

# LENDING OPERATIONS OF THE ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT

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## ABSTRACT

*Given the important and vital role played by the Foundation of the Arab Fund for Economic and Social Council as a source of financing for development has attracted the attention of Arab specialists and researchers in many countries. The research aims to clarify the importance of financing operations carried out by the Arab Fund as a source of financing for development in the Arab countries, and analyze the nature of loans to Arab countries and indicate the role of the institution in the financing of development and investment in Arab countries. Has been the adoption of analytical descriptive method in research based on the analysis of data on the evolution of the Financial Operations of the Arab Fund and the Foundation of the reports of some international organizations and bodies, Arab, and Arab Fund annual reports. As we have tried in this research to shed light on the financial problems in some countries that did not use loans from the Arab Fund are optimized such as corruption of the administrative and financial located in those countries, which led to the accumulation of debt and become accepting all the terms of loans from developed countries and other financial institutions.*

**Keywords:** Lending Operations, Arab Fund, Economic and Social Development, Financial Operations

## INTRODUCTION

The Arab Fund for Economic and Social Development is one of the most important development financing institutions in the Arab and Islamic worlds. It has emerged since the independence of Kuwait in 1961 to provide support to Arab countries and then to developing countries, and the vision was Sheikh Jaber Al-Ahmad Al-Jaber, the late Amir of Kuwait, a major role in the Fund's continuation in Strengthening cooperation with developing countries, as he made unremitting efforts to support and support the efforts of these countries to achieve their development goals within the framework of mutual respect and the friendly relations that bind him with them in a way that serves Kuwait's national interests and enhances its status and effective role in achieving the global partnership for development, which is one of the Millennium Development Goals. Over the past four decades, the Arab Fund continued its close cooperation with developing countries with the aim of assisting them in achieving their Millennium Development Goals and improving living standards for their peoples. The Fund's activity included all Arab countries, which reflects the importance of the Fund's role in strengthening cooperation with those countries and others, as well as strengthening cooperation with other developing countries. Since its establishment and until the end of the fiscal year 2009, the Fund has provided (554) loans with a total value of (6.5) billion Kuwaiti dinars. It contributed to the financing of (471) projects in (17) Arab countries and covered about (27.9%) of the total cost of the funded projects.

## **THE ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT**

The Arab Fund for Economic and Social Development is an independent Arab regional financial body, which includes in its membership the member countries of the League of Arab States. A: Establishment: On 5/16/1968, the Economic and Social Council ratified the agreement establishing the Arab Fund for Economic and Social Development, and the General Secretariat of the League of Arab States announced that this agreement would be returned on 12/18/1971, and the first meeting of the Board of Governors was held on 2/6/1972 and proceeded The Fund's transformative operations at the beginning of 1974. (Planning Council, 246: 2006) B: Objectives: (The Fund's Report 1979-1980: 6-8) 1-Since its inception, the Fund has paid the greatest attention to investigating untapped Arab economic resources and energies and crystallizing their exploitation in development programs and projects. 2-Transferring economic projects of an investment nature with loans bearing easy terms to governments, public and private bodies and institutions, giving preference to economic projects vital to the Arab entity and to joint Arab projects. 3- Encouraging the investment of public and private funds, directly or indirectly, to ensure the development and development of the Arab economy. 4-Providing technical assistance and goods in various fields of economic development. A: The Fund's capital: The Arab Fund started its activities in 1974 with an authorized capital of (102) million (30) million dollars, and with the increasing need of member states for the contribution of the Fund, and the development of conditions resulting from the rise in oil prices after 1983 the Fund increased its authorized capital to (400) million KD and then doubled it to (800) million KD in 1984. During the period (1972-2007) the Fund was able to build reserves that amounted to about (1872) million on 12/31/2007. Dr. K. (<http://ar.wikipedia.org/wiki/>) In 2008, the Fund's Board of Governors approved, during its thirty-seventh annual meeting, which was held on April 2, 2008, to raise the fund's paid-in capital from (366,04) million d. KD to (2 billion) KD by allocating an amount of (1,336.96) billion KD from the additional reserve to increase the capital Count paid to the indicated amount. By the end of 2009, the fund's subscribed and paid-in capital amounted to (2,617.5) billion dinars. Of which (2000) billion dinars subscribed capital and (617,5) million Kuwaiti dinars.

