperienced LDCs.

BADEA finances economic development in African countries, stimulates the contribution of Arab capital to African development, and helps provide technical assistance. Forty-one member states of the Organization of African Unity that are not members of the League of Arab States are eligible for aid from BADEA. By the end 1997, 41 of them had benefited from BADEA's operations. At the end of 1997, the Bank had loans/projects totalling US$1.3 billion and technical assistance grants for US$41 million.

BADEA is funded by Arab governments. It provides both project loans on concessional terms and technical assistance, mainly for project feasibility studies.

Its lending terms vary according to the nature of the project and the economy of the recipient country. The weighted average of its loans to the end of 1997 indicates an interest rate of 3.0% and a maturity of 18 years including a 4.4 year grace period. This weighted average corresponds to a grant element of 44%.

BADEA's share in the financing of a project, like most Arab development institutions, must not exceed 50% of its total cost or a ceiling of US$15 million. In exceptional cases, however, BADEA's share can be raised to 80% on the condition that the total cost of the project does not exceed US$10 million.

During its Board meeting held in Marrakech March 10-12, 1996, the existence of an "Action Plan 1995-1999" for 40 non Arab African countries was unveiled. At its May 1997 annual meeting in Abu Dhabi, BADEA's Board of Governors approved the allocation of US$50 million to finance foreign trade between Arab and African countries. The funds are administered by the Islamic Development Bank on BADEA's behalf, in accordance with rules, regulations and procedures determined by the Board of Directors.

Special Arab Aid Fund for Africa (SAAFA)

SAAFA was established concurrently with BADEA in January 1974 by Arab oil-exporting countries as an emergency facility. Its administration was entrusted to the League of Arab States and its recipients exclude Arab countries in Africa.

The financial resources of SAAFA were incorporated into BADEA in 1977. SAAFA's emergency operations during 1974-77 comprised rapidly-disbursed aid for BOP support to 32 countries. In 1978, BADEA also extended emergency assistance through its special programs for the agricultural sector.

Sectoral distribution of BADEA project loans as of the end of 1997 (in percent)

Transportation & infrastructure:	50.0%
Energy:	8.0%
Agriculture:	31.0%
Industry:	3.0%
Technical assistance:	1.8%
Education and health:	1.3%
National development banks:	4.0%

Bank headquarters are in Khartoum, Sudan, which makes communications for experts and executives difficult. It, however has a liaison office in Cairo, Egypt, which can be reached via the Embassy. Consultants may proceed with registration through FIDIC forms.

Although BADEA has a yearly volume of commitments of US$100 million, it will remain a "gap feeder", i.e., a co-financier complementing the structuring of a loan rather than a project leader, which normally supervises it until completion.

L. Battel/TBF
January 1999

ARAB GULF PROGRAM FOR UNITED NATIONS DEVELOPMENT ORGANIZATIONS (AGFUND)

P.O. Box 18371, Riyadh 11415, Saudi Arabia
Tel: (966-1) 4416240/4413235; Fax: (966-1) 4412963

AGFUND coordinates assistance offered by Arab Gulf member states to 17 UN agencies and ensures that certain humanitarian principles apply to the projects thus financed. Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates contribute to AGFUND which was established on the initiative of H.R.H Prince Talal bin Abdul Aziz Al-Saud of Saudi Arabia.

In addition, AGFUND provides assistance to a number of Arab NGOs. All the financial assistance provided by AGFUND is in the form of grants. Its financial contribution provides no more than 50% of the cost of a project. AGFUND finances projects in education, health, nutrition, water and sanitation, disability and environment. The main group targeted by AGFUND are mothers and children. Since its creation in 1981, AGFUND has committed close to US$200 million in 125 countries, of which US$172 million have been disbursed. AGFUND also launches fund-raising campaigns for specific causes. Prince Talal who is also President of the AGFUND gave instructions that it focus its attention on Palestinians in the occupied territories and Southern Lebanon.

AGFUND is also training personnel and teachers but will not get involved in countries where there are wars, civil strife or other disorders. The Fund spends between US$3 to 4 million annually among the 17 UN agencies. UNICEF has over 60 projects with AGFUND with a cumulative contribution of US$60 million since the beginning.

AGFUND has privileged a special relationship with Arab (and occasionally foreign) NGOs encouraging institutional support to further partnerships in development with people's participation at all implementation levels. It has thus favoured close collaboration with such NGOs and governmental bodies, and even participated in the establishment of these institutions.The Arab Council for Childhood & Development (ACCD) is a sister organization to AGFUND based in Egypt working exclusively with NGOs. In Tunis, AGFUND cooperates with the Centre for Arab Women Research. Health surveys were carried out in 9 Arab states under the "PAPCHILD" program. A study of the family health in the Gulf was undertaken with the Health Ministries of member states of the Gulf Cooperation Council. It also has an important involvement in the Vocational Training Centre in Torino, Italy in cooperation with ILO & UNHCR.

The institution is very lean with a staff of 25, including three officers, the rest being administrative and support staff. It does not manage projects. AGFUND thus needs to hire external resources to undertake evaluations of projects financed with UN agencies. Consultants with expertise and an academic background in the health and basic education sectors are regularly needed. Canadian consultants can register with AGFUND by writing directly to: Director of Programmes, P.O. Box 18731, Riyadh, fax: (966-1) 4412963.

Leopold Battel/TBF
January 1999

ISLAMIC DEVELOPMENT BANK (IsDB)

P.O. Box 5925, Jeddah 21432, Saudi Arabia
Tel: (966-2) 636-1400
Fax: (966-2) 636-6871

The Islamic Development Bank (IsDB) is unique among multilateral development institutions in that it finances development projects not only in member countries and but also in Muslim communities throughout the world, in accordance with the principles of the Islamic Shariah (law). Its present membership consists of 53 countries which are also members of the Organization of the Islamic Conference (OIC). Some CIS countries, Albania, Uganda, Gabon, Mozambique, Togo and Surinam are members. Established in 1973, the IsDB is structured essentially along four main divisions of which three are headed by a vice-president: Finance, Operations, Administration and one by an Advisor to the Bank (for the secretariat, information, policy and strategic planning). The first two are of interest to firms wishing to do business with the IsDB. In Finance, the Trade Finance & Promotion and the Business Development departments are of significant importance to exporters. Traditional project lending, of interest to prime contractors and consultants, is dealt with by Operations which is divided in three units along member country language: Francophone, Anglophone and Arabic. Lusophone & Spanish are amalgamated into the Francophone unit.

The IsDB has been implementing the "Strategic Agenda for the Medium-Term Priorities and Main Operational Aspects", which attempts to emphasize intra-member country cooperation, enhancement of human resources, promotion of science and technology, reduction of poverty and preservation of the environment. The Agenda has placed special emphasis recently on the promotion of the private sector and SMEs. Like other IFIs, the IsDB is concerned with the performance of its operations and is seeking to improve and streamline management of the project cycle. All IsDB-financed projects evolve through the project cycle of identification, preparation, appraisal, implementation and post-evaluation. Bank financing is expected to gradually move from individual project to a country-specific approach in the near future. In recognition of the importance of the private sector in the development of member countries and as a part of the Bank's strategic agenda, it has recently launched a programme to support the private sector. During 1997, a full-fledged Department of Business Development was established specifically to anticipate the Bank's current and future programmes for assisting the private sector. This department has three sections that cover most aspects of the private sector activities. They are: (1) Private Sector

Development, (2) Marketing and Consultancy Services, (3) Equity Portfolio Management. Covered within Private Sector Development are the National Development Financing Institutions (NDFI) and Islamic banks.

The IsDB and 44 Islamic banks have established close cooperation links which have brought about the creation of the following institutions:

*Islamic Banks' Portfolio (at the IsDB)
*Unit Investment Fund (at the IsDB)
*Islamic Trade Company (in Bahrain)
*Research Coordination of Islamic Banks (in Egypt)
*The International Islamic Lease Financing Company (in Kuwait)

IsDB support to the private sector is extended through investment in the equity of private companies and Islamic banks. To date, the IsDB has equity in 14 banks and in 78 companies.

More than US$2 billion has been allocated by the IsDB for financing development projects, including trade and special operations, during its fiscal year ending April 1999, a 12% increase over the previous year. According to the terms of the lending program for that period, infrastructure projects in two sectors will account for half the allocation, with the transport & communication and public utilities each commanding 25%; health & education 17%; agriculture and agro-industry 20%; and industry and mining 11%. By the end of 1997, IsDB had committed cumulatively US$14.3 billion in development projects and trade and special operations. IsDB financing is denominated in Islamic Dinars (ID); one ID is roughly equivalent to one SDR of the IMF. Its authorized capital is US$8 billion of which US$ 3 billion is paid-in.

The promotion of economic cooperation among member countries has been one of the main objectives of the Bank since its inception. It is a unique role through which it tries to promote trade, technical co-operation, consultancy and contracting services, and other economic interlinkages among a diverse group of member countries. The most frequently used financial instruments compatible with the Shariah, which prohibits the charging of interest rates, are loans, lease financing and equity participation and instalment sales. The Bank is endeavouring to establish profit sharing as a regular mode of financing. Technical assistance is provided primarily for facilitating project preparation and implementation by way of grants or loans or a combination of both.

