

## KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT (KFAED)

*Even though a signatory to the Paris Declaration, participation of the Kuwait Fund for Arab Economic Development in the 2008 Paris monitoring survey was quite limited, with only 4 entries (Burkina Faso, Cape Verde, Mali and Senegal). Because of this restricted coverage, results cannot be relied upon to be representative and are thus not reported.*

### 1) QUANTITY OF AID

#### 1.1. Current/Recent Quantity Performance:

	2006	as % of GNI *
<b>ODA Net Disbursements</b>	158.0	0.20%

\* Calculated with 2005 GNI, as GNI not available for 2006.

Source: OECD/DAC database, table 1.

Kuwait's development assistance stood at US\$ 158 million for 2006. This is the equivalent of 0.20% of Kuwaiti GNI. Although this is a big increase compared to 2002, it is a marked decrease compared to the US\$ 218 million achieved in 2005.

In 2004-05 (financial year ending 31 March 2005), the Kuwait Fund for Arab Economic Development (KFAED) committed 200.5 million Kuwaiti Dinars (KD), roughly USD 686 million at end-2004 exchange rates. Since 1961, it has cumulatively disbursed USD 12.5 billion. In 2004-05 gross disbursements amounted to KD 114 million (USD 391 million, but disbursements net of loan repayments were only KD 18 million (USD 62 million – KFAED, 2005). OECD/DAC figures for 2005 indicate disbursements to the tune of US\$ 218 million dollar, implying that the Kuwaiti government delivered US\$ 156 million in ODA outside of KFAED.

#### 1.2. Future Quantity Intent

In December 2007, Kuwait pledged US\$ 300 million to the Palestinian Authority.

### 2) KEY AGENCIES/MECHANISMS

#### 2.1 Agencies and Structures

KFAED is the organ of the Kuwaiti State which distributes and manages financial and technical assistance. Its capital is roughly USD 6.8 billion (as of March 2007) and its operations are in the forms of direct loans, grants or guarantees, and participations in co-financing (joint or parallel) operations with other bilateral or multilateral assistance organizations. It participates in the capital of eligible development institutions and enterprises. KFAED also provides technical, financial, economic or legal advisory services on projects, programmes and policies, and for the formation of organizations

in the field of development. Governments, public enterprises and regional development bodies are all eligible to access KFAED resources.

## 2.2 Key Policies and Documents (KFAED, 2000a)

### *Law No. 35 of 1961*

This law empowered the Prime Minister of Kuwait to issue the charter of the Fund. At the time, it was the first Fund of its sort to be established by a developing country.

### *Law No. 25 of 1974*

In July 1974, the Fund was reorganized, and its objective was amended to provide development assistance to all developing countries, not just Arab countries. As reiterated in 2000, the Fund's objective is to "*assist Arab and other developing countries in developing their economies and to provide such countries with loans required for the implementation of their development programmes*" (KFAED, 2000b).

### *Law No. 18 of 1981*

The passage of this law doubled the Fund's authorized capital and amended its Charter so that it could subscribe to the capital stock of various development finance institutions.

## 3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

### 3.1. Recipient Countries

Top 10 recipients (for 2004-2005)

gross commitments (TA+grants+loans)	US\$ mio	% of total
1. Egypt	158.2	23.4%
2. Morocco	139.5	20.6%
3. Jordan	68.5	10.1%
4. Bahrain	68.0	10.0%
5. Oman	51.0	7.5%
6. Pakistan	34.0	5.0%
7. Malawi	20.4	3.0%
8. Senegal	15.3	2.3%
9. Albania	13.6	2.0%
10. Burkina Faso	13.3	2.0%
<b>Total Top 10 Recipients</b>	<b>581.8</b>	<b>85.9%</b>

Source: KFAED (2005).

The table shows that, taking together commitments made during KFAED's financial year 2004-2005, by adding TA, grants and loans together, the major recipient countries are in North Africa (Egypt and Morocco) and the Middle East (Bahrain and Oman).

This is well reflected in table below where we can see that Middle Eastern and North African countries receive 72.4% of total gross commitments. As these countries are mostly middle income countries, the share of LDCs/LICs is quite low.

