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Sub-Fonds: Records of President Robert S. McNamara

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The World Bank
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Mekamara Payer :

Contracts
Saudi Arabia (1972-1976)

RETURN TO ARCHIVES IN HB1-001

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BOX # 17

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THE WORLD BANK GROUP
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1771171

A1993-012 Other #: 16

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Contacts with member countries: Saudi Arabia - Correspondence 01

DECLASSIFIED
WBG Archives

SAUDI ARABIA

SAUDI ARABIA

- 7/18/69 Ezzat Al-Ali, General Manager, Saudi Arabian Agricultural Bank, Riyadh
(Aspen-Eisen.Ex.)
1. 7/28/72 Prince Saud Faisal, brother of the King
Mohamed Jokhdar, Deputy Governor of Petromin
 - 8/2/72 Dr. Youssef Namatallah, Faculty of Commerce, University of Riyadh --
at reception for professors attending Middle Eastern Seminar
 2. 1/3/73 Sheik Ibrahim al-Sowayel, Ambassador to the U.S.
 3. 2/73 Notes on visit to Middle East countries (*Filed in L. M. R. office*)
 4. 2/14-17/73 Prince Moussaed bin Abdul Rahman, Minister of Finance
(Riyadh) Sheikh Aba Al-Khayl, Minister of State for Financial Affairs
Mr. Badr, Deputy Director of the Planning Organization
Anwar Ali, Governor of the Saudi Arabian Monetary Agency
Hasan Mishari, Minister of Agriculture
Prince Saud, Deputy Minister of Petroleum
Ahmad Zaki Yamani, Minister of Petroleum
Dr. Youssef Namatallah, Professor of Economics, University of Riyadh
and Economic Adviser to the Ministry of Finance
Dr. Mohamed El-Saad, Director General, Agricultural Research and
Development Department, Ministry of Agriculture and Water
 - 3/5/73 Zaki Saad, Advisor to the King
 - 4/15/73 Ahmad Zaki Yamani, Minister of Petroleum (at dinner hosted by
Mr. and Mrs. Hassin Yassin)
 - 7/3/73 Anwar Ali, Governor of the Monetary Fund of Saudi Arabia
 - 3/29/74 Anwar Ali, Governor of the Monetary Fund of Saudi Arabia
 5. 4/10/74 H.H. Amir Saud Al Faisal, Deputy Minister of Petroleum and Mineral Affairs
(New York) Dr. Abdul Hadi Taher, Governor of PETROMIN
(Dinner at David Rockefellers)
 6. 5/2/74 Anwar Ali, Governor of the Saudian Monetary Fund in Jeddah
 7. 9/27/74 Anwar Ali, Governor of the Saudian Monetary Fund (Lunch)
 8. 10/10/74 Anwar Ali, Governor of the Saudi Arabian Monetary Agency
 - 10/21/74 Anwar Ali, Governor of the Saudi Arabian Monetary Agency
 9. 10/23/74 Anwar Ali, Governor of the Saudi Arabian Monetary Agency
 10. 1/13/75 Khalid Algosaiibi, Vice Governor of the Saudi Arabian Monetary Agency

11. 3/10-13/75 His Majesty Faisal ibn 'Abd al-Aziz Al Sa-ud
(Riyadh) (No one accompanied Mr. McNamara)

Ministry of Finance and National Economy

H. H. Prince Mosaed Ibn Abdel-Rahman, Minister of Finance
and National Economy

Abdul Aziz Alquraishi, Governor of Saudi Arabian Monetary
Agency

Khalid M. Algosabi, Vice Governor, SAMA

Dr. Mahsoon Jalal, Director General of the Saudi Fund
for Development

Dr. Mansour Al-Turki, Ministry of Finance (Advisor)

Ahmad Al-Okail, Secretary General of the Public
Investment Fund

Abdul Aziz Al Rashid, Under Secretary, Ministry of Finance

Central Planning Organization

Mr. Hisham Mazer, Minister of Planning

Mr. Fayer Badr, Deputy Minister of Planning

Prince Sultan Ibn Abdel Aziz, Third Deputy Prime Minister and
Minister of Defense (Brother to the King)

Met Informally

Ahmad Zaki Al Yamani, Minister of Oil

Abdel Hadi Taher, Director General, Petromin

Governor Quraishi's Dinner

Prince Bandar Ibn Abdallah Ibn Abdel Rahman, Director
General of the Administration of the Provinces

Fahd Al Deghater, Director of the Institute of
General Administration

Turky Al Sudairah, Deputy Director of the General Council
of the Civil Service

Taher Ebeid, Under Secretary of the Ministry of Agriculture

Tent Party

Prince Salamn, Governor of Riyadh Province

Prince Khalid Ibn Abdel Aziz, Crown Prince and First
Deputy Prime Minister

Sheikh Sabah Al Ahmad, Minister of Foreign Affairs of Kuwait

Saudi Fund for Development

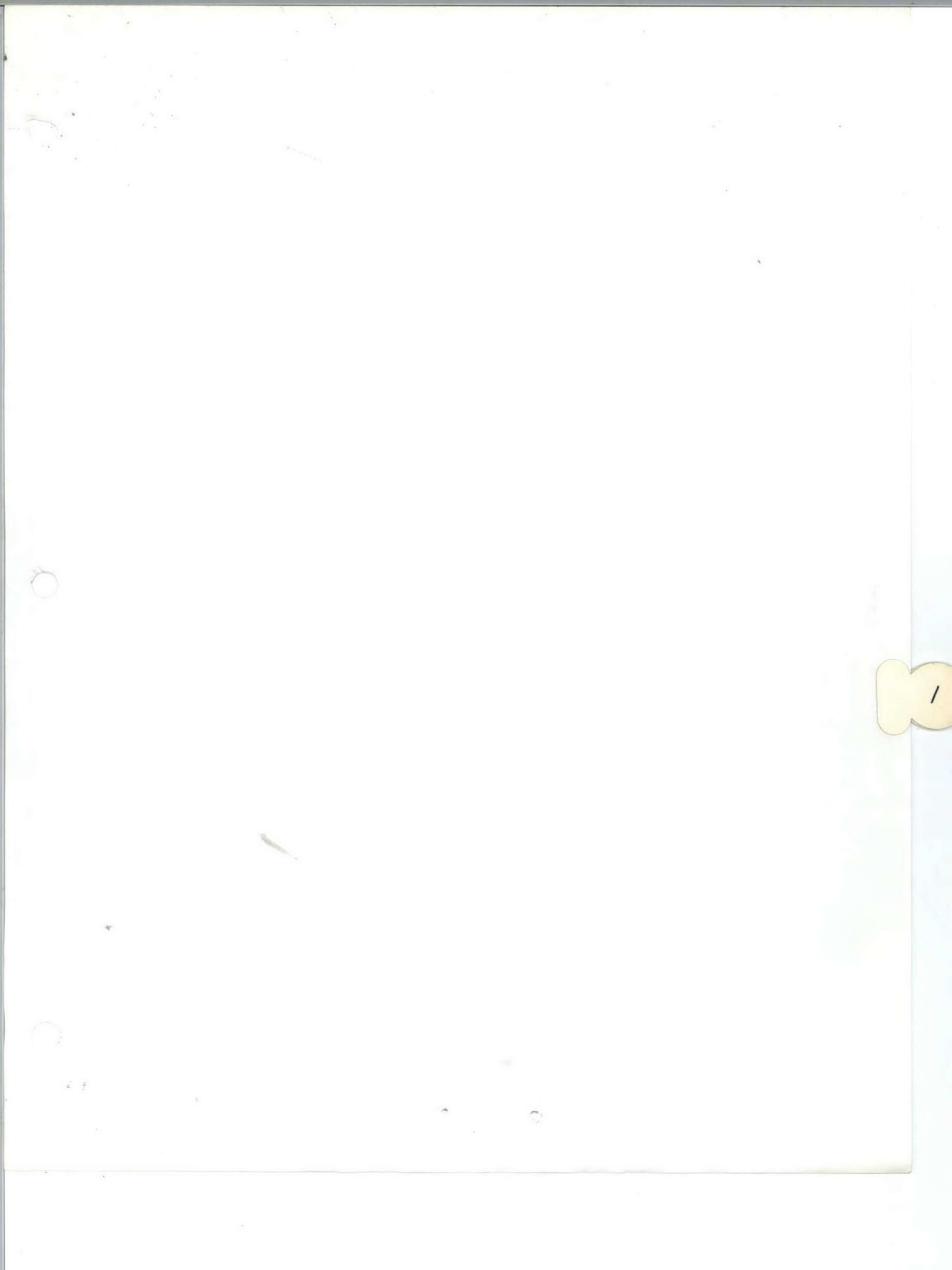
Dr. Mahsoon Jalal, Director General

12. 4/21/75 Dr. Mahsoon Jalal, Director General, Saudi Fund for Development
(Lunch)

- 5/13/75 Dr. Ahmed Zaki Saad - Governor for the Bank and Fund (Lunch)
13. 9/3/75 Sheikh Alquraishi, Governor of Saudi Arabian Monetary Agency
Mahsoun Jalal, Vice Chairman of the Saudi Fund for Development
14. 3/18/76 Ambassador Ali Abdallah Alireza
(AL-GOSA'AI)
15. 4/13/76 Ghazi Abd Al-Rahman al-Qusaybi, Minister of Industry & Electricity
Ambassador Ali Abdallah Alireza
Mansour AlTurki, Deputy Minister of Economy and Finance
Abdul Aziz Al-Zamel, Ministry of Industry (Industrial projects)
- 4/30/76 Abdulaziz Al-Quraishi, Governor, Saudi Arabian Monetary Agency
Mr. Zaki Saad, IMF & IBRD Governor
16. 5/22-23/76 King Khalid
(Riyadh) Mohammed Aba Al-Khail, Minister of Finance
Mr. Al-Ateeqi, Deputy Minister of Finance
Mr. Al-Sogair, Deputy Minister of Finance
Abdul Aziz Alquraishi, Governor, Saudi Arabian Monetary Agency
Sheikh Al-Sowail
- 8/10/76 Hisham Muhyi al-Din Nazer, Minister of Planning (Lunch at Treasury)
17. 8/12/76 Hisham Muhyi Al-Din Nazer, Minister of Planning
Abdul Kerim, Personal Assistant to the Minister
18. 10/6/76 Abdul Aziz Alquraishi, Governor, Saudi Arabian Monetary Agency
(Manila) Abdul Aziz Al-Rashid, Deputy Minister of Finance and Natl. Economy
Mansour Al-Turki, Deputy Minister of Finance and National Economy
- 11/17/76 Ambassador Alireza (At dinner at the Saudi Embassy)
19. 5/3/77 Sheikh Mohammed Abalkhail, Minister of Finance and National Economy
Mansour Al-Turki, Deputy Minister for Economic Affairs
- 5/25/77 Crown Prince Fa'ad)
Ambassador Alireza) dinner honoring the Crown Prince
20. 5/26/77 Crown Prince Fa'ad
Prince Saud Al-Faisal, Minister for Foreign Affairs

Sheikh Mohammed Aba Al-Khail, Minister of Finance and National Econ.
- * 21. 9/29/77 Sheikh Abdul Aziz Alquraishi, Governor, Saudi Arabian Monetary Agency
(Annual Meeting) Mansour Al-Turki, Deputy Minister of Finance for Economic Affairs
Ahmed Abdullatif, Director-General, Foreign Department, SAMA

22. 1/24-25/78 (Riyadh) Mohammed Al Sugair, Deputy Minister of Finance for Budget and Organization
H.E. Sheikh Mohammed Abalkhail, Minister of Finance and National Economy
H.R.H. Crown Prince Fahd ibn Abdulaziz, First Deputy Prime Minister
H.R.H. Prince Saud Al-Faisal, Minister of Foreign Affairs
23. 9/24/78 Annual Meeting Mohammed Abalkhail, Minister of Finance
Mansour Al-Turki
Sheikh Khaled Algosaibi
24. 10/1/79 Belgrade H. E. Sheikh Mohamed Abalkhail, Minister of Finance & National Economy
- 4/1/80 H. E. Sheikh Mohamed Abalkhail, Minister of Finance & National Economy;
(at Embassy reception)



OFFICE MEMORANDUM

TO: Mr. Eugene H. Rotberg

DATE: July 27, 1972

FROM: Yoon S. Park *YSP*SUBJECT: Borrowing Potential in Saudi Arabia

During the recent years, the economy of Saudi Arabia has maintained a high rate of growth (7 to 9% per year) due to substantially increased petroleum production and income. Oil revenues increased by 21% to \$1,150 million in 1970 and they might have reached \$2 billion in 1971, judging from the fact that oil revenue from Aramco alone increased by 72% in 1971 to \$1,866 million from \$1,088 million in 1970. With over 30% of the Free World's crude reserves within her territory, Saudi Arabia is expected to receive even more increased revenues in the next several years due to two reasons. First, Aramco announced recently that it would double its oil production in Saudi Arabia in the next several years, and work is always under way for expansion. Second, regardless of last month's temporary setback in OPEC's negotiations with Western oil companies due to the one-sided agreement of Iran with the oil companies, Saudi Arabia is determined to fulfill its demand for a 20% participation in Aramco's concession, with a fair chance of success by next year.

The budget for the fiscal year ending August 22, 1972, balances revenues and expenditures at SR1s 10,782 million (US\$ 2.6 billion). However, a substantial budgetary surplus is expected despite large expenditure allocations for development. Saudi Arabia's balance of payments has improved markedly in recent years, with an estimated surplus of \$110 million in 1970 and even more in 1971, following deficits in both 1968 and 1969 estimated at \$68 million and \$117 million, respectively. As a result, the foreign exchange reserves increased from \$520 million in 1970 to \$1.3 billion in 1971 to \$1.6 billion as of April 1972.

Like Kuwait, Saudi Arabia lacks the financial institutions for channelling funds into development, even though deposits have increased substantially over the years from \$217 million in 1965 to \$388 million in 1970 to \$476 million in 1971. Backed by the Banking Code of 1966, the Saudi Arabian banks have enjoyed a healthy growth. However, with the absence of foreign exchange controls, Saudis can remit their funds abroad directly. Thus, the banks face tough competition in competing for the larger deposits.

Sources: "Middle East Banking Survey", Financial Times, March 29, 1972; "World Banking Survey", Financial Times, June 5, 1972; Middle East Economic Survey, May 12, 1972; IMF International Financial News Survey, March 8 and 15, 1972; and IMF International Financial Statistics, July 1972.

cc: Mr. Hittmair
Mr. Deely

2114
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Omar Dajany *W*
SUBJECT: Saudi Arabia

CONFIDENTIAL

DATE: July 27, 1972

DECLASSIFIED

JUN 13 2013

WBG ARCHIVES

In connection with your luncheon for H.H. Prince Saud tomorrow I should like to bring the following matters to your attention.

- 1) Although Saudi Arabia officially supported Iraq on the recent nationalization of I.P.C.; nevertheless, as a Royalist country they are against any form of nationalization. They supported the Iraqi measure publicly at the OPEC meeting last month simply in order not to appear as contradicting the rest of the Arab countries.
- 2) Saudi Arabia is politically the most stable country in the Middle East under the rule of King Faisal and they have been working hard at developing the country. They appreciate it very much when this is recognized by Western sources.
- 3) As much as Iranians resent reference to the Gulf as the "Arabian Gulf"; the Saudi Arabians resent reference to it as the "Persian Gulf". We in the Bank have taken the neutral position of referring to it as merely the "Gulf".
- 4) There is a definite but concealed jealousy between Saudi Arabia and Kuwait. The rest of the Gulf States are in the middle but whenever there is an issue, they always side with Saudi Arabia partly out of fear, and partly out of respect to King Faisal.
- 5) The resumption in the establishment of diplomatic relations recently between Sudan and Yemen on the one hand and the United States on the other, is largely due to the efforts of Saudi Arabia.
- 6) Prince Saud has often asked me why I do not go to Saudi Arabia as often as I go to Kuwait. I always reply that we raise substantial funds in Kuwait which necessitate my going there so often. He intimates periodically that the Saudi Arabian potential is much greater than that of Kuwait. I have told the Prince that the Bank is prepared to intensify its efforts in Saudi Arabia and would welcome closer cooperation with them. We have agreed that I will go to Saudi Arabia later on this year, when he is there, and he has promised to assist me in promoting our fund raising objectives there.

ODajany: dlh

cc: Mr. Shoaib

BORROWINGS FROM SAUDI ARABIA
LONG TERM BONDS

On May 1, 1968 we borrowed \$15 million of twenty-six year U.S. dollar bonds from Saudi Arabia on the same terms as our public issue in the United States a few months earlier. The issue carries an interest rate of 6-1/2% and was sold to the Saudi Arabian Monetary Agency at 99-1/2%. There was no commission involved so that the yield to the purchaser and the cost to the Bank were both 6.54%.

In our next public issue in the United States in September 1968, we sold \$15 million to the Saudi Arabian Monetary Agency on a delayed delivery basis for delivery on July 8, 1970. The bonds are due October 1, 1994, carrying an interest rate of 6-3/8% and were sold to the Saudi Arabian Monetary Agency at the public offering price of 99-1/4%. This represents a yield of 6.435% to the purchaser and, again because there was no commission, a like cost to the Bank.

TWO YEAR CENTRAL BANK ISSUES

Of our two-year central bank issues Saudi Arabia holds the following:

7-7/8% of 1970, due September 15, 1972	-	\$10,000,000
5.20% of 1971, due March 15, 1973	-	5,000,000
6.50% of 1971, due September 15, 1973	-	10,000,000
5.30% of 1972, due March 15, 1974	-	10,000,000
Total		<u>\$35,000,000</u>

. . .

FOREIGN EXCHANGE POSITION (Millions of \$s Equivalent)

December 1970	520
March 1971	667
May 1971	710
August 1971	978
September 1971	1076
November 1971	1039
January 1972	1291
March 1972	1417
April 1972	1559

There is set forth below a list of countries whose projects have been partly financed with the Kuwaiti Dinars which we have borrowed in recent years. It may be useful in this way to point out the use of our Mid-East borrowings: India, Nigeria, Cyprus, Singapore, Malaysia, Pakistan, Iran, Morocco, Philippines, Japan, Kenya, Spain, Ireland, Korea, Ceylon, Botswana, New Zealand, Sudan, Portugal, Thailand, Tunisia, Trinidad & Tobago, China, Tanzania, Ethiopia, Yugoslavia, Guinea, Turkey, Zambia, Ghana, Liberia.

EHRotberg:bb

OFFICE MEMORANDUM

TO: Files

DATE: August 2, 1972

FROM: Omar Dajany *W*SUBJECT: Prince Saud Faisal's Visit to the Bank - Saudi Arabia

During his informal visit to Washington last week, H.H. Prince Saud Faisal visited the Bank and had luncheon with Mr. McNamara on Friday July 28. Present were Mr. Mohamed Jokhdar, Deputy Governor of "PETROMIN", and Omar Dajany.

Mr. McNamara had decided before meeting the Prince that he would not discuss the question of fund raising in Saudi Arabia. He merely wanted to get to know the Prince and discuss Middle Eastern questions in general.

The discussion throughout the luncheon was very warm and cordial. It covered the general situation in the Middle East and some aspects of the Bank's operations in the Arab countries with particular reference to Yemen, Syria and Iraq. The Prince was quite interested in our activity in Yemen which he felt needed and deserved every assistance and which, he said, Saudi Arabia was trying to help through bilateral arrangements.

The main discussion centered on the subject of oil. Both the Prince and Mr. McNamara exchanged views regarding present and future energy reserves, future oil prices and the attempts being made at finding alternative energy sources for the future. They also agreed that oil producing countries should endeavor to diversify their economies at an early stage in order not to be totally reliant on oil in the future.

