The Inter-Arab Investment Guarantee Corporation is an autonomous regional organization with a membership of all the Arab countries. The Corporation has its main office in the State of Kuwait and commenced its activities in the middle of 1975.

OBJECTIVES:

- The Corporation provides insurance coverage for inter-Arab investments and for export credits against non-commercial risks in the case of investments, and non-commercial and commercial risks in the case of export credits. The non-commercial risks include nationalization, currency inconvertibility, war, civil distrubances, cancellation of the import license and prevention of the entry of goods or their transit passage into the country. The commercial risks include insolvency of the debtor, bankruptcy , as well as default and abrogation or termination of the export contract.
- The Corporation also undertakes the promotion of the flow of investments within the Arab countries by carrying out activities which are ancillary to its main purpose and in particular those relating to the identification of investment opportunities as well as the study of the conditions that govern the flow of investments in the said countries.

Headquarters
P.O.Box: 23568 Safat 13096 State of Kuwait
Tel: 4844500
Fax: 4841240, 4815741, 4815742
Tlx: 46312, 22562 Kafeel KT.
Email: info@iai.org.kw
Website: www.iaigc.org

Organization and Management

The Subscribers' Council:

It is the highest authority in the Corporation. It is entrusted with all the powers necessary for the realization of the objectives of the Corporation. Among its functions are the formulation of general policies, the adoption of the financial and administrative rules and regulations, deciding upon the financial and administrative matters, appointment of members of the Board of Directors and the Director General.

The Council is composed of one representative for each member state.

The Board of Directors:

The Board consists of eight part time member elected by the Subscribers' Council for a three-years term. The Board shall elect its Chairman from among its members. It shall, in administering the Corporation, exercise the powers delegated to it by the Council. These comprise preparation of the financial and administrative rules, approval of the operations and research programs presented by the Director General of the Corporation and overseeing their execution, determination of how the Corporation's resources are to be invested, adoption of its annual financial program, and presentation to the Council of an annual report on the activity of the Corporation.

The members of the current Board of Directors are:

H.E. Mr. Badr Suleiman Algar Alla	Chairman
H.E. Dr. Ahmad Hassan Mustafa	Member
H.E. Mr. Jasim Rashid Al Shamsi	Member
H.E. Mr. Nassir Ben Mohamad Al Gahtani	Member
H.E. Mr. Mansour Ibrahim Al Mahmoud	Member
H.E. Mr. Ali Ramadhan Shinaibish	Member
H.E. Dr. Ahmad Al Sa'eed Sharaf Aldin	Member
H.E. Abdel Fatah Benmansour	Member

The Director General is:

Mr. Mamoun Ibrahim Hassan

His Excellency the Chairman of the 30th Session of the Subscribers' Council of the Inter-Arab Investment Guarantee Corporation,

In accordance with Article (12) (e) of Inter-Arab Investment Guarantee Corporation's Convention, it is my pleasure to submit to your honorable Council for consideration the Annual Report of the Board of Directors on the activity of the Corporation for the year 2002.

Please accept my highest consideration,

Badr Suleiman Algar Alla
Chairman of the Board of Directors

Abu Dhabi, April 2003

Contents

Chapter 1

Introduction

1. International Developments:

1.1 World Economic Performance:

The world economy witnessed minor improvement in 2002, with world output growth rate rising to about 3.0%, compared to the growth rate of 2.3% in 2001, reaching in value US$ 32.1 trillion up from US$ 31.0 trillion for the same period. Nevertheless, the world economy remained vulnerable and subject to the repercussions of 9/11 attacks which severely affected various economic sectors, mainly transport, air travel, insurance/re-insurance and tourism. The "uncertainty" continued to overshadow the business and consumer confidence, along with continued volatility in oil markets, which in turn further contributed to the depression of international trade, consolidated risk averse practices, and directed investment preferences to less risky and more mature investment locations.

Economic growth in the group of advanced economies witnessed a rise to 1.8% on average in 2002, compared to 0.9% in 2001. Within this group, USA witnessed an improved growth rate of 2.4% in 2002 compared to a revised 0.3% growth in 2001. Japan's economy remained fragile, with a negative growth rate of (0.3%) in 2002 compared to a revised negative growth of (0.4%) in 2001, despite the government resolve to rejuvenate growth through a package of fiscal stimulus and to address its intricate financial and banking sector problems and bad loans. The "Euro area" countries as a group recorded a slower average growth rate of 0.8% in 2002 down from 1.4% in 2001. The newly industrialized Asian economies, which are classified with the group of advanced economies, witnessed a marked growth of 4.6% in 2002 compared to 0.8% in 2001.

The group of developing countries sustained a growth rate above world average of 4.6% in 2002 compared to a revised 3.9% recorded in 2001. Within the developing countries group, the Asian countries witnessed a higher growth rate on average of 6.5% in 2002 compared to 5.7% in 2001, led by continued consolidation of economic performance in China and India, recording growth rates of 8.0% and 4.9% in 2002 compared to 7.3% and 4.2% in 2001 respectively. Average growth rates of developing countries in the Western Hemisphere dropped noticeably to a negative growth of (0.1%) in 2002 reversing a growth of 0.6% in 2001, due to the slowdown in Brazil growth at a rate of 1.5% in 2002, the collapse of the Argentine economy by a negative growth rate of (-11.0%) and the contraction in the Venezuelan economy (-8.9%). The developing countries in Africa witnessed a slight slowdown in its economic growth rate from 3.6% in 2001 to 3.4% in 2002.

The group of countries in transition (Russia, Central and Eastern Europe, Commonwealth of Independent States and Mongolia) witnessed a drop in its growth rate to 4.1% in 2002 from 5.1% in 2001, however remained above world average.

Inflation, as measured by the consumer price index, in the advanced economies dropped from 2.2% in 2001 on average to 1.5% in 2001. Inflation in developing countries remained constant

(5.8% in 2001, 5.4% in 2002). The inflation outlook continued to improve in countries in transition as it dropped from 16.3% in 2001 to 11.1% in 2002, reflecting continued commitment to control inflation within the framework of macroeconomic and structural reform programs.

The growth in the world trade volume of goods and services improved from a growth around 0.1% in 2001 to a growth of 2.9% in 2002 compared to a growth of 12.6% in 2000. The value of world exports of goods and services rose slightly from US$ 7.51 trillion in 2001 to US$ 7.83 trillion in 2002. Growth rate of imports of advanced economies rose from a negative growth (around 1.1%) in 2001 to a positive growth (around 2.1%) in 2002, and this group's exports witnessed similar changes from -0.1% to 2.0% in the same period. The developing countries imports and exports grew by 5.4% and 5.1% respectively in 2002, up from 2.2% and 3.3% growth rate respectively in 2001. The countries in transition imports dropped by half its level from 11.8% in 2001 to 6.3% in 2002; while the group's exports rose slightly from 5.6% to 6.3% in the same period.

Oil prices improved in 2002, growing at 2.8% compared to a decline of (14.0%) in 2001. OPEC spot crude oil basket was around US$ 24.40/barrel in 2002, close to 2001 levels of US$ 24.28/barrel but lower than 2000 levels of US$ 28.24/barrel.

Current account deficit in the advanced economies rose from US$ 187.3 bn in 2001 to a deficit of US$ 217.2 bn in 2002 due to worsening of the current account deficit in the USA from US$ 393.4 bn in 2001 to US$ 503.4 bn in 2002. The developing countries current account surplus rose from US$ 31.1 bn in 2001 to US$ 54.9 bn in 2002. The countries in transition witnessed a narrowing of their current account surplus from US$ 12.0 bn to US$ 10.3 bn for the same period.

The external debt of the developing countries reached around US$ 2.19 trillion in 2002, close to 2001 levels of US$ 2.17 trillion. Whereas the external debt of the countries in transition rose from around US$ 392.2 bn in 2001 to around US$ 399.3 bn in 2002. The total external debt to total exports of goods and services reached 136.4% for developing countries and 103% for the countries in transition in 2002, compared to 144.1% and 110.3% in 2001 respectively. The debt service ratio (debt service payments as percentage of total exports of goods and services) reached around 19.3% and 17.3% in 2002 for each group respectively, compared to 22.7% and 17.5% in 2001.

1.2 Investment Developments:

According to preliminary data, FDI inflows worldwide continued its downward trend dropping to an estimated US$ 537 bn in 2002, a decline of 27% from 2001 levels. The developed countries' share of total FDI flows reached an estimated US$ 347 bn (comprising around 65% of the total), while the developing countries received US$ 157 bn (30%), and the countries in transition received US$ 27 bn (5%). It is estimated that China has replaced USA in 2002 in becoming the prime destination of FDI inflows in the world receiving US$ 50 bn, while FDI inflows to both USA and UK are estimated to have dropped to US$ 44 bn, and US$ 12 bn respectively. The drop in FDI inflows that started in 2001 and continued in 2002 was caused by the further decline in mergers and acquisitions activity (M&As), economic slowdown, fall in equity prices in international financial markets, uncertainty exacerbated by the repercussions of 9/11 attacks which deepened lack of confidence amongst investors, yielding a more cautious attitude in their investment decisions that was translated into canceling or postponing new investments or expansion plans.

The detailed figures for FDI inflows for 2001 showed that the total FDI inflows had reached US$ 735 bn; down by more than half of its level in 2000 (US$ 1492 bn) affected by the 9/11 attacks at the end of the year, the slow M&A activity, and the "contagion" effect of the Argentine crisis.

The share of the developed countries reached US$ 503 bn in 2001, down from US$ 1227.5 bn in 2000, with USA being the highest recipient of FDI inflows (US$ 124.4 bn), followed by UK(US$ 53.8 bn), and France (US$ 52.6 bn).

The developing countries received US$ 204 bn in 2001, down from US$ 237.9 bn in 2000 of FDI inflows. The allocation of FDI inflows according to geographic regions within this group showed that the Asian & Pacific countries received US$ 102.07 bn, of which China received US$ 46.8 bn followed by Hong Kong/China (US$ 22.8 bn). The Latin American & Caribbean countries received around US$ 85.4 bn, of which Mexico received US$ 24.7 bn followed by Brazil (US$ 22.5 bn). The developing countries in Africa, excluding the Arab countries in North Africa, received around US$ 11.8, bn of which South Africa received US$ 6.7 bn, followed by Angola (US$ 1.12 bn) and Nigeria (US$ 1.10 bn).

The FDI inflows to countries in transition (Central and Eastern Europe and Russia) increased to around US$ 27.2 bn in 2001 compared to US$ 26.5 bn in 2000, of which Poland received US$ 8.8 bn, followed by the Czech Republic (US$ 4.9 bn), Russia (US$ 2.5 bn) and Hungary (US$ 2.4 bn).

FDI inflows to Arab countries rose to around US$ 6.03 bn in 2001, comprising less than 1% of global FDI inflows, and nearly 3% of FDI inflows to developing countries, up from US$ 2.5 bn in 2000 and US$ 4.3 bn in 1999. The main recipients were Morocco (US$ 2.66 bn), Algeria (US$ 1.2 bn), Sudan (US$ 574 mn) and Tunisia (US$ 486 mn).

The legal and institutional framework worldwide continued to be more conducive towards trade liberalization and investment protection, with 95% of the 1393 regulatory changes that took place during the period 1991-2001 were directed to create more favorable conditions for FDI. By end of 2001, the number of bilateral agreements (BITs) on investment protection and encouragement reached 2099 agreements compared to 385 agreements in 1990, while BIT's relating to avoidance of double taxation reached 2185 agreements by end of 2001.

1.3 Developments in the Guarantee Industry:

The guarantee industry consolidated its ability during 2002 to adapt to a host of new challenges triggered by the fast pace of globalization, the increased private investments especially in infrastructure and mega projects, the recurrence of financial crises last of which the Argentinean crisis, and the repercussions of 9/11 attacks. These developments have added emerging risk patterns, and affected perception by both investors and exporters of risks and their definition and coverage, such that national and regional guarantee organizations were more pressed to address the new risks.

