

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

Folder Title: Contacts with member countries: Malaysia - Correspondence 02

Folder ID: 1771122

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

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 28, 2013

To cite materials from this archival folder, please follow the following format:  
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK  
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or  
The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

**PUBLIC DISCLOSURE AUTHORIZED**

McNamara Papers

Contracts  
Malaysia (1973-1979)

The World Bank Group  
**Archives**



1771122

A1993-012 Other #: 12 209348B

President's papers - Robert S. McNamara Contacts with member countries: Malaysia -  
Correspondence 02


**DECLASSIFIED**  
WBG Archives

14

## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 11, 1973

FROM: Raymond J. Goodman SUBJECT: Malaysia

Tun Tan Siew Sin, Minister of Finance, Tun Ismail bin Mohamed Ali, Governor, Central Bank of Malaysia, Mr. Chong Hon Nyan, Secretary General to the Treasury, Mr. Malek Ali Merican, Deputy Secretary General for the Treasury, Mr. Wong Yoke Meng, Undersecretary Finance Division, Treasury and Mr. Choi, Executive Director called on Mr. McNamara on September 27, 1973 at 2:20 p.m. Mr. Knapp and Mr. Goodman were present.

The Minister mentioned four subjects:

1. He was worried about the level of Malaysia's public debt, which seemed to be very high in relation to that of other countries. In reply to a point made by Mr. Goodman he said he recognized that the foreign debt was very small and he was speaking therefore of the level of total debt, most of it owed to Malaysia residents. He thought that Malaysia's taxation was now at the optimum (although not the maximum) level if the economy was to continue to prosper and be attractive to foreign investors. He therefore did not see a solution to the problem by increasing taxation.

Mr. McNamara said that the absolute level of domestic indebtedness was less important than the claims of interest and principal payments in relation to the flow of revenues and other flows in the economy. Looked at in this more dynamic way he thought that Malaysia's situation was not particularly serious but he undertook that the Bank would examine the problem and let the Minister have its views.

2. Malaysia was making arrangements with other producing countries for the joint marketing of rubber and other commodities. He wondered if either the Bank or the Fund would be willing to help finance the rubber scheme. Mr. McNamara said that he would not say no and might be willing to consider assisting the scheme if it were feasible and the funds could not be found elsewhere.

3. The Minister referred to Malaysia's policy of reaching and maintaining 90% self-sufficiency in rice. He was wondering whether, in view of the critical world shortage of rice, Malaysia should not now aim for 100% self-sufficiency and would welcome the views of the Bank on the question. Mr. Goodman said that Malaysia's policy of maintaining some flexibility in its rice policy, given that most of the production was by smallholders, had seemed sensible and he would hesitate to recommend going for full self-sufficiency although in present circumstances adequate stocks seemed essential. Mr. McNamara disagreed and said that Malaysia would probably be wise to go for full self-sufficiency and have large reserves as well, but agreed that the matter would be looked into and promised to let the Minister have a considered view in due course.

4. The Minister said that Malaysia was now almost at the mid-point of its Second Plan, that it had a considerable need for foreign capital to

President has seen

October 11, 1973

finance projects and he hoped the Bank would not cut down on its lending. Mr. McNamara said he believed Malaysia was making a good development effort, that we would not cut our lending and indicated that the next five years would show a substantial increase in our assistance to Malaysia as compared to the last five years. He referred to Mr. Knapp's forthcoming visit to Malaysia which would give him an opportunity of considering the role of the Bank in Malaysia's development effort.

The meeting concluded at 2:40 p.m.

Attachment

cc: Messrs. McNamara  
Knapp  
Cargill  
Helmert

RJGoodman:rf/go

Government Debt of Selected Developing and Developed Countries - 3/  
1971

(in Billions of National Currency)

	Total Domestic Debt Outstanding	Total Foreign Debt Outstanding	Total Debt Outstanding	GNP	% of Domestic Debt to GNP	% of Foreign Debt to GNP	% of Total Debt to GNP	Rate of Growth p.a. Total Debt (1966-1971)	External Debt Service Ratio 1970 <u>1/</u>
Malaysia ( billion \$M )	5	1	6	12	42	8	50	15% <u>2/</u>	2.3
Singapore ( billion \$S )	2	1	3	7	29	14	43	30%	4.1
Philippines ( billion pesos)	7	3	10	39	18	8	26	10%	21
Thailand ( billion Bahts)	29	4	33	145	20	3	23	18%	3.7
Indonesia ( billion rupiah)	47	129	176	3500	1	4	5	34%	8.3
India ( billion rupees)	81	70	151	355	23	20	43	14%	23
Australia ( billion \$A)	12	2	14	32	38	6	44	5.5%	
Canada ( billion \$C)	27	0.6	28	93	29	1	30	6%	
Japan ( billion Yen)	5,081	84	5,165	78,960	6.4	0.1	6.5	19%	
U.S.A. ( billion US\$)	295	105	400	1,050	28	10	38	4%	

Source: (1) International Financial Statistics IMF  
Vol. XXVI No. 6 June 1973.

(2) IDA, IBRD Reports.

(3) UNCTAD Sixth Session

(4) Bank Indonesia Report 1970-1971.

(5) Central Bank of Philippines Report.

1/ as a percentage of exports.

2. Rate of Growth of Total Debt from 1957-1971 is 14%.

3. Government Debt is usually lower than total National Debt in many developing countries where private debt in the form of supplier credits (guaranteed by Governments) can be very substantial eg. Thailand, Ghana etc.

B.E.P.

13.9.1973.



## OFFICE MEMORANDUM

TO: MEMORANDUM FOR THE RECORD DATE: October 7, 1974

FROM: L. Helmers, Division D, East Asia and Pacific *ek*

SUBJECT: 1974 Annual Meeting: MALAYSIA - Meeting of Finance Minister with  
Mr. McNamara, October 2, 1974; 9-9.30am.

Present:Malaysia

Datuk Hussein Onn, Deputy Prime Minister, Minister for Finance,  
and Minister of Coordination of Public Corporations  
Tan Sri Ismail bin Mohamed Ali, Governor of the Central Bank  
H.E. Mohamed Khir Johari, Ambassador to United States  
Mr. Choi Siew Hong, Executive Director, Bank  
Datuk Abdullah bin Ayub, Secretary-General, Treasury  
Dato Wong Yoke Meng, Deputy Secretary-General, Treasury

Bank

Messrs. McNamara, Knapp, Chenery, Bell, Votaw, Helmers, Ljungh

- 10/8
2. Mr. McNamara opened the meeting and noted that the loan for the Keratong Land Settlement project, the signing of which took place during the meeting, would be the fifth World Bank loan for Land Settlement in Malaysia. In all, the Bank is now helping to plant some 200,000 acres with oilpalm and rubber and to resettle some 120,000 persons, thus making a vital contribution towards reducing rural poverty.
3. Datuk Hussein expressed his appreciation for the Bank's assistance and offered many words of praise for Mr. McNamara's leadership in assisting the developing countries. Malaysia is in a more fortunate position than many other developing countries, but is still in need of foreign assistance. Datuk Hussein hoped that the Bank would continue to help.
4. Mr. McNamara assured the Minister that the Bank would continue to provide technical as well as financial assistance to Malaysia. In this respect it was necessary to look beyond the short term, since development is a long-run problem. Mr. McNamara expressed regret that some Governments were willing to approve only the Bank's next year program and not the entire proposed five-year program. He thanked Datuk Hussein for Malaysia's support of the Bank's longer-term objectives and also hoped that in the Development Committee's work Malaysia would look at the long-run problems that lie ahead. Datuk Hussein re-emphasized Malaysia's support for the Bank.

cc: Messrs. Knapp  
Chenery  
Bell  
Votaw



II. Delegation:

The Delegation is not yet complete because of the August 24 elections, but is likely to include the following:

Tan Sri Ismail bin Mohamed Ali (Governor of the Central Bank of Malaysia and Governor of the Bank)

Tan Sri Chong Hon Nyan (former Secretary General, Treasury and probably new Deputy Minister of Finance)

Datuk Abdullah bin Ayub (Secretary General, Treasury and Alternate Governor of the Bank)

We propose that a meeting be scheduled.

III. Biographical Sketches of Senior Members of Delegation

TAN SRI ISMAIL BIN MOHAMED ALI

Personal Information: Born of Malay ancestry in 1918 in Port Klang.

Education: Took economic training in Trinity Hall, Cambridge in 1938-41; legal training in Middle Temple, London, in 1941-43; with qualifications of a Barrister-at-Law.

Present Position: Governor of Bank Negara Malaysia, the Central Bank of Malaysia, since 1962; Chairman of the Malaysian Industrial Development Finance, Bhd., a private development bank with an extensive government participation. Known as a cautious, conservative financier, and in the past a strong ally of Tun Tan Siew Sin. As a senior member of the National Development Planning Committee, the highest economic policy-making organ of the government on the civil service level, he exerts strong influence on all aspects of economic policies.

Previous Activities and Functions: Since 1946, worked mainly as economic or commercial officer in the Treasury and in the Ministry of Commerce and Industry. Minister at the Malayan Embassy in Washington in 1957-60, and Executive Director of IBRD in 1958-60. Deputy Governor of Bank Negara, Malaysia, in 1960-62.

TAN SRI CHONG HON NYAN

Personal Information: Born 1924.

Present Position: Likely to be appointed Deputy Minister of Finance (to Prime Minister Tun Razak). Resigned as Secretary General, Treasury, in early August 1974 to stand for election to Parliament as a member of the Malaysian Chinese Association (the former Alliance Party of Tun Tan Siew Sin the former Minister of Finance).

Attachment:

16

January 23, 1975

TO: Memorandum for the Record

From: Bernard R. Bell *BRB*

Subject: MALAYSIA - Meeting with Mr. Chong Hon Nyan, Deputy Minister of Finance; Mr. M. Shanmughalingam, Deputy Secretary, Treasury; and Mr. Siew Hong Choi, Executive Director

1. On Friday, January 17, Mr. McNamara met briefly with Deputy Minister of Finance, Mr. Chong Hon Nyan; Deputy Secretary of Treasury, Mr. M. Shanmughalingam; and Mr. Siew Hong Choi, Executive Director. I was also present.

