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SAUDI ARABIA

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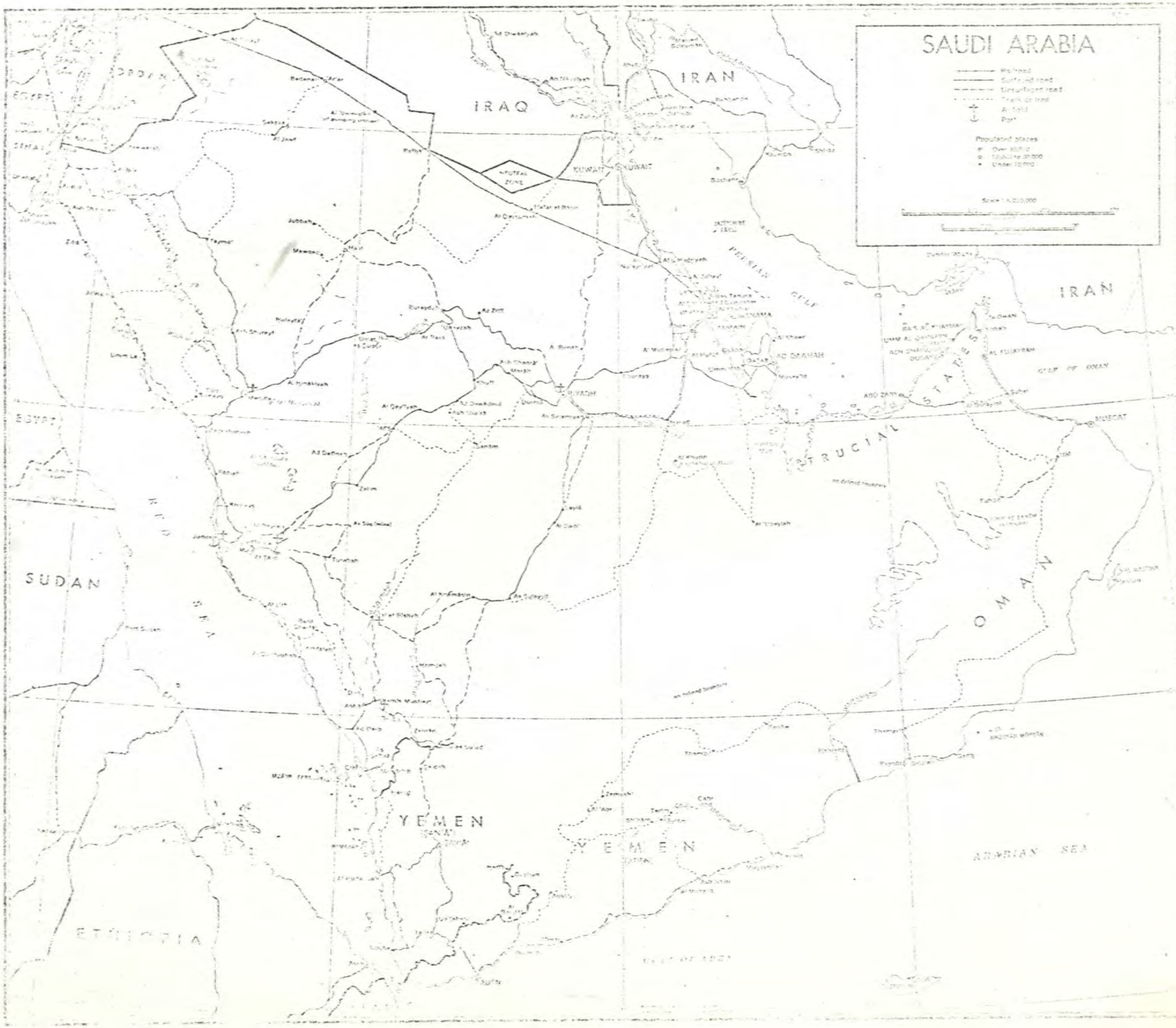
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SAUDI ARABIA

BACKGROUND NOTES

PROFILE

GEOGRAPHY

Calif + Texas

AREA: 873,000 sq. miles (approx.). CAPITAL: Riyadh (pop. 350,000); Jidda (pop. 300,000) is diplomatic capital. OTHER CITIES: Mecca (pop. 150,000); Medina (pop. 100,000); Dammam (pop. 60,000).

PEOPLE

POPULATION: 4.5-7 million (1972 est.). ANNUAL GROWTH RATE: 2.7%. DENSITY: 7 per sq. mile.

ETHNIC DIVISIONS: primarily indigenous Arab tribes with admixture of peoples from other Arab and Muslim countries. RELIGIONS: Sunni Islam; small Shi'a Muslim minority. LANGUAGE: Arabic. LITERACY RATE: Est. 25%. INFANT DEATHS (per 1,000 live births): 157. LIFE EXPECTANCY: 30-40 years.

GOVERNMENT

POLITICAL SUBDIVISIONS: 6 major, 12 minor Provinces.

TYPE: Monarchy. CONSTITUTION: Koran. UNIFICATION: Sept. 24, 1932. FLAG: green and white and bears in Arabic script the Muslim creed: "There is no god but God; Muhammad is the Messenger of God." Under the script is a sword symbolizing strength rooted in faith. The royal standard displays crossed swords and a date palm, emblematic of vitality and growth.

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

ECONOMY

GNP: $4.45 billion (1972). GROWTH RATE: 10%. PER CAPITA INCOME: approx. $1,000 (based on pop. fig. of 4.5 million); PER CAPITA GROWTH RATE: 8.5%.

AGRICULTURE: 1% arable/cultivated/pasture, 1% forested, 98% desert, waste, or urban. Labor—75%. Products—dates, grains, vegetables, livestock.

MAJOR INDUSTRIES: Labor—10%. Products—petroleum production/refining/marketing; fertilizer; cement.

NATURAL RESOURCES: petroleum, natural gas.

TRADE: Total exports—$3,846 million (1971): fuel oils & products $3,839 million; seafood & animal products $7 million. Partners—Common Market $1,316.7 million; Japan—$618.4 million; U.K. $335.5 million; U.S. $130 million. Total Imports—$1 billion (1971): machinery/transport equipment $226 million; foodstuffs $224 million; building materials $85 million. Partners—U.S. $180 million; Japan $150 million; West Germany $104.5 million; U.K. $61 million.

OFFICIAL EXCHANGE RATE: 3.75 Saudi riyals = U.S. $1.00 (2/73).

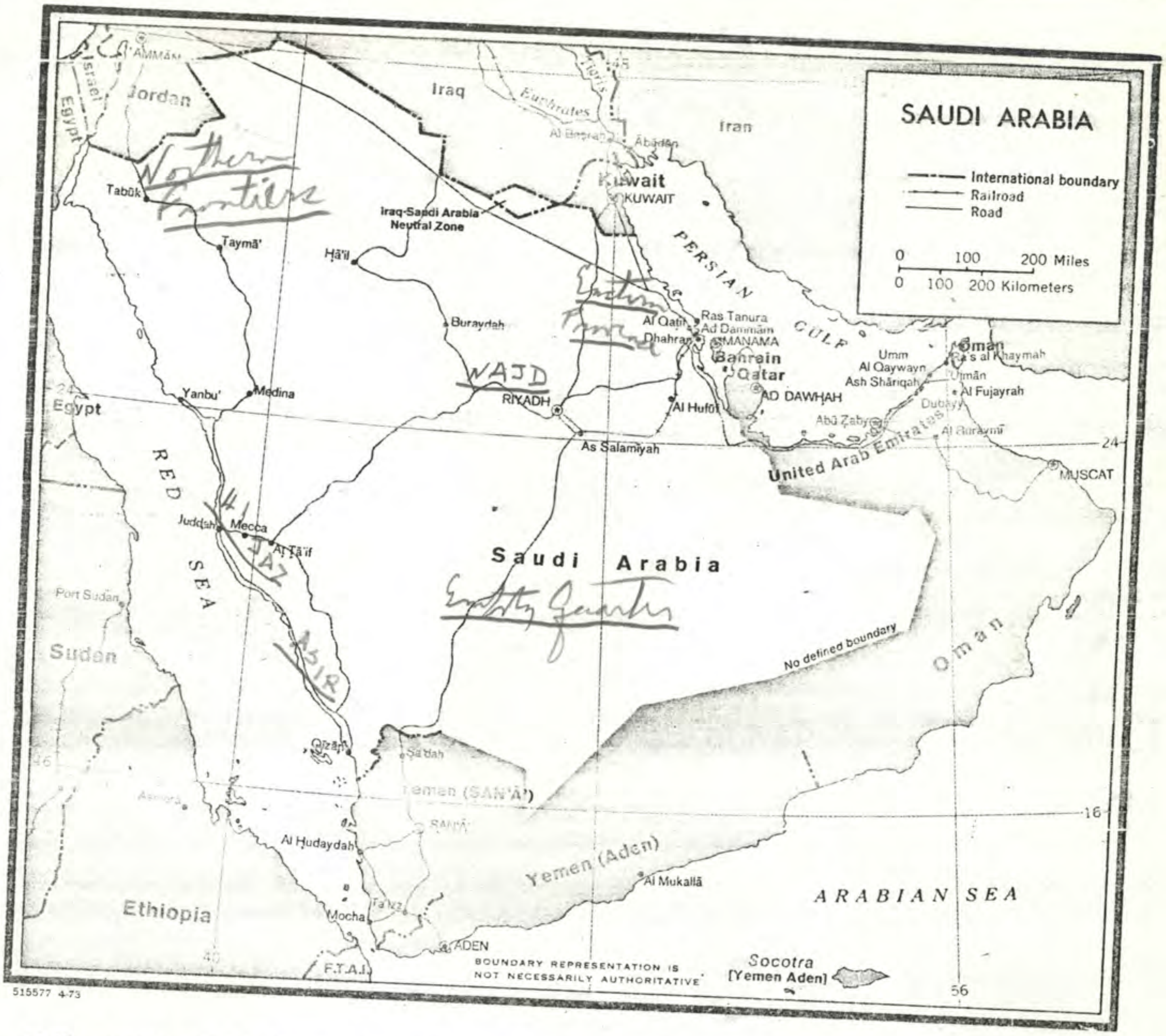
MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: United Nations, Arab League, Organization of Petroleum Exporting Countries (OPEC), Organization of Arab Petroleum Exporting Countries.

ECONOMIC AID DISBURSED: Total—$91.5 million (FY 46-72); Total U.S.—$31.8 million (FY 46-72): AID grants—$27.4 million, Other—$4.4 million; U.N.—$15 million; Ex-Im loans—$40.8 million.

GEOGRAPHY

Saudi Arabia, occupying about four-fifths of the Arabian Peninsula, is almost the size of Texas and California combined. Boundaries are not fully defined, especially in the northeast, east, and south. From a range of mountains near the Red Sea, the land slopes gently eastward toward the Persian Gulf (called the Arabian Gulf in Saudi Arabia). The topography is mainly desert, including the Rub al-Khali (Empty Quarter), a vast expanse of sandy waste too arid to support life. There are no permanent rivers or bodies of water. Rainfall is erratic, averaging 2-4 inches annually except in Asir, which averages 12-30 inches of rain in the summer. During summer the heat is intense over much of the country, frequently exceeding 120° F. in the shade with high humidity along the coasts. In winter, temperatures sometimes drop below freezing in the central and northern areas but snow and ice are uncommon.

Major regions include: the Hijaz, paralleling the Red Sea coast and where the two principal holy cities of Islam—Mecca and Medina, the commercial and diplomatic center of Jidda, and the summer capital of Taif are located; the Asir, a mountainous region along the southern Red Sea coast; Najd, the heartland of the country and site



of the capital city, Riyadh; the Eastern Province (also called al-Hasa) bordering the Persian Gulf, containing the largest concentrated oil reserves in the world; and the Northern Frontiers, through which passes the Trans-Arabian Pipeline (TAPLINE).

PEOPLE

No official census figures are available. Population estimates vary between 4.5 and 7 million with the lower figure more frequently used. Population density is on the order of 5 persons per sq. mile, but some urban areas and oases have densities of 2,000 persons per sq. mile.

Saudis are ethnically Arabs, with some admixture of non-Arab adherents of Islam (Turks, Iranians, Indonesians, Indians, and Africans) most of whom immigrated as pilgrims and reside in the Hijaz. Many Arabs from other Arab states are employed in the Kingdom. Until recently most of the people were nomadic or seminomadic; however, under the impact of rapid economic growth, urbanization has reduced this proportion to about 20 percent. The overwhelming majority of Saudi Arabians are Sunni Muslims who observe the puritanical Wahhabi interpretation of the Hanbalite school. A small Shi'a Muslim minority resides in the Eastern Province. Arabic is the official language but English is widely known. The literacy rate is climbing rapidly but is still estimated at under 25 percent.

HISTORY

The modern Saudi state was founded by the late King Abd al-Aziz Al Saud (known internationally as "Ibn Saud"). In 1902 Abd al-Aziz recaptured Riyadh, the Saud dynasty's ancestral capital, from the rival Rashid family. Continuing his conquests, C

His Majesty Faisal ibn 'Abd al-Aziz a Al Sa'ud

King Faisal, who is about 67 years of age, came to the throne in November 1964, following the deposition of his older brother, Saud. Faisal has played a major role in his country's history serving it in many capacities prior to becoming King. A friend of the West and particularly of the United States, he is nevertheless deeply concerned over US policy regarding Israel. He has often expressed his fear at the spread of communism and has often asserted that a link exists between Zionism and Communism. A deeply religious man, he is committed to the Islamic solidarity movement.

Faisal's father, King ibn Saud, groomed him to be Saudi Arabian foreign affairs expert. In 1919 Faisal was sent on a tour of Europe when he met a number of officials who had participated in the Versailles Peace Conference. In 1926 he became the Governor of the Hijaz Province a position which he held until his father's death. In 1932 he became Minister of Foreign Affairs, a position which he still holds.