Furthermore the above-mentioned factors were conducive to deepen the uncertainty in economic and political conditions in several regions worldwide, narrowing the underwriting capacity for investments directed to developing countries and emerging economies, which in turn adversely affected the net capital inflows to these two groups. Another notable change was the shift of preference to governmental guarantee agencies especially for medium term credit guarantees.

During the year conservative tendencies were re-enforced in addition to preference for shorter term coverage, and increased demand for comprehensive guarantee services for investments directed to developing countries. Investors demanded better guarantee terms, inclusion of detailed conditions, and more clarity in the guarantee contracts. The guarantee providers tended to benefit from the losses incurred in the aftermath of 9/11 attacks.

Despite the increase in demand for guarantee services, the underwriters continued to be rather conservative, reducing capacities, tightening contract conditions, and reducing contract periods. They continued, however, to diligently seek for new horizons for the industry to dent emerging risks, thus catering for the needs of both exporters and investors. This had given rise for consolidating guarantee coverage by multiple providers.

The latest available information showed that the total guarantees provided by the members of the International Union of Credit & Investment Insurers (The Berne Union) established back in 1934, and composed of (51) national agencies from (42) different countries along with the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, reached US$ 472 bn in 2001, with US$ 455 bn in export credit insurance and US$ 17 bn in investment insurance. Short term export credit insurance comprised 86.8% of the total credit insurance.

The year witnessed the consideration for establishment of a Gulf sub-regional re-insurance company, along with calls to establish national emergency funds to meet unexpected risks.

1.4 Economic and Investment Developments in the Arab Countries:

The political outlook of the region remained unstable. During the year the 14th Regular Arab Summit was convened in Beirut/Lebanon, and several other regional meetings were held at different levels to address the critical situation created by the unprecedented massacres against the Palestinians, the systematic destruction of the infrastructure, and the uprooting of agricultural land in the occupied Palestinian Territories, as well as besieging the Head Quarters of the Palestinian National Authority, with the Al Aqsa Intifada entering its third year. The American proposed “Road Map” was not followed up by concrete diplomatic action. Pressures continued to build up on Arab national security, further threatened by the formation of a USA/UK led “coalition of the willing” to launch an attack on Iraq under the pretext of eliminating mass destruction weapons within the framework of the Anti-Terrorist Campaign launched by the

United States after 9/11 attacks. The region remained vulnerable to the repercussions of these attacks. Relations with neighboring countries like Iran and Turkey improved during the year, however Sebta and Melielah issue remained unresolved between Morocco and Spain. During the year, the inter-Arab relations were further consolidated with the preliminary advent of Yemen into the GCC, advancement of the launch date of the GCC Customs Union to 2003 instead of 2005, improved relations between Iraq and several Arab countries, resolution of the cross border conflicts between UAE and Oman, and defining organizational border issues between Saudi Arabia and Yemen. The Arab-international relations progressed favorably, especially with the European Union countries.

On the Economic Developments outlook, and according to available information on 18 Arab countries, the average real rate of growth is estimated to have reached 2.8 % in 2002 compared to 3.6% in 2001. The highest growth rates were recorded in Jordan and Mauritania (each 5.0%), Tunisia and Sudan (each 4.9%), Morocco (4.5%), Yemen (4.1%) and Bahrain (3.8%)). The year witnessed varied economic performance amongst the Arab countries, affected mainly by adverse global conditions among which the economic slowdown, volatile oil prices, and the repercussions of 9/11 attacks. Several Arab countries resumed consolidation of their economic reform and structural adjustment programs, and liberalization of trade.

The outlook on the Arab countries fiscal budget position, as a measure of internal balance, witnessed a reduction in the budget deficit in (5) out of (15) Arab counties that provided information, of which Lebanon (narrowed its budget deficit from 20.3% of GDP in 2001 to 13.8% in 2002) and Saudi Arabia (from 3.9% of GDP in 2001 to 1.3% in 2002). However, budget deficit rose in (4) Arab countries, namely UAE, Jordan, Tunisia, and Jordan. The budget surplus in (3) other Arab countries (Bahrain, Algeria, and Yemen) turned into a deficit, in the same period. Kuwait, on the other hand, maintained a notable budget surplus at 18.5% of GDP. Libya budget surplus rose remarkably from 2.1% of GDP in 2001 to a surplus of 19.1% in 2002.

The current account position in the balance of payment, as a measure of external balance, witnessed varied performance amongst the Arab countries during the year. Eleven out of (17) Arab countries that provided information, maintained a surplus in their current account. Among them, Qatar witnessed a rise in its current account surplus from 21.8% of GDP in 2001 to 24.8% of GDP in 2002), as well as UAE (from 13.2% to 14.3%). While (7) Arab countries recorded a narrowing in their current account surplus, of which Oman (from 15.1% to 10.3%), and Kuwait (from 26.1% to 21.6%). While Saudi Arabia maintained a current account surplus of 5.0% of GDP in the same period, and Egypt maintained a near balance of its current account (a surplus of 0.01% of GDP). Jordan transformed its current account deficit of 0.4% of GDP in 2001 into a surplus of 3.6% of GDP in 2002. Four Arab countries witnessed narrowing of their current account deficit, of which Lebanon (from 23.8% of GDP in 2001 to 17.1% of GDP in 2002), Sudan, Syria, and Tunisia. Mauritania recorded a slight rise in the current account deficit (from 2.6% to 3.0%) for the same period.

The inflation rate remained contained around 9% in 2002 in most of the Arab countries according to available information from (17) countries, except for Yemen (15.8%) and Libya (11.4%). Inflation declined in (4) Arab countries, of which Mauritania (from 4.0% in 2001 to 3.0% in

2002). Whereas (10) other Arab countries witnessed a rise in inflation rate, of which Sudan (from 4.8 % in 2001 to 9.0% in 2001), and Lebanon (from 1.0% to 5.0%), while Jordan maintained an inflation rate around 1.8% in the same period.

The regulatory and institutional framework in the Arab countries continued to improve with more favorable measures adopted in 2002 relating to Foreign Direct Investment (FDI) laws: new investment laws were approved in Iraq, Mauritania, and Yemen; amendments of exiting FDI laws were introduced in Egypt (granting more tax incentives, opening of more sectors for FDI especially in infrastructure and BOT projects), Lebanon (adding conflict resolution and arbitration, setting criteria for investment projects proposed, regulating privatization), Oman (defining FDI, identifying investment projects of priority), and in Saudi Arabia (trade relations, appropriating real estate units, privatization strategy). Arab countries continued to introduce and adopt new legislations, on money laundering (Oman), e-legislation (Bahrain), environment protection in the industrial sector (Lebanon), anti-dumping and combating monopoly (Jordan). During the year several bilateral agreements were signed or drafted for free trade areas, and establishment of joint committees between Arab countries, and with other foreign countries.

Efforts relating to human resource development (HRD) were further consolidated during the year, especially in enhancing IT training and computer-based skills, intensified application and utilization of advanced technology and software development. The year witnessed more efforts directed at developing and re-designing curriculum and material used in basic, university level, and vocational education. Several initiatives were launched to support human development, among which establishing a human resource fund, anti-poverty programs (Saudi Arabia), nationalization of jobs and identifying sectors to be exclusive for national employment (GCC countries), social protection programs, initiatives focused on creating jobs for the youth and the new graduates in collaboration with international organizations (Jordan).

Investment promotion activities in the Arab countries were further consolidated, recording remarkable improvement in the quantity and quality of activities undertaken during the year. Arab investment promotion agencies (IPAs) had intensified their internal capacities and optimal utilization of best practices in international investment promotion techniques. More activities were focused on targeting and serving the investor, improving quality of after-care services for both potential and actual investors in all stages of the process. The Arab countries participated in or organized an increased number of specialized conferences on national, regional, and international levels, holding investment promotion seminars, receiving delegate visits, sending missions, organizing road shows, and presenting priority investment opportunities. Arab IPAs remained active in developing or establishing their websites to have a stronger presence in the internet to enhance utilization of e-promotion (currently there are 13 websites). Arab membership in World Association of Investment Promotion Agencies (WAIPA) increased to (16) Arab IPAs, out of a total of (146) member agencies worldwide.

The twelve Arab stock markets (Jordan, Bahrain, Tunisia, Saudi Arabia, Oman, Kuwait, Lebanon, Egypt, Morocco, and for the first time Qatar, Dubai/UAE, and Abu Dhabi/UAE), monitored by the Arab Monetary Fund (AMF) witnessed improved performance in 2002. Market capitalization rose from US$ 152 bn at the end of 2001 to US$ 208 bn at the end of 2002, mainly as a result of the introduction of one national stock market (Qatar) and two sub-national stock markets (Dubai/UAE and Abu Dhabi/UAE). Saudi Arabia accounted for around 36% of total market capitalization. The total number of listed companies in those markets rose from 1687 in 2001 to 1826 at the end of 2002, with Egypt holding the major share around 63% of listed companies. The volume of trading rose from US$ 43 bn at the end of 2001 to US$ 65 bn at the end of 2002, and the number of shares traded also rose from 23.5 bn shares to 46 bn shares in the same period, of which Kuwait's share was 92%. As to other Arab stock markets, Palestine stock market suffered gravely from the Israeli forces systematic aggression, destruction, and siege enforced on the Palestinian National Authority areas. The Algiers stock market witnessed several regulatory measures to organize operations. The remaining six Arab countries (Djibouti, Syria, Somalia, Libya, Mauritania, and Yemen) did not launch their national stock markets as yet, but took positive measures during the year towards that end.

According to available information, the inter-Arab registered private investments were preliminary estimated to have reached US$ 2.91 bn in 2002 compared to US$ 2.65 bn in 2001, making the revised cumulative inter-Arab investments around US$ 26.3 bn during the period 1985-2002. The main recipients of Arab inflows were Saudi Arabia (US$ 716.9 mn) representing 24.6% of total Arab inflows, followed by Lebanon (US$ 650 mn representing 22.3%), Sudan (US$ 567.4 mn and share of 19.5%) and UAE (US$ 217.5 mn and share of 7.5%). The sectoral distribution of inter-Arab investments in 2002 was around 60% for the services sector, followed by industrial sector (around 30%), and the agricultural sector (around 10%) respectively.

The Composite Index for the Investment Climate in the Arab Countries, measuring selected quantitative economic components but not qualitative factors, remained positive recording a value of (0.9) in 2002 compared to a positive value of (0.7) in 2001, however less that the positive value recorded in 2000 (1.2). The trend remained favorable towards a better investment climate affected mainly by increased oil revenues with the rise of oil prices during the year and the continued implementation of the structural adjustment and economic reform programs in several Arab countries. It should be noted that the Corporation has launched this Composite Index back in 1995 for the aim of developing an indicative measure to reflect the direction of improvement or retraction in the investment climate in the Arab countries, with the intention of continuously developing it to become a useful analytical tool for decision makers and investors. The Composite Index is composed of three sub-indices one measuring fiscal policies (internal balance as reflected by percentage of budget deficit or surplus to GDP), the second reflects the soundness of monetary policies (as measured by inflation rate based on consumer price index), and the third summarizes the external position (as measured by current account surplus/deficit to GDP). The weights range between low and high then are normalized to be unified based on their distance from the balance point (zero). The weighted average of the three sub-indices is measured such that a value of less than 1 means no improvement in the investment climate, a value between 1 and 2 means a positive direction for improvement, and a value of between 2 and 3 means a remarkable improvement.