2. The Deputy Minister thanked Mr. McNamara for the fact that the Bank had agreed, in response to his Government's request, to provide assistance in their examination of environmental problems. He said also that the Government was now undertaking a concerted program to increase food production even at the expense of additional rubber production, and recalled that during Mr. McNamara's last visit he had urged the Government to give substantially more attention to the food production problem. The Minister then mentioned that the Government of Malaysia was anxious to develop agreement among the major rubber producers which would bring some stability into the rubber market which had recently experienced an extraordinarily sharp decline in prices. He asked whether the Bank would be prepared to give financial and other assistance in this regard. Mr. McNamara replied that UNCTAD was giving serious attention to the problem and was producing a number of papers relating to it, and that he did not feel the Bank should undertake to duplicate UNCTAD's activities or to supersede its work in this area. He indicated further, however, that the Bank would give sympathetic consideration to any proposal that it assist in financing any well-conceived plan that emerged from the studies now being made.

cc: Mr. McNamara's Office

BRBell:ea

## OFFICE MEMORANDUM

TO: Mr. Sven Burmester

DATE: January 17, 1975

FROM: J. M. Jentgen ✓

SUBJECT: MALAYSIA: Visit of Deputy Minister of Finance*Mr. McNamara:**For your  
meeting  
this evening  
MS*1. Biographical SketchTan Sri Chong Hon Nyan: Born 1924. Secondary School Teacher.

Present Position: Appointed as Deputy Minister of Finance (to Deputy Prime Minister Datuk Hussein Bin Onn) in September 1974. Resigned as Secretary General, Treasury, in August 1974 to stand for election to Parliament as a member of the Malaysian Chinese Association (the former Alliance Party of Tun Tan Siew Sin the former Minister of Finance). Was elected by a large majority.

2. Bank Lending Program

*1/12*

A copy of the latest lending program as revised within the East Asia and Pacific Region is attached. Two more loans are scheduled for FY75. Negotiations will take place in March for the Mardi Agricultural Research Project. Negotiations are also expected to take place in March for the Bank Pertanian Agricultural Credit Project, provided financial information required to complete appraisal is received and the Agricultural Bank fills certain key staff positions.

3. Other Current Activities

We are working closely with the Malaysians on the preparation of the Third Malaysia Plan 1976-1980. The Government's schedule calls for finalizing the inputs to the Plan in March and to draft the Plan in April, May and June -- hopefully, having a preliminary draft completed by the end of June to be reviewed by a Bank economic mission. The final Plan is to be submitted to Parliament in November. Sector missions on Smallholder Agriculture (FAO/Bank), Industry (Bank), education, training and manpower (UNESCO) visited Malaysia in November/December 1974. Their draft reports, after review within the Bank, are expected to be ready for transmittal to the Malaysian Government in early March. In addition, the Bank will also be completing various research projects being conducted by the Development Policy Staff. This material will be ready for use in the preparation of the Third Malaysian Plan. The Malaysian Government has also requested our assistance on Environmental Protection (see attachment). We are in the process of discussing the terms of reference and composition of a mission to visit Malaysia by early March at the latest.

4. Matters Likely to be Raised by the Deputy Minister

In early December 1974, the Malaysian Government took a number of measures to arrest the slide of the price of natural rubber, by curtailing supplies, (no tapping on Sunday, no use of artificial stimulants, increase in the replanting grants to smallholders) and by allocating M\$300 million for the building-up of buffer stocks. Since then the Malaysian Government has contacted other natural rubber producer countries to persuade them to adopt a common policy.

It is likely that the Minister will ask Mr. McNamara again, as his predecessor Tun Tan Siew Sin did at the time of the Annual Meeting in 1971, whether the Bank could assist in the financing of buffer stocks. Mr. McNamara said at that time that the Bank had been concerned about this problem for a long time, that it had been studied by the Pearson Commission and that it should be taken into account in the preparation of the Fourth Replenishment of IDA.

Population: 11.45 million (1972) 2.6% p.a.  
 Per Cap. Inc: \$400 (1971) 3.1% p.a.  
 Area: 128,308 sq. miles  
 Literacy: 77% (1967)

MALAYSIA - ACTUAL AND PROPOSED LENDING THROUGH FY79

(US\$ Million)

		Current FY75	FY76	FY77	FY78	FY79	Total FY75-79	Non- Scheduled	1/
Ag.Credit I - Bank Pertanian	IBRD	15.0							
Ag.Credit II - Bank Pertanian	IBRD				20.0*				
Ag.Research - MARDI	IBRD	25.0							
Land Settlement - Jengka I	IBRD								
Land Settlement - Jengka II	IBRD								
Land Settlement - Jengka III	IBRD								
Land Sett. - Johore Tenggara	IBRD								
Land Settlement - Keratong	IBRD	36.0							
Land Settlement - Sarawak	IBRD		30.0						
Rural Development - Kelantan	IBRD		10.0						
Rural Development - RISDA	IBRD							30.0	
Rural Development - Perak	IBRD				30.0				
Agricultural Extension	IBRD			20.0					
Irrigation - Muda	IBRD								
Irrigation - Kemubu	IBRD								
Drainage - W. Johore Ph.I	IBRD								
Drainage - W. Johore Ph.II	IBRD				50.0				
Irrigation - Rompin-Endau	IBRD					40.0			
Irrigation - Muda II	IBRD							40.0	
Forestry - Jengka	IBRD								
Forestry II - Unident.	IBRD			20.0					
Education I	IBRD								
Education II	IBRD								
Education III	IBRD								
Education IV	IBRD			25.0*					
Education V	IBRD					30.0*			
Industry - Small Industrial Estates I	IBRD							20.0	
Population I	IBRD								
Population II	IBRD			10.0					
Power NEB-I - III	IBRD								
Power NEB - IV	IBRD								
Power NEB - V	IBRD								
Power NEB - VI Temengor Transmission	IBRD	45.0							
Power NEB - VII Rural Electrification	IBRD		25.0						
Highways I - Route I	IBRD								
Highways II	IBRD		50.0						
Highways III - Unidentified	IBRD					30.0*			
Railways I	IBRD								
Railways II	IBRD							25.0	
Ports - Sabah I	IBRD								
Ports - Sabah II	IBRD							20.0	
Urbanization-KL Trans. I	IBRD								
Urbanization-KL Trans. II	IBRD		30.0						
Urbanization-KL Trans. III	IBRD					20.0			
Urbanization-Sites & Services I "	"			30.0					
Urbanization-Sites & Services II "	"							10.0	
Water Supply - KL I	IBRD								
Water Supply - KL II	IBRD								
Sewerage - KL I	IBRD		25.0						
Sewerage - KL II	IBRD				20.0				
Sewerage - Sarawak	IBRD							10.0	
Lending Program		Total 121.0	170.0	105.0	120.0	120.0	636.0	155.0	
		No. 4	6	5	4	4	23	7	

1/ Projects in this category are not yet part of the approved Lending Program. Manpower for these projects is authorized only for preappraisal purposes. These are reserve projects which may be included in the approved Lending Program as a result of deferral or dropage of other projects, or because of availability of additional resources.

\* Projects annotated with an asterisk are "advanced projects," the preparation schedule of which will be such as to permit Board presentation in the preceding fiscal year if desirable, as a result of the slippage of other projects, or the availability of additional funds.

December 19, 1974

Salipon: 83144/9  
Kawat: ECONOMICS

Bilangan Surat Kita: BPE/10/105/52  
Bilangan Surat Tuan:



BAHAGIAN PERANCANG EKONOMI  
JABATAN PERDANA MENTERI  
KUALA LUMPUR 11-01  
MALAYSIA

21 December, 1974

Mr. Jean-Marie Jentgen,  
East Asia and Pacific Department,  
International Bank for Reconstruction and Development,  
1818H Street,  
Washington D.C.  
UNITED STATES OF AMERICA.

(By Express Airmail)

Dear Mr. Jentgen,

IBRD ASSISTANCE ON ENVIRONMENTAL CONSERVATION

Following the brief visit of Messrs. Ragnan Overby and Robert Goodland to Malaysia in November and the discussions we ourselves have had in Kuala Lumpur recently, I am writing to confirm EPU's request for a World Bank Mission in early 1975 to assist the Malaysian Government in the formulation of environmental guidelines for project and programme planning and development for incorporation in the Third Malaysia Plan.

As you know, our Plans will continue to emphasise the development of the country's resources, particularly through agricultural settlement, and timber exploitation as well as rapid industrial development. So far these developments have not had a serious impact on environmental quality. Government is anxious to ensure that ensuing developments are within the carrying capacity of the environment. Some specific problems of particular concern to us are outlined below.

(1) Soil and Water Conservation

The immediate effects of land development, logging and highway construction are increased rates of run-off and erosion. Issues which need to be studied relate to whether existing soil and water conservation practices are adequate; whether increased sedimentation loads are significant in affecting fresh-water biota; and whether changes in hydrological regimes are significant in affecting water supplies on the one hand and flooding on the other.

(2) Oil Palm and Rubber Factory and Other Agricultural/Industrial Effluents

Effluents from the processing of agricultural products and industrial operations affect water resources and the atmosphere in various ways and need particular attention. A major problem requiring study is the question of what are acceptable effluent concentrations relative to fresh-water organisms, especially those of economic value; water supplies; and the recreational use of rivers. Guidelines for the control of effluent discharge, including the use of fiscal measures, also require study and formulation.

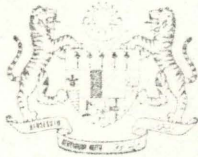
(3) Agricultural Chemicals

The long-term residual effects of agricultural chemicals have to be monitored. In particular, the influence of pesticides on wildlife and possible concentrations along food chains need to be studied as are eutrophication problems arising from the use of fertilisers.