During the 1950s, Faisal also held a number of other ministerial posts (Commerce, Finance and Interior). In 1958 he was responsible for instituting the first comprehensive budget for Saudi Arabia which was one of the institutional reforms that he pressed for on the then King Saud. He was also responsible for making the Saudi Arabian Monetary Agency an independent institution which was given authority to stabilize the economy, allow external debts which Saud had accumulated to be paid off rapidly and to build up a budgetary surplus which began to be used for development purposes in the early 1960s. In 1962, Faisal became Prime Minister, a position he has also retained since becoming King.

Faisal is an intelligent man with a strong sense of honor. He regards personal disloyalty and lack of principle as a major sin. An able debater, he can be either acerbic or very friendly, as the occasion demands. He has a keen sense of humor and a dignified, unpretentious manner. He has traveled on a number of occasions and has been in the US many times. He is married and has eight sons and four daughters; all except the first two sons have studied in the US. In recent years, Faisal has suffered from ill health; he had an operation for ulcers and has been treated for bilharzia. His doctors however find that he has made a good recovery and have pronouced him to be in good health. Faisal understands English but uses an interpreter for substantive talks.

Since the death of his close advisor, Mr. Anwar Ali, the King is said to have become more amenable to the influence of younger members of his Government.

Fahd ibn 'Abd al-'Azis Al Sa'ud

Second Deputy Prime Minister
And Minister of Interior

Prince Fahd, 51, was appointed by his half-brother, King Faisal, to be Minister of Interior in October 1962. In October 1967 he was assigned the additional responsibilities of Second Deputy Prime Minister. As the King himself is Prime Minister and the First Deputy, Crown Prince Khalid, is inactive, Prince Fahd normally chairs meetings of the Council of Ministers. He has long been close to Faisal, whom he supported against the late King Saudi in the events of 1963-64 that brought Faisal to the throne. Today Fahd is second in influence only to the King.

Fahd is an intelligent and capable man who in recent years has grown in stature and in ability as he has been entrusted with increasingly greater responsibilities within the Saudi Government. Although his outlook is essentially conservative, he is thought to have pressed within the Royal Family for greater efficiency in government and for expansion of government services to the people. His leadership of a tightly-knit group of seven full brothers, who control several key government posts, has enhanced his power.

Fahd shares Faisal's desire to continue Saudi Arabia's close relationship with the United States so long as this serves Saudi interests. He first visited the United States in 1945 and came to Washington in October 1969 as the official guest of the Secretary of State. He was received by the President at that time and on the occasion of a subsequent, private visit in September 1971. Three of his sons have studied in Santa Barbara, California; Fahd knows a little English but will prefer to speak in Arabic through an interpreter.

Musa'id ibn 'Abd al-Rahman al-Sa'ud

Minister of Finance and National Economy

Amir Musa'id ibn "Abd al-Rahman al-Sa'ud, uncle of the King, has been Minister of Finance and National Economy since March 1962. He is invariable calm, practical and far-sighted, with an obviously independent turn of mind. His mind is astute and analytical. As Finance Minister, he has acquired a great depth of experience in the Kingdom's internal affairs.

Musa'id was acting Minister of Foreign Affairs in the fall of 1962, in addition to his regular post. Musa'id was retained as Minister of Finance when the present Cabinet was formed in October 1962. He was appointed a member of the Supreme Defence Council and vice chairman of the Supreme Planning Board in 1963. In October 1964 he led a delegation to Lebanon to officially congratulate the new Lebanese President. Amir Musa'id has been critical of some of the government's spending policies. In the last year an increasing amount of the Amir Musa'id's duties have been assumed by the Minister of State for Financial Affairs and National Economy, Muhammad Aba al-Khayl.

age 53

Musa'id was born about 1922, while his older brother "Abd al'Aziz was conquering the area which became Saudi Arabia. He was presumably educated at the princes' school in Riyadh. He first took part in government affairs in 1954, when he was appointed chairman of the Grievance Board of the King's diwan. In 1955 he was sent to Kabul as mediator in the Afghan-Pakistani dispute. He investigated labor problems in the Eastern province in 1956. He accompanied King Sa'ud to Cairo, Baghdad and the US in 1957, and was named head of the Regency Council during Sa'ud's state visit to Jordan the same year. Between trips he was appointed chairman of a special committee to hear the complaints of merchants and importers and to advise on currency policy. He was made comptroller of state accounts in June 1957 and Counselor with the rank of Cabinet Minister the following September. He was Acting Prime Minister during Faysal's absence in 1959, and supported Faysal against Sa'ud's attempts to oust him from the Cabinet in early 1960. In 1960, Musa'id was appointed Minister of Interior.

Musa'id is small in stature. He is very scholarly. Amir Musa'id is believed to speak only Arabic.

Ahmad Zaki Yamani

Minister of Petroleum and Mineral Resources

Yamani is a lawyer by background who became Minister of Petroleum and Material Resources in March 1962. He is also one of the Saudi directors of A AMCO. He served as Secretary General of the Organisation of Arab Petroleum Exporting Countries in 1968-1969 and is currently acting as negotiator for the Gulf OAPEC governments in the participation talks.

Yamani has been a leading advocate of producer government participation in existing oil concessions. Earlier, he favored government participation in "downstream" oil operations but more recently has focused on obtaining from the oil companies a 20 to 51 percent share of the existing "upstream" operations. Yamani appears to have the solid backing of the King on the participation issue. Yamani's other interests include government organization and legal reform. In the mid-60's, he wrote several newspaper articles advocating the modification of Saudi Arabia's traditional Islamic legal institutions. He is also interested in education, particularly in the technical fields, and has been the guiding hand behind the College of Petroleum and Mineral Resources in Dhahran.

Yamani is regarded as a pragmatist who likes to find sensible solutions to problems. He does not have a foreceful personality, however, and is unwilling to stand too firmly against the mainstream of Arab opinion. He is intelligent and courteous but is considered a poor administrator. In the current participation talks, he has shown himself to be an adroit, flexible negotiator.

age 44

Yamani was born July 2, 1930 in Mecca. He studied law at Cairo University and subsequently at NYU and Harvard where he specialized in the problems of capital investment and international disputes. Returning to Saudi Arabia in 1957, Yamani established a private law practice while serving as legal advisor to the Directorate General of Petroleum and Mineral Affairs. In 1958, he was appointed legal advisor to the Council of Ministers. He resigned from government service in December 1960 to return to private practice until appointed Minister in 1962.

Hisham Muhvi al-Din Mazir

Minister of State and Chairman,
Central Planning Organization

Hisham Mazir is regarded as among the most important and influential of the educated new generation of Saudis. An able civil servant, he can discuss complex technical matters with scope and depth. He is known as an articulate and logical spokesman on development matters. As Chairman of the Central Planning Organization, Mazir has supervised the putting together (with expert help from Stanford Research Institute) of the comprehensive Saudi Arabian Government development plan announced in September 1970. He also works with individual Saudi ministries on implementation of the development program.

Born in Jidda in 1932, Nazir received his higher education in the United States. He has a BA degree in International Re ations and an MA in Political Science from UCLA. In 1958 he returned to Saudi Arabia as an Assistant Legal Adviser in the Directorate General of Petroleum Affairs. He became Director General, Ministry of Petroleum in 1961 and Deputy Minister in 1962. While with that Ministry he attended several Arab and international petroleum conferences and participated in an oil official exchange program with Venezuela. He was named Chairman of the newly-created Central Planning Organization in 1968. Since being named a Minister of State in July 1971 Nazir also attends meetings of the Council of Ministers where he is one of several younger, Western-educated Saudis who help to shape Saudi domestic policies.

Nazir is married and the father of two children. He speaks excellent English and some Spanish and Turkish. He reportedly returned from his educational experience in the United States with an interest in baseball, movies, and other aspects of American culture.

Saud ibn Faisal Al Sa'ud

Deputy Minister of Petroleum for
Petroleum Affairs

Prince Saud ibn Faisal Al Sa'ud, the fourth son of King Faisal, became Deputy Minister of Petroleum for Petroleum Affairs in June 1971. He is 31 years old. He previously served for a year as the Deputy Governor for Planning in Petromin, the state-owned General Petroleum and Mineral Organization. He is presently the Saudi liaison officer with OPEC. The Prince is considered intelligent and competent.

Prince Saud attended the Hun School in Princeton, New Jersey. He graduated from Princeton University in 1965 with a degree in economics. In 1966 the Prince worked as an economic adviser in the office of the Minister of Petroleum and Mineral Resources. That same year he was named secretary to the chairman of the Board of Petromin. The same year he was a member of the Saudi delegation to the OPEC meeting in Vienna. He was also a delegate to the OPEC meeting held in Beirut in September 1971.

The Prince is married to Jawharah, granddaughter of ex-king Saud. In 1967 they had a one-year-old daughter. Prince Saud speaks excellent English and also has an excellent comment of classical Arabic. He reads Hemingway, F. Scott Fitzgerald and the ancient Arab poets with equal facility.

D

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C. 20433, U.S.A.

(typed from handwritten letter dated

Dhahran, Saudi Arabia
February 22, 1975)

Dear Bob,

I had an interesting visit to Saudi Arabia. Nasim Kochman had left me notes about his discussions and I was able to follow up on those.

The King said that he considered the work of the World Bank to be of great importance which he would support and expressed the hope that the Bank will gather more and more strength to help the poor countries, especially, he said, the Muslim countries and the Africans.

Discussions with Abal Khail and Abdel Aziz AlQuraishi in Riyadh and Jedda were in greater detail:-

a) In regard to the third window, the Government has every sympathy and will support the subsidy fund although they have not yet determined the extent. The loan capital resources, they assume, will be raised basically as part of the World Bank's borrowings but I stressed the importance, in due course not immediately, of having an equity base if the third window is institutionalised as we hope. One suggestion made by Al-Quraishi was that, just as the IMF is wanting to raise the subsidy for charging a low interest to the most affected countries only for one year, we might consider raising the first year's subsidy only. But I pointed out that ours was long term lending and hence it was essential to have in hand the difference in present worth. He seemed to see the point which I naturally elaborated.

b) Regarding increase in OPEC capital to 15%, I sensed some reluctance to going beyond doubling. I had to trace the history, referring to the demand in the Arab press, the expressed desire of some OPEC countries, the significance of 15% in the IMF, the weight necessarily attaching to a higher voting power and the possibility of sharing in more than one executive directorship. Abal Khail did seem to be impressed but was still worrying about the release of a total of 10% of the revised subscription.

c) In regard to future borrowing, our expressed desire for a billion dollars or more seems quite acceptable. I explained the basis for setting interest rates at approximately the same level for similar maturities of U.S. Government agencies and stressed the need for a link with the IMF borrowings for relending to the industrialized countries since we lend only to LDCs. This latter point seems to need much more effort on our part, their important agreement apparently being that when they lend to the IMF for the oil facility, they are in effect lending to countries to enable them to buy oil which is their only major export and hence in practice they are arranging for the performance of the functions of an Export-Import Bank (they did not use this terminology) and their own self interest is involved.

Abal Khail is very pleased with our technical assistance to them and, as Nasim will have reported, wants it expanded. They would be quite happy to pay as required. He (Abal Khail) was most anxious indeed for a new dimension in this assistance. They plan to build 100,000 low cost houses, involving a billion dollars or more. The Government does not think it can trust a firm of consultants or an individual to handle the planning etc. upto the stage of acceptance of bids and they would like to see the World Bank handle this for them. After contracts have been awarded, they would be willing to use consultants or their own people for the necessary supervision etc. One special point he mentioned was that he would like regular, trusted staff members to be used for this purpose and they would of course reimburse costs. If we can find the staff, I think this opens us a very useful opportunity to help a member country which sorely needs such help. Abal Khail was very anxious for me to recommend this to you and will raise the matter when you come here.

You will have received my telex already regarding Abal Khail's office taking the responsibility for arranging your appointments and for laying on a plane for you and your party to go to Doha on the 13th morning.

Kindest regards.

Yours sincerely,

M. Shoaib

Mr. Robert S. McNamara
President
International Bank for
Reconstruction and Development
Washington, D. c.

D. REFERENCE MATERIAL

1. COUNTRY DATA

A country data sheet has never been prepared by the Bank. The data shown below are derived from published sources of uncertain reliability.

