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Folder ID: 1770950

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4549S

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: February 15, 2013

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McNamara Papers

Contracts  
Bahrain (1969-1972)

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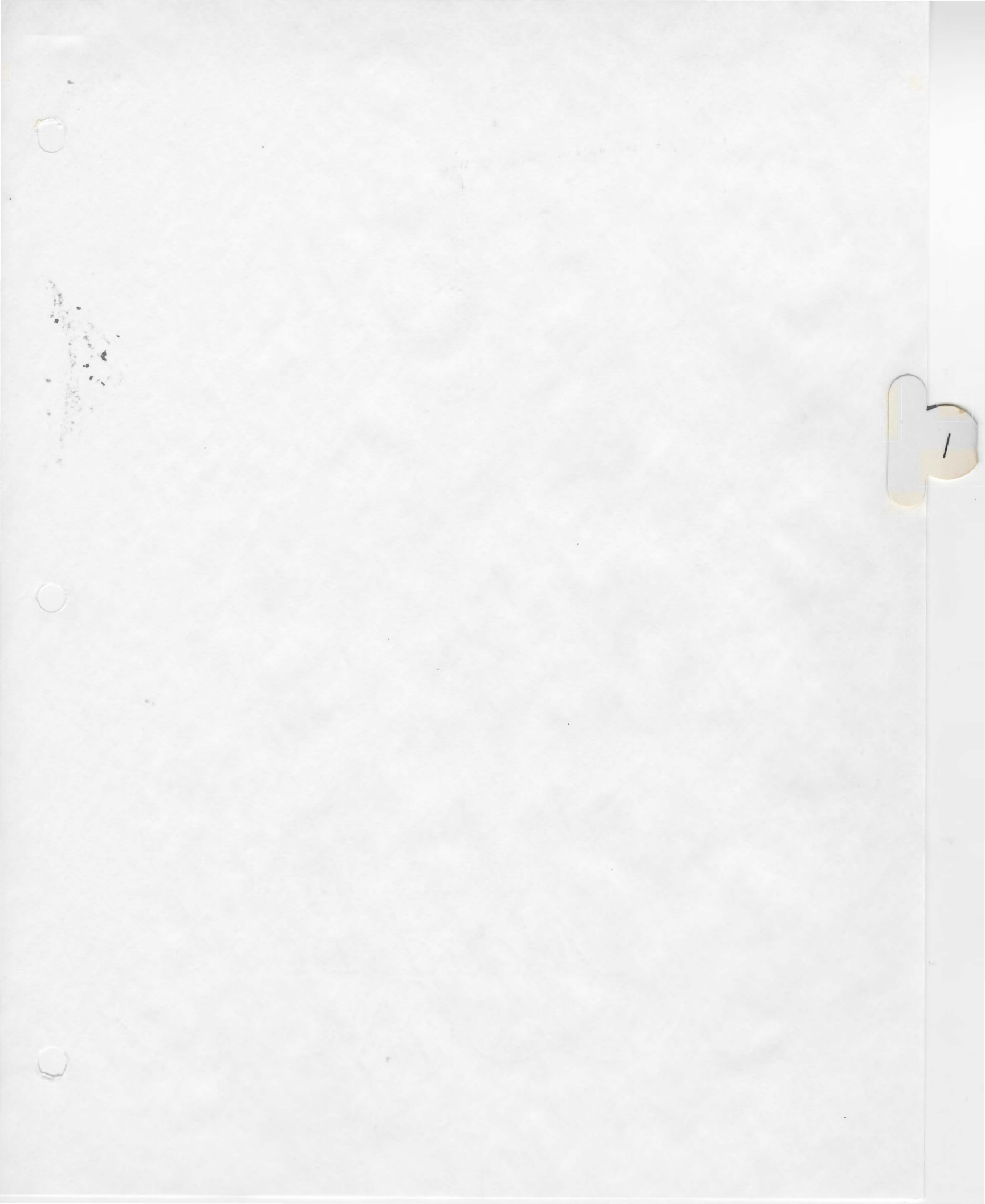
Contacts with member countries: Bahrain - Correspondence 01

BAHREIN

BAHREIN

1. 9/10/69 His Highness Sheikh Isa bin Sulman al-Khalifa, Ruler of Bahrein
  2. 4/20/72 Sayed Mahmoud al-Alawi, Minister of Finance  
Youssef Shirawi, Minister of Economic Affairs  
Ablatif al-Hamad, Director General, Kuwait Fund for Economic Development
- 9/13/77 Ambassador to the US Abdelaziz A. Buali





## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 9, 1969

FROM: Michael L. Lejeune

SUBJECT: BAHREIN - Brief for your meeting  
with the Ruler of BahreinThe Country

1. Bahrein Island (area: 213 square miles; population 200,000) lies in the Persian/Arabian Gulf between Qatar and the Saudi Arabian coast. H.H. Sheikh Isa bin Sulman Al-Khalifa is the Ruler and represents the Al Khalifa family which has ruled the island since late in the 18th century. A treaty in 1820 and later agreements between the Sheikhs and Britain have entrusted Bahrein's defense and foreign relations exclusively to Britain. The British Government has announced that it will withdraw its forces from the Gulf by the end of 1971, a move which would result in the emergence of a new political pattern in the Gulf area. There are on the island at present British military and air force bases and a naval base.

2. The Ruler of Bahrein has joined with the Sheikhs of eight other Arab Emirates, who have treaty relations with Britain, in attempting to form a Federation of Arab Emirates (these are Bahrein, Qatar and seven "Trucial States": Abu Dhabi, Dubai, Sharjah, Ajman, Um Al Quwain, Ras Al Khaimah and Fujairah; the total population of the nine emirates is about 500,000). The federation project is supported by Britain but its realization has faced problems including disagreements among the members on such issues as representation in the Federation's legislative body and location of the capital. The next meeting of the Rulers is scheduled for October.

3. The political problems for Bahrein are complicated by the outstanding Iranian claim to the island as well as by Saudi Arabia's possible (and so far unclear) attitude towards the proposed Federation. There is thought to be popular pressure in Bahrein for its joining the Federation, if only as a means of achieving greater independence and possibly a means of increasing popular political representation in the government. At the same time, it is possible that rather than joining the proposed federation, Bahrein may opt for complete independence. Gaining recognition as a potentially independent state may be one of the motives behind the Ruler's present tour abroad.



The Economy

4. Income in Bahrein is derived largely from the oil industry (revenues accruing to the state and local expenditures by the oil company), from the expenditures of the British Government (rents and local expenditures of the military bases) and from re-export trade (particularly to Saudi Arabia). Other activities include fishing, pearling, date and vegetable growing and a variety of services and crafts. The GNP was estimated at over \$48 million in 1964 and may have exceeded \$60 million in 1967, yielding an average of \$300 per capita. A fast rate of growth of 10 percent per annum before 1964 may have slowed down in recent years. A population increase of 3 percent per annum and scarcity of resources have led to persistent unemployment which has been partly eased by emigration of skilled workers to other members of the Federation.

5. Probably half the GNP is contributed by the oil industry in the form of oil revenues and local expenditures. Oil was discovered in 1932 by the Bahrein Oil Company, a subsidiary of the Standard Oil Company of California and of TEXACO. Production from the island is small (3.5 million tons per year) and has levelled off in the last few years. An offshore field operated jointly with Saudi Arabia started production in 1967 but has not added substantially to revenue so far. Oil revenue rose from \$18 million in 1964 to about \$25 million in 1967. One-third of the oil revenue is allocated to the ruler and two-thirds to the state budget.

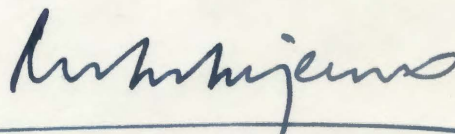
6. Annual government development expenditures average \$5 million per year. Education and medical services are provided free by the government. The pressure of the population and social restlessness, however, seem to call for accelerated development and diversification of production (particularly in view of possible reduction of British expenditures after 1971). The most notable recent development in this context is the setting up of a \$70 million aluminum smelting plant, using waste gas as fuel, by a British-Bahrein consortium. Unless new oil resources are discovered (or the joint Saudi-Bahrein field proves of importance) the Bahrein government would seem to be in need of funds for development and diversification. A joint Federal development budget may be a means by which such funds would be transferred from richer members. If independence is contemplated, the question of Bank aid may be raised. Bahrein may be looking for funds to finance part of its share in the aluminum smelting company.

The Ruler

7. His Highness Sheikh Isa bin Sulman Al-Khalifa inherited his position from his father in 1961. In the tribal tradition, he is also the leader of the Al-Khalifa family, which is one of the largest on the island. One-third of the oil revenue used to be allocated to the Ruler and probably continues to be. He is 36 years old and noted for being quiet, calm and dignified. He understands English but may prefer to speak Arabic.

