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The World Bank  
1818 H Street NW  
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McNamara papers

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Contacts with member countries: Iraq - Correspondence 01

Contracts  
Iraq (1971-1977)

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WBG Archives



IRAQ

IRAQ

1. 7/9/71 Dr. Rashid Al-Refa'ie, Minister of Planning
2. 4/27/72 Dr. Rashid Al-Refa'ie, Minister of Planning
- 8/2/72 Prof. Mohamed Salman Hassan, College of Economics and Political Science, University of Baghdad -- at reception for professors attending Middle Eastern Seminar  
Dr. Abdul-Rahman Al-Habeeb, College of Business Administration and Economics, Al-Mustansiriya University, Baghdad - at reception
3. 4/16/73 Dr. Fakri Qaddoori (or Kaddori), Economic Adviser to the Revolutionary Council
4. 6/3/76 Dr. Salah Shaikli, Acting Governor of the Central Bank
5. 9/29/77  
Annual Meeting Fawzi Abdullah El Kaissi, Minister of Finance  
Dr. Fakri Kaddori, Governor of the Central Bank





## OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Dieter Hartwich *DH*

SUBJECT: IRAQ - Visit of the Planning Minister to Mr. McNamara

DATE: July 20, 1971

The Planning Minister of Iraq, Dr. Rashid Al-Refa'ie, called on Mr. McNamara on July 9. Mr. Knapp and Mr. Hartwich were also present.

The Minister said that the main purpose of his stay in Washington was to discuss whether a more active relationship between Iraq and the Bank could be established. The Bank had been virtually absent from Iraq for a long time, and since the country was in the process of carrying out a large development program, he very much hoped that the Bank could assume a more active role. Much depended, of course, on the outcome of the current negotiations for a telecommunications project, which so far had proved to be difficult.

Mr. McNamara replied that he fully agreed with the Minister's objective of establishing a more active relationship and that the Bank was willing to help Iraq in its development effort. He realized that the present negotiations were difficult but this was often the case when a member country and the Bank had not had close contact for some time. Whatever the difficulties were, he wanted to emphasize that the Bank wanted to do only those things which were in the interest of the member country.

The Minister then described briefly the scope of Iraq's development plan for 1970-1974 which had recently been considerably increased. Iraq wanted for this program the assistance of international organizations and was looking to the Bank not only for capital but equally for technical assistance and advice. The Minister mentioned that the Government was considering to provide some assistance to developing countries which were less well off than Iraq, and that the Bank could offer useful guidance in evolving techniques for this purpose.

Referring to the present loan negotiations, the Minister said that many of the suggestions on financial, organizational and technical matters which had been made by the Bank's staff seemed to him to be very appropriate. The Government would be prepared to accept the Bank's advice and implement it. However, the decision to do this was an internal matter for Iraq, and the Bank should not require that this be incorporated in written undertakings. He felt that the Bank should in particular not try to change Iraqi laws or cause the Government to introduce new laws and regulations.

Mr. McNamara replied that he understood that the approach taken by the Bank in preparing and negotiating the project was new for Iraq, and he emphasized again that we wanted only to achieve objectives which were in the interest of the country. However, once an understanding had been reached, it was essential that all important matters were reflected in the loan agreement. This was

President has seen



July 20, 1971

necessary to have a reliable basis for future relations regarding the project. Following a remark by the Minister that he hoped the Bank would adopt a flexible attitude, Mr. McNamara said that the best way to proceed with the negotiations would be to go in detail over the draft loan documents. If any substantive matters could not be resolved, he and Mr. Knapp would be glad to consider them. He hoped very much that the negotiations could be successfully concluded, but the Minister should fully realize that the Bank did not want to force anything on the Government which the latter thought it could not accept. The Minister should also realize that in its operations in a particular country, the Bank had to take into account the standards it was following in its operations in many other member countries. Mr. McNamara went to say he realized on his part that there were sometimes political and other internal considerations which made it not feasible for a country to agree on some of the Bank's standards. He hoped this would not be the case in the current negotiations, but if it were, we should frankly realize this and part as friends. If that happened, the Bank would continue to be interested in helping Iraq.

The Minister thanked Mr. McNamara for his understanding and frankness. He then referred to the other projects which the Bank had under consideration in his country and the Government's feeling that the progress of preparation was slow and unnecessarily exacting. Mr. McNamara replied that this again was probably largely due to the fact that we had not had close relations for a long period. The Bank would do its best to speed up matters. It had made a considerable investment of manpower in the preparation of projects in Iraq during the past two years, and he certainly did not want this investment to be wasted. The Government should take this as another proof of the Bank's serious interest in helping the country.

cc to Mr. McNamara's office (2)  
cc to Mr. Knapp  
    Mr. Benjenk o/r  
    Mr. Davar

DHartwich:rpo



## OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp (through Mr. Hartwich)

FROM: Mervyn L. Weiner

SUBJECT: IRAQ: Meeting with Minister of Planning

DATE: July 9, 1971

Before you and Mr. McNamara meet with the Minister today you may wish to know that Mr. Armstrong and I spent all of yesterday afternoon with him.

The first part of our discussion related to his wish to have us finance a steam power plant for which tenders, which had not been invited according to Bank procedures, are already being evaluated and for which contracts will have been let and some payments made well before we could possibly make a commitment. We told the Minister that his proposals raised obvious problems for the Bank and that we would let him know firmly whether or not he should pursue this project with us before he left Washington.

The bulk of the afternoon was spent discussing his difficulties with the proposed loan documents for the telecommunications project. His objections, which were the same that had been raised since the first mission visited Iraq, were twofold. One, he rejected the idea of the Bank looking over Iraq's shoulder on the execution of the telecommunications program of which the project would form part. There may have been a misunderstanding on this point because I think he was objecting to an earlier version of the loan documents which would have required the Iraqis not to make any change in the overall program without the Bank's concurrence. This formulation is not in the present draft and I don't think there is an issue here.

His real problem is a much more difficult problem of principle. The Minister said that the Iraqi Government cannot contemplate any contractual understanding on tariffs, be it in the form of a rate of return covenant or any other formula.

We spoke at great length about this. The Minister is an articulate and intelligent man and we had no difficulty in disposing of the issue of capitalist vs. socialist dogma on pricing of public services. He accepted without reservation the principle of tariffs being cost related for a service like telecommunications. He accepted that this service was not an obvious candidate for subsidies to redistribute income through pricing, and he accepted that it was a proper policy objective to set prices at a level which would generate surpluses for investment. What he would not accept, however, was the proposition that his Government would bind itself to some tariff-making formula, which would then constrict their freedom to set prices as they saw fit. I told him that where tariff



Mr. J. Burke Knapp

July 9, 1971

legislation embodied criteria for rate-making, our normal covenant was to refer to this legislation. Unfortunately, this solution is not feasible here because the relevant legislation specifies particular prices rather than principles of price setting for this service.