### **FUND POLICY**

The Arab Development Fund always meets the development reserves in the member states and takes into account the balance between its activities and ensuring the feasibility and transparency of all projects. The most important policy in Arab development processes can be described as follows:

1. Withdrawals depend on the nature of the project, which requires large capital transfers.
2. Interest rates are 2.5% for low-income Arab countries and 3% for other Arab countries.
3. The repayment period (the repayment period) ranges between 22-25 years.

### **The Development Activity of the Fund**

Since the establishment of the Fund in 1974, which was assumed to transform the Arab member states, it has contributed to the transfer of many projects that help accelerate the development process in the beneficiary Arab countries. We will explain its development activity as follows:

### First: The Geographical Distribution of loans

The number of loans reached. The loan provided by the Arab Fund since its inception in 1974 until the end of 2009 is a (554) loan. Its total value amounted to about (6.5) billion Kuwaiti dinars, which contributed to financing 71 projects. Distributed in 17 Arab countries the ratio of the total value of loans to the total costs of these projects was about 27.9%. As shown in Table (1).

<b>S.no</b>	<b>Beneficiary countries</b>	<b>Value of Loans</b>	<b>Ratio %</b>
1	The Hashemite Kingdom of Jordan	473150	7,25
2	The Republic of Tunisia	541775	8,31
3	The Democratic Republic of Algeria	395300	6,06
4	The Republic of Sudan	398778	6,11
5	The Republic of Iraq	59725	0,91
6	The Syrian Arab Republic	636975	9,77
7	The Libyan Arab Republic	175700	2,69
8	The Arab Republic of Egypt	903150	13,85
9	The Republic of Yemen	639700	9,81
10	Kingdom of Morocco	893900	13,713
11	Kingdom of Bahrain	271500	4,16
12	Democratic Republic of Somalia	40700	0,62
13	Islamic Republic (Mauritania)	307700	4,720
14	Sultanate of Oman	317500	4,87
15	Palestine	17000	0,26
16	Djibouti	53000	0,81
	Total	6518553	100

As it is noted from Table (1) that the Fund has contributed to financing most of the Arab countries, and we note through the table that Egypt constitutes the highest percentage of borrowing in the Fund, as it reached (13.85%). The US Bank report for 2008 revealed that Egypt tops the list. List of the most lending countries in the Middle East and North Africa The report added that Egypt also topped the list in the World Bank and was more indebted than another international institution controlled by industrialized countries, the International Finance Corporation (IFC), which is the arm that provides loans For the private sector in the borrowing countries, Egypt alone has borrowed \$283 million from the International Finance Corporation over the past five years. (American Bank Report, 2008: 123).

The computer system in Egypt revealed that its benefit from the loaned funds did not exceed (57.3%) of the total loans. We see from this that Egypt, while borrowing from the Arab Fund as well as international institutions, said that Egypt is targeted and that there are hidden goals behind the policy, on top of which is the imposition of privatization and the transformation of Egypt. All of it is in the hands of someone else (such as Israel). This policy dates back to a long time, as the British occupation of Egypt was preceded by the implementation of the policy of dumping Egypt in debt, and at the same time, Egypt did not encourage foreign investment and commodity diversification of exports, and its dependence mainly on foreign loans. If we take Jordan as a model from the member countries of the International Fund, we note that the

Jordanian government has strong and distinguished relations with the Arab Fund, as the Arab Fund is a key partner in supporting development efforts in the Kingdom of Jordan, as the volume of its loans provided by the Arab Fund to Jordan amounted to (473,150 million dinars). That is, at a rate of (7.25%) of the total sum of the Fund's loans. The Kingdom of Morocco comes in second place with a rate of (13,713%), and the share of the Republic of Tunisia is (541,775) million KD, or (8.21%).

## Second: Sectoral Distribution of Loans

The Arab Fund for Economic and Social Development focused on supporting priority sectors within the economic development plans in the Arab countries benefiting from the Fund's loans. Loans and aid were highly directed to infrastructure projects with large investments that contribute significantly to improving the economic infrastructure. And the social and social projects of those countries, giving preference to the vital economic projects of the Arab entity and to joint Arab projects. In light of the growing need to strengthen the private sector in the implementation of development projects, the Board of Governors of the Fund decided in 1997 to amend the agreement establishing the Fund in a manner that would authorize the Fund to contribute to financing private sector development projects in the Arab countries. (The Arab Fund, 2: 2009) Through Table no. (2) We show the sectoral distribution of Arab Fund loans.