...../2

Salipan: 83144/9  
Kawat: ECONOMICS

Bilangan Surat Kita: BPE/10/105/52  
Bilangan Surat Tuan:



BAHAGIAN PERANCANG EKONOMI  
JABATAN PERDANA MENTERI  
KUALA LUMPUR 11-01  
MALAYSIA

21 December, 1974

Mr. Jean-Marie Jentgen,  
East Asia and Pacific Department,  
International Bank for Reconstruction and Development,  
1818H Street,  
Washington D.C.  
UNITED STATES OF AMERICA.

(By Express Airmail)

Dear Mr. Jentgen,

IBRD ASSISTANCE ON ENVIRONMENTAL CONSERVATION

Following the brief visit of Messrs. Ragnan Overby and Robert Goodland to Malaysia in November and the discussions we ourselves have had in Kuala Lumpur recently, I am writing to confirm EPU's request for a World Bank Mission in early 1975 to assist the Malaysian Government in the formulation of environmental guidelines for project and programme planning and development for incorporation in the Third Malaysia Plan.

As you know, our Plans will continue to emphasise the development of the country's resources, particularly through agricultural settlement, and timber exploitation as well as rapid industrial development. So far these developments have not had a serious impact on environmental quality. Government is anxious to ensure that ensuing developments are within the carrying capacity of the environment. Some specific problems of particular concern to us are outlined below.

(1) Soil and Water Conservation

The immediate effects of land development, logging and highway construction are increased rates of run-off and erosion. Issues which need to be studied relate to whether existing soil and water conservation practices are adequate; whether increased sedimentation loads are significant in affecting fresh-water biota; and whether changes in hydrological regimes are significant in affecting water supplies on the one hand and flooding on the other.

(2) Oil Palm and Rubber Factory and Other Agricultural/Industrial Effluents

Effluents from the processing of agricultural products and industrial operations affect water resources and the atmosphere in various ways and need particular attention. A major problem requiring study is the question of what are acceptable effluent concentrations relative to fresh-water organisms, especially those of economic value; water supplies; and the recreational use of rivers. Guidelines for the control of effluent discharge, including the use of fiscal measures, also require study and formulation.

(3) Agricultural Chemicals

The long-term residual effects of agricultural chemicals have to be monitored. In particular, the influence of pesticides on wildlife and possible concentrations along food chains need to be studied as are eutrophication problems arising from the use of fertilisers.



(4) Wildlife Conservation

Continuing clearance of forests and logging is having significant impact on wildlife populations. The problems arising, both of depletion of wildlife and of their significance as agricultural pests and even as a potential hazard to human life require study. We need to investigate ways for increasing the carrying capacity of residual forest areas through habitat management in conjunction with forest management, including the domestication of certain species.

(5) Conservation of Natural Ecosystems

The rapid rate of forest clearance is also giving concern with regard to the conservation of natural ecosystems. This is important from the social, aesthetic, cultural and scientific viewpoints. Guidelines for selecting areas for ecosystem conservation are needed.

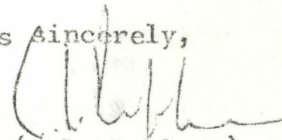
In overall terms, we suggest that the Mission will find it useful to carry out a preliminary study of the environmental situation in both the West and East Coasts of Peninsular Malaysia with a view to evaluating the present situation; the impact of prospective developments on environmental quality in the next fifteen years; and the preventive measures (including fiscal measures) which should be incorporated in programme and project planning for ensuring consistency between rapid economic development on the one hand and environmental quality on the other.

It would also be helpful if the Mission could review the measures already being undertaken towards environmental protection and make recommendations on their improvement and implementation. These include such measures as are already incorporated in the Environmental Quality Act; the Mining Enactment; the Forest Enactment; the Wildlife Protection Enactment; the Waters Enactment and the Land Conservation Act. It would, in addition, be desirable for the Mission to look into the guidelines for resources management and land conservation incorporated in the Land Capability Classification; in the extension work of the Ministry of Agriculture with respect to soil conservation and erosion control; and in other reports prepared by government agencies, consultants as well as international bodies which have reviewed these problems in Malaysia.

In the event that this request for a World Bank Mission can be met, a special Task Force of Ministries and Departments concerned will be set up to counterpart the Mission, with technical representatives drawn from the Economic Planning Unit, the Ministry of Technology and the Environment, the Ministry of Agriculture and Rural Economy, the Ministry of Primary Industries and the Ministry of Lands and Mines.

Your early reactions to this request would be much appreciated.

Yours sincerely,

  
(C.L. Robless)

for Chief Secretary to Government,  
Malaysia.



TO: MEMORANDUM FOR THE RECORD

FROM : S. Shahid Husain *HS* DATE: May 6, 1977

SUBJECT : Meeting with Mr. Robert S. McNamara by the Minister of Finance of Malaysia, Tengku Razaleigh Hamzah

1. The Minister of Finance of Malaysia, Tengku Razaleigh Hamzah, accompanied by the Governor of the Central Bank of Malaysia, Mr. Ismail bin Mohd. Ali and other officials met with Mr. McNamara on Wednesday, April 27, 1977. The Minister congratulated Mr. McNamara on his reelection to the Presidency of the Bank. Mr. McNamara complimented the Minister for his personal effort and role in redirecting the development effort in Malaysia for the benefit of the least privileged people. The Minister said that this was a difficult problem, but that his Government was determined to do everything possible to bring the poor people of Malaysia into the economic mainstream.

2. The Minister asked Mr. McNamara if it was possible to expand the Bank lending beyond the \$120 million per annum presently envisaged. Mr. McNamara said that a lot would depend upon the Bank's general capital increase, which in the recent Development Committee meeting had been endorsed by many delegations.

3. Apropos lending, the Minister asked if it was possible for the Bank to finance local costs in Malaysia. Mr. McNamara reminded the Minister that, according to the Bank's Article of Agreement, local cost financing was permissible only under special circumstances. Since in its resource endowment and foreign exchange earnings Malaysia was more fortunate than many developing countries, he did not see the possibility of local cost financing in Malaysia.

4. The Minister mentioned that the Bank's association with Malaysia had been very significant for Malaysia's development, but that this fact was not sufficiently recognized within Malaysia or outside. He asked whether the Bank could undertake a systematic review of the Bank's lending in Malaysia. Mr. McNamara agreed to examine this proposition.

5. Under the UNDP and with the Bank as the executing Agency, a number of experts are to be assigned to the Ministry of Planning for project preparation at the state level. The Minister asked that these

May 6, 1977

experts be stationed for two to three-year period rather than on short assignments. Mr. McNamara agreed with the need for longer assignments and to review this matter. (I have examined this and, in fact, the experts will be assigned for two to four years.)

cc: Messrs. McNamara  
Knapp  
Votaw

SSHusain:bcl

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: April 7, 1977

FROM: Gregory B. <sup>GR</sup> Votaw (through Mr. S.S. Kirmani, Acting Regional Vice President  
East Asia and Pacific)

SUBJECT: Appointment requested by Mr. Razaleigh Hamzah (Malaysia's Minister of Finance)

1. We have been informed by the Malaysian Embassy that Minister Razaleigh Hamzah, who will be in Washington from April 26 through April 30 for the Development Committee Meetings, would like to call on you. We would recommend that you see Razaleigh as early as possible at your convenience. The Minister was most anxious to meet with you in Manila during the Bank's last annual meeting, but because of pressure of time this was not possible, except when you met all of the ASEAN Ministers of Finance as a group.

2. As you are aware relations between Malaysia and IBRD are cordial, and the Bank's concern with poverty eradication has found a forceful articulation in Malaysia's development policies. For instance, partly as a result of Bank staff efforts, the Third Malaysia Plan (TMP), which was published in July 1976, emphasizes in situ agricultural development to assist small farmers. The TMP (1976-1980) keeps the target for land settlement (1 million acres) at the same level as that under the Second Malaysia Plan (1970-1975), but has increased the target for in situ development (1.7 million acres) to double that of the SMP. Razaleigh was one of the Ministers who spoke out strongly for this change.

3. Razaleigh also plays an important role in the international commodity discussions in which Malaysia is very interested, because of its tin and rubber production. Within Malaysia also, it appears that Razaleigh's political powers are growing and many see him as a prospective Prime Minister.

4. The week before he comes here Husain will meet Razaleigh in Manila, during the ADB meetings. For your convenience we attach the briefing paper prepared for Husain. The brief includes the CV of Razaleigh as Annex I.

Attachment

LHelmers/GVotaw:mw

PH

DELEGATION/BIOGRAPHIC DATA

MALAYSIA

The Delegation

- Tengku Tan Sri Razaleigh Hamzah : Minister of Finance  
Leader of Delegation  
(Governor, IBRD)
- Tan Sri Ismail bin Mohammad, Ali : Governor, Bank Negara  
(Governor, IMF)
- Dato Wong Yoke Meng : Deputy Secretary General  
Treasury
- Duleep Singh Kaulsay : Secretary, Finance Division  
Treasury
- Ramon V. Navaratnam : Secretary, Economic Division  
Treasury
- Fong Weng Phak : Assistant Chief Economist,  
Bank Negara
- Ibrahim Hashim : Finance Division,  
Treasury
- Alias Ahmad : Finance Division,  
Treasury
- Zakaria Ismail : Private Secretary,  
Bank Negara

Biographical Data

Tengku Tan Sri RAZALEIGH

Razaleigh, who represented Malaysia at the last Bank annual meeting, has been Minister of Finance since March 5, 1976, when he succeeded the present Prime Minister, Datuk Hussein bin Onn. He is the youngest member of the cabinet and the youngest Minister of Finance Malaysia has ever had. Some people believe he is a prospective Prime Minister.