Area	Population	Density
830,000-920,000 sq. miles Some boundaries indefinite	3½-[illegible] million; no census; published range: 5-8 million	perhaps 7 per sq. mile

Population Characteristics
Crude birth rate (per 1000) 50.0 (1965-70)
Crude death rate (per 1000) 22.7 (1965-70)
Infant mortality (per 1000 live births) 152 (1970-71)

Health
Population per hospital bed 784 (1970)
Population per physician 6,770 (1970)

Nutrition
Calorie intake per day 2080
(as % of requirement) 89%
Protein intake per day (grammes) 56

Education
Primary enrollment ratio 31% (1968)
(females) 18% (1968)
Secondary enrollment ratio 7% (1968)
(females) 2% (1968)
Literacy rate (total pop.) 5-15% (1971)

GNP per capita: $440 (1970) - World Bank Atlas, 1972
(range of estimates) $725 (1971) - S.A. Monetary Agency
$1000 (1972) - see text

GDP in 1971 1/	U.S.$ bil.	% of GDP
GNP at factor cost 2/	3.85	75
Net factor payments	1.29	25
GDP at factor cost	5.14	100
Petroleum	3.09	60
Agriculture	.25	5
Industry and construction	.32	6
Services	1.48	29

Labor Force (1970)	('000)	(%)
Nomads	145	12
Agriculture	331	28
Petroleum	15	1
Mining, Manuf. Construction	208	18
Services	480	41
Total	1,179	100

Government Finance (1972) 3/	Riyal bill	% of GNP at f.c. 4/	(1973) 6/ Riyal bill	(1974) 7/ Riyal bill
Total revenue	10.76	56	13.2	22.8
(oil revenue)	9.86	52	12.1	21.2
Budgeted expenditure	10.78	56		
Defense	2.70	14		
Agriculture	.57	3		
Education	.96	5		
Aid to Arab countries 5/	.66	3		
Other	5.89	31		

1/ Actually 1390/91 in the Hejira fiscal year, from Sept. 1, 1970 to Aug. 22, 1971 in the Gregorian calendar.
2/ Riyals converted at current exchange rate of $1.00 = Riyals 4.14.
3/ 1391/92 in the Hejira fiscal year.
4/ Calculated on the assumption that 1972 (1391/92) GNP rose by 20%.
5/ Does not include all aid, some of which does not pass through the budget.
6/ 1392/93 in the Hejira Fiscal Year
7/ 1393/94 in the Hejira Fiscal Year

COUNTRY DATA

Money, Credit and Prices	1969	1970	1971	July 1972
	(billions of riyals outstanding, end period)			
Money	2.32	2.40	2.65	3.07
Quasi Money	.64	.74	.94	1.11
Claims on private sector	1.61	1.71	1.82	1.73
Net foreign assets	3.71	4.31	7.35	10.33

Balance of Payments, 1969-71	1969	($ millions) 1970	1971
Exports of goods and services	2,020	2,370	3,853
(of which: oil exports)	(1,840)	(2,173)	(3,615)
Imports of goods and services	-1,881	-2,078	-2,783
(of which: investment income)	(-724)	(-895)	(-1,433)
Current balance (excl. transfers)	139	292	1,070
Net transfers	-227	-274	-258
Capital movements	9	91	-49
Change in reserves (increase -)	127	-87	-805
Errors and omissions	-48	-22	42

Reserve Position, end of period			
Gross reserves of S.A. Monetary Agency	607	662	1,465

Rate of Exchange

Before December 1971: U.S.$ 1.00 = Riyals 4.50
Riyals 1.00= U.S.$ 0.22

Since December 1971 : U.S.$1.00 = Riyals 4.14
Riyals 1.00= U.S.$ 0.24

Excerpt from WORLD ECONOMIC OUTLOOK - BACKGROUND INFORMATION

IMF, December 31, 1974

Saudi Arabia

Saudi Arabia occupies a central position in the field of energy in view of its vast oil reserves and production capacity. It is the only major oil producer whose annual addition to proven oil reserves has consistently exceeded very high levels of production. In the period 1971-73, Saudi Arabian oil production grew by an annual average of 26 per cent, compared with an annual average of 11 per cent in the preceding three years. Production continued to expand during 1974, averaging about 8.5 million barrels a day in the first nine months of the year. That figure was 9 per cent above the average daily rate of production in the corresponding period of 1973.

The economy is highly dependent on oil production and revenue, with the oil sector accounting for more than two thirds of gross domestic product and with income from oil making up more than 90 per cent of total budget receipts or foreign exchange earnings. For a number of years the country has enjoyed strong fiscal and balance of payments positions.

Developments in the international oil situation in the latter part of 1973 and in 1974 have given Saudi Arabia a special importance in world trade and finance. In the first nine months of 1974, Saudi Arabia's foreign reserves increased threefold to SDR 9.7 billion, making the country the world's fourth largest holder of foreign reserves (after Germany, the United States, and Japan).

Staff estimates indicate that Saudi Arabia's net receipts from the oil sector are likely to expand by more than fivefold in 1974, mainly as a result of the steep rise in oil prices that came into effect at the beginning of the year and of the increase in the Government's equity share in the operating oil companies from 25 per cent in 1973 to 60 per cent. On the assumption that average daily production may increase from 8.5 million barrels in 1974 to 8.7 million barrels in 1975, and with account taken of the increase in royalty and income tax rates announced in November 1974, net receipts from the oil sector could be expected to rise further in 1975. Although imports and payments for invisibles are expected to expand rapidly, the surplus on the current account of the balance of payments is likely to have been well above $20 billion (on an accrual basis) in 1974 and to rise further in 1975.

In anticipation of the vast increase in government oil revenues, the 1974/75 budget provided for a doubling of total expenditure, with a large proportion of the increase to be devoted to development outlays. The excess of budgeted revenues over expenditures is to be allocated to the financing of the second five-year development plan (1975/76-1979/80) presently in preparation. A major effort is being made to build a strong infrastructure and to diversify the production base of the economy. In the latter context, priority is being given to the establishment of oil-related industries. A Commission on Economic Cooperation between Saudi Arabia and the United States was established in June 1974 to promote, inter alia, programs of industrialization.

A basic objective of government economic policy is to raise the rate of development spending effectively without intensifying domestic inflation. Several measures recently taken have been aimed at stimulating imports and moderating the impact of the increase of import prices on the domestic cost of living. These measures included a reduction or abolition of import duties on a wide range of goods; cuts in prices of petrol and electricity; introduction of subsidies for the importation of essential food commodities, fertilizers, and agricultural equipment; and increases in wage and fringe benefits for government employees. Moreover, as part of the Government's disinflationary policy, the Saudi riyal was revalued in August 1973 by 5.1 per cent in terms of gold; the effective exchange rate of the riyal vis-à-vis the currencies of Saudi Arabia's main trading partners has appreciated by 13.4 per cent since December 1970.

Saudi Arabia stepped up its external aid activities during 1974, and a continuation of this trend is expected. The 1974/75 budget provided for the equivalent of SDR 1,085 million (10.2 per cent of total expenditure for the year) to finance aid and loans for development projects in friendly countries. Of this total, SDR 700 million was allocated for the capital of the Saudi Development Fund established in September 1974. Total capital of the Fund is fixed at the equivalent of SDR 2,335 million. Since 1967, Saudi Arabia has granted Egypt and Jordan annual subsidies totaling SDR 140 million, and it is believed that grants and loans to these and other developing countries have increased substantially during 1974. In the latter year, Saudi Arabia pledged significant contributions to a number of UN agencies, to the Special Arab Fund for Africa, and to the Arab Bank for Industrial and Agricultural Development in Africa. It has also pledged large contributions to the Capital of the Islamic Bank and to the Arab Fund for Economic and Social Development. Moreover, Saudi Arabia has entered into an agreement with the Fund to provide SDR 1 billion in support of the oil facility, has invested in IBRD bonds the equivalent of SDR 150 million, and is reported to have negotiated to provide loans to certain developed countries.

2. Petroleum Sector

Position and Prospects

Saudi Arabia is the only major oil producer whose annual addition to proven oil reserves has consistently exceeded very high levels of production. In the period 1971-73, Saudi Arabian oil production grew by an annual average of 26 per cent, compared with an annual average of 11 per cent in the preceding three years. Production continued to expand during 1974, averaging about 8.57 million barrels a day. That figure was 12.8 per cent above the average daily rate of production in 1973.

The economy is highly dependent on oil production and revenue, with the oil sector accounting for more than two thirds of gross domestic product and with income from oil making up more than 90 per cent of total budget receipts or foreign exchange earnings. For a number of years the country has enjoyed strong fiscal and balance of payments positions.

Developments in the international oil situation in the latter part of 1973 and in 1974 have given Saudi Arabia a special importance in world trade and finance. In 1974 it was estimated that Saudi Arabia's foreign reserves increased more than threefold to SDR 14.3 billion, making the country the world's fourth largest holder of foreign reserves (after Germany, the United States, and Japan).

Saudi Arabia's net receipts from the oil sector are estimated likely to have expanded by more than fivefold in 1974, mainly as a result of the steep rise in oil prices that came into effect at the beginning of the year and of the increase in the Government's equity share in the operating oil companies from 25 per cent in 1973 to 60 per cent. On the assumption that average daily production may increase from 8.57 million barrels in 1974 to 8.7 million barrels in 1975, and with account taken of the increase in royalty and income tax rates announced in November 1974, net receipts from the oil sector could be expected to rise further in 1975. Although imports and payments for invisibles are expected to expand rapidly, the surplus on the current account of the balance of payments is likely to have been well above $20 billion (on an accrual basis) in 1974 and to rise further in 1975.

Following are the highlights of the Saudi oil sector. The revenues include the effect of the decision to cut posted prices and increase royalty and tax rates from November 1, 1974.

Crude Oil Production	1973	7.59
(millions b/d)	1974	8.48
Government Unit Revenue	1973	2.07
($ per barrel)	1974	9.54
Government Accrued Oil	1973	5.75
Revenue ($ billion)	1974	29.53

Petroleum Sector (cont'n)

Fiscal and Economic Objectives

In anticipation of the vast increase in government oil revenues, the 1974/75 budget provided for a doubling of total expenditure, with a large proportion of the increase to be devoted to development outlays. The excess of budgeted revenues over expenditures is to be allocated to the financing of the second five-year development plan (1975/76-1979/80) presently in preparation. A major effort is being made to build a strong infrastructure and to diversify the production base of the economy. In the latter context, priority is being given to the establishment of oil-related industries.

A basic objective of government economic policy is to raise the rate of development spending effectively without intensifying domestic inflation. Several measures recently taken have been aimed at stimulating imports and moderating the impact of the increase of import prices on the domestic cost of living. These measures included a reduction or abolition of import duties on a wide range of goods; cuts in prices of petrol and electricity; introduction of subsidies for the importation of essential food commodities, fertilizers, and agricultural equipment, and increases in wage and fringe benefits for government employees. Moreover, as part of the government's disinflationary policy, the Saudi riyal was revalued in August 1973 by 5.1 per cent in terms of gold; the effective exchange rate of the riyal vis-a-vis the currencies of Saudi Arabia's main trading partners has appreciated by 13.4 per cent since December 1970.

Attachments:

I. Estimated crude oil production in 11 OPEC countries, 1973)
II. Estimated crude oil production in 11 OPEC countries, 1974)
III. Estimated Government oil revenue accruing from 11 OPEC countries, 1973)
IV. Estimated Government oil revenue accruing from 11 OPEC countries, 1974)

) See Briefing on Kuwait, F 3

V. Saudi Arabia: Prices and Cost of Arabian Light (34°) crude oil F.O.B. Ras Tanura, 1970-73
VI. Saudi Arabia: Prices and Cost of Arabian Light (34°) crude oil F.O.B. Ras Tanura, 1974-75

SAUDI ARABIA: PRICES AND COSTS OF ARABIAN LIGHT (34°) CRUDE OIL F.O.B. RAS TANURA, 1970-1973

	Jan 1, 1970	Jan 1, 1971	Feb 15, 1971 a/	June 1, 1971	January 20, 1972 b/	January 1, 1973 c/	April 1, 1973	June 1, 1973 e/	July 1, 1973	August 1, 1973	October 1, 1973	October 16, 1973	November 1, 1973	December 1, 1973
					(U.S. $ per barrel)									
I. FOREIGN OIL COMPANIES														
A. Equity Crude Oil														
Previous posted price	1.80	1.80	1.80									3.011		
add: general increase			0.33									2.108		
freight disparity			0.02											
gravity adjustment			0.03											
Base posting			2.18	2.18	2.285	2.479	2.591	2.755	2.898	2.955	3.066	5.119	5.119	5.176
add: escalation of 2.5%				0.055	-	0.062	-	-	-	-	-	-	-	-
escalation of 5 cents				0.05	-	0.05	-	-	-	-	-	-	-	-
Geneva supplement	-	-	-	-	0.194	-	0.164	0.143	0.057	0.111	-0.054		-0.057	-0.140
Posted price	1.80	1.80	2.18	2.285	2.479	2.591	2.755	2.898	2.955	3.066	3.011	5.119	5.176	5.036
less: gravity allowance	0.031	0.035	-	-	-	-	-	-	-	-	-	-	-	-
percent allowance	0.063	0.036	-	-	-	-	-	-	-	-	-	-	-	-
marketing allowance	0.005	0.005	-	-	-	-	-	-	-	-	-	-	-	-
production cost	0.13	0.13	0.13	0.13	0.13	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
royalty	0.225	0.225	0.273	0.286	0.310	0.324	0.344	0.362	0.369	0.383	0.376	0.640	0.647	0.629
Net Taxable Income	1.346	1.369	1.777	1.869	2.039	2.147	2.291	2.415	2.465	2.563	2.515	4.359	4.409	4.286
	(@ 50%)													
Income Tax @ 55%/	0.673	0.753	0.977	1.028	1.121	1.181	1.260	1.328	1.356	1.410	1.383	2.398	2.425	2.357
add: royalty	0.225	0.225	0.273	0.286	0.310	0.324	0.344	0.362	0.369	0.383	0.376	0.640	0.647	0.629
Government share	0.898	0.978	1.250	1.314	1.431	1.505	1.604	1.691	1.725	1.793	1.760	3.037	3.072	2.987
add: production cost	0.13	0.13	0.13	0.13	0.13	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
Tax-paid cost	1.028	1.108	1.380	1.444	1.561	1.625	1.724	1.811	1.845	1.913	1.880	3.157	3.192	3.107
B. Participation Oil														
Bridging oil price d/	-	-	-	-	-	2.056	2.172	2.272	2.312	2.391	2.80	4.761	4.814	4.683
Phase-in oil price d/	-	-	-	-	-	1.975	2.074	2.161	2.195	2.263				
C. Total Availability														
Average cost of equity and participation oil f/	1.028	1.108	1.380	1.444	1.561	1.722	1.824	1.913	1.949	2.018	2.092	3.527	3.566	3.471
Profit margin	0.312	0.262	0.270	0.286	0.369	0.378	0.486	0.687	0.751	0.782	0.708	0.123	0.084	0.179
Price to affiliates & others	1.34	1.37	1.65	1.73	1.93	2.10	2.31	2.60	2.70	2.80	2.80	3.650	3.650	3.650
II. GOVERNMENT UNIT REVENUE														
A. Participation Oil														
Bridging oil d/	-	-	-	-	-	2.056	2.172	2.272	2.312	2.391)	2.80	4.761	4.814	4.683
Phase-in oil d/	-	-	-	-	-	1.975	2.074	2.161	2.195	2.263)				
Sales to third parties						2.10	2.31	2.60	2.70	2.80	2.80	4.761	4.814	4.683
Weighted Average Price	-	-	-	-	-	2.052	2.172	2.288	2.336	2.412	2.80	4.761	4.814	4.683
less production cost	-	-	-	-	-	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
Government net revenue	-	-	-	-	-	1.932	2.052	2.168	2.216	2.292	2.68	4.641	4.694	4.563
B. Foreign Companies' Equity Oil														
Government Share	0.898	0.978	1.250	1.314	1.431	1.505	1.604	1.691	1.725	1.793	1.760	3.037	3.072	2.987
C. Average Government Revenue														
from participation and equity oil	0.898	0.973	1.250	1.314	1.431	1.612	1.716	1.810	1.848	1.918	1.990	3.438	3.478	3.381
III. EXPORT PRICES														
Foreign Partners	1.34	1.37	1.65	1.73	1.93	2.10	2.31	2.60	2.70	2.80	2.80	3.65	3.65	3.65
Government to third parties	-	-	-	-	-	2.10	2.10	2.10	2.70	2.80	2.80	4.761	4.814	4.683
Weighted average	1.34	1.37	1.65	1.73	1.93	2.10	2.31	2.60	2.70	2.80	2.80	3.68	3.68	3.68
					(percent)									
IV. SHARES OF PRODUCTION c/														
Foreign partners' equity oil	100.0	100.0	100.0	100.0	100.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Participation oil						25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
a. Foreign partners' bridging oil	-	-	-	-	-	13.75	18.75	18.75	18.75	18.75	18.75)	22.5	22.5	22.5
b. Foreign partners' phase-in oil	-	=	-	-	-	3.75	3.75	3.75	3.75	3.75	3.75)			
c. Sold to third parties	-	-	-	-	-	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5