Mr. McNamara told the Prince he was very happy to make his acquaintance and asked him to call on him when he came to Washington next. He also took the opportunity of the meeting to thank the Prince for the assistance he is giving Mr. Dajany in the Bank's fund raising activity in Saudi Arabia.

cc: Mr. McNamara ✓
Mr. Aldewereld
Mr. Shoaib
Mr. Rotberg
Mr. Benjenk

ODajany: dlh

President has seen

For Friday Lunch 1230

Briefing Note for Mr. McNamara
Visit of Prince Saud bin Faisal al Saud
and Mr. Mohammed Jokhdar

~~I know his
past & tell us in
changing from
his country~~

This note has five headings:

- I. Biographical Detail
- II. Bank Operational Relationship with Saudi Arabia
- III. Bank Financial Relationship with Saudi Arabia
- IV. Recent Developments
- V. Possible Issues for Discussion

I. Biographical Detail

Prince Saud bin Faisal

1. Son of King Faisal: aged 31: graduate of Princeton (1966) in Economics.
2. Held various positions in "Petromin" (Saudi Arabia's national oil and minerals concern with interests in oil exploration, tankers, refineries and steel production) before becoming Deputy Minister of Petroleum Affairs in the Ministry of Petroleum and Mineral Resources about a year ago.
3. Considered by the State Department to be able and increasingly influential.

Mohammed Jokhdar

4. Has held many official positions within the government and Petromin: currently Vice-Governor, Petromin.

II. Bank Operational Relationship with Saudi Arabia

5. An economic mission last visited Saudi Arabia in 1960. In 1968 the Central Planning Organization approached the Bank for assistance with the preparation of the First Five-Year Plan but, despite the Bank expressing its willingness to help, Stanford University Research Institute was contracted to render this assistance.
6. In response to the CPO's interest in Bank assistance with a transportation survey, a two-man mission visited Saudi Arabia in July 1971 and the Bank subsequently stated its willingness to act as executing agent for the study and to assist the government in approaching UNDP for financing.

President has seen

UNDP has since agreed to finance the study and terms of reference have been finalized. A short list of consultants from whom the Bank would solicit proposals has been sent to the CPO. We are awaiting their agreement on this.

7. At the request of the CPO, the Bank sent two one-man missions to Saudi Arabia earlier this year to discuss civil aviation and port developments. Reports on both missions have been sent to the CPO.

8. No other operational or technical assistance proposals are currently under consideration.

9. Several private sources approached IFC in 1969 and 1970 about investment possibilities in Saudi Arabia but these did not lead to any formal requests for financing.

III. Bank Financial Relations with Saudi Arabia

10. Saudi Arabia has regularly subscribed to Bank two-year bonds; the government pledged \$5.0 million and \$10.0 million to the March and September, 1971 issues and rolled-over \$10.0 in the March, 1972 offering.

IV. Recent Developments

11. The economy is expanding rapidly. Oil production -- the basis of the country's wealth -- is presently twice the daily average of four years ago. ARAMCO, the largest concessionaire, reported a 27 rise in production in 1971 compared with 1970, a trend maintained thus far in 1972. Saudi Arabia is now the largest oil producer in the Middle East.

Crude Oil Production ('000 barrels daily)

	<u>1970</u>	<u>1971</u>	<u>Percentage</u> <u>Change</u>
Saudi Arabia	3,797	4,771	25.7
Iran	3,797	4,567	18.4
Kuwait	2,989	3,198	7.0
Libya	3,313	2,758	-16.8

12. Until recently one of the more remote Arab countries, Saudi Arabia is playing a leading role in negotiations between OPEC and the international oil companies. Shaikh Yamani, the Minister of Petroleum, has taken a firm line with ARAMCO which has recently announced its acceptance of the principle of 20 percent Saudi participation, a move being followed by other companies.

13. The 1970 slowdown in economic activity has been arrested. New development programs in most sectors are underway. Commercial banking statistics show that time deposits rose by 26 percent in 1971 and gold and foreign exchange reserves more than doubled to reach a level of \$1,465 million.

V. Possible Issues for Discussion

14. (i) investment possibilities for Saudi royalty income which is probably substantially in excess of the country's absorptive capacity;
- (ii) ways of assisting other developing countries in the Middle East; Saudi Arabian assistance to Egypt, Jordan, Yemen, etc. is mainly on the basis of ad hoc loan agreements or guarantees. There is no formal mechanism for channeling development assistance comparable to the Kuwait Fund.

Europe, Middle East and North Africa Department
July 27, 1972

JChaffey/te

ADDENDUM

Briefing Note for Mr. McNamara
Visit of Prince Saud bin Faisal al Saud
and Mr. Mohammed Jokhdar

Oil Revenues

Estimated to be about \$2.2 billion in 1971 and expected to rise to about \$4.1 billion in 1975 assuming:

- (i) a 60 percent increase in production in 1975 over 1971,
- (ii) 23 percent increase in revenues per unit of production, and
- (iii) not taking into account any changes in the structure of ownership consequent upon the Saudi Arabian demand for a 20 percent participation in ARAMCO.


Europe, Middle East and North Africa Department
July 27, 1972

JChaffey/te

OFFICE MEMORANDUM

TO: Mr. Robert McNamara

DATE: January 2, 1973

FROM: Munir P. Benjenk SUBJECT: Briefing Note for your Meeting with His Excellency Sheik
Ibrahim al-Sowayel, Saudi Arabian Ambassador to the US

As you know, His Excellency Sheik Ibrahim al-Sowayel, the Saudi Arabian Ambassador to the USA, has asked for a meeting with you tomorrow at 6.0 p.m. He is probably calling on you to officially invite you to Saudi Arabia in February 1973.

His Excellency Sheik Ibrahim has been the Ambassador to the US since 1964. His previous appointments include a period as Foreign Minister (the only non-member of the Royal Family to hold this post), Minister of Agriculture, and Ambassador to Iraq. He is a career diplomat who has served in a number of Middle-Eastern capitals. Sheik Ibrahim was born in 1916 and educated at Cairo University. He is married and has five children, all of whom have graduated from American universities.

I believe that the attached briefing paper on Saudi Arabia, which was prepared for the September 1972 Annual Meeting of the Bank, would provide you with background relating to the recent economic developments in that country, as well as the past relationship between Bank and Saudi Arabia. I might add that since September, substantial progress has been made in advancing the transportation survey (TNS). The consultants for the study, Hoffen and Overgaard/Norconsult/Systan, have been selected and the contract negotiations have been completed. The UNDP project document involved is expected to be finally discussed with Dr. Fayez Badr, Vice President of the Central Planning Organization, either later this week or early next. We would expect Dr. Badr to sign this document prior to his departure for Saudi Arabia, and we are hoping that the work on the survey will commence by early February.

President has seen

MEMORANDUM FOR THE RECORD

Mr. McNamara's Visit to Saudi Arabia, February 14-17, 1973

Meeting with the Minister of Finance

Present: Minister of Finance, Secretary of State for Finance, Messrs. McNamara, Shoaib, Benjenk and Ljungh

After some pleasantries, Mr. McNamara asked about the development program of Saudi Arabia. The Minister of Finance said that the concept of planning had started with the arrival of a group for technical assistance from the World Bank. Although their visit had been short, their advice and planning had been valuable and the cooperation would hopefully continue with the recently initiated transportation study. The next plan would be completed in two years and run for a period of five years. He hoped that the World Bank would be able to give technical advice to the preparation of this plan.

Mr. McNamara described the Bank's achievement in the Arab World during the past five years and the roles of Messrs. Shoaib and Benjenk. He also said that he recognized the shortcomings of the World Bank's program and hoped that it would increase in the future. The Bank would plan to expand its technical and financial assistance to Arab countries in the next five-year period and, although Saudi Arabia does not need financial assistance, it could well benefit from technical assistance, of which the transportation study is one example. Since The King has expressed definite objectives to expand the economy, the Bank was then ready to assist in whichever way it would be desirable, and this was the main purpose of Mr. McNamara's visit. The Minister thanked Mr. McNamara for the offer and said that he would give details as to the technical assistance requirements.

Mr. McNamara mentioned the complaints which had been made against the Bank for its slow decision process and the difficulties in dealing with the Bank. The reason he said is that the Bank does not like to see ~~the~~ waste of money and being the servant of its member states must adhere to strict rules in this regard. The Bank often tries to alter the form of projects in order to reduce cost and increase benefits. This makes for a cumbersome process in the eyes of borrowers but increases the probability of success. The Bank's record of successes would probably match any other development institution. The average expected return on Bank projects is about 19%. The Bank would be reluctant to finance any project which shows a projected return of less than 9%, and all projects financed in the Arab world have met that criterion. He mentioned the Rahad project as an example and the Lower Khalis project as another. Mr. Benjenk described the details of this project.

The Minister of Finance said that it is important to understand the Arab environment which may at times be very difficult to predict. Mr. McNamara said that our job is just that--to predict the environment and thereby increase the probability of success.

The Minister asked Mr. McNamara's views on the monetary situation. Mr. McNamara replied that the situation is still unstable and that there is a great need for both monetary and trade agreements. The delay to agree brought on the recent crisis.

In view of the fact that The King was delayed in his trip through the country, it was decided that Mr. McNamara would make a field trip the following day and a meeting would be tentatively planned for Friday evening, February 16.

Meeting with the Minister of State for Financial Affairs and National Economy, Muhammad Aba Al-Khayl, and the Deputy Director of the Planning Organization, Mr. Badr. Also present were Messrs. McNamara, Shoaib, Benjenk, Duncan (Stanford Research Institute) and Ljungh

The Minister of State for Financial Affairs and National Economy said that the main objectives of the current plan were first to educate the manpower needed for the development plan, secondly, to diversify the economy, and, thirdly, to increase GNP. The programs in manpower development were ahead of the plan while diversification lagged behind. Still, manpower constraints remained the most serious obstacle to rapid economic growth. School facilities were being increased at all levels, but dropout rates were a major concern. The exact population of the country was not known and, since there had been no comprehensive census, a new census would show both the numbers of population and the proportion of nomads which was an important factor in planning education.

In agriculture, the Minister said, the results are encouraging but agriculture is lagging in relation to other fields. The Government is providing much of the infrastructure necessary and teams of consultants are evaluating the potentials, especially regarding water availability. Almost all agriculture has to be irrigated. Agricultural production is estimated to be growing at 5.6% and there is an active Government subsidy program and distribution of fallow land. Figures on cultivated land are unreliable but the Minister envisaged a 4.5% growth of agriculture in the next planning period, mostly through increased area but also through more intensive cultivation and higher value crops. New varieties of wheat, such as Mexipak, are doing well. Livestock projects are being tested in order to encourage settlement of Bedouins. The most encouraging results have been reached with sheep.

(Mr. McNamara later visited the Harad agricultural development project east of Riyadh where the main activity was growing of forage crops for sheep farming. The project was technically reasonably successful and the availability of water and suitable soil were obvious. However, in a financial sense, the project would not show a positive financial return or even a positive cash flow for most of its projected life. The main mistakes made were that the whole land development activity had taken place before any crops were put into the ground instead of a gradual development. It is possible that similar projects could be developed and be marginally economically justified if the lessons were drawn from the present Harad project.)

Industry had been declared the domain of the private sector. The growth rate had been slow--only about 6%. The Minister said that the basic industrial infrastructure is there but the response in terms of investment by the private sector had been slow, since there is no entrepreneurial experience in industry and returns in commerce and real estate are higher and more easy to obtain. The state-owned petroleum company, Petromin, would expand its industrial activity in the chemical and petroleum fields. An investment fund for the support of government-industrial projects and mixed projects had been set up and the Government was due to issue industrial policy guidelines in the near future. The most successful industries were cement, where the capacity had reached one million tons with local production receiving priority under a fixed price system. Plastic pipe and asbestos cement products were also being produced.

In transportation the physical achievement had been impressive but the economic justification was probably doubtful.

The Minister said that the next plan would essentially contain the same objectives of manpower development, economic diversification and increase in GNP, but with somewhat revised figures. The main constraint would still be technical manpower.

The subject of technical assistance was raised again and Mr. Benjenk explained how the Bank's technical assistance is organized. For assistance in planning, the Bank would use its own personnel, while, for some activities, we would hire consultants. In planning our response could be rapid but, if we are to make major efforts in assisting in project evaluation, we would need more time. For planning assistance we would use our own staff, but, for a major effort, we may have to charge a fee to Saudi Arabia. But this could be discussed later.

The Minister of Finance asked whether the Bank could assist in evaluating specific projects in Saudi Arabia's development plan. Mr. McNamara replied in the affirmative but warned that this would have to be planned with longer notice in order to fit into the Bank's work program. In education Mr. McNamara said that Messrs. Benjenk and Ballantine would pay special attention to the needs of Saudi Arabia.

Later at lunch Mr. McNamara said to the Minister of Finance: "You mentioned that you would like to have the Bank's assistance in planning. Please do not be dissatisfied with what we provide. I wish to emphasize that it will take time for us to learn your requirements, find people to work on Saudi Arabia, have them gain experience for our efforts to bear fruit. But if we work together and are tolerant during the initial learning period, then after five years you will feel that you are getting valuable assistance from the Bank."

AL
March 23, 1973

5.

OFFICE MEMORANDUM

TO: Mr. Anders E.E. Ljungh

FROM: Saad S. El Fishawy *Saad El Fishawy*

SUBJECT: Dr. Abdulhady Hassan Taher

DATE: April 8, 1974

Mr. Mr. Yamani
For Wednesday dinner.
ahj 5/8

As per your request, the following are the biographical data I could obtain of Dr. Abdulhady Hassan Taher.

He was born in 1931, graduated from Shams University of Cairo, Egypt in 1955. Obtained a Ph.D. from California University at Berkeley and his thesis was: "Income Determination in International Petroleum Industry".

He entered Saudi Arabia Government service in 1955 and became Director General of the Ministry of Petroleum and Mineral Resources in 1960. In 1962 he became Governor General of the General Petroleum and Mineral Organization (PETROMIN). He is Chairman and Managing Director of the Saudi Arabian Fertilizers Company (SAFCO) and Board Director of the Arabian American Oil Company, the Saudi Government Railways Corporation and is a member of the Board of Trustees of the College of Petroleum and Minerals and Honorary Member of the American Society of Petroleum Engineers and the Industrial Research and Development Council of Saudi Arabia.

He is a recipient of the Arabian Petroleum Congress Award for best paper presented at the 1961 Congress and his publications include: "Development and Petroleum Strategies in Saudi Arabia", 1970.

He is a close friend of Minister Yamani and works closely with him.

SELFishawy/rh

cc: Mr. M. Shoaib

Elhady Hassan Taher

OFFICE MEMORANDUM

TO: Files

DATE: September 27, 1974

FROM: I.P.M. Cargill *Lusani*SUBJECT: Saudi Arabia Borrowing

1. Mr. McNamara, Mr. Shoaib and I met with Mr. Anwar Ali on Friday, September 27. Mr. Anwar Ali raised the problems which he had raised with me and Mr. Shoaib on September 26 (see my memorandum of September 27) and was told by Mr. McNamara that at this late stage he could see no way to consider a higher rate than 8 percent. He mentioned the fact that in May he had been talking about 7 $\frac{3}{4}$ percent but that in view of the movement of the market since then he had felt it appropriate in the case of Venezuela and others, including Saudi Arabia, to settle on a rate of 8 percent but not higher.

2. The chief new point raised by Mr. Anwar Ali was the possibility of having any of the lending now being discussed in riyals. Mr. McNamara said that he had regarded the transactions for calendar 1974 as one series, but he had assumed that the previous borrowing in riyals of about \$140 million equivalent was part of the series and had expected that the balance would be denominated in dollars. He emphasized that borrowing riyals created difficulties with our own borrowers but, more important, might not secure the approval of the Executive Directors, some of whom felt strongly on this point. Mr. McNamara went on to say that the borrowing proposed from Saudi Arabia was vital to the Bank and that he had based his lending plans and the Bank's program on the assumption after previous conversations that this series of transactions would be completed much earlier than this and certainly by the end of this calendar year. On the question of tranches for payment or of separate loan agreements, he had no views other than that he would prefer to follow the Venezuelan model and in particular emphasized that the last tranche should not be later than January 15, 1975 but would count against the 1974 Bank borrowing program from Saudi Arabia. In view of the urgency of the matter, he suggested that further discussions should be held before Anwar Ali left at the end of October for Saudi Arabia and tentatively it was agreed to meet at 2.30 p.m. on October 10.

* * *

After the meeting Mr. McNamara asked me to verify precisely what proportions of our borrowing from Venezuela and other countries had been. If it were necessary in order to bring Saudi Arabia up to the same proportion, he would be prepared to consider raising the riyal borrowing marginally. He also asked me to find out why Anwar Ali laid so much emphasis on the assertion that Bank bonds were not "marketable".

cc: Messrs. McNamara, Shoaib and Rotberg

OFFICE MEMORANDUM

TO: Files

DATE: May 3, 1974

FROM: I.P.M. Cargill *J. Shoaib*

SUBJECT: Visit of Mr. Anwar Ali, the Governor of the Saudian Monetary Fund in Jeddah.

Mr. Anwar Ali, the Governor of the Saudian Monetary Fund in Jeddah, called on Mr. McNamara yesterday. Mr. Shoaib and I were present. After some generalities the talk turned to the proposed bond issue in Saudi Arabia and its terms. The following points were made.

(a) Mr. McNamara said he found it difficult to explain that the Bank would have to borrow for lending to poor countries at a rate higher than the IMF which was principally concerned with the problems of the rich countries. He suggested that the maximum rate that could be accepted would be about $7 \frac{3}{4}$ percent. Mr. Anwar Ali felt that this was on the low side and pointed out that if one were guided by the U.S. market rates, it would be understandable that the rate on a bond issue now would be higher than the rate fixed at the time of the bond issue in Iran.

(b) Mr. Anwar Ali went on to say that he wanted to give Mr. McNamara his personal assurance of Saudi Arabia's continuing support for the Bank and said that, provided terms were related to current market conditions, he would expect Saudi Arabia to supply a very substantial part of the Bank's needs.

(c) Mr. McNamara explained the difficulties which the Bank would experience in the denominating of its bond issues in riyals. He went into the past history of this issue and said that while on this occasion an issue were denominated in riyals because of the background, it would have to be the last occasion that this would be done.

CC: Messrs. ~~McNamara~~
Knapp
Shoaib
Aldewereld
Rotberg

IPMCargill:plc:fs

9.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

* based on US govt. taking
all IMF shares tomorrow

We agreed in principle to
~~1 billion this year~~

1 billion this year started in May
of 7^{3/4} - you thought that on the
low side -

Now need to firm up arrangements
for remaining \$500 million for the year
as our leading program

Process -

Understand he may not wish distribute
tranches for 2 or 3 weeks until he
completes work with US

++ he may wish to complete in
tranches - 2 or 3 weeks from now

Suggest -- sign \$500 before he leaves
US + remainder of 1/2 \$300 in Nov
+ \$300 in Dec - complete by 1/15

Agree on 2 now for total of 3 tranches
regardless of change in interest rates, but
between now & then

EXCERPT FROM TREASURY YIELD CURVE

10-year point on yield curve for U.S. Treasury obligations
for selected dates between March 29 and September 20, 1974

<u>Date</u>	<u>Yield</u>
March 29, 1974	7.27
May 3	7.41
May 31	7.39
June 28	7.49
July 5	7.60
July 12	7.75
July 19	7.70
July 26	7.48
August 1	7.70
August 8	7.95
August 15	7.93
August 23	7.98
August 29	8.05
September 5	7.96
September 12	8.12
September 19	7.87

EXCERPT FROM AGENCIES YIELD CURVE

10-year point on yield curve for U.S. Agency obligations
for selected dates between March 29 and September 20, 1974

<u>Date</u>	<u>Yield</u>
March 29, 1974	7.99
May 3	8.26
May 31	8.37
June 28	8.51
July 5	8.66
July 12	8.95
July 19	8.83
July 26	8.58
August 1	8.88
August 8	8.88
August 15	8.92
August 23	9.05
August 29	9.15
September 5	9.14
September 12	9.10
September 19	8.89

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WBG ARCHIVES
Confidential Memorandum of Conversation* between Mr. Anwar Ali and Mr. McNamara
Wednesday, October 23, 1974

It was agreed that Saudi Arabia would lend to the Bank, for a period of ten years, \$200 million at 8-1/4% (this portion of the agreement will be translated into a contract before Mr. Anwar Ali's return to Saudi Arabia) and the equivalent of \$50 million in riyals at 8%, (this portion of the agreement will be translated into a contract following Mr. Anwar Ali's discussions with his government in Saudi Arabia).

Negotiations regarding the remaining \$600 million to be borrowed by the IBRD as part of the Calendar Year 1974 program, in accordance with the intentions of the parties as they were discussed last spring, will be initiated in the near future. It is hoped that two loan agreements, each for \$300 million equivalent (with 20% of the amount denominated in riyals), can be negotiated on the same basis: one to be effective approximately December 1, 1974 and the other approximately January 15, 1975.

