

SCOMM

#9:54

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Institution: European Coal and Steel Community ("ECSC")

Location: Brussels, Belgium; Luxembourg

Size: At December 31, 1975, the assets of the ECSC amounted to U. S. \$3.5 billion. ECSC's "capital" is provided solely from retained earnings and reserves.

Purpose: Established 4/18/51 pursuant to treaty. Initial membership of 6 European nations. Present membership 9 European nations. Purpose is to aid the development of the economies of the member states through the creation of a common market for coal and steel. Also, ECSC facilitates the financing of capital investment programs in coal, coke, iron ore, iron, steel and scrap by lending funds which it obtains primarily through its own borrowing. ECSC also responsible for coordinating production in above-named products by methods such as determining general objectives for modernization and expansion of productive capacity, reviewing investment programs, making research grants, enforcing fair competition, fixing prices in emergencies and imposing fines for infringement of ECSC rules. Also active in promoting better living and working standards for workers in the coal and steel industries through housing loans and retraining and research grants.

Source of Funds: Capital provided by: (1) a regular revenue levy collected monthly in the respective currencies of the member states from steel producers. Levy payments to be made in 1976 are expected to be \$104.9 million; (2) borrowings through bonds or notes, both public and private. As of 3/31/76 ECSC had outstanding \$3.3 billion of funds borrowed.

Management Structure: Governed by a Commission comprised of 13 members who are nationals of the member states, not more than 2 of whom may have the same nationality. Over the Commission is a Council consisting of one representative of each member state. Certain actions of the Commission require the assent of the Council. The ECSC is also responsible to a European legislative assembly - the European Parliament, which consists of 198 representatives elected by the legislatures of the member countries. It reviews the ECSC and by a vote of consensus can compel the resignation of the members of the Commission. Also, the Court of Justice of European Communities, comprised of 9 judges, interprets and applies the provisions of the treaty. Decisions are binding.

Management of Funds: The Commission has the responsibility of borrowing, financing and managing funds. The primary responsibility for specific capital investment programs rests with the individual borrowers who decide what capital projects they want to undertake and whether to seek the assistance of the ECSC. The criteria applied by ECSC in selection of projects to be financed are based on normal banking practices. ECSC borrows in whatever currencies appear most advantageous to it and under the best conditions prevailing at the time in the capital markets in which the ECSC operates. In order to minimize risks, ECSC matches principal, interest rates, maturities and currencies of loans made with its own borrowings. A general policy is also to secure loans by guarantee of country, banks or industrial concerns or mortgages on the financed projects.

Portfolio: Since inception ECSC has granted loans (both from borrowed funds and from its own resources) aggregating \$3.4 billion through 12/31/75, of which, as a result of repayments by the borrowers, \$2.7 billion was then outstanding. Of this amount, about 26% was guaranteed by the member countries, 25% by banks and 18% by industrial concerns, and 27% was secured by mortgages on the projects financed. Since establishment, there have been defaults on 3 loans, totaling \$1.8 million, less than 0.1% of the total amount of loans granted by the ECSC. Rescheduling of principal and interest payment dates and delays in the receipt of loan service charges have been insignificant. Guarantees granted by ECSC since inception have aggregated to \$65.3 million through 12/31/75, of which \$24.3 were outstanding at that date. ECSC's guarantees are secured by guarantees from member countries, banks, industrial concerns or by mortgages on the projects financed. ECSC has never been required to make payment on a guarantee.

Capital Structure:

	12/31/75	
Borrowings	\$2,786 million	82.1%
Reserves	338	9.9
Revenue Funds	<u>271</u>	<u>8.0</u>
Total Capital	\$3,395 million	100.0%

Income: In 1975 revenues of \$307.96 million; 57.9% from interest on loans; 26.6% from levies and 15.6% from contributions, interest investments and other. 55.3% went to pay interest and fees payable; 6.3% for administration; 7.5% for research; and 14.9% went for other. Most of the 16% excess went to the Guarantee Fund, housing projects, and reconversion, technical and economic research.

PROSPECTUS

European Coal and Steel Community

\$75,000,000

8⁵/₈% Notes, Due May 1, 1984

\$100,000,000

9% Bonds, Due May 1, 1996

The Notes and the Bonds are unconditional, direct, general obligations of the European Coal and Steel Community (the "ECSC") and rank *pari passu* with its other obligations (aggregating \$3.21 billion at March 31, 1976) exclusive of those obligations (aggregating \$58.0 million) issued pursuant to and secured by the Act of Pledge, all as more fully described herein.

At any time on and after May 1, 1983, the Notes may be redeemed, at the option of the ECSC, at the principal amount thereof plus accrued interest, if any, to the redemption date. The ECSC will redeem, or in the case of the last instalment pay at maturity, the Bonds at their principal amount plus accrued interest in 15 substantially equal annual instalments beginning in 1982, with the noncumulative option to redeem at such price an additional equal amount in any such year, all as more fully described herein. The Bonds will also be redeemable on and after May 1, 1988, at the election of the ECSC, at the redemption prices set forth herein.

Interest is payable on the Notes and the Bonds on November 1 and May 1.

Application will be made to list the Notes and the Bonds on the New York Stock Exchange.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to ECSC(1)(3)
Per Note	99.50%	0.90%	98.60%
Total	\$74,625,000	\$675,000	\$73,950,000
Per Bond	99.00%	1.25%	97.75%
Total	\$99,000,000	\$1,250,000	\$97,750,000

(1) Plus accrued interest from May 1, 1976, to date of delivery.

(2) The ECSC has agreed to indemnify the Underwriters against certain liabilities.

(3) Before deducting expenses estimated at \$231,000, including \$50,000 to be paid to the Underwriters in partial reimbursement of their expenses.

The Notes and the Bonds are offered by the several Underwriters named herein, subject to prior sale and to withdrawal of the offer without notice, and when, as, and if accepted by them; and the Underwriters reserve the right to reject, in whole or in part, any orders for the purchase of such securities. The Bonds are also being offered to certain institutions by the ECSC through the several Underwriters pursuant to Delayed Delivery Contracts (see *Delayed Delivery Arrangements*). It is expected that delivery of the Notes and the Bonds will be made on or about May 17, 1976, and that delivery of the Bonds purchased from the ECSC pursuant to Delayed Delivery Contracts will be made on November 4, 1976, or such other date or dates as the ECSC shall approve.

**Kuhn, Loeb & Co. The First Boston Corporation Lazard Frères & Co.
Warburg Paribas Becker Inc.**

April 30, 1976

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SECURITIES OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

EXCHANGE RATES AND UNIT OF ACCOUNT

Since its formation, the European Coal and Steel Community (the "ECSC") has used its own Unit of Account (the "UA") as a convenient unit of measure for translating the various currencies with which it deals into one common monetary denominator. Because a unit of account provides a simple means to standardize and compare accounts in a variety of national currencies, it has come into increasing use for accounting purposes by both private and public entities of the European Economic Community (the "Common Market").

Until 1973, conversion between the UA and the currencies of the members of the Common Market and other countries was based on their official gold content as defined by the International Monetary Fund parity rates of exchange. Thus one UA originally equaled one U. S. dollar as well as, subsequently, one Special Drawing Right, the unit of account used by the International Monetary Fund (the "IMF"), all of which had an equal gold content. The ECSC decided, effective December 31, 1973, to update annually the value of the UA used in ECSC accounts and to base the value of the UA for such purpose on a system more reflective of current market rates for national currencies. At the end of 1975 the Commission of the European Communities (the "Commission") decided that, effective January 1, 1976, the ECSC would adopt the form of UA which is currently in use by the other European Communities and their agencies and which is based entirely on daily market exchange rates for specified amounts of the currencies of the members of the Common Market. For a more complete description of the UA, reference is made to Note 1(A) of *Notes to Financial Statements*.

The Balance Sheet and the Summary of Expenditures and Revenues of the ECSC are expressed in UA. All other amounts in this Prospectus are expressed, for purposes of comparability, in U. S. dollars. U. S. dollar figures are converted from the UA amount reflected in the ECSC accounts at the following rates:

Prior to May 8, 1972:	UA 1 = U.S. \$1
May 8, 1972, through December 30, 1973:	UA 1 = U.S. \$1.08571
December 31, 1973, through December 30, 1974:	UA 1 = U.S. \$1.18643
December 31, 1974, through December 30, 1975:	UA 1 = U.S. \$1.34286
On December 31, 1975:	UA 1 = U.S. \$1.16528
On March 31, 1976:	UA 1 = U.S. \$1.12623

At December 31, 1975, UA 1 = 46.0606 Belgian francs; 7.19697 Danish crowns; 3.13120 Dutch guilders; 5.21981 French francs; 3.05382 German marks; 0.575039 Irish pounds; 797.769 Italian lire; 46.0606 Luxembourg francs; 3.05239 Swiss francs; 0.575973 United Kingdom pounds; and 1.16528 U.S. dollars. Since January 1, 1976, there have been significant changes in the relative values of such currencies. As a result of such changes, the value of the UA at March 31, 1976, was as follows: UA 1 = 46.2149 Belgian francs; 6.84758 Danish crowns; 3.02710 Dutch guilders; 5.25740 French francs; 2.85778 German marks; 0.587174 Irish pounds; 946.666 Italian lire; 46.2149 Luxembourg francs; 2.85404 Swiss francs; 0.587723 United Kingdom pounds; and 1.12623 U.S. dollars. To date such

changes in relative currency values have not had an adverse effect on the ECSC's financial condition. The ECSC is unable to predict any future effect of such currency conditions on its financial condition or the UA.

The middle market rates in New York City on April 28, 1976, were as follows: 1 U.S. dollar = 38.8546 Belgian francs (commercial rate); 6.0150 Danish crowns; 2.6896 Dutch guilders; 4.6220 French francs; 2.5368 German marks; 0.5444 Irish pounds; 894.8546 Italian lire; 38.8546 Luxembourg francs; 2.5205 Swiss francs; and 0.5444 United Kingdom pounds.

All statistics for the United Kingdom, Ireland and Denmark before January 1, 1973, are based on statistical data made available by government and industry agencies in those countries. Statistics relating to countries other than the Member States are based on figures supplied by the statistical agencies of the United Nations and the Organisation for Economic Co-operation and Development.

INTRODUCTORY STATEMENT

History. The ECSC was established as a sovereign entity by the Treaty of April 18, 1951 (referred to, as amended, as the "Treaty"), among Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands (the "Original Members"). On January 1, 1973, Denmark, Ireland and the United Kingdom (the "New Members") also became members of the ECSC. (The Original Members and the New Members are referred to collectively as the "Member States".) The offices of the ECSC are in Brussels and Luxembourg. The purpose of the ECSC under the Treaty is to aid the development of the economies of the Member States through the creation of a common market for coal and steel. Only the basic production commodities, coal, coke, iron ore, iron, steel and scrap, are covered by the Treaty. Creation of the ECSC was the first step taken toward European integration and facilitated the establishment in 1958 of the Common Market for all products other than those covered by the Treaty and the European Atomic Energy Community ("Euratom"). Each of the three communities, the ECSC, the Common Market and Euratom (collectively the "European Communities"), remains a separate entity although their governing institutions have been consolidated. The fundamental powers of the ECSC regarding all producers of the covered products (the "Enterprises") in the Member States are vested in the Commission which manages the affairs of the ECSC subject to the cooperation of and review in certain circumstances by other institutions of the ECSC. (See *Institutions of the ECSC*.)

Activities. Since the establishment of the ECSC, national customs frontiers for coal, coke, iron ore, iron, steel and scrap have been removed among the Original Members. The transitional arrangements for the entry of the New Member into the ECSC provide for successive reductions in tariffs and quotas and their complete elimination among all the Member States by July 1, 1977. Customs duties on imports of coal within the enlarged ECSC were abolished at the time of the accession of the New Members. Tariff rates relating to trade with nonmember countries are being harmonized.

The ECSC, through the Commission, facilitates the financing of capital investment programs of the Enterprises and certain other concerns by lending funds which it obtains primarily through its own borrowings. The ECSC is also responsible for coordinating production among the Enterprises by methods such as determining general objectives for modernization and expansion of productive capacity, reviewing investment programs against forecasts of demand patterns, indicating market and technological developments, making research grants, enforcing the fair competition provisions of the Treaty, fixing prices in times of emergency and imposing fines for infringement of ECSC rules. In addition, the ECSC is active in promoting better living and working standards for workers in the coal and steel industries through housing loans and retraining and research grants.

In 1975 the Enterprises produced 125.6 million metric tons of crude steel, making the ECSC the world's second largest steel producing area, and 256.9 million metric tons of coal. In 1974 there were 257 million people living within the territory of the Member States which had a combined gross national product of \$1,125 billion.

Sovereign Powers. In order to attain its objectives and to fulfill its responsibilities, the Treaty grants the ECSC certain sovereign powers in the Member States, including the power to maintain a common market for coal and steel and to levy a tax on the value of coal and steel production in the ECSC (the "Levy"). The Levy power, which can be exercised by the Commission acting alone, is fundamental to the financial structure of the ECSC and underlies its credit. Collected monthly, the Levy is enforceable directly against the Enterprises.

The Treaty also grants the ECSC within the Member States certain privileges and immunities which are necessary for the exercise of its functions. Such privileges and immunities include the exemption of its premises from search and seizure, the immunity of its property and assets from administrative or judicial constraint without the authorization of the Court of Justice of the European Communities, the right to hold any kind of currency and the exemption of its assets, properties and income from all direct taxes in the Member States.

Under the Treaty, the ECSC continues in existence until 2002. Any extension of the term of the Treaty, or any substantial modification of its provisions, requires an amendatory treaty signed by the government and ratified by the legislature of each Member State. No Member State may withdraw from the ECSC without the consent of all the other Member States.

The United States and 73 other countries have established diplomatic relations with the ECSC.

Financial Operations. Under the Treaty, the ECSC has responsibility for facilitating the financing of approved capital investment programs of the Enterprises and certain other concerns and may use its credit to obtain funds for this purpose. Through December 31, 1975, the ECSC had incurred borrowings equivalent to \$3.3 billion and had made loans from borrowed and other funds to the Enterprises and other concerns equivalent to \$3.4 billion.

The criteria applied by the ECSC in the selection of projects to be financed are based on normal banking practices, including the financial standing of the borrowers and economic considerations relating to the projects concerned. In order to minimize risk, the ECSC matches the principal amounts, interest rates, maturities and currencies of its loans made from borrowed funds with the terms of its borrowings. It is also the general policy of the ECSC to finance only a part of the entire cost of a project and to secure its loans by government or private guaranties or mortgages. Since the establishment of the ECSC, there have been defaults on less than 0.1% of the total amount of loans granted. Should receipts from the loans which the ECSC grants from the proceeds of its borrowings not be forthcoming or be delayed, the ECSC has recourse to its other resources to meet its obligations, and in particular to:

(a) *The revenues from the Levy.* The Treaty provides that revenues from the Levy may be used to cover any difference between the principal and interest payable in respect of funds borrowed and the principal and interest received in respect of loans granted. In 1975, the value of all products subject to the Levy (based on the policy of the ECSC of determining average value for purposes of the Levy at the beginning of the year on the basis of market values in prior periods) totaled \$32.5 billion, as compared with \$28.4 billion in 1974. During both periods the rate of the Levy was 0.29%. The Levy revenues in respect of production during 1975 were \$94.3 million, as compared with \$82.5 million in 1974. Under the Treaty, the Commission (acting alone) is authorized to impose a Levy rate up to 1% and can under certain circumstances impose a higher rate. Since the inception of the ECSC, the Levy has been paid in full by the Enterprises on a timely basis with delays only as to immaterial amounts. Beginning with the March 1976 instalment and continuing through the February 1977 instalment, the ECSC has extended the payment date of each monthly Levy instalment for two months after such instalment would ordinarily have become payable. Levy payments to be made in 1976 are expected to be \$104.9 million. For a description of recent economic conditions in Europe see *Recent Developments*.

(b) *The Guaranty Fund* In 1954, the Commission established from the proceeds of the Levy a Guaranty Fund, aggregating \$174 million at December 31, 1975, to serve as a readily available reserve for obligations of the ECSC. It is the Commission's policy to keep an amount at least equal to the Guaranty Fund in liquid assets, principally cash and amounts due from banks, but such assets are not segregated in the ECSC accounts. The ECSC has never had need to make use of the Guaranty Fund.

(See *Taxing Power and Financial Operations of the ECSC*.)

COAL AND STEEL INDUSTRIES OF THE ECSC

In 1975 the ECSC produced 125.6 million metric tons of crude steel (ingots and steel for castings) and 256.9 million metric tons of coal. The ECSC accounted for 20% of world steel production in 1975, and 13% of world coal production in 1974.

The ECSC's production of crude steel and coal in comparison with that of the other principal producing areas of the world is shown in the following table:

COAL AND STEEL PRODUCTION
(in millions of metric tons)

	Coal(1)					Crude Steel				
	1971	1972	1973	1974	1975	1971	1972	1973	1974	1975
ECSC(2)	312.1	271.3	270.3	242.6	256.9	128.1	139.1	150.1	155.7	125.6
U. S.	503.0	535.0	530.0	530.0	N.A.	111.8	123.8	139.6	135.0	109.1
Soviet Union	485.0	500.0	511.7	524.0	N.A.	120.6	126.0	132.9	136.0	141.5
Japan	33.0	28.0	22.4	21.0	N.A.	88.6	96.9	119.3	117.1	102.2
Eastern Europe	185.0	180.0	194.5	199.4	N.A.	42.4	45.0	46.8	48.0	50.3
Other Countries	269.9	298.0	291.6	300.2	N.A.	91.5	95.7	107.1	118.2	91.3
World Production	<u>1,788.0</u>	<u>1,812.3</u>	<u>1,820.5</u>	<u>1,817.2</u>	<u>N.A.</u>	<u>583.0</u>	<u>626.5</u>	<u>695.8</u>	<u>710.0</u>	<u>620.0</u>

(1) Excluding lignite.

(2) The New Members joined on January 1, 1973; prior data are pro forma.

During 1975, Germany, Italy and France were the leading crude steel producers in the ECSC and produced 40.4, 21.8 and 21.5 million metric tons, respectively. The United Kingdom, Germany and France were the leading coal producers in 1975 and produced 127.8, 99.2 and 22.4 million metric tons, respectively. As of December 31, 1974, approximately 1.4 million persons were employed in the nearly 400 Enterprises subject to the jurisdiction of the ECSC.

Iron and Steel. The ten largest steel producer groups in the ECSC accounted for approximately 72% of the crude steel production of the ECSC in 1975. Their 1975 production of crude steel was as follows:

<u>Producer Groups</u>	<u>1975 Crude Steel Production</u> (in millions of metric tons)
British Steel Corporation (U. K.)	17.2
Finsider (Italy)	12.9
August Thyssen (Germany)	12.2
Estel (Hoesch-Hoogovens) (Ger., Neth.)	10.7
Sacilor (France, Germany)	8.9
Arbed (Lux., Belg., Ger.)	8.8
Usinor (France)	7.1
Cockerill (Belgium, France)	5.2
Peine Salzgitter (Germany)	3.9
Manaesmann (Germany)	3.7

Except for the United Kingdom, none of the Member States has nationalized its iron and steel industry although several iron and steel Enterprises are wholly or partly owned by the Member States.

The ECSC is a net exporter of crude steel products. Its exports and imports of these products are set forth in the following table:

STEEL EXPORTS AND IMPORTS(1)					
(expressed in crude steel equivalent in millions of metric tons)					
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Exports	24.3	25.5	27.2	34.2	26.1
Imports	8.1	10.5	9.7	7.3	8.0

(1) The New Members joined on January 1, 1973; prior data are pro forma.

During 1974, of the total of the ECSC's exports of steel, 20% went to the United States, 10% to the U.S.S.R., 9% to the Scandinavian countries, 5% each to Brazil and Switzerland and 4% to Spain. No other country received 4% or more of the ECSC's exports of steel.

Coal and Coke. The three largest coal producers in the ECSC accounted for about 87% of ECSC coal production in 1975 as follows:

<u>Producer</u>	<u>1975 Coal Production</u> (in millions of metric tons)
National Coal Board (U.K.)	127.2
Ruhrkohle A. G. (Germany)	75.3
Charbonnages de France (France)	22.0

The British and French coal industries have been nationalized; other Member States own in whole or in part certain of their coal Enterprises.

Total coal production in the Member States has decreased from approximately 312 million metric tons in 1971 to approximately 257 million metric tons in 1975. The ECSC expects that coal production within the Member States will tend to stabilize at approximately current levels, partly as a result of cost increases for alternative sources of energy and partly as a result of ECSC and Member State policies to encourage the use of coal in the generation of electricity.

Total production of coke in the ECSC was approximately 79 million metric tons in 1975. Since 1967, the ECSC has made grants to subsidize the production of coking coal within the Member States. In 1975, the Member States produced 87% of their coking coal requirements.

The ECSC's exports and imports of coal are set forth in the following table:

COAL EXPORTS AND IMPORTS(1)					
(in millions of metric tons)					
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Exports	1.0	0.9	0.9	1.7	N.A.
Imports	31.2	31.6	29.8	38.0	N.A.

(1) The New Members joined on January 1, 1973; prior data are pro forma.

In 1974, Poland accounted for 40% and the United States for 34% of the ECSC's coal imports.

Raw Materials. The ECSC is a net importer of the important materials employed in the production of iron and steel products including coking coal (see *Coal and Coke* above), iron ore, scrap and alloying elements such as chrome, molybdenum, nickel and manganese.

The ECSC's consumption, production and net imports of iron ore for the five years through 1975 are shown in the following table:

	IRON ORE(1) (in millions of metric tons)		
	Consumption(2)	Production	Net Imports
1971	139.8	68.4	76.8
1972	148.6	66.0	80.7
1973	189.9	72.9	120.3
1974	197.8	67.6	134.2
1975	N.A.	62.1	106.5

(1) The New Members joined on January 1, 1973; prior data are pro forma.

(2) Consumption of iron ore in sintering plants, blast furnaces and steel mills.

In 1974, Sweden provided 21% of the ECSC's iron ore imports, and Brazil, Liberia, Canada and Australia were the other main suppliers.

The steel Enterprises of the ECSC have historically been net importers of scrap. Although the ECSC only imported 0.8 million metric tons of scrap in 1975 (less than 2% of total scrap used in production), this had a significant upward effect on scrap prices due to the extreme inelasticity of supply.

While no estimates of the iron ore and coal reserves of the ECSC have been made in connection with this offering, the ECSC believes that, in conjunction with other available sources, such reserves are considered adequate on an overall basis at current rates of production.

Capital Investments. In the four years through 1974, the Enterprises have spent increasing amounts on capital investments, particularly in the iron and steel industries, as follows:

	CAPITAL INVESTMENTS(1) (in billions)			
	1971	1972	1973	1974
Iron and Steel(2)	\$2.9	\$3.5	\$3.6	\$3.7
Coal(3)	0.3	0.3	0.4	0.5

(1) The New Members joined on January 1, 1973; prior data are pro forma.

(2) Includes coking facilities owned by the steel Enterprises.

(3) Includes coking facilities not owned by the steel Enterprises, as well as lignite briquette factories.

While final figures for 1975 are not yet available, the capital investments of the Enterprises are expected to have declined as a result of adverse economic conditions. However, substantial capital investments are expected to continue to be made by the iron and steel Enterprises to increase productivity. A relatively high level of capital investments is also expected in the coal industry, reflecting the trend towards concentration of production in more efficient mines.

Although pollution control regulations are not as stringent in the ECSC as they are in parts of the United States, and vary from country to country, it is expected that there will be increasing government regulation in this area and increasing uniformity among regulations. No systematic data currently exist as to the percentage of total ECSC capital investments which can be considered to have been spent in respect of governmental programs regarding pollution control. Such capital investments are expected

to account for a significant percentage of total capital investments in both the coal and steel industries in the near future.

The following table shows capacity and production of the steel and coal Enterprises.

	Steel Enterprises(1)					Coal Enterprises(1) (2)				
	1971	1972	1973	1974	1975	1971	1972	1973	1974	1975
Capacity in millions of metric tons ..	135.8	139.7	174.5	178.9	191.3	174.5	166.0	294.9	267.3	263.9
Production as a % of capacity	76	81	86	87	66	91	88	89	88	94

(1) The New Members joined on January 1, 1973; prior data are pro forma.

(2) Coal production for purposes of this table is based on a definition which differs slightly from that on which the coal and steel production table above is based.

Recent Developments. During 1975 crude steel production within the ECSC declined approximately 20% from the previous year, which represented a substantial decline in utilization of capacity. The general level of prices for steel and steel products declined substantially in 1975 reaching a low point in October, but has recovered a significant portion of this decline through the first quarter of 1976. New orders for and production of steel increasingly declined in each quarter commencing in the last quarter of 1974 through the third quarter of 1975. These declines resulted principally from the effects of the worldwide economic recession, energy-related increases in costs, inventory reductions by purchasers, reduced levels of construction and the restrictive monetary policies of the Member States. In addition, a continuation in 1975 of increases, which began in 1974, in the prices of petroleum products and other sources of energy increased the production costs of the Enterprises. Beginning in the last quarter of 1974, these increases, which were, in large part, previously passed on to purchasers, could no longer be passed on because of market conditions. New orders for and production of steel in the last quarter of 1975 exceeded those for the preceding quarter; new orders for the last quarter of 1975 were greater, while production was less, than in the last quarter of 1974. In the first quarter of 1976 production was greater than in the last quarter of 1975, but less than in the first quarter of 1975.

Increased prices for petroleum products tended to benefit the coal industry since coal and coal products became more competitive with petroleum products. Coal production within the ECSC during 1975 increased 5.9% compared to 1974; however, had there not been a coal strike in the United Kingdom in the first quarter of 1974, there would probably have been no increase between the two years. Coal sales declined in 1975 due principally to the reduced level of economic activity in the Member States and energy saving measures taken by the Member States.

The Member States are dependent on external sources of energy for approximately 60% of their requirements. In recent years the steel industry has accounted for less than 3% of the total petroleum consumption in the Member States.

Due, in part, to worldwide petroleum price increases the rate of inflation in the Member States increased rapidly in 1974, and currency exchange rates fluctuated widely worldwide. Prices in the Member States continued to increase in 1975, although the rate of inflation decreased slightly, primarily due to reduced demand and lesser increases in production costs, as well as restrictive monetary policies of the Member States. Each Member State has had a different balance of payments history, although there was an overall balance of payments deficit of approximately \$8,381 million in 1974, primarily due to the greatly increased costs of importing crude oil. The impact of the payments deficit has had a particularly

adverse effect on the financial positions of Italy and the United Kingdom. When final figures become available for 1975 they are expected to show that a decline in imports into the Member States has eliminated the overall balance of payments deficit. A substantial payments deficit, though less than that experienced in 1974, is expected in 1976 for the Member States due to increases in the costs and volume of imports, including petroleum.

INSTITUTIONS OF THE ECSC

Although the ECSC is independent of the other European Communities, its institutions have been consolidated with theirs. Under the Treaty, the ECSC originally had its own institutions—the Special Council of Ministers, the High Authority, the European Parliament and the Court of Justice. In 1958, at the same time as the Common Market and Euratom were established, the structures of the European Parliament and the Court of Justice were redefined so as to function for all three of the European Communities.

In 1967, the institutions of the European Communities were further consolidated pursuant to the provisions of the Treaty of April 8, 1965 (the "Merger Treaty"). The Merger Treaty established a single Council of the European Communities (the "Council") and a single Commission exercising the powers which previously had been exercised by the three separate Councils of Ministers and the three executive branches (the Commission of the Common Market, the Commission of Euratom and the High Authority of the ECSC). The Commission and the Council exercise their powers on each occasion according to the provisions of the particular treaty in question: the Treaty and the treaties of the Common Market and Euratom.

The composition and functions of the present institutions of the ECSC are as follows:

(1) The Commission, the executive body of the ECSC, is responsible for carrying out the ECSC's objectives. The Commission is the key institution in managing the affairs of the ECSC and acting by itself can, among other things, impose the Levy, borrow funds and lend to the Enterprises. It is comprised of thirteen members who are nationals of the Member States, not more than two of whom may have the same nationality. The present members of the Commission are as follows:

Francois-Xavier Ortoli, President (France)	Altiero Spinelli (Italy)
Wilhelm Haferkamp, Vice-President (Germany)	Albert Borschette (Luxembourg)
Carlo Scarascia Mugnozza, Vice-President (Italy)	George Thomson (United Kingdom)
Sir Christopher Soames, Vice-President (United Kingdom)	Petrus Josephus Lardinois (Netherlands)
Patrick John Hillery, Vice-President (Ireland)	Finn Olav Gundelach (Denmark)
Henri Simonet, Vice-President (Belgium)	Claude Cheysson (France)
	Guido Brunner (Germany)

(2) The Council consists of one representative of each Member State designated from among the members of its Government. It harmonizes the actions of the Commission and those of the governments of the Member States which are responsible for the general economic policies of their countries. Certain actions of the Commission require the assent of the Council.

(3) The European Parliament (also called the Assembly) consists of 198 representatives of the Member States elected by and from the legislatures of such countries. It meets periodically and, as regards the ECSC, reviews its work, particularly the general report submitted by the Commission concerning the activities of the ECSC and its administrative expenses. By a vote of censure it can compel the resignation of the members of the Commission.

(4) The Court of Justice of the European Communities (the "Court") is composed of nine judges appointed for six-year terms by common accord of the governments of the Member States.

Its primary function as regards the ECSC is to interpret and apply the provisions of the Treaty. Commission actions are subject to judicial review only by the Court on the initiative of any Member State, the Council or an Enterprise; actions of the European Parliament and of the Council are also subject to review on the initiative of any Member State or the Commission. Judgments of the Court are binding in the Member States. The Court also has jurisdiction over matters submitted to it pursuant to provisions to that effect contained in contracts entered into by the ECSC.

TAXING POWER AND FINANCIAL OPERATIONS OF THE ECSC

Under the Treaty, the Commission has the responsibility to facilitate the financing of capital investment programs of the Enterprises. It discharges this responsibility principally by providing direct loans and guaranties to the Enterprises and other concerns for the purpose of promoting industrial development within the ECSC. The primary source of funds for such loans by the ECSC is from the proceeds of its own borrowings. Borrowed funds may be loaned to the Enterprises and other concerns by the Commission only for the following purposes:

- (a) To assist in accomplishing capital investment programs undertaken by the Enterprises.
- (b) With the unanimous assent of the Council, for the construction and acquisition by the Enterprises or other concerns of facilities (including housing for miners and iron and steel workers) which contribute directly and primarily to an increase of production or which are designed to lower production costs or facilitate the distribution of coal, iron ore and steel.
- (c) To create new activities and to assist in reconversions by Enterprises (or, with the assent of the Council, by other concerns) to facilitate the productive reemployment of labor displaced as a result of the establishment of the common market for coal and steel, technical developments or changes in marketing conditions in the coal and steel industries.

The primary responsibility for capital investment programs rests with the individual borrowers. They decide what capital projects they desire to undertake and whether they will seek the assistance of the ECSC. The criteria applied by the ECSC in the selection of projects to be financed, out of all those submitted to it, are based on normal banking practices, including the financial standing of the borrowers and technical, economic and financial considerations relating to the projects concerned, and the relative importance of the projects to the ECSC.

The ECSC borrows in whichever currencies appear most advantageous to it and under the best conditions prevailing at the time in the capital markets in which the ECSC operates. In order to minimize risk, the ECSC matches the principal amounts, interest rates, maturities and currencies of its loans made from borrowed funds with the terms of its borrowings. It is also the general policy of the ECSC to secure its loans by guaranties by the Member States, banks or industrial concerns or mortgages on the financed projects. In addition, the ECSC generally will advance not more than 40% (except in the case of certain coal projects where the ECSC generally will advance not more than 50%) of the entire cost of any project, supplementing the other resources available to the borrowers. Should receipts from such loans not be forthcoming or be delayed, or should the ECSC be called upon to honor its guaranties of indebtedness of the Enterprises and other concerns, the ECSC would have recourse to its other resources to meet its obligations and in particular to the revenues from the Levy and the Guaranty Fund. See *Financial Operations* under *Introductory Statement* above.

The following is a detailed description of the principal aspects of the financial operations of the ECSC: the Levy, funds borrowed by the ECSC and loans and guaranties made by the ECSC.

The Levy. A regular revenue, collected monthly in the respective currencies of the Member States, is assured to the ECSC through the Levy which is the basic resource of the ECSC and underlies its credit. The Commission is authorized under the Treaty (by its own decision without the consent of any other institution of the ECSC or of the Member States) to impose a Levy on the average value of the

production of coal and steel by the Enterprises (avoiding cumulative assessment) at an annual rate of up to 1%. Decisions of the Commission imposing the Levy are enforceable against the Enterprises in the Member States. Should it for any reason become necessary to increase the rate of the Levy to a rate higher than 1%, such higher rate must be approved by a two-thirds majority of the Council. The highest rate of the Levy was 0.9% from July 1, 1953, to June 30, 1955. Since January 1, 1972, the rate has been 0.29%. In 1975, coal Enterprises of the ECSC provided \$16.8 million in Levy revenues and steel Enterprises \$77.5 million, making total Levy revenues \$94.3 million. Beginning with the March 1976 instalment and continuing through the February 1977 instalment, the ECSC has extended the payment date of each monthly Levy instalment for two months after such instalment would ordinarily have become payable. Levy payments to be made in 1976 are expected to be \$104.9 million.

In accordance with the Treaty, the proceeds of the Levy are available for the following purposes:

- (a) to meet any part of the payments due on funds borrowed by the ECSC (to the extent not covered by payments received by it on the loans which it makes to the Enterprises and other concerns) and any payments required to be made in fulfillment of ECSC guaranties;
- (b) to finance expenditures for relocation and retraining of coal and steel workers;
- (c) to finance expenditures for technical and economic research; and
- (d) to cover ECSC administrative expenses.

Funds Borrowed by the ECSC. At March 31, 1976, outstanding ECSC borrowings totaled \$3.27 billion. Including borrowings by the ECSC which have been paid in full, the total initial amount of borrowings by the ECSC through March 31, 1976, was \$3.85 billion. A schedule containing detailed information with respect to all outstanding borrowings of the ECSC as of December 31, 1975, is set forth following *Notes to Financial Statements* in this Prospectus. The table below sets forth a summary of the outstanding borrowings of the ECSC at March 31, 1976:

Currency of Borrowing	Initial Amount		Amount Outstanding	
	In UA (millions)	In U. S. dollars (millions)	In UA (millions)	In U. S. dollars (millions)
U. S. dollar	1,313.0	1,530.0	1,120.3	1,305.5
German mark	716.5	834.9	555.7	647.5
Swiss franc	328.0	382.3	293.2	341.7
Italian lira	194.3	226.4	168.0	195.7
French franc	236.6	275.7	224.0	261.0
Luxembourg franc	142.7	166.3	130.0	151.5
Belgian franc	114.0	132.8	101.2	117.9
Dutch guilder	133.1	155.1	91.5	106.6
Other	128.9	150.2	120.2	140.1
Total	<u>3,307.1</u>	<u>3,853.7</u>	<u>2,804.1</u>	<u>3,267.5</u>

The ECSC may from time to time hereafter issue additional bonds or notes in various currencies.

Between 1954 and November 1960, all borrowings by the ECSC were made under and secured by the Act of Pledge dated November 28, 1954, as amended ("Act of Pledge"), between the High

Authority of the ECSC (now the Commission) and the Bank for International Settlements, Basle, of which borrowings of \$58.0 million were outstanding at March 31, 1976. Under the terms of the Act of Pledge, the ECSC deposited with the Bank for International Settlements, as security for borrowings made pursuant to the Act of Pledge, the proceeds of such borrowings or, upon such proceeds being loaned to the Enterprises or other concerns, obligations of the borrowers and collateral securities in respect of such loans. All borrowings since 1960 have been made outside the terms of the Act of Pledge. At March 31, 1976, outstanding borrowings made outside the Act of Pledge were \$3.21 billion. It is the present intention of the ECSC to make no further borrowings under the Act of Pledge.

The ECSC has punctually paid when due the interest and principal payments on its outstanding debt and has never been in default thereon.