a/ Under the Teheran Agreement of February 15, 1971 the base postings for the Gulf exporters of Abu Dhabi, Iran; Iraq, Kuwait, Qatar and Saudi Arabia were increased on February 15, 1971, by 33¢ per barrel, and were to rise on June 1, 1971 and on each January 1, 1973-1975 by 2.5% for inflation plus 5¢ for general escalation. They also rose by 0.5¢ for every degree below 40° down to 30° API and by 2¢ for freight disparities, plus an additional increase of 1¢ for Iranian Heave, Arabian Medium and Kuwait Crudes.

b/ Under the Geneva Agreement of January 20, 1972 posted prices for the above Gulf exporters were increased that date by 8.49% to compensate for the international currency realignment of December 1971. The increase is close to the revaluation of sterling to the U.S. dollar; sterling was the currency used for oil revenue payments by most Gulf exporters other than Saudi Arabia. The Agreement includes a parity index, designed to compensate for another major realignment in average exchange rates for currencies of nine industrial countries with U.S. dollar, revised to 11 countries on June 1, 1973.

c/ Under the participation agreements in Saudi Arabia, Kuwait, Abu Dhabi and Qatar (Iran obtaining equivalent financial benefit) the governments acquired a 25% equity above in oil production effective January 1, 1973. Foreign partners bought back 18.75% of oil production as bridging crude and 3.75% as phase-in crude; the remaining 2.5% was sold by governments to third parties.

d/ For Arabian light oil, bridging price was quarter-way price (25% posted price and 75% tax-paid cost) plus 19 cents per barrel, phase-in price was tax-paid cost plus 35 cents per barrel from January-September 1973; and both prices were 93% of posted price September-December 1973.

e/ The Geneva Agreement was revised on June 1, 1973 to reflect more closely the adjustment of the U.S. dollar with 11 industrial countries' currencies.

f/ In 1973 this is the weighted average of 0.75 barrels of equity oil (at tax-paid cost), 0.1875 barrels of bridging oil and 0.0375 barrels of phase-in oil, all divided by 0.975 barrels.

SAUDI ARABIA: PRICES AND COSTS OF ARABIAN LIGHT (34°) CRUDE OIL F.O.B. RAS TANURA, 1974-1975

(US$ per barrel)

	January 1 1974	March 1 1974	June 1 1974	July 1 1974 revised/a	October 1 1974 revised/a	November 1 1974/b	Average 1974/c	January 1, 1975 (OPEC hypothetical)	January 1, 1975 (Saudi Interpretation)
I. FOREIGN PARTNERS									
A. Equity Crude Oil									
Posted Price	11.651	11.651	11.651	11.651	11.651	11.251		11.251	11.251
less: production cost	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
royalty	1.456	1.456	1.456	1.689	1.942	2.250		2.250	2.250
Net taxable income	10.075	10.075	10.075	9.842	9.589	8.881		8.881	8.881
Income tax/a	5.541	5.541	5.541	5.413	6.305	7.549		7.549	7.549
add: royalty	1.456	1.456	1.456	1.689	1.942	2.250		2.250	2.250
Government share	6.997	6.997	6.997	7.102	8.247	9.799		9.799	9.799
add: production cost	0.12	0.12	0.12	0.12	0.12	0.12		0.12	0.12
Tax-paid cost	7.117	7.117	7.117	7.222	8.367	9.919		9.919	9.919
B. Participation Oil/d	10.952	10.952	11.053	11.053	10.835	10.672		10.463	10.463
C. Total Availability									
Average cost of equity and participation oil	9.337	9.337	9.396	9.440	9.796	10.355		10.246	10.335
Profit margin	-0.407	0.203	0.214	0.310	0.404	0.108		0.217	0.228
Price to affiliates & others	8.93	9.54	9.61	9.75	10.20	10.463		10.463	10.463
Memorandum:price range /f	8.32-9.60	9.30-9.75	9.50-9.75	9.60-9.90	-	-		-	-
II. GOVERNMENT REVENUE									
A. Participation Oil									
Buy-back sales to foreign partners	10.952	10.952	11.053	11.053	10.835	10.672		10.463	10.463
Sales to third parties	10.952	10.952	11.053	11.053	10.835	10.463		10.463	10.463
Weighted average price	10.952	10.952	11.053	11.053	10.835	10.654		10.463	10.463
less: production cost	0.12	0.12	0.12	0.12	0.12	0.12		0.120	0.120
Government net revenue	10.832	10.832	10.933	10.933	10.715	10.534		10.343	10.343
B. Foreign Partners' Equity Oil									
Government share	6.997	6.997	6.997	7.102	8.247	9.799		9.799	9.799
C. Average Government Unit Revenue	9.298	9.298	9.358	9.401	9.729	10.240	9.54	10.126	10.126
III. EXPORT PRICES									
Foreign companies	8.93	9.54	9.61	9.75	10.20	10.463		10.463	10.463
Government	10.952	10.952	11.053	11.053	10.835	10.463		10.463	10.463
Weighted Average	9.03	9.61	9.68	9.82	10.23	10.463	9.78	10.463	10.463
Memorandum: spot prices /g	14.-10		10.50-10.84	9.50-10.20	-	-		-	-
	(percent)								
IV. SHARES OF PRODUCTION									
Foreign partners'equity oil	40.0	40.0	40.0	40.0	40.0	40.0		40.0	40.0
Participation oil:									
Bought back by foreign partners/h	55.0	55.0	55.0	55.0	55.0	55.0		60.0	55.0
Sold to third parties/h	5.0	5.0	5.0	5.0	5.0	5.0		-	5.0

/a At OPEC meetings in 1974 members - except Saudi Arabia - agreed to increase (a) royalty from 12.5% to 14.5% effective July 1 and to 16.67% effective October 1, 1974, and (b) income tax from 55.0% to 65.75% effective October 1, 1974. The costs on this basis are shown in the revised columns, as Saudi Arabia is understood to be imposing the royalty and tax increases retroactively in the event that a new agreement is not reached on 100% government takeover of ARAMCO in 1975. Costs on the previous basis are shown in preceding columns.

/b Effective November 1, 1974 Saudi Arabia cut the posted price by 40 cents but increased the royalty rate to 20% and the tax rate to 85%. It is believed that participation oil will be sold to foreign partners at 94.86% of posted price.

/c The 1974 average assumes that participation oil will be sold to foreign partners at 94.86% and to third parties at 93% of posting during November-December 1974.

/d Our latest understanding of the ARAMCO negotiations is that Saudi Arabia set the price for participation oil sold back to foreign partners at $11.051 per barrel (94.86% of posted price) during June-September 1974, and at $10.835 (93% of posted price) during October 1974. It is believed to have proposed $10.952 (94% of posted price) for January-May 1974 and $10.672 for November-December 1974.

/f Price to affiliates and others range according to foreign partners, in some cases retroactively to cover costs of revised participation arrangements.

/g Spot prices are reported for short-term sales in a thin market by foreign partners and brokers; they have not been weighted into the average export price but are a useful indicator of price trends. Reported prices are complicated by credit terms which are now roughly equivalent 10 cents per barrel for every 30 days' credit.

/h The percentage of participation oil is now revised to 60% of output during 1974; however, within this percentage the shares sold to foreign partners and third parties are an approximate estimate.

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February 20, 1975

3. AID FLOWS FROM SAUDI ARABIA [1/]

1. Total aid commitments from Saudi Arabia amounted to $5,826 million in 1974 which represents a more than tenfold increase over the previous year. Aid committed in 1973 and 1972 totalled $531 million and $137 million respectively. The volume of aid disbursed in 1974 aggregated $1,580 million as compared to $343 million and $272 million in 1973 and 1972 respectively.

2. Of the total of $5.8 billion of aid committed by Saudi Arabia in 1974, $3.0 billion were advanced through bilateral channels almost exclusively in the form of grants and other development assistance. The largest proportion of Saudi Arabia's bilateral assistance is granted to Egypt, Syria and Jordan, both to support their military expenditures and for developemnt purposes. Assistance in recent years has also been granted to some of the Sahelian African countries suffering from the drought, to Oman, Somalia, Sudan and Uganda. In 1974, Saudi Arabia committed $205.5 million to most seriously affected oil importing countries. The largest contribution went to Pakistan ($150 million) followed by Mauritania ($33.5 million), Sudan ($14 million), Mali ($5 million) and Arab Republic of Yemen ($3 million).

3. In September 1974, Saudi Arabia established the Saudi Fund for Development with an initial capital of SR 10,000 million ($2.8 billion) of which half is to be paid in over the three subsequent years - for the purpose of participating in the financing of development project in developing countries. A loan of $161 million is reported to have been advanced by the Saudi Fund for Development to Egypt for financing projects to reopen the Suez Canal to international shipping, development of Egyptian railways, cotton ginning and telephone communications. A joint company for reconstruction will also be set up with a capital of $500 million to be financed in equal shares by the two countries. Recently, Pakistan and Malaysia have also been reported to obtain soft loans from Saudi Arabia. Saudi Arabia offered Pakistan a $50 million interest free project loan of 15 years maturity (the loan could reportedly be raised to $100-$150 million depending on the projects involved). The loan of $85 million to Malaysia was advanced for the purpose of financing economic development and rural projects. Saudi Arabia has also concluded an agreement with the Sudan to cooperate in civil aviation and in exploiting minerals from the Red Sea.

4. The flow of multilateral aid from Saudi Arabia had been negligible up to 1972. In 1973, however, total multilateral aid commitments by Saudi Arabia amounted to $91 million and were drastically increased in 1974 ($2,804 million). Saudi Arabia was one of the largest contributors to the World Food Program ($50 million) and the Arab Bank for Economic Development in Africa ($25 million) in 1973. In 1974, Saudi Arabia committed $1,206 million to the IMF Oil Facility, $240 million* to the Islamic Development Bank, $60 million to the Arab Fund for Economic and Social Development, $30 million to the United Nations Emergency Special Fund, $40 million for the Special Arab Fund for Africa, $15 million to the Special Fund for Arab Non-Oil Producers, and other commitments to the United Nations and other agencies. Saudi Arabia has also contributed $913.4 million to the IBRD in 1974.

1/ For tables listing past co-financing operations between the World Bank Group and Saudi Arabia as well as co-financing operations presently under consideration, see Multi-country briefing, Section F, tables 9 and 10.

* This is the figure consistent with the initial subscription by Saudi Arabia to the capital of the Islamic Development Bank.

4. The Saudi Fund for Development

1. The Charter of the Saudi Fund for Development was approved by Royal Decree in September 1974. The Fund was established as an autonomous organization with headquarters in Riyadh for the purpose of participating in the financing of development projects in developing countries through the granting of loans.

2. The initial capital of the Fund is SR 10,000 million (US$2.8 billion), of which half is to be paid in the three annual installments. The other half is to be contributed subsequently in amounts to be specified in the annual government budget. The capital may be increased by resolution of the Council of Ministers.

4. The Fund is administered by a Board of Directors headed by the Minister of Finance and National Economy.

5. Major criteria for lending by the Fund are the productivity of proposed projects and guarantees for repayment. Loans will be granted subject to the following conditions*:

i. the project to be financed should contribute to the economic and social well-being of the borrowing country;

ii. the loan is to be paid and repaid in Saudi Ryals;

iii. the amount of the loan should not exceed 50% of the total cost of the project; and

iv. the total amount of loans granted to any country should not exceed 10% of the Fund's capital at any one time.

6. As far as we know, the Saudi Fund for Development is not yet operational.

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* The Council of Ministers may waive one of these conditions upon recommendation of the Fund's Board of Directors and the proposal of the Minister of Finance and National Economy.

5. THE ISLAMIC DEVELOPMENT BANK

1. The establishment of an Islamic Development Bank (IslDB) was agreed upon at the Islamic Conference held in Jeddah in May, 1974. The Bank's Articles of Agreement were finalized in November, 1974 and, to our knowledge, have so far been ratified only by a few of its 27 signatory members. The new institution is to be inaugurated in April.

2. The purpose of IslDB as defined in its Articles of Agreement is "to foster economic development and social progress of member countries and Muslim communities individually, as well as jointly, in accordance with the principles of the Shariah" (Islamic principles and ideals).

