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Folder ID: 30487008

Series: Meeting and event briefing materials

Dates: 02/23/1997 – 04/05/1997

Subfonds: Records of President James D. Wolfensohn

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ISAD Reference Code: WB IBRD/IDA EXC-13-12

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THE WORLD BANK

Washington, D.C.

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The World Bank

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Washington DC 20433

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PUBLIC DISCLOSURE AUTHORIZED

Dinner: Amb. Walid Al-Moualem, Syria
and World Bank Staff

Saturday, April 5, 1997
7:30 - 7:30 p.m.
Kalorama Residence

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President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Materials
Dinner - Ambassador Walid Al-Moualem - Syria and World Bank Staff - April 5,



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A. CLASSIFICATION

- ☒ Meeting Material
- ☐ Trips
- ☐ Speeches

- ☐ Annual Meetings
- ☐ Corporate Management
- ☐ Communications with Staff

- ☐ Phone Logs
- ☐ Calendar
- ☐ Press Clippings/Photos

- ☐ JDW Transcripts
- ☐ Social Events
- ☐ Other

B. SUBJECT: DINNER: AMBASSADOR WALID AL-MOUALEM OF SYRIA AND WORLD BANK STAFF // HOSTED BY: JDW (B) (N) (Confirmed)
VENUE: KALORAMA RESIDENCE
CONTACT: ARIANA (EMBASSY OF SYRIA) @ 202-232-6313 // FAX: 202-797-1899
IN ATTENDANCE: JDW, KOCH-WESER, DERVIS, HOVAGUIMIAN
EXTERNAL: AMBASSADOR (3/31) EMAIL SENT TO STAFF
(B) DERVIS / HOVAGUIMIAN // DUE: WED. APRIL 2
EXC: HA // ALI (3/27) (3/31)

Brief Includes:

Letter to JDW from Mr. Dervis, dated April 2, 1997 entitled, "Syria - Dinner with Ambassador Walid Al-Moualem" with tabs:

- IFC Briefing Note
- Syria: Proposal for Arrears Clearance/Workout
- Bio
- Correspondence

DATE: 04/05/97

C. VPU

Corporate

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D. EXTERNAL PARTNER

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- ☐ Private Sector

- ☐ Part I
- ☐ Part II
- ☐ Other

E. COMMENTS:

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Kemal Derviş
Vice President
Middle East and North Africa

Telephone: (202) 473-2776
Fax: (202) 477-0810

April 2, 1997

Mr. Wolfensohn

SUBJECT: Syria - Dinner with Ambassador Walid Al-Moualem

The attached note gives the background to the arrears situation and possible approaches to resolving the issue that we have been exploring. In addition, I would like to point out the following based on some recent discussions we had with other creditors and potential donors:

1) As indicated in the note, there are a number of options open to us ranging from a one-time arrears clearance approach, preceded by an appropriate performance period (modeled on the Peru approach), to a more traditional approach whereby Syria gradually meets its obligations, albeit with some favorable treatment by the Bank. Even though the second of these options is what we had discussed previously with the Syrians, in the present circumstances the first option is clearly the preferred option. The Europeans are keen on normalizing relations and have continued to pursue bilateral approaches. While they have shown a tendency to make individual deals, they would prefer to have the Bank arrears settled and are likely to support our efforts to mobilize financing. This would be better politically. The longer we wait, the more difficult it may become for us to get this support. So we have a small window of opportunity to move now. The gradual workout option also runs the risk of slipping back into arrears in the future as had been our experience earlier. Our Financial Policy colleagues also object to the arrangements that had tentatively been included in the "gradual" option of applying payments first to principal as being contrary to Bank financial policy.

2) Caio has discussed the matter with the Japanese during his last visit. The Japanese are in principle supportive and indicated willingness to help, but were not prepared to indicate any specific amounts. The position of the Arab donors is explained in my note to you of earlier yesterday. We can count on some support from them if the Europeans and the

April 2, 1997

Japanese were also participating. So overall, the situation from the potential donor front looks reasonably positive.