Our meeting was frank but very cordial. The Minister concluded with the thought that he understood our constraints and he hoped we understood his. He alluded briefly to the considerable debate that took place in Baghdad over whether or not the Government should accept the Bank's invitation to this negotiation, and noted that it was agreed to accept the invitation only on the condition that nothing that could be construed as interference by the Bank in Iraqi affairs would appear in the loan documents. The political cost of anything that could be so construed was considered unacceptable by the Government.

This political constraint will undoubtedly be the main theme of his visit with you and Mr. McNamara today. I advised him to be as precise as possible in identifying the particular language of the draft agreement to which he takes exception.

I think the Minister would acknowledge the good will at this end, but his colleagues may not accept this and here may lie the source of this problem.

Today at  
4.40  
Lee 7/9

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Dieter Hartwich *DH*

SUBJECT: IRAQ - Visit of Planning Minister on July 9

DATE: July 9, 1971

The Planning Minister of Iraq, Dr. Rashid Al-Refa'ie, will call on you this afternoon at 4.40 pm. Attached are the following briefing notes:

1. political and economic situation
2. projects under consideration for Bank financing
3. biographical note on the Minister.

The Minister has told me that the main reason why he has come with the delegation currently negotiating a \$24 million loan for a telecommunications project is that he wants to reactivate Bank/Iraqi relations. Our last and only lending to Iraq (apart from a flood control loan in 1950) has been a \$23 million highway loan in 1966. The Iraqis widely believe that the absence of lending since then is due to an unwillingness on the part of the Bank to seriously consider lending to their country. This feeling still persists despite the very extensive project preparation activities carried out during the last two years (see attachment 2). The Iraqi position vis-a-vis the Bank is complicated by the fact that there are two factions within the Government, one favoring exclusive economic ties with Eastern countries and the other a more balanced position. We are not sure where the Minister of Planning stands on this but, as attachment 3 shows, he is clearly not only a technocrat but very much involved also in political matters.

The first question the Minister will probably raise with you is the current telecommunications negotiations. Already the preparation of the project has been very difficult due to problems in achieving mutual understanding on some of the aspects to which we always pay considerable attention in preparing a loan, e.g. finances, tariffs, organization. A pre-negotiation mission visited Iraq in April but several basic issues remain to be resolved.

The principal difficulty is that the Minister regards any clause in the draft loan agreement committing Iraq to take action outside the direct technical scope of the project as interfering with the Government's internal affairs. Examples of this are the rate of return covenant; the undertaking to carry out the telecommunications program, of which the proposed project is a very substantial part, and to consult on any changes; procurement matters; and the retention of consultants on financial and administrative matters. We have in the past months already made a number of modifications in our original approach to the project to take account of the fact that the PT & T is in the Iraqi system not an autonomous entity but merely a government agency. However, even on this basis the Minister objects so far to any undertaking regarding the above points. He does not deny that most of these matters are in the interest of Iraq and says that he is willing to carry them out but he does not want to enter into any contractual obligation. The two delegations are continuing to meet on these matters to narrow down the differences but solutions will be difficult to find in view of the basic attitude.

President has seen



I had a long session with the Minister on Wednesday primarily about this basic point, and Mr. Weiner and Mr. Armstrong had a separate session with him yesterday on which Mr. Weiner has written the attached memorandum. My own impression is the same as Mr. Weiner's, i.e. that the Minister fully understands the substance of the points in question and that his basic attitude stems from extreme sensitivity on what he considers "infringement with sovereignty", lack of acquaintance with the Bank, and internal political difficulties.

The Minister may further want to talk to you about the lack of Bank activity in Iraq and also about what he considers the unduly long time taken by the Bank to prepare projects. Attachment 2 shows the large effort we have put into preparing projects over the last two years. This has often been tough going because of lack of response on the Iraq side but has improved recently.

Attachments

cc to Messrs. Knapp  
Weiner/Armstrong  
Davar

DHartwich:rpo

IRAQ

Background Information for Meeting  
With Planning Minister on July 9

1. Political Situation

The present Baathist Government of President Al-Bakher assumed power in July 1968 following a bloody coup. Thereafter in an effort to consolidate its position and guard against its own ouster by a future coup, the regime resorted to political purges. Once it began to feel secure, it has been trying to ease political restraints and to gain a popular appeal for itself since 1970. There are frequent changes at ministerial level, but the past purges of the public administration no longer occur. As a result the confidence of civil servants, which had been considerably weakened in the past, is being gradually restored. A very important event has been the political settlement with the Kurdish insurgents in March 1970, which has also assisted the Government in turning its attention to the country's development problems.

At the same time however, below the level of the President, a struggle for power continues to be waged. One group, which favors a balanced position in the country's external economic relations, centers around Iraq's Deputy Prime Minister and Vice-President (Lt. General Ammash). He succeeded in exiling his main contender for power, Deputy Prime Minister Tikriti in 1970. However the latter's supporters have continued to rally around Sadaam Husein, the Deputy-General of the Baath Party and a member of Iraq's Revolutionary Council. Husein favors exclusive ties with the Eastern Bloc. It is difficult to predict at this stage how this internal power struggle will end. We are not certain of the attitude of the Planning Minister in this matter.

2. Economic Situation

The current Five-Year Development Plan (1970-74) formulated by the present Government, appears to be a better basis than the earlier Plans for improving Iraq's development and economic performance. It projects a total investment of US \$3 billion, to be financed mostly from oil revenues and domestic savings, together with some external assistance. It anticipates an average annual growth rate of 6.8 percent in GDP, with agriculture expanding at an average rate of 7 percent and industry of 12 percent per annum. The key accent is on the development of the agricultural sector, to which 34 percent of the Plan outlay has been allocated.



Oil continues to be the key sector in the Iraqi economy accounting for nearly 40 percent of the GNP, 90 percent of exports and over 50 percent of Government revenues. Foreign exchange earnings from oil were close to \$500 million annually during the last few years. With the arrangements reached with the foreign oil companies over the past months, it is expected that the stagnation in the oil sector at that revenue level, which prevailed in the past decade, would be replaced by considerable improvement in both production and revenues. As a consequence of the recent Tehran agreement, followed by that on oil exported from the Mediterranean ports, the increase in oil revenues are expected to be very substantial. For 1971, for example, \$800 million are expected. Agriculture accounted in 1969 for about 20 percent of the GDP. Agricultural production has been limited by insufficient use of modern technology. Manufacturing accounts for almost one-tenth of GDP. Its share in total production, however, understates its contribution to economic growth; over the last 15 years, manufacturing output has expanded at a higher percentage rate than any other sector of the economy.