Bank's Relations with Bahrein

8. Bahrein is represented in its foreign relations by Britain. It is not a member of the Bank in its own right. It applied for and became an associate member of FAO in 1967. In December last year we were asked by the President of the Provisional Federal Council to make an economic survey of the needs and potentialities of the emirates which will make up the Federation. We agreed to do so and sent a reconnaissance team in June consisting of Mr. Maiss and Mr. Asfour to determine the terms of reference and composition of the mission and to arrange for the preparatory work to be done. When Mr. Shoaib and Mr. Dajany visited him in April and again when Mr. Maiss and Mr. Asfour visited him in June, the Ruler of Bahrein voiced his welcome of the forthcoming economic mission. This mission, composed of five people and headed by Mr. Asfour, is scheduled to start its field work in the middle of October and to stay in the field for four to five weeks. Its first stop will be Bahrein. The mission's report will be presented early in 1970 to the Provisional Federal Council.



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cc: Mr. Knapp  
Sir Denis Rickett  
Mr. Shoaib  
Mr. Cope  
Mr. Thompson (o/r)  
Mr. Dajany



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MEMORANDUM FOR THE RECORD

BAHRAIN: Mr. McNamara's meeting with the Minister of Finance and  
the Minister of Economic Affairs

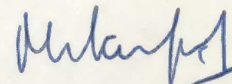
His Excellency Sayed Mahmoud Al-Alawi, Minister of Finance, and His Excellency Youssef Shirawi, Minister of Economic Affairs, Bahrain, visited Mr. McNamara on April 20. They were accompanied by Mr. Ablatif Al-Hamad, Director of the Kuwait Fund for Economic Development, who had come with them to Washington.

Mr. Al-Hamad explained to Mr. McNamara that the Ministers had come to Washington to get acquainted with the Bank and Fund and the leading personalities who would be handling the affairs of their country, once the membership application had been processed through both institutions.

Mr. McNamara welcomed the two Ministers and explained his pleasure at the impending membership of Bahrain. At his request the Minister of Economic Affairs gave a brief explanation of Bahrain's economic outlook and, in particular, mentioned the fact that Bahrain's known oil reserves were limited and not expected to last for more than 15 to 20 years. Bahrain was therefore anxious to diversify its economies before its oil income began to diminish.

Mr. McNamara asked the Ministers whether all oil prospects in and around Bahrain had been fully investigated and the Minister replied that two joint exploration activities with Iran and Saudi Arabia respectively, still held out reasonable hope for additional oil.

The Ministers thanked Mr. McNamara for receiving them and expressed the hope of close relations with the Bank in the future.



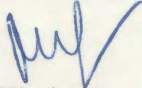
M.P. Benjenk  
May 25 1972

President has seen

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 18, 1972

FROM: Munir P. Benjenk SUBJECT: BAHRAIN -- Visit Ministers of Finance and Economic Affairs

On Thursday, April 20, 1972 at noon, you will be receiving the Bahrain Ministers of Finance, Mr. Al-Alawi, and of Economic Affairs, Mr. Shirawi. They will be accompanied by the Bahrain Ambassador to the United Nations, Mr. Saffar, the Director General of the Kuwait Fund Mr. Al-Hamad, and Mr. Nasser Al-Sayer of the Kuwait Fund, and perhaps Mr. Al-Mishri of the Kuwait Embassy.

4/18  
Mr. Al-Alawi is an elderly, well respected merchant type businessman, who has been Minister of Finance for some time; he speaks little English.

Mr. Shirawi is a 40 year old, energetic civil servant, well and favorably known to the Bank and the U.S. A graduate of the University of Beirut, he also studied in Scotland. As past Chief of Oil Affairs, he has had extensive dealings with Western businessmen. Mr. Al-Hamad of the Kuwait Fund is, of course, well known to you and the Bank.

The Bahrainis are here to acquaint themselves with the Bank, pending their forthcoming membership, and are also seeing Mr. Schweitzer in the Fund; their program of appointments is attached (Annex 1).

Messrs. Shoaib and Dajany visited Bahrain last December 1971, and Mr. Dajany's memorandum to files, giving a list of projects which Bahrain considers of top priority, is attached (Annex 2). A general paper which was prepared for my visit to Bahrain last February may also be of interest to you (Annex 3), together with a list of present Bank-Kuwait Fund involvements (Annex 4).

Attachments

cc: Mr. Shoaib



VISIT BAHRAIN AND KUWAIT DELEGATIONSProgram of AppointmentsWednesday, April 19, 1972

	<u>Room</u>	<u>Extension</u>
10:30 - Mr. Benjenk - Director - Europe, Middle East & North Africa Dept.	A712	4361
11:15 - Mr. Chadenet - Deputy Director - Office Director, Projects	C303	2661
12:30 - Mr. Schweitzer- Managing - International Monetary Fund Director	F1200	3057
1:00 - Luncheon, Host Mr. Deaf, Executive Director, IMF - Dining Room 5		5184
2:30 - Mr. Harold Graves* - Assoc. Director Dev't Services Department	B703	4724
2:50 - Mr. Michael Graves* - McKinsey Consultant	B703	4724
4:00 - Mr. Knox - Director - Transportation Projects Department	A413	2383
5:00 - Mr. Ballantine - Director - Education Projects Dept.	D729	2747

\* meetings with Mr. Al-Hamad.