3) Finally, you should be aware that while the Ambassador is quite influential (he was the Syrian negotiator for the peace talks) and has the ear of President Assad, he is not the World Bank's "usual" counterpart or Governor. The Minister of Finance (Dr. Al-Mahayni) and the Minister of Planning (Dr. Imady), though they probably are less influential politically, have been our interlocutors on the subject until recently. They may not be aware of this channel with the Ambassador and there may even be some hostility towards him. It is important to keep discussions exploratory and not have it appear as if we are engaging in formal negotiations with the Ambassador. The CV of the Ambassador is attached.



Kemal Derviş



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Document Date April 2, 1997	Document Type Brief			
Correspondents / Participants				
Subject / Title Brief for Mr. Wolfensohn's Dinner with Syrian Ambassador Walid Al-Moualem				
Exception(s) Information Provided by Member Countries or Third Parties in Confidence				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Diego Hernández</td><td>Date April 24, 2025</td></tr></table>	Withdrawn by Diego Hernández	Date April 24, 2025
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SYRIA

Proposal for Arrears Clearance/Workout

Current Status

- As of end-February 1997, Syria's total arrears to the Bank stood at about \$515 million equivalent (including \$12 million to IDA), of which about \$265 million were in overdue principal.
- In addition, principal not yet due was about \$140 million, about half of which falls due over the next three years. New debt service falling due is about \$4.5 million a month.

Background

- Syria stopped servicing its debt to the Bank in 1986.
- By early 1992, arrears had reached about \$400 million.
- In early 1992, an agreement was reached whereby Syria would pay a monthly amount equivalent to new debt service falling due (\$6 million on average), pending an agreement on a workout. Syria has also paid a "symbolic" \$10 million towards the arrears.
- Monthly payments were made intermittently during a 3-year period, with occasional delays and interruptions, for a total of \$226 million. There was no agreement on a workout during this period. The payments ceased in April 1995.
- Since then, several contacts were made with the Syrians to try to agree on possible workout scenarios. The Syrians have been keen to have payments applied to principal first. They have verbally offered to consider paying the entire overdue principal upfront, and to subsequently clear the interest arrears over a five-year period.
- We have expressed our readiness to consider variations on such a scenario (such as a payment of interest arrears over 18 months).
- In order to move more concretely with the discussions, we asked that they respond to our proposal, or to send us their own proposal, in writing. We have not received a formal written response to date, although we continue to receive verbal assurances that the Government is keen to clear all of its arrears, including to the Bank.

Relations with Selected Other Creditors

- Over the 1993-95 period, Syria reached debt agreements with a number of its smaller OECD creditors, such as Spain, Belgium and Denmark.
- Last October, it reached an agreement with France, one of its larger OECD creditors, which we understand involved a combination of debt forgiveness and rescheduling.
- We understand that it may be close to an agreement with Germany, by far the largest OECD creditor.

- Our understanding is that if an agreement is reached with Germany, the EIB is likely to resume its operations, although it has stood firm so far.
- In the meantime, Japan and regional donors, which provided significant assistance during the Gulf War, have continued to provide new funding to Syria. The EU is providing grant assistance.
- The IMF has stepped up its contacts with Syria during the last year. Mr. Camdessus visited Damascus last October and met with President Assad. The most recent Article IV Consultation mission is currently preparing its report. During the mission, the topic of clearing the Bank's arrears was discussed. The Fund advised the Syrians to clear such arrears in a comprehensive framework in which the Fund would be ready to contribute some of its own resources (about \$80 million) in the context of a First Credit Tranche in support of modest upfront reforms.

Proposals

Option I: Full Up-Front Clearance with the Fund

- Full clearance of all Bank arrears, in conjunction with a Fund program and a Bank adjustment operation. For them to be politically feasible at this stage, both would involve one-tranche operations with some (but not heavy) up-front conditionality in policy areas where the Syrians would want to move (e.g., exchange rate alignment, price and trade liberalization, fiscal measures, some financial sector reforms, or improving the regulatory environment for domestic and foreign investment).
- Under existing workout policy applied to other countries with similar circumstances, any Bank lending (disbursements) is preceded by a performance period during which the Government would: (i) adhere to a stabilization program supported/endorsed by the Fund; (ii) undertake a structural adjustment program to be supported by new Bank lending, and (iii) resume payments in the amount of new debt service falling due. More concrete proposals will need to evolve as elements influencing the negotiating process develop.
- An illustrative financing plan for the arrears clearance could be follows:

WB Economic Recovery Loan	\$250 million
Syrian Reserves	\$100 million
Others	\$200 million
IMF First Credit Tranche	
Arab Monetary Fund	
EU	
Japan	
Total ¹	\$550 million

- This option would require bridging to the Bank loan. French or other commercial banks, or bilaterals (France and/or Japan) may be interested.