The table below sets forth the ECSC's principal and interest obligations through 1990 on its debt outstanding at December 31, 1975 (detailed information on the amortization of such debt, as well as additional debt through March 31, 1976, to maturity is set forth in schedules following *Notes to Financial Statements*):

AMORTIZATION

(in thousands)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
1976	\$ 84,632	\$ 224,526	\$ 309,158
1977	95,741	221,388	317,129
1978	184,706	215,628	400,334
1979	304,582	204,701	509,283
1980	440,714	180,603	621,317
1981-85	1,499,690	417,270	1,916,960
1986-90	242,471	46,155	288,626

Loans and Guaranties by the ECSC. Since its inception the ECSC has granted loans to the Enterprises and other concerns (both from borrowed funds and from its own resources) aggregating \$3.4 billion through December 31, 1975, of which, as a result of repayments by the borrowers, \$2.7 billion was then outstanding. Of this amount, about 26% was guaranteed by the Member States, 25% by banks and 18% by industrial concerns, and 27% was secured by mortgages on the projects financed.

Since the establishment of the ECSC, there have been defaults on 3 loans, totaling \$1.8 million, which is less than 0.1% of the total amount of loans granted by the ECSC. Rescheduling of principal and interest payment dates and delays in the receipt of loan service charges have been insignificant.

Guaranties granted by the ECSC since its inception amounted in the aggregate to \$65.3 million through December 31, 1975, all in favor of the Enterprises, of which \$24.3 million were outstanding at that date. Such guaranties are secured by guaranties to the ECSC from the Member States, industrial concerns or banks or by mortgages on the projects financed. The ECSC has never been required to make payment on a guaranty.

A breakdown of the loans and guaranties outstanding as of December 31, 1975, by types of investment is presented in the following table:

**LOANS AND GUARANTIES OUTSTANDING BY
TYPES OF INVESTMENT**
(in millions)

	Loans	Guaranties	Total of Loans and Guaranties	%
Iron and steel industry	\$1,726.31	\$24.32	\$1,750.63	63.5
Coal mining industries(1)	504.04	—	504.04	18.3
Industrial reconversion	344.87	—	344.87	12.5
Workers' housing	139.76	—	139.76	5.1
Iron ore mines	9.49	—	9.49	0.3
Other	8.35	—	8.35	0.3
Total	<u>\$2,732.82</u>	<u>\$24.32</u>	<u>\$2,757.14</u>	<u>100.0</u>

(1) Including coking plants and thermal power stations.

The following table sets forth a breakdown of the ECSC's loans outstanding by country at the dates indicated:

LOANS OUTSTANDING
(in millions)
December 31,

	1971		1972		1973		1974		1975	
	Amount of Loans	%	Amount of Loans	%	Amount of Loans	%	Amount of Loans	%	Amount of Loans	%
Germany	\$ 508.3	45.4	\$ 552.2	43.3	\$ 750.7	47.4	\$ 901.2	45.8	\$ 988.2	36.2
France	224.8	20.1	294.4	23.1	422.2	26.7	510.6	26.0	615.9	22.5
Italy	195.0	17.4	209.4	16.4	185.3	11.7	239.3	12.2	422.2	15.5
United Kingdom(1)	—	—	—	—	—	—	87.4	4.4	393.4	14.4
Belgium	114.3	10.2	131.5	10.3	129.0	8.1	138.9	7.1	172.8	6.3
Netherlands	70.9	6.3	81.5	6.4	78.6	5.0	70.2	3.6	96.2	3.5
Denmark(1)	—	—	—	—	10.5	0.7	10.9	0.5	36.7	1.3
Luxembourg	6.6	0.6	6.4	0.5	6.7	0.4	7.0	0.4	7.2	0.3
Ireland(1)	—	—	—	—	—	—	—	—	0.2	—
Total	<u>\$1,119.9</u>	<u>100.0</u>	<u>\$1,275.4</u>	<u>100.0</u>	<u>\$1,583.0</u>	<u>100.0</u>	<u>\$1,965.5</u>	<u>100.0</u>	<u>\$2,732.8</u>	<u>100.0</u>

(1) Member State since January 1, 1973.

In March 1976 the ECSC announced a loan of \$288.6 million to British Steel Corporation to finance a new blast furnace and improvements designed to increase the efficiency of its facilities, and a loan of \$28.9 million to the National Coal Board. The British Steel Corporation loan will be disbursed over a four year period commencing in 1976.

Guaranties (which are not included in the above table) aggregating \$24.3 million were outstanding as of December 31, 1975.

Loans granted to assist in industrial reconversions by borrowers to facilitate the productive reemployment of displaced labor represent a significant part of the lending activity of the ECSC. In addition

to the Enterprises, many other industries have benefited from this type of loan, including motor vehicle manufacturing, chemicals, nonferrous metals and industrial parks.

APPLICATION OF PROCEEDS

The proceeds from the sale of the securities offered hereby will be used to make loans to the Enterprises for the purposes set forth in the first paragraph under *Taxing Power and Financial Operations of the ECSC*.

It is expected that the proceeds from the sale of the Notes and the Bonds will be used principally to aid the Enterprises in their financing of the cost of projects for the modernization and improvement of steel and coal production facilities and, with the assent of the Council, to finance a part of the cost of facilities which contribute to the marketing of coal and steel products and of industrial reconversion projects and other activities designed to facilitate the productive reemployment of displaced labor within the ECSC. See *Loans and Guaranties by the ECSC* under *Taxing Power and Financial Operations of the ECSC* above.

DESCRIPTION OF THE NOTES AND THE BONDS

The following is a brief summary of the terms and conditions of the Notes and the Bonds and the Fiscal Agency Agreements with respect thereto, a copy of each of which is filed as an exhibit to the Registration Statement. This summary does not purport to be complete and is qualified in its entirety by reference to such exhibits.

The Notes and the Bonds will each be unconditional, direct, general obligations of the ECSC, for the payment and performance of which the full faith and credit of the ECSC will be pledged. The Notes and the Bonds will rank *pari passu* with each other and with all other bonds, notes and other obligations heretofore or hereafter issued by the ECSC except for those issued pursuant to and secured by the Act of Pledge.

The Notes and the Bonds will each be issued in coupon bearer form, registrable as to principal, in the denomination of \$1,000, and in registered form without coupons in denominations of \$1,000 and multiples thereof. The Chase Manhattan Bank, N.A. (the "Fiscal Agent"), will act as fiscal agent for the ECSC in connection with both the Notes and the Bonds and in accordance with the respective Fiscal Agency Agreement relating thereto. The ECSC maintains deposit accounts and conducts other banking transactions in the ordinary course of business with the Fiscal Agent. The Fiscal Agent is the agent of the ECSC and is not a trustee for the Noteholders or for the Bondholders and does not have the same responsibilities or duties to act for such holders as would a trustee.

Interest will be paid on the Notes and the Bonds at the respective rate set forth on the cover page of this Prospectus, payable semiannually on November 1 and May 1, with the initial payment due on November 1, 1976.

Redemption of the Notes. At any time on and after May 1, 1983, the Notes will be redeemable, in whole or in part, at the option of the ECSC, at the principal amount thereof plus accrued interest, if any, to the redemption date. Each redemption shall be on at least 30 days' notice and, in the event of redemption in part, the Notes to be redeemed will be selected by lot by the Fiscal Agent. No sinking fund will be provided for the Notes. Notice of redemption of the Notes will be published at least once in each of four successive calendar weeks in a daily newspaper printed in the English language and of general circulation in The City and State of New York. Additionally, notice of such redemption will be mailed to holders of registered Notes without coupons and to those holders of coupon bearer Notes who have registered the principal of their Notes, to their last addresses as they appear on the transfer register of the Notes.

Sinking Fund and Redemption of the Bonds. The ECSC will redeem, or in the case of the last instalment pay at maturity, the Bonds in 15 instalments as follows: \$6,665,000 on May 1 in each year 1982

to 1995, both inclusive, and \$6,690,000 on May 1, 1996, in each case at the principal amount thereof together with accrued interest. The ECSC will also have the right, at its option, to redeem on each such May 1, an additional principal amount of Bonds, not exceeding the amount of the mandatory redemption payment for such May 1, at the principal amount thereof together with accrued interest to the redemption date, but such right shall not be cumulative from year to year; any Bonds redeemed as provided in this sentence are to be credited against mandatory redemption payments in the inverse order of such payment obligations. Any Bonds redeemed otherwise than as aforesaid or purchased or otherwise retired by the ECSC may be credited by it, at the principal amount thereof, against any mandatory redemption payment designated by it.

The Bonds will also be redeemable, at the election of the ECSC, as a whole or in part from time to time, on and after May 1, 1988, at the following redemption prices (expressed in percentages of principal amount), together in each case with accrued interest to the redemption date:

If Redeemed During Twelve Months' Period Beginning May 1,	Redemption Price
1988	102.35%
1989	101.88
1990	101.41
1991	100.94
1992	100.47
1993	100.00
1994	100.00
1995	100.00

Each redemption shall be on at least 30 days' notice and, in the event of redemption in part, the Bonds to be redeemed will be selected by lot by the Fiscal Agent. Notice of redemption of the Bonds will be published at least once in each of four successive calendar weeks in a daily newspaper printed in the English language and of general circulation in The City and State of New York. Additionally, notice of such redemption will be mailed to holders of registered Bonds without coupons and to those holders of coupon bearer Bonds who have registered the principal of their Bonds, to their last addresses as they appear on the transfer register of the Bonds.

Covenants. Under each Fiscal Agency Agreement, the ECSC will agree that it will apply the proceeds from the sale of the securities offered hereby and the proceeds from any other borrowing by the ECSC outside the Act of Pledge only for the purposes of making loans in the manner provided in the Treaty or retiring outstanding borrowings by the ECSC outside the Act of Pledge.

The ECSC will also agree to maintain and collect the Levy in such amount as shall be sufficient to meet, in addition to any other payments to be made therefrom, its obligations under the Notes and the Bonds which cannot be paid from other funds of the ECSC and not to create any lien on the revenues from the Levy or accumulated revenues from the Levy (including the Guaranty Fund) or on the proceeds of the sale of such securities, or any other obligations for money borrowed outside the Act of Pledge, or any assets (and any security related to such assets) of the ECSC derived from such proceeds.

The ECSC will also agree not to issue any obligations for money borrowed which are secured by any mortgage, pledge or other priority on any revenues or assets of the ECSC or which shall be entitled to the benefit of any commitment of the ECSC which might require it at any time to secure such obligations (either alone or with other indebtedness) by any such mortgage, pledge or other priority. Such provisions, however, shall not prevent the issue of additional secured bonds and notes pursuant to the terms

of the Act of Pledge or the pledge of or other priority on the assets held or to be held by the depositary thereunder as security for the secured bonds and notes heretofore or hereafter issued pursuant thereto. However, it is the present intention of the ECSC to make no further borrowings under the Act of Pledge.

General. The principal of and interest on the Notes and the principal of, premium, if any, and interest on the Bonds will be payable at the corporate trust office in New York City of the Fiscal Agent, and at such places in Europe as are designated by the ECSC, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts, without deduction for any present or future taxes, fees or other charges levied or imposed by any present or future Member State or any political or taxing subdivision of any Member State.

With the written consent of the holders of not less than 66 $\frac{2}{3}$ % in principal amount of all the Notes or the Bonds, as the case may be, at the time outstanding, the ECSC may modify any of the terms or provisions contained in such securities in any way, provided that (i) if any such modification would change the terms of payment of the principal of or interest on any Note or the principal of, premium, if any, or interest on any Bond or the amount thereof or affect the rights of holders of less than all the Notes or Bonds at the time outstanding, the consent of the holders of all the securities affected thereby is required and (ii) if any such modification would reduce the aforesaid percentage required for authorization of such modification, the consent of the respective holders of all outstanding Notes or Bonds is required.

The ECSC will appoint the Fiscal Agent as its authorized agent in New York City upon which process may be served in actions arising out of or based upon the Notes or the Bonds which may be instituted in any State or Federal court in The City and State of New York by the holder thereof and the ECSC will irrevocably waive any immunity from jurisdiction to which it might otherwise be entitled in any such action. The Notes, the Bonds and the Fiscal Agency Agreements will each provide that it will be governed by and interpreted in accordance with New York law, except with respect to its authorization and execution on behalf of the ECSC and any other matters required to be governed by the laws of the ECSC, and that the jurisdiction of the Court of Justice of the European Communities will extend to any dispute between a holder of Notes or Bonds and the ECSC.

Default. In case of (i) default in any payment of principal of or interest on any of the Notes or principal of, premium, if any, or interest on any of the Bonds and continuance thereof for a period of 30 days, or (ii) default in the performance of any other covenant contained in such securities and continuance thereof for a period of 90 days after written notice thereof shall have been given to the ECSC and the Fiscal Agent by the holders of not less than 25% in principal amount of all the Notes or Bonds, as the case may be, then outstanding, or (iii) default, as defined therein, in any instrument evidencing, securing or protecting any indebtedness of the ECSC, now or hereafter outstanding and maturing more than one year from the date of its creation, and if the maturity of such indebtedness shall have been accelerated so that the same shall have become due and payable prior to the date on which the same would otherwise have become due and payable and such acceleration shall not have been rescinded or annulled, then, in any such case, the principal of all the Notes or the Bonds then outstanding may be declared to be due and payable immediately by written notice given to the ECSC and the Fiscal Agent by the holders of not less than a majority in principal amount thereof then outstanding, but if, before any judgment or decree for the payment of moneys due thereon shall have been entered, all arrears of interest upon all the Notes or the Bonds and all other sums due in respect thereof, except any principal payments which shall not have matured by their terms, shall have been duly paid and all other defaults made good, the holders of not less than a majority in principal amount thereof may rescind any such declaration.

It should be noted that the Fiscal Agency Agreements do not contain any provisions whereby the holders of the Notes or the Bonds will be notified of any default. The Note register and the Bond register will be open for examination and copying by any holder of Notes or Bonds, as the case may be, during regular business hours. However, since a substantial portion of the Notes and the Bonds may be held in bearer form, newspaper publication, in addition to mailing, may be necessary to contact other Noteholders or Bondholders for purposes of declaring a default.

Taxation. As regards United States taxation, in the opinion of Messrs. Cravath, Swaine & Moore, special counsel for the ECSC, interest on the securities offered hereby is currently exempt from United States income taxes, including withholding taxes, if paid to an individual who is not a citizen or resident of the United States, or to a corporation organized under the laws of a country other than the United States, whether or not such individual or corporation is engaged in trade or business in the United States, unless

(i) the corporation is a life insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the United States Internal Revenue Code, or

(ii) the individual or corporation has an office or other fixed place of business in the United States to which the interest is attributable, the interest is derived in the active conduct of a banking, financing or similar business or is received by a corporation the principal business of which is trading in stock or securities for its own account, and certain other conditions exist.

LEGAL OPINIONS

Legal matters relating to the securities offered hereby will be passed upon for the ECSC by Mario P. Cervino, a Legal Officer of the Commission, and Messrs. Cravath, Swaine & Moore, New York, N. Y., special counsel for the ECSC, and for the Underwriters by Messrs. Sullivan & Cromwell, New York, N. Y. All statements in the Prospectus with respect to the Treaty have been passed upon by Mr. Cervino and are included upon his authority.

UNDERWRITING

The Underwriters named below have severally agreed to purchase, and the ECSC has agreed to sell to them, severally, the respective principal amounts of Notes and Bonds indicated below. The principal amounts of Bonds indicated below are subject to reduction as described below under *Delayed Delivery Arrangements*. The Purchase Agreement provides that the several obligations of the Underwriters are subject to certain conditions as therein set forth. The Underwriters will be obligated to purchase all the Notes, and all the Bonds not covered by contracts referred to under *Delayed Delivery Arrangements*, if any Notes or Bonds are purchased. Kuhn, Loeb & Co., The First Boston Corporation, Lazard Frères & Co. and Warburg Paribas Becker Inc. are the Representatives of the Underwriters.

<u>Name of Underwriter</u>	<u>Principal Amount of Notes</u>	<u>Principal Amount of Bonds</u>
Kuhn, Loeb & Co.	\$ 5,300,000	\$7,425,000
The First Boston Corporation	5,300,000	7,425,000
Lazard Frères & Co.	5,300,000	7,425,000
Warburg Paribas Becker Inc.	5,300,000	7,425,000
ABD Securities Corporation	1,000,000	1,300,000
Arnhold and S. Bleichroeder, Inc.	1,000,000	1,300,000
Bache Halsey Stuart Inc.	1,600,000	2,100,000
Banca Commerciale Italiana	1,000,000	1,300,000
Banca Nazionale del Lavoro	1,000,000	1,300,000
Banque Générale du Luxembourg S. A.	1,000,000	1,300,000
Banque Internationale à Luxembourg S. A.	1,000,000	1,300,000
Basle Securities Corporation	1,000,000	1,300,000
Bear, Stearns & Co.	1,000,000	1,300,000
Blyth Eastman Dillon & Co. Incorporated	1,600,000	2,100,000
Alex. Brown & Sons	1,000,000	1,300,000
Daiwa Securities America Inc.	1,000,000	1,300,000
Dillon, Read & Co. Inc.	1,600,000	2,100,000
Drexel Burnham & Co. Incorporated	1,600,000	2,100,000
EuroPartners Securities Corporation	1,000,000	1,300,000
Goldman, Sachs & Co.	1,600,000	2,100,000
Hornblower & Weeks-Hemphill, Noyes Incorporated	1,600,000	2,100,000
E. F. Hutton & Company Inc.	1,600,000	2,100,000
Kidder, Peabody & Co. Incorporated	1,600,000	2,100,000
Kredietbank S. A. Luxembourgeoise	1,000,000	1,300,000
Lazard Frères et Cie.	1,000,000	1,300,000
Lehman Brothers Incorporated	1,600,000	2,100,000
Loeb, Rhoades & Co.	1,600,000	2,100,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	1,600,000	2,100,000
Moseley, Hallgarten & Estabrook Inc.	1,000,000	1,300,000
New Court Securities Corporation	1,000,000	1,300,000
Paine, Webber, Jackson & Curtis Incorporated	1,600,000	2,100,000
Wm. E. Pollock & Co., Inc.	1,000,000	1,300,000
Reynolds Securities Inc.	1,600,000	2,100,000
L. F. Rothschild & Co.	1,000,000	1,300,000
Salomon Brothers	1,600,000	2,100,000
Shields Model Roland Securities Incorporated	1,000,000	1,300,000
Smith Barney, Harris Upham & Co. Incorporated	1,600,000	2,100,000
SoGen-Swiss International Corporation	1,000,000	1,300,000
Thomson & McKinnon Auchincloss Kohlmeier Inc.	1,000,000	1,300,000
Spencer Trask & Co. Incorporated	1,000,000	1,300,000
Tucker, Anthony & R. L. Day, Inc.	1,000,000	1,300,000
UBS-DB Corporation	1,000,000	1,300,000
Weeden & Co. Incorporated	1,000,000	1,300,000
Wertheim & Co., Inc.	1,600,000	2,100,000
White, Weld & Co. Incorporated	1,600,000	2,100,000
Dean Witter & Co. Incorporated	1,600,000	2,100,000
Wood, Struthers & Winthrop Inc.	1,000,000	1,300,000
Total	<u>\$75,000,000</u>	<u>\$100,000,000</u>

The ECSC has been advised by the Representatives that the Underwriters propose to offer the Notes and the Bonds to the public initially at the offering prices set forth on the cover of this Prospectus and to certain dealers at such prices less a selling concession of, in the case of Notes, 0.50% of the principal amount thereof, and, in the case of Bonds, 0.70% of the principal amount thereof; that the Underwriters may allow, and each such dealer may reallow to other dealers, a concession not exceeding, in the case of Notes, 0.25% of the principal amount thereof, and, in the case of Bonds, 0.25% of the principal amount thereof; and that, after the initial public offering, such public prices and such concessions and reallowances may be changed.

DELAYED DELIVERY ARRANGEMENTS

The ECSC has authorized the Underwriters to solicit offers by certain institutions to purchase Bonds from the ECSC, at the offering price set forth on the cover of this Prospectus, pursuant to Delayed Delivery Contracts providing for payment and delivery on November 4, 1976, or such other date or dates as the ECSC shall approve. Such Contracts are to be with institutions and in amounts approved by the ECSC but not in excess of \$20,000,000 aggregate principal amount, and each such Contract must be for a minimum of \$250,000 principal amount of Bonds.

Institutions with which Delayed Delivery Contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions, and such other institutions as may be approved by the ECSC. The Underwriters will receive from the ECSC, at the time of delivery to the Underwriters of the Bonds to be purchased by them, a fee of 1.25% of the aggregate principal amount of the Bonds contracted to be sold pursuant to Delayed Delivery Contracts. Delayed Delivery Contracts will not be subject to any conditions, except that (1) the purchase by an institution of the Bonds covered by its Delayed Delivery Contract shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such institution is subject, and (2) the sale of Notes and Bonds to Underwriters pursuant to the Purchase Agreement shall have been completed. The Underwriters will not have any responsibility in respect of the validity or performance of Delayed Delivery Contracts.

The principal amount of Bonds to be purchased by each Underwriter shall be reduced by an allocable part of the Bonds contracted to be sold pursuant to Delayed Delivery Contracts, except as otherwise provided in the Agreement Among Underwriters relating to the purchase and sale of Bonds. The Underwriters may allow to dealers a commission of 0.70% of the principal amount of Bonds for which Delayed Delivery Contracts entered into by the ECSC are arranged by such dealers through the Representatives.

EUROPEAN COAL AND STEEL COMMUNITY

BALANCE SHEET

December 31, 1975

(in Units of Account—See Note 1)

A S S E T S

Loans from Borrowed Funds (Note 2)

(a) Disbursed:		
In US dollars	864,298,709	
In German marks	492,109,893	
In Swiss francs	245,545,294	
In French francs	147,395,212	
In Luxembourg francs	131,341,263	
In Italian lire	131,318,021	
In Belgian francs	102,650,856	
In Dutch guilders	50,279,126	
Other (Note 3)	<u>79,727,354</u>	
	2,244,665,728	
(b) Undisbursed balances:		
In German marks	27,015	
In US dollars	107,270,356	
In Italian lire	<u>39,157,392</u>	
	146,454,763	2,391,120,491

Additional Loans (Note 4)

(a) From Special Fund (for housing projects)	97,878,561	
From Special Fund (for reconversion)	0	
	<u>97,878,561</u>	
(b) Other:		
From allocation for readaptation	356,701	
From allocation for research	2,304,662	
From other funds	<u>12,646,188</u>	
	15,307,551	113,186,112

Cash and Other Current Items

(a) Cash and due from banks (Note 5)	269,897,311	
(b) Other receivables from banks (Note 6)	<u>30,438,823</u>	300,336,134

Investment Securities (at cost; 71,031,363 at market)
(Note 7) 70,425,943

Provision For Coupons And Bonds Due But Not Yet
Presented 48,908,429

Interest Receivable But Not Yet Due 59,461,075

Recoverable Issuing Costs 36,719,250

Other Assets 14,391,077

Fixed Assets 1

3,034,548,512

Per Contra:

Enterprise Liabilities under Guaranties (Note 8)	20,875,494
Due on Debentures (Note 9)	65,499,415

EUROPEAN COAL AND STEEL COMMUNITY

BALANCE SHEET

December 31, 1975

(in Units of Account—See Note 1)

LIABILITIES

Borrowings (Note 10)		
In US dollars	971,569,065	
In German marks	492,136,908	
In Swiss francs	245,545,294	
In Italian lire	170,475,413	
In French francs	147,395,212	
In Luxembourg francs	131,341,263	
In Belgian francs	102,650,856	
In Dutch guilders	50,279,126	
Other (Note 3)	79,727,354	2,391,120,491
<hr/>		
Premiums Due on Repayments		
In French francs	1,939,726	
In Belgian francs	27,138	1,966,864
<hr/>		
Reserves		
(a) Guaranty Fund	150,000,000	
(b) Special Fund (for housing projects and reconversion) (Note 4)	103,000,000	
(c) Former Pension Fund	36,679,361	289,679,361
<hr/>		
Allocations from Revenues		
(a) Financial Aid		
1) For readaptation		
—commitments entered into for outright grants	118,966,699	
2) For technical and economic research		
—commitments entered into for outright grants	47,539,820	
3) Assistance for industrial redevelopment and reconversion	9,513,155	
4) Assistance for industrial loans	8,356,206	
5) For coke	6,331,372	
	<hr/>	
	190,707,252	
(b) Other	12,502,000	
(c) Contracted but not yet paid	15,002,693	
(d) Operating budget	14,000,000	232,211,945
<hr/>		
Interest and Commissions Payable But Not Yet Due		70,540,687
Coupons and Bonds Due But Not Yet Presented		48,907,820
Other Liabilities		120,739
Unallocated Revenues		605
		<hr/>
		<u>3,034,548,512</u>
Per Contra:		
Liabilities under Guaranties (Note 8)	20,875,494	
Debentures payable (Note 9)	65,499,415	

EUROPEAN COAL AND STEEL COMMUNITY

SUMMARY OF EXPENDITURES AND REVENUES

(in thousands of Units of Account—See Note 1)

	Fiscal Year Ended December 31,				
	1971	1972	1973	1974	1975
Revenues					
<i>Interest Received:</i>					
On loans from borrowed funds	43,579	50,799	64,575	84,588	133,328
On undisbursed loan funds	2,942	3,081	3,469	12,804	10,417
On loans from funds not borrowed	1,043	1,346	1,445	1,462	1,490
Guaranty fees	130	122	113	116	103
Miscellaneous	3,462	4,663	5,195	5,806	7,615
<i>Total Revenues from Loans</i>	<u>51,156</u>	<u>60,011</u>	<u>74,797</u>	<u>104,776</u>	<u>152,953</u>
<i>Levy: (Note 11)</i>					
German enterprises	17,184	21,045	21,957	24,641	23,913
Belgian enterprises	3,990	5,454	5,495	6,165	5,608
British enterprises	—	—	14,488	13,333	14,682
Danish enterprises	—	—	150	191	247
French enterprises	7,835	9,501	9,499	11,327	11,169
Irish enterprises	—	—	40	43	36
Italian enterprises	5,669	7,417	7,442	9,709	10,163
Luxembourg enterprises	1,359	1,658	1,799	2,180	2,910
Dutch enterprises	1,739	2,134	2,024	1,999	2,371
<i>Total Levy</i>	<u>37,776</u>	<u>47,209</u>	<u>62,894</u>	<u>69,588</u>	<u>70,199</u>
<i>Other Revenues:</i>					
Interest on deposits and investments	13,156	11,689	17,228	31,388	26,803
Miscellaneous	95	291	877	133	474
Contributions from New Member States (Note 12)	—	—	19,238	15,913	13,848
<i>Total Other Revenues</i>	<u>13,251</u>	<u>11,980</u>	<u>37,343</u>	<u>47,434</u>	<u>41,125</u>
Total Revenues	<u>102,183</u>	<u>119,200</u>	<u>175,034</u>	<u>221,798</u>	<u>264,277</u>
Expenditures					
<i>Interest and Fees:</i>					
Interest	44,902	53,178	66,615	93,733	140,880
Fees to Depositary and Agent Banks	921	951	1,579	1,197	1,422
Amortization of recoverable issuing costs ...	1,600	3,051	11,061	1,800	3,467
Miscellaneous	419	422	312	287	331
<i>Total Interest and Fees</i>	<u>47,842</u>	<u>57,602</u>	<u>79,567</u>	<u>97,017</u>	<u>146,100</u>
<i>Other:</i>					
Administrative expenses	18,000	18,000	18,000	18,497	16,541
Financial expenses	285	279	456	834	297
Expenses for research	11,230	11,639	11,670	19,313	19,694
Expenses for readaptation	15,363	14,518	5,082	9,525	27,844
Miscellaneous	4,881	5,014	5,290	9,855	11,601
<i>Total Other Expenditures</i>	<u>49,759</u>	<u>49,450</u>	<u>40,498</u>	<u>58,024</u>	<u>75,977</u>
Total Expenditures	<u>97,601</u>	<u>107,052</u>	<u>120,065</u>	<u>155,041</u>	<u>222,077</u>
Excess of Revenues over Expenditures	4,582	12,148	54,969	66,757	42,200
Exchange Differences (Note 1(B))	454	(1,570)	6,536	(24,656)	34,423
Net Excess of Revenues over Expenditures	<u>5,036</u>	<u>10,618</u>	<u>61,505</u>	<u>42,101</u>	<u>76,623</u>

SUMMARY OF EXPENDITURES AND REVENUES—(Continued)

(in thousands of Units of Account—See Note 1)

	Fiscal Year Ended December 31,				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Allocations					
To Guaranty Fund	—	—	12,000	8,000	30,000
To Special Fund (for housing projects and reversion)	2,000	—	3,000	—	13,000
For readaptation	(1,867)	666	38,898	16,599	(4,248)
For technical and economic research ...	1,707	3,143	(5,619)	2,248	24,714
Others	2,599	7,342	12,911	15,734	13,172
Total Allocations	<u>4,439</u>	<u>11,151</u>	<u>61,190</u>	<u>42,581</u>	<u>76,638</u>
Unallocated Balance for each Period	597	(533)	315	(480)	(15)
Brought forward from previous periods ..	117	714	181	496	(16)
Total Unallocated Balance	<u>714</u>	<u>181</u>	<u>496</u>	<u>16</u>	<u>1</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES.

(A) *Unit of Account used for Translation of Currencies.* Since its formation, the ECSC has used its UA as a convenient unit of measure for translating the various currencies with which it deals into one common monetary denominator. Prior to December 31, 1973, conversion between the UA and the currencies of the Member States and other countries was based on their official gold content as defined by the International Monetary Fund parity rates of exchange. As a result of a number of events including the suspension by the United States of the convertibility of the dollar into gold, various international agreements relating to fluctuations in exchange rates of national currencies of various countries, including the United States and the Member States, and several devaluations of the dollar commencing on May 8, 1972, the ECSC decided, effective December 31, 1973, to update annually the value of the UA used in ECSC accounts and to base the value of the UA for such purpose on a system more reflective of current market rates for national currencies. From December 31, 1973, through December 30, 1975, conversion rates were based on the following formula: for the currencies of the Member States still within the relative exchange rates of the Basle Agreement of April 24, 1972, currently the Federal Republic of Germany, Belgium, the Netherlands, Luxembourg and Denmark, the exchange rates used were the official exchange rates (central rate) of those countries in effect on such date; for the currency of each country not within the Basle Agreement, the Commission calculated a hypothetical central rate equal to the average amount of such currency (based on actual exchange rates quoted on such date) required to buy the equivalent of one UA of each of the currencies of the Member States remaining within the Basle Agreement. The ECSC's formula described above was used for determining the value of the UA for purposes of preparing the Summary of Expenditures and Revenues for the year ended December 31, 1975.

The Commission has recently adopted a new formula for conversion between the UA and currencies of the Member States and others for all purposes by the Communities and their agencies, which the ECSC used in preparing its Balance Sheet as at December 31, 1975, and will use in preparing its Summary of Expenditures and Revenues for the year ended December 31, 1976. Under the new formula the value of the UA is based entirely upon daily market exchange rates. The value of the UA is equal to the sum of the following amounts of the Member States' currencies:

Belgian francs	3.66	Irish pounds	0.00759
Danish crowns	0.217	Italian lire	109
Dutch guilders	0.286	Luxembourg francs	0.14
French francs	1.15	United Kingdom pounds	0.0885
German marks	0.828		

This "basket" was so composed that on June 28, 1974, its value would have been equivalent to that of the IMF's Special Drawing Right. The value of the UA is determined by the Commission of the ECSC by converting the above amounts of currencies into Belgian francs on the Brussels market at the rates of exchange then in effect. In order to determine the equivalent value of the UA in terms of currencies other than the Belgian franc, the resulting value of the UA in Belgian francs is then converted into such other currencies at then prevailing rates. The following rates were used for drawing up the Balance Sheet at December 31, 1975:

46.0606	Belgian francs	0.575039	Irish pounds
7.19697	Danish crowns	797.769	Italian lire
3.13120	Dutch guilders	46.0606	Luxembourg francs
5.21981	French francs	0.575973	United Kingdom pounds
3.05382	German marks	1.16528	United States dollars

NOTES TO FINANCIAL STATEMENTS—(Continued)

The following table shows, for each of the currencies listed, the equivalent of UA 1 for each period set forth.

	From 10/26/ 1969 Until 5/9/1972	From 5/10/ 1972 Until 10/17/1973	From 10/18/ 1973 Until 12/30/1973	From 12/31/ 1973 Until 12/30/1974	From 12/31/ 1974 Until 12/30/1975	At 12/31/ 1975
Belgian francs	50	50	50	48.6572	48.6572	46.0606
Danish crowns	7.50	7.50	7.50	7.57831	7.57831	7.19697
Dutch guilders	3.62	3.62	3.62	3.35507	3.35507	3.13120
French francs	5.55419	5.55419	5.55419	5.55419	5.97402	5.21981
German marks	3.66	3.66	3.66	3.21978	3.21978	3.05382
Irish pounds	0.41666	0.41666	0.41666	0.51165	0.572465	0.575039
Italian lire	625	625	625	727.640	872.885	797.769
Luxembourg francs ..	50	50	50	48.6572	48.6572	46.0606
Swiss francs	4.37282	4.0841	4.0841	3.85221	3.37685	3.05239
United Kingdom pounds	0.41666	0.41666	0.41666	0.51165	0.572465	0.575973
U. S. dollars	1	1.08571	1.18643	1.18643	1.34286	1.16528

As of March 31, 1976, UA 1 = 46.2149 Belgian francs; 6.84758 Danish crowns; 3.02710 Dutch guilders; 5.25740 French francs; 2.85778 German marks; 0.587174 Irish pounds; 946.666 Italian lire; 46.2149 Luxembourg francs; 2.85404 Swiss francs; 0.587723 United Kingdom pounds; and 1.12623 U. S. dollars.

(B) *Exchange Differences.* Exchange Differences shown on the Summary of Expenditures and Revenues through December 31, 1974, constitute principally the net gain or loss resulting from changes in the parity rates of exchange of various currencies held by the ECSC in each year. Exchange Differences for 1975 reflect principally the change in the new conversion formula for the UA adopted effective December 31, 1975, as applied to the net assets in national currencies as shown on the Balance Sheet.

(C) *Allocations from Revenues.* The Commission at the end of each fiscal year allocates, in its sole discretion, the unallocated balance for such year among certain reserves, including the Guaranty Fund (established as a readily available reserve for borrowings by the ECSC) and the Special Fund (for housing projects and reconversions), and allocations for readaptations of industrial enterprises and for technical and economic research in accordance with the provisions of the Treaty establishing the ECSC.

(D) *Miscellaneous.* Fixed assets, including real properties owned in Paris and London, and personal property, are written off in the year of acquisition. Real property in Washington, D. C., was written off over a period of 3 years.

Recoverable issuing costs and premiums due on repayments are recovered in annual instalments throughout the terms of the respective loans.

No provision other than the Guaranty Fund is made for losses on loans as none is considered necessary.

The ECSC follows the accrual method of accounting with respect to collections of the Levy, interest and other revenues and expenses.

The ECSC's obligations for pensions to its employees were assumed by the Member States as of March 5, 1968. The reserve account created prior to such date remains unliquidated but may be disposed of in the discretion of the Commission.

NOTES TO FINANCIAL STATEMENTS—(Continued)

NOTE 2—ANALYSIS OF LOANS OUTSTANDING AT DECEMBER 31, 1975:

<u>Countries in Which Loans Have Been Granted and Disbursed (A) (B)</u>	<u>Number of Loans</u>	<u>Amount (in thousands)</u>	<u>%</u>
Germany	381	UA 848,038,118	36.2
France	210	528,657,953	22.5
Italy	112	362,340,174	15.5
United Kingdom	48	337,406,232	14.4
Belgium	80	148,332,576	6.3
Netherlands	74	82,564,019	3.5
Denmark	6	31,523,200	1.3
Luxembourg	14	6,176,434	0.3
Ireland	1	166,945	--
Other	926	12,646,189	100.0
Total		<u>UA 2,357,851,840*</u>	

*Includes amounts, to the extent disbursed, of loans from borrowed funds and of additional loans.