<b>S.no</b>	<b>Economic sectors</b>	<b>amount</b>	<b>Ratio %</b>
1	<b>Infrastructure sector</b>		
	including: transport and communications	1622,9	24,9
	energy and electricity	2129,75	32,7
	water and sanitation	682,25	10,5
2	<b>Production sectors</b>		
	industry and mining	405,55	6,2
	agriculture, irrigation, rural development	1012,80	15,5
3	social services sectors	506,50	7,8
4	other sectors	154,80	2,4
	total	6574,55	100

And other reports of the Fund from Table (2). It is clear that the Arab Fund's activity included all economic sectors with a focus on basic infrastructure such as the construction of roads, power stations, water and sewage, as the share of the infrastructure sector amounted to about (4434.9) One million (KD) i.e. (68.1%), and Jordan had the lion's share in financing the electric energy from the contributions of the Fund, as (17) million (KD) was directed to establish the Aqaba power plant with a capacity of (650) million mica Watts, and (3) million (KD) for the maintenance of Al-Rehab power station and raising its efficiency from 30% to 40%.

Followed by the productive sectors, as they contributed an amount of (1418.35) million (KD) i.e. (6.2%) of the total contributions to the Fund, as the share of the industry and mining sector amounted to (405.55) million (KD) and agriculture and irrigation And rural development,

its share reached (1012.80) million (KD). The contributions of the Arab Fund also included social services, by which we mean the education, health and housing sector, as its contribution amounted to about (506.50) million (KD).

As for its contribution to the other sectors, it amounted to about (154.80) million (KD), which was set up to finance emergency projects, such as contributing to the reconstruction of Nahr al-Bared camp and the neighboring areas in Lebanon. The Bekaa and the suburbs of Tripoli, and the size of those losses in 2007 was estimated at about 155 million US dollars, while the cost of rehabilitating the damaged facilities and facilities was estimated at about 180 million US dollars, as the Arab Fund provided a loan of (15) million US dollars to contribute to the financing of the reconstruction program rehabilitation of infrastructure and service facilities that include health, education, water, electricity and roads.

It has been shown through the data contained in the sectoral distribution of financing operations that the infrastructure and services sectors, which include transportation, energy, market and sanitation, have ranked first in financing commitments due to the need of the beneficiary countries for development priorities, especially by preparing the basic base for the necessity of economic development.

## **JOINT AND PRIVATE FINANCING AND AID TO THE ARAB FUND**

### **Joint Financing**

Over the years, the Arab Fund continued its cooperation with specialized Arab, regional and international institutions with the aim of enhancing their savings in the Arab region and continued its tasks of establishing coordination between Arab national and regional development institutions, and following up on the implementation of Projects financed by the grant of the Government of the State of Kuwait to the Palestinian people in coordination with the Kuwait Fund for Arab Economic Development. The Arab Fund also continued to manage and follow up the implementation of projects financed by the OPEC Fund for International Development in a number of Arab countries, particularly in Palestine. The Arab Fund continued its follow-up on the activities of Arab trade finance programs in coordination with the Arab Monetary Fund. And cooperate with Arab and international institutions in holding seminars and specialized meetings to discuss issues of economic and social development of interest to the region. The Arab Fund also continued its contribution to the issuance of the unified Arab economic report.

<b>S.no</b>	<b>Institutions</b>	<b>amount</b>	<b>Ratio</b>
1	Arab Fund for Economic and Social	3199	33,7
2	Development Kuwait Fund for Arab Economic	1051,2	11,1
3	Development Abu Dhabi	253,2	2,7
4	The Saudi Fund for Development	276,1	4
5	The Islamic Development Bank	673,5	7,1
6	The OPEC Fund for International Development	82,9	0,9
7	The Iraqi Fund for Foreign Development	5	0,05
8	The Libyan Arab Foreign Bank	3	0,03

9	The World Bank	719,7	7,6
10	International Fund for Agricultural Development	54,3	0,6
11	African Development Bank	652,1	6,9
12	Foreign governments and their financing institutions	1956	20,6

It is evident from Table (3) that the contribution of the Arab Fund with Arab funds is more than with foreign funds for financing in order to meet the development goals and push the development process forward in the Arab countries, as we see that it contributed the largest part of the Kuwait Fund for Arab Development with about (1051,1) million. Here, the Fund takes the position of the Kuwaiti Fund, followed by the Abu Dhabi Fund with an amount of (235.2) million (KD)

After the Arab funds are listed, the Iraqi Fund for External Development comes with an amount of (500) million (KD) as The Iraqi Fund started its activities in 1974 until 1983, as it started with a capital of about (50) million Iraqi dinars and was raised to (200) million Iraqi dinars, equivalent to (927) million dollars, and the fund requires an interest rate of (3%) and the repayment period between (10) 20) years, and he provided 10% of the total contribution of the original Arab national funds, and his loans amounted to (7431) million dollars in 1980, and he continued to finance the Third World until 1981, despite its cessation, as the percentage amounted to about (6%) of the total loans Provided by the group of funds and the reason for stopping the Iranian-Iraqi war drained the money I want Iraqi. (Iraqi Economic Bulletin, 55: 1986).