¹ Includes current stock of arrears, next 6 months debt service, and some margin for exchange rate fluctuations.

- As we start working on the proposed Economic Recovery Loan (ERL), we would also be ready to work with the Syrians on a Public Expenditure Review. This would be a focused, fast-turnaround product that would enable us to start preparing investment loans.
- If the Syrians are interested, we can work with them and selected key donors to form a Friends of Syria grouping as a forum for mobilizing broader support over the medium term.

Option I A: Full Up-Front Clearance without the Fund.

- The Syrians may be reluctant to enter into a program with the Fund, with whom they have no arrears.
- With a larger contribution from the Syrians, who have the reserves, and/or from the above-mentioned other sources and a Fund endorsement of the Syrian economic program, we could consider an ERL with substantially similar conditionality as under Option I and a Friends of Syria grouping, possibly led by France, or the EU.

Option II: Extended Arrears Workout

- Basically what we have been discussing with the Syrians over the past couple of years. That is, clearance of principal and interest over a period, with support from others. These discussions have gone back and forth and where we have ended up is a readiness on our part to accept upfront payments to be applied to principal. (This was after Legal had given a judgment that this was acceptable under the terms of the agreements of the Syrian loans). As for the interest arrears, the Syrians have suggested five years whereas we have suggested eighteen months. In the process, the Syrians may seek treatment similar to Bosnia, even though we have told them that the conditions do not apply, and note other "precedents" on the length of workout (e.g. Peru, 30 months)

Remarks

- Option I is preferable. It is cleaner, faster, would involve us in a form of burden sharing, and would allow us to start new operations upfront.
- What we will be able to do depends on what the Syrians want and what they think they can get out of a possible deal. They have been telling us for some time that they want to clear the arrears but have not followed through. The question is whether their situation/ environment has changed in the last few months to entice them to change their posture. What we know is that recent economic performance has been sluggish and that they have remained very cautious in opening up their economy and engaging in any significant structural reform. We also know about the deal with France, the prospect of one with Germany and, more generally, the desire of Europe to help bring Syria out of its isolation. The Americans have a tough balancing act between wanting to see Syria being assisted to become a more open economy since such openness might be associated with more moderate political stances, and being seen themselves as helping a country that they believe is sponsoring terrorism. The American/ European competition for influence in the Middle East and the Mediterranean basin is also a factor.
- It is difficult to forecast how these considerations and others would add up, but perhaps the following factors could combine to make the Syrians opt for Option I:

- ◆ A new perception by the Syrians (it would have to be President Assad himself) that the cost of economic isolation is becoming too high. Syria's neighbors who are opening up (e.g. Jordan) or who have been open (e.g. Lebanon) are experiencing higher growth which, barring adverse political developments, could be sustained for a while. This would put Syria even further behind.
- ◆ Although discussions with the EU on a Partnership Agreement are slow, if Syria views such a partnership to be in its longer term strategic interest, then it might want to move the process faster, and this would involve opening up the economy. In that case, they might as well get some immediate benefits out of the necessary policy actions in the form of "conditioned" Bank and Fund resources, plus associated cofinancing.
- ◆ If Syria were to reach a comprehensive and up-front settlement of all Bank arrears (Option I), this would allow it to access new funding from the Bank. The weight of this consideration may be reduced, however, by the position of other creditors on arrears and new lending as discussed above.
- Some of the concerns/factors that would need to be kept in mind with Option I are:
 - ◆ The process would have to be managed very carefully to avoid to the extent possible the perception that it is linked to Syria joining the peace process. The Syrians have been particularly sensitive about such linkage.
 - ◆ The US connection is likely to be delicate (the balancing act mentioned above). The Americans may end up encouraging a deal as in Option I privately, but may have to abstain publicly, or perhaps oppose. Signals from State and Treasury may be different.
 - ◆ The American-European (particularly French) competition could be a complicating factor, but not insurmountable.
 - ◆ Finally, the scope and nature of the conditionality in the Bank and Fund supported programs. How much can the Syrians stomach? How much can we live with? Certainly, the Syrians would have to show serious commitment to reform at a pace and scope that we would judge reasonable in view of country and regional circumstances. Perhaps we should treat Syria as we did the FSU countries in the early days with the first set of Rehabilitation Loans, or as we did in the case of the Macedonia arrears workout with an ERL.