In the last few years, Iraq's reliance on external finance for public investment has been very modest. As a result, debt servicing is not a serious problem. In 1968, the debt service ratio was 2.2 percent. In fact, in the absence of assistance from western sources, Iraq has been increasingly relying on suppliers' credits and mainly on bilateral assistance from Eastern Bloc countries on the basis of barter against its oil. In March 1971, for instance, Iraq made a frame arrangement for a 200 million rouble credit with USSR for development projects, to be repaid by oil, on a barter basis.

July 9, 1971  
EME



Iraqi Projects Under Bank Consideration

(i) Lower Khalis Irrigation/Drainage: This project involves the irrigation/drainage of about 60,000 ha in the Lower Khalis region, a few miles out of Baghdad. The feasibility study done by a UK consulting firm on the basis of terms of reference essentially worked out by the FAO/IBRD Cooperative Programme, is nearing completion. Since the previous soil surveys and land classification of the area were not quite adequate and would have taken from 18-24 months to complete, the Government and the Bank agreed to do such work only for about 30,000 ha, which would be included in the first phase of the project. This work is expected to be completed by September. Assuming timely completion of the study and the soils work, project appraisal is anticipated around September/October this year. The project however involves the use of River Diyala - which has its headwaters in Iran, and to some extent, the Tigris River - which originates in Turkey. This question is extremely sensitive particularly in view of the poor relations between Iraq and Iran. We have not yet raised this question explicitly with any of the countries involved but feel it more opportune to await the progress of the telecommunication project negotiations.

(ii) Grain Storage Project: The country's grain storage requirements until 1975, are proposed to be met by the Government through facilities financed by East Germany, by the Government itself, and the balance from the Bank. The facilities proposed for Bank consideration have been the subject of a feasibility study by consultants. The final draft of the study is expected shortly. Assuming that the study provides a satisfactory technical, economic and organizational basis for the proposal, appraisal might be possible later this year.

(iii) Education Project: The components of an education project, essentially in the field of vocational education and teacher training, were identified in 1970 by a UNESCO/Bank Co-operative Program. This was followed up by further Bank missions to assist the Iraqis in developing background information for a UNESCO project preparation mission, which has just completed its work. The project request is expected from Government shortly, and appraisal should be possible later this year. At the CPP review, this project was deferred to FY 1973, but seems capable of being advanced for FY 1972.

(iv) Basra Power: On the basis of a feasibility study done by an Austrian firm, the Government proposed a thermal station of 100 MW to serve the industrial units around Basra. However other possible technical alternatives for meeting this demand have not yet been properly evaluated, as the Bank requested. Meanwhile, the Government also has invited bids internationally on a selected basis for a turnkey project. The project would also give rise to even more institutional problems than we are encountering in the telecommunication project. Despite this development, the Planning Minister proposes to pursue this project during his current visit. In view of the abovementioned



steps already taken by the Government, we intend to propose that they should finance this project from their own resources and we might consider helping them for some future power project.

(v) Agricultural Projects in the Kurdistan Region: With the restoration of peace in the Kurdistan region, the Government has been anxious to develop integrated agricultural projects in that area. An FAO/Bank Co-operative Programme identification mission has just returned from Iraq. They have identified three projects, two of which, the Sharazoor Plain and Rania Plain projects, would apparently involve about 1-1/2 to 2 years of basic feasibility work including soil surveys, land classifications, hydrological investigations, etc., and the Shemamok project, for which a project proposal could be prepared within six to eight months time if further assistance were given by the Co-operative Programme. The Minister wishes to press the Bank for early action on all these projects. Since the Shemamok project might be capable of early preparation, we might be able to start work on it, and include within its scope, the feasibility and the other basic work needed to prepare the Sharazoor and the Rania Plain projects.

(vi) Ground Station for Satellite Communication: Besides the above, the Minister has raised the possibility of the Bank financing, either under the present telecommunication project or a small separate project next year, a ground station in Iraq for long distance satellite communications. The estimated cost is between \$3-4 million. We propose to discuss the traffic projections for such a ground station and other technical details that may be available, to evaluate the justification of this scheme and the possible form of financing, i.e. under the current telecommunication project or separately later on.

July 9, 1971

EME

Biographical Sketch Of

DR. RASHID AL-RIFAI, Minister of Planning

- Iraq

Age:

42 years

Educational Background:

Following studies at the American University at Beirut, he obtained an Engineering Degree in 1954, from Bristol University (UK). In 1964, he obtained a Master's Degree in Electrical Engineering from Purdue University (USA) and a PhD from Rice University (USA) in 1967.

Professional Background:

Since joining the Department of Post, Telegraphs and Telephones in 1954, Dr. Al-Rifai rose to the level of the Director-General of that Department in the early 1960's. After receiving his PhD, he briefly taught at Rice University and returned to Iraq in early 1968 as Chief Engineer, National Company for Electrical Equipment and Implements (a government-owned entity). Since then he has been in the Cabinet in various positions.

In July 1968, when the present Government assumed power, he was named Minister of Oils and Minerals and the Provisional Chairman of the Government-owned Iraq National Oil Company. In December 1969, he became Minister for Presidential Affairs and in early 1970, a Minister of State. He assumed his present position as Minister of Planning in April 1971.

July 9, 1971  
EME



## OFFICE MEMORANDUM

7/8 To Mr. Hartwich  
I'll see him on  
Friday at 4.40 pm  
L. M. W.

TO: Mr. Robert S. McNamara  
FROM: Dieter Hartwich *DH*  
SUBJECT: IRAQ - Telecommunications Project

DATE: July 7, 1971

An Iraqi delegation headed by the Minister of Planning, Dr. Rashid Al-Refa'ie, is in the Bank starting today to negotiate a loan of \$24 million for a telecommunications project.

These negotiations are likely to be difficult and at the same time important for our overall relationship with Iraq. Already the preparations for the project have been difficult and protracted due to the fact that Iraq has had no experience with loan negotiations with the Bank for several years (the last loan was made in 1966), an often expressed view in Baghdad that the Bank is not seriously interested in lending to Arab countries and, furthermore, to differing views within the Government about the desirability of having closer relations with the Bank. We sent a special pre-negotiation mission to Iraq in April to narrow down the differences in positions on some key financial and organizational aspects of the proposed operation but a number of basic points remain to be resolved during negotiations.

The Minister has asked for an opportunity to call on you and I recommend that you see him. He has asked whether Friday, July 9 would be convenient to you but would make himself available any other day that suits you. He has indicated that he wants to talk about the lack of Bank activities in his country and also about what he considers the unduly long time taken by the Bank to prepare projects. You will find him a person who has determined views but also somebody who prefers a frank discussion to a diplomatic exchange of courtesies.