Distribution among groups of recipients (for 2004-2005):

gross commitments (TA+grants+loans)	US\$ mio	% of total
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LDCs	109.7	16.2%
Other LICs	41.2	6.1%
Middle East and North Africa	490.4	72.4%
Asia	43.2	6.4%
sub-Saharan Africa	106.2	15.7%

Note: Country groups differ from those reported by KFAED (2005).

Source: KFAED (2005).

In principle, the Kuwait Fund can provide assistance to all developing countries. Over the 1974-2006 period, 101 countries benefited from its assistance.

### 3.2. Allocation Criteria

#### 3.2.1. *Pre-selection criteria*

There are no known pre-selection criteria for the Kuwait Fund.

#### 3.2.2. *Allocation criteria*

Information on the Fund's allocation criteria are currently being assembled.

## 4) AID POLICIES

### 4.1. Concessionalality

KFAED provides both loans and grants. Its loan programme however is far larger than its grant programme (see table below), which is limited to funding TA and feasibility studies (and if the feasibility study results in a loan the grant money used is converted to be part of the loan). As of the end of March 2007, the Fund had cumulatively issued approximately 3.8 billion Kuwaiti Dinars (KD) in loans compared to 103 million KD in grants. In 2004-05, 98.2% of its commitments were in the form of loans.

Grant share of total ODA	1.8%
Grant share of ODA to LDCs	4.2%

Source: 2006 data, KFAED (2005).

All loans made by KFAED in 2004-2005 were ODA eligible, meaning they all met the grant element condition of 25% to be counted as ODA (see table below). HIPC's confirm this level of concessionalality but indicate that many loans are close to the 35% level when the grant element is calculated using IMF methodology.

Terms of KFAED Concessional loans:

Grant Element (%)	35.3% - 65.7%
Maturity (years)	18 - 30 years
Grace Period (years)	2 - 10 years
Interest Rate (%)	1% - 3.5%
Service charge (%)	0.5%
Currency denomination	Kuwait Dinar

Source: KFAED (2005).

### 4.2. Types of Assistance

KFAED delivers mainly project aid and technical assistance. It provides debt relief in the form of long-term debt rescheduling, but never in the form of cancellation as the decision to cancel debt is not within its prerogative. It has adopted a policy of co-financing for most of its projects with other bilateral or multilateral donors (mainly other Arab development institutions).

Budget aid or balance of payments support (often for oil imports) has been financed separately by the Kuwaiti Government. Kuwait is estimated to have delivered debt relief worth US\$ 302 million (in 2006 NPV terms) to 14 HIPCs, by mid-2007 (IDA and IMF, 2007).

HIPC analysis confirms that the vast bulk of Kuwaiti assistance is provided in project form, though countries such as the Gambia indicate that they have benefited from BoP support. HIPCs also indicate that KFAED Technical Assistance is in general not designed by recipient countries or building capacity, focusing mainly on project preparation or implementation.

#### 4.3. Channels of Assistance

KFAED deals only with governments. As a result, according to HIPCs, a very high proportion of its aid is captured in the budget, reaching virtually 100% in Ethiopia, Honduras, Malawi and Mali. However, some project aid is negotiated directly with sector ministries or other public bodies, and Kuwaiti government balance of payment or budget funding may go via the central bank or other agencies, resulting in some Kuwaiti funding being off-budget in most countries.

As for multilateral aid, KFAED contributes to the paid-up capital of the following institutions: Arab Fund for Economic and Social Development (AFESD), Arab Bank for Economic Development in Africa (BADEA), the African Development Fund (AfDF), IDA and IFAD (KFAED, 2005, p40). In 2006, Kuwait's contribution to multilateral institutions was less than 1% of its total ODA, and stood at US\$ 1.3 million.

#### 4.4. Sectors and Projects

KFAED's aid has no sectoral restrictions. In the past it has shown a particular interest in financing the rural sector and socio-economic infrastructure, especially transport (roads) and energy infrastructure (see table below). In general, HIPCs report that KFAED aid is reasonably well aligned with sectoral and project priorities as outlined in recipient countries' PRSP or other planning frameworks (between 50% and 75% in Benin, Cameroon, Gambia, Mozambique and Sierra Leone). HIPCs particularly appreciate KFAED focus on infrastructure.