Recommendations:

- Explore the possibility of Option I. First, coordinate with the Fund and try to reach agreement on how to deal with the Syrians in the context of an overall framework. Then, talk to the Syrians. A low key mission is tentatively scheduled to visit Damascus in the second half of March. If the response is favorable, we would pave the way for a higher level contact.
- We would explore Option IA only if it becomes clear that a Fund program is not likely at this stage. We would not raise Option II at this point unless we conclude that the first option is not likely to materialize.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: April 1, 1997

TO: Mr. James D. Wolfensohn

CONFIDENTIALFROM: Brian Wilson, FPRVP *B.W.*THROUGH: Mrs. Jessica *JRE* ~~Barnhorn~~, EXC

EXTENSION: 87307

SUBJECT: Syria**DECLASSIFIED**

APR 14 2025

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1. As we understand that you are meeting with the Syrian Ambassador on Friday, Jessica asked that I send you a quick note before I leave. This note has been drafted between Board meetings, so please excuse the informal language. My staff will, of course, be working with their colleagues in Operations on a more comprehensive briefing.
2. For reasons that I do not have to elaborate upon, it would be fortuitous if we can reach agreement with the Syrians on a serious, credible and lasting solution to their arrears situation. Such a solution is clearly in both Syria's and the Bank's interest, and I sincerely hope that the current global political environment will provide the impetus needed to achieve this common goal.
3. Having said that, we must acknowledge a few home truths. First, Syria has been in nonaccrual longer than any other country (10 years). Moreover, it went into nonaccrual -- and remains there -- due to an unwillingness (not incapacity) to service its obligations -- something that distinguishes them from the other countries that are currently in nonaccrual. Second, the Bank has entered into negotiations with the Syrians on a number of occasions during this period but their commitment has failed to materialize. Third, while history must not be allowed to cloud good judgment, we must protect our own financial policies. Syria may be important in a political sense, but we should not exaggerate our own role in the Middle East peace process. If the Syrian authorities want to become a member in "good standing," they should do so while respecting the fundamental rules of our institution. These rules include: respecting the preferred creditor status of the Bank; paying debt service on time and in full; and implementing policies and projects that have been mutually agreed. Syria continues to violate these rules.
4. In conclusion, it is important that any agreement we reach demonstrates that the authorities are committed to play by the same rules as other members of the Bank family. This means that any such agreement would have to include a performance period, in line with other country precedence, during which Syria would implement an economic program agreed with the Bank (and the IMF) and meet its debt service payments to the Bank as they fall due.

cc: Mr. Caio Koch-Weser, EXC
Mr. Kemal Dervis, MNAV



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Document Date April 5, 1997	Document Type CV / Resumé			
Correspondents / Participants				
Subject / Title CV - Ambassador Walid Al-Moualem				
Exception(s) Personal Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Diego Hernández</td><td>Date April 24, 2025</td></tr></table>	Withdrawn by Diego Hernández	Date April 24, 2025
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ROUTING SLIP		DATE: March 31, 1997	
NAME		ROOM. NO.	
Mr. James D. Wolfensohn			
cc: Messrs/Mmes: Einhorn, Koch-Weser (o/r), Kaji (EXC); Sud (MN2DR)			
☐	URGENT	☐	PER YOUR REQUEST
☐	FOR COMMENT	☐	PER OUR CONVERSATION
☐	FOR ACTION	☐	NOTE AND FILE
☐	FOR APPROVAL/CLEARANCE	☐	FOR INFORMATION
☐	FOR SIGNATURE	☐	PREPARE REPLY
☐	NOTE AND CIRCULATE	☐	NOTE AND RETURN
☐		☐	
RE: Syria - Report on discussions in the Gulf Countries			
REMARKS:			
Jim, Attached is a report on discussions re. Syria, as well as a note from Marc-Antoine Autheman for your background information. <i>(I also attach a letter by I. AC-Assaf on the Regional Board presentation.)</i> DECLASSIFIED MAY 22 2025 WBG ARCHIVES Kemal 			
FROM Kemal Dervis, Vice President, MNA		ROOM NO. H 7-065	EXTENSION 32776