Tengku Razaleigh was born in 1936 in Kelantan State (Kota Bharu) where he has a strong political power base and following. An economist by training, Tengku Razaleigh graduated in 1959 from the Queens University, Belfast. He has headed up several agencies with a mandate to promote Malay

economic interests. In 1964, he was appointed the Executive Director of the newly created Bank Bumiputra (to give Malays greater access to commercial credit) and then was appointed Chairman of Pemas, a holding company created in 1969 to increase Malay ownership and employment in commerce and industry. In 1974, the Government-owned oil company, Petronas, was established, and the Prime Minister appointed Tengku Razaleigh Chairman and soon after its Chief Executive, giving him the rank equivalent of a cabinet Minister. Tengku Razaleigh then became closely identified with the drawn out and difficult negotiations with the private oil companies on production sharing. Last fall, he relinquished his Petronas responsibilities and subsequently an agreement was reached with the oil companies. In spite of his very tough stand toward foreign companies during the Petronas negotiations, Tengku Razaleigh has stated that foreign capital is an important investment source for Malaysia.

#### Tan Sri ISMAIL

Since 1962 he has been Governor of Bank Negara, the Central Bank of Malaysia. Tan Sri Ismail is well known to the Bank, having been Minister at the Malaysian Embassy in Washington from 1957-60.

He is a regular delegate to Bank/Fund meetings and a key contact for economic and general operational missions. He is known as a cautious, conservative financier and, in the past, a strong ally of Tun Tan Siew Sin (a former Minister of Finance). As a senior member of the National Development Planning Committee, the highest civil service economic policymaking organ of the Government, Tan Sri Ismail exerts a strong influence on all aspects of economic policies. He recently supported the Bank's efforts to raise Malaysia's proposed investment level in the Third Plan.


In addition to his duties as Governor of the Bank Negara, Tan Sri Ismail is Chairman of the Malaysian Industrial Development Finance Board (MIDF), a development bank with extensive Government participation. MIDF is well known to the Bank and IFC, the latter participating in the equity capital of MIDF, as well as holding a loan.

Tan Sri Ismail was born in Port Klang in 1918. He took economic training in Trinity Hall, Cambridge in 1938-41; and legal training in Middle Temple, London, in 1941-43, qualifying him as a Barrister-at-law. After taking his degree and before joining the Embassy Staff in Washington in 1957, he worked in the Treasury and in the Ministry of Commerce and Industry.





MEMORANDUM FOR THE RECORD

FROM : S. Shahid Husain (RVP, AEN)  DATE: September 29, 1977  
SUBJECT : 1977 Annual Meetings, Washington, D.C.  
Mr. McNamara's Meeting with the Malaysian Delegation

1. The Prime Minister of Malaysia, Datuk Hussein Onn, accompanied by Tengku Rithauddeen, Minister of Foreign Affairs; Mr. Richard Ho Ung Hun, Deputy Minister of Finance; Datuk Zaharia, Secretary-General, Ministry of Foreign Affairs; Mr. Thong Yaw Hong, Director-General of the Economic Planning Unit; and Mr. Zain Azraai, Ambassador of Malaysia to the United States, called on Mr. McNamara at the Sheraton Park Hotel on September 29, 1977. Messrs. Chenery and Husain were also present.

2. The Prime Minister expressed his appreciation of the Bank's assistance in Malaysia's economic development. He noted the emphasis the Bank was placing on agricultural and rural development as well as the eradication of poverty. He said that this was in accordance with his own Government's priority. Mr. McNamara complimented Malaysia on the sound economic and financial management since independence. He said that this policy had served the country well. He, however, noted that perhaps the time had come to be somewhat more ambitious, particularly in trying to eradicate the incidence of poverty among the majority of the Malays. Mr. McNamara noted that 40% of the country's population still lived in absolute poverty. The Prime Minister agreed with this. He, however, noted that the problems of manpower and management were responsible for the slow progress. Mr. Husain commented that perhaps the Government could select some of the key organizations, such as those dealing with the small-holder rubber farms, rural education, rural electrification and rural roads to strengthen their management. Mr. McNamara mentioned that if the Government could develop new programs to combat poverty, the Bank would expand its assistance beyond the levels of the recent past. He also said that the Bank would be prepared to provide technical assistance in this connection. Mr. McNamara inquired about Malaysia's plans to utilize its petroleum revenues. The Prime Minister said that an assessment and analysis of petroleum revenues was under way and on the basis of this study, the Government would make policy decisions. He said that petroleum revenues were a trust and the Government would make every effort to ensure that they were used for the benefit of the Malaysian people.

3. Mr. Husain mentioned that the recent controls on industrial investments might endanger the Government's plans to expand employment and production, and that they might be reviewed to see that they were

September 29, 1977

not overly restricted. The Prime Minister said that the subject was constantly under review and that the Government would make some modifications in due course. Mr. Chenery gave an account of the cooperation between Malaysia and the World Bank on the study of planning methodology and programs to combat poverty. The Prime Minister said that he valued such cooperation and that the World Bank's support was of considerable help to the Government in formulating its own policies.

cc: Messrs. McNamara  
Knapp  
Chenery  
Votaw  
Kirmani  
Hasan  
Helmets

SSHusain:bcl

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 23, 1977

FROM: S. Shahid Husain

SUBJECT: Your Meeting with Datuk Hussein Onn, Prime Minister of Malaysia  
on Wednesday, September 28, 1977

1. Datuk Hussein Onn is on a State visit to the United States and will be accompanied by:

Tengku Rithauddeen - Minister of Foreign Affairs;

Datuk Zaharia - Secretary General, Ministry of Foreign Affairs;

Mr. Zain - Malaysian Ambassador to the US;

Mr. Thong Yaw Hong - Director General of the Economic Planning Unit; and

Mr. Cheah - Head of the Chancellery of the Malaysian Embassy here.

2. Attached is the Annual Meeting briefing paper prepared by the Malaysia Division. In the following paragraphs, I will give a personal assessment of the Malaysian situation and the development issues facing the country.

3. Despite some basic structural problems, such as a fragile racial balance, the lag in the economic and social development of the majority of Malays and a country essentially ruled by a coalition of the aristocracy and the bureaucracy, Malaysia has had one of the most stable political environments among the developing countries. In my mind, there are two fundamental reasons for this. First, a rapid economic growth and expansion of employment opportunities substantially aided by the country's national resource position. Second, a conscious effort by the rulers to broaden and deepen institutions, including institutions of economic management. Despite this, however, the fragility of the economic and social structure remains. There are signs of guerrilla warfare in the northern part of the country. Forty three percent of the population still lives in absolute poverty. Most of these are the indigenous Malays. The Malay population still feels that it does not have a sufficient participation in the economic life of the country, particularly in the urban areas. Despite the Government's announced and sincere objective of reducing absolute poverty among the Malays and improving their participation in the country's economic and social life, the progress is slow and inadequate.

.../2

September 23, 1977

4. This was the main theme of my discussion in Malaysia in July. Our considered view is that Malaysia can afford to be more ambitious in its development objectives than it has hitherto been. The orthodoxy which has served the country well since independence may be keeping it back from achieving its full potential. Absolute poverty in Malaysia is largely in the rural areas, particularly among the smallholder rubber and rice farmers. While the Government has done a lot for them, much more remains to be done. The organizations charged with the rehabilitation of smallholder rubber farms have not had the same record of management and success as the settlement organizations working with large and expensive projects. We are ready and willing to assist the Government in this area. But the expenditure of money will not be sufficient. A determined effort needs to be made to improve the management and implementation capacity of organizations concerned with smallholders and indigenous enterprise. While Malaysia has made significant progress in urban and rural education -- although in classical British lines -- the majority of the people in the rural areas still do not have the benefit of important infrastructure facilities such as power, rural roads, water, etc. During my discussions in Kuala Lumpur, I conveyed the thought that although Malaysia's need for external assistance is limited, the Bank would fully support any effort to combat rural poverty.

5. You may wish to pursue this theme to the Prime Minister.

Attachment

cc: Mr. Knapp

SSHusain:bcl



Mr. McNamara

MEMORANDUM FOR THE RECORD

June 23, 1978

Subject: Malaysia - Mr. and Mrs. McNamara's Visit to Malaysia,  
June 9-13, 1978

1. Mr. and Mrs. McNamara, accompanied by Messrs. William Clark, S. Shahid Husain, Leslie Helmers, Caio Koch-Weser and Joe Goldberg visited Malaysia from June 9 to 13, 1978. This was the second visit of Mr. McNamara to Malaysia; the first having taken place in 1971 when he had discussions with the late Tun Abdul Razak, the then Prime Minister of Malaysia, and other Government officials on Malaysia's New Economic Policy.

2. This latest visit was in connection with the presentation of the Tun Abdul Razak award to Mr. McNamara for his great contribution to economic development in the developing world. The Citation and Mr. McNamara's acceptance speech are attached as Annexes 1 and 2. Mr. and Mrs. McNamara also paid a courtesy call on the King and Queen. In addition, Mr. McNamara had discussions with the Minister of Finance - Tengku Razaleigh Hamzah - and other Treasury and Government officials on Malaysia's economic situation and prospects. Also, Mr. McNamara made field visits to the states of Kelantan and Kedah. Official lunches and dinners were hosted by the Tun Abdul Razak Foundation (dinner on June 10), the Chief Minister of Kelantan (lunch on June 11), the Minister of Finance (dinner on June 11), the Chief Minister of Kedah (lunch on June 12), and the Prime Minister (dinner on June 12). The detailed program is attached as Annex 3. Notes on the various briefing meetings and field visits follow below:

June 10 - Kuala Lumpur - Briefing Meeting with the Minister of  
Finance and other Government Officials  
in Treasury Building

3. The Minister of Finance, Tengku Razaleigh - welcomed Mr. McNamara and reviewed briefly Malaysia's present economic situation. Traditionally, Malaysia has exploited its resource base - tin, rubber, palm oil, logs and, lately, oil - and, in doing so, it has done well: its 1977 per capita income is estimated at US\$920. However, this pattern of development has resulted in an economy that is highly open, with a GNP very vulnerable to fluctuations in the prices of the primary exports. Another cause for concern is private investment, which is estimated to have fallen in 1977 to a level 20% to 25% below the Third Malaysia Plan's target. At Mr. McNamara's request, Treasury officials produced the following figures as regards the real growth rates in private investments:

	<u>1976</u>	<u>1977</u>	<u>1978 (est.)</u>
Total, including oil	+8%	+11%	+14%
Private investment without oil	+7%	+7%	+6%

June 23, 1978

4. Mr. McNamara agreed with the Government that the pursuit of in-situ development and land settlement has high priority. As there are some 600,000 smallfarmer households in poverty, the raising of their incomes, which can be done with small investments (of less than US\$2,000 per family), providing adequate economic returns (20% to 25%), is absolutely essential. At the same time, the opening up of new land (at an investment cost of US\$10,000 per family providing economic rates of return of 10% to 15%) should provide a substantial number of unemployed with a new livelihood. However, as the labor force of about 4.3 million is presently growing at 3% p.a., creating each year an additional 130,000 unemployed, while land settlement can absorb only some 20,000 to 25,000 of these, it becomes very clear that manufacturing and services should be accelerated. In this regard, Mr. McNamara remarked that growth rates of 6% to 7% in private investment should be considered too low and that a more ambitious target should be called for. Although the Western world has become more protectionistic, Mr. McNamara believed that there was still room enough for Malaysia to pursue an export-oriented policy and that growth rates of 11% should be reachable. Tengku Razaleigh responded that the Government is indeed following an industrial growth pole strategy, and that he hoped the slowdown in private investment, which he attributed to the international recession, would soon be over. Meantime, the Government intends to step up its public investment, especially in roads, ports, rural electrification and housing.