2. Highlights of the Corporation Activities

The total value of guarantee contracts signed in 2002 (60 contracts) amounted to US$ 140,565,017 (KD. 42,159,667). The total value of current guarantee contracts as at 31/12/2002 reached US$ 299,530,428 (KD. 89,878,413). The value of operations executed (outstanding commitments) within current contracts amounted to US$ 99,799,264 (KD. 29,932,795). During the year, the Corporation paid compensation against the realization of commercial risks amounting to US$ 183,654, and recovered US$ 1,406,079 as part of compensation previously paid for commercial and non-commercial risks in the same period.

Regarding its ancillary activities and support services of its guarantee operations, the Corporation has consolidated its efforts in raising awareness on investment issues, providing investment promotion services, and enhancing human resource development. In 2002, the Survey on Investment Climate in the Arab Countries 2001, was published and distributed, and efforts were initiated to prepare the 2002 report; (12) issues of the monthly bulletin Daman Al-Istismar were published, portraying (44) investment opportunities and analyzing emerging trends in investment and trade on national, regional, and global levels. Several introductory papers were prepared and presented in various meetings, seminars, and training workshops in which the Corporation took part. Furthermore, the Corporation issued (7) press releases during the year and organized a press conference to co-launch UNCTAD's World Investment Report 2002, co-organized the first meeting of the preparatory committee for the convening of the Tenth Arab Businessmen and Investors Conference, and organized the Ninth Annual Arab Guarantee Agencies Forum. The Corporation consolidated measures to enhance automation and IT applications in its operations, as well as updating its website. Human resource empowerment and training of the Corporation's staff continued throughout the year, along with systematic performance appraisals.

Chapter Two

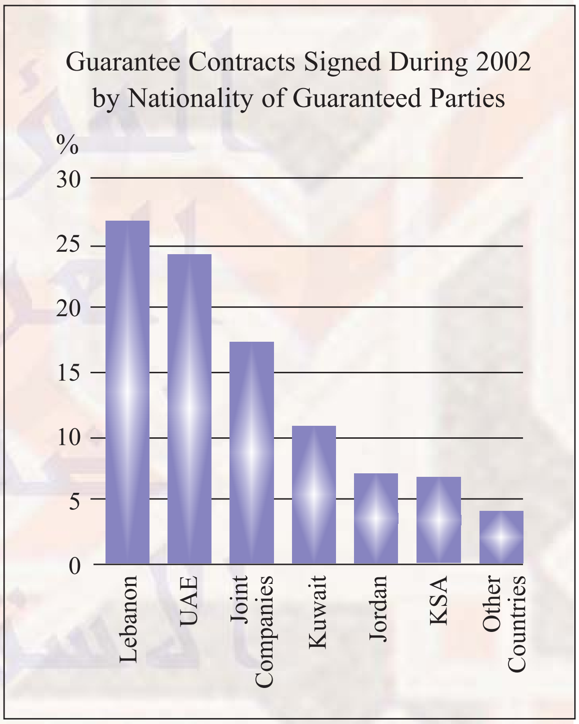
Guarantee Operations

2.1 Guarantee Contracts

2.1.1 Value of Contracts in 2002:

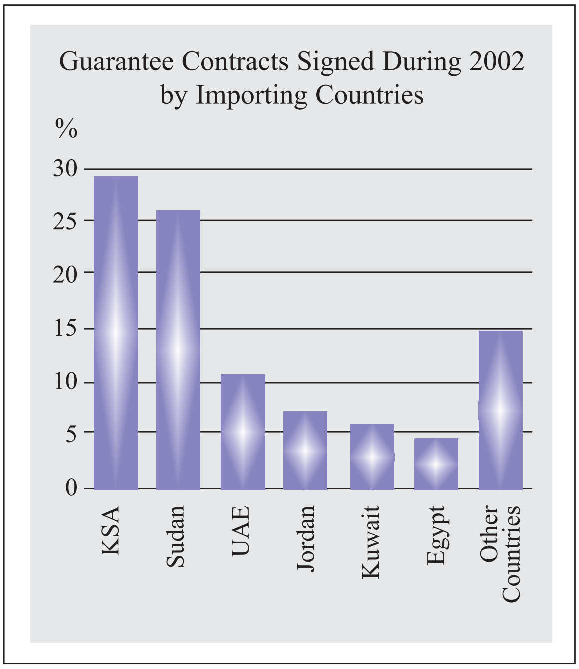
The total number of contracts signed in 2002 was limited to sixty, all of which were within the Export Credit Guarantee Scheme. The cumulative value of the contracts totaled US$ 140.6 mn (KD 42.2 mn)(1) approximately.

A decline of 13.9% was registered, when compared to the value of contracts signed during the year 2001 (investment and export credit guarantee), which totaled US$ 163.18 mn (KD 50.2 mn)(2). However, compared to export credit guarantee contracts signed in 2001 (valued at US$ 121.7 mn), an increase of 15.5% was achieved.



Exporters from eight Arab countries and a joint Arab-foreign company benefited from the guarantees. Lebanon, the United Arab Emirates, Kuwait and a joint Arab-foreign company accounted for 80.8% of the guaranteed value, while the other five countries accounted for 19.2%.

The number of importing countries totaled sixteen, with Saudi Arabia, Sudan, the United Arab Emirates, Jordan, Kuwait and Egypt accounting for 85.1% of the guarantees, and the other ten countries for 14.9% (see Table 1).



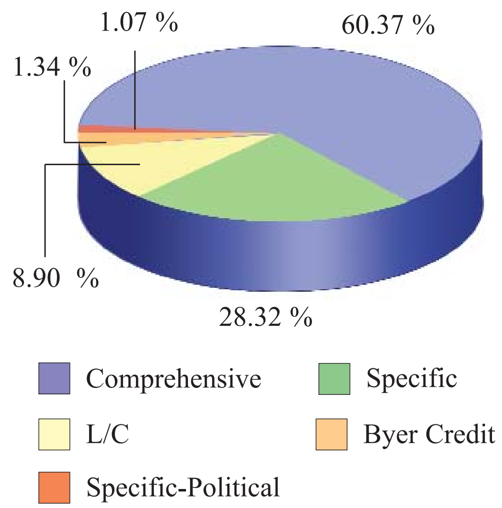
(1) US$ 1 = KD 0.29993 as at 31/12/2002

(2) US$ 1 = KD 0.30766 as at 31/12/2001

2.1.2 Details of Contracts Signed:

Details of export credit guarantee contracts signed during the year are specified in Table 2. The following graph reflects the distribution of export credit guarantee contracts signed during the year, according to their type.

Distribution of Guarantee Contracts by Type



2.1.3 Classification of Goods under Guarantee:

Goods covered under the guarantee contracts during the reporting period included petrochemical, chemical, metal and electrical products, telecommunication cables, building materials, paper products, pharmaceutical products, textiles, foodstuffs, jewelery and other miscellaneous products.

2.1.4 Value of Current Contracts & Outstanding Commitments:

The total value of current contracts reached US $299.5 mn (KD 88.9 mn) as at 31/12/2002, distributed between 48.4% for investment guarantee contracts and 51.6% for export credit guarantee contracts, in comparison with US$ 288.4 mn (KD 88.7 mn) for the previous year.

Total value of executed operations within the context of current contracts reached US$ 99.8 mn (KD 29.9 mn), representing 33.3% of the total current contracts. This amount reflects the Corporation's guarantee commitments vis-à-vis the guaranteed parties as at 31/12/2002 (see Table 3).

2.1.5 Revenues from Guarantee Premia:

The total guarantee premia during the year amounted to US$ 1.77 mn (KD 531,000), of which 51% was derived from investment guarantee contracts and 49% from export credit guarantee contracts.

2.2 Compensation and Recovery:

During the year, five compensations amounting to US$ 183,654 were paid to exporters against the realization of commercial risks. Exporters from two Arab countries benefited from the compensations paid.

On the other hand, the Corporation recovered US$ 1,406,079, of which US$ 1,172,186 was for compensation against non-commercial risks, and US$ 233,893 for compensation against commercial risks.

(3) The outstanding Guarantee commitments represents:

* In the case of Investment Guarantee contracts: the value of investments executed.
* In the case of Export Credit Guarantee contracts: the value of shipments executed but not yet repaid. Such commitments do not constitute compensation unless any of the risks covered are realized.

2.3 Reinsurance

2.3.1 Inward Reinsurance:

During the year, the Corporation did not receive reinsurance requests from any Arab national export credit guarantee agency.

2.3.2 Outward Reinsurance:

The Corporation currently reinsures non-commercial risks through a treaty signed with a major reinsurance group. Efforts were initiated during the reporting period to enter into reinsurance treaties covering commercial risks with the same group and other specialized companies.

2.4 Marketing Guarantee Services:

The Corporation's efforts have continued to market the guarantee services in various Arab countries through the following methods:

2.4.1 The Corporation delegated field missions to six Arab countries, in addition to field visits in the country of domicile and Saudi Arabia through the Corporation's regional office in Riyadh. Companies visited numbered 242.

2.4.2 Three conferences and meetings were organized and held in Sudan, Yemen and Tunisia.

2.4.3 Eleven specialized conferences, relevant to the Corporation's core business, were attended in Saudi Arabia, Kuwait, the United Arab Emirates, Oman, Egypt, Algeria, Lebanon and Holland.

2.4.4 The Corporation assigned marketing missions to two Arab exhibitions, for the purpose of interacting with the industrial companies that took part in the exhibitions and inform them of the Corporation's services.

2.4.5 Five direct-mail campaigns were conducted covering 1,500 Arab businessmen, industrial, exporting and investment companies, as well as joint Arab and Foreign banks.

2.4.6 Three Commission Agency Agreements were signed to promote the guarantee services, raising the total number of such agreements to 51 covering 15 Arab countries, in addition to two agreements to promote loan guarantee contracts in the U.K and France.

2.4.7 The Corporation's potential clients database was updated, adding 265 new companies.

2.5 Relationship with Guarantee Agencies:

* The Corporation organized, in cooperation with the Compagnie Tunisienne pour l'Assurance du Commerce Exterieur (Cotunace), the Ninth Annual Forum of the Arab Guarantee Agencies which took place in Tunisia on 18/09/2002. The National Guarantee Agencies of Jordan,

Egypt, Saudi Arabia, Oman, Morocco, Algeria, Tunisia and the Islamic Corporation for the Insurance of Investment and Export Credit took part in the forum.
Credit information was the main focus of the meeting, with two pertinent papers presented by experts in the field; one from Finland's official Export Credit Agency (FINNVERA), the other from Tunisia. A representative of the Arab Trade Financing Program contributed to the forum's discussions and presented a paper describing the progress of the Program's activities.

* The Corporation took part in the Third Islamic Guarantee Agencies Meeting which was organized by the Islamic Corporation for the Insurance of Investment and Export Credit in Tunisia on 19/09/2002, in which National Guarantee Agencies of member-states of the Islamic Corporation participated. The meeting discussed a number of technical aspects pertaining to the guarantee industry and its development.

* The Corporation participated in the annual meeting of the Credit Alliance that took place in Paris on 23/10/2002.

* The Corporation joined the Prague Club, which is part of the Berne Union, and participated in two meetings organized by the Club which took place in Romania during 27-29 of May and in Slovenia during 4-7 of November, in association with the national export credit guarantee agencies from Arab, East European and Asian countries.
During these two meetings, issues of mutual interest to the participants were discussed and the experience of individual organizations in the guarantee industry was exchanged.