3. Within this special orientation, the IslDB is precluded from charging interest and its operations would involve significantly participation in equity capital. Operations are also expected to include participations in economic and social infrastructure projects of member countries, loans to the private and public sectors for the financing of productive projects, financing of enterprises or programs in member countries, establishing and operating Special Funds and Trust Funds, accepting deposits and raising funds, promoting foreign trade among member countries, investing liquid funds, undertaking research and providing technical assistance and training facilities for the benefit of member countries and cooperating with bodies and organizations with similar objectives in pursuance of international economic cooperation.

4. A list of the founding members, their subscriptions and their voting powers is attached. Membership would also be open to other states who were participants of the Islamic Conference.

5. The unit of account of the IslDB is the Islamic Dinar, the value of which is equivalent to one SDR. Its initial authorized capital stock is 2,000 million Islamic Dinars divided into 200,000 shares each with a par value of 10,000 Islamic Dinars. Of this total, the subscribed capital amounts to 750,000,000 Islamic Dinars, and each member is required to subscribe to a minimum number of 250 shares. Subscriptions are to be paid in five equal annual installments.

6. The IslDB has a Board of Governors, a Board of Executive Directors, a President, one or more Vice Presidents and other officers and staff. Its headoffice is to be located in Jeddah.

Attachment

THE ISLAMIC DEVELOPMENT BANK

Membership, Initial Subscription to Capital and Voting Power

	Country	Subscription (mil. Isl. Din.)	Voting Power
1.	Algerian Democratic and Popular Republic	25.0	3,000
2.	State of the United Arab Emirates*	110.0	11,500
3.	State of Bahrain	5.0	1,000
4.	Bangladesh	10.0	1,500
5.	Republic of Chad	2.5	750
6.	Arab Republic of Egypt	25.0	3,000
7.	Republic Guinea	2.5	750
8.	Republic of Indonesia	25.0	3,000
9.	Hashemite Kingdom of Jordan	4.0	900
10.	State of Kuwait *	100.0	10,500
11.	Republic of Lebanon	2.5	750
12.	Arab Republic of Libya *	125.0	13,000
13.	Malaysia	16.0	2,100
14.	Republic of Mali	2.5	750
15.	Islamic Republic of Mauritania	2.5	750
16.	Kingdom of Morocco	5.0	1,000
17.	Republic of Niger	2.5	750
18.	Sultanate of Oman	5.0	1,000
19.	Islamic Republic of Pakistan	25.0	3,000
20.	State of Qatar	25.0	3,000
21.	Kingdom of Saudi Arabia*	200.0	20,500
22.	Republic of Senegal	2.5	750
23.	Democratic Republic of Somailia	2.5	750
24.	Democratic Republic of Sudan	10.0	1,500
25.	Republic of Tunisia	2.5	750
26.	Turkey	10.0	1,500
27.	The Yemen Arab Republic	2.5	750
	Total Votes		88,500
	Total Votes of Members Entitled to Appoint Executive Directors		55,500
	Total Votes of Members Entitled to Elect Executive Directors		53,000
	Minimum Votes Required for Electing One Executive Director		4,950

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* Entitled to Appoint one Executive Director

E

ATTACHMENT I

Programs Proposed for Technical Assistance to Oil Exporting Countries During FY75 and FY76

	FY75 Manweeks						FY76 Manweeks				
	EMENA Staff	Other Bank Staff	Cons.	Coop.	Total	(Spent Jul- d/ Dec)	EMENA Staff	Other Bank Staff	Cons.	Coop.	Total
Saudi-Arabia											
Manpower Survey and Formulation of Training Programs	87	-	96	51	234	(80)	60	-	110	20	190
Assistance in Implementing Training Programs	20	-	30	10	60	-	160/a	-	60	20	240/a
Bahrain Causeway Feasibility Study	20	-	15	-	35	(14)	10	-	6	-	16
Pilgrims Accomodations	20	-	-	-	20	(5)	12	-	-	-	12
UNDP Transport Survey	13	3	2	-	18	(8)	5	-	-	-	5
Railway Operations	5	-	-	-	5	-	10	-	-	-	10
Telecommunications Study	-	10	-	-	10	-	-	15	-	-	15
Non-Hydrocarbon Industry Plan	-	25	15	-	40	-	5	60	15	-	80
Non-Oil Mineral Studies	-	-	-	-	-	-	-	10	10	-	20
Assist Preparation of Agriculture Projects	4	-	-	-	4	-	15	5	-	5	25
Review Livestock and Dawasir Oasis Projects	10	-	-	-	10	-	10	-	5	-	15
EDI Courses (two)	7	38	-	-	45	(45)	-	30	-	-	30
Advise on Establishment of Saudi Dev. Fund	3	-	-	-	3	-	3	-	-	-	3
Housing Program											5
Resident Mission for Technical Liaison and Review of Feasibility Studies	-	-	-	-	-	-	110	5	-	-	115/b
Total Manweeks	189	76	158	61	484	(152)	400	125	206	45	776/c
Manyears	3.6	1.5	3.0	1.2	9.3	(2.9)	7.7	2.4	3.9	.9	14.9
Iran											
Agriculture Task Force	224	-	62	-	286	(161)	348	-	156	-	504
Headquarters Support for Task Force	45	-	-	-	45	(13)	60	-	-	-	60
Manpower Survey	33	25	12	14	84	(80)	20	-	-	-	20
Special Training Program	8	4	8	-	20	-	40	20	60	-	120
Kermanshah Regional Development	15	48	35	-	98	-	5	-	-	-	5
Zanzam Regional Development	-	-	-	-	-	-	10	20	10	-	40
Sistan/Baluchistan Regional Development	5	-	-	-	5	(2)	10	10	10	-	30
Railway Electrification and Transport Planning	5	-	-	-	5	-	20	-	-	-	20
Urban Review	-	31	47	-	78	NA	10	20	20	-	50
Isfahan Development	-	-	-	-	-	-	5	15	10	-	30
Water Supply/Sewerage: Survey, Training Plan	4	4	-	-	8	-	15	-	30	-	45
EDI Agricultural Banking Course	-	38	-	-	38	(38)	-	-	-	-	-
Total Manweeks	339	150	164	14	667	(294)	543	85	296	-	924
Manyears	6.5	2.9	3.1	.3	12.8	(5.7)	10.5	1.6	5.7	-	17.3

ATTACHMENT 4

GROUP I	Man-years FY75	Man-years FY76	Fully Committed FY75	Fully Committed FY76	Partially Committed FY75	Partially Committed FY76	No Commitment FY75	No Commitment FY76
Saudi Arabia								
Manpower Survey and Formulation of Training Program	4.5	3.7	4.5	3.7	-	-	-	-
Assistance in Implementing Training Program	1.2	4.6	-	-	1.2	4.6	-	-
Bahrain Causeway Feasibility Study	0.7	0.3	0.7	0.3	-	-	-	-
Pilgrims Accommodations	0.4	0.2	-	-	0.4	0.2	-	-
UNDP Transport Survey	0.3	0.1	0.3	0.1	-	-	-	-
Railway Operations	0.1	0.2	-	-	0.1	0.2	-	-
Telecommunications Study	0.2	0.3	0.2	0.3	-	-	-	-
Non-Hydrocarbon Industry Plan	0.7	1.5	0.7	1.5	-	-	-	-
Non-Oil Mineral Studies	-	0.4	-	-	-	-	-	0.4
Assist Preparation of Agriculture Projects	0.1	0.5	-	-	-	-	0.1	0.5
Review Livestock and Dawasir Oasis Projects	0.2	0.3	-	-	-	-	0.2	0.3
EDI Courses	0.9	0.6	0.9	0.6	-	-	-	-
Advice on Establishment of Saudi Devt. Fund	0.1	0.1	-	-	0.1	0.1	-	-
Resident Mission for Technical Liaison and Review of Feasibility	-	2.2	-	-	-	-	-	2.2
Total	9.4	15.0	7.3	6.5	1.8	5.1	0.3	3.4
%	100%	100%	78%	43%	19%	34%	3%	23%

E. BANK GROUP OPERATIONS

1. Bank Group Capital Subscription and Bond Holding

1. Saudi Arabia became a member of IBRD in 1957 and has to-date subscribed to 1,143 shares equivalent to $138 million. The 1% portion has been paid in US dollars. The 9% portion paid in riyals equivalent to $12.4 million has not been released for lending by the Bank.

2. In 1968 the Bank sold to the Saudi Arabian Monetary Agency (SAMA) $15 million of an issue of 6-1/2% 26-Year Bonds issued in the United States. Thereafter the Bank placed directly with the SAMA two issues in United States dollars and one issue in Saudi Arabian Riyals. Listed in their chronological order, the bonds so purchased by SAMA are as follows:

6-1/2% 26-Year Bonds of 1968, due 1994	$15,000,000
6-3/8% 26-Year Bonds of 1968, due 1994	$15,000,000
8% 10-Year Bonds of 1971, due 1984	SRls 500,000,000
8-1/2% 10-Year Bonds of 1974, due 1984	$750,000,000

All of these issues remain outstanding. They aggregate $920,646,976 equivalent at current exchange rates.

3. Purchases of Two Year Bonds by SAMA have amounted to $219.16 million, of which $70.5 million is presently outstanding ($20.0 million thereof will mature on March 15, 1975).

4. The total amount presently outstanding of Bank bonds purchased directly by SAMA is $991.2 million equivalent.

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E. 3 and E. 4 Ongoing and prospective technical assistance operations.

CONSTRAINTS IN RESPONSIVE CAPABILITY
TO GROWTH AND DIVERSIFICATION IN DEMAND
FOR TECHNICAL ASSISTANCE IN SAUDI ARABIA

Prompt response, using experienced senior staff and considerable management participation, has produced T.A. work in Saudi Arabia that has given satisfaction and lead to requests for considerable expansion (see El Darwish's Brief of February 9, 1975 to Mr. Shoaib - E 4). However, this sudden growth in demand cannot be responded to in the same fashion as was done in the initial three pilot cases of collaboration in early 1974 (SA/Bahrain Causeway, Transport Survey, Manpower Study Phase I) and for the many smaller but nevertheless time-consuming and manpower-absorbing ad hoc requests, all of which were given the highest priority.

To continue ongoing work at current levels, let alone to develop a capability for prompt and satisfactory response for an expanded scope of work, changes must be urgently introduced, mainly:

(a) longer notice on requests from the Saudi side, allowing us to program our activities, and patience in the adaptation of our system to their needs. Mr. McNamara mentioned this to Minister Aba Al Khayl in mid-February (Ljungh memo for the record dated March 23, 1973)[1/]. The Saudis accept this and have themselves started some programming (as per above brief);

(b) an organization structure in the Bank that can cater to demand, with work programs, adequate budget, staff, etc. Although the first step towards that goal was initiated in September 1974 with an EMENA Projects Department reorganization of competences among Assistant Directors, additional staff and budgetary requests, including a Division Chief position, are still under consideration - since October 1974 - except for a very recent approval of 3 additional staff positions.

The delay on a decision in this matter has started to affect our capacity to respond to requests for T.A. However, we should try to avoid that a deterioration in the speed and quality of our reponses which could be interpreted as neglect or tactic at a time when negotiations with Saudi Arabia are covering a large variety of crucial topics. Therefore, it should be explained frankly to the Saudi authorities that the growth in our assistance cannot be maintained, but that we hope to be ready to respond satisfactorily to the new and expanded requests for T.A. later in 1975. However, the Minister of Finance will be especially interested also in our readiness to cooperate in other fields, particularly industry and housing. These are major and highly important activities and a negative stance on them is likely to cause disappointment, but a candid account of the situation is the preferable solution. For the status of work on industry and housing, see section E.3 (g) and E.4 Annex 1 point 2 below.

In the meantime, we would go on only with ongoing major work in Manpower (Phase I and II), Transport (Bahrain Causeway) and Pilgrims' Accommodations.

1/ See memoranda of past conversations, below.

ISSUE LIKELY TO BE RAISED BY MINISTER ABA AL KHAIL WITH MR. McNAMARA

Growth & Diversification in Demand for Technical Assistance (T.A.) in Saudi Arabia and Constraints in Our Capacity to Respond

Prompt response, using experienced senior staff and considerable management participation, has produced T.A. work in Saudi Arabia that has given satisfaction and lead to requests for considerable expansion (see El Darwish's Brief of February 9, 1975 to Mr. Shoaib - E 4). However, this sudden growth in demand cannot be responded to in the same fashion as was done in the initial three pilot cases of collaboration in early 1974 (SA/Bahrain Causeway, Transport Survey, Manpower Study Phase I) and for the many smaller but nevertheless time-consuming and manpower-absorbing ad hoc requests, all of which were given the highest priority.

Furthermore, new requests and the desire for continuation of previous collaboration from the planning to the project preparation, evaluation and implementation stage, puts our work in Saudi Arabia into a new perspective. The Ministry of Finance, at the personal directive of Minister Aba Al Khail, seems to be moving from a period of testing our relationship to a stage of entrusting us in guiding and collaborating with them in the supervision of design, preparation, evaluation and implementation of very major investment schemes. Four of the five schemes requested by the Ministry alone range from $1 billion to $5 billion each. The Minister seems to be counting on our recognition of their urgent need to increase absorptive capacity for local development, so as to put to good long-term use their current cash resources. They are willing to assist LDCs directly, and through the international community, and also to redress balance of payments imbalances by major investments. However, this appears to be conditional on both the international community and the countries who export equipment and plant, making major contributions to rapidly increase Saudi Arabia's ability to make sound investment decisions and absorb a rapid growth in economic activity.

To continue ongoing work at current levels, let alone to develop a capability for prompt and satisfactory response for an expanded scope of work, changes must be urgently introduced, mainly:

(a) longer notice on requests from the Saudi side, allowing us to program our activities, and patience in the adaptation of our system to their needs. Mr. McNamara mentioned this to Minister Aba Al Khail in mid-February (Ljungh memo for the record dated March 23, 1973)[1/]. The Saudis accept this and have themselves started some programming (as per above brief);

1/ See memoranda of past conversations, below.

