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THE WORLD BANK
Washington, D.C.

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McNamara / apr

Contracts
Saudi Arabia 1977-1979

RETURN TO ARCHIVES IN HB1-001

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Contacts with member countries. Saudi Arabia - Correspondence 02

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19

OFFICE MEMORANDUM

TO: For the Record

DATE: May 20, 1977

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

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

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

(1) Technical Assistance

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

(2) Egypt

5/20
Mr. Benjenk summarized the outcome of his recent meeting with President Sadat in Cairo. The hope was expressed that President Sadat would be able to pay direct and personal attention to the economic problems of the country.

(3) Lebanon

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

(4) IDA V

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


SELFishawy/rh

cc: Messrs. McNamara (2)
Knapp
Cargill
Benjenk

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: May 2, 1977

FROM: Munir P. Benjenk, Vice President, EMENA Region SUBJECT: Visit of Minister M. Abalkhail

1. Sheikh Mohammed Abalkhail, Minister of Finance and National Economy of Saudi Arabia, will call on you at 5:00 p.m. on Tuesday, May 3. Some notes on points which may arise in your discussion with him are set out below. Annex I gives biographical information on the Minister. Table I gives details on Saudi Arabia's Flows of Development Finance.

Bank Financial Relations with Saudi Arabia

2. The current status of the Bank's financial relations with Saudi Arabia is given in Annex II.

IDA V and Its Allocation

3. It would be desirable for you to thank Minister Abalkhail for his personal efforts in securing Saudi Arabia's commitment to IDA V of \$250 million and refer to the resistance he had to overcome in the Council of Ministers. You might also express the hope that Saudi Arabia will be able to give IDA formal notification of its commitment by July 1. Saudi Arabia has promised to make an advance contribution by July 1 under the Bridging Arrangement and it would be desirable to express your appreciation for this advance, as well as possibly confirming the total indicated at the Kuwait meeting of \$80 million.

4. The Executive Directors will be discussing the principles underlying IDA allocations in the first week of July. You may wish to inform Minister Abalkhail that we expect these discussions to reaffirm that IDA credits should go to the poorest countries, particularly those with per capita incomes below \$265 (in 1975 US dollars) and that there would be continued agreement that there should be a limit set on the proportion going to India. This reaffirmation that IDA should go to the poorest countries means that they are likely to continue to get about 90 percent of IDA's resources (but it may be possible for IDA to play a bigger role in Egypt and other countries in the Mideast). We will consult with major contributors before distributing the paper to the Board, and Mr. Cargill or Mr. El-Fishawy will consult with the Government of Saudi Arabia.

IBRD--General Capital Increase

5. After the selective capital increase Saudi Arabia's share in World Bank capital will be 1.44 percent. Based on this share, a US\$30 billion increase and 10 percent paid-in capital, the Saudi Arabian commitment to a general increase would be \$45 million.

Third Window Lending to Arab Countries

6. Annex III lists Third Window financing in Arab countries, actual as well as expected up to the end of FY77.

Cofinancing--Saudi Fund for Development

7. The channel for direct Saudi contribution to economic development in other LDCs is the Saudi Fund for Development (SFD). It was established as an autonomous organization by Royal Decree in September 1974. Its initial capital is SRls 10 billion (US\$2.8 billion equivalent), out of which SRls 6 billion have been paid-in and are already fully committed. Up to the end of FY77 it is expected that SFD would have cofinanced 16 projects with the Bank Group, for which it would have provided about \$471 million equivalent, supplementing about \$567 million of Bank Group financing (Annex IV).

8. Cofinancing with SFD reached a peak in FY76 with 7 cofinanced projects. The drop to 3 projects in FY77 may be primarily attributed to the fact that SFD and other Funds in the area are now asserting themselves more and more, and are increasing cooperation among themselves, thereby relying relatively less on the Bank Group than in the past for cofinancing opportunities. We are currently discussing with SFD cofinancing of projects in a number of Arab, Islamic and other developing countries, and it is expected that the number of cofinanced projects will go up again in the coming years, though it may not reach the FY76 level. Annex V lists projects currently under discussion with SFD for cofinancing in FY78.

9. You may wish to express satisfaction over the good relations between the Saudi Fund for Development and the Bank Group, as reflected in the above figures. Further, you may wish to mention that in view of the increasing needs of developing countries and of the limitations of the Bank Group's program, cofinancing with Arab institutions was expected to remain a key feature of many of our projects, and you may express the hope that the Saudi Fund for Development would continue to use the Bank projects as a vehicle for the transfer of its resources.

Technical Assistance

10. The FY77 Technical Cooperation Program is mainly a continuation of the FY76 Program, providing 24 manyears of assistance (an increase of about 50 percent over assistance expended in FY76)--19.5 manyears from Headquarters and 4.5 manyears from the Resident Mission. As in FY76, major fields of assistance remain Manpower Planning, Literacy, Housing, Industrial Development, and Transportation. The current status of the various activities of the current Program is given in Annex VI, while details of the proposed FY78 Program are given in Annex VII.

11. The recently completed Mid-Year Review of the ongoing FY77 Program, and the results of the discussions on the proposed FY78 Program clearly indicate that, on the whole, the Government is well satisfied with the assistance the Bank is providing and the results so far achieved. However, as mentioned in the SCPP on Saudi Arabia which you reviewed on February 18, the efficiency of our assistance could be increased through (i) improved programming of technical assistance requirements from the Bank on the part of Saudi authorities, (ii) a full and continuous information exchange between the Government and the Bank on projects for which the Bank is providing technical assistance, and (iii) as early an involvement of the Bank as possible in any future technical assistance task. We have discussed these issues with various Government officials and will continue to do so in the future. It would be very useful, however, if you were to reiterate this to Minister Abalkhail, should a suitable opportunity present itself.

12. Assistance provided so far by the Bank to SFD is additional to that provided under the Technical Cooperation agreement with Saudi Arabia. Details of technical assistance provided to SFD to date are given in Annex VIII.

Aid Coordination

13. Recently Saudi Arabia has started taking an active interest in aid coordination, by participating in, and promoting, consultative groups and aid consortia. It has attended the Tunisia Consultative Group meeting and has recently agreed to participate in the Consultative Group for Egypt. It is also an active member in the Gulf Organization for Development in Egypt (GODE). Further, as a member of OAPEC and OPEC, as well as of a number of Arab, Islamic and other regional development agencies, Saudi Arabia is also participating in the coordination of aid, and in the transfer of resources, through these institutions.

Consultative Group for Egypt

14. You are familiar with the background to the establishment of the Consultative Group for Egypt, of which process the Minister has been kept fully informed. Moreover, the Minister has received an oral briefing on Egypt by M. Paijmans in Riyadh in February of this year and he has now received the full Consultative Group documentation.

15. The most important recent development on the aid front is a provisional agreement 1/ between GODE and the Egyptian Government for a \$1.475 billion loan. This money will be lent in stages in 1977 to the Central Bank of Egypt. A first phase of \$875 million is due very soon to pay off arrears on short-term debt, and the remainder will be paid later during 1977 to provide support for the balance of payments.

1/ Final agreement not yet signed.

May 2, 1977

Countries participating in GODE are Saudi Arabia (40 percent), Kuwait (35 percent), UAE (15 percent) and Qatar (10 percent). In connection with the loan agreement and to trigger payments beyond the first phase, assessments will be required from time to time of Egypt's need for balance of payments financing and the measures taken to restore balance of payments equilibrium. The IMF has been asked jointly by GODE and Egypt to provide assistance in connection with the loan agreement by providing, on a bimonthly basis, the information needed to assess Egypt's balance of payments position. Also, in the framework of this agreement, Morgan & Stanley have been contracted to provide advice to Egypt's Central Bank on managing their short-term debt. Quite separately, Mr. Al-ukheil, Chairman of the Board of Directors of GODE, has asked us to send a staff member in late May to discuss our projections for Egypt with GODE staff. You may wish to mention that the Bank welcomes the immediate help being provided by GODE to address Egypt's liquidity problem.

16. In addition to the GODE loan the IMF approved on April 21 a standby arrangement for Egypt, authorizing purchases up to the equivalent of 125 million SDRs (about \$108 million) over the next twelve months in support of the Government's program to reform the economy.

17. You might wish to add that we are still concerned with the urgent need to streamline Egypt's economic administration in order to ensure that donors' funds can be absorbed efficiently and assist Egypt's longer term development to the greatest possible extent. In this context you may wish to refer to the letter you received on April 28 from President Sadat following his recent discussion with Mr. Benjenk. In this letter he states that the Egyptian Government welcomes the two types of support that are being made available, namely (1) balance of payments assistance and (2) project and commodity aid. The letter stresses the need for Egypt to gradually get away from emergency cash assistance, such as was necessary this year and will be necessary again in the next three to four years. The downward trend in cash assistance will be welcomed by the Arab donors and should put some pressure for more efforts on the other project donors, including the various Arab Funds, who prefer to deal in projects rather than in cash. The letter also contains President Sadat's assurance of personal interest in economic matters and his promise to take a more active role in managing it. In addition, it contains his personal endorsement of the paper which Dr. Kaissouni has submitted to the Consultative Group.

18. Attached for your convenience as Annex IX are (i) a WSJ article of April 29 reporting on Minister Abalkhail's statements during an interview that Saudi capacity for spending is rising rapidly, and (ii) a Saudi Economic Survey article of April 13 reporting on the Minister's statements during another interview on the same subject mentioned under (i) as well as on various other subjects.

Attachments

cc: Messrs. Knapp, Cargill, El-Fishawy, Knox, Paijmans, Humphrey

RTFares/JO' Connor/SSElFishawy/WSHumphrey/CSHardy:csc

SAUDI ARABIA: Flows of Development Finance (Fiscal Years)

		FY69	FY70	FY71	FY72	FY73	FY74	FY75	FY76	FY77	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85
Nominal GNP	US\$b.	3	3	4	5	10	22	33	40	45	50	54	58	64	72	80	89	93
	SR1sb.	12	14	17	21	39	78	116	140	160	177	191	205	225	253	283	315	350
Real GNP	US\$b.	4	4	5	5	6	7	14	22	23	24	24	24	25	26	27	28	29
	SR1sb.	16	17	19	23	26	30	60	51	96	99	99	99	102	107	112	116	121
% Increase in Real Terms			9.0%	12.6%	16.0%	17.4%	12.9%	99.9%	52.9%	5.6%	2.4%	0.4%	0.3%	2.6%	4.8%	4.5%	4.2%	3.9%
IBRD Capital Subscription	US\$m.										15	15	15			15	15	15
	SR1sm.										53	53	53			53	53	53
IFC Capital Subscription	US\$m.										2	2	2	3				
	SR1sm.										7	7	7	11				
IDA: Calls on IDA 1-7	US\$m.										7	33	43	48	78	79	76	104
	SR1sm.										25	116	152	169	275	278	268	367
Total Bank Group	US\$m.			*	*						24	50	60	51	78	94	91	119
	SR1sm.										85	177	212	180	275	332	321	420
Regional Banks ^{d/} Other Multilateral ^{d/}	US\$m.																	
	US\$m.																	
Multilateral ODA	US\$m.			*	*		40	156	296	327	246	199	201	225	271	321	375	435
Bilateral ODA	US\$m.			219 ^{b/}	238 ^{b/}	293 ^{b/}	559 ^{b/c/}	726 ^{e/}	670	726	857	929	942	950	974	987	998	1006
Total ODA	US\$m.			219	238	293	599	884	966	1053	1103	1128	1143	1155	1245	1308	1373	1441
	SR1sm.			982	986	1084	2172	3124	3404	3717	3894	3932	4035	4133	4395	4517	4847	5037
Total ODA Constant 1972 Prices	US\$m.			277	259	182	200	388	534	542	525	498	471	456	448	440	451	423
	SR1sm.			1148	1039	730	836	1608	2218	2246	2176	2066	1952	1890	1856	1822	1758	1704
ODA as % of GNP				5.9%	4.7%	2.9%	2.8%	2.7%	2.4%	2.3%	2.2%	2.1%	2.0%	1.9%	1.7%	1.6%	1.5%	1.5%
Multilateral as % of ODA							6.7%	17.7%	30.6%	31.1%	22.3%	17.6%	17.6%	19.6%	21.6%	24.5%	27.3%	30.2%
IDA as % of Multilateral											2.5%	16.6%	21.4%	21.3%	28.0%	24.0%	20.3%	23.9%
IDA as % of ODA											0.6%	2.9%	3.3%	4.1%	6.3%	6.0%	5.8%	7.3%
IDA as % of GNP											.014%	.061%	.074%	.075%	.108%	.099%	.085%	.108%
Bank Items																		
IDA Cash/Note Deposits	US\$m.										83	83	84	96	96	97	112	112
	SR1sm.										293	293	297	339	342	342	395	395
Cash/Note Deposits as % of GNP											.166%	.153%	.145%	.150%	.133%	.121%	.126%	.113%
IDA S-Note Deposits	US\$m.										83	83	84					
	SR1sm.										293	293	297					
IDA S-Calls	US\$m.										7	33	43	40	59	30	20	14
	SR1sm.										25	116	152	141	138	106	71	48

Exchange Rate (SR1/\$US)

3.53

a/ Includes \$163.2 million/year to Egypt and Syria, 1970-74 (Khartoum Agreements) and "budget support" to Jordan of \$47.1 million (1970), \$43 million (1971), \$63.6 million (1972) and \$44.7 million (1973).

b/ Includes "10/73 war relief grants" to Egypt of \$100 million in 1973.

c/ Includes \$300 million to Egypt and \$50 million to Syria for "reconstruction aid" in 1974.

d/ Complete data not available.

e/ Less than \$0.2 million

Data for nominal GNP in national currencies were provided by DPS; the projections are the same as those shown in the Prospects Paper. Deflators implicit in these statistics are applied to obtain the constant series in 1972 prices and exchange rates.