(A) Currencies in which loans are repayable:

Currencies of the Member States	UA 1,168,280,483
Option of holder as among various currencies ...	79,727,354
Other currencies	1,109,844,003
Total	<u>UA 2,357,851,840</u>

(B) Breakdown of loans at December 31, 1975, by principal form of guarantee:

Loans guaranteed by Member States	UA 622,686,887
Loans guaranteed by industrial concerns	421,072,560
Loans guaranteed by banks	587,752,371
Loans secured by mortgages on the projects financed	634,726,604
Miscellaneous	91,613,418
Total	<u>UA 2,357,851,840</u>

NOTE 3—OTHER LOANS AND BORROWINGS.

Of this amount, UA 59,924,950 was borrowed and loaned under arrangements whereby the holder may request payment of principal and interest in any one of the currencies of the six Original Members at rates of exchange fixed at the time the loan was incurred. The balance, UA 19,802,404, was borrowed and loaned under arrangements whereby the holder may request such payment in any one of the currencies of the 17 members of the former European Payments Union, now dissolved, but the reference values of such currencies may be changed under certain conditions.

NOTES TO FINANCIAL STATEMENTS—(Continued)

NOTE 4—ADDITIONAL LOANS.

The terms of the loans for housing projects vary between 20 and 25 years and the terms of all other Additional Loans vary between 10 and 20 years. The majority of such loans are repayable in equal instalments starting in the sixth year. Of the UA 103,000,000 shown as Reserves—Special Fund (for housing projects and reconversion), UA 97,878,560 have been loaned to third parties and UA 5,121,440 are available for further loans for such purposes.

NOTE 5—CASH AND DUE FROM BANKS.

This amount represents cash, demand deposits with banks and short and medium term deposits which may be called without notice.

NOTE 6—OTHER RECEIVABLES FROM BANKS.

Other receivables include:

ECSC bonds at cost	UA 26,588,198
Bank bills at cost	3,850,625
	UA 30,438,823

The breakdown, according to maturity, is as follows:

Not exceeding 1 year	UA 20,394,353
Exceeding 1 year but less than 2 years	5,273,495
Exceeding 2 years but less than 3 years	4,770,975
	UA 30,438,823

NOTE 7—INVESTMENT SECURITIES.

Investment securities include:

Government notes and bonds at cost	UA 33,805,565
Bank bills at cost	35,343,557
Commercial bills at cost	1,276,820
	UA 70,425,942

All such investments have maturities exceeding three years.

NOTE 8—GUARANTIES.

The ECSC has guaranteed loans made by others to various coal and steel Enterprises; such guaranties are secured by guaranties to the ECSC from Member States, industrial concerns or banks or by mortgages on the projects financed.

NOTE 9—DUE ON DEBENTURES AND DEBENTURES PAYABLE.

This amount represents borrowings for which agreements had been signed by the ECSC prior to December 31, 1975, but for which no funds had been transferred to the ECSC at that date.

NOTES TO FINANCIAL STATEMENTS—(Continued)

NOTE 10—STATEMENT OF FUNDED DEBT AT DECEMBER 31, 1975:

	Borrowings at December 31, 1974	Operations During Financial Year		Borrowings at December 31, 1975		
		Borrowings	Repayments	Amount	Rate of Interest (Weighted Averages)	Due Dates
German marks	UA 416,680,835	UA 98,892,535	UA 23,436,462	UA 492,136,908	7.51	76/88
French francs	125,244,023	23,947,232	1,796,043	147,395,212	7.75	76/91
Italian lire	139,138,020	37,604,871	6,267,478	170,475,413	7.22	76/89
Luxembourg francs ..	119,058,598	13,026,317	743,652	131,341,263	7.35	76/88
Belgian francs	72,519,246	32,565,794	2,434,184	102,650,856	7.65	76/90
Dutch guilders	27,795,094	25,549,310	3,065,278	50,279,126	6.90	76/93
U. S. dollars	663,402,787	326,101,881	17,935,603	971,569,065	8.55	76/88
Swiss francs	140,381,800	108,112,004	2,948,510	245,545,294	7.55	76/90
Other	81,466,754	—	1,739,400	79,727,354	7.44	76/86
Total	UA 1,785,687,157	UA 665,799,944	UA 60,366,610	UA 2,391,120,491	7.91	

NOTE 11—LEVY RATE.

The Levy rate was 0.30% from 1970 through 1971 and has been 0.29% since January 1, 1972.

NOTE 12—CONTRIBUTIONS FROM NEW MEMBER STATES.

Effective January 1, 1973, Denmark, Ireland and the United Kingdom became members of the ECSC. Accordingly, revenues from the Levy increased substantially in 1973 as compared to previous years because the value of the coal and steel production of the New Members became subject thereto for the first time. The New Members agreed to make additional contributions totaling UA 57,713,000 in three equal annual instalments to the ECSC reflecting the reserves and allocations from revenues of the ECSC at the time of their accession.

ACCOUNTS

The fiscal year of the ECSC runs from January 1 to December 31.

The Council appoints, for a three year term, an Auditor whose mandate may be renewed. Under the Treaty, the Auditor performs his duties entirely separately from the other institutions of the ECSC and may not hold any other office with the Commission except that he is a member of the Commission's Audit Board. Under the Treaty the Auditor is required to prepare an annual report stating whether the accounting and financial management of the Commission have been effected in a regular manner, but the report is not required to cover administrative expenditures of the Commission or certain taxes levied for the benefit of the ECSC upon the compensation of its employees. The report must be completed not later than six months after the close of the financial year of the ECSC to which it refers.

P. Gaudy, the Auditor of the ECSC, has reviewed the financial statements of the ECSC as set forth in the following certificate:

CERTIFICATE OF AUDITOR OF THE ECSC

I have reviewed the accompanying Balance Sheet dated as of December 31, 1975, including the explanatory notes, and the Summary of Expenditures and Revenues for the five years ending that date, of the ECSC which are maintained in UA, as defined therein. In my capacity as Auditor of the ECSC, duly appointed pursuant to the Treaty, and in accordance with my functions under the Treaty, I have examined the accounts and records of the Commission and have made such further investigations as I considered necessary.

As explained in Note 1, the ECSC decided, effective December 31, 1973, to update annually the value of the UA used in the ECSC financial statements. Such annually revised rates have been applied in the preparation of the statements for that date and through December 30, 1975; in years prior to December 31, 1973, the accounts were expressed in the UA based on the official gold content of the various currencies as defined by the International Monetary Fund parity rates of exchange. As also explained in Note 1, the ECSC adopted, effective December 31, 1975, a new formula for conversion between the UA and the various currencies. Such formula has been applied in the preparation of the Balance Sheet for that date.

In my opinion, the statements present fairly and on a consistent basis (except for the changes, with which I concur, in the definition of the UA described above) the financial position and the results of operations of the ECSC for the periods described.

My examination was not comparable to an "audit", and I am not an "independent certified public accountant", as such terms are, I believe, generally understood in the United States.

P. GAUDY
P. Gaudy
Auditor

Luxembourg, April 28, 1976.

EUROPEAN COAL AND STEEL COMMUNITY

SCHEDULE OF BORROWINGS

December 31, 1975

Year of issue	Interest %	Term (years)	Initial Amount		Amount Outstanding as of December 31, 1975, in Equivalent of U.S. \$(1)
			In Currency of the Loan	In Equivalent of U.S. \$(1)	
1954	3 7/8	25	U.S.S. 100,000,000	100,000,000	25,000,000
1958	5	20	35,000,000	35,000,000	7,400,000
1960	5 1/8	20	25,000,000	25,000,000	8,500,000
1962	5 1/4	20	25,000,000	25,000,000	11,800,000
1964	5 1/4	20	30,000,000	30,000,000	18,000,000
1966	6 1/2	20	15,000,000	15,000,000	11,000,000
1966	6 1/2	20	20,000,000	20,000,000	14,600,000
1967	6 1/2	20	25,000,000	25,000,000	19,900,000
1967	6 3/8	20	20,000,000	20,000,000	15,950,000
1971	7 1/4	15	20,000,000	20,000,000	20,000,000
1973	7	15	30,000,000	30,000,000	30,000,000
1974	7 1/4	15	50,000,000	50,000,000	50,000,000
1974	8 1/4	5	20,000,000	20,000,000	20,000,000
1974	9 1/4	8	100,000,000	100,000,000	100,000,000
1974	9 1/2	10	100,000,000	100,000,000	100,000,000
1974	10	10	200,000,000	200,000,000	200,000,000
1974	8 3/4	5	100,000,000	100,000,000	100,000,000
1975	8 3/8	8	150,000,000	150,000,000	150,000,000
1975	8 3/4	7	50,000,000	50,000,000	50,000,000
1975	9 1/4	5	30,000,000	30,000,000	30,000,000
1975	9 1/4	7	25,000,000	25,000,000	25,000,000
1975	8 7/8	5	125,000,000	125,000,000	125,000,000
				<u>1,295,000,000</u>	<u>1,132,150,000</u>
1955	3 3/4	25	DM 50,000,000	19,079,055	4,728,782
1957	4 1/4	20	2,977,450	1,155,139	154,515
1964	5 3/4	12	100,000,000	38,158,110	4,578,973
1964	5 1/2	15	100,000,000	38,158,110	12,821,125
1964	5 3/4	12	30,000,000	11,447,433	1,144,743
1965	5 1/2	18	150,000,000	57,237,165	35,296,252
1968	6 1/2-6 7/8	10	120,000,000	45,789,732	17,171,150
1968	6 1/4	13	60,000,000	22,894,866	13,736,920
1969	6 1/4	15	40,000,000	15,263,244	13,736,920
1969	6 1/2	13	50,000,000	19,079,055	13,395,339
1969	6 3/4	15	50,000,000	19,079,055	17,171,149
1971	7 1/2	15	100,000,000	38,158,110	38,158,110
1972	6 1/2	15	100,000,000	38,158,110	38,158,110
1972	7	15	150,000,000	57,237,165	57,237,165
1973	6 1/2	15	150,000,000	57,237,165	57,237,165
1973	7 3/4	15	100,000,000	38,158,110	38,158,110
1974	10	5	20,000,000	7,631,622	7,631,622
1974	10	5	30,000,000	11,447,433	11,447,433
1974	10	7	50,000,000	19,079,055	19,079,055
1974	9 3/4	7	150,000,000	57,237,165	57,237,165
1975	8 1/2	10	56,000,000	21,368,542	21,368,542
1975	8 1/2	7	20,000,000	7,631,622	7,631,622
1975	8 1/2	10	150,000,000	57,237,165	57,237,165
1975	8 1/2	5	16,000,000	6,105,298	6,105,298
1975	8	5	0,000,000	22,894,866	22,894,866
				<u>726,903,392</u>	<u>573,477,296</u>
1964	5	20	FFr. 150,000,000	33,486,276	18,836,030
1971	8 1/2	18	150,000,000	33,486,276	33,486,276
1972	7 1/4	15	150,000,000	33,486,276	33,486,276
1972	7 1/2	15	60,000,000	13,394,510	13,394,510
1973	7	7	50,000,000	11,162,092	11,162,092
1973	7 1/2	18	150,000,000	33,486,276	33,486,276
1975	10	7	125,000,000	27,905,230	27,905,230
				<u>186,406,936</u>	<u>171,756,690</u>
1963	5 1/2	20	Lire 15,000,000,000	21,910,102	11,685,388
1966	6	20	15,000,000,000	21,910,102	16,067,408
1966	6	20	15,000,000,000	21,910,102	16,067,408
1968	6	20	15,000,000,000	21,910,102	18,988,755
1968	6	20	15,000,000,000	21,910,102	18,988,755
1972	7	15	20,000,000,000	29,213,469	29,213,469
1972	7	15	20,000,000,000	29,213,469	29,213,469
1974	7	15	10,000,000,000	14,606,735	14,606,735
1975	10	8	30,000,000,000	43,820,204	43,820,204
				<u>226,404,387</u>	<u>198,651,591</u>

EUROPEAN COAL AND STEEL COMMUNITY

SCHEDULE OF BORROWINGS—(Continued)

December 31, 1975

Year of issue	Interest %	Term (year)	Initial Amount		Amount Outstanding as of December 31, 1975, in Equivalent of U.S. \$(1)
			In Currency of the Loan	In Equivalent of U.S. \$(1)	
1961	4½	20	Fl. 50,000,000	18,607,563	7,387,207
1962	4¾	25	6,000,000	2,232,907	1,071,796
1962	4¾	20	25,000,000	9,303,781	4,391,385
1963	4¾	30	1,750,000	651,265	392,247
1964	5¾	20	25,000,000	9,303,781	5,619,484
1965	5¾	20	40,000,000	14,886,050	9,955,046
1975	8½	15	60,000,000	22,329,075	22,329,075
1975	8¾	10	20,000,000	7,443,025	7,443,025
				<u>84,757,447</u>	<u>58,589,260</u>
1957	3½	25	BFr. 200,000,000	5,059,769	912,593
1957	3½	25	20,000,000	505,977	191,259
1962	5¼	20	300,000,000	7,589,654	3,718,930
1963	5½	20	300,000,000	7,589,654	4,250,206
1968	6¾	15	750,000,000	18,974,134	15,938,273
1970	8¾	20	500,000,000	12,649,423	12,649,423
1971	7¾	15	700,000,000	17,709,192	17,709,192
1973	7¾	12	1,000,000,000	25,298,845	25,298,845
1975	8¾	10	1,500,000,000	37,948,268	37,948,268
				<u>133,249,16</u>	<u>118,616,989</u>
1957	5¼	25	LFr. 100,000,000	2,298,885	1,163,891
1961	5¼	25	100,000,000	2,298,885	1,653,508
1961	5	25	100,000,000	2,509,885	1,639,031
1962	4¾	15	300,000,000	7,589,653	1,517,931
1962	5¾	25	250,000,000	6,324,711	4,389,499
1964	5¾	20	150,000,000	3,794,827	2,276,896
1971	6½	8	150,000,000	3,794,827	3,794,827
1971	7	15	250,000,000	6,324,711	6,324,711
1971	7¾	12	300,000,000	7,589,653	7,589,653
1972	6¾	12	300,000,000	7,589,653	7,589,653
1972	6¾	15	400,000,000	10,119,538	10,119,538
1972	6¾	16	300,000,000	7,589,653	7,589,653
1973	7	12	800,000,000	20,239,076	20,239,076
1973	7	15	800,000,000	20,239,076	20,239,076
1973	8	12	300,000,000	7,589,653	7,589,653
1973	8	12	200,000,000	5,059,769	5,059,769
1973	7¼	15	500,000,000	12,649,423	12,649,423
1973	7½	8	250,000,000	6,324,711	6,324,711
1974	10	7	400,000,000	10,119,538	10,119,538
1975	9	10	500,000,000	12,649,423	12,649,423
1975	9	9	100,000,000	2,529,885	2,529,885
				<u>165,707,435</u>	<u>153,049,345</u>
1962	4½	18	SwFr. 60,000,000	22,905,592	9,162,237
1969	5½	18	60,000,000	22,905,592	21,187,673
1972	7½	12	50,000,000	19,087,993	19,087,993
1973	6¼	15	80,000,000	30,540,789	30,540,789
1973	6¾	5	65,000,000	24,814,391	24,814,391
1973	7	7	75,000,000	28,631,990	28,631,990
1973	7¼	5	50,000,000	19,087,993	19,087,993
1974	9¼	5	20,000,000	7,635,197	7,635,197
1975	8	7	100,000,000	38,175,987	38,175,987
1975	8	8	100,000,000	38,175,987	38,175,987
1975	7¾	15	80,000,000	30,540,789	30,540,789
1975	8	8	50,000,000	19,087,993	19,087,993
				<u>301,590,293</u>	<u>286,129,019</u>
1966	5¾	20	Other 20,000,000(2)	31,182,899	23,075,345
1970	8	15	50,000,000(3)	69,829,346	69,829,346
				<u>\$3,221,107,051(4)</u>	<u>\$2,786,324,881</u>

- (1) Converted at the rates of exchange determined as of December 31, 1975, as described in Note 1(A) of *Notes to Financial Statements*.
- (2) Borrowed under arrangements whereby the holder may request payment of principal and interest in any one of the currencies of the 17 members of the former European Payments Union, now dissolved, but the reference values of such currencies may be changed under certain conditions.
- (3) Borrowed under arrangements whereby the holder may request payment of principal and interest in any one of the currencies of the six Original Members at rates of exchange fixed at the time the loan was incurred.
- (4) Other borrowings were completely paid by December 31, 1975. Taking these borrowings into account the total initial amount of borrowings amounted to the equivalent of \$3,347,184,488.

EUROPEAN COAL AND STEEL COMMUNITY
ANNUAL AMORTIZATION ON FUNDED DEBT OUTSTANDING
December 31, 1975
(in thousands)

Period	U.S. \$	DM	FFr.	Lire	Fl.	BFr.	LFr.	SFr.	Other(1)	Total Amortization in Equivalent of U.S. \$ (2)	Annual Interest in Eq. of U.S. \$ (2)	Total Debt Service in Equivalent of U.S. \$ (2)
1976	20,900	72,599	9,375	5,000,000	15,598	145,860	185,509	9,000	9,010	84,632	224,526	309,158
1977	23,600	67,725	25,875	5,000,000	15,598	216,300	284,831	15,000	9,010	95,741	221,388	317,129
1978	25,400	103,392	58,375	12,750,000	15,598	441,740	497,220	130,000	9,010	184,706	215,628	400,334
1979	146,300	178,834	54,375	12,750,000	15,598	472,180	608,682	39,000	9,010	304,582	204,701	509,283
1980	235,450	194,597	69,375	13,750,000	15,598	472,620	707,220	133,000	9,010	440,714	180,603	621,317
1981	78,550	317,252	49,375	13,750,000	15,348	473,060	708,837	67,000	9,010	300,914	144,701	445,615
1982	240,800	281,250	146,875	13,750,000	12,498	473,500	610,538	167,000	9,010	505,832	118,928	624,760
1983	227,400	106,750	46,875	13,750,000	10,598	439,300	603,268	72,000	9,010	365,499	78,559	444,058
1984	77,400	94,750	46,875	12,750,000	10,848	328,300	565,717	32,500	9,010	190,715	45,274	235,989
1985	15,900	85,750	37,500	12,750,000	9,198	1,028,300	526,240	24,500	9,010	136,730	29,808	166,538
1986	15,650	60,000	37,500	9,000,000	4,298	103,300	272,842	24,500	2,804	83,338	19,280	102,618
1987	10,800	50,000	42,500	7,000,000	4,298	33,300	218,753	26,000	—	67,493	12,761	80,254
1988	9,500	40,000	32,500	3,000,000	4,058	33,300	260,000	20,000	—	52,966	7,812	60,778
1989	4,500	—	27,000	1,000,000	4,058	33,300	—	4,000	—	15,868	3,776	19,644
1990	—	—	30,000	—	4,058	33,800	—	36,000	—	22,806	2,526	25,332
1991	—	—	45,000	—	58	—	—	—	—	10,067	757	10,824
1992	—	—	—	—	58	—	—	—	—	22	2	24
1993	—	—	—	—	68	—	—	—	—	25	1	26
	<u>1,132,150</u>	<u>1,652,899</u>	<u>769,375</u>	<u>136,000,000</u>	<u>157,434</u>	<u>4,728,160</u>	<u>6,049,657</u>	<u>799,500</u>	<u>92,904</u>	<u>2,862,650</u>	<u>1,511,031</u>	<u>4,373,681</u>

(1) Includes U.S. dollar equivalency of loans made in European Monetary Units and UA.

(2) Converted at the rates of exchange determined as of December 31, 1975, as described in Note 1(A) of Notes to Financial Statements.

EUROPEAN COAL AND STEEL COMMUNITY

ANNUAL AMORTIZATION ON FUNDED DEBT OUTSTANDING INCURRED BETWEEN JANUARY 1, 1976, AND MARCH 31, 1976

(in thousands)

Period	U.S. \$	DM	FFr.	Fl.	SFr.	Can. \$	Total Amortization in Equivalent of U.S. \$ (1)	Annual Interest in Equivalent of U.S. \$ (1)	Total Debt Service in Equivalent of U.S. \$ (1)
1976	—	—	—	—	—	—	—	1,192	1,192
1977	2,500	—	—	2,200	—	—	3,319	38,294	41,613
1978	2,500	—	—	2,200	—	—	3,319	38,105	41,424
1979	2,500	10,000	40,000	2,200	—	—	16,064	37,576	53,640
1980	2,500	10,000	40,000	2,200	—	—	16,064	36,073	52,137
1981	67,500	10,000	20,000	2,200	—	—	76,599	34,548	111,147
1982	2,500	10,000	19,230	3,133	100,000	—	49,951	28,050	78,001
1983	52,500	10,000	69,230	63,133	—	50,000	144,473	24,207	168,680
1984	2,500	10,000	19,230	3,133	—	—	11,755	11,310	23,085
1985	2,500	10,000	19,231	3,133	—	—	11,775	10,243	22,018
1986	37,500	10,000	19,231	3,134	—	—	46,775	9,176	55,951
1987	—	—	19,231	3,133	—	—	5,459	4,873	10,332
1988	—	—	19,231	3,134	—	—	5,459	4,334	9,793
1989	—	—	19,231	3,133	—	—	5,459	3,794	9,253
1990	—	—	19,231	3,133	—	—	5,459	3,255	8,714
1991	—	—	19,231	3,134	—	—	5,459	2,716	8,175
1992	—	—	19,231	3,133	—	—	5,459	2,176	7,635
1993	—	—	19,231	3,134	—	—	5,459	1,637	7,096
1994	—	—	19,231	3,133	—	—	5,459	1,097	6,556
1995	—	—	—	3,133	—	—	5,459	558	1,724
1996	—	—	—	3,134	—	—	1,166	457	1,623
1997	—	—	—	2,200	—	—	1,166	355	1,174
1998	—	—	—	2,200	—	—	819	284	1,103
1999	—	—	—	2,200	—	—	819	213	1,032
2000	—	—	—	2,200	—	—	819	142	961
2001	—	—	—	2,200	—	—	819	71	890
	<u>175,000</u>	<u>80,000</u>	<u>400,000</u>	<u>129,000</u>	<u>100,000</u>	<u>50,000</u>	<u>430,213</u>	<u>294,736</u>	<u>724,949</u>

(1) Converted at the rates of exchange determined as of December 31, 1975, as described in Note 1(A) of Notes to Financial Statements.

AUTHORIZED AGENT IN THE UNITED STATES

The authorized agent of the ECSC in the United States is:

Honorable Fernand Spaak
2100 M Street, N.W.
Washington, D. C. 20037

The information set forth in this Prospectus, except the information appearing under the heading "Underwriting", is stated on the authority of the President of the Commission, in his duly authorized official capacity as President.

EUROPEAN COAL AND STEEL COMMUNITY

by FRANCOIS-XAVIER ORTOLI
President of the Commission
of the European Communities

No person has been authorized by the ECSC to give any information or to make any representations, other than as contained in this Prospectus, in connection with this Offering, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus does not constitute an offer of any securities other than those to which it relates, or an offer of those to which it relates to any person in any jurisdiction where such offer would be unlawful. Neither the delivery of this Prospectus nor any sale hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the ECSC since the date of this Prospectus.

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EUROPEAN
COAL AND STEEL
COMMUNITY

\$75,000,000

8⁵/₈% Notes, Due May 1, 1984

\$100,000,000

9% Bonds, Due May 1, 1996

PROSPECTUS

April 30, 1976

Kuhn, Loeb & Co.

The First Boston Corporation

Lazard Frères & Co.

Warburg Paribas Becker Inc.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

minimum number of shares to be subscribed by a member shall be two hundred and fifty (250) shares.

2. Each member shall declare the initial number of shares it shall subscribe to the capital stock before the expiry of the date specified in paragraph 1 of Article 66.
3. A country admitted to membership in accordance with paragraph 2 of Article 3 shall, subject to paragraph 1 hereof, subscribe to that number of shares of the unsubscribed portion of the authorized capital stock of the Bank as determined by the Board of Governors.
4. If the Board of Governors determines that an increase in the capital stock is warranted, each member shall have a reasonable opportunity to subscribe, upon such terms and conditions as the Board of Governors shall determine, to a proportion of the increase of stock equivalent to the proportion which its stock heretofore subscribed bears to the total subscribed capital stock immediately prior to such increase; provided, however, that the foregoing provision shall not apply in respect of any increase or any portion of an increase in the capital stock intended solely to give effect to the determination of the Board of Governors under paragraph 3 and 5 of this Article. No member shall be obliged to subscribe to any part of an increase of the capital stock.
5. The Board of Governors may, at the request of a member, by a vote of a majority of the total number of Governors representing a majority of the total voting power of the members, increase the subscription of such member to the capital stock on such terms and conditions as the Board may determine.
6. Shares of stock initially subscribed by founder members shall be issued at par. Other shares shall be issued at par unless the Board of Governors upon the affirmative vote of two-thirds of the total number of Governors representing not less than three-fourths of the total voting power of the members, in special circumstances, decides to issue them on other terms.

Article 6

PAYMENT OF SUBSCRIPTIONS

1. Payment of the amount initially subscribed by a founder member to

the capital stock of the Bank shall be made in five (5) equal instalments of twenty (20) per cent each.

2. The first instalment shall be paid by the member in freely convertible currency acceptable to the Bank within thirty (30) days after the date on which this Agreement comes into force or after the date of deposit on its behalf of its instrument of ratification or acceptance whichever is the later.
3. Payment of the remaining eighty (80) per cent of the initial subscription shall also be made in freely convertible currency acceptable to the Bank in four (4) equal instalments each of which shall be payable on or before the anniversary of the date of the payment of the first instalment as provided under paragraph 2 of this Article; provided that a member may, at its option, make payment of its remaining instalments of subscription before due date.
4. The Bank shall determine the place for any payment under this Article. Until so determined, payment of the first instalment referred to in paragraph 2 of this Article shall be made to the Saudi Arabian Monetary Agency which shall act as Trustee and Depository for the Bank.

Article 7

CONDITIONS RELATING TO CAPITAL STOCK

1. Shares of stock shall not be pledged or encumbered in any manner whatsoever, and they shall not be transferable except to the Bank in accordance with Chapter VI.
2. The liability of a member on shares shall be limited to the unpaid portion of its capital subscription.
3. No member, by reason only of its membership, shall be liable for obligations of the Bank.

Article 8

DEPOSITS

The Bank may accept deposits which shall be utilized and administered in accordance with Rules and Regulations made by the Bank.

Article 9

ORDINARY CAPITAL RESOURCES

In this Agreement "Ordinary Capital Resources" of the Bank shall include :

- (i) the capital subscribed in accordance with Article 5 ;
- (ii) deposits placed with the Bank pursuant to Article 8 ;
- (iii) amounts received in repayment of loans, from the sale of its equity holdings and as income from investments related to its ordinary operations ;
- (iv) any other funds raised or received by the Bank, or placed at its disposal, or income received by it, which do not form part of Special Fund Resources and Trust Fund Resources referred to in Articles 10 and 11 respectively.

Article 10

SPECIAL FUND RESOURCES

In this Agreement "Special Fund Resources" shall include :

- (i) funds contributed by members for inclusion in any Special Fund ;
- (ii) funds allocated by the Bank to any Special Fund from net income arising out of its ordinary operations ;
- (iii) funds repaid in respect of financing from the resources of a Special Fund ;
- (iv) income derived from operations financed by a Special Fund ; and
- (v) any other resources received by, or placed at the disposal of, any Special Fund.

Article 11

TRUST FUND RESOURCES

In this Agreement "Trust Fund Resources" shall include the following :

- (i) resources received by the Bank to be administered in accordance with the terms of the trust ;
- (ii) funds repaid or received in respect of operations financed by Trust Funds ; and
- (iii) income derived from operations financed by Trust Funds.

**CHAPTER III
OPERATIONS**

Article 12

USE OF RESOURCES

The resources and facilities of the Bank shall be used exclusively to

implement the purpose and to carry out the functions set forth respectively in Articles 1 and 2 on the basis of sound economic principles.

Article 13

ORDINARY, SPECIAL AND TRUST OPERATIONS

1. The operations of the Bank shall consist of ordinary operations, special operations and trust operations.
2. Ordinary operations shall be those financed from the Ordinary Capital Resources of the Bank.
3. Special Operations shall be those financed from the Special Fund Resources.
4. Trust Operations shall be those financed from the Trust Fund Resources.

Article 14

SEPARATION OF OPERATIONS

1. The Ordinary Capital Resources, the Special Fund Resources and the Trust Fund Resources of the Bank shall, at all times and in all respects, be held, used, committed, invested or otherwise disposed of entirely separate from each other. The financial statements of the Bank shall show the ordinary operations, the special operations and the trust operations separately.
2. The Ordinary Capital Resources of the Bank shall under no circumstances be charged with, or used to discharge, losses or liabilities arising out of special operations or other activities for which Special Fund Resources and Trust Fund Resources were originally used or committed.
3. Expenses appertaining directly to ordinary operations shall be charged to the Ordinary Capital Resources of the Bank. Expenses appertaining directly to special and trust operations shall be charged to Special Fund Resources and Trust Fund Resources, respectively. Any other expenses shall be charged as the Bank shall determine.

Article 15

METHODS OF OPERATION

In carrying out the purpose and functions under Articles 1 and 2, the Bank shall comply with its Rules and Regulations.

CONSIDERATIONS RELEVANT TO FINANCING

1. In conducting its operations the Bank shall pay due regard to :
 - (i) safeguarding its interests in respect of its financing, including obtaining guarantees for its loans ;
 - (ii) the prospect that the recipient and its guarantor, if any, will be in a position to meet their obligations under the contract ;
 - (iii) the needs of the relatively less developed member countries ;
 - (iv) the objective of promoting complementarity in the economies of member countries ;
 - (v) the promotion of the well-being of people in member countries through economic and social development and the enlargement of opportunities for gainful employment ; and
 - (vi) the desirability of avoiding a disproportionate amount of its resources being used for the benefit of any member.
2. The applicant for financing shall submit an adequate proposal and the President of the Bank shall present to the Board of Executive Directors a written report regarding the proposal, together with his recommendations on the basis of an appropriate study.
3. The Bank shall take necessary measures to ensure that financing made available by it is used strictly for the purposes for which it was provided.
4. Considering the importance of equity investments, the Bank shall seek to maintain a suitable ratio between equity investments made in, and loans granted to, member countries.
5. The Bank shall, as far as practicable, accord priority to projects, including joint ventures, which promote and strengthen economic cooperation among member countries.
6. Every financing contract shall provide for effective inspection and follow up by the Bank.
7. The Bank shall not finance any undertaking in the territory of a member if that member objects to such financing.
8. The Bank may provide financing for the foreign exchange component of total cost and in suitable cases, especially in the case of less developed

member countries, it may also provide financing for the local currency component after assuring itself that the country's domestic resource mobilization effort justifies such action.

9. There shall be no restrictions on sources of procurement, which will ordinarily be subject to international competitive bidding. The Bank may provide, after due and proper study, a margin of preference for procurement from member countries.

Article 17

EQUITY PARTICIPATION

1. In participating in equity capital the Bank shall satisfy itself that the project or enterprise is currently or potentially revenue yielding and that it is, and will be, properly managed.
2. The Bank shall not acquire a majority or controlling interests in the share capital of the project or enterprise in which it participates except when it is necessary to protect the Bank's interest or to ensure the success of such project or enterprise.
3. The Bank shall apply such terms and conditions as it deems proper, taking into account the requirements of the project or enterprise, the risks being undertaken by the Bank and the terms and conditions normally obtained by equity investors for similar financing including voting rights and the right to nominate one or more directors to the governing board of the project or enterprise.
4. The Bank shall retain the option to sell its equity participation on such terms and conditions as may be considered appropriate. The Bank shall not, however, sell any part of its equity participation to any non-national of the member country except with the consent of such member country.
5. The Bank shall not assume responsibility for managing any project or enterprise in which it has invested except when necessary to safeguard its investment.
6. The Bank shall not provide loans to an enterprise in whose equity it has participated except in special cases approved by not less than two-thirds of the total voting power of the members.
7. The Bank shall seek to revolve its resources by selling its investments whenever it can appropriately do so.
8. The Bank shall seek to maintain reasonable diversification in its equity investments.

Article 18

PROJECT LOANS

In making loans for specific infrastructure and other projects, the Bank shall take into account each project's potential return and importance in the scheme of priorities of the recipient country.

Article 19

PROGRAMME LOANS

In making programme loans to member countries, including institutions or agencies thereof, the Bank shall satisfy itself that the purpose of the loans is to promote the well being of the people through economic and social development.

Article 20

TERMS AND CONDITIONS OF PROJECT AND PROGRAMME LOANS

1. The Bank shall determine the schedule of repayment of loans extended under Articles 18 and 19 bearing in mind relevant considerations especially the overall resource position and the balance of payments prospects of the member country concerned.
2. If a member represents that it suffers from an acute foreign exchange stringency and that the service of any loan contracted or guaranteed by that member or any of its agencies cannot be provided in the stipulated manner, the Bank may at its discretion modify the terms of amortization or extend the life of the loan or both provided that it is satisfied that such relaxation is justified in the interest of the particular recipient and the operations of the Bank.
3. The Bank shall levy a service fee to cover its administrative expenses. The amount of the fee and the manner of levying it shall be determined by the Bank.

Article 21

LIMITATION ON ORDINARY OPERATIONS

The total amount of equity investments, amounts of loans outstanding and other ordinary operations of the Bank shall not, at any time, exceed the total amount of the unimpaired subscribed capital, reserves, deposits, other funds raised and surplus included in Ordinary Capital Resources.

Article 22

SPECIAL FUNDS

Special Funds may be established by the Bank for :

- (i) assisting Muslim communities in non-member countries ;
- (ii) providing technical assistance ; or
- (iii) any other specific purpose ;

These Funds shall be administered in accordance with Rules and Regulations made by the Bank.

Article 23

TRUST FUNDS

The Bank may accept the administration of Trust Funds, whose objectives are not inconsistent with the purpose and functions of the Bank, in accordance with the terms of the Trust and such Rules and Regulations as may be made by the Bank.

**CHAPTER IV
CURRENCIES**

Article 24

DETERMINATION OF EXCHANGE RATES AND CONVERTIBILITY

1. The determination of exchange rates in terms of the Islamic Dinar or the settlement of any question regarding exchange rates shall be made by the Bank. For the purpose of such determination, the Bank may obtain information, if it considers this necessary, from the International Monetary Fund.
2. Whenever the need arises under this Agreement to determine whether any currency is freely convertible, such determination shall be made by the Bank. The International Monetary Fund may be consulted for such determination if the Bank considers it necessary.

Article 25

USE AND CONVERSION OF CURRENCIES

1. A member shall not maintain or impose any restriction on the receipt, holding or use of its currency, or any other currency, on the account of the Bank,

2. A member shall, at the request of the Bank, facilitate the prompt conversion of its currency held by the Bank into freely convertible currency on the basis of exchange rates determined for the value date of the conversion in accordance with Article 24.
3. The currencies of non-members held by the Bank shall not be used to purchase the currency of a member except in the ordinary course of the Bank's business, or with the approval of the member concerned.
4. A member country shall impose no restrictions on the remittance of profits and repatriation of capital by the Bank in convertible currency acceptable to the Bank.

Article 26

DENOMINATION OF TRANSACTIONS

The Bank's loans shall be denominated in the Islamic Dinar except in special cases where the Bank determines otherwise. All obligations to the Bank under loan agreements shall be discharged in freely convertible currency acceptable to the Bank.

CHAPTER V

ORGANIZATION AND MANAGEMENT

Article 27

STRUCTURE

The Bank shall have a Board of Governors, a Board of Executive Directors, President, one or more Vice Presidents and such other officers and staff as may be considered necessary.

Article 28

BOARD OF GOVERNORS : COMPOSITION

1. Each member shall be represented on the Board of Governors and shall appoint one Governor and one Alternate. Each Governor and each Alternate shall serve at the pleasure of the appointing member. No Alternate may vote except in the absence of his principal. At its annual meeting, the Board shall designate one of the Governors as Chairman who shall hold office until the election of the next Chairman at the next annual meeting of the Board.

2. Governors and Alternates shall serve as such without remuneration from the Bank, but the Bank may reimburse them for reasonable expenses incurred in attending meetings.