Both Mr. Anwar Ali and Mr. McNamara look forward to similar arrangements for future years. It is understood that for future borrowings beyond the CY74 program the interest rate would be set on market terms (at the level of U.S. Agency securities of comparable maturity), but of course at a level no higher than paid by the IMF for funds borrowed from OPEC countries for re-lending to the developing nations.

* Not to be circulated other than to the parties and Dr. Saad.

RMcN:mss
10/23/74

10

OFFICE MEMORANDUM

TO: Files

FROM: Mohamed Nassim Kochman *MNK*

SUBJECT: Meeting with Mr. Algosaiibi

DATE: January 23, 1975

On Monday January 13, at 6:30 p.m., Mr. McNamara met with Mr. Khaled Algosaiibi, Vice Governor of the Saudi Arabian Monetary Agency. Present at the meeting were Messrs. Cargill, Vice President, Finance; Benjenk, Vice President, EMENA Region; and myself.

At the outset, Mr. Cargill introduced Mr. Algosaiibi to Mr. McNamara and mentioned the valuable assistance he had offered when Mr. Cargill was in Saudi Arabia to finalize the \$750 million borrowing. Mr. McNamara welcomed Mr. Algosaiibi and expressed the wish to be helpful in any way he could.

Mr. Algosaiibi stated that his government was very pleased by the kind of cooperation prevailing between the World Bank Group and the Kingdom of Saudi Arabia and with the assistance provided so far. He indicated that his government has recently set up the Saudi Fund for Economic Development and they would like to have the assistance of the Bank in organizing it. Moreover, some experts are needed to help in appraising and preparing project for that Fund.

Mr. McNamara said that Messrs. Cargill and Kochman would meet with him later to examine this matter. More precisely, Mr. McNamara stated that he was very interested in developing relations in the field of co-financing of projects. The Bank has acquired a substantial experience in this domain and has already financed development projects jointly with other countries and national or regional financial institutions. Kuwait has participated in such operations; a transaction has been finalized with Libya and many other projects are being processed for joint and/or parallel financing with other co-lenders.

Mr. Algosaiibi indicated his genuine interest in this form of cooperation and expressed the hope that concrete proposals will be worked out in the future. Then Mr. McNamara asked him if his government had preferences for certain countries or specific regions where they would like to co-finance projects. Mr. Algosaiibi replied that they had no particular preference and that they were prepared to envisage joining their efforts with other co-lenders in any country. Then Mr. McNamara added that he would be provided with a list of projects in all the regions where the Bank is active.

Mr. McNamara turned to the question of the proposed IBRD capital subscription and voting rights of OPEC countries. He expressed his firm belief that the OPEC countries should have a greater voice and to that effect he stood (as indicated in the financial policy paper

January 23, 1975

that the Executive Directors will discuss in few days) for increasing the share of voting rights of the OPEC bloc of countries from its current 4.39% to 15%. This is quite a substantial increase whereas in the IMF an increase of 10% only is anticipated. Mr. McNamara mentioned the meeting he had with OPEC countries Executive Directors on that question and underlined the fact that he is prepared to see to it that such an increase takes place inasmuch as all the OPEC countries supported the idea. Mr. Algosaibi replied that he knows that his government supports the increase of quotas in the IMF. As far as the Bank is concerned, he cannot pass judgment yet and the matter will be studied. However, he wished to know, in the light of the figures quoted by Mr. McNamara, at the expense of whom the increase of OPEC's share will be realized. Mr. McNamara indicated that this was a subject open for negotiations between all parties concerned and he hoped that a satisfactory solution would be reached.

cc. Mr. McNamara
Mr. Cargill
Mr. Benjenk

MNKochman/cl

11

OFFICE MEMORANDUM

TO: For the Record

DATE: April 7, 1975

FROM: Saad S. El Fishawy

*Saad El Fishawy*SUBJECT: SAUDI ARABIA: Mr. McNamara's Visit - March 11, 1975

Summary of the Meeting with H.H. Prince Mosaed Ibn Abdel-Rahman, Minister of Finance and National Economy

Others present were Messrs. Abdul Aziz Alquraishi, Governor of Saudi Arabian Monetary Agency (SAMA), Khalid M. Algosaibi, Vice Governor SAMA, Dr. Mahsoon Galal, Director General of the Saudi Fund for Development, Dr. Mansour Al-Turki, Ministry of Finance, Ahmad Al-Okail, Secretary General of the Public Investment Fund, Benjenk, El Fishawy and Burmester.

Mr. McNamara said that he would like to discuss the following four topics in whatever order the Minister prefers: (1) Technical Assistance, (2) Increase in voting power and capital subscription of OPEC countries, (3) "Third Window" subsidy fund and (4) Borrowing program.

The Minister said that he would like the discussion to follow that same order.

1 - Technical Assistance:

Mr. McNamara said that when he visited Saudi Arabia two years ago, he had offered the Bank's technical help in areas which the Saudi Government considered to be of great importance, and in which the Bank would be well qualified to meet the request. Over the past two years this had been done, and technical assistance from the Bank was extended in several fields such as the human resource development study, transportation survey, pilgrimage accommodations, and Bahrein causeway. The interest of the Saudi Government in this area of cooperation and the work required had increased substantially. It had reached the stage where it should be programmed and formalized. Mr. McNamara said that he had mixed feelings about the Bank providing technical assistance. The Bank would assist if its assistance was important to the Saudi Government and if the Bank had qualified manpower so that the probability of ending up with a satisfied customer was high. He said that Bank staff was fully committed to its normal assignments which were planned at least one year ahead. Assigning technical staff for this additional purpose without programming might result in having to do it at the expense of some other important task elsewhere. The increased volume of technical assistance also justified reimbursement to the Bank of the incremental costs incurred and which were directly related to the assistance extended. Therefore it would be necessary for the two parties in order to ensure an effective continuation and expansion of on-going technical cooperation to prepare together an annual program and budget for the technical assistance envisaged during the following year. Such program and budget should include contingencies for unforeseen requests in mid-year and could be prepared in the early spring of each year. The first such exercise could be concluded in April 1975 to take effect in the following Bank's Fiscal Year beginning July 1, 1975.

The Minister said he agreed that drawing up an annual program and budget would be necessary. The Government also felt that a small resident Bank mission in Riyadh should be established. It would be a link between the Government and the Bank and would ensure close follow-up and supervision of the technical assistance activities. A committee could later work out the details. Mr. McNamara gave the Minister a short written statement on technical cooperation between the Government and the Bank and the Minister said that its contents could be discussed the following day. It was also agreed that possible support by the Bank for the Saudi Fund for Development would be discussed in a separate meeting with Dr. Mahsoon Galal the following day.

2 - Increase in Voting Power:

Mr. McNamara emphasized that this issue was not a financial one. Its financial implications were not of great significance. The increase to 15%, however, of the voting power of OPEC countries would enable them to reflect and assert in the Bank their newly acquired economic strength. The increase to 15% was not accepted in the IMF by the OECD countries and only an increase of up to 10% was approved. Mr. McNamara, however, would be ready to try to negotiate an increase of 15% for the OPEC countries in the Bank. But before he could even start, he wanted to make sure that this was the wish of the OPEC countries and that they would support such an increase. To achieve such an increase, the OPEC countries as a group would have to pay about 400 million dollars' equivalent. This would not be very important financially. The Bank carried more than five billion dollars in liquid funds. The increase, however, would be a major step to boost the power of the developing countries in international financial institutions.

The Minister asked what would be the effect of the increase in the OPEC countries' voting power from 5% to 15% on taking decisions within the Bank. Mr. McNamara said that it was realistic not to expect OPEC countries to vote as a bloc on every issue. On several important issues, nevertheless, OPEC countries and other developing countries would be of the same view. This would add up to about 44% of the total voting power of the Bank, since the voting power of developing countries other than OPEC would be about 29%. A majority could then be reached by adding votes of some European countries, such as the Netherlands and the Nordic countries, which voted along the same lines as the developing countries on many issues. The increase to 15% would not rearrange drastically the power structure within the Bank, but it would be a major step in enhancing the position of the developing countries.

The Minister asked whether Mr. McNamara had obtained the approval of other OPEC countries. Mr. McNamara said that he was in the initial stages of discussing this topic with OPEC countries. After Saudi Arabia he was going to visit Qatar and Abu Dhabi. Kuwait had already expressed its strong support.

The Minister inquired about the amount that Saudi Arabia would have to pay in case the increase would be approved. Mr. McNamara said that on the basis of the figures included in the briefing notes - which were given only as an illustration - out of the proposed additional subscribed capital for

Saudi Arabia of about 800 million dollars, only 1% or 8 million dollars would have to be paid immediately. Another 9% or about 72 million dollars would be expected to be released over 2-3 years in local currency in convertible form to be used by the Bank in its operation. The remaining balance of 90% would be available for call by the Bank, if necessary, to meet its obligations to its bondholders. This might only become necessary if the Bank were faced by massive defaults on repayments by its borrowers. Against such defaults the Bank had a cushion of about 5 billion dollars of paid-in capital and reserves before reaching the point of calling on the 90% callable portion of the subscribed capital. The Bank also carried at present more than 5 billion dollars in liquid funds. It was noteworthy that in its long history of about 30 years the Bank had no default on its records by any of its borrowers.

Prince Mosaed asked whether the increase would be allocated to OPEC countries in proportion to their present subscriptions. Mr. McNamara said that the answer to this was in the negative. Each country would want to maximize its share in the increase. The allocation would have to reflect in the final analysis the economic strength of each of the twelve OPEC countries. Prince Mosaed stated that the Saudi Government supported the 15% increase. Mr. McNamara emphasized that the negotiations for an increase would be difficult, since the other members presently holding 95% of the voting power would have to give up their pre-emptive rights, but he would try hard.

3 - "Third Window" 1/

Mr. McNamara explained the reasons for setting up this lending facility. It would be geared to assist the poorest among the developing countries. These were between 40 and 45 countries which comprised about one billion people. Their per capita income was less than 200 dollars a year. A host of combination of adverse factors were threatening to decrease further their per capita income. Their import bill was running high due to inflation and increase in costs of oil and fertilizer. The economic recession in the industrialized countries on the other hand was threatening a decline in the export receipts of those poor countries and a decline in the aid-capital flow to them. Their development programs were normally financed by about 75% from internal savings and 20-25% from external sources. The "Third Window" scheme would enable the Bank to lend about an additional one billion dollars at a subsidized interest rate. Each 1% reduction in the Bank's current rate would require an amount of subsidy equal to about 5-6% of the face value of the amount to be lent under the scheme. In other words, a reduction of 4% interest on loans of about one billion dollars would require a subsidy fund of between 200-250 million dollars. An additional 15% would be required to build up reserves for these additional loans. This scheme would be designed for one year only. The Bank hoped to obtain half the contributions on the subsidy fund from OPEC countries and the other half from OECD countries. OECD countries were contributing to IDA replenishment about 1.5 billion dollars per year. Kuwait had already indicated its intention to contribute to the "Third Window" lending facility 20 million dollars, open to further increase depending on others' contributions. The Dutch, the British and the Canadians had also expressed their support. The

1/ Prince Mosaed at this point was called and excused himself.

Bank was approaching other OECD and OPEC countries and would keep Saudi Arabia informed. Approval of the Bank's Executive Directors of the lending facility in principle was to be sought in a meeting on March 25 2/. Thereafter the Bank planned to hold a meeting of prospective donors in April to obtain their firm commitments and their agreement on a working scheme. This would be presented at the meeting of the Development Committee in June. The Bank aimed at starting to lend under this intermediary facility beginning of FY1976, which starts July 1, 1975.

Mr. Alquraishi asked about the role of the prospective contributors in deciding on the loans to be extended under the scheme. Mr. McNamara indicated that the additional one billion dollars which would be lent under the scheme would be borrowed by the Bank as part of its usual borrowings. The loans would also be processed in accordance with the normal procedures of the Bank. The Bank's Executive Directors would have the final responsibility of approving loans. The governments contributing to the subsidy fund would have certainly a say in the allocation of the loans. This would be done on an informal consultative basis, in a way similar to what was done in the case of IDA.

Mr. Alquraishi asked whether the contributions to the subsidy fund would be callable immediately. Mr. McNamara said yes. The simplest form of contribution would be an outright grant paid in full at the outset. If contributions were to be paid in over a number of years, their value to the interest subsidy fund would be somewhat less by virtue of the fact that no investment income would have been earned on the contributions in the meantime. With this in mind, flexible arrangements might be worked out.

Mr. Alquraishi asked whether the Bank would be investing the contributions received for the subsidy fund. Mr. McNamara said yes, it was planned to invest these contributions in securities with maturities which would meet payments of the amounts of interest due to the Bank and of which the borrowers would be relieved. The donors, of course, could discuss this matter amongst themselves.

Mr. Alquraishi said that Saudi Arabia supported the scheme. The level of its contribution would have to be decided upon by the government in the light of the position taken by other donors.

4 - Borrowing Program:

Mr. McNamara stated that the Bank's borrowing program for FY1976 would be in the order of four billion dollars. Bank borrowings were on a commercial basis. He expressed the view that borrowing to the extent of one billion equivalent or more at market rates from Saudi Arabia would be highly desirable and appreciated. Mr. Alquraishi confirmed that Saudi Arabia would in the future continue lending to the Bank, which it considered as one of the principal beneficiaries of its lending. The amounts for FY1976 would be determined some time in July, after the budget had been prepared. The question of lending in other than US dollars was raised, and Mr. McNamara said that it would be possible to borrow in a basket of currencies equivalent to SDRs.

cc: Messrs. McNamara, Knapp, Cargill, Benjenk, Kochman, Burmester

2/ Mr. McNamara handed Mr. Alquraishi copy of the paper that was circulated to the Board

OFFICE MEMORANDUM

TO: For the Record

DATE: April 14, 1975

FROM: Saad S. El Fishawy *Saad El Fishawy*SUBJECT: SAUDI ARABIA: Mr. McNamara's Visit - March 12, 1975

Summary of the Meeting with Dr. Mahsoon Jalal, Director General of the Saudi Fund for Development

Others present were Messrs. Ahmad Al-Okail, Secretary General of the Public Investment Fund, Benjenk, El Fishawy and Burmester.

Dr. Jalal said that the capital of the Fund was 10 billion SRls (about \$2.9 billion), of which 3 billion SRls (about \$870 million) have been paid in. Another 2 billion SRls would be paid in within the next three years. Over the period of the following three years, the remaining 5 billion SRls of the capital would be paid in three annual installments. Dr. Jalal said that the Fund had barely started its activities, and that he was still the only employee of the Fund. However, the Fund had already committed about 400 million dollars. He said that he would like to discuss the following three points:

(1) Setting up of the Fund:

He said that he expected that most of the staff would be expatriates: Arabs and non-Arabs. He asked whether the Bank could assist him in recruiting staff and by seconding some of its staff to the Fund. Mr. McNamara said that the Bank would be willing to help to the extent of its capacity in recruiting staff for the Fund. The Bank would also give the Fund staff assistance for short-term assignments, but whether a man could be seconded to the Fund over a long period, this would have to be decided in Washington during Dr. Jalal's visit.

(2) Preparation and appraisal of projects:

Mr. McNamara handed to Dr. Jalal the "Monthly Operational Summary of Bank and IDA Proposed Projects" dated February 21, 1975. He said that all these projects had been agreed to by the governments of the respective member countries and that the Bank considered them of sufficient merit to warrant financial support. He said that the Fund could chose any of these projects for financing exclusively or jointly with the Bank or IDA. The Bank would not charge the Fund any part of the appraisal cost during the initial period, which would extend to the end of the Bank's FY1976, terminating June 30, 1976. However, this arrangement would have to be reconsidered thereafter.

Dr. Jalal said that he had received requests to finance several projects which do not seem to be included in the Bank's "Monthly Operational Summary of Bank and IDA Proposed Projects". He would like to have some of these projects appraised. He asked whether the Bank could help with this. Mr. McNamara said that this would be difficult, since the Bank's manpower

was fully committed. The Bank would try its best nevertheless to help. But in this case the Bank should be reimbursed for the full incremental appraisal costs. Dr. Jalal asked whether the Bank would be prepared to participate in financing a project which was proposed by the Saudi Fund for Development. Mr. McNamara said that this would depend on the economic priority of the project in each country.

Mr. McNamara asked Dr. Jalal about the geographic scope of activity of the Fund. Dr. Jalal said that the Fund's loans would be extended to developing countries in general: Arab, Moslem and others in that order of priority.

(3) Investment of paid-in capital:

Mr. McNamara explained the methods of the Bank's financial management and said that the Bank's Treasury invested about 5 billion dollars in liquid funds. The Bank would be happy to arrange for Dr. Jalal to meet Mr. Rotberg during his visit to the Bank to discuss this matter.

SElFishawy/rh

cc: Messrs. McNamara ✓
Knapp
Cargill
Benjenk
Rotberg
Kochman
R.A. Clarke
Burmester

MEMORANDUM FOR THE RECORD

Meeting in the Central Planning Organization in Riyadh, March 11, 1975, 10:30 a.m.

Present: The Minister of Planning, Mr. Hisham Mazer, the Deputy Minister, Mr. Fayer Badr, Messrs. McNamara, Benjenk, El Fishawy

The Minister said that he had been very happy with the Bank's involvement in the transportation survey and the manpower study and that he hoped the good relations between the Bank and Saudi Arabia would continue.

Mr. McNamara said that he was pleased to hear this but that he would not want to raise any false expectations with respect to the Bank's capability. Furthermore, we would only provide technical assistance if the Government were really interested.

The Minister said that the idea of using the Bank as an umbrella to supervise all consultants in Saudi Arabia would not work. He preferred the Bank's involvement in three areas:

- a. In the short term to help the Government make quick decisions on controversial issues;
- b. In the longer term to call on the Bank to do fresh jobs. For ordinary jobs in the longer term he would prefer to use consultants.
- c. Help the LDCs present loans to the Saudi Arabian Development Fund.

Mr. McNamara said that we would be pleased to provide assistance in these areas. He said we would be pleased to hand over a list of projects to the Saudi Arabian Development Fund and help appraise and supervise these projects. This was a relatively easy task. He was more concerned about the two first areas where the Bank would have to work inside Saudi Arabia with several ministries. It would be necessary to establish a small resident office with perhaps two professionals. He would also only want the Bank to be involved in work which was of high interest to the Government. Mr. McNamara said that he had heard rumors that some people in the Government were not satisfied with the Bank's work. He therefore asked the Minister to promise to inform either Mr. Benjenk or himself if, when the work got underway, the Government did not think the Bank was doing the right thing and, secondly, whether we were not doing the right things well. The Minister agreed with this.

Mr. McNamara said that the Bank would have to charge the "incremental cost" of the technical assistance provided, and that such charges due to the high price level in Riyadh would be heavy. The Minister said that this would be a fair arrangement.

The Minister further said that the development plan would be ready in April and that the Government planned to spend \$150 billion over the next five-year period. The plan would specify the areas in which the Bank would be involved. Mr. McNamara was happy to hear this and explained that, if the Bank knew well in advance what was required, it could do a better job.

cc: Mr. El Fishawy

SB
March 17, 1975

SUMMARY NOTES FROM SAUDI ARABIA, March 11 and 12, 1975

Meeting with the Minister of Finance in His Home, March 11, 9:15 a.m.

A courtesy visit in which Mr. McNamara delivered the three papers on increased capital subscription, Third Window and borrowing program to the Minister.

Meeting in the Central Planning Organization (see separate memorandum)

Meeting in the Ministry of Finance, March 11, 1975, 4:30 p.m.