Distribution of Loans by Sector (2004-05):

gross commitments (loans only)	US\$ mio	% of total
Transport	83.3	42.3%
Agriculture	6.7	3.4%
Energy	61.0	31.0%
Water & Sewerage	4.4	2.2%
Social	20.0	10.2%
Other	21.5	10.9%

<i>Total</i>	<i>196.9</i>	<i>100.0%</i>
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Source: KFAED (2005, p18).

#### **4.5. Flexibility**

KFAED does not have any specific facilities to deal with external shocks or fill balance of payment/budgetary deficits. Such activities are left to direct Kuwaiti government funding for oil import needs. This is well reflected in HIPC analysis, which indicates little or no flexibility, except for countries which have received direct bilateral support.

#### **4.6. Predictability**

KFAED makes multi-year projections of disbursements, based on a disbursement timetable for projects approved, which are shared with recipient countries. HIPCs give mixed evidence on multi-year frameworks, but some (notably Mali, Honduras and the Gambia) report almost all KFAED flows to be part of such frameworks. Overall, HIPCs assess KFAED disbursements to match expectations, particularly so in Ethiopia and Mali.

#### **4.7. Conditionality**

KFAED does not impose additional conditions on project implementation and has no macro-economic conditionality. However, it may suspend disbursements when loan repayment schedules are not respected. As a result, HIPCs indicate that its policy conditions are neither onerous nor causing delay.

#### **4.8. Policy Dialogue**

KFAED does not engage in the macro-economic policy dialogue or in discussions with the World Bank or the IMF. It may continue disbursements for ongoing projects even when a country's programme with the IMF has been suspended, but will not in such case enter into fresh loan agreements. The Kuwaiti Government may still provide direct financing irrespective of the quality of relations the country has with the IMF or World Bank.

HIPCs reflect this policy in their assessments of KFAED performance, reporting either no (Gambia, Mali, Malawi, and Mozambique) or very limited experience of links to BWI relations, and no or limited engagement in sectoral or project-related policy dialogue.

### **5) AID PROCEDURES**

#### **5.1 Conditions Precedent**

The only condition precedent (apart from the standard legal opinion) KFAED demands is an application for assistance. The initial contacts in this direction may be made either by the beneficiary or by KFAED. The application file must show:

- a technical, financial, economic and legal description;
- the importance of the operation for economic development and its priority level in the applicant country's development policy;
- the economic rationale and financial validity of the operation; the estimation of the necessary costs denominated in both hard and local currencies;
- the availability of additional co-financing resources from the recipient country or other donors needed to carry through the whole operation;

- an assessment of the capacity of the institutions responsible for the operation and the quality of their management.

The loan requested from KFAED should not exceed 50% of the cost of the project, but the remaining portion can be funded by other donors, so counterpart funding from the recipient government is not mandatory. HIPCs report varying experience of counterpart funding requirements, with best results (0) in Ethiopia and the Gambia.

For the convention to become effective, a legal opinion is required declaring that the agreement is in conformity with the recipient country's national law. To protect KFAED resources, the borrower must also take out an insurance policy to cover the project.

KFAED does not directly execute projects it finances, but requires identification of a public or private execution agency, clearly indicated in the loan agreement. As such, it generally avoids parallel project implementation units.

HIPC views of KFAED conditions precedent vary considerably, depending on whether counterpart funding, execution agencies and insurance were problematic. The most positive experiences have been in Cameroon, Gambia, Ghana and Mozambique, with Ethiopia, Mali, Malawi and Sierra Leone also finding that the KFAED is relatively flexible in negotiating conditions precedent. Experiences of the delay caused by the conditions precedent ranges from virtually zero to lengthy, with the most positive experiences in Mali, Ethiopia, the Gambia, Honduras and Malawi.

## 5.2 Disbursement Methods

The following methods are used:

- 1) *Request for direct payment to suppliers or contractors* is the most widely used procedure. KFAED pays to the supplier the amount requested by the beneficiary.
- 2) *Request for refund of expenditure incurred by the beneficiary*. The application will include evidence of payment made by the beneficiary.
- 3) *Special commitment*. At the request of the borrower, KFAED pays certain sums meant to cover expenditure incurred by the beneficiary in financing the operations outlined in the loan agreement. The borrower pays an additional charge of 0.5% for any special commitments contracted by KFAED.