TABLE (1)
DISTRIBUTION OF THE EXPORT CREDIT GUARANTEE CONTRACTS SIGNED IN 2002
BY GUARANTEED PARTIES/IMPORTING COUNTRIES
(VALUE IN US DOLLARS; THE GRAND TOTAL IS ALSO EXPRESSED IN KUWAITI DINARS)

NATIONALITY OF GUARANTEED PARTIES/ IMPORTING COUNTRIES	LEBANON	UAE	JOINT COMPANIES	KUWAIT	JORDAN	SAUDI ARABIA	SYRIA	BAHRAIN	EGYPT	TOTAL US$	TOTAL KD	%
SAUDI ARABIA	18,351,000	8,376,900	5,000,000	6,861,573	1,830,000	-	500,000	-	600,000	41,519,473	12,452,938	29.54%
SUDAN	25,000	25,311,290	5,000,000	-	6,215,000	72,700	-	-	782,900	37,406,890	11,219,447	26.61%
UAE	4,115,000	-	500,000	7,793,752	-	1,023,101	500,000	1,885,406	-	15,817,259	4,744,070	11.26%
JORDAN	5,665,000	-	500,000	800,187	-	2,731,529	500,000	-	-	10,196,716	3,058,301	7.25%
KUWAIT	4,230,000	-	-	-	-	3,552,413	500,000	-	-	8,282,413	2,484,144	5.89%
EGYPT	3,330,000	-	3,000,000	-	-	-	-	-	-	6,330,000	1,898,557	4.50%
ALGERIA	-	-	3,000,000	-	1,500,000	-	-	-	-	4,500,000	1,349,685	3.20%
BAHRAIN	775,000	-	-	-	200,000	2,398,361	-	-	-	3,373,361	1,011,772	2.40%
MOROCCO	-	-	3,000,000	-	-	-	-	-	-	3,000,000	899,790	2.13%
LIBYA	-	-	3,000,000	-	-	-	-	-	-	3,000,000	899,790	2.13%
QATAR	1,487,000	670,152	-	166,706	-	480,204	-	-	-	2,804,062	841,023	1.99%
LEBANON	-	-	500,000	-	635,000	58,692	500,000	-	-	1,693,692	507,989	1.20%
SYRIA	25,000	-	1,000,000	-	-	-	-	-	-	1,025,000	307,428	0.74%
TUNISIA	-	-	500,000	-	200,000	-	-	-	-	700,000	209,951	0.50%
OMAN	75,000	-	-	133,364	200,000	149,397	-	-	-	557,761	167,290	0.40%
YEMEN	225,000	133,390	-	-	-	-	-	-	-	358,390	107,492	0.26%
TOTAL IN US$	**38,303,000**	**34,491,732**	**25,000,000**	**15,755,582**	**10,780,000**	**10,466,397**	**2,500,000**	**1,885,406**	**1,382,900**	**140,565,017**	-	**100%**
TOTAL IN KD	**11,488,220**	**10,345,105**	**7,498,250**	**4,725,572**	**3,233,245**	**3,139,186**	**749,825**	**565,490**	**414,774**	-	**42,159,669**	
% OF TOTAL	**27.25%**	**24.54%**	**17.79%**	**11.21%**	**7.67%**	**7.45%**	**1.78%**	**1.34%**	**0.97%**	-	**100%**	

TABLE (2)
EXPORT CREDIT GUARANTEE CONTRACTS SIGNED DURING 2002

	NATIONALITY OF GUARANTEED PARTIES	IMPORTING COUNTRY	GOODS	VALUE IN US$	VALUE IN KD
1	**JORDAN**	SEVERAL COUNTRIES	CHEMICAL FERTILIZER	760,000	227,947
2		SEVERAL COUNTRIES	PAINTS & CHEMICALS	1,820,000	545,873
3		SUDAN	VETERINARY MEDICINE	200,000	59,986
4		SUDAN	CONFECTIONARY	200,000	59,986
5		SAUDI ARABIA	OPTICAL LENSES	250,000	74,983
6		SAUDI ARABIA	AUTOMOTIVE SPARE PARTS	160,000	47,989
7		SUDAN	PORTLAND CEMENT	3,000,000	899,790
8		SUDAN	PORTLAND CEMENT	1,100,000	329,923
9		ALGERIA	MEDICINE	1,500,000	449,895
10		SUDAN	MEDICINE	200,000	59,986
11		SUDAN	PORTLAND CEMENT	255,000	76,482
12		SUDAN	PORTLAND CEMENT	1,000,000	299,930
13		LEBANON	READYMADE GARMENTS	75,000	22,495
14		SUDAN	PORTLAND CEMENT	260,000	77,982
			JORDAN'S TOTAL	**10,780,000**	**3,233,247**
15	**UAE**	SUDAN	PLASTIC PIPES	854,050	256,155
16		QATAR	POTATO & CORN SNACKS	670,152	200,999
17		SUDAN	CEMENT	885,000	265,438
18		SUDAN	BUILDING MATERIALS	821,440	246,374
19		SUDAN	TRAILERS	1,500,000	449,895
20		SAUDI ARABIA	POTATO & CORN SNACKS	8,376,900	2,512,484
21		SUDAN	RICE	1,250,800	375,152
22		YEMEN	CHEMICAL FERTILIZER	133,390	40,008
23		SUDAN	TELEPHONE CABLES	20,000,000	5,998,600
			UAE'S TOTAL	**34,491,732**	**10,345,105**
24	**BAHRAIN**	UAE	WHITE SESAME	1,885,406	565,490
			BAHRAIN'S TOTAL	**1,885,406**	**565,490**
25	**SAUDI ARABIA**	SEVERAL COUNTRIES	CARTON	7,919,524	2,375,303
26		SEVERAL COUNTRIES	ELECTRICAL PRODUCTS	186,746	56,011
27		SEVERAL COUNTRIES	PLASTIC MATERIALS	522,889	156,830
28		SEVERAL COUNTRIES	PLASTIC MATERIALS	517,554	155,229
29		JORDAN	PACKAGING MATERIALS	500,000	149,965
30		SUDAN	ELECTRICAL PRODUCTS	72,700	21,805

TABLE (2)(contd.)
EXPORT CREDIT GUARANTEE CONTRACTS SIGNED DURING 2002

NATIONALITY OF GUARANTEED PARTIES		IMPORTING COUNTRY	GOODS	VALUE IN US$	VALUE IN KD
31		UAE	INSULATING MATERIALS	213,424	64,012
32		JORDAN	CANNED FOODSTUFFS	213,424	64,012
33		KUWAIT	CARPET	320,136	96,018
			SAUDI ARABIA'S TOTAL	**10,466,397**	**3,139,185**
34	**SYRIA**	SEVERAL COUNTRIES	CHEESE	2,500,000	749,825
			SYRIA'S TOTAL	**2,500,000**	**749,825**
35	**KUWAIT**	SEVERAL COUNTRIES	INSULATING MATERIALS	7,635,115	2,290,000
36		SEVERAL COUNTRIES	FOODSTUFFS	1,200,280	360,000
37		SAUDI ARABIA	FOODSTUFFS	200,047	60,000
38		SAUDI ARABIA	PASTRIES	120,000	35,992
39		SAUDI ARABIA	BISCUIT & FOODSTUFFS	600,140	180,000
40		UAE	FOODSTUFFS, CLEANING		
			MATERIALS	6,000,000	1,799,580
			KUWAIT'S TOTAL	**15,755,582**	**4,725,572**
41	**LEBANON**	SEVERAL COUNTRIES	PAPER PRODUCTS	1,830,000	548,873
42		SEVERAL COUNTRIES	FOODSTUFFS	4,382,000	1,314,293
43		SEVERAL COUNTRIES	JEWELRY	16,450,000	4,933,850
44		SEVERAL COUNTRIES	GARMENTS	1,270,000	380,911
45		SEVERAL COUNTRIES	PACKAGING MATERIALS	3,720,000	1,115,740
46		SEVERAL COUNTRIES	FOODSTUFFS	2,180,000	653,847
47		SEVERAL COUNTRIES	JEWELRY	1,510,000	452,894
48		SEVERAL COUNTRIES	SUNDRY ITEMS	890,000	266,936
49		SEVERAL COUNTRIES	FOODSTUFFS	730,000	218,949
50		SAUDI ARABIA	CERAMICS	3,585,000	1,075,249
51		SAUDI ARABIA	ALUMINIUM FOIL	720,000	215,950
52		SAUDI ARABIA	ALUMINIUM FOIL	300,000	89,979
53		JORDAN	ALUMINIUM FOIL	120,000	35,992
54		UAE	ORGANIC FERTILIZER	500,000	149,965
55		SAUDI ARABIA	KITCHEN EQUIPMENTS	66,000	19,795
56		OMAN	ADVERTISING BOARDS	50,000	14,997
			LEBANON'S TOTAL	**38,303,000**	**11,488,219**
57	**EGYPT**	SUDAN	VETERINARY MEDICINE	482,900	144,836
58		SAUDI ARABIA	AGRICULTURAL PRODUCTS	600,000	179,958

TABLE (2)(contd.)

EXPORT CREDIT GUARANTEE CONTRACTS SIGNED DURING 2002

NATIONALITY OF GUARANTEED PARTIES		IMPORTING COUNTRY	GOODS	VALUE IN US$	VALUE IN KD
59		SUDAN	CERAMICS	300,000	89,979
			EGYPT'S TOTAL	**1,382,900**	**414,773**
60	**JOINT**	SEVERAL COUNTRIES	VARIOUS GOODS	25,000,000	7,498,250
			JOINT'S TOTAL	**25,000,000**	**7,498,250**
			GRAND TOTAL	**140,565,017**	**42,159,667**

TABLE (3)

VALUE OF CURRENT CONTRACTS & OUTSTANDING COMMITMENTS AS AT 31/12/2002

BY HOST/IMPORTING COUNTRIES AND TYPE OF CONTRACT

(IN US DOLLARS AND ITS EQUIVALENT IN KD)[1]

HOST/IMPORTING COUNTRY	CURRENT INVESTMENT CONTRACTS[2]		CURRENT EXPORT CREDIT CONTRACTS		TOTAL		% OF TOTAL	OUTSTANDING COMMITMENTS[3]	
	US$	KD	US$	KD	US$	KD		US$	KD
JORDAN	-	-	9,683,452	2,904,356	9,683,452	2,904,356	3.23%	583,412	174,983
UAE	-	-	18,172,638	5,450,519	18,172,638	5,450,519	6.06%	4,567,778	1,370,014
BAHRAIN	-	-	3,359,902	1,007,736	3,359,902	1,007,736	1.12%	34,948	10,482
TUNISIA	24,572,240	7,369,952	700,000	209,951	25,272,240	7,579,903	8.43%	12,731,743	3,818,632
ALGERIA	-	-	13,824,643	4,146,425	13,824,643	4,146,425	4.61%	9,938,674	2,980,906
SAUDI ARABIA	-	-	41,068,127	12,357,501	41,068,127	12,357,501	13.75%	2,476,259	742,705
SUDAN	44,500,000	13,346,885	38,687,808	11,603,632	83,187,808	24,950,517	27.76%	30,358,987	9,105,571
SYRIA	12,420,000	3,725,131	1,025,000	307,428	13,445,000	4,032,559	4.49%	5,800,000	1,739,594
OMAN	-	-	557,760	167,289	557,760	167,289	0.19%	67,057	20,112
QATAR	-	-	2,642,961	792,703	2,642,961	792,703	0.88%	96,601	28,973
KUWAIT	-	-	8,116,772	2,434,464	8,116,772	2,434,464	2.71%	254,621	76,368
LIBYA	-	-	3,000,000	899,790	3,000,000	899,790	1.00%	-	-
LEBANON	63,529,932	19,054,533	1,695,334	508,482	65,225,266	19,563,015	21.77%	30,458,355	9,135,375
EGYPT	-	-	8,615,469	2,584,038	8,615,469	2,584,038	2.88%	2,410,469	722,972
MOROCCO	-	-	3,000,000	899,790	3,000,000	899,790	1.00%	-	-
YEMEN	-	-	358,390	107,492	358,390	107,492	0.12%	20,361	6,107
TOTAL	**145,022,172**	**43,496,501**	**154,508,256**	**46,381,596**	**299,530,428**	**89,878,097**	**100%**	**99,799,265**	**29,932,794**