If you agree to see him I shall send you a briefing note on our activities in Iraq.

cc to Mr. Knapp  
Mr. Davar

ADavar/DHartwich:rpo





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MEMORANDUM FOR THE RECORD

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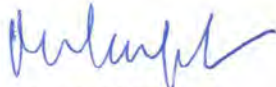
IRAQ: Mr. McNamara's meeting with the Minister of Planning

The Minister of Planning of Iraq, Dr. Rashid El-Rifai, visited Mr. McNamara on April 27. The Minister was in Washington for the negotiations on the Education and Lower Khalis projects. Mr. McNamara expressed his pleasure at seeing the Minister on this occasion of a second round of negotiations with Iraq within a year. The Minister said he reciprocated the feeling and felt that Iraq and the Bank were beginning to understand each other better. Iraq was extremely interested in assistance from the Bank, not necessarily because of the funds involved, but, in particular, because of the knowhow and technical assistance that came with World Bank projects.

5/30  
Mr. McNamara replied that this was the most important part of our activity and he was particularly glad that the Minister appreciated this aspect of World Bank lending. The Minister replied that this was indeed so, but that the Bank sometimes asked things of Iraq which sovereign governments could not accept. Mr. McNamara said that he appreciated the position of the Iraqi Government on such matters and that it was necessary to find a middle way which would satisfy the Bank that its funds were spent in a way justifiable to the Bank's Board which, at the same time, did not interfere with the government sovereignty. The Minister mentioned the question raised by the Bank negotiators on the Lower Khalis project concerning the recovery from farmers of part of the benefits received from project investments. He said that this was a point where both the Bank and the Government agreed on the principle, but where the Government could not accept its being bound by any covenants, since its own policy was still under consideration.

Mr. McNamara said that this was a very important point for the Bank since it did not wish to see created a new class of farmer who would unduly profit from the benefits of the project. The Minister told Mr. McNamara that this was a sound socialist principle which his own Government strongly believed in, but that it was a matter of timing as to when, and in which measures to secure the agreed aim, would be implemented.

The Minister thanked Mr. McNamara for his kind reception and looked forward to seeing him in Iraq one day.

  
M.P. Benjenk  
May 25, 1972


President has seen



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 26, 1972

FROM: Munir P. Benjenk SUBJECT: IRAQ: Background For Your Meeting With Planning Minister

1. You will be meeting Dr. Rashid Al-Rifai, Planning Minister, tomorrow at 12:20 p.m. He is here for the negotiations for an Education Project and the Lower Khalis Irrigation Project.
2. Dr. Al-Rifai's biographical sketch is annexed as Attachment 1. Although the Minister is a devoted Ba'athist, he is a moderating influence in Iraq. He has successfully advocated that Iraq should balance its ties with the Eastern Bloc, by obtaining assistance from some other countries as well as international organizations like the Bank for Iraq's development. The somewhat warmer relationships developed with Iraq over the last year, are probably due to the understanding which Dr. Al-Rifai has engendered about the Bank with the ruling authorities. He enjoys the President's confidence, and although he is not a member of Iraq's ruling Revolutionary Council, he is influential in his country.
3. The attached CPN (Attachment 2) dated December 8, 1971 summarizes the recent political and economic developments in the country. We have sidelined key sections.
4. The Education Project, negotiations for which should be completed this week, essentially provides for facilities for vocational and technical training, expansion of ETV at primary levels, and substantial technical assistance. We will finance the foreign exchange component of \$13.4 million, out of a total project cost of \$20.5 million. The project was identified and prepared in 1970/71 under the UNESCO/Bank Co-operative Programme.
5. The Lower Khalis Irrigation Project, negotiations for which should commence next week, will cost about \$82 million. The Bank loan of \$40 million will finance the foreign exchange content of irrigation and drainage facilities, on-farm development, all-weather feeder roads, equipment, studies and consultant services to improve irrigation/drainage in about 57,000 ha in the Lower Khalis region, northeast of Baghdad. The feasibility study was done by a U.K. consulting firm with guidance provided under the FAO/IBRD Co-operative Programme. The Government considers this project important and would like to use it as a model for similar future projects. The paramount problem is that of the international nature of the Diyala and Tigris rivers, which we have tried to resolve by ensuring water security for the project even if Iran and Turkey use their waters for their own purposes in future. I would anticipate rather difficult negotiations, particularly since the Bank wants assurances on technical matters, which the Iraqis would be prepared to accept if they are not demanded as "conditions" by the Bank. Their problem is not in taking the Bank's technical advice and guidance to shape this up as a model project, but in reflecting them in loan documents which gives an impression to the rather

President has seen



sensitive politicians at home that the Bank is trying to interfere into things which fall within the purview of Government's decisions. However with the flexibility that we displayed in the Telecommunications negotiations last year, and the constructive attitude of Dr. Al-Rifai, negotiations will be successful. You might wish to assure Dr. Al-Rifai of our keen desire to help Iraq with this project and express the hope that both sides will display flexibility in achieving this objective.

6. The Iraqi projects under Bank consideration are the following:

(i) Land-Water Resources Study: The Bank was approached last year for assistance in doing a comprehensive study of the land and water resources of Iraq, as a basis for the development of the agricultural sector and for taking investment decisions on relevant projects. Iraq will fully finance this Study (\$4-5 million). The Bank will provide technical assistance, through its own staff and consultants, by designing, monitoring and guiding the Study. The Iraqis are highly appreciative of the Bank's willingness to provide this technical assistance and the promptness with which we have moved. A short list of consultants and an outline terms of reference have already been agreed upon, invitations to consultants should be issued in May, and the Study should commence by September/October.

(ii) Grain Storage: This project, prepared by the Iraqis and their consultants with Bank assistance, was recently appraised and is likely to be negotiated in July. It will provide grain storage capacity, in addition to that being provided by East Germany, required up to 1980. The project is estimated to cost about \$50 million. The proposed loan of about \$25 million will cover the foreign exchange component.

(iii) Roads/Bridges Project: The Government has commenced preparation, with the assistance of various consultants. The Bank proposes to provide guidance to ensure that the technical/economic aspects are adequately covered, to enable expeditious appraisal. I would anticipate appraisal in early 1973, with Board presentation early in FY 1974.

(iv) Shemamok Irrigation Project: In mid-1970, the FAO/IBRD Co-operative Programme mission identified this project, together with the Sharazoor Plain and Rania Plain projects, all in Kurdistan. The preparation work on Shemamok will start soon, and should reach the Board in late FY 1974. It has been somewhat delayed by the Government's slowness in securing necessary sanctions for commencing the preparation work. The preparation period for Sharazoor and Rania is two and three years respectively, and we should be in a position to consider them in later fiscal years.

Attachments





## OFFICE MEMORANDUM

TO: EMENA Files

DATE: April 30, 1973

FROM: Adi J. Davar

SUBJECT: IRAQ: Meeting between Mr. McNamara and Dr. Qaddoori

1. Dr. Fakri Qaddoori, Economic Advisor to Iraq's Revolutionary Command Council, currently in Washington leading the Iraqi team for the Grain Storage Project negotiations, met with Mr. McNamara on April 16. Messrs. Al-Sharekh (Alternate Executive Director for Iraq), Benjenk and Votaw and I attended, also.

