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11 October 1963

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FROM : Chief, Publications Staff, ORR
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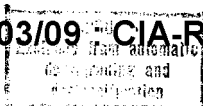
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Current Support Brief

KUWAIT'S OIL MONEY FLOWS INTO FOREIGN AID



CIA/RR CB 63-80

3 October 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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KUWAIT'S OIL MONEY FLOWS INTO FOREIGN AID

Kuwait's foreign aid program is unique in today's world. Spawned as a modern form of an ancient institution -- tribute -- it lacks the usual political, ideological, and economic motives of other foreign aid programs. The sole purpose of Kuwait's generosity is to secure its status as an independent state and thus guarantee its future revenues. The Sheikdom became independent of Great Britain in June 1961, although close defense ties were retained, and was able to maintain this status because each of the major Arab states was anxious to deny its Arab rivals the Kuwaiti oil revenues. Kuwait was admitted to the UN in May 1963 -- the 2-year interim was a period of intensive political maneuvering. The success of Kuwait's campaign to insure the continued friendship of neighboring nations has been partially a product of judicious use of abundant oil revenues in a program of loans and grants to selected countries of the Arab League. This program was undertaken reluctantly at the urging of the governments of the US and the UK and has proved so successful that the Kuwaitis now view it with enthusiasm.

The primary obstacle to full recognition of Kuwaiti independence was Iraq's claim to sovereignty over Kuwait. To combat this claim, Kuwait needed support from other Arab countries. In the course of winning their backing, Kuwait has loaned or given \$154 million to Arab countries over a 2-year period, distributed as shown in the Table.

1. General Outline of the Program

Kuwait's foreign aid effort began before independence with a government loan of \$14 million to the Municipality of Beirut, Lebanon, in February 1961. Shortly thereafter, the Kuwait Fund for Arab Economic Development (KFAED) was established with an initial capitalization of \$140 million. In October 1962, KFAED capitalization was raised to \$280 million. The KFAED is financed out of government savings and is authorized to grant loans to other Arab states for the implementation of economic development programs. KFAED loans extended to date

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total \$69 million, bearing interest rates of 3 to 4 percent and repayment periods of 10 to 20 years.

Table
Foreign Aid Extended by Kuwait
June 1961 Through June 1963

Recipient	Loaned by KFAED	Million US \$	
		Loaned by Government of Kuwait	Granted by Government of Kuwait
Algeria	28.0	28.0	
Egypt <u>a/</u>		33.6	
Iraq			5.6
Jordan	21.0		
Lebanon (Municipality of Beirut)		14.0	
Sudan	19.6		
Trucial States <u>b/</u>			3.2
Yemen			1.4
Total	<u>68.6</u>	<u>75.6</u>	<u>10.2</u>

a. Amount deposited in the Central Bank of Egypt and not officially declared a loan.

b. Budget for 2 years of the Gulf Permanent Assistance Committee (GPAC) that is expected to be a continuing program.

The government has made several direct loans outside the framework of the KFAED. The government loan to Algeria was extended in conjunction with a KFAED loan. Whereas loans from the KFAED are tied to specific development projects, government loans are free of strings and may be expended at the discretion of the recipient. Loans of this type have amounted to \$76 million.

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Three small grants, totaling \$10.2 million, also have been made in the past 18 months. A formal program of aid for the Trucial States of the Persian Gulf was inaugurated in April 1962, and the budget of the Gulf Permanent Assistance Committee (GPAC) has totaled \$3.2 million in 2 years. This program is expected to continue and expand. Iraq has received a grant of \$5.6 million, designated for relief of Iraqis who are suffering as a result of the Kurdish rebellion. Yemen has been given \$1.4 million for schools and hospitals -- a forerunner to loan agreement currently under discussion.

Because of Kuwait's embarrassment of riches, the existing foreign aid commitment of more than \$150 million has little or no impact on the domestic economic scene. Government oil revenues have grown swiftly, from \$57 million in 1953 to an expected \$514 million for the fiscal year ending 31 March 1964. The foreign assets of the government have increased from \$649.9 million at the end of 1958 to \$951.2 million at the end of 1963, while the government has been spending more than \$200 million annually on development projects at home. 1/

The surfeit of cash, combined with an almost total absence of either products or services available for export, makes the Kuwaiti aid program unique. It consists entirely of export of hard currency and is not tied to local exports or technical services. Kuwait provides the money and requires only an opportunity to approve projects contemplated under KFAED loans. All loans and grants, however, are tied closely to the policy objectives of Kuwait, and discussions with Indonesia have run into snags because Indonesia has been unwilling to provide the requisite political support.

Disbursements to date have been confined to the Arab Middle East and North Africa. An offer to Indonesia, however, evidenced Kuwait's willingness to go farther afield geographically, and pending loans to Ethiopia and India would break both religious and geographical patterns that have existed throughout the first 2 years of the aid effort.