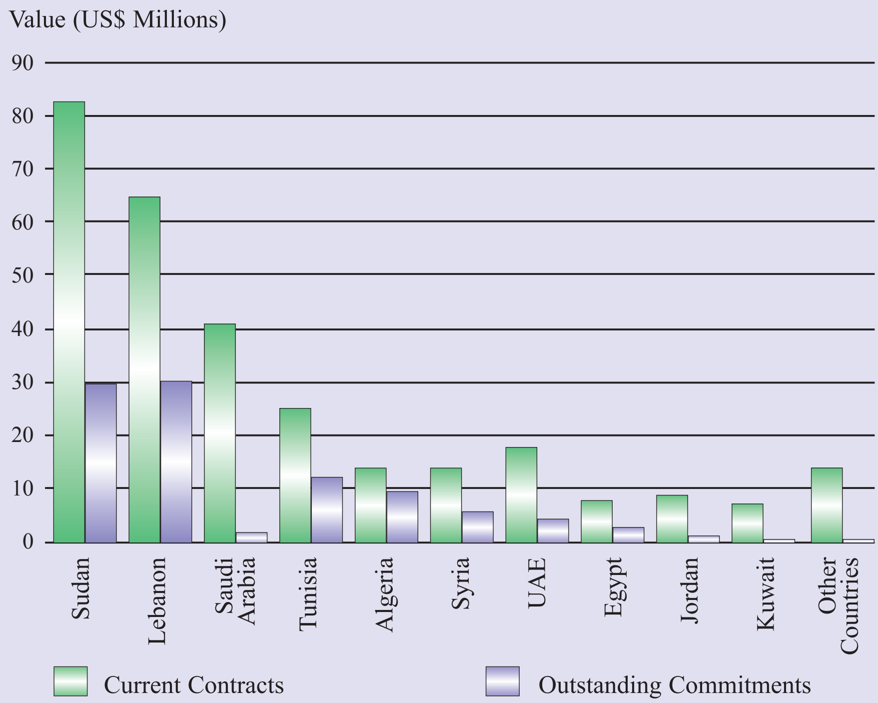
(1) USD 1 = KD 0.29993 as at 31/12/2002

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

(3) The Outstanding Commitments represent:

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

TOTAL CURRENT CONTRACTS AND OUTSTANDING COMMITMENTS AS AT 31/12/2002 BY HOST/IMPORTING COUNTRIES



Chapter Three

Ancillary Activities and Support Services

3.1 Reports, Studies, Publications and Conferences:

During 2002 the Corporation continued to pursue its objective to disseminate information and raise awareness on investment issues in the Arab Countries through the publication and continued improvement of the Annual Report on Investment Climate, the Monthly Bulletin, and a number of specialized studies and papers, as follows:

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

* The report on Investment Climate in the Arab Countries for 2001 was finalized and distributed to government agencies and institutions in charge of investment, institutional and individual investors, select readership and Arab and international organizations. Work on the 2002 report was initiated.

3.1.2 The Monthly Bulletin “Daman Al-Istismar”:

* Twelve bulletins were issued during the year. The Bulletin was widely circulated at an average of 6000 copies per month for public and private Arab investment institutions, investors and decision-makers. The Bulletin was made available online through the Corporation’s website.

* The Bulletin covered the Corporation’s activities during the year, including the 29th meeting of the Corporation’s Council that was held in Algiers during the period April 16-17, 2002, and the first meeting of the Board of Directors on June 17th, 2002 at the Corporation’s Head Quarters in Kuwait City, and the Press Conference held on September 17, 2002 by the Corporation to co-launch the World Investment Report 2002, published annually by UNCTAD.

* The Bulletin tackled several issues in its editorial: The 22nd Summit of GCC; Investment Promotion Activities in the Arab Countries during 2001; Sudan Investment Forum; Overview of Investment Climate in the Arab Countries in 2001; Leasing (Ajarah) Forum 2002; the international meeting on Competitiveness in the Arab Countries organized by World Economic Forum and held in Geneva during the period September 8-9, 2002; Utilization of Diplomacy (Diplomatic Missions) in Investment Promotion.

* The Bulletin reviewed emerging trends and developments related to investment and trade in the Arab Countries: Return of Arab Funds Abroad; Streamlining Administrative Measures relating to Investment in Egypt and Saudi Arabia; FDI inflows in Tunisia, Jordan, Morocco, and Lebanon; Communications Sector in the Arab Countries; Overview of Intra-Arab Trade in 1990 and 2000; Progress of Privatization in Egypt, Sudan, Oman, Jordan, Kuwait, Morocco, Saudi Arabia, Algeria, and UAE; Losses Encountered in the Palestinian Economy since the Second Intifadah in 29/3/2002; Favorable Steps to Enhance the Industrial Sector in Kuwait; Overview of Draft Law on Competitiveness in Egypt; the New Saudi Initiative to Open Up 20 Sectors for Privatization; Kuwait Development Conference under the theme “Kuwait First” during the period December 14-15, 2002.

* The Bulletin reviewed emerging trends and developments related to investment and trade on regional and international levels such as: World Trade Movements in 2001 and the Major Exporters and Importers; Needed Steps to Restore Transparency in Financial Transactions; Efforts to Introduce Implications of WTO Multilateral Trade Agreements for the Arab Business Community; Establishing the Euro-Med Investment Promotion Network "ANIMA"; Overview of the First GCC Economic Forum held in Muscat/Oman during the period November 1-3, 2002; overview of the 27th meeting of the Arab Technical Statistical Committee held in Tunisia during the period October 25-27, 2002.

* The Bulletin followed closely the developments in the Guarantee industry that concern decision makers and investors in the Arab countries, such as the Role of Political Risk Guarantee in Fostering Investment; the Sixth Annual Conference of Coface on Evaluating Country Risk after 9/11 Attacks; Sovereign Credit Rating for the Arab Countries 2001; Developments in the Insurance Sector after 9/11 Attacks, 2001; Saudi Development Fund signing MOU with Coface.

* The Bulletin followed developments relating to the infrastructure of the new economy in the Arab countries and worldwide, such as: Formulating e-Commerce Legislation in Jordan; Launching an e-Commerce Study for GCC; Launching Internet Services in Yemen; Launching the Technological Park Project in Kuwait; the Need for Dispute Settlement for e-Commerce; Overview of Piracy in IT Software.

* The Bulletin covered the following indices: Information Society Index (2001); Inward FDI Index (1998-2000); Environmental Sustainability Index (2002); FT 500 (2002); Transparency or Corruption Perception Index (2002); Human Development Index for the Arab Countries (2000); World Economic Forum Growth Competitiveness Index (2002); PRS Group Composite Country Risk Index for the Arab Countries (2002).

* The Bulletin continued to follow up on investment promotion activities in the Arab Countries like releasing new Investment Promotion Bulletins in Morocco and Jordan, and to support promotion of viable Investment Opportunities in the Arab Countries.

3.1.3 Specialized Studies and Papers:

* A paper on "The Role and Mechanism of Insurance Industry in Supporting Exports" was presented in the Training Workshop on "New Methods to Promote and Finance Exports", which was organized by the Arab Planning Institute and held in Kuwait City, Kuwait, during the period 19-23/1/2002.

* A paper on "The Legal Framework for Investment in Sudan" was presented in Sudan International Investment Forum, which was organized by Al Iktisad Wa Al'Amal Group, and held in Khartoum, Sudan, during the period 11-12/3/2002.

* A presentation was given in the Arab Banking Conference entitled "Success in a Changing World", which was organized by the Union of Arab Banks and held in Doha, Qatar, during the period 2-3/4/2002.

* A presentation was given on “The Role of the Corporation in Supporting Inter-Arab Investment and Trade and in Reviewing Developments in the Arab Investment Climate since 1985” in the 18th Annual Scientific Conference under the theme “Enhancing the Investment Climate in the Arab Countries in View of Emerging Challenges”, co-organized by Mansoura University, Egyptian Ministry of Higher Education and the Arab League Secretariat, and held in Mansoura, Egypt during the period 16-18/4/2002.

* A presentation was given on Investment Climate in the Arab Countries with Focus on the Investment Climate in Algeria in the Second Algerian Investment & Business Opportunities Forum, held in Algiers City, Algeria during the period 17-18/4/2002.

* A paper on “Developments in the Investment Climate in the Arab Countries”, presented in the Sixth Meeting of Arab Businessmen, which was organized by the Federation of Arab Businessmen and held in Damascus, Syria during the period 27-28/4/2002.

* A paper on “Investment Climate in the Arab Countries”, presented in the Fifth Arab-German Economic Meeting organized by the German Chamber of Commerce & Industry and held in Berlin, Germany during the period 26-28/6/2002.

* A paper on “Investments Climate in the Arab Countries”, presented in the Arab Banking Conference: Investing in the Future, organized by the Union of Arab Banks and Union of Sudanese Banks, and held in Khartoum, Sudan, during the period 8-9/11/2002.

* A presentation in the regional workshop on “Methodological Standards for Compilation of Statistics on FDI and the Activities of Transnational Corporations”, organized jointly by UN/ESCWA and UNCTAD and held in Beirut, Lebanon, during the period 28/10-1/11/2002.

3.1.4 Conferences and Seminars:

* A meeting was co-organized by the Corporation, in its capacity as the Coordinating Secretariat for inter-Arab companies, and the Sudanese Animal Resources Bank to discuss a veterinary medicines project in Sudan. The meeting was held in Khartoum, Sudan on 13/3/2003. The meeting assigned the task of preparing a comprehensive technical feasibility study to the Arab Company for Drug Industries and Medical Appliances (ACDIMA) and to follow up on coming measures towards implementation of the said project.

The Corporation took part in the following conferences and seminars:

* A Roundtable on “Arab Common Market and Globalization”, organized by AlIqtisadyia Al Jadida Magazine of Dar Al Yaqaza, and held in Kuwait City, Kuwait on 14/4/2002. The roundtable was attended by a group of experts who discussed several recommendations to enhance Arab integration.

* A skills Training Workshop on “Investment Promotion though the Internet”, organized by MIGA(of the World Bank Group), WAIPA, and Jordan Investment Board (JIB), and held in Amman, Jordan during the period 7-9/5/2002. The workshop was attended by 17 persons from 8 Arab countries along with international experts.

* The 18th Annual Scientific Conference on "Enhancing the Investment Climate in the Arab Countries in View of Emerging Challenges", co-organized by Mansoura University, Egyptian Ministry of Higher Education, and the Arab League Secretariat, and held in Mansoura, Egypt during the period 16-18/4/2002. The conference was attended by more than 600 academic researchers, media specialists, and other concerned persons from various Arab countries.

* The First Meeting of the Preparatory Committee of the Tenth Arab Businessmen and Investors Conference to be held in Algiers, Algeria during the period 9-10/11/2003 under the theme "Investment in the Services Sector", to be co-organized by the Corporation, the Arab League Secretariat, the General Union of Arab Chambers of Commerce, Industry and Agriculture, the Algerian Chamber of Commerce and Industry, and the Al Iktisad Wa Al'Amal Group. The meeting was held in Cairo, Egypt on 30/10/2002.

3.2 Investment Promotion:

IAIGC focused its activities in the investment promotion on the following aspects:

* The Corporation portrayed (44) investment opportunities in its monthly bulletin, Daman Al-Istismar, in industrial, agricultural, and service sectors, in areas like: air conditioning, pipes, industrial valves, aluminum foil, white cement boards, assembling of heavy trucks, animal feed, irrigation equipment, milk products, tires, cotton textiles, flat glass and unbreakable glassware for domestic use. These opportunities were in Yemen, Libya, Syria, Lebanon and Oman.

* The Corporation addressed Arab IPAs to forward available multimedia material utilized as promotional material for image building, and received responses from (7) Arab IPAs.