Assumes: (1) an IBRD Selective Capital Increase (related to IMF quota increases but excluding the first 4.46% of all quota increases) of \$3.5 billion approved in FY78 with the usual 10% paid in or released over the three-year period FY78-80; (2) an illustrative IBRD General Capital Increase of about \$30 billion approved in FY82 with the usual 10% paid in or released over the three-year period FY83-85; (3) and Saudi Arabia releases the full amount of their paid-in capital.

Assumes an IFC Capital Increase of \$480 million in FY78 paid in over the five-year period FY78-82.

Assumes: (1) that contributions to IDA 5 will total \$7,638 million, i.e., \$2,546 million per year; (2) IDA 6 and IDA 7 will be respectively 16% and 34% larger than IDA 5 (reflecting 5% per year nominal growth); (3) all contributions to IDA 5, IDA 6, and IDA 7 will be paid in three approximately equal annual installments and drawn pro rata. The calls do not reflect the use of Bank transfer last, the effect of which is not significant.

The ODA figures through FY75 are those reported by DAC. ODA through FY85 are based on IBRD Staff projections. ODA from FY81-85 is assumed to gradually decrease as a percent of nominal GNP from the FY80 level. These figures have been converted into national currencies at the IMF representative exchange rate of March 14, 1977 (see under FY77).

BIOGRAPHICAL INFORMATION

Mohammed Abalkhail
Minister of Finance and National Economy

Minister Abalkhail is about 45, and has been Minister of State for Financial Affairs and National Economy since February 1972. Mr. Abalkhail is a member of the Supreme Petroleum Council. He was educated at the University of Cairo, and has been in the civil service since the late 1950's. He is married and speaks good English.

BANK FINANCIAL RELATIONS WITH SAUDI ARABIABank Borrowings

1. In 1968 the Bank sold to the Saudi Arabia Monetary Agency (SAMA) \$15 million of an issue of 6½% 26-Year bonds issued in the United States. Thereafter the Bank placed directly with SAMA five issues in United States dollars, one issue in Saudi Arabian Riyals, two issues in Swiss Francs and one issue in D-Marks. Listed in their chronological order, the bonds so purchased by SAMA are as follows:

6½%	26-Year bonds of 1968, due 1998	\$15,000,000
6 3/8%	26-Year bonds of 1968, due 1998	\$15,000,000
8%	10-Year bonds of 1974, due 1984	SR1s500,000,000
8½%	10-Year bonds of 1974, due 1984	\$750,000,000
7 3/4%	8-Year bonds of 1976, due 1982/84	SWF300,000,000
8½%	10-Year bonds of 1976, due 1982/86	DM100,000,000
8½%	8-Year bonds of 1976, due 1984	\$50,000,000
7.80%	10-Year notes of 1976, due 1986	\$60,000,000
7 5/8%	8-Year notes of 1977, due 1985	\$40,000,000
5½%	6-Year notes of 1977, due 1983	SWF75,000,000

All of these issues remain outstanding. They aggregate \$1.27 billion equivalent at current exchange rates.

2. Purchases of 2-Year bonds by SAMA have amounted to \$408.45 million of which \$131 million are presently outstanding.

Other Financial Relations

3. Saudi Arabia has a capital subscription in the Bank of \$114.3 million 1944 US dollars with 0.48 percent of total voting rights. The 9 percent portion (12.41 million current US dollars) is not yet released. Under the proposed selective capital increase, Saudi Arabia's subscription would become \$489.9 million 1944 US dollars with 1.44 percent of total voting rights.

4. Saudi Arabia is a Part II member of IDA and has \$4.5 million of IDA's initial subscription, corresponding to 0.05% of total voting rights. Saudi Arabia has pledged \$250 million to the IDA V Replenishment.

5. Saudi Arabia has contributed \$25 million to the Third Window Interest Subsidy Fund.

6. Saudi Arabia is a member of IFC, holding \$110,000 of its subscription (110 shares) equivalent to 361 votes or about 0.27 percent of voting rights. In February 1977 IFC borrowed \$35 million at 7 7/8 percent (repayable by 1985) from SAMA, the last \$10 million tranche of which was drawn down on April 29, 1977.

THIRD WINDOW FINANCING IN ARAB COUNTRIES

UP TO END OF FY77

(in US\$ million equivalent)

<u>Country/Project</u>	<u>FY</u>	<u>TW Amount</u>
Egypt		
Fruit & Vegetable Development I	76	50.0
Drainage *	77*	12.0*
<u>Morocco</u>		
Education III	76	25.0
<u>Sudan</u>		
Domestic Aviation	76	20.0
Railways IV **	77**	12.0**
<u>Syria</u>		
Livestock	77	<u>12.5</u>
<u>Total</u>		<u>119.5</u>

* Scheduled for submission to the Board on May 31, 1977.

** Scheduled for submission to the Board in June 1977.

COFINANCING OPERATIONS BETWEEN
BANK GROUP AND SAUDI FUND FOR DEVELOPMENT

UP TO END OF FY77

(in US\$ million equivalent)

<u>Country/Project</u>	<u>FY</u>	<u>IBRD</u>	<u>IDA</u>	<u>SFD</u>
<u>Congo</u>				
Railways II	76	38.0		20.0
<u>Egypt</u>				
Cotton Ginning	74		18.5	25.6
Suez Canal Rehabilitation	75	50.0		50.0
Railways II	75	32.5		65.0
Telecommunications	75		30.0	23.0
<u>Ghana</u>				
Kpong Hydroelectric	77	39.0		32.5
<u>Indonesia</u>				
Fertilizers III	76	70.0		70.0
<u>Korea</u>				
Highways III	76	90.0		35.0
Ports I	76	80.0*		35.0*
<u>Rwanda</u>				
Highways	76		9.5	5.0
<u>Sudan</u>				
Rahad Irrigation	75		20.0	28.0
Domestic Aviation	76	20.0	9.0	17.7
Savannah Development **	77		17.0	8.5
<u>Tunisia</u>				
Sewerage	75	28.0		30.0
<u>Yemen Arab Republic</u>				
Grain Storage	76		5.2	11.0
Sana'a Water Supply & Sewerage	77		10.0	14.5
<u>Total</u>		447.5	119.2	470.8

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

** Expected to be submitted to the Board on May 18, 1977.

COFINANCING OPERATIONS

UP TO END OF FY77

(in US\$ million equivalent)

	<u>FY TOTALS</u>				
	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77*</u>	<u>Total</u>
IBRD/IDA	18.5	160.5	321.7	66.0	566.7
SFD	25.6	196.0	193.7	55.5	470.8
No. of Operations	1	5	7	3	16

* Includes "Savannah Development Project" in Sudan, expected to be submitted to the Board for approval on May 18, 1977.

PROSPECTIVE COFINANCING WITH SFDIN FY78

(in US\$ million equivalent)

	<u>IBRD</u>	<u>IDA</u>	<u>SFD</u>
<u>Afghanistan</u>			
Khanabad Irrigation II		15.0	<u>3/</u>
Agro-Industries I		15.0	<u>3/</u>
Roads III		12.0	<u>3/</u>
<u>Burundi</u>			
Highways II		10.0	<u>1/</u>
<u>Egypt</u>			
Suez Canal Expansion *	100.0		50.0
<u>Madagascar</u>			
Power I		33.0	10.0 <u>2/</u>
<u>Rwanda</u>			
Highways IV		15.0	2.0 <u>1/</u>
<u>Sudan</u>			
Port Development I		20.0	<u>3/</u>
<u>Tanzania</u>			
Pulp & Paper	<u>20.0</u>	<u>25.0</u>	<u>1/</u>
<u>Total</u>	<u>120.0</u>	<u>145.0</u>	

1/ Identified2/ Probable3/ Approached

* Currently being negotiated

SAUDI ARABIA

CURRENT STATUS OF TECHNICAL ASSISTANCE

MANPOWER DEVELOPMENT/EDUCATION

Manpower Planning Study, Phase II
(Ministry of Planning)

Phase II includes development of a manpower planning model and execution of a short-term survey of critical skills. A mission set up the planning model at the Ministry of Planning in February 1977. Findings of the Critical Skills Survey were submitted May 1, 1977

Accelerated Literacy Program
(Ministry of Education)

Evaluation of existing conditions and literacy efforts is almost completed. Testing of pilot Accelerated Literacy Programs is underway, with final evaluation due in late May 1977.

Ad Hoc Support
(Ministry of Education)

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

HOUSING

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

Bank has provided assistance in preparation of draft and final bid documents as well as in review and analysis of completed bids. Due to low response of bidders and incomplete technical submissions, Bank is now providing assistance to the Government in its negotiations with some prequalified firms.

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

Bank assistance has also been requested for subsequent phases of this project, scheduled to begin in FY78, but the specific tasks are as yet undefined.

PUBLIC UTILITIES

Telecommunication System
(Ministry of Posts, Telephone &
Telecommunications)

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

INDUSTRY

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

Details of assistance required to be determined after further discussions with the Government concerning follow-up on the three reports of the Industrial Sector Mission which were submitted to Government in October, 1976.

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

Bank awaiting specific requests for assistance from Government in FY78.

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

(a) Saudi Arabian Steel

The Bank was present at the Exco meeting of the MARSTEL group in early 77 at which the private participants declined to proceed further with the project. The

INDUSTRY (Cont'd)

(a) Saudi Arabian Steel (Cont'd)

Bank was also present at the March 1977 meetings at which SABIC decided to go ahead with a reduced scope project and invited vendors to submit additional bids. The Bank prepared several memoranda for SABIC concerning the options open, but the Bank was not privy to the recently announced decision to select the Midrex process for a two unit project. We are currently giving assistance to SABIC in installing its own financial modeling capability..

(b) Aluminum Smelter

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

(c) Shell Petrochemical Complex

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

(d) Dow Petrochemical Complex

The Bank provided a preliminary evaluation of the project, dated October 1976 to MIE. The Bank understands that an agreement has now been reached between MIE or SABIC and Dow.

(e) Grace/Itoh Ammonia Methanol Complex

MIE or SABIC is considering its position regarding chemical-grade methanol production. This may involve one or more of the project sponsors, e.g. C. Itoh, Celanese or Borden. Grace recently attended methanol Saudi-Japanese meetings in Riyadh as an observer, but

INDUSTRY (Cont'd)

(e) Grace/Itoh Ammonia Methanol
Complex (Cont'd)

the ammonia/urea part of the methanol project(s) appears to have been dropped, at least for the time being. The Bank has no current or full information on this matter, other than that the project is presently inactive.

(f) Mobil Petrochemical Complex

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

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

Report on Mineral Sector Survey
delivered to Government in April 1976.
No further work since. None is anticipated in FY78.

Legal Assistance for Review of
Documents

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

PUBLIC INVESTMENT FUND

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

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

Institution Building
(Ministry of Finance and
National Economy)

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

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

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

TRANSPORT DEVELOPMENT

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

Preliminary design report issued by consultant in June 1976. Government and Bank review revealed major deficiencies and consultant issued supplemental report in mid-August. Revised report was accepted in October 1976.

TRANSPORT DEVELOPMENT (Cont'd)

Bahrain Causeway (Cont'd)

Bank has assisted in recruiting consultants for expert panel to review embankment design proposals, and will review cost proposal for final design phase. Expert panel in field May 1977.

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

As result of Bank efforts to provide recruitment assistance to Ministry of Transport and Communications, a full-time consultant was appointed on November 1, 1976, to assist in the capacity of Senior Highway Advisor. His appointment ends on June 30, 1977, and it is expected that he will be seconded to the Government for a period of two years from that date. A request for a second advisor has been received and an allocation is provided for him in the FY78 program.

GENERAL

Procurement Pricing
(Ministry of Finance and National Economy)

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

EDI COURSE

Industrial Projects Course
(Institute of Public Administration)

Course had been scheduled to begin in January 1977; this course has been postponed indefinitely.

TRAINING

The Bank organized a five-week tour of relevant projects in various countries for two senior officials of the Ministry of Education.

PORTS

A Bank mission is presently in the field to assist the Ports Authority in designing Terms of Reference for a long-range development Plan of the Port system in the Kingdom.

RESIDENT MISSION

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

EMIDA
April 29, 1977

SAUDI ARABIA - TECHNICAL ASSISTANCE

FY77 AND PROPOSED FY78 PROGRAMS

Ministry/agency and project	FY77 Allocation manweeks	FY78 Proposed Program manweeks
<u>MINISTRY OF PLANNING</u>		
Manpower Planning (Stage II)	225.0	60.0
Manpower Planning (Stage III)	-	40.0
Manpower Planning (Labor Market Study)	-	100.0
Ad Hoc Support	-	25.0
<u>MINISTRY OF EDUCATION</u>		
Accelerated Literacy Program	230.0	230.0
Ad Hoc Support	6.0	6.0
<u>MINISTRY OF PUBLIC WORKS AND HOUSING</u>		
Housing Program	225.0	225.0
<u>MINISTRY OF INDUSTRY & ELECTRICITY</u>		
SABIC - Major Projects: Preparation and Evaluation	115.0	90.0
SABIC - Fertilizer Strategy/Policy	8.0	-
ISDC - Non-Hydrocarbon Industrial Development Programs, Phase II	15.0)	
ISDC - Selected Feasibility Studies (including Agro-Industries)	4.0)	30.0
General and Ad Hoc Support	- 1/)	
<u>MINISTRY OF FINANCE AND NATIONAL ECONOMY</u>		
PIF - Project Evaluation: Non-Industry (including East West Crude Oil Pipeline))	
PIF - Project Evaluation: Industry) 15.0	35.0
PIF - Institution Building	-	-
Procurement Pricing	4.0	-
Desalination Committee	8.0	-
Ad Hoc Support	8.0	8.0
<u>MINISTRY OF TRANSPORT AND COMMUNICATIONS</u>		
Transport Planning - Headquarters Support	36.0	15.0
Bahrain Causeway	30.0	30.0
Ports Study	- 1/	-
<u>MINISTRY OF POSTS, TELEPHONES & TELECOMS.</u>		
Telecommunications	10.0	5.0
<u>TRAINING</u>		
Training - Literacy Visits) 8.0	10.0
Other)	
<u>CONTINGENCIES</u>		
	67.0	157.0
Sub-total - Headquarters	1014.0	1066.0
<u>RESIDENT MISSION IN SAUDI ARABIA</u> ^{2/}	234.0	299.0
<u>SECONDED ADVISERS TO MINISTRY OF TRANSPORT AND COMMUNICATIONS</u> ^{2/}	-	91.0
Total Manweeks	1248.0	1456.0
MANYEAR EQUIVALENT	24.0	28.0

1/ No allocation made for these activities - allocation to be drawn from contingencies.