The IsDB engages in three main activities:

1. PROJECT FINANCING through:

a) Loans for socio-economic projects for infrastructure development (usually long-term implementation and revenue generating), for a maximum of US$10-12 million, are provided interest free and subject to a service charge ranging from 0.75% to 2.5% maximum per annum, to cover administrative expenses. They are repayable over a period of 15-25 years with a 3 to 7-year grace period for ordinary loans and 25-30 years, including a 10-year grace period, for least developed member country loans (LDMC).

b) Technical assistance for feasibility studies, design and preparation of tender documents, supervision of projects, etc., of interest to consultant firms. The IsDB also retains consultancy services to assist its own staff in the preparation and follow-up of projects. Assistance is extended in the form of a loan or grant or both. Loan repayment is over a period of 16 years with a 4-year grace period and carries a 1.5% annual service fee. The selection of consultants is made through limited competition which can involve consultants from non-member countries; however, member countries receive preferential treatment. Canadian consultants seeking IsDB contracts should register with the IsDB, and should consider partnering, forming an alliance or a joint-venture with a local firm in the beneficiary member country to capitalize on the preferential treatment allocated to local consultants.

c) Equity participation in the capital of financially viable industrial and agro-industrial projects or through lines provided to national development financial institutions (NDFI). Equity participation is restricted to companies which do not carry interest-based finance on their books. The level of financing does not exceed one-third of the equity of the project.

d) Lines of equity/lines of leasing/ lines of instalments and combined lines: Close cooperation exists between IsDB and NDFIs to design these instruments/techniques to assist and strengthen SMEs through technical assistance aimed at institutional capacity building and accessible financing. The IsDB, therefore, is an interesting source of additional financing for Canadian firms negotiating with private sector interests in member countries.

e) Leasing of equipment which in practice comprises both the purchase and leasing to beneficiaries: During the leasing period, IsDB retains the ownership of the equipment. For the last few years, this type of financing has been the main source of medium-term funds provided by the Bank. At present, this financing is primarily utilized by higher income member countries. The repayment period is between 7 to 15 years, including a 2 to 4-year grace period. Repayments carry a mark-up from 6 to 8%. The normal ceiling is ID 20 million per project.

f) Instalment sale: A contract sale whereby the ownership of the asset is transferred immediately to the buyer while the purchase price is payable in instalments. Repayments are normally made over a period of six to ten years with a mark-up of 7 to 8 per cent.

g) Profit sharing (mudaraba): A mode of financing based on the placement of funds by two or more parties for financing specific projects/operations that generate a reasonable financial return, with each party sharing in the profit on a pro rata basis.

2. TRADE FINANCING

a) The Import Trade Financing Facility (ITFO) is designed to finance member countries' import needs of a development nature. Financing is provided on a short-term basis varying between 9 and 24 months on relatively soft terms; it involves the supply of goods and their re-sale to recipient member countries, inclusive of a reasonable mark-up and with a deferred payment arrangement. Canadian firms can benefit from this facility. They may also suggest to their customers the availability of such IsDB concessional financing provided their country is a member of the IsDB.

b) The Long-term Trade Financing Scheme, which has been implemented through the creation of a special fund, aims at promoting trade among OIC member countries by financing exports of non-traditional commodities and capital goods for periods ranging between 6 and 60 months. The Scheme involves the purchase of a commodity from an exporter on a cash basis and the resale to an importer against a mark-up of between 5 and 6% on deferred payment terms.

The Scheme's financing is limited to exports of eligible commodities originating in the member countries. They are considered as originating in the member country if produced or manufactured from inputs of that country and/or of an OIC country with at least 40% of the FOB value of the finished product (export commodity). Financing can be provided up to 80% of the FOB value .

c) The Islamic Banks' Portfolio whose objective is to finance trade among member countries, undertakes leasing and participates in equity financing. It is designed to meet the needs of the private sector importers and exporters via the financing of capital as well as non-capital goods. The portfolio aims mainly at encouraging trading of principal certificates among participants and eventually issuing certificates tradeable in secondary markets. Modes of financing consist of a transaction involving a mark-up on the cost of the goods, or a purchase contract where the price is paid in advance with the goods delivered in the future, or leasing and instalment sale. Twenty Islamic banks participate in the Portfolio which has a paid-up capital of US$100 million.

d) The Unit Investment Fund is a trust fund pooling the savings of individual and institutional investors, and investing these savings in productive projects in member countries. So far it has raised capital amounting to US$325 million.

e) The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) provides export credit insurance to cover non-payment of export credit receivables resulting from commercial and non-commercial (country) risks. Currently, the ICIEC provides only export credit insurance. The investment insurance operations have started in 1998. (See separate report on ICIEC for details.)

f) The International Islamic Lease Financing Company (ILC) is a joint IsDB financing company with other Islamic banks for the establishment of a leasing company based in Kuwait. The ILC will create specialized leasing companies at the national level in different member countries.

Other financing and business development promotion initiatives

As part of its search for innovative modes of financing compatible with the Shariah, in 1966, the IsDB launched Istisna'a, a medium-term mode of financing for the promotion of trade in capital goods among member countries and the enhancement of production capacity. It is a contract for the manufacturing or construction whereby the seller agrees to provide the buyer with finished goods identified by description after they have been manufactured/constructed in conformity with that description within a certain time and for an agreed price. Financing will be extended to pre-shipment financing of goods, i.e., at the production stage. In addition, Istisna'a will give IsDB a mode of financing for infrastructure projects that cannot lend themselves easily to financing by way of leasing or instalment sale.

3. SPECIAL OPERATIONS

Special operations consist of grants for training or research, for disaster relief, or for furthering Islamic causes.

PROCUREMENT AND REGISTRATION

The Board of the IsDB meets every seventh week to review and approve projects submitted by member countries. The list of approved projects is publicly released by the Bank and can be obtained through the Bank, the recipient country's executing agency, or our office in Jeddah. Canadian firms should monitor the list regularly to verify potential projects.

Though beneficiary countries manage the bidding process, the IsDB retains a reviewing right to accept the recommendation. ICB rules are followed. Companies thus need to approach the executing agency once they are aware of projects in the early phases of the pipeline.

Concerning consultants, though preference is given to member countries, expertise does not appear to be sufficient in some fields. IsDB usually chooses from a roster of 3,700 consultants (of which only 600 are from member countries). Registration is essential and can be done by applying for the Bank's registration forms. A short list of six to ten consultants is then reviewed by two committees at both the IsDB and the country. Completed forms should be sent to the Head of the Marketing & Consultancy Services.

Partnering with a member country firm would be advantageous in some cases. It is *recommended that Canadian firms explore such possibilities with the Technical Assistance Association of Islamic Consultants based in Cairo, and for enterprises, a similar association based in Rabat.*

Leopold Battel/TBF
January 1999

THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT (ICIEC)

P.O. Box 15722, Jeddah 21454
Saudi Arabia
Tel: (966) 2 637 4061 Fax: (966) 2 637 9504

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) is an affiliate of the Islamic Development Bank (see section on Islamic Development Bank (IsDB) which owns 50% of its shares, the remaining being owned by 21 member countries (out of the 53 IDB-OIC member countries). Authorised capital is about US$140. The ICIEC was established in 1994, with the objective of enlarging the scope of trade transactions and flow of investments among member states of the Organization of the Islamic Conference (OIC).

ICIEC provides export credit insurance and investment insurance for member countries in their operations to other markets or among them. It cannot insure operations of non-member countries. Concerning trade, political and commercial risks are covered whereas for investments, only political risk is covered. ICIEC will provide export credit insurance to cover non-payment of export receivables resulting from commercial (buyer) or non-commercial (country) risks. It will cover investment even from a foreign company to a member country or if a foreign company is a supplier or part of a group of suppliers in the member country. It is similar in some respects with products offered by the ATFP and the IAIGC which cater to Arab countries only.

The facilities offered by the Corporation comprise the Comprehensive Short Term Policy, Supplemental Medium Term Policy and Bank Master Policy. The conditions under these policies are adjusted in accordance with the risks, contents and duration of the various transactions.

Comprehensive Short Term Policy (CSTP)

The CSTP is designed to cover shipments of raw materials, commodities and light manufactured goods under which credit extended to buyers does not exceed two years. The exporter is normally obliged to offer all his insurable export turnover but certain exclusions, with or without penalty, may be considered. CSTP covers commercial and non-commercial risks up to 90%.

Supplemental Medium Term Policy (SMTP)

The SMTP is suitable for exporters of consumer durables, capital goods or semi-capital goods where credit extended to buyers exceeds two years, up to a maximum of five years. As with the CSTP, the SMTP adopts the whole turnover concept whereby all insurable export contracts are covered under one policy. The SMTP is available for holders of the CSTP as a supplement, but could be also obtained separately.

The terms and conditions of cover, underwriting considerations and exporter's obligations under the SMTP are identical to those applicable to the CSTP. However, premiums are higher on account of the longer risk horizon.

Bank Master Policy (BMP)

The BMP is specially tailored to cover non-payment risks in connection with IDB's and other Islamic banks' financing operations. The BMP will cover the same risks as the two other policies, in addition to capital goods owned by the insured bank. The intended purpose of the BMP is to encourage the financing of trade and investment operations where difficulties in securing bank guarantees arise and where unacceptable commercial and country risks are perceived to exist.