Present: Prince Massud, Minister of Finance, H.E. Sheikh Alquraishi, Governor of SAMA, Mr. Gosaibi, Vice Governor, SAMA, Mr. Al-Turki, Ministry of Finance, Dr. Mahsoon, Director, Saudi Arabian Fund for Development, and Messrs. McNamara, Benjenk, El Fishawy, Burmester

Four topics were discussed:

- a. technical assistance;
- b. increase in subscribed capital;
- c. Third Window; and
- d. borrowing program for FY76.

a. Mr. McNamara said that he and Mr. Benjenk had promised to assist Saudi Arabia with technical assistance during his visit in 1973. Since then the IBRD had responded with the manpower study, transportation survey, assistance to Pilgrim's housing and the Bahrain causeway. There had been no reimbursement for these studies. However, the Government's interest in technical assistance has now increased and we should formalize the arrangements and provide for reimbursement. Mr. McNamara said that he had mixed feelings about the Bank providing technical assistance. He said we would assist if our assistance was important to the Saudi Arabian Government and if we had qualified manpower so that we ensured a high probability of ending up with a satisfied customer. A small resident office in Riyadh would have to be established. The Minister said that it would be highly desirable and useful to have the Bank assist the Government and establish an office in Riyadh. A committee could work out the details. Mr. McNamara gave the Minister a short written statement on technical cooperation between the Bank and the Government and the Minister said that this could be discussed the following day (see separate memorandum, Meeting in the Ministry of Finance, March 12, 1975, 9:45 a.m.). It was agreed that possible support for the Saudi Arabian Fund for Development would be discussed in a separate meeting between Dr. Mahsoon and the mission the following day.

b. Mr. McNamara said that the increase in subscribed capital was more a political than a financial question. In IMF it had not been possible to increase the OPEC share to 15%. Mr. McNamara said that he was prepared to seek such an increase in the Bank but he wished to have the support of OPEC before going ahead. All-in-all the OPEC countries would have to pay about \$200 million for this increase but, as the Bank had \$5 billion in liquid funds, the extra \$200 million was not very important financially. The increase would, however, be a major step to increase the power of LDCs in international financial institutions. With such an increase, the LDCs and OPEC together would have about 44% of the votes in the Bank and, as some industrial countries, such as Sweden and the Netherlands, might vote along with the LDCs and OPEC, this could in fact turn into a majority. The Minister asked several technical questions with respect to the increase which were explained by Mr. McNamara. He then said that he agreed to the increase to 15%. He would have to refer it to the Government but he was convinced that

it would be given very favorable consideration. He also felt very confident that Mr. McNamara would be able to negotiate such an increase. The Minister then left the meeting.

c. Mr. McNamara explained the need for and concept of the Third Window. The Governor asked about the influence of contributors on the Third Window lending. Mr. McNamara explained a two-stage procedure was contemplated. The loans would be approved by the Board as usual and the interest subsidy would be decided in consultation with donors. The Governor enquired whether it was necessary to pay in the subsidy at once. Mr. McNamara said that it was not necessary to pay in the subsidy at once. If, however, the Government would pay later, the subsidy would have to be increased by the foregone earnings. The Governor said that Saudi Arabia would support the Third Window but, at the moment, could not commit an amount of \$35 million. The amount should be discussed at a later date. He would also appreciate to get the views of other countries with respect to specific amounts. Mr. McNamara promised to send this information from Washington. Mr. McNamara gave the Governor a copy of the Third Window paper.

d. Mr. McNamara said that the Bank would like to borrow \$1 billion in Saudi Arabia in FY76, at competitive commercial rates for high securities. The Governor asked in which currencies the money could be borrowed. Mr. McNamara said that it could be either in dollars or in SDR equivalents. It would, however, be extremely difficult for the Bank to borrow in riyals. The Governor said that he would wish to discuss the form and amount of borrowing in the middle of July.

Meeting to Discuss Technical Assistance in the Ministry of Finance, March 12, 9:45 a.m.
(see separate memorandum)

Meeting in the Ministry of Finance, March 12, 12:30 p.m., to Discuss Bank Assistance
to the Saudi Arabian Development Fund

Present: Dr. Mahsoon, Director of Saudi Arabian Development Fund, Mr. Al Akeil, Secretary-General of Public Investment Fund, Messrs. McNamara, Benjenk, El Fishawy, Burmester

Dr. Mahsoon explained that the Fund had a paid-in capital of 3 billion riyals and aimed at a total of 10 billion riyals. The paid-in capital would be at least 5 billion riyals within three years. The Fund had started its activities two weeks ago and Dr. Mahsoon was the only employee. He said that he needed help to organize the Fund, to prepare and appraise projects, and to invest surplus funds. Mr. McNamara said that we would be happy to help organize the Fund. We could definitely give temporary assistance but, whether a permanent man could be seconded, would have to be determined in Washington. We would be able to tell Dr. Mahsoon about this during his visit to Washington in April.

With respect to preparation and appraisal of projects, Mr. McNamara handed Dr. Mahsoon the Bank's monthly summary. He said that the Fund could pick any of the projects in the summary. All the projects had been agreed by the governments and the Bank considered them of sufficient merit to warrant financial support. The Bank would bear the full cost of appraisal and supervision of the projects picked by the Fund in FY76 but this policy would have to be reconsidered in FY77. Dr. Mahsoon said that he had about 20 projects which were not included in the Bank's monthly summary, and he would like to appraise these projects as soon as possible, and wanted the Bank's help

for this. Mr. McNamara said that this would be difficult, since the Bank had no unscheduled manpower. He asked Dr. Mahsoon to make a list of the 20 projects and give it to us. We would then try our best to help him but we would have to charge the full incremental cost. Mr. McNamara said that we would also be willing to help to the extent of our capacity with recruiting staff for the Fund. Dr. Mahsoon said that most of the staff would have to be expatriates. Mr. Benjenk said that the Fund staff could join in Bank appraisals to learn.

Mr. McNamara explained the methods of the Bank's financial management. He said he would be happy to arrange for Dr. Mahsoon to meet Mr. Rotberg during his forthcoming visit to the Bank.

Mr. McNamara said that the Fund might consider to participate in some of the consultative groups.

cc: Mr. El Fishawy

Sven Burmester
March 21, 1975

MEMORANDUM FOR THE RECORD

Meeting in Ministry of Finance, Riyadh, March 12, 1975, 9:45 a.m.

Present: Saudi Arabian delegation consisting of Mr. Turki from the Ministry of Finance, Dr. Mahsoon, Saudi Arabian Development Fund, and two representatives of the Housing Administration, and Messrs. Benjenk, El-Fishawy and Burmester

Mr. Benjenk presented a list of technical assistance to Saudi Arabia for FY76. He hoped that this could be finalized in a programming exercise to be undertaken by a Bank mission in Riyadh in a few weeks. Mr. Turki agreed.

With respect to housing, Mr. Benjenk said that the Bank's consultant, Mr. Shanly, would be able to meet the representatives of the Housing Administration in London to go through the 120 bids which had been submitted.

Mr. Turki explained that the Public Investment Fund had four people employed led by the Secretary General, Mr. Akeil, and that one expert from the Bank would be required to help these people. Mr. Benjenk questioned whether four people and one expert were enough to handle the huge investment budget of the Public Investment Fund. He suggested to send Mr. Fuchs to Riyadh about April 15 to talk with the Public Investment Fund and Mr. Turki about this.

Mr. Turki enquired about the Resident Office to be established. Mr. Benjenk said that an office of three people would probably be required. Mr. Turki said that the man in charge preferably should be a European or American. Mr. Benjenk said we would submit a name to the Saudi Government some time next week. Mr. Turki agreed and asked that the name be sent either directly to him or handed over to Mr. Sogheir, who is presently in Washington.

For the Saudi Arabian Development Fund, Mr. Benjenk suggested that Dr. Mahsoon go to Kuwait and talk to Mr. Jaroudi and probably visit Washington where he would be happy to arrange such a visit. Dr. Mahsoon said that the Fund needed help to get organized, for project preparation in the short run and for investment of surplus funds. Mr. Benjenk said that we would be happy to send economic reports, sector surveys and appraisal reports to the Fund free of charge. On the other hand, he stressed that we would charge the full incremental cost of technical assistance.

In a meeting later the same morning in the Guest House, Mr. McNamara said that he would like to see Dr. Mahsoon for either lunch or dinner in Washington. He said that our support for the Saudi Arabian Development Fund should be free as far as joint financing is concerned. If the Fund picks up our projects, it would be free of charge for the first year and, if we help the Fund directly, they should pay the full incremental cost.

cc: Mr. El Fishawy

Sven Burmester
March 20, 1975



MEMORANDUM FOR THE RECORD

Summary of Meetings of Dr. Mahsoon Jalal, Deputy Chairman of the Saudi Fund for Development (Fund), during his visit to the Bank from April 17 to April 22, 1975

During all the meetings that Dr. Jalal held with several high officials of the Bank, the theme that was repeatedly emphasized was that the Bank's main goal was to ensure that as much capital flow as possible was transferred to developing countries and effectively applied for economic development. The Bank therefore was fully prepared to assist the Fund in its mission towards the same goal. The main areas of potential cooperation that were discussed were as follows:

(1) Operations

The Bank would be prepared to send systematically to the Fund relevant data and reports on the economy of countries of particular interest to the Fund: lists of projects therein and information regarding such projects. The Bank would be prepared to alert the Fund about consultative groups and consortia of aid of countries of interest to the Fund (example: Tunisia and Bangladesh). The Bank welcomed joint financing possibilities with the Fund.

Certain specific projects which, as well as others, might be candidates for co-financing if governments so requested the Fund, were discussed. Example: Greater Tunis in Tunisia, power project in India, the Rahad Project in Sudan, an agricultural project in Somalia and the Tana Irrigation Project in Kenya. The Bank would welcome any participation of the Fund in the appraisal and any follow-up of projects financed jointly by the Fund and the Bank. The Fund could also choose, upon completion of appraisal as might be scheduled by the Bank, any of the projects listed in the Bank's "Monthly Operational Summary of Bank and IDA Proposed Projects" for financing exclusively or jointly with the Bank or IDA. The Bank would not charge the Fund any part of the appraisal cost during the initial period, which would extend to the end of the Bank's FY1976, terminating June 30, 1976. However, this arrangement would have to be reconsidered thereafter. The Bank would also try its best to help in appraising for the Fund projects not included in the Monthly Operational Summary, although this would be difficult, since the Bank's manpower was fully committed. In this case the Bank should be reimbursed for the full incremental appraisal cost.

(2) Disbursement

In the case of co-financed projects, the Bank would be prepared to assist the Fund in disbursing its loans, either by processing withdrawal

applications of the Fund's borrowers and notifying the Fund to make the payments, or acting as an agent of the Fund in making the payments out of the proceeds of the loans which would be deposited by the Fund in the Bank for this purpose. Such arrangements would clearly be subject to a negotiated contract. In this regard the Bank expressed the view that the funds would preferably be deposited in dollars, no exchange risk would be borne by the Bank and the Bank would be willing to invest the amounts deposited by the Fund as the Bank invests its own liquid funds, and any income accruing from such investments would inure to the Fund.

(3) Investment

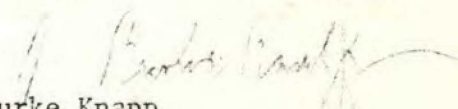
Dr. Jalal inquired whether it was possible that the Bank would invest, on the Fund's behalf, a part or the whole of its paid-in capital (already amounting to about 815 million dollars). The Bank expressed the view that it would be ready in principle to assist the Fund in this field. The necessary arrangements, however, would be subject to a negotiated agreement.

(4) Organization and Staffing

The Bank would be ready to extend every assistance possible to the Fund in building up its staff. The Bank would assist in drawing job descriptions for the initial key staff required for the Fund and would assist in an informal and practical way in recruiting such staff. There was a full discussion of personnel policies and contract arrangements and Dr. Jalal indicated that he may wish to call on the Bank for further assistance in the detailing of such policies and arrangements. Dr. Jalal requested secondment by the Bank of two experienced professional staff. The Bank promised to consider and to respond shortly to said request as part of the manpower to be allocated by the Bank for technical assistance in Saudi Arabia. The Bank would also assist in training the staff of the Fund as much as possible.

Deputy Chairman of the
Saudi Fund for Develop-
ment

For the President,
International Bank for
Reconstruction and Development


J. Burke Knapp
Senior Vice President, Operations

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OFFICE MEMORANDUM

TO: For the Record

DATE: September 26, 1975

FROM: Saad S. El Fishawy

Saad El Fishawy

SUBJECT: SAUDI ARABIA: Meeting of Mr. McNamara with Sheikh Alquraishi, Governor of the Saudi Arabian Monetary Agency during the Annual Meetings 1975

The meeting took place on Wednesday, September 3, 1975. Present were Dr. Mahsoun Jalal, Vice Chairman of the Saudi Fund for Development and Messrs. Cargill, Benjenk, El Fishawy and Burmester.

1. Mr. McNamara thanked Saudi Arabia for the important role it played in establishing the "Third Window" lending facility. Sheikh Alquraishi said that he had gotten a telex the day before informing him that the total amount of Saudi Arabia's contribution has been transferred to the Bank through the Federal Reserve in New York.
2. Sheikh Alquraishi stated that the government of Saudi Arabia has agreed to the proposed increase in Saudi Arabia's capital subscription. He asked Mr. McNamara whether there was further need for an official communication confirming this position. Mr. McNamara said that this would not be necessary.
3. The subject of borrowing was left to be discussed at a later meeting with Mr. Cargill.
4. Mr. McNamara stressed the importance of the Fifth Replenishment of IDA. He said that it would be necessary that the Fifth Replenishment recognize the rapid rate of inflation which has occurred since the Fourth Replenishment was negotiated. It was clear he thought that the Fifth Replenishment should both provide for a full offset to inflation and, in addition, for an appropriate measure of real growth. At a minimum, therefore, it should represent the same percentage of the anticipated GNP of donors as was used for the Fourth Replenishment at the time it was agreed upon in Nairobi. Mr. McNamara added that there was wide agreement that the Fifth Replenishment should be supported both by its traditional donors and by those additional countries which, since the last replenishment, have benefitted from major increases in their national incomes and in their foreign exchange reserves. If an interruption of IDA commitments is to be avoided at the end of the Fourth Replenishment period, it is essential that negotiations for the Fifth Replenishment start immediately.
5. Mr. McNamara then asked Dr. Jalal about the activities of the Saudi Fund for Development. Dr. Jalal said that he was pleased with the full cooperation he is getting from the Bank. He mentioned that there was still, however, an outstanding request for manpower assistance from the Bank. Mr. McNamara assured him that the Bank would continue to do the best it could to assist the Fund in its mission.

SEF:rm

cc: Mr. McNamara's office (2), Messrs. Cargill, Wapenhans, Paijmans, Asfour

OFFICE MEMORANDUM

DECLASSIFIED

JUN 13 2013

WBG ARCIVES

TO: For the Record

CONFIDENTIAL

DATE: September 29, 1975

FROM: Saad S. El Fishawy

Saad El Fishawy

SUBJECT: SAUDI ARABIA: Meeting of Sheikh Alquraishi, Governor of the Saudi Arabian Monetary Agency (SAMA) with Mr. Cargill during the Annual Meetings, 1975

The meeting took place on September 3. Present also was Mr. El Fishawy.

1. Mr. Cargill brought up the subject of requirements for entry visas to Saudi Arabia and referred to the meeting with the Saudi Chargé d'Affaires. He mentioned that it might become necessary for Mr. Rotberg, the Treasurer of the Bank who is of Jewish faith, to visit Jeddah to discuss Bank borrowing operations with officials of SAMA. Sheikh Alquraishi said that people of Jewish faith were not precluded from visiting Saudi Arabia. There were hundreds of precedents of granting entry visas to Saudi Arabia to visitors of Jewish faith. But if the Bank did not get all of what it wanted, he added, it should not then be blamed on the fact that a Jewish staff member was sent on behalf of the Bank.

2. Sheikh Alquraishi said that he wanted to bring up a subject during the meeting with Mr. McNamara but, because there were others participating in that meeting, he decided to mention it to Mr. Cargill, asking him to convey it to Mr. McNamara. He said that several representatives of Arab countries asked him to raise the question of Arab representation in the senior positions of the Bank. He understood that there were none at the levels of Vice President or Director. Mr. Cargill said that the basic policy of the Bank had been for many years to recruit staff at a fairly junior level and to fill the senior positions by promotion from within as individuals showed themselves to be competent. This had meant that nationals of countries who had joined the Bank some time after it was founded were only now reaching senior levels. He cited the example of Germany whose nationals were now beginning to reach the top levels of the Bank. He also mentioned the case of Japan and the peculiar difficulties the Bank had faced in that case. He said that the Bank was attempting in its recruiting to ensure as wide a representation as possible of different countries in the staff of the Bank and had imposed a strict limit on the number of Americans and British in the professional ranks. A number of Arabs had now been recruited and more undoubtedly would be; several Arabs already were at the higher levels in the Bank and he had no doubt that with the passage of time more would be promoted. Naturally, in any organization like the Bank, the room at the top was limited and only those judged fully competent could be promoted to the senior-most positions. With this Mr. Alquraishi agreed.

SEF:IPMC/plc

cc: Mr. McNamara (2)
Mr. Cargill

14

Mr. McNamara

Mr. I.P.M. Cargill

March 16, 1976

Saad S. El Fishawy

Visit of H.E. Ali Abdallah Alireza, Ambassador of Saudi Arabia,
to Mr. McNamara on Thursday, March 18, 1976 at 5.30 P.M.

Please find herewith:

- Biographical note on Ambassador Alireza (ANNEX A)
- Suggested topics of discussion (ANNEX B)
- Note on Bank borrowings from Saudi Arabian Monetary Agency to date (ANNEX C).

Encl.

SELFishawy/rh

cc: ✓ Mr. McNamara

DECLASSIFIED

JUN 13 2013

ANNEX A

WBG ARCHIVES

CONFIDENTIAL

Biographical Note on Ambassador Alireza

Ambassador Alireza (in his mid-fifties) comes from one of the most prominent merchant families in Saudi Arabia. They are based in Jeddah. His grandfather */ was Kaimmakam (mayor) of Jeddah and his father was a close advisor to King Abdulaziz ibn Saud. The family had the concession of operating the port. Their business is widespread in shipping, construction and general contracting. In the Kingdom they are the agents for ITT, Merrill Lynch and Ford, among others.

The Ambassador graduated from Berkley University in 1945. When King Faisal went to San Francisco as the head of the Saudi delegation to the United Nations Conference on International Organization in 1945, Ambassador Alireza joined him as a member of the delegation. He remained an inactive member of the Foreign Office since then. His present assignment is his first diplomatic post.

In the late forties he worked with Judge Manley O. Hudson, the famous international lawyer and ex-judge of the United States on the International Court, on the Al-Buraimi Oasis dispute between the Kingdom and Abu Dhabi (represented at the time by the United Kingdom) and on off-shore problems **/.

The Ambassador was close to King Faisal (who became the Viceroy of the Hejaz, including Jeddah, after he captured it in the early twenties). King Faisal often stayed in the Alireza house in Jeddah when he went there.

The Ambassador is one of the three members (other than the Governor and the Vice Governor) of the Board of Directors of SAMA and is thus familiar with SAMA's investments and the Bank's borrowings from Saudi Arabia.

*/ The family is originally from Persia and of the Shiite sect, and the last name of the family was Zainal (short for Zainalabidine).

**/ This dispute was settled only a couple of years ago by Saudi Arabia giving up its claim to the Oasis.

Suggested Topics of Discussion

- (1) Fifth IDA Replenishment
- (2) Borrowing
- (3) Egypt Aid Fund

SAUDI ARABIA

ANNEX C

Borrowings To Date

In 1968 the Bank sold to the Saudi Arabian Monetary Agency (SAMA) \$15 million of an issue of 6-1/2% 26-Year Bonds issued in the United States. Thereafter the Bank placed directly with SAMA two issues in United States dollars and one issue in Saudi Arabian Riyals. Earlier this month the Bank placed directly with SAMA one issue in Swiss Francs and one in Deutsche Marks. Listed in their chronological order, the bonds so purchased by SAMA are as follows:

6-1/2% 26-Year Bonds of 1968, due 1994	\$ 15,000,000
6-3/8% 26-Year Bonds of 1968, due 1994	\$ 15,000,000
8% 10-Year Bonds of 1971, due 1984	SRls 500,000,000
8-1/2% 10-Year Bonds of 1974, due 1984	\$750,000,000
7-3/4% SWF Bonds of 1976, due 1982/84	SWF 300,000,000
8-1/4% DM Bonds of 1976, due 1982/86	DM 100,000,000

All of these issues remain outstanding. They aggregate about \$1,077 million equivalent at current exchange rates.

Purchases of Two-Year Bonds by SAMA have amounted to \$299.3 million, of which \$110.7 million is presently outstanding.

The total amount presently outstanding of Bank bonds purchased directly by SAMA is \$1,175.9 million equivalent.

