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THE WORLD BANK
Washington, D.C.

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The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
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Travel
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January 9, 1978

Arrival Statement in Saudi Arabia

I am very happy to be in Saudi Arabia again for my fourth visit. As President of the World Bank and its affiliate, the International Development Association, I want to thank your Government for coming forward to contribute for the first time to the Fifth Replenishment of the Association.

While increasing its assistance, the World Bank is keen to direct it to the poorest countries. The most appropriate instrument for this is the International Development Association, which lends to priority development projects on concessional terms. Saudi Arabia's contribution will help the IDA to maintain its level of operations in real terms.

Saudi Arabia has also chosen World Bank bonds as a channel to transfer its resources to economic development. The Bank commenced its direct placements with the Saudi Arabian Monetary Agency in 1968. In all, the Bank has placed almost \$1.7 billion worth of bonds in Saudi Arabia. Of this amount, about \$1.4 billion is still outstanding. The Saudi Fund for Development has joined the World Bank in co-financing development projects in the Middle East and elsewhere. Such co-financing totals over \$1 billion by the end of 1977.

Saudi Arabia is a rapidly developing country. The World Bank has provided technical assistance in the spheres of manpower planning, organizational support, industry and transport. Your

Government pays for these services. We are ready to expand this type of assistance if needed.

As a bilateral donor, Saudi Arabia's official development assistance has significantly increased. At your request, we have helped to organize a consultative group for coordinating your development assistance and that of other countries to Egypt.

The past ten years have witnessed a sustained expansion in the volume and range of World Bank assistance to developing countries. As part of this pattern, the Bank has increased its lending and technical assistance to countries in the Middle East. The Bank's total lending to the Arab countries was \$250 million during the period 1964-68-- an average of \$50 million a year. Our annual average lending in the region amounted to \$260 million a year during 1970-74. In the last fiscal year we lent \$830 million in the region.

I hope that our current discussions would lead to greater cooperation between Saudi Arabia and the World Bank in the immense task of banishing poverty, hunger, malnutrition and want in the developing world.

KINGDOM OF SAUDI ARABIA

MINISTRY OF FINANCE
AND NATIONAL ECONOMY

OFFICE OF THE MINISTER

PROGRAM OF PRESIDENT MCNAMARA'S VISIT

January 23-25, 1978

Monday, January 23

- 23.05 hrs - Arrival from Cairo, SV048.
President McNamara will be met by
HE Mr. Mohammed Al Sugair, Deputy Minister
of Finance for Budget and Organization, and
by other officials from the Ministry.

Tuesday, January 24

- 9.00 hrs - Meeting with HE Sheikh Mohammed Abalkhail,
Minister of Finance and National Economy.
- 11.00 hrs - Meeting with HRH Crown Prince Fahd ibn Abdulaziz,
Crown Prince and First Deputy Prime Minister,
at the Royal Palace at Al-Ma'azar.
- 13.30 hrs - Luncheon hosted by HE Sheikh Mohammed Abalkhail
at the Guest Palace at Al-Muraba'a.
- 17.00 hrs - Meeting with HRH Prince Saud Al-Faisal,
Minister of Foreign Affairs, at his Palace.

Wednesday, January 25

- 7.00 hrs - Departure by private jet star to Kuwait.

1. S.A. Technical Cooperation Program
2. Egypt
3. S.A. Bank joint economic development aid efforts
4. IDA and Bank future plans:
 - (a) IDA request for additional contribution
 - (b) Bank
 - (i) Investment in Bank bonds
 - (ii) Plans for capital increase

No requests

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

DATE: January 6, 1978

FROM: Saad S. El Fishawy

Saad El Fishawy

SUBJECT: Visit to Saudi Arabia, Kuwait and Abu Dhabi

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APR 10 2013

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(1) Saudi Arabia

Please find attached two proposed aide-mémoires: (1) On IDA additional contribution (before your meetings in Riyadh, I would have sounded Minister Abalkhail on the advisability of your raising this issue) and (2) Bank Capital increase. As you would recall, Governor Alquraishi in his meeting with you during the latest Annual Meetings expressed strong support of the Bank's Capital increase and indicated that the Saudi Government would fully subscribe to its share.

(2) Kuwait

1/6
On December 28, 1977 I sent to Minister Al-Ateegy a telex enquiring about timing suitability of your visit (copy attached). Three days later, on December 31, 1977 the Amir Sabbah Al-Salim passed.

We have not yet received a response to my enquiry from Minister Al-Ateegy. This is not surprising. The cabinet is presently considered a caretaker cabinet, since the Crown Prince and Prime Minister Sheikh Jabir Al-Ahmad became Amir and his successor has not yet been appointed. As a matter of fact, this is not an easy or smooth question, and it may take to around mid-January before it is decided by the family council.

There are three contenders to the succession:

1. Sheikh Salim Al-Sabbah, the eldest son of the late Amir. You may have met him when we was Ambassador of Kuwait in Washington from 1969 to 1975. Although he is the brightest and best suited, he probably has the least chance because he is the youngest and has the least claim;
2. Sheikh Saad Al-Abdallah, the oldest son of the previous Amir Abdallah Al-Salim, who died in 1965. He has been the Minister of Defense and Interior (Police) for about the last 15 years;
3. Sheikh Jaber Al-Ali, who was deputy Prime Minister and Minister of Information in the cabinet of Sheikh Jaber Al-Ahmad. Although he was the rival to Sheikh Jaber for becoming Crown Prince when the late Abdallah Al-Salim passed in 1965, and although they have a notoriously strained relationship, he has the greatest chance of becoming Crown Prince and probably Prime Minister.

In the meantime, all the present Ministers rest unassured of whether they will continue in their positions in the new cabinet or not. This includes Minister Al-Ateegy who was particularly supported by the late

Amir. This might explain why we have not yet received a response to my enquiry. Maybe we will not receive such a response before the end of next week either. In my view, we should not, however, press the matter and just wait for their response.

(3) Abu Dhabi

If you can afford the time, particularly in case the visit to Kuwait were not to materialize, I think it would be useful to pay a one-day visit to Abu Dhabi at this time. In this area, nothing is more appreciated than a courtesy call when there are no immediate pressing requests. Although the United Arab Emirates' contribution to IDA V was not very big, an expression of appreciation would be gratefully remembered at the time of IDA VI.

Encl.

cc: Messrs. Cargill
Benjenk
Paijmans

SELFishawy/rh

Need for World Bank Capital Increase

At last year's CIEC meeting a consensus was reached, and endorsed subsequently at the IBRD Annual Meeting, that the capital base of the World Bank should be increased sufficiently to permit its lending to rise adequately in real terms in the years ahead. Negotiations for a general increase in IBRD's capital are now underway and this brief outlines some of the major topics influencing the discussion.

I. Growth Prospects and External Capital Requirements of Developing Countries

Almost every study has shown that even when allowance is made for reasonable improvements in developing countries' efforts at mobilizing domestic resources and expanding exports, these countries will need to supplement their own resources with foreign capital if they are to achieve growth rates which are at all acceptable over the next several years. Some of the relevant figures are presented in the table below.

	<u>Net External Financing Requirements ^{a/}</u> <u>of Non-Oil Developing Countries</u> (in billions of current US\$)		
	<u>1973</u>	<u>1975</u>	<u>1980</u>
Net External Financing Requirements			
- Poorest Countries	3.6	7.2	9.2
- Middle-Income Countries	<u>13.7</u>	<u>28.2</u>	<u>30.3</u>
Total	<u>17.3</u>	<u>35.4</u>	<u>39.5</u>
In Constant 1975 US\$			
- Poorest Countries	5.0	7.2	6.4
- Middle-Income Countries	<u>19.2</u>	<u>28.2</u>	<u>21.1</u>
Total	<u>24.2</u>	<u>35.4</u>	<u>27.5</u>

a/ Excludes oil-exporters. The external capital requirements of the capital-importing oil-exporters could add substantially to the estimate shown for 1980.

It is important to understand clearly what these financial requirements are. They are the external capital requirements for the achievement of moderate average rates of growth of per capita income for the middle-income countries (3.1% per annum), and quite unsatisfactory rates of growth for the poorest countries. Specifically, they would, as projected, permit growth of average per capita income at a rate of 1.5% per annum in the poorest non-oil-developing countries. At these rates it

would take roughly 50 years for average per capita income to double to a level of perhaps \$300 per year. Since experience over the past decade has shown that the combination of larger external finance and appropriate internal policies can result in rates of growth of income more than twice as high as those posited here, it would be wrong to regard the current estimate of external capital requirements, especially for the poorest countries, as being in any sense optimal.

The uncertainties affecting both the exports and the imports of the developing countries imply that the \$40 billion estimate of net external financing requirements in 1980 is subject to a wide margin of error. If developing country exports -- particularly manufacturing exports -- were to grow more rapidly than projected, this estimate could either be reduced by several billion dollars or, more likely, the use of external capital would remain about the same but growth rates would be increased. On the other hand, the \$40 billion estimate could be too low if planned savings in future imports are not fully achieved.

In the years beyond 1980, the uncertainties affecting growth prospects and capital requirements become even greater. In looking several years ahead, therefore, the appropriate question is not whether the developing countries will continue to require substantial amounts of external capital to achieve rates of GDP growth which are at all acceptable. They certainly will. The real issue is how will this financing be met and on what terms.

II. The Role of IBRD in Financing the External Capital Requirements of Developing Countries

The IBRD is an attractive means of maintaining or increasing the share of official finance in the external capital requirements of developing countries. Most official financing is provided either in the form of concessional loans and grants from governments or in the form of loans from the international financial institutions. Concessional loans and grants from governments will almost certainly increase in real terms over the next several years. However, many donor countries plan to allocate an increasing proportion of their concessional assistance to the poorest countries, so it seems reasonable to expect that most middle-income countries will depend increasingly upon the IBRD and the other international financial institutions for significant real increases in official financing.

The attractiveness of the IBRD as an instrument for transferring real resources to the developing countries is enhanced by its financial structure. Unlike many types of foreign assistance -- where the entire financing is a claim on the budgets of donor countries -- only 10% of capital subscriptions to the IBRD involves a cash outlay by member governments and that in the form of equity participation. The remaining 90% takes the form of callable capital, a guarantee mechanism which enables the IBRD to borrow the bulk of its resources on market terms. Thus, for every dollar actually paid into the capital of the IBRD, a lending capacity of ten dollars is created. The use of this capacity provides attractive investment opportunities for purchasers of IBRD obligations and loan finance on favorable terms for recipients of IBRD loans.

Moreover, the IBRD's contribution to development is not limited to the resource transfer achieved through loans. Using its worldwide project experience and country economic and sector analyses, the Bank advised member governments on a range of development policy issues. On the country level, the Bank frequently exercises a coordinating role through Consultative Groups and by other means. In this way, the Bank's economic work and policy analysis influence a far broader segment of external finance than the loans which it makes directly.

Furthermore, with the rapid growth in demand for external financing from official sources, governments have been faced with an extensive array of proposals for new lending facilities. In several instances, the decision made has been to utilize the existing international institutions rather than to create new ones. Thus, if one accepts the need for a relative expansion in official finance, particularly for the rapidly growing middle-income developing countries, where is one to look? Presumably not to direct government loans or grants, since the growth in this form of finance should go mainly to the poorest countries. Presumably not to new institutions, since governments have shown definite aversion to the proliferation of institutions except in a few cases where there is clearly a new function to be performed. That leaves the existing international financial institutions. Given the relative importance of the IBRD as a source of this type of finance, the desirability of at least maintaining, and possibly increasing, its share in the overall flow of external finance appears great.

III. A Financial Program for the World Bank

The World Bank is by far the largest of the international financial institutions and it has now achieved a history of 30 years of growth. In considering a future program for the World Bank over the next five to ten years, account should be taken of the record in past years. For the fifteen years preceding 1978 the real rate of growth of World Bank commitments has averaged 11.1% per annum; in no year has the real rate of growth been less than 7%.

Although the World Bank may be judged to have been successful, the success of the last thirty years have in no way eliminated the need for a sustained effort by the Bank to transfer resources to developing countries. Rather, the need for World Bank assistance may be judged to have increased and this is especially true when the additional responsibilities of the Bank in the areas of mineral and energy development and in the design of projects required for basic needs strategies for development are recognized.

For planning purposes, the Bank projects a nominal growth rate of commitments of 12% per annum beginning in FY79. Staff estimates indicate that an increase of the Bank's capital by \$40 billion would allow this rate of nominal growth to continue for six years. This corresponds to a 5% to 7% real rate of growth of commitments, a rate that appears modest when compared with past achievements and scarcely adequate when measured against the needs of the developing nations and the responsibilities of the World Bank.

SAUDI ARABIA'S CONTRIBUTION TO
THE RESOURCES OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION

In March 1977, 26 governments, including Saudi Arabia, reached agreement on a replenishment of the resources of the International Development Association (IDA) at a level of \$7,638 million. The Agreement became effective at the end of November 1977 with assistance from Saudi Arabia. Between the start of the Fifth Replenishment commitment period in July 1977 and the time when the Agreement became effective, IDA started to make credits to the poorest developing countries eligible for assistance on the basis of advance commitments totalling over \$1,200 million given by 11 countries, including Saudi Arabia. (The 'Bridging Arrangement' for which there was a separate agreement related to the Replenishment Agreement.) By the end of IDA's current fiscal year (June 30, 1978) credit commitments are expected to total \$2.3 billion. The balance of IDA's resources of \$5.3 billion, together with extra resources arising from transfers from IBRD net income and additional contributions being made by some countries, will enable IDA to commit about \$3 billion a year in each of the two following fiscal years.

When Mr. McNamara met with His Highness Prince Fahd in Washington in June, he expressed his appreciation for Saudi Arabia's contribution to IDA and for Saudi Arabia's advance commitment which was essential to the success of the 'Bridging Arrangement'. At the same time, since the contribution fell below the \$450 million that the Bank had originally thought might be a possible contribution from Saudi Arabia, Mr. McNamara voiced the hope that Saudi Arabia might be able to make an additional contribution to IDA. The reasons why Saudi Arabia might wish to consider making such an additional contribution are as follows:-

- The \$8 billion resources that IDA will invest in the poorest countries in the period until June 30, 1980 are small in relation to the projects which can be made ready in those countries. IDA expects to be able to prepare and approve about 280 high productivity projects in this period, all of which have to pass the test of providing substantial financial and economic benefits to the recipient countries. On average IDA's resources will be sufficient to finance only about 60% of the investment associated with these projects. Additional resources would enable this proportion to be increased and for further projects to be financed.

- In recognition that IDA can use additional resources productively, a number of contributors to the Fifth Replenishment have made, or are preparing to make, additional resources available to IDA. Possible additions to IDA resources currently total about \$400 million, including \$119 million from Germany, \$117 million from the United Kingdom, and \$20 million from Kuwait. (See Table 1 attached.)
- Most of the countries that contributed to the recent IDA Replenishment, including those now considering additional contributions to IDA, are channelling a much higher proportion of their development assistance through IDA. They would welcome an additional contribution from Saudi Arabia to IDA as further evidence of Saudi Arabia's support for the established international institutions of which IDA is far the most important for the poorest developing countries.
- Saudi Arabia's contribution to the Replenishment of IDA is the tenth largest and puts Saudi Arabia alongside such countries as Sweden, \$294 million, and Netherlands, \$260 million. An additional contribution would put Saudi Arabia in a more appropriate position in line with Saudi Arabia's financial strength.
- About 30% of IDA's resources is expected to be channelled to projects in Islamic countries including 10% in Arab countries. An additional contribution by Saudi Arabia would be seen as indicating Saudi Arabia's desire to see sound projects financed in these countries that will eventually enable them to cease to depend on the international community for their continued development.

Attachments:

Table 1: Possible Additional Contributions to IDA

Table 2: IDA Lending

Actual and Possible Additional Contributions to IDA 5

	<u>Original Contributions</u>	<u>Additional Contributions</u> ^{1/}
Australia	146.9	9.0
Austria	49.7	-
Belgium	124.6	15.9
Canada	447.9	6.0
Denmark	87.8	11.3
Finland	41.0	-
France	413.3	56.5
Germany	838.8	119.1
Iceland	2.2	-
Ireland	8.6	2.4
Italy	295.9	34.9
Japan	792.0	-
Korea	1.0	-
Kuwait	180.0	20.0
Luxembourg	3.6	0.5
Netherlands	216.7	39.4
New Zealand	7.6	-
Norway	80.6	5.0
Saudi Arabia	250.0	-
South Africa	10.0	-
Spain	21.0	-
Sweden	293.8	-
United Arab Emirates	50.8	-
United Kingdom	814.3	116.5
United States	2400.0	-
Yugoslavia	8.1	-
Total	<u>7586.2</u>	<u>436.7</u>
Unallocated	51.7	-
TOTAL	<u><u>7637.9</u></u>	<u><u>8022.9</u></u>

1/ Of the possible additional contributions shown totalling \$436.7 million, \$36.5 million has already been formally agreed and accepted by IDA, \$385 million is being negotiated with the nine members of the European Common Market^{2/} and the balance of \$15 million is under consideration by Australia and Canada.

2/ To be administered by IDA under a separate account.

IDA LENDING PROGRAM FY61-78 ^{a/}
(in current dollars)

Country	FY61-65		FY66-68		FY69-71		FY72-74		FY75-77		FY78	
	Sr.	No. of Operations	\$m.	No. of Operations	\$m.	No. of Operations	\$m.	No. of Operations	\$m.	No. of Operations	\$m.	No. of Operations
<u>Oil Producers</u>												
Indonesia	-	-	-	-	227.4	16	334.4	22	-	-	75.0	1
Nigeria	35.5	2	-	-	-	-	-	-	-	-	-	-
Total	35.5	2	-	-	227.4	16	334.4	22	-	-	75.0	1
<u>Arab League</u>												
Egypt	-	-	-	-	26.0	1	125.1	8	182.0	3	122.2	4
Jordan	8.5	3	3.0	1	6.0	1	24.3	3	29.5	6	14.0	1
Mauritania	6.7	1	-	-	3.0	1	11.6	3	17.2	4	-	-
Morocco	-	-	11.0	1	7.3	1	18.5	2	14.0	1	-	-
Somalia	6.2	1	2.3	1	3.9	2	32.6	3	43.2	6	15.0	2
Sudan	13.0	1	8.5	1	-	-	99.0	6	98.0	6	80.0	5
Syria	8.5	1	-	-	-	-	38.8	3	-	-	-	-
Tunisia	5.0	1	19.0	2	23.8	3	22.0	4	4.8	-	-	-
Yemen AR	-	-	-	-	-	-	38.2	5	71.6	8	29.0	3
Yemen PDR	-	-	-	-	1.6	1	4.1	2	32.7	4	10.0	2
Total	47.9	8	43.8	6	71.6	10	414.2	39	493.0	38	270.2	17
<u>Other Islamic Countries</u>												
Afghanistan	3.5	1	-	-	15.0	3	25.0	4	75.0	6	47.0	3
Bangladesh	148.6	11	79.2	4	98.8	7	142.2	6	459.1	14	140.1	5
Chad	-	-	-	-	8.1	3	16.1	3	25.0	3	22.9	3
Mali	-	-	9.1	1	7.7	1	42.2	6	60.2	4	25.0	2
Niger	1.5	1	-	-	12.4	3	8.3	1	31.5	3	18.0	2
Pakistan	133.5	6	2.8	2	74.4	6	164.0	5	267.6	8	122.7	5
Turkey	65.7	6	15.0	1	31.5	3	66.3	4	-	-	-	-
Upper Volta	-	-	-	-	7.0	2	23.8	5	49.5	5	17.4	2
Total	352.8	25	106.1	8	254.9	28	487.9	34	967.9	43	393.1	22
<u>Other IDA Recipients</u>												
India	485.0	16	406.0	5	623.4	13	1296.2	28	1796.1	27	920.0	12
Other Asia ^{b/}	29.3	5	13.0	2	77.4	12	209.4	20	284.6	22	178.2	10
Other Africa ^{c/}	48.8	8	143.8	24	260.9	54	615.5	71	884.4	70	515.1	29
LAC	100.5	13	18.6	4	59.2	13	94.6	12	113.0	8	31.6	4
Total	663.6	42	581.4	35	1020.9	92	2215.7	131	3078.1	127	1644.9	55
GRAND TOTAL	1099.8	77	731.3	49	1574.8	146	3452.2	227 ^{d/}	4539.0	208	2383.2	95

a/ Amounts and number of operations shown are actuals through FY77. The FY78 data are estimates derived from the lending operations program as of 9/15/77. Joint IBRD/IDA projects are counted as IDA projects. Supplements are counted in amount but not in number in the totals.

b/ Burma, China, Korea, Laos, Nepal, Papua New Guinea, Philippines, Sri Lanka, Thailand, & Western Samoa.

c/ Benin, Botswana, Burundi, Cameroon, Central African Empire, Comoros, Congo, Equatorial Guinea, Ethiopia, Gambia, Ghana, Guinea, Ivory Coast Kenya, Lesotho, Liberia, Madagascar, Malawi, Mauritius, Rwanda, Senegal, Sierra Leone, Swaziland, Tanzania, Togo, Uganda and Zaire.

d/ This includes the drought relief operation for \$14 million shared by Chad, Mali, Mauritania, Niger, Senegal and Upper Volta.

Class of Service: TELEX Date: DECEMBER 28, 1977
Telex No.: FINANCE 2527 KT Originators Ext: 75754

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10

START
HERE

1

TO HIS EXCELLENCY ABDUL RAHMAN SALIM AL-ATEEQY, MINISTER OF

CITY/COUNTRY

FINANCE, KUWAIT, KUWAIT

MESSAGE
NO.:

IN RESPONSE TO REQUESTS FROM ARAB COUNTRIES, MR. MCNAMARA,

4

WHO IS PRESENTLY OUT OF WASHINGTON, IS PLANNING TO VISIT THE

5

MIDDLE EAST DURING THE SECOND PART OF JANUARY STOP EYE KNOW

6

THAT NOTHING WOULD GIVE HIM GREATER PLEASURE THAN TO UTILIZE

7

THIS OPPORTUNITY TO VISIT KUWAIT AND MEET WITH YOU AND WITH

8

THEIR HIGHNESSÉS THE EMIR AND THE CROWN PRINCE AND RENEW

9

OLD FRIENDSHIPS STOP IT WOULD BE POSSIBLE FOR HIM TO ARRIVE

10

KUWAIT TUESDAY, JANUARY 24 AT NIGHT AND SPEND WEDNESDAY,

11

JANUARY 25 IN KUWAIT STOP WOULD GREATLY APPRECIATE LEARNING

12

FROM YOU AT YOUR EARLIEST CONVENIENCE WHETHER THIS TIMING

14

WOULD BE SUITABLE STOP WITH MY BEST WISHES FOR GOOD HEALTH

14

AND HAPPINESS ON THE OCCASION OF THE NEW YEAR AND WARM

15

REGARDS, SAAD S. ELFISHAWY, SPECIAL ADVISER TO THE PRESIDENT,

16

INTBAFRAD

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END
OF
TEXT

22

NOT TO BE TRANSMITTED

SUBJECT:

(Kuwait)
Mr. McNamara's Visit to Saudi Arabia and

DRAFTED BY:

SELFishawy/rh

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AUTHORIZED BY (Name and Signature):

Saad S. El Fishawy *S. El F.*

cc: Messrs. McNamara
Benjenk o/r

DEPARTMENT:

Office-V.P. Finance

SECTION BELOW FOR USE OF CABLE SECTION
CHECKED FOR DISPATCH

B

BRIEFING PAPER

SAUDI ARABIA

IDA V Replenishment

1. You may wish to thank the Government for its commitment to contribute \$250 million to the Fifth Replenishment of IDA.

Borrowing

2. The current status of Bank borrowings and other financial relations with Saudi Arabia is given in Annex I.
3. In the past FY77 the Bank borrowed a total of about \$180 million equivalent from SAMA in four different operations. In addition SAMA was allotted \$69.3 million in 2-Year bonds. * 450 m FY77
4. In FY78 we have not borrowed directly from SAMA in part because their currency selection of (a) Japanese Yen was not acceptable to the Japanese authorities and (b) Dutch Guilders and dollars were not attractive to us because of high market rates. SAMA was allotted \$30.6 million of our 2-Year bond issue in September 1977. Given the progress of our borrowing program for FY77 and our borrowing plans for the remainder of the year, there would be no room for any sizeable borrowings from SAMA.
5. For FY79, with the considerably increased borrowing program, it would be highly desirable to obtain commitments by SAMA to increase their lending to the Bank. Past commitment indications were at the rate of \$300 million a year. For the future a level of at least \$500 million equivalent should be envisaged. SAMA's commitments usually cover calendar years and this should be kept in mind in setting expectations for FY79.

Release of 9 percent of Capital Subscription

6. Although the 9 percent portion of Saudi Arabia's subscription to the Bank's capital (equivalent to 12.41 million current US dollars) has not yet been released, we do not propose that you raise this matter, unless as part of a discussion on the general capital increase. The Saudis have not in recent years been asked to release the 9 percent amount, and tactically it would be better to wait until after the capital increase has been agreed.

Bank Group Lending to Arab Countries

7. Bank Group lending to Arab Developing countries in FY77 amounted to \$829.5 million in loans and credits aggregated as follows:

<u>Country</u>	<u>\$ Million</u>
Egypt	267.5
Morocco	161.0
Algeria	155.0
Tunisia	87.3

<u>Country</u>	<u>\$ Million</u>
Syria	67.5
Sudan	37.0
Yemen Arab Republic	21.0
Oman	15.0
Somalia	12.0
Mauritania	6.2

This figure compares favourably with a lending level of \$728.3 million (an increase of \$101.2 million) in FY76 and \$614.7 in FY75, and an average of \$257.6 million per year over FY70-74. Proposed Bank Group lending in FY78 to Arab developing countries aggregates about \$912 million.

8. Gulf Organization for the Development of Egypt (GODE)

In April 1977, GODE (the \$2.0 billion fund created by Saudi Arabia, Kuwait, UAE and Qatar to participate in financing Egypt's development program) agreed to lend \$1,475 million to the Central Bank of Egypt, in stages, while Egypt carried out its declared policies to correct its balance of payments disequilibrium. Egypt is making uneven progress in transforming its economy: while it would be unrealistic to expect much faster progress, you may wish to encourage the Saudi Government to maintain the pressure which they and other members of GODE have been exerting on the Egyptian Government to undertake the reforms needed. You may also wish to express appreciation for the contribution GODE is making to Egypt's development, and stress Egypt's continued need for cash and commodity aid in the next five years if it is to be able to overcome its development problems. Although GODE was set up in 1976 to provide development assistance to Egypt over a number of years, by end of 1977 it had committed \$1725 million out of its capital of \$2000 million, largely in order to pay off arrears on banking facilities and for balance of payments assistance. There is, therefore, a clear need to seek a replenishment of the organization's funds, however, we do not know the member countries' intentions in this respect.