Thursday, April 20, 1972

10:00 - Mr. Rotberg Treasurer IBRD	A1042	2213
11:00 - Messrs. Armstrong/Howell Deputy Directors - Public Utilities Dept.	A313	2065
12:00 - Mr. McNamara President IBRD	A1230	2001
1:00 - Luncheon, Host Mr. Shoaib, Vice President (Dining Room G)		2006

-oOo-

3:00 - U.S. State Department ? (Mr. Twinam)

101-21481



JAN 7 1972

## OFFICE MEMORANDUM

~~AD~~  
AD

TO: Files

DATE: January 6, 1972

FROM: Omar Dajany

SUBJECT: Visit to Bahrain

During Mr. Shoaib's visit to Bahrain from December 1-3, a business meeting was held in the office of H.E. Youssef Shirawi, Minister of Economic Affairs. Present were:

BankBahrain

Mr. Mohamed Shoaib  
Mr. Omar Dajany

Youssef Shirawi, Minister of Economic Affairs  
Alsayed Mahmoud Al-Alawi, Minister of Finance  
Ibrahim Abdul-Karim, Director of Oil and  
Economic Affairs, Ministry of Finance  
Habib Kasem, Director of Industry and Commerce,  
Ministry of Economic Affairs

Mr. Shoaib said that in recent years he had made a habit of paying an annual visit to the Gulf area and he was happy that his visit to Bahrain this time provided him with the opportunity to congratulate them on their independence and admission to the United Nations and the Arab League. He also said Bahrain is an applicant for membership in the Bank and wanted to extend an advance welcome to them and acquaint himself with the possible areas in which the Bank could be of assistance to Bahrain after their membership. Mr. Shirawi thanked Mr. Shoaib very much and said that Bahrain was earnestly looking forward to a close and fruitful cooperation with the Bank. He added that Kuwait had been prodding them for sometime to cooperate with the Bank and the earlier visits by Mr. Shoaib and Mr. Dajany had acquainted them with the Bank's operations and the various possibilities of cooperation that exist.

He asked several questions regarding membership, contact with the Bank, representation on the Board, and participation in the Annual Meetings. Mr. Shoaib explained all these points and it was decided that contact with the Bank will be through Ibrahim Abdul-Karim, Director of Oil and Economic Affairs, Ministry of Finance. As to the Annual Meetings their present thinking is to have the Minister of Finance represent Bahrain as Governor to the Bank and Fund while Mr. Shirawi would be Alternate Governor to the Bank and Mr. Abdul-Karim as Alternate Governor to the Fund. This may change at the time of the Annual Meetings but at least it is their thinking at the present time.

Mr. Shirawi went on to outline the various development projects which Bahrain considers as top priority with an estimate of the total cost of each project. They are:



January 6, 1972

(LB:D = approx. \$2)

1. Water and Power	25 million	B.D
2. Sewerage	5 "	"
3. Port Development	5 "	"
4. Transportation (roads)	3 "	"
5. Tourism (infrastructure)	2 "	"
6. Education	10 "	"
Total	<u>50</u>	

Of the above, Kuwait, through the Kuwait Fund for Arab Economic Development, has agreed to finance BD 10 million for the water and power project. The Government may be in a position to finance another BD 15 million out of their own revenues and this would leave the balance required by Bahrain at BD 25 million for all the above projects. They have already conducted several studies regarding these projects and said that they would be approaching the Bank with some or all of these projects after the membership formalities are complete.

Mr. Dajany then acquainted the meeting with the Bank's fund raising activity and mentioned the welcome cooperation of Abu Dhabi, Jordan, Kuwait, Libya, Qatar and Saudi Arabia in this fund raising effort. He added that he hoped that when and if Bahrain finds itself in a position to participate in the Bank's bond issues that they would also do so. Mr. Shirawi and Mr. Al-Alawi both said that they would be happy to participate and in fact would consider doing so in our March 1972 two-year bond issue. This participation may not be large to begin with but at least would serve the purpose of demonstrating their desire to fully cooperate with the Bank in all its activities.