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APR 14 2025

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March 28, 1997

Syria - Report on Discussions in the Gulf Countries

Syria was one of the key topics in the discussions I had last week with the Saudi Ministry of Finance, the Saudi Fund, the Abu Dhabi Fund, the Islamic Development Bank and the Arab Monetary Fund.

There is a very strong wish in the Gulf countries for Syria to normalize its relationship with the Bretton Woods institutions. All favor a comprehensive and decisive "settlement." All are of the opinion that there are two groups in Syria. One that wants to steer a cautious path of economic reforms in cooperation with the Bretton Woods institutions and another that is quite happy with things as they are, benefiting from the rents and spoils of the system. What seems to add strength to the first group is a growing feeling in Damascus that Syria is being left further and further behind a "booming" Egypt, a rapidly growing Lebanon, and even a steadily progressing Jordan. The first group is gaining influence but it may not yet be in a position to prevail.

The Director-General of the Abu Dhabi Fund, the Managing Director of the Saudi Fund and the President of the Islamic Development Bank very cautiously indicated the possibility of some limited financial support for a "workout". Dr. Al-Assaf, the Saudi Finance Minister, encouraged me to seek the support of these institutions. He cautioned, however, against expecting bilateral Saudi support in addition to what the Saudi Fund could do. We did not get into concrete numbers. It was too early for that and it would have undermined the discussions, but if a deal with Syria can be worked out, it would probably be relatively easy to reallocate \$20 to \$25 million from existing commitments by these various institutions to a quick-disbursing scheme to help Syria clear arrears. Genuinely "new" money would be very difficult to mobilize, although it may be possible to generate a small new commitment from the Saudi Fund.

The strongest financial support for a workout may come from the Arab Monetary Fund, in the form of parallel financing of an IMF lower-tranche program and a World Bank economic recovery loan (ERL). Again, it was too early to focus on amounts, but my guess is that \$30 million should be possible. Finally, my Arab interlocutors stressed that their participation could only complement support from Japan and Europe.

To sum-up, it may be possible to mobilize an amount in the neighborhood of \$50 million from the various Arab institutions (including Kuwait--we have not yet talked to them), if we press hard for it including at the level of Mr. Wolfensohn, if Syria indicates to them that this is a priority and if the Japanese and the Europeans can come up with concrete support. I would say \$80 million at a minimum from Europe (EU and bilaterals) and \$50 million from Japan.



Kemal Derviş



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Document Date March 28, 1997	Document Type Memorandum			
Correspondents / Participants To: Jessica Einhorn From: Marc-Antoine Autheman, EDS04				
Subject / Title REF: Accumulated Provisions for Loan Losses (Syria arrears)				
Exception(s)				
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No. 11320/3

Feb. 23, 1997.

Mr. Kemal Dervis
Regional Vice President
Middle East and North Africa Regional Office
The World Bank
1818 H Street, N.W.
Washington, D.C 20433
U. S. A.

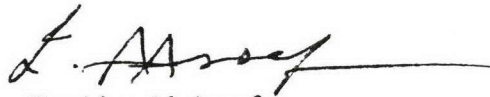
Dear Kemal,

I have read with interest the statement you delivered on 14 January 1997 to the World Bank's Board of Executive Directors, sharing with the audience the regional management's evaluation of trends and prospects in the Middle East and North Africa Region.

Indeed, I was not surprised to hear that your presentation was a most successful, interestingly received, and drew a lot of discussions. Congratulations !

With my best wishes.

Sincerely;



Ibrahim Al-Assaf
Minister of Finance & National Economy