2. Dr. Qaddoori appreciated the help that the Bank had extended to Iraq in the last 1-1/2 years through the Telecommunications, Education and Lower Khalis Irrigation projects. He welcomed the effort that it was currently making to negotiate the Grain Storage project, on which work had been initiated two years ago. He stated that with the recent settlement with IPC, Iraq expected to have significantly increased oil revenues, but realized that it will have to make significant efforts to utilize these resources fully and effectively in order to diversify the economy by promoting the rapid development of non-oil sectors, particularly agriculture and industry. After this settlement, many foreign consultants and contractors were offering their services to Iraq. His government welcomed them, so as to be in a position to expeditiously prepare and implement more development projects, which could be financed with the increased oil revenues.

3. His government was therefore most interested in continuing to borrow from the Bank for project lending for some more years, particularly because of the technical guidance associated with Bank lending. He hoped, however, that besides responding to Iraq's desire for a continuing relationship, the Bank staff would also continue to display the flexibility which it had shown in projects negotiated so far, to adjust to Iraq's unique political and economic framework and the socialistic features of its government's policies. The Loan Agreements for Telecommunications and Lower Khalis Projects showed to Dr. Qaddoori and his government that the Bank understood Iraq's unique framework and features, as well as the objectives which the government had in respect to pricing, profits and recoveries which differed from those of "western-oriented" economies. If the Bank continued to recognize and accommodate these differences, he felt that a pipeline of future projects could be developed and the relationship further strengthened.

4. Mr. McNamara expressed his satisfaction that Iraq had put the Bank in a position to once again provide help in its development efforts. He stated that in its project lending, the Bank had to be satisfied mainly about two criteria - namely (a) that an economically viable project was implemented efficiently so that it would provide the expected benefit to the country's economy, and (b) that its benefits were widespread and not limited to a few individuals or an elite group. So long as these criteria were safeguarded, the Bank would display whatever flexibility was necessary to meet a member country's individual circumstances.

President has seen



5. Mr. McNamara then expressed his anxiety that the future project pipeline in Iraq was rather thin and felt that projects needed to be identified quickly as vehicles for Bank financial or technical assistance. He inquired what steps Iraq and the Bank could take in the matter, to provide a basis for continuing future relationships.

6. Dr. Qaddoori stated that he would be discussing a 4-5 year plan of operations with Messrs. Benjenk, Votaw and Davar later in the week. Because of its growing oil income, the Government believed that after 4-5 more years of borrowing from the Bank, Iraq might not need its financial assistance, but would continue to request technical help for development projects. He hoped that the Bank would be willing to accommodate this approach. Mr. McNamara welcomed these discussions, and assured Dr. Qaddoori that the Bank was prepared to continue helping Iraq, as it had helped other countries in similar circumstances in the past. One approach which could be followed was the one adopted for lending to Thailand, where most or all of the maturities of the project loans were purchased by the Central Bank; another might be for the Bank to finance less than the full foreign exchange required for the projects; yet another could be the provision of only technical help, perhaps on a reimbursable basis, which, although this was a fairly new concept, was being investigated by the Bank since other countries in the region had requested assistance of this type. While noting the Bank's earlier agreement to guide and monitor the Land and Water Resources Study which Iraq had proposed to finance from its own resources, Mr. McNamara felt a similar approach could also be considered for other studies. He then reiterated the Bank's willingness to provide technical help for this study and similarly for a study of the Tigris-Euphrates River System, should Iraq and the other two riparians request the Bank's help for it.

7. The meeting ended with Dr. Qaddoori once again confirming his Government's wish to continue an active relationship with the Bank and presenting a small carpet, which Mr. McNamara accepted on behalf of the Bank.

Cleared with and cc: Messrs. Benjenk, Votaw  
cc: Messrs. McNamara, Al-Sharekh  
Wapenhans, Chaffey/Zaman

ADavar/GBVotaw:js/jw



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Gregory B. Votaw (via M. P. Benjenk)

SUBJECT: IRAQ - Your Meeting with Dr. Fakri Qaddoori


DATE: April 16, 1973

1. Dr. Qaddoori is Economic Adviser to the Revolutionary Council. He is in Washington as leader of a seven-man delegation to negotiate a proposed loan of \$35 million which would help finance construction of 531,000 tons of grain storage capacity for the government's Grain Board.
2. Dr. Qaddoori is a highly respected economist. It was Qaddoori who successfully negotiated the recent settlement with IPC. Within the councils of government he has been a supporter of IBRD involvement in Iraq. Further biodata are attached (with apologies for alternative spelling of the name).
3. A copy of the brief prepared in late January prior to Mr. Benjenk's visit is attached. The main event since then, as you know, has been the settlement with IPC on March 1. We consider the settlement very favorable to Iraq on a number of counts. Iraq has gained ownership of all IPC facilities, for which they will pay through the export of 15 million tons of oil; furthermore, IPC has agreed to increase production through Basrah refinery from 35 million tons in 1973 to 80 million tons in 1976. Still preliminary projections suggest that rapid growth in the oil sector will increase GDP from \$4,100 million equivalent in 1971 to \$5,100 million in 1975 (a change in per capita from \$390 to \$425).
4. With such an increase in income reasonably well assured the main development problem for Iraq will be to increase absorptive capacity so that resources can be efficiently spent for development. In this connection you may wish to ask Dr. Qaddoori how he thinks IBRD can help Iraq in the coming five years or so. At present the project pipeline is very thin, and we are expecting to talk with Qaddoori about future operational plans during the next few days. This afternoon it may be well to emphasize the limitations on IBRD staff and financial resources, since some Executive Directors seem to feel that our limited resources should be focused on countries other than Iraq, which can finance its development needs with oil. Would technical assistance with some, at least partial, reimbursement arrangement be of interest? Should we consider the "Thailand formula" whereby Iraq would buy bonds in roughly the same amounts as we lend?
5. Much of our recent activity has been in the agricultural sector. The delayed Lower Khalis project is to serve as a model for other irrigation schemes, which now need to be developed as a matter of urgency. The Grain Storage loan which is being negotiated this week will provide silos and other physical facilities the government needs to carry out its plans for much more active intervention in wheat and barley marketing - intervention aimed at reducing profiteering by traders. The Bank staff

President has seen



April 16, 1973

had hoped that Iraq would press forward with a Land and Water Resources Study, for which we were asked to provide technical guidance. This needs to be reactivated in Baghdad according to our latest information. 

6. A related area of concern is the rational development of Tigris-Euphrates waters, on which there has recently been reassuring progress toward agreement among the three riparians - Iraq, Syria and Turkey - at least as far as the technical aspects of releases from Keban and Taqba dams are concerned. Is there more, in Iraq's view, that the Bank should do to encourage economical development of this historic river system?