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

BANK'S TECHNICAL ASSISTANCE TO
SAUDI FUND FOR DEVELOPMENT

Bank assistance to the Saudi Fund has been as follows:

- a) In March 1976, secondment of a member of the Legal Department (Mr. Sherif Hassan) to work as the Fund's Legal Advisor, initially for one year, recently extended by another year, until March 1978.
- b) Assistance in recruitment: several candidates have been proposed and some interviewed, and we have provided SFD with sample job description.
- c) Assistance on procurement and disbursement for cofinanced project: the Bank supervises procurement and disbursement for the Saudi Fund loans on its four cofinanced projects in Egypt and some other countries.
- d) Provision to SFD of full appraisal details on cofinanced projects;
- e) Preparation for SFD a study on its capital structure investment strategy (June-August 1975).
- f) Provision to SFD of a portfolio audit sample.
- g) Two months on-the-job training in the Bank's Legal Department of a staff member of SFD's Legal Department, recently promoted to Deputy Managing Director of SFD.
- h) Two months general familiarization in the Bank of a senior staff of SFD.
- i) Currently on-going, two months familiarization in the Bank's Controller's and Treasurer's departments of the Director of Capital and Loan Administration department of SFD.

This news item appeared on page 8 of the 29 April 1977 issue of:

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| <input type="checkbox"/> THE JOURNAL OF COMMERCE | <input type="checkbox"/> |

Saudi Capacity to Spend Rising Rapidly, Could Ease World Monetary Imbalance

By RAY VICKER

Staff Reporter of THE WALL STREET JOURNAL
RIYADH, Saudi Arabia—Saudi Arabia's capacity to spend money is increasing rapidly, raising the prospect that the kingdom's outlays may match income in another year or two, Mohammad Aba al-Khail, minister of finance and national economy, said.

This could mean less Saudi money for an international lending facility being proposed for the International Monetary Fund. But it could also mean an easing of the root cause of the world monetary imbalance that has prompted the need for such special financing facilities.

Because the Persian Gulf kingdom's oil riches have enabled the Saudis to pile up monetary reserves faster than it can spend them, oil-buying countries have been confronted with a massive drain. By some reckoning, though Mr. al-Khail disputes it, the country may have the largest reserves in the world.

To help oil-consuming countries cope with the deficits in their international payments accounts, Johannes Witteveen, managing director of the IMF, has proposed the creation of a special \$16 billion lending facility, with perhaps \$4 billion coming from Saudi Arabia.

Major Contributor

In an interview, Finance Minister al-Khail and his deputy, Mansour al-Turki, indicated that Saudi Arabia does intend to be a major contributor to the so-called Witteveen facility. Yet they left the clear impres-

sion that the kingdom mayn't come up with the \$4 billion that strategists want.

Both officials expressed irritation with some estimates of Saudi reserves.

Saudi Arabia's official reserves at the end of last year stood at about \$27 billion, up from \$23.3 billion at the end of 1975 and \$14.3 billion at the end of 1974. Some economic sources, however, believe that foreign assets of the Saudi Arabian Monetary Agency would lift the total to nearly \$55 billion.

Mr. al-Khail denied that the official reserves reported to the IMF are understated. "If anything they are overestimated," he declared.

Massive Outlays Ahead

The officials said Saudi Arabia is entering a period when several major projects will move from the drawing board to construction, requiring massive outlays that will approach income. Included among the projects are a new natural gas gathering system, new refineries, a cross-country pipeline, four petrochemical plants, a new steel mill, two major new ports and military spending, he said.

"Our absorption capacity (the ability to spend money) is rising steadily because of such projects," he declared.

In the fiscal year ended June 27, 1976, Saudi Arabia spent only \$22 billion while its revenues brought in \$28.7 billion. In the current year, which under the Moslem calendar ends June 17, revenue is expected to rise to \$31 billion while expenditures are expected to hit \$27 billion. The gap should narrow further in fiscal 1978, the finance minister said.

ABA AL-KHAIL SPEAKS OUT :

SAUDI ARABIA NOT ONE OF THE RICHEST COUNTRIES

Measured by her gross national product, Saudi Arabia is not among the richest countries of the world as wealth should not be measured by liquidity but by the entire domestic output, the Minister of Finance and National Economy Sheikh Muhammad Aba Al-Khail has declared.

The Kingdom's cash surplus, the Minister pointed out, is the outcome of the gap between her financial revenues and the absorptive capacity of her domestic economy. "But this capacity is increasing and projects need time for implementation while the administration is boosting its efficiency and the private sector is experiencing continued growth," he said.

In an exclusive interview with Al-Yamama weekly magazine of Riyadh on Friday, the Minister underlined the fact that the Kingdom's revenues are inadequate to meet all her requirements for infrastructure (roads, seaports, telecommunications, housing etc.), agricultural and industrial investments, and loans for real estate development, construction of private clinics and hotels, and for contractors to purchase machinery and equipment, in addition to the subsidies to the basic commodities and foodstuffs.

Replying to a question whether the Real Estate Development Fund would in the future cover by its loans the costs of the plot of land, the Minister said this point was debated expansively when the fund was set up but it was deemed wise not to grant loans to help borrowers purchase their plots of land as such a step would have added fuel to the already volatile real estate market and would have sent prices of land skyrocketing and rendered the construction of a house in the realm of the impossible with or without a loan from the fund.

The Minister expressed the conviction that the amount of the loan given by the fund (SR 300,000 for private dwellings) is adequate to cover the construction costs of one or more units for a family within the medium income group and that raising the amount of the loans would only drive the construction and living costs upward thereby fueling inflation and would reduce the number of beneficiaries of the fund. "Don't forget," he added, "the government here is the prime economic mover. It is true that the private sector is growing; but due to the nature of this stage and the country's economic structure the government will remain the main mover for years to come. The government's expenditures are directly and indirectly felt on other economic activities."

Saudi Arabia, Sheikh Aba Al-Khail said, has the largest lending and subsidy program in the world. Two funds, the real estate development fund and the industrial development fund within a period of two years have extended loans of over SR 25 billion (about \$ 7 billion). This astronomical figure covers only the loans for housing and private industries as well as electric power companies. The government's loans are manifold greater than the loans given by the commercial banks. Its lending policy

covers agriculture, through the Agricultural Bank, and industry through the Industrial Fund. Adding the programs being launched to raise the standard of social, education and health services, you can see that the revenues could hardly suffice, taking into consideration that the main revenue (i.e. oil) is an exhaustible commodity and the country's surplus is gradually decreasing with the rise in the country's economic absorptive capacity, he affirmed.

The Minister expressed satisfaction over the elimination of the speculative wave which gripped the real estate market during 1974 and 1975 and observed that the services and light industries sectors have absorbed a considerable amount of the surplus funds in the hands of the public. This trend, Sheikh Aba Al-Khail pointed out, could be detected in the increasing demand for the Agricultural Bank, the Industrial Development Fund and the Real Estate Fund loans and in the swelling number of citizens forming new companies and establishments following the prevention of non-Saudis from exercising trade in the Kingdom.

"This is a healthy phenomenon and indicates that the economy is developing. In the developing countries the economic activities start with the easiest, and the easiest thing to do is to buy and sell lands and import goods. After that the economic activities become more complex including the undertaking of industrial ventures and so forth as happens in any country following the free enterprise system," he explained.

Asked about the speed with which the the Real Estate Development Fund offices process loan applications, the Minister attributed the recent increase in the time required to process a loan by a citizen from about two to three days to more than 20 days at the present to the rapid rise in the number of beneficiaries from the Fund which he estimated at about 76 thousand borrowers.

Replying to a question about international guarantees that the sizable loans given by the Kingdom to developing countries would be repaid, the Minister said such guarantees do not exist but added that the loan agreements are prepared carefully and observed that it is in the interest of the borrower country to repay as failure to repay would harm her reputation financially and morally. He revealed that the Kingdom in 1976 committed itself to about \$ 5 billion in loans.

Asked how the Kingdom makes sure that loans would be used for the financing of their respective projects, Sheikh Aba Al-Khail said such a question is considered of great importance and added that the loans are not given as a lump sum and are not paid cash. They would be paid to the contractors or exporters under contract with the borrowing country gradually and according to performance statements. The officials of the Saudi Development Fund are continually on the move to check work on these projects as they have the right of inspection according to the loan agreements.

The Minister said it was impossible to give an approximate figure of the loans and other forms of aid given by the Kingdom to the Arab confrontation countries when asked to comment on the recent statement issued by the Saudi government criticising

press campaigns in certain confrontation states for alleged shortcomings on the part of the Kingdom and other Arab Gulf oil producers in helping the Arab states confronting Israel.

Replying to a question on financing large scale projects in other Arab countries, such as the Kenana scheme in Sudan, the Minister said Saudi aid for these projects is not at the expense of projects being carried out in the Kingdom. "As for the Sudan project, Sudan is a sisterly Arab country with immense agricultural potentials and is considered the food basket of the Arab world and it is in the interests of the Arab states to exploit the agricultural wealth of Sudan as a large number of the Arab countries will remain importers of agricultural products. Therefore, the agricultural projects in the Sudan are successful and necessary for all the Arab states."

Answering a question about the measures to be taken by the U.S. President Carter against the Arab Boycott of Israel, the Minister said:

"The question of boycott was recently raised by Zionist elements out to damage the relations between the U.S. and the Arab countries for the benefit of Israel. The boycott is an acknowledged international principle and is practised by many countries. The Arab boycott is based on clear political foundations and the majority of states support the Arab countries in their major case. There are reasonable tendencies in the new Administration that realise the extent of the damage to the U.S. economic interests in the Arab countries if extreme laws are endorsed by the new U.S. government. The damage to the Arab countries would be much less as they can substitute a great amount of their U.S. imports from other countries."

The Minister said the United States ranks first among the Kingdom's trading partners followed by the countries of the European Economic Community (headed by W. Germany) in second place and Japan as third. He added that economic exchange with the Arab countries is limited because they are still in the developing stage and their national product is limited; trade exchange with them, however, is increasing, he concluded.

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OFFICE MEMORANDUM

TO: For the Record

DATE: June 9, 1977

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

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

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

- (1) The Technical Cooperation Program under which the Bank supplied technical assistance in selected areas of Saudi Arabia's development plan. The Bank did this within the scope of its duty to serve Saudi Arabia as a member country. Two of the areas where the Bank was called upon to give such assistance were the Manpower Planning Study and Accelerated Literacy Program and the Bahrain Causeway Feasibility and Engineering Studies. Mr. McNamara wanted always to be sure that the Bank's efforts gave satisfaction to the Government. He said that if there were any questions or remarks with regard to this activity, he would like to know about it and Prince Fahd could convey this through his Minister of Finance.
- (2) The area of cooperation between the Kingdom and the Bank in the field of economic development aid. Since the establishment of the Saudi Fund for Development, about two years ago, it had joined the Bank Group in about 16 economic development investments in the developing countries. The Bank assisted the Saudi Fund in selecting well-prepared and high-priority projects for its investments.
- (3) The Bank Group was lending to two sorts of developing countries: The middle-income developing countries like the Brazils or the Mexicos and the Moroccos borrowed money from the Bank for economic development projects on conventional terms. The Bank got its money for these countries from two sources, (a) the paid-in capital and (b) for the major part, by borrowing from the capital markets. The Bank was able to continue borrowing from the capital markets because it applied high standards in selecting good projects, well-prepared and having a high economic return. It evaluated every project very carefully, technically, economically and financially. Thus it helped the developing countries help themselves by increasing their productive facilities, so that they could be able in time to depend on themselves. Mr. McNamara said that he was glad to state that over a period of more than 30 years of Bank operations, the Bank had not lost one dollar of its loans. The Bank insisted that the borrowing governments pay their loans in full and on time. Mr. McNamara

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

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

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

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

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

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

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

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

SELFishawy/rh

OFFICE MEMORANDUM

CONFIDENTIAL ~~CONFIDENTIAL~~ BG ARCHIVES

TO: For the Record

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

SUBJECT: Full Record of Mr. McNamara's Meeting with Prince Fahd ibn Abdel Aziz Al Faisal Al Saud, Crown Prince and First Deputy Prime Minister of Saudi Arabia

DATE: June 8, 1977

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

Mr. McNamara asked Prince Fahd how he was enjoying his stay in Washington. Prince Fahd said that he was very happy with his visit, and that he liked President Carter very much. He said that he had read about President Carter last year during the elections and also read his book "Why not the Best". Prince Fahd added that all the previous Presidents of the United States whom he had met before, were good people and of high caliber, however, he felt particularly comfortable and at ease in his relationship with President Carter. He said that President Carter was especially sensitive to the crucial importance of the interdependence between the countries of the World. Mr. McNamara agreed and said that there was certainly a notable difference in this area between this administration and the previous ones.

Prince Fahd greeted Mr. McNamara by saying that he looked in good health and quite young. Mr. McNamara said that he was enjoying good health, but did not know about being young. Prince Fahd said that in this matter, what counted was the energy and fitness and not the number of years.

Minister Mohammed Abalkhail said, addressing Prince Fahd, that as a mark of Mr. McNamara's youth he had accepted the renewal of his term for another five years.