5. Another issue the Minister raised concerned what he called "package" approaches to development. He stated that the Government intends to follow more and more the Bank's policy of raising the incomes of the rural poor through integrated rural development schemes which would include infrastructure and agricultural, as well as nonagricultural, activities. In the construction of the infrastructure facilities, such as rural roads, the Government plans to follow labor intensive methods so that employment would be provided to the local population. Also, where possible, the Government would try to use Bumiputra contractors. Mr. McNamara agreed that such policies are well worth pursuing.

6. Finally, the discussion centered on the manpower constraints Malaysia has. The Minister said that Malaysia has a shortage of skilled technical personnel at the intermediate and higher levels, and he appreciated the UNDP-financed and Bank-executed State and Rural Development project, which is trying to ease the constraints in project planning and implementation. However, much remains to be done in the education field. Mr. McNamara mentioned that the next education project which the Bank hopes to finance would concentrate on technical and vocational training.

June 11 - Kelantan - Briefing by Dr. Nor Laily - Director General  
of the Malaysia National Family Planning Board  
at the Family and Health Administration Center in Kota  
Bharu, and the Health Center/Family Planning Unit in  
Keteroh.

7. Mrs. Nor Laily presented Mr. McNamara with an extensive briefing book on the Malaysia National Family Planning Program and explained the functions of the two centers. She also expressed her great gratitude that

June 23, 1978

Mr. McNamara had donated the Tun Abdul Razak award of M\$30,000 to the National Family Planning Board. In reply, Mr. McNamara told her that he was impressed with Malaysia's family planning efforts and that he wished her every success with her expansion plans.

June 11 - Kelantan - Visit to Farmers' Development Center, Ketereh

8. The Manager of the Kemubu Irrigation project explained that the Center was one of the nine associations under the administration of the Kemubu Agricultural Development Authority (KADA). Its main purpose is to provide seasonal credit to its members as well as agricultural inputs such as fertilizers, seeds and pesticides. It also provides tractor services and, in cooperation with the Department of Agriculture, organizes extension services, mainly for the doublecropping of padi. In answer to a question of Mr. McNamara, the official explained that only 30% of the farmers in the area are members of the farmers' organization due to lack of facilities and the fact that credit facilities are available to both members and nonmembers. Membership is, however, expected to increase with the improvement of services under the project; Mr. McNamara wished the organization every success in its efforts.

June 11 - Kelantan - Visit to the Batu Mengkebang Land Settlement Scheme

9. The scheme is one of the 27 low-cost settlement schemes developed by the Kelantan State Land Development Board over the past two decades, and Mr. McNamara was first briefed by that agency on the size (about 7,000 acres and 6,000 families), layout, history (begun in 1961), and features of the scheme. The unusual feature is, of course, the "self-reliance" aspect, with a minimum of financial or other assistance by the Board, and felling of jungle, planting of rubber, and house construction by the settlers themselves, unlike FELDA schemes. The lack of financial assistance by Government obviates settler indebtedness to any government agency. Although the State agency emphasized the low level of Government inputs into the schemes, this has had its disadvantages. About 35% of the settlers have abandoned the schemes since their inception, and the remaining settlers still live at subsistence level. Consultants are presently studying ways and means of rehabilitating the schemes.

10. The helicopter flights to and from Batu Mengkebang followed the Kelantan River and afforded views of the Kemubu and North Kelantan irrigation areas as well as a considerable amount of rubber land (private estates, land settlement schemes, and smallholdings) and annual crops (mainly groundnuts and tobacco) in the higher upstream areas.

June 11 - Kelantan - Visit to RISDA Rubber Processing Center

11. After the visit to the land settlement scheme, Mr. McNamara was taken to a RISDA Group (rubber) Processing Center, where he was shown how raw latex is converted manually to sheet rubber, a necessary technique given the almost total lack of roads in the scheme area. It was generally agreed that, with a better road network and more productive employment possibilities for afternoon work (rubber trees are tapped and latex is collected in the morning),



June 23, 1978

factory processing would probably be preferable. The RISDA project manager then briefed Mr. McNamara on RISDA's efforts in rubber smallholder extension in the scheme area, in providing processing and marketing facilities, and in providing basic social amenities to the settlers.

June 11 - Kelantan - Visit to Extension Center at Padang Rokma

12. After returning to Kota Bharu by helicopter, Mr. McNamara was driven to a small village (Padang Rokma) in the Mukim of Wakaf Bharu, District of Tumpat, in the Lemal irrigation area on the left bank of the Kelantan River. The village is the site of fortnightly visits by an agricultural extension worker under the training and visit system of extension, recently introduced in the Tumpat District under the North Kelantan Rural Development Project. The briefing focussed on the activities and impact of the field extension worker, and included questioning of and responses by the particular agent who visits Padang Lokma every other Sunday afternoon. His particular major achievement to date has been to stimulate the farmers of Padang Lokma to make a more intensive use of their nonpadi landholdings by planting beans, tapioca, melons and a variety of other crops.

June 11 - Kelantan - Dialogue Session with Chief Minister of Kelantan

13. The dialogue session in the State Operations Room at the end of the afternoon was quite lively, with the Chief Minister of Kelantan querying Mr. McNamara about what he felt were excessively time-consuming technical studies before initiation of project implementation, not only by Bank staff (in reference to the Jengka Project timber complex component), but by private consultants to the Government, bilateral aid teams, and UNDP advisors. Mr. McNamara responded that the Bank has a duty and a mandate to present as objective and accurate an analysis as possible of technical and economic feasibility to our borrowers, regardless of the consequences for particular projects favored by Government officials. Bank staff cleared up some of the confusion raised regarding certain minor projects proposed by the UNDP team in Kelantan mentioned by the Chief Minister, and pointed out that much of the delay encountered in implementing projects in Kelantan and throughout Malaysia was due to delays by state and federal governments in appointing staff and acquiring land. Mr. McNamara added that he felt that a shortage of technically trained manpower was a serious constraint on the pace of Malaysia's development program, and that the Bank would seek ways to assist Malaysia in easing this constraint.

June 12 - Kedah-MUDA project

14. The Chairman (Dato Shahabuddin) and the General Manager (Mr. Almahdali) of the MUDA Agricultural Development Authority (MADA) briefed Mr. McNamara on the MUDA project in the morning of June 12, and accompanied him during the aerial view by helicopter of the project in the afternoon. The project is one of the most spectacular projects in Malaysia. At an investment cost in present day terms of about US\$2,500 per farmer, it has enabled 50,000 farmers to produce a second crop of padi, therewith doubling their incomes. The project

June 23, 1978

area produces at present about 50% of the total padi production in Malaysia. Mr. McNamara said he was most impressed with the scheme and was looking forward to seeing the appraisal report of the MUDA II project under which water management and extension services would be improved to increase yields. Accompanied by MADA officials in the morning, Mr. McNamara also visited a Farmer Development Center, similar to the one he had seen the previous day in Kelantan.

June 12 - Kedah - National Small-Scale Irrigation Project

15. Dr. Cheong Chup Lim - Deputy Director General of the Drainage and Irrigation Department of the Federal Government (DID) explained during the morning session the objectives of the National Small-Scale Irrigation project. Under this project, some 190 small-scale irrigation works are to be constructed at an average cost of about US\$1,000/ha. Some 60,000 farm families would benefit through provision of facilities for growing a second crop of padi. The Kota II subproject which Mr. McNamara visited in the afternoon is one example of such a scheme; at an investment cost of about US\$1,000/ha it provides an economic rate of return of about 18%.

June 12 - Kedah - Activities of the Rubber Industry Smallholders Development Authority (RISDA)

16. As explained by the Director General (Dr. Mohd Nor bin Abdullah) during the morning briefings, the basic objective of RISDA is to modernize the smallholder rubber sector. To this end, RISDA encourages smallholders to replant their holdings with improved rubber trees with suitable intercroppings. During the period when a smallholder's land is being replanted, RISDA provides the smallholders with a replanting grant of M\$900 per acre (financed out of the rubber cess on exports and direct Government grants) and also encourages them to undertake such on-farm activities as cash cropping, livestock and poultry rearing and off-farm activities like carpentry. At the end of 1977, some 70% of the total registered smallholder acreage of 2.3 million acres had been replanted and the annual target is at present some 125,000 acres. The Kampung Padang, a village of some 360 people, which Mr. McNamara visited in the afternoon, showed how RISDA operates in practice. Of the 60 rubber smallholders, 43 are already participating in the replanting scheme. Interestingly, this Kampung is the first village in Malaysia that has received the so-called maxistumps which are supposed to reduce the gestation period from 6-1/2 years to about 5 years. As an alternative to cover cropping, bananas, groundnuts and pineapples are used as intercrops. In addition to these agricultural activities, RISDA has also organized a kindergarten, and sewing, cooking, and religious classes.