ODajany/w

cc: Mr. Shoaib  
Mr. Benjenk (2 copies) ✓



BAHRAIN

(Brief for a Visit in February)

I. Area, Climate

1. Bahrain consists of more than 30 small islands in the Arabian (Persian) Gulf, many of them un-inhabited. The biggest one is Bahrain Island, which covers 85 percent of the total area <sup>1/</sup>. The capital of the state, Manama, with about 90,000 inhabitants, the main port, Mina Sulman, and the oil field at Awali are all located on Bahrain Island. The second most important island is Muharraq, the ruler's residence, with about 50,000 inhabitants.

2. The average rainfall is extremely low, not more than 75 mm (3 inches). Temperature in February is moderate, with an average daily maximum of 21° C and minimum of 13° C. Relative humidity is around 70 percent in February, but surprises are possible.

II. Recent Political Developments

3. Bahrain's ruler proclaimed independence on August 14, 1971 (the 139th independent state). Shortly thereafter, Bahrain became a member of the Arab League (September 11, 1971), United Nations (September 21, 1971) and submitted applications to join the IMF and the IBRD. The move towards independence resulted from Britain's statement of intention in 1968 to withdraw from the area and from longlasting, but not successfully completed negotiations with other former British Protectorates in the area on a nine-state federation in which Bahrain was supposed to play a leadership role. Membership of the new state in the Arab League was strongly opposed by the People's Democratic Republic of Yemen, which supports the radical movement in Dhofar province (state of Oman) called "PFLOAG" - Popular Front for the Liberation of the Occupied Arab Gulf. Its original objective was to end the colonial rule in the Gulf area and subsequently to get rid of colonial "puppets."

4. The radical movement in the area is pretty isolated and does not seem likely to gain a strong foothold in this part of the Arab World, at least not in the near future. But the strategic and economic importance of the area as well as the interests manifested by neighboring bigger countries to expand their influence, inspired the ruler to strengthen Bahrain's ties with Arab and other countries to offset the power vacuum created by British withdrawal. The growing number of intellectuals and the strengthening of the middle class, a process more emphasized in Bahrain than in many other parts of the area, have encouraged some internal reforms, which may enhance the prospects for stability in the new circumstances.

5. On the external front, several moves were made before and immediately after the proclamation of independence:

a) moral support was received both from Saudi Arabia and Iran;

1/ See Attachment on Basic Indicators.



b) a treaty of friendship with Britain, which ipso facto replaced all previous agreements on protection, was signed on August 15, 1971;

c) readiness to join the Union of Arab Emirates was expressed;

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d) agreement was reached with the USA to use naval facilities at Bahrain (this action aroused concern in Iran).

6. Bahrain's society is still conservative. All ultimate powers are vested with the ruler Sheik Isa Bin Sulman Al-Khalifa, who changed his title to "Emir" following independence. The Arab tribal family, Al-Khalifas, has ruled in Bahrain since the end of the 18 century. The younger brother of the Emir, Sheik Khalifa Bin Sulman Al-Khalifa now runs the administration (the Emir allegedly prefers a quiet life among his friends and looking after his Arabian horses). Tribal tradition and the participation of tribal leaders have been important in maintaining power, but with the growth of urban population, the influence of tribes appears to be lessening. This might be one of the reasons for the establishment of Bahrain's first Council of State in January 1970. After independence the Council was upgraded to Cabinet level and all members received the title of Minister. The Emir's brother is Premier.

7. The towns and cities are subdivided into six municipalities administered by municipal councils, members of which are partly elected and partly appointed by the Central Government. Rural level administration is carried out by mukhtars, appointed by the Emir.

### III. Recent Economic Developments

8. The economic situation and policy of the newly independent state is probably best summarized in the Premier's Statement "that the country is looking for business, trade and investments that will employ its people and maintain its position as the most progressive, most industrialized and best educated of the Gulf States." The fact that oil reserves are likely to be exhausted in 15 years at the present rate of exploitation as indicated recently by geologists, increases the concern of this tiny state about its future.

9. Pearling, fishing and coastal trade, common to the whole Gulf area, characterized Bahrain's economy until discovery and commercial exploitation of oil in the early 1930's. BAPCO - Bahrain Petroleum Company - owned jointly by the Standard Oil Company of California and Texaco Inc. was the first concessionaire in the area. An offshore concession was given to ARAMCO (Arab American Oil Company) with joint shares to Saudi Arabia and Bahrain, and production began in 1966. But unlike other sub-regions of the area, Bahrain's onshore oil production never rocketed, maintaining slow growth to a peak of 3.8 millions tons p.a.



reached in the last few years and with prospects of short duration.