Mr. McNamara said that he was thankful that the representative of Saudi Arabia supported the renewal of his term, but that he was not sure how good this decision was either for him or for the institution. Change was a healthy thing for institutions and individuals alike. Prince Fahd said that he was glad to see Mr. McNamara continue in his office. If there were any difficulties, they (the Saudis) would have come to the States and voted for him and made the Congress vote for him. He said that in his meeting with members of the Congress, some of them took leave from time to time to go on the floor and cast their votes. He then told them that if there were any issues in the interest of the Arab countries, he would go and vote with them, too. He said that he was quite aware of the importance of money in solving problems; he was saying this to Mr. McNamara as a banker. This reminded him of an anecdote about two of his friends in Riyadh. One of them was complaining that sometimes in the middle of the night he experienced crises of short breath. He asked if

anybody experienced the same trouble and could advise him on a cure. The other friend said that he sometimes experienced the same crises and that he knew of a very effective cure. At his home he had a chest full of gold and silver coins, and whenever he experienced such an attack, he would go in the middle of the night, open the chest and feel the gold in it. That cured him immediately. The first friend said that he did not have such wealth and could not get relief by such a cure. Sometime later, when Prince Fahd told the wealthy friend to pay Zakah */ on his money, that friend literally fell sick.

Prince Fahd said that he would like to seek Mr. McNamara's opinion about the pound sterling. It had skidded down substantially. What were the reasons and was it drifting towards collapsing? Mr. McNamara said that nobody could profess exchange-rate fluctuations with accuracy. He would say, however, that he did not think that the British pound was going to collapse. It may fluctuate and at times may go even lower than its present level, but in his view the pound would maintain its value at the present level and possibly even gain some more strength. He said that there were three reasons for its decline:

- (1) The late adjustment of the value of the pound to the important fact of Britain having given up its colonies after the Second World War. During and after that war, Britain had to divest itself of its holdings in important corporations and assets overseas to meet war expenses. It also lost important special trade relations as a result of divesting its colonies. Adjustment to these losses were much delayed.
- (2) The increase of the power of the Trade Unions and the rash of wild-cat strikes. This decreased the productivity of the British labor force, particularly in comparison to the productivity in other countries, especially in Germany and to some extent in the United States.
- (3) The weakness of the successive governments from both parties and their reluctance to take the necessary unpopular measures, particularly of devaluing the pound in time. At the present level of exchange rate of the pound, British goods were becoming competitive. Also, in about two years' time, the North Sea oil was expected to come on stream. This should help the British economy. Therefore, in Mr. McNamara's view, the British pound was unlikely to collapse and would stabilize at its present level and may even gain some strength in the future. In the meantime, it may nevertheless fluctuate at some points along the line downward from its present level.

Prince Fahd then said that he remembered that when Abdel Aziz Hejazi was Prime Minister of Egypt, he confided to him that he was of the view

*/ According to Islam, "Zakah" is a tax on the assets. Out of every forty sheep, one must give one sheep as Zakah to the Ruler, or in other words, 2-1/2% tax on one's personal belongings.

of lifting exchange-control restrictions on the Egyptian pound and letting it float at its intrinsic value. In Hejazi's opinion, the exchange controls were hampering the economy. Prince Fahd could not help but noting that other countries in the Arab world, which did not have natural resources as much as Egypt, but which had no exchange-control regulations, enjoyed more prosperity and higher standards of living. He had in mind countries like Lebanon and even Jordan, which was dependent on foreign aid. He wondered whether exchange controls were a feature of revolutionary military governments and whether they were a result or a cause of weak economies. Mr. McNamara said that the Egyptian Government was moving in the direction of a free economy and phasing out the exchange-control regulations. However, this was a delicate matter and should be handled carefully and gradually. He added that Mr. Benjenk was responsible for the relations of the Bank with Egypt and that he was recently in Paris chairing the meeting of the Consultative Group for Aid to Egypt and could elaborate on this point.

Mr. Benjenk said that this was a question which was very interesting to him as a former student of Political Science. The management of a country's currency was usually the image of the general management of the economy and of the political system. Under socialist systems of government, where most of the economic activity was centered in the public sector, and where there was little room for private enterprise or individual incentive, stringent exchange-control regulations were imposed. Similarly, every small detail of economic policy had to be decided by Ministers, and even their decisions were sometimes negated by the bureaucracy. This had been the case in Egypt for the past 25 years. In such a case it was not advisable to lift the exchange control and other regulations abruptly, like a person who had been in darkness for a long time, could not face the light suddenly. He would be blinded by the severe contrast. Prince Fahd said that, yes, in such a case he should probably wear sunglasses. Mr. Benjenk said that the new Egyptian Government had taken steps to relax the exchange-control regulations; for example, a parallel exchange rate had been introduced for most imports and exporters were permitted to retain the foreign exchange earned abroad, and to utilize such acquired funds for imported goods. In the most general area of Egyptian economic policy, what was now required was a consistent economic plan, with full backing from the President.

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

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

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

(3) The Bank Group was lending to two sorts of developing countries: The middle-income developing countries like the Brazils or the Mexicos and the Moroccos borrowed money from the Bank for economic development projects on conventional terms. The Bank got its money for these countries from two sources, (a) the paid-in capital and (b) for the major part, by borrowing from the capital markets. The Bank was able to continue borrowing from the capital markets because it applied high standards in selecting good projects, well-prepared and having a high economic return. It evaluated every project very carefully, technically, economically and financially. Thus it helped the developing countries help themselves by increasing their productive facilities, so that they could be able in time to depend on themselves. Mr. McNamara said that he was glad to state that over a period of more than 30 years of Bank operations, the Bank had not lost one dollar of its loans. The Bank insisted that the borrowing governments pay their loans in full and on time. Mr. McNamara said that part of the money which the Bank borrowed on market terms was from the Saudi Arabian Monetary Agency (SAMA). The Bank borrowings from SAMA until now total the equivalent of \$1.4 billion.

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

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

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

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

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

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

cc: ✓ Mr. McNamara (2)

SELFishawy/rh

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
 DATE: May 20, 1977

FROM: Maurice P. Bart, Acting Vice President, EMENA Region *MB*

SUBJECT: SAUDI ARABIA - Meeting with Crown Prince Fahd ibn Abdul Aziz al-Saud

1. You will be meeting with H.R.H. Crown Prince Fahd on Wednesday, May 25. Prince Fahd is accompanied by the following senior Cabinet members:

H.R.H. Prince Saud Al-Faisal
 Minister for Foreign Affairs

Sheikh Ahmed Zaki Yamani
 Minister of Petroleum and Mineral Resources

Sheikh Mohammed Aba Al-Khail
 Minister of Finance and National Economy

Dr. Ghazi Algosaiibi
 Minister of Industry and Electricity

Annex I contains biographical data on the Crown Prince and the accompanying Cabinet members. Annex II is the text of a press release by the Saudi Arabia Embassy in Washington on the visit.

2. I understand that a separate note containing a summary introduction to the Bank Group institutions and covering past and prospective Bank and IDA operations, as well as IDA V Replenishment, is being prepared for you. Some further notes on points which may arise during your meeting with the Crown Prince are set out below.

Bank Group Financial Relations with Saudi Arabia

3. The current status of the Bank Group financial relations with Saudi Arabia is given in Annex III.

Cofinancing--Saudi Fund for Development

4. The channel for direct Saudi contribution to economic development in other LDCs is the Saudi Fund for Development (SFD). It was established as an autonomous organization by Royal Decree in September 1974. Its initial capital is SRls 10 billion (US\$2.8 billion equivalent), out of which SRls 6 billion have been paid-in and are already fully committed. Up to the end of FY77 it is expected that SFD would have cofinanced 16 projects with the Bank Group, for which it would have provided about \$471 million equivalent, supplementing about \$567 million of Bank Group financing (Annex IV).

5. Cofinancing with SFD reached a peak in FY76 with 7 cofinanced projects. The drop to 3 projects in FY77 may be primarily attributed to the fact that SFD and other Funds in the area are now asserting themselves more and more, and are increasing cooperation among themselves, thereby relying relatively less on

May 20, 1977

the Bank Group than in the past for cofinancing opportunities. We are currently discussing with SFD cofinancing of projects in a number of Arab, Islamic and other developing countries, and it is expected that the number of cofinanced projects will go up again in the coming years, though it may not reach the FY76 level. Annex V lists projects currently under discussion with SFD for cofinancing in FY78.

6. You may wish to express satisfaction over the good relations between the Saudi Fund for Development and the Bank Group, as reflected in the above figures. Further, you may wish to mention that in view of the increasing needs of developing countries and of the limitations of the Bank Group's program, cofinancing with Arab institutions is expected to remain a key feature of many of our projects, and you may express the hope that the Saudi Fund for Development would continue to use the Bank projects as a vehicle for the transfer of its resources.

Aid Coordination

7. Recently Saudi Arabia has started taking an active interest in aid coordination, by participating in, and promoting, consultative groups and aid consortia. It has attended the Tunisia Consultative Group meeting and has recently participated in the Consultative Group for Egypt. It is also an active member in the Gulf Organization for Development in Egypt (GODE) and is playing a leading role in the coordination of Arab assistance for the reconstruction of Lebanon. Further, as a member of OAPEC and OPEC, as well as of a number of Arab, Islamic and other regional development agencies, Saudi Arabia is also participating in the coordination of aid, and in the transfer of resources, through these institutions.

Consultative Group for Egypt

8. A very successful meeting of the Consultative Group for Egypt was held in Paris on May 11 and 12. This meeting provided the major aid-giving countries and institutions with an opportunity for a detailed discussion of the most important problems confronting the Egyptian economy, its prospects over the next few years, and its needs for external assistance. The World Bank estimated that Egypt would require disbursements of \$3.6 billion in 1977 in order to meet its import requirements, pay off arrears on debt, and to reduce the use of banking facilities as a source of finance in the current year. Of the total amount, about \$1.7 billion would have to come from new commitments. Largely as a consequence of the actions of the Gulf Organization for Development in Egypt (representing Saudi Arabia, Kuwait, United Arab Emirates, and Qatar), which committed \$1475 million in cash for 1977, and the USA, which changed the composition of its aid to include another \$190 million of commodity assistance, Egypt's requirement for 1977 will be met.

9. Although the immediate problem has been greatly eased, the next few years still present difficulties. The World Bank estimates that in the period 1978-80, Egypt will require external assistance of about \$2.8 billion annually in disbursements (compared with the \$3.6 billion for 1977). A large part of this aid will continue to be required in quick disbursing form, i.e., as cash or commodity aid. However, the project aid component will rapidly

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rise, and it is estimated that, of the commitments of about \$2.3 billion required in 1980, about 52 percent or \$1.2 billion would be required in the form of project assistance. As you will recall from your meeting with King Khalid in May 1976, Saudi Arabia strongly supports President Sadat and is prepared to provide very substantial financial support. This does not prevent the Saudis from being very critical of Egypt's deficiencies.

Technical Assistance

10. The Bank technical assistance to Saudi Arabia concentrates primarily on alleviating the country's major constraint to economic development, namely human resources, in order to increase the country's absorptive capacity. In addition Bank technical assistance is expected to continue to be made available to other sectors and tasks where investment decisions of major development importance are being made, such as public housing, industrial development and transportation.

11. The recently completed Mid-Year Review of the ongoing FY77 Technical Cooperation Program, and the results of the discussions on the proposed FY78 Program clearly indicate that, on the whole, the Government is well satisfied with the assistance the Bank is providing and the results so far achieved. However, as mentioned in the SCPP on Saudi Arabia which you reviewed on February 18, the efficiency of our assistance could be increased through (i) improved programming of technical assistance requirements from the Bank on the part of Saudi authorities, (ii) a full and continuous information exchange between the Government and the Bank on projects for which the Bank is providing technical assistance, and (iii) as early an involvement of the Bank as possible in any future technical assistance task. We have discussed these issues with various Government officials and will continue to do so in the future.

12. The FY77 Program is mainly a continuation of the FY76 Program, providing 24 manyears of assistance (an increase of about 50 percent over assistance expended in FY76)--19.5 manyears from Headquarters and 4.5 manyears from the Resident Mission, at an estimated incremental cost to the Bank of \$3.6 million, fully reimbursed by the Saudi Government. The current status of the various activities of the current Program is given in Annex VI. The proposed FY78 Program, currently under discussion with the Government, is expected to cover the provision of 29 manyears of assistance at an estimated incremental cost to the Bank of about \$4.8 million to be reimbursed by the Government.

13. Assistance provided so far by the Bank to SFD is additional to that provided under the Technical Cooperation agreement with Saudi Arabia. Details of technical assistance provided to SFD to date are given in Annex VIII. It is mainly in the form of secondment of our staff to SFD and providing training for their staff here.

Lebanon, Jordan, Syria

14. It would be extremely useful to obtain some clarifications on the Saudi Government's intentions regarding future aid to Lebanon, Jordan and Syria.

cc: Messrs. Knapp, Benjenk (o/r), Cargill, El-Fishawy, Knox, Paijmans,
El-Darwish, Armstrong, Serageldin, Humphrey, Siebeck

RTFares/KIkram:mw

ANNEXES

- I. Biographical Data
- II. Press Release
- III. Bank Group Financial Relations
- IV. Cofinancing with SFD - up to end FY77
- V. Prospective Cofinancing with SFD in FY78
- VI. Current Status of Technical Assistance Program
- VII. Proposed FY78 Technical Assistance Program
- VIII. Technical Assistance to SFD

BIOGRAPHY

H.R.H. Crown Prince Fahd Ibn Abdul Aziz al-Saud

- Born in Riyadh in 1922, he is a son of the founder of modern Saudi Arabia, King Abdulaziz Ibn Saud. He is the brother of the late King Faisal, who ruled from 1964 to 1975, and of His Majesty King Khalid, whose reign began in 1975.
- Educated in Saudi Arabia.
- Founded the Ministry of Education in the Kingdom in 1958 and was appointed the first Minister of Education. Since then, 10% of the government budget has annually been devoted to education.
- Appointed Minister of Interior in 1962 and served in that capacity until 1975.
- Named Second Deputy Prime Minister in 1964, in addition to his duties as Minister of Interior.
- In 1974, during a visit to Washington, he took part in the establishment of the U.S.-Saudi Joint Commission on Economic Cooperation and undersigned the agreement on behalf of the Saudi Arabian government.
- Made Crown Prince upon the accession to the throne by His Majesty King Khalid in March 1975.
- Represented the Kingdom of Saudi Arabia at the OPEC Summit Conference in Algiers in 1975.
- Heads the Supreme Council of Education, the Supreme Petroleum Council, and the Supreme Pilgrimage Committee.
- During King Khalid's recent absence from Saudi Arabia for two operations in London, the Crown Prince served as Viceroy, January-April 1977.
- Married; has educated several of his sons in the U.S., at the University of California at Berkeley.