17. Mr. and Mrs. McNamara's visit must be considered a great success. The visit was well organized and covered in detail by the news media (television, radio and newspaper). A sampling of newspaper articles is attached as Annex 4. One of the better newspaper articles is in the Business Times of June 10

June 23, 1978

entitled "Many Happy Returns, Mr. McNamara." Malaysia has always been a great admirer of Mr. McNamara's policies towards poverty eradication. The present visit has strengthened their admiration for him even more; as the Citation states, the Malaysians see Mr. McNamara as a giant in the field of international economic development.

## Attachments

cc: Messrs. McNamara ✓  
Wm. Clark (VPE)  
S. Shahid Husain (AEN)  
Knapp (SVP)  
Cargill (VPF)  
Stern (SVP)  
Chenery (VPD)

FLHelmerts:clc

BH  
/

Citation for the Tun Razak International Award

on

Mr. Robert Strange McNamara

The decision of the Board of Trustees of the Tun Razak Foundation to confer the Foundation's International Award to Mr. Robert McNamara is in recognition of this man's major contribution to international economic development; of his efforts which have made the World Bank Group the largest international development agency; of his views which have focussed international action to eliminate poverty; and of his vision, humane and realistic, on how in his own words "the attack of absolute poverty cannot be forgotten, cannot be forever delayed, and cannot be finally denied by any global society that hopes tranquilly to endure".

Born on 9th June 1916 in San Francisco, Mr. McNamara graduated from the University of California in 1937, and received an MBA degree from the Harvard Graduate School of Business Administration in 1939. After 3 years as an Assistant Professor of Business Administration in Harvard, he was with the US Air Force during the Second World War when he was awarded the Legion of Merit. Then he was with the Ford Motor for 15 years in various positions culminating in his becoming the President of the Ford Motor Company in 1960. At the request of President John F. Kennedy, he agreed to be the US Secretary of Defence, where he held office for seven years till March 1968. He was elected to be the President of the World Bank as from April 1968, and is currently serving his third five-year

term.

Mr. McNamara is internationally known as the President of the World Bank, which is owned by more than 125 member nations, including Malaysia. It is due to his strivings that today, the World Bank Group (including its two affiliates the International Development Association and the International Finance Corporation) is the largest development agency in the world. Shortly after he took over office, he launched an expansion plan, whereby for the five years ending June 1973, the World Bank Group would lend twice as much as it had done during the previous five years, or a total that would approach the entire amount lent in the first 23 years of the Bank's operations. Not only was this target fulfilled, but an equally ambitious second five year plan was also fulfilled. For the current financial year, the World Bank Group will be committing a total of US\$8.7 billion in loans and other assistance to the developing countries. For 1979, the commitment target is to be US\$9.8 billion. He now feels it reasonable to expect the Bank Group to begin the decade of the 1980s at a level of operations in excess of US\$10 billion per year.

His period of office sees not only a sharp expansion in activities but a transformation of the World Bank from an institution that would assist developing countries to build some of their infrastructure facilities to one which is attempting to an urging a global effort to eliminate poverty. His book on the "Dimensions of Development" focusses on the problems of the less developed "One Hundred Countries" with their "Two Billion People". He recognises that their recent record of development over the

third quarter century 1950 to 1975 is a very impressive one. Historically, it is without precedent. Never has so large a group of human beings - two billion people - achieved so much economic growth in so short a time. But that economic growth has been uneven both between countries and within countries. Not only have the poorest nations suffered unacceptably low growth rates, but such growth as there has been - both in the poorest and in the middle-income developing countries - has too often bypassed the poorest people in all these societies.

In his latest speech delivered to the Governors of the World Bank, his "profile of absolute poverty in the developing world" could not have been more grim. To him "the absolute poor and those trapped in conditions so limited by illiteracy, malnutrition, disease, high infant mortality, and low life expectancy as to be denied the very potential of the genes with which they were born. Most tragic of all, many of them are children. For the total of two billion people in the developing countries, some 860 million are under the age of 15. They are the chief hope of their societies' future. And yet almost half of them suffer from some debilitating diseases likely to have long-lasting effects. Well over a third of them are under-nourished. 290 million of them are not in school".

Consequently an effective development strategy must not only accelerate growth but must also channel more of the benefits of growth to the poorest 40% of a country's population. From the rich developed countries he seeks more aid and a reduction of trade barriers. From the

developing countries he seeks the will to re-direct growth and face often unpleasant political pressures; and for the will to implement measures to eliminate poverty, to enhance the productivity of the poor and to redesign public services to this end. While no government can do everything, poverty will persist and grow if decisions too often favours peripheral extravagances over critical needs. To him, it is the poverty itself that is a social liability, not the people who happen to be poor. They represent immense human potential. Investing in their future productivity, if it is done effectively, is very sound economics. Certainly what is very unsound economics is to permit a culture of poverty to so expand and grow within a nation that it begins to infect and erode the entire social fabric.

In the field of international economic development, Mr. McNamara stands tall, at 62 years of age, a giant in the field and a relentless worker, who shapes a massive organisation that provides the largest amount of assistance to developing countries. On the one side he has to persuade the richest countries and the largest donors to continue and increase their aid when they seemed to be disillusioned and had fallen well below targets adopted by the UN General Assembly in 1970. On the other hand, he needs to ensure that the assistance and loans given to the developing countries will effectively benefit these countries and the poorest 40% of their populations. The frustrations inherent in financial aid management can test the most dedicated. It is a testimony of his inner strength and personal dedication, that he remains coldly calculating in

terms of aid opportunities and costs, and yet warmly humane in his objectives and visions on how the developing countries may be assisted to eliminate poverty on a global scale.

The Tun Razak Foundation has been established to commemorate a man, who in his life time had placed primary emphasis on Malaysian economic development; and who had inaugurated the development plans which aim at eradicating poverty in Malaysia within a life time. It is most appropriate and fitting that the Foundation has decided to confer the Tun Razak International Award to Mr. Robert Strange McNamara.

-----



Remarks of Robert S. McNamara  
On the Occasion of Receiving the Tun Abdul Razak Foundation's  
International Award  
Kuala Lumpur, Malaysia, June 10, 1978

Tun Mohamed Suffian, Tunku Abdul Rahman, Tun Rahah, Professor Ungku Aziz,  
Distinguished Guests, Ladies and Gentlemen:

I am deeply honored, and grateful, for this Award.

Honored, because it has been made in the name of so great a  
public servant as Tun Abdul Razak.

Honored, too, because I have received it from the hands of  
Tun Rahah herself.

And honored because it puts me in the company of such distinguished  
recipients as Tunku Abdul Rahman, and Professor Ungku Aziz.

I have been deeply touched by the warmth and generosity of the  
citation.

And though I have traveled across the world to be here -- and it  
is a delight in itself simply to be back in Malaysia -- I must confess to  
you that I feel that the honor and distinction, which the Award represents,  
rightly belongs not so much to me personally, but rather to the staff of  
the World Bank, over whom I have the good fortune to serve as President.

And it is, then, on behalf of that superb staff that I gratefully  
accept the Award.

If, after all, one looks at the life of the man for whom the  
Award is named -- Tun Abdul Razak -- and if one considers the life work  
of my fellow recipients -- Tunku Abdul Rahman, and Professor Ungku Aziz --  
it is clear that what this ceremony really celebrates is the concept of  
public service.

These men -- each in their own way -- have dedicated their lives to public service. And more than that, they chose to serve others in a unique and demanding historical context. They have led their homeland into independence, and have helped shape and build a new nation.

That is a task, and awesome responsibility, that occurs only very rarely in history.

And these men, and their colleagues, accepted that task, and undertook that responsibility, with immense dedication.

Malaysia is what it is today -- a promising, vigorous, and determined young nation -- because of that dedication to public service.

Now, there are many satisfactions that come to me in my work as President of the World Bank. And one of the best of them is my opportunity to meet and observe such public servants.

Consider this. My own nation thinks of itself as young. But in fact, it just celebrated its 200th birthday. Like any American, I would have wished to have met and known the founding fathers of my country -- Washington, Jefferson, Benjamin Franklin, and all the rest. But that, of course, has not been chronologically possible.

But what has been possible for me, as President of the World Bank, is to meet, and know, and work with the Washingtons, the Jeffersons, and the Franklins of many new nations in the developing world today.

There are founding fathers -- and mothers -- still active all over that world. There are some in this very hall this morning.

I count myself fortunate to know them.

And I am fortunate for yet another reason.

The World Bank itself is young: not yet 35 years old. It is a unique institution: genuinely international and multi-racial, full of creative diversity, and both innovative and practical in its operations. It has a membership of more than 130 countries, and a staff of more than a hundred nationalities.

It is now the largest single agency of development finance and technical assistance in the world: involved in well over 1,000 projects in some 90 developing countries, and committing new funds at a level of more than \$8 billion a year.

Its staff is the most professional, most competent, and hardest working staff I have ever been associated with. That is why any award given me is really because of them, and that is why I accept this award in their name.

They are public servants of an extraordinary caliber: international civil servants, a category of public servants that really did not exist prior to this century. In a sense, they -- and others in the U.N. system -- represent the founding fathers of the whole concept of international public service.

It is a concept our century cannot afford to neglect.

For if the last quarter of the twentieth century illustrates anything, it is the inescapable reality of global economic interdependence.

International economic cooperation is no longer merely an abstract ideal: it is a life-and-death necessity.

- . Without a more equitable expansion of trade between developing and developed countries --
- . Without a more realistic level of Official Development Assistance from the richest countries to the poorest countries --

- . Without a continuing expansion in the flow of financial resources from both public and private sources in the developed nations to the middle income countries --
- . And without a greater effort on the part of the governments of developing countries to reshape their development strategies so as to both enhance their overall economic growth, and to channel more of the benefits of that growth to the absolute poor in their societies --

Without these practical and cooperative efforts of both the developed and developing nations, the quality of life for everyone in the world -- rich and poor -- is, in the end, going to be seriously diminished.

