ARAB AND ISLAMIC DEVELOPMENT FUNDS AND FINANCIAL INSTITUTIONS

ISLAMIC BANKING AND FINANCE

BY LEOPOLD BATTEL

EXPORT FINANCING DIVISION (TBF)
DEPARTMENT OF FOREIGN AFFAIRS AND
INTERNATIONAL TRADE

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ISBN 0-662-82977-8

Catalogue No. E2-177 / 1998 E

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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). 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. 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. We hope it will contribute to the identification of direct business opportunities for Canadian enterprises.

With the growing importance of private sources of financing in the 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 during the past two years and it seems the region is gradually recovering from the aftershocks of the Gulf War. The year 1996 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 is becoming 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. 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. 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 <u>Coordination Secretariat of the Arab National and Regional Institutions Group housed in the Arab Fund for Economic and Social Development (AFESD)</u>. 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.

There are an estimated 140 Islamic financial institutions with total assets of more than US$101 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 Pakistan 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; and asset/liability management will become a reality.

The Canadian banking industry, and Canadian business in general, will need to quickly adapt to this trend at the risk of being left out of a lucrative sector and probably a major mode of financing in a market (Islamic banking) expected to reach $100 billion by 2000.

Leopold Battel
Deputy Director
Export Financing Division
IFI Section/TBF
Department of Foreign Affairs and International Trade
January 1998

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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:

> <u>Mudaraba:</u> 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.
>
> <u>Musharaka:</u> 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.

Leopold Battel/TBF
January 1998

Sources: Faysal Islamic Bank, Dubai Islamic Bank, Islamic Development Bank and National Commercial Bank

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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. Nearly half of total commitments support extractive and manufacturing industries. Electricity and water supply account for nearly 25%. Transport, communications, fisheries and rural development also benefit from the Fund's interventions.

As at the end of June 1997, the Abu Dhabi Fund granted over 113 loans totaling approximately dirhams 6.5 billion or CAN$ 2.6 billion. As well, the volume of grants reached CAN$186 million at the end of May 1997 and benefited 11 Arab and African countries. Equity participation amounted to CAN$182 million, while loans and grants administered on behalf of the Government totalled CAN$2.2 billion.

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. 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.

<u>Interest for Canadian firms</u>:

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

Leopold Battel
January 1998

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT (KFAED)

P.O. Box 2921, 13030 Safat, Kuwait
Tel: (965) 246-8800 241-8980
Fax: (965) 241-9060/90/91/92

In its thirty-sixth year of existence, the Kuwait Fund was the first of the development finance institutions created by OPEC member countries. 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. 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.

Total financial assistance extended by the KFAED during 1992-1996 stood at 490 loans with a total value of KD 2507 million (approx. CAN$11,532 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. 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 (18%), the water and sewerage sector (9%) and other sectors (1%). 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$944 million at the end of 1996 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 261 projects in 1996 with such institutions. Co-financing is estimated at about 44% 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. *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. CIDA has occasionally co-financed projects with the Fund.

Leopold Battel/TBF
January 1998

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, 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$10 billion. By the end of 1996, the Saudi Fund had signed loan agreements for a total value of close to $US6 billion with 64 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. Sectoral distribution was 49% for energy, 34% for agriculture and irrigation, and 17% for social infrastructure. 75% of the SFD loans went to Africa and 25% to Asia. 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. 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.

Leopold Battel/TBF
January 1998

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 four years ago 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 centers, 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.

Leopold Battel/TBF
January 1998

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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) 770-600

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 April 1994, 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 1996 is US$500 million of which US$333 million is paid up. Cumulative commitments amounted to US$358.7 million at the end of 1996, and disbursements reached US$291 million.

AAAID has established several companies in the Sudan. Its participation in their capital amounted to $106.1 million at the end of 1996. 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.

L. Battel/TBF
January 1998

Arab Fund for Economic and Social Development (Arab Fund)

P.O. Box 21923
Safat 13080, Kuwait
Tel: (965) 484-4500
Fax: (965) 481-57150/60/70

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 over $3 billion, and total loan commitments are roughly $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.

<u>Loans</u>: 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 in 1996 were about Can$1,224 million. Nine Arab states benefitted from these loans which helped finance 18 projects. Its activities during 1996 focused on sustained support for electricity projects, which received 57.4% of total loans; this was followed by agriculture and rural development at 13.7%, water and sewerage at 10.5%, transport and telecommunications 4.95% and others, 13.5%. For the period of 1974-96, 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 1996, technical assistance grants amounted to nearly Can$14 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 initiate in 1998 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
January 1998

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 must not exceed 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. 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.

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. 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. <u>Canadian consultants can register with AGFUND by writing directly to</u>: Director of Programmes, P.O. Box 18731, Riyadh, fax: (966-1) 4412963.

Leopold Battel/TBF
January 1998

THE ARAB INVESTMENT COMPANY S.A.A. (TAIC)

P.O. Box 4009, Riyadh 11491, Saudi Arabia
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The Arab Investment Company S.A.A. is a Pan-Arab joint stock company established in 1974 and owned by governments of 15 Arab states with a paid-up capital of US$360 million. Lebanon and Algeria have applied for membership. 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 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.