Article 29

BOARD OF GOVERNORS : POWERS

1. All the powers of the Bank shall be vested in the Board of Governors.
2. The Board of Governors may delegate to the Board of Executive Directors any or all its powers, except the power to :
 - (i) admit new members and determine the conditions of their admission ;
 - (ii) increase or decrease the authorized capital stock of the Bank ;
 - (iii) suspend a member ;
 - (iv) decide appeals from interpretations or applications of this Agreement given by the Board of Executive Directors ;
 - (v) authorize the conclusion of general agreements for cooperation with other international organizations ;
 - (vi) elect the President of the Bank ;
 - (vii) elect the Executive Directors of the Bank ;
 - (viii) determine the remuneration of the Executive Directors and the salary and other terms of the contract of service of the President ;
 - (ix) approve, after reviewing the auditor's report, the general balance sheet and the statement of profit and loss of the Bank ;
 - (x) determine the reserve and the distribution of the net income and surplus of the Bank ;
 - (xi) amend this Agreement ;
 - (xii) decide to terminate the operations of the Bank and to distribute its assets ; and
 - (xiii) exercise such other special powers as are expressly assigned to the Board of Governors in this Agreement.
3. The Board of Governors, and the Executive Directors to the extent authorized, may adopt such Rules and Regulations as may be necessary or appropriate to conduct the business of the Bank, including Rules and Regulations for personnel, pensions and other benefits.

4. The Board of Governors shall retain full power to exercise authority over any matter delegated to the Board of Executive Directors under paragraphs 2 and 3 of this Article.

Article 30

BOARD OF GOVERNORS : PROCEDURE

1. The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Board of Executive Directors. Meetings of the Board of Governors shall be called, by the Board of Executive Directors, whenever requested by one-third of the members of the Bank.
2. A majority of the Governors shall constitute a quorum for any meeting of the Board of Governors, provided that such majority represents not less than two-thirds of the total voting power of the members.
3. The Board of Governors shall by regulation establish a procedure whereby the Board of Executive Directors may, when the latter deems such action advisable, obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.
4. The Board of Governors, and the Board of Executive Directors to the extent authorized, may establish such subsidiary bodies as may be necessary or appropriate to conduct the business of the Bank.

Article 31

BOARD OF EXECUTIVE DIRECTORS : COMPOSITION

1. The Board of Executive Directors shall be composed of ten (10) members who shall not be members of the Board of Governors. Executive Directors shall be persons of high competence in economic and financial matters and shall be elected in accordance with Rules and Regulations made by the Board of Governors.
2. The Board of Governors shall review, from time to time, the size and composition of the Board of Executive Directors, and may increase the number of Executive Directors as appropriate, paying special regard to the desirability, in the circumstances at that time, of increasing representation in the Board of Executive Directors. Decisions under this paragraph shall be made by vote of a majority of the total number of Governors representing not less than two-thirds of the total voting power of members.

3. Executive Directors shall hold office for a term of three (3) years and may be re-elected. They shall continue in office until their successors are appointed or elected. If the office of an Executive Director becomes vacant more than ninety (90) days before the end of his term, a successor shall be appointed or elected for the remainder of the term, by the Governors who elected the former Executive Director. A majority of the votes cast by such Governors shall be required for such election.

Article 32

BOARD OF EXECUTIVE DIRECTORS : POWERS

The Board of Executive Directors shall be responsible for the direction of the general operations of the Bank and, for this purpose, shall, in addition to the powers assigned to it expressly by this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular :

- (i) prepare the work of the Board of Governors ;
- (ii) take decisions concerning the business of the Bank and its operations in conformity with the general directions of the Board of Governors ;
- (iii) submit the accounts for each financial year for approval of the Board of Governors at each annual meeting ; and
- (iv) approve the budget of the Bank.

Article 33

BOARD OF EXECUTIVE DIRECTORS : PROCEDURE

1. The Board of Executive Directors shall normally function at the principal office of the Bank and shall meet as often as the business of the Bank may require.
2. A majority of the Executive Directors shall constitute a quorum for any meeting of the Board of Executive Directors, provided that such majority represents not less than two-thirds of the total voting power of the members.
3. The Board of Governors shall adopt Rules and Regulations under which, if there is no Executive Director of its nationality, a member may send a representative to attend, without right to vote, any meeting of the Board of Executive Directors when a matter particularly affecting that member is under consideration.

Article 34

VOTING

1. Each member shall have five hundred (500) basic votes plus one vote for every share subscribed.
2. In voting in the Board of Governors, each Governor shall be entitled to cast the votes of the member he represents. Except as otherwise expressly provided in this Agreement, all matters before the Board of Governors shall be decided by a majority of the voting power represented at the meeting.
3. In voting in the Board of Executive Directors, each Executive Director shall be entitled to cast the number of votes that counted towards his election, which votes need not be cast as a unit. Except as otherwise expressly provided in this Agreement, all matters before the Board of Executive Directors shall be decided by a majority of the voting power represented at the meeting.

Article 35

THE PRESIDENT

1. The Board of Governors, by a vote of a majority of the total number of Governors, representing not less than two-thirds of the total voting power of the members, shall elect a President of the Bank. He shall be a national of a member country. The President, while holding office, shall not be a Governor or an Executive Director.
2. The term of office of the President shall be five (5) years. He may be re-elected. He shall, however, cease to hold office when the Board of Governors so decides by a vote of a majority of the number of Governors representing not less than two-thirds of the total voting power of the members.
3. The President shall be the Chairman of the Board of Executive Directors but shall have no vote, except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors but shall not vote.
4. The President shall be the legal representative of the Bank.
5. The President shall be the chief executive of the Bank and shall conduct, under the direction of the Board of Executive Directors, the current

business of the Bank. He shall be responsible for the organization, appointment and dismissal of the officers and staff in accordance with Rules and Regulations adopted by the Bank.

6. In appointing the officers and staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and technical competence, pay due regard to the recruitment of personnel on as wide a geographical basis as possible.

Article 36

VICE-PRESIDENT

1. One or more Vice-Presidents shall be appointed by the Board of Executive Directors on the recommendation of the President. A Vice-President shall be a national of a member country. He shall hold office for such term, exercise such authority and perform such functions in the administration of the Bank, as may, from time to time, be determined by the Board of Executive Directors. In the absence or incapacity of the President, the Vice-President or, if there be more than one, the ranking Vice-President, shall exercise the authority and perform the functions of the President. The Vice-President, while holding office, shall not be a Governor or an Executive Director.
2. A Vice-President may participate in meetings of the Board of Executive Directors but shall have no vote at such meetings, except that the Vice-President or ranking Vice-President, as the case may be, shall cast the deciding vote when acting in place of the President.

Article 37

**INTERNATIONAL CHARACTER OF THE BANK AND
PROHIBITION OF POLITICAL
ACTIVITY**

1. The Bank shall not accept loans or assistance that may in any way prejudice, limit, deflect or otherwise alter its purpose or functions.
2. The Bank, its President, Vice-President, Executive Directors, officers and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be rele-

vant to their decisions. Such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the Bank.

3. The President, Vice-President, officers and staff of the Bank, in the discharge of their offices, shall owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

Article 38

OFFICE OF THE BANK

1. The principal office of the Bank shall be located in Jeddah in the Kingdom of Saudi Arabia.
2. The Bank may establish agencies or branch offices elsewhere.

Article 39

FINANCIAL YEAR

The Bank's financial year shall be the Hijra Year.

Article 40

CHANNEL OF COMMUNICATIONS, DEPOSITORIES

1. Each member shall designate an appropriate official authority with which the Bank may communicate in connection with any matter arising under this Agreement.
2. Each member shall designate its central bank, or such other agency as may be agreed upon with the Bank, as a depository with which the Bank may keep its holdings of currency of that member as well as other assets of the Bank.

Article 41

REPORTS

1. The Bank shall transmit to its members an Annual Report containing an audited statement of its accounts and shall publish such Report. It shall also transmit quarterly to its members a summary statement showing results of its operations.

2. The Bank may also publish such other reports as it deems desirable in the carrying out of its purpose and functions. Such reports shall be transmitted to the members of the Bank.

Article 42

ALLOCATION OF NET INCOME

1. The Board of Governors shall determine annually what part of the net income or surplus of the Bank from ordinary capital operations shall be allocated to reserves, depositors, Special Funds and members : provided that no part of the net income or surplus of the Bank shall be distributed to members by way of profit until the General Reserves of the Bank shall have attained the level of twenty-five (25) per cent of the subscribed capital.
2. The net income or surplus from special fund operations shall not be distributed by way of profit but shall be credited to the respective Special Funds.
3. Unless otherwise stipulated in the terms of the Trust the net income or surplus from a Trust Fund shall not be distributed by way of profit but shall be credited to the Trust Fund.
4. The distribution to members of the profit referred to in paragraph 1 of this Article shall be made in proportion to the number of shares held by each member and shall be made in such manner and in such currency as the Board of Governors shall determine.

CHAPTER VI

WITHDRAWAL AND SUSPENSION OF MEMBERS, TEMPORARY SUSPENSION AND TERMINATION OF OPERATIONS OF THE BANK

Article 43

WITHDRAWAL

1. No member shall have the right to withdraw from the Bank before the expiry of a period of five (5) years from the date of its membership.
2. Subject to paragraph 1 of this Article, any member may withdraw from the Bank by delivering a notice in writing to the Bank at its principal office.

3. Subject to paragraph 1 of this Article, withdrawal by a member shall become effective and its membership shall cease on the date specified in its notice but in no event less than six (6) months after the date that notice has been received by the Bank. However, at any time before the withdrawal becomes effective, the member may notify the Bank in writing of the cancellation of its notice of intention to withdraw.
4. A withdrawing member shall remain liable for all direct and contingent obligations to the Bank to which it was subject at the date its withdrawal becomes effective. The withdrawing member shall also continue to be subject to those terms of this Agreement which, in the opinion of the Bank, affect its investments in that country until arrangements satisfactory to the Bank concerning such investments are concluded between the Bank and that country. When the withdrawal becomes effective, the member shall not incur any liability for obligations resulting from operations of the Bank affected after that date.
5. Any country which ceases to be a member of the Islamic Conference shall be deemed to have given a notice to withdraw from the membership of the Bank under the provisions of this Article. The date when withdrawal becomes finally effective shall be determined by the Board of Governors subject to paragraph 1 of this Article.

Article 44

SUSPENSION OF MEMBERSHIP

1. If a member fails to fulfil any of its obligations to the Bank, the Board of Governors may suspend such member by a vote, representing not less than three-fourths of the total voting power of the members.
2. The member so suspended shall automatically cease to be a member of the Bank one (1) year from the date of its suspension unless the Board of Governors, during that one-year period, decides by the same majority necessary for suspension to restore the member to good standing.
3. While under suspension, a member shall not be entitled to exercise any rights under this Agreement but shall remain subject to all its obligations.

Article 45 SETTLEMENT OF ACCOUNTS ON CESSATION OF MEMBERSHIP

1. After the date on which a country ceases to be a member, it shall remain liable for its direct obligations to the Bank incurred as of that date. It shall also remain responsible for its contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceases to be a member is outstanding but it shall not incur liabilities with respect to loans and guarantees entered into thereafter by the Bank nor share in the income or the expenses of the Bank.
2. At the time a country ceases to be a member, the Bank shall arrange for the repurchase of such country's shares by the Bank as a part of the settlement of accounts with such country in accordance with the provisions of paragraphs 3 and 4 of this Article. For this purpose, the repurchase price of the shares shall be the value shown by the books of the Bank on the date the country ceases to be a member.
3. The payment for shares repurchased by the Bank under this Article shall be governed by the following conditions:
 - (i) any amount due to the country concerned for its shares shall be withheld so long as that country, its central bank or any of its agencies, instrumentalities or political subdivisions has outstanding obligations to the Bank. Any amount due to such country may, at the option of the Bank, be applied to any liability of such country as it matures.
 - (ii) The net amount, equal to the excess of the repurchase price for shares (in accordance with paragraph 2 of this Article) over the aggregate amount of liabilities of the country concerned to the Bank, shall be payable within a period not exceeding five (5) years, as may be determined by the Bank, upon surrender of the corresponding stock certificates;
 - (iii) payments shall be made in freely convertible currency;
 - (iv) if losses are sustained by the Bank on any guarantees or loans which were outstanding on the date when a country ceased to be a member and the amount of such losses exceeds the amount of the reserve provided against losses on that date, the country concerned shall repay, upon demand, the amount by which the

repurchase price of its shares would have been reduced if the losses had been taken into account when the repurchase price was determined.

4. If the Bank terminates its operations pursuant to Article 47 of this Agreement within six (6) months of the date upon which any country ceases to be a member, all rights of the country concerned shall be determined in accordance with the provisions of Articles 47 to 49. Such country shall be considered as still a member for purposes of such Articles but shall have no voting rights.

Article 46

TEMPORARY SUSPENSION OF OPERATIONS

In an emergency, the Board of Executive Directors may temporarily suspend operations in respect of new commitments pending an opportunity for further consideration and action by the Board of Governors.

Article 47

TEMPORARY TERMINATION OF OPERATIONS

1. The Bank may terminate its operations by a resolution of the Board of Governors approved by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members. After such termination, the Bank shall forthwith cease all activities, except those incident to the orderly realization, conservation and preservation of its assets and settlement of its obligations.
2. Until final settlement of such obligations and distributions of assets the Bank shall remain in existence and all mutual rights and obligations of the Bank and its members shall continue unimpaired.

Article 48

LIABILITY OF MEMBERS AND PAYMENT OF CLAIMS

1. In the event of termination of the operations of the Bank, the liability of all members for the unpaid portion of the subscribed capital of the Bank shall continue until all claims of creditors, including all contingent claims, shall have been discharged.
2. All creditors holding direct claims shall first be paid out of the assets of the Bank and then out of payments to the Bank on unpaid subscrip-

tions. Before making any payments to the creditors holding direct claims, the Board of Executive Directors shall make such arrangements as are necessary, in its judgement, to ensure a prorata distribution among holders of direct and contingent claims.

Article 49

DISTRIBUTION OF ASSETS

1. No distribution of assets shall be made to members on account of their subscriptions to the capital stock of the Bank until all liabilities to creditors shall have been discharged or provided for. Such distribution must be approved by the Board of Governors by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.
2. Any distribution of the assets of the Bank to members shall be in proportion to the capital stock held by each member and shall be affected at such times and under such conditions as the Bank shall deem fair and equitable giving priority to depositors. The shares of assets distributed need not be uniform as to type of asset. No member shall be entitled to receive its share in such a distribution of assets until it has settled all of its obligations to the Bank.
3. Any member receiving assets distributed pursuant to this Article shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to the distribution.

CHAPTER VII

STATUS, IMMUNITIES, EXEMPTIONS AND PRIVILEGES

Article 50

PURPOSE OF CHAPTER

To enable the Bank effectively to fulfil its purpose and carry out the functions entrusted to it, the status, immunities, exemptions and privileges set forth in this Chapter shall be accorded to the Bank in the territory of each member.

Article 51

LEGAL STATUS

The Bank shall be an independent international institution possessing full juridical personality and, in particular, full capacity :

- (i) to contract ;
- (ii) to acquire and dispose of immovable and movable property ; and
- (iii) to institute legal proceedings.

Article 52

IMMUNITY FROM JUDICIAL PROCEEDINGS

1. The Bank shall enjoy immunity from every legal process except in cases arising out of or in connection with the exercise of its powers to raise money, or to buy and sell or underwrite the sale of securities, in which cases actions may be brought against the Bank in a court of competent jurisdiction in the territory of a country in which the Bank has its principal or a branch office, or has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities.
2. Notwithstanding the provisions of paragraph 1 of this Article, no action shall be brought against the Bank by any member, or by any agency or instrumentality of a member, or by any entity or person directly or indirectly acting for or deriving claims from a member or from any agency or instrumentality of the member. Members shall have recourse to such special procedures for the settlement of controversies between the Bank and its members as may be prescribed in this Agreement, in the By-Laws and Regulations of the Bank, or in contracts entered into with the Bank.
3. Property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

Article 53

IMMUNITY OF ASSETS

Property and assets of the Bank, wheresoever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by administrative or legislative action.

Article 54

IMMUNITY OF ARCHIVES

The archives of the Bank and, in general, all documents belonging to it, or held by it, shall be inviolable wherever located.

Article 55

SECURITY OF DEPOSITS

The Bank shall observe complete secrecy in regard to the depositors' accounts and members shall respect the inviolability of information about such deposits.

Article 56

FREEDOM OF ASSETS FROM RESTRICTIONS

To the extent necessary to carry out the purpose and functions of the Bank effectively, and subject to the provisions of this Agreement, all property and assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.

Article 57

PRIVILEGE FOR COMMUNICATIONS

The official communications of the Bank shall be accorded by each member, treatment which is not less favourable than that accorded by it to any other international organization.

Article 58

IMMUNITIES AND PRIVILEGES OF BANK PERSONNEL

All Governors, Alternates, Executive Directors, the President, officers and employees of the Bank :

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity ;
- (ii) where they are not local citizens or nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations, and the same facilities as regards exchange regulations, as are accorded by members to the representatives, officials and employees of comparable rank of other members ; and

- (iii) shall be granted the same treatment in respect of travelling facilities as accorded by members to representatives, officials and employees of comparable rank of other members.

Article 59

EXEMPTION FROM TAXATION

1. The Bank, its assets, property, income and its operations and transaction shall be exempt from all taxation and from all customs duties. The Bank shall also be exempt from any obligation for the payment, withholding or collection of any tax or duty.
2. No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to the President, the Executive Directors, officers or employees of the Bank.
3. No tax shall be levied on any security issued by the Bank, including any dividend thereon, by whomsoever held :
 - (i) which discriminates against such security solely because it is issued by the Bank ; or
 - (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.
4. No tax of any kind shall be levied on any security guaranteed by the Bank, including any, dividend thereon, by whomsoever held :
 - (i) which discriminates against such security solely because it is guaranteed by the Bank ; or
 - (ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

Article 60

IMPLEMENTATION

Each member, in accordance with its juridical system, shall promptly take such action as is necessary to make effective in its own territory the provisions set forth in this Chapter and shall inform the Bank of the action which it has taken on the matter.

Article 61

WAIVER OF IMMUNITIES, EXEMPTIONS AND PRIVILEGES

The Bank, at its discretion may waive any of the privileges, immunities and exemptions conferred under this Chapter in any case or instance, in such manner and upon such conditions as it may determine to be appropriate in its best interest.

CHAPTER VIII

AMENDMENTS, INTERPRETATION, ARBITRATION

Article 62

AMENDMENTS

1. This Agreement may be amended only by a resolution of the Board of Governors approved by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.
2. Notwithstanding the provisions of paragraph 1 of this Article, the unanimous agreement of the Board of Governors shall be required for the approval of any amendment modifying :
 - (i) the right to withdraw from the Bank ;
 - (ii) the limitations on liability provided in paragraphs 2 and 3 of Article 7 ; and
 - (iii) the rights pertaining to purchase of capital stock provided in paragraph 4 of Article 5.
3. Any proposal to amend this Agreement, whether emanating from a member or the Board of Executive Directors, shall be communicated to the Chairman of the Board of Governors, who shall bring the proposal before the Board of Governors. When an amendment has been adopted, the Bank shall so certify in an official communication addressed to all members. Amendments shall enter into force for all members three (3) months after the date of the official communication unless the Board of Governors specifies therein a different period.

Article 63

LANGUAGES, INTERPRETATION AND APPLICATION

1. The official language of the Bank shall be Arabic. In addition English

and French shall be working languages. The Arabic text of this Agreement shall be regarded as the authentic text for both interpretation and application.

2. Any question of interpretation or application of the provisions of this Agreement arising between any member and the Bank or between two or more members of the Bank, shall be submitted to the Board of Executive Directors for decision. If there is no Executive Director of the nationality of the member country concerned, paragraph 3 of Article 33 shall be applicable.
3. Any member may require, within six (6) months of the date of the decision under paragraph 2 of this Article, that the question be referred to the Board of Governors, whose decision shall be final. Pending the decision of the Board of Governors, the Bank, may, so far as it deems it necessary, act on the basis of the decision of the Board of Executive Directors.

Article 64

ARBITRATION

If a disagreement should arise between the Bank and a country which has ceased to be a member, or between the Bank and any member, after adoption of a resolution to terminate the operations of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three (3) arbitrators. One of the arbitrators shall be appointed by the Bank, another by the country concerned, and the third, unless the parties otherwise agree, by the President of the International Court of Justice or such other authority as may have been prescribed by Rules and Regulations adopted by the Board of Governors. A majority vote of the arbitrators shall be sufficient to reach a decision which shall be final and binding upon the parties. The third arbitrator shall be empowered to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

Article 65

APPROVAL DEEMED GIVEN

Whenever the approval of any member is required before any act may be done by the Bank, approval shall be deemed to have been given unless the member presents an objection within such reasonable period as the Bank may fix in notifying the member of the proposed act.

FINAL PROVISIONS

Article 66

SIGNATURE AND DEPOSIT

1. The original of this Agreement in a single copy in the Arabic, English and French language shall remain open for signature until 15th Shawal, 1394 H/October 31st, 1974 at the office of the Saudi Arabian Monetary Agency by the Governments of countries listed in Annexure A to this Agreement. This document shall be deposited at the principal office of the Bank upon its establishment.
2. The Depository shall send certified copies of this Agreement to all the Signatories and other countries which become members of the Bank.

Article 67

RATIFICATION OR ACCEPTANCE

This Agreement shall be subject to ratification or acceptance by the Signatories. Instruments of ratification or acceptance shall be deposited with the depository who shall duly notify the other Signatories of each deposit and the date thereof.

Article 68

ENTRY INTO FORCE

This Agreement shall come into force when Instruments of ratification or acceptance shall have been deposited by Signatories whose subscriptions in the Aggregate comprise not less than five hundred million (500,000,000) Islamic Dinars.

Article 69

COMMENCEMENT OF OPERATIONS

1. As soon as this Agreement enters into force, each member shall appoint a Governor and an Alternate.
2. At its inaugural meeting, the Board of Governors shall :
 - (i) elect the President of the Bank ;
 - (ii) make arrangements for the election of the Executive Directors of the Bank ; and

(iii) make arrangements for the determination of the date on which the Bank shall commence its operations.

3. The Bank shall notify its members of the date of the commencement of its operations.

DONE at the city of Jeddah,
the Kingdom of Saudi Arabia.

This 24 th day of Rajab 1394H,

corresponding to the 12 th day of August

1974 in one copy each in Arabic, English and French.

Annexure A

INITIAL SUBSCRIPTION TO THE
AUTHORIZED CAPITAL STOCK

Country	Signature	Date Hijri	Date G.	Amount of Subscription in millions of (Islamic Dinars)
1. Algerian Democratic and Popular Republic		24/ 7/1394	12/ 8/1974	25.0
2. State of United Arab Emirates		24/ 7/1394 14/10/1394	12/ 8/1974 29/10/1974	100.0 10.0
3. State of Bahrain		6/10/1394	21/10/1974	5.0
4. Republic of Chad		24/ 7/1394	12/ 8/1974	2.5
5. Arab Republic of Egypt		24/ 7/1394	12/ 8/1974	25.0
6. Republic of Guinea		24/ 7/1394	12/ 8/1974	2.5
7. Republic of Indonesia		24/ 7/1394	12/ 8/1974	25.0
8. Hashemite Kingdom of Jordan		24/ 7/1394	12/ 8/1974	4.0
9. State of Kuwait		24/ 7/1394 6/10/1394	12/ 8/1974 31/10/1974	50.0 50.0
10. Republic of Lebanon		24/ 7/1394	12/ 8/1974	2.5
11. Arab Republic of Libya		16/ 8/1394	24/ 8/1974	125.0
12. Malaysia		24/ 7/1394	12/ 8/1974	16.0
13. Republic of Mali		24/ 7/1974	12/ 8/1974	2.5
14. Islamic Republic of Mauritania		24/ 7/1394	12/ 8/1974	2.5
15. Kingdom of Morocco		24/ 7/1394	12/ 8/1974	5.0
16. Republic of Niger		24/ 7/1394	12/ 8/1974	2.5
17. Sultanate of Oman		24/ 7/1394	12/ 8/1974	5.0
18. Islamic Republic of Pakistan		24/ 7/1394	12/ 8/1974	25.0
19. State of Qatar		24/ 7/1394 29/12/1394	12/ 8/1974 12/ 1/1975	20.0 5.0
20. Kingdom of Saudi Arabia		24/ 7/1394	12/ 8/1974	200.0
21. Republic of Senegal		24/ 7/1394	12/ 8/1974	2.5
22. Democratic Republic of Somalia		24/ 7/1394	12/ 8/1974	2.5
23. Democratic Republic of Sudan		24/ 7/1394	12/ 8/1974	10.-
24. Republic of Tunisia		24/ 7/1394	12/ 8/1974	2.5
25. The Yemen Arab Republic		24/ 7/1394	12/ 8/1974	2.5
26. Republic of Bangladesh		24/ 7/1394	12/ 8/1974	10.0
27. Republic of Turkey		24/ 7/1394	12/ 8/1974	10.0
28. The Syrian Arab Republic				2.5
29. The Afghanistan Republic				2.5
			Total	755.-

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

Institution: Alberta Heritage Savings Trust Fund

Location: Edmonton, Province of Alberta, Canada

Size:
Capital: C \$1,500,000,000

Purpose: Fund established in May 1976 to invest a substantial portion of non-renewable resource revenues for the benefit of the people of Alberta in future years.

Fund permitted by Legislative Act to (1) invest up to 20% of its assets in projects which will provide long-term economic or social benefits to the people of Alberta but which will not by their nature yield a return to the Fund, provided the moneys are first specifically appropriated from the Fund by an act of the Legislature; (2) invest up to 15% of its assets in loans to the Crown in right of Canada or of any other province of Canada or in loans guaranteed by the Crown in right of Canada or of any other province of Canada; (3) make investments the Investment Committee, or the Legislative Assembly as expressed in an Assembly resolution, feels will yield a reasonable return or profit to the Fund and will tend to strengthen and diversify the economy of Alberta; (4) invest or reinvest moneys not invested according to 1, 2 or 3 above in any or all of the following: (a) evidences of indebtedness of, or fully guaranteed by, the Canadian Government, any Canadian provincial government, any Canadian municipal corporation, the government of a country other than Canada, a chartered bank or treasury branch, or any corporation if authorized by the Canadian and British Insurance Companies Act; and (b) mortgages or hypothecs of real estate or leaseholds in Canada under certain circumstances.

Source of Funds: Original funding of Canadian dollars \$1,500,000,000 plus 30% of the non-renewable resource revenues to be received in fiscal 1976-77 (and each fiscal year thereafter if the Legislative Assembly enacts a Special Act authorizing such annual transfer from the General Revenue Fund) on a monthly basis.

- Management Structure: Heritage Savings Trust Fund Investment Committee consisting of all 24 members of the Provincial Executive Council (including Provincial Ministers and Treasurer) responsible to the Legislative Assembly in the operation of the Fund. Actually managed in the Provincial Treasurer's Office.
- Management of Funds: The Provincial Treasurer holds and administers the Fund in accordance with the Act. Fund has separate accounting record. The Investment Committee, except when directed by the Legislative Assembly, approves investments and dispositions of investments, although the Provincial Treasurer invests, reinvests and disposes of such with respect to Fund activities in investment category 4 under "Purpose" above. While all funds are managed internally, outside advisors may be used to review and package potential investments.
- Portfolio: As under "Purpose" above. No authority to guarantee the credit of others nor is it intended to allow for other than short-term borrowings from the General Revenue Fund in anticipation of fund transfers (i.e. - no leverage allowed).
- Capital Structure: See "Source of Funds", "Portfolio" and "Income".
- Income: The income of the Fund accrues to and forms part of the Trust Fund.



1976

CHAPTER 2

THE ALBERTA HERITAGE SAVINGS TRUST FUND ACT

(Assented to May 19, 1976)

Preamble

WHEREAS substantial revenues are being received by the Province from the sale of non-renewable resources owned by the people of Alberta; and

WHEREAS there is a limited supply of non-renewable resources and therefore revenues from the sale of those resources will ultimately be reduced; and

WHEREAS it would be improvident to spend all such revenues as they are received; and

WHEREAS the Legislature of Alberta considers it appropriate that a substantial portion of those revenues be set aside and invested for the benefit of the people of Alberta in future years:

THEREFORE HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1. In this Act,

- (a) "Investment Committee" means the Heritage Savings Trust Fund Investment Committee established under section 3;
- (b) "non-renewable resource revenue" means
 - (i) moneys received by the Crown pursuant to agreements as defined in *The Mines and Minerals Act*,
 - (ii) moneys received by the Crown as bonuses to acquire agreements as defined in *The Mines and Minerals Act*, and
 - (iii) moneys received under an agreement between the Crown in right of Alberta and the holder of a bituminous sands lease under which the Crown agrees to accept money payments in lieu of royalty under the lease;

- (c) "Special Act" with reference to any fiscal year after the 1976-77 fiscal year means an Act of the Legislature authorizing the transfer from the General Revenue Fund to the Trust Fund of 30 per cent of the non-renewable resource revenue received in that fiscal year;
- (d) "Trust Fund" means the Alberta Heritage Savings Trust Fund established under section 2.

Alberta
Heritage
Savings Trust
Fund

2. (1) There is hereby established a fund to be known as the "Alberta Heritage Savings Trust Fund".

(2) The Provincial Treasurer shall hold and administer the Trust Fund in accordance with this Act.

(3) The Provincial Treasurer shall establish and maintain a separate accounting record of the Trust Fund.

Heritage
Savings
Trust Fund
Investment
Committee

3. (1) There is hereby established a committee called the "Heritage Savings Trust Fund Investment Committee" consisting of all members of the Executive Council.

(2) The Investment Committee shall designate one of its members as chairman and another as vice-chairman.

(3) The Lieutenant Governor in Council may make rules governing the calling of meetings of the Investment Committee, the quorum required at its meetings and, generally, the conduct of the Committee's business and affairs.

Transfer of
assets

4. (1) As soon as practicable after the commencement of this Act, there shall be transferred from the General Revenue Fund to the Trust Fund \$1,500,000,000.

(2) The amount transferred pursuant to subsection (1) may be transferred in cash or other assets, but where assets other than cash are to be transferred, the Investment Committee shall, before any transfer is made, approve

- (a) the assets to be transferred,
- (b) the manner in which and the time or times at which the transfer is to be made, and
- (c) the valuation of the assets or the method by which the assets are to be valued,

and may impose such conditions relating to the transfer as the Investment Committee considers necessary.

(3) Where the Investment Committee is of the opinion that any asset to be transferred under subsection (1)

- (a) will yield a reasonable return or profit to the Trust Fund, and
- (b) will tend to strengthen and diversify the economy of Alberta,

the Investment Committee may direct that the asset upon its transfer shall form part of the Alberta Investment Division of the Trust Fund as if the asset were the subject of an investment made pursuant to section 6, subsection (1), clause (c).

(4) Assets other than cash that are transferred pursuant to subsection (1) and that do not form part of the Alberta Investment Division of the Trust Fund by virtue of a direction under subsection (3) shall consist only of assets within the classes enumerated in section 9, subsection (1) and upon being transferred shall be deemed to be investments made under that section.

(5) The income of the Trust Fund accrues to and forms part of the Trust Fund.

Transfer of
non-renewable
resource
revenue

5. (1) After the commencement of this Act,
- (a) 30 per cent of the non-renewable resource revenue received in the 1976-77 fiscal year shall be transferred from the General Revenue Fund to the Trust Fund in accordance with this Act;
 - (b) 30 per cent of the non-renewable resource revenue received in the 1977-78 fiscal year shall be transferred from the General Revenue Fund to the Trust Fund in accordance with this Act but only if the transfer is authorized by a Special Act enacted in that fiscal year;
 - (c) 30 per cent of the non-renewable resource revenue received in the 1978-79 fiscal year and in each fiscal year thereafter shall be transferred from the General Revenue Fund to the Trust Fund in accordance with this Act but only if, in the case of each fiscal year, the transfer is authorized by a Special Act enacted in the preceding fiscal year.
- (2) The title of a Special Act shall be "The Alberta Heritage Savings Trust Fund Special Appropriation Act" followed by a reference to the fiscal year to which it relates.
- (3) The President of the Executive Council or a member of the Executive Council designated by him for the purpose shall, with leave of the Assembly,
- (a) introduce during the 1977-78 fiscal year a Bill for a Special Act relating to the 1977-78 fiscal year, and
 - (b) introduce during the 1977-78 fiscal year and during each fiscal year thereafter a Bill for a Special Act relating to the next succeeding fiscal year.
- (4) The Provincial Treasurer shall, with respect to each month in
- (a) the 1976-77 fiscal year, and

(b) each succeeding fiscal year in respect of which a Special Act is enacted, transfer 30 per cent of the non-renewable resource revenue received in the month from the General Revenue Fund to the Trust Fund as soon as practicable after the end of the month in which it is received.

(5) Notwithstanding subsection (4), the Provincial Treasurer may, with respect to any month to which that subsection applies, estimate 30 per cent of the non-renewable resource revenue to be received in that month and transfer that sum from the General Revenue Fund to the Trust Fund during that month or as soon as practicable after the end of the month in respect of which the estimate is made.

(6) With respect to the 1976-77 fiscal year and each succeeding fiscal year in respect of which a Special Act is enacted, the Provincial Treasurer, depending upon whether the total of the sums transferred pursuant to subsections (4) and (5) is greater or less than 30 per cent of the non-renewable resource revenue received in that fiscal year as shown in the public accounts for that fiscal year, shall

- (a) transfer moneys from the General Revenue Fund to the Trust Fund, or
- (b) transfer moneys from the Trust Fund to the General Revenue Fund,

so that the amount of the non-renewable resource revenue in the Trust Fund for that fiscal year is equal to 30 per cent of the non-renewable resource revenue received in that fiscal year.

(7) No interest is payable with respect to any money transferred pursuant to this section to or from the General Revenue Fund or to or from the Trust Fund.

Divisions of
the Trust
Fund

G. (1) The assets of the Trust Fund shall be used for the following purposes:

- (a) the making of investments in projects which will provide long term economic or social benefits to the people of Alberta but which will not by their nature yield a return to the Trust Fund;
- (b) the making of investments by way of loans to
 - (i) the Crown in right of Canada, or
 - (ii) the Crown in right of any other province of Canada, or
 - (iii) any other person if the repayment of the loan and the payment of interest thereon by that person is guaranteed by the Crown in right of Canada or the Crown in right of any other province of Canada;
- (c) the making of investments which, in the opinion of the Investment Committee or in the opinion of

the Legislative Assembly as expressed in a resolution of the Assembly,

- (i) will yield a reasonable return or profit to the Trust Fund, and
 - (ii) will tend to strengthen and diversify the economy of Alberta.
- (2) Investments referred to in subsection (1), clause (a)
- (a) shall only be made if moneys are first appropriated from the Trust Fund by an Act of the Legislature specifically for a purpose described in subsection (1), clause (a),
 - (b) shall not exceed 20 per cent of the assets of the Trust Fund, and
 - (c) shall form the Capital Projects Division of the Trust Fund.
- (3) Investments referred to in subsection (1), clause (b)
- (a) shall be made or approved by the Investment Committee in accordance with the directions contained in any resolution of the Legislative Assembly,
 - (b) in the absence of any such directions, shall be made only with the approval of the Investment Committee,
 - (c) shall not exceed 15 per cent of the assets of the Trust Fund, and
 - (d) shall form the Canada Investment Division of the Trust Fund.
- (4) Investments referred to in subsection (1), clause (c)
- (a) shall be made or approved by the Investment Committee in accordance with the directions contained in any resolution of the Legislative Assembly,
 - (b) in the absence of any such directions, shall be made with the approval of the Investment Committee, and
 - (c) shall form the Alberta Investment Division of the Fund.
- (5) For the purposes of this section,
- (a) investments in the Capital Projects Division shall be deemed to be assets of the Trust Fund with a value equal to the amounts expended pursuant to Acts of the Legislature referred to in subsection (2), clause (a);
 - (b) investments in the Canada Investment Division and the Alberta Investment Division and all other assets of the Trust Fund shall be valued at book value;
 - (c) the percentage limitations referred to in subsection (2), clause (b) and subsection (3), clause (b) shall be determined at the end of each fiscal year.

Disposition of
Investments

7. (1) Where any investment is made under section 6 with the approval of the Investment Committee, no disposition shall be made of that investment except with the approval of the Investment Committee.

(2) Where a resolution of the Legislative Assembly directs the making of any investment pursuant to section 6, no disposition shall be made of that investment except pursuant to a resolution of the Legislative Assembly.