(b) an organization structure in the Bank that can cater to demand, with work programs, adequate budget, staff, etc. Although the first step towards that goal was initiated in September 1974 with an EMENA Projects Department reorganization of competences among Assistant Directors, additional staff and budgetary requests, including a Division Chief position, are still under consideration - since October 1974 - except for a very recent approval of 3 additional staff positions.

The delay on a decision in this matter has started to affect our capacity to respond to requests for T.A. However, we should try to avoid that a deterioration in the speed and quality of our reponses which could be interpreted as neglect or tactic at a time when negotiations with Saudi Arabia are covering a large variety of crucial topics. Therefore, it should be explained frankly to the Saudi authorities that the growth in our assistance cannot be maintained, but that we hope to be ready to respond satisfactorily to the new and expanded requests for T.A. later in 1975. However, the Minister of Finance will be especially interested also in our readiness to cooperate in other fields, particularly industry and housing. These are major and highly important activities and a negative stance on them is likely to cause disappointment, but a candid account of the situation is the preferable solution. For the status of work on industry see E.3 (g) and E.4 Annex 2 point 2 & Annex 3 points 1, 2 & 3. For the status of work on housing, see E.4, Annex 1, pt.2

In the meantime, we would go on only with ongoing major work in Manpower (Phase I and II), Transport (Bahrain Causeway) and Pilgrims' Accommodations.

E. 3 ONGOING IBRD TECHNICAL ASSISTANCE OPERATIONS

(a) INTRODUCTION

In the early seventies, the Bank started a dialogue with Saudi Arabia on the subject of technical assistance. Initially some advice was provided on transportation matters which led to a UNDP-sponsored National Transport Survey. During the President's visit in February 1973, the Bank's readiness to expand its technical assistance was reaffirmed. An exploratory mission followed in May 1973 and reached tentative agreement on scope and administrative arrangements. During this visit, the question of reimbursement was raised by the Saudi representatives. At the time it was felt that, in the absence of an agreed work program, the question of reimbursement was premature but should be the subject of future discussions as and when a substantial program emerged.

Following the May 1973 mission to Saudi Arabia, a formal - though limited - agreement on "technical cooperation" was concluded by an exchange of letters. The salient points were approved by H. M. King Faisal in his capacity as President of the Council of Ministers and are set forth in a letter from H. E. Aba Al-Khail, Minister of State for Financial Affairs and National Economy, to Mr. McNamara, dated January 13, 1974. The Board of Directors was informed about the understanding reached and the technical assistance activities under way and envisaged on February 5, 1974.

(b) TRANSPORT SECTOR

(i) UNDP National Transport Survey

1. The Bank is executing agency for this UNDP-financed study which is being carried out by consultants, Hoff and Overgaard-Norconsult-Systan, Inc. (Denmark/Norway/US), at an estimated cost of US$1.065 million and SRls 1.057 million. The study will provide the Government with a master plan for the development of a coordinated transportation system and define the appropriate policies for each mode.

2. Phase I started in February 1973 and was completed on time in November 1973. The services utilized 18 experts for a total of about 72 manmonths. The terms of reference comprised:

- (i) review of all recent transportation studies and policies and plans in Saudi Arabia;
- (ii) data collection;
- (iii) identification and analysis of principal transport problem areas and preliminary recommended solutions; and

(iv) evaluation of priority transport projects under consideration by Government for their FY73-74.

3. Phase II started in December 1973 and was completed in December 1974. The consultants employed 21 experts for a total of about 122 man-months. The terms of reference comprised:

(i) recommendations for the improvement of the operation, planning, organization, administration and management of each transport mode;

(ii) a comprehensive 7-year transport investment program for 1974/75 - 1980/81;

(iii) a prospective 10-year transport investment program for 1981/82 - 1990/91;

(iv) recommendations for the improvement of overall transport policies; and

(v) recommendations for training.

4. Copies of the draft final report were received at the Bank and have been reviewed and comments transmitted to the consultants and the Government late January/early February 1975.

5. The review has brought to light several areas which need further development by the consultant, particularly in relationship to the model. This will be discussed in detail at a review meeting in Saudi Arabia, March 1 through March 6. The Bank mission will consist of Messrs. P. C. de Man (consultant), A. I. Ramuglia, B. J. Sisson, A. A. Fateen, and W. B. R. Zetterstrom.

(ii) Saudi Arabia/Bahrain Causeway Feasibility Study

6. In September 1973, the Government of Saudi Arabia sought Bank technical assistance for the development of a causeway, which the Governments of Saudi Arabia and Bahrain had decided to construct, linking the mainland and the island (about 25 kms). The Bank agreed to provide advice and assistance for:

(1) preparation of terms of reference for preliminary engineering and design;

(2) preparation of a shortlist of qualified consulting firms from whom Government might wish to invite proposals for this work;

(3) evaluation and ranking of these proposals with a view to assisting the Saudi Government in selecting an appropriate firm;

(4) preparation and negotiation of a contract with the selected firm;

(5) supervision and review of the consultant's work;

(6) preparation of terms of reference for final design and of contract with firm selected for this work;

(7) supervision and review of final design consultant's work; and

(8) preparation of terms of reference and contract for construction supervision.

7. By the end of September 1974, stage (3) above had been reached and the Bank had provided the Government with a draft contract. In November 1974, at the Government's request, a Bank mission advised the Government in a review of four consulting firms' financial proposals.

8. The Government has appointed a consortium of Danish/Saudi firms. The contract was signed on February 5, 1975, and the consultants are scheduled to arrive in Saudi Arabia by April 5, 1975. Present plans are to have the consultant's work guided by a steering committee in which the Bank would participate, in an advisory capacity (stage (5) above).

(c) EDUCATION AND MANPOWER DEVELOPMENT SECTOR

(i) Human Resources Development (1st Phase)

In early 1974, the Central Planning Organisation (CPO) asked the Bank to assist in a study of the education/training sector for incorporation in the 2nd Plan.

Purpose: (1) To provide data on and evaluation of manpower supply resources for inclusion in the National Development Plan, 1975-80.

(2) To make recommendations on specific plans, programs and projects for immediate and for long-term action to develop the national education and training resources to respond adequately to the overall demand for skilled manpower.

Status: (1) Report of April/May mission completed (3 volumes) and submitted January 1975, covering the scope indicated in our January 8 covering letter (attached).

(2) Report will be discussed by a mission led by Serageldin in March 1975.

(ii) Crash Building Program for 52 Schools

In mid-January 1975, a committee of the Saudi Ministries of Finance and Education arrived in the Bank and asked for assistance in preparing specifications and bid documents for 52 prefabricated schools. An education planner, architect, and a civil engineer from the EMENA Education Division provided the necessary assistance.

(d) PILGRIMS' ACCOMMODATION

In response to an urgent request from the Ministry of Finance, Mr. Abdul Salam Kinawy, an architect in the EMENA Education and Manpower Development Division, was in Saudi Arabia from November 10 to January 3, 1975 to provide guidance to a panel of Saudi senior officials in the evaluation of proposals submitted by four international consulting architects' firms for the preparation of a master plan for the development of housing, roads and other services to accommodate increased numbers of pilgrims at Muna, near Mecca. The jury he assisted concluded that none of the firms had submitted an acceptable proposal and that new proposals would be sought:

- to elaborate on evaluation criteria to be employed in the next selection round;
- to incorporate some of the more desirable features of the four submitted proposals into the new instructions for master plan preparation;
- to recommend the inclusion of additional features and also additional measures to accommodate even greater numbers (up to 4 million) of pilgrims than originally envisaged;
- to advise on the types and numbers of specialized consultants who would be necessary to assist the master plan architects and assist in the preparation of job descriptions of each group.

The jury is preparing a report of its findings and recommendations. If the report's recommendations are approved by the Government, a Saudi technical committee would visit the Bank and the UNDP in March to review the CV's of registered consultant architects' firms and to prepare a shortlist of such firms. The selected firms would be requested to submit in April/May their technical proposals and work programs for the preparation of the master plan.

(e) TELECOMMUNICATIONS

Sheik Omar Fakieh, Deputy Minister of Communications, visited the Bank on February 7, 1974, and informed us that Saudi Arabia had selected the US consultants Messrs. Arthur D. Little to prepare proposals for reorganization of the telecommunications sector and for a 5-year telecommunications development plan. He sought Bank assistance to review the consultants' terms of reference, to provide additional support and advice to Government, and to supervise this work. Bank staff rapidly studied the terms of reference and suggested some modifications which were discussed with the consultants. These comments were then telexed to the Deputy Minister on February 15, 1974.

It became apparent that the ordinary methods for forecasting demand could not be applied in the absence of historical data on the growth of demand for telecommunications facilities and that the consultants' team lacked experience of conditions in developing countries. We, therefore, agreed to provide advice to the consultants during preparation of their report based on our own experience in other developing countries.

Mr. Dickenson visited Saudi Arabia from August 24 to September 3, 1974, to obtain details of the present organization of the sector and the facilities existing. We continued to provide input for Messrs. Arthur D. Little's report both through discussions in Washington and in Boston, and later communicated our comments on the final report to Sheik Omar Fakieh and to the Vice President of CPO, Dr. Fayez Badr, on January 6, 1975.

(f) ISLAMIC DEVELOPMENT BANK (IslDB)

The Articles of Agreement of the Islamic Development Bank (IslDB) were established in final form in November 1974, and have to our knowledge been ratified only by a few of its 27 signatory countries. The new institution has, therefore, not yet been inaugurated. This event is only tentatively expected for coming April. The Saudi Arabian Monetary Agency (SAMA) has been charged with the preparatory work preliminary to the inauguration. To that end, it assembled a Task Force drawn from its own staff and representatives chosen from Pakistan, Egypt and Malaysia. The late Governor Anwar Ali requested the Bank in September 1974 to help the Task Force in its work. We responded quickly and Messrs. El Fishawy and Pollan visited Jeddah on two occasions essentially for:

- help in preparing the documents needed to inaugurate IslDB (by-laws, rules and procedures for the Board of Governors, Executive Directors' selection and Board procedure);

- establishing an appreciation of the business outlook and related financial forecasts;

- suggest and discuss operating policies and a related organizational structure.

Our staff's talks were in the main with the Task Force and SAMA. Since it is not certain whether Task Force members would eventually end up in the IslDB, we concluded that, in future, more would be gained if our technical assistance, if requested, were given to the IslDB after its inauguration. It is important that there be a president and some nucleus of a staff with whom any further technical assistance activities could be conducted. The leading officials in SAMA know this. But we have assured the Saudis (as leading spokesmen for the IslDB) that we stand ready to help in the future whenever our advice is required.

(g) INDUSTRY

(Initial reconnaissance only - see E.4, Annex 3, Item 1)

Based on a Government statement of the industrial policy of Saudi Arabia and a request for assistance, a reconnaissance mission led to the Bank proposing draft terms of reference for a joint work porgram in the non-hydrocarbon industry sector. These draft terms of reference were transmitted to H. E. Mohammed Aba Al-Khail, Minister of State for Finance and National Economy, on December 6 and discussed by Messrs. Wapenhans and El Darwish during their subsequent visit with a newly-established steering committee.

E.4 - Annex 1, Item 1 - Detailed Status Note
Project Planning/Evaluation Expert
for Ministry of Finance

Minister Aba Al Khail had asked on January 11 for a project planning/evaluation expert to assist the Ministry of Finance. Mr. Benjenk replied on January 27 saying the matter was under consideration and indicating that a number of clarifications would help in the search for a qualified person. These are the academic background, the type of implementation experience, the desired background, knowledge of Arabic, and the probable length of service envisaged. He indicated that this could be discussed further by Mr. El Darwish in Riyadh in February.

During the discussions, the Minister indicated that his main objective was to have someone who would advise the Budget Department and himself on requests for financing projects out of the general budget. These could be projects in any field, and therefore the broader the person, academically and in implementation experience, the better. He indicated that this particular aspect could be discussed further once the Bank had also considered how and with what people it might assist the Public Investment Fund (PIF), for which he had requested an evaluation team (see detailed Status Note on E4, Annex 1 - Item 3). Such a team would probably have to have an industrial background, and therefore the Ministry of Finance's planning/evaluation expert should be a project financial analyst/economist with experience in utilities and social services projects, if possible.

Regarding background and knowledge of Arabic, the Minister explained that he had no particular preference. Any person sympathetic to the area would be welcome and knowledge of Arabic would be an asset, but certainly secondary to qualifications and experience. Furthermore, he indicated that he would contemplate initially a year's length of service, with possibility of renewal for a similar period.

Deputy Governor Al Qosaibi indicated a similar need for a financial analyst/economist to help the Saudi Arabian Monetary Agency (SAMA) formulate opinions of projects that their representative on the Board of Public Institutions was asked to approve. Minister Aba Al Khail discussed this with Governor Qureshi and suggested that, initially, if a suitable expert were found for the Budget Department of the Ministry of Finance, he would also help SAMA out until the need for more than one person becomes pressing.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. W. A. Wapenhans

DATE: March 3, 1975

FROM: A. Sani El Darwish

SUBJECT: SAUDI ARABIA: Technical Assistance for Proposed 100,000 Low-Cost Housing Units Construction Program

DETAILED STATUS NOTE (EA - Annex 1, Item 2)

1. The purpose of this memorandum is to bring you up-to-date on the status of our review of prospects of the Bank responding to the requests of assistance from the Saudis in their efforts to contract for the construction of 100,000 housing units, to spell out the outstanding steps, the Bank's involvement, and staff implications of our collaboration, to indicate the options open before us; and to request your guidance as to the appropriate role for the Bank.

Background & Present Status

2. On January 14 and January 26, Deputy Minister of Finance Al Soghair cabled Mr. Benjenk requesting delegation of a qualified Bank expert to help the housing department in reviewing prequalification submissions for this housing construction program and in adopting a system suitable for Saudi Arabia. Mr. Benjenk had replied on January 17 that I would investigate possibilities of our collaboration by examining their specific needs and seeing if we have suitable expertise in the Bank to contribute.