Member countries:

Algeria	Jordan	Saudi Arabia
Bangladesh	Kuwait	Senegal
Chad	Lebanon	Sudan
Egypt	Malaysia	Syria
Gambia	Mali	Tunisia
Indonesia	Morocco	Turkey
Iran	Pakistan	Yemen

L. Battel
January 1999

THE INTERNATIONAL ISLAMIC RELIEF ORGANIZATION (IIRO)

P.O. Box 1285
Jeddah 21431 Saudi Arabia
Tel: (966 2) 651 5411/7170 Fax: (966-2) 651 8491

The International Islamic Relief Organization (IIRO) was established in 1978 as a humanitarian non-governmental organization (NGO) to provide assistance to victims of natural disasters and wars all over the world. IIRO was also created after it was discovered that 80% of refugees and victims were Muslims. The major part of its financial contributions come from private donations in Saudi Arabia. An endowment fund (Sanabil Al-Khairi) has been established to generate a stable income to finance its various activities.

The IIRO's relief programs are directed towards the provision of medical, educational and social support of those in desperate need. It also encourages entrepreneurs by sponsoring viable economic projects and small businesses that can help victims find employment and earn a living. To fulfil these objectives, the IIRO has established a wide network of national and international contacts with various and Islamic and non-Islamic relief organizations, institutions and individuals, operating in several countries from CIS countries to Bangladesh and Sierra Leone.

Headquartered in Jeddah, IIRO is structured into various departments according to sector needs:

- the Department of Urgent Relief & Refugees carries out emergency relief activities where natural and man-made disasters occur; cooperates with NGOs, international relief agencies and organizations, such as UNICEF, UNHCR, IsDB, etc. to facilitate repatriation of refugees and forwarding of relief aid.

- the Department of Health Care, which has provided health services to four million people by 1995 in over 45 countries.

- the Department of Orphans & Social Welfare provides basic needs such as food, clothing, education, maintenance and shelter, including via a sponsorship program.

- the Department of Education's program include the building of schools, sponsoring educational institutions and teachers and providing scholarships (including university) to target groups, and training teachers.

- the Department of Agricultural Affairs promotes agricultural production aiming at self-sufficiency by providing financial assistance and technical packages to groups. Attempts are usually made to integrate this activity with the resettlement, educational and health ones.

- the Women's Committee is a volunteer arm of IIRO for various activities ranging from fund-raising to teaching, cultural activities, health.

- the Department of Architectural & Engineering Consultancy is a technical unit to implement various IIRO construction projects; it supervises the study, design and follow-up of construction projects and recruits engineers to supervise these.

- finally, the "Our Children project" provides children with cultural and educational materials, both books and audio-visual ones.

Leopold Battel/TBF
January 1999

THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES FUND FOR INTERNATIONAL DEVELOPMENT (OPEC FUND)

Parkring 8, Vienna A-1010, Austria
Tel: (43-1) 51564/0
Fax: (43-1) 513 92 38

The OPEC Fund is an intergovernmental development finance institution dedicated to promoting cooperation between OPEC countries and other developing countries, as an expression of South-South solidarity. It does this by, among other things, providing financial resources to assist those countries in realizing their economic and social development goals.

The Fund was established in 1976 by the member countries of OPEC (which include Arab oil exporting countries and Gabon, Nigeria, Venezuela, Indonesia, and Iran). The idea was to create a collective aid facility that would consolidate the assistance extended by member countries; its resources are in addition to those already made available by OPEC states via other bilateral and multilateral channels.

The Fund extends loans on concessionary terms of three types: for projects, for programs and for balance of payments (BOP) support. It also provides grants for technical assistance, food aid, research and other activities. Loans carry a 2% interest rate which could be lowered to 1% (one) in the near future; maturity is 17 years with a grace period of 5 years. While it does not normally engage in emergency relief work, the Fund occasionally contributes to international efforts to alleviate suffering in regions devastated by natural or man-made disasters such as droughts, floods, earthquakes, etc.

All non-OPEC developing countries are, in principle, eligible for Fund assistance, as are international institutions whose activities benefit developing countries, such as IFAD. The least developed countries and in general low-income countries are accorded priority. Close attention is paid to the priorities identified by the recipient countries. Over the years, Fund assistance has benefited 95 countries in Africa, Asia, Europe and the Caribbean, and loans have been extended to all major economic sectors. In 1997, the OPEC Fund added Kyrgystan and Tajikistan to its expanding portfolio.

Since its inception, the OPEC Fund has made available a cumulative total of US$5.033 billion in loans and grants to more than 1,000 projects. These include project and program loans as well as balance of payments (BOP) loans. In 1997, it approved 33 project loans valued at US$210.3 million (from US$146.2 million in 1996). Two further loans totaling US$24.7 million were approved to finance commodity imports program. In the area of grants, 31 grants worth US$5.4 million were extended, mostly to technical assistance schemes, funding research and backing humanitarian operations. As mentioned above, all sectors are represented in project loans approved in 1997, with transportation 24.3%, health 15.2%, education 19.6%, agriculture 22.8%, water supply & sewerage 4.8%, telecommunications 3.8%, national development banks (for micro-enterprises) 1.9% and other & energy 7.6%. The OPEC Fund has cofinanced 23 projects by extending loans totalling US$152 million in 1997, with other Arab OPEC-member agencies and by a number of other multilateral partners.

The Fund may undertake the technical, economic and financial appraisal of a project submitted to it, or entrust such an appraisal to an appropriate international development agency, or a qualified agency of an OPEC member country by other development institutions. Similarly, the administration of a large number of the Fund's project and program loans has been entrusted to development aid agencies.

With regard to procurement, the OPEC Fund follows the same ICB rules as the World Bank. It does not participate directly in the bidding process which is left to the recipient country.In the implementation stage, the executing agency supervises the project but is required to report periodically to the Fund.

Consultants are occasionally required to help in the preparation and evaluation of projects. <u>Canadian consultants can register with the OPEC FUND by writing to the Director of Research and Information and request the Fund's forms.</u>

Canadian companies are perceived with having an edge in the Caribbean and Francophone Africa.

Education is the sector where there is the most need for expertise. The Fund is lending to the private sector via the recipient country government. Its Board is currently considering lending directly to the private sector. Various formulas will be examined: equity, loans or both.

The Fund's Board meets four times a year in March, June, September and December. Following these meetings, proposed projects are approved (or rejected). Approved projects are announced by an official communiqué and the publication of a list of all the projects, which is still in the early stage and should allow firms sufficient preparation time to bid. Lists of approved projects may be obtained by writing directly to the

Director of Information or the Export Financing Division of the Department of Foreign Affairs and International Trade.

Leopold Battel/TBF
January 1999

3.2 ARAB REGIONAL COOPERATION AND TRADE PROMOTION INSTITUTIONS

Arab Authority for Agricultural Investment and Development (AAAID)

P.O. Box 2102 Khartoum, Sudan
Tel: (249-11) 773-752/3, 780-777
Fax: (249-11) 772-600

AAAID is an investment organization of 15 Arab countries aimed at improving food security in Arab countries and developing agricultural resources in member states. For many years, it concentrated its efforts on establishing agricultural projects in the Sudan through equity participation, in the hope of making Sudan a major food exporter to Arab countries.

In April 1984, it modified its emphasis by deciding to investigate the agricultural resources and the potential for agricultural development and related activities in other member states. Its mandate includes investing in all forms of agricultural production and related activities, particularly, land reclamation; plant, animal and fish production; pastures; forestry; the transport, storage, marketing, export and processing of agricultural produce; and all inputs necessary for agricultural production.

Authorized capital at the end of 1997 was US$492 million of which US$328 million is paid up. Cumulative commitments amounted to US$338.6 million at the end of 1997, and disbursements reached US$293.7 million.

AAAID has established several companies in the Sudan. Its participation in their capital amounted to $105 million at the end of 1997. These companies are the Arab Company for Agricultural Production and Processing Ltd. (ACAPP), the Arab Sudanese Vegetable Oil Co. (ASVOC), the Arab Sudanese Blue Nile Agricultural Co. Ltd. (ASBNAC), the Kenana Sugar Co., and the Pilot Farm for Production of Improved Seeds.

In 1985, the Board of shareholders adopted a resolution calling for the extension of AAAID's activities to other member states. AAAID is now involved in projects in Iraq, Kuwait, Qatar, Tunisia, Mauritania, Morocco, Saudi Arabia and the United Arab Emirates.

The unit of account of AAAID is the Kuwaiti dinar.

The potential contribution of industrialised countries such as Canada to this regional Arab project could concentrate on the following areas:

a) consulting groups for feasibility studies at the pre-investment stages;

b) detailed engineering studies, specification of equipment, etc., in the appraisal stage;

c) management contracts for specific types of projects to handle sophisticated technology in the implementation stage;

d) attraction of additional funds to accompany the transfer of technology, including the supply of machinery and training facilities.

L. Battel/TBF
January 1999

Arab Fund for Economic and Social Development (Arab Fund)

P.O. Box 21923
Safat 13080, Kuwait
Tel: (965) 484-4500
Fax: (965) 481-5750/60/70

The Arab Fund for Economic and Social Development is an Arab regional financial organization with an independent juridical status, established in 1968 but operational only since 1974. The Arab Fund finances projects through lending operations and technical assistance to contribute to the Arab countries' development programmes. The AFESD membership comprises all 22 members of the League of Arab States, and its beneficiaries have so far included all Arab countries with the exception of Kuwait, Saudi Arabia, Qatar and the United Arab Emirates (UAE), i.e., from wealthier to poorer states. Its mandate is limited to the financing of projects of Arab states only.

Its paid-up capital is almost US$3 billion, and total loan commitments are roughly US$10 billion. The largest shareholders are Saudi Arabia, Kuwait, and the UAE.