(3) Where a resolution of the Legislative Assembly directs the disposition of any investment then, notwithstanding subsection (1), the investment shall be disposed of in accordance with the directions contained in any resolution of the Legislative Assembly.

Terms and
conditions
on approvals

S. Any approval given by the Investment Committee under section 6 or 7 may be made subject to such terms and conditions as the Committee considers necessary.

Residual
investment
powers

9. (1) Notwithstanding section 6, where any moneys in the Trust Fund have not been or are not being invested pursuant to that section, the Provincial Treasurer may invest and may re-invest those moneys in any or all of the following:

- (a) the bonds, debentures or other evidences of indebtedness of, or guaranteed as to the repayment of principal and interest by, the Government of Canada, the government of any province of Canada or any municipal corporation in Canada;
- (b) the bonds, debentures or other evidences of indebtedness of or guaranteed as to the repayment of principal and interest by the government of a country other than Canada;
- (c) the bonds, debentures or other evidences of indebtedness of any agent of the Crown in right of Alberta;
- (d) certificates of deposit, deposit receipts or other evidences of indebtedness given by a chartered bank or treasury branch in consideration of a deposit or deposits made with the bank or treasury branch;
- (e) certificates of deposit, deposit receipts or other evidences of indebtedness which are unconditionally guaranteed by a chartered bank;
- (f) the bonds, debentures or other evidences of indebtedness of or guaranteed by any corporation, if those bonds, debentures or other evidences of indebtedness are authorized investments under section 63, subsection (1) of the *Canadian and British Insurance Companies Act*;
- (g) mortgages or hypothecs of real estate or leaseholds in Canada if the amount paid for the mortgage or

hypothee together with the amount of indebtedness under any mortgage or hypothee on the real estate or leasehold ranking equally with or superior to the mortgage or hypothee in which the investment is made does not exceed three-quarters of the value of the real estate or leasehold covered thereby;

- (h) mortgages or hypothecs of real estate or leaseholds in Canada notwithstanding that the mortgage or hypothee exceeds the amount authorized under clause (g) if the excess is guaranteed or insured by, or through an agency of, the Government of Canada or a province of Canada, or by an insurance company approved by the Treasury Board.

(2) The Provincial Treasurer may dispose of any investments made or deemed to be made under this section.

(3) Notwithstanding section 28.4, subsection (1) of *The Financial Administration Act*, the Provincial Treasurer shall transfer moneys from the Trust Fund to the Consolidated Cash Investment Trust Fund only where the moneys have not been invested or re-invested under subsection (1) or where the moneys have not been invested pursuant to section 6.

Administration
fees

10. (1) Where any costs, expenses or other payments are directly attributable to the administration of the Trust Fund, the Provincial Treasurer may charge the cost, expense or payment to the Trust Fund.

(2) After the end of each fiscal year the Investment Committee shall

- (a) estimate an amount consisting of the fees, wages, salaries, costs, expenses or other payments incurred in connection with the administration of the Trust Fund and paid out of the General Revenue Fund in the preceding fiscal year, and
- (b) authorize the Provincial Treasurer to transfer the amount estimated under clause (a) from the Trust Fund to the General Revenue Fund.

Quarterly
reports

11. (1) The Provincial Treasurer shall, as soon as practicable after the end of each quarter of the 1977-78 and succeeding fiscal years, prepare a report summarizing the investments made under section 9 and listing the investments made under section 6 during the preceding quarter.

(2) When a quarterly report is prepared under subsection (1), the Provincial Treasurer shall forthwith furnish copies of the report to all members of the Legislative Assembly and to the Clerk of the Legislative Assembly and upon doing so shall make the report public.

Annual
reports

12. (1) The Provincial Auditor shall from time to time and at least once each year audit the accounts and financial transactions of the Trust Fund.

(2) The Provincial Treasurer shall, as soon as practicable after the end of each fiscal year, prepare a report summarizing the operation of the Trust Fund during the preceding fiscal year and containing a financial statement, audited by the Provincial Auditor, showing

- (a) transfers of cash and other assets to the Trust Fund during the preceding fiscal year,
- (b) payments made from and income accrued to the Trust Fund for the preceding fiscal year, and
- (c) the total moneys expended under Acts of the Legislature referred to in section 6, subsection (2), clause (a) in respect of investments in the Capital Projects Division of the Trust Fund.

(3) When an annual report is prepared under subsection (2), the Provincial Treasurer shall forthwith furnish copies of it to all members of the Legislative Assembly and to the Clerk of the Legislative Assembly and upon doing so shall make the report public.

Review of
operations

13. (1) There is hereby established a select standing committee of the Legislative Assembly called the "Select Standing Committee on The Alberta Heritage Savings Trust Fund Act" consisting of 15 members.

(2) The members of the Select Standing Committee shall be appointed at the commencement of each session in the same way that members are appointed to other select standing committees of the Legislative Assembly.

(3) When a copy of an annual report is furnished to the Clerk of the Legislative Assembly pursuant to section 12, subsection (3) the annual report shall be deemed to be referred to the Select Standing Committee for review and a report concerning the investments of the Trust Fund which may contain any recommendations of the Committee concerning those investments.

(4) Where a motion is made in the Legislative Assembly for second reading of a Bill for a Special Act relating to the 1978-79 or any succeeding fiscal year, then, unless the Assembly by resolution otherwise directs, the debate on the motion shall be proceeded with only if the report of the Select Standing Committee relating to the preceding fiscal year has been tabled in the Assembly.

(5) The Select Standing Committee may, without leave of the Assembly, sit during any period when the Assembly is adjourned or after prorogation of a session of the Legislature.

R.S.A. 1970,
c. 142

14. *The Financial Administration Act is amended*

(a) *as to section 16.1 by adding the word "or" at the end of clause (c) and by adding the following clauses after clause (c):*

(f) *between accounts in the General Revenue Fund and the Alberta Heritage Savings Trust Fund, or*

(g) *between accounts in the Consolidated Cash Investment Trust Fund and the Alberta Heritage Savings Trust Fund, or*

(h) *for the purpose of making investments under section 9 of The Alberta Heritage Savings Trust Fund Act,*

(b) *by adding the following section after section 40.1:*

Advances

40.2 *The Provincial Treasurer shall, upon the direction of the Treasury Board, advance from the General Revenue Fund to the Alberta Heritage Savings Trust Fund such sums as may be required upon such terms and conditions as the Treasury Board may impose.*

(c) *as to item 1 of the Schedule, by adding to the list of designated funds of the Provincial Treasurer the following:*

(a.1) *Alberta Heritage Savings Trust Fund.*

Coming
into force

15. *This Act comes into force on the day upon which it is assented to.*

OFFICIALS IN THE TRESPASHER'S OFFICE
Province: Alberta

Hon. Mervin Leitch	Provincial Treasurer
A.F. (Chip) Collins	Deputy Provincial Treasurer
Robert A. Splane	Assistant Deputy Provincial Treasurer
Charles Swanson	Director of Investments - Finance Management
Gary H. Beatty	(formerly Deputy Minister of Finance - Province of Saskatchewan) Manager, Heritage Fund

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

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AS A UNIT IN THE ORIGINAL DOCUMENT.

Institution: Kuwait Fund for Arab Economic Development

Location: Kuwait City

Size:

Capital: Authorized Capital: KD one billion;
Paid-in-Capital : KD 328 million (KD - Kuwaiti Dinars)

Purpose: To assist Arab and other developing states in implementing development projects by making KD loans. The Fund may also guarantee the obligations of such states or corporate entities. The Fund may not finance more than 50% of non-local project cost.

Source of Funds: 400 million KD's out of government reserves according to the needs of the Fund. 600 million KD's out of public revenues of the State. Amount to be appropriated determined annually.

Management Structure: Prime Minister - Chairman of Board of 9 Directors elected for an initial term of two years. Chairman appoints Director - General of the Fund (upon recommendation of the Board) who has responsibility for financial and administrative matters.

Management of Funds: Net profits of the Fund are credited to a reserve account until reserves equal 20% of capital. Thereafter profits are added to the capital of the Fund.

Portfolio:	(KD Millions)
Cash	5.1
Bank deposits	174.5
Securities	110.4
Loans	62.0
Participations in Arab development institutions	25.9
Accrued interest	<u>6.9</u>
Total	384.8

Capital Structure: The Fund may borrow funds and give guarantees up to twice capital and reserves.

Paid-in-Capital KD 328 (March 1975)
General Reserve KD 56

Income: Financial information limited.

Total Income KD 16.6 million
Income from Investments 14.4
Income from Loans 2.2

Loan Disbursement: Loans made to 12 countries by sector

Transport and storage	35.6%
Agriculture	23.2
Industry	20.6
Power	<u>20.6</u>
	100.0%

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

Established December 1961.

Kuwait Fund for Arab Economic Development,
P.O. Box 2921,
Kuwait City.
KUWAIT.

Telephone numbers: 439260, 439261, 439262, 439075.
439076, 439077, 439078, 439079.

Telex number: 2025 ALSUNDUK.

Cable address: ALSUNDUK KUWAIT.

Directors: H.H. Sheikh Jaber al Ahmed al Sabah.
Abdurrahman Salem Al-Atiqi,
Abdulatif Yusuf Al Hamad.
Nasser M. Al Sayer.
Khaled A. Al-Shelfan.

Capital:

Statutory KD 1,000 million.

Paid-in KD 328 million.

- (iii) Work in the Fund is mainly based on the "task force" approach with close and informal collaboration between the various departments. These departments are at present: the Operations department, the Finance department, the Administrative department, the Office of Legal Advisers, and the Research department.

Objective and Functions

The objective of the Fund is to assist the developing countries in their development efforts. The Fund may achieve this objective, within the framework of its Law and Charter, by any means deemed appropriate by the Board of Directors, and particularly through the following functions:

- The extension of loans, guarantees, and grants-in-aid.
- The provision of technical assistance services.

In pursuing its objective and performing its functions the exclusive concern of the Fund is to serve the interests of the recipient countries and to promote their friendly relations with Kuwait.

Scope of Operations

- (i) The activities of the Fund extend to all developing countries.
- (ii) No sectoral limitations restrict these activities. The Fund however, has been mainly active hitherto in four sectors: Agriculture and Irrigation - Transport and Storage - Power - Industry.

- (iii) Assistance can be provided for specific development projects, for development programmes encompassing a number of articulated projects, and for development finance institutions.

Eligible Recipients

- (i) Recipients eligible for Fund assistance comprise governments, public or semi-public entities, as well as private or mixed enterprises undertaking development projects. Regional or sub-regional entities can also benefit from the Fund's activities.
- (ii) In cases where the borrower is not itself the government of the country concerned a guarantee agreement is concluded with such government in order to cover the borrower's obligations.

Types of Assistance

- (i) Assistance is mainly provided in the following forms:
- Direct loans to the recipients.
 - Participation in joint or parallel financing with other bilateral or multilateral aid agencies.
 - Grants-in-aid to finance techno-economic studies, both related or unrelated to specific loan operations. Such studies may cover any phase of the project, including pre-investments studies, identification of investment opportunities, feasibility studies, project preparation, etc.

– Advisory services relating to the technical, financial, economic, and legal aspects of development projects, policies, or institution-building.

(ii) No financial assistance for budgetary or balance of payments purposes is extended by the Fund. Nor does the Fund participate in equity financing.

Applications

(i) No special application forms are required. Preliminary inquiries may be initiated by prospective recipients or by the Fund itself. Such inquiries enable the Fund to assess the subsequent steps to be taken for submitting a formal application and for furnishing the information required for its processing.

(ii) Inquiries and applications should be addressed to the Director General of the Fund through competent official channels.

(iii) The processing of an application submitted to the Fund, requests for additional information, or the exchange of missions, should not be construed as indicating an approval of the application. Approval is deemed to be given only by virtue of a resolution from the Board of Directors to the effect that a loan or technical assistance agreement is to be concluded with the applicant.

Project Appraisal

(i) In considering an application, the Fund requests the applicant to submit sufficient documentary evidence pertaining particularly to the following:

- an adequate description of the technical and economic aspects of the candidate project,
- its importance and priority-rating,
- economic justification and financial soundness,
- estimated foreign and local costs,
- proposed schedule of implementation.

These requirements are of course adapted to the nature of each application and to the assistance operation envisaged.

(ii) An appraisal report is prepared by the Fund on the basis of the data and information provided by the prospective recipient, by the feasibility studies, and by Fund field missions. This report and the Fund's management recommendations as regards the nature and modalities of the proposed assistance, are submitted to the Board of Directors.

Limitations

The Fund is, as a rule, precluded by its Charter from:

- (i) Financing more than 50% of the total cost of any project.
- (ii) Financing local costs requirements, unless strong reasons specific to the recipient country's economic situation and to the project itself make such financing necessary.

Lending Conditions

- (i) In determining the interest rate, the maturities, and the grace period of its loans, the Fund gives due consideration to the concessionary nature of its lending operations. This nature is expressed by a significant grant element in the loans extended. The level of the grant element is conditioned by the economic conditions of the recipient country and by the specific circumstances of each project.
- (ii) In addition to the interest rate, a service fee of one half of one per cent is levied on the outstanding balance of the amounts disbursed under the loans.
- (iii) No commitment charges are applicable.

Currency Clauses

- (i) In all assistance operations the Kuwaiti Dinar is the monetary unit of account as well as the means of payment.
- (ii) However, the Fund – acting as the agent of the recipient – may effect disbursements and accept repayments in other fully convertible currencies on the basis of the current exchange rates.

Disbursement Procedures

- (i) The recipient of financial assistance from the Fund is entitled to make withdrawals under the agreement concluded only after the effectiveness of such an agreement has been declared by the Fund.

- (ii) The proceeds of the loans or grants-in-aid extended can be disbursed only to meet expenditures on a list of goods and services specified in the agreement.
- (iii) Standard forms for disbursement operations are used in the following cases:
 - reimbursement of outlays effected by the recipient,
 - direct payment for settling amounts due to suppliers or contractors.
 - payments to banking institutions under a letter of credit arrangement.

Procurement

- (i) Procurement of goods and services (other than those of consultants) under Fund loans are, as a rule, based on international competitive bidding procedures. Exceptions to this rule may be agreed upon if circumstances make other procedures more appropriate.
- (ii) Tendering, awarding, contracting and procurement documents are subject to review and approval by the Fund.

Consultants

The Fund generally requires the use of the services of qualified consultants at the different stages of the projects submitted for consideration or approved for financing.

This applies particularly to the preparation of feasibility studies and to the supervision of the different stages of implementation.

Project Supervision

The supervision of the implementation of projects is undertaken through the review of periodic progress reports and other evidence submitted by the recipients and by the consultants, as well as through Fund missions to the site of the projects.

Historical Background

- (i) Established in December 1961, the *Kuwait Fund for Arab Economic Development* is the agency of the State of Kuwait for the provision and administration of financial and technical assistance to the countries of the developing world. From January 1962 to July 1974 the operations of the Fund were confined, in accordance with its mandate, to the Arab countries.
- (ii) On July 17th, 1974 the National Assembly extended the scope of the Fund's operations to the rest of the developing countries and increased the Fund's declared capital from KD 200 million to KD 1,000 million.

Organization

- (i) The Kuwait Fund is an autonomous public body having an independent juridical personality. It is administered by a *Board of Directors* comprising eight members appointed by the Prime Minister. The *Chairman of the Board* is His Highness the Crown Prince and Prime Minister, Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah, who has delegated his authority to the Minister of Finance and Oil.
- (ii) The management of the Fund is the responsibility of the *Director General* who is appointed by the Chairman of the Board. The Director General is the legal representative of the Fund. The *Deputy Director General* assists in the management of the Fund and exercises the functions of the Director General in his absence.

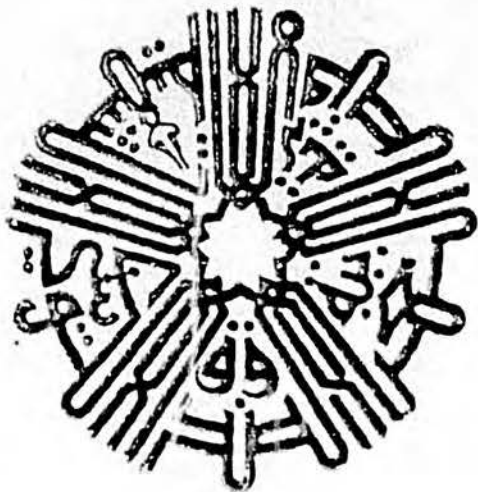
KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT LOANS
1962-76

Country	Project	Date of Agreement	Amount of Loan (Million KD)	Interest %	Maturity (Years)	Grace (Years)
Sudan	Sudan Railways	25.3.62	7.000	4.0	15.7	3.70
	Wahsm al-Girba Sugar Plant	15.7.65	1.700	4.0	14.4	2.40
	Agricultural Development	14.8.67	4.210	3.0	21.3	2.80
	Mechanical Dry Farming	14.3.72	1.600	3.0	24.2	4.20
	Rahad Irrigation	17.4.73	3.300	3.0	30.0	4.50
	Sernar Sugar	21.7.73	4.500	4.0	17.0	4.00
	Rahad Irrigation	30.6.75	11.200	3.0	31.0	4.60
	Industrial Bank	30.6.75	1.500	4.0	10.0	4.00
Total			35.010			
Jordan	Yarmuk Valley	3.4.62	1.900	3.0	20.0	5.00
	Phosphate Mines	3.4.62	3.000	4.0	10.0	3.00
	Jerusalem Electric Power	5.2.64	0.240	3.0	17.2	1.20
	Jerusalem International Hotel	5.2.64	0.175	4.0	11.7	1.70
	Jordan Hotel, Amman	8.3.65	0.085	3.5	14.6	0.60
	Zarka River	14.3.72	4.600	3.0	24.5	4.50
	Hussein Power Station	25.6.73	3.020	4.0	24.0	4.00
	Industrial Development Bank	17.7.74	1.000	4.0	17.0	5.00
Total			14.020			
Tunisia	La Goulette Electricity-Phase I	21.12.63	3.800	4.0	15.5	3.50
	Medjerda Valley (1 st stage)	21.12.63	2.000	3.0	22.3	2.30
	La Goulette Electricity-Phase II	21. 1.67	4.600	4.0	14.6	2.60
	Medjerda Valley (2 nd stage)	28. 7.70	3.200	3.0	26.4	6.40
	Gas Pipeline	18. 2.71	0.900	4.0	15.3	2.30
	Fishing Ports	25. 3.74	2.850	3.0	19.0	4.00
	Phosphate Mines Development	14.10.74	2.000	4.0	15.0	2.90
	Development Bank	6. 4.75	2.500	4.0	16.0	4.90
	Tunis International Airport*	-	1.000	4.0	16.0	4.00
	Tunis-Turki Highway	15. 2.76	3.750	4.0	20.0	5.00
Bizerta Canal Bridge	15. 2.76	2.250	4.0	15.0	5.00	
Total			31.850			
Egypt	Suez Canal Expansion	5. 7.64	9.800	4.0	16.0	3.00
	Cargo Ships Construction	24. 1.68	3.500	4.0	14.9	2.90
	Abu Qir Gas Project	1. 7.73	4.500 ⁽¹⁾	4.0	15.0	6.00
	Abu Qir Gas Project	7. 7.75	3.500	4.0	15.0	6.00
	Suez Canal Reopening	7. 3.74	10.000	4.0	18.0	3.00
	Talkha Fertilizer Plant	27. 6.74	7.000	4.0	20.0	4.70
Total			38.300			
Algeria	Oil Pipeline (1 st stage)	23. 6.64	7.500	4.0	14.7	2.70
	Oil Pipeline (2 nd & 3 rd stage)	20. 5.67	2.500	4.0	11.8	0.00
			10.000			
Morocco	Tessault Agricultural Project	29. 5.66	7.350	3.0	24.0	4.00
	Tadla Agricultural Project	29. 5.66	2.700	3.0	19.0	4.00
	Sucrafor Project	2. 2.72	0.860	4.0	9.7	1.70
	Phosphate Plant	25.11.74	2.400	4.0	14.0	3.70
	National Bank for Economic Development	25. 8.75	6.000	7.0	13.0	4.00
Total			19.310			

Country	Project	Date of Agreement	Amount of Loan (Million KD)	Interest %	Maturity (Years)	Grace (Years)
North Yemen	Zabid Valley	6. 6.68	0.325	0.5	16.0	7.80
	Salif Salt Mines I	28. 7.70	1.900	2.0	30.0	-
	Highway Project	14. 8.72	0.281	0.5	19.0	10.00
	Tihama Agricultural Development I	9. 6.73	1.900	0.5	50.0	9.50
	Salif Salt Mines II	29. 5.74	1.100	2.0	27.0	2.10
	Taiz-Km. 64 Road	17. 1.76	1.500	1.5	20.0	5.00
Total			7.009			
South Yemen	Abyan Delta Development	17. 4.71	0.330	0.5	49.1	9.10
	Abyan Delta Development	12. 5.74	4.200	0.5	49.0	9.40
	Mukalla-Hadhramout Highway	25. 6.75	4.500	1.5	40.0	9.75
Total			9.030			
Syria	Grain Silos	13. 9.71	7.000	3.5	15.5	3.50
	Oil Refinery	7. 3.74	2.000	1.0	24.0	4.50
	Mehreda Thermal Power Station	25.11.74	9.900	4.0	19.0	3.25
Total			18.900			
Lebanon	Joun Electricity	4. 7.66	1.670	4.0	12.5	2.50
	Grain Silos	7. 8.68	0.800	4.0	11.4	2.40
Total			2.470			
Mauritania	Road Maintenance	9. 1.75	1.150	0.5	25.0	5.25
	Expansion of Port of Nounthilbou	3. 2.76	2.450	1.5	20.0	5.00
Total			3.600			
Bahrain	Aluminum Smelter	21. 7.70	1.000	4.0	11.9	1.90
	Flour Mill	24. 3.71	0.500	4.0	11.7	1.70
	Causeway and Bridge	24. 3.71	0.500	3.0	14.2	2.20
	Sitra Power Station	24. 7.72	7.350	4.0	18.0	4.00
Total			9.350			
Iraq	Samara Hydro-electric	5. 2.70	3.000	4.0	14.5	2.50
	Cement Project	14. 8.71	3.800	4.0	13.1	2.10
Total			6.800			
Rwanda	Tea Plantation	25. 6.75	1.000	3.0	27.0	6.60
Malaysia	Palong Development	25. 6.75	7.600	5.0	30.0	10.40
Uganda	Livestock Development	30. 6.75	5.750	2.5	25.0	5.00
Bangladesh	Rural Electrification	30. 6.75	6.400	2.0	32.0	6.80
	Mano River Project	30. 6.75	2.300	1.5	33.0	7.60
Total			8.700			
India	Kalinady Power Project	27. 1.76	15.300	4.0	20.0	5.00
Nepal	Kulekhani Power Project	17. 1.76	5.000	3.0	25.0	7.00
Tanzania	Textile Mill	5. 7.75	4.500	4.0	22.0	5.00
Sri Lanka	Urea Fertilizer Plant	15. 8.75	7.500	4.0	15.0	5.00
Somalia	Electric Project	7. 7.75	6.200	1.5	29.0	5.00
Pakistan	Transmission Line (Gudda-Karachi)*	-	13.000	4.0	20.0	5.00
Grand Total			279.899			

(*) Loans not yet finalized.

(1) Two loans combined together and terms of 1st loan adjusted on 7.7.75.



KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

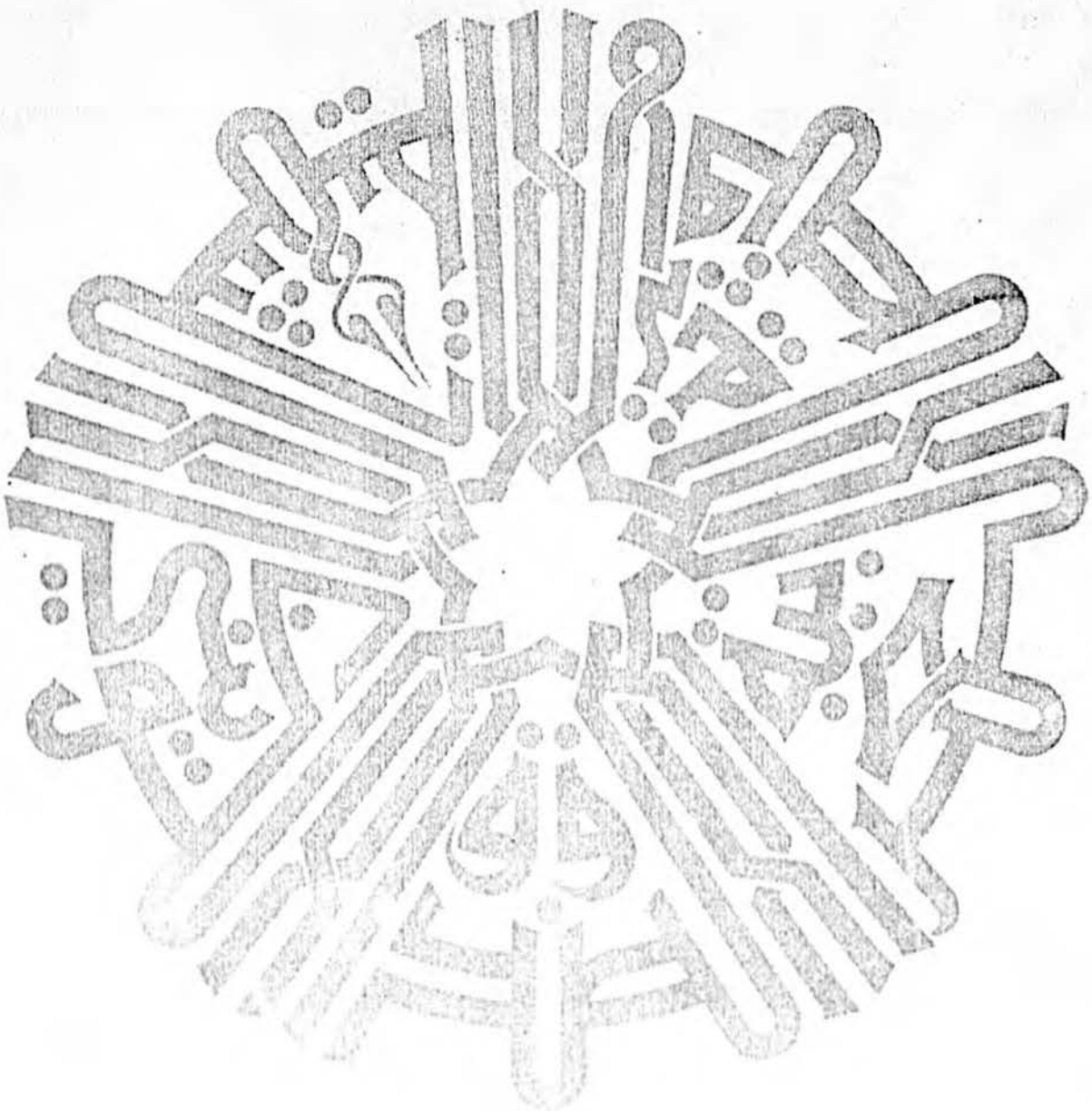
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صندوق الكويت للتنمية الاقتصادية العربية





*H.H. Shaikh Jaber Al Ahmed Al Sabah
The Crown Prince*

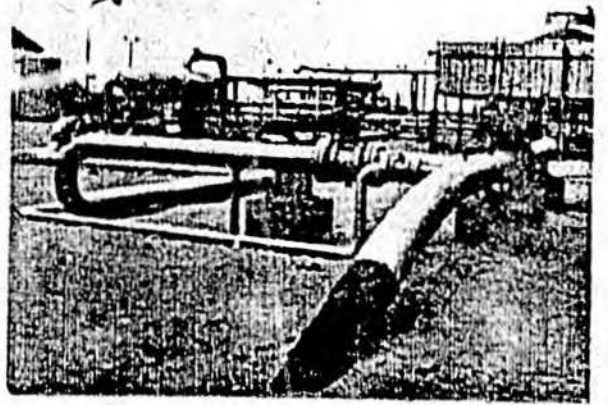
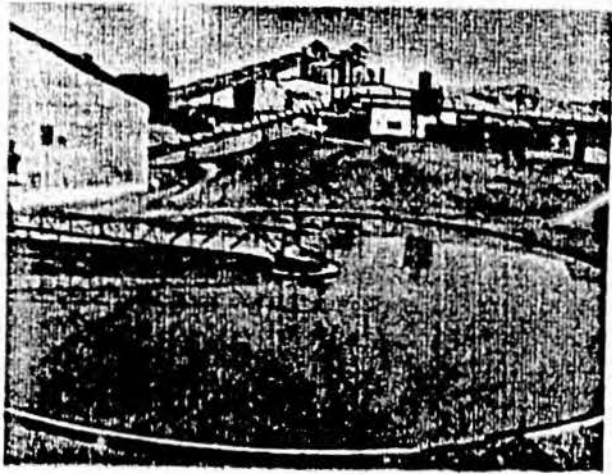
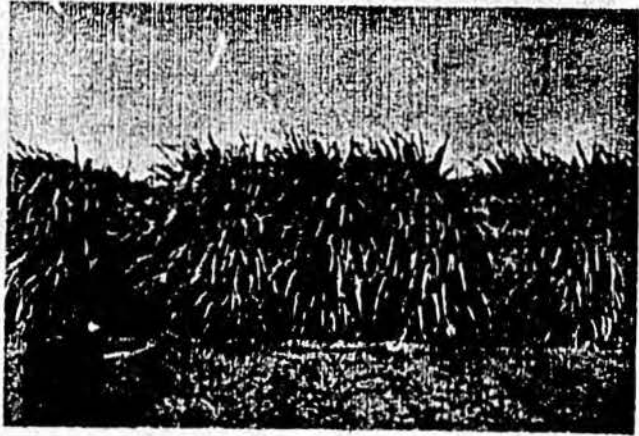


*H.H. Shaikh Sabah Al Salem Al Sabah
Amir of the State of Kuwait*

Outline of the

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

Established	31.12.1961
Purpose	To assist Arab and other developing states in developing their economies, and to provide financial and technical assistance for the execution of their development programmes.
Capital	
Statutory	KD 1,000 million.
Paid-in	KD 328 million.
Total Assets	KD 384 million.
Loan Commitments	54 Loans totalling KD 161 million.
Projects Financed	Projects having direct development impact and high priority rating in development programmes.
Technical Assistance	<ul style="list-style-type: none">- Pre-investment studies.- Technical and Economic Advisory Services.



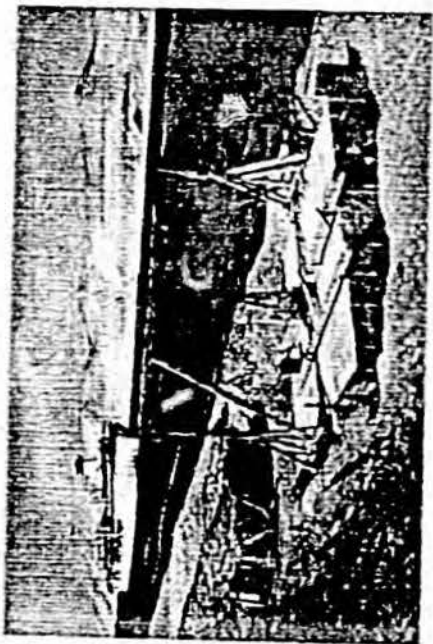
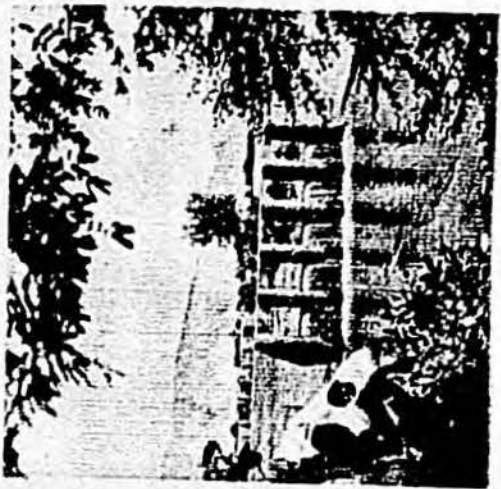
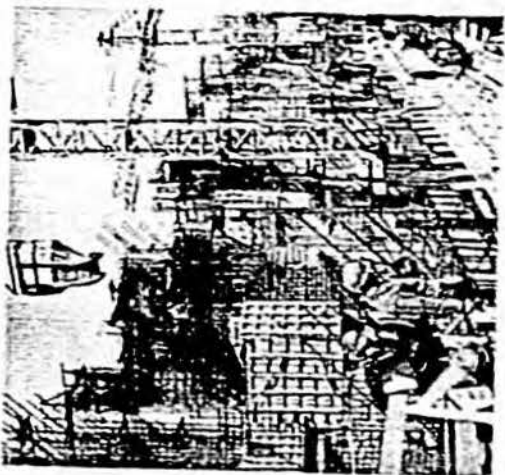
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①

HIGHLIGHTS OF THE YEAR

- Following the promulgation of Law No.25, on July 17th, 1974, for the Reorganization of the Kuwait Fund For Arab Economic Development, the Fund took off to a new start of a much wider scope of activities. According to this Law, the Fund's operations are to be extended to cover, not only Arab States, but all developing countries, and its statutory capital was increased from KD 200 million to KD 1,000 million, more than \$ 3,400 million equivalent.
- Before this Law was enacted, a Fund mission had visited early last year, on behalf of the Government of Kuwait, nineteen African countries, in order to explore the possibilities of co-operation between these countries and Kuwait, especially in the field of technical and financial assistance.
- During this year, another Fund mission visited ten Asian countries with the aim of acquainting the officials of these countries with the extension of the Fund's field of operations and of getting first-hand information on the main features of these countries' problems, requirements and priorities in the field of economic and social development. These ten Asian countries were: Pakistan, Sri Lanka, Bangladesh, India, Nepal, Malaysia, Singapore, Philippines, Thailand and Indonesia.
- Immediately following the official announcement of the new Law, missions from the Fund were dispatched to many countries in both Africa and Asia, with the purpose of identifying projects suitable for financing and evaluating those already chosen. Countries visited for this purpose included: Bangladesh, Sri Lanka, Malaysia, Afghanistan, Uganda, Burundi, Tanzania, Rwanda, Kenya, Mali and Chad.
- The Fund's activities in the Arab world were in no way affected, however, by the extension of the Fund's operations to new countries.
- The present report reflects the widening of the scope of the Fund's operations, particularly in the large number of projects which are presently under consideration, and of which many have reached an advanced stage of preparation. Thus, apart from the loans and technical assistance agreements which have been finalized during the year, this report includes no less than 40 projects under consideration, extending to more than 20 countries in the Arab world and in the rest of Africa and Asia.
- During 1974/75, the Fund's Board of Directors approved 10 new loans totalling KD 41.6 million, of which seven loan agreements were signed. Of these seven loans totalling KD 27.6

million, three loans of KD 10.4 million were made to Jordan, Egypt and Morocco, in the industrial sector; two of KD 3.1 million to Tunisia and North Yemen in the mining sector, one loan of KD 9.9 million to Syria, in the power sector, and another of KD 4.2 million in the agricultural sector of the People's Democratic Republic of Yemen. The total number of loans extended by the Fund has therefore reached 54, amounting to KD 161 million.

- During the year, the Fund also extended six technical assistance grants totalling KD 1.17 million, representing a two-fold increase over the amount reached at the end of last year and bringing the total number of grants to 20.

- During the year, the Fund represented the Government of Kuwait at a number of international conferences and meetings concerned with the development problems of the Third World. The most important of these were the International Food Conferences (Rome, Nov., 1974); FAO's Second Regional Conference for the Near East (Amman, Sept., 1974); the meeting of Arab Financial Institutions (Cairo, May 1975); the meeting of representatives of Arab Development Funds and the Economic Commission for Western Asia (ECWA) (Beirut and Kuwait—January/February, 1975) the Conference on the Financing of the Senegal River Basin Programme (Nouakchott, July, 1974) the Conference of Legal Experts of Non-Aligned States (Kuwait, January, 1975); and the Ministerial Meeting for Establishing the Solidarity Fund for Economic and Social Development in Non-Aligned Countries (Havana, March, 1975).