* For the purpose of coordinating regional investment promotion efforts and capacity building, the Corporation resumed its annual endeavor to address Arab IPAs to fill and return (8) specialized tables covering conferences, seminars, and exhibitions both organized and attended, delegation missions sent abroad and those received, investment opportunities, new legislative changes that aim at enhancing investment climate, new bilateral or multilateral agreements concluded, new industrial zones and free trade areas established, and other investment promotion activities that took place during 2002.

3.3 Cooperation with Arab and International Organizations:

During 2002 the Corporation participated in (47) conferences and meetings, of which (23) functions were relevant to joint Arab action, (6) functions involved international organizations, and (18) functions covered economic and investment issues of relevance to the Corporation's core business. Of these functions (7) were held in the Corporation's Head Office in Kuwait City, (9) in Egypt, (6) in Lebanon, (3) in each of Jordan and Syria, (2) in each of UAE, Tunisia, Algeria, Sudan, Oman and France; and (1) in each of Qatar, Libya, USA, Germany, Netherlands, UK and Burkina Faso. The main objective for taking part in these meetings was to introduce the nature and scope of the Corporation business and to market its services, as well as to actively take part in events oriented towards various productive and service sectors in the Arab countries, aiming at enhancing understanding on issues relevant to investment and inter-Arab trade. On the other hand, these meetings served to strengthen the Corporation's relations and coordination with international and regional organizations.

3.4 Information & Computerization:

3.4.1 Computer Programs and Maintenance

The following activities were executed during the year:

- Development of Operations Program starting with Credit Export Guarantee system.
- Development of Administrative Procedures Program.
- Changing the Accounting Program.
- Upgrading and installing Windows XP.
- Replacing old PCs and printers.
- Considering electronic archive and document management systems.
- Converting database from Sybase to MS/SQL server.

3.4.2 Networks

- Considering updating the Corporation's website to be more interactive and responsive to electronic transactions.
- Updating content in the Corporation's website.
- Improving internet access and speed.
- Upgrading of the internal network.
- Installing firewall to secure internal network.

3.4.3 Evaluation of Internal IT Capacity:

An IT expert was assigned to conduct a study to assess the existing IT status and internal capacity in the Corporation and to submit recommendations for future development of a full-fledged IT unit.

3.5 The Library

* The Corporation focused on the subscription and purchase of specialized publications of direct relevance to the core business.

* The Corporation continued to streamline subscriptions to Arabic and foreign periodicals, and to enhance utilization of the Arab Fund for Economic & Social Development Library.

* The year witnessed increased utilization of sources of information through the internet in view of the future plan to launch a "Virtual Library" that compiles databases and e-subscriptions for on-line information service providers.

3.6 Training:

In its effort to enhance the efficiency of its employees and to build human capital, the Corporation enrolled (8) staff members in (14) training courses. Among those, some have participated in more than one program. The courses encompassed the following fields:

3.6.1 Professional Courses:

- A course on “Target Audience Selection” organized by the Gulf National Consultants and held in Kuwait city, Kuwait, during the period 25-28/3/2002, attended by a staff member from the Administration Section.

- A workshop on “Improving the Quality of Your Retail Consumer Credit Portfolio with Scoring” organized by the Union of Arab Banks and held in Cairo, Egypt, during the period 10-13/6/2002, attended by three staff members from the Operations and Corporate Development Department.

- A course on “Practical Problems Encountered in Contracting Contracts” co-organized by the GCC Commercial Arbitration Centre, and the Omani Chamber of Commerce and Industry, and held in Salalah, Oman, during the period 11-15/8/2002, attended by a staff member from the Operations and Corporate Development Department.

- A course on “Insurance Customer Service” organized by the Bahraini Institute of Banking and Finance and held in Manama, Bahrain during the period 20-23/10/2002, attended by two staff members from the Operations and Corporate Development Department.

- A course on “Re-evaluation of Credit Risk Management Strategies and Processes” organized by the Union of Arab Banks and held in Kuwait City, Kuwait during the period 16-18/12/2002, attended by a staff member from the Investment Section and two staff members from the Operations and Corporate Development Department.

3.6.2 Computer Courses:

- A certified course on “Advanced Microsoft System Engineer 2000 Advanced Server” comprised of (7) modules, organized by New Horizon Institute and held in Kuwait City, Kuwait during the period 26/1 - 1/5/2002, attended by a staff member from the Computer Unit.

3.6.3 English Courses:

- A course on “English Language for Business” organized by the British Council and held in Kuwait City, Kuwait during the period 17/3-1/5/2002, attended by a staff member from the Operations and Corporate Development Department.

- An English Language course organized by the British Council and held in Kuwait City, Kuwait during the period 17/3-1/5/2002, attended by a staff member from the Administration Section.

3.7 Information Activities:

Since its establishment, the Corporation cooperated with an extensive network of Arab local and regional media, and lately with news agencies and internet portals, to disseminate information regarding its guarantee services, seminars and conferences held, studies and publications issued, and investment promotion activities launched. Based on the Media Program adopted for the year 2002, (7) press releases were issued covering, among other subjects, the annual meeting of the Corporation’s Governing Council, the first and second meetings of the Corporation’s newly established Board of Directors, developments in the guarantee and recovery operations and other activities. Several Arabic newspapers, magazines and internet portals quoted information published in the Investment Climate in the Arab 2001, and the monthly Bulletin, in addition to the Press Conference organized by the Corporation on the occasion of co-launching UNCTAD World Investment Report 2002 held in the Head Office of the Corporation in Kuwait City on 17/9/2002.

In this regard, and based on internal media monitoring and analysis of the database of an internet based media service the Corporation had subscribed to, a total of (200) news items on the Corporation were published during 2002 at an average of (4) news items per week; of this total, (47) news items were based on the Corporation's services and statistics, (43) on the Investment Climate Report, (42) on press releases, (40) on material from the monthly Bulletin, (8) on direct interviews, (8) based on participation in events, (7) on the Press Conference and (3) on the Capsule Series. The newspapers and magazines in this selected sample were mainly from Kuwait (7 newspapers), Lebanon (6), Saudi Arabia (4), Egypt, UAE and Syria (each 3 newspaper), Bahrain and Qatar (each 2 newspapers), Oman and Jordan (each one newspaper), Arab newspapers abroad (4), Arab news agencies (4), internet information providers (3).

Chapter Four

Financial Report

With the United Arab Emirate's Government decision to increase its share of the Corporation's capital to 9%, the subscribed capital of the Corporation has amounted to KD 26,101,667 as at 31 December 2002. However, the paid up capital remained unchanged since 31 December 2001 amounting to KD 24,751,667 (US$ 82,524,812) without any increase since U.A.E's Government subscription that amounted KD 850,000 has not yet been received.

As for the total income (loss) which is composed of income from investments, guarantees, interest on recoverable claims and promissory notes and other income amounted as at 31 December 2002 to a loss of KD (439,656) (US$ 1,465,862) compared to a loss of KD (86,804) (US$ 289,414) as at 31 December 2001. That is an increase of the losses by KD 352,852 (US$ 1,176,448) and that increase is mainly due to the decline of the US Dollar currency value against the Kuwaiti Dinar which contributed to an unrealized loss of KD 1,316,657 (US$ 4,389,881) on account of the currency differential as at 31 December 2002 compared to a profit of KD 148,332 (US$ 494,555) as at 31 December 2001.

As for the Financial Markets, International Equity Markets has witnessed one of the steepest declines the third year in a row mainly due to accounting scandals and the issue of corporate governance that has eroded confidence of the market participants. Geopolitical conflicts and international economic slow down also weighed on the markets.

The uncertainty continued despite all the remedial actions taken by the authorities in the United States and the other advanced countries to revive the economy to grow during the year 2002. These developments have adversely affected the Corporation's Investment and consequently, the Investment in Portfolios and Funds has suffered an unrealized loss of KD 1,543,659 (US$ 5,146,731) as at 31 December 2002.

The total expenditure for the year 2002 has amounted to KD 1,603,761 (US$ 5,347,117) compared to KD 1,773,548 (US$ 5,913,206) for the year 2001. This represents a decrease of KD 169,787 (US$ 566,089) i.e. 9.57%.

The balance sheet as at 31 December 2002 shows that the total financial resources for the Corporation amounted KD 58,280,517 (US$ 194,313,730) which is comprised of KD 26,513,186 (US$ 88,397,913) investments in the financial markets in the form of money markets and marketable securities and KD 31,767,331 (US$ 105,915,817) in promissory notes and recoverable claims.*

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* The recoverable claims and the promissory notes receivable are by virtue of the Convention establishing the Corporation a basic part of its resources. This has been affirmed by the Council of the Corporation according to its Resolution NO. (4) 2002 which reads as follows:

"After perusing sub paragraphs (g) and G) of Paragraph (2) of Article (10) and Articles (23) and (24) of the Inter-Arab Investment Guarantee Corporation's Convention and the Financial Rules of the Corporation issued by the Council's Resolution NO. (4) 1975 the Council affirms that the discharge to the Corporation by a member country of its obligations towards the insured party whom the Corporation has compensated or has agreed to compensate for an insured loss and to whose rights it has been subrogated is an obligation specified in the Convention and arises out of the country's membership in the Corporation and for which the country is responsible by virtue of this membership. For this it is not required to make a provision for it in the balance sheet of the Corporation".

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Auditors' Report

The Chairman and Members of the Council
The Inter-Arab Investment Guarantee Corporation
An Arab Corporation with a special Independent Legal Status

We have audited the accompanying balance sheet of The Inter-Arab Investment Guarantee Corporation as of 31 December 2002 and the related statements of revenues and expenses, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As indicated in Note 8 to the financial statements, the corporation continues to accrue and recognise interest on long outstanding recoverable claims and promissory notes receivable from member states that have been unable, due to difficult political and economic conditions, to settle their principal obligations on the due dates. In our opinion, the corporation should not accrue delay interest and recognise the related income unless their recoverability is certain; accordingly, the corporation's assets and shareholders' equity as of 31 December 2002 should be reduced by KD 16,853,843 and the net loss for the year then ended should be increased by KD 1,633,992.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the corporation as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Furthermore, in our opinion proper books of account have been kept by the corporation and we obtained all the information and explanations that we required for the purpose of our audit. We further report that, to the best of our knowledge and belief, no violations of the corporation's convention have occurred during the year ended 31 December 2002 that might have had a material effect on the business of the corporation or on its financial position.

Without qualifying our opinion, we draw attention to Notes 6 and 7 to the financial statements. As indicated in the Notes, promissory notes receivable and recoverable claims amounting to KD 3,865,949 and KD 25,363,789 respectively as of 31 December 2002 are due from certain member states who are experiencing difficult political and economic conditions. Because of these conditions, it is not possible to ascertain the collectability of these amounts. Accordingly, no provision for any loss relating to the uncollectability of these receivables has been made in the accompanying financial statements.

WALEED A. AL-OSAIMI
LICENCE NO. 68 A- KUWAIT
MEMBER OF ERNST & YOUNG

State of Kuwait
March 2nd, 2003

Balance Sheet
At December 31, 2002

		December 31,	
		2002	2001
	Note	KD	KD
ASSETS			
Cash and cash equivalents	3	653,578	392,369
Investments available for sale	4	25,184,572	27,768,097
Claim from two member states	5	675,036	669,206
Promissory notes receivable	6	3,865,949	3,965,585
Recoverable claims	7	27,901,382	29,002,433
Accrued interest	8	16,853,843	15,219,851
Reinsurance claims receivable	9	5,082,161	4,910,943
Due from savings and social security fund		49,752	186,464
Accounts receivable and other debit balances	10	608,955	587,907
Property and equipment	11	1,138,128	1,171,560
TOTAL ASSETS		**82,013,356**	**83,874,415**

The attached notes 1 to 23 form part of these financial statements.