In 1993, Iraq, Sudan and Somalia were suspended. Palestine and Jordan are active members and are eligible for loans.

The Arab Fund extends project loans to governments and to public and private organizations and institutions on soft terms, giving preference to projects that are of vital importance to the Arab world and to joint projects involving Arab cooperation. It encourages the investment of public and private capital in a way designed to promote the development and growth of the Arab economy.

Loans: These are long term with a grace period calculated on implementation period plus one year, an interest rate of 3% for the poorest countries up to a maximum of 4 1/2% for the others, with a maximum reimbursement period of between 22 to 25 years. Loans are mostly for infrastructure projects. The Fund's loan commitments for project financing during 1997 were about US$808 million. Seventeen Arab states benefitted from these loans which helped finance projects. Its activities during 1997 focused on sustained support for energy projects, which received 33% of total loans; this was followed by agriculture and agro-industry at 22.7%; transportation and telecommunications at 15.5%; water and sewerage at 10.8%, industry, 10.9%; and others, 7.1%. For the period of 1974-97, the Arab Fund's share of co-financing amounted to 31% of total loans committed to Arab, regional, and international institutions. Because of the weight of the electricity sector, Canadian technology and know-how are well known and favourably perceived. Hydro-Quebec International has been working for over ten years with the Arab Fund and is currently involved in studies for the Inter-Arab electrical inter-connexion grid. Hydro-Ontario has also worked for the Fund.

Grants: Mostly used for technical assistance programs such as feasibility studies, economic/social/cultural projects, institutional support and training programs, provision of computer programs, preservation of Arab heritage, and emergency relief; in 1997, technical assistance grants amounted to nearly US$16 million with the focus being on enhancing institutional support and training which received 42.3% of total grants.

The project cycle is similar to that of the World Bank: feasibility study, appraisal, detailed study, visit/finalize and initial agreement, final report, signing (usually in host country). It however is simpler and much quicker, usually taking an average six months. International Competitive Bidding (ICB) rules apply. The recipient country proposes and the Fund approves firms. If the project is complex, a pre-selection process is followed. The Fund, however, occasionally uses outside technical support, rarely takes up more than a minority position of the financing (maximum 40%) and depends on outside contracting for appraisals. *Canadian firms should therefore, where appropriate, direct host countries to approach AFESD as an additional source of funding for well packaged projects*. The Fund may also prove useful in its capacity as coordinator for other Arab funds in identifying co-financing sources.

Registration is recommended for consultants (and some suppliers) by writing directly to the Technical Department of the Fund. It is currently working on a standard registration system that should be agreed to and used by all Arab development funds. This will have the benefit of both a one-stop shopping for these funds as well as avoiding duplication and improving efficiency. Countries normally submit a short list which the Fund reviews and comments, seeking a balance of various nationals and subject to price. Information on projects in the pipeline may be obtained once the initial agreement between the Fund and the recipient country is signed. The Fund normally publishes an official communiqué, and the project is publicly announced in the beneficiary country. Usually, call for tenders have not been made, and it is not deemed too late for bidding at that point.

Interestingly, the Arab Fund will be launching in the near future a private sector window similar to the IFC, but which will remain within its current structure. The Board has approved the earmarking of US$500 million to start the activities of the new department which will be staffed with three directors. The Fund will hold equity in private sector projects, companies, encourage loan syndication and provide guarantees. This will de done directly with the private sector and will be on an non-objection basis by the host government which will not be required to give any form of approval nor guarantee. Though not yet operational, this financial vehicle would appear to hold interesting prospects for equity funding and *Canadian companies involved in PPI (participation in privatization of infrastructure) in an Arab beneficiary country* should explore avenues with their local partners.

Its structure has been streamlined and it no longer has the traditional country/desk division. Projects are reviewed by the Technical Department which oversees the various phases of a project. The Arab Fund is considered the Arab institution with the lowest overhead costs and as having an efficient coordination secretariat.

The Arab Fund in fact assists and houses the Coordination Group of Arab National and Regional Institutions which exchanges views and discusses policies and operations with the purpose of making Arab aid more effective. The Fund also enters into co-financing agreements with the World Bank and the African Development Bank. Interestingly, the Fund meets twice a year with the other Arab and Islamic Funds, including the OPEC Fund, to decide what projects to finance or to jointly finance, thus avoiding duplication and encouraging the rationalization of Arab resources. A compendium of all the projects approved by each Arab and Islamic bank is then published. This provides usual information on projects ready for ICB. It can be obtained through the embassy in Kuwait.

Leopold Battel/TBF
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THE ARAB INVESTMENT COMPANY S.A.A. (TAIC)

P.O. Box 4009, Riyadh 11491, Saudi Arabia
Tel: (966) 1 4760601; Fax: (966) 1 4760514

The Arab Investment Company S.A.A. is a Pan-Arab joint stock company established in 1974 and owned by governments of 16 Arab states with an authorized capital of US$400 million of which US$366 million is paid-up. Lebanon has recently joined and Algeria has applied for membership. The World Bank and the IFC have shares in the IFC. Its prime objective is to invest in "Arab funds to develop Arab resources in different economic sectors, based on sound economic and commercial measures, in a manner that would support and develop the Arab economy." The company enjoys all guarantees and concessions provided by the national, Pan-Arab and foreign investment codes in the shareholder countries. In particular, its assets can be transferred but cannot be nationalized nor expropriated. To accomplish its objectives, TAIC is pursuing two main activities:

1. Project Investment

Project equity investment is TAIC's main function, and investment decisions are usually made on the basis of the sound economic and commercial viability of projects. Other criteria include the strategic importance of the project, its priority in the national development plan of the host country, its contribution to the integration of economic sectors, and the improved utilization of local resources. The main thrust is directed towards the private sector and commercially oriented enterprises. Loans are for specific projects and ineterest rates are determined for each one on a commercial basis.

The company acts as a catalyst and a promoter for investment by performing, inter alia, the following functions:

- Identification of economically viable projects by conducting feasibility studies or evaluating such studies submitted by other parties.

- Promotion of selected projects by subscribing in their capital and providing technical assistance during the initial stages to ensure timely and cost-effective implementation.

- Participation in the management of on-going projects through representation on their boards of directors.

- Follow-up of on-going projects in coordination with other parties to increase productive efficiency and competitiveness.

TAIC will support public and private Arab investment institutions to promote the development of a regional financial market in order to improve the general investment climate in the Arab region.

2. Banking Services

Banking services are provided by TAIC's branch in Bahrain which acts as an offshore banking unit (OBU) under licence and supervision of the Bahrain Monetary Agency. These services have been instrumental in enhancing project equity investments by generating additional income for reinvestment, in addition to mobilizing Arab surplus funds in support of Arab economies.

The OBU provides the following services:

- Commercial banking services, including the provision of trade finance and other credit facilities to various entities. TAIC has also carried out trade financing activities with other banks including the Arab Trade Financing Program aimed at inter-Arab trade or between Arab countries and non-Arab trading partners. Total trade financing transactions by the TAIC for 1997 reached US$156 million for 91 projects.

- Investment banking services, including project finance, portfolio management, investment in securities and various treasury operations such as accepting or placing deposits and trading in foreign exchange and money market instruments.

- Islamic banking services provide Islamic modes of financing in accordance with Islamic Shariah laws.

OBU is authorized to deal with institutions outside the Arab world and has had relations with Canadian banks, notably for the syndication of loans.

TAIC prefers to deal with several partners in a project. However, companies involved in a project must be Arab, not foreign ones doing business in the Arab countries, unless an Arab company is involved in a joint-venture or has a substantial share in the foreign one.

TAIC has intensified contacts with regional investment promotion entities and actively follows the outcomes of privatization programs implemented by many Arab countries. Both the World Bank and the IFC have shares in TAIC. The company is divided into three departments: Agriculture, Services and Industry. At the end of 1997, TAIC's portfolio encompassed 34 projects consisting of 16 industrial, 5 agricultural and 13 service projects, with total equity participation amounting to US$212.8 million.

TAIC has regional offices in Tunisia, Egypt and Jordan.

Feasibility studies are to be undertaken by promoters. *TAIC sometimes hires independent consultants to review projects and proposals. Canadian consultants, therefore, should write to the Company and present their qualifications, references and past experience. For other financing considerations, TAIC may be of interest to promoters of an investment project that may involve loan syndication with various entities; it may become in the near future an interesting avenue for participation in privatization projects in infrastructure (PPI).* Companies with a long-term approach and business plan should explore strategic alliances, joint-ventures or partnering avenues with Arab companies.

List of member countries

Saudi Arabia	Bahrain	Libya
Kuwait	Syria	Oman
Sudan	Iraq	Yemen
Egypt	Jordan	Lebanon
Qatar	Tunisia	
United Arab Emirates	Morocco	

ARAB MONETARY FUND (AMF)

AMF Building
Corniche Road
P.O. Box 2818
Abu Dhabi, U.A.E.

Tel. (971-2) 328-873 (direct); 328-500
Fax: (971-2) 326-454

The Arab Monetary Fund was set up in Abu Dhabi in 1977 following an agreement by the Council of Arab Economic Unity whose intent was to lay the monetary foundations of Arab economic integration, accelerate the progress of economic development in all Arab countries and promote trade among them. Similar to the IMF, the AMF started operations in February 1978 and is limited to its 21 regional member states. As a first step, the AMF is trying to prepare monetary measures conducive to regional integration, to promote trade within the Arab world and to provide technical advice and training in central banking techniques.