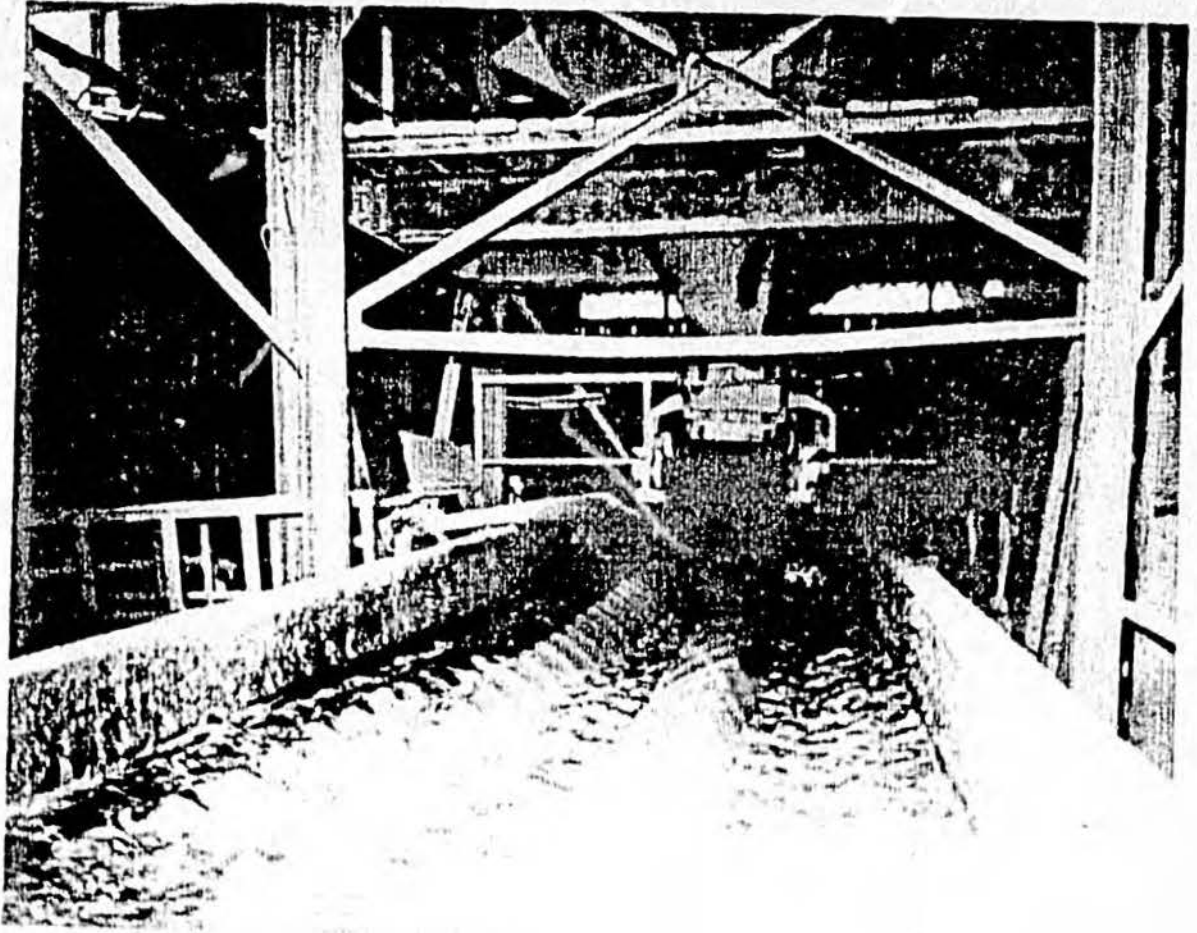
- The Fund continued during the year its contacts with international, regional and national institutions concerned with the development of the Third World, including the International Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, the Central Fund for Economic Cooperation (France), the Canadian International Development Agency, the Arab Fund for Economic and Social Development, the Abu Dhabi Fund for Arab Economic Development and the Inter-American Development Bank. These contacts aim at exploring new avenues of cooperation with these institutions in providing economic assistance to the developing countries. In a large number of the projects included in this report, the Fund's participation has been or is expected to be in the form of joint-financing with some of these institutions, particularly with I.B.R.D., I.D.A. and The Arab Fund for Economic and Social Development.

- The Fund continued also to undertake certain responsibilities, on behalf of the Government of Kuwait, in connection with economic assistance provided directly by the Government, in addition to that extended by the Fund. The most prominent among these responsibilities concerned the follow-up of a grant of \$ 6 million provided by the Kuwait Government to finance the eradication of Onchocerciasis (River-Blindness), a disease affecting seven countries in West Africa. This programme, which is of immense humanitarian and economic significance is sponsored by four International Organizations: WHO, IBRD, FAO and UNDP.

● One outstanding feature of the Fund's financial year 1974/75 was the increase in the total resources of the Fund by 150% over those of last year. This was primarily due to a three-fold increase of paid-in-capital since the end of 1973/74, bringing it up to KD 328 million.

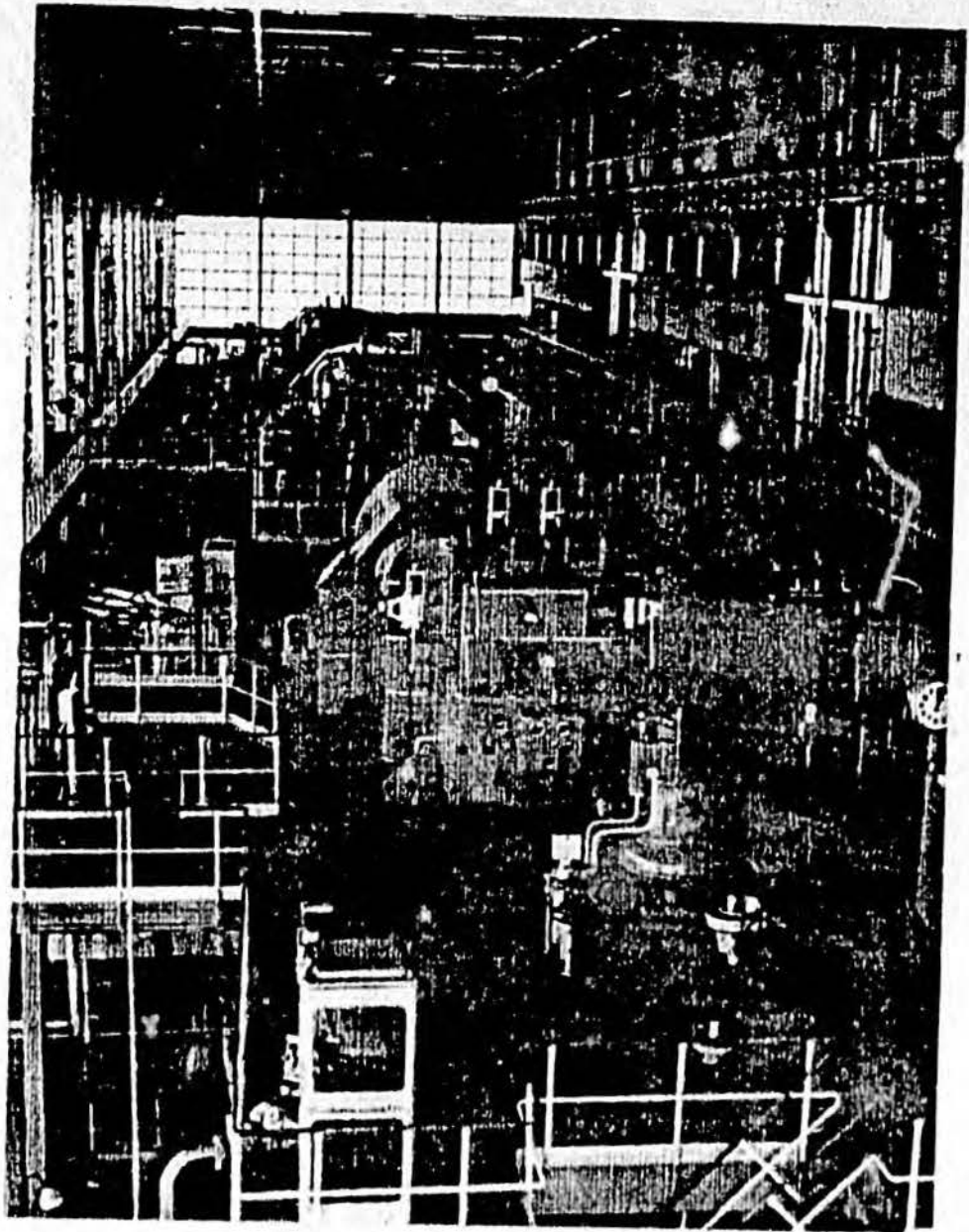
● As regards the use of resources, disbursements from the loan account rose from KD 83.4 million to KD 91.3 million, while the deposits and investments portfolio increased from KD 80.5 million to KD 290 million. The contribution made by the Government of Kuwait through the Fund, to Arab development institutions, rose from KD 10.8 million to KD 25.8 million. Gross income for the year amounted to KD 16.6 million, while total expenditures were KD 608,300 not exceeding 3.7% of gross income. Administrative expenses did not constitute more than 3.4% of gross income.





②

NEW LOANS



JORDAN

Industrial Development Bank

Borrower	Industrial Development Bank	Term	17.7.74 to 1.9.1991
Amount	KD 1 million	Grace	5 years
Interest	4%(1)	Repayment	24 Semi-annual instalments

The Industrial Development Bank of Jordan plays a prominent role in the field of development finance, and has participated, since its establishment in 1965, in financing a large number of projects throughout the country, in the two sectors of industry and tourism. For the promotion of industrial development in the country, the Bank extends loans, participates in equity ownership, and provides technical assistance. It subjects all projects to screening for ascertaining their economic and financial feasibility.

The Bank is a mixed enterprise, with an authorized capital of JD 3 million and paid-in capital of JD 2.24 million of which the Government's share is 49.5%.

The Government of Jordan and the Bank had requested the Fund to participate in financing the Bank's operations for the period 1974-1977, the total costs of which have been estimated at KD 5.94 million (JD 6.54 million) of which about KD 4.42 million (JD 4.86 million) is in foreign exchange.

⁽¹⁾ For all Fund's loans covered by this report, interest rates include a 0.5 percent service charge.

TUNISIA

Phosphate Mines Modernization Project

Borrower	The Republic of Tunisia	Term	14/10/74 to 1/9/1989
Amount	KD 2 million	Grace	2.9 years
Interest	4% per annum	Repayment	24 semi - annual instalments

This Project is part of Tunisia's 1974-77 programme for the modernization of phosphate mines and beneficiation plants. The programme aims at realizing an increase in the production of phosphates, the reduction of production costs and improving working conditions inside the mines. The project will include the mechanization of the Radeyef, Metlaoui and Mdilla mines, the improvement of means of transport as well as the modernisation and expansion of the beneficiation plants. The provision of freight cars and locomotives, of some essential social services, and of a training programme for the workers, are also included in the project. Work on the project had already started during the second half of 1973.

Total costs are estimated at KD 8.46 million (TD 12.435 million) of which KD 6.26 million (TD 9.20 million) is in foreign exchange, representing 74% of total costs. The Fund loan has been extended to the Government of Tunisia which will relend it to the Phosphate and Railway Company.

SYRIA

Mehreda Thermal Power Project

Borrower	Public Electricity Establishment	Term	25.11.74 to 1.9.1993
Amount	KD 9.9 million	Grace	3.25 years
Interest	4% per annum	Repayment	31 semi-annual instalments

Syria's power generation facilities, with a total capacity of 165MW, have suffered extensive damage as a result of the October war of 1973, whereas no perceptible change in demand took place as a result of the war. The present project forms part of the PEE expansion programme extending until 1979, and will help in compensating for the damages inflicted on the power network during the October war and in meeting part of the expected increase in electricity consumption.

The project constitutes the first stage of the construction of a thermal power station in Mehreda near the city of Hama. It includes the installation of one unit of 125MW capacity, four new sub-stations as well as the provision of consulting services in engineering, administration and training.

The total cost of the project is estimated at KD 27.3 million, with a foreign exchange component of KD 21.1 million.

The loan provided by the Fund covers 46.9% of the foreign exchange required, or about 35% of total cost; the balance to be covered by the World Bank, a co-lender with the Fund, and by the Public Electricity Establishment.

EGYPT

Talkha Fertilizer Plant II

Borrower	Arab Republic of Egypt	Term	27.6.74 to 1.3.1994
Amount	KD 7.0 million	Grace	4.7 years
Interest	4% per annum	Repayment	30 semi-annual instalments

This project includes the construction of a plant for the production of ammonia near Talkha, just across the Nile facing the city of Mansoura. The plant will have a capacity of 396,000 tons per annum, of which 330,000 will be allocated for the production of 570,000 tons of urea annually, and the remainder for the production of calcium ammonium nitrate in Talkha Fertilizer Plant I. The plant will allow Egypt to meet all its requirements of nitrogenous fertilizers until the end of the 1980's, and therefore to save about KD 250 million in foreign exchange during the projected life of the plant of 12 years.

Work on the project has already started during the second half of 1974 and the plant is expected to be operational by 1978.

The total cost of the project is about KD 38 million, of which the foreign exchange is nearly KD 26.5 million, the Fund's loan representing 18.5% and 26.5% of the two components respectively. The balance will be covered by the Arab Fund for Economic and Social Development, the Abu Dhabi Fund for Arab Economic Development, International Development Association and The Libyan Arab External Bank. The Egyptian Nasr Company for Fertilizers and Chemical Industries will implement the project, under the supervision of the General Organization for Industrialization.

MOROCCO

Phosphoric Acid and Mono-ammonium Phosphate Project

Borrower	National Bank for Economic Development (BNDE)	Term	25.11.1974 to 21.8.1998
Amount	KD 2.4 million	Grace	3.7 years
Interest	4% per annum	Repayment	20 semi-annual instalments

This project represents one further step towards the development of the phosphate industry in Morocco, through the production of phosphoric acid, a key intermediate product in manufacturing high-grade chemical fertilizers, and mono-ammonium phosphate (MAP).

The project will include the construction of a plant to produce phosphoric acid and mono-ammonium phosphate (MAP) near the town of Safi, the provision of utility installations and related off-site facilities.

The project will help Morocco to maintain or increase its share in the international trade of phosphate products, and to consolidate its position in the new emerging pattern of trade in intermediate and high-grade finished products. A recently formed company, "Maroc-Phosphore" owned by the "Office Chérifien des Phosphates" (OCP), was formed to undertake the implementation of the project, which has already started in mid-1973.

The Fund loan has been extended to the "Banque Nationale pour le Développement Economique" of Morocco which will re-lend its proceeds to Maroc-Phosphore. Total cost is estimated at KD 46.6 million (DH 687 million) of which the foreign exchange component is KD 30 million (DH 442 million), or 64% of total cost. Other sources of finance include the World Bank and the Kreditanstalt Fur Wiederaufbau.

YEMEN ARAB REPUBLIC

Saleef Mines Project - III

Borrower	Yemen Arab Republic	Term	29.5.1974 to 1.1.2001
Amount	KD 1.1 million	Grace	2.1 years
Interest	2% per annum	Repayment	50 semi-annual instalments

On July 28, 1970, the Kuwait Fund had extended a loan of KD 700,000 to finance a project aiming at the development of salt mines at Saleef, which was followed by another loan on August 14, 1972.

Since then, new factors have made it necessary to mobilize additional resources for the implementation of the project and widening its scope. Among these factors, the most important were the rise in the cost of equipment and of implementing and supervising the project, and the need for improving the road linking Saleef with the Port of Hodeidah, for providing pilotage and fire-extinction equipment and for widening some parts of the loading wharf.

The Fund has therefore agreed to extend this additional loan of KD 1.1 million, under the same conditions and terms stipulated in the original loan agreement of July 28, 1970.

SOUTH YEMEN

Abyan Delta Project

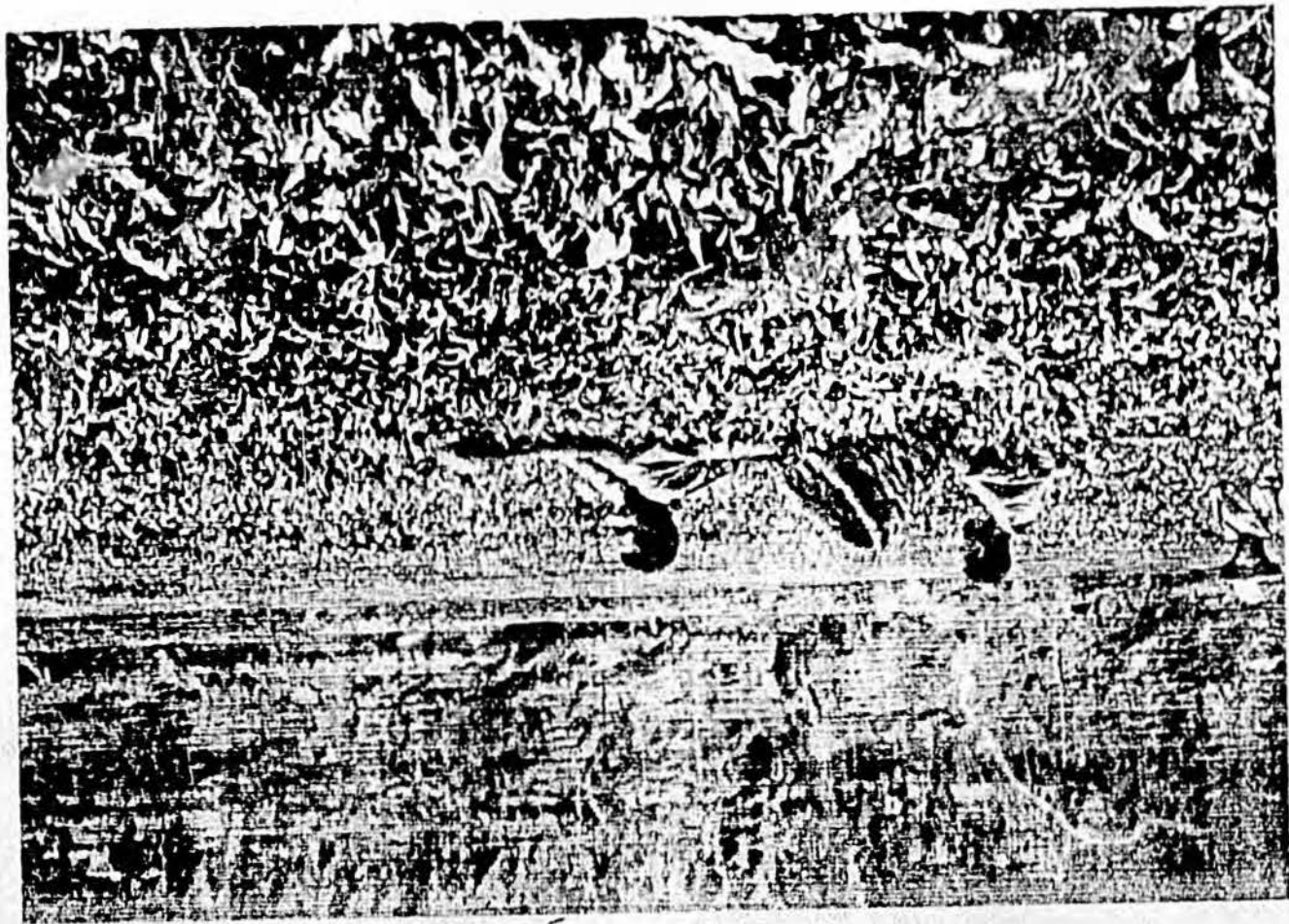
Borrower	People's Democratic Republic of Yemen	Term	12.5.1974 to 1.10.2023
Amount	KD 4.2 million	Grace	9.4 years
Interest	0.5% per annum	Repayment	80 semi-annual instalments

The Abyan Delta, an area of approximately 53,000 hectares, is located about 50km east of Aden, and includes one of the largest cultivated areas in Southern Yemen. Three quarters of the total area of the Delta are suitable for cultivation, but no more than one quarter, or about 13,000 hectares, is actually cultivated.

The project includes the improvement and expansion of the irrigation network in the region, the levelling of an area of about 18,000 hectares of which 3,000 hectares are under well irrigation and 15,000 under flood irrigation, as well as the provision of agricultural equipment and the installation of a flood-warning system. Training and consulting services are also provided for.

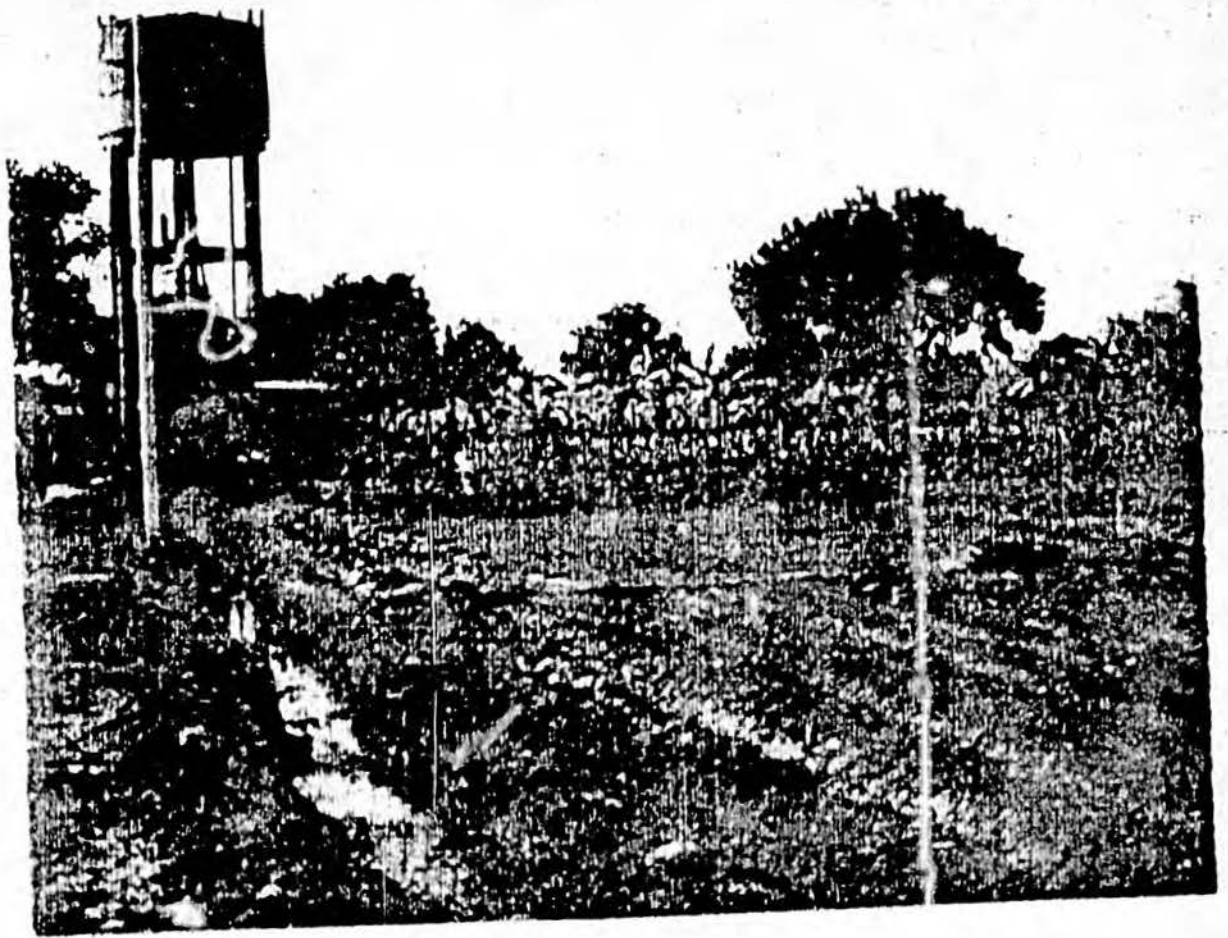
Total costs, including interest during construction, are estimated at KD 4.750 million, of which 71% is in foreign exchange.

The Fund loan covers all the foreign exchange component as well as 60% of local cost.



③

TECHNICAL ASSISTANCE



AFGHANISTAN

Sugar Industry Development and Exploitation of Farah-Rud River

Recipient	The Republic of Afghanistan
Amount	KD 400,000
Date ⁽¹⁾	20.10.1974

Afghanistan was one of the first non-Arab countries to benefit from the extension of the Fund's operations to cover all developing countries. This grant was given to finance consultancy services covering all management, technical, economic and marketing aspects of two projects, one concerning the development of the sugar industry and the other concerning the exploitation of the Farah-Rud River. The former project aims at the renovation of Afghanistan's only existing sugar plant, located in the Baghlan province, increasing its productive capacity, and constructing a new sugar plant in Harat. The second project consists of utilising the waters of the Farah-Rud River to irrigate an area of 40,000 to 60,000 hectares, situated in one of the least developed, most neglected region of the country, but with a good potential for the production of wheat, cotton and sugar.

⁽¹⁾ Dates in this section refer to the dates of approval of technical assistance by the Board of the Kuwait Fund.

SOMALIA

Livestock Development and Expansion of Irrigated Area

Recipient	Democratic Republic of Somalia
Amount	KD 200,000
Date	1.2.1975

Livestock is the most important source of income in Somalia, as shown by the fact that nearly 55 per cent of the total area of the country is only suitable for pasture, that no less than three-quarters of the population depend on it as their main or single source of employment, and that it brings to the country more than half its export proceeds. Of the 8 million hectares (about 12% of the total land area) which are suitable for rainfed or irrigated agriculture, only about 400,000 hectares, is now under rainfed cultivation. Somalia possesses, however, two important rivers, Juba and Shebli, which could be harnessed to irrigate the large area falling between the two rivers. Their utilisation would spare the country the consequences of rainfall fluctuations and of droughts which resulted last year in a considerable loss of human life and herd.

The present grant finances the study and preparation of two projects: one for livestock development and the other for the expansion of irrigated agricultural area in Hargeisa by utilizing the waters of the Juba river.

MAURITANIA

Exploitation of Mineral Resources

Recipient	The Islamic Republic of Mauritania
Amount	KD 175,000
Date	1.2.1975

The present grant finances a comprehensive study of the various aspects of the mining sector in Mauritania with the aim of drawing up a long-term plan for its fuller utilization, of identifying opportunities for developing new industries on the basis of this utilization, and of determining the role of government in its exploitation.

NORTHERN YEMEN

Expansion of Cement Production

Recipient	Yemen Arab Republic
Amount	KD 70,000
Date	29.5.1974

High priority is being assigned by the Government of Yemen Arab Republic to increasing cement production in view of the serious shortage met at present by various development projects. The annual output of cement, produced by one plant near the port of Hodeidah, does not exceed 50,000 compared with Yemen's consumption of about 200,000 tons annually.

The present grant finances the necessary consulting services for studying the possibility of increasing cement production and for the preparation of an integrated project aiming at meeting the present shortage.

SOUTHERN YEMEN

Modernization of the Port of Aden and El-Rayan Airport and the Development of Livestock Production

Recipient	People's Democratic Republic of Yemen
Amount	KD 300,000
Date	29.5.1974

Of the projects included in the current Five-Year Plan of Southern Yemen (1974/5-1978/9) three projects are given high priority by the Yemeni Government. One aims at raising the standard of operation of the port of Aden, restoring the position it occupied in the economy prior to the closure of the Suez Canal in 1967, and allowing it to face the competition of newly-developed ports on the Red Sea.

Another involves the improvement of services provided at El-Rayan airport, the country's largest local airport which is situated in the Hadhramaut region.

The third is designed to develop livestock production sufficiently to allow a big reduction in the country's imports of meat and poultry.

It was to finance the consultancy services required for the study of these projects and for ascertaining their feasibility that the present grant has been given.

THE ARAB PLANNING INSTITUTE

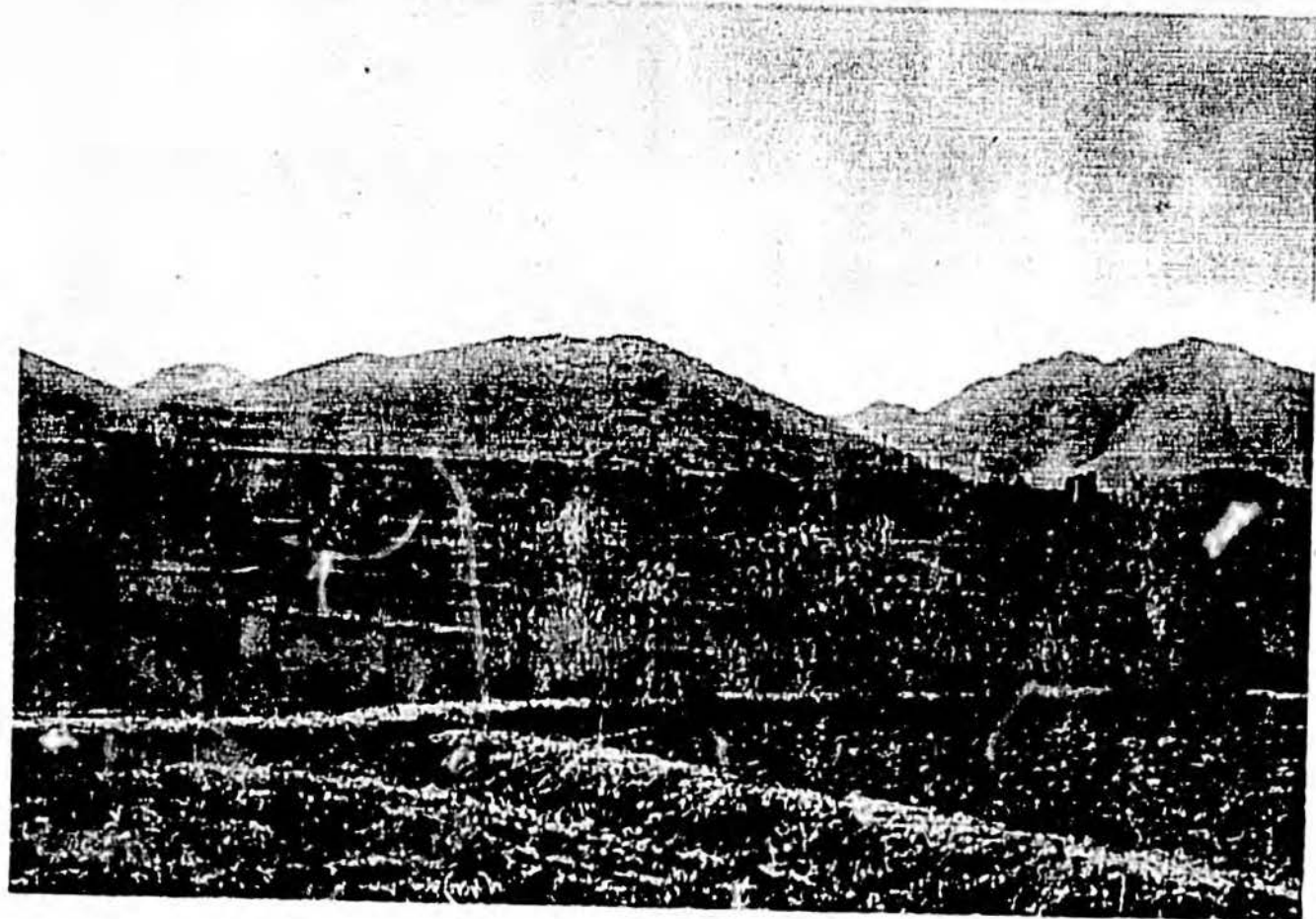
Training Programme in Economic Planning

Recipient	The Arab Planning Institute
Amount	KD 31,000
Date	18.12.1974

Since its establishment in 1966, the Arab Planning Institute has been working in close cooperation with the Kuwait Fund, in drawing its general policies and in designing its programmes for developing Arab expertise in the field of planning and economic development. This year the Fund decided to raise its annual grant to the Institute to KD 31,000 in view of the expansion of its training programme.

PROJECTS UNDER CONSIDERATION

④



ARAB COUNTRIES

JORDAN

The Phosphate Mines Company Programme:

The Fund is currently considering the possibility of participating in the financing of the future investment programme of Jordan's Phosphate Mines Company. The programme aims at increasing the production of phosphate to about 10 million tons annually, as well as increasing the productive capacity of beneficiated phosphate.

TUNISIA

1- Economic Development Bank:

The Government of Tunisia as well as Tunisia's Economic Development Bank (BDET) have requested the Fund to participate in financing the Bank's operations for the three-year period 1975-1977.

BDET was established in 1959 for the promotion of industrial development in Tunisia through the extension of loans, participation in ownership and through the provision of technical assistance.

The total capital requirements of the Bank for the period 1975-1977 are estimated at approximately KD 43.3 million (TD 63.6 million) with a foreign exchange component of KD 33.1 million (TD 18.5 million).⁽¹⁾

2- Other Projects :

The Fund is also considering a request by the Government of Tunisia to participate in financing a number of projects involving the construction of new facilities in Tunis airport, the building of two new airports at Gabes and Sfax, the extension of gas transportation capacity, as well as the construction of a gas turbine in Rhennouch.

¹⁾ A loan agreement was in fact signed on April 6, 1975, a few days after the end of the financial year covered by this report. The Fund loan amounts to KD 2.5 million (TD 3.68 million) representing about 6% of the Bank's total capital requirements and 7.6% of its requirements of foreign exchange. The loan was extended to the Bank but guaranteed by the Government of Tunisia, at an interest rate of 3.5% per annum, with a service charge of a 0.5%, to be repaid over 17 years with a grace period of 4.9 years.

THE SUDAN

1- The Industrial Development Bank :

The Industrial Development Bank of Sudan was established in 1961 for providing the necessary finance for industrial projects in the private sector of the Sudan. Its authorized capital is S£ 5.0 million, with a paid-in capital of S£ 3.0 million completely subscribed by Sudan's Central Bank. Its lending operations for the period 1975-1978 are expected, however, to exceed KD 7 million (S£ 8.44 million) of which the foreign exchange is about KD 4.98 million (S£ 5.9 million). In order to meet these requirements the Bank is seeking loans at concessionary terms from both the Kuwait Fund and IDA.

2- Rahad Irrigation Project :

In 1973, the Fund extended a loan of KD 3.3 million to finance the Rahad Irrigation Project, one of the most important agricultural projects in the Sudan.

The project aims at the reclamation of 820,000 feddans and the utilization of the Roseires Dam for their irrigation. Since 1973, the cost estimates have been revised partly as a result of the rise in prices and partly due to certain additions to the works covered by the project. The Fund is currently considering the possibility of participating, jointly with IDA and the Arab Fund for Economic and Social Development, in covering the additional cost.

SOMALIA

Mogadiscio Power Station :

The installed capacity of the existing power station in Mogadiscio, the capital of Somalia, is no longer sufficient to meet the requirements of both industry and household consumption. Demand for electricity is also expected to increase quite rapidly with the increase in population and the planned expansion of industrial production.

The present project aims at increasing the supply of electric power in Mogadiscio by installing 4 diesel generators of 5MW capacity each, and expanding the distribution network.

A Fund mission visited Somalia during November/December, 1974 to examine the economic and technical aspects of the project.

LEBANON

Southern Bekaa Irrigation Project :

The Fund is considering a request made by the Lebanese Government to participate in financing a project aiming at the irrigation of an area of 23,000 hectares situated between the Karaoun Reservoir and the Beirut-Damascus highway.

The total cost of the project is estimated at LL 300 million (KD 38 million) of which the World Bank has agreed to contribute KD 14.7 million on condition that other sources of finance would be forthcoming to cover the balance.

EGYPT

The Egyptian Government has submitted to the Fund for consideration, a number of projects, of which the following three have reached an advanced stage of preparation:

- Abu-Qir Gas Field Project:

In 1973, a loan of KD 4.5 million was extended by the Fund to the Arab Public Oil Corporation to exploit a natural gas field discovered in 1969 in Egyptian territorial waters near Abu-Qir.

The project included the drilling of nine wells, the construction of an off-shore platform, submarine pipeline linked to the processing plant, as well as a pipeline network for the distribution of gas to the consumption centers in Alexandria, Kafr Al-Dawar and Damanhur. An additional component of the project is the conversion of some plants to substitute gas for fuel. Total costs, and in particular the foreign exchange component of the project, have turned out to be higher than originally estimated, because of the substantial rise in world prices since 1973 and the need to engage foreign instead of local contractors in carrying out some parts of the project.