		December 31,	
		2002	2001
	Note	KD	KD
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and other credit balances	12	428,033	452,131
Obligations under finance lease	13	1,380,442	1,393,081
Reinsurance claims payable	9	8,046,703	7,827,608
Total liabilities		**9,855,178**	**9,672,820**
Shareholders' equity			
Paid-up capital	14	24,751,667	24,751,667
General reserve	15	47,406,511	49,449,928
Total shareholders' equity		**72,158,178**	**74,201,595**
TOTAL LIABILITIES			
AND SHAREHOLDERS' EQUITY		**82,013,356**	**83,874,415**

Statement of Revenues and Expenses
For the Year Ended December 31, 2002

	Note	2002 KD	2001 KD
REVENUES:			
Gross guarantee premiums		523,015	251,110
Guarantee premiums ceded		(32,686)	(11,731)
Net guarantee premiums		490,329	239,379
Commission received on ceded reinsurance		7,840	2,212
Expenses and other commission		(5,778)	(7,624)
Guarantee results		**492,391**	**233,967**
Interest on promissory notes and recoverable claims	8	1,633,992	1,613,545
Bank interest		7,707	17,981
Interest on bonds		104,235	140,244
Investment loss	16	(1,906,433)	(2,149,475)
Exchange (loss) gain	17	(822,971)	2,920
Interest on claim from two member states	5	41,706	46,393
Other miscellaneous income		9,717	7,621
TOTAL REVENUES		**(439,656)**	**(86,804)**
EXPENSES:	18		
First Chapter - Salaries, wages and bonuses		880,692	1,034,517
Second Chapter - General and administrative expenses		520,662	586,676
Third Chapter - Capital expenses		53,967	60,505
Fourth Chapter - Provisions and others		148,440	91,850
TOTAL EXPENSES		**1,603,761**	**1,773,548**
NET LOSS FOR THE YEAR		**(2,043,417)**	**(1,860,352)**

The attached notes 1 to 23 form part of these financial statements.

Statement of Changes in Shareholders' Equity
For the Year Ended December 31, 2002

	Paid-up Capital KD	General Reserve KD	Retained earnings (losses) KD	Total KD
Balance at 31 December 2000	24,689,871	51,310,280	-	76,000,151
Paid in capital increase	61,796	-	-	61,796
Net loss for the year	-	-	(1,860,352)	(1,860,352)
Transfer from general reserve	-	(1,860,352)	1,860,352	-
Balance at 31 December 2001	24,751,667	49,449,928	-	74,201,595
Net loss for the year	-	-	(2,043,417)	(2,043,417)
Transfer from general reserve	-	(2,043,417)	2,043,417	-
Balance at 31 December 2002	**24,751,667**	**47,406,511**	**-**	**72,158,178**

The attached notes 1 to 23 form part of these financial statements.

Statement of Cash Flows
For the Year Ended December 31, 2002

	2002	2001
	KD	KD
OPERATING ACTIVITIES		
Net loss for the year	(2,043,417)	(1,860,352)
Adjustments for:		
Depreciation	36,714	36,714
Investment loss	1,906,433	2,149,475
Exchange loss (gain) on translation of certain financial assets	794,960	(85,904)
Interest income	(1,787,640)	(1,818,163)
Finance lease charges	97,516	98,343
Provision for doubtful debts	69,004	-
Operating loss before changes in operating assets and liabilities	**(926,430)**	**(1,479,887)**
Recoverable claims	405,727	(853,444)
Reinsurance claims receivable	(171,218)	(32,658)
Accounts receivable and other debit balances	(21,048)	(293,766)
Due from savings and social security fund	67,708	131,165
Accounts payable and other credit balances	(24,098)	(41,875)
Reinsurance claims payable	219,095	151,323
Cash used in operations	**(450,264)**	**(2,419,142)**
Interest received	111,942	126,480
Dividends received	16,709	21,049
Net cash used in operating activities	**(321,613)**	**(2,271,613)**
INVESTING ACTIVITIES		
Proceeds from redemption and sale (purchase) of bonds	47,476	(516,321)
Proceeds from sale of portfolios and funds	612,907	2,512,170
Decrease in time deposits	-	30,558
Purchase of property and equipment	(3,282)	-
Proceeds from sale of property and equipment	-	3,282
Net cash from investing activities	**657,101**	**2,029,689**
FINANCING ACTIVITIES		
Payment of finance lease obligations	(110,155)	(110,155)
Capital proceeds from member states	35,876	24,735
Proceeds from capital increase	-	61,796
Net cash used in financing activities	**(74,279)**	**(23,624)**
NET INCREASE (DECREASE) IN CASH AND		
CASH EQUIVALENTS	**261,209**	**(265,548)**
Cash and cash equivalents at beginning of the year	392,369	657,917
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**653,578**	**392,369**

The attached notes 1 to 23 form part of these financial statements.

Notes to Financial Statements
December 31, 2002

1. ACTIVITIES
The corporation is an Arab corporation with a special independent legal status that was incorporated in accordance with a convention between Arab member states. Its main objectives are to provide guarantee for Inter-Arab investments against non-commercial risks and trade financing between member countries for both commercial and non-commercial risks as defined in its convention. The corporation also promotes investments and trade between its member states.

The corporation is located in Kuwait and its registered address is P.O. Box 23568 Safat, 13096 - State of Kuwait.
At 31 December 2002, the corporation had 42 employees (2001: 43 employees).
The financial statements were authorised for issue by the corporation's general manager on March 2nd, 2003.

2. SIGNIFICANT ACCOUNTING POLICIES
Basis of preparation
The financial statements have been prepared in accordance with Standards issued, or adopted by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and practices followed by the "Arab Organisations".

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of investments available for sale.

The accounting policies are consistent with those used in the previous year.

Cash and cash equivalents
Cash includes cash in hand and at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value such as fixed deposits, which mature within three months from the date of deposit.

Investments available for sale
Investments are initially recognised at cost, being the fair value of the consideration given, which is measured using settlement date, including all acquisition costs associated with the investment.

After initial recognition, investments available for sale are measured at fair value. The fair value of investments traded in recognised financial markets is their quoted market price at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses. Any gain or loss arising from a change in the fair value of investments classified as available for sale is recognised in the statement of revenues and expenses in the period in which it arises.

Promissory notes receivable

Promissory notes are stated at face value less provision for amounts deemed uncollectable. Interest earned on the promissory notes, if any, is recognised on a time proportion basis and included separately under accrued interest in the balance sheet.

Recoverable claims

In accordance with the corporation's convention, claims incurred and paid by the corporation in compensating insured individuals and entities against non-commercial risks are reimbursable from the respective member state. Claims paid in relation to commercial risks are the responsibility of the importer and are subject to reinsurance arrangements. Accordingly, recoverable claims are stated at face value less, in rare circumstances, provision for doubtful accounts.

Receivables

Receivables are stated at face value, after provision for doubtful accounts.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is computed on a straight-line basis over the estimated useful lives of items of property and equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Impairment of assets

The carrying amounts of the corporation's assets are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the statement of revenues and expenses whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of the corporation's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rates inherent in the asset. Assets with a short duration are not discounted.

Payables

Accounts payable are stated at their cost.

End of service indemnity

The end of service indemnity for the general manager and his deputy is calculated in accordance with article No. 6 of the resolution made by the Arab Ministers of Finance and Economy in Abu Dhabi. The end of service indemnity for other employees is based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. In accordance with article 21 of the employees' internal policy, the indemnities are paid in a funded employee savings and social security fund.

Income recognition

Net guarantee premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Dividend income is recognised when the right to receive payment is established. Interest income is recognised on a time proportion basis.

Foreign currencies

Foreign currency transactions are recorded in Kuwaiti Dinars at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into Kuwaiti Dinars at the rate of exchange prevailing on that date. Exchange differences are reported as part of the results for the year.

Finance leases

Assets acquired under finance lease agreements are capitalised in the balance sheet and are depreciated over their useful lives. A corresponding liability is recorded in the balance sheet for rental obligations under the finance lease. The finance charge is allocated over the period of the lease so as to produce a constant rate of interest on the remaining obligation.

Reinsurance

In the normal course of business, the corporation cedes certain levels of risk in various areas of exposure with reinsurance companies. Reinsurance contracts do not relieve the corporation from its obligations to policy- holders; accordingly, failure of reinsurance companies to honour their obligations could result in losses to the corporation. In the opinion of management, the corporation's exposure to such losses is minimal since losses incurred in compensating policyholders are the ultimate responsibility of counter parties or member states. Amounts recoverable from reinsurance companies are estimated in a manner consistent with the related claim liability.

Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, investment, accounts and notes receivable, accrued interest, recoverable claims and payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note. Financial assets and financial liabilities are offset when the corporation has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Use of estimates

The preparation of financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CASH AND CASH EQUIVALENTS

	2002	2001
	KD	**KD**
Cash in hand and at banks	621,376	365,427
Time deposits maturing within three months	32,202	26,942
	653,578	**392,369**

4. INVESTMENTS AVAILABLE FOR SALE

	2002	2001
	KD	**KD**
Bonds	1,533,485	1,466,758
Portfolios and funds "primarily in quoted securities"	23,285,356	25,935,608
Investment in Arab Trade Finance Program	365,731	365,731
	25,184,572	**27,768,097**

The corporation owns 0.25% of the capital of the Arab Trade Finance Program, which was established within the framework of the Arab Monetary Fund, to stimulate inter-Arab trade. Due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable measure of fair value, the investment is carried at cost.

5. CLAIM FROM TWO MEMBER STATES

This claim represents amounts due from two member states in respect of their unpaid capital contribution, together with delay interest, following a decision by council and agreements between the corporation and each member state. Delay interest charged during the year on the outstanding balances amounted to KD 41,706 (2001: KD 46,393).

6. PROMISSORY NOTES RECEIVABLE

	2002	2001
	U.S.$	**U.S.$**
Five promissory notes of U.S.$ 6,444,752 each	32,223,760	32,223,760
Three instalments collected during 1988 to 1990	(19,334,256)	(19,334,256)
Balance at end of the year	**12,889,504**	**12,889,504**
Equivalent in KD	**3,865,949**	**3,965,585**

An agreement executed between the corporation and a representative of a member state dated 20 December 1989 stipulates that the remaining amount of the promissory notes along with any other outstanding amounts should be settled in equal quarterly instalments of U.S.$ five million each starting 1 July 1990; however, due to difficult political and economic conditions in that state, none of the instalments were settled on the due dates. The Ministry of Finance of the respective member state has confirmed and acknowledged that their obligations will be satisfied as soon as the circumstances preventing payment no longer exist.

7. RECOVERABLE CLAIMS

	2002	2001
	U.S.$	**U.S.$**
Balance at beginning of the year	94,267,804	91,923,212
Net claims paid during the year	165,874	2,989,281
Claims recovered during the year	(1,407,365)	(644,689)
Balance at end of the year	**93,026,313**	**94,267,804**
Equivalent in KD	**27,901,382**	**29,002,433**

These amounts represent claims paid in compensating Arab nationals against risks realised in ten member states with concentration in three states. In accordance with the inter member states convention, claims paid by the corporation are reimbursable from the importer or member state in which the risk is realised accordingly, in the opinion of management, the above claims are recoverable in full. Long outstanding claims that are due from states who are experiencing difficult political and economic conditions and therefore have been unable to meet their obligations within the usual timeframe amounted to KD 25,363,789 at December 31, 2002 (2001: KD 26,378,131).