As for the international institutions, it was more involved with the World Bank, reaching about (7197) million (KD) due to its position in the world of financing for development for poor countries.

### Private Sector Financing

The operations and activities of the private sector undertaken by the Arab Fund aim to consolidate the development and catalytic role of the Fund, by contributing to developing and supporting the capabilities of the private sector in the member states of the Fund and enhancing the participation of the private sector in investment and development efforts in countries Members . The Board of Governors of the Arab Fund for Economic and Social Development authorized by its resolution no. (2) issued on 5/10/1997 to amend the agreement establishing the Arab Fund in a way that authorizes the Fund to contribute to the financing of private sector projects in the Arab member states in accordance with the rules and conditions determined by the Fund's Board of Directors.

The Board of Governors of the Fund also approved, by virtue of its Resolution No. (3) issued on 5/10/1997, to allocate an amount of (500) million US dollars, equivalent to (147) million Kuwaiti dinars, to finance private sector development projects in the Arab member states, to be specified the fund's board of directors makes annual allocations that do not exceed (5%) of the amount of the funded project, in order to meet the costs, expenses and fees incurred by the fund

Through Table (4), we can clarify the activity of the private sector lending fund for projects of member states until the end of 2009.

<b>S.no</b>	<b>Country</b>	<b>Amount</b>	<b>Ratio</b>
1	Yemen	43050	0,029
2	Bahrain	3000	0,002
3	Sudan	1800	0,0012
4	Mauritania	1000	0,0007

It is clear from Table (4) that Yemen tops the list in financing strategic projects for the private sector that serve the process of economic and social development. The head of Yemeni banks confirmed that there is an expansion in banking activities related to financing the private sector, and he referred to the experience of banks for financing small and micro projects, which led to the success of the idea of financing the private sector in order to employ the unemployed and improve the standard of living for poor families.

Commercial banks remained reluctant to finance large projects due to the fluctuation of interest rates for deposits and loans from time to time. Investors are in great hesitation because of this rise, and this is one of the reasons that prompted Yemen to borrow from the Arab Fund. In 2002, it borrowed an amount of (3000) KD. To build silos and grain mills in the port of Saleef, he thought, and in 2004, she borrowed an amount of (200) KD. To build a five-star tourist hotel in Sana'a, and in 2006 borrowed an amount of about (7000) KD. To establish the Aden Steel Factory in Lahij Governorate, and in 2007 it borrowed an amount of (3000) KD. For the participation of the Arab Fund for the Aden Steel Factory, but in 2008 it borrowed an amount of about (3000) KD. To establish a glass factory in Sana'a Governorate, but in 2009 it borrowed an amount of (3000) KD.

Residence Aden Sugar Factory (Report of the Central Bank of Yemen, 118: 2009). As for the second place, the State of Bahrain came as it borrowed (3,000) KD. To establish Bahrain Specialist Hospital in 2000. In 2009, the evaluation of four projects for the private sector was approved in preparation for a decision to contribute to its financing, a power generation and water desalination plant in Bahrain. The State of Sudan ranked third, as it borrowed an amount of (1800) KD. For the establishment of the Al-Salam Cement Factory, and that was in 2006, and Mauritania ranked last, as it borrowed an amount of (1000) KD. To finance financial leasing operations for small and medium private enterprises and establishments.

The reason for the lack of amounts borrowed in favor of the private sector by the states of Sudan and Mauritania is due to the weakness of the private sector in the field of economic and social development and in all sectors of the state.

As for the contributions of the Arab Fund to the capital, it contributed in the amount of (1641,4) thousand KD. With the Middle East Healthcare Company in the Kingdom of Saudi Arabia, with an amount of about (365,625) thousand KD. With the Glass Containers Company in Egypt, with an amount of (7107, 390) thousand KD. With the Mukalla Company in Yemen, with an amount of (7236,250) thousand KD Al Salam Cement Factory in Sudan.

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