The Fund is considering the possibility of extending an additional loan to meet the rise in costs.

2- Abu-Qir Power Station:

The purpose of this project is to construct two thermal units of 300MW capacity to help meeting the big projected increase in Egypt's demand for electricity.

Total costs are estimated at KD 50 million, of which KD 35 million is in foreign exchange.

A Fund mission visited Egypt during April, 1975 to examine the project, and to reach a preliminary agreement with the Egyptian Government on the terms of its financing.

3- Oil Pipeline Project:

This project aims at lowering the costs of transportation of crude oil to the oil refineries in Suez and Cairo, by substituting oil pipelines for seaborne and land transport.

The project will include the construction of a pipeline extending from the oil fields at Ras-Shukair to Suez and Cairo, with a total capacity of 10 million tons annually.

A preliminary estimate of total costs is put at KD 15 million of which the foreign exchange component is KD 10 million.

MOROCCO

1- Kenitra Power Station:

A Fund mission visited Morocco during June/July 1974, to investigate a project aiming at the construction of a thermal-power station with four units of 75MW each, near the town of Kenitra.

Apart from the construction of the power station and the provision of the necessary equipment and civil works, the project also includes the erection of a pumping station in the Sebou valley as well as the provision of fuel tanks and administrative buildings.

Total costs are estimated at KD 37 million of which KD 23 million is in foreign exchange.

2- The National Bank for Economic Development (BNDE):

Morocco's National Bank for Economic Development was established in 1959 with a capital of DH 20 million and with the aim of promoting productive investment, particularly in industry.

In 1972, its paid-in capital was raised to DH32.4 million, which falls far short of covering its ambitious programme for the period 1975-77, amounting to DH 1.7 billion (KD115 million). The Fund is presently considering its participation in the financing of this programme by extending a loan to the Bank.

3- Lead-Smelting Project:

This project aims at the construction of a lead-ore foundry near the city of Meknes, with a total capacity of 80,000 tons annually of purified lead, using as input, Morocco's own lead ore. The project will be implemented by the "Bureau de Recherches et Participation Minières", a government agency responsible for the development of all Morocco's mineral resources other than phosphate.

The total cost of the project is estimated at KD 12 million.

MAURITANIA

1- Nouakchott-Kiffa Highway:

High priority is assigned by the Government of Mauritania to the construction of a highway linking the capital, Nouakchott, on the Atlantic Ocean, with Nema, in the extreme south-east of the country, and passing through Boutilimit, Aleg, Kiffa and Aioun. One of the most important targets of this project is to connect the inhabitants of the eastern regions, who constitute more than one third of the total population, with the rest of the country, both economically and socially.

The Fund is considering the possibility of participating in financing the section of the road extending from Nouakchott to Kiffa, and for this purpose a Fund mission visited Mauritania during July 1974.

2- Road Rehabilitation and Maintenance:

Highway network in Mauritania is approximately 7000km long, of which no more than 460km are asphalt-paved, the remainder consisting of earth tracks. Apart from the high cost of transportation entailed, some roads become virtually unusable during the rainy season. The present project consists of providing technical assistance to the Authority of Roads and Transportation, the procurement of the necessary equipment for the rehabilitation, improvement and maintenance of the existing road network, as well as the preparation of a detailed study for the construction of a new road, 200km long, between Rosso and Boghe.

The Fund is currently examining the possibility of financing this project jointly with IDA and the Canadian International Development Agency⁽¹⁾.

3- Nouadhibou Port Extension Project:

Situated on the Atlantic Coast in the north-east of the country, Nouadhibou is Mauritania's principal port, but its facilities are insufficiently developed to encourage a large number of ship calls.

The present project consists of the expansion of the port, including the extension of wharf and berth facilities for fishing boats as well as commercial vessels.

NORTHERN YEMEN

1- Industrial Development Bank:

In January 1975, a Fund mission visited Northern Yemen in order to study the possibility of establishing an industrial development bank to promote small and medium industrial projects in both the private and public sectors, by providing them with loans at concessionary terms.

The extension of technical assistance for the study of this project is being considered by the Fund.

2- Ports Development:

The Port of Hodeidha, the principal port of Yemen, is constrained by a number of difficulties related to the narrowness of its entrance and the shallowness of its waters.

The UNDP and the German Federal Republic have both expressed their willingness to participate in financing a study investigating the present conditions of Yemeni ports, and drawing a comprehensive plan for meeting the future requirements of the country. They have agreed to cover the foreign exchange component, and the Fund is currently considering the possibility of providing the necessary finance to cover the local costs.

(1) A Fund loan of KD 1.15 million (195 million Ouquiya) repayable over 20 years, with 5.25 years grace period, was signed on April 9, 1975, for the financing of this project. The loan carries no interest, except for an administrative charge of 0.5% per annum.

3- Tihama Agricultural Development Project:

Last year, the Fund, jointly with IDA, participated in the financing of a project aiming at the modernisation of the irrigation system in an area of 17,000 hectares in Wadi Zabid. The Fund loan amounted to KD 1.9 million at an interest rate of 0.5% annually.

It was later discovered, however, that actual costs will considerably exceed the original estimates. The Fund is therefore considering an additional loan to cover part of the increase in costs.

4- Hodeidah-Taiz Highway:

The main road network in Northern Yemen consists of three major roads: Sana'a/Hodeidah, Hodeidah/Taiz and Taiz/Sana'a. All three roads are asphalted, except for a short stretch of dirt-track of 64km on the Hodeidah/Taiz road.

A pre-investment study has shown the viability of completing the asphalt-paved road connecting these two cities at an estimated total cost of KD 3.6 million.

SOUTHERN YEMEN

1- Mekala - Seayon Highway:

The Fund is presently considering the extension of a loan to PDRY to finance the construction of 358km road linking Al-Mekala, on the southern coast, with Seayon, in the Hadhramout valley, north of the country. The loan will also cover the expenses of expatriate consultants and the training of nationals abroad as well as the procurement of the necessary spare parts and accessories for road maintenance. Total costs of the project are estimated at KD 9.35 million of which KD 6.15 million is in foreign exchange. The project is expected to be financed jointly by the Fund and IDA.

ASIA

BANGLADESH

1- The Mano River Project:

The aim of this project is to develop an agricultural area of 56,000 feddans located in the province of Sylhet, north east of the country, by increasing the cultivated area and raising the productivity of the land already cultivated.

The project will include the construction of a 37 miles long embankment as a protection against the flood, the erection of a pumping station to drain off excess water, as well as the digging of drainage and irrigation canals.

Total costs are estimated at KD 7.6 million, of which KD 1.7 million is in foreign exchange. In February 1975, a Fund mission visited Bangladesh to study and evaluate the project.

2- Electrification of Irrigation Works:

The government of Bangladesh has requested the Fund to consider the possibility of financing a project aiming at the replacement of diesel engines by electric motors in running the irrigation pumps used on an area of 160,000 feddans. The project also aims at supplying rural areas with electricity, both for lighting and for industrial uses.

Total costs are estimated at KD 14.5 million, about KD 6.6 million of which is in foreign exchange.

SRI LANKA

The Fund is currently considering the possibility of financing, jointly with the Asian Development Bank, the Governments of Western Germany, India and Iran, the construction of a urea plant, about 11km from the capital, Colombo. The project also includes the construction

of residential and administrative buildings as well as the provision of technical, administrative and training services.

The project is expected to reach its full capacity in 1981, to meet all Sri Lanka's requirements of fertilizers and realize a surplus for export.

Total costs of the project are estimated at KD 42.3 million of which KD 29.6 million is in foreign exchange.

MALAYSIA

Palong Land Settlement Project:

The aim of this project is to clear a forest area of 73,000 feddans, convert it into rubber plantations and resettle about 5,500 families of poor landholders. In order to cover the foreign exchange element of the project, the Government of Malaysia is seeking a loan which would be relented by the Government to the Federal Land Development Authority. Total costs are estimated at KD 39.4 million of which KD 11.3 million is in foreign exchange.

A Fund mission visited Malaysia in March 1975 to study and evaluate the project.

AFRICA

UGANDA

1- Livestock Development:

In its current five-year plan, the government of Uganda is assigning high priority to the diversification of agricultural output and particularly to the expansion of livestock production.

The present project represents the second phase of a programme prepared by the government in order to achieve this target.

The project consists of the establishment of 140 farms for the breeding and fattening of cattle, the average size of the farm being approximately 3000 feddans. The project will also include the provision of water supply, cattle sheds and veterinary services. The total costs of the project are estimated at KD 10.4 million.

2- Development of the Sugar Industry:

The Fund is considering the possibility of extending technical assistance to the government of Uganda to provide consultancy services for the rehabilitation and development of the sugar industry. Uganda's sugar industry has been recently facing a number of difficulties reflected in the decline of sugar output from 144,000 tons annually in 1970 to about 50,000 tons in 1974. As the consumption of sugar has been increasing rapidly, Uganda has turned from a sugar exporting country into a net importer of sugar.

3- Power Development:

Although Uganda is currently realizing a surplus of electric power generation amounting to 35 MW annually, in addition to 31 MW transmitted to Kenya, it is expected that the future growth of demand for electricity will render its existing installed capacity incapable of meeting the country's requirements.

The government of Uganda has therefore requested the Fund to participate in financing a feasibility study of the construction of an electric-power station to be situated at the meeting point of the White Nile and the Juba River.

BURUNDI

1. Bujumbura-Cibitoke Highway:

The project involves the construction of an 80km long highway linking Bujumbura, the capital of Burundi, with the city of Cibitoke, situated near the Rwanda-Burundi borders. The highway will pass through an area of great agricultural potential, particularly for the production of such crops as soya beans, tea and coffee.

The total costs of the project are estimated at about KD 4.5 million.

2. Silo and Flour Mill Project:

This project aims at reducing Burundi's dependence on the imports of flour as well as providing a new source of income for the poor inhabitants of the highlands. It consists of constructing one silo and a number of flour mills with a total capacity of 8000-9000 tons of wheat and about 2000 tons of maize. The total cost is estimated at KD 500,000.

TANZANIA

Mwanza Textile Factory:

In 1973, cotton manufacturing in Tanzania accounted for no more than 15% of the total cotton crop. The aim of the current industrialisation policy is to raise this percentage to reach about 22% by the end of this decade. The present project aims at raising the production capacity of the existing textile factory, situated in the city of Mwanza, from 25 million meters of textile annually to about 45 million, using large and medium-staple cotton varieties currently produced in the Mwanza area.

The total costs of the project is estimated at KD 13.3 million, of which KD 9.0 million is in foreign exchange.

RWANDA

1- Tea Growing and Processing Project:

The government of Rwanda is aiming at increasing the production of tea, which is one of Rwanda's principal agricultural crops, to reach 14,000 tons in 1982, compared with about 3,520 tons in 1974. The project includes the extension of tea production into an area of 500 hectares in the Karago-Giciye region, as well as the construction of a plant for drying tea leaves with a capacity of 1200 tons annually.

Total costs of the project are estimated at RF 720 million (KD 2.3 million) of which approximately RF 312 million (KD 1.0 million) is in foreign exchange.

MALAGASY

Fenerive-Soanierana/Ivongo Highway:

The government of Malagasy has requested the Fund to participate in financing the construction of a 65km highway linking the two cities of Fenerive and Soanierana-Ivongo. This constitutes a part of a bigger project aiming at connecting Tananarive, the capital, with the city of Tamatave, in the north-eastern part of the island. One important aim of the project is to reduce the cost of transportation and marketing of a number of agricultural crops produced in the province such as coffee, cloves, rice and wood.

MALI

The Fund is presently considering a request made by the government of Mali to participate in financing the technical assistance required for two studies concerning the two following projects:

1- Expansion of Irrigated Area:

This project aims at expanding the irrigated area in the three valleys of Terekole, Colombine and Senegal, allowing an increase in the production of a number of crops, the most important of which are rice and maize.

2. The Construction of a Cement Plant:

Mali possesses only one cement factory, the annual production of which amounting to 49,000 tons in 1974, falls far short of Mali's requirements.

The purpose of the envisaged study is to select the most appropriate method of production, productive capacity as well as the site of the project.

MALI-MAURITANIA-SENEGAL

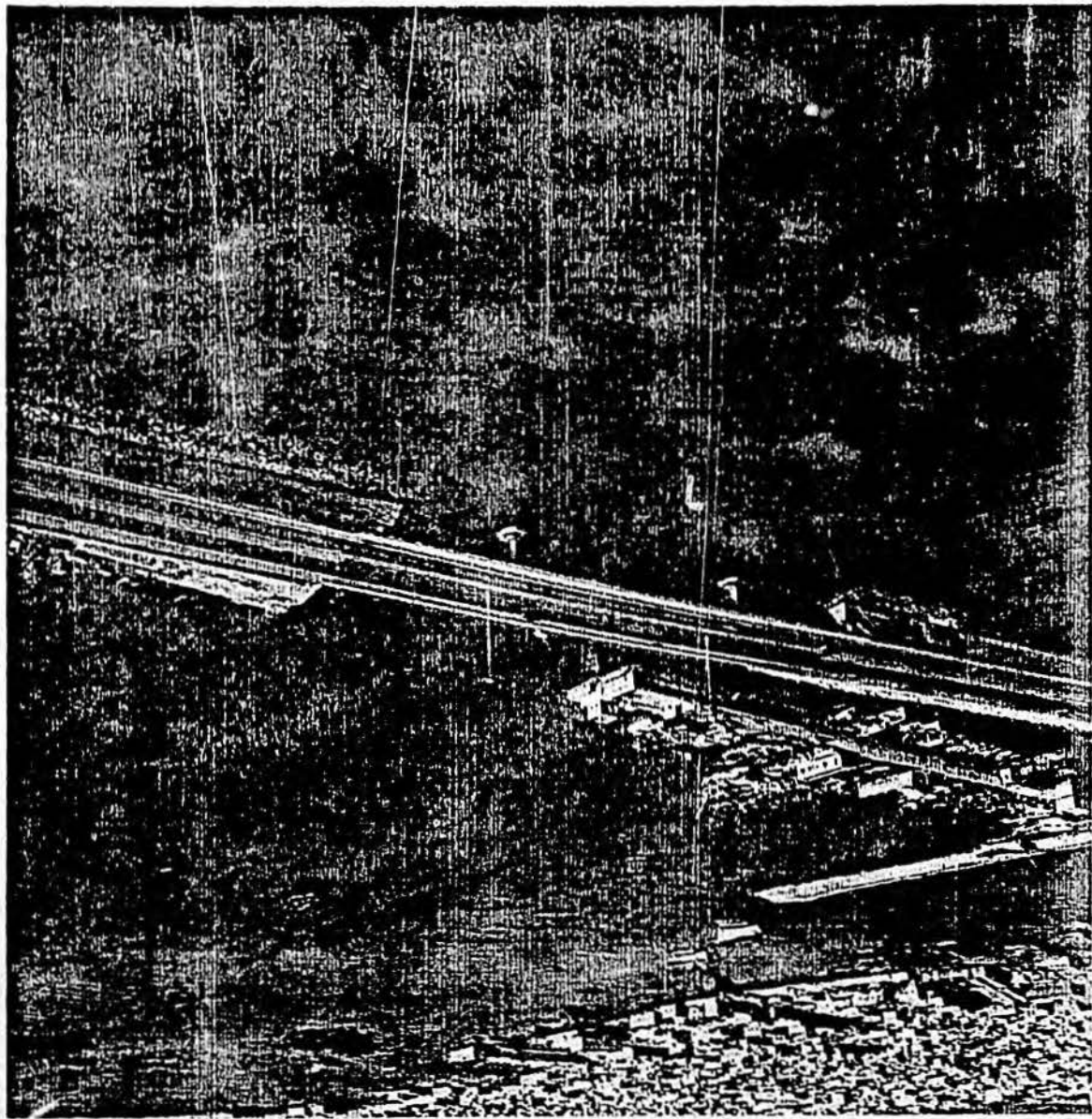
Senegal River Basin Programme:

The three countries of Mali, Mauritania and Senegal are to carry out an ambitious programme for the exploitation of the Senegal River Basin to be implemented over a span of 40 years at the estimated cost of \$ 3.4 billion. The project is divided into a number of stages, the first of which is expected to be completed by 1982 and to cost about \$ 200 million.

This stage comprises the construction of the Manantali dam as well as a port near the city of Kayes, in Mali, the Diama barrage in the Senegal, as well as nine other ports along the Senegal river, two of which will be situated in Mauritania. Great importance is being attached by the three governments to these projects which are expected to allow a higher degree of exploitation of their agricultural and mineral resources as well as the generation of hydro-electric power for industrialization. The programme will also facilitate navigation along the river for the benefit of the riparian states, particularly of Mali which has no outlet to the sea.

In July, 1974, the Fund was represented at a conference held in Nouakchott and attended by 13 states and 12 international financial institutions to discuss ways of financing the programme.

On November 7, 1974, the Fund's Board approved the allocation of KD 10 million for this programme, but individual projects will have to be submitted to the Fund, for appraisal.



⑤

FINANCIAL POSITION

Loan Accounts:

Withdrawals from loan accounts during the year amounted to KD 7.9 million, thus bringing total cumulative disbursements to KD 91.3 million against KD 83.4 at the end of 1973/74. As total commitments increased at a greater rate than total disbursements, the ratio between total disbursements and total lending decreased from 62% at the end of the previous year, to 57% at the end of the current financial year 1974/1975.

Total cumulative repayments rose from KD 24 million at the end of the previous year to KD 29.3 million at the end of 1974/75. The ratio of total repayments to total disbursements reached 32% compared with 29% at the previous year and 25% in 1972/73.

Income and Expenditure:

Total gross income during the year amounted to KD 16.6 million, to which the Fund's investments portfolio contributed KD 14.4 million (compared with KD 5.7 million in 1972/74) and its loan portfolio KD 2.2 million (compared with KD 2.1 million in the previous year).

Total expenditure during the year reached KD 608,000, amounting to 3.7% of total income. Net income amounted therefore to KD 16.0 million compared with KD 7.1 million during 1973/74.

Balance Sheet:

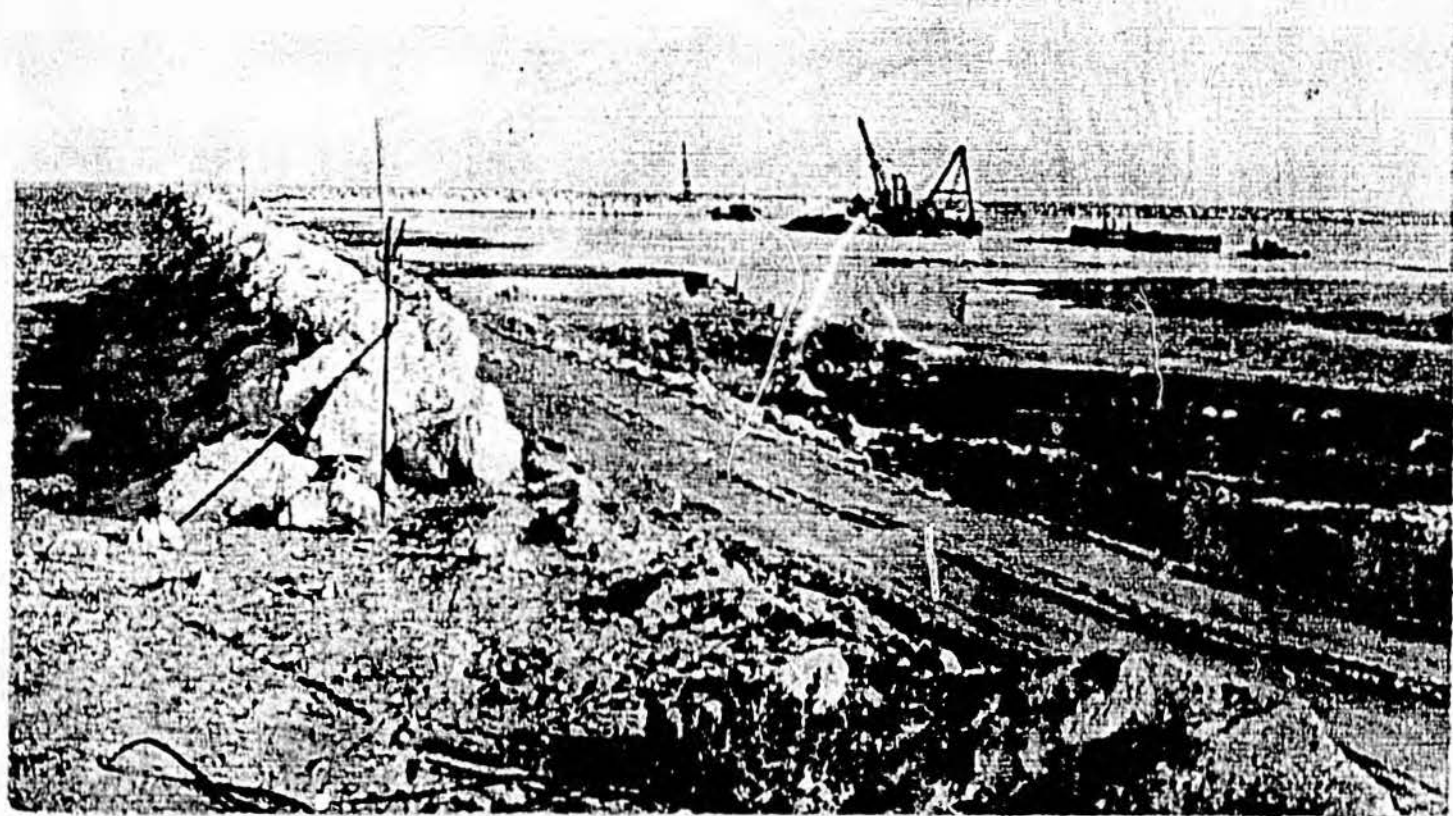
The Fund's paid-in capital increased from KD 113.46 million at the end of the previous year to KD 328.05 million at the end of 1974/75, representing a little less than a three-fold increase.

Accumulated reserves rose from KD 40.0 million in 1973/74 to KD 56.1 million in 1974/75, and total resources from KD 153.5 to KD 384.1 million respectively. On the assets side, deposits increased from KD 8.5 million to KD 174.4 million, investments from KD 66.9 to KD 110.4 million and the contributions of the Kuwait Government, through the Fund, to Arab development institutions, from KD 10.8 million to KD 25.8 million. The percentage distribution of assets on March 31, 1975 stood at 47% for cash and deposits, 29% for investments, 16% for the balance of loan accounts, 7% for the contributions to Arab development institutions and 2% accrued interest and sundry debts.

FINANCIAL RATIOS

	Financial Year	
	1973/74 %	1974/75 %
Net Income/Total Assets ⁽¹⁾	6.6	10.4
Net Income/Paid-in Capital ⁽¹⁾	8.7	14.1
Total Expenditure/Gross Income	6.8	3.7
Administrative Expenses/Gross Income	4.4	3.4

(1) beginning of fiscal year.



⑥

TABLES

Table (A)
NEW LOANS
1974/1975

Country	Project	Date of Agreement	Amount (Million KD)	Interest %	Period (Years)	Grace (Years)
Jordan	Industrial Development Bank	17/ 7/74	1	4	17	5
Tunisia	Modernisation of Phosphate Mines	14/10/74	2	4	15	2.9
Syria	Mehreda Thermal Power Station	25/11/74	9.9	4	19	3.25
Egypt	Talkha Fertilizer Plant II	27/ 6/74	7	4	20	4.7
Morocco	Phosphoric Acid and Mono-ammonium Phosphate Project	25/11/74	2.4	4	14	3.7
Northern Yemen	Saleef Mines-III	29/ 5/74	1.1	2	27	2.1
Southern Yemen	Abyan Delta Project	12/ 5/74	4.2	0.5	49	9.4

Table (B)

TECHNICAL ASSISTANCE GRANTS *

1974/1975

Recipient	Purpose	Amount (KD)
Afghanistan	Sugar Industry Development, and Exploitation of Farah-Rud River	400,000
Somalia	Livestock Development and Expansion of Irrigated Area	200,000
Mauritania	Exploitation of Mineral Resources	175,000
Northern Yemen	Expansion of Cement Production	70,000
Southern Yemen	Modernisation of the Port of Aden and El-Rayan Airport, and the Development of Livestock Production	300,000
Arab Planning Institute	Training Programme	31,000

* As authorized by the Board.

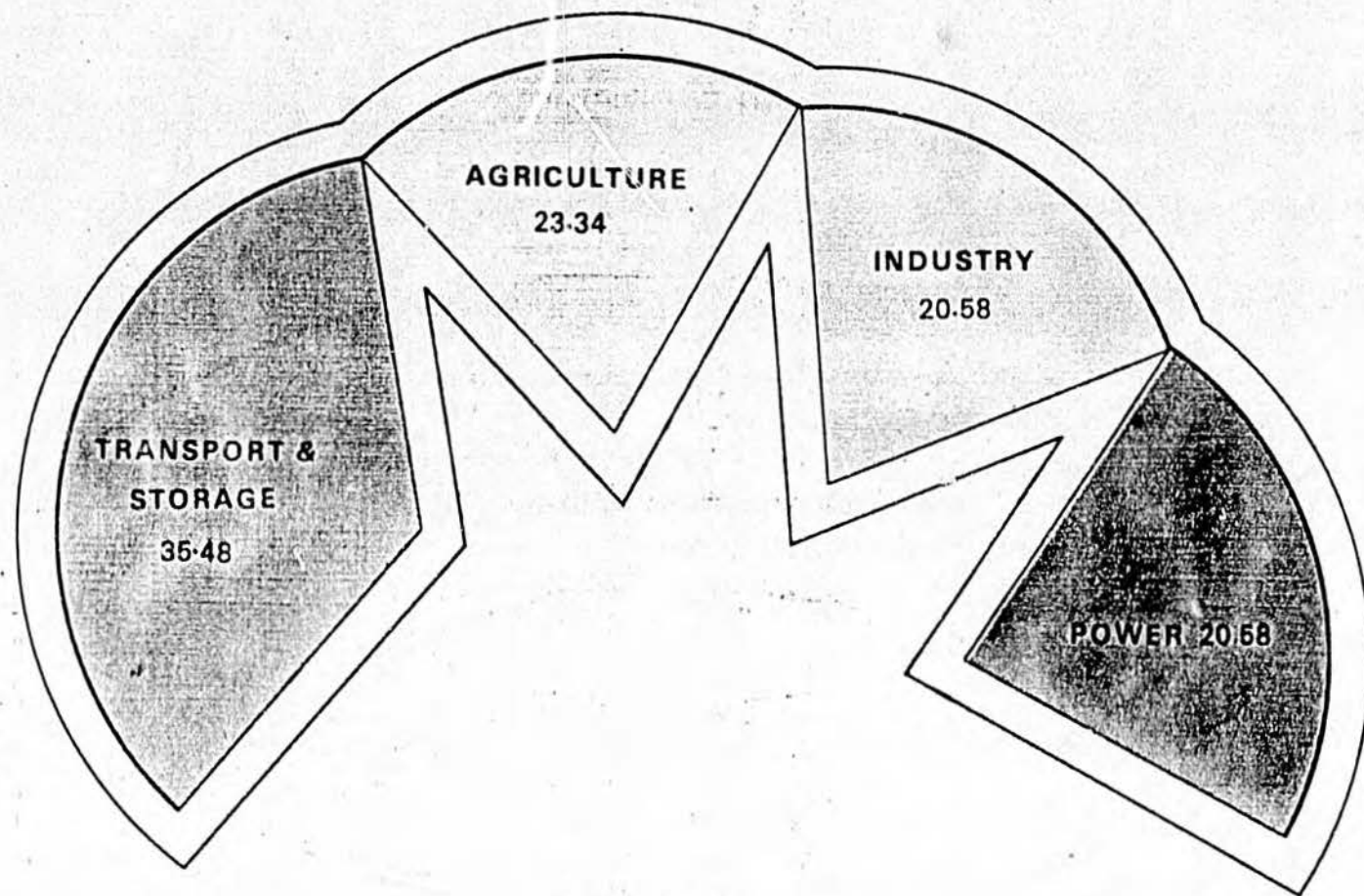
Table (C)

Sectoral and Geographical Distribution of Loans

(Million KD)

Country	Agriculture	Transport & Storage	Electricity	Industry	Total	%(¹)
Jordan	6.48	—	3.26	4.48	14.22	8.83
Bahrain	—	0.50	7.35	1.49	9.34	5.80
Tunisia	5.20	3.75	8.35	2.00	19.30	11.98
Algeria	—	10.00	—	—	10.00	6.21
Sudan	9.11	7.00	—	6.17	22.28	13.83
Syria	—	7.00	9.90	2.00	18.90	11.73
Iraq	—	—	2.62	3.76	6.38	3.96
Lebanon	—	0.80	1.66	—	2.46	1.52
Egypt	—	27.80	—	7.00	34.80	21.61
Morocco	10.05	—	—	3.25	13.30	8.26
Southern Yemen	4.53	—	—	—	4.53	2.81
Northern Yemen	2.22	0.28	—	3.00	5.50	3.41
Total	37.59	57.13	33.14	33.15	161.01	100
%(¹)	23.34	35.48	20.58	20.58	100	

(1) May not add up to 100 because of rounding.



LOANS

Sectoral Distribution

%

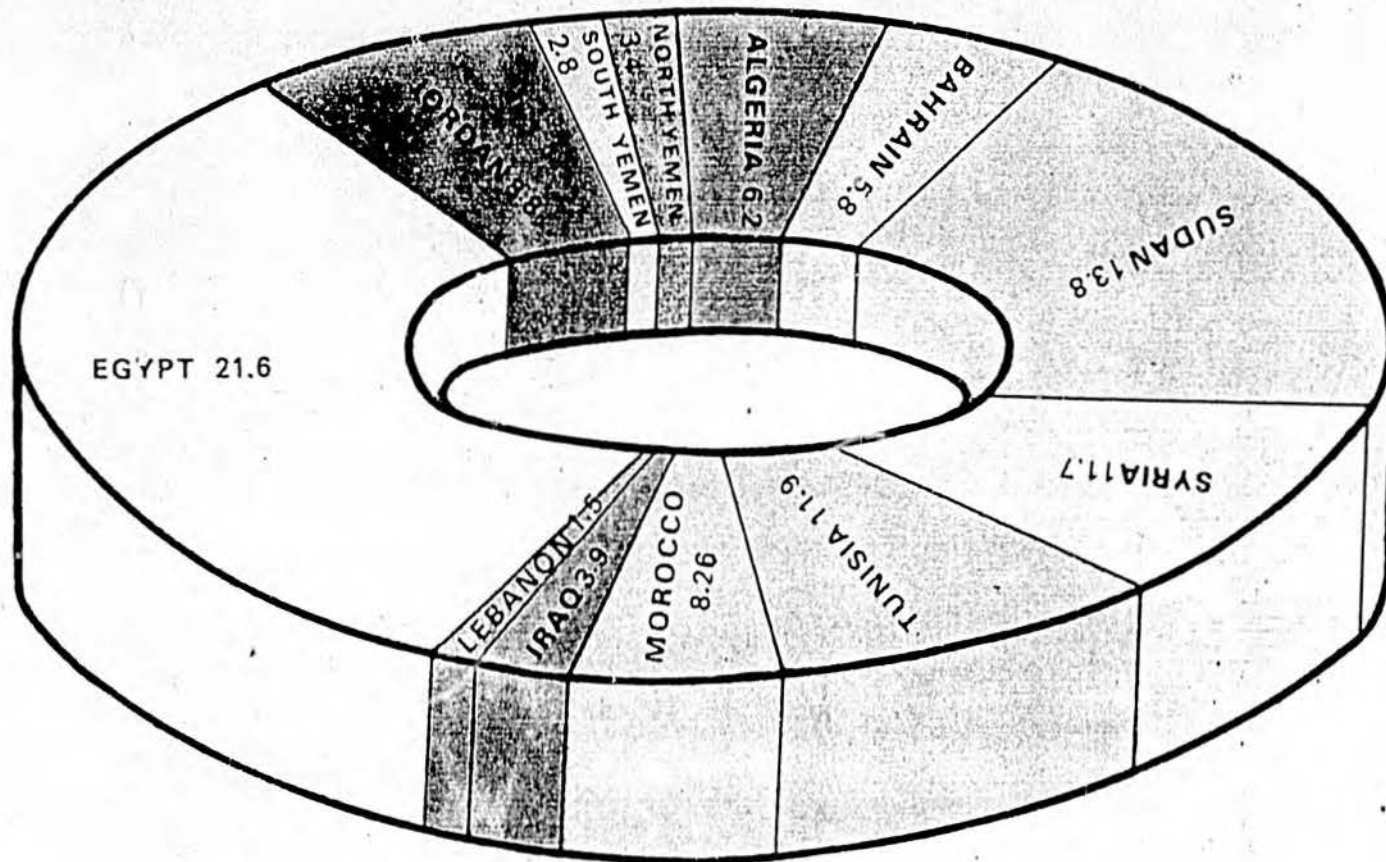
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LOANS

Country Distribution

%

31-3-1975



KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

EXHIBIT A

BALANCE SHEET

March 31,		
	1975	1974
ASSETS	KD	KD
Cash	5,181,379	5,067,949
Bank deposits	174,452,883	8,546,246
Securities	110,396,074	66,897,320
Loans	62,009,032	59,473,585
Participations in Arab Development Institutions	25,846,925	10,800,000
Accrued interest and other debit balances	6,871,065	2,832,462
TOTAL ASSETS	384,757,358	153,617,562
LIABILITIES AND CAPITAL		
LIABILITIES:		
Safe custody deposit and other credit balances	653,095	159,979
CAPITAL:		
Authorized capital	1,000,000,000	200,000,000
Paid-in capital	328,046,300	113,457,583
General reserve – Exhibit B	56,057,963	40,000,000
Total capital and general reserve	384,104,263	153,457,583
TOTAL LIABILITIES AND CAPITAL	384,757,358	153,617,562

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

EXHIBIT B

GENERAL RESERVE ACCOUNT

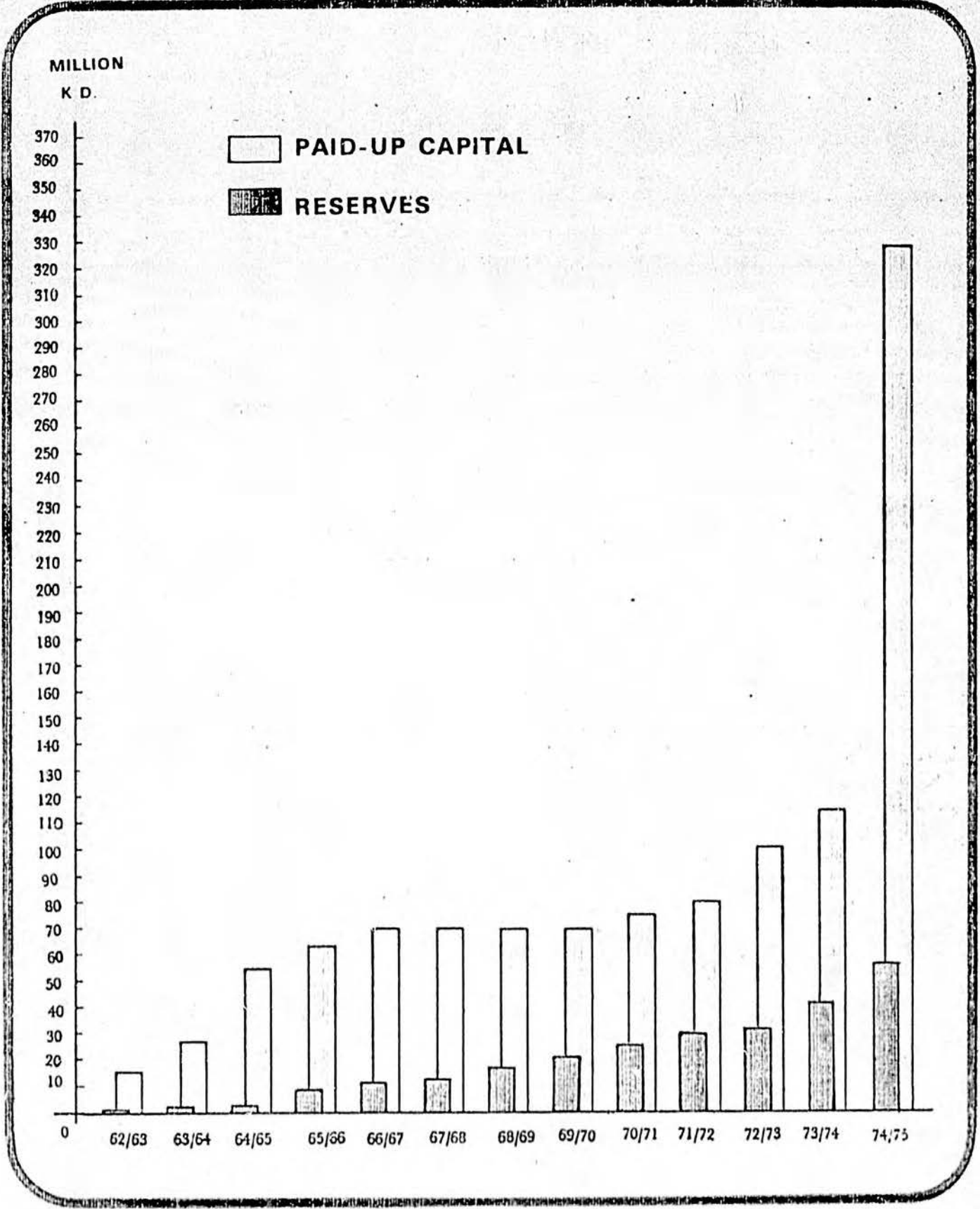
	For the Year Ended March 31,	
	1975	1974
	KD	KD
General reserve at the beginning of the year	40,000,000	31,506,818
General reserve adjustment	(24,329)	(35,353)
Adjusted general reserve	39,975,671	31,471,465
Excess of income over expenditure- Exhibit C	16,008,108	7,127,117
Currency differences	408,350	1,939,464
Total	56,392,129	40,538,046
Securities price differences	(77,942)	(243,064)
Technical assistance grants	(256,224)	(237,399)
General reserve	56,057,963	40,057,583
Transferred to capital	—	(57,583)
General reserve at the end of the year-Exhibit A	56,057,963	40,000,000