10. The prosperity of the tiny archipelagos state has, however, been based on the oil. As one of the first oil producers in the area and enjoying a favourable geographical location, it grew swiftly into an important center of finance, communication and trade both for Saudi Arabia, and the other Gulf States. It developed a modern port, Mina Sulman, with good storage and refrigeration facilities and started economic diversification much earlier than other areas in the region. In addition to the BAPCO owned refinery, with processing capacity of around 12 millions tons p.a. (the second largest refinery in Middle East) and a 100,000 ton capacity aluminium smelter, which started production early in 1971, industrial activities include: textile manufacture, building materials, plastics, ship building and repair, packing materials, and assembly of air-conditioning equipment. Some new projects are under implementation.

11. The Government supports the principle of a free economy ("We aren't after customs or taxes") and receives royalties from oil exploitation, shares in profits of the refinery, and has a stake of around 30% in the aluminium factory. Many entrepreneurs from the area moved to the island attracted by the free market and opportunities. The availability of skilled labor, hotel space, good banking organization and services, a modern port and airport, telephones and telegraphic communications, "liberal liquor regulations" (contrast to Saudi Arabia), in short, a business minded environment, have probably influenced the process of economic diversification.

12. Prospects for agricultural development and use of other natural resources are poor. Dates and vegetable production cover an area of only about 4,000 acres. Lack of water and small area are the constraints.

13. Relative to the situation in neighboring countries, educational and health facilities are well developed. The population is well educated with more than 50,000 students in schools on all levels. Educational expenditures amount to more than 25% of total current Government expenditures, much higher than in many other developing countries. Unemployment and underemployment may exist but the proportions appear to be negligible and as such are not in the foreground of the national concern.

14. Public revenues are still dominated by oil receipts, which amount to about 75% of the total. Customs duties account for about 15%, and the remainder originates in Government property, fees for services rendered, gasoline tax and vehicle registration tax. Revenues rose by about 6% over the period 1966-70 but total expenditures by about 16% 1/.

1/ See Attachment on Basic Indicators.



7 Around 70% of expenditures were designated for health and education. With the withdrawal of British troops, the share of defense and security expenditures may become much higher than it has been so far (in 1970 it was about 12% of current expenditures).

15. Bahrain has a well developed commercial banking sector, including ten affiliates of foreign banks and two locally - organized banks (the Bank of Bahrain and the Kuwait - Bahrain Bank).

16. Not much is known about the balance of payments. Exports are dominated by refined oil products, and the remainder consists of re-exports to other Gulf countries. The country depends on imports of almost all foodstuffs, consumer goods, and equipment. The most important suppliers are UK, Japan, USA, the People's Republic of China, India, the Federal Republic of Germany. However, it is likely that the foreign exchange position of Bahrain is strong.

17. In its further development, Bahrain will need to consider wider regional development plans. Small population, a relatively narrow internal market and limited resources suggest concentrating on activities which do not compete with the same type of industries in much stronger and richer neighboring markets.

18. Work on quota calculation in the IMF is underway. Bahrain representatives did not attend the Annual Meetings. No contribution has been made to Bank bonds, so far.

Europe, Middle East and North Africa Department

January 31, 1972

JKorosec/MPayson/ac

BAHRAIN

BASIC INDICATORS

<u>Area:</u>	663 Km <sup>2</sup> (256 sq. miles)
<u>Population:</u> of which: Non-Bahraini	217,000 (mid 1971) 18%
<u>GNP Estimate</u> per capita GNP	over \$90 million (1969) about \$500 (1969)
<u>Currency</u>	Bahrain dinar = 1.86621 grams of fine gold or BD 1 = \$2.10 till December 20, 1971 <sup>1/</sup>

<u>Oil</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971<sup>2/</sup></u>
Crude oil production (millions tons)	3.1	3.5	3.8	3.8	3.8	3.8
Oil processed (millions tons)	10.0	12.2	11.5	11.7	12.7	...
<u>Government Finance (BD million)</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971<sup>3/</sup></u>
Revenues, current	15.3	16.3	16.0	18.8	19.3	22.6
of which:						
Oil	11.8	11.6	12.1	14.5	14.4	13.8
Expenditures, current	7.7	9.3	9.1	11.4	12.7	13.2
Current surplus	7.6	7.0	6.9	7.4	6.6	9.4
Development Expenditures	3.8	5.2	5.2	5.3	7.7	10.8
Overall surplus (+) or deficit (-)	+ 3.8	+ 1.8	+ 1.7	+ 2.1	- 1.1	- 1.4
<u>Trade Balance (BD million)</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	
Exports of goods	60.3	64.6	74.0	77.6	84.2	
of which:						
Oil products	47.7	49.9	55.5	57.7	59.0	
Imports of goods	43.7	48.5	54.2	61.2	83.3	
Trade balance	+16.6	+16.1	+19.8	+16.4	+ 0.9	

IMF Position

Submitted application to join.  
Quota calculations under way.