JPUhrig:lmcg

3/16/1976

OFFICE MEMORANDUM

TO: For the Record DATE: March 26, 1976

FROM: Saad S. El Fishawy *Saad El Fishawy*

SUBJECT: Mr. McNamara's Meeting with H.E. the Ambassador of Saudi Arabia,
Ali Abdallah Alireza, on March 18, 1976

This was primarily a courtesy call. Mr. McNamara went briefly over the several facets of the relationship between Saudi Arabia and the Bank. He assured the Ambassador that the Bank was keen on having a smooth and fruitful relationship with Saudi Arabia. He asked him not to hesitate to contact him, or one of his associates, on any matter related to said relationship.

Mr. McNamara also summarily referred to the dramatic increase in Bank activity in the Arab world since 1968, with particular emphasis on Bank operations in Egypt.

SElFishawy/rh

cc: Messrs. ✓ McNamara
Cargill
Wapenhans
Paijmans
Bumester

15

Mr. Warren Baum, Vice President, Projects

May 28, 1976

Martijn J.W.M. Paijmans, Director, EMENA I

SAUDI ARABIA: Request for Special Technical Assistance

1. During discussions Mr. McNamara had during his visit to Saudi Arabia with the Minister of Finance and the Governor of the Central Bank on May 22/23, both expressed their personal and their Government's considerable concern about the continuous rise of prices in Saudi Arabia, the development of which is bound to affect the execution of their admittedly very ambitious development plan.

Escalation of bids

2. The Minister of Finance wishes to make an attempt to obtain a better insight in the composition of construction and supply prices while at the same time attempting to provide contractors and suppliers not familiar with the local scene with some reliable frame of reference that can underlie their bid preparation.

3. In one of the discussions, it was asked whether the Bank could design a standard form - to be filled in by contractors - breaking down the most important elements of, to start with, construction contracts. In the consideration of this idea Mr. McNamara felt that a breakdown alone might not be sufficient but that a reconciliation of the cost for the various contract components prevailing in Saudi Arabia with standard cost under more normal conditions - say in the USA - would be an important cost control and guidance tool. He promised that the Bank would look into this matter and asked that you would speak to him on this subject. Before doing so you may wish to have a word with Mr. Kinawy in EMENA Projects who explained in Riyadh to Mr. McNamara how much various components cost, such as transportation, ship waiting periods in ports and other, impact on cost of for example the construction of housing, even under controlled circumstances such as prevail in Aramco.

4. I would be grateful if you could keep the Region informed on action that will be taken and we will be glad to work with CPS on this subject matter. Whatever the outcome I suggest that results will be communicated to the Government through our Resident T.A. Mission.

Price Information

5. Because it is relevant to this problem, you may wish to know that in order also to gain some sort of control over the rapid price development, the Ministry of Finance asked to receive information on price trends and commodity forecasts maintained by the Bank and which might give them some guidance as to what are reasonable and unreasonable cost demands. The Minister was promised that we would provide them with this information. It is however obvious that its use should be carefully

May 28, 1976

guided in particular in cases where we are not associated with project work as an indiscriminate use, misinterpretation or misuse of unrelated and undigested data might have disastrous results as well for Saudi Arabia as for contractors and suppliers and thus finally backfire on the Bank itself.

6. The Program Division will initiate work on this information and closely consult with Projects Department and CPS on format and the compilation of guidelines. These data will be transmitted through our Technical Assistance Mission which would be more aware of the demand and the complications foreseen in the use of such data and which will guide such use.

cc: Mr. McNamara's Office
Messrs. Knapp
Wapenhans
Knox
MacKay
El Fishawy
Asfour
El Darwish

MPaijmans:sap

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: April 15, 1976

FROM: Martijn J. W. M. Paijmans

SUBJECT: SAUDI ARABIA: Mr. McNamara's Meeting with Dr. Al-Gosaibi,
Minister of Industry and Electricity

1. Dr. Al-Gosaibi, accompanied by Dr. Al-Turki, Deputy Minister of Economy and Finance, Dr. Al-Zamel, Director General of the Ministry of Industry and Electricity, and H.E. Ali A. Alireza, Saudi Arabia's Ambassador to Washington, paid a courtesy call on Mr. McNamara on April 13. Messrs. Cargill, Wapenhans, El Fishawy and I were present.

2. The Minister expressed his pleasure with the technical assistance Saudi Arabia is receiving from the Bank. He briefly mentioned the bottlenecks (ports, manpower) his Government experiences in its efforts to implement the Development Plan which, however, is well on course-- according to the Minister. He emphasized that the objective character of the Bank's assistance is a most essential ingredient to his Government, and asked for more Bank manpower to be devoted to this work. In response to questions from Mr. McNamara, the Minister clarified that he was thinking in terms of standby manpower.

3. Mr. McNamara said he was pleased to learn of the Saudi Government's satisfaction, but explained that the Bank was already operating on a tight budget which would be even tighter next year. He felt that there would be little, if any, standby capacity and observed that we would need reasonable notice to provide more manpower than budgeted for. While making these observations Mr. McNamara obtained assurances from the Minister and Mr. Wapenhans that the agreed work program could be executed by the budgeted manpower. During this review, both the Minister and Mr. Wapenhans mentioned the need for adding an additional staff position to the Riyadh Mission to cover the petrochemical sector.

cc: Mr. McNamara's office (2)

cc: Messrs. Cargill, Wapenhans, El Fishawy, Asfour, Blay (2), Wyatt,
El Darwish, Armstrong

MPaijmans:csc

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
(through Mr. J. Burke Knapp, Senior Vice President, Operations) DATE: April 13, 1976

FROM: Willi A. Wapenhans, Vice President, EMENA Region

SUBJECT: SAUDI ARABIA: Visit by Dr. Al-Gosaibi

1. Dr. Al-Gosaibi, Dr. AlTurki and Dr. Al-Zamel will visit you at 6:00 p.m. today, Tuesday, April 13.
2. During our meeting yesterday afternoon, Dr. Al-Gosaibi explained the scope of his request for assistance in reviewing the major industrial projects for which he is responsible. He wishes the Bank to make during the next 12 to 18 months at least a preliminary assessment of up to 15 proposals for large industrial projects: he seeks advice for the crucial decisions to make on them of whether to proceed, to reject, or to defer consideration for further study. He would also wish us to evaluate "financially, economically, and legally" those projects which are sufficiently documented. At present, they are Marcona Steel, Shell Petrochemicals, and Grace-Itoh Fertilizers. He made it clear that he does not want the Bank to undertake this work if there is a danger that it could not be carried out properly because of staff constraints. While to some extent this would involve an open-ended commitment, Mr. Fuchs, Mr. Scott and I believe that the Bank can meet his requests, since we expect that in FY76 and FY77 requests for assistance on projects for which preparation is completed are not likely to go above the equivalent of seven full evaluations. Mr. Scott made clear to Dr. Al-Gosaibi the limits to our legal advice as described in paragraph 6 of the brief: this appears acceptable. Such constraints as there are to expanding assistance lie mostly in the availability of suitable staff, but we believe they can be overcome. In this context the Resident Mission will play a vital role in screening projects, so as to allow Industrial Projects staff to concentrate on project evaluation. We may therefore have to contemplate building up the staff of the Mission, to cope with this work and with the institution building for the Public Investment Fund (PIF), discussed below. An increase of professional staff from four to five is proposed in the FY77 Budget Request.
3. We have told the Minister that for the Bank's advice to be effective three basic conditions have to be satisfied:
 - (i) The Bank will need to have at its disposal all the essential data available to the Saudis, to enable it to make adequate judgments;
 - (ii) Our advice should be treated in confidence: it would quickly become ineffective if the Saudis justify their decisions vis-a-vis their foreign partners with "the Bank told us so". Such an approach would bring us into direct confrontation with foreign partners;

- (iii) Particularly as the demand on our staff resources becomes heavier, we need to be given as much advance warning as possible of time schedules critical to the Saudi authorities.

4. In a separate meeting with Mr. Knox and Mr. El Darwish, Dr. ALTurki expressed the importance he attaches to the Bank's institution building for PIF: he wants the Bank to provide him with blueprints for establishment of PIF, and constant, detailed advice, including assistance with the recruitment of staff. In this work again the Resident Mission will play a vital role. Dr. ALTurki is unlikely at present to ask for secondment of Bank staff to PIF and he does not want the Bank to manage the PIF in the way in which the Chase Manhattan Bank provides staff to manage the Saudi Industrial Development Fund.

5. There are no particular points which we would like you to raise.

Cleared with & cc: Messrs. Knox, Paijmans, Scott

cc: Mr. Cargill
PJBlay/EYAsfour/SElDarwish/HFuchs:js

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President DATE: April 9, 1976
 (through Mr. J. Burke Knapp, Senior Vice President, Operations)
 FROM: Willi A. Wapenhans, Vice President, EMENA Region
 SUBJECT: SAUDI ARABIA: Visit by Minister of Industry

1. The Minister of Industry and Electricity for Saudi Arabia, Dr. Ghazi Al-Gosaibi, will visit you on Tuesday, April 13 at 6 p.m. He will be accompanied by Dr. Mansour AlTurki, Deputy Minister of Economy and Finance (principally responsible for economic affairs, overseas aid and technical assistance), and Dr. Abdul Aziz Al-Zamel who is responsible within the Ministry of Industry for the major new industrial projects recently transferred to it. Brief bio data are attached as Annex I.
2. The Minister will visit the United States from April 7 to 13 and during his stay he will have meetings with private businessmen in New York, various representatives of the Administration (Secretaries Simon and Richardson, Mr. Seidmar, Director of the Economics Office of the President, and Messrs. Atherton and Robinson of the State Department), and several Congressmen in Washington. A TV appearance is scheduled on April 12 at 7:30 a.m. with Mr. Parsky, Assistant Secretary, US Treasury Department, on the CBS morning news.
3. Dr. Al-Gosaibi and his colleagues are to have meetings with EMENA Regional and Industrial Projects staff on Monday, April 12. I intend to meet with the group on Monday afternoon. The brief for these meetings is attached: we shall inform you on Tuesday of any significant points for your meeting arising from these discussions.

Attachments

Cleared with: Messrs. Paijmans, El Darwish, Fuchs, Scott, Carmignani
 cc: Messrs. Cargill, Knox, Armstrong, Asfour, Sekse, Sir Gordon Mackay
 PJBlay:bp

BIO DATA

Minister of Industry and Electricity, HE Dr. Ghazi Abdel-Rahman Al-Gosaibi is in his mid 30s. He was appointed Minister in October 1975, having previously been Director of the Railways Authority and Dean of the School of Commerce, University of Riyadh. He has a law degree from Cairo University, a Masters Degree from the University of Southern California and a Ph.D. in international relations from the University of London. He comes from a powerful merchant family.

Deputy Minister of Finance, Dr. Mansour AlTurki is in his mid-30s. He was appointed Deputy Minister of Finance in the summer of 1975 and is the main liaison man between the Ministry of Finance and the Bank. Mr. AlTurki has a Masters Degree from the University of Iowa and a Ph.D. in economics from the University of Colorado. Prior to his present assignment he was running his own economic consultancy firm and teaching economics at the University of Riyadh.

Mr. Abdul Aziz Zameel who is the Director General of the Industrial Studies and Development Center in Saudi Arabia (which is part of the Ministry of Industry), was recently given responsibility within the Ministry of Industry for evaluation and implementation of the major industrial projects transferred to the Ministry from Petromin. He is in his late 30s, and is US-educated.

EMENA Region
March 31, 1976

TECHNICAL ASSISTANCE TO SAUDI ARABIA

ANNEX II

(Manweeks)

Sector and Project	FY76						FY77		
	Program as envisaged in Technical Cooperation Agreement	Revised Program as at February 1976	Work Completed through February 1976			Proposed Program			
			Staff	Cons.	Total	Staff	Cons.	Total	
<u>EDUCATION AND MANPOWER</u>									
Education/Manpower Survey Phase II	161.2	204.0	52.15	22.55	74.70	165	84	249	
Implementation of Training Programs	) 98.8	1.5	0.88	0.60	1.48			-
Accelerated Literacy Program	)	66.0	6.80	-	6.80	50	96	146
<u>URBAN DEVELOPMENT</u>									
Public Housing	57.2	150.0	43.08	54.25 ^{5/}	97.33	60	50	110	
Pilgrims Accommodation	15.6	3.0	2.10	-	2.10			-	
<u>TRANSPORTATION</u>									
Transport Planning	44.2	20.0	10.90	0.60	11.50	16	4	20	
Bahrain Causeway	13.0	13.0	6.02	4.83	10.85	8	12	20	
<u>PUBLIC UTILITIES</u>									
Power Study and Organization	41.6	1.6	1.60	-	1.60			-	
Desalination, Water and Sewerage	15.6	-				6	-	6	
Telecommunications	15.6	6.0	4.55	-	4.55			-	
<u>INDUSTRY/NON-OIL MINING</u>									
Non-Hydrocarbon Industrial Sector Survey	52.0	52.0	4.13	- ^{5/}	4.13			-	
Industrial Development Programs and Plans Phase II (ISDC)						25	20	45 ^{1/}	
Regional Development (ISDC)						10	15	25 ^{1/}	
Feasibility Studies:									
Non-Oil Industries	57.2	- ^{2/}	0.27	-	0.27				
Truck Assembly		20.0	4.50	-	4.50				
Agro-Industries		50.0				12	26	38 ^{1/}	
Construction Materials Sector									
Industrial Estates	13.0	5.0	0.75	-	0.75				
Non-Hydrocarbon Minerals Studies and Surveys	36.4	36.4	8.68	17.07	25.75	20	10	30	
Industry Short-Term Assignments and Ad Hoc Support	23.4	0.4 ^{2/}	0.10	-	0.10				
Specific Project Assistance (Ministry of Industry & Electricity)		40.0				125	25	150 ^{1/}	
<u>Public Investment Fund:</u>									
General	114.4	50.0	25.40	3.00	28.40				
East-West Crude Oil Pipeline	) 31.2	28.0	17.73	7.65	25.38			
Associated Gas Pipeline	)	23.0	4.70	-	4.70			
Project Evaluation - Non-Industry (including other Pipelines)						19	11	30	
Project Evaluation - Industry						15	5	20 ^{1/}	
Institution Building						10	-	10	
<u>EDI COURSE</u>	31.2	-				31	-	31	
<u>CONTINGENCIES</u>	62.4	20.0				18	63	81	
<u>RESIDENT MISSION IN SAUDI ARABIA</u> ^{3/}	156.0	112.0	43.16	-	43.16	234	-	234	
TOTAL MANWEEKS	1040.0	901.9	237.50	110.55	348.05	824	421	1245	
MANYEAR EQUIVALENT	20.0	17.34 ^{4/}	4.57	2.12 ^{5/}	6.69	15.84	8.10	23.94	

NOTE: All time shown is in net manweeks with the exception of the Resident Mission. The Government of Saudi Arabia is charged on the basis of positions filled in the Resident Mission, and time is therefore shown in gross manweeks.

1/ Excludes input by staff of Resident Mission.

2/ A lump allocation of time has been made equal to the small amount of time already recorded against these two projects. No further work on these projects is anticipated.

3/ Figures for the Resident Mission are in gross manweeks.

4/ An amount of up to one manyear (52 manweeks) is to be transferred to a cash item to cover reimbursement of items not covered by the manyear reimbursement agreement (e.g. translation of bidding documents into Arabic, advertising for transportation specialists, interview expenses etc.).

5/ Excludes time not yet recorded by consultants on Public Housing Project and Industrial Sector Survey.

March 23, 1976

SAUDI ARABIA: MEETINGS WITH DR. AL-GOSAIBI, DR. ALTURKI, DR. AL-ZAMEL

Monday, April 12

DRAFT AGENDA

<u>Time</u>	<u>Subject</u>	<u>Place</u>	<u>Present from Bank</u>
9:30	Preliminary discussion with Dr. Al-Zamel and Dr. Alturki	Mr. El Darwish's Office, A707	Messrs. El Darwish, Armstrong, Carmignani, Blay
9:45 to 10:30	Dr. Al-Zamel: Industrial work.	Mr. Fuchs' Office F1006	Mr. Fuchs and Staff
9:45 to 10:30	Dr. Alturki: Interview of Mr. Dowling	Mr. Armstrong's Office, F713	
<hr/>			
2:30 to 3:00	1) Welcome to Dr. Al-Gosaibi and colleagues; discuss program for afternoon meetings.	Mr. Wapenhans' Office, E723	Messrs. Wapenhans, Paijmans, Fuchs, El Darwish, (Blay)
	2) Nature of Bank Technical Assistance to Ministry of Industry and Electricity.	Mr. Wapenhans' Office, E723	Messrs. Wapenhans, Paijmans, Fuchs, El Darwish, (Blay), (Mr. Scott to stand by)
3:00	3) Status of work and future timetable on specific projects.	Mr. Fuchs' Office F1006	
	(a) Shell Petrochemical Project	Mr. Fuchs' Office F1006	Messrs. Fuchs, El Darwish, Carmignani, Dewey, Tortorelli.
3:15	(b) Fertilizer Project	Mr. Fuchs' Office F1006	Messrs. Fuchs, Dewey, Pratt, Sheldrick
3:30	(c) Steel Project	Mr. Fuchs' Office F1006	Messrs. Fuchs, Cash, Jaffe
3:45	(d) Other future projects	Mr. Fuchs' Office F1006	Messrs. Fuchs, Cash, Dewey
4:00	4) Other topics of interest	Mr. Fuchs' Office F1006	Messrs. Fuchs, El Darwish, Carmignani, Armstrong
<hr/>			
3:15 to 4:00	Meeting with Dr. Alturki on PIF and Bank Assistance	Mr. Knox Office A712	Messrs. Paijmans, Knox, El Darwish, Carmignani, Armstrong, Sekse, Blay,
<hr/>			
4:45	Interview by Dr. Alturki of Mr. Haring	Mr. Armstrong's Office F713	

April 9, 1976

SAUDI ARABIA: BRIEFING FOR STAFF MEETING WITH
DR. GHAZI AL-GOSAIBI, MINISTER OF INDUSTRY AND ELECTRICITY
ON MONDAY, APRIL 12, 1976

1. This note presents background briefing material for staff discussions with Dr. Ghazi Al-Gosaibi, Dr. Mansour AlTurki, and Dr. Abdul Aziz Al-Zamel.

2. Discussions are likely to center on:

- (i) Assistance to the Ministry of Industry in the evaluation of the major industrial projects it has inherited;
- (ii) Since the Ministry of Finance would ultimately finance these projects through the Public Investment Fund (PIF) Dr. AlTurki may wish to discuss the form and extent of our assistance to the PIF in institution building and project review in non-industrial areas.

Both subjects have been reviewed previously and may be discussed further between Messrs. Al-Zamel and AlTurki and Regional and Industrial Projects staff on Monday morning. We now expect about 7 to 8 manyears, roughly one-third of the envisaged FY77 program, to be allocated to the Ministry of Industry, and an additional manyear to PIF.

~~manyear to PIF.~~

3. Risks in Bank involvement in Saudi Arabia lie in:

- (i) the Bank being identified with project decisions, and so be open to criticism from Saudi interests who disagree with recommendations made, or who are concerned about the delays which the nature of the Saudi administration make inevitable in applying prudent evaluation, selection and procurement procedures advocated by the Bank.

- (ii) that at the same time there would be criticism from the participating foreign companies (and their governments) which are carrying out these large projects, that the Bank is unavoidably getting involved, in the absence of proper Saudi counterparts, in very fundamental policy issues such as the pricing of gas, the degree of subsidization or more broadly in distribution of benefits between Saudi Arabia and the other partner.
- (iii) the difficulty of gracefully refusing requests for expanded assistance, as project implementation begins, to avoid exceeding the limited amount of staff time available.

We have always recognized that there are risks inherent in the Bank's involvement in Saudi Arabia, since our advisory function is, in the absence of adequate technical counterparts, often the only technical basis for decision making. However we believe that these risks can often be overridden by Saudi Arabia's urgent need for assistance, and the Bank's particular advantages of impartiality, expertise and experience. Safeguards are mentioned in paragraphs 5 and 8 below.