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 commitments for 1996 reached US$207 million of which US$56 million were for the private sector.

- •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 1996, TAIC's portfolio encompassed 34 projects consisting of 16 industrial, 5 agricultural and 13 service projects, with total equity participation amounting to US$210 million.

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.

Leopold Battel/TBF
January 1998

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 national agencies appointed by monetary authorities in 18 Arab countries.

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. 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$454 million of which $250 million was contributed by the Arab Monetary Fund, $100 million by the Arab Fund, $25 million by the Arab Banking Corporation and $23 million by Arab central banks. In 1996, 47 applications were approved for lines of credit and 28 agreements were signed for a total amount of US$142.6 million.

The AFTP has also undertaken the establishment of an Inter-Arab Trade Information Network (IATIN) with the UNDP and the 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.

Leopold Battel/TBF
January 1998

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. 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 promotion activities among Arab countries.

To be eligible, investors must be a national of an Arab 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. 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.

Annual volume of transactions ranges between US$100 and 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>

Leopold Battel/TBF
January 1998

Arab Bank for Economic Development in Africa (BADEA)

Abdel Rahman El-Mahdi Street
P.O. Box 2640, Khartoum, Sudan

Established by Arab oil-rich countries in the aftermath of the 1973-74 petroleum crisis, BADEA (Banque Arabe pour le développement économique en Afrique) seeks to promote economic, financial and technical cooperation between African and Arab countries.

BADEA has a dual role: it is an instrument dispensing and coordinating Arab aid to non-Arab Africa as well as a forum for broad discussion of cooperation between African and Arab countries.

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 1996, 39 of them had benefited from BADEA's operations. From 1975 to 1996, the Bank financed 226 loans/projects totalling US$1.63 billion and technical assistance grants for US$36 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 1995 indicates an interest rate of 3.26% and a maturity of 18.5 years including a 4.4 year grace period. This weighted average corresponds to a grant of 43%.

BADEA's share in the financing of a project 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 1970 BADEA also extended emergency assistance through its special programs for the agricultural sector.

Sectoral distribution of BADEA project loans as of the end of 1996 (in percent)

Transportation & infrastructure:	51.0%
Energy:	8.0%
Agriculture:	30.3%
Industry:	3.0%
Education:	1.0%
Technical assistance:	1.6%
Education and health:	1.0%
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 1998

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 fulfill these objectives, the IIRO has established a wide network of national and international contacts with various 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 had provided health services to four million people up to 1995 in over 45 countries.

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

-the Department of Education's program includes the building of schools, sponsoring educational institutions and teachers, 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 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 1998

ISLAMIC DEVELOPMENT BANK (IsDB)

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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 51 countries which are also members of the Organization of the Islamic Conference (OIC). Some CIS countries, Albania, Uganda, Gabon, Mozambique 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.

Total IsDB approvals for 184 operations, including trade and special operations, amounted to US$1.498 million in 1995-96, a 7% increase over the previous year. Sectoral distribution of the projects financed by the Bank was as follows: public utilities sector 33%; transport & communication 20%; health & education 19%; agriculture and agro-industry 19%; and industry and mining 8.2%. IsDB financing is denominated in Islamic Dinars (ID); one ID is equivalent to one SDR of the IMF.

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) <u>Loans</u> 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, according to Mr. Nabi. 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) <u>The Unit Investment Fund</u> 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 <u>Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)</u> 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 are expected to commence in 1998.

f) The <u>International Islamic Lease Financing Company (ILC)</u> 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.

<u>Other financing and business development promotion initiatives</u>

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.

<u>PROCUREMENT AND REGISTRATION</u>

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. <u>Canadian firms should monitor the list regularly to verify potential projects.</u>

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 1998

THE ORGANIZATION OF ARAB PETROLEUM EXPORTING COUNTRIES (OAPEC)

P.O. Box 20501 Safat 13066, Kuwait
Tel: (965) 4844500
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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) for the transportation of hydrocarbons
- -Arab Shipbuilding and Repair Yard (ASRY); operation of floating docks 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. 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).

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 1996 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 1996, commitments amounted to US$111 million.

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 1998

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

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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, now in its 20th year of existence, was established by the 13 member countries of OPEC (which include Arab oil exporting countries and Gabon, Nigeria, Ecuador, 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 is to be lowered to 1% (one) in 1998; 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 the recent floods in Somalia, and a typhoon in Vietnam.

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.

Since its inception, the OPEC Fund has made available a cumulative total of US$4.64 billion in loans and grants to more than 1,000 projects. In 1996, it approved 28 project loans valued at US$146.2 million and US$13 million for commodity imports program. In the area of grants, 18 grants were made worth US$2.324 million, mostly to technical assistance. As mentioned above, all sectors are represented with education agriculture 16% and energy 7%.

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. Canadian consultants can register with the OPEC FUND by writing to the Director of Research and Information and request the Fund's forms.

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 via the Director of Information or the Commercial section of our Embassy in Vienna.

Leopold Battel/TBF
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