According to HIPCs, the KFAED does not use cash-in-advance payment methods. However, delays caused by disbursement methods are genuinely reasonable (less than three months), with best practice reported in Gambia, Mali and Sierra Leone.

## 5.3 Disbursement Procedures

The loan agreement gives KFAED a right of inspection as to the manner in which the project is being implemented. The executing agency has an obligation to communicate to KFAED all information regarding the project and the expenditure covered by the project's resources. There is also a follow-up through the documents demanded during subsequent disbursements for the loan.

According to HIPCs, Kuwait uses some local public financial management procedures but insists on separate accounting and financial reporting.

#### 5.4 Procurement Procedures

Procurement procedures are outlined in KFAED (2000c): *“the procurement of goods and works must, in general, be made on the basis of international competitive bidding so as to ensure economy in costs and the best possible quality of the goods or works to be procured. With a view to encouraging the participation of suppliers and contractors from developing countries in the implementation of projects financed by it, the Fund favours that a margin of preference in awarding contracts be accorded to local suppliers and contractors in the recipient country and also to suppliers and contractors from the State of Kuwait who should be treated on the same basis.”*

Documents related to the call for tenders, adjudications and to the contracts and supplies will be submitted to the Fund for study and prior approval. Joint guidelines are also produced together with other Arab aid institutions (World Bank, 2005).

HIPC give KFAED quite high scores on procurement indicators, because (in spite of the preference margin given to Kuwaiti and local suppliers), Honduras, Mali and Sierra Leone in particular find that this does not cause tying-style limitations; and because the Kuwait Fund allows recipient governments to undertake the procurement. Delays linked to procurement vary somewhat, but are best kept in check in Gambia, Honduras and Sierra Leone (between 3 and 6 months).

#### 5.5 Coordination

In 1975, the “Coordination Group” was set up, with the aim of harmonizing operational linkages among 8 Arab aid institutions, which often act as co-financers of the same projects. The members are: (i) The Islamic Development Bank (IsDB), (ii) the Arab Gulf Programme for UN Development (AGFUND), (iii) the Arab Fund, (iv) Arab Bank for Economic Development in Africa (BADEA), (v) OPEC Fund for International Development, (vi) Kuwait Fund for Arab Economic Development, (vii) Abu Dhabi Fund for Arab Economic Development and (viii) the Saudi Fund for Development. The Group publishes common guidelines and procedures (e.g. the ones listed in World Bank, 2005). Their adoption is not obligatory as it is left to the discretion of each individual institution to utilize the guidelines as appropriate, but in general they are used especially where (as normally) projects are cofinanced among Arab agencies.

As with most of the Arab donors, a lot of KFAED’s projects are co-financed with other (mainly Arab) donors.

#### Key Sources Consulted *(All internet sources were accessed on 2 April 2008)*

IDA and IMF (2007) “Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) —Status of Implementation”, prepared by the Staffs of IDA and IMF, August 21, 2006, accessed at [www.imf.org/external/np/pp/eng/2006/082106.pdf](http://www.imf.org/external/np/pp/eng/2006/082106.pdf)

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**ANNEX 1: DATA SOURCES FOR KUWAIT ODA**

Kuwait reports aggregate ODA statistics to the OECD/DAC. Hence, figures on net ODA are available since 2002 up until 2006. GNI for 2006 (from the World Bank) is not available (as of January 2008), such that % of GNI is calculated for with 2005 GNI in table 1.1. Some remarks regarding Kuwaiti data:

- This profile is mainly concerned with financial flows going through; even though, it appears that the Kuwaiti Government also gives out aid directly on a bilateral basis. Hence table 1.1 (from the DAC database) should be seen as ODA for Kuwait as a whole, whilst other data, notably taken from KFAED's annual reports, only reflects KFAED financial flows.
- The DAC reports both bilateral and multilateral net flows, but it seems very strange that multilateral ODA was almost zero in 2005 and 2006, whilst it still made up 38% of total Kuwaiti ODA.
- Tables in sections 3.1, 4.1 and 4.4 have all been constructed by going through KFAED's annual report for 2004-2005 budget line by budget line.
- KFAED data are mostly taken from the annual report 2004-2005. A more recent annual report, covering 2005-2006 is available but only in Arabic.