9. Consultative Group for Egypt

The first meeting of the Consultative Group for Egypt was held on May 11-12, 1977, with Saudi Arabia participating. We expect a further meeting to be held in June 1978. You may wish to express our appreciation for Saudi Arabia's participation in the Consultative Group, and the importance which we and the Government of Egypt attach to their involvement, which is crucial to the Group's success.

Technical Cooperation

10. The FY78 Technical Cooperation program continues to emphasize the same fields which were covered by the FY76 and FY77 programs (Manpower, Education, Transport, Housing and Industry). Nevertheless, we expect that FY78 will show an increase in the amount of staff time and effort devoted to industry as more of these massive projects reach the appraisal stage. The Resident Mission staff has now been supplemented by a petrochemical engineer, and the RM is expected to play a major role in our industrial work in Saudi Arabia. A decrease in our involvement in housing is likely as we bring more and more of the present work in hand to its conclusion. Conversely, a major increase is anticipated in our transport work as we are being called upon to advise on highway planning, ports, a possible railway and other major endeavours in transport.

11. The Technical Cooperation is governed by the Memorandum of Understanding of 1975 and by an Annual Program and Budget. Three such Programs have been prepared:

	<u>Scheduled</u>		<u>Actual</u>	
	<u>Manyears</u>	<u>Cost (\$ M)</u>	<u>Manyears</u>	<u>Cost (\$ M)</u>
FY76	20.0	2.6	16.2	2.12
FY77	24.0 ^{1/}	3.6	22.5	3.34
FY78	29.0 ^{2/}	4.8	-	-

Specific issues related to the Technical Cooperation Program are unlikely to be raised. It is possible that the Government may convey its wish for a further expansion of the Bank's current technical assistance to Saudi Arabia. Towards this end the Government may request the positioning of additional staff in the Resident Mission in Riyadh. You may wish to respond by saying that, barring unforeseen developments, the agreed FY78 Program can be handled within the allocated 29 manyears of headquarters and Resident Mission staff. The current status of the various activities of the program is given in Annex II.

12. There is a possibility that the Government may raise two further issues:

- i) the high cost of seconded advisors; and
- ii) the secondment of a Bank Projects Officer to the Islamic Development Bank.

Regarding (i), you may wish to point out that such high costs were largely due to the high local costs, and, in the case of US nationals, to existing US tax laws. Also, with the exception of the highway advisor seconded to the Ministry of Transport and Communications, secondments are outside the scope of the Technical Cooperation Program and are treated on a case by case basis. In the particular case of (ii) above we were unable to respond to the request of the Islamic Development Bank for the extension of the secondment of a specific Bank staff but had offered, six months ago, another equally qualified staff to replace him. The Islamic Development Bank has not responded yet to our proposal. H.E. Sheikh Abalkhail, Minister of Finance, had written a personal letter to you on July 4, 1977 on this matter, to which you answered on August 8, 1977 (Annex III). This matter was raised during the Annual Meetings with Dr. Ali, President of the Islamic Development Bank. He had asked us for more candidates to be submitted to him for consideration. We are in the process of making a list of qualified candidates.

1/ 20.0 Headquarters manyears plus 4 Resident Mission positions.

2/ 23.0 Headquarters manyears plus 6 Resident Mission positions.

13. In general, it is felt that our Technical Cooperation program has now stabilized and that our relationships with the respective government agencies are reasonably solid. We are continuing to try to improve the efficiency of our assistance to Saudi Arabia by (i) encouraging the Saudis to program their technical assistance requirement better; (ii) ensuring a full and continuing flow of information between Government and the Bank on technical assistance projects; and (iii) trying to get as early an involvement of the Bank as possible in any future technical assistance task. On the whole, our work is viewed as sound, professional and objective, all attributes valued by the Ministry of Finance. You may wish to express satisfaction over this situation, and over the fact that Minister Abalkhail has recently approved the Bank's nominee to the post of Director and more recently of the Deputy Director of the Resident Mission in Riyadh.

December 1977

SAUDI ARABIA BORROWING OPERATIONS

Briefing Paper

Bank Borrowing

The Bank commenced its direct placements with the Saudi Arabian Monetary Agency (SAMA) in 1968. The amounts borrowed directly and exclusively from SAMA, shown by fiscal year, are as follows:

<u>FY</u>	<u>\$</u>	<u>Saudi riyals</u>	<u>Sw F</u>	<u>DM</u>	<u>\$ equivalent at time of issue</u>
-----in millions-----					
1968	15	-	-	-	15
1969	15	-	-	-	15
1975	750	500	-	-	891
1976	-	-	300	100	154
1977	150	-	75	-	180

All these amounts are still outstanding in full. At current exchange rates the total of outstanding direct borrowings from SAMA aggregate about \$1.28 billion equivalent.

In addition SAMA has subscribed to the Bank's two year bond issues since 1963 for a total amount of about \$228 million of which \$122 million are held in the currently outstanding four issues. The subscription by SAMA for recent issues had been higher (usually \$40 million for each issue) but we were forced to reduce them due to over-subscription of the issues. If the holdings of two year bonds are added to the outstanding long term borrowings, total outstanding borrowings from SAMA would at present amount to about \$1.40 billion equivalent. This is more than our total placements with the Deutsche Bundesbank and about as much as our placements with the Bank of Japan.

We have no information whether SAMA has bought World Bank bonds in the secondary market or from issuing banks but do not believe it to be substantial except possibly in Swiss Francs. Such purchases would, of course, increase their total holdings of World Bank bonds.

Our relations with SAMA are good. It appears that they are interested in currency diversification. They have expressed little interest - none at all in recent years - in denominating obligations in riyals. For placements in currencies other than dollars (for example DM, Swiss Francs, Dutch guilders and Yen) the operations are, of course, subject to the rules and regulations imposed by the respective central banks. This has not led to any problems and is not expected to.

Recently (November 1977) SAMA has expressed an interest in private placements with us in currencies other than U.S. dollars. Liquidity is not of major importance, nor is listing. They have advised us that there is no need for an intermediary but that if the transaction is "private" there should be some market concession (5 basis points) from the yield on a public issue. This seems reasonable. SAMA has also asked that we approach them at the time we are in the market (for a private placement or public issue) so that they might have a benchmark on the proper terms. SAMA has also expressed an interest in operations like our 5-year to Bundesbank operation. They have asked us for the "form" of the transaction and a schedule showing how the rates changed over the years with the Bundesbank.

We can do much more business in Saudi Arabia. Right now, they look to invest \$200-300 in IBRD bonds. It is most important to have a high level policy decision made to increase that amount substantially; if that is done, we will have few "technical problems." They are having increasing difficulty investing their reserves and even seem to have difficulty on their communication links - at present only two telex lines. It might take two hours or more to put a telephone call through to New York. They have an inadequate staff to invest \$1.5 - \$2 billion per month much less manage their holdings. They do not effectively monitor the performance of their portfolio. We can offer them suggestions on the management and objective measurement of their own performance and their outside managers.

General

From time to time, Saudi Arabia has given us a wide variety of signals. This reflects not so much a lack of support for the Bank but rather is a reflection, I think, of the difficulties they have faced in administratively handling unexpectedly large flows of financial resources. Thus, if we go to the files, we will see that on occasion, we have been advised that Saudi Arabia feels that they are too "exposed" in World Bank obligations in terms of the percentage of these holdings as part of their total portfolio; that they wish only to participate in public issues rather than in large placements, because of the unwanted visibility occasioned by highly publicized private placements; that their outside senior level advisers have cautioned against purchasing World Bank bonds; that their inside "technical" advisers have not been able to buy World Bank bonds because such decisions need approval from much higher authorities and the authorities are not available; that the Bank's staff drives too hard a bargain on rates and terms; that they want most of their reserves in short term liquid instruments such as Treasury bills or bank deposits; that they are now shifting into marketable long term instruments; that there is inadequate follow up to senior management visits by the Bank; etc. etc.

I suspect that they have taken some of these positions from time to time; others are mistated or overstated and still others have changed as their own perceptions and expertise has changed. They have also had personnel changes. The point is that frequent visits by us are indispensable. The borrowings must be based on financial grounds not eleemosynary ones. But we do not know whether or not they have any "internal" limit at this moment. We should approach them with the opportunity to make prudent financial investments in which they can make some money. We may have to tailor the "paper" to meet SAMA's preferences at the moment, but I can envision no requirements on their part, based on financial considerations, which would be inconsistent with our own requirements.

January 12, 1978

C

Since this edition of the "Area Handbook for Saudi Arabia"
is very recent, its country summary on Saudi Arabia makes it
a useful supplement to the attached 1975 State Department Note.

American university, Washington, D. C. Foreign area studies.

AREA HANDBOOK

for

SAUDI ARABIA

Coauthors

Richard F. Nyrop ✓

Beryl Lieff Benderly ✓
Laraine Newhouse Carter ✓
Darrel R. Eglin ✓
Robert A. Kirchner



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The Saudi Cabinet

Crown Prince and Deputy Prime Minister **Fahd** is at the head of a new cabinet, appointed in October 1975, which contains energetic and business-like people in key positions to carry out the Second Development Plan and to handle Saudi Arabia's new financial responsibilities. The new Cabinet includes for the first time a number of youngish, Western-educated "technocrats": Minister of Finance, Mr. **Aba al-Khayl**; Minister of Planning, Dr. **Hisham al Nazer**; and Minister of Industry, Dr. **Al Gosaibi** are three of the most important of this type (the first two having previously been Ministers of State). Also some active and important members of the Royal Family took positions of power: Prince Saud as Foreign Minister, Prince Miteb as Minister of Housing, Prince Khalid as Deputy Minister of Education. Ministries were reorganized, several new ones being created from departments of other ministries: Planning, Industry, Housing and Telecommunications were among those so created. This more functional organization will facilitate rational decision-making as the new ministries develop. A particularly important example is the assignment to the Ministry of Industry of industrial projects previously handled by Petromin. Biodata of major cabinet ministers follow.

EM1DA
December 1977

His Majesty King Khalid ibn Abdel Aziz Al Saud
King and Prime Minister

- Born in Riyadh in 1914 and educated there.
- Received special education in Islamic studies from a number of eminent scholars.
- Appointed assistant to his brother, the late King Faisal, in 1934. In that capacity he dealt with a number of major political issues.
- Characterized by his wide knowledge of both internal and foreign affairs and is known for his wisdom and foresight.
- Known for his patience, tolerance and steadfastness, and has the ability to handle all matters with thorough thought.
- Appointed Crown Prince for the Kingdom of Saudi Arabia in 1964 and since then has dealt personally with many domestic and foreign problems of the nation.
- Acted on behalf of the late King Faisal in managing the affairs of the Kingdom during the latter's visits abroad.
- Visited many countries before and after he was proclaimed King and represented the Kingdom on various occasions.
- Acknowledged the King of the Kingdom of Saudi Arabia on March 25, 1975.
- Married and has at least two sons.

Fahad ibn Abdel Aziz Al Saud
Crown Prince, Deputy Prime Minister

- Born in Riyadh in 1922, he is the brother of His Majesty King Khalid.
- Educated in Saudi Arabia.
- Founded the Ministry of Education in the Kingdom in 1958 and was appointed the first Minister of Education.
- Appointed Minister of Interior in 1962 and served in that capacity until 1975.
- Named Second Deputy Prime Minister in 1964, in addition to his duties as Minister of Interior.

Fahad ibn Abdel Aziz Al Saud (cont'd)
Crown Prince, Deputy Prime Minister

- In 1974, during a visit to Washington, he took part in the establishment of the U.S.-Saudi Joint Commission on Economic Cooperation and undersigned the agreement on behalf of the Saudi Arabian government.
- Made Crown Prince upon the accession to the throne by His Majesty King Khalid in March 1975.
- Represented the Kingdom of Saudi Arabia at the OPEC Summit Conference in Algiers in 1975.
- Heads the Supreme Council of Education, the Supreme Petroleum Council, and the Supreme Pilgrimage Committee.
- During King Khalid's recent absence from Saudi Arabia for two operations in London, the Crown Prince served as Viceroy, January-April 1977.
- His last visit to the US was in May 1977.^{1/}
- Married; has educated several of his sons in the U.S., at the University of California at Berkeley.
- Speaks little English, but prefers to speak in Arabic through an interpreter.

Prince Saud Al-Faisal
Minister of State for Foreign Affairs

- Born 1940 in Taif, fourth son of the late King Faisal.
- Received primary and secondary education in Taif Model School.
- Received preparatory education at the Hun School, Princeton, New Jersey, and then Lawrenceville, in New Jersey.
- Graduated from Princeton University in 1964 with a B.A. in economics.
- Joined Petromin, the Saudi Arabian state oil organization, as an economic researcher in 1964; served in various roles and work thereafter for Petromin.
- Appointed Vice Governor of Petromin in 1970.

^{1/} You met H.H. Prince Fahad during this visit (Mr. El-Fishawy's memo on your discussions is attached in Section H).

Prince Saud Al-Faisal (cont'd)
Minister of State for Foreign Affairs

- Appointed Deputy Minister of Petroleum and Mineral Resources in 1971 and then, in addition, Executive Director of the Supreme Petroleum Council.
- Represented Saudi Arabia in various OPEC and related international meetings.
- Appointed Minister of State for Foreign Affairs on March 29, 1975, and Foreign Minister in November, 1975.
- Chairman of the Sixth Islamic Conference of Foreign Ministers held in Jeddah, July, 1975.
- Headed the Saudi Arabian delegation to the 30th and 31st Sessions of the United Nations General Assembly, September, 1975, and September-October, 1976.
- Married and has three children.

Hisham Al Nazer
Minister of Planning

- Born in Jeddah in 1932.
- Received his elementary and secondary education in Saudi Arabia and Egypt.
- Received his B.A. in International Relations in 1957 A.D. from California University, his M.A. in Political Science in 1958 A.D.
- Was a fellow in the American Society of Political Science and a fellow of the American Society of International Law.
- Served with the General Director for Oil and Mineral Affairs - (Ministry of Petroleum and Mineral Resources now) as an advisor and held several administrative and technical positions.
- Served as General Directorate of Public Affairs at the Ministry of Petroleum and Mineral Resources in 1960 A.D.
- Was the first Governor to represent the Kingdom in the Board of Governors of OPEC.
- Appointed Deputy Minister of Petroleum and Mineral Resources in 1962 A.D.

Hisham Al Nazer (cont'd)
Minister of Planning

- Was a member of most of the Oil Companies, working in the Kingdom as well as the boards of both the College of Petroleum and Petromin.
- Lectured at Riyadh University when it was first established.
- Represented Saudi Arabia at several Petroleum Conferences.

Ahmed Zaki Yamani
Minister of Petroleum and Mineral Resources

- Born in 1930 in a prominent Meccan family.
- Received a bachelor's degree in Law from Cairo University in 1951 and a master's degree in Comparative Jurisprudence from New York University in 1955.
- Spent one year, 1955-56, at Harvard Law School.
- Worked for several years as a legal adviser in the Department of Zakat and Income Tax. Spent some time in private practice in the Hijaz, then became a legal adviser to the Directorate General of Petroleum and Mineral Affairs, the forerunner of the present Ministry of Petroleum and Mineral Resources.
- Became legal adviser to the Council of Ministers, and subsequently appointed Minister of State and a member of the Council of Ministers.
- Named Minister of Petroleum and Mineral Resources in 1962.
- Chairman of the Board of Directors of the General Petroleum and Mineral Organization (Petromin). Chairman of the Board of the University of Petroleum and Minerals; Chairman of the Board of Trustees of the Saudi Arabian Fertilizers Company (SAFCO); Director of the Arabian-American Oil Company (ARAMCO).

Mohammad Aba Al-Khayl
Minister of Finance and National Economy

- Graduated from Cairo University in 1956, College of Commerce, Management Department.

Mohammad Aba Al-Khayl (cont'd)
Minister of Finance and National Economy

- Joined the Office of Minister of Communication as an assistant director of the office, then as director.
- Established the Institute of Public Administration and first General Director of this Institute.
- Undersecretary, Ministry of Finance and National Economy, then Deputy to the Minister of Finance and National Economy.
- Appointed Minister of State for Finance and National Economy and a Member of the Council of Ministers; then Minister, October 1975.

Dr. Ghazi Abdel Rahman Al-Gosaibi
Minister of Industry and Electricity

- Born March 2, 1940; Al-Hasa, Saudi Arabia.
- Primary and high school - Bahrain.
- LLB. Cairo University, 1961.
- M.A. (I.R.) University of Southern California, 1964.
- PLD (I.R.) London University, 1970.
- 1964-1970: Instructor, Faculty of Commerce, University of Riyadh.
- 1970-1971: Assistant Professor; Head of Political Science Department, Faculty of Commerce.
- 1971-1973: Dean, Faculty of Commerce.
- 1974: Director General, Saudi Government Rail Road.
- 1965-1975: Worked on various diplomatic and administrative assignments and was a consultant to the Ministries of Finance and Defense.
- 1975: Minister of Industry and Electricity.
- Published works include three books of poetry in Arabic and a new one in English, printed in 1977, plus articles on law, literature and political science.

Sheikh Abdul Aziz bin Zayd Al-Quraishi
Governor, Saudi Arabian Monetary Agency

- Born in 1936.
- Attended secondary school in Iraq.
- Obtained a B.S. degree in Business Administration from Cairo University, and MBA in Marketing from the University of Southern California (1960).
- Appointed Director General of the Saudi Government Railroad and the Dammam Port Authority in 1961.
- Became Chairman of the Central Personnel Bureau in 1968.
- Appointed member of the Higher Committee for Administrative Reform in 1971. This Committee was chaired by King Faisal.
- Named Minister of State in 1971.
- Appointed Governor of the Saudi Arabian Monetary Agency in November 1974.
- Married with two children.
- Speaks excellent English.

Dr. Mansour Al-Turki
Deputy Minister of Finance for Economic Affairs

- Born in 1940 in a well-known Saudi family.
- Holds a Master degree in Economics from Iowa State University, and a Ph.D. B. in Economics from the University of Colorado.
- Taught economics at the University of Riyadh until the fall of 1975.
- Worked for several years as advisor to the Ministry of Finance.
- Appointed Deputy Minister of Finance in the summer of 1975. He has been the main liaison man between the Ministry and the Bank (except on technical assistance matters).
- Married with two children.
- Speaks excellent English.

Dr. Mahsoon Jalal

Vice Chairman and Managing Director of Saudi Fund

- Born in Saudi Arabia in 1936.
- Graduated from Cairo University in 1961 and received his Ph.D. in economics from Rutgers University in New Jersey in 1967.
- Taught at Riyadh University for six years while at the same time he owned a consulting firm.
- Appointed Vice Chairman of the Saudi Fund in 1974.

Dr. Abdul Aziz Al-Dokhayyel

Assistant Deputy Minister of Finance,
Chairman of the Gulf Organization for the
Development of Egypt (GODE)

- Dr. Al-Dokhayyel is in his early 30's.
- Holds a Ph.D. in economics, believed to be from a U.S. university.

EMIDA
January 1978

COUNTRY SUMMARY



Saudi Arabia Country Summary Location Map

COUNTRY

Formal Name: Kingdom of Saudi Arabia.

Short Form: Saudi Arabia.

Terms for Nationals: Saudi(s) or Saudi Arabian(s); Adjectival forms—Saudi or Saudi Arabian.

Capital: Riyadh (Ministry of Foreign Affairs located in Jiddah).

GEOGRAPHY

Size: Approximately 864,000 square miles.

Topography: No rivers or permanent bodies of water. (See fig. 1 for regions.)

Climate: Hot desert climate, although coastal cities subject to high humidity.

Boundaries: Most boundaries not demarcated, some not defined.

SOCIETY

Population: Government data indicated 7 million August-September 1974, but most observers estimate about 5.6 million in early 1976, of whom an estimated 1.5 million were foreigners. About 95 percent live on 5 percent of land, under 50 percent rural.

Ethnic Groups and Languages: All Saudis are Arab Muslims, as are most foreigners. Arab official language.

Health: Data are inconclusive, but government hopes to lower infant mortality rate to 110 per 1,000 by 1980.

Literacy: Estimated at between 5 and 15 percent in mid-1970s.

Religion: Islam in the Wahhabi (see Glossary) interpretation of the Sunni doctrine—the official religion and the faith of over 90 percent of the Saudis.

GOVERNMENT AND POLITICS

Form: Monarchy. King also serves as prime minister.

Administrative Division: Six major and twelve minor provinces.

Legal System: Law consists of the sharia (sacred Islamic law)—which includes the Quran, the hadith, and the Sunna—and of administrative decrees.

Politics: Political parties, interest groups, and similar organizations not permitted.

Major International Memberships: United Nations and many of its specialized agencies, League of Arab States (Arab League), Organization of Petroleum Exporting Countries (OPEC), Organization of Arab Petroleum Exporting Countries (OAPEC), and various Islamic conferences.

ECONOMY

Gross Domestic Product (GDP): In fiscal year (FY—see table A) 1975 oil contributed about 87 percent to GDP, agriculture less than 1 percent, construction about 3 percent, and industry, commerce, and services the remainder.

Petroleum: In early 1976 possessed an estimated 25 percent of world's proven reserves, was the largest oil exporter, and the third largest producer.

Foreign Trade: In February 1976 foreign exchange reserves about US\$23.7 billion. Exports almost completely oil, which in 1974 amounted to 3.2 billion barrels worth over US\$35 billion. Country imports almost everything except petroleum products, with valuation of about US\$3.9 billion in 1974.

Currency: Saudi riyal—see Glossary.

Fiscal Year: See table A.

TRANSPORTATION AND COMMUNICATIONS

Railroads: One rail line operative, the Dammam-Riyadh run, 357 miles in length.

Roads: Approximately 6,200 miles of roads in 1975.

Ports: Four main ports, all badly congested; Jiddah and Yanbu on Red Sea, Ras Tanura and Dammam on Persian Gulf.

Airfields: Three international (Jiddah, Riyadh, and Dhahran) in ear-

ly 1976 plus seventeen smaller airports. Saudia only, authorized domestic carrier.

Telecommunications: Inadequate system being expanded and improved as rapidly as possible by its owner, the government.

NATIONAL SECURITY

Armed Forces: As of early 1976, Royal Saudi Army—about 40,000; Royal Saudi Navy—about 1,500; Royal Saudi Air Force—about 5,550; Frontier Force and Coast Guard—about 6,500 combined. The paramilitary Royal Saudi National Guard had about 16,000 on active duty, an equal or larger number in reserves. Two army brigades of about 5,000 men each posted abroad, one in Jordan, the other in Syria.

Major Tactical Units: Royal Saudi Army and the National Guard organized in brigades and supporting battalions. Introduction of modern weapons into all branches matter of high priority in mid-1970s.

Major Equipment Suppliers: In early 1976 American firms continued to be the major source of supply for such sophisticated equipment as tanks, surface-to-air missile systems, and fighter-bombers. Saudi government has also purchased British and French equipment.

Military Budget: Twenty percent of government expenditures in FY 1975.

D

background NOTES

Saudi Arabia

department of state * october 1975

OFFICIAL NAME: Kingdom of Saudi Arabia

GEOGRAPHY

Saudi Arabia occupies about four-fifths of the Arabian Peninsula—roughly the size of the United States east of the Mississippi. Boundaries are not fully defined in the south and southeast. From a range of mountains near the Red Sea, the land slopes gently eastward toward the Persian

Gulf (called the Arabian Gulf in Saudi Arabia). The topography is mainly desert, including the Rub al-Khali (Empty Quarter), a vast expanse of sandy waste too arid to support life. There are no permanent rivers or bodies of water. Rainfall is erratic, averaging 2-4 inches annually except in Asir, which averages 12-30 inches of rain in the summer. During summer

the heat is intense over much of the country, frequently exceeding 120°F in the shade with high humidity along the coasts. In winter, temperatures sometimes drop below freezing in the central and northern areas but snow and ice are uncommon.

Major regions include: the Hijaz, paralleling the Red Sea coast, where the two principal holy cities of Islam (Mecca and Medina), the commercial and diplomatic center of Jidda, and the summer capital of Taif are located; the Asir, a mountainous region along the southern Red Sea coast; Najd, the heartland of the country and site of the capital city, Riyadh; the Eastern Province (also called al-Hasa) bordering the Persian Gulf, containing the largest concentrated oil reserves in the world; and the Northern Frontiers, through which passes the Trans-Arabian Pipeline (TAPLINE).

PROFILE

Geography

AREA: 873,000 sq. mi. (one-third the size of US). CAPITAL: Riyadh (pop. 450,000). OTHER CITIES: Jidda (500,000), Mecca (250,000), Medina (150,000), Taif (100,000), Dammam (100,000).

People

POPULATION: 5.6 million (1974 est.). ANNUAL GROWTH RATE: 3% (1974 est.). DENSITY: 7 per sq. mi. ETHNIC GROUPS: Primarily indigenous Arab tribes with admixture of peoples from other Arab and Muslim countries. LANGUAGE: Arabic. LITERACY: 25% (est.). LIFE EXPECTANCY: 45 yrs. (est.).

Government

TYPE: Monarchy. UNIFICATION: Sept. 24, 1932. DATE OF CONSTITUTION: None.

BRANCHES: Executive—King (Chief of State and Head of Government). Legislative—none; consultative assemblies planned. Judicial—Islamic Courts of First Instance and Appeals.

POLITICAL PARTIES: None. POLITICAL SUBDIVISIONS: 6 major and 12 minor Provinces.

FLAG: Green and white; bears the Muslim creed in Arabic script: "There is no god but God; Muhammad is the Messenger of God." Under the script is a horizontal sword in white.

Economy

GDP: \$39.5 billion (1974 est.). ANNUAL GROWTH RATE: 196%. PER CAPITA GDP: \$6,991.

AGRICULTURE: Land 40%, mostly grazing; about 1% suitable for cultivation. Labor 75%. Products—dates, grains, vegetables, livestock.

INDUSTRY: Labor 10%. Products—petroleum production, refining, and marketing; fertilizer; cement.

NATURAL RESOURCES: Petroleum, natural gas.

TRADE: Exports—\$33.5 billion (1974): principally petroleum. Partners—EEC 37%, Japan 15%, UK 8%, US 6% (1972). Imports—\$4 billion; transportation equipment, machinery, foodstuffs. Partners—US \$828 million, Japan, FRG, UK (1974).

OFFICIAL EXCHANGE RATE: 3.53 Saudi riyals=US\$1.

ECONOMIC AID EXTENDED: Over \$3 billion (1974, bilateral and multilateral).