4. Ministry of Industry and Electricity (MIE). The Minister only joined the Cabinet last October, when the Ministry was created. It subsequently took over responsibility for the "energy intensive" industrial activities that had been with the General Petroleum and Mineral Organization (Petromin)^{1/}, although arrangements for staffing MIE and for de facto transfer of responsibility were only begun in February of this year. We have not

^{1/} Petromin is an autonomous agency of the Ministry of Petroleum and Natural Resources, responsible for development of the country's natural resources.

been asked for assistance in institution building. At Dr. Al-Gosaibi's request dated January 7, 1976, the Bank is seeking to provide as much assistance as possible to the Ministry of Industry in evaluating proposals for major industrial projects. Starting with the Marcona Steel and the Shell Petrochemical projects (already being reviewed for PIF), followed by the Grace/Itoh fertilizer project, we would review feasibility studies from technical, financial, commercial and economic angles, and provide continuing advice during project preparation: subsequent projects might include three other petrochemical complexes, another fertilizer project, an aluminum smelter, and possibly an oil-based protein factory. To examine how the Bank could best meet the Minister's request, meetings were held with the Minister and his staff in Riyadh by Messrs, Fuchs, El Darwish, Sir Gordon Mackay and Blay in early February. It was agreed that initially the first three priority projects, above, would be reviewed in FY76 and FY77. Minister of Finance Abal Khail also expressed his agreement, and Sir Gordon confirmed this arrangement to both Ministers (see attached). The Minister of Industry wrote, on February 9, 1976, expressing his general satisfaction with the Bank's response to his request (attached).

5. Within the existing program, with some minor changes, we will be able to accommodate the evaluation of the projects in which the Minister is interested (although we may not be able to do it as quickly as the Minister may want us to), and advise the Ministry on them. Mr. Wapenhans may wish to make clear to Dr. Al-Gosaibi that our involvement in assisting the Ministry can essentially not go beyond the essential advice that is needed to determine whether a particular project makes sense for the Saudis, and that our staff cannot participate in negotiations between the Government and third parties or take any decision on its behalf. The Minister may

ask the Bank to intensify its assistance to industry, which could only be done by increasing assistance beyond the agreed overall program for Saudi Arabia (currently 20 manyears for FY76 and proposed at 24 for FY77). The Minister has repeatedly pressed the Bank to second staff to the Ministry of Industry to assist in project evaluation and implementation. We resisted because we believe it more appropriate to advise them from Washington and the Resident Mission. The Minister had agreed to this position.

6. Legal Advice. The Ministry of Industry has also asked us to review draft legal documents for these industrial projects and has provided us with the project agreement (with 10 annexes) for the Shell petrochemical project and with the project agreement for the Marcona steel project. The Shell legal documents are the product of two years of negotiation between Shell and Petromin during which Petromin was represented by Allen & Overy, a firm of London solicitors. A joint venture transaction is normally extremely complicated, often involving legal problems in tax, antitrust and other areas, and requires large inputs of lawyers' time. The Legal Department assumes, and thinks it essential, that the Ministry will be represented by outside counsel in negotiating these agreements. The Department would, however, be willing to help review these with the Bank's technical and financial staff, and, if desired, with the Ministry's outside counsel, as we have with joint venture projects which the Bank is financing. The Department would also be prepared, in the unlikely event that the Ministry would want such assistance, to help it find law firms to represent it generally or in connection with specific projects.

7. Recruitment for MIE. The Bank was asked if it could help find senior staff for MIE: accordingly draft job descriptions were given to Dr. Al-Zamel for comment over a month ago. Since comment is still awaited, it would help if we could ask Dr. Al-Gosaibi what he now wants the Bank to do on this matter. We are working on this through our normal channels, but because of the difficulty of finding the right people, we should probably suggest exploring new channels such as a firm of "headhunter" consultants for the purpose.

8. Limits to Bank Participation. We should like to underline to Dr. Al-Gosaibi that in its work with Saudi Arabia the Bank is providing advice only, and that all decisions would be taken by the appropriate Saudi authorities. Additionally we should like to establish guidelines for our dealings with the companies concerned:

(a) We would not be able to participate in negotiations, since this would mean we would have to "arbitrate" between the parties, especially as we do not have any standing in such negotiations, as we do when making a loan for a project.

(b) We would hope that in meetings between Bank staff and the companies concerned, held to seek information or clarification of proposals or studies, a Saudi representative would usually be present. This would provide valuable "on the job training" and avoid the Bank being misquoted, or our role misconstrued.

9. The Public Investment Fund (PIF) is the agency, chaired by the Minister of Finance, which finances projects such as MIE's industrial

projects, major projects in other sectors implemented by autonomous public agencies such as the Al-Jubayl refinery and the proposed East-West Pipeline, and purchases for Saudi Airlines. Dr. AlTurki is responsible for it among his many other duties in the Ministry of Finance. PIF has a part-time Saudi secretary general (who is weak), and a foreign adviser, but no other staff. Although created by a decree of 1971 it has yet to become properly operational. The Bank was asked as part of its FY75 program to review projects for PIF: accordingly missions studied and reported on the East-West Crude Pipeline, made a preliminary assessment (with incomplete data) of the Al-Jubayl refinery/petrochemical complex and have started work on the Petromar steel project. However, PIF has lacked staff to follow up on these studies. During the 1975 Annual Meetings the Bank was asked to help recruit staff for PIF. While a number of candidates have been proposed, PIF is competing for candidates of the same type as are sought by several other institutions (including those which the Bank is also assisting). Two candidates will be interviewed on Monday. The Bank was also asked to help in institution building for PIF: it was to provide assistance to PIF in developing a review capacity that the Resident Mission was staffed with an engineer, a financial analyst and an economist. However, delays in staffing the mission, coupled with the absence of PIF counterpart staff, have meant that this assistance has not yet been very productive. A DFC mission was also recently mounted, after some delay while waiting for PIF to be staffed to benefit from its assistance, to help develop policies and procedures for project appraisal.

10. Dr. AlTurki has expressed to Mr. Carmignani and Mr. Storch his dissatisfaction with the fact that PIF has yet to become properly operational. He would like the Bank to provide PIF with more intense assistance, both administrative and technical, in project processing. However

Mr. El Darwish had in February emphasized to the Minister of Finance and Dr. AlTurki our difficulties in providing assistance to PIF in vacuo. Now that our resident mission is fully staffed, our work could progress well if a full-time capable Saudi (like Dr. AlTurki himself or Dr. Jalal of the Saudi Fund) could be appointed to the PIF, around which the staff specifically chosen in our resident mission for day-to-day assistance could operate and build. They both agreed that this was an appropriate first step. It would be helpful if Mr. Wapenhans could make the point that the Bank cannot help create such a crucial and powerful public institution in the absence of a strong Saudi counterpart to take decisions and to make use of the assistance provided.

11. It is possible that during his meeting with staff prior to Mr. Wapenhans' meeting, Dr. AlTurki will ask the Bank to go further in its assistance to PIF by seconding one or two relatively senior staff to PIF to assist in institution building - staff recruitment, establishment of procedures, etc. If the Minister raises this, we should be prepared to accept in principle but warn that it would be difficult for us to mobilize suitable staff quickly for the purpose. The pool of Bank staff available is limited, especially of those of the degree of seniority appropriate for this work. Although such seconded staff would be working for PIF (and so not subject to the same degree to the constraints relating to Bank assistance) secondment could only work if at least one capable Saudi is appointed full-time to manage PIF.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Kingdom of Saudi Arabia
The Ministry of Industry & Electricity

المملكة العربية السعودية
وزارة الصناعة والكهرباء

February 9, 1976

Mr. Robert S. McNamara
President
International Bank for
Reconstruction and Development
Washington, D.C. 20433
U.S.A.

Dear Mr. McNamara,

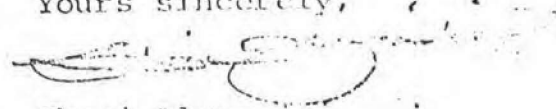
Thank you for your letter dated January 26, 1976. I was very pleased to learn of the World Bank's interest and desire to help in the industrialization programme of Saudi Arabia as part of its overall technical assistance to Saudi Arabia.

I would like to thank you for the prompt response which I have received for my request and would like to inform you that I and my staff have met with the Director of the Bank's Resident Mission in Riyadh, Director of the Bank's Industrial Projects Department, and the Assistant Director of Europe and South Africa Regions Projects Department. We had very fruitful and detailed discussion regarding the Bank's role as far as the industrialization programme is concerned. I am sure practical arrangement will be worked out to enable us to utilize the expertise available at the Bank.

I am planning a trip to Washington during the first half of April and I hope it will be possible to meet you at that time.

With best regards,

Your's sincerely,


Ghazi Alqasbi
Minister of Industry
& Electricity.

John Blay

The World Bank

RESIDENT MISSION IN SAUDI ARABIA, Electric Company Street, Riyadh, Saudi Arabia
Telephone - 4422, 4423 • Postal Address - P.O. Box 5900, Riyadh, Saudi Arabia

February 10, 1976

His Excellency
Dr. Ghazi Abdel Rahman Al-Qusaibi
Minister of Industry and Electricity
Riyadh, Saudi Arabia

Dear Mr. Minister:

We were very grateful for the opportunity to discuss with you last week the areas of possible future increased collaboration between the Ministry of Industry and Electricity and the World Bank. As directed by you, Mr. Al-Zamel then spent considerable time with us in reviewing in detail the information and documents related to the large industrial projects for which Bank assistance in completing preparation and evaluation has been requested.

We have now developed a work program and made some preliminary estimates regarding the type and quantity of specialized manpower this task would require, both from the Resident Mission and Bank Headquarters, and I am pleased to report to you that the Bank will be able to respond positively to your request.

I attach a first draft document that sets out the basis of our cooperation and the main lines of this work program and identifies the specific projects that would constitute the core of this program at the initial stage and those that are likely to be added after the first two or three projects have been processed. The work program includes a critical assessment for each project of input and output cost and prices, terms of loan and financing plans, levels and duration of subsidy if any, economic returns and other benefits, as well as views on suitable terms for joint venture agreements. As agreed with you, such reviews would be conducted for each case given the particularities of each project. However we hope that some general pattern of terms would emerge and, after justification of the variances from project to project, would provide the basis for a more general industrial policy with respect to hydrocarbon based industrial projects.

His Excellency the Minister of Finance also underlined the need for a critical review of the above factors in a recent discussion with Mr. El Darwish and agreed to the review procedure as discussed with you and also with the proposed practical organization agreed with Your Excellency for this work i.e. the work would be carried out by a group of

February 10, 1976

industrial generalists from the Resident Mission and specialists from Headquarters.

I have sent a copy of this draft document for comments to the various concerned Bank departments in Washington. After incorporating Your Excellency's comments and views from Washington we will finalize this document jointly. In the meantime, we are proceeding with the work on the lines indicated in the document without awaiting for its finalization.

Mr. Al-Zamel asked for assistance in recruiting three specialists who could possibly join your Ministry as advisers in the fields of (1) petrochemicals, (2) fertilizers and (3) steel and heavy mechanical industry. We have drawn up preliminary job descriptions which have been transmitted to Mr. Al-Zamel for review. After receipt of your Ministry's comments, we will start the search for suitable people to be submitted to your consideration and provide any assistance you may need in their recruitment.

I look forward to hearing about your plans to visit Washington so that I can help in pre-arranging meetings etc. at that end.

In view of his interest and involvement in this matter I am sending a copy of this letter to His Excellency the Minister of Finance.

With best regards.

Yours sincerely,

Gordon Mackay
Director

Attachment
ASED:GM:gjh

- cc: His Excellency
Sheikh Mohamed Aba AlKhail
Minister of Finance and National Economy
Riyadh, Saudi Arabia
- cc: H.E. Mohamed Al Sugair,
Deputy Minister fo Finance
- cc: H.E. Dr. Mansour Al Turki
Deputy Minister for Economic Affairs, Ministry of Finance
- cc Messrs. Wapenhans, Wyatt, Pajmans, Fuchs, El Darwish, Armstrong
Asfour, Blay. Goodman, North
- cc: Mr. Abdul-Aziz Al-Zamel
Deputy Director General, ISDC

Mr. L. von Hoffman, Executive V.P., IFC

May 28, 1976

Martijn J.W.M. Paijmans, Director, EMENA I

Saudi Arabian/Egyptian Companies

1. During his visit to Saudi Arabia on May 22/23, Mr. McNamara was informed by the Minister of Finance that two public Saudi Arabian/Egyptian companies were to become active in Egypt. A deputy minister in the S.A. Ministry of Finance, Mr. Al Turki, represents his country on the Board.

2. One, a construction company, was established six months ago. It had purchased land in Cairo and would shortly start its first project. The company has a \$50 m capital, 50% contributed by Saudi Arabia in US dollars and 50% by Egypt in local currency.

3. The second company, one to stimulate industrial development, is on the verge of being set up on a similar pattern.

4. The Minister of Finance asked whether Mr. McNamara would see any possibility of cooperation with these undertakings. Mr. McNamara's reaction was that he would be happy to consider a participation in the industrial development company but that, while he would not completely rule out such action with respect to the construction company, he did not want to be encouraging in that respect. He specifically mentioned to the Minister the IFC channel and asked me to inform you and request that you would see what could be done. Mr. McNamara would like you to let him know.

cc: Mr. McNamara's Office
Messrs. Wapenhans
Knox
El-Fishawy
Asfour

MPaijmans:sap

CONFIDENTIAL

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Martijn J. W. M. Paijmans, Director, EMENA I S

SUBJECT: EGYPT - Discussions by Mr. McNamara with Saudi Arabia and Kuwait, May 22/24, 1976

DATE: May 28, 1976

DECLASSIFIED

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WBG ARCHIVES

1. In Saudi Arabia there prevails great concern with respect to their aid effort for Egypt mainly based on the realization that this country's problem could constitute a bottomless pit. The Minister of Finance and the Governor of SAMA both would like to create a situation in which funds put at the disposal of Egypt would be used properly.
2. The same concern prevails in Kuwait but is colored by an overly critical approach, originated by Mr. Abdlatif Al-Hamad, Director General of the Kuwait Fund for Arab Economic Development. Although in Saudi Arabia the need for a common approach by the donors to the Egyptian situation was fully recognized, it was in Kuwait that this common approach was seen as a need for a common front.
3. In both countries the Egyptian problem was discussed at the highest political level (Saudi Arabia's King and Kuwait's Crown Prince/Prime Minister) as well as at the ministerial level. It is noteworthy that at the highest levels of both countries great sympathy was expressed for Egypt's "suffering", and that the obligation of the Arab world vis-à-vis Egypt was clearly stated. Both countries recognized and appreciated the Bank's support to Egypt. Although the same highest levels recognized the need for Egypt to "shape up" it was obvious that, for political reasons, the case for support would in the final analysis be tested against another criterion.
4. With respect to coordination between aid donors, Saudi Arabia's Minister of Finance and the Governor of the Central Bank asked for the fullest possible Bank cooperation in the proposed Special Fund for Egypt. Mr. McNamara promised the fullest possible cooperation by the Bank. In Kuwait, the thinking on the entire matter of aid to Egypt had a more activist character than Saudi Arabia's, and the Minister of Finance and the Director General of the Kuwait Fund reacted positively--in the presence of the Prime Minister who also agreed--to Mr. McNamara's specific proposals for the establishment of a consultative group of all aid donors. In both countries Mr. McNamara explained the type of service the Bank could provide in the area of aid coordination: economic reporting, project preparation-appraisal-supervision, end-use reporting, and general guidance within whatever framework was agreed upon.
5. As regards the Special Fund for Egypt there are still a great number of uncertainties and undefined areas:
 - i) Formal approval of the Special Fund still has to be given in the four Gulf countries; it is expected in the course of June.

May 28, 1976

- ii) The concept of the fund does not seem to be clearly defined. The fund's total resources will stand at \$2 billion but in Saudi Arabia the Governor of SAMA mentioned that the fund's "capital" could form the basis on which more money could be raised.
- iii) The actual use of the fund's resources is not yet clearly defined. In Kuwait we were informed that the fund will be split up for (a) balance of payments assistance, (b) financing of food purchases, and (c) project aid, and that Bank assistance would be specifically asked for the third item. In Saudi Arabia where program and project aid were mentioned as the fund's objectives, the concept of Bank assistance to the fund took on a broader, yet less defined, character. Mr. McNamara made it clear that Bank assistance to the fund could be available in whatever form might be most useful.
- iv) Specific procedures for the fund have not yet been worked out and may as a matter of fact never be defined. The entire question of the management of the fund, according to the Minister of Finance of Saudi Arabia, has not yet been covered or discussed between the Gulf ministers. In Kuwait the intention is to make the fund a facility, not an institution.
- v) Complications may arise following the establishment of the fund as it is the intention to discuss with the Egyptians in July/August the fund's future operations and, according to Kuwait, the conditions that may be attached to its becoming available to Egypt. In Kuwait the Minister of Finance went so far as to say there might be a collision with the Egyptians on the subject. In Saudi Arabia, where the Minister of Finance also mentioned forthcoming discussions with Egypt, the attitude seemed to lack this degree of firmness.

6. In both countries the Ministers of Finance indicated that after the fund has been established and discussions with Egypt initiated, the Bank would be approached to define its cooperation with the Fund. In Kuwait this stage was further seen as the beginning of the decision-making process on the setting up of a formal aid group arrangement such as, for example, a consultative group.

7. Mr. McNamara explained in both countries the Bank's attitude vis-à-vis Egypt and the efforts we are making in many fields. He made it clear that the Egyptians were falling short of several commitments they had undertaken on a number of issues, but also that there had recently been some progress, albeit at a slow pace. Mr. McNamara stated he was willing to visit Egypt in the near future to stress the importance of our cooperation and to personally discuss the coordination of aid because such coordination, in whatever form, could

May 28, 1976

only be put together with Egypt's agreement. He made it clear that such visit would not be possible until a medium term plan had been defined by the Egyptian Government and assessed by Bank staff. This puts the timing for a visit to Egypt somewhere in September at the earliest.

8. Details on the discussions are recorded in Annexes 1 and 2 to this memorandum.

Attach. Annexes 1 and 2

cc: Original and one carbon to Mr. McNamara's office
Messrs. Knapp
Wapenhans
Knox

MPaijmans:gg

DECLASSIFIED

JUN 13 2013

WBG ARCHIVES

ANNEX 1
p.1 of 2

Annex to Memorandum for the Record
EGYPT - Discussions with Saudi Arabia

CONFIDENTIAL
May 28, 1976

1. During his visit to Saudi Arabia on May 22/23, Mr. McNamara discussed assistance to Egypt in meetings with the Minister of Finance H.E. Mohammed Aba Al-Khail, his deputies Their Excellencies Al-Sogair and Al-Ateeqi, and the Governor of SAMA Mr. Al Quraishi. The subject also came up in the audience with His Majesty King Khalid.
2. The Minister of Finance reported on the four countries' (Saudi Arabia, Kuwait, Qatar, UAE) decision to assist Egypt while insisting that it takes appropriate self-help measures. He and the Governor explained that the proposed Special Fund for Egypt
 - i) would be established because of a need felt in the Gulf to consolidate aid to Egypt and to increase its efficiency;
 - ii) would have a "capital" of \$2 billion for 5 years;
 - iii) would be used for direct loans, balance of payments support, project financing--in particular export stimulating projects;
 - iv) could form the basis upon which more money could be raised from the outside;
 - v) might be instrumental in arranging banking facilities--for example, to help in debt rescheduling;
 - vi) would be administered as an independent institution headquartered in Riyadh--separate from bilateral help--by a Board of Directors of the four contributing Gulf countries with the four Ministers of Finance supervising policies.
3. No decision has yet been taken with respect to how the fund will be managed although it has been decided that it can cooperate with international institutions (the World Bank was in the minds of the drafters of the Agreement). The basic Agreement between the four contributing countries has been signed and procedures for approval are underway and likely to be completed this month. Thereafter, Egypt will be formally approached. Already this month two Egyptian ministers will come to Riyadh to discuss further the fund's future and operations. A formal Special Fund/Egypt agreement would be concluded.
4. The Minister requested that the Bank cooperate with the fund as, with its own program, the Bank was very closely in touch with Egypt. Fields of cooperation had still to be specified but the use of the Bank's technical knowledge was an important element.
5. In the ministerial meeting Mr. McNamara gave an account of the Bank's involvement in Egypt and the history thereof. He emphasized the Bank's

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ANNEX 1
p.2 of 2

Annex to Memorandum for the Record
EGYPT - Discussions with Saudi Arabia

RESEARCH ARCHIVES

CONFIDENTIAL
May 28, 1976

insistence on Egypt undertaking proper planning and taking necessary economic policy measures. He mentioned that all of our conditions were not yet fully met but he was aware of the political problems that complicate the local situation in Egypt. Nevertheless, he explained, Egypt is spending beyond its means and this cannot continue without having an impact on the Bank's ability to continue to invest Bank funds in the country. Mr. McNamara gave a succinct economic picture touching upon the budget, subsidies, debt, balance of payments, financing gap, need for foreign aid, planning and progress with the IMF. He specifically mentioned the need for assistance over and above what could be put together by OECD countries, the new Arab Fund, traditional Arab financial institutions, and international institutions. He indicated that as long as Egypt is managing--and improving--its economy, the Bank Group will put in an amount in the order of \$200-250 million yearly subject to normal project criteria being met.