Bank Position

Submitted application to join.  
Not contributed to the Bank's  
Bonds so far.

- 
- 1/ Bahrain continued to maintain the gold content of the dinar after recent realignment of currencies, i.e. the new relationship to US \$ must be close to BD1 = \$2.30.
- 2/ Preliminary.
- 3/ Budget estimates.



Brief for Mr. Benjenk's Visit to Kuwait Fund

The following comments are extracted from briefs prepared by the divisions concerned.

Past FinancingTunisia

So far we co-financed one project with the Fund in Tunisia in January 1971. The Gas Pipeline project, for which we lent \$7.5 million and the Kuwait Fund D900,000 (roughly \$2.5 million), is going ahead on schedule. The consultation arrangements set up with the Fund in an exchange of letters are working satisfactorily.

Present InvolvementsMorocco

The only operation underway concerns the Bank's fifth loan to BNDE (736-MOR). Financial requirements for the SUCRAFOR sugar mill sub-loan which amount to DH 8.4 million have been covered by the proceeds of the Bank loan up to DH 6 million; in their letter of September 6, 1971, the Kuwait Fund informed us that they had approved in principle the financing of the remainder. The Kuwait Fund was supposed to send a mission to Morocco in the Fall and to take a final decision by the end of the year. We have not heard from them yet.

Yemen Arab Republic

Wadi Zabid Agricultural Project (FY 1973; anticipated cost \$6.5 million)

The Kuwait Fund, which financed the local costs of the feasibility study for Wadi Zabid agricultural development, has indicated it wishes to participate in the appraisal and financing of the full investment project. The Chief of the FAO-IBRD Coop Programme preparation mission in December 1971, Mr. Campbell, undertook to discuss the composition and timing of the project with the Kuwait Fund during the Abyan Delta meeting recently in Aden. We might confirm the Kuwait Fund's agreement to proceed with the Wadi Zabid project along the lines suggested by the preparation mission. (Copy of Mr. Campbell's report on this mission is attached for ready reference). Essentially, the mission recommended a project including not only surface water irrigation works at Wadi Zabid, but initial groundwater development (for about 1000 ha) at Wadi Mawr, plus creation of a Tihama development authority and hydrological investigations/feasibility studies for development of a number of other wadis of the coastal region.



It would also be useful to reconfirm our suggestion made earlier that the Kuwait Fund's participant in the appraisal mission should have a special expertise, perhaps of local social and economic customs, to complement the specialties of the IDA appraisal team. Besides this, it would be useful to ascertain the extent of financial involvement that the Kuwait Fund would visualize for this project, along with IDA.

## Jordan

### Irrigation

The Kuwait Fund has already agreed to provide JD 5 million for the construction of a dam on the Zerqa river (one of the main tributaries of the Jordan) as the first stage of a JD 12 million project for the irrigation and on-farm development of 5,000 ha. of land in the Wadi Zerqa.

The canalization and on-farm development works associated with the project would be suitable for financing by the Association, leaving the cost of social infrastructure (housing, health, clinics, etc.) to be financed by other donors. The dam is scheduled for completion in 1975. A detailed breakdown of costs is not available at the moment; however, a credit of \$5 million has been included in the draft CPP on Jordan due to be reviewed in March 1972 for proposed consideration in FY 1974.

## Future Prospects and General Comments

### People's Democratic Republic of Yemen

#### Fisheries Project

In his back-to-office report, Mr. Campbell mentioned that the Kuwait Fund is actively interested in fisheries projects in PDR Yemen and that a considerable amount of time was devoted to discussions of these projects. The Kuwait Fund apparently is considering financing a study of fishing resources and markets, especially in relation to fish meal development, which appears to be its main interest.

The fish meal proposal identified by Dr. Payne, an FAO consultant, in February 1971 included three phases of development. The initial phase would consist of installation of certain equipment already available at Mukalla and provision of additional trawling facilities. Subject to the experience of this first phase, Dr. Payne indicated that a second and third phase expansion, reaching up to 300,000 tons per annum, would be feasible. The Kuwait Fund appears to be interested in this second and third phase expansion. The CP project preparation mission, which is presently in the field to prepare a project for IDA financing, is looking into the possibility of including the first phase in the IDA project.