7. Dr. Qaddoori may mention his government's concern in connection with the Grain Storage project. Several months ago we had considered a two-phased approach, under which IBRD would make available an initial loan of about \$20 million for roughly 350,000 tons of storage; then, if market and other conditions seemed to justify it, a second loan of perhaps \$10 million would have been considered (in 1975?) for another 200,000 tons of capacity. Iraq wants to go ahead with the full capacity now (531,000 tons, as mentioned earlier) with a single loan, despite high commitment charges on money which cannot all be spent until 1976 or later. We have agreed that there should be only one loan for the full amount, and our technical people are working on a formula which will protect Iraq against overbuilding by reviewing requirements in the light of experience two years from now before siting is finalized and construction started on the final 180,000-200,000 tons of capacity. This would not be a difficult problem to solve were the Iraqis not somewhat suspicious of our intentions as a result of unfortunate delays last year; those suspicions are dissolving but have not completely disappeared.

cc: Mr. Davar

GBVotaw:jw



April 16, 1973

ANNEX

BIOGRAPHICAL DATA

Dr. Fakri Yasin Kaddori: Head of the Economic Office of the Revolutionary Command Council. Forty one years old. Minister of Economy from 1968 to 1971, at which time he assumed his present position with substantially the same responsibilities. B.A. Baghdad University, M.A. in Economic Statistics from University of Iowa, and Ph.D. in Economic Statistics from University of Cologne. Also, six week training fellowship in 1966 at the International Marketing Institute, Harvard University. His English is reasonably good.

4



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 2, 1976

FROM: Martijn J.W.M. Paijmans, Acting Vice President, EMENA Region

SUBJECT: IRAQ: Your meeting with Mr. Salah Shaikli

1. At 2:00 PM on June 3 you will meet with Mr. Salah Shaikli, Acting Governor of the Central Bank of Iraq.
2. We have not been able to ascertain the purpose of Mr. Shaikli's visit to the United States. He has been in New York for the last few days for "financial discussions". This may be related to Iraq's efforts to raise loans from U.S. banks.
3. You may want to explain to Mr. Shaikli that the Bank is following Iraq's development efforts with keen interest. As previously offered (see paragraph 10 below), we are ready to help to the extent we can, particularly through technical assistance (against reimbursement). You may also want to suggest the possibility of co-financing between the Bank and the Iraqi Fund for External Development, which, however, as far as we know, has not yet become operational.

Political Situation

4. The present Iraqi government, in power since 1968, pursues a socially oriented development policy directed towards achieving rapid economic growth, equal education opportunities, and equitable distribution of income. Emphasis is given to national control of resources (especially oil) industrial diversification, land reform and rural development. The crushing of the Kurdish revolt, nationalizations of oil companies and increased oil wealth have led to further consolidation of power by the ruling Ba'ath Party and the emergence of the most stable government that Iraq has had since the 1958 revolution.
5. On the external front, relations with Jordan and Kuwait have improved considerably. Even though the recent disengagement between Egypt and Israel has brought Iraq and Syria closer in their condemnation of Egypt, their relations remain strained, mainly because of long-standing political differences between the two ruling Ba'ath factions and disagreements on an equitable distribution of Euphrates waters, which were further aggravated by the recent cutoff of Iraqi oil shipments to Syria's mediterranean ports with the resultant loss to Syria of transit fees and cheap supply of low sulphur Iraqi oil.

Recent Economic Developments

6. Recent economic and financial developments in Iraq have been strongly influenced by the substantial utilization of expanded oil revenues. At ID 1.6 billion (US\$5.4 billion) in 1974/75 the oil revenues were about double their level in the preceding fiscal period.



This increase in oil income reflected the impact of higher oil prices, as 1974 output of petroleum in Iraq was slightly below the production level in 1973 due to the stagnation in world demand for petroleum products. On December 8, 1975, Iraq completed the nationalization of its oil industry. As a result, Iraq now has full ownership of her oil resources, and stands to receive oil revenues in 1976 estimated in excess of US\$10 billion. Per capita GDP in 1975 based on the current Atlas methodology is tentatively estimated at close to US\$1,000.

7. In 1973/74, though Government expenditures rose by nearly 50 percent, there was a large budget surplus, primarily because of the unexpected, sharp increase in oil revenues. The preliminary fiscal results for 1974/75 show that ordinary expenditures increased by more than 200 percent and were substantially over the level of the original budget estimate. The surge in ordinary expenditures resulted mainly from additional defense spending and partly from higher expenditures than anticipated on expanded health, education, and other social service programs. Development expenditures, on the other hand, rose by more than 100 percent but amounted to only 43 percent of allocations. The overall fiscal position shifted from a considerable surplus in 1973/74 to a small deficit in 1974.

#### The 1976-80 Five Year Plan

8. The 1976-80 Five Year Plan is still in the preparatory stage and its details have not yet been published. Overall investment allocations will be in excess of ID 10 billion, more than three times the final allocations for the 1971-1975 plan.

#### Bank-Iraqi Relations

9. A discussion with the Government of their need and desire for continued Bank participation in Iraq's development efforts has not taken place. Regrettably, the illness and subsequent demise of Dr. Sa'adi Ibrahim, Minister of Finance, during his visit to the 1975 IBRD/IMF Annual Meetings, precluded the opportunity of any discussions at that time. Efforts to explore the subject by correspondence have met with limited success. Mr. Benjenk's letter of May 13, 1974, extended an offer for: a) project lending against offset arrangements; b) technical assistance against reimbursement; and c) continued Iraqi participation in EDI courses. No reply was received until August 1975 (14 months later), and the reply was clearly positive only on the last proposal. During a mission last March, Bank staff was assured that Iraq was in favor of closer cooperation with the Bank and that the Bank may be requested to review the Five Year Plan during its final stages of preparation. A visit by you was also proposed by the Iraqi authorities.



Bank Lending to Iraq

10. The Bank has provided six loans to Iraq totalling about US\$146 million. The first Bank loan (US\$12.8 million) for the Wadi Tharthar Flood Central Project was made in 1950, and a second loan (US\$19 million) for a Highway Project. Current Bank operations in Iraq consists of: a Telecommunications Project (FY71); an Education Project (FY72); an Irrigation Project and a Grain Storage Project (both in FY73). All four projects have experienced cost overruns ranging from 41 to over 400 percent.

cc: Messrs. Knapp, Cargill, Davar

(Biographical Note)

According to our very sketchy biographical data, he is 37 years old, has an under-graduate degree in engineering and a PhD in economics and statistics from England. Since 1969 he has been the Director of the Central Statistics Organization in Iraq, which is attached to the Planning Ministry. Two months ago he was appointed Acting Governor of the Central Bank. The position of Governor has been vacant since the former Governor, Dr. Fawzi Al-Kaissi, succeeded the late Sa'adi Ibrahim as Minister of Finance last November (Mr. Ibrahim died in Washington shortly after the last Annual Meeting). Mr. Shaikli is also the Chairman of the Iraqi Fund for External Development. He visited the Bank in 1972 to negotiate an education loan.