6. Mr. McNamara then indicated he would be delighted to have the Bank work together with the new fund. He mentioned the Bank's intense economic work program and that we would communicate its results to the countries active in assisting Egypt, at Egypt's request. The Bank is in position to provide information and assistance to the fund in many forms, which would have to be further defined, and we would be ready to do so effectively. Cooperation could, for example, be:

- i) economic reporting by the Bank;
- ii) a joint review of the total investment program;
- iii) supply of:
 - a) projects, either for co-financing (our pipeline of \$200 million per year can accommodate roughly an equal amount in co-financing), or for financing by the fund alone (we can help with projects additional to our own program);
 - b) project supervision, including reporting upon project completion.

Projects to be financed can be project specific and program aid; the latter is necessary for an efficient use of Egypt's production capacity.

7. The Minister of Finance expressed great satisfaction with Mr. McNamara's response and willingness to assist the fund, and with the Bank's intention to continue to support Egypt. He would brief the other ministers of finance involved and let Mr. McNamara know of any specific conclusion. The ministers plan to meet in Egypt once the fund has been formally approved. Minister Aba Al-Khail will also let us know about that meeting.

8. Later during the visit His Majesty King Khalid also expressed his strong wish to help Egypt. The King noted, with satisfaction, Mr. McNamara's offer of assistance to the proposed Special Fund being set up for that purpose.

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ANNEX 2
p. 2 of 2

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Annex to Memorandum for the Record
EGYPT - Discussions with Saudi Arabia

CONFIDENTIAL
May 28, 1976

5. The Minister of Finance further reacted that the sequence of action to be taken would be

- i) to establish the special fund
- ii) the fund to reach agreement with Egypt on the outlines of its program
- iii) to approach the Bank for working out a CG type of arrangement.

The Minister thought that step (ii) could be accomplished in July.

MPaijmans:gg/sap

OFFICE MEMORANDUM CONFIDENTIAL

TO: For the Record
FROM: Saad S. El Fishawy *Saad El Fishawy*
SUBJECT: SAUDI ARABIA - Mr. McNamara's Meeting with King Khaled

DATE: June 16, 1976

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JUN 13 2013

WBG ARCHIVES

Mr. McNamara met with King Khaled in a private audience in Riyadh on Sunday, May 23. Present were Minister Abalkhail, Governor Alquraishi, Sheikh Al-Sowail, Mr. Paijmans and myself.

The King expressed his appreciation of the Bank's assistance to Saudi Arabia in implementing its development plan and said that the Kingdom was determined to complete the plan as scheduled, although some people were skeptical about that.

He said that Saudi Arabia was trying its best to hold the oil prices at their present level. Some other OPEC countries, on the other hand, wanted to increase prices.

Mr. McNamara summarized his discussions with Minister Abalkhail and Governor Alquraishi during their meeting the previous day. The King blessed the cooperation between Saudi Arabia and the Bank.

cc: Messrs. McNamara (2)
Knapp
Cargill
Diamond o/r/Vibert
Goodman/Hattori
Paijmans

OFFICE MEMORANDUM CONFIDENTIAL

TO: For the Record
DATE: June 10, 1976

FROM: Saad S. El Fishawy *Saad El Fishawy*

SUBJECT: SAUDI ARABIA - Mr. McNamara's Meeting with the Minister of Finance
and National Economy

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JUN 13 2013

WBG ARCHIVES

On May 21, Mr. McNamara met in Riyadh with H.E. Sheikh Mohammed Abalkhail, the Minister of Finance and National Economy, and with Sheikh Abdul Aziz Alquraishi, the Governor of SAMA. Present were Messrs. Mansour Al-Turki, Deputy Minister of Finance for International Relations, Mohammed Al-Sugair, Deputy Minister of Finance, Paijmans and myself.

Mr. McNamara said that he would like to address himself to four points. (1) cooperation between the Bank and the Arab Aid-Egypt Fund, (2) the Bank's Technical Assistance in Saudi Arabia, (3) Borrowing and (4) IDA V Replenishment.

Mr. Paijmans is keeping record of the discussions on (1) and (2). The following is the summary of the discussions on Borrowing and IDA V Replenishment.

Borrowing

Mr. McNamara said that economic aid was extended to about two billion people in the world, out of whom 1.1 were very poor and could not service loans on conventional terms. They received IDA Credits at no interest and for a long repayment term of fifty years including 10 years of grace. The Bank did not lend to these very poor countries. It extended loans to the remaining 900 million people in creditworthy countries. As a condition of lending, the Bank required that the borrowing countries followed sound economic and financial policies, and increased their export earnings. The Bank financed projects and - to a limited extent and only in certain circumstances - programs of high economic priority. It carefully evaluated the technical feasibility and economic and financial soundness of the projects and programs before agreeing to finance them. It followed methods and procedures designed to ensure their economic, effective, and proper implementation. It supervised their execution, and after completion it carried studies aimed at evaluating projects processing and execution and assessing their impact on the economy measured against their initial goals.

The Bank financed its lending program from borrowings in the capital markets. Until 1968, the bulk of Bank borrowings was raised in the U.S. market. In the late sixties, with accumulation of surplus funds in Germany, the Bank borrowed there. Thereafter it started borrowing in Japan. As of late, with some OPEC countries accumulating surplus funds, substantial Bank borrowings were concluded there, particularly in 1975.

Mr. McNamara said that until 1968, the Bank's annual borrowings did not exceed \$500 million. In FY76, from July 1, 1975 to June 30, 1976, the Bank's borrowing program was \$3.8 billion. Next FY's program would be \$4 billion. Mr. McNamara said that he did not come to Saudi Arabia to discuss any specific borrowing transaction. FY76 program was already fully met. True, we could conclude borrowings in advance before the beginning of FY77 to be counted against that year's program and we hoped to conclude soon with SAMA the borrowing transaction of \$150 million which would complete the \$300 million agreed to for FY76, but this was not the issue he wanted to raise. In order for the Bank to prepare the way for its borrowing operations in the several markets, it needed to know ahead of time how much it could expect from each market, as an order of magnitude. The Bank planned to raise about \$2 billion in the N.Y. market and about 1 billion from the Central Banks. The Bank would want to have at an adequately early stage an indication of how much it could expect to be able to borrow annually in Saudi Arabia for the next two to three years. Such an indication would not, of course, constitute a firm commitment but would serve as a general understanding which might be changed due to unexpected events.

Bank bonds offered safe, attractive, varied and flexible investment opportunities for money managers.

The Bank financed only economically productive projects or (in certain circumstances) programs in creditworthy countries. It had a long experience and an impressive record of careful project appraisal and of country creditworthiness evaluation. For instance in the case of Zaïre, a country rich with natural resources, the Bank had abstained from lending because of bad financial management. The only loan made by the Bank there was for copper mining expansion. In this instance, the Bank obtained a specific security arrangement under which foreign exchange revenues were set aside for the purpose of first servicing the Bank loan. At the same time, certain commercial and investment banks had lent substantial amounts to Zaïre. This was an evidence of the Bank's more careful and conservative approach than some of the leading commercial banks. 1/

The Bank maintained sizeable liquid assets amounting to about \$6.2 billion, and invested in short-term (of less than five years) and easily marketable securities. This high level of liquidity was kept on the one hand to meet the Bank's cash requirements of primarily debt servicing and loan disbursements and on the other hand to enable the Bank to continue carrying on its operations for a reasonably extended period of time without having to resort to borrowing at times of capital markets' instability. With such a high level of liquidity, the Bank could wait for favorable market conditions to enter as a borrower.

Mr. McNamara referred to the time when the Bank was established at Bretton Woods and said that it was conceived as a very conservative institution. Its principal designers, Dexter White and Lord Keynes, were particularly conservative. The Bank's Articles of Agreement stipulated that the total amount outstanding of Bank loans and guarantees should not exceed one hundred percent

1/ Chase Manhattan and First National City Bank.

of its unimpaired subscribed capital, reserves and surplus; or in other words, a 1:1 ratio of capital and accumulated reserves to outstanding loans. No other financial institution had such a conservative ratio. It would be necessary for the Bank to increase its capital in order to expand its lending operations. Also the founders of the Bank, in order to keep it out of politics, precluded its executive directors - who represented member countries - from recommending loans. Only the management could recommend loans to the Executive Directors, who might approve or reject these recommendations. Mr. McNamara said that furthermore the repayment of Bank bonds was guaranteed by the member countries to the extent of the unpaid portion of the subscribed capital. Of course, the guarantee of those countries whose currencies were convertible was of particular importance.

Finally Mr. McNamara said that the market place was the test. The great confidence which investors put in the Bank's bonds was evidenced by the success with which the Bank's bond issues were met in the New York, German, Swiss, Japanese and other markets. Bank bonds were given the highest rating of Triple A by the three principal bond rating services in the U.S.

Minister Abalkhail asked Mr. McNamara about the creditworthiness of the developing countries which borrowed from the Bank and about the future activities of the Bank.

Mr. McNamara noted that although the total amount of debt of the developing countries had risen, worldwide inflation was alleviating debt burden on borrowers. Consequently in countries like Brazil, Korea and Mexico, although the total amount of debt in each case had risen, the debt service as a ratio to foreign exchange earnings had on the whole neither risen nor declined.

Thus, it was safe to conclude that the debt of Bank borrowers was manageable. This did not mean that borrowing members might not face liquidity problems if their debts were not soundly managed. With this in mind, the Bank had for example recommended to the Egyptian Government to establish a debt-management unit directly responsible to the Prime Minister. If the borrowing countries managed their debts properly, there would be no problem. In the case of Brazil, for instance, the Minister of Finance, Mr. Simonsen, was a good financial manager. One should also keep in mind that the Bank worked closely with the borrowing countries. It reviewed periodically their economic and financial performance and extended its advice when needed. If the country did not follow the advice, the Bank would stop lending. This would serve as a signal to the commercial banks that the countries' debt management had gone out of control.

On the whole, the debt could be managed without major defaults. Very few of the Bank's borrowers (Argentina, Chile and certain African countries) might revert to rescheduling their debts. The Bank's firm policy was to refrain from participating in debt rescheduling. Korea's spectacular increase in exports during the last ten years was almost miraculous. Economic development required maintaining a delicate balance of increasing productivity and controlled rise in debt.

Minister Abalkhail said that Saudi Arabia was very appreciative of the impressive record of the Bank's efforts in the field of economic development since the late sixties. Before then, the Bank's activities in Arab countries were very limited. Mr. McNamara described the circumstances that surrounded his first visit to Egypt in July 1968, 2/ and noted that annual Bank Loans and IDA Credits to Arab countries were presently more than tenfold what they were eight years ago.

Minister Abalkhail said that Saudi Arabia would certainly continue to support the Bank in the future as it did in the past. The size of annual lending would be influenced by two factors:

- (1) The level of expenditure on development in Saudi Arabia. Costs were in his view unduly skyrocketing even considering the special conditions of Saudi Arabia and the tight bottlenecks that were currently choking many channels necessary for development; and
- (2) how many requests would Saudi Arabia be faced with for contributing to all sorts of mushrooming development funds and how much it would be committing to them. Minister Abalkhail asked Mr. McNamara whether the Bank could do something about this phenomenal proliferation of funds.

Governor Alquraishi said that there was no question at all of the unquivering support of Saudi Arabia to the Bank. In 1974, when a sizeable surplus accumulated, SAMA concluded with the Bank one of the biggest private placements ever. During 1975 the situation had changed. Saudi Arabia was faced with a reduction in oil production, no increase in oil prices, spectacular rise in import prices and development costs and an endless array of too many funds. The figure of \$20 billion a year of surplus which was projected by the Bank was more than what Saudi Arabia expected. He added that it would be difficult to give an indication of the amount that would be allocated to investing in Bank bonds two to three years in advance, but this could be done on a year-by-year basis. He promised to carry out a study of the question and give the Bank an indication of the amounts within four months.

Minister Abalkhail indicated that amounts could be specified for each of the following two years and Mr. Alquraishi added that probably the amount would be the same for each of these two years.

Governor Alquraishi said that he would like to raise three important questions:

- (1) The extent of risk Saudi Arabia would be exposing itself to by investing sizeable accumulating amounts in Bank bonds;

2/ later I pointed out that in his speech addressing the Bank's Governors during the first Annual Meeting he presided, Mr. McNamara specifically mentioned Egypt as one of two countries (the other was Indonesia) in which the Bank would endeavor to increase its activities.

- (2) the regional political implications that would follow from this; and
- (3) the continuity in the Bank's management. He said that they knew Mr. McNamara and his unbiased attitude. Before he came to the Bank, it was an American agency. What would happen if Mr. McNamara left the Bank, and who would guarantee that the trend he had set would continue ?

Mr. McNamara said that for the reasons he explained before there was actually no problem with Bank bonds rating and that they were a safe vehicle for investment. There might be a problem with the level of surplus accumulated by Saudi Arabia since, frankly, it was Saudi Arabia which would have to absorb any substantial worldwide reduction in oil production necessary to hold the price at its present level. There might also be a problem with currency exchange risk. But this could be taken care of by diversification of currencies. The Bank offered its bonds in several currencies. Furthermore, they were offered in various maturities and actually they were underpriced since they yielded about thirty basis points more than U.S. Treasury notes. Mr. McNamara concluded that he knew of no better way to achieve two important aims of Saudi Arabia in helping developing countries in their economic development efforts and placing surplus funds in secure investments, yielding market rates of return, than of investing in Bank bonds.

IDA V

Mr. McNamara presented the case for IDA along the following lines:

- IDA Credits helped the poorest 1.1 billion people of the world who were suffering of malnutrition and protein-intake deficiencies to the point of arresting their physical and mental growth. IDA Credits helped these people to increase their production capacity and help themselves to be less dependent on foreign aid. During the past 15 years some countries had actually graduated from dependency on IDA Credits, such as Tunisia;
- helping these people was a moral and religious responsibility. It was also in the best interest of those who were in a position to help. The growing interdependence among nations made it impossible for countries big or small to escape the repercussions of economic and political instability in other countries. The poor people were now, thanks to the widespread net of communication, fully aware of the high standards of living enjoyed in other countries. The gap between their expectations and their dire realities was rapidly widening. The per capita income of these poor people had not increased in the past two years and probably would not increase for another two years;
- at this juncture, IDA V Replenishment was not expected to make definitive progress because of pending elections in three major contributors - the U.S.,

Germany and Japan. Also there was a prevailing general feeling in these countries of weariness of helping people who mismanaged their economies. IDA aid, however, was probably the most effective, since it financed carefully appraised economic development projects (or in certain cases programs) of the highest priority and was conditional on sound general economic performance;

- IDA's position was that the OECD countries should contribute to IDA V an amount which would insure an increase in real terms over IDA IV. The OECD contributions, therefore, should be in an amount which would offset the effects of inflation since IDA IV plus an additional amount which would represent an increase in real terms. The amount of IDA IV Replenishment was \$4.5 billion. IDA's calculation of the amount which would be equivalent to this in real terms was \$7.2 billion. OECD countries should contribute this amount plus an additional increase;
- in IDA's view OPEC countries' contributions should not substitute the efforts that should be made by the OECD countries. It should supplement them. The total amount aimed at was \$9 billion;
- the contribution expected from Saudi Arabia amounted only to 6% of that total. This was a far cry from the shares that Saudi Arabia and other OPEC countries were asked to contribute to all sorts of new funds, which were usually 50%; in the case of the IFAD, the OPEC contributions were 40% and in the case of the proposed International Resources Bank they were 50%. So unlike those, the relative share expected from Saudi Arabia for IDA V Replenishment was quite reasonable. Also the amount expected from Kuwait, for example, was only 2-1/2% of the total;
- IDA has a well-tested, experienced organization which had existed long before the increase in oil prices. Significant contributions to it by OPEC countries would be an effective answer to the problem of proliferation of funds with all that it entails in dissipation and waste of efforts, scarce human resources and funds. A problem which the Minister was bitterly complaining about;
- the amount of contribution expected from Saudi Arabia of \$600 million was not payable in three years. This amount rather represented a commitment authority of \$200 million per year for each of the three years. The total amount would, however, be paid by Saudi Arabia over a period of about eleven years, ranging from \$16 million for FY1978 to about a maximum of \$100 million in FY1980;
- in the past approximately 10% of IDA lending had been to members of the Arab League and almost one-third to Moslem countries.

Mr. McNamara concluded by asking Minister Abalkhail to direct the Saudi representative at the Helsinki meeting to make a statement expressing the need to avoid a hiatus in IDA operations starting in July 1977 and that it was in this spirit that Saudi Arabia had come forward to pledge support in concrete terms and hoped that its efforts would enable other countries to do likewise. Saudi Arabia could explicitly make its support conditional on traditional donors fulfilling their responsibilities in full and that Saudi Arabia's contribution would not be a substitute of any effort by these countries but rather complementary thereto.

Elfishawy/rh

cc: Mr. McNamara (2)
Mr. Knapp
Mr. Cargill
Mr. Diamond o/r/Vibert
Mr. Goodman/Hattori
Mr. Paijmans
Mr. Rotberg/Hittmair

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Martijn J.W.M. Paijmans

SUBJECT: SAUDI ARABIA: Discussions on Technical Assistance Program

DATE: June 2, 1976

1. During discussions Mr. McNamara had on May 22/23 with the Minister of Finance and his Deputies, the Governor of the Central Bank, and with the Resident Mission staff, the capacity of our Program to react adequately to requests from Saudi Arabian authorities was discussed. Our assistance to the work programs of the Ministry of Industry and of the Ministry of Housing was specifically mentioned to Deputy Minister Al Sogeir and at the Resident Mission.
2. Mr. Al Sogeir, who is in charge of the Technical Assistance program, said to be very satisfied with the work that was being done; this evaluation was underwritten by Minister Ab Al Khail and, later, by His Majesty the King. Mr. Al Sogeir also indicated his agreement with the FY77 T.A. Program as worked out and he noted that the routine for regular payments had now been established. His only concern was that the Bank should give sufficient support to the Industrial Development Program, which constitutes the most important element in the country's Five Year Plan. Deputy Minister Al Turki observed that additional Resident staff might be needed because of their involvement with the Ministry of Industry which was additional to the original intention of working with PIF. Minister Ab Al Khail observed that the two types of work cannot and should not be separated.
3. Mr. McNamara, after a review of our work, said he would be willing to allocate more manpower to the Program, either in response to a specific request from the Government or as a result of a review by the staff of the work to be performed, but on condition that the Bank would have the expertise available. (It would seem to me that the best moment to make such adjustment would be at the mid-year review.)
4. Mr. McNamara expressed his concern with respect to the high cost of project execution in Saudi Arabia in general. He was particularly concerned about the extravagantly high cost of at least some of the projects the Bank is associated with (i.e., the Bahrain Causeway currently estimated at about \$1 billion; the housing projects' unit cost of \$100,000 including some general infrastructure elements). He stressed to Minister Ab Al Khail that the Bank would not--at a later stage--like to be criticized on its work and association with such projects. The King, in his meeting with Mr. McNamara, expressed the view that, although he was concerned with price escalations, certain projects which directly impact on the lives of his subjects had to meet high material standards because of the standard

June 2, 1976

of living and customs of the Saudis; he cited "low-cost" housing which had certain requirements as to disposition (houses as opposed to apartments) for space and privacy. This matter deserves our concern and we should, even in those special cases where political decisions determine the final shape of the project, ensure that we provide the authorities with all possible alternatives which might have an impact on the cost of execution.

5. In this context it is important to note that Mr. McNamara, in his review with the Resident Mission, stressed that the Bank must bear the responsibility for the work of consultants pulled in to execute parts of our T.A. Program.