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

EXHIBIT C

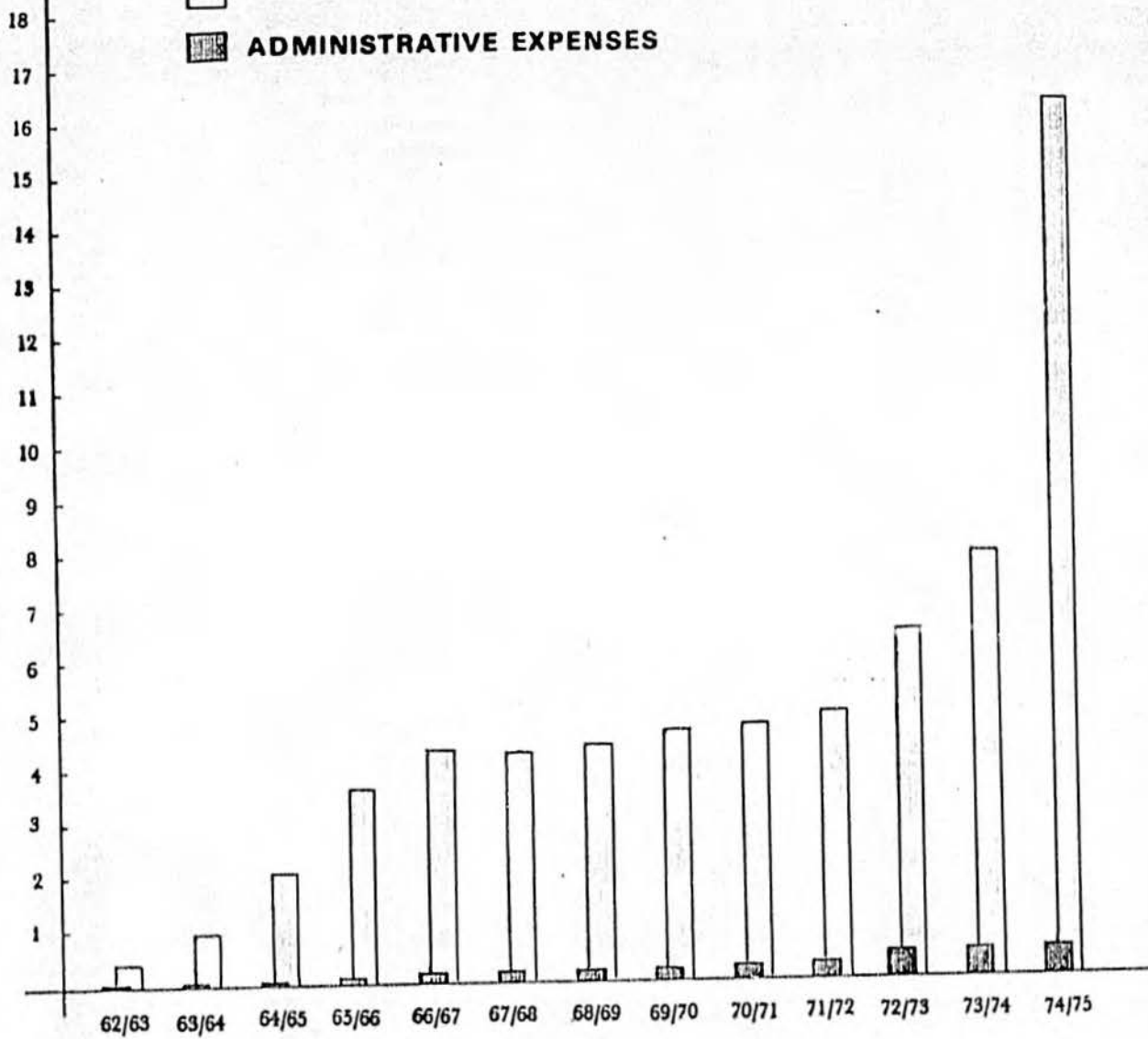
INCOME AND EXPENDITURE ACCOUNT

For the Year Ended March 31,		
	1975	1974
	KD	KD
INCOME:		
Income from investments	14,438,131	5,705,379
Income from loans	2,178,278	2,087,876
Total income	16,616,409	7,793,255
EXPENDITURE:		
Salaries and wages	393,592	275,692
Travelling, accommodation and entertainment expenses	89,927	51,329
Rent	27,327	34,211
Sundry expenses	55,780	46,454
Delegations expenses	2,090	
Depreciation of fixed assets	14,585	21,460
Cost of Fund's building and equipment for the year 1974/1975	25,000	236,992
Total expenditure	608,301	666,138
Excess of Income over Expenditure- Exhibit B	16,008,108	7,127,117



MILLION
K.D.

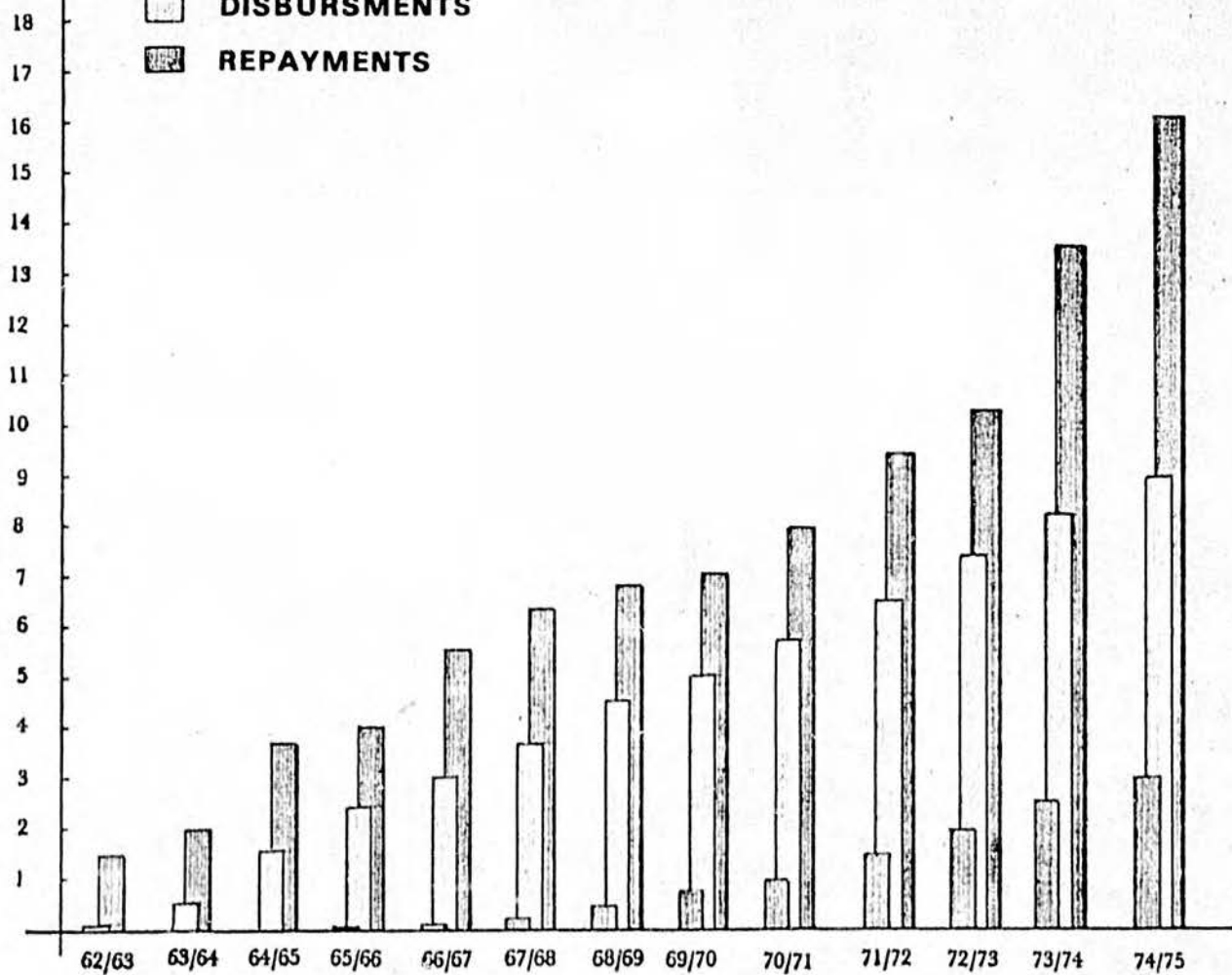
□ GROSS INCOME
▨ ADMINISTRATIVE EXPENSES



MILLION

K.D.

LOANS
DISBURSMENTS
REPAYMENTS



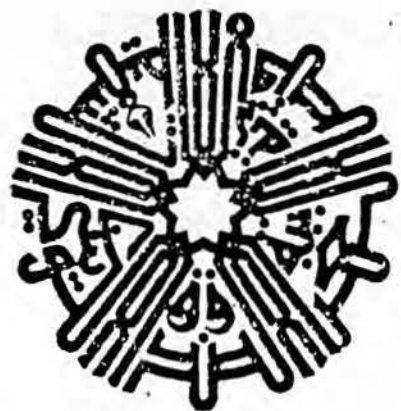
**The Chairman and Members of the Board of Directors,
Kuwait Fund for Arab Economic Development
Kuwait.**

In our opinion, the accompanying Balance Sheet and the related Statements of Income and Expenditure and General Reserve present fairly the financial position of KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT (A Kuwaiti Independent Public Institution) at March 31, 1975, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Kuwait, April 28, 1975.

**Talal Abu-Ghazaleh
(Licence No.36)
of TALAL ABU-GHAZALEH & CO.**

PRESS ADVERTISING AGENCY
TEL. 1 431423
KUWAIT



KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

LAW AND CHARTER

LAW AND CHARTER

**LAW No.25 (1974) FOR THE REORGANIZATION OF THE
KUWAIT FUND FOR ARAB ECONOMIC
DEVELOPMENT**

*We, Jaber Al-Ahmed Al-Jaber Al-Sabah, Deputy Amir and
Crown Prince of the State of Kuwait,*

*Having considered Article 61 and Article 65 of the Constitu-
tion;*

*And Law No.35 (1961) for the Establishment of the Kuwait
Fund for Arab Economic Development, as amended by Law No.9
(1963) and Law No.64 (1966);*

*Hereby assent to and enact the Law passed by the National
Assembly and set forth herein below:-*

Article 1

The Kuwait Fund for Arab Economic Development, hereinafter called the Fund, shall be a public corporation with an independent legal personality under the supervision of the Prime Minister who shall be the Chairman of its Board of Directors.

Article 2

The purpose of the Fund is to assist Arab States and Developing States in developing their economies and, in particular, to provide such States with loans for the implementation of their development programmes, in accordance with the provisions of a Charter to be made by Order of the Prime Minister.

Article 3

- (a) The capital of the Fund shall be one thousand million Kuwaiti Dinars.
- (b) An amount of four hundred million Kuwaiti Dinars of the said capital shall be paid out of Government reserves by transfers

made from time to time according to the needs of the Fund.

- (c) The remaining part of the Fund's capital amounting to six hundred million Kuwaiti Dinars shall be paid out of the public revenues of the State by the appropriation of a percentage of the said revenues annually.

The Law enacting the State Budget shall determine in each year the percentage of public revenues to be appropriated for payment of the aforesaid part of the capital.

Article 4

The Fund may borrow and issue bonds subject to the limit of twice the amount of its capital and reserves in accordance with such terms and conditions as may be determined by the Prime Minister upon the recommendation of the Board of Directors.

Article 5

The Fund shall be administered by a Board of Directors in accordance with the Charter.

Article 6

The Prime Minister shall lay down the Charter of the Fund, which shall in particular provide for the composition of the Board of Directors and its functions, regulate the technical and administrative work of the Fund and the manner of preparing its budget; and prescribe such other procedures as may be necessary for the proper conduct of the affairs of the Fund.

Article 7

The Prime Minister may delegate all or part of his powers under this law to the Minister of Finance and Oil. ^a

^a Wherever reference is made to "The Minister of Finance and Oil" in the Fund's Law or Charter, it should read now "the Minister of Finance"

Article 8

Law No.35 (1961) for the Establishment of the Kuwait Fund for Arab Economic Development is hereby repealed. However, all Orders made for its implementation not in conflict with the provisions of this Law shall remain in force until superseded by new orders.

Article 9

The Prime Minister and the Minister of Finance and Oil shall implement this Law which shall take effect from the date of its publication in the Official Gazette.

Deputy Amir of the State of Kuwait
Jaber Al-Ahmed Al-Jaber Al-Sabah

*Given at Al-Sif Palace on 27 Jumada Al-Thani 1394 A.H.
corresponding to 17 July, 1974 A.D.*

**ORDER OF THE PRIME MINISTER FOR THE
IMPLEMENTATION OF LAW No.25 (1974) FOR THE
REORGANIZATION OF THE KUWAIT FUND FOR
ARAB ECONOMIC DEVELOPMENT**

The Prime Minister,

*Having considered Law No.25 (1975) for the Reorganization of
the Kuwait Fund for Arab Economic Development.,
Hereby makes the following Order:-*

Article 1

The Kuwait Fund for Arab Economic Development shall operate in accordance with the provisions of the Charter attached hereto.

Article 2

The Order of the Minister of Finance and Oil laying down the Charter for the Kuwait Fund for Arab Economic Development and published in the Official Gazette No.423 dated April 14, 1963 is hereby repealed.

Article 3

The Board of Directors of the Kuwait Fund for Arab Economic Development shall implement this Order which shall take effect from the date of its publication in the Official Gazette.

Prime Minister

*Given on 2nd Dhul Hijjah, 1394 A.H.
corresponding to 22nd December, 1974 A.D.*

**CHARTER OF THE KUWAIT FUND FOR
ARAB ECONOMIC DEVELOPMENT**

CHAPTER ONE

GENERAL PROVISIONS

Article 1

The Kuwait Fund for Arab Economic Development, hereinafter called the Fund, is a Kuwaiti Public Corporation with an independent legal personality as well as financial and administrative autonomy under the supervision of the Prime Minister who shall be the Chairman of its Board of Directors.

Article 2

The purpose of the Fund is to assist Arab and other developing States in developing their economies and, in particular, to provide such States with loans for the implementation of their development programmes, in accordance with the provisions of this Charter.

Article 3

The capital of the Fund is one thousand million Kuwaiti Dinars.

Article 4

The principal office of the Fund shall be located in the City of Kuwait.

CHAPTER TWO
THE ADMINISTRATION OF THE FUND

Article 5

The Fund shall be administered by a Board of Directors composed of the Prime Minister, as Chairman, and eight other Kuwaiti members of recognized competence appointed by the Prime Minister for a term of two years subject to renewal.

In the event that the office of a member shall become vacant, a new member shall be appointed to hold office for the remainder of the term of his predecessor.

The Director-General of the Fund shall attend the meetings of the Board of Directors and participate in its deliberations but shall not be entitled to vote.

The Chairman may designate a member of the Board of Directors to preside over a meeting of the Board of Directors in his absence.

Article 6

The Chairman of the Board of Directors shall have the authority to sign agreements whereby the Fund lends or borrows money, as well as any bonds issued by the Fund. The Chairman may delegate such authority to the Director-General.

Article 7

The Board of Directors shall be the highest authority of the Fund. It shall have the power to determine the general policy of the Fund for the achievement of its objectives and shall, in particular, have the power to:-

- (a) consider the recommendations submitted by the Director-General concerning proposed loans and other forms of assistance to Arab and other developing States and make the appropriate decisions;

- (b) determine, subject to the provisions of this Charter, the form and terms for the participation of the Fund in the development projects and programmes of Arab and other developing States;
- (c) approve the amounts of loans and other types of assistance;
- (d) determine the general policy of investments by the Fund and the forms of such investments. The Board of Directors may delegate its powers in this respect to the Director-General;
- (e) authorize the borrowings of the Fund and determine the amounts and terms of such borrowings;
- (f) lay down administrative and financial regulations for the Fund and supervise their implementation;
- (g) approve the proposed administrative budget and the closing account of the Fund;
- (h) appoint the Fund auditors and determine their remuneration.

Article 8

The Board of Directors shall hold at least four meetings annually. Meetings shall be held at the invitation of the Chairman or the Director-General. A quorum for any meeting of the Board of Directors shall be a majority of the members. Unless otherwise provided in this Charter, resolutions of the Board of Directors shall be adopted by a simple majority of the votes of members present. In the event of an equal division of votes, the vote of the Chairman shall be deemed a casting vote.

Article 9

The Board of Directors may from time to time appoint sub-committees from among its members to study such matters as may be referred to them and submit their recommendations to the Board. Each sub-committee shall elect a Chairman from among its members.

Article 10

The resolutions of the Board of Directors approving loans and accounts, as well as the administrative budget and the closing account shall be subject to confirmation by the Chairman.

Article 11

The Chairman of the Board of Directors shall appoint the Director-General of the Fund and one or more Deputies upon the recommendation of the Board of Directors. The appointment of other staff of the Fund shall be made in accordance with the staff regulations to be laid down by the Board of Directors.

Article 12

The Director-General shall have the direct responsibility for all administrative, financial and technical matters in the Fund. He shall represent the Fund before the Courts of Law and in relation to third parties. His functions shall, in particular, include the following:—

- (a) implementation of the resolutions of the Board of Directors;
- (b) preparation and submission to the Board of Directors of the proposed administrative budget and the closing account;
- (c) authorization of expenditures within the limits of the administrative budget;
- (d) submission of an annual report to the Board of Directors on the progress of work in the Fund; such report shall include financial statements certified by auditors and a detailed account of the activities of the Fund during the preceding financial year;
- (e) receipt of applications for loans and financial and technical assistance; appraising such applications and submitting appropriate recommendations thereon to the Board of Directors;
- (f) implementation of loan and other agreements for the provision of assistance; and
- (g) undertaking such other tasks as may be entrusted to him by the

Board of Directors in conformity with the provisions of this Charter.

The Director-General shall be assisted by one or more Deputies in carrying out his duties. The senior Deputy present shall act for the Director-General in his absence.

CHAPTER THREE

OPERATIONS OF THE FUND

Article 13

The Fund may assist Arab and other developing States in implementing development projects and programmes by making loans to such states or to corporate entities which are under the control of such states or which are subjects of, or constitute joint ventures among such states, provided that the objectives of such corporate entities are not purely limited to the making of profit. The Fund may also provide assistance by issuing guarantees for the obligations of such states or corporate entities, or through any other means which the Board of Directors may consider appropriate.

Article 14

The Fund may not finance by means of a loan more than 50% of the total costs of any project or programme. Notwithstanding this provision, the Board of Directors may, by a majority of two-thirds of the members present, approve loans in amounts exceeding the aforesaid limit in exceptional cases when the necessary financing for a vital project or programme cannot otherwise be obtained on reasonable terms.

Article 15

The loans made by the Fund shall be for the purpose of financ-

ing, exclusively, all or part of the foreign exchange costs of projects or programmes. However, in exceptional cases where sufficient justification exists, the Fund may, pursuant to a decision of the Board of Directors by a majority of two-thirds of the members present, participate in financing the local component of the cost of such projects or programmes.

Article 16

The Kuwaiti Dinar shall be the unit of account in all operations of the Fund. All loans and other forms of financial assistance made by the Fund shall be paid and repaid, as the case may be, in Kuwaiti Dinars on the basis of the gold parity of the Dinar as specified in the Special Agreement with the International Monetary Fund at the time of signing the agreement for the loan or other type of financial assistance.

Article 17

Each loan agreement shall provide for the payment to the Fund, in addition to the interest charged, if any, of a service charge of one-half of one percent (0.5%) annually on the amounts withdrawn from the loan and outstanding, to cover administrative expenses and other costs incurred in the execution of the loan agreement.

Article 18

All loan agreements between the Fund and the borrowers shall include the following:—

- (a) financial clauses specifying the duration allowed and conditions for withdrawal of proceeds of the loan, and the dates and conditions for the repayment of the principal thereof and payment of interest, if any, and other charges on the loan;
- (b) an undertaking by the borrower to furnish sufficient information to the Fund on the progress of work on the project fin-

anced, starting from the date of signature of the loan agreement until the loan is fully repaid.

- (c) an undertaking by the borrower to afford all the necessary facilities to representatives of the Fund to enable them to follow up the progress of the project financed;
- (d) provisions setting out arrangements for ensuring that the amounts withdrawn from the loan shall be used exclusively for financing expenditures on the project financed and only as such expenditures are actually incurred;
- (e) an undertaking that no other external debt shall have priority over the loan of the Fund or the interest or other charges thereon by way of a lien on the assets of the borrower, except within such limits as the Fund may accept.
- (f) an undertaking to exempt all transactions, assets and income of the Fund in the recipient state from all taxes, dues and other impositions;
- (g) an undertaking from the monetary or any other competent authority in the recipient state to facilitate all the financial operations of the Fund and, in particular, to lift all foreign exchange restrictions on direct and indirect transfers arising out of the loan agreement;
- (h) an undertaking to consider all Fund documents, records, correspondence and similar material, as confidential, and to accord the Fund full immunity from censorship and inspection of printed matters; and
- (i) an undertaking to exempt all the assets and income of the Fund from nationalization, confiscation and seizure.

Where the loan is made to an entity other than the recipient state, the undertakings set out in paragraphs (f), (g), (h) and (i) of this Article shall be incorporated in a Guarantee Agreement to be concluded between the Fund and the Government of the State guaranteeing the loan.

Article 19

The Fund may require, depending on the nature of each transaction, additional guarantees other than those provided for in the preceding Article, and may accept guarantees made by third parties including those of national, regional and international financial institutions.

Article 20

In considering loan applications the Fund shall be guided by the recognized principles of development finance including, in particular, the following:

- (a) The degree of importance of the project or programme for which the loan is requested and its priority rating in relation to other projects or programmes;
- (b) The completeness and accuracy of the cost estimates for the project or programme;
- (c) The adequacy of the economic and technical evaluation of the project;
- (d) Ascertainment of the availability of the funds necessary, in addition to the financing to be provided by the Fund, for the execution and completion of the project or programme;
- (e) The solvency of the applicant and the guarantor, if any.

Article 21

All loan agreements between the Fund and the borrowers shall be made in the Arabic language.

Article 22

The Fund shall not make grants to any beneficiaries except against its accumulated net profits.

Article 23

The Fund may borrow money, issue bonds and give guarantees within the limit of twice the amount of its capital and reserves, in

accordance with such terms and conditions as may be determined by the Prime Minister upon the recommendation of the Board of Directors.

CHAPTER FOUR
FINANCIAL PROVISIONS

Article 24

The financial year of the Fund shall begin on the first day of April and end on the last day of March of the following year.

Article 25

The Fund shall have an administrative budget comprising its income and current expenditures and shall prepare a closing account in respect of such income and expenditures. The Director-General shall submit the draft administrative budget to the Board of Directors not later than two months before the end of each financial year.

Article 26

The Fund shall prepare a Balance Sheet, an Income and Expenditure Statement and a Reserve Account. The said financial statements shall be certified by auditors and submitted to the Board of Directors, together with the Closing Account and the Annual Report on the activities of the Fund, not later than June 30 of each year.

Article 27

The Fund shall keep proper books of accounts to show a true and fair view of the state of affairs of the Fund and explain its transactions. The Auditors' report shall be submitted to the Board of Directors for consideration and approval.

Article 28

Without prejudice to the provisions of Article 22 of this Charter, net profits of the Fund shall be credited to a reserve account until reserves shall become equal to twenty percent (20%) of the capital of the Fund. Thereafter, net profits shall be added to the capital of the Fund provided however, that the reserves shall always remain equal to twenty percent of the capital.

CHAPTER FIVE
MISCELLANEOUS PROVISIONS

Article 29

The Prime Minister may delegate all or part of his powers under this Charter to the Minister of Finance and Oil.

Article 30

This Charter may be amended by a decision of the Prime Minister upon the recommendation of the Board of Directors.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

Institution: Fondo de Inversiones de Venezuela
Location: Caracas, Venezuela
Size: 12/31/75
Assets: BS 22,470,317,537 (1 Bolivar (BS) = U. S. \$0.233)
Capital: BS 20,532,175,000

Purpose: Fund established by Presidential decree in June 1974 following OPEC's increase in oil prices and consequent increase in Venezuelan government reserves. Stated purposes are fourfold: (1) to create a professionally managed reservoir for public funds that would be kept out of domestic money supply until needed, thereby avoiding inflationary pressures caused by over-rapid money supply growth; (2) to invest in external capital markets funds not immediately needed in Venezuela; (3) to assure a rational and diversified internal investment program designed to reduce Venezuela's dependence on oil revenues; (4) to generate economic growth that creates full employment, redistributes national income and encourages technological independence.

Source of Funds: Yearly allocation of oil revenues, the size of which is determined at the highest level of government and approved by President. Allocations in 1974 and 1975 aggregated slightly in excess of U. S. \$5 billion.

Management Structure: Fund operations overseen by General Assembly (consisting of State Ministers and high level government officials) which has power to dictate policy. Major policy directives typically originate from high level political sources and the Fund's internal Executive Directorate (2 internal and 2 external) and are ratified by Assembly. President of Fund (State Minister) is crossroads for policy and routine management operations. Major investment decisions made by Executive Directorate and all external investments discussed at senior management level committee meetings.

Management of Funds: Internal staff divided into 3 groups by function: International Financial Group (investments in external markets); International Financial Cooperation Group (analysis and monitoring of loans to International and non-Venezuelan Government Agencies); National Investment Group (review and monitoring of debt and equity investments in Venezuelan entities). All groups have specialized sub-groups.

MEMORANDUM FOR P.A. Downey

Re: Fondo de Inversiones de Venezuela (FIV)

FIV was established by Presidential decree in June 1974 following the sharp rise in oil prices instigated by OPEC (of which Venezuela is a founding member) and a consequent leap in revenues to the Venezuelan Government. The stated purposes for its creation were fourfold:

1. To create a reservoir for public funds that would be managed professionally and kept out of internal money supply until needed. A major thrust was to avoid the inflationary impact of precipitous increases in money supply.
2. To invest in external capital markets funds which are not immediately needed in Venezuela.
3. To assure a rational and diversified internal investment program designed to move the country away from a captive dependence on oil (28% of GNP and 70% of government revenues in 1973).
4. To generate economic growth that creates full employment, redistributes national income and encourages technological independence.

At present, the government (which is the owner of all hydrocarbon properties in Venezuela) sets a yearly allocation of oil revenues to FIV. It is my understanding that the size of this allocation is determined at the highest levels of government and approved by the President of the Republic as it has clear political overtones. In 1974 and 1975, these allocations aggregated slightly in excess of \$5 billion.

The structure of FIV is set out in Appendix A.

The General Assembly is a political body comprised of eight State Ministers, the President of the Central Bank, etc., that routinely affirms the operations of FIV, although it does have the power to dictate policy. In reality, I understand that major policy directives come from the National Executive and the Executive Directorate and are then ratified as appropriate by the General Assembly.

The Executive Directorate is comprised of two internal and two external directors and has substantial influence in the formulation of major policy matters. It does not generally involve itself in day-to-day operations, although major investment decisions, for example, are discussed at this level.

The Presidency is the crossroads of policy and routine operations. The current President, who is a Minister of State, is highly political and involves himself principally in determining policy in conjunction with the Executive Directorate and the National Executive; he does, however, oversee and involve himself to a degree in daily operations.

The management of FIV's resources is carried out by the three financial groups (the International Financial Group, International Financial Cooperation Group and National Investment Group) under the General Manager, although they must have the approval of senior level committees (External Investment Committee, Committee for International Financial Cooperation, Industrial Committee and National Investment Committee) prior to acting. For example, an offer to co-manage a bond issue is studied and processed by the International Financial Group and if attractive to them, recommended for acceptance by the External Investment Committee at its weekly meeting. If the recommendation is accepted, no further authorization is required.

The International Financial Group is responsible for FIV's investment in external markets. To date, investments have been largely in short-term bank deposits with a smattering of intermediate-term bonds. The department itself is broken down into sub-departments (eg. short-term investments and bonds) where primary analysis of investment opportunities begins. The level of financial expertise in this group is pitifully low in general. The result has been to shy away from new investment opportunities.

The International Financial Cooperation Group is responsible for the analysis of and monitoring of loans to international and non-Venezuelan government agencies such as the World Bank, Bank of Jamaica and Central Bank of Peru. Although requests for such loans may occasionally come to FIV on purely commercial terms it is my impression that this area is more of a political treasure chest for the President of the Republic which he taps when some economic/political leverage is needed.

The National Investment Group is responsible for reviewing and monitoring debt and equity investments in Venezuelan entities (to date, exclusively government owned or controlled entities). Again, this is a highly political area and although requests do come directly to FIV for funds, in general political decisions are taken at higher levels in the government as to who is to be financed, how and in what amounts - those results are then communicated to this group for formal processing.

In my view, the structural concept of FIV is a good one. Unfortunately, certain predictable problems have arisen (most of which could be corrected) that have led to inefficiencies, mistakes and a generally mediocre image in the international community. For one, FIV has become highly politicized (it has fought particularly hard to establish itself as a peer with the Ministry of Finance and the Central Bank in the economic decision-making process of the Republic). This has necessarily led to a less independent entity which can often take painfully long to resolve issues with political overtones which are of major importance to FIV. For example, the possibility of retaining an advisor a la SAMA was debated for over a year. A proposed merchant banking affiliation/subsidiary in London has now been discussed for at least 14 months. An excessive bureaucratic rigidity has also emerged internally. For example, the necessity to clear every external investment proposal with a senior level committee which meets only once a week has resulted in a lost opportunity syndrome (i. e. a CD offer will not be held firm for five days for the convenience of the committee). This problem results from another major problem area - an inexperienced, financially unsophisticated staff. FIV has refused, again for political reasons, to recruit non-Venezuelan staff or to bring in advisors. As noted, the result has been a reluctance to expand investment into areas of new, often higher yielding investments which are not understood by the staff. This is a vicious circle which has not only disillusioned many financial intermediaries (hence fewer offers) but has created a negative image in Venezuela to such a degree that motivated, imaginative people simply will not join.

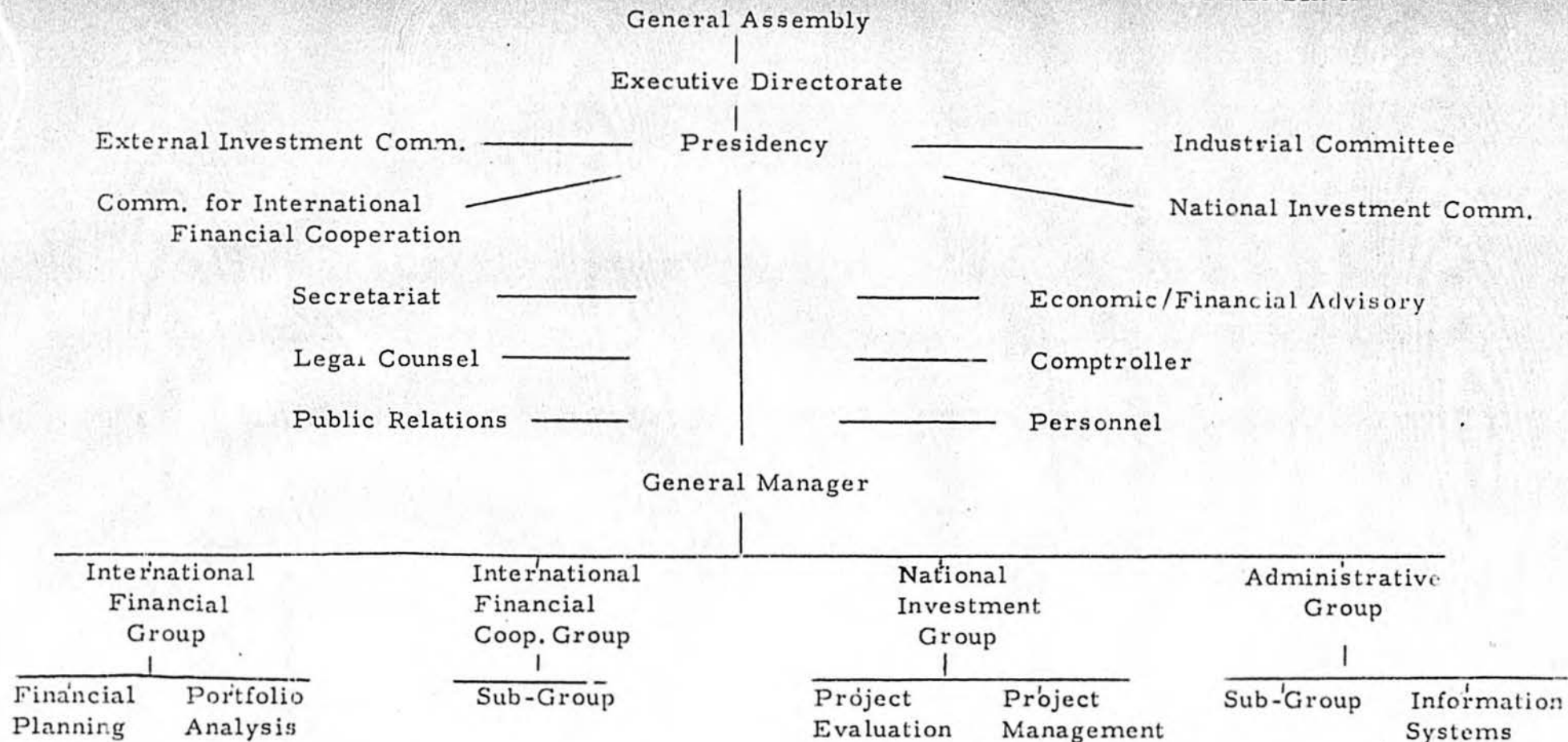
To give you a rough idea of the portfolio breakdown at Dec. 31, 1975, approximately \$5.2 billion in assets were divided as follow:

	(\$millions)
Cash	.5
Deposits	4,023
Bonds	79
Loans(1)	907
Trust funds (2)	91
Equity Investments	49.5
Accrued interest	84
Other	.9

- (1) To international and non-Venezuelan Government agencies and to Venezuelan entities.
- (2) Administered by the Interamerican Development Bank for development of projects and programs in member countries.

Jeffrey L. Berenson

CC: N. MacEwan
C. Fuhrmann



Publications

+

INFORMATION

Following