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN and its specialized agencies, OPEC, Organization of Arab Petroleum Exporting Countries (OAPEC).

PEOPLE

Saudi Arabia took its first census in September 1974. Preliminary results indicate a population of between 5 and 6 million. Some urban areas and oases have densities of 2,000 persons per square mile.

Saudis are ethnically Arabs, with some admixture of non-Arab adherents of Islam (Turks, Iranians, Indonesians, Indians, and Africans) most of whom immigrated as pilgrims and reside in the Hijaz. Many Arabs from other Arab states are employed in the kingdom. Until recently most of the people were nomadic or semi-nomadic; however, under the impact



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of rapid economic growth, urbanization has reduced this proportion to about 20 percent.

Most Saudi Arabians are Sunni Muslims who observe the puritanical Wahhabi interpretation of the Hanbalite school. A small Shi'a Muslim minority resides in the Eastern Province. Arabic is the official language but English is widely known. The literacy

rate is climbing rapidly but is still estimated at under 25 percent.

HISTORY

The modern Saudi state was founded by the late King Abd al-Aziz Al Saud (known internationally as "Ibn Saud"). In 1902 Abd al-Aziz recaptured Riyadh, the Saud dynasty's

ancestral capital, from the rival Rashid family. Continuing his conquests, Abd al-Aziz vanquished al-Hasa, the rest of Najd, and the Hijaz between 1913 and 1926. In 1932 these regions were unified as the Kingdom of Saudi Arabia. The country's southern border with Yemen was settled by the 1934 Treaty of Taif which ended a brief border war between the two states.

Boundaries with Jordan, Iraq, and Kuwait were established by a series of treaties negotiated in the 1920's. Two "Neutral Zones," one with Iraq and the other with Kuwait, were created at that time. The Saudi-Kuwait Neutral Zone was formally partitioned in 1971. Agreement on the division of the Saudi-Iraqi Neutral Zone was reached in 1975. The border between Saudi Arabia and the United Arab Emirates was agreed upon in 1974.

The most far-reaching event in the modern history of Saudi Arabia was the discovery of oil in the 1930's. Large-scale production, however, did not begin until after World War II. When it did, the government undertook rapid economic and social development. Oil wealth made possible deepwater ports, a railroad, roads, schools, hospitals, and improved facilities for Muslim pilgrims making the annual *hajj*, or pilgrimage, to Mecca.

King Abd al-Aziz died in 1953 and was succeeded by his eldest son, Saud. The latter reigned for 11 years until 1964 when ill health and differences over policy matters brought about his abdication in favor of his next youngest brother Faisal. Faisal had already served his father as Foreign Minister, signing the U.N. Charter in 1945 on behalf of Saudi Arabia. Following a period of fiscal difficulties, King Saud was persuaded to delegate the direct conduct of government affairs to Faisal in 1958. Except for a brief period when Saud regained control of affairs in 1960-62, Faisal continued to serve as Prime Minister even after being proclaimed King in 1964 by senior Royal Family members and religious leaders. In October 1962 Faisal outlined a broad reform program, with particular stress on economic development.

The mid-1960's were dominated by external pressures generated by Saudi-Egyptian differences over Yemen. When civil war broke out in September 1962 between Yemeni royalists and republicans, Egyptian forces entered Yemen to support the new republican government while Saudi Arabia backed the royalists. In early 1963 Egyptian aircraft attacked several southern Saudi towns. Mediation efforts by the United States, the United Nations, and

various Arab governments were unsuccessful in bringing about disengagement by both parties. Tensions subsided only after military defeat by Israel in June 1967 compelled Egypt to withdraw its troops from Yemen.

Saudi forces did not participate in the 6-day Arab-Israeli war of June 1967. King Faisal attended the Khartoum Arab Summit Conference of September 1967 and agreed to provide annual subsidies totaling over \$140 million to Egypt and Jordan to help counter the adverse effects of the war on their economies.

Supporting the Arab cause during the 1973 Arab-Israeli war, Saudi Arabia joined the Arab oil boycott of the United States and the Netherlands. As a member of OPEC, Saudi Arabia joined with these countries in substantially raising oil prices in the aftermath of the 1973 war, thereby dramatically increasing its monetary wealth and political power.

On March 25, 1975, King Faisal was assassinated by a discontented and unstable young relative, Prince Faisal bin Musa'id, who was subsequently executed after an extensive investigation which concluded that the assassination was the act of one individual. King Faisal was immediately succeeded by Crown Prince Khalid as King, and Prince Fahd was named Crown Prince and First Deputy Prime Minister. While tragic, the transition went very smoothly. King Khalid has empowered Crown Prince Fahd to oversee many aspects of the government's international and domestic affairs.

GOVERNMENT AND POLITICAL CONDITIONS

The central institution of government is the monarchy. There is no formal constitution in the Western sense; political parties and national elections are unknown. The authority of the monarchy is based on Islamic law (*Shari'a*) and on Arab tradition. The powers of the King are not defined but practically are limited by the fact that he must retain a consensus of the Saudi royal family, the religious leaders (*ulema*), the chiefs of the important tribes, the armed forces,

TRAVEL NOTES

Climate and Clothing—Lightweight wash and wear clothing is essential for the hot (100-130°F), humid climate. Long, loose dresses with high collars and long sleeves are recommended for women.

Customs—Smallpox and cholera shots are required. Certificate of religion and letter of financial responsibility from employer are required for a visa.

Health—Levels of community sanitation are low. Do not drink tap water.

Telecommunications—Telephone and telegraph service is erratic, but major projects are underway to improve communications.

Transportation—Many domestic and international flights are scheduled daily; taxis are available in all major cities.

and the bureaucracy. The responsible members of the royal family choose the King from among themselves with the sanction of the *ulema*.

Gradually, the Saudi kings have developed a central government to assist them. Since 1953 a Council of Ministers appointed by the King and responsible to him has advised on the formulation of general policy and directed the activities of the growing bureaucracy. There are presently 20 members of the Council of Ministers. King Khalid himself is Prime Minister and Foreign Minister; other members of the royal family occupy the key posts of Interior, Finance, and Defense and Aviation. Legislation is by royal decree and must be compatible with the *Shari'a*. Justice is administered according to the *Shari'a* by a system of religious courts whose judges (*qadis*) are appointed by the senior *ulema*. The King acts as the highest court of appeal and has the power of pardon. Access to the King and the right to petition him directly is a well-established tradition.

The kingdom is divided into 6 major and 12 minor Provinces. The major Provinces, which include the principal urban centers and the economically important Eastern Province, are generally governed by royal princes or close relatives of the royal family. All governors are appointed by the King. Provincial regulations for-

mulated in 1963 provide for establishment of provincial councils. Larger urban areas have elected municipal councils.

Despite rapid economic progress, Saudi society remains strongly conservative and religious with a tribal orientation. The King's policy is to encourage gradual modernization without undermining the country's stability and Islamic heritage. A modernization program initiated in 1962 has produced such innovations as girls' schools, television, a labor code and social security system, and significant economic development. A growing number of younger Saudis educated abroad are returning and are being given important posts in the government.

Principal Government Officials

King and Prime Minister—Khalid bin Abd al-Aziz Al-Sa'ud

First Deputy Prime Minister and Crown Prince—Fahd bin Abd al-Aziz Al-Sa'ud

Second Deputy Prime Minister—Abdallah bin Abd al-Aziz Al-Sa'ud

Other Ministers

Defense and Aviation—Sultan bin Abd al-Aziz Al-Sa'ud

Public Works and Housing—Mitib bin Abd al-Aziz Al-Sa'ud

Municipal and Rural Affairs—Majid bin Abd al-Aziz Al-Sa'ud

Interior—Nayif bin Abd al-Aziz Al-Sa'ud

Foreign Affairs—Sa'ud bin Faisal bin Abd al-Aziz Al-Sa'ud

Higher Education—Hasan bin Abdallah Al ash-Shaykh

Education—Abd al-Aziz Abdallah al-Khuwaytir

Finance and National Economy—Muhammad Aba al-Khayl

Health—Hussain Abd al-Qadir al-Jaza'iri

Information—Muhammad Abdo Yamani

Justice—Ibrahim bin Muhammad bin Ibrahim Al ash-Shaykh

Labor and Social Affairs—Ibrahim bin Abdallah al-Anqari

Petroleum and Mineral Resources—Ahmad Zaki Yamani

Pilgrimage Affairs and Religious Trusts—Abd al-Wahhab Abd al-Wasi'

Posts, Telegraph, and Telephone—Alawi Darwish Kayyal

Agriculture and Water—Abd ar-Rahman bin Abd al-Aziz Al ash-Shaykh

Communications—Muhammad Umar Tawfiq

Commerce—Sulaiman Abd al-Aziz al-Solaim

Planning—Hisham Muhi al-Din Nazir

Industry and Electricity—Ghazi Abd ar-Rahman al-Qusaibi

Ministers of State—Muhammad Ibrahim Massud; Abdallah Muhammad al-Umran; Muhammad Abd al-Latif al-Mulham

Director, Saudi Arabian Monetary Agency—Abd al-Aziz Qurayshi

Ambassador to the U.S.—Ali Abdallah Alireza

Ambassador to the U.N.—Jamil Baroodiy

Saudi Arabia maintains an Embassy

in the U.S. at 1520 18th St., NW., Washington, D.C. 20036

ECONOMY

Saudi Arabia is the world's leading oil producer and exporter. Oil accounts for over 95 percent of the country's exports by value and is the main source of foreign exchange. More than 90 percent of government revenues come from oil company royalties and taxes. Government policy aims at diversifying the sources of national income and reducing the heavy dependency on oil for national prosperity and government revenues. With proved reserves estimated at over 173 billion barrels—one-quarter of all proved world reserves—Saudi Arabia can continue to expand its oil production after most other oil-producing states reach production peaks sometime in the 1980's.

Spurred by rapidly rising world demand, Saudi oil production has increased from under 3 million barrels per day (bpd) in 1969 to 8.4 million bpd in 1974, with productive capacity rising to 11.5 million bpd in 1975. Part of its oil output is shipped to the Mediterranean port of Sidon via TAPLINE, passing through Jordan, Syria, and Lebanon. Capacity of this line is 470,000 bpd. The bulk of Saudi oil exports move by tanker from the Eastern Province oil terminal of Ras Tanura.

Over 90 percent of this oil is produced by the Arabian-American Oil Company (ARAMCO), originally a consortium of four U.S. oil companies. The Saudi Government now has a 60 percent interest in the ARAMCO concession and is involved in negotiations to buy out the rest. The Japanese-owned Arabian Oil Company and the Getty Oil Company (U.S.) hold concessions from Saudi Arabia in the former Saudi-Kuwait Neutral Zone and provide the rest of Saudi oil production. ENI/Phillips, an Italian-U.S. consortium, is exploring in the Empty Quarter. PETROMIN, the Saudi oil company, does not yet have any oil production of its own, but is a partner with several U.S. and French firms in exploring for oil along the Red Sea coast.

Since 1970 expansion of oil production and sharply rising oil prices have provided ample government

READING LIST

These titles are provided as a general indication of the material published on this country. The Department of State does not endorse the specific views in unofficial publications as representing the position of the U.S. Government.

American University. *Area Handbook for Saudi Arabia*. Washington, D.C.: U.S. Government Printing Office, 1971.

Arabian American Oil Company. *ARAMCO Handbook: Oil and the Middle East*. Dhahran: Arabian American Oil Company, 1968.

deGaury, Gerald. *Faisal, King of Saudi Arabia*. London: Barket, 1966.

Howarth, David. *The Desert King: The Life of Ibn Saud*. London: Collins, 1964.

Philby, Harry St. John Bridger. *Saudi Arabia*. London: Benn, 1955.

U.S. House of Representatives. *U.S. Interests in and Policy Toward the Persian Gulf*. Hearings before the Subcommittee on the Near East of the Committee on Foreign Affairs, House of Representatives, 93d Congress. Washington: U.S. Government Printing Office, 1974.

revenues and foreign exchange resources for development, defense, and aid to other Arab countries. The government budget for the fiscal year beginning July 10, 1975, is \$31.5 billion, of which 15 percent is for defense and internal security. It should be noted, however, that in recent years the government has not spent all allocated funds. On May 21, 1975, the Council of Ministers approved the kingdom's second 5-year plan, for the period through 1980. The plan envisages an expenditure of about \$144 billion. Projects include gas gathering and treatment, petrochemical production, export refining, fertilizer production, manufacture of steel and aluminum, electricity, desalination, expansion of agriculture, housing, roads, telecommunications, and education.

Private enterprise is encouraged and foreign investment, especially in joint ventures with Saudi Government and private capital, is welcome. A shortage of Saudi manpower at all levels is the principal obstacle to rapid development. As a consequence over a million non-Saudis are employed in the economy, and this figure is likely to rise.

In 1970 nearly half the population was engaged in agriculture, including herding sheep, goats, and camels. Traditionally, agriculture has been limited to a few oasis areas and to the relatively well-watered Asir highlands. Dates were the chief crop but are now being supplemented by wheat, corn, alfalfa, grapes, rice, and truck garden crops. Some fishing is done, especially for Persian Gulf shrimp which is exported. Still Saudi Arabia must import most of its food requirements. To increase agricultural productivity the government financed construction of the Wadi Jizan Dam in southern Asir and irrigation projects at al-Hasa and Harad. A 5-million-gallon-per-day desalting/ electrical generating plant near Jidda (built with U.S. Government cooperation) and several smaller plants in other towns provide sources of water to meet rapidly rising urban requirements.

In addition to production, refining, and marketing of oil, the modern industrial sector includes a urea plant in Dammam, a steel rolling mill in Jidda, cement plants, a detergent factory, and food processing plants.

Future industrial growth is most likely in petrochemicals. Nonpetroleum minerals, including iron, gold, and copper, exist but are not yet exploited commercially.

Saudi Arabia enjoys a substantial surplus in its overall trade with other countries. Imports have increased rapidly, spurred by large increases in government and consumer spending. However, the rate of increase in imports has fallen far short of the rate of

increase of revenues derived from oil exports. Saudi Arabian foreign exchange reserves increased from \$4.3 billion in 1973 to \$22 billion at the end of 1974 and will approach \$100 billion by 1980 if present trends continue. Management and productive investment of these surplus revenues, in the domestic economy and abroad, will increasingly preoccupy Saudi Government planners. There is a high degree of fiscal stability, and con-



Old Prophet Mosque in Medina

fidence in the Saudi riyal (pegged to SDR's) is high.

All Muslims who can do so are obliged to make the *hajj*, or annual pilgrimage to Mecca (birthplace of the Prophet Muhammad and the holiest site in Islam), at least once in their lifetime. The January 1973 *hajj* drew over 600,000 pilgrims. This influx creates a large tourist industry and generates considerable revenue in the cities of Jidda, Mecca, and Medina, though this source of foreign exchange is no longer as important as it was in the days prior to the development of the country's oil reserves.

FOREIGN RELATIONS

Basic Saudi foreign policy objectives are to maintain its security and paramount position in the Arabian Peninsula, to defend general Arab interests, to promote solidarity among Muslim governments, and to maintain cooperative relations with other oil-producing and oil-consuming countries. Saudi Arabia has no diplomatic relations with any Communist state and opposes the encroachment of Communist influences into the Arabian Peninsula. It is cooperating with friendly neighboring states, including Iran, to preserve stability in the Persian Gulf region and to support governments in Yemen and Oman against radical subversion from the hostile People's Democratic Republic of Yemen. A charter member of the Arab League, the Saudi Government shares Arab enmity toward the State of Israel and insists that Israel must withdraw from all Arab territories, including East Jerusalem, occupied in June 1967. Saudi Arabia also seeks closer relations with Muslim communities in Asia and Africa; Jidda is the temporary headquarters of an Islamic Secretariat founded in 1969. Memberships in the 13-member Organization of Petroleum Exporting Countries (OPEC) and in a parallel Arab group (OAPEC) facilitate coordination of Saudi oil policies with other oil ex-

porting governments. Saudi Arabia is a charter member of the United Nations and is active in many of its specialized agencies.

U.S.-SAUDI RELATIONS

U.S. interests in Saudi Arabia are considerable and growing. The value of U.S. investments, including 40 percent ownership of ARAMCO, is about \$1.5 billion. As the United States has become more dependent on foreign oil supplies, it has imported increasing amounts from Saudi Arabia. By June of 1975, Saudi Arabia was providing 15.1 percent of U.S. oil imports, and this figure is growing.

The continued availability of Saudi oil is important to the prosperity of the United States as well as that of our European and Japanese allies. Saudi Arabia is the Arab world's largest customer for American products and services. Growing Saudi Arabia financial surpluses offer a potential source of investment capital, particularly for Saudi Arabian-American joint ventures. Moreover, Saudi Arabia's wealth and strategic geographical location make its friendship a valuable U.S. asset in the Middle East.

Saudi Arabia's leaders have put considerable store in close and friendly relations with the United States. Since diplomatic relations were first established in 1940 they have turned increasingly to the United States for help in modernizing their country's military forces and in developing its resources. In recent years the United States has sold Saudi Arabia military aircraft, Hawk anti-aircraft defense missiles, military vehicles, and other equipment. A military training mission established at Dhahran in 1953 has provided training in the use of this equipment. A number of private American contractors provide support for these Saudi defense programs. In other areas, U.S. Government agencies and private organizations have provided, on a reimbursable basis, technical assistance in geological mapping,

seawater desalination, social security administration, census taking, public administration, and economic planning. Over 3,000 young Saudis have studied or received training in U.S. schools and colleges.

U.S.-Saudi Arabian relations have been occasionally strained but not broken by differences over the Arab-Israeli conflict. Saudi Arabian leaders consider U.S. military and economic aid to Israel to be counter to their interests and have urged that the United States use its influence to effect an early Israeli withdrawal from occupied Arab territories. However, U.S.-Saudi ties are close and of long standing.

In June 1974 the two countries agreed to set up commissions for security and economic cooperation. A reimbursable technical assistance agreement was signed in February 1975. A Joint Economic Commission office has been established in Riyadh. Cooperation between the two countries is growing in the fields of manpower and education, agriculture, science and technology, and industrialization under Commission auspices.

Principal U.S. Officials

Ambassador—William J. Porter (January 1976)
 Counselor of Embassy; Deputy Chief of Mission—Hume A. Horan
 Counselor for Economic Affairs—Marion Gordon Daniels
 Counselor for Political Affairs—Nicholas M. Murphy
 Commercial Officer—Joseph O. Eblan
 Public Affairs Officer (USIS)—Isa Sabbagh
 Defense Attaché—Lt. Col. Stephen Talley, USA
 Consul General, Dhahran—Robert J. Bushnell

The U.S. Embassy in Saudi Arabia is located on Palestine Road, Ruwais, Jidda. The Consulate General is located a short distance from Dhahran International Airport.

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 Office of Media Services, Bureau of Public Affairs

☆ U.S. Government Printing Office: 1975 O-210-847 (1628)

LIST OF CABINET MEMBERS AND BIOGRAPHICAL DATA

King & Prime Minister.....Khalid Ibn Abdel Aziz al Saud
Dep. Prime Minister.....Fahd Ibn Abdul Aziz
2nd Dep. Prime Minister & Head of Natl. Guard....Abdullah Ibn Abdul Aziz
Min. of Defense & Aviation.....Sultan Ibn Abdul Aziz
Min. of Public Works & Housing.....Mit'eb Ibn Abdul Aziz
Min. of Interior.....Nayef Ibn Abdul Aziz
Min. of Municipal & Rural Affairs.....Majed Ibn Abdul Aziz
Foreign Minister.....Saud Al-Faisal
Min. of Higher Education.....Hassan Ibn Abdullah Al-Sheikh
Min. of Finance & National Economy.....Muhammad Aba al-Khayl
Min. of Petroleum & Mineral Resources.....Ahmed Zaki Yamani
Min. of Justice.....Ibrahim Al-Sheikh
Min. of Communications.....Mohammad Omar Tawfeek
Min. of Education.....Abdul Aziz Al-Khuwaiter
Min. of Labor & Social Welfare.....Ibrahim Al-Anqari
Min. of Planning.....Hisham Al Nazer
Min. of Haj & Endowments.....Abdul Wahab Ahmed Abdul Wasei
Min. of Agriculture & Waters.....Abdul Rahman Ibn Abdul Aziz Ibn Hassan Al-Sheikh
Min. of Information.....Mohammad Abdu Yamani
Min. of Health.....Hussein Abdul Razak Al-Jazaeri
Min. of Commerce and Supply.....Suleiman Al-Abdul Aziz Al-Saleem
Min. of Posts, Telephones & Telecommunications.....Alawi Kayeesh Kayal
Min. of Industry & Electricity.....Ghazi Abdel Rahman Al Gosaibi
Ministers of State & Cabinet Members.....Mohammad Ibrahim Masoud
Abdullah Mohammad Al-Omran
Mohammad Abduletif Al-Milhelm

Governor, Saudi Arabian Monetary Agency.....Sheikh Abdul Aziz bin Zayd
Al-Quraishi
Deputy Minister of Finance for Economic
Affairs.....Dr. Mansour Al-Turki
Vice Chairman and Managing Director of
Saudi Fund for Development.....Dr. Mahsoon Jalal
Assistant Deputy Minister of Finance,
Chairman of the Gulf Organization for
the Development of Egypt.....Dr. Abdul Aziz Al-Dokhayyel

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SAUDI ARABIA

Table of Contents

- A. Itinerary
- B. Airport Statement
- C. Map and State Department Notes
- D. List of Cabinet Members and Biographical Data
- E. Briefing Paper:
 - Saudi Arabia
 - IDA V Replenishment
 - Borrowing
 - Release of 9 percent of Capital Subscription
 - Bank Group Lending to Arab Countries
 - Gulf Organization for the Development of Egypt (GODE)
 - Consultative Group for Egypt
 - Technical Cooperation
 - Technical Coop between the Gov of Saudi Arabia and the World Bank - Report Status
 - Saudi Fund for Development (SFD)
 - Cofinancing
 - Technical Assistance
 - SFD Status During the Bank Annual Meetings
- F. Country Program Paper
- G. Resident Mission Staff
- H. Memos on:
 - Mr. McNamara's meetings with Senior Saudi Officials during 1977
 - The Possible Appointment of Saudi Executive Director in the IMF

Bank Financial Relations with Saudi Arabia

Bank Borrowing

The Bank commenced its direct placements with the Saudi Arabian Monetary Agency (SAMA) in 1968. The amounts borrowed directly and exclusively from SAMA, shown by fiscal year, are as follows:

<u>FY</u>	<u>\$</u>	<u>Saudi riyals</u>	<u>Sw F</u>	<u>DM</u>	<u>\$ equivalent at time of issue</u>
-----in millions-----					
1968	15	-	-	-	15
1969	15	-	-	-	15
1975	750	500	-	-	891
1976	-	-	300	100	154
1977	150	-	75	-	180

All these amounts are still outstanding in full; for further details see Attachment 1. At current exchange rates the total of outstanding direct borrowings from SAMA aggregate about \$1.28 billion equivalent.

In addition SAMA has subscribed to the Bank's two year bond issues since 1963 for a total amount of about \$228 million of which about \$122 million are held in the currently outstanding four issues. The subscription by SAMA for recent issues had been higher but we were forced to reduce them due to over-subscription of the issues. If the holdings of two year bonds are added to the outstanding long term borrowings, total outstanding borrowings from SAMA would at present amount to about \$1.40 billion equivalent. This is more than our total placements with the Deutsche Bundesbank and about as much as our placements with the Bank of Japan.

We have no information whether SAMA has bought World Bank bonds in the secondary market or from the issuing banks. Such purchases would, of course, increase their total holdings of World Bank bonds.

Our relations with SAMA are good. It appears that they are interested in currency diversification and in spreading their investments with us in relatively small operations throughout the year. With declining market rates this has worked to the advantage of the World Bank. For placements in currencies other than dollars (for example DM, Swiss francs, Dutch guilders and Yen) the operations are, of course, subject to the rules and regulations imposed by the respective central banks. In the case of SAMA this has not led to any problems.

SAUDI ARABIA

Borrowings to date

6-1/2% Bonds of 1968, due 1994	\$ 15,000,000
6-3/8% Bonds of 1968, due 1994	\$ 15,000,000
8% Bonds of 1974, due 1984	SRIs 500,000,000
8-1/2% Bonds of 1974, due 1984	\$ 750,000,000
7-3/4% Bonds of 1976, due 1982/84	SwF 300,000,000
8-1/4% Bonds of 1976, due 1982/86	DM 100,000,000
8-1/4% Bonds of 1976, due 1984	\$ 50,000,000
7.80% Notes of 1976, due 1986	\$ 60,000,000
7-5/8% Notes of 1977, due 1985	\$ 40,000,000
5-1/2% Bonds of 1977, due 1983	SwF 75,000,000

EMIDA
December 1977

SAUDI ARABIACURRENT STATUS OF TECHNICAL ASSISTANCEMANPOWER DEVELOPMENT/EDUCATION

Manpower Planning Study, Phase II
(Ministry of Planning)

Phase II includes execution of short-term survey of critical skills and development of a manpower planning model. The final report of the survey was sent to the Government August 30, 1977 and discussed with the Ministry in October in Riyadh. The planning model was installed in the Ministry's Computer Center in February 1977, and production runs using real data completed in September and discussed with the Ministry in October 1977. A special program to train five Saudi officers from the Ministry is scheduled to start January 14, 1978 in Riyadh.

Manpower Planning Study, Phase III

Under Phase III of the manpower planning exercise the model is being expanded to include regional analyses. Design specifications have been discussed with the Ministry's staff and finalized. The computer program is expected to be completed in April-May, 1978.

Labor Market Study

A special study started in October 1977, to analyze impediments to the smooth functioning of the Saudi labor market, be they economic, sociocultural, physical or administrative. The objective is to formulate on the basis of field investigations, a governmental action program to improve the functioning of the labor market. An October 1977 mission has identified principal data sources and reviewed implementation problems. On the basis of the mission's report, the design of survey instruments is currently being completed, and will be field tested in February/March, 1978.

Accelerated Literacy Program (ALP)
(Ministry of Education)

- Stage I: Evaluation of existing conditions and problems has been completed. Draft report in the form of several discussion papers has been submitted to the government.
- Stage II: Evaluation of results of experimental program has been completed and preliminary conclusions were presented to government in October 1977. A full report in Arabic has been handed to government in December 1977.
- Stage III: A planning mission visited Riyadh in December to advise on the design of a national literacy program, based on the findings of Stages I and II.
- Nomads: A survey of the Nomads and their needs was executed in July/August 1977, to assist the government in designing suitable programs for that part of the population. A draft paper on design alternatives for special programs has been discussed with government in December 1977.
- Tests: Staff of the TASS division have designed batteries of tests which will help the authorities assess the progress of students in language and arithmetic. These tests have now been tried in the field, with Saudi assistance, on a sample of students and are being finalized. Subsequently, the entire package together with instructions on its administration and analysis will be handed over to the M.O.E.