According to its Articles of Agreement, the Fund is mandated to:

- correct disequilibria in the balance of payments (BOP) of member states through the extension of credit facilities (loans) in support of adjustment programs;

- promote stability of exchange rates and the convertibility among Arab currencies, and strive to eliminate restrictions on current payments between members states;

- promote such policies and modes of Arab monetary cooperation that will enhance the pace of Arab economic integration and the process of economic development in the member states;

- assist member countries in their efforts to restructure their financial systems and public finance;

- render advice on matters relating to financial resources of member states in foreign markets;

- promote the development of Arab financial markets;

- promote and develop inter-Arab trade through its specialized advisory services to the Arab Trade Financing Program (ATFP), an independent entity of the AMF; (* see section on ATFP)

- study ways to promote the use of the Arab Accounting Dinar (AAD) as a unit of account and pave the way for the creation of a unified Arab currency;

- provide training courses to enhance the technical and professional skills of junior and mid-level personnel of financial and monetary agencies of member countries; this activity is carried out by the Economic Policy Institute of the AMF.

- coordinate the position of member states on international monetary and economic issues with the aim of realizing their common interests, and contribute to the solution of world monetary problems; and

- settle current payments between member states in order to promote trade among them.

The unit of account of the AMF is the AAD; one AAD being equivalent to three SDRs (Special Drawing Rights of the IMF) or USD4. The Board of Governors may authorize an increase in capital and the AMF may borrow up to twice the amount of its capital and reserves. The AMF's total own resources at the end of 1997 amounted to AAD 622 million of which AAD 319 million were the Fund's loanable resources corresponding to the Fund's paid-up capital in convertible currencies.

The main activity of the AMF is the provision of loans in support of economic adjustment programs. During 1997, the Fund approved three loans totalling AAD 22.7 million. Agreements for loans amounting to close to USD 3 billion, had been signed with 12 member countries by the end of 1997.

The AMF extends four types of concessionary loans to its member states, which vary in terms of their maturity: the automatic loan has a maturity of three years, the ordinary loan (five years), the compensatory loan (three years) and the extended loan (up to seven years). The amounts, terms and maturities vary depending on the nature and scale of imbalances facing the borrowing country.

Member countries may draw unconditionally up to 75% of their paid-in capital convertible currencies to finance their BOP deficit (automatic loan). They may obtain loans in excess of this limit, subject to a financial adjustment or stabilization program (ordinary loan) or an extended loan for a recipient country facing a large and chronic deficit in its BOP attributable to a structural imbalance in its economy. This loan requires that the beneficiary country adopts a structural reform program of at least two years, agreed upon with the AMF.

Another facility is the compensatory loan which may also be drawn to address a BOP deficit arising from unforeseeable factors (decline in receipts from exports or an increase in agricultural imports due to bad harvests).

To assist member countries to further their efforts to consolidate previous structural adjustment programs, the AMF has undertaken in 1997, to establish a New Lending Facility. This Facility will allow extending supplemental financial and technical assistance support, notably in the financial and banking sectors and government finance. It will be available to all member states with a strong track record of implementing macroeconomic stabilization policies.

In the context of these objectives, the AMF is providing financial and technical assistance to countries embarking on privatization programs, particularly Morocco, Algeria, Tunisia, Egypt and Yemen.

In the area of capital markets, to promote the development and linking of Arab capital markets, the AMF created in 1997, the Arab Capital Markets Database to disseminate information and market indices on a reliable and regular basis to increase awareness about these markets and opportunities for investment in them. This is in addition to the Inter Arab Rating Company (IARC) created in collaboration with the International Finance Corporation (IFC). The AMF also provides technical assistance to member countries to support their endeavour to create their domestic capital markets.

Besides its operational activities, the AMF is a forum for questions affecting Arab institutions. When the United States froze Iranian public assets, the Fund was outspoken in calling for an international agreement between the industrialised and Arab countries to ensure that Arab investments and deposits in the OECD region be guaranteed against sequestration and freezing.

<u>Member states</u>

Algeria	Lebanon	Saudi Arabia
Bahrain	Libya	Somalia
Djibouti	Mauritania	Sudan
Egypt	Morocco	Syria
Iraq	Oman	United
Jordan	Palestine	Arab Emirates
Kuwait	Qatar	Yemen

Occasionally, the AMF hires consultants to undertake independent studies notably economic and trade policy issues. Consultants may send their CV directly to the AMF.

Leopold Battel
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ARAB PETROLEUM INVESTMENTS CORPORATION (APICORP)

Head Office
P.O. Box 448, Dharan Airport 31932
Saudi Arabia

Tel: (966) 864 74 00
Fax: (966) 03 894 50 76 / 03-864 00 61

The Arab Petroleum Investments Corporation (APICORP) is an Arab joint-stock company established in 1975 in accordance with an international agreement signed and ratified by the governments of ten member states of the Organization of Arab Petroleum Exporting Countries (OAPEC). APICORP's head office is in Damman-Al Khobar area in Saudi Arabia. Its share capital is owned by the governments of Bahrain, the United Arab Emirates, Algeria, Saudi Arabia, Syria, Iraq, Qatar, Kuwait, Libya and Egypt. The Corporation is independent, both in its management and in the performance of its activities. APICORP conducts its operations on a commercial and strictly business basis, aiming the maximization of profits.

The prime objective of APICORP is to participate in the equity, as well as the debt financing of projects in the petroleum industry at large, and to assist the development of petroleum and petro-industries in the member states. These include all businesses which are based on the development, processing or transportation of the products of the oil and gas industry and its downstream derivatives. The Corporation gives priority to joint Arab ventures which serve the regional Arab market.

APICORP may undertake all operations required for the fulfilment of its objectives, in particular:

1) initiate, study and promote petroleum, and petroleum related projects, and participate in their equity financing;

2) extend or guarantee medium and long-term loans to finance projects in the petroleum industry;

3) participate in the short-term financing of the international trade in Arab petroleum, gas and petrochemicals;

4) underwrite, purchase and sell the shares (and equity capital) of companies in the petroleum industry; and

5) issue its owns bonds and borrow from Arab and international financial markets.

The Corporation has raised funds through syndicated loans in the international markets to support equity participation and lending activities in 1997. These syndicated loans were over US$ 500 million and contributed to complement governments' reductions of direct funding to industrial projects while opportunities opened up with the emergence of private sector promoters of petrochemical projects, including foreign investors, encouraged by these same governments to develop their industries. Loan commitments in 1997 reached US$241 million. APICORP's promotion of investments in the Arab petroleum sector contributed to facilities amounting to US$ 6.8 billion. Also, at the end of the year, the Corporation was a shareholder in 12 petroleum and gas related projects with a book value of US$139 million.

The trade finance activity, which is in support of the export of Arab crude to countries outside the region, also increased in 1997 to US$56 million from US$46 million in 1996.

APICORP believes the petroleum sector will likely remain the largest recipient of its investments in the medium-term and sees the region's growing private sector as a major borrower of funds. While it will continue to give priority to the Arab world, indications are that it is prepared to consider providing loans or taking equity positions in downstream projects outside the region, particularly where such projects aim at the diversification of its portfolio.

Leopold Battel
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THE ARAB TRADE FINANCING PROGRAM (ATFP)

Arab Monetary Fund Building, 7th floor, Corniche Road
P.O. Box 26799, Abu Dhabi, United Arab Emirates
Tel. (971-2) 316-999
Fax: (971-2) 316-793

The Arab Trade Financing Program (ATFP), established in 1989 by the Arab Monetary Fund (AMF, the Arab IMF), is a specialized financial institution equivalent to the Canadian EDC. Operations, however, started only in 1992. Its objective is to develop and promote trade among Arab countries and enhance the competitive ability of Arab exporters. This is achieved by providing refinancing in the form of lines of credit, for export, import and re-export as well as buyer credits, through 85 national agencies appointed by monetary authorities in 18 Arab countries, and three foreign countries. The ATFP functions as an autonomous body, operating on a commercial basis.

ATFP provides re-financing for eligible goods in the form of lines of credit to member countries exporters and importers through the 85 designated national agencies for re-export, export and import, as well as buyer credits. Eligible goods are those with a value-added of at least 40 percent originating from primary sources and/or other domestic factors of production of an Arab country. Only inter-Arab trade transactions are eligible and not those from an Arab country to a non-Arab one. Goods like crude oil, used goods and re-exported goods are not eligible for re-financing. Financing is provided in US dollars for up to 85% of the value of the goods exported. National agencies play an important role in certifying the country's content (value-added).

ATFP assists Arab firms in their export activities by providing their buyers with internationally competitive financing packages. Drawings against lines of credit bear interest at an rate currently set at LIBOR plus a margin set at 1/8 % for 6 months and increasing to three years, (exceptionally 5 years for certain capital goods), with the term of the credit and the risk involved. Guarantee and insurance required vary with the risk involved, as ATFP may consider adequate. Somalia, Iraq, Sudan and Libya have been excluded from ATFP's financing. ATFP may also determine the level of guarantee and insurance required according to the risk involved. Three groups of institutions can participate in the ATFP: (i) the AMF; joint Arab finance institutions and government banking and finance institutions; (ii) private Arab financial and banking institutions; and (iii) joint Arab/foreign finance institutions and international finance and banking institutions.