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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

Confidential

TO: Memorandum for the Record

DATE: October 10, 1977

FROM: *for* Maurice P. Bart, Director, CPII, EMENA *MB*

SUBJECT: IRAQ - Annual Meeting - Mr. McNamara's meeting with the Iraqi Delegation

1. Mr. El Kaissi, Minister of Finance, and Dr. Kaddori, Governor of the Central Bank, called on Mr. McNamara on September 29. Messrs. Knapp, Benjenk, El Fishawy and myself were present.

10/11  
2. Mr. El Kaissi opened the discussion by expressing his astonishment at the position taken by the Bank on the Grain storage project. He did not know why or how the discussions held between the Bank and Iraq had ended in such a way as to raise the question of Iraq's sovereignty and to corner the Government into the cancellation of the loan. Apart from matter of substance, small formalities had not been observed. For instance a cable he had sent to the President of the Bank had been answered by somebody else (he subsequently specified that he was referring to Mr. Knox' cable of August 10). While during the June negotiations, the Government had given the Bank the necessary assurances regarding the continuation of the Grain storage program, reassurances had been subsequently sought, which interfered with Iraq's internal decision making. However, following Mr. McNamara's cable of September 19, for which he was thankful, he thought it better to pursue the discussion during the Annual Meeting.

3. Mr. McNamara responded that the Bank had certainly not cornered Iraq into cancellation. Indeed, the Iraqi negotiators had themselves threatened cancellation twice. For him, who had fought the US Government in order to enable the Bank to make loans to Iraq at a difficult juncture, the whole issue stemmed from a basic misunderstanding. The Bank had a responsibility to its Executive Directors and to Iraq to see that it financed sound projects only. For that purpose, Iraq had hired the Bank to advise the Government on specific development issues. The Bank's sole objective was to help Iraq. Now that a serious problem had developed, how could we resolve it?

4. Mr. El Kaissi expressed appreciation for Mr. McNamara's position and courageous stand. It was his duty, however, to say that every time Iraq had faced an infringement on sovereignty, it had reacted in the same way; hence, the two threats of cancellation Mr. McNamara had referred to. However, the Bank's stand on the Grain storage issue was puzzling for him who saw the overall situation in Iraq: how could the Bank insist on the 15 silos left out of the project when things has changed so much since the loan was made? The Government was paying ID 50 million per year for support of wheat and could not abandon the storage program, however different it may have to be. Nevertheless, the immediate issue was how to maintain good relations between Iraq and the Bank, and the loan was significant in this respect only. In light of Mr. McNamara's positive cable, several avenues could be followed to preserve relations. The first alternative mentioned by Mr. McNamara (a mutually acceptable revised silos project) was not a workable solution: "The middle of the road had been reached and rejected", and the matter was now over. As to the second alternative (Bank financing in other sectors), he had no views.



October 10, 1977

5. Dr. Kaddori intervened to say that Iraq had no specific project to negotiate with the Bank now. He would prefer to leave it for the future and to come to the Bank if and when Iraq had a suitable project. Iraq was nevertheless anxious to pursue its cooperation with the Bank in other fields, such as EDI courses. As the head Iraqi negotiator for the Grain storage project, he felt compelled to say that the Bank had a difficult way of negotiating; it was not easy to bring it to understand the issues Government faced, and their viewpoint; some conditions were politically binding and difficult to accept for a sovereign state. In 1973, he had been close to refuse the loan. He had to stay in Washington eight more days to obtain the Bank's answer on a single point: whether the silos program should be carried out in one or two stages.

6. Mr. McNamara replied that the Bank would be prepared to consider any sound project presented by the Government. As to delays in negotiations, we asked to be called or cabled if in future discussions the Bank had not replied in 24 hours. As regards sovereignty, however, there was a basic difference of view and philosophy. Iraq knew what its priorities were, decided on one project, and wanted to borrow. The Bank wanted to know how its money would be used, and if this would be done efficiently, hence our conditions. It was not sufficient to assure the Bank that its loans would be repaid. Indeed the Bank could not operate unless it proved that the projects financed had a high rate of return. In the case of the silos, the rate of economic return was 3%. One centrally planned country had been very difficult on this point but after several years of operations they were satisfied that the Bank was helping them and were increasingly hiring us for advice.

7. Dr. Kaddori stated that the RER of the Silos Project was due to the changed situation. He would have no objection if the Bank refused such projects from the start but, then, how could the Bank accept to finance 5 Silos and request Iraq to commit itself to finance the remainder? What the Government wanted was a revised program meeting their needs. Mr. McNamara replied that the 5 Silos had no return of their own and that the 3% rate of return was associated to the whole program.

8. Reverting to the formalities mentioned by Mr. El Kaissi, Mr. McNamara specified that he had drafted himself the cable signed by Mr. Knox and had intentionally made it very soft so as to find a solution. He had thought the issue would be deflated if he did not sign the cable himself. Mr. El Kaissi replied that he had interpreted Mr. Knox' cable as signalling difficulties that the Bank was facing vis-a-vis its Executive Directors on the project.

9. Mr. El Kaissi pursued that neither the borrowers nor the Bank can impose conditions in negotiations: there could be no loan without agreement. In Iraq, projects were not launched without studies. The silos had a major social significance and the Government would build them even if they had a negative return because wheat storage was essential to face bad harvests, suspension of imports and price fluctuations. Nevertheless, he had tried to limit the impact of this difference with the Bank to the project itself and Dr. El Naggar's statement "did not burn the issue". What was important

for the future was that the Iraqi and Bank negotiators be equally empowered to commit themselves, without the Bank team having to refer to Management as they had told the Iraqi delegation.

10. Mr. McNamara confirmed that the Iraqi delegation had indeed been warned by the Bank team that the Bank team had no authority to agree on certain changes. The Loan Committee had subsequently insisted that the integrated nature of the project be preserved. In any event, in the future, Bank teams will have full authority when negotiating with Iraq.

cc Mr. McNamara's office (2)  
cc Messrs. Knapp, Benjenk, Bart, Knox, El Fishawy  
MPBart:rpo



# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
FROM: Munir P. Benjenk *MB*  
SUBJECT: IRAQ

DATE: September 29, 1977

Following your request yesterday, Maurice Bart has spoken to Governor Kaddori of the Central Bank but was not able to obtain any information on the position Iraq has taken regarding the alternatives offered in your cable of September 19 (copy attached). Mr. Kaddori said they would inform you directly. He added that the delegation wanted also to clarify the future of Iraq's relations with the Bank. He did not specify whether this implied resumption of lending.