HOUSING

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

A mission in October-November 1977 reviewed three final (3,677 units) and four interim (8,266 units) submissions. Negotiations were postponed due to the MPWH's decision to call for new bids from Koreans in an attempt to reduce prices. Interim bids would be finalized by January 14, 1978. The mission assisted in the preparation of bid documents issued to the Koreans in

October 1977 and completed bids scheduled January 14, 1978. The mission also assisted in screening 31 applications of interested new firms. The MPWH's staff took a more active role and an expatriate architect was appointed. The forthcoming mission (January to March 1978) will assist in review and analysis of bids received.

Public Housing, subsequent phases and possible ad hoc assistance

Bank assistance for subsequent phases of this project are yet undefined. The nature and extent of further Bank involvement in this project is to be scaled down to allow more involvement from the Ministry's staff and less from the Bank. The extent of ad hoc assistance will still be discussed with the Ministry after signature of some housing contracts.

PUBLIC UTILITIES

Telecommunication System
(Ministry of Posts, Telephone
& Telecommunications)

The Bank has provided some limited assistance in the preliminary review of specifications and bidding documents for installation of microwave communications networks and for automatic telephone networks. No requests for assistance have been received since January 1977, but it is still possible that the Bank may be requested to give further assistance in the evaluation of proposals for the automatic telephone network.

SAUDI REAL ESTATE
DEVELOPMENT FUND

The Government requested in October, 1977 that the Bank provide technical assistance to develop management information system for analyses and planning, and to review the Fund's lending policies, management and operations. A reconnaissance mission for fact-finding and drafting a proposal for Bank technical assistance is tentatively scheduled in January, 1978.

INDUSTRY

Feasibility Studies - Selected
(Industrial Studies and Development
Center, Ministry of Industry and
Electricity)

No specific requests received for assistance from Government in FY78.

Assistance to Saudi Arabia Basic
Industries Corporation (SABIC)
in Preparation and Evaluation
of Major Projects
(Ministry of Industry and Electricity)

- (a) Saudi Arabia Steel The Bank commented on Lurgi's technical proposal for the Midrex direct reduction plant in September 1977 and was present at the July 1977 meetings held in Germany between SABIC, Korf and Lurgi at which technical and commercial proposals were reviewed.
- (b) Aluminum Smelter The Bank's preliminary analysis of project proposal was submitted to SABIC and discussed in Riyadh by a field mission in November 1976. Though the Bank has expressed some major reservations about the current proposal, the Government appears to have decided to proceed further with it at least for now. Further Bank involvement in the project is uncertain, though possible.
- (c) Shell Petrochemical Complex Bank evaluation of the project started in September, summary findings were submitted to SABIC in late October and the full evaluation report was completed and submitted to SABIC and PIF on November 23, 1977. SABIC is currently reviewing Bank report. A follow-up mission to discuss the report in Riyadh is expected sometime in January, 1978.
- (d) Dow Petrochemical Complex The Bank provided a preliminary evaluation of the project dated October 1976 to MIE. An interim engineering agreement has now been reached between MIE or SABIC and Dow. Further Bank involvement is uncertain, though likely.
- (e) Grace/Itoh Ammonia Methanol Complex MIE or SABIC is considering its position regarding chemical-grade methanol production. This may involve one or more of the project sponsors, e.g., C. Itoh, Celanese or Borden. Grace informed the Bank in November 1976 that it had withdrawn from the project's Ammonia/Urea part due to uncertainties in the international Ammonia/Urea market. The Bank has no current or full information on the project, other than that Itoh is presently trying to obtain reliable estimates for a barge-mounted plant to be built in Japan and towed to the sites. Further Bank involvement is uncertain, though possible.

(f) Mobil Petrochemical Complex

An interim engineering agreement with Mobil has been signed by SABIC in late 1976. Bank evaluation of the project around December is likely.

(g) Exxon Petrochemical (LDPE) Plant

A feasibility study is being prepared. Bank staff visited New York in late November for preliminary discussions with SABIC and Exxon. The Bank was requested to provide assistance in engineering contractors selection (now underway). Further Bank involvement in reviewing the request is likely to be in March/April, 1978.

(h) Fertilizer Study and Implementation of Fertilizer Program for Saudi Arabia

The Bank's study on prospects for nitrogenous fertilizer industry in Saudi Arabia was delivered on June 27, 1977.

(i) SABIC Computer Model

In June-July 1977, the Bank assisted SABIC in selecting a suitable financial Analysis Package (AUTOTAB II). The Bank's assistance to SABIC in utilizing this model for the first analytical exercise has been completed in October 1977.

LEGAL ASSISTANCE FOR REVIEW OF DOCUMENTS

Bank has agreed to provide legal assistance in review of documents on receipt of such requests from Government.

PUBLIC INVESTMENT FUND

Petroleum/Shell Refinery Project

The revised feasibility study was reviewed by Resident Mission and Headquarters. The review recommended that Petromin and Shell carry out a definition stage after signing the interim agreement and that PIF extends an "engineering credit" to finance Petromin's share of the cost of the definition stage. Further Bank assistance is likely, though timing is still uncertain.

TRANSPORT DEVELOPMENT

Bahrain Causeway

Bank staff and consultants visited Saudi Arabia in April and May 1977 and submitted their report on embankment design in late July 1977. The Bank also submitted comments on cost/proposal for the final design.

General Assistance to Ministry
of Communications on Highways

Transport Studies

↓
PORTS

East-West Railway

TRAINING

RESIDENT MISSION

A Senior Highway Advisor was reappointed for one year fixed-term and seconded to Government from October 3, 1977. A candidate for Senior Highway Maintenance Advisor position was interviewed November 21, 1977 and we are awaiting his final decision.

The Bank prepared draft TOR's for:

(1) Study of the organization, management and operation of the Ministry of Communications; and (2) Study of highway planning and development of a highway master plan. We await comments from Government.

At the Government's request the Bank agreed to carry out a port sector study. All members have been selected and a preparatory mission visited the Kingdom in early December 1977. Work on the study is expected to start in mid-January 1978 and is scheduled to be completed within nine to ten months.

Consultants' proposals have been technically evaluated by a Bank team in Washington and the report has been delivered to the Ministry of Communications in Riyadh. The Bank has agreed to give advice during Stage I of this study which is expected to take about six months and will determine the viability of the project. Further Bank involvement is contingent upon the findings of Stage I.

The Bank will explore new avenues to train senior Saudi officials. No firm plans are made as yet, but an allocation of 10 manweeks is provided for this purpose.

The Resident Mission has now completed two years of operation. Mr. Carmignani, the former Deputy Director, has assumed the directorship as of September 1, 1977, replacing Sir Gordon Mackay who stayed on in an advisory capacity until the end of 1977. Mr. El Maaroufi was nominated for Deputy Director, and the Government recently approved his nomination. Mr. A. D. Hutchins left the mission on November 30, 1977. Recruitment for a financial analyst position is underway. At present, the mission also comprises an industrial economist and a petrochemical engineer. A sixth position was approved for FY78 and may be filled with another industrial specialist sometime in early 1978.

SAUDI ARABIA - TECHNICAL ASSISTANCE

<u>Ministry/Agency and Project</u>	<u>FY77 Budget (Revised)</u>	<u>FY78 Budget (Proposed)</u>
Ministry of Planning		
Manpower Planning (Stage II)	225.0	60.0
Manpower Planning (Stage III)	-	40.0
Manpower Planning - Labor Market Study	-	100.0
Ministry of Education		
Accelerated Literacy Program	230.0	230.0
Ad hoc Support	6.0	-
Ministry of Public Works & Housing		
Public Housing	225.0	225.0
Ministry of Industry & Electricity		
General Support	-	10.0
ISDC - Non-Hydrocarbon Ind. Dev. Program, Phase II	15.0	-
ISDC - Selected Feasibility Studies (including Agro-Industries)	4.0	-
SABIC: Major Projects - Preparation & Eval.		
Shell Petrochemical Complex	115.0	137.0
Dow Petrochemical Complex	-	-
Grace/Itoh Ammonia Methanol	-	-
Mobil Petrochemical Complex	-	-
Aluminum Smelter	-	-
Saudi Arabia Steel	-	-
- Fertilizer Strategy/Policy	8.0	-
SABIC/Computer Model	<u>1/</u>	<u>1/</u>
Procurement Pricing	4.0	-
Desalination Committee	8.0	-
Ministry of Transport & Communications		
Transport Planning	36.0	15.0
Bahrain Causeway	30.0	30.0
East-West Railroad	<u>1/</u>	<u>1/</u>
Saudi Port Authority		
Ports Study	-	156.0
Ministry of Posts, Telephone and Telecommunications		
Telecommunications	10.0	5.0
Training		
Training-Literacy Visits	8.0	10.0
Contingencies	67.0	104.0
C Sub total - Headquarters	<u>1014.0</u>	<u>1157.0</u>
Resident Mission in Saudi Arabia ^{2/}	234.0	286.0
Seconded advisers to Ministry of Transport and Communications ^{2/}	-	65.0
Total Manweeks	<u>1248.0</u>	<u>1508.0</u>
	=====	=====
Manyear Equivalent	24.0	29.0
	=====	=====

1/

Time to be taken from contingencies

2/

Time for Resident Mission and Seconded Advisers is shown
in gross manweeks, in accordance with billing procedures.

August 8, 1977

His Excellency Mohammed Abalkhail
Minister of Finance and National Economy
Riyadh, Saudi Arabia

Dear Mr. Minister:

Thank you for your letter of July 4, 1977 about the need for qualified staff in the Islamic Development Bank. We in the World Bank wish to cooperate as closely as we can with regional development banks and try to extend any assistance which is needed whenever this is possible. At your suggestion, we have looked into the request of the Islamic Development Bank for a second secondment of Mr. Amir Al-Khafaji. Even though we too were and are working under considerable staff constraints, Mr. Al-Khafaji's services were made available to the Islamic Development Bank earlier for four months. The request for an extension of his secondment was reviewed very carefully at the time. While it would have been possible to extend his assignment for a shorter period, say six weeks, the conclusion was reached that we could not extend it for one year as requested. Mr. Al Khafaji's services were urgently needed at the Bank.

Upon receipt of your letter, the case was carefully reviewed again. Unfortunately, we have had to conclude that an extended secondment of Mr. Al-Khafaji to the Islamic Development Bank is still not possible. His presence in the Bank is very much required. He, after considerable thought on the matter, has come to the conclusion that for personal reasons it will not be possible for him to give up residency and leave the Washington area.

I would like to respond positively to your request and suggest an alternative to Mr. Al-Khafaji. You may know that earlier the Bank

His Excellency Mohammed Abalkhail

August 8, 1977

had suggested that Mr. Emile Sawaya, also from the Bank's Projects staff, would be available for secondment. This suggestion was first conveyed to the Islamic Development Bank in Mr. Benjenk's letter to Dr. Ahmed Mohamed Ali dated March 23, 1977, copy of which is attached. This letter contained an account of Mr. Sawaya's experience and qualifications. If the Islamic Development Bank is interested in pursuing this matter, I believe it may still be possible for Mr. Sawaya to be made available. We look forward to hearing from you or Dr. Ahmed Mohamed Ali on this matter.

With best regards.

Sincerely,

Robert S. McNamara

Attachment

cc: for Mr. McNamara's office (2)

Cleared with and cc: Messrs. Humphrey, El Darwish, Pollan, Li

HHHEschenberg:mh
July 29, 1977

BIOGRAPHICAL DATA

Name: Emile B. SAWAYA
 Date of Birth: September 23, 1943
 Place of Birth: Lebanon
 Nationality: Lebanese

EDUCATION:

American University of Beirut	B. A. in Economics	June 1965
American University of Beirut	Certificate in Governmental Planning, Budgeting and Control	September 1966
Indiana University	M.A. in Economics	
	Ph.D. candidate	

EXPERIENCE:World Bank

February 1976 to date	Operations Officer in Development Finance Companies Department, Africa Division.
July 1973 to January 1976	Economist in Western Africa Region, Education Projects Division, and Acting Division Chief on several occasions.
August 1971 to June 1973	Economist in Education Projects Department. Participated in sector surveys, reconnaissance, appraisal and supervision missions.
August 1970 to July 1971	Member of Young Professional Program, assigned to Education Projects Department and East Asia and Pacific Country Programs Department.

Other

1968/69	Teaching Associate, Economics Department, Indiana University.
1967/68	Graduate Assistant, Economics Department, Indiana University.
1965/67	Graduate Assistant, Economics Department, American University of Beirut.

ANNEX III

July 4, 1977.

00005

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

Dear Mr. McNamara,

I am writing this personal letter to you in the hope that it will receive your personal attention and sympathetic consideration.

The Islamic Development Bank commenced its activities in October 1975. The IDB has been established to foster economic development and social progress of member countries who are also members of the IBRD. The present membership of the IDB stands at 32.

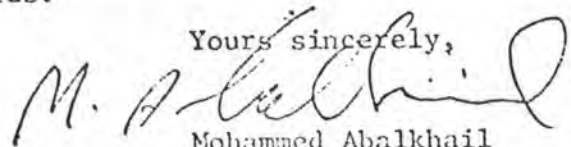
Towards this end the IDB has formulated policies and procedures for financing operations to attract complementarity from, or as a complementarity to, the efforts of other international, regional and national financing institutions, thus giving expression to the interdependence of financing institutions. In the case of the IBRD, the IDB has already developed some measure of co-operation in that both institutions have co-financed projects in Somalia and the Sudan and there are at present under consideration other projects for co-financing by the two institutions.

Over the years the IBRD has built up the fine tradition of extending a helping hand, upon request, to newly-established financing institutions who are serving the same purpose as the IBRD. On the request of the IDB the IBRD lent the services of Dr. Amir Al-Khafaji for only a short period of about four months and the request for extension was not granted. This has brought about the feeling, unjustly perhaps, that the IDB was not receiving the same measure of assistance from the IBRD as that extended to similar institutions.

In its present early stage of development the IDB is in real need of the services of qualified professionals for a reasonable period to provide the necessary in-training of its own personnel. I am confident the IBRD would render all possible technical assistance to the IDB and I would be most grateful, therefore, if you would kindly give the matter your personal attention and grant positive response to the request of the IDB for technical assistance in the interest of the developing countries who are concurrently members of both institutions.

Warm and personal regards.

Yours sincerely,



Mohammed Abalkhail
Minister of Finance & National Economy.

- 18 -

March 23, 1977

Dr. Ahmed Mohamed Ali
President
Islamic Development Bank
Jeddah, Saudi Arabia

Dear Dr. Ali:

Pursuant to our exchange of telexes, I am pleased to confirm that we have identified a suitable candidate, Mr. Emile Sawaya, who could be available for secondment to the Islamic Development Bank for a full year, starting in July 1977.

Mr. Sawaya is a Lebanese national, with a background in economics and planning. He has been with the Bank since August 1970, and has worked as an economist on Education Projects and Development Finance Companies. He has participated in, and led many, appraisal teams. He has also held managerial responsibilities as Acting Division Chief on a number of occasions. We believe that Mr. Sawaya could be helpful to your institution. For your convenience a brief curriculum vitae is attached.

Due to the length of time envisaged, however, Mr. Sawaya's secondment would have to be under different terms and conditions than those which governed the secondment of Mr. Al-Khafaji. We would have to ask the Islamic Development Bank to meet the full cost. Dr. Sani El Darwish, who is representing the World Bank at the Islamic Bank meetings in Mecca, has kindly agreed to deliver this letter. He can provide you with any additional information you may need.

Hoping this finds you well, I look forward to your early reply.

With best wishes.

Sincerely yours,

M. P. Benjenk
Vice President
Europe, Middle East & North Africa Region

Attachment

KINGDOM OF SAUDI ARABIA

TECHNICAL COOPERATION BETWEEN
THE GOVERNMENT OF SAUDI ARABIA
AND
THE WORLD BANK

A REPORT

ON PAST AND CURRENT STATUS OF TECHNICAL ASSISTANCE

January 17, 1978

A. GENERAL BACKGROUND

1. The Technical Cooperation between the Kingdom of Saudi Arabia and the World Bank is governed by the Memorandum of Understanding of 1975 and by an Annual Program and Administrative Budget. Three such Programs have been prepared:

<u>Annual Program and Administrative Budgets</u>					
		<u>Scheduled</u>		<u>Actual</u>	
		<u>Manyyears</u>	<u>Cost</u> (\$ million)	<u>Manyyears</u>	<u>Cost</u> (\$ million)
1.	FY76	20.0	2.6	16.2	2.12
2.	FY77	24.0 ^{1/}	3.6	22.5	3.34
3.	FY78	29.0 ^{2/}	4.8	-	-

-
- 1/ 20.0 Headquarters manyyears plus 4 Resident Mission positions.
 2/ 23.0 Headquarters manyyears plus 6 Resident Mission positions.

2. The Resident Mission serves as the Bank channel of communication with the Ministries and Government Agencies; it also provides a local pool of expertise for use in specific (for example industry, contracting, financial analysis) and ad hoc tasks. It reports to HE Mohammed Al Sugair, Deputy Minister for Budget Affairs, Ministry of Finance and National Economy for general coordination and budgeting matters. The Resident Mission includes at present a Director, a Deputy Director, a Project Economist, and a Petrochemical Engineer. A new Financial Analyst (to replace the one that has left after completing his tour of duty) is being recruited. A sixth position (an Engineer) is included in the FY78 budget and has yet to be filled. In addition, a highway advisor has been reappointed to the Ministry of Communications (cost included in the Annual Budget) for a period of one year; a second highway maintenance advisor has been identified for secondment to the same Ministry.

3. The Bank has also seconded a legal adviser to the Saudi Fund for Development through direct arrangement with the SFD (outside the Annual Budget).

B. FY77 AND FY78 BUDGET: MANPOWER SCHEDULED & USED

Annex 1 shows the manpower (scheduled and actually used) under FY77 and FY78 Annual Budgets. The leading tasks are as follows:

<u>Tasks</u>	<u>FY77 (Actual)</u>	<u>FY78 (Scheduled)</u>
	(in manweeks)	
✓ Manpower Planning	257	200
✓ Literacy Program	306	230
✓ Public Housing Program (Phase 1)	208	225
✓ Major Manufacturing Projects	69	97
✓ Transport Projects	71	100
✓ Ports Study	1	156
Resident Mission	208	286
Others (including contingencies)	49	214
Total (manweeks)	<u>1169</u>	<u>1508</u>
	=====	=====
Total (manyears)	22.5	29.0
	=====	=====

C. MINISTRY OF PLANNING

1. Manpower Planning Study, Phase I (completed)

Phase I (concluded with the submission of a 3 volume report) concentrated on manpower supply and identified various education programs to be included in the Second Development Plan.

2. Manpower Planning Study, Phase II (underway)

Phase II includes the execution of a short-term survey of critical skills and the development of a manpower planning model. The final report of the survey was discussed with the Ministry in October 1977. The planning model was installed on the Ministry's Computer Center in February 1977, and production runs using real data completed in September and discussed with the Ministry in October 1977. A special program to train five Saudi officers from the Ministry has started (January 1978) in Riyadh.

3. Manpower Planning Study, Phase III

Phase III includes expansion of the model to cover regional analyses. Design specifications have been finalized with the Ministry. The computer program is expected to be completed by April-May, 1978.

4. Labor Market Study

A special study started in October 1977, to review issues related to the smooth functioning of the Saudi labor market (economic, sociocultural, physical or administrative). The objective is to formulate on the basis of field investigations, a governmental action program to improve the functioning of the labor market. An October 1977 mission has identified principal data sources and reviewed implementation problems; survey instruments are being designed and will be tested in the field in February/March 1978.

D. MINISTRY OF EDUCATION

Accelerated Literacy Program

1. Stage I

Evaluation of existing conditions and problems has been completed. Draft report in the form of several discussion papers has been submitted to the Ministry.

2. Stage II

Evaluation of results of experimental program has been completed and preliminary conclusions were presented to the Ministry in October 1977. A full report in Arabic has been handed to the Ministry in December 1977.

3. Stage III

A planning mission advised on the design of a national literacy program, on the basis of the findings of Stages I and II (December 1977).

4. Nomads

A survey of the Nomads and their needs was executed in July/August 1977, to assist the government in designing suitable programs for that part of the population. A draft paper on design alternatives for special programs has been discussed with the Ministry (December 1977).

5. Tests

Tests to assess the progress of students in language and arithmetic have been designed. These tests have been tried in the field, on a sample of students and are being finalized together with instructions on administration and analysis.

E. MINISTRY OF PUBLIC WORKS AND HOUSING

1. Public Housing Project (Phase I)

- (a) Over the period 1975 to 1977 the Bank has provided assistance (initially to the Ministry of Finance and National Economy and subsequently to the Ministry of Public Works and Housing) for the preparation of Tender Documents, the prequalification of bidders and the review of submitted bids for Phase I (31000 units) of the Public Housing Project. It has also provided assistance for review of general prequalification "documentation" submitted by various firms to the Ministry of Public Works and Housing.
- (b) More recently (October/November 1977) a mission reviewed three final and four interim submissions and assisted with the preparation of Tender Documents to seek additional bids from Korean firms. Final Bids (for Phase I) are expected to be received on February 4, 1978. The Bank is scheduled to assist in the review of such bids, and hopefully will help conclude contracts for Phase I.

2. Public Housing (subsequent phases) and ad hoc assistance

Bank assistance for subsequent phases is undefined but more involvement from the Ministry's staff is expected and less from the Bank. Ad hoc assistance (specific studies) will still be discussed after signature of some housing contracts.

F. MINISTRY OF INDUSTRY AND ELECTRICITY

1. Industrial Studies and Development Centre (ISDC)

- (a) Terms of Reference and Selection of Consultants for an Industrial Estates Project.
- (b) The Bank has completed a sector study on "Non Hydrocarbon Industries: Status and Prospects" and a preliminary review of "The Potential for Agro Industries".
- (c) The Bank assisted in the review of organization and management of one cement factory.
- (d) Further assistance to the Ministry of Industry and Electricity and to ISDC was scheduled during FY77 but did not materialize.

2. Saudi Industrial Development Fund (SIDF)

The Bank made a full review of the main factors affecting the feasibility of truck assembly.

G. SAUDI ARABIA BASIC INDUSTRIES CORPORATION (SABIC)

1. Preparation and evaluation of major manufacturing joint-venture projects

(a) Saudi Pecten Petrochemical Project (SABIC/Shell Oil)

Bank assistance has been continuous throughout the various stages of project preparation and contractors' selection. A full evaluation report has been submitted (November 1977) to SABIC and served as a basis for presentation of the project to SABIC's Board.

(b) Saudi Steel Project (SABIC/Korf)

Bank assisted throughout the various stages of project formulation, review of joint venture concepts, selection of processes and review of feasibility study. More recently (December 1977) a review of bids for the direct reduction plant was conducted. Preappraisal is scheduled during spring 1978 and full evaluation in October 1978.

(c) Saudi Petrochemical Project (SABIC/Exxon)

Bank is currently (January 1978) assisting with the review of bids for a low density polyethylene plant and participating in a broader review of various project aspects to prepare the ground for future evaluation.

(d) Saudi Mobil Petrochemical Project (SABIC/Mobil)

Bank is currently participating (January 1978) in the technical review of process design and in the status review of the feasibility study. It will participate in the full project evaluation scheduled around June 1978.

(e) Other Projects (Dow Petrochemical, Grace-Itoh Methanol, National Southwire Aluminum)

Bank participated in the preliminary review of these projects at various stages of their preparation. Further work is yet unscheduled.

2. Sector and ad hoc studies

(a) Fertilizer Study

A fertilizer study and a proposal for implementation of a fertilizer program in Saudi Arabia was submitted in June 1977. Further work is yet undefined.

(b) SABIC Computer Model

The Bank assisted SABIC in selecting a suitable financial analysis package and in installing the package at the Computer Center. Training and programming was also provided.

(c) SABIC Portfolio Management

The Bank is assisting SABIC with the preparation of a projected cash flow and with the design of a strategy for managing SABIC's liquid assets.

H. PUBLIC INVESTMENT FUND (PIF)

1. East-West Crude Oil Pipeline

The Bank started work on this project in August 1975 and submitted to PIF a full evaluation report in August 1976.

2. Petromin/Shell Crude Oil Refinery

The Bank had conducted a preliminary review of the project and suggested to carry out studies under a definition stage after signing an "interim agreement". Future steps are undefined.

3. Saudi Pecten Petrochemical Project

Parallel to its work for SABIC, the Bank also carried out a full evaluation of this project for PIF (the lending Agency for the project). The report has been submitted to H.E. Al-Turki in November 1977.

4. Institution Building

Assistance (1976) for the formulation of: a Statement of Policy and Procedures; Organization and Operations proposals; accounting formats; Procurement and Disbursement procedures; and staffing requirements.

I. MINISTRY OF COMMUNICATIONS

→ 1. Bahrain Causeway

Detailed review of consultants' proposals for design and feasibility study of the project.


2. Transport Studies

Preparation of Terms of Reference for: (i) study of the organization, management and operation of the Ministry of Communications; and (ii) study of highway planning and development of a highway master plan.

3. East-West Railway Feasibility Study

The Bank assisted in reviewing the prequalification submissions of 32 firms and helped prepare a short list of 5 firms. Submissions by the 5 firms were reviewed technically and, following discussion with the Ministry, 3 firms are now being invited to Riyadh for technical discussions, price opening and (after selection) initial contract negotiations. The Bank has agreed to assist throughout phase I of the study (assess viability of the project) and will consider further assistance, if necessary, through phases II & III (to preliminary engineering).

J. PORT AUTHORITY



At the request of the Port Authority, the Bank has agreed to carry out a major "port perspective study". The aim of the study is to recommend measures to ensure that the Saudi port system is placed on a sound administrative, operational and financial basis with the minimum delay, and to assess the need for future investments. The general approach will be to focus particularly on the years 1980, 1985 and 1995 and to provide "snap-shots" of the ports, and the demands that will be made on them, in those years. It is anticipated that the results of the study will form the basis for the port component in the third 5-year Plan. The study started on January 17th, 1978, and the team is currently building up in Saudi Arabia.

K. VARIOUS TASKS

1. Ministry of Posts, Telephone & Telecommunications

The Bank has provided limited assistance in the review of specifications and bidding documents for installation of microwave communications networks and for automatic telephone networks. No further assistance is envisaged.

2. Real Estate Development Fund (REDF)

A reconnaissance mission is currently (January 1978) reviewing potential for technical assistance to develop a management information system for analysis and planning, and to review the Fund's lending policies, management and operations.