6. Mr. McNamara expressed concern with respect to the execution of the Development Plan. Material bottlenecks and cost escalation will distort established priorities. The fact that we are mainly involved in specific projects and only very partially at the sector level while not at all at the macro level—for example in the Plan Review—causes our technical assistance not to touch at all on this global area, which is of significant importance for a balanced development of Saudi Arabia and in which field we could give significant and relevant objective advice. In his discussions with Minister Ab Al Khail and the Governor of SAMA, Mr. McNamara specifically mentioned the fact that the Government had not asked the Bank to provide assistance in macroeconomic work and in the Plan Review. He said he did not want to push Bank involvement in this field but if the Government did ask for our help on macroeconomic issues he would gladly add this element to our Program. Mr. Al Sogeir reacted that he would like to ask for a review of the Plan; Minister Ab Al Khail instructed him to check and to coordinate this point with the Ministry of Plan.

7. Instead of continuing to provide technical assistance in Saudi Arabia without any end in sight, Mr. McNamara felt that we should attempt to train local professionals who can in the medium-to-long run take over. He is well aware of the counterpart problem we experience at the moment but feels nevertheless that we should focus on this problem. Special EDI courses may also be a tool in this context.

8. Recruitment of qualified staff for the various Saudi institutions should not continue to be done by the Bank, also in view of the lack of local ability to properly describe their needs and absorb our proposals. It should rather be attempted to establish, with our assistance, a local Saudi recruitment unit which could handle such matters.

9. Mr. McNamara, after a review of the activities of the T.A. Program and of the conditions under which it is carried out, and having received the Government's comments, expressed his satisfaction with the work being undertaken.

cc: Mr. McNamara's Office

Messrs. Knapp, Wapenhans, Knox, El Darwish, El Fishawy, Adler, Asfour, Mackay

MPaijmans:ea

OFFICE MEMORANDUM

TO: Mr. R. S. McNamara
 THROUGH: Mr. M. P. Bart, Acting Vice President, EMENA
 FROM: Martijn J. W. M. Paijmans
 SUBJECT: SAUDI ARABIA - Brief for Discussion with H. E. Hisham Al-Nazer
 Minister of Planning

DATE: August 6, 1976

1. You will meet the Saudi Minister of Planning, H.E. Hisham Al-Nazer on Tuesday, August 10 at lunch and on Thursday, August 12. His biodata is in Attachment I. The only technical assistance activity by the Bank to his Ministry is the Manpower Planning Study which is described in some detail in Attachment II.

Technical Assistance - Background

2. Our FY77 Technical Cooperation Program in Saudi Arabia is mainly a continuation of the FY76 Program, providing 24 manyears of assistance by the Bank (an increase of about 50% over assistance expended in FY76) - 19.5 manyears from headquarters and 4.5 manyears from the Resident Mission. As in FY76 major fields of assistance remain Manpower Planning and Literacy, Housing, Industrial Development, and Transportation and Pipelines. So far the Bank's technical assistance to Saudi Arabia has been punctual, directed to a few high priority sectors and to some specific projects within these sectors. A brief summary on the current status of the entire program is attached as Attachment III.

Issues for Discussion

3. We do not expect Mr. Al-Nazer to raise any specific issue with you. Mr. Al-Nazer is known to be indifferent to the Bank and perhaps even not favorably inclined. You may wish to explore his reactions to the Technical Cooperation Program between the Bank and Saudi Arabia.

4. During your recent visit to Saudi Arabia the merits of Bank involvement with macroeconomic issues and the Plan were briefly discussed. On that occasion you expressed (at a luncheon) to Mr. Al-Nazer the Bank's readiness to work on such issues if the Government should so request; you will recall that he did not react. However, you also raised this issue with the Minister of Finance, H.E. Aba Al-Khail, and the Governor of SAMA, Mr. Al-Quraishi, both of whom reacted with interest. Subsequently, in your last meeting with Aba Al-Khail the Deputy Finance Minister, Mr. Al-Sugair asked for the Bank to become involved in a Plan review but was told by Mr. Aba Al-Khail to verify with the Minister of Planning.

5. In June, Mr. Al-Sugair approached our Resident Mission in Riyadh with a request from Finance for Bank staff to make a desk study of the Plan and examine sectoral allocations. The issue was delicate, according to Mr. Al-Sugair, and he apparently had not received Planning's blessing for

August 6, 1976

this task. (Since that oral request was made, the Deputy Minister has stated cryptically that "something would happen by September/October" which would make a meaningful dialogue on the Plan possible.) We brought Mr. Al-Sogair's request to your attention in my memorandum of June 21, 1976 (Attachment IV). Pending your decision on our proposal to start a desk review (see in particular para 3 of the June 21 memo), we have not yet taken action on this matter. We would appreciate your decision.

6. Depending on your decision on the above, you might consider using the opportunity of Mr. Al-Nazer's visit, if an appropriate moment would arise, to sense whether he would be agreeable to Bank technical assistance in the conduct of macroeconomic work matter in Saudi Arabia, starting with a review of the Plan. The matter is of course a very sensitive one and clearly there is tension between Finance and Plan while the latter is - in our view - still not aware of Finance's request to the Bank.

7. A summary description of the Plan is given as Attachment V should you wish to see it.

Attachments

RFares/MPaijmans:gg

cc: Mr. Wapenhans o/r

BIODATA

HISHAM AL NAZER

Minister of Planning

Hisham Al Nazer is regarded as among the most important and influential of the educated new generation of Saudis. An able civil servant, he can discuss complex technical matters with scope and depth. He is known as an articulate and logical spokesman on development matters. As President of the Central Planning Organization, Al Nazer has supervised the putting together (with expert help from Stanford Research Institute) of the comprehensive Saudi Arabian Government 1975 - 1980 Development Plan approved in May 1975. He also works with individual Saudi ministries on implementation of the Plan.

Born in Jidda in 1932, Al Nazer received his higher education in the United States. He has a BA degree in International Relations and MA in Political Science from UCLA. In 1958 he returned to Saudi Arabia as an Assistant Legal Adviser in the Directorate General of Petroleum Affairs. He became Director General, Ministry of Petroleum in 1961 and Deputy Minister in 1962. While with that Ministry he attended several Arab and international petroleum conferences and participated in an oil official exchange program with Venezuela. He was named Chairman of the newly-created Central Planning Organization in 1968. Since being named a Minister of State in July 1971 and Minister of Planning in 1975, Al Nazer also attends meetings of the Council of Ministers where he is one of several younger, Western-educated Saudis who help to shape Saudi domestic policies.

Al Nazer is married and the father of two children. He speaks excellent English and some Spanish and Turkish. He reportedly returned from his education experience in the United States with an interest in baseball, movies, and other aspects of American culture.

MANPOWER PLANNING STUDY

In May 1973 the Government requested the Bank to undertake a major manpower study in Saudi Arabia. The study was to be conducted in two stages:

Phase I: (Starting in April 1974) Would concentrate on the supply side (the Central Planning Organization - now the Ministry of Planning - was to provide projected manpower requirement data), and proposals for the development of education and training would be set within the framework of a brief perspective planning. Further, recommended programs and projects would be prepared in sufficient detail, including costing, to provide information for inclusion in the second Development Plan.

This Phase was completed in December 1974 when the findings and recommendations of the Bank were summarized in a 3-volume report entitled HUMAN RESOURCE DEVELOPMENT IN THE KINGDOM OF SAUDI ARABIA, and the report sent to the Government. The report was well received and the Government asked for continuation of Bank assistance for Phase II.

Phase II: Now underway, aims at carrying a longer-term analysis of manpower needs, up to 1985, and at building up the analytical and institutional capabilities of the Saudi Arabian authorities to:

- i. initiate continuous manpower planning;
- ii. evaluate alternative manpower development approaches;
- iii. update and revise forecasts and plans; and
- iv. evolve a detailed policy and program for the importation of expatriate labor.

Under this Phase a detailed analysis of critical skills (CS) required within the next five years is also being conducted. The final report (CS) is expected to be completed in January 1977, and that on the Planning Model in June 1977.

A Bank mission to review the Planning Model is to visit Riyadh in October 1976, at which time preliminary findings of the Critical Skills Survey are also due.

CURRENT STATUS OF TECHNICAL ASSISTANCE

MANPOWER DEVELOPMENT/EDUCATION

Manpower Planning Study
(Ministry of Planning)

See Attachment II

Accelerated Literacy Program
(Ministry of Education)

Bank has agreed to evaluate previous Government literacy efforts, design and test pilot Accelerated Literacy Programs (ALPs) and prepare a detailed action plan for a national ALP.

HOUSING

Public Housing, Phase I
(31,000 housing units and related infrastructure works)
(Ministry of Public Works and Housing)

Bank has provided assistance in preparation of interim and final bid documents and preparation of outlines for analysis of completed bids.

Public Housing, Phase II
(69,000 housing units and related infrastructure works)
(Ministry of Public Works and Housing)

Bank assistance has also been requested for Phase II of this project, scheduled to begin in FY77, but no provision has been made in the Annual Program for inclusion of this work.

Pilgrims Accommodation
(Development of lower slopes of Muna)
(Ministry of Public Works and Housing)

Bank involvement ended.

PUBLIC UTILITIES

Telecommunications System
(Ministry of Communications)

(a) Expansion Study

Task completed.

(b) Advice on Implementation and Procurement

Bank has provided assistance in reviewing bidding for installation of microwave communications network and in planning and survey of automatic telephone networks.

Power Sector Study
(Ministry of Planning)

Bank involvement ended.

INDUSTRY

Industrial Sector Survey

Full report of Sector Survey Mission which visited Saudi Arabia in January/February 1976 will be submitted soon to Government.

Industrial Development Programs,
Phase II
(Industrial Studies and
Development Center)

Details of assistance required to be determined following review of full report of Industrial Sector Survey Mission by Government.

Non-Hydrocarbon Minerals Studies
and Surveys

Report on Mineral Sector Survey delivered to Government in April 1976. Provision for continuation of assistance made in FY77 program.

Feasibility Studies - Industrial
Estates

Bank involvement ended.

Feasibility Studies - Truck
Assembly

Task completed.

Feasibility Studies - Agro-
Industries

Task completed.

Feasibility Studies - Selected

Bank awaiting specific requests for assistance from Government in FY77.

Specific Project Assistance to
Ministry of Industry & Electricity

(a) Saudi Arabian Steel

Pursuant to recent discussions on optimum project scope, held in mid-June in Saudi Arabia, the Bank is planning to develop a computer model which can be used to assess the costs and benefits to Saudi Arabia associated with scope changes. Saudi Arabian Steel and Bank have jointly commissioned a study of sponge iron prices in the period 1980 to 1985. Bank staff will attend the finance and marketing committees meeting to be held in London from September 1 to September 5, 1976.

(b) Shell Petrochemical Project

Bank is currently reviewing sponsors plans for implementing interim agreement signed on June 18, 1976 between Ministry of Industry and Electricity and Shell, to proceed with engineering of the project.

(c) Dow Petrochemical Complex

Project feasibility study currently under review by Bank. Meetings with Dow are planned for end August.

(d) Grace/Itoh Ammonia Methanol Complex

Bank currently reviewing revised prefeasibility study and awaiting report on July/August meeting between Ministry of Industry and Electricity and Grace. It is understood that the Ministry is reassessing its position regarding methanol (chemical grade) production.

(e) Aluminum Smelter

Bank reviewing feasibility study, market study and conceptual proposal of National Southwire to the Government. Discussions with National Southwire are scheduled in August, and with Mr. Al Zamel (Ministry of Industry and Electricity) in September.

(f) Mobil Petrochemical Complex

Bank is awaiting specific request for assistance from the Government, pending substantive review of feasibility study by Mobil.

PUBLIC INVESTMENT FUND

East-West Crude Oil Pipeline

Bank submitted project evaluation report to PIF, in April 1976. After discussions with Government revised report sent to Resident Mission in early August for issue to Government.

Associated Gas Pipeline

Reconnaissance mission in August 1975 found original feasibility study was obsolete. No Bank action anticipated until receipt of updated feasibility study from Government.

Institution Building

Bank has prepared first draft of operating policies procedures and criteria for PIF, and a proposal for organization of PIF (including staffing proposals). Bank is continuing to assist PIF in bringing draft proposals into operation.

Project Evaluation -
Unidentified

Bank will assist in evaluation of specific project submitted to PIF for financing.

TRANSPORT DEVELOPMENT

UNDP National Transport Study
(Ministry of Planning)

Study completed.

Bahrain Causeway
(Feasibility and Engineering Studies)
(Ministry of Finance and
Ministry of Transport) (Done)

Preliminary design report issued by consultant in June 1976. Government and Bank review revealed major deficiencies and consultant now preparing supplement expected in late August.

Transport Planning
(Technical Assistance for improvements in organization, management and operation of transport sector)
(Ministry of Finance)

Bank providing recruitment assistance to Ministry of Transportation.

EDI COURSE

General Projects Course

Course on project evaluation and administration provided in November 1974.

Industrial Projects Course

Course under preparation and expected to be held about February 1977.

RESIDENT MISSION

Resident Mission commenced operations in September 1975. Mission is presently staffed by four professionals, and recruitment of a fifth member (a petrochemical engineer) is underway.

THE SECOND FIVE-YEAR PLAN

The Second Five-Year Development Plan (1975/76 - 1979/80), approved in May 1975 by the Council of Ministers, calls for expenditures totalling about \$142 billion over the period (or about 9 times expenditures projected for the first Plan). The Plan envisages a 13.3 percent annual growth rate outside the oil sector. It foresees a decline in the agricultural labor force, with large increases in employment in construction, service, and to a lesser extent, industry. Major physical targets are:

- a. Construction of 8,500 miles of paved roads (compared with a current annual rate of about 500 miles), 200,000 housing units, and 2,000 miles of power transmission lines to electrify all large towns.
- b. Expansion of port capacities to handle 13 million tons of dry cargo annually, compared with the present total of about 4 million tons.
- c. Increased cement production capacity from one million tons annually to 10 million tons annually.
- d. Investment of \$1.1 billion in water supply facilities and irrigation, together with agricultural credit facilities on easy terms.
- e. \$13 billion investment by the Ministry of Industry and Electricity and Petromin in heavy industry (including gathering, treatment and transmission of natural gas; refineries and associated pipelines; petrochemicals; fertilizer plants, a steel mill, and various industrial infrastructure).
- f. Doubling power production capacity, including a number of water desalination/power plant facilities.
- g. An expansion of the educational system to increase elementary enrollment to one million boys and girls (from the present 600,000), and in universities from 12,000 to 31,200.
- h. More than doubling the number of available hospital beds, together with special care facilities.

Given the scale of the proposed investment, and the actual level of implementation in recent years, it seems doubtful that the various objectives will be fully met. Proposed investment under the Second Development Plan are about fifteen times those of the first. However, the constraints on attaining development goals are not financial. Balance of payments projections indicate that even with rising import bills in the coming years a large current account surplus is expected. As the Plan indicates, the chief obstacle is a shortage of manpower, both skilled and unskilled, and of adequate institutions. The Plan

calls for importing half a million workers, in addition to the existing indigenous work force of about 1.5 million and the one million immigrant workers. Even if these workers were a net addition to the labor force during the Plan period, however, there will nevertheless be severe shortages of trained and experienced managers, technicians and workers, as well as of administrators at all levels. Further, handling an investment program of this magnitude will impose severe strains on the capacity of the administrative apparatus and will create particularly heavy demand on the capacity for project identification, preparation, appraisal, execution, and supervision and control, with the inherent danger of waste of resources.

Hisham Nazer, Saudi Arabian Minister of Planning, will be in Washington, D.C. for general discussions of U.S.-Saudi Economic Relations from August 6 through 14. During this time he is expected to meet with various Congressional leaders and executive branch officials, to have a number of press interviews, and to deliver speeches at the Middle East Institute and George Washington University.

As head of the Ministry of Planning, Hisham Nazer plays a key role in Saudi budgetary planning and in the implementation of the massive new Saudi Five-Year Development Plan. Schooled in the U.S. from 1954 to 1958 at UCLA in Los Angeles, where he received a BA in International Relations and an MA in Political Science, Hisham Nazer began his work for the Saudi Government in the Ministry of Petroleum and Minerals, serving as Director-General of Mineral Resources from 1962 to 1968. He was then chosen as head of a new body, the Central Planning Organization, which under his guidance became an important source for Saudi Planning Policy. The CPO was elevated into Ministry of Planning in October 1975.

Hisham Nazer is a member of the crucial Saudi Investment Committee which is responsible for the determination of Saudi investment policy, as well as the Supreme Petroleum Council. He has also been a member of the influential Royal Saudi Commission for Industrial Development since its establishment in 1975. He is married with a daughter and two sons and speaks fluent English.

**From: Office of Saudi Arabian Affairs
Department of the Treasury**

OFFICE MEMORANDUM

TO: Files

DATE: August 24, 1976

FROM: W. A. Wapenhans

SUBJECT: SAUDI ARABIA - Visit of H.E. Hisham Nazer, Minister of Planning

1. On Thursday, August 12, at 5 pm, H.E. Hisham Nazer paid a courtesy call on Mr. McNamara. Also present were Mr. Abdel Rahman Abdel Karim, Personal Assistant to the Minister, and Mr. W. A. Wapenhans.
2. After an exchange of courtesies, the Minister reported on the progress of plan implementation. He stressed in particular the decision to keep the budget for the second plan year at the level of expenditures of the first in order to dampen the economy and to avoid further excessive strains on infrastructure and implementation capacities. In this context, he referred especially to inflationary pressures, land speculation, housing and ports. He also reported on a number of steps the Government had taken to ease the situation such as permitting off-loading at the beach and requiring firms with contracts of more than Rials 100 million to provide their own housing for employees.
3. Regarding the Bank-Saudi relationship, Mr. McNamara inquired about the Bank's performance in extending technical assistance. The Minister responded by complimenting the Bank on its work and singled out as examples of useful assistance the work on manpower planning, housing and the earlier transportation survey. He stated that the Bank should help more in implementation since he feels that it would not be fair to deprive the implementing agencies of any help they could get. He also asked why the Bank was not yet physically represented in Riyadh. Mr. McNamara made the Minister aware of the resident mission and assured him that we would help in every respect possible but that in the area of implementation it would not be appropriate for the Bank to go beyond giving advice and enter the decision-making process which was more appropriately a clear Saudi responsibility. There ensued a brief discussion of the Bahrain Causeway, its high costs and low returns and the difficulties to get a proper consideration of alternatives accepted. The Minister took note with an apparent intention to look into the matter.
4. The meeting ended on a friendly note at about 5:45 pm.

cc: Mr. McNamara's office
Mr. Cargill
Mr. Benjenk
Mr. Paijmans
Mr. Knox

WAWapenhans:rs

~~Mr. Burmester~~

For the Record

November 15, 1976

Saad S. El Fishawy

SAUDI ARABIA: Meeting of Sheikh Abdul Aziz Alquraishi, Governor of the Saudi Arabian Monetary Agency (SAMA) with Mr. McNamara during the Annual Meeting 1976

The meeting took place in Manila on Wednesday, October 6, 1976. Present also were Messrs. Abdul Aziz Al-Rashid, Deputy Minister of Finance and National Economy, Dr. Mansour Al-Turki, Deputy Minister of Finance and National Economy, Benjenk and myself.

Mr. McNamara stressed the importance of IDA V Replenishment and expressed the hope that Saudi Arabia would take a positive position at the Kyoto meeting and state its support of a Fifth Replenishment, which would represent an increase in real terms over the Fourth Replenishment, and indicate Saudi Arabia's willingness to make a meaningful contribution.*/

Sheikh Abdul Aziz Alquraishi said that Saudi Arabia would support the Fifth Replenishment. A decision on the amount of its contribution, however, had not been made. The matter would have to be brought to the Council of Ministers. He hoped that before the Kuwait meeting in January 1977, such a decision would have been taken and Saudi Arabia would be in a position to announce its contribution in concrete terms.

Mr. McNamara asked Alquraishi whether Saudi Arabia was satisfied with the Technical Assistance extended by the Bank. Alquraishi turned the question to Dr. Al-Turki, who said that, yes, they were very happy with the Technical Assistance.

SELFishawy/rh

cc: Messrs. Cargill/Goodman
Benjenk
Nurick
Vibert
✓Burmester (2)

*/ Thereafter we prepared a draft statement for the Saudi delegation, and in Kyoto the representative of Saudi Arabia made a statement which followed to a great extent the one we proposed.