In order to maintain and enhance its image as a beneficent member of the family of nations, Kuwait has committed itself to a continuing

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foreign aid program, and pending loans currently under discussion reportedly total almost \$300 million. The director of the KFAED has announced that capitalization of the KFAED will be increased to \$420 million, and the World Bank has sent an expert to assist in reorganizing and staffing the KFAED.

2. Loans to Algeria

Two loans totaling \$56 million to Algeria were announced in December 1962. Half of this sum is a government-to-government loan for 12 years and is free of interest; the other half is to be drawn from the KFAED and probably is to be repaid in 10 to 20 years at 4 percent interest.

Each loan will be in the form of convertible currencies to be used for Algerian "economic reconstruction," although to date no specific projects have been delineated. Algeria will be permitted to designate the repayment currency or currencies. 2/

3. Bank Deposit in Egypt

Kuwait recently deposited \$33.6 million in the Central Bank of Egypt. This deposit, bearing 4 percent interest, will remain for at least 2 years and is available for immediate, unconditional drawing by the Cairo government. Apparently this somewhat unusual approach was used to spare the Egyptians the humiliation of accepting a loan from a "remote desert sheikdom." 3/

4. Discussions with Ethiopia

An Ethiopian economic delegation visited Kuwait in April 1963, and the visit was returned in June. Included in the subjects under discussion were Kuwaiti government aid to the Ethiopian development program and private Kuwaiti financing for hotels and industries in Ethiopia. The visit in June resulted in an economic cooperation agreement, but no specific loan has been announced as yet.

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5. Pending Loan to India

In June 1963, reports from New Delhi indicated Indian interest in a \$140 million loan from Kuwait. This interest was confirmed by the Indian Minister of State for Foreign Affairs during a visit to Kuwait in July. Although close economic ties have existed for some time, conclusion of a loan to India injects two new elements into Kuwait's aid program: (a) it would be a departure from the Arab-oriented pattern followed in the past, and (b) it would represent a notable geographic dispersion.

6. Fruitless Talks with Indonesia

India is not the first Asian nation to carry on loan discussions with Kuwait, as negotiations with Indonesia have been underway since late in 1962. Early reports stated that Kuwait would lend \$28 million to \$30 million to Indonesia immediately, with more to follow. Thus far, however, the Sukarno government evidently has refused to agree to the elaborate propaganda splash demanded by Kuwait as a condition of the loan. Kuwait apparently is continuing to insist on an ostentatious demonstration of Indonesian political support, and the loan offer may well evaporate in the face of this impasse. 4/

7. Grant and Loan to Iraq

Since independence, Kuwait's overriding foreign relations problem has been Iraq's claim to sovereignty over it, and a major purpose of the foreign aid program was to obtain allies for the fight against the Qasim regime. Kuwait's policy now is aimed at buying the sufferance of the new Iraqi regime. Baghdad apparently has recognized the fact of Kuwait's independence and has decided to get some financial reward in return for graceful acquiescence. The broad terms of agreement reportedly include a loan to Iraq of at least \$84 million, a grant of \$5.6 million for Iraqi social welfare activities, and some verbal loosening of Kuwait's defense ties with the UK. In return, Iraq is to recognize the independence and sovereignty of Kuwait within the frontiers delineated in 1932. 5/

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8. Loan to Jordan

Jordan was one of the earliest recipients of aid from the KFAED. A formal agreement on a \$21 million loan for industrial projects was signed in April 1962. Of this total, \$11.2 million is for a 20-year loan at 3 percent interest for further expansion of the Yarmuk River irrigation project, which has been financed primarily by the US; \$8.4 million is for a 10-year loan at 4 percent interest for developing phosphate mines; and the remaining \$1.4 million was set aside for the establishment of new Jordanian industries. Repayment terms on the latter portion have not been announced.

9. Loan to Municipality of Beirut, Lebanon

A loan of \$14 million was made to the Municipality of Beirut by the Kuwait government in 1961 -- a year before the establishment of the KFAED. This money is being invested in municipal development projects: \$5.6 million was drawn in 1962 and \$5.6 million more in July 1963, and the balance probably will be spent next year.

10. Negotiations with Nigeria

A mission from Lagos visited Kuwait in January 1963, seeking assistance for projects contemplated under the Nigerian 6-year development plan. A delegation from Kuwait returned the visit in June, and a formal loan announcement may be forthcoming. The Nigerians approached Kuwait immediately after an unsuccessful bid, in October 1962, for assistance from Iraq.

11. Pending Loan to the Somali Republic

Negotiations have been underway between the Somali Republic and Kuwait for the past several months. A loan of \$17 million to \$20 million is under discussion, but no formal announcement has been made to date.