3. Legal Assistance

Bank has agreed to provide legal assistance for the review of documents upon request by the government.

4. Procurement and Prices

A report on "Procurement Policies and Prices" has been completed and submitted to the Ministry of Finance and National Economy in November 1976.

5. Cost Escalation in Construction Contracts

The Bank submitted to the Ministry of Finance and National Economy (November 1977) a report on the problems related to the cost escalation in construction contracts.

KINGDOM OF SAUDI ARABIA

TECHNICAL ASSISTANCE: ANNUAL FY77 AND FY78 PROGRAM (Scheduled and Actual)

(in manweeks)

Ministry/Agency and Project	FY77			FY78		
	Scheduled	Actual	%	Scheduled (Rev.11/77)	Actual ^{1/}	% ^{1/}
1. <u>Ministry of Planning</u>						
a. Manpower Planning (Stage II)	225.0	257.7	114	80.0	62.1	78
b. Manpower Planning (Stage III)	-	-	-	50.0	26.3	52
c. Manpower Planning - Labor Market Study	-	-	-	70.0	13.3	19
2. <u>Ministry of Education</u>						
a. Accelerated Literacy Program	230.0	305.9	133	230.0	86.5	38
b. Ad hoc Support	6.0	10.3	121	-	-	-
3. <u>Ministry of Public Works & Housing</u>						
Public Housing Project (Phase I)	225.0	208.0	92	225.0	58.8	26
4. <u>Ministry of Industry & Electricity</u>						
Industrial Studies & Development Center (ISDC)	19.0	1.9	10	10.0	0	-
5. <u>Saudi Arabia Basic Industries Corp. (SABIC)</u>						
a. Major Manufacturing Projects (Preparation and Evaluation)	115.0	69.0	60	97.0	35.5	36
b. SABIC Portfolio Management	-	-	-	10.0	0.1	1
c. Fertilizer Strategy/Policy	8.0	9.1	114	7.0	0.4	6
d. SABIC/Computer Model	2/	2.0	-	8.0	6.5	81
6. <u>Ministry of Finance & National Economy</u>						
a. Procurement and Pricing	4.0	2.5	63	2.0	1.2	60
b. Desalination Committee	8.0	-	-	-	-	-
c. Public Investment Fund (PIF)	23.0	6.9	30	10.0	0	-
d. Real Estate Development Fund (REDF)	-	-	-	20.0	0.5	3
7. <u>Ministry of Communications</u>						
a. Transport Planning	36.0	34.9	97	45.0	3.0	7
b. Bahrain Causeway	30.0	35.8	119	30.0	0.7	2
c. East-West Railway	2/	0.8	-	25.0	6.0	24
8. <u>Saudi Port Authority</u>						
Ports Study	2/	9.0	-	156.0	7.5	5
9. <u>Ministry of Posts, Teleph. & Telecom.</u>						
Telecommunications	10.0	0.4	4	-	-	-
10. <u>Training</u>	8.0	6.6	83	10.0	0	-
11. <u>Contingencies</u>	67.0			72.0		
12. <u>SUBTOTAL (Headquarters)</u>	1014.0	960.8	95	1157.0	308.4	27
13. <u>RESIDENT MISSION 3/</u>	234.0	208.0	89	286.0	118.8	42
14. <u>Seconded Advisers (Ministry Transp. & Com.) 3/</u>	-	-	-	65.0	12.6	19
15. <u>TOTAL MANPOWER (Manweeks)</u>	1248.0	1168.8	94	1508.0	439.8	29
16. <u>TOTAL MANPOWER (Manyears equiv.)</u>	24.0	22.5	94	29.0	8.5	29

Footnotes

- 1/ Actual Manpower used through December 30, 1977.
- 2/ Time to be taken from Contingencies
- 3/ Time for Resident Mission and Seconded Advisers is in gross manweeks (billing procedures)

Direct-charge 94
 support 12
 total 96

SAUDI FUND FOR DEVELOPMENT (SFD)

Cofinancing

1. The Saudi Fund for Development is the main channel for official Saudi bilateral development aid. In FY77 the Saudi Fund approved cofinancing in an amount of \$55.5 million for 3 Bank Group projects, complementing \$66 million of Bank/IDA resources. These figures compare with \$193.7 million of Saudi Fund cofinancing for 7 Bank Group projects in FY76 and \$196 million for 5 Bank Group projects in FY75. As of the end of August 1977 the Saudi Fund had approved cofinancing totalling about \$521 million for 17 Bank Group projects, complementing about \$667 million of Bank/IDA resources (Annex I).

2. Due to the commitment of the Saudi Fund of all its paid-in capital, the increase of its direct bilateral development aid financing of projects, and as the Saudi Fund continues to build up its own staff, it is not expected that cofinancing with the Saudi Fund would reach again the levels of FY75 and FY76. However, the relations between the Saudi Fund and the Bank continue to be very good and you may wish to express satisfaction over this matter. You could add that in view of the increasing needs of developing countries, the Bank remains fully prepared to engage in cofinancing with the Saudi Fund, and that cofinancing in general was expected to remain an important feature of many of our projects and you may express the hope that the Saudi Fund would continue to use the Bank projects as a vehicle for the transfer of its resources and that the number of Bank Group/Saudi Fund projects would continue to increase in the future.

Technical Assistance

3. Assistance provided so far by the Bank to SFD is additional to that provided under the Memorandum of Understanding of Technical Cooperation agreement with Saudi Arabia. In the past two years the Bank has (i) prepared for SFD a study on its capital structure investment strategy (June-August 1975), (ii) seconded a lawyer to SFD, (iii) provided some assistance in recruitment, (iv) assisted in procurement and disbursement, (v) provided appraisal information on cofinanced projects (Projects staff have visited Riyadh for the purpose). Furthermore, the Bank has provided on-the-job training in Washington for a number of senior SFD staff for periods of 2-3 months each. SFD is proceeding further with developing its own financial staff, so that on future projects our cooperation is likely to be limited to the provision of ad hoc technical opinions. Annex II summarizes technical assistance provided so far to SFD.

4. SFD has been dissatisfied with the results of the English training which has been administered to some of its staff in specialized institutes in the USA, and last year requested the Bank's assistance in establishing an adequate English language training program for its staff. We responded last October by sending SFD a proposal for such training within the Bank, similar to the language training being provided to Bank staff. We have not had a reaction to date.

SFD Status During the Bank Annual Meetings

5. SFD has been attending the Bank Annual Meetings as special guest. This status, however, created problems during the last Annual Meetings as SFD delegation could not attend certain meetings without being escorted. To avoid similar difficulties in the future, we are proposing that SFD be given the status of observer in future Annual Meetings. A note to Files on our discussions with the Fund during the Annual Meetings is attached (Annex III).

EMIDA

December 1977

PAST COFINANCING OPERATIONS BETWEEN
BANK GROUP AND SAUDI FUND FOR DEVELOPMENT

(in US\$ million equivalent)

<u>Country/Project</u>	<u>FY</u>	<u>IBRD</u>	<u>IDA</u>	<u>SFD</u>
<u>Congo</u> Railways II	76	38.0		20.0
<u>Egypt</u> Cotton Ginning	74		18.5	25.6
Suez Canal Rehabilitation	75	50.0		50.0
Railways II	75	32.5		65.0
Telecommunications	75		30.0	23.0
Suez Canal Expansion	78	100.0		50.0
<u>Ghana</u> Kpong Hydroelectric	77	39.0		32.5
<u>Indonesia</u> Fertilizers III	76	70.0		70.0
<u>Korea</u> Highways III	76	90.0		35.0
Ports I	76	80.0*		35.0*
<u>Rwanda</u> Highways	76		9.5	5.0
<u>Sudan</u> Rahad Irrigation	75		20.0	28.0
Domestic Aviation	76	20.0	9.0	17.7
Savannal Development	77		17.0	8.5
<u>Tunisia</u> Sewerage	75	28.0		30.0
<u>Yemen Arab Republic</u> Grain Storage	76		5.2	11.0
Sana'a Second Water Supply and Sewerage	77		10.0	14.5
Total		<u>547.5</u>	<u>119.2</u>	<u>520.8</u>

* Bank loan was made in 1972. SFD financing was made in 1976 to cover cost overruns.

PAST COFINANCING OPERATIONS

(in US\$ million equivalent)

	<u>FY TOTALS</u>					<u>Total</u>
	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	
IBRD/IDA	18.5	160.5	321.7	66.0	100.0	666.7
SFD	25.6	196.0	193.7	55.5	50.0	520.8
No. of Operations	1	5	7	3	1	17

BANK'S ASSISTANCE TO
SAUDI FUND FOR DEVELOPMENT

Bank assistance to the Saudi Fund has been as follows:

- a) Secondment of a member of the Legal Department to work as the Fund's Legal Advisor: Mr. Sheriff Hassan took up his post in January 1976. Attempts to find a suitable transport economist for secondment were unsuccessful, partly due to the Fund's inability to specify its needs clearly. An offer was declined by an experienced staff member;
- b) Assistance in recruitment: several candidates have been proposed and some interviewed, and we have provided SFD with sample job description. However, while we continue to seek suitable people, to our knowledge few have yet signed a contract. This is due to a lack of precision in job description by the Saudi Fund, to the fact that several other similar institutions are looking for people with similar qualifications and that to a number of qualified people work conditions in Saudi Arabia may not be attractive;
- c) Assistance on procurement and disbursement for cofinanced project. The Bank supervises procurement and disbursement for the Saudi Fund loans on its four cofinanced projects in Egypt, as mentioned above, and in some other countries, following Bank procedures;
- d) Provision to SFD of full appraisal details on cofinanced projects; and
- e) Preparation for SFD a study on its capital structure investment strategy (June-August 1975).
- f) Provision to SFD of a portfolio audit sample.
- g) Two months on-the-job training in the Bank's Legal Department of a staff member of SFD's Legal Department (1976)*; two months on-the-job training of the Director of Administration and Procedures of SFD (1976); three months on-the-job training of the Director of Capital and Loan Administration of SFD (1977).

* Recently promoting to Deputy Managing Director of the Saudi Fund for Development.

OFFICE MEMORANDUM

- 5 -

DATE: October 20, 1977

TO: Files

FROM: Ramzi T. Fares, EMENA CPIASUBJECT: 1977 Annual Meeting - Note on Meeting with the Saudi Fund
for Development Delegation

1. On September 29 at 11:15 Messrs. Benjenk, Pajmans, Bart, Humphrey, Moini, El-Rifai, Ijichi and Fares met with the delegation of the Saudi Fund for Development (SFD) to the 1977 Annual Meeting. The delegation consisted of Messrs. Mahsoon Jalal, Vice Chairman and Managing Director, SFD, Khaled Al-Massaoud, Deputy Managing Director, and Murshed Al-Zughaibi. Besides general issues discussed during the meeting, this note covers countries of the CPI Department. A separate note covering the CPII countries is being prepared by that Department.

General

2. In answer to a question by Mr. Benjenk, Dr. Jalal said that they are very satisfied with the Bank's cooperation and assistance. In particular he mentioned that Mr. Sherif Hassan has been performing to SFD's fullest satisfaction.

3. In answer to a further question, Dr. Jalal said that, of the total authorized capital of SRLs. 10 billion, SRLs. 8 billion had been paid-in, most of which is already committed. However, there was no fear of a liquidity or funding "crisis", as they still could draw the remaining SRLs. 2 billion if and when required. Dr. Jalal also added that he had no doubt that, should that be necessary, a capital increase would be authorized.

Egypt

4. Dr. Jalal said that ARETO was not keeping SFD informed of developments in signing contracts on the Telecommunications Project, co-financed with the Bank. (The Bank acts as a technical adviser on bid evaluation for SFD only and has no role in the final evaluation and disbursement process). Dr. Jalal added that he had no objection to the Bank undertaking any action to remedy that situation, including any change in the legal relationships between ARETO, the Bank and SFD, which could lead to improvement. (A letter was sent to Dr. Jalal seeking confirmation that he wished us to approach the Egyptian authorities).

5. Dr. Jalal further indicated that currently SFD does not have any funds allocated to the financing of new projects in Egypt beyond SRLs. 50 million initially allocated to a highway project, which had not yet materialized). However, until they receive an answer from the Government on this matter, they are unable to take any further action, including possible reallocation of this amount to other project(s).

October 20, 1977

Files

Afghanistan

6. Dr. Jalal reported that the Saudi Fund was providing a grant to finance a hospital construction project up in the north of Afghanistan. The location, size and other details of this hospital project were still to be worked out. We offered any help that the Saudi Fund might need in finalizing this project. Dr. Jalal also stated that the Fund was interested in financing other projects in Afghanistan but that it had not been approached by the Afghan Government for financing requests. He indicated that poor coordination between the Afghan Government and external financing sources seemed to be a problem. We told Dr. Jalal that we could approach and persuade the Government through our resident representative in Kabul to apply for financial assistance for IDA financed projects in Afghanistan. Dr. Jalal welcomed the idea. A follow up cable on this matter was sent to Mr. Theodores on October 4.

YAR

7. Dr. Jalal indicated that, in general, he is interested in cofinancing with IDA projects in YAR. In particular, interest was expressed in the Water Supply and Sewerage Project in Ibb and Dhamar and the Fisheries Project.

PDRY

8. SFD is interested in the Wadi Hadramawt Power Project and we should keep them informed if any financing gap still exists. We should also keep them informed on the Education Project.

Cleared with & cc: Messrs. Paijmans, Humphrey

cc: Messrs. Benjenk, Cargill, Bart, Knox, H. Scott, Dubey, El-Darwish, El-Fishawy, Hornstein, Köpp, Maiss, Serageldin, Blay, Kanaan, Kaps, Kwaku, Moini

RTFares:mbw

JSIjichi (para. 6)

GEL-Rifai (paras. 7 & 8)

F

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Country Program Paper

SPECIAL COUNTRY PROGRAM PAPER

SAUDI ARABIA

January 31, 1977

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SPECIAL COUNTRY PROGRAM PAPER

SAUDI ARABIA

Area:	About 870,000 sq. miles (1/3 the size of the US)	<u>Net Bank Borrowing (\$ million)</u>		
1975 Population:	About 7 million ^{1/}	<u>FY72-76</u>	<u>FY77</u>	<u>FY77-81</u>
1974/75 Per Capita GNP:	About \$6,100	1,136.5	119.5 ^{2/}	
Current Population Growth Rate:	Between 2.5 and 3% (estimated)	<u>Technical Assistance (many years)</u>		
Exchange Rate:	\$1.00 = SRIs 3.50	27	24	124-144

A. GENERAL BACKGROUND

Introduction

1. Saudi Arabia became a member of the Bank of August 26, 1957, of IDA in 1960 and of IFC in 1962. No loans have been made by the Bank Group to Saudi Arabia. Apart from a Bank economic mission in early 1960 (which submitted its report to the Government later in that year) and some occasional visits by Bank staff, there were no further contacts between Saudi Arabia and the Bank in the sixties. In 1971, the Bank, at the Government's request, reviewed the need for a transport survey and subsequently acted as executing agency for the survey, which UNDP financed. In February 1973 Mr. McNamara visited Saudi Arabia, followed by an exploratory mission for technical cooperation in May 1973. In the course of 1974 the Bank carried out a major manpower sector study in Saudi Arabia. In December 1974 the largest single Bank borrowing was made for \$750 million from Saudi Arabia. During a visit by Mr. McNamara in March 1975 an agreement was reached to program and expand Bank technical assistance to Saudi Arabia on a reimbursable basis. It was also agreed to set up a Bank resident mission in Riyadh. A general Technical Cooperation Agreement and the terms of reference of the resident mission were agreed between the Government and the Bank in the course of a follow-up mission in May/June 1975. The FY76 program and budget for technical assistance to be provided by the Bank were agreed during the same mission and were followed, about a year later, by a similar agreement for the FY77 program, currently under execution.

^{1/} Approximate figure used by Government for planning purposes. Actual figure likely to be less, perhaps between 5 and 6 million

^{2/} A very recent request (January 27, 1977) by the Saudi Government to purchase an additional \$40 million in 7 5/8 percent eight-year bonds is expected to be approved shortly.

Country Profile

2. With an area of slightly over one million square miles (about one-third that of the continental United States), Saudi Arabia constitutes around four-fifths of the Arabian Peninsula. Although its population of around seven million is small relative to its size, its urban dwellers are concentrated in three main areas: (i) the active port and business center of Jeddah and the holy cities of Mecca and Medina in the Hijaz; (ii) the capital, Riyadh, which lies in the middle of the central plateau of Najd; and (iii) the triple cities of Dammam, al-Khobar and Dhahran in the oil-rich eastern province of al-Hasa'. Its nomadic/agricultural population which is comparatively small is getting increasingly settled around the various oases and in the relatively fertile strip of terraced coastal mountains bordering Yemen in the southwest.

3. The country's topography is dominated by the central arid plateau of Najd which, starting with the western Hijaz mountains, gently slopes eastward to al-Hasa' and the Rub'-al-Khali (the Empty Quarter)--the world's largest and most treacherous desert of shifting sand dunes.

4. The climate is very hot and dry although there are humid coastal regions and temperate mountainous locales. There are no lakes or permanent streams and some areas go without rainfall for years. Average precipitation ranges from three inches annually to as much as twenty in the southwestern mountains. The limited crop cultivation that exists is around oases and wells.

5. The Kingdom of Saudi Arabia was created in its present form in 1932 by King Abdul Aziz Ibn Saud, following his recapture in 1902 of Riyadh, the Saud dynasty's ancestral capital, from the rival Rashid family, and the subsequent conquest between 1902 and 1926 of Nejd, al-Hasa' and Asir, and the defeat of the Hashemite king of Hijaz. This was followed by a period of consolidation through military forays, political marriages, tribal subsidies and a long and still continuing process of border settlements with all neighbors of Saudi Arabia. When he died in 1953, Abdul Aziz had established a unified new state in a region historically devoid of a tradition of political unity and, after the discovery of oil in the early 1930s, had developed close relations with the US. His son, Saud, succeeded him until 1964 when Saud was replaced by his brother Faisal. Faisal launched a gradual process of modernization and succeeded in asserting Saudi Arabia's leadership among the pro-Western Arab states. King Khaled, the present monarch, and Faisal's half brother, assumed the throne after Faisal's assassination on March 25, 1975.

6. Like his father and his half brother, Faisal, Khaled appears generally to have the sympathy and support of his people and continues to act, like his two predecessors, in accordance with what he perceives to be their interests. In a sense, the King, like his predecessors, approximates the traditional political idea of the Muslim state: an absolute executive authority founded on religious law, the Shari'a, operating in concert with public opinion by means of extensive consultation aimed at achieving a consensus which is morally, if not legally binding.

7. To date there is no written constitution and no significant political opposition in the country, and the development of the political process has been rudimentary. Many of the institutions essential to that process, indeed essential to the operation of a modern government confronted with sophisticated and complicated economic and ideological challenges in its dealings with the modern world, either do not exist, or exist in a number of imperfect forms. Government still does not depend upon a system but upon a few individuals, the King, his immediate family and relatives, and his advisors, who generally have a personal rather than an institutional relationship with him. So far, paradoxically perhaps, this has ensured stability, since adjustments in the power balance within this group have been made whenever required; as one of his first acts, King Khaled assigned to the new Crown Prince Fahd, his half brother and one of the most powerful princes in the cabinet, the position of First Deputy Prime Minister and the responsibility for day-to-day affairs and administration of the country, while he named Prince Abdullah, his younger full brother and commander of the National Guard, and who is emerging as Fahd's major rival, to the position of Second Deputy Prime Minister.

8. However, recently a new middle and technological class has been emerging and political institutions, in a modern sense, have begun to evolve. Following the pattern which has characterized the political evolution of other countries in the area, such as Iran or Iraq, one would expect that the present and proposed heavy investment in the social infrastructure of the country, coupled with the social effects of capital investment, would ultimately further the development of social, intellectual and political groups, who may hold differing views of the national interest than the ruling group and who may perhaps at some point even challenge the King's absolute authority and the present system of government. However, whereas in most other nations of the Middle East, one of the main agents of political change has been the army, it is likely that in Saudi Arabia future changes in and restructurings of the Government's system will come primarily at the instigation of the technocrats and bureaucrats of the rising private and public managerial class, and possibly with the tacit encouragement and support of the King and his advisors. The present pattern and, for that matter, Arab history suggest that this restructuring is proceeding and will continue through the de facto accumulation of power by the various ministries and agencies of the Government. It is in these ministries and agencies that the forms of the future Saudi Government are taking shape, and that responses are being formulated to the challenges and responsibilities implicit in Saudi Arabia's unique resource situation and consequent new role as a world economic power.

9. In the past Saudi Arabia has often deferred or merely reacted to policy initiatives set by other states, though always resisting the more revolutionary governments and leaders of other Arab nations. The basic orientation of its foreign policy has always been and continues to be conservative, strongly anticommunist and friendly, though not subservient to the West. However, with its accession in late 1973 to a position of political and economic leadership in the region, Saudi Arabia has started playing a more active role in foreign policy. And with respect to the other Arab and Islamic countries, it is now able to claim a historical and spiritual

authority by virtue of its being (i) the original Arab homeland, and therefore, the guardian of what it sees as an Arabic historical and cultural tradition; and (ii) the custodian of the principal holy places of Islam. These two elements are inevitably injected into much of Saudi Arabia's foreign policy, including aid.

10. The people of Saudi Arabia belong to the religion of Islam, which means "submission to the authority or will of God." Islam is a body of doctrines on the one hand, and a code of social and personal behavior on the other, and in this duality prescribes as much the laws of prayer as those of the marketplace. The Saudis are of the Wahabi sect of Islam, an 18th Century puritanical movement which aimed at reviving the vigor of Islam and the Islamic state by reasserting the pure virtues of the early religion as enunciated and practiced by the Prophet Mohammed and his companions, and which brought into focus again the initial principles of Islamic egalitarianism and cooperation. It is in this context of conservatism that the relative power of the religious leaders, the Ulema (scholars, theologians and legal experts) may be understood. In Saudi Arabia they form the most important and influential political group after the tribal leaders, and their consent has proved necessary to almost every governor or kin.

B. MAIN ECONOMIC FEATURES AND DEVELOPMENT STRATEGY

11. The economy of Saudi Arabia is dominated by its oil sector which accounts for a large share of the value of current production (87 percent of GDP in 1974/75) and which, as the principle source of Government revenue (95 percent in 1975), finances the Kingdom's development objectives for future years. The Saudi authorities have been acutely aware of their country's dependence on oil revenues and, in turn, the dependence of such revenues in the future on unpredictable developments in the world energy industry. As a hedge against this uncertainty and because the oil reserves have a finite lifetime in any case (proven reserves are estimated to last about 50 years at the current production rate of 8 million barrels a day), the Second Development Plan (Annex I), like the first one has adopted development strategies that have emphasized economic diversification. The extent to which diversification can be accomplished and at what rate and economic cost are all important questions to which no complete answers are readily available. Given the relatively underdeveloped infrastructure and the limited availability of skilled and unskilled labor, diversification, to the extent that it is possible, is likely to proceed at a slow pace (see below). We expect, therefore, that for the coming ten years, and quite possibly beyond, the economy will continue to be dominated by the oil sector both in terms of value added and as a source of finance for overall development.

12. The diversification strategy is double-pronged. It aims at strengthening the relative position of the non-oil sector thorough expanding non-hydrocarbon industries, agriculture, trade and other services. It also aims at diversifying production within the oil sector by building up refining capacities and petroleum-based industrial complexes involved in downstream

operations. Of the two, the latter is likely to be easier because the Kingdom has direct access to cheap feedstock and energy, and because such industries are capital-intensive requiring relatively small amounts of imported skilled labor.

GDP: Sectoral Composition and Anticipated Growth
Under the Second Development Plan

13. Saudi Arabia's GDP is estimated to have been close to SRIs 150 billion at current prices in 1974/75. With an estimated population of around 7 million inhabitants, this amounted to a per capita GDP figure of SRIs 21,428 (about \$6,100) for that year. With about 87 percent, the petroleum sector (crude and refined petroleum and natural gas) accounted for the major share of the GDP in that year. Though this share is expected to decline, it is still estimated to be about 84.5 percent by 1979/80 (Annex II), the last year of the Second Five-Year Plan. In other words, even after a full decade of planned diversification the role of the petroleum sector is expected to remain dominant.

14. Except for agriculture whose relatively low anticipated growth is dictated by resource limitations, the remaining non-hydrocarbon sectors are projected to grow at a uniform rate of about 15 percent. It is highly unlikely that such a uniform growth path is consistent with actual technical intersectoral relationships, in which case intersectoral bottlenecks are likely to develop and frustrate the objectives of the plan.

15. One of the most visible and important bottlenecks so far has been the limited port capacity. Until recently it was not uncommon for cargo ships to wait for up to six months at the busy ports of Dammam or Jeddah to the extent that helicopters have been used to unload cement and other heavy material. In addition, Saudi imports also enter the country via land routes from neighboring countries and ports like Kuwait, al-Hodeida (Yemen), Al-Aqaba (Jordan), Latakia (Syria), and more recently Aden. Before the current troubles in Lebanon, the port of Beirut was also used for transit trade to the Kingdom. The authorities are very much aware of the seriousness of this bottleneck and are taking measures (new port authority management, port expansion and construction, new port-handling infrastructure, increased use of more modern ships and of containers, etc.) to cope with it. As a result, this constraint has been substantially alleviated though it will be some time before it can be fully eliminated.

Labor

16. The "development problem" is reversed in Saudi Arabia. LDCs typically enjoy a surplus of labor and a shortage of capital. In Saudi Arabia, capital is abundant and labor is relatively scarce. The labor requirements of the Second Development Plan call for about half a million additional non-Saudi workers during the plan period. The labor shortage is undoubtedly one of the serious problems facing Saudi development for at least two reasons. First, it may prove difficult to attract this many foreign workers, especially the skilled ones, for a sustained period of time; and second, such a large

influx of foreigners into a very conservative country may prove socially disruptive. The likelihood is that the inflow will take place at a slower pace than that anticipated by the Plan. The World Bank is currently involved in two manpower-related projects in the Kingdom: an overall manpower planning project (under which a critical skills survey is now being carried out), and a more limited accelerated literacy program (under which the Bank is helping design and test pilot accelerated literacy program--ALP--and prepare action plans for a national ALP).