BIOGRAPHY

H.R.H. Prince Saud Al-Faisal,
Minister for Foreign Affairs

- Born 1940 in Taif, Saudi Arabia; fourth son of the late King Faisal ibn Abdul Aziz.
- Received primary and secondary education in Taif Model School.
- Received preparatory education at the Hun School, Princeton, New Jersey, and then Lawrenceville, in New Jersey.
- Graduated from Princeton University in 1964 with a B.A. in economics.
- Joined Petromin, the Saudi Arabian state oil organization, as an economic researcher in 1964; served in various roles and work thereafter for Petromin.
- Appointed Vice Governor of Petromin in 1970.
- Appointed Deputy Minister of Petroleum and Mineral Resources in 1971 and then, in addition, Executive Director of the Supreme Petroleum Council.
- Represented Saudi Arabia in various OPEC and related international meetings.
- Appointed Minister of State for Foreign Affairs on March 29, 1975, and Foreign Minister in November, 1975.
- Chairman of the Sixth Islamic Conference of Foreign Ministers held in Jeddah, July 1975.
- Headed the Saudi Arabian delegation to the 30th and 31st Sessions of the United Nations General Assembly, September 1975, and September-October 1976.
- Married and has three children.

BIOGRAPHY

Sheikh Ahmed Zaki Yamani
Minister of Petroleum & Mineral Resources

Born in 1930, Yamani is from a prominent Meccan family. He received a bachelor's degree in Law from Cairo University in 1951 and a master's degree in Comparative Jurisprudence from New York University in 1955. He also spent one year, 1955-56 at Harvard Law School.

Worked for several years as a legal adviser in the Department of Zakat and Income Tax. Spent some time in private practice in the Hijaz, then became a legal adviser to the Directorate General of Petroleum and Mineral Affairs, the forerunner of the present Ministry of Petroleum and Mineral Resources.

Then became legal adviser to the Council of Ministers, and subsequently appointed Minister of State and a member of the Council of Ministers. Was named Minister of Petroleum and Mineral Resources in 1962.

Chairman of the Board of Directors of the General Petroleum and Mineral Organization (Petromin). Chairman of the Board of the University of Petroleum and Minerals; Chairman of the Board of Trustees of the Saudi Arabian Fertilizers Company (SAFCO); Director of the Arabian-American Oil Company (ARAMCO).

BIOGRAPHY

Sheikh Mohammed Aba Al-Khail
Minister of Finance and National Economy

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

Joined the Office of Minister of Communication as an assistant director of the office, then as director.

Established the Institute of Public Administration and first General Director of this Institute.

Under-Secretary, Ministry of Finance and National Economy, then Deputy to the Minister of Finance and National Economy.

Appointed Minister of State for Finance and National Economy and a Member of the Council of Ministers; then Minister, October 1975.

Member of the Board of Directors of Saudia Airlines Organization.

BIOGRAPHY

Dr. Ghazi Algosaibi
Minister of Industry & Electricity

Born March 2, 1940; Al-Hasa, Saudi Arabia.

Primary and high school - Bahrain.

LLB. Cairo University, 1961.

M.A. (I.R.) University of Southern
California, 1964.

PLD (I.R.) London University, 1970.

1964-1970: Instructor, Faculty of Commerce,
University of Riyadh.

1970-1971: Assistant Professor; Head of
Political Science Department, Faculty of
Commerce.

1971-1973: Dean, Faculty of Commerce.

1974: Director General, Saudi Government
Rail Road.

1965-1975: Worked on various diplomatic and
administrative assignments and was a consul-
tant to the Ministries of Finance and Defense.

1975: Minister of Industry & Electricity.

Published works include three books of poetry
in Arabic and a new one in English, printed
in 1977, plus articles on law, literature and
political science.

FOR IMMEDIATE RELEASE

SAUDI CROWN PRINCE TO
MEET WITH PRESIDENT CARTER

For further information, call
Saudi Arabian Information Office
Telephone: 202/452-0525

President Carter and the Crown Prince of Saudi Arabia, H.R.H. Prince Fahd ibn Abdulaziz, will meet at the White House May 24-25 to discuss Middle East, energy, and other key, current matters.

The Crown Prince will also meet with the U.S. Secretaries of State, Defense and the Treasury, Congressional leaders, and key figures in the private sector of U.S. society.

Accompanying the Crown Prince will be the Foreign Minister of Saudi Arabia, H.R.H. Prince Saud Al-Faisal; the Petroleum Minister, Shaikh Ahmed Zaki Yamani; the Minister of Finance, Shaikh Mohammed Abu al-Khall; the Minister of Industry and Electricity, Dr. Ghazi Algozaibi; and other key officials.

The Crown Prince's May 24-25 official visit in Washington will include working meetings both days with President Carter plus a working dinner at the White House May 24; a working luncheon with Secretary of State Vance and other U.S. officials the first day; discussions with Secretary of Defense Harold Brown and the Secretary-Designate for Energy Matters, James Schlesinger; sessions the second day with the House of Representatives' International Relations Committee and Senate Foreign Relations Committee, as well as other key Congressional figures; and a dinner honouring the Crown Prince and Vice-President Mondale hosted by Saudi Arabian Ambassador Ali A. Alireza the evening of May 25.

The Crown Prince will be the official guest of the United States, staying at Blair House.

Prince Fahd was last in the U.S. in 1974, when he represented Saudi Arabia in the negotiation and signing of agreements establishing the U.S.-Saudi Arabian Joint Commission on Economic Cooperation.

The Crown Prince has served as Viceroy for Saudi Arabia from January through April of this year, while King Khalid was in London for operations and recuperation.

The Middle East discussions at the May 24-25 meetings are an integral part of the broad-based efforts this year to achieve a settlement of the long drawn-out hostilities in that crossroads region.

Oil discussions at the coming White House sessions could be especially significant in the light of Saudi Arabia's key role in standing for moderate international oil prices at the OPEC Petroleum Ministers' meetings in Doha last December, and the next convening of the group scheduled for this July.

The forthcoming Saudi-U.S. discussions gain special significance by a number of basic facts -----

- * Saudi Arabia contains about 25% of the world's proven oil reserves.
- * Saudi Arabia is now the largest single source of imported oil for the United States, shipping one and a half million barrels a day and replacing Canada and Venezuela last year in the number one role they had held as to U.S. oil imports since before World War II.
- * Saudi Arabia has played a key role in seeking to moderate oil prices, including taking the initiative for that at the last OPEC meeting in Doha.
- * U.S. sales of goods and services to Saudi Arabia last year climbed to about 4 billion dollars, with a Wall Street Journal round-up reporting contracts had been awarded to American firms for another 27 billion dollars worth to be delivered over the years ahead.
- * Saudi Arabia is presently engaged in a 142 billion dollar, 5-Year Development Program which includes the goal of opening an entire new school almost every day during this half decade; construction of whole new harbors and globally-significant industrial areas on the Arabian Gulf and Red Sea; the world's largest desalination program; construction of a new gas-gathering system to capture the six to seven billion dollars' worth of natural gas at present being flared off unused each year (this project alone was characterized by the Financial Times of London this spring as "the biggest industrial project that the world has ever known"); and a broad range of other endeavors.
- * Saudi Arabia is seeking in its foreign policy to help achieve a Middle East settlement; re-invigorate the international economy and restrain inflation; 'bridge' and bring together the developed and developing nations; and assure stability in the strategically critical Arabian Peninsula and Gulf areas, Middle East, and other important relevant areas.

BANK FINANCIAL RELATIONS WITH SAUDI ARABIABank Borrowings

1. In 1968 the Bank sold to the Saudi Arabia Monetary Agency (SAMA) \$15 million of an issue of 6½% 26-Year bonds issued in the United States. Thereafter the Bank placed directly with SAMA five issues in United States dollars, one issue in Saudi Arabian Riyals, two issues in Swiss Francs and one issue in D-Marks. Listed in their chronological order, the bonds so purchased by SAMA are as follows:

6½%	26-Year bonds of 1968, due 1998	\$15,000,000
6 3/8%	26-Year bonds of 1968, due 1998	\$15,000,000
8%	10-Year bonds of 1974, due 1984	SRls500,000,000
8½%	10-Year bonds of 1974, due 1984	\$750,000,000
7 3/4%	8-Year bonds of 1976, due 1982/84	SWF300,000,000
8¼%	10-Year bonds of 1976, due 1982/86	DM100,000,000
8¼%	8-Year bonds of 1976, due 1984	\$50,000,000
7.80%	10-Year notes of 1976, due 1986	\$60,000,000
7 5/8%	8-Year notes of 1977, due 1985	\$40,000,000
5½%	6-Year notes of 1977, due 1983	SWF75,000,000

All of these issues remain outstanding. They aggregate \$1.27 billion equivalent at current exchange rates.

2. Purchases of 2-Year bonds by SAMA have amounted to \$408.45 million of which \$131 million are presently outstanding.

Other Financial Relations

3. Saudi Arabia has a capital subscription in the Bank of \$114.3 million 1944 US dollars with 0.48 percent of total voting rights. The 9 percent portion (12.41 million current US dollars) is not yet released. Under the proposed selective capital increase, Saudi Arabia's subscription would become \$489.9 million 1944 US dollars with 1.44 percent of total voting rights.

4. Saudi Arabia is a Part II member of IDA and has \$4.5 million of IDA's initial subscription, corresponding to 0.05% of total voting rights. Saudi Arabia has pledged \$250 million to the IDA V Replenishment.

5. Saudi Arabia has contributed \$25 million to the Third Window Interest Subsidy Fund.

6. Saudi Arabia is a member of IFC, holding \$110,000 of its subscription (110 shares) equivalent to 361 votes or about 0.27 percent of voting rights. In February 1977 IFC borrowed \$35 million at 7 7/8 percent (repayable by 1985) from SAMA, the last \$10 million tranche of which was drawn down on April 29, 1977.

COFINANCING OPERATIONS BETWEEN
BANK GROUP AND SAUDI FUND FOR DEVELOPMENT

UP TO END OF FY77

(in US\$ million equivalent)

<u>Country/Project</u>	<u>FY</u>	<u>IBRD</u>	<u>IDA</u>	<u>SFD</u>
<u>Congo</u>				
Railways II	76	38.0		20.0
<u>Egypt</u>				
Cotton Ginning	74		18.5	25.6
Suez Canal Rehabilitation	75	50.0		50.0
Railways II	75	32.5		65.0
Telecommunications	75		30.0	23.0
<u>Ghana</u>				
Kpong Hydroelectric	77	39.0		32.5
<u>Indonesia</u>				
Fertilizers III	76	70.0		70.0
<u>Korea</u>				
Highways III	76	90.0		35.0
Ports I	76	80.0*		35.0*
<u>Rwanda</u>				
Highways	76		9.5	5.0
<u>Sudan</u>				
Rahad Irrigation	75		20.0	28.0
Domestic Aviation	76	20.0	9.0	17.7
Savannah Development **	77		17.0	8.5
<u>Tunisia</u>				
Sewerage	75	28.0		30.0
<u>Yemen Arab Republic</u>				
Grain Storage	76		5.2	11.0
Sana'a Water Supply & Sewerage	77		10.0	14.5
<u>Total</u>		447.5	119.2	470.8

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

** Expected to be submitted to the Board on May 31, 1977.

COFINANCING OPERATIONS

UP TO END OF FY77

(in US\$ million equivalent)

	<u>FY TOTALS</u>				<u>Total</u>
	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77*</u>	
IBRD/IDA	18.5	160.5	321.7	66.0	566.7
SFD	25.6	196.0	193.7	55.5	470.8
No. of Operations	1	5	7	3	16

* Includes "Savannah Development Project" in Sudan, expected to be submitted to the Board for approval on May 31, 1977.

PROSPECTIVE COFINANCING WITH SFDIN FY78

(in US\$ million equivalent)

	<u>IBRD</u>	<u>IDA</u>	<u>SFD</u>
<u>Afghanistan</u>			
Khanabad Irrigation II		15.0	<u>3/</u>
Agro-Industries I		15.0	<u>3/</u>
Roads III		12.0	<u>3/</u>
<u>Burundi</u>			
Highways II		10.0	<u>1/</u>
<u>Egypt</u>			
Suez Canal Expansion *	100.0		50.0
<u>Madagascar</u>			
Power I		33.0	10.0 <u>2/</u>
<u>Rwanda</u>			
Highways IV		15.0	2.0 <u>1/</u>
<u>Sudan</u>			
Port Development I		20.0	<u>3/</u>
<u>Tanzania</u>			
Pulp & Paper	<u>20.0</u>	<u>25.0</u>	<u>1/</u>
<u>Total</u>	<u>120.0</u>	<u>145.0</u>	

1/ Identified2/ Probable3/ Approached

* Negotiations substantially completed. Expected to be submitted to the Board for approval in the 1st quarter of FY78.

SAUDI ARABIA

CURRENT STATUS OF TECHNICAL ASSISTANCE

MANPOWER DEVELOPMENT/EDUCATION

Manpower Planning Study, Phase II
(Ministry of Planning)

Phase II includes development of a manpower planning model and execution of a short-term survey of critical skills. A mission set up the planning model at the Ministry of Planning in February 1977. Findings of the Critical Skills Survey were submitted May 1, 1977

Accelerated Literacy Program
(Ministry of Education)

Evaluation of existing conditions and literacy efforts is almost completed. Testing of pilot Accelerated Literacy Programs is underway, with final evaluation due in late May 1977.