The Agriculture Projects Department has reservations on the profitability calculations for the fish meal plant prepared by Dr. Payne. The Government in the meantime has decided to establish a fish meal corporation, with provision for management by foreign investors as minority share holders. At the invitation of the Government, Dr. Payne was in Aden recently to discuss the possible involvement of his company for such a venture. He indicated to FAO and Bank staff that he is reluctant to get involved unless the Bank Group is also involved, although he is convinced that the proposal which he identified is technically and financially feasible. The proposal would be attractive if the foreign investor would underwrite the sale of fish meal at a price used by Dr. Payne in his projections, but as of now no one has shown interest for such an undertaking.

#### Abyan Delta Agriculture Project

We are proceeding on the assumption that parallel financing with the Kuwait Fund will be appropriate for the Abyan Delta project. According to our Timetables, a project could be ready for Board presentation in early FY 1974, approximately in the amount of \$3 million. Our expectation is that this will be a project for integrated development based mainly on groundwater, rather than flood irrigation.

Mr. Campbell of the Cooperative Programme participated in a meeting in early January, called by the Kuwait Fund to discuss the progress of consultants' work. The initial report, covering surveys and field studies for the Abyan Delta is due early in March, to be followed by specific proposals for development and the preparation of plans and specifications. Mr. Campbell has recommended that the Cooperative Programme review the tentative conclusions of the consultants in late February before they are committed to paper. The Kuwait Fund has also asked for CP participation in a meeting to discuss the consultants' proposals, to be held in Kuwait sometime in March. The Agriculture Projects Department supports these recommendations.

#### Jordan

##### Power

The Government of Jordan has applied to the Association and the Kuwait Fund to help finance a 66 MW Steam Thermal Power Station at Zerqa. The project, which was originally scheduled for commissioning in 1974/75 has been postponed by two years on the advice of the Association, in view of the cost savings to be gained in the interim period by continuing to expand diesel generation at the Amman Power Station. The total cost of the project, estimated at about \$15.6 million, includes a foreign exchange component of about \$13 million, which, it is proposed, should be jointly financed by the Association and the Kuwait Fund. The project will be reappraised early in 1973 and a credit of \$6.5 million has been included in the FY 1974 lending program.



Meanwhile the Jordan Electricity Authority has requested an updated feasibility report from their consultants, Kuljian Corporation, and intend signing a final design agreement shortly, with a view to completing bidding documents by the end of 1972. Retroactive financing of consultants fees would be made by the Association after the project is approved.

## Syria

### Euphrates Project

The only project in Division A for which joint financing with the Kuwait Fund may be warranted is the Euphrates irrigation in Syria. However, consideration of the project by the Bank is contingent upon agreement between the three riparian countries on preliminary arrangements for water rights (since agreement on the ultimate sharing of waters is likely to take substantial time and is not essential for the implementation of the projects planned in the next few years) as well as on the economic justification for the project. It may therefore be premature to mention this project to the Kuwait Fund, but we should leave it to you to decide on this.

The amounts involved are very large; the first tranche of 50,000 ha for which Government has expressed interest in Bank/IDA financing may cost as much as \$115-140 million in total (including land development, infrastructure and housing). The Kuwait Fund participation in the financing would be useful not only to share costs but also to soften the financing terms as IDA financing in Syria is likely to remain limited.

## Tunisia

We do not anticipate any co-financing operations with the Fund at the time being. The Fund was not interested in co-financing with us the Rhennouch power project Phase B which we have appraised and which we are going to negotiate hopefully by February 24. For staff reasons the Fund could not participate in the appraisal mission. It also indicated its interest in rather financing Phase C of the power plant. This phase would only be required after 1975. If, in due course, the Fund feels its financing could be shared with the Bank, I assume that we would be ready to do so and to make provisions in our lending program.

The agricultural sector would offer prospects for co-financing in the longer run. I am thinking in particular of the Water Master Plan for northern Tunisia which, however, in our present estimate will at best be ready for financing in FY 1974.

You should also mention the tourism infrastructure project in Tunisia. Mr. Hartwich had asked a few weeks ago the Deputy General Manager of the Fund whether they would be interested in co-financing this project. The reaction of this official was negative.



You may want to bring up the Fund's participation in Consultative Group meetings for Tunisia. Why have they not sent any representative to the last meeting in October 1971? Was it really because the Fund was not satisfied with the results produced in the 1970 meeting as indicated by the Director General of the Fund to the Minister of Planning of Tunisia? The Fund's future participation would be useful particularly if the Group discusses well defined problems like the promotion of export oriented industries and the rehabilitation of the agricultural sector. This might have a bearing on the Fund's lending activities in Tunisia, if it wishes to reactivate them.

**Attachment:**

Supplementary Note on Yemen Arab Republic Highway Project