Plan Implementation and Financial Surpluses

17. Labor shortage, other physical bottlenecks of a local and global nature, and overall management constraints have typically led to implementation falling significantly short of plan objectives. We have estimated that the "real" implementation ratio for the First Plan must have fallen in the 65 to 70 percent range and that this range is likely to be an upper bound for real implementation during the Second Plan. ^{1/}

18. The period of the First Plan witnessed a large increase in the surplus of the Government budget, especially in 1973/74 and 1974/75. This was, of course, due to the large increases in oil revenue. Budgeted expenditures during this period (SRls 21 billion for 1973/74 and SRls 38 billion for 1974/75) averaged 44 percent of revenue and, given that actual expenditures fell short of budgeted amounts, the actual surpluses were large indeed (the current account of the balance of payments showed an estimated surplus of about SRls 85 billion in 1973/74 and SRls 60 billion in 1974/75).

19. By contrast, planned Government expenditures during the Second Plan period though covered by anticipated oil revenue would not lead to surpluses at the level witnessed toward the end of the First Plan period. Even if we make an allowance for slower real implementation, higher prices are still likely to erode some of the expected surpluses. Prior to the most recent (December 1976) establishment by OPEC of a two-tier pricing system, with Saudi Arabia and the United Arab Emirates offering their crude oil at the lower tier, it was expected that Saudi Arabia would remain a capital exporter throughout this decade, though at a declining rate. However, with this new development, it has become extremely difficult to ascertain even the direction in which future surpluses will move. That will depend on the final outcome of these new developments. The range of possible outcomes is wide; one possibility being the restructuring of market shares among OPEC countries, consistent with the new price structure. Another possibility is a convergence of the two prices to either tier, or to an intermediate level.

^{1/} The ratio is defined as "real" actual expenditures divided by corresponding "real" budgeted amounts, where the "real" figures are obtained from nominal figures by appropriate price deflation. This ratio is very gross in that it is neither a measure of overall economic efficiency, nor one of actual physical implementation.

Sectoral Priorities

20. The Saudi authorities are by and large aiming at a balanced growth approach for the country's development. Thus, out of a total Government appropriation of SRls 318 billion (equivalent to about \$91 billion), at constant 1974/75 prices, for the Second Development Plan, the amounts earmarked for economic resources, human resources, social services and physical infrastructure are 92 (29 percent), 80 (25 percent), 33 (10 percent) and 113 (35 percent) billion 1974/75 riyals respectively (Annex III). Within these broad categories, some important sectors like petrochemical and other industries, water resource programs, and transport and communications are expected to receive the lion's share of the planned appropriations. The Ministry of Education and the Department of Municipalities are also expected to enjoy generous budgets.

21. Unfortunately, while the sectoral projections presented in the Plan document may depict the Government's theoretical priorities, we believe that many goals of the Plan are unrealistically ambitious, and that some difficult choices will have to be made at the implementation stage. This will require a better definition and possibly a reordering of priorities. For example, the Ministry of Industry and Electricity has already abandoned strict adherence to that part of the Plan relevant to its operations. The likelihood is that the Ministry of Planning will also decide that the manpower plan is in need of better coordination and rationalizing. These are only two of many examples. We are not in a position to judge whether significantly reordered priorities will emerge out of the anticipated implementation difficulties, or a uniform toning down of expectations will result. Ongoing discussions within Saudi circles indicate that a common view is that the proposed projects in the Plan should be viewed as extending over a six-to-eight year period instead of five; that is, a general slowdown of implementation across the board is preferred.

Foreign Assistance

22. We do not have a complete picture of the foreign assistance provided by Saudi Arabia. Figures collected by OECD show total aid commitments growing from \$1,013 million equivalent in 1974 to \$1,676 million equivalent in 1975 (Annex IV). However, these figures are incomplete, since they exclude, *inter alia*, a \$700 million deposit in 1975 with the Central Bank of Egypt and, of course, purchases of World Bank bonds.

23. The conditions of Saudi concessional aid were extremely lenient in 1973 when it consisted entirely of grants. They have since gradually stiffened whereby the overall grant element of commitments declined to 94 percent in 1974 and 72 percent in 1975. Almost all of the Kingdom's concessional aid commitments were made to Arab countries in 1974. However, since then Saudi Arabia has actively pursued a policy of spreading its assistance to non-Arab LDCs.

24. It is difficult to predict future amounts of concessional assistance, especially for the bilateral category. A substantial amount of bilateral grants and concessional loans to Arab countries in particular are related to political

considerations or other non-economic criteria. However, unless unforeseen developments generate additional revenues on a large scale, it is unlikely that future commitments will go beyond the 1975 figures in real terms. Furthermore, a further stiffening of terms could very well be expected and the share of the non-Arab recipients of development assistance could conceivably increase further.

Saudi Fund for Development

25. The channel for Saudi direct contribution to economic development in other LDCs is the Saudi Fund for Development (SFD), established as an autonomous organization by Royal Decree in September 1974. Its initial capital is SRls 10 billion (US\$2.8 billion equivalent), out of which SRls 5 billion have been paid in and are already fully committed. Up to the end of FY76 SFD had cofinanced 13 projects with the Bank Group, for which it provided about \$415 million equivalent, supplementing about \$500 million of Bank Group financing. The Bank had proved technical assistance to SFD, details of which are given in paragraph 47 below.

Aid Coordination

26. Recently Saudi Arabia has started taking an active interest in aid coordination, by participating in and promoting consultative groups and aid consortia. It has attended the Tunisia Consultative Group meeting and has recently agreed to participate in the Consultative Group for Egypt. It is also an active member in the Gulf Association for Economic Support of Egypt. Further, as a member of OAPEC and OPEC Saudi Arabia is also participating in the coordination of aid through these two institutions.

Bank Financial Relations with Saudi Arabia

27. Since 1963 the Saudi Arabian Monetary Agency (SAMA) has subscribed substantially and continually (in all except one issue) to the Bank's two-year bonds, for a total of about \$340 million, of which about \$120 million are presently outstanding. In 1968 SAMA subscribed \$30 million in two long-term (26-year) issues. Major borrowings by the Bank in Saudi Arabia started in 1974 with an SRls 500 million issue in 8 percent ten-year bonds and followed in the same year with \$750 million in 8 1/2 percent ten-year bonds denominated in dollars. Issues of SFrs 300 million in 7 3/4 percent eight-year, a DM 100 million in 8 1/4 percent ten-year, a \$50 million in 8 1/4 percent eight-year and a \$60 million in 7.8 percent ten-year bonds were placed in 1976 with SAMA. Saudi Arabia's subscriptions to these longer-term issues aggregate \$1.2 billion, all of which remain currently outstanding. The Bank expects its borrowing in Saudi Arabia to remain substantial in the coming years, possibly around \$300 million per year. ^{1/} In addition, it is expected that SAMA will continue to subscribe to about \$80 million per year of the Bank's two-year bonds.

^{1/} A subscription of \$40 million in 7 5/8 percent eight-year bonds is expected to be approved shortly.

28. Saudi Arabia has a capital subscription in the Bank of 114.3 million 1944 US dollars with an equivalent of 0.48 percent of total voting rights. The 9 percent portion of this capital subscription, equivalent to 12.41 million current US dollars, has not yet been released. Under the proposed selective capital increase now before the Governors, Saudi Arabia's subscription in the Bank would become 489.9 million 1944 US dollars with 1.44 percent of total voting rights. Saudi Arabia is a Part II member of IDA and has \$4.5 million of IDA's initial subscription, corresponding to 0.05 percent of total voting rights. So far Saudi Arabia has not contributed to any supplementary resources of IDA, though discussions are underway for substantial contribution to IDA V replenishment. Furthermore, Saudi Arabia has contributed \$25 million to the Third Window Interest Subsidy Fund.

C. BANK GROUP STRATEGY IN SAUDI ARABIA

General

29. Until now the strategy of the Bank Group's relationship with Saudi Arabia had three distinct elements: (i) while the Bank has no lending program for the country, nor intends to have one in the foreseeable future, it has had substantial borrowing from Saudi Arabia and would like to increase it; (ii) Saudi Arabia's development constraints, analyzed above, imply that a well-designed technical assistance program should have very high return, by breaking bottlenecks, and should enable the Bank to contribute in the most cost-effective way to the development of Saudi Arabia, a member country of the Bank; and (iii) in providing direct or indirect technical assistance to Saudi development institutions, such as the Saudi Development Fund, the Bank would contribute to the Saudi support for development programs in other countries. To these, a fourth new element has been recently added: the IDA V replenishment currently under discussion, to which Saudi Arabia has already expressed general support and to which it is expected to contribute substantially.

30. In the past, there have been some grounds for regarding the technical assistance as a quid pro quo for the borrowing. However, it seems that recently the Government has been dissociating these elements from affecting each other. In other words, the amount the Bank would hope to borrow in Saudi Arabia will in the future depend much more on investment decisions by the Government based on return, risk and on economic and foreign policy factors, than on the degree of the Bank's responsiveness to Saudi Arabia's request for technical assistance. Similarly, it is unlikely that Saudi Arabia's ultimate decision on a contribution to the IDA V replenishment will be made on the basis of the Bank's attitude on technical assistance to the country. In determining its overall strategy in Saudi Arabia, it might therefore prove useful for the Bank to consider these elements on their own and in as much isolation from each other as possible.

Borrowing Policy

31. The Bank's borrowing policy in Saudi Arabia is a function of its overall borrowing policy on the one hand and of the willingness of Saudi

Arabia to lend on acceptable terms and of the country's overall foreign investment policy and volume of its overall financial surpluses on the other hand. It would be therefore useful to continue to build up our information on Saudi foreign investment policy and activities through research and analysis of financial statistics both in major financial markets and in Saudi Arabia, as well as to refine further and update our projections of financial surpluses. In view, however, of the sensitive nature of this task, only limited progress can be expected to be achieved--pending the possibility of our involvement in macroeconomic work in Saudi Arabia, currently under consideration by the Government.

D. TECHNICAL ASSISTANCE TO SAUDI ARABIA

Technical Assistance Needs

32. As mentioned earlier Saudi Arabia's economy is characterized by a recent major addition to resources which has removed all financial constraints on development, coupled with a relative shortage of indigenous manpower and administrative, managerial and technical skills, as well as with an overall low level of economic development. In its wish to bridge as fast as possible its development gap and to maximize the benefits from its financial resources as soon as possible, Saudi Arabia has embarked upon ambitious development schemes, all competing for the scarce human resources required to plan, execute and manage these schemes. To a limited extent this human and technological constraint is being alleviated through the increasing importation of manpower, skills and technologies. However, there are social and physical as well as political limitations to such import and the result so far has been a widening gap between what is planned and what is implemented.

33. Despite work currently underway in Saudi Arabia on a manpower planning exercise and a critical skills survey (for which the Bank is providing assistance), it is not yet possible to quantify either the country's overall needs in this field--or the available manpower resources--and consequently the aggregate needs of the country for technical assistance. Suffice to say that our involvement so far, and the experience of other providers of technical assistance, clearly indicates that the needs in all sectors and at all levels are enormous and will remain so for some time to come. Thus the total amount of technical assistance provided both bilaterally and by international organizations, though very noticeable and appreciated by the Government, has not and indeed could not have met all the needs.

Technical Assistance Sources

34. Saudi Arabia obtains technical assistance from many sources. The major ones are UN agencies, governments (agreements to this end exist with the Governments of the US, UK, Italy, Japan and Germany), oil companies and consulting agencies. Of these sources two are perhaps worth describing.

35. Under an ongoing agreement, the United States provides technical assistance to and procures capital goods on behalf of Saudi Arabia. Both technical assistance and goods to be procured are determined and agreed on an ad hoc basis by the two governments through a US/Saudi Arabian Joint Commission on Economic Cooperation, which has been established to provide high-level direction to the program of US assistance to Saudi Arabia. Under the Joint Commission a number of specialized working groups explore and supervise areas of cooperation. Consultation and coordination between the US Government and the Bank are taking place, both at headquarters and in the field, to ensure that no overlap between the work of the Joint Commission and that of the World Bank takes place. Reimbursements to the US for both technical assistance and procurement activities is made out of a trust fund (a revolving fund) currently consisting of \$110 million.

36. UNDP operates a substantial country program in Saudi Arabia, with a current IPF (indicative planning figure) of \$10 million for the five years 1977-81, matched by a similar amount from the Government. Saudi Arabia is, however, a net contributor to UNDP since it contributes to the UNDP General Resources more than it receives from UNDP and has made ad hoc contributions to cover the organization's deficits. UNDP has a regional representative and a large field mission in Riyadh. As in the case of the US program of assistance, consultation between UNDP and the Bank is continuously taking place to avoid duplication and overlap.

Bank Group Technical Assistance

Background

37. In the early seventies, the Bank started a dialogue with Saudi Arabia on technical assistance. Initially, advice was provided on transportation matters which led to the Bank undertaking executing agency responsibilities for a UNDP-sponsored National Transport Survey. In February 1973, Mr. McNamara expressed to the Government the Bank's readiness to expand its technical assistance, and in May of the same year, tentative agreement was reached on scope and administrative arrangements. Four broad categories of assistance were identified: ad hoc consultations on specific proposals and policies; review of feasibility studies for major development projects; conducting surveys of priority sectors; and training of Saudi nationals both in the EDI and within the Bank. The salient points were approved by the late King Faisal in January 1974. The Executive Directors were informed on February 5, 1974 about the Bank's technical assistance activities in Saudi Arabia.

38. The Bank's collaboration in three operations in 1974 (Saudi-Bahrain Causeway, Transport Survey, and Manpower Study Phase I), using senior staff with considerable management support, led to requests for greatly expanded assistance. The new requests, and the desire to continue with previous collaboration from the planning to the project preparation and implementation stage, put a new perspective on the Bank's work in Saudi Arabia. The Government seemed to be moving from a period of testing the relationship to one of increasing trust and started seeking the Bank's assistance on major investment

schemes. On occasions the Government requested the Bank to assume executive responsibilities. This, however, the Bank managed to resist, without shaking the Government's confidence in the Bank's objectivity and professional competence, and the Government continued to look to the Bank for assistance in its major needs to increase the country's absorptive capacity.

39. Further arrangements for technical cooperation between the Bank and Saudi Arabia culminated in an agreement to program and expand technical assistance to the country, embodied in a Memorandum of Understanding on Technical Cooperation (signed on December 10, 1975, but began to be implemented about five months earlier). The main terms of this agreement are as follows:

- a. Provision of technical assistance by the Bank to Saudi Arabia on the basis of agreed annual programs, with reimbursement for the incremental cost of technical services rendered;
- b. As part of the annual program, secondment of Bank staff to the Government agencies and possibility of supervision by the Bank of the work of outside consultants to the Government;
- c. Establishment of a resident mission in Riyadh; and
- d. Every January, joint review of the areas in which the Government wishes the Bank to provide technical assistance and drafting of a program and an administrative budget for the coming fiscal year.

40. The main thrust of programmed technical assistance provided under the above agreement started around the middle of FY76 and during that year 16 manyears of technical assistance were provided.

The Current Program

41. The FY77 program of technical assistance to Saudi Arabia is mainly a continuation of the FY76 program, providing 24 manyears of assistance, an increase of about 50 percent over assistance expended in FY76. It is expected that 4.5 manyears will be provided by the resident mission in Riyadh, while the balance of 19.5 manyears will be input from headquarters. Major fields of assistance remain, as in FY76, directed at key, high-priority areas of the development program, such as manpower planning and literacy, public housing, industrial development, and transportation.

42. Part B of this SCPP, for example, identifies human resources as the major constraint on development. To help alleviate this constraint, we are assisting with manpower planning, including a critical skills survey, as well as with an accelerated literacy program. Our help in housing is for one of the most ambitious public housing programs ever attempted, while our industrial

assistance is focused not only on downstream facilities for the oil industry but is also helping the country in its efforts to diversify its planned industrial base. Even in the case of the Bahrain Causeway, a project of doubtful economic merits, our technical advice is helping to limit the cost of an investment which is bound to go ahead, with or without our help. Annex V gives the current status of the various activities of the program.

The Resident Mission

43. Since early 1976 the resident mission has become almost fully staffed and operational. It is headed by a senior staff member, supported by a deputy head of mission with a technical background, a financial analyst and a project analyst and economist. The addition of one more technical staff is currently under consideration.

44. The mission has proven to be a useful channel of communications between the Government and the Bank and is a valuable tool in identifying and assessing technical assistance requirements, in recommending technical assistance items for inclusion in the annual programs, and in assisting headquarters' efforts in the monitoring of execution and the evaluation of results of Bank technical assistance.

45. The mission also effectively provides a direct technical assistance input in a number of tasks. It is also the main channel of coordination with the agencies supplying technical assistance in Saudi Arabia. Further, the mission could inform the Bank on economic development problems and policies in Saudi Arabia. Should the Government request the Bank to undertake economic work in Saudi Arabia, it would be valuable to consider attaching a country economist to the mission.

Saudi Fund for Development (SFD)

46. Assistance provided by the Bank Group to SFD is additional to that provided under the existing technical cooperation agreement with Saudi Arabia. To date, the Bank has prepared for SFD a study on its capital structure investment strategy, seconded a lawyer to SFD, provided assistance in recruitment, assisted in procurement and disbursement, provided appraisal information on cofinanced projects, and provided SFD staff with training in the Bank. SFD is now developing its own financial staff, so that in the future Bank technical assistance is likely to be requested only for the provision of ad hoc technical opinions, training of SFD staff in the Bank, and of other matters related to general administration and management of SFD.

Evaluation of Results

47. As none of the major tasks under the FY76 and FY77 programs is yet completed, a full comprehensive evaluation of results is not possible at this stage. Nor is it possible, obviously, to quantify the value of the Bank technical assistance to Saudi Arabia. However, the constantly ongoing evaluation of partial results, and their discussion with the Government lead us to believe that, generally speaking, the Government is satisfied with the

work being provided by the Bank and the results. This shows itself in the fact that the Government continues to ask for more Bank involvement in providing technical assistance to the country than the Bank can respond.

48. Experience so far seems to indicate that, from the point of view of the Bank, the efficiency of its technical assistance to Saudi Arabia has been frequently limited by a number of factors. First, the lack of adequate programming on the part of Saudi authorities means that, often, the Bank's technical assistance is sought after major investment decisions have been made (e.g., Bahrain Causeway), decisions which, at times, might have been different, had the Bank's advice been requested and provided at an earlier stage. Second, the Saudi authorities do not always appreciate the direct correlation between the amount and scope of information available to an advisor, and the quality of the advice being provided. Consequently, they often fail to keep the Bank fully and continuously informed on developments on their side on projects for which the Bank is providing technical assistance (e.g., Industry). Without the benefit of "feedback" it becomes difficult for the Bank to determine the impact of its activities and plan future ones. Third, a corollary of these two difficulties is that it often becomes extremely difficult, if not impossible for the Bank to foresee problems and anticipate requirements. Finally, it is not uncommon for Saudi Arabia to request a Bank input in technical assistance at too short a notice to enable the Bank to program staff and/or mobilize consultants, and thus respond in time for the required assistance to be provided in the most effective way.

49. Up to now we have tended to accept all these limitations and have been very cautious in pointing out to the Saudi authorities that the quality of our advice is affected to the extent that we are not permitted full access to information or are forced to concentrate on a very restricted part of the issues on which we are asked to advise. While this caution was probably necessary in the early stages of our new relationship, the time is now ripe for a change in our approach, which is discussed later in the paper. In this connection it is worth noting that in those cases where the Bank has been associated for a long time with a sector and a project (e.g., Manpower Planning) the problems of giving advice based on partial information are largely avoided and the Bank's technical assistance seems to be satisfactorily complete. However, in those cases where either technical assistance with a narrow focus is requested and provided (e.g., choice of desalinization equipment and the Saudi Arabia-Bahrain Causeway) or the Bank becomes involved at a late stage, there definitely are problems and scope for qualitative improvement.

50. An unsatisfactory feature of our efforts to help Saudi Arabia has been our lack of success in training and recruitment. In spite of our efforts and of agreement in principle of the Saudi authorities, very few Saudi nationals are nominated for EDI courses and, in the last year, those few who were have failed to show up--sending regrets at the last moment. The EDI course planned for Jeddah was aborted because of the lack of candidates. We have discussed having one Public Investment Fund man spend some time in the Bank but as yet nothing has happened. We have also had no counterparts

assigned on some of the projects (housing and industry) so that there has been no on-the-job training. In addition, our attempts to help them recruit people for specific technical jobs have been largely abortive. Their requests for Bank help in identifying possible candidates are often accompanied by vague job descriptions. When, in spite of this handicap, a preliminary list is assembled and dispatched, they usually do not respond. Moreover, the total compensation package that they normally offer is frequently inadequate to attract highly skilled people with technical expertise. One way around this problem would be for us to second people to the Saudi Government. However, this, in a sense, evades the basic issue and we should rather stand ready to help the Government adequately address the problem by advising on changes in their basic policy and in devising recruitment procedures if the basic policy is changed.

51. A more detailed evaluation is expected to result from the mid-year review of the ongoing FY77 program, scheduled to take place between the Bank and the Government in January/February 1977.

Strategy for Future Bank Group Technical Assistance

52. In the past year we have sensed a pressure on the Bank by the Government to expand technical assistance to a larger number of tasks and to increase the Bank's involvement in depth on individual tasks undertaken. At times the Bank has been even requested to take on executive functions. This pressure stems from a satisfaction with the quality of Bank advice and assistance, and from the desire of the Government to see this advice implemented. Since this pressure reflects genuine needs which are likely to still increase in the future, it is to be expected that with respect to FY78 and the years thereafter; the Bank will be called upon to provide more technical assistance than it is geared for, or feels is competent to provide, and that on occasion, more or less frequent, it would have to respond negatively to requests from Saudi Arabia. (In fact, one of the major criticisms so far by the Government to the Bank is that the latter has not been responsive enough.) Therefore, for the future in general, and for FY78 in particular, we would need to determine (i) the general level of technical assistance which the Bank can and should provide, in the context of the Bank's own constraints and of our relationship with Saudi Arabia, and (ii) in consultation with the authorities, the best alternative use of this assistance, i.e., given a determined quantum of Bank technical assistance, what would be the optimum mix of horizontal spread and depth level in sectors and tasks.

53. Towards these ends certain criteria established earlier are still valid and may be applied. They are:

- (i) The Government's expressed priorities, and evidence of Government support for a proposal, especially in terms of committing counterpart manpower;
- (ii) The Bank's ability to provide the type of assistance sought, and to perform the work to its normal high standards. The Bank should be reluctant to accept

commitments which could prejudice its reputation for professional integrity and competence;

- (iii) The contribution that assistance of a particular type is expected to make to Saudi development--in overcoming bottlenecks, developing key institutions, creating infrastructure, establishing major industries, diversifying the economy and spreading benefits to the poorer regions and groups;
- (iv) Availability of particular types of technical assistance from other sources, and whether there are special reasons why in a given case assistance should be provided by the Bank rather than another institution; and
- (v) The extent to which assistance to be provided would build up local capabilities, and increase the country's absorptive capacity.

54. However, in proposing the general level of Bank technical assistance, these criteria should not be applied with the same yardstick as that of manpower allocation to lending activities in a borrowing member country of the size of Saudi Arabia, but rather in the context of Saudi Arabia's relatively low development level, and its extremely ambitious development program and enormous financial resources. One should also recognize the fact that the Bank has carried out no actual lending in Saudi Arabia and provided little or no technical assistance until the past four years. Furthermore, one must bear in mind that, despite the high per capita income of the country, there are still significant portions of the population at a low income level. The Government is aware of the social and economic implications of this situation and is anxious to spread the country's revenues into a more equitable income distribution, a task which the Government is not yet fully equipped to handle on its own.

55. Further Bank technical assistance to Saudi Arabia should therefore continue to concentrate primarily on the development of human resources, in order to increase the country's absorptive capacity. Simultaneously, and until such a time when enough Saudi human resources would be available to carry on with further physical and human development, Bank technical assistance should also be made available to sectors and tasks where investment decisions of major development importance are being made.

56. It must be recognized that this pattern of operating our technical assistance program means that we are essentially responding to technical requests without the normal, in depth, economic work done on borrowing countries. As mentioned in paragraph 49, we frequently do not have enough background knowledge to assess the wider implications of the projects for which our advice is requested. The Saudi Government probably sees no need for us to assess these wider implications and unless it believes we should do so, it would be impossible for us to gather the needed background knowledge.

Nonetheless, we should be alert to opportunities to acquire this knowledge, since otherwise we may be held responsible for the repercussions of advice provided with too narrow a focus.

57. We therefore intend to modify our overly cautious approach which was certainly justified in the past and start cautiously using any suitable occasions to impress upon the Government the advantage to it of the Bank becoming involved as early as possible in any technical assistance task, and of the need for a full and continuous information exchange between us thereafter. At the same time, we should keep on reminding them of the value of advance programming of project activities and offer the Bank's assistance towards this end as part of any technical assistance provided.

58. Further, although the Saudi Government looks to the Bank as a potential source of all types of technical advice, we should not hesitate to make clear the Bank's limited competence in certain fields and should continue to be reluctant to undertake tasks where we feel unable to perform the work to the Bank's normal high standards.

59. Also, in those cases where it is necessary for us to provide technical assistance with a narrow focus we should point out at the beginning of our involvement, and at every possible moment thereafter, that broader economic, financial, managerial, etc., issues should be looked into, and alert the Government to the risks of not doing so.

60. There are two further dangers in our technical assistance strategy which must be considered. The first is that the Bank's assistance may be sought by one part of the Government to help it fight its battles with another part of the Government. We must therefore ensure, before getting involved in any activity, that none of the parties concerned object to our role, so as to avoid being caught up in inter-ministerial disputes. Second, our technical help may be sought for controversial projects with little economic justification. Here we should always make clear any reservations we may have and only provide further technical advice if we feel that the value of our assistance outweighs the risk that we may be associated with a project which appears to us to be a wasteful use of resources and which could thus result in criticism in the future.

E. RECOMMENDATIONS

Technical Assistance Framework for FY78 and Beyond

61. Should the Government wish it, it is therefore recommended that Bank technical assistance be extended in FY78 in the field of Manpower Development, including education and training, and even possibly expanded over the FY77 level. Further technical assistance should also be provided to major selected industrial schemes and physical infrastructure projects, in those areas where the Bank either has established competence, or is able to easily acquire the competence through the input of consultants or direct recruitment.

62. It is further recommended that there should be a new emphasis in our relations with Saudi Arabia, whereby we make clear to the Saudi authorities--more forcefully than in the past--all those factors which tend to limit the quality of the advice we can give and also show a greater reluctance to provide advice in situations where we believe these factors would severely limit its quality.

63. It is also recommended that we should be reluctant to accept executive responsibility for any project as that would make us directly responsible for possible failure and lead us into other complications such as dealing directly with contractors. However, we should recognize that as long as the present Saudi policy on employing expatriates persists, there may be occasions when we want to second a Bank staff member to do a particular crucial job. More generally, it should be made clear that the Bank's technical advice and assistance are given to the best of the Bank's ability, but that it is up to the Government to accept or reject it, make its own decisions and be fully responsible for these decisions.