Ad Hoc Support
(Ministry of Education)

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

HOUSING

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

Bank has provided assistance in preparation of draft and final bid documents as well as in review and analysis of completed bids. Due to low response of bidders and incomplete technical submissions, Bank is now providing assistance to the Government in its negotiations with some prequalified firms.

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

Bank assistance has also been requested for subsequent phases of this project, scheduled to begin in FY78, but the specific tasks are as yet undefined.

PUBLIC UTILITIES

Telecommunication System
(Ministry of Posts, Telephone &
Telecommunications)

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

INDUSTRY

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

Details of assistance required to be determined after further discussions with the Government concerning follow-up on the three reports of the Industrial Sector Mission which were submitted to Government in October, 1976.

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

Bank awaiting specific requests for assistance from Government in FY78.

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

(a) Saudi Arabian Steel

The Bank was present at the Exco meeting of the MARSTEL group in early 77 at which the private participants declined to proceed further with the project. The

INDUSTRY (Cont'd)

(a) Saudi Arabian Steel (Cont'd)

Bank was also present at the March 1977 meetings at which SABIC decided to go ahead with a reduced scope project and invited vendors to submit additional bids. The Bank prepared several memoranda for SABIC concerning the options open, but the Bank was not privy to the recently announced decision to select the Midrex process for a two unit project. We are currently giving assistance to SABIC in installing its own financial modeling capability.

(b) Aluminum Smelter

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

(c) Shell Petrochemical Complex

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

(d) Dow Petrochemical Complex

The Bank provided a preliminary evaluation of the project, dated October 1976 to MIE. The Bank understands that an agreement has now been reached between MIE or SABIC and Dow.

(e) Grace/Itoh Ammonia Methanol Complex

MIE or SABIC is considering its position regarding chemical-grade methanol production. This may involve one or more of the project sponsors, e.g. C. Itoh, Celanese or Borden. Grace recently attended methanol Saudi-Japanese meetings in Riyadh as an observer, but

INDUSTRY (Cont'd)

(e) Grace/Itoh Ammonia Methanol
Complex (Cont'd)

the ammonia/urea part of the methanol project(s) appears to have been dropped, at least for the time being. The Bank has no current or full information on this matter, other than that the project is presently inactive.

(f) Mobil Petrochemical Complex

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

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

Report on Mineral Sector Survey
delivered to Government in April 1976.
No further work since. None is anti-
cipated in FY78.

Legal Assistance for Review of
Documents

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

PUBLIC INVESTMENT FUND

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

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

Institution Building
(Ministry of Finance and
National Economy)

Bank has prepared first draft of operat-
ing policies, procedures and criteria
for PIF, and a proposal for organiza-
zation of PIF (including staffing pro-
posals). Bank will continue to assist
PIF in bringing draft proposals into
operation, as and when required.

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

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

TRANSPORT DEVELOPMENT

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

Preliminary design report issued by
consultant in June 1976. Government
and Bank review revealed major defi-
ciencies and consultant issued supple-
mental report in mid-August. Revised
report was accepted in October 1976.

TRANSPORT DEVELOPMENT (Cont'd)

Bahrain Causeway (Cont'd)

Bank has assisted in recruiting consultants for expert panel to review embankment design proposals, and will review cost proposal for final design phase. Bahrain Causeway Expert Panel was in field in early May 1977.

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

As result of Bank efforts to provide recruitment assistance to Ministry of Transport and Communications, a full-time consultant was appointed on November 1, 1976, to assist in the capacity of Senior Highway Advisor. His appointment ends on June 30, 1977, and it is expected that he will be seconded to the Government for a period of two years from that date. A request for a second advisor has been received and an allocation is provided for him in the FY78 program.

GENERAL

Procurement Pricing
(Ministry of Finance and National Economy)

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

EDI COURSE

Industrial Projects Course
(Institute of Public Administration)

Course had been scheduled to begin in January 1977; this course has been postponed indefinitely.

TRAINING

The Bank organized a five-week tour of relevant projects in various countries for two senior officials of the Ministry of Education.

PORTS

A Bank mission recently assisted the Saudi Ports Authority in designing Terms of Reference for a study for a long-range development Plan of the Port system in the Kingdom. Bank involvement in the study is currently being reviewed.

SAUDI ARABIA - TECHNICAL ASSISTANCE

FY77 AND PROPOSED FY78 PROGRAMS

Ministry/agency and project	FY77 Allocation manweeks	FY78 Proposed Program manweeks
<u>MINISTRY OF PLANNING</u>		
Manpower Planning (Stage II)	225.0	60.0
Manpower Planning (Stage III)	-	40.0
Manpower Planning (Labor Market Study)	-	100.0
<u>MINISTRY OF EDUCATION</u>		
Accelerated Literacy Program	230.0	230.0
Ad Hoc Support	6.0	-
<u>MINISTRY OF PUBLIC WORKS AND HOUSING</u>		
Housing Program	225.0	225.0
<u>MINISTRY OF INDUSTRY & ELECTRICITY</u>		
SABIC - Major Projects: Preparation and Evaluation	115.0	137.0
SABIC - Fertilizer Strategy/Policy	8.0	-
ISDC - Non-Hydrocarbon Industrial Development Programs, Phase II	15.0)	
ISDC - Selected Feasibility Studies (including Agro-Industries)	4.0)	
General Support	- 1/)	10.0
<u>MINISTRY OF FINANCE AND NATIONAL ECONOMY</u>		
PIF - Project Evaluation: Non-Industry (including East West Crude Oil Pipeline)) 15.0	35.0
PIF - Project Evaluation: Industry) -	-
PIF - Institution Building	-	-
Procurement Pricing	4.0	-
Desalination Committee	8.0	-
Ad Hoc Support	8.0	-
<u>MINISTRY OF TRANSPORT AND COMMUNICATIONS</u>		
Transport Planning - Headquarters Support	36.0	15.0
Bahrain Causeway	30.0	30.0
Ports Study	- 1/	-/
<u>MINISTRY OF POSTS, TELEPHONES & TELECOMS.</u>		
Telecommunications	10.0	5.0
<u>TRAINING</u>		
Training - Literacy Visits) 8.0	10.0
Other)	
<u>CONTINGENCIES</u>		
	67.0	260.0
Sub-total - Headquarters	1014.0	1157.0
<u>RESIDENT MISSION IN SAUDI ARABIA</u> ^{2/}	234.0	286.0
<u>SECONDED ADVISERS TO MINISTRY OF TRANSPORT AND COMMUNICATIONS</u> ^{2/}	-	65.0
Total Manweeks	1248.0	1508.0
MANYEAR EQUIVALENT	24.0	29.0

1/ No allocation made for these activities - allocation to be drawn from contingencies which have been increased accordingly.

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

RESIDENT MISSION

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

EMIDA

BANK'S TECHNICAL ASSISTANCE TO

SAUDI FUND FOR DEVELOPMENT

Bank assistance to the Saudi Fund has been as follows:

- a) In March 1976, secondment of a member of the Legal Department (Mr. Sherif Hassan) to work as the Fund's Legal Advisor, initially for one year, recently extended by another year, until March 1978.
- b) Assistance in recruitment: several candidates have been proposed and some interviewed, and we have provided SFD with sample job description.
- c) Assistance on procurement and disbursement for cofinanced project: the Bank supervises procurement and disbursement for the Saudi Fund loans on its four cofinanced projects in Egypt and some other countries.
- d) Provision to SFD of full appraisal details on cofinanced projects;
- e) Preparation for SFD a study on its capital structure investment strategy (June-August 1975).
- f) Provision to SFD of a portfolio audit sample.
- g) Two months on-the-job training in the Bank's Legal Department of a staff member of SFD's Legal Department, recently promoted to Deputy Managing Director of SFD.
- h) Two months general familiarization in the Bank of a senior staff of SFD.
- i) Currently on-going, two months familiarization in the Bank's Controller's and Treasurer's departments of the Director of Capital and Loan Administration department of SFD.

SAUDI ARABIA AND THE WORLD BANK 1/

Introduction

1. Cooperation between Saudi Arabia and the World Bank is extensive and covers:-

- a technical cooperation program under which the Bank provides technical assistance in selected areas of Saudi Arabia's development plan;
- coordination of external assistance to developing countries through co-financing operations between the Bank and the Saudi Fund for Development and Saudi Arabian participation in consultative groups chaired by the Bank (Egypt and Tunisia);
- investment by Saudi Arabia in IBRD bonds (totalling \$1.4 billion at present);
- a contribution by Saudi Arabia to the Fifth Replenishment of IDA.

2. All these areas will be the subject of discussion between Saudi Arabia and the World Bank over the coming months. The purpose of this memorandum is to provide a short general background on the goals and operational policies of the Bank against which these discussions will take place.

1/ The official names (and acronyms) of the three institutions making up the World Bank are: the International Bank for Reconstruction and Development (IBRD); the International Development Association (IDA); and the International Finance Corporation (IFC).

The Objectives of World Bank Lending

4. The Bank opened for business in 1946. It obtained part of its resources from capital subscriptions paid by its members but for most of its funds it was expected to rely on the sale of its securities in private capital markets. Saudi Arabia became a member in August 1957. ^{1/}

5. The Bank's earliest loans were for post-war reconstruction in Europe but the focus of the Bank's lending shifted gradually toward development projects and developing countries. Much of the Bank's lending in the 1950s was for basic infrastructure projects -- railroads, highways, dams and power plants. While the transportation and power sectors still account for about one-third of the Bank's lending, there has been a steady increase during the past ten years in financing for other sectors such as agriculture, education, industry, and population planning. This shift in sectors was paralleled by a broadening concern for the overall problems of development, and increased attention to the whole set of domestic policies and external factors which affect the economic prospects of individual developing countries.

6. In the early 1970s, the Bank initiated a major effort to raise the productivity of the 800 million poor people who live in rural areas of developing countries. The steps which have been taken in recent years to implement this objective include a substantial increase in lending for agriculture. The result has been that agricultural loans now account for nearly 30 per cent of total lending compared to 15 per cent in fiscal year 1972. Within this expanding overall agricultural program, there has also been a substantial increase in the proportion of assistance designed expressly for improving the productivity and incomes of the rural poor. Whereas less than 30 per cent of agricultural operations focussed on the rural poor in FY69-73, some 55 per cent of the agricultural program has done so in the last three years. Within the five years, FY74-78, we expect to finance projects which have as their objective substantially increasing the incomes of 100 million of the poorest people in the developing countries.

7. More recently, the Bank has begun expanding and redirecting its investment in the urban areas of developing countries in order to ensure that it results in increased earning opportunities for the urban poor. While the profile of urban poverty differs considerably from that of the rural areas, the central strategy of the Bank remains the same: to help the poor become more productive. Close to 50 new urbanization projects are planned for the five-year period, FY76-80. These will include sites and services projects, squatter settlement upgrading programs, small-scale enterprise financing, as well as projects to bring to the poor such productivity-related services as transportation, electricity and basic education.

^{1/} The five largest shareholders in the Bank (and their present shares of voting power) are: United States (22.6%), United Kingdom (9.1%), Germany (4.8%), France (4.5%), and Japan (3.6%).

Volume of Lending

8. In the current fiscal year ending June 30, 1977, the World Bank Group -- IBRD, IDA and IFC together -- will have committed over \$7 billion in loans to developing countries. Of this amount, \$5.8 billion is in the form of long-term IBRD loans with an average final maturity of over 20 years and an interest rate of about 8-1/2 per cent; \$1.3 billion of the lending is through the Bank's "soft" loans operations -- IDA credits with a final maturity of 50 years and an interest rate of 3/4 per cent; and IFC has invested approximately \$250 million in industrial projects in developing countries.

9. As the table below indicates, in recent years the Bank Group has increased its lending very substantially:

	Average Per Year <u>1964-68</u>	Average Per Year <u>1969-73</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Financial Commitments:							
Current \$ billions	1.2	2.7	4.5	6.1	6.9	7.3	8.7
Constant FY77 \$ billions	2.8	4.3	5.5	7.0	7.4	7.3	8.1
No. of IBRD and IDA Projects	56	129	174	190	214	221	243
No. of IFC Investments	15	23	32	31	33	33	37

10. By the end of this current fiscal year, IBRD and IDA will have together lent \$4 billion to Arab countries of which \$2 billion has been lent in the last three years. A total of 205 projects has been financed in Arab countries and in them operations are currently averaging 30 a year. Of the total \$4 billion lent, about \$1 billion has been from IDA. 1/

11. The role of the World Bank in the international development effort, and the scale of its operations, are further illustrated by the fact that at the end of FY77 it was supervising the completion of about 1,200 projects in over 90 developing countries -- projects representing a total investment of \$65 billion, of which the Bank itself is financing \$27 billion.

12. By FY79 Bank Group lending will have reached the \$10 billion per annum level. Over the next three years FY78-80, IDA will be able to commit about \$8 billion from the Fifth Replenishment of IDA resources. In the case of IBRD, the Executive Directors have approved a lending level of \$6.1 billion for FY78 and a level of \$6.8 billion for planning purposes for FY79. Future levels of IBRD lending will depend on the outcome of the negotiations now starting for a general capital increase for IBRD. It is hoped that the negotiations can be concluded by December 1977.

1/ Annex A shows the volume of IBRD/IDA lending in Arab countries. Annex B lists the projects financed in Arab countries by IBRD and IDA.

Technical Standards

13. Because the Bank is a market-based financial intermediary as well as a development institution, it needs to give assurance to both shareholders and investors in its bonds that its lending operations meet sound financial and operational criteria. Firstly, this means that loans are made only to countries which may reasonably be judged creditworthy. Secondly, Bank lending is predominantly directed towards specific projects and all projects have to meet high financial, technical, and economic standards. In addition, the identification and preparation of projects is conducted against the background of a thorough economic analysis of a country's economic prospects, thus ensuring that the investments are in high priority projects. In the appraisal process which follows after a project has been identified, the Bank measures the economic benefits of a project and calculates the rate of return on the investment wherever possible. Recently, the economic return from projects financed by both IBRD and IDA has been averaging close to 20 per cent per annum. Moreover, once a loan has been approved, the Bank continues to supervise the implementation of the project being financed until it is completed.