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12. Possible Aid for Syria

Syria was seeking development assistance from Kuwait in 1962; at the same time, Damascus was attempting to reestablish good relations with Baghdad. The Kuwaitis insisted on full Syrian recognition as a prerequisite to any loan, but the Syrians at that time refused to antagonize the Iraqis by such a move. This deadlock was followed by political upheavals that created a bond between new Baathist regimes in Iraq and Syria. The recent announcement of Syria's recognition of Kuwait and the pending agreement between Iraq and Kuwait appear to enhance Syria's prospects for receiving favorable consideration of any new application to the KFAED. Kuwait's announcement of support for Syria in the border clashes with Israel that began on 19 August may be the first step toward warmer relations and renewed offers of Kuwaiti economic assistance. 6/

13. Loan to Sudan

Sudan was the first country to seek aid from the KFAED, and a loan of \$19.6 million was granted in March 1962. This 15-year, 4 percent loan will finance a portion of Sudan's railway modernization plan. The agreement stipulated that \$7 million was to be paid immediately, with the remainder available at any time until the end of 1964.

14. Program for the Trucial States

Kuwait undertook an organized and expanded program of aid to the Trucial States in April 1962; \$1.2 million was budgeted for the first year and \$2.0 million for the second year. These funds are outright grants outside the framework of the KFAED, and Kuwait retains full control of initiation and implementation of all projects through the GPAC. For the past decade, considerable scholastic aid has been going to the Trucial States. Under the GPAC, initial priority has been given to schools, clinics, and social service centers, but diversification into projects such as water exploration and distribution already has begun.

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15. Commitment to Tunisia

After several months of discussion the KFAED announced a loan to Tunisia in late 1962. Although amounts ranging from \$19.6 million to \$28 million have been mentioned, no maximum amount has been announced officially. The lack of a formal announcement suggests that the negotiations actually have not been concluded.

16. Aid to Yemen

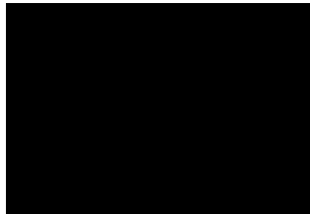
In April 1963, Kuwait announced that it had agreed to subsidize certain projects in Yemen through the KFAED. Although no firm figure has been set, officials in Kuwait have indicated they may lend up to \$28 million to the Yemeni regime. A Kuwaiti mission left for Yemen on 28 July 1963 to discuss specific projects. The first agreement reached by this mission was a government grant of \$1.4 million for construction of hospitals and schools. Projects to be financed under the KFAED loan include the Wazran Dam in Ta'izz Province, harbor construction in Mocha, a government central building in San'a, and various agricultural undertakings.

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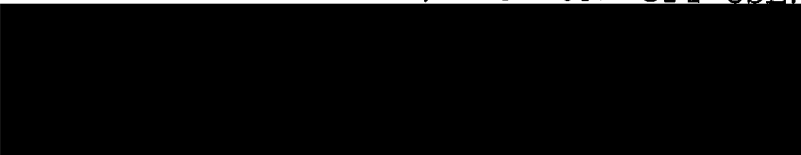
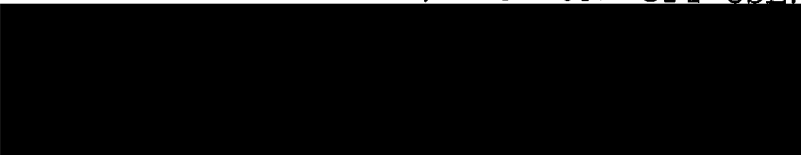

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Sources:

1.  5X1A
State, Kuwait. Airgram A-16, 27 Jul 63. U.
2. State, London. T-2362, 21 Dec 62. U.
State, Kuwait. Airgram A-269, 16 Feb 63. C.
3. State, Cairo. TOAID 28, 12 Jul 63. OFF USE.
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5.  25X1A
State, London. T-854, 20 Aug 63. C.
6.  25X1A
State, Kuwait. T-33, 21 Aug 63. C.

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169	[redacted]		
170	[redacted]	18 Oct 63	
171	[redacted]	"	
172	[redacted]	"	
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174	[redacted]	"	
175	[redacted]	Not Sent	7 Jan 64
176 - 178	[redacted]	"	"
179	CGS/RB	7 Oct 63	11 Oct 63
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180-196	See attached memo	11 Oct 63	
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141 - 144	USIA, Warren Phelps, IRR/D, Room 701, Walker Johnson Building, 1734 New York Avenue, N. W.
145 - 156	State, INR Communications Center, Room 7818, State Dept. Bldg.
157 - 160	DIA, DIASA-2C, Room 2D233, Pentagon
161 - 162	Dr. Neilson Debevoise, NSC, Room 365, Executive Office Building
72, 163 - 228	St/P/C, Room 4F41, Hq. (held in St/P/C, 4 Oct 63)
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