64. Indications are that the 24 manyears of Bank technical assistance agreed under the FY77 program would now be barely enough to conclude satisfactorily the stages of ongoing tasks envisaged in this year. From this experience the pragmatic deduction is that the FY78 program would need to be somewhat larger than the current one. However, before the mid-year review of the ongoing program takes place in January/February 1977, it is not possible to determine the exact size of the program to be recommended for FY78 nor is its detailed breakdown possible. Based on expected requirements to complete ongoing projects and possible requests for new major tasks, it is estimated that 25-30 manyears of Bank technical assistance would be needed and justified in FY78--to be provided through an appropriate mix of Bank staff and consultants as is the case under the ongoing FY77 program (currently about 50/50).

65. If it becomes clear that Saudi Arabia would require more than an annual level of about 30 manyears, the Bank should be very cautious in raising further its own staff commitments for the Saudi program. In FY77, 6.8 percent of EMENA Projects Department staff and 10.2 percent of Industrial Projects Department staff were programmed for Saudi technical assistance work. In our view it would be unwise at this stage to "staff up" very much beyond our present level for a program which might well come to an end rather abruptly. However, if more help is wanted and needed, it would then be useful to consider to what extent a greater ratio of consultants to Bank staff (say 60/40 or 70/30) is possible without affecting adversely the quality of work and thus applying a greater multiplier effect to Bank staff input. Similarly the recruitment of suitable staff on fixed-term contracts, to be fully reimbursed by Saudi Arabia on a yearly basis rather than on the basis of actual time spent on tasks, may be investigated and, if feasible, then discussed with the Government.

66. It is further recommended to continue in FY78 to respond to ad hoc requests for assistance from the Saudi Fund for Development, including assistance

in recruitment and training. Such assistance should remain outside the scope of the agreement for the technical assistance program with the Government, and would be covered, on a case-by-case basis, by separate arrangements for reimbursement.

67. Finally--and until the conduct of macroeconomic work in Saudi Arabia becomes possible thus enabling the formulation of an overall assistance strategy based on our own judgment on development priorities--it is recommended that the same level and approach to technical assistance proposed for FY78 be also adopted tentatively for every further year until and including FY81. This position should, however, be reviewed in the next SCPP, or as soon as a request for macroeconomic work comes forward from Saudi Arabia.

68. If adopted, it is proposed that the recommendations formulated above should form the guidelines for discussions with the Government on the FY78 program which are already underway. Thereafter, and based on the results of these discussions, a detailed FY78 program could be proposed for management's approval in the context of the Technical Assistance Paper, currently scheduled for management review in April 1977.

THE SECOND FIVE-YEAR PLAN

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

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

Estimates of the Sectoral Composition of GDP (1974/75)
and Projected Rates of Growth Under the Plan
(In Millions of Riyals at Constant 1974/75 Prices)

	Preliminary Estimates 1974/75	Projected 1979/80	Average Annual Growth Rate (Percent)
<u>Private</u>	<u>145,117</u>	<u>235,452</u>	<u>10.2</u>
Agriculture	1,409	1,714	4.0
Crude Petroleum and Natural Gas	121,232	195,200	10.0 ^{1/}
Other Mining and Quarrying	175	353	15.0
Petroleum Refining	7,495	9,566	5.0 ^{1/}
Other Manufacturing	902	1,736	14.0
Electricity, Gas, Water, Sanitary Services	333	670	15.0
Construction	4,362	8,774	15.0
Wholesale and Retail Trade	2,580	5,189	15.0
Transport, Communications, Storage	3,638	7,317	15.0
Ownership of Dwellings	1,637	2,190	6.0
Finance, Insurance, Real Estate, and other Business Services	895	1,801	15.0
Community, Social and Personal Services	522	1,006	14.0
Less Imputed Bank Service Charge	63	63	-
<u>Government</u>	<u>3,600</u>	<u>6,618</u>	<u>12.9</u>
Public Administration	1,291	2,080	10.0
Education	1,027	1,960	13.8
Health	257	516	15.0
<u>Subtotal</u>	<u>2,575</u>	<u>4,556</u>	<u>12.1</u>
Defense	1,025	2,063	15.0
Import Duties	83	166	15.0
<u>GDP (at market prices)</u>	<u>148,800</u>	<u>242,237</u>	<u>10.2</u>
Of which:			
Oil Sector	128,727	204,765	9.7
Non-oil Sector	19,991	37,306	13.3
Private	16,391	30,687	13.4
Government	3,600	6,618	12.9

Source: Saudi Arabia, Central Planning Organization, Development Plan 1975-80.

^{1/} These rates are notional only (to fill the GDP picture), since oil production policies are not part of the Development Plan but are determined by the Supreme Advisory Council for Petroleum and Minerals.

Saudi Arabia: Major Expenditure Allocations
under the Second Development Plan, 1975-80 ^{1/}

(In millions of Saudi Arabian riyals at 1974/75 prices)

	Recurrent	Project	Total
<u>Economic Resource Development</u>	<u>4,518</u>	<u>87,617</u>	<u>92,135</u>
Total water resources programs	101	33,963	34,064
Ministry of Agriculture	1,867	1,992	3,859
Agricultural credit	338	488	826
Ministry of Petroleum	341	660	1,001
Mineral resources	129	648	777
Electricity	881	1,885	2,766
Ministry of Commerce and Industry ^{2/}	333	1,520	1,853
Industrial studies and Development Center	88	20	108
Petromin	191	--	191
Petrochemical and industrial programs	--	46,150	46,150
Public Works Department	249	291	540
<u>Human Resource Development</u>	<u>43,908</u>	<u>36,216</u>	<u>80,124</u>
Institute of Public Administration	124	162	286
Vocational training programs	1,376	954	2,330
Labor affairs	224	13	237
Ministry of Education	28,711	23,181	51,892
Univ. and other educational institutions	12,429	10,016	22,445
Information services	1,044	1,890	2,934
<u>Social Development</u>	<u>18,148</u>	<u>15,064</u>	<u>33,213</u>
Ministry of Health	4,963	12,338	17,301
Red Crescent Society	135	58	193
Social security	10,779	38	10,817
Social affairs	540	540	1,080
General Presidency for Youth Welfare	660	1,899	2,559
Ministry of Justice	1,071	191	1,262
<u>Physical Infrastructure Development</u>	<u>13,671</u> ^{3/}	<u>99,274</u> ^{3/}	<u>112,945</u>
Roads sector	3,230	10,852	14,082
Ports	88	6,837	6,925
Airports (CAD)	1,336	12,477	13,813
SAUDIA	--	1,032	1,032
Railroad Organization (SGRRO)	--	277	277
Telecommunications system	1,163	2,066	3,229
Postal Service	664	333	997
Department of Municipalities	7,190	46,137	53,327
Housing program	--	14,263	14,263
Hajj ^{4/}	--	5,000	5,000
Total development	<u>80,245</u>	<u>238,171</u>	<u>318,402</u>

^{1/} Excludes allocations for external assistance, general reserves, administration and defense which are given as lump sums for the Plan period as a whole.

^{2/} Includes Commerce and Supplies Division.

^{3/} Recurrent and project costs in this sector differ from those in Table 20 due probably to differences in classification.

^{4/} Prorated to equal a lump-sum allocation.

Source: IMF, Saudi Arabia: An Economic and Financial Survey, March 22, 1976.

ANNEX IVTotal Commitments and Estimated Net Disbursements of Concessional
Assistance by Saudi Arabia (1974/1975)

(in million US\$)

	1974	1975
<u>Bilateral</u>		
Commitments	812	1,439
Disbursements	790	675
Disbursements as % of Commitments	97.3	46.9
<u>Multilateral</u>		
Commitments	201	238
Disbursements	80	231
Disbursements as % of Commitments	39.8	97.0
<u>Total</u>		
Commitments	1,013	1,676
Disbursements	870	906
Disbursements as % of Commitments	85.9	54.0
<u>Total Disbursement as % of GNP</u>	2.47	2.60

Source: Development Assistance Committee, OECD

" An updated version of this Annex is found in Annex FI of section E of the Brief. "

SAUDI ARABIA

CURRENT STATUS OF TECHNICAL ASSISTANCE

MANPOWER DEVELOPMENT/EDUCATION

Manpower Planning Study, Phase II
(Ministry of Planning)

Phase II includes development of a manpower planning model and execution of a short-term survey of critical skills. A mission to set up the planning model at the Ministry of Planning is scheduled for February 1977. Preliminary finds on the Critical Skills Survey are also due in February.

Accelerated Literacy Program
(Ministry of Education)

Evaluation of existing literacy efforts is almost completed. Testing of pilot Accelerated Literacy Programs is under-way, with major mid-point evaluation due in late February 1977.

Ad Hoc Support
(Ministry of Education)

Bank will provide advice on the reorganization and staffing of the Ministry of Education's Department of Literacy and Adult Education.

HOUSING

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

Bank has provided assistance in preparation of draft and final bid documents as well as in review and analysis of completed bids. Due to low response of bidders and incomplete technical submissions, Bank is expected to provide assistance in review of bidders' completed documentation if Government enters into negotiations with some of them.

Public Housing, subsequent phases
(69,000 housing units and related site development works)
(Ministry of Public Works and Housing)

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

PUBLIC UTILITIES

Telecommunications System
(Ministry of Posts, Telephones and
Telecommunications)

Bank has provided assistance in reviewing bidding for installation of microwave communications network and in planning and survey of automatic telephone networks. It is expected that Bank will be requested within the next few months to review proposals for the extension of the microwave long-distance system.

Desalination
(Ministry of Finance and
National Economy)

Government has requested Bank assistance in reviewing the work of its consultants in connection with two desalination/power plants. Bank is expected to advise on (i) draft specifications and bidding documents; and (ii) bid analysis.

INDUSTRY

Industrial Development Programs,
Phase II
(Industrial Studies and Development
Center, Ministry of Industry and
Electricity)

Details of assistance required to be determined following review by Government of three reports of Industrial Sector Mission which were submitted to Government in October 1976.

Feasibility Studies--Selected
(Industrial Studies and Development
Center, Ministry of Industry and
Electricity)

Bank awaiting specific requests for assistance from Government in FY77.

Assistance to Saudi Arabia Basic
Industries Corporation (SABIC) in
Preparation and Evaluation of Major
Projects
(Ministry of Industry and Electricity)

(a) Saudi Arabian Steel

Bank staff attended Finance and Marketing Committee meetings in September 1976 and plan to attend Exco meeting in Riyadh in late January 1977 at which critical questions, including infrastructure availability, offtake arrangements and equity participation will be discussed. Bank has provided Saudis with an analysis of a computer model designed to indicate relative profitability of various project scopes and has forwarded copies of sponge iron price study.

(b) Aluminum Smelter

Bank's preliminary analysis of project proposal submitted to SABIC and discussed in Riyadh by a field mission. Though the Bank had expressed some major reservations about the current proposal, the Government appears to have decided to proceed further with it as is, at least for now. Further Bank involvement in the project is uncertain, though possible.

(c) Shell Petrochemical Complex

Bank staff reviewed Shell's evaluation of and recommendations for selection of licensors, process contractors and general contractor and visited Riyadh between November 10 and 25, 1976, where they prepared a report and were available to attend the Saudi-Pecten Executive Meetings. These meetings were held, but the Bank does not know their outcome nor the conclusions vis-a-vis the selections referred to.

(d) Dow Petrochemical Complex

The Bank provided a preliminary evaluation of the project, dated October 1976, to MIE. The Bank understands discussions are tentatively set for January between MIE or SABIC and Dow, presumably to decide on the next steps.

(e) Grace/Itoh Ammonia Methanol Complex

MIE or SABIC is considering its position regarding chemical-grade methanol production. This may involve one or more of the project sponsors, e.g., C. Itoh, Celanese or Borden. Grace recently attended methanol Saudi-Japanese meetings in Riyadh as an observer, but the ammonia/urea part of the methanol project(s) appears to have been dropped, at least for the time being. The Bank has no current or full information on this matter.

(f) Mobil Petrochemical Complex

The Bank understands interim agreements with Mobil have been signed by MIE or SABIC, but copies of these agreements have not been provided to the Bank and the Bank has no knowledge on the current status of the project.

Non-Hydrocarbon Minerals Studies
and Surveys
(Ministry of Petroleum and Mineral
Resources)

Report on Mineral Sector Survey
delivered to Government in April
1976. No further work is anticipated
in FY77.

Legal Assistance for Review of
Documents

Bank has agreed to provide legal
assistance in review of documents on
receipt of such requests from Govern-
ment.

PUBLIC INVESTMENT FUND

East West Crude Oil Pipeline
(Ministry of Finance and
National Economy)

Revised report submitted to Government
in August 1976. Task completed.

Institution Building
(Ministry of Finance and
National Economy)

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

Project Evaluation--Unidentified
(Ministry of Finance and
National Economy)

Bank will assist in evaluation of
specific projects submitted to PIF for
financing where appropriate.

TRANSPORT DEVELOPMENT

Bahrain Causeway
(Feasibility and Engineering
Studies)
(Ministry of Transport and
Communications)

Preliminary design report issued by
consultant in June 1976. Government
and Bank review revealed major
deficiencies and consultant issued
supplemental report in mid-August.
Revised report was accepted in October
1976. Bank is recruiting consultants
to review embankment design proposals,
and will review cost proposal for final
design phase.

Transport Planning
(Technical Assistance for improve-
ment in organization, management
and operation of transport sector)
(Ministry of Transport and
Communications)

As result of Bank efforts to provide
recruitment assistance to Ministry of
Transport and Communications, a full-
time consultant was appointed on
November 1, 1976, to assist in the
capacity of Senior Highway Advisor.
His appointment ends on June 30, 1977,
and it is expected that he will be
seconded to the Government for a period
of two years from that date.

GENERAL

Procurement Pricing
(Ministry of Finance and
National Economy)

Government has requested Bank to help Ministry of Finance in developing capability to collect and evaluate cost and price information relative to development projects. Bank is preparing brief on suitable types of contracts, how each could be applied, and the implications for administrative organization and personnel.

EDI COURSE

Industrial Projects Course
(Institute of Public Administration)

Course had been scheduled to begin in January 1977; this course has been postponed indefinitely because of shortage of qualified participants. Resident Mission is investigating other possible means of assistance.

RESIDENT MISSION

Resident Mission commenced operations in September 1975. Mission is presently staffed by four professionals, and the fifth member of the staff (a petrochemical engineer) is expected to take up his assignment early in 1977.

EMIDA
January 31, 1977

SPECIAL COUNTRY PROGRAM PAPER

SAUDI ARABIA

Postscript

69. The SCPP on Saudi Arabia, dated January 31, 1977, was reviewed at a meeting chaired by Mr. McNamara on February 18. The proposed strategy for future Bank Group technical assistance (paragraphs 52 to 60) and the recommendations on a technical assistance framework for FY78 and beyond (paragraphs 61 to 68) were approved, in particular the proposed program of up to 30 manyears of technical assistance to be provided by the Bank to Saudi Arabia in FY78.

70. It was agreed that, though there may be a linkage between the provision of technical assistance to Saudi Arabia by the Bank and other financial relations between the country and the Bank, technical assistance to Saudi Arabia was justified on its own merits since it helped a member country to be more efficient in spending its large financial resources for its own economic development.

71. It was emphasized that the provision of technical assistance to Saudi Arabia should always be based on two major criteria, namely:

- a) the importance of such assistance to Saudi Arabia; and
- b) the Bank's effectiveness (including its competence) in the provision of such technical assistance.

72. In this connection the Region reported on the recent encouraging discussions in Saudi Arabia which sought earlier Bank involvement and more complete information in areas where the Bank provides technical assistance.

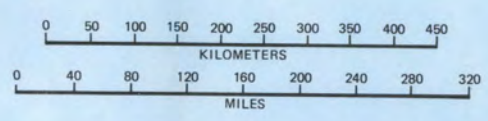
73. It was further stressed that at no time should the Bank accept executive responsibility for any project, and that the ratio of consultants to Bank staff should be held at the current 50/50 figure.

74. Although the Chairman stressed that Saudi Arabia could benefit from Bank assistance in macro-economic work in the long term, it was recognized that this could only be provided indirectly at the present time. In this connection it was pointed out that our manpower work was directed at Saudi Arabia's principal development constraint and that in this connection, we would continue to have an input into the overall planning effort. It was agreed that the provision of technical assistance by the Bank to Saudi Arabia, of the type and magnitude proposed, did not necessarily require a deeper involvement by the Bank in macro-economic work in Saudi Arabia beyond that contemplated in the context of manpower planning.

SAUDI ARABIA ROAD AND PETROLEUM SYSTEMS

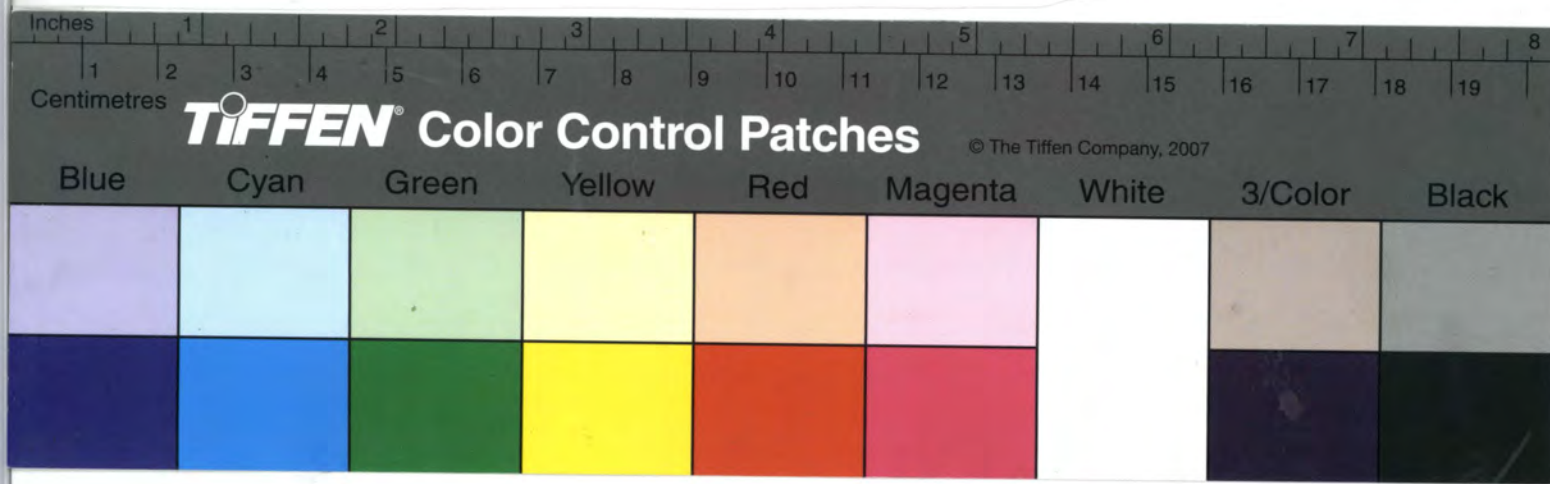


- Existing refineries in operation
- Existing crude oil pipelines
- Planned crude oil pipeline
- Planned natural gas pipelines
- Tanker terminals
- Oil fields
- Main roads
- Secondary roads
- Tracks
- Railroads
- Rivers
- National capital
- Cities and towns
- Ports
- International boundaries



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.

IBRD-12335R
FEBRUARY 1977



G

Resident Mission Staff

Roger Carmignani.....Director
Abdalla El Maaroufi.....Deputy Director
Nabil Sukkar.....Economist
Michael Pearson.....Petrochemical Engineer
Adnan Muhtasib.....Administrative Assistant
Samiha Hanna.....Secretary

EMIDA
January 1978

H

OFFICE MEMORANDUM

TO: For the Record

DATE: June 9, 1977

FROM: Saad S. El Fishawy

*Saad El Fishawy*SUBJECT: Summary of Mr. McNamara's Meeting with Prince Fahd ibn Abdel Aziz Al Faisal Al Saud, Crown Prince and First Deputy Prime Minister of Saudi Arabia

The meeting took place on Thursday, May 26, 1977 in Blair House. Also present were Minister Mohammed Abalkhail of Finance and National Economy (and part of the time, Prince Saud Al-Faisal, Minister of Foreign Affairs), Mr. Benjenk and myself.

Mr. McNamara said that he wanted to touch upon three areas of the relationship between Saudi Arabia and the Bank:

(1) The Technical Cooperation Program under which the Bank supplied technical assistance in selected areas of Saudi Arabia's development plan. The Bank did this within the scope of its duty to serve Saudi Arabia as a member country. Two of the areas where the Bank was called upon to give such assistance were the Manpower Planning Study and Accelerated Literacy Program and the Bahrain Causeway Feasibility and Engineering Studies. Mr. McNamara wanted always to be sure that the Bank's efforts gave satisfaction to the Government. He said that if there were any questions or remarks with regard to this activity, he would like to know about it and Prince Fahd could convey this through his Minister of Finance.

(2) The area of cooperation between the Kingdom and the Bank in the field of economic development aid. Since the establishment of the Saudi Fund for Development, about two years ago, it had joined the Bank Group in about 16 economic development investments in the developing countries. The Bank assisted the Saudi Fund in selecting well-prepared and high-priority projects for its investments.

(3) The Bank Group was lending to two sorts of developing countries: The middle-income developing countries like the Brazils or the Mexicos and the Moroccos borrowed money from the Bank for economic development projects on conventional terms. The Bank got its money for these countries from two sources, (a) the paid-in capital and (b) for the major part, by borrowing from the capital markets. The Bank was able to continue borrowing from the capital markets because it applied high standards in selecting good projects, well-prepared and having a high economic return. It evaluated every project very carefully, technically, economically and financially. Thus it helped the developing countries help themselves by increasing their productive facilities, so that they could be able in time to depend on themselves. Mr. McNamara said that he was glad to state that over a period of more than 30 years of Bank operations, the Bank had not lost one dollar of its loans. The Bank insisted that the borrowing governments pay their loans in full and on time. Mr. McNamara

said that part of the money which the Bank borrowed on market terms was from the Saudi Arabian Monetary Agency (SAMA). The Bank borrowings from SAMA until now total the equivalent of \$1.4 billion.

Prince Fahd said that it was good that the developing countries learned the discipline of paying their loans regularly.

Mr. McNamara said that for the poorest countries like the Yemens, the Somalias and the Afghanistans, the sister organization of the Bank, which was the International Development Association, extended loans for economic development projects on very soft terms: 50 years for repayment, ten years of grace and at no interest. Although the lending terms were lenient, the Association, however, applied to the projects it financed the same high standards that the Bank applied. The Association depended for its resources on government contributions. Mr. McNamara said that on behalf of the poorest countries, he was grateful for the \$250 million that Saudi Arabia contributed to the Fifth Replenishment. He expressed the hope that Saudi Arabia would contribute an additional amount next year.

Prince Fahd said that Saudi Arabia believed in the cause of economic development. They were also extending direct bilateral aid, both from the Government and from the Saudi Fund. Also, they participated in regional development agencies. He inquired whether the Bank were seeking and getting money from other surplus countries like Libya.

Mr. McNamara said that the Bank had borrowed certain amounts from Libya. Libya had also joined the Bank in financing certain development projects. He must confess, however, that it was more difficult to deal with Libya.

Prince Fahd said that without wanting to interfere in its internal affairs, it was a pity that Libya was making huge arms deals with Russia, which it could not even use. He was not saying that Libya should not buy any arms, but it would have been better to utilize part of the money for economic development efforts. He said that in the African Summit Meeting in Cairo, after Saudi Arabia had announced that it was allocating one billion dollars to economic development in Africa, he got reports that Libya contributed \$2 million. At the beginning he thought that there was a typo error and that the amount was in fact \$2 billion. He felt happy about that and thought that Libya, which harped on the theme of promoting Arab relations with Africa, was topping the Saudi Arabian contribution. Unfortunately, the reports confirmed that the amount was only \$2 million.

Prince Fahd said he was very pleased to meet with Mr. McNamara and to have the opportunity to discuss with him the important subjects they covered. Mr. McNamara thanked him for the time the meeting took (one hour).

cc: Messrs. McNamara (2)
Cargill/Goodman
Benjenk/Paijmans
Diamond/Vibert

SElFishawy/rh

OFFICE MEMORANDUM

TO: For the Record

DATE: May 20, 1977

OM: Saad S. El Fishawy

*Saad El Fishawy*SUBJECT: SAUDI ARABIA: Mr. McNamara's Meeting with the Minister of Finance
and National Economy, Mohammed Abalkhail

The meeting took place on May 3, 1977 in Mr. McNamara's office.

Mr. Mansour Al-Turki, Deputy Minister for Economic Affairs, accompanied the Minister. The discussion covered the following points:

(1) Technical Assistance

The Minister said that in order to decrease the cases where the government would have to pay a high price for the implementation of important development projects in the Five-Year Plan, they had formed an inter-ministerial committee to appraise such projects. The committee would define the projects' objectives, outline their design and estimate their cost. He said that this committee would draw on the Bank's technical assistance for setting up its procedure and carrying out its functions. Mr. McNamara said that the Bank's office in Riyadh would certainly cooperate in this field.

(2) Egypt

Mr. Benjenk summarized the outcome of his recent meeting with President Sadat in Cairo. The hope was expressed that President Sadat would be able to pay direct and personal attention to the economic problems of the country.

(3) Lebanon

The Minister said that Saudi Arabia was anxious to help in the reconstruction efforts in Lebanon. Mr. McNamara said that we already had a reconstruction project in the process of being presented to the Executive Directors shortly. A loan of about \$45 million would be extended for this purpose.

(4) IDA V

Mr. McNamara thanked the Minister for his personal efforts in securing a Saudi contribution to IDA V. This, however, did not mean that the contribution was considered enough. The Minister said that he was fully aware of this.

SELFishawy/rh

cc: Messrs. McNamara (2)
Knapp
Cargill
Benjenk

OFFICE MEMORANDUM

TO: For the Record

DATE: October 12, 1977

FROM: Saad S. El Fishawy

*Saad El Fishawy*SUBJECT: Mr. McNamara's Meeting with Sheikh Abdul Aziz Alquraishi,
Governor of Saudi Arabian Monetary Agency (SAMA)

The meeting took place on September 27. Present were Messrs. Mansour Al-Turki (Deputy Minister of Finance for Economic Affairs, Ministry of Finance and National Economy of Saudi Arabia), Ahmed Abdullatif (Director General, Foreign Department, SAMA), Benjenk, Koch-Weser and myself.