8. ACCRUED INTEREST

The corporation accrues delay interest on the promissory notes receivable from a certain member state and claims recoverable from counter parties and member states that have not met their obligations within the usual timeframe. This decision was taken in the prior years and as of the balance sheet date; none of the accrued interest has been paid. The details of the interest are as follows:

	2002	2001
	KD	**KD**
Balance at beginning of the year	15,219,851	13,606,306
Interest charged during the year	1,633,992	1,613,545
Balance at end of the year	**16,853,843**	**15,219,851**

9. REINSURANCE CLAIMS

Reinsurance claims receivable represent the reinsurance companies' share of claims incurred and paid by the corporation under the respective reinsurance contract. Reinsurance claims payable represent amounts refundable to the reinsurance companies following reimbursement by the counter party or member state. In making settlement with a given reinsurance company, the corporation will observe amounts owed by the reinsurance company and settle on a net basis.

10. ACCOUNTS RECEIVABLE AND OTHER DEBIT BALANCES

Accounts receivable and other debit balances include an amount of U.S. $ 1,527,108 (2001: U.S. $ 1,527,108) held in an escrow account with a foreign bank as security for the possible payment of a contingent liability arising from one of the legal cases (Note 19 - b).

11. PROPERTY AND EQUIPMENT

Property and equipment are substantially represented in the carrying amount of the corporation's premises, which were acquired under a finance lease based on the space allocated to and occupied by the corporation in the Joint Building of the Arab Organisations. The premises are being depreciated over the 40-year lease term and the related depreciation charge for the year amounted to KD 36,714 (2001: KD 36,714).

12. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

	2002	2001
	KD	KD
Due to reinsurance companies	74,893	74,540
Accrued staff leave	101,024	94,687
Provision for legal encyclopaedia	13,757	15,051
Others	238,359	267,853
	428,033	**452,131**

13. OBLIGATIONS UNDER FINANCE LEASE

The obligations under the finance lease are payable as follows:

	2002	2001
	KD	KD
Within one year	110,155	110,155
In the second to fifth years inclusive	550,775	550,775
Over five years	2,753,875	2,864,030
	3,414,805	**3,524,960**
Less: Finance charges allocated to future periods	(2,034,363)	(2,131,879)
	1,380,442	**1,393,081**

14. PAID-UP CAPITAL

At 31 December 2002, the capital of the corporation and the share of each member state are as follows:

	2002	2001
	KD	KD
The Hashemite Kingdom of Jordan	525,000	525,000
United Arab Emirates	2,350,000	1,500,000
State of Bahrain	500,000	500,000
The Republic of Tunisia	1,250,000	1,250,000
People's Democratic Republic of Algeria	1,250,000	1,250,000
Republic of Djibouti	200,000	200,000
Kingdom of Saudi Arabia	3,750,000	3,750,000
Republic of Sudan	1,217,932	1,217,932
Syrian Arab Republic	500,000	500,000
Somali Democratic Republic	58,735	58,735
Republic of Iraq	500,000	500,000
Sultanate of Oman	750,000	750,000
State of Palestine	500,000	500,000
State of Qatar	2,000,000	2,000,000
State of Kuwait	3,000,000	3,000,000
Republic f Lebanon	500,000	500,000
The Socialist Peoples' Libyan Arab Jamahiriyah	2,500,000	2,500,000
Arab Republic of Egypt	1,250,000	1,250,000
Kingdom of Morocco	2,000,000	2,000,000
The Islamic Republic of Mauritania	500,000	500,000
The Republic of Yemen	1,000,000	1,000,000
Issued capital	**26,101,667**	**25,251,667**
Unpaid portion	(850,000)	-
Amount not to be paid by the state of Palestine	(500,000)	(500,000)
Paid-up capital	**24,751,667**	**24,751,667**

15. GENERAL RESERVE

Article 24 of the corporation's convention states that "Net income realised from the corporation's operations is to be accumulated to establish a reserve equal to three times the capital", after which time, the council shall decide the manner of utilisation or distribution of the realised annual profits, provided that no more than 10 percent of such profits shall be distributed and that the distribution shall be made in proportion to the share of each member in the capital of the corporation.

16. INVESTMENT LOSS

	2002	2001
	KD	**KD**
Unrealised losses on revaluation of investments	(1,890,098)	(2,168,742)
Dividend from Arab Trade Finance Program	16,709	21,049
Loss on sale of portfolios and funds	(31,692)	(1,782)
Loss on redemption and sale of bonds	(1,352)	-
	(1,906,433)	**(2,149,475)**

17. EXCHANGE (LOSS) GAIN

Foreign currency exchange differences result from applying the corporation's accounting policy as stated in Note 2. Following are exchange differences resulting from major foreign currencies:

	2002	2001
	KD	**KD**
Deutsche Mark	5,634	(12,236)
U.S. Dollar	(845,777)	145,252
European Currency Unit	23,782	(104,205)
Japanese Yen	-	(2,273)
G. Britain Pound Sterling	8,300	(10,779)
Other Currencies	(14,910)	(12,839)
	(822,971)	**2,920**

18. EXPENSES

General and administrative expenses include finance lease charges in the amount of KD 97,516 (2001: KD 98,343). Capital expenses represent depreciation charge and expenditure on minor capital items, which is expensed as incurred.

19. CONTINGENT AND UNRECORDED LIABILITIES

a) The underlying value of written guarantee contracts in force as of 31 December 2002 amounted to KD 29,932,794 (2001: KD 18,789,528). Approximately KD 2,257,129 (2001: KD 865,752) of this value is reinsured against non-commercial risks. As of 31 December 2002, no amount has been reinsured against commercial risks under reinsurance contracts (2001: KD 1,014,655).

b). During 1997, the corporation paid a claim of U.S.$ 10,042,165 to a bank (equivalent to KD 3,011,947 at the rate of exchange prevailing at 31 December 2002) including interest up to 31 December 1994 in connection with an arbitration award. In addition to this payment the corporation was also required to issue a letter of guarantee to the bank in the amount of Euro 927,587 (equivalent to KD 293,151 at the rate prevailing at 31 December 2002). As a result, the corporation's assets were released and the corporation duly charged the respective member state with the amount of the claim. The bank subsequently appealed before the appellant court, claiming delay interest of U.S.$ 1,527,108 (equivalent to KD 458,025 at the rate prevailing as of 31 December 2002) on the above claim. The claim is still pending before the court.

c). Included in reinsurance claims receivable is an amount of KD 1,167,195 that has been blocked by one of the Arab banks. The bank, together with an Arab exporter, filed a claim on the corporation of U.S.$ 1,040,000 (equivalent to KD 311,927 at the rate of exchange prevailing at 31 December 2002). The claimed amount plus interest at 21% from the date the amount became payable until payment is made has been awarded to the claimants; accordingly, the bank may possibly recover this claim from the blocked amount. The corporation has challenged the validity of this case's arbitration proceedings and the matter is still pending before the court.

d). Another claim has been raised by an Arab company in the amount of KD 982,175 plus interest from 26 May 1996 until the date of payment. During 1998, an award was issued in favour of the claimant for the amount plus interest of 7% from the date the amount became payable until payment is made. It is the policy of the corporation to record such obligation when payment is made and to charge the respective member state with the amount.

In the opinion of management and in accordance with the corporation's business practices, all litigations and claims are the ultimate responsibility of the importer in the case of commercial risks and the ultimate responsibility of the respective member state in the case of non-commercial risks. Accordingly, no provision has been made in the accompanying financial statements in respect of the matters discussed above.

20. FINANCIAL INSTRUMENTS

In the normal course of business, the corporation uses primary financial instruments such as cash and cash equivalents, investments, accounts and notes receivable, accrued interest, recoverable claims and payables and as a result, the corporation is exposed to the following risks:

Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in the level of interest.

The effective interest rates and the periods in which interest bearing financial assets are repriced or mature are as follows:

	Less than 1 year	Within 1 - 5 years	Total	Effective interest rate
	KD	KD	KD	%
31 December 2002				
Cash and cash equivalents	258,678	-	258,678	1.5 - 2.5
Bonds	150,000	1,383,485	1,533,485	6.375 -10.25
Claim from two member states	675,036	-	675,036	7
Promissory notes receivable	-	3,865,949	3,865,949	5
Recoverable claims	-	27,901,382	27,901,382	5
	1,083,714	**33,150,816**	**34,234,530**	
31 December 2001				
Cash and cash equivalents	150,024	-	150,024	2.5 - 6
Bonds	611,551	855,207	1,466,758	6. 375 - 9.125
Claim from two member states	669,206	-	669,206	7
Promissory notes receivable	-	3,965,585	3,965,585	5
Recoverable claims	-	29,002,433	29,002,433	5
	1,430,781	**33,823,225**	**35,254,006**	

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets, which potentially subject the corporation to credit risk, consist principally of cash at banks and bonds. Cash is placed with high credit rating financial institutions. Bonds are issued by either high credit rating financial institutions or governments. In the opinion of management, financial assets related to the corporation's investment guarantee business do not expose the corporation to credit risk since such business is backed up by the member states.

Foreign currency risk

The corporation incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The corporation ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

Liquidity risk

Liquidity risk is the risk that the corporation will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the corporation invests in bank deposits or other investments that are readily realisable.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. At present, the corporation has no significant exposure to such risk.

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. At the balance sheet date, the fair values of financial instruments approximate their carrying amounts, except that it was not possible to reliably measure the fair value of certain investments available for sale as indicated in Note 4.

21. SAVINGS AND SOCIAL SECURITY FUND (UNAUDITED)

The savings and social security fund was established in accordance with article 21 of the employees' internal policy, as approved by resolution No. 6 of 1981, and the general manager's resolution dated 1 January 1984, for the purpose of providing extra benefits to the employees. The fund resources are as follows:

a) End of service indemnities under the respective employment contracts. These amounts are paid to the fund after approving the budget.

b) Employee savings as determined by each employee with a minimum of 3% of the employee's salary. These amounts are paid to the fund through monthly deductions from the payroll.

c) Fund investment income.

At the conclusion of the employment period, the employee is paid his net balance in the fund comprising indemnity in accordance with the terms of employment, savings and his share of any surplus arising on the fund balance. Where the fund's assets are not sufficient to meet the employees' entitlements, the deficiency is borne by the corporation. Article 9 of the fund's articles states that the fund accounts should be audited annually and its financial position examined by an actuary, as selected by the management. Following is a summary of the fund's unaudited financial position and results for the year:

	2002	2001
	KD	**KD**
Assets		
Cash and cash equivalents	-	19
Investments	805,391	897,332
Employees loans	349,909	343,228
Total assets	**1,155,300**	**1,240,579**
Liabilities		
End of service indemnity	822,786	813,135
Employee savings	282,762	263,140
Current account with the corporation	118,756	186,464
Total liabilities	**1,224,304**	**1,262,739**
Deficit	**(69,004)**	**(22,160)**
Revenues		
Unrealised losses on revaluation of investments	(70,634)	(109,077)
Other income	60,000	228,844
Exchange and forward contracts (losses) gains	(21,329)	6,443
	(31,963)	126,210
Expenses	(1,002)	(1,450)
(Deficit) surplus for the year	(32,965)	124,760
Accumulated deficit at beginning of the year	(22,160)	(119,919)
Payments to employees during the year	(13,879)	(27,001)
Accumulated deficit at end of the year	**(69,004)**	**(22,160)**

The corporation's management is aware of the net deficit amounting to KD 69,004 as of 31 December 2002 (2001: KD 22,160). Management continues to monitor the performance and financial position of the fund on a regular basis and believes that the deficit is temporary and any amounts so far funded by the corporation will eventually be recovered.

22. CONTINGENT COMPENSATION

The corporation filed a claim in the amount of KD 917,421 through the Public Authority for the Assessment of Compensation (PAAC) in respect of losses suffered as a result of relocating its head quarters to Cairo during the period 1990 - 1991. The accompanying financial statements do not include the amount of this claim. Subsequent to the balance sheet date, the corporation collected an amount of US$ 58,761 in full and final settlement of the claim. The corporation is disputing the amount of the final settlement.

23. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the current year presentation.