The ATFP has a paid-up capital of about US$500 million of which 55% was contributed by the Arab Monetary Fund, 22% by the Arab Fund for Economic and Social Development, and the rest by 40 other shareholders representing the Arab Banking Corporation and Arab central and commercial banks. In 1997, 127 applications were approved for lines of credit, and 31 agreements were signed, for a total amount of US$235.27 million from US$142.6 million in 1996. Disbursements of LOCs amounted to US$ 202.83 in 1997 against US$88 million in 1996, an increase of 130%.

The AFTP has also undertaken the establishment of an Inter-Arab Trade Information Network (IATIN) with the United Nations Development Program (UNDP) and the International Trade Centre (ITC). ATFP has been mandated by the Arab League to implement and administer this Network on a regional basis. Canadian firms may consult this data base for the exploration of opportunities and partners on the internet web site: (www.atfp.com).

Other initiatives include the development of new financial instruments with the assistance of UNDP and the ITC, the development of human resources with UNCTAD and buyer-seller meetings at the ITC in Geneva for the promotion of Arab goods.

Canadian firms considering exporting goods to the region may structure deals by providing the remaining 60% of the value-added while possibly getting at least 85% financed by the AFTP. Some Canadian financial institutions have been reported to do business with the AFTP.

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GULF COOPERATION COUNCIL (GCC)

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Saudi Arabia
Tel: (966-1) 482 7777 Fax: (966-1) 482 7716

The Cooperation Council for the Arab States of the Gulf - commonly known as the GCC - brings together Bahrain, Kuwait, Saudi Arabia, Oman, Qatar and the United Arab Emirates in a regional political and economic alliance. Founded in May 1981, with the signing of the Charter by the Heads of State in Abu Dhabi, the GCC formalized the close relationships between these countries with the creation of a permanent Council whose task is to foster common solutions and common opportunities.

The objectives of the Gulf Cooperation Council, as stated in the Charter, are to effect coordination, integration and interconnection between member states in all fields in order to achieve unity among them; to deepen and strengthen relations, links and scopes of cooperation prevailing among its peoples in various fields; to formulate similar regulations in various fields including, inter alia, economic and financial affairs, agriculture, industry, commerce, customs and communications, education, culture, health, social affairs, information, tourism, and legislative and administrative affairs; to stimulate scientific and technological progress in various fields, to establish scientific research centres and implement common projects, and to encourage cooperation with the private sector.

A vast array of organizations and institutions - hospitals, universities, government ministries, financial agencies - have been created. The GCC underlying approach aims at ensuring that the experience acquired by one state is shared by others facing similar conditions. The region's common cultural, historic and religious background, in addition to shared economic and geopolitical interests, contribute to facilitating some degree of integration. This can be evidenced by the free movement of citizens, jobs and capital between the six countries. GCC citizens and businesses are benefitting from increased integration of the legal systems, and may acquire properties in other GCC countries, which is normally not granted to foreigners outside the GCC.

STRUCTURE OF THE ORGANIZATION

The *Supreme Council* is the Gulf Cooperation's Council highest authority and is formed by the six heads of states with the presidency rotating each year on the basis of the alphabetical

names of the member states. The Supreme Council lays down policy guidelines and approves the basis for relations with other states and international institutions such as the United Nations and the Arab League. It reviews reports and recommendations made by subsidiary bodies, appoints the Secretary General, approves the budget of the Secretariat-General, and approves the rules and procedure of the *Commission for the Settlement of Disputes* and nominates its members. Resolutions are passed on the basis of unanimity for substantive matters and majority for procedural matters. The Supreme Council meets annually, and in extraordinary session if requested by any member and seconded by another member.
The Commission for the Settlement of Disputes is formed separately for every case, based on the nature of the dispute. The Commission submits its recommendations to the Supreme Council for consideration.

The Ministerial Council is composed of Foreign Ministers or such other ministers as member states may delegate. Its Chairman is rotated every year, with the state hosting the summit assuming the chairmanship for the year. The Ministerial Council proposes policies and prepares recommendations, studies, and projects aimed at developing cooperation between member states and endeavours to encourage, develop and coordinate activities existing between member states in all sectors. Resolutions are passed on the basis of unanimity for important matters and majority for procedural matters. The Ministerial Council meets every three months, and in Extraordinary session at the same conditions for the Supreme Council.

The Secretariat-General is headed by the Secretary-General, who is appointed by the Supreme Council for a three-year term, renewable once. The Secretary-General nominates the Assistant Secretaries-General, who are then appointed by the Ministerial Council to renewable three-year terms. The Secretariat-General is composed of the Office of the Secretary-General, Directorates of Political Affairs, Economic Affairs, Military Affairs, Environmental and Human Resources, Legal Affairs, Financial and Administrative Affairs, and an Information Centre.

The GCC has a small 350 member staff and a $US30 million budget. Working towards achieving common positions and to encouraging more uniform regulations among its members, the GCC functions and achievements cover every major field represented by the above-mentioned directorates. In commerce, the GCC has favoured the proper conditions for regional investments and business location decisions. It also seeks to stimulate progress in agriculture and industry and encourages cooperation and joint-ventures in the private sector. The GCC maintains a permanent mission to the European Union (EU) and holds regular trade cooperation meetings with the EU and Japan among others, where prospective regional infrastructure and industrial projects are discussed. The GCC is gradually emerging as a serious regional trading bloc. The *Unified Economic Agreement* reinforces its commitment to free and open economies. Labour, capital and goods may move freely, and customs tariffs have been abolished on products manufactured in the GCC. The agreement also addresses the coordination of development plans and a common policy in matters pertaining to the oil industry.

More specifically, the GCC created the following tools to move towards its integration objectives;

The *Unified Economic Agreement* mentioned previously, was signed in 1981 and ratified in 1982. It aims include free trade among member states in agriculture, animal, industrial, and natural resource products of national origin. These products have been exempted customs duties and other charges. The Agreement also aims at implementing a common external tariff and trade policy. A GCC economic citizenship has been created, with the freedom to reside, own property, and work in any member state and transfer capital between them. Work continues on concluding a Customs Union.

The *Gulf Investment Corporation,* with an authorized capital of $US2.2 billion is the financial arm of the GCC, and was created in 1983 to consolidate economic activities among member countries in agriculture, commerce, industry and general investment. The Corporation can finance joint development productive projects submitted by the private sector. (cf. section on the Gulf Investment Corporation).

The *Gulf Standards Organization* was created in November 1982, when the Saudi Arabian Standards and Measures Organization was transformed into a regional body serving all member states. It has since approved over 1,000 GCC standards.

The *Patent Office* of the GCC was established in 1982 to implement the patent regulations in the six countries and to authenticate and publish data relating to inventions.

The *GCC Commercial Arbitration Centre* was created in 1991 to settle trade disputes, including between member states,or their citizens, and foreigners.

Joint Agricultural Policy calls for integration in this sector among the six countries, based on the optimum use of water resources and aiming at self-sufficiency for the region.

Programs have been set up for coordinating local agricultural plans, for surveying, utilizing and conserving natural resources, and for research and technological development.

Linking infrastructure: programs have included projects for a regional electricity interconnection grid, integrated road networks and coordinated civil aviation plans. Further projects being considered include gas pipelines, desalination plants and aluminium smelters. The *Gulf Organization for Industrial Consulting,* based in Doha, Qatar is responsible for reviewing project proposals and feasibility studies and as such is a good source of information for projects that are at the early stage in the pipeline.

Leopold Battel
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THE GULF INVESTMENT CORPORATION

P.O. Box 3402, Safat, 1305, Kuwait
Tel: (965) 243 1911 Fax: (965)243-4289

The Gulf Investment Corporation (GIC), based in Kuwait City, acts as the Gulf Cooperation Council's (GCC) financial arm. Established in 1983, its objective is to support economic growth, regional cooperation and the development of private enterprise. The GIC will invest in productive revenue-generating projects, usually large multimillion dollar power or petrochemicals though it can consider smaller ones if warranted. With an authorized capital of US$2.2 billion, of which US$ 540 million is paid up, it is one of the largest well capitalised institution in the region. It has over $US12 billion in assets, and equity positions in a range of businesses including food processing, textiles, medical services, petrochemicals, aluminium production, electronics and power generation. It achieved a record operating profit of US$ 177 million in 1997, an increase of 28% over 1996.

The GIC's financial services include securities underwriting and the distribution of Gulf and international issues. It advises governments and institutions on project evaluation and finance, mergers and acquisitions, restructuring and risk management. In 1991, GIC acquired the Gulf International Bank (GIB)in Bahrain, which provides general banking services, wholesale loans and trade and project finance. In the latter, GIB has maintained a solid reputation for its capacity to structure the financing of complex projects and to lead loan syndication. It is involved in every major project in the Gulf region and collaborates with other sister institutions.

The GIC Group is composed of three main units: an investment-banking business deals with new issues, merchant banking, advisory services and corporate finance. The global-markets unit is responsible for treasury and foreign exchange operations, futures and options, and asset management. Commercial banking handles lending, trade and project finance.

As part of its efforts to assist the development of efficient private enterprises, and their increased role in the economy, the GIC provides advisory services to GCC governments pursuing privatisation programs and policies. It will also assist them in attracting foreign capital to partially finance their infrastructure development programs, with the participation of its banking subsidiary, Gulf International Bank (GIB).