- 1- Mr. McNamara asked Mr. Alquraishi whether the Bank was doing everything it could to assist Saudi Arabia in its development efforts and whether there was anything more it could do. Alquraishi said that Saudi Arabia was completely satisfied with the Bank's technical assistance program. Before the meeting, he had checked with his associates whether there was any particular point he should raise with Mr. McNamara, and the answer was there was none. Mr. McNamara said that in any case, if any such point arose, the Saudi authorities should not hesitate to raise it with him or Messrs. Benjenk or El Fishawy.
- 2- Alquraishi said that he found that the atmosphere of this year's Annual Meetings was better than that of last year, and that there seemed to be less problems ahead for the Bank in fulfilling its mission. Mr. McNamara agreed and said that there was general support of the proposed capital increase. Alquraishi said that Saudi Arabia supported a continuing growth in real terms of the Bank's lending program and the necessary capital increase which would make such a growth possible. McNamara explained that the capital structure of the Bank was such as to give it tremendous leverage. As the Chairman of the Board of Governors stated in his opening speech, the members' subscriptions to the Bank's capital created remarkable leverage for development. The relatively small amount of capital actually transferred by the members' subscriptions was multiplied more than twentyfold through the Bank's own capital market efforts and the local and co-financing resources mobilized in connection with its projects. Alquraishi asked whether the intended increase was going to be selective or a general increase. McNamara explained that the initial discussions which would take place in the coming months would concentrate on determining the amount of the increase and its timing. The amount would naturally depend on the projected growth in Bank lending. Then would come the question of

the allocation of the increase. This would raise the question of representation on the Bank's Board. It may result in the Arab countries now being represented by one Executive Director having two seats. This should not, however, be at the expense of either the African countries or the Latin-American countries losing one of their seats. Mr. McNamara would be opposed to this, since it would mean a decrease in the representation of the developing countries on the Board. The number of Board members at present was 20. There was advantage in maintaining the size of the Board, since if it grew too much in size, it might become unwieldy. However, Mr. McNamara felt personally that an increase by one Executive Director would be acceptable. Alquraishi confirmed Saudi Arabia's support of the proposed capital increase. He added that at the same time they believed in the principle that there was no taxation without representation, although they do not take subscription to the Bank's capital to be a taxation.

3- Alquraishi expressed satisfaction that the economic crisis in Egypt seemed less acute than a few months ago. McNamara said that he doubted that we would see the serious economic problems of Egypt solved in our lifetime. He said that there were encouraging indications that Sadat was now giving economic problems personal attention. Previously, he was giving all his time to the external problems, but he had recently realized the vital importance of the economic issue and was giving it due attention.

4- Mr. McNamara then turned to the subject of borrowing. He said that in a meeting with Mr. Fritz Leutwiler, the President of the Swiss National Bank, he said that they were prepared to permit Saudi Arabia and Kuwait to lend to the World Bank the amounts they wanted in Swiss Francs without limitation. This was quite a concession on the part of the Swiss, since Switzerland understandably would not want other governments to hold Swiss Francs as a reserve currency. Mr. McNamara then added that the Swiss were actually very helpful in assisting the Bank in its borrowing program during the last FY. They gave the Bank priority over other borrowers for borrowing in the Swiss market. During the last FY, the Bank borrowed about 1.4 billion Swiss Francs. Although Switzerland was not a member of the United Nations, or any of its agencies, the leadership in Switzerland supported the World Bank's economic development efforts strongly. The general public opinion, however, guarded tenaciously the attitude of neutrality, or more precisely, of isolationism. Mr. McNamara then went on to say that he did not want to discuss any specific borrowings from Saudi Arabia at this time, but would do so the next time he visited Saudi Arabia.

c.c. Messrs. McNamara (2)
Knapp
Cargill
Benjenk
Rotberg
Paijmans

SELFishawy/as.

OFFICE MEMORANDUM

TO: Paul Blay, EMI

DATE: September 1, 1977

FROM: Hugh N. Scott, Assistant General Counsel *HS*

SUBJECT: Saudi Arabia - Appointment of Executive Director in IMF

I spoke yesterday with Jim Evans, an Associate General Counsel in the Fund about the possibility of Saudi Arabia appointing an Executive Director in the Fund. He explained the situation under the Fund's present Articles of Agreement and described how this would be changed when the Second Amendment to the Articles becomes effective.

Under present Articles

Under present Articles of the Fund, the five members having the largest quota in the Fund are required to appoint Executive Directors. If these members do not include the two members that have made available the largest absolute amounts of resources utilized by the Fund, on the average over the two years preceding a regular election of Executive Directors, these two members are also required to appoint Executive Directors. It is almost certain that by the next election Saudi Arabia will replace Germany as the member providing the second largest amount of resources used by the Fund; the United States provides the largest amount. This will mean that Saudi Arabia will be required to appoint an Executive Director in a year. Under an interpretation of the Fund Articles, this is a duty and not a right of Saudi Arabia which it can waive. When Saudi Arabia appoints a Director, the question will be raised as to what will happen to the other members of the voting constituency of which Saudi Arabia is a part and which has elected Al-Atrash as Executive Director. This group includes most of the Middle Eastern countries plus Pakistan and Somalia. Under the present Articles, there are three ways this question can be resolved.

First, the other members of the Moslem constituency can agree not to participate in the election of Directors and can be represented by the Saudi Arabian Executive Director. However, under the present Articles, this would mean that the Saudi Arabian Executive Director could not cast the votes of the other members of the constituency. This was the procedure followed when Canada was required to appoint an Executive Director in 1958 and Italy was required to appoint in 1968.

Second, the other members of the Moslem constituency have enough votes to elect an Executive Director without the votes of Saudi Arabia. If the number of Executive Directors on the Board does not increase, this would mean that a Francophonic African Executive Director would not be elected.

Third, the Fund Governors, by an 80% majority, can increase the size of the Board to provide for an additional seat and the composition of the elected Executive Directors can remain the same as it is now.

Under Articles as amended by Second Amendment

The Fund hopes that the Second Amendment to its Articles will come into effect before the next election of Executive Directors. The amended Articles will give several options to the Saudis and other members of their constituency.

First, the Saudis will no longer be required to appoint an Executive Director and can remain a part of their present constituency and participate in the election.

Second, the amended Articles will contain a provision permitting an appointed Executive Director to cast the votes of other members pursuant to an agreement made with these members. This would mean that the constituency and its voting power could be kept intact.

Third, the amended Articles will permit the Board of Governors to maintain the number of elected Executive Directors if it decides by an 85% majority that a reduction in the number of elected Directors would hinder the effective discharge of the functions of the Board or would threaten to upset a desirable balance in the Board.

HNS/jsn

cc: Miss S. Han
Messrs. Broches/Nurick/Sella/Fontein
Mr. J. Evans (IMF)

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Robert S. McNamara

DATE: January 6, 1978

FROM: Saad S. El Fishawy *Saad El Fishawy*SUBJECT: Visit to Saudi Arabia, Kuwait and Abu Dhabi

DECLASSIFIED

APR 10 2013

WBG ARCHIVES

(1) Saudi Arabia

Please find attached two proposed aide-mémoires: (1) On IDA additional contribution (before your meetings in Riyadh, I would have sounded Minister Abalkhail on the advisability of your raising this issue) and (2) Bank Capital increase. As you would recall, Governor Alquraishi in his meeting with you during the latest Annual Meetings expressed strong support of the Bank's Capital increase and indicated that the Saudi Government would fully subscribe to its share.

(2) Kuwait

1/6
On December 28, 1977 I sent to Minister Al-Ateegy a telex enquiring about timing suitability of your visit (copy attached). Three days later, on December 31, 1977 the Amir Sabbah Al-Salim passed.

We have not yet received a response to my enquiry from Minister Al-Ateegy. This is not surprising. The cabinet is presently considered a caretaker cabinet, since the Crown Prince and Prime Minister Sheikh Jabir Al-Ahmad became Amir and his successor has not yet been appointed. As a matter of fact, this is not an easy or smooth question, and it may take to around mid-January before it is decided by the family council.

There are three contenders to the succession:

1. Sheikh Salim Al-Sabbah, the eldest son of the late Amir. You may have met him when we was Ambassador of Kuwait in Washington from 1969 to 1975. Although he is the brightest and best suited, he probably has the least chance because he is the youngest and has the least claim;
2. Sheikh Saad Al-Abdallah, the oldest son of the previous Amir Abdallah Al-Salim, who died in 1965. He has been the Minister of Defense and Interior (Police) for about the last 15 years;
3. Sheikh Jaber Al-Ali, who was deputy Prime Minister and Minister of Information in the cabinet of Sheikh Jaber Al-Ahmad. Although he was the rival to Sheikh Jaber for becoming Crown Prince when the late Abdallah Al-Salim passed in 1965, and although they have a notoriously strained relationship, he has the greatest chance of becoming Crown Prince and probably Prime Minister.

In the meantime, all the present Ministers rest unassured of whether they will continue in their positions in the new cabinet or not. This includes Minister Al-Ateegy who was particularly supported by the late

Amir. This might explain why we have not yet received a response to my enquiry. Maybe we will not receive such a response before the end of next week either. In my view, we should not, however, press the matter and just wait for their response.

(3) Abu Dhabi

If you can afford the time, particularly in case the visit to Kuwait were not to materialize, I think it would be useful to pay a one-day visit to Abu Dhabi at this time. In this area, nothing is more appreciated than a courtesy call when there are no immediate pressing requests. Although the United Arab Emirates' contribution to IDA V was not very big, an expression of appreciation would be gratefully remembered at the time of IDA VI.

Encl.

cc: Messrs. Cargill
Benjenk
Paijmans

SElFishawy/rh

Need for World Bank Capital Increase

At last year's CIEC meeting a consensus was reached, and endorsed subsequently at the IBRD Annual Meeting, that the capital base of the World Bank should be increased sufficiently to permit its lending to rise adequately in real terms in the years ahead. Negotiations for a general increase in IBRD's capital are now underway and this brief outlines some of the major topics influencing the discussion.

I. Growth Prospects and External Capital Requirements of Developing Countries

Almost every study has shown that even when allowance is made for reasonable improvements in developing countries' efforts at mobilizing domestic resources and expanding exports, these countries will need to supplement their own resources with foreign capital if they are to achieve growth rates which are at all acceptable over the next several years. Some of the relevant figures are presented in the table below.

	<u>Net External Financing Requirements ^{a/} of Non-Oil Developing Countries (in billions of current US\$)</u>		
	<u>1973</u>	<u>1975</u>	<u>1980</u>
Net External Financing Requirements			
- Poorest Countries	<u>3.6</u>	<u>7.2</u>	<u>9.2</u>
- Middle-Income Countries	<u>13.7</u>	<u>28.2</u>	<u>30.3</u>
Total	<u>17.3</u>	<u>35.4</u>	<u>39.5</u>
In Constant 1975 US\$			
- Poorest Countries	<u>5.0</u>	<u>7.2</u>	<u>6.4</u>
- Middle-Income Countries	<u>19.2</u>	<u>28.2</u>	<u>21.1</u>
Total	<u>24.2</u>	<u>35.4</u>	<u>27.5</u>

a/ Excludes oil-exporters. The external capital requirements of the capital-importing oil-exporters could add substantially to the estimate shown for 1980.

It is important to understand clearly what these financial requirements are. They are the external capital requirements for the achievement of moderate average rates of growth of per capita income for the middle-income countries (3.1% per annum), and quite unsatisfactory rates of growth for the poorest countries. Specifically, they would, as projected, permit growth of average per capita income at a rate of 1.5% per annum in the poorest non-oil-developing countries. At these rates it

would take roughly 50 years for average per capita income to double to a level of perhaps \$300 per year. Since experience over the past decade has shown that the combination of larger external finance and appropriate internal policies can result in rates of growth of income more than twice as high as those posited here, it would be wrong to regard the current estimate of external capital requirements, especially for the poorest countries, as being in any sense optimal.

The uncertainties affecting both the exports and the imports of the developing countries imply that the \$40 billion estimate of net external financing requirements in 1980 is subject to a wide margin of error. If developing country exports -- particularly manufacturing exports -- were to grow more rapidly than projected, this estimate could either be reduced by several billion dollars or, more likely, the use of external capital would remain about the same but growth rates would be increased. On the other hand, the \$40 billion estimate could be too low if planned savings in future imports are not fully achieved.

In the years beyond 1980, the uncertainties affecting growth prospects and capital requirements become even greater. In looking several years ahead, therefore, the appropriate question is not whether the developing countries will continue to require substantial amounts of external capital to achieve rates of GDP growth which are at all acceptable. They certainly will. The real issue is how will this financing be met and on what terms.

II. The Role of IBRD in Financing the External Capital Requirements of Developing Countries

The IBRD is an attractive means of maintaining or increasing the share of official finance in the external capital requirements of developing countries. Most official financing is provided either in the form of concessional loans and grants from governments or in the form of loans from the international financial institutions. Concessional loans and grants from governments will almost certainly increase in real terms over the next several years. However, many donor countries plan to allocate an increasing proportion of their concessional assistance to the poorest countries, so it seems reasonable to expect that most middle-income countries will depend increasingly upon the IBRD and the other international financial institutions for significant real increases in official financing.

The attractiveness of the IBRD as an instrument for transferring real resources to the developing countries is enhanced by its financial structure. Unlike many types of foreign assistance -- where the entire financing is a claim on the budgets of donor countries -- only 10% of capital subscriptions to the IBRD involves a cash outlay by member governments and that in the form of equity participation. The remaining 90% takes the form of callable capital, a guarantee mechanism which enables the IBRD to borrow the bulk of its resources on market terms. Thus, for every dollar actually paid into the capital of the IBRD, a lending capacity of ten dollars is created. The use of this capacity provides attractive investment opportunities for purchasers of IBRD obligations and loan finance on favorable terms for recipients of IBRD loans.

Moreover, the IBRD's contribution to development is not limited to the resource transfer achieved through loans. Using its worldwide project experience and country economic and sector analyses, the Bank advised member governments on a range of development policy issues. On the country level, the Bank frequently exercises a coordinating role through Consultative Groups and by other means. In this way, the Bank's economic work and policy analysis influence a far broader segment of external finance than the loans which it makes directly.

Furthermore, with the rapid growth in demand for external financing from official sources, governments have been faced with an extensive array of proposals for new lending facilities. In several instances, the decision made has been to utilize the existing international institutions rather than to create new ones. Thus, if one accepts the need for a relative expansion in official finance, particularly for the rapidly growing middle-income developing countries, where is one to look? Presumably not to direct government loans or grants, since the growth in this form of finance should go mainly to the poorest countries. Presumably not to new institutions, since governments have shown definite aversion to the proliferation of institutions except in a few cases where there is clearly a new function to be performed. That leaves the existing international financial institutions. Given the relative importance of the IBRD as a source of this type of finance, the desirability of at least maintaining, and possibly increasing, its share in the overall flow of external finance appears great.

III. A Financial Program for the World Bank

The World Bank is by far the largest of the international financial institutions and it has now achieved a history of 30 years of growth. In considering a future program for the World Bank over the next five to ten years, account should be taken of the record in past years. For the fifteen years preceding 1978 the real rate of growth of World Bank commitments has averaged 11.1% per annum; in no year has the real rate of growth been less than 7%.

Although the World Bank may be judged to have been successful, the success of the last thirty years have in no way eliminated the need for a sustained effort by the Bank to transfer resources to developing countries. Rather, the need for World Bank assistance may be judged to have increased and this is especially true when the additional responsibilities of the Bank in the areas of mineral and energy development and in the design of projects required for basic needs strategies for development are recognized.

For planning purposes, the Bank projects a nominal growth rate of commitments of 12% per annum beginning in FY79. Staff estimates indicate that an increase of the Bank's capital by \$40 billion would allow this rate of nominal growth to continue for six years. This corresponds to a 5% to 7% real rate of growth of commitments, a rate that appears modest when compared with past achievements and scarcely adequate when measured against the needs of the developing nations and the responsibilities of the World Bank.

SAUDI ARABIA'S CONTRIBUTION TO
THE RESOURCES OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION

In March 1977, 26 governments, including Saudi Arabia, reached agreement on a replenishment of the resources of the International Development Association (IDA) at a level of \$7,638 million. The Agreement became effective at the end of November 1977 with assistance from Saudi Arabia. Between the start of the Fifth Replenishment commitment period in July 1977 and the time when the Agreement became effective, IDA started to make credits to the poorest developing countries eligible for assistance on the basis of advance commitments totalling over \$1,200 million given by 11 countries, including Saudi Arabia. (The 'Bridging Arrangement' for which there was a separate agreement related to the Replenishment Agreement.) By the end of IDA's current fiscal year (June 30, 1978) credit commitments are expected to total \$2.3 billion. The balance of IDA's resources of \$5.3 billion, together with extra resources arising from transfers from IBRD net income and additional contributions being made by some countries, will enable IDA to commit about \$3 billion a year in each of the two following fiscal years.

When Mr. McNamara met with His Highness Prince Fahd in Washington in June, he expressed his appreciation for Saudi Arabia's contribution to IDA and for Saudi Arabia's advance commitment which was essential to the success of the 'Bridging Arrangement'. At the same time, since the contribution fell below the \$450 million that the Bank had originally thought might be a possible contribution from Saudi Arabia, Mr. McNamara voiced the hope that Saudi Arabia might be able to make an additional contribution to IDA. The reasons why Saudi Arabia might wish to consider making such an additional contribution are as follows:-

- The \$8 billion resources that IDA will invest in the poorest countries in the period until June 30, 1980 are small in relation to the projects which can be made ready in those countries. IDA expects to be able to prepare and approve about 280 high productivity projects in this period, all of which have to pass the test of providing substantial financial and economic benefits to the recipient countries. On average IDA's resources will be sufficient to finance only about 60% of the investment associated with these projects. Additional resources would enable this proportion to be increased and for further projects to be financed.

- In recognition that IDA can use additional resources productively, a number of contributors to the Fifth Replenishment have made, or are preparing to make, additional resources available to IDA. Possible additions to IDA resources currently total about \$400 million, including \$119 million from Germany, \$117 million from the United Kingdom, and \$20 million from Kuwait. (See Table 1 attached.)
- Most of the countries that contributed to the recent IDA Replenishment, including those now considering additional contributions to IDA, are channelling a much higher proportion of their development assistance through IDA. They would welcome an additional contribution from Saudi Arabia to IDA as further evidence of Saudi Arabia's support for the established international institutions of which IDA is far the most important for the poorest developing countries.
- Saudi Arabia's contribution to the Replenishment of IDA is the tenth largest and puts Saudi Arabia alongside such countries as Sweden, \$294 million, and Netherlands, \$260 million. An additional contribution would put Saudi Arabia in a more appropriate position in line with Saudi Arabia's financial strength.
- About 30% of IDA's resources is expected to be channelled to projects in Islamic countries including 10% in Arab countries. An additional contribution by Saudi Arabia would be seen as indicating Saudi Arabia's desire to see sound projects financed in these countries that will eventually enable them to cease to depend on the international community for their continued development.

Attachments:

Table 1: Possible Additional Contributions to IDA

Table 2: IDA Lending

Actual and Possible Additional Contributions to IDA 5

	<u>Original Contributions</u>	<u>Additional Contributions</u> ^{1/}
Australia	146.9	9.0
Austria	49.7	-
Belgium	124.6	15.9
Canada	447.9	6.0
Denmark	87.8	11.3
Finland	41.0	-
France	413.3	56.5
Germany	838.8	119.1
Iceland	2.2	-
Ireland	8.6	2.4
Italy	295.9	34.9
Japan	792.0	-
Korea	1.0	-
Kuwait	180.0	20.0
Luxembourg	3.6	0.5
Netherlands	216.7	39.4
New Zealand	7.6	-
Norway	80.6	5.0
Saudi Arabia	250.0	-
South Africa	10.0	-
Spain	21.0	-
Sweden	293.8	-
United Arab Emirates	50.8	-
United Kingdom	814.3	116.5
United States	2400.0	-
Yugoslavia	8.1	-
Total	<u>7586.2</u>	<u>436.7</u>
Unallocated	51.7	-
 TOTAL	 <u>7637.9</u>	 <u>8022.9</u>

1/ Of the possible additional contributions shown totalling \$436.7 million, \$36.5 million has already been formally agreed and accepted by IDA, \$385 million is being negotiated with the nine members of the European Common Market^{2/} and the balance of \$15 million is under consideration by Australia and Canada.

2/ To be administered by IDA under a separate account.

IDA LENDING PROGRAM FY61-76 ^{a/}
(in current dollars)

Country	FY61-65		FY66-68		FY69-71		FY72-74		FY75-77		FY78	
	\$m.	No. of Operations	\$m.	No. of Operations	\$m.	No. of Operations	\$m.	No. of Operations	\$m.	No. of Operations	\$m.	No. of Operations
<u>Oil Producers</u>												
Indonesia	-	-	-	-	227.4	16	334.4	22	-	-	75.0	1
Nigeria	35.5	2	-	-	-	-	-	-	-	-	-	-
Total	35.5	2	-	-	227.4	16	334.4	22	-	-	75.0	1
<u>Arab League</u>												
Egypt	-	-	-	-	26.0	1	125.1	8	182.0	3	122.2	4
Jordan	8.5	3	3.0	1	6.0	1	24.3	3	29.5	6	14.0	1
Mauritania	6.7	1	-	-	3.0	1	11.6	3	17.2	4	-	-
Morocco	-	-	11.0	1	7.3	1	18.5	2	14.0	1	-	-
Somalia	6.2	1	2.3	1	3.9	2	32.6	3	43.2	6	15.0	2
Sudan	13.0	1	8.5	1	-	-	99.0	6	98.0	6	80.0	5
Syria	8.5	1	-	-	-	-	38.8	3	-	-	-	-
Tunisia	5.0	1	19.0	2	23.8	3	22.0	4	4.8	-	-	-
Yemen AR	-	-	-	-	-	-	38.2	5	71.6	8	29.0	3
Yemen PDR	-	-	-	-	1.6	1	4.1	2	32.7	4	10.0	2
Total	47.9	8	43.8	6	71.6	10	414.2	39	493.0	38	270.2	17
<u>Other Islamic Countries</u>												
Afghanistan	3.5	1	-	-	15.0	3	25.0	4	75.0	6	47.0	3
Bangladesh	148.6	11	79.2	4	98.8	7	142.2	6	459.1	14	140.1	5
Chad	-	-	-	-	8.1	3	16.1	3	25.0	3	22.9	3
Mali	-	-	9.1	1	7.7	1	42.2	6	60.2	4	25.0	2
Niger	1.5	1	-	-	12.4	3	8.3	1	31.5	3	18.0	2
Pakistan	133.5	6	2.8	2	74.4	6	164.0	5	267.6	8	122.7	5
Turkey	65.7	6	15.0	1	31.5	3	66.3	4	-	-	-	-
Upper Volta	-	-	-	-	7.0	2	23.8	5	49.5	5	17.4	2
Total	352.8	25	106.1	8	254.9	28	487.9	34	967.9	43	393.1	22
<u>Other IDA Recipients</u>												
India	485.0	16	406.0	5	623.4	13	1296.2	28	1796.1	27	920.0	12
Other Asia ^{b/}	29.3	5	13.0	2	77.4	12	209.4	20	284.6	22	178.2	10
Other Africa ^{c/}	48.8	8	143.8	24	260.9	54	615.5	71	884.4	70	515.1	29
LAC	100.5	13	18.6	4	59.2	13	94.6	12	113.0	8	31.6	4
Total	663.6	42	581.4	35	1020.9	92	2215.7	131	3078.1	127	1644.9	55
GRAND TOTAL	1099.8	77	731.3	49	1574.8	146	3452.2	227 ^{d/}	4539.0	208	2383.2	95

a/ Amounts and number of operations shown are actuals through FY77. The FY78 data are estimates derived from the lending operations program as of 9/15/77. Joint IBRD/IDA projects are counted as IDA projects. Supplements are counted in amount but not in number in the totals.

b/ Burma, China, Korea, Laos, Nepal, Papua New Guinea, Philippines, Sri Lanka, Thailand, & Western Samoa.

c/ Benin, Botswana, Burundi, Cameroon, Central African Empire, Comoros, Congo, Equatorial Guinea, Ethiopia, Gambia, Ghana, Guinea, Ivory Coast, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mauritius, Rwanda, Senegal, Sierra Leone, Swaziland, Tanzania, Togo, Uganda and Zaire.

d/ This includes the drought relief operation for \$14 million shared by Chad, Mali, Mauritania, Niger, Senegal and Upper Volta.

Class of Service: TELEX Date: DECEMBER 28, 1977
 Telex No.: FINANCE 2527 KT Originators Ext: 75754

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START
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1 TO HIS EXCELLENCY ABDUL RAHMAN SALIM AL-ATEEQY, MINISTER OF

CITY/COUNTRY FINANCE, KUWAIT, KUWAIT

MESSAGE
NO.:

IN RESPONSE TO REQUESTS FROM ARAB COUNTRIES, MR. MCNAMARA,
 WHO IS PRESENTLY OUT OF WASHINGTON, IS PLANNING TO VISIT THE
 MIDDLE EAST DURING THE SECOND PART OF JANUARY STOP EYE KNOW
 THAT NOTHING WOULD GIVE HIM GREATER PLEASURE THAN TO UTILIZE
 THIS OPPORTUNITY TO VISIT KUWAIT AND MEET WITH YOU AND WITH
 THEIR HIGHNESSES THE EMIR AND THE CROWN PRINCE AND RENEW
 OLD FRIENDSHIPS STOP IT WOULD BE POSSIBLE FOR HIM TO ARRIVE
 KUWAIT TUESDAY, JANUARY 24 AT NIGHT AND SPEND WEDNESDAY,
 JANUARY 25 IN KUWAIT STOP WOULD GREATLY APPRECIATE LEARNING
 FROM YOU AT YOUR EARLIEST CONVENIENCE WHETHER THIS TIMING
 WOULD BE SUITABLE STOP WITH MY BEST WISHES FOR GOOD HEALTH
 AND HAPPINESS ON THE OCCASION OF THE NEW YEAR AND WARM
 REGARDS, SAAD S. ELFISHAWY, SPECIAL ADVISER TO THE PRESIDENT,
 INTBAFRAD

END
OF
TEXT

NOT TO BE TRANSMITTED

SUBJECT: (Kuwait
Mr. McNamara's Visit to Saudi Arabia and
 CLEARANCES AND COPY DISTRIBUTION:
 cleared with and cc: Mr. Cargill
 cc: Messrs. McNamara
 Benjenk o/r

DRAFTED BY:
SELFishawy/rh
 AUTHORIZED BY (Name and Signature):
Saad S. El Fishawy S. S. F.
 DEPARTMENT:
Office-V.P. Finance

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