3. Messrs. L. F. Shanley, housing consultant, and C. N. Lindsay, facilities planner, arrived in Riyadh on February 8 to join me in discussions with the Saudis on this program. I left on February 10, Mr. Lindsay on February 11, and Mr. Shanley on February 14. A copy of Mr. Shanley's report is attached for your information.

4. Thus far, we have accomplished the following:

(a) Preparation of procedures and a timetable to be followed in the evaluation of contractors and award of contracts. (adjusted Annex II of Shanley report and attached as Appendix 1).

(b) Preparation of Terms of Reference for the technical consultant who would assist the Director General of Housing (Annex III of Shanley report). However, the Minister of Finance is opposed to use of consultants, so this document is likely to be abandoned.

(c) Preliminary evaluation of prequalification data already provided by 126 interested contractors and, on the basis of the submitted data, the rough classification of contractors in relation to degree of mechanisation and the type of buildings in which they appear to have previous experience. (Based on Annexes IV and V of the Shanley report and attached in a simpler presentation as Appendix 2).

(d) Preparation of a prequalification questionnaire. (Revised Annex VI of the Shanley report and attached as Appendix 3).

(e) Preparation of information to be issued to bidders and information to be submitted by bidders. (Annex VII of Shanley report, which requires further refinement).

5. After we send the Directorate of Housing (DH) Appendices 1, 2 and 3 and after Mr. Shanley makes the same preliminary evaluation (as done in 4c) for any additional firms, it would be necessary for the DH to use these documents to eliminate the contractors they find unsuitable and send the Prequalification Questionnaire to those they consider suitable. These contractors would then prepare their submissions. As you know, we cabled the DH to this effect on February 28.

Outstanding Steps, Our Involvement and Options

6. There would remain (see Appendix 1) evaluation of the new prequalification submissions, preparation of bid documents, receipt of bids, their evaluation, negotiation and award of contract(s). The Director General of Housing had conceived a participation of Bank expert(s) in an advisory selection committee made up of: (i) his Pakistani consultant Mr. Saeed, a civil engineer, (ii) an engineer from the Industrial Development Center, (iii) Mr. Candilis, a French architect entrusted with design work that will be used in bid documents, (iv) a Lebanese civil engineer entrusted with similar work and (v) the World Bank expert(s). He also conceived the technical comparison of prequalification submissions and bids being prepared by consultants, and showed us the Terms of Reference he had in mind, to which we suggested some refinements. I had explained that the Bank, as in other cases of our collaboration in Saudi Arabia, usually provides direct assistance to the decision makers, in this case DH. This could be conceived as being in parallel to the advice of the committee, if DH wished to be assisted in this manner. We explained that Housing was not a field in which we had any lending expertise and endeavored to persuade the Saudi authorities to excuse the Bank from this job, since it is a sudden and urgent request outside our usual field of operations. However, the Minister of Finance and Economic Affairs was adamant that consultants would not be appointed to assist DH until the selection of suitable contractor(s) is completed, at the earliest. He values the Bank's objectivity, integrity, institutional strength and general experience in comparison of bids, and seems insistant (as expressed to myself, Mr. Shanley and then Mr. Shoaib) on our collaborating with DH in the selection procedure.

7. Aside from the difficulties in staffing to provide the desired assistance at the requested speed, there are inherent difficulties in the Bank becoming involved in the identification of a short list of contractors and in the evaluation of bids of this magnitude. Despite our best efforts to conduct ourselves circumspectly and to avoid any error in judgment, the Bank will be susceptible to criticism by groups with vested interests. If we cannot be excused, it would be preferable if we could continue to offer assistance in developing methodology and possibly a scoring system for comparing prequalification submissions and then later on for comparing bids, refining the list of bid documents and reviewing them, suggesting a draft contract and even applying the methodology we propose to the submissions and bids made.

We would, however, abstain from any short listing of contractors and decisions related to selection of contracts for bidding or later award of contract(s). This is consistent with our collaboration in selection of consultants for the Saudi Arabia-Bahrain Causeway. The DH and the Minister of Finance understand our position, and our limitations, but it would avoid any misinterpretation of the extent of our expertise, ability to respond more rapidly, or role, if a letter were sent spelling out our position in writing, and if it were further explained by Mr. Benjenk during his proposed visit to Saudi Arabia with Mr. McNamara. Once confirmation has been received, we could proceed as proposed. In view of the urgency, we would prepare on the premise that our proposal would be accepted.

8. I would appreciate receiving your guidance as to the scope of the assistance which we should offer to the Saudis so that I may draft Mr. Benjenk's letter to the Minister of Finance accordingly. As you know, we cannot respond as proposed above unless the organisation, structure, budget, and staffing of our technical assistance work is quickly adapted to the many pressing needs. We initiated requests in October 1974 but this is still under consideration. We have therefore suggested that Mr. McNamara apologise to Minister Aba Al Khail for our inability to respond now to this and other urgent requests for collaboration (see Brief Item E3).

ASED:lgv
Enclosures

cc: Messrs. Cargill/Kochman/El Fishawy
Benjenk, Wapenhans, Paijmans, Jaycox, Lithgow, Finne, Stewart, Lindsay (o/r)

E.4 - Annex 1, Item 3 - Detailed Status Note
Project Evaluation Team for
Public Investment Fund (PIF)

Deputy Governor Al Qosaibi presented in mid-January to Mr. McNamara and Mr. Cargill a request for assistance in project evaluation by a specialised team from the Bank. He was relaying a message from Minister Aba Al Khail, who was concerned about the large number of major financing applications that are pending with the PIF, that finances public institutions and autonomous agencies. Predominant among these are the applications of Petromin for energy intensive projects, including petrochemicals and possibly steel and aluminum. PIF is not yet structured or staffed as an operational institution to handle such projects in the near future without assistance.

Minister Aba Al Khail emphasized the importance of this request and gave it very high priority. However, he agreed that it was difficult to respond before a high level Bank official looked at the type of requests that have been submitted to PIF and at the institutional structure and capacity of PIF itself. A two-week visit by a senior official of the Industrial Projects Department might achieve this.

Mr. Fuchs appreciated the need to respond if the Bank gave high priority to the Saudi request, which was neither planned nor budgetted in his department. He could plan to go to Saudi Arabia in late March to review this and other requests relating to industrial policy, non-hydrocarbon industry and minerals. He would attempt to define the scope of work and procedure that PIF should contemplate, and define the possible input of the Bank, as requested by the Minister of Finance.

E. 4. PROSPECTIVE TECHNICAL ASSISTANCE - SAUDI ARABIA

(Kingdom of Saudi Arabia)

(Summary Brief[1/] for Mr. Shoaib of Developments in February 4-9 Mission of Mr. El Darwish to review Technical Collaboration)

Meetings with the officials of the Finance Ministry, Central Planning Organization (CPO), other ministries and agencies indicate desire for collaboration with the Bank and understanding for the need to program our expanding and considerably diversified technical collaboration. I have been very well received by officials, and the Minister of Finance reviewed at length the scope, procedures and necessary introduction of method into our work. A tentative program was therefore drawn up, to be developed further during technical discussions between Bank projects staff and the specialists of the Ministries/Agencies in Saudi Arabia. This is:

1. Program in the Ministry of Finance (Annex 1 shows items and status)
2. " " " CPO (Tentative list in Annex 2)
3. " " other Ministries and Agencies (Annex 3 shows items and status)

In March/April 1975, a series of discussions should enable the definition and elaboration of these programs into a confirmed and more explicit form. A number of items would however require collaboration in "joint appraisal" of investment decisions, usually in Saudi Arabia, but also on occasions in Washington. This is a new form of our Saudi Arabian collaboration, which is both important and delicate.

1/ Adjusted in the annexes so as to exclude ongoing technical assistance operations, now listed in more detail in E.3.

Furthermore, the volume is extensive and variety very large, in scope and in sectors. The need to preserve the Bank's performance, in promptness and in quality, under such circumstances, necessitates both programming (as above) and a close examination of procedures and means of early communication of requests in a well defined fashion.

The Minister of Finance told Mr. Kochman (who relayed an enquiry from Mr. McNamara on the Minister's impressions) and myself that he believes, from our earlier review of the program of work, that a technical coordination representative in Riyadh is necessary. Yes The different departments and agencies that are requesting Bank help need assistance in defining and formulating the technical work to be undertaken. Furthermore, they need to determine what role the Bank can play in this and how. An on-the-spot Bank man can also decide whether and how best to transmit such a request by mail, or bring it personally (or jointly with the concerned Saudi officials) to Washington. A resident coordinator would also be able to follow-up on steps in the Kingdom, and would help put Bank work in the local context and in harmony with other collaboration programs.

The tentative request from CPO for "executive" involvement of the Bank in project implementation, as an owner's agent, has not been repeated, but a desire for our continuity of cooperation into the stage of implementation, in an appropriate form, has again been expressed.

Annex 1

Tentative Program of Requested Future[1] Technical Collaboration between Ministry of Finance and the World Bank

(drawn up with Deputy Minister Al Soghair on February 5, 1975, and presented verbally to Minister of State Aba Al Khail)

1. Project Planning/Evaluation Expert for Ministry of Finance: (will also benefit Saudi Arabia Monetary Agency - SAMA)

   Tentative discussion of the options and queries expressed in Mr. Benjenk's letter. Further discussion in Washington with Deputy Minister Al Soghair and possibly other senior officials.

2. Program for Construction 100,000 Housing Units:

   Status: General discussions of approach last week with Director General Housing. Bank experts arrived February 9 for 4-5 days to discuss suitable role for Bank further. Agreement on following the general procedure of the Housing Department is expected. If suitable expertise can be found and mobilised quickly in the Bank (once our role is defined), a proposal regarding our assistance to the Ministry of Finance would then be formulated. (Sector where Bank has no lending experience, but might be able to help in methodology of bid evaluation, like Pilgrims' Accommodation). Minister of Finance emphatic on need for Bank assistance.

3. Project Evaluation Team for Public Investment Fund: (pattern would be followed as appropriate in other financial institutions)

   Status: Collaboration in evaluation of project financing applications in "Energy Intensive" projects, including Petrochemicals, possibly Steel and Aluminum production. A one to two-week visit of high level Bank official would be needed to define required scope of work, procedure and Bank staff input, including secondments, that is required later. Minister Finance gives high priority.

4. Training of Ministry of Finance Staff (EDI and on-the-job):

   to be defined with Deputy Minister Al Soghair in Washington.

5. Unforeseen Items and Activities

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[1] adjusted to exclude ongoing, now listed in **E.3.**

Possible Studies in which World Bank's Assistance may be sought by CPO

1. Agriculture:

   a. Planning for the implementation of new land development.
   b. Program for the development of extension services.

2. Industry:

   a. Policy framework for (encouraging) participation of joint-venture partners in major industrial projects.

   b. Improving technology--providing assistance toward the strengthening of assistance toward the strengthening of institutes working in the area of industrial technology, productivity, designs, and standards.

   c. Up-dating survey of existing industries in Saudi Arabia, including analysis of the level of technology especially in industries, such as construction, and infrastructure-supporting industries.

   d. Feasibility studies of major industrial projects, in which the private sector may not be able to invest.

   e. Development of a set of criteria for setting up priorities for industries--in the light of the prevailing constraints.

3. Electric Power - Desalination:

   Planning study for system design and implementation.

4. Education:

   Study leading to an implementation plan for accelerating Saudi Arabia's program of literacy.

5. Manpower:

   Study of Human Resources, Phase 2, the demand side.

6. Transport:

   a. Follow-up studies as recommended in the SANTS Report.

   b. Long and short term Road Research Programs. Research objects which need urgent attention are: materials and construction method.

   c. Comprehensive study of all major aspects of the road transport industry.

   d. Feasibility study of the two alternative mass transit systems serving the Jeddah New Airport--Jeddah-Mecca route, namely, an electrical railroad and a bus system using exclusive bus lanes.

   e. Study of problems in completing the purchasing of equipment, materials, and supplies (which are often subject to long delays).

   f. Comprehensive organization study of the Civil Aviation Department.

7. Telecommunications:

Detailed feasibility study of using Electronic Switches in the telephone system in Saudi Arabia.

8. The Economy:

a. Quantifying economic indicators of the Saudi Economy.

b. The possibility of building an Econometric Model for the Saudi economy.

c. Study toward accelerating the administrative decision making in the Government Sector.

Annex 3

Tentative Program of Technical Collaboration between Ministries/Agencies (other than Finance & CPO) and World Bank

(to be discussed and confirmed March/April 1975)

1. Non-hydro-carbon Industry, review, update of sector survey and development of feasibility studies and projects (Al Zamil/Twiegri). Request of Jan. 26, 1975 calls for close to 36 manyears up to 1980.
2. Non-hydro-carbon Minerals, review and assessment of existing geological and feasibility studies (Deputy Minister Ghazi Sultan). Also ideas and suggestion for developing and training personnel of the Department and establishing a suitable organisation. Ideas regarding suitability of an autonomous exploration agency, and project implementation arrangements. (Follow up on Dr. Badr's discussion with Industry).
3. Petromin. Follow-up on discussion between Dr. Badr and the Deputy Director General of specific projects where they might require Bank collaboration.
4. Education/Manpower. Follow-up with the competent agencies the assistance they require in the items (out of the 38 programs proposed in the Bank's report) which they have included in the Plan and for which they require implementation assistance.
5. Second EDI Course. Follow-up with General Administration Institute/CPO/Finance. Scope and timing of the second course to be tentatively agreed upon.
6. Transport. Follow-up with all departments and agencies requirements of collaboration in studies and programming implementation of work/projects suggested in SANTS report submitted January and commented on by Bank in February.
7. Agriculture. Al Dawasir Oasis Development; other Projects in Plan. The Ministry will be able to determine suitable scope for Bank collaboration in March, after review of potential assistance possibilities from all sources (multilateral and bilateral).