Canadian companies wishing to pursue business opportunities with the GIC may also complete their search for information by contacting another GCC-related organization:

Secretary General
Gulf Organization for Industrial Consulting (GOIC)
P.O. Box 5114
Doha, QATAR
Tel: (00974) 858-888   Fax: (00974) 831 465

GOIC is a useful source of information on GCC projects in the pipeline, still under review or in the feasibility study phase. It provides advice and assessments in the early stages of a project.

Leopold Battel
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THE INTER-ARAB INVESTMENT GUARANTEE CORPORATION (IAIGC)

P.O. Box 23568 Safat, 13096 Kuwait
Tel: (965) 4844500
Fax: (965) 4815741 or 42

The Inter-Arab Investment Guarantee Corporation is a regional organization similar to the World Bank's MIGA, comprising all Arab states. It was established in 1974 and its headquarters is located in Kuwait. Paid-up capital is over US$80 million. It was felt that one of the bottlenecks in the flow of private capital between rich and poor Arab countries was the lack of insurance coverage against non-commercial risks. The purpose of the scheme was to create a joint arrangement in which Arab countries, both capital-exporting and capital-importing nations could participate on an equal basis. IAIGC seeks to promote Arab investments in Arab countries, thus fostering Arab economic development and integration.

IAIGC provides essentially export credit guarantees against both political and commercial risks, investment guarantees (political risk only), and insurance coverage for Arab investments as well as for inter-Arab trade transactions. It also undertakes investment/project promotion activities among Arab countries.

The guarantee operations offer coverage for three-types of non-commercial risks:

- political risks such as nationalisation, confiscation or "creeping" expropriation;

- non-transferability of principal and dividends;

- losses due to military operations, war, or civil strife.

The most important sectors covered by the IAIGC are real estate, agro-industries, transportation, mining and some light industries. The Corporation has worked at promoting trade between member states, provided that this involves goods produced, processed or manufactured in one of the member countries. It complements the activities of the Arab Trade Financing Program (ATFP) which provides export financing.

To be eligible, investors must be a national of an Arab member country, or a firm substantially owned by Arab nationals and whose office is located in one of the member countries. Coverage is not provided in the investor's country and only new projects exceeding three years are considered. Eligibility criteria include very extensive interpretation of the investment types: projects may be public, mixed, or private in ownership, provided the investments in the two first cases operate on a commercial basis.

IAIGC has extended its coverage to joint Arab-foreign banks and financial institutions provided their capital is at least 50% Arab, to encourage these organizations to direct part of their investments to Arab countries. Services of the Corporation include coverage for privatization projects, BOT, and BOO.

Direct and portfolio investments are eligible for insurance. Furthermore, loans for terms exceeding three years as well as export credit for shorter periods are eligible. The sole condition for obtaining coverage is the approval by the host government for both the investment and the insurance for the project. Priority is accorded to investments:

a) promoting Arab economic integration and co-operation such as joint ventures;

b) building up productive capacities in the host country;

c) feasible only via the guarantee coverage of the IAIGC, i.e. for which the insurance is an essential factor.

Claims are settled to the extent that the Corporation will pay out 85 per cent of the insured value. It will then represent the claimant and initiate action to recover the 15 per cent from the country through arbitration or international law procedures. The final 15 per cent, if obtained, will be paid to the investor, less expenses incurred.

Another activity of the IAIGC is project promotion for member countries, essentially on cost basis. The identified investment opportunities are brought to the attention of finance institutions. The Corporation itself will not invest in the identified projects. Other ancillary tasks assigned to the IAIGC include the evaluation climate in member countries and the promotion of the movement of investment capital towards member countries.

Annual volume of transactions ranges between US$100 and US$150 million.

<u>Canadian firms contemplating selling equipment to a customer seeking to invest in a plant or project in a third (Arab) country may direct it to the IAIGC.</u>

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THE ORGANIZATION OF ARAB PETROLEUM EXPORTING COUNTRIES (OAPEC)

P.O. Box 20501 Safat 13066, Kuwait
Tel: (965) 4844500
Fax: (965) 4815747

The Organization of Arab Petroleum Exporting Countries (OAPEC), which is not to be confused with the larger membership Vienna-based OPEC, was founded in 1968 by Kuwait, Libya, and Saudi Arabia, to be joined later by other Arab countries. Tunisia requested to opt out in 1986.

While OPEC is mainly concerned with overall policy and pricing pertaining to oil and gas, OAPEC was created as an Arab-only regional inter-governmental organization to foster cooperation in the development of the petroleum industry among its members and to facilitate harmonization of strategies and policy-making prior to OPEC meetings. OAPEC attempts to achieve this by a dual political level and financial activity through ministerial meetings, energy conferences and technical seminars, and sponsoring joint-ventures. It, therefore, differs from IFIs in that it supports member states regardless of per capita income and is restricted to the petroleum and gas sector.

In pursuit of its objectives, OAPEC has sponsored the creation of four companies and a training institute to form a solid foundation for joint Arab action and Arab economic integration in the petroleum industry. The OAPEC-sponsored ventures are:

-Arab Maritime Petroleum Company (AMPTC)
P.O. Box 22525, Safat 13086, Kuwait
Tel: (965) 484 4500; Fax (965) 484 2996
Established in 1973 for the transportation of hydrocarbons, and thus increase Arab participation in the tanker industry; authorized capital US $200 million;

-Arab Shipbuilding and Repair Yard (ASRY);
P.O. Box 50110, Manama, Bahrain
Tel: (973) 671 111; Fax: (973) 670 236
Created in 1974; operation of floating docks, servicing of vessels and repair yard in Bahrain;

-Arab Petroleum Investment Corporation (APICORP) primarily for the financing of petroleum and gas downstream and upstream projects due to the large capital requirements of such projects. (See separate section of report on APICORP). APICORP is a partner of the fourth venture, the Arab Petroleum Services Co. and its subsidiaries, the Arab Drilling and

Workover Co. (ADWOC), the Arab Well Logging Co. (AWLCO) and the Arab Geophysical Exploration Services Co. (AGESCO).

-Arab Petroleum Training Institute (APTI).
P.O. Box 6037 Al-Tajeyat, Baghdad, Iraq
Tel: (9641) 551 3135; Fax: (9641) 521 0526
Established in 1978 to prepare qualified instructors to provide training in many technical aspects of the oil industry. As from December 1994, APTI is placed under the trusteeship of the Iraqi government.

-Arab Petroleum Services Company (APSCO)
P.O. Box 12925, Tripoli, Libya
Tel: (21821) 45860/1 ; Fax: (21821) 3331930
Established in 1977 to provide petroleum services through the establishment of companies specializing in various activities, and train specialized personnel; authorized capital 100 million Libyan dinars (1997);

<u>Companies established by APSCO</u>:

-Arab Drilling and Workover Company (ADWOC)
P.O. Box 680, Suani Road, Km 3.5, Tripoli, Libya
Tel: (21821) 800064/6; Fax: (21821) 805945;

-Arab Geophysical Exploration Services Company (AGESCO)
P.O. Box 84224, Tripoli, Libya
Tel: (21821) 800031/33 ; Fax: (21821) 800032;

-Arab Well Logging Company (AWLCO)
P.O. Box 6225, Baghdad, Iraq
Tel: (96141) 541 8259; Telex:(491) 213688

APICORP has assisted financially in the development of several petroleum projects (petrochemicals, fibres, phosphates, etc.) including private sector ones, by holding equity investments in Arab projects which in 1997 alone totaled US$139 million. Projects are being financed with limited recourse to the host government or, in privately owned projects, with limited recourse to the private sponsors. APICORP is also involved in trade finance to support the export of Arab crude oil products to various countries. In 1997, its loan commitments amounted to US$241 million. (See section of report on APICORP).

With OAPEC no longer directly involved in the sponsoring of projects as in the 70s and early 80s, the financing role of *APICORP is relatively important and relevant for a Canadian company should it wish to pursue a project in a member country. OAPEC through its other activities and its secretariat role* *remains a central point for information on Arab oil-related activities and certainly can assist Canadian firms do some networking.*

Leopold Battel/TBF
January 1999

4. INVESTMENT INSTITUTIONS

THE ABU DHABI INVESTMENT COMPANY (ADIC)

P.O. Box 46309, Abu Dhabi
United Arab Emirates
Tel : (971-2) 658100 Fax: (971-2) 653592

Founded in February 1977, the Abu Dhabi Investment Company (ADIC) became the first investment company in the UAE capital and among the first in the Gulf states. Asdic main activities are investment and merchant banking, ranging from advisory services in arranging corporate finance deals, loan syndication, trade financing, managing money market deposits, brokerage operations and asset management services. Its client base includes governments, institutions, corporations and individuals.

ADIC was set up to act as an investment arm to invest the excess oil revenues. It is jointly owned by the Abu Dhabi Investment Authority (ADA) 98%, and by the National Bank of Abu Dhabi (BAD) 2%. Believed to be the largest institution of its kind in the region, relatively discreet about its activities, it has an estimated trading volume of US$ 2 billion a day. Its assets are estimated at US$ 26 billion.

The Company has five operational divisions:

-Asset (or Portfolio) Division, established in 1994, manages quoted investment portfolios in major markets for regional institutions and high net worth individuals, open-ended funds tailored to individual needs, and regional funds. It launched a global equity fund and completed several infrastructure projects.

-Capital Markets & Treasury Division is involved in money market operations, foreign currency exchange, trading bonds and securities.

-Credit and Loan Syndications Division arranges syndicated credit or debt facilities, with international banks and often acting as lead bank. It focuses on top tier sovereign and public sector borrowers , notably in the Gulf region.