IBRD Resources

14. IBRD resources are derived from paid-in capital (\$3.1 billion), and borrowings in the capital markets of the world (\$17.4 billion funded debt outstanding). The great expansion of IBRD lending in recent years, together with a parallel rise in liquid assets, has required a corresponding growth in the borrowing program. Net borrowings in FY74-78 will be nearly three times the level in FY69-73, and will amount to about \$18 billion in the five years FY77-81. Faced with these large borrowing requirements, the Bank has made a conscious effort in recent years to diversify the sources of its funds.

15. The Bank commenced its direct placements with the Saudi Arabian Monetary Agency (SAMA) in 1968 when \$15 million of an issue of 6-1/2 per cent 26-Year Bonds issued in the United States were sold to SAMA. Since then the Bank placed directly with SAMA issues denominated in Saudi riyals, United States dollars, Swiss francs, and Deutsche mark, with four issues having been made in FY77. All ten issues remain outstanding, and they aggregate about \$1.26 billion equivalent at current exchange rates. World Bank bonds sold directly to SAMA, including SAMA's current holdings of \$131.0 million of our Two-Year Bonds, amount to \$1.39 billion equivalent.

16. IBRD resources will be substantially increased as a result of the Selective Capital Increase which has been approved by the Governors in May 1977, and is now gaining the approval of Parliaments. This increase in subscribed

capital -- which totalled \$8.5 billion -- was designed to adjust countries' shares in the Bank's capital so as to keep them roughly in line with their quotas in the International Monetary Fund. About \$850 million of this increase will be paid-in. Saudi Arabia's paid-in share of this amount is \$45 million. The balance of the increase in subscribed capital will be left uncalled except in the highly unlikely event that it is needed by the Bank to meet its obligations to bondholders.

17. The Bank's net income in recent years has approximated \$200 million per year -- about \$100 million, approximately half the net income of the Bank, has been transferred each year as a grant to IDA, and the rest retained for the Bank's own reserves.

IDA's Special Emphasis

18. IDA was established in 1960 to lend on highly concessionary terms. IDA's purpose is to lend to countries which offer opportunities for productive development investment, but which because of either their poverty or their heavy external debts are not creditworthy for IBRD loans. Except for the financial resources on which they depend, and the contrasting terms on which they lend, the two institutions are identical in objectives and procedures. The IBRD staff also serves as the staff of IDA.

19. IDA credits go to the poorest countries in the world. While about 80 per cent of IBRD lending is to countries with per capita incomes above \$265 (in 1975 U.S. dollars), 90 per cent of IDA lending is for countries with per capita income levels below \$265. About one half of IDA projects are in countries in Africa south of the Sahara, and about 30 per cent of IDA credits go to Islamic countries. Ten per cent of IDA credits go to Arab countries.

20. IDA credits are not only concentrated on the poorest countries but increasingly on the poorest people within those countries. In FY77 almost half of IDA credits are in the agriculture sector which is of most immediate relevance to increasing the productivity of the poor and it has been estimated that more than 33 million small farmers and landless rural workers will benefit directly from IDA projects in agriculture made over the last four years FY74-77.

21. It is IDA's long-run aim to improve the productive capacity of countries it assists so that eventually they will be able to accept external assistance on conventional terms including from IBRD. During the last three years, about 15 countries that had previously received IDA (including, for example, Tunisia) were judged creditworthy to receive loans from IBRD instead, and were 'graduated out' of IDA or received their last IDA credit. However, for many of the poorest countries, the need for IDA assistance will increase before they reach the stage of being able to accept less concessionary assistance.

22. Grants to IDA out of the Bank's net income total \$1,125 million to date. Apart from them, IDA depends for its resources almost entirely on contributions from governments which are in a position to transfer resources to the poorest countries. Negotiations among contributors have been arranged periodically to agree on both a total amount for the Replenishment of IDA funds to cover successive three-year periods, and also the share to be contributed by each government.

23. By the end of June 1977, IDA will have lent over \$11 billion and exhausted its resources to commit from initial subscriptions and previous Replenishments. Negotiations for the Fifth Replenishment of IDA have just been concluded for a total of \$7.6 billion to be committed from July 1, 1977 through June 30, 1980. Saudi Arabia agreed to contribute \$250 million to the Replenishment (3.3 per cent of the total).

24. Saudi Arabia's contribution to the Fifth Replenishment of \$250 million ranks in size between contributions made by countries such as the Netherlands (\$217 million), Sweden (\$294 million) and Italy (\$296 million). Since disbursements on a country's commitment to IDA are spread out over about 10 years, the financial impact is correspondingly reduced. The table below shows how we expect Saudi Arabia's commitment to be drawn by IDA. We estimate that Saudi Arabia's disbursements to IDA will account for between 2 to 3 per cent of Saudi Arabia's development assistance program in the next few years (Annex C).

Estimated Disbursements on Saudi Arabia's \$250 Million Contribution

FY78	\$ 5.3 million	FY82	\$47.0 million	FY86	\$ 12.0 million
FY79	\$19.3 million	FY83	\$37.7 million	FY87	\$ <u>5.2</u> million
FY80	\$35.3 million	FY84	\$23.2 million	Total	\$250.0 million
FY81	\$48.8 million	FY85	\$16.2 million		

25. In the past some countries have chosen to pay their IDA contribution immediately in cash. This has been welcomed by IDA which thereby benefits from investment income.

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OFFICE MEMORANDUM

TO: For the Record

DATE: October 12, 1977

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

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

1- Mr. McNamara asked Mr. Alquraishi whether the Bank was doing everything it could to assist Saudi Arabia in its development efforts and whether there was anything more it could do. Alquraishi said that Saudi Arabia was completely satisfied with the Bank's technical assistance program. Before the meeting, he had checked with his associates whether there was any particular point he should raise with Mr. McNamara, and the answer was there ~~was~~ none. Mr. McNamara said that in any case, if any such point arose, the Saudi authorities should not hesitate to raise it with him or Messrs. Benjenk or El Fishawy.

2- Alquraishi said that he found that the atmosphere of this year's Annual Meetings was better than that of last year, and that there seemed to be less problems ahead for the Bank in fulfilling its mission. Mr. McNamara agreed and said that there was general support of the proposed capital increase. Alquraishi said that Saudi Arabia supported a continuing growth in real terms of the Bank's lending program and the necessary capital increase which would make such a growth possible. McNamara explained that the capital structure of the Bank was such as to give it tremendous leverage. As the Chairman of the Board of Governors stated in his opening speech, the members' subscriptions to the Bank's capital created remarkable leverage for development. The relatively small amount of capital actually transferred by the members' subscriptions was multiplied more than twentyfold through the Bank's own capital market efforts and the local and co-financing resources mobilized in connection with its projects. Alquraishi asked whether the intended increase was going to be selective or a general increase. McNamara explained that the initial discussions which would take place in the coming months would concentrate on determining the amount of the increase and its timing. The amount would naturally depend on the projected growth in Bank lending. Then would come the question of

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

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

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

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

SELFishaw/as.

MEMORANDUM FOR THE RECORD

Riyadh:

Meeting with Sheikh Mohammed Abalkhail, Minister of Economy and Finance, January 24, 1978

Present: Messrs. McNamara, Abalkhail, Alquraishi, Al-Turki, Al-Sugair, Benjenk, El Fishawy, Carmignani

The meeting discussed (i) Egypt, (ii) technical assistance to Saudi Arabia, (iii) IBRD capital increase, (iv) IBRD borrowing, (v) IDA, and (vi) Turkey

Egypt

Mr. McNamara said that four years ago he had outlined to President Sadat four necessary steps to be taken on the Egyptian economy: (i) improvement of debt management; (ii) elaboration of a development plan; (iii) changes in pricing policies, including foreign exchange; and (iv) improvement of the management of the economy. President Sadat had assured him that these steps would be taken. Since then substantial progress had been made, particularly during the last year under Dr. Kaissouni's able leadership. Debt management had been markedly improved. The plan with its growth target of 12% was still unrealistic but was considered flexible enough for the necessary adjustments to be made. The Government was moving gradually to adjust prices; in the industrial sector, the new energetic Minister of Industry had made substantial progress, but there were still serious distortions in the agricultural sector, e.g., cotton. The country could move to higher value agricultural crops for export. As he had stated in his Cairo press conference, Bank lending could substantially increase if the Government continued its sound policies. The if in this statement was important. Mr. Abalkhail said that this if will strengthen Dr. Kaissouni's hand. Mr. McNamara agreed that Dr. Kaissouni needs strong support; he could be considered to rank among the top 10% of the about 100 economic ministers the Bank deals with, but Egypt's problems also rank among the worst. The population growth rate was rising and stood at 2.58%. Two thirds of the investments until the end of this century had to go into accommodating the population increase. The country needed labor-intensive industrial expansion. The Government was still fragmented and there remained substantial bureaucratic weaknesses. Nevertheless, remarkable progress had been made. Egypt would continue to need large amounts of foreign financing. However, most of this financing could be provided on a loan basis. IDA could not be substantially increased; the Bank had to provide IBRD resources. The country also needed increased continued assistance through GODE, probably about \$1 billion this year. Mr. Benjenk added that at last year's Consultative Group meeting a letter from President Sadat to Mr. McNamara had been discussed, which stated that Egypt was to rely less and less on extraordinary financing and more and more on project financing. Present projections were in line with last year's picture.

Mr. Abalkhail emphasized that Egypt was a very important subject to Saudi Arabia. He appreciated the Bank's role in Egypt, its technical assistance and its support to the economic team which went beyond financial assistance. The Bank's recommendations had been effective and accepted by President Sadat. Saudi Arabia supported Egypt through different channels. Over the last four years, the Bank's and Saudi Arabia's policy advice had been almost identical; e.g., recommending to support existing industry and to introduce proper pricing. Last year, GODE had provided \$1.45 billion. Also, a capital increase had been discussed in 1977 but there had been no follow-up yet with the other Gulf countries. He expected the Governors to meet soon on this issue. He was not clear yet what amounts of assistance should be devoted to balance-of-payments support. Also, the relationship with the Kuwait Fund and the coordination with other institutions had to be considered.

Mr. Alquraishi enquired about Mr. McNamara's view on Egypt's debt management. Mr. McNamara said that major progress had been made and short-term debt had been substantially reduced. However, the management was not yet as sophisticated as the Bank's or Saudi Arabia's. (Mr. Alquraishi interjected that Saudi Arabia had a credit management not a debt management.) Mr. Benjenk reported that Egypt now borrowed from its own nationals in foreign exchange, \$250 million last year and about \$500 million this year. Mr. Abalkhail said that Dr. Kaissouni had very ably exploited these sources. Mr. McNamara agreed. There had been \$700 million in workers' remittances. This reflected confidence in the Government. Net foreign exchange income from the Suez Canal was projected at \$450 million in 1978 and the Canal rates could be further increased. Oil resource development was progressing.

Mr. Abalkhail enquired about the cotton subsector. Mr. Benjenk said that export revenues of cotton had dropped from \$500 million to \$250 million. Because of inadequate price incentives, farmers switched to food crops and cotton production was declining. Mr. McNamara said that Egypt was not maximizing its agricultural production; for example, the expanded acreage resulting from the High Dam was inadequately utilized. Export crops could be increased before new lands had to be brought into production.

Mr. Abalkhail enquired about the decontrol of commodity prices. Mr. Benjenk replied that liberation continued; the number of controlled commodities would be reduced from 88 to 48 this year.

Mr. Alquraishi said that the country's major problem was population growth. Mr. McNamara agreed. No real effort to control population growth had been made yet. President and Mrs. Sadat were concerned about the issue. The new Minister of Health pursued the right policy.

Mr. Abalkhail concluded that the Bank's role in Egypt was very helpful. It was a new role for the Bank to give direction to the country's economic planning and management. This was the proper role to play in LDCs for international institutions with able professionals.

Technical Assistance to Saudi Arabia

The meeting agreed that the program was generally going well. The industrial projects were the most demanding. There were some problems with the assistance to the housing sector.

Mr. Abalkhail enquired about progress in manpower development. Mr. Carmignani said that there was no information on the supply side. A long-term manpower planning model had been developed for the Ministry of Planning to forecast manpower supply and demand and linking them to various scenarios of development of the Kingdom over the next 20 years. Mr. Abalkhail emphasized that the work on short-term aspects of manpower was also of great importance. Mr. McNamara said that the Bank could support his work; whatever technical assistance support Saudi Arabia needed, the Bank was ready to help. Mr. Abalkhail said that the present generation had to deal with too many tasks. This resulted in a number of overlaps and poor coordination. Saudi Arabia was also a developing country. Mr. McNamara replied that the Bank was not particularly "smart" but had exposure to very different development situations in a large number of LDCs. It could, therefore, transfer this learning experience.

IBRD Capital Increase

Mr. McNamara said that he expected a decision on the IBRD capital increase between April 1 and July 1, 1978. The increase would probably be in the order of \$30-\$40 billion in three installments for 1983-85. However, there were problems because of budgetary pressures in OECD countries and the negative attitude of U.S. Congress. On the other hand, the Bank received strong support from the U.S. Administration. Mr. Abalkhail pointed to the general malaise of the North/South negotiations. There was disagreement between LDCs as to how much aid they could obtain. Mr. McNamara said that he hoped the Brandt Commission could come forward with some constructive proposals. Mr. Abalkhail mentioned that Mr. Heath, who had visited Saudi Arabia two weeks ago, was anxious to see the role of the Brandt Commission expanded. He had advised Mr. Heath that the Brandt Commission should not deal with too many issues and rather focus on a few crucial ones. This might lead to a better mutual understanding and fewer international conferences in the future.