ASED
2/9/75

OFFICE MEMORANDUM

TO: Files

DATE: January 23, 1975

FROM: Mohamed Nassim Kochman *[signature]*

SUBJECT: Meeting with Mr. Algosaibi

On Monday January 13, at 6:30 p.m., Mr. McNamara met with Mr. Khaled Algosaibi, Vice Governor of the Saudi Arabian Monetary Agency. Present at the meeting were Messrs. Cargill, Vice President, Finance; Benjenk, Vice President, EMENA Region; and myself.

At the outset, Mr. Cargill introduced Mr. Algosaibi to Mr. McNamara and mentioned the valuable assistance he had offered when Mr. Cargill was in Saudi Arabia to finalize the $750 million borrowing. Mr. McNamara welcomed Mr. Algosaibi and expressed the wish to be helpful in any way he could.

Mr. Algosaibi stated that his government was very pleased by the kind of cooperation prevailing between the World Bank Group and the Kingdom of Saudi Arabia and with the assistance provided so far. He indicated that his government has recently set up the Saudi Fund for Economic Development and they would like to have the assistance of the Bank in organizing it. Moreover, some experts are needed to help in appraising and preparing projects for that Fund.

Mr. McNamara said that Messrs. Cargill and Kochman would meet with him later to examine this matter. More precisely, Mr. McNamara stated that he was very interested in developing relations in the field of co-financing of projects. The Bank has acquired a substantial experience in this domain and has already financed development projects jointly with other countries and national or regional financial institutions. Kuwait has participated in such operations; a transaction has been finalized with Libya and many other projects are being processed for joint and/or parallel financing with other co-lenders.

Mr. Algosaibi indicated his genuine interest in this form of cooperation and expressed the hope that concrete proposals will be worked out in the future. Then Mr. McNamara asked him if his government had preferences for certain countries or specific regions where they would like to co-finance projects. Mr. Algosaibi replied that they had no particular preference and that they were prepared to envisage joining their efforts with other co-lenders in any country. Then Mr. McNamara added that he would be provided with a list of projects in all the regions where the Bank is active.

Mr. McNamara turned to the question of the proposed IBRD capital subscription and voting rights of OPEC countries. He expressed his firm belief that the OPEC countries should have a greater voice and to that effect he stood (as indicated in the financial policy paper that the Executive Directors will discuss in few days) for increasing the share of voting rights of the OPEC bloc of countries from its current 4.39% to 15%. This is quite a substantial increase whereas in the IMF an increase of 10% only is anticipated. Mr. McNamara mentioned the meeting he had with OPEC countries Executive Directors on that question and underlined the fact that he is prepared to see to it that such an increase takes place inasmuch as all the OPEC countries supported the idea. Mr. Algosaibi replied that he knows that his government supports the increase of quotas in the IMF. As far as the Bank is concerned, he cannot pass judgment yet and the matter will be studied. However, he wished to know, in the light of the figures quoted by Mr. McNamara, at the expense of whom the increase of OPEC's share will be realized. Mr. McNamara indicated that this was a subject open for negotiations between all parties concerned and he hoped that a satisfactory solution would be reached.

cc. Mr. McNamara
Mr. Cargill
Mr. Benjenk

MNKochman/cl

Memorandum to Files

1. Mr. Zaki Saad and Mr. Shoaib just called to report that in response to Zaki Saad's cable of last week, the Saudi Arabian Government has responded to ask whether the Management of the Bank fully supported Zaki Saad's recommendation that Saudi Arabia lend to the Bank $750 million for 10 years at 8-1/2%. The incoming Saudi Arabian cable stated that the writer viewed Zaki Saad's proposal "favorably" and was prepared to submit it to the Council of Ministers for formal approval.

2. I stated to Zaki Saad that the Management of the Bank would accept $750 million (denominated in dollars) at 8-1/2% for 10 years subject to Board approval. Further I urged him to act speedily on the matter because market returns were changing and we had other financing operations under consideration.

Robert S. McNamara
November 19, 1974

cc: Mr. Cargill
Mr. Shoaib

Confidential Memorandum of Conversation* between Mr. Anwar Ali and Mr. McNamara
Wednesday, October 23, 1974

It was agreed that Saudi Arabia would lend to the Bank, for a period of ten years, $200 million at 8-1/4% (this portion of the agreement will be translated into a contract before Mr. Anwar Ali's return to Saudi Arabia) and the equivalent of $50 million in riyals at 8%, (this portion of the agreement will be translated into a contract following Mr. Anwar Ali's discussions with his government in Saudi Arabia).

Negotiations regarding the remaining $600 million to be borrowed by the IBRD as part of the Calendar Year 1974 program, in accordance with the intentions of the parties as they were discussed last spring, will be initiated in the near future. It is hoped that two loan agreements, each for $300 million equivalent (with 20% of the amount denominated in riyals), can be negotiated on the same basis: one to be effective approximately December 1, 1974 and the other approximately January 15, 1975.

Both Mr. Anwar Ali and Mr. McNamara look forward to similar arrangements for future years. It is understood that for future borrowings beyond the CY74 program the interest rate would be set on market terms (at the level of U.S. Agency securities of comparable maturity), but of course at a level no higher than paid by the IMF for funds borrowed from OPEC countries for re-lending to the developing nations.

* Not to be circulated other than to the parties and Dr. Saad.

RMcN:mss
10/23/74

Mr. McNamara
IB

Files September 27, 1974

I.P.M. Cargill

SAUDI ARABIA - Anwar Ali's Visit

Anwar Ali and Shoaib came to see me yesterday afternoon at 4.30 p.m. In the course of the discussion Anwar Ali made the following points.

(i) He would like to have a formula which would justify the 8 percent interest rate that the Bank proposed to be charged on its borrowing from Saudi Arabia. I told him that we had said that the interest the Bank would be prepared to pay would be "related" to equivalent maturities in the US market and that we had particularly followed the movements of 10-year Treasury bonds for this purpose. Through the year the yield on these bonds had varied from a low of about 7 percent in January to a high for a short time of over 8 percent in August and were now falling back again. It could, therefore, be said that the 8 percent rate had on average been somewhat better than the rate that could be obtained on the US Treasury bonds in question. In the course of the rather discursive conversation that followed, Anwar Ali made a lot of points which were more appropriate to a discussion about the disposition of Central Bank reserves than a loan to the World Bank for the purposes discussed since the first quarter of this year. I told him that there could be no end to the discussion of a number of these points, decisions of which necessarily reflected the judgements of the investors but that I at any rate had received a clear impression from some discussions at which I had been present in Mr. McNamara's office that the rate and maturity - i.e. an average life of 11 to 12 years - had been agreed, being under this impression I had cited this conversation in all my talks with other OPEC countries including Libya and Venezuela and was confident that Saudi Arabia's position, as reported by me, had been very influential with them. I added that I would be most reluctant to proceed with further discussions, including discussions with Kuwait and Abu Dhabi, unless these points could be reconfirmed.

(ii) Anwar Ali raised the question of the timing of the issue. I told him that we had expected to sign one agreement but would consider drawing it down in tranches on agreed dates if this provided any convenience. However, I said that we were talking about a borrowing program for calendar 1974 and would not like to go beyond the arrangements made with Venezuela where the last tranche would be drawn down early in January but would relate to the borrowing program for calendar 1974. Anwar Ali expressed a preference for three separate loans on the grounds that his recent transactions with the Bank of Tokyo, owing to some unfortunate leaks to the press, received considerable adverse publicity and he would like to minimize this risk in future; he particularly asked when the publicity would have to be given for any transaction between Saudi Arabia and the Bank. I said that there was no question that the transaction would be publicly known and that in my judgement to have three separate loan agreements rather than one with a provision for drawing in tranches was, if his fears proved correct, likely to have the result of three pieces of adverse public criticism rather than one. However, I again pointed out that not enough emphasis could be laid on the fact that money being provided to us was going to be used wholly for the benefit of poor countries and not, as in other cases, for the benefit of rich countries.

(iii) Anwar Ali asked about the timing. He suggested that an agreement be drafted leaving blanks regarding interest rate, etc., which he would take back to Saudi Arabia at the end of October when he returned from his holiday. I expressed some concern about this, pointing out that the finalization of the transaction would in this way be delayed until almost the end of the calendar year and would severely handicap discussions which we wished to have very shortly with other OPEC countries. I said that there was no difficulty in drafting a loan agreement but that since the only important points were exactly those which he left blank, it was not clear to me what procedure would be followed in order to get this settled. He said something about having further discussions just before his return but nothing very conclusive on this procedural aspect.

cc: Mr. Shoaib

IPMCargill/plc

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files DATE: September 27, 1974

FROM: I.P.M. Cargill

SUBJECT: Saudi Arabia Borrowing

1. Mr. McNamara, Mr. Shoaib and I met with Mr. Anwar Ali on Friday, September 27. Mr. Anwar Ali raised the problems which he had raised with me and Mr. Shoaib on September 26 (see my memorandum of September 27) and was told by Mr. McNamara that at this late stage he could see no way to consider a higher rate than 8 percent. He mentioned the fact that in May he had been talking about 7 3/4 percent but that in view of the movement of the market since then he had felt it appropriate in the case of Venezuela and others, including Saudi Arabia, to settle on a rate of 8 percent but not higher.

2. The chief new point raised by Mr. Anwar Ali was the possibility of having any of the lending now being discussed in riyals. Mr. McNamara said that he had regarded the transactions for calendar 1974 as one series, but he had assumed that the previous borrowing in riyals of about $140 million equivalent was part of the series and had expected that the balance would be denominated in dollars. He emphasized that borrowing riyals created difficulties with our own borrowers but, more important, might not secure the approval of the Executive Directors, some of whom felt strongly on this point. Mr. McNamara went on to say that the borrowing proposed from Saudi Arabia was vital to the Bank and that he had based his lending plans and the Bank's program on the assumption after previous conversations that this series of transactions would be completed much earlier than this and certainly by the end of this calendar year. On the question of tranches for payment or of separate loan agreements, he had no views other than that he would prefer to follow the Venezuelan model and in particular emphasized that the last tranche should not be later than January 15, 1975 but would count against the 1974 Bank borrowing program from Saudi Arabia. In view of the urgency of the matter, he suggested that further discussions should be held before Anwar Ali left at the end of October for Saudi Arabia and tentatively it was agreed to meet at 2.30 p.m. on October 10.

* * *

After the meeting Mr. McNamara asked me to verify precisely what proportions of our borrowing from Venezuela and other countries had been. If it were necessary in order to bring Saudi Arabia up to the same proportion, he would be prepared to consider raising the riyal borrowing marginally. He also asked me to find out why Anwar Ali laid so much emphasis on the assertion that Bank bonds were not "marketable".

cc: Messrs. McNamara, Shoaib and Rotberg

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: May 3, 1974

FROM: I.P.M. Cargill

SUBJECT: Visit of Mr. Anwar Ali, the Governor of the Saudian Monetary Fund in Jeddah.

Mr. Anwar Ali, the Governor of the Saudian Monetary Fund in Jeddah, called on Mr. McNamara yesterday. Mr. Shoaib and I were present. After some generalities the talk turned to the proposed bond issue in Saudi Arabia and its terms. The following points were made.

(a) Mr. McNamara said he found it difficult to explain that the Bank would have to borrow for lending to poor countries at a rate higher than the IMF which was principally concerned with the problems of the rich countries. He suggested that the maximum rate that could be accepted would be about 7 3/4 percent. Mr. Anwar Ali felt that this was on the low side and pointed out that if one were guided by the U.S. market rates, it would be understandable that the rate on a bond issue now would be higher than the rate fixed at the time of the bond issue in Iran.

(b) Mr. Anwar Ali went on to say that he wanted to give Mr. McNamara his personal assurance of Saudi Arabia's continuing support for the Bank and said that, provided terms were related to current market conditions, he would expect Saudi Arabia to supply a very substantial part of the Bank's needs.

(c) Mr. McNamara explained the difficulties which the Bank would experience in the denominating of its bond issues in riyals. He went into the past history of this issue and said that while on this occasion an issue were denominated in riyals because of the background, it would have to be the last occasion that this would be done.

CC: Messrs. McNamara
Knapp
Shoaib
Aldewereld
Rotberg

IPMCargill:plc:fs

thought we had
reached an
understanding
must send letters

MEMORANDUM FOR THE RECORD

Mr. McNamara's Visit to Saudi Arabia, February 14-17, 1973

Meeting with the Minister of Finance

Present: Minister of Finance, Secretary of State for Finance, Messrs. McNamara, Shoaib, Benjenk and Ljungh

After some pleasantries, Mr. McNamara asked about the development program of Saudi Arabia. The Minister of Finance said that the concept of planning had started with the arrival of a group for technical assistance from the World Bank. Although their visit had been short, their advice and planning had been valuable and the cooperation would hopefully continue with the recently initiated transportation study. The next plan would be completed in two years and run for a period of five years. He hoped that the World Bank would be able to give technical advice to the preparation of this plan.

Mr. McNamara described the Bank's achievement in the Arab World during the past five years and the roles of Messrs. Shoaib and Benjenk. He also said that he recognized the shortcomings of the World Bank's program and hoped that it would increase in the future. The Bank would plan to expand its technical and financial assistance to Arab countries in the next five-year period and, although Saudi Arabia does not need financial assistance, it could well benefit from technical assistance, of which the transportation study is one example. Since The King has expressed definite objectives to expand the economy, the Bank was then ready to assist in whichever way it would be desirable, and this was the main purpose of Mr. McNamara's visit. The Minister thanked Mr. McNamara for the offer and said that he would give details as to the technical assistance requirements.

Mr. McNamara mentioned the complaints which had been made against the Bank for its slow decision process and the difficulties in dealing with the Bank. The reason he said is that the Bank does not like to see ~~the~~ waste of money and being the servant of its member states must adhere to strict rules in this regard. The Bank often tries to alter the form of projects in order to reduce cost and increase benefits. This makes for a cumbersome process in the eyes of borrowers but increases the probability of success. The Bank's record of successes would probably match any other development institution. The average expected return on Bank projects is about 19%. The Bank would be reluctant to finance any project which shows a projected return of less than 9%, and all projects financed in the Arab world have met that criterion. He mentioned the Rahad project