-Projects & Direct Investment Division's objective, as the corporate finance and venture capital arm of ADIC, is to strengthen the commercial and industrial infrastructure of the USE. It constitutes a vehicle through which ADIC supports the government and private sector in the industrialisation process to diversify the country's income stream. It has recently extended its corporate

finance and advisory services to generate fee-based earnings. The division is involved in joint ventures, private placements, privatisations and real estate.
It had a lead role in the IPO for the newly-launched Abu Dhabi Islamic Bank.

Though focused on the USE and the GCC states, it is also active in Egypt and is looking for solid opportunities outside the region particularly the Maghreb. The Project Division prefers short-term transactions of 5-6 years depending on exit conditions. It seeks a high return on investment (25%+)and will do so by looking closely at the risk on return on capital within clearly defined strategies. It will not discount any sectors, such as pharmaceuticals and agri-food, but will exclude construction. ADIC indicated that it is not necessary for a foreign company to have a local partner to approach it. Canadians companies may submit business proposals directly to ADIC.

Leopold Battel
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KUWAIT FINANCE HOUSE

P. O. Box 24989
Safat, Kuwait
Tel: (965)244 5050
Fax: (965) 246 1397

Kuwait Finance House (KFH)is an Islamic commercial and investment bank founded in Kuwait in March 1977 with the aim of conducting banking operations according to Islamic principles and to help finance project according to these principles. Its specific objectives are to:

A) Offer investment and banking services compatible with the precepts of the Islamic Shariah;

B) Contribute to the economic development of Kuwait by financing viable projects and investing its clients' deposits;

C) Contribute to social welfare activities.

KFH is owned by the Kuwaiti Government (60%) and private individuals (40%). With KD 1,581 million in assets, KFH is considered the second largest Islamic financial institution.

KFH activities consist of current banking transactions, real estate and commercial investments in various fields and financing of projects, and finance of foreign trade of Islamic countries.

KFH offers current accounts, saving accounts, unconditional continuous investment deposits, unconditional fixed investment deposits, and open period deposits for absolute investment.

It has three main departments:

1) the International Real Estate Department

2) the Direct Investment Department covers local and international investment financing, including corporate finance, acquisitions, setting up equity funds, etc.

3) the International Investment Department whose main portfolio (US$1.8 billion) is leasing activities under the ijarah mode, often with foreign Western banks providing an Islamic window (Citibank, ANZ).

KFH proceeds by following a country-ranking method and looks carefully at exposure. It will consider any sector, however it does not want to take control of an operation, but just maintain a partial equity position. KFH will get involved in infrastructure financing through the leasing mode. It privileges triple "A" products. KFH is currently developing a new product named "Synergy" which will consist of portfolios with 51% leasing and 49% murabaha (cost-plus) modes of financing. As part of its strategy based on tapping new investment opportunities, KFH launched a number of investment portfolios such as the Health Care Portfolio in the UK.

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KUWAIT INVESTMENT COMPANY (KIC)

P.O. Box 1005
Safat, 13011 Kuwait
Tel: (965)243-8111 Fax: (965)242-0748

In 1961, the Kuwait Investment Company (KIC) was founded with 50 per cent Government participation with the other half of the shares owned by Kuwaiti nationals, to invest private and public funds in Kuwait and abroad. KIC participates in direct investments, portfolio management; it underwrites international issues and arranges private placements. The major objectives of the investment company are:

- to invest its share capital in securities, rights and assets;

- to deal in shares and bonds of corporate, or quasi-government entities;

- to participate in the formation of companies and to assist in the establishment of similar companies;

- to carry out studies and investigations relating to the placement of capital and to provide investment advisory services to interested parties.

The early activities of KIC were highly concentrated in international financial instruments and investments in Arab and industrial countries. In the late sixties, KIC expanded its activities in Latin America and the Far East.

The Company was established for a duration of 30 years from the date of its incorporation. The Kuwait Government's share in KIC went from 87% to 62% following the merger in 1997, of KIC with the Kuwait Foreign Trading, Contracting and Investing Company (KFTCIC). Both institutions were active in international financial markets, placing international issues and syndicating loan operations. The KIC has a large portfolio of equity and debt securities and participates in industrial and financial ventures. The KFTCIC specialised in merchant banking, financial and investment services. The Kuwait Investment Company is expected to be privatised by the Government but the operation is on hold owing to the current market conditions. KIC wants to initiate a plan involving mergers and acquisitions but has been asked to damp its activities.

KIC has no restrictions as to regions where to invest though the focus is Kuwait and the Gulf region. It reviews feasibility studies on a case by case basis and can act as intermediary or in an advisory capacity for an investor. It usually is involved in the pre-qualification stage of a project. KIC can help coordinate the process with regard to Government requirements. It is recommended that foreign firms always deal through a local agent when dealing with the Government, especially if a joint-venture is involved.

The Company has launched the Al-Nile Fund which aims at investing in the Egyptian stock market for an amount of US$ 26,4 million.

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THE KUWAIT INTERNATIONAL INVESTMENT COMPANY (KIIC)

P.O. Box 22792
13088 Safat, Kuwait

Tel: (965) 243-8273
Fax: (965) 245-4931 or 240-8977

A private sector investment institution, the Kuwait International Investment Company (KIIC) was created in 1973 with approximately 4,000 shareholders. When the stock exchange experienced some difficulties in the eighties, the Government bought shares and currently owns about 30% of the company. The Government's KIIC share was scheduled to be privatised but because of the current market conditions, this has been postponed.

The major objectives of KIIC are to:

- invest and diversify Kuwait capital in the domestic market and abroad;

- advise Kuwait and international enterprises on investment opportunities in the Arab region;

- participate in real estate investment and financing.

It has been active in the management and underwriting of international bond issues, the building of a loan portfolio and in the undertaking of real estate projects, in direct investments in industrial and service companies and in joint ventures.

Currently its portfolio is estimated at US$ 2 billion. KIIC has been involved in the Canadian bond market and the Toronto Stock Exchange futures but much less so after the Gulf War. Over the years, it became more of a holding company preferring to deal with existing projects. In 1996, it acquired International Investment Projects Company (formerly Kuwait Investment Group) a real estate investment company active in tourist resorts in the Middle East, Portugal, the USA and the Gulf. KIIC is also considering acquiring shares in France Telecom.

KIIC will consider an investment project/proposition according to its merits.

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5. ISLAMIC BANKING AND FINANCIAL INSTRUMENTS

ISLAMIC BANKING & FINANCIAL INSTRUMENTS

Islamic banking rests on a set of rules and laws collectively referred to as Shariah. Shariah governs not only financial aspects of Islamic society but also the social, political and cultural ones. The following basic principles characterize the Islamic financial system:

-The prohibition of interest; prohibition of "riba" as it is called is justified on arguments of social justice against speculation. Profits from labour and entrepreneurship are encouraged, whereas interest fixed or predetermined, irrespective of the performance of the business venture, distorts wealth creation and productivity.

-Risk sharing: the role of investor is emphasized as opposed to that of lender/creditor; both the provider of capital and the entrepreneur share risks and profits.

-Money is "potential" capital until it becomes actual capital in joining in a productive activity. The time value of money is admitted by Shariah but only when employed not as potential capital.

-Speculative behaviour is strictly prohibited especially in extreme uncertain transactions.

-Sanctity of contracts; upholding contractual obligations and disclosure of information are essential to reduce the risk of asymmetric information and moral hazard.

-Only Shariah-approved activities qualify for investment, i.e., no business dealings in alcohol, gambling or pork meat.

These underlying principles have thus forced Islamic finance to design special Islamic financial products/instruments:

Mudaraba: a partnership profit-sharing agreement whereby capital is provided by the bank and assets, management or expertise by the client. The terms of profit and risk sharing are predetermined and customized for each investment. Any loss is borne by the bank except if negligence or misconduct can be proven on the part of the client. The maturity period being short to medium term, this instrument is generally suitable for trade activities.

Musharaka: a profit-sharing joint-venture between the bank and the client with both parties providing capital in equal or varying degrees and sharing the profits and losses in proportion to their investment. This form of equity participation is used for financing working capital of medium to long-term duration and fixed assets.

Murabaha: a short-term commercial finance agreement with the bank buying the goods on behalf of the client and then reselling them to the client who becomes owner, on a predetermined date and at a price that includes an agreed markup.

Ijara: is a leasing structure based on risk sharing. High cost assets such as industrial equipment, aircraft, ships, can be leased without bearing the full capital costs. The bank purchases the equipment for the client and retains ownership. Ownership is transferred to the client at the end of lease period according to pre-agreed terms.

Istisna'a: is a supplier credit or preproduction facility. Through this mode of financing, the bank undertakes to supply equipment, industrial products or raw materials to meet the client's orders for goods. Istisna'a is particularly suitable for financing buildings, construction, manufacture or plants. Once completed, the title is passed to the client on a predetermined deferred-payment basis.

Bay'mu'ajjal is a deferred-payment sale where delivery of the goods is taken on the spot but payment is delayed for an agreed period. Payments can be made in a lump sum or in instalments.

Bay'salam or deferred-delivery sale is similar to a forward contract where delivery of the product is in the future in exchange for payment on the spot market.

Qard Hassan (interest free loans) and Zakat (alms). Funds advanced under Qard Hassan are for humanitarian and welfare purposes. Repayments are made over a period agreed upon by both parties at no profit to the bank. Most Islamic banks include these charitable activities in their operations.