IBRD Borrowing

Mr. McNamara reported on the IBRD borrowing program. The Bank borrowed on a strictly commercial basis and the investors in the U.S. were simply interested in quality and yield. He handed Mr. Abalkhail a copy of the Paine & Webber study on the Bank. He suggested that Mr. Rotberg should come to Saudi Arabia and work out a borrowing program with the Government on a commercial basis. He would like to see the Bank borrow substantially increased amounts from Saudi Arabia. Mr. Abalkhail said that Mr. Alquraishi would be the expert for Mr. Rotberg to talk to. In principle he was very interested in an expanded borrowing program. Mr. McNamara said that there was no urgency to the issue. The Bank's annual borrowing program for FY78 was \$4.2 billion and had already been accomplished. However, the Bank had to increase considerably its future borrowing. Increased borrowing from Saudi Arabia would enable the Bank to diversify its borrowing structure which was important in view of the future risk of limited access to OECD capital markets, due to balance of payments problems of these countries. Diversification provided protection.

IDA

Mr. McNamara emphasized that, while IBRD borrowing constituted a benefit to Saudi Arabia, contributions to IDA constituted a penalty. Supply of sufficient IDA funds to the poorest countries was essential. Thirty percent of IDA resources were allocated to poor Moslem countries and to priority sectors, particularly food production. He would hope that Saudi Arabia could supplement its contribution to IDAV. Saudi Arabia had originally pledged \$250 million for three years. Mr. Abalkhail said that his Government needed some time to consider this issue which had also been addressed by Mr. El Fishawy. The country's commitments were increasing faster than its income. The Government of Saudi Arabia believed in development assistance through different channels, but at some point the country had to evaluate its commitments. There were important pressure groups also in Saudi Arabia.

Turkey

Mr. McNamara reported on the new Government in Turkey and the country's desperate economic situation. Turkey was in worse shape than Egypt had been a year ago. It was a politically dangerous situation which had to be watched closely. The country was situated in an important area of the world. If the country's economic management was improved, the Bank would be willing to consider increased support.

CKW
March 31, 1978

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: September 24, 1978

FROM: Martijn J.W.M. Paijmans, Director, EML

SUBJECT: SAUDI ARABIA: Visit by Mr. Abalkhail, Minister of Finance
and National Economy

1. Mr. McNamara met with the Minister, who was accompanied by his Deputy Minister for Economic Affairs, on September 24 at 2:00 p.m. Messrs. Benjenk, El-Fishawy, Koch-Weser and I were present.

2. Mr. McNamara welcomed the Minister by expressing his appreciation of Saudi Arabia's and the Minister's personal efforts towards supporting IDA and also his country's direct assistance to the poor countries, mentioning Egypt as an example. He expressed his readiness to receive - and in fact invited - the Minister's suggestions on the course of the entire development process.

2. Minister Abalkhail expressed his pleasure with this invitation and stated that his country's policy of cooperation with the Bank and with the developing countries would continue. He emphasized that no change would take place in that policy. He appreciated the assistance provided by the Bank to the development effort, in general, and also the Technical Assistance to Saudi Arabia.

4. On the subject of Technical Assistance, Mr. McNamara invited suggestions as to how our Resident Office could increase its efficiency and he mentioned that work on Crown Prince Fahd's request was progressing so that in about two weeks specific proposals would be made. He agreed very much with the Government's preoccupations - as indicated by the request for assistance - to minimise the cost of its very large investment effort while attempting to maximise benefits. The Minister responded that indeed the Government was keen to accelerate investment but that serious questions concerning the reasonable cost of investments frequently emerged and had to be addressed. The Minister said a person, possessing not only technical qualifications, could help in making the evaluations which would enable the Crown Prince to make decisions.

5. Mr. McNamara then mentioned that a matter of considerable concern to him was IDA VI. A substantial increase in real terms would be required to meet the needs of the poorest countries which did not receive private capital flows because of creditworthiness considerations while public flows were often not concessionary. Mr. McNamara did not enter into specific amounts but asked for Saudi Arabia's support, not only in terms of financial contributions but also in terms of evidence of political interest and will.

September 24, 1978

6. The Minister said that Saudi Arabia would consider IDA VI. He was pleased with IDA's expansion over the last years and agreed on the need to help the poor countries. Such help, he suggested, should also be given by the Bank in the form of technical assistance and of help in management procedures. The Minister enquired about the status of IDA V and the schedule for IDA VI. Mr. McNamara explained the situation and indicated that IDA VI commitments should start in July 1980.

cc: Mr. McNamara's office (2 copies)
Messrs. Cargill, Stern
Benjenk
El-Fishawy
Knox
Koch-Weser

MPaijmans:gbo

INTERNATIONAL MONETARY FUND
THE WORLD BANK

Boards of Governors · 1978 Annual Meetings · Washington, D.C.

TO: Records

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

SUBJECT: Saudi Arabia - Mr. McNamara's Meeting with Minister Mohammed Abalkhail of Finance and National Economy, On Sunday, September 24, 1978 at 14:00

Also present were Dr. Mansour Al-Turki, Sheikh Khaled Algosabi, Messrs. Benjenk, Paijmans, Koch-Weser and myself.

Mr. McNamara started by thanking the Government of Saudi Arabia and the Minister personally for their support of IDA's operations and the contribution which Saudi Arabia made to IDA5 Replenishment and particularly the supplementary contribution. Mr. McNamara indicated his awareness of the fact that this was not an easy issue and that Minister Abalkhail personally played a key role in ensuring Saudi Arabia's support. Mr. McNamara also praised the support that was given in this matter by Prince Fahd.

Mr. McNamara also said that in the Bank we were mindful of the generous foreign-aid assistance which Saudi Arabia extended to the Arab developing countries and also to non-Arab developing countries. Mr. McNamara said that the Bank would continue to strive in assisting both the government and the Saudi Fund in their foreign aid efforts.

Minister Abalkhail said that they appreciated the Bank's cooperation in this field and they also appreciated the Technical Assistance that was extended by the Bank to Saudi Arabia.

Mr. McNamara said that we were cognizant of the importance of the request for recruiting a Technical Adviser in the office of H.R.H. Prince Fahd and that we had been carefully screening appropriate candidates for this very important assignment. He referred to Mr. Chadenet's visit to Riyadh in this connection and said that within ten days we would communicate with the Minister suggesting a few names. Mr. McNamara said that this assignment could fulfil an important role. The Minister said that actually the person chosen would form a small team to assist him in his assignment. The main function of this office would be to give quick, basic assessment of technical matters that would come up in the office of H.R.H. Prince Fahd. Mr. McNamara said that we could ask Mr. Chadenet, who was previously the head of the Bank's technical department and who has a special background in industry, to visit Riyadh periodically for the purpose of keeping in touch with the development of this important assignment. However, this could not be done

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except after we were through here in the Bank with the question of staff compensation, since Mr. Chadenet was Vice President, Administration. Minister Abalkhail said that actually this kind of advice could be crucial in the implementation of the Saudi projects included in the development plan. Some projects were presently being dropped on the basis of unreasonably high costs.

Mr. McNamara referred to the efficient performance of the Koreans who were notably known for their discipline and hard work. The importance of introducing Korean labor in Saudi Arabia was not only limited to their performance but also to the general effect of introducing competition and lowering the cost of labor in general. Mr. McNamara said that actually the record of Koreans in the field of economic development had been outstanding. They were increasing their exports in real terms by 15% a year (they reached this year \$12-1/2 billion) and they were increasing their GNP by more than 8% a year. Whenever the officials of a developing country protested that the levels of savings required from them for the needs of the economic development process were on the high side and could not be met because the levels of incomes were already very low and the pressures of consumption were great, the Bank always indicated to them the Korean case as an example in this connection.

Mr. McNamara said that the problem of poverty was actually a tough problem and as the Minister could see from the printed speech tomorrow -- although the base was very much on the low side -- still the increase of the PCI in these countries would not exceed 1.8% a year up to the end of the century.

Mr. McNamara said that we would start negotiations for IDA6 Replenishment before the end of this year and that we hoped to achieve a substantial increase in real terms over IDA5. He said that we were finding support from the major contributors. President Carter and the American Administration were very supportive of IDA and so were also Germany and the U.K. They all recognized the important job that IDA was doing and its efficiency in the use of economic development funds. Support from Saudi Arabia would be of particular significance, not necessarily for the amount, although this also was important, but particularly for the political significance and for maintaining the support of the major contributors who would look to the support of other countries such as Saudi Arabia.

Minister Abalkhail asked about the timetable of the IDA6 Replenishment. Mr. McNamara said that we hoped to finish negotiating IDA6 by around this time next year. This would allow for a period of nine months thereafter for legislative ratification so that IDA6 would be effective by July 1, 1980. Minister Abalkhail asked about what had happened in the American Congress with regard to IDA5. Mr. McNamara said that we had good news on this front, although the going had not been easy. The appropriation was threatened by the amendment introduced in the U.S. Congress precluding IDA from using any of its funds in Vietnam. IDA could not possibly accept the U.S. contribution

under such an amendment. We worked hard to get the Senate to drop this amendment. This actually happened just one day before, on Friday, by a majority of one vote. Now the Bill would go to a joint session of the Senate and Congress and we hoped that it would pass without the amendment.

Mr. McNamara thanked the Minister again personally for the support he had been lending to the Bank and IDA.

cc: ✓ Mr. McNamara (2)
Mr. Cargill o/r
Mr. Stern
Mr. Knapp
Mr. Chadenet
Mr. Benjenk/Paijmans
Mr. Vibert

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 5, 1979
(Typed in Washington on
October 9, 1979)

FROM: A. Karaosmanoglu, EMI *AK.*

SUBJECT: 1979 Annual Meetings: Mr. McNamara's Meeting with H.E. Sheikh Mohamed Abalkhail,
Minister of Finance and National Economy, Saudi Arabia

1. Mr. McNamara met with H.E. Sheikh Mohamed Abalkhail, Minister of Finance and National Economy, Saudi Arabia, on October 1, 1979. Also present from the Bank were Messrs. Benjenk, Qureshi, El-Fishawy, Karaosmanoglu and Koch-Weser.

2. The meeting started with Mr. McNamara's expression of appreciation for the early vote of Saudi Arabia for the Bank's capital increase. Mr. McNamara asked the Minister for his evaluation of the technical assistance program. The Minister expressed great satisfaction with our program and said that access to a big resource like the Bank was very important for Saudi Arabia. The Minister said that he was hoping not only for the realization of the capital increase, but expecting to see an increase in the role of the Bank in the next decade. He felt that the Bank should take the lead in coordinating the help of regional development institutions and also bilateral creditors. This he said was important because the Bank had more flexibility than governments in providing this type of function. In response, Mr. McNamara referred to the new activities in the field of energy as an earlier example that the Bank's scope was broadened. He told the Minister that a study carried out in the Bank identified a large number of developing countries where the potential for production of oil and gas existed and where appropriate investments might result in increased oil and gas production of 4 million barrels of crude equivalent. The Minister enquired about the attitude of the oil companies with regard to this activity of the Bank. Mr. McNamara told him that the attitude of the oil companies was not uniform: While some objected, like EXXON, others expressed strong support, like Gulf Oil, and in fact participated in a joint activity in Pakistan. Furthermore, Mr. McNamara explained that the Bank's participation enabled Pakistan and the oil company to reach an agreement where 100% of the exploration expenses will be paid for by the company. This was a case where the Bank, without paying a single dollar, was able to contribute to the development of energy production in one country. Mr. McNamara also referred to the offer of help that was extended by the Mexican PEMEX company in this field. The Minister said that although the images of the oil companies were not good, they had the know-how and ability to help if they wanted to, and that the Bank could put their potential into use through the countries where they operate.

3. Mr. McNamara then turned to the efforts of the Bank to lend to Arab countries and mentioned the fact that last year we reached \$1.287 billion in lending to Arab countries which was a great achievement considering where the Bank started when he came. He, however, said that we had a problem in our relations with Syria and that we were unable to work effectively there without being able to identify the cause of these difficulties. He said that it might be a political problem but he wanted

October 5, 1979

to ask the help of the Minister to find out what we could do to increase our operations in Syria. The Minister promised to talk to Mr. Imady, the former Minister of Finance, and also to check with others and let Mr. McNamara know.

4. The Minister said that he had some problems he wanted to raise with Mr. McNamara. First, the comments he heard in different places about relations between the Bank and the Arab countries especially in the context of some press activities. Second, he wanted to ask how much the Bank liked Arab activities in foreign assistance. He said that they felt they were doing their duty but the Bank was usually presenting their assistance within the OPEC group. He said OPEC was an institution and it was involved in oil and they could be considered as OPEC when oil and energy-related questions were discussed but in discussing the assistance he felt it was not right to combine them with other OPEC countries, some of which were not Arab countries, and he said that the differentiation of aid figures would help to create a good atmosphere to maintain the present levels of assistance from the Arab countries. Mr. McNamara referred to the World Development Report and pointed out that we showed in the statistical annex the higher level of assistance which Saudi Arabia and other Arab countries were giving on a country-by-country basis. He said he would ask the authors of the World Development Report for the next year to treat the assistance of Arab countries separately in the next year's report.

5. With regard to press reports, Mr. McNamara said the two articles were included in the press reports which were dealing with questions of concern for the Bank staff. The press report was supposed to be an internal document and it was not supposed to go outside of the Bank. He said that he did not know that it was sent out. In fact he said the same press report some time ago printed a very unfavorable and libelous article about Mr. McNamara himself but he has never considered asking the people working on this not to print such articles although they may be entirely in the wrong as they were necessary for the staff to know what was in the press. He said he would look into it when he returned to Washington.

cc: Mr. McNamara's Office
Messrs. Qureshi
Benjenk
Chenery/Waide
Merriam
El-Fishawy

Bart
Knox
Koch-Weser
Maiss
El-Rifai

AKaraosmanoglu:sap