Mr. Kaddori confirmed that the delegation would attend the working meeting with the Region scheduled after yours. This should enable us to discuss in some detail any solution which may be proposed by the Delegation.

Attachment

P.S. GNP per capita was \$1280 in 1975. Gross reserves as of April 1977 amounted to \$5.4 billion, equivalent to about one year of imports.  
MPBart:rpo



Class of Service FULL RATE

DATE SEPTEMBER 19 1977

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HERE

1 TO HIS EXCELLENCY DR FAWZI EL KAISSI, MINISTER OF FINANCE

CITY/  
COUNTRY BAGHDAD, IRAQ

MESSAGE  
NO:

4 I. I WAS DEEPLY CONCERNED BY THE STATEMENT WHICH THE IRAQI  
5 AUTHORITIES ASKED DR EL NAGGAR TO MAKE AT THE MEETING OF THE  
6 BANK'S EXECUTIVE DIRECTORS ON SEPTEMBER 13.

7 2. I MUCH REGRET THAT THE IRAQI GOVERNMENT FEELS THAT THE  
8 POSITION TAKEN BY THE BANK ON THE GRAIN STORAGE PROJECT WAS  
9 AN ARBITRARY STAND, REFLECTING A BIASED POLICY AGAINST THE  
10 REPUBLIC OF IRAQ, AND WOULD LIKE TO ASSURE YOU THAT THIS IS  
11 NOT THE CASE. THE MANY BANK LOANS TO IRAQ, SOME OF WHICH  
12 WERE PUT FORWARD BY THE MANAGEMENT AGAINST MUCH OPPOSITION  
13 FROM MEMBER COUNTRIES, AS WELL AS OUR PROLONGED EFFORTS TO  
14 HELP RESOLVE THE EUPHRATES RIPARIAN ISSUE BEAR WITNESS OF  
15 OUR CONSTANT DESIRE TO MAINTAIN FRUITFUL AND CORDIAL  
16 RELATIONS WITH IRAQ. I SHOULD LIKE TO ASSURE YOU OF THE  
17 GREAT IMPORTANCE WHICH THE BANK, AND I PERSONALLY, ATTACH  
18 TO CONTINUED AND BENEFICIAL RELATIONS WITH THE REPUBLIC OF  
19 IRAQ.

20 3. I WAS CONCERNED BY THE GOVERNMENT'S CONVICTION THAT THE  
21 BANK HAD IGNORED THE NEGOTIATIONS BETWEEN SENIOR IRAQI AND  
22 WORLD BANK DELEGATIONS LAST JUNE AND I REGRET VERY MUCH THE

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TEXT

PAGE 2 MINISTER OF FINANCE, BAGHDAD, IRAQ

THE MISUNDERSTANDING WHICH DEVELOPED DURING THAT PERIOD. I  
WOULD LIKE TO ASSURE YOU THAT THE BANK POSITION ON THE SILOS  
PROJECT WAS BASED ON OUR BEST JUDGMENT AS TO WHAT WOULD BE  
ACCEPTABLE TO OUR BOARD OF DIRECTORS AND AT THE SAME TIME ON  
WHAT SEEMED TO US TO BE THE BEST ECONOMIC INTERESTS OF IRAQ.  
4. ALTHOUGH OUR POSITION PROVED TO BE UNACCEPTABLE TO THE  
IRAQI GOVERNMENT, AND THE LOAN WAS CANCELLED, I REGRET THAT  
IT HAD NOT BEEN POSSIBLE TO FIND COMMON GROUND ON WHICH BOTH  
SIDES COULD HAVE AGREED. IN THIS CONNECTION, I SHOULD LIKE TO  
CLARIFY ONE IMPORTANT POINT, NAMELY THAT IT WAS NOT THE BANK'S  
POSITION THAT THE ONLY PROJECT ACCEPTABLE TO US WAS ONE WHICH  
INCLUDED ALL THE ELEMENTS OF THE 1973 LOAN AGREEMENT. WE  
AGREE WITH YOU THAT CHANGES WHICH TOOK PLACE SINCE 1973 MIGHT  
JUSTIFY IMPORTANT REVISIONS OF THE 1973 SCOPE OF THE PROJECT,  
BUT WE HAD HOPE YOU WOULD ALSO AGREE WITH US THAT THESE  
CHANGES DID NOT JUSTIFY CUTTING DOWN THE PROJECT TO FIVE  
SILOS ONLY, WHICH WOULD HAVE BEEN UNACCEPTABLE TO OUR BOARD  
EVEN IF THE BANK MANAGEMENT HAD PROPOSED IT. HOWEVER, WE  
BELIEVED THAT BETWEEN THE 1973 DEFINITION OF THE PROJECT AND  
ONE CONFINED TO FIVE SILOS THERE WERE INTERMEDIATE POSITIONS,

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Date:

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PAGE 3 MINISTER OF FINANCE, BAGHDAD, IRAQ

WHICH WOULD HAVE MET ECONOMIC CRITERIA ACCEPTABLE TO BOTH SIDES.

THE BANK IS STILL WILLING TO EXPLORE WITH THE IRAQI GOVERNMENT THAT MIDDLE GROUND IN ORDER TO FIND A NEW DEFINITION OF A REVISED SILO PROJECT ACCEPTABLE TO BOTH SIDES.

5. ALTERNATIVELY, IF THE IRAQI GOVERNMENT SHOULD PREFER THAT BANK FINANCING BE CHANNELED TOWARDS OTHER SECTORS, WE WOULD BE PREPARED TO CONSIDER AND PROCESS IN THE MOST EXPEDITIOUS WAY AND WITH A HIGH PRIORITY, ANY PROJECT WITHIN THE BANK'S AREA OF COMPETENCE WHICH THE GOVERNMENT CONSIDERS OF PARTICULAR IMPORTANCE.

6. I HOPE VERY MUCH THAT YOU WILL FIND ONE OF THE ABOVE ALTERNATIVES AGREEABLE AND THAT WE SHALL BE ABLE TO RESUME THE CORDIAL AND COOPERATIVE RELATIONS WHICH I CONSIDER IT MY DUTY TO MAINTAIN WITH ALL OUR MEMBER COUNTRIES. WITH BEST REGARDS, ROBERT S McNAMARA, PRESIDENT. INTBAFRAD

END OF TEXT

NOT TO BE TRANSMITTED

SUBJECT: <b>IRAQ - Grain silos</b>	DRAFTED BY: <b>RSMcNamara/MPBenjenk</b>
CLEARANCES AND COPY DISTRIBUTION: <b>cc: Messrs. El Naggat, Cargill, Knapp, Damry, Bart, Knox</b>	AUTHORIZED BY (Name and Signature): <i>[Signature]</i>
	DEPARTMENT: <b>EMENA</b>
	SECTION BELOW FOR USE OF CABLE SECTION CHECKED FOR DISPATCH