And why?

Because no amount of wealth today can isolate a nation from what transpires in the rest of the world.

And what sort of world is that going to be in the next century?

One thing is certain. It is going to be crowded.

The current global population of 4 billion -- even with a very determined effort -- is not likely to stabilize at less than 8 billion. The implications of that on global food supplies, energy requirements, ecological pressures, and an already massive problem of absolute poverty are critical.

And for every decade of delay in achieving replacement-level fertility, the world's ultimate stabilized population will be 15% greater.

The population issue is clearly one of paramount importance.

Malaysia has recognized that fact, and has incorporated family planning measures in its Five-Year Development Plans as a means of enhancing

family health and welfare, and reducing the population growth rate. As you know, in 1973 the World Bank and the Government of Malaysia initiated a population and family health project designed to further those goals.

The project has already made considerable progress, and I am very pleased that negotiations have just been concluded for a second Population and Family Health Project, which will be coming before our Board of Executive Directors for their consideration in a matter of days. This second project is designed to build on the success of the first, and to assist the National Family Planning Program to achieve its goal of reducing the population growth rate in Peninsular Malaysia from 2.5% in 1976 to 2% by 1985. It would also extend family planning services to Sabah and Sarawak as part of the Maternal and Child Health program there.

The Award you have so graciously bestowed on me this morning carries with it the generous grant of 30,000 Malaysian dollars.

I wish to donate this grant to your National Family Planning Board. I do so because I have been so pleased at the Board's efforts to strengthen Malaysia's family planning program, and so encouraged at the outstanding success Malaysia has had in reducing fertility rates. I would hope that this grant could be used by the Board to help support new initiatives in this critically important field.

The World Bank's relationship with Malaysia has been a long and close one stretching back over two decades. Since 1958 we have lent some \$900 million for 40 projects -- projects in such sectors as education, land settlement, agriculture, power, water supply, telecommunications, ports, railways, roads, urban transport, and rural development.

In recent years you have given increased attention in your development strategy to the alleviation of poverty through assisting the absolute poor to become more productive.

We in the Bank are fully committed to that same goal everywhere in the developing world. Absolute poverty, wherever it exists, can be reduced -- and ultimately eliminated -- but it can only be done through practical development programs that can enhance the inherent potential and productivity of the poor.

I am deeply grateful for the honor you have bestowed on me -- and through me, on the staff of the World Bank -- here this morning.

It is typical of the generosity and graciousness of this lovely land.

Thank you very much.

E N D

VISIT OF  
MR. ROBERT S. McNAMARA  
PRESIDENT OF WORLD BANK  
AND  
MRS. McNAMARA

JUNE 9TH TO 13TH, 1978

MINISTRY OF FINANCE  
MALAYSIA

- 2 -

FRIDAY, JUNE 9, 1978

- 1830 - Arrive at Subang International Airport by SQ 112  
from Singapore.
- 1915 - Leave Airport for Kuala Lumpur Hilton.
- Evening - Free



SATURDAY, JUNE 10, 1978

- 0940 - Leave Kuala Lumpur Hilton for Dewan Tunku Chancellor, University of Malaya.
- 1005 - Arrive at Dewan Tunku Chancellor, University of Malaya.
- 1030 - Award Ceremony.
- 1230 - Private Lunch.
- 1400 - Leave Kuala Lumpur Hilton for Istana Negara.
- 1430 - Audience with Their Majesties Yang Di Pertuan Agong and Raja Permaisuri Agong.
- 1500 - Leave Istana Negara for Kuala Lumpur Hilton.
- 1545 - Leave Kuala Lumpur Hilton for Ministry of Finance.
- 1600 - Courtesy call on the Honourable Minister of Finance.
- 1615 - Dialogue session at the Operations Room.
- 1730 - Leave Ministry of Finance for Kuala Lumpur Hilton.
- 1950 - Leave Kuala Lumpur Hilton for Hotel Equatorial.
- 2000 - Dinner by Tun Abdul Razak Foundation at Hotel Equatorial.

SUNDAY, JUNE 11, 1978

- 0840 - Leave Kuala Lumpur Hilton for RMAF Base.
- 0900 - Leave RMAF Base for Kota Bharu.
- 0945 - Arrive at Pengkalan Chepa, Kota Bharu.
- 1000 - Courtesy call on the Honourable Menteri Besar Kelantan.
- 1100 - Visit Health Centre/Family Planning Unit, Ketersih.
- 1150 - Visit Farmers Development Centre, Ketersih.
- 1230 - Leave Ketersih for Istana Telipot.
- 1240 - Arrive at Istana Telipot.
- 1315 - Lunch by the Honourable Menteri Besar of Kelantan at The Royal Club.
- 1400 - Leave Padang Dato Perdana by helicopter to State Land Development Scheme, Batu Mengkebang.
- 1430 - Arrive at State Land Development Scheme, Batu Mengkebang.
- 1520 - Leave Batu Mengkebang by helicopter for aerial view of North Kelantan Project Area.
- 1550 - Arrive Kota Bharu and leave for Padang Rokma, Wakaf Baru to visit 2L (Training and Visit) Development Project.
- 1620 - Arrive at Padang Rokma, Wakaf Baru.
- 1700 - Leave Padang Rokma, Wakaf Baru for Kota Bharu.
- 1720 - Arrive Kota Bharu for dialogue session at the Operations Room, Kelantan.
- 1820 - Leave for Istana Telipot.
- 1950 - Leave Istana Telipot for Palm Manor.
- 2000 - Barbeque by the Honourable Minister of Finance.

MONDAY, JUNE 12, 1978

- 0745 - Leave Istana Telipot for Pengkalan Chepa, Kota Bharu.
- 0800 - Leave Pengkalan Chepa, Kota Bharu for Alor Star, Kedah.
- 0845 - Arrive at Kepala Batas Airport, Alor Star.
- 0915 - Leave Airport for Muda Agricultural Development Authority (MADA) Headquarters for briefing on:-
  - i) MUJA project
  - ii) National Small-Scale Irrigation Project
  - iii) RISDA Project
- 1110 - Leave MADA Headquarters for Farmers Development Centre, Kuala Sungai.
- 1120 - Arrive at Farmers Development Centre, Kuala Sungai.
- 1145 - Leave Farmers Development Centre, Kuala Sungai for the Honourable Menteri Besar's Residence.
- 1200 - Arrive at the Honourable Menteri Besar's Residence.
- 1230 - Lunch by the Honourable Menteri Besar of Kedah.
- 1345 - Leave for Kepala Batas Airport, Alor Star.
- 1400 - Leave Airport by helicopter for aerial view of MUJA project area.
- 1445 - Arrive at Kampong Padang Baling.
- 1545 - Leave Kampong Padang Baling for Tikam Batu, Kota II.
- 1605 - Arrive at Tikam Batu, Kota II and leave for Kota II Pump Station by car.
- 1615 - Arrive at Kota II Pump Station.
- 1700 - Leave Kota II Pump Station for Butterworth.
- 1730 - Arrive at Butterworth and leave for Kuala Lumpur by F28.
- 1800 - Arrive at RMAF Base, Kuala Lumpur.

MONDAY, JUNE 12, 1978 (Continued)

- 1805 - Leave RMAF Base for Kuala Lumpur Hilton.
- 1945 - Leave Kuala Lumpur Hilton for Sri Taman.
- 2000 - Dinner by the Honourable Prime Minister at Sri Taman.

TUESDAY, JUNE 13, 1978

- 0545 - Leave Kuala Lumpur Hilton for RMAF Base.
- 0615 - Leave RMAF Base for Singapore.
- 0755 - Leave Singapore for United States by PA 006.



ROUTING SLIP		DATE: July 10, 1979
NAME		ROOM NO.
Miss Jeanette Sanders		E-1227
c.c. Mr. S. Shahid Husain (o/r)		
APPROPRIATE DISPOSITION		NOTE AND RETURN
APPROVAL		NOTE AND SEND ON
CLEARANCE		PER OUR CONVERSATION
COMMENT		PER YOUR REQUEST
FOR ACTION		PREPARE REPLY
INFORMATION		RECOMMENDATION
INITIAL		SIGNATURE
NOTE AND FILE		URGENT
REMARKS: I was not sure whether there was a need for a formal record of Dr. Nor's meeting with Mr. McNamara on May 2 because Dr. Nor hardly spoke at the meeting and the entire discussion was, to my surprise, on a different subject. However, the memorandum on the subject prepared for internal use in the Region is attached.		
FROM: S.S. Kirmani	<i>SK</i>	ROOM NO.: A607
		EXTENSION: 74258

TO: Mr. Kevin Young

May 3, 1979

FROM: S.S. Kirmani<sup>001</sup>

SUBJECT: Meeting with Dr. Nor, Chairman, RISDA

1. Dr. Mohamed Nor bin Abdullah, Chairman, RISDA, met with Mr. McNamara at 5.30 p.m. on May 2. He was accompanied by 3 persons - Mr. Earl P. Yates, Rear Admiral U.S. Navy (Ret), President of Nugan Hand International, Hong Kong; Mr. William J. McCrea, Chairman of the Entrepreneurship Institute, Worthington, Ohio; and a third gentleman who represented another firm. (I did not get the details.)

2. Dr. Nor presented an album to Mr. McNamara containing photographs of his last visit to RISDA. This was the first and the last thing Dr. Nor did because the entire discussion of about 20 minutes thereafter was handled by Messrs. Yates and McCrea. They spoke about the seminar they proposed to hold in Manila during June concerning joint partnership between small entrepreneurs from the United States and Europe on the one hand and the small/medium industrialists and entrepreneurs from the developing countries. They invited Mr. McNamara to the seminar, but he declined politely. Messrs. Yates and McCrea then described in some detail the problems of small entrepreneurs in the United States and Europe and how some of them were forced to wind up their business in view of growing competition from the larger firms. They explained their program for joint ventures in developing countries where their capital, equipment and know-how combined with local entrepreneurship and labor could accelerate development of small industries and small entrepreneurs. They mentioned that Mr. Gordon was aware of their activities.

2. Obviously, Dr. Nor's silence throughout the meeting and the apparent effort of Messrs. Yates and McCrea to promote their business surprised both Mr. McNamara and me. At the end of the meeting Mr. McNamara told me that these gentlemen have used Dr. Nor to get an appointment with him.

3. This incident underlines the need to explore the requests for appointment of Mr. McNamara very thoroughly before we recommend him to accept such appointments. Of course, in this case, the request was made directly to Mr. McNamara's office. Nevertheless, it is now clear from hindsight that we should have explored the request in greater detail than we actually did.

c.c. Mr. Please

SSKirmani;ceo



May 4, 1979

TO: Mr. Koch-Weser, EXC

RE: Visit of Mr. Noor McCrea and Associates with Mr. McNamara

1. Mr. N.H. Noor from Malaysia.

Within IFC I have only been able to trace a Mr. N.H. Noor who is the Chairman of the BPMB Bank and Managing Director of the Penbangunan Leasing Company. Upon recommendation of the IDF East Asia division, one of our staff members in our Capital Markets Department tried to contact Mr. Noor on his last mission to Malaysia. Mr. Noor was away, but his associate, Mr. Anshri Osman, discussed with our staff member possible involvement of IFC in the leasing company. Some months ago, Mr. Anshri Osman requested IFC's help in organizing a tour of leasing companies in the U.S. and London. We have not heard from him since.

2. While I could not find within IFC basic documentation on the Entrepreneurship Institute, it is clear that you should obtain relevant information from David Gordon's shop.

3. McCrea, Chairman of the Entrepreneur Institute, had already tried to obtain IFC and Bank financial support for an earlier international conference on Entrepreneurship and Enterprise Development held in Cincinnati in May or June of 1975. In fact, at the time, IFC sent letters to the DFCs informing them of it. There is a feeling that that conference did not achieve much for small-scale business, but that, on the other hand, it gave McCrea and Governor Gilligan (soon to leave the Aid Administration position) a lot of publicity.

4. Regarding the project ICONE (the Manila meeting to be held in June 1979), the World Bank Group agreed to support it to the extent of \$30,000, subject to WBG input in the terms of reference of the preparatory work to the June meeting and to the creation of a Steering Committee. The record indicates that IFC shared \$6,000 of that cost, the balance of \$24,000 being covered by IDF. The total amount was disbursed in three equal installments, the last one due October 31, 1977.

5. The ICONE conference is supposed to have a special emphasis on practical ways and means of developing small and medium co-ventures between developing and developed country partners.

6. We do not know Mr. Drummond or Yates, but McCrea is thought of here - to put it mildly - as an aggressive salesman.

7. Please find attached brochures on the ICONE project. It is not very clear that in one week the conference will achieve very much from the point of view of small enterprises from developing countries.

8. You may wish to contact Gordon who will be in a position to give you much more information than presented in this note. However, should you need more and specific information from IFC, please call on Dale Weigel in IFC's Development Department, Extension 72258.

Attachment

Pierre Biraben

BRIEFFOR MEETING WITH DR. NOR, CHAIRMAN, RISDAI. BIO-DATA

Dr. Mohamed Nor bin Abdullah, B.A., M.A., Ph.D

Chairman and Director-General for Rubber Industries Smallholders Development Authority. Born in Kuala Sungei Baru, Malacca, the 38-year old head of RISDA was educated at Malacca High School and the University of Malaya. He did his Masters at the Pittsburg School of Public and International Affairs in the United States, and got his doctorate from New York University. Previously he had been Director-General of the Malaysian Centre for Development Studies since 1973.

II. RUBBER INDUSTRIES SMALLHOLDERS DEVELOPMENT AUTHORITY

RISDA has a very broad mandate to improve the economic well-being of rubber smallholders. Since rubber smallholders constitute the largest single poverty group (comprising over a million people and a quarter of the total poor population), RISDA is a key institution in the Government effort to reduce poverty. The major RISDA program to improve smallholder incomes is the replanting of existing areas with new, high-yielding trees. During the period when a smallholder's land is being replanted, RISDA provides him with a replanting grant of about US\$550 per acre, financed out of a cess on rubber exports and direct Government grants. Substantial progress has been made in replanting existing rubber smallholders, such that in 1975, 85% of the land area had been replanted. However, among the smallest and hence poorest of the smallholders, the replanting rate is much less (for instance, only about 40% of holdings under five acres are replanted).

Even if Third Plan (1976-80) targets for replanting (500,000 acres over the five years) were met, there would still be more than 300,000 acres remaining in old, low-yielding trees. Further, there is considerable uncertainty that RISDA can achieve its stated targets, since, as the number of outstanding acres to be replanted diminishes, RISDA is faced with increasing constraints to replanting. One problem appears to be that the smaller size of holdings still to be replanted offers fewer alternative sources of income during the replanting period. Together with the recently higher price of rubber, the financial incentive to replant is understandably less obvious to smallholders. In addition, ambiguous land titles or disinterest of absentee landlords sometimes prevents replanting. Because of these and other problems, only half of the targeted acres were replanted during 1976-78. Reflecting RISDA's strong financial position, the replanting grant was recently increased from US\$400 to US\$550 per acre in an effort to increase the incentive to replant. RISDA's effectiveness can also be improved by strengthening supporting technical services. The RISDA field staff is spread very thin, and one result is that the agency has not been able to provide adequate extension services. An increase in the density of planting, the use of more mature

planting material (which can reduce the period of immaturity from seven years to five or four), and the improvement of tapping practices would all contribute toward improving the income of the smallholder and thus provide him with more incentive to participate in the program.

### III. BANK RELATIONS WITH RISDA

Because rubber smallholders are one of the most important poverty target groups, we have been trying for the last four years to get an inroad to that sector through RISDA. Unfortunately, our attempt to get RISDA to consolidate and limit its activities has been rejected by RISDA and we have so far been unsuccessful in developing a project with them. We have therefore decided to take a more indirect approach and develop a dialogue with RISDA in the context of more general rural development projects. This approach has been fruitful as we are developing a project in South Kelantan that involves rubber replanting with RISDA collaboration. A second project with a more substantive RISDA involvement is being considered for Kedah.

### IV. POSSIBLE TOPICS FOR DISCUSSION

#### (a) Additional Advisors

As part of the UNDP project for which the World Bank is executing agency, two advisors have been working in RISDA for the past two years. Although we hope he does not, Dr. Nor may raise with you his request that three more advisors be added to RISDA under the auspices of this project. Informally, we understand that the Government's Economic Planning Unit (EPU), the principal implementing agency for the project, is not favorably inclined to support RISDA's request on the grounds that institutional weaknesses in RISDA would undermine the effective use of additional advisors. EPU's position, however, is not yet the Government's official position, which we expect to learn at the annual Tripartite (Bank/UNDP/Government) Meeting to review the project, scheduled for the end of May. In that context we would prefer to be noncommittal on RISDA's request until we receive the final Government position later this month.

#### (b) Future Bank Operations in RISDA

In view of (a) our lending strategy to Malaysia, which is to determine the weaknesses in the institutional and policy framework for addressing poverty issues and to design operations which address these weaknesses, (b) the important mandate RISDA has in reducing poverty among rubber smallholders, and (c) the institutional weaknesses of RISDA, Bank involvement in RISDA would clearly address major areas of concern to Government and be consistent with our lending strategy. Thus, if Dr. Nor raises the possibility of a Bank operation in RISDA an enthusiastic response would be appropriate. It may be worth emphasizing that if we were to develop an operation with RISDA we would plan to concentrate it on RISDA as an institution, and not simply to develop a technically sound but limited subproject for RISDA to implement. Thus, we would be attempting to build up RISDA's overall capacity to carry out its mandate and to participate in the formulation of various programs to deal with the complex problems involved.



Meeting with Finance Minister Razaleigh, Malaysia, in Belgrade, September 29, 1979

Present: Messrs. McNamara, Razaleigh, Thong Yaw Hong, Sallehuddin, Ramli Mat Wajib

In introducing the meeting, Mr. McNamara congratulated Minister Razaleigh for his statement before the meeting of the G-77.

The Minister raised the following points:

(i) His Government would be most interested in early publication and wide distribution of the recently completed Bank economic report on Malaysia; this would help Malaysia in its international affairs;

(ii) His Government would like to invite the Bank to assist in the preparation of Malaysia's Fourth Development Plan; this should include Bank sector missions on transportation, agriculture and manpower; and

(iii) Malaysia could not meet the financial covenant under the Ninth Power project in terms of increasing tariff rates according to revalued assets, and would therefore like to ask the Bank to be more flexible by looking, in determining capacity to repay, not at the internal rate of return of the project but at the entire sector.

Mr. McNamara replied that he would talk to Messrs. Husain and Please who had not yet arrived in Belgrade and that the Bank would make every effort to help Malaysia in formulating its Fourth Development Plan. Consideration would be given to publishing the economic report. However, the request on the power project created a serious problem. The Bank was not interested in high power rates, per se, but in appropriate investment decisions. In general, two Bank policies caused a lot of controversy, namely, the Bank's policy of asking for positive interest rates and the policy of asking for adequate tariffs. These policies were designed in the interest of developing countries. He would ask Mr. Husain to discuss the issue further and to consider alternatives.

Mr. McNamara urged that Malaysia vote quickly in favor of the General Capital Increase. Fifty-eight countries had already voted. Minister Razaleigh promised a prompt vote.

Finally, Mr. McNamara pointed to the low levels of disbursement on a number of Bank projects in Malaysia. In particular, there seemed to be serious manpower constraints. The Minister agreed and pointed to the fact that, therefore, a thorough manpower analysis figured prominently in preparation for the next development plan.

CKW  
October 26, 1979

The Hon. Tan Sri Thong Yaw Hong  
Secretary-General to the Federal Treasury

Datuk Sallehuddin bin Mohamed  
Deputy Secretary-General to the Treasury

Mohd. RAMLI MAT WAJIB  
Secretary, Economic Division  
Federal Treasury

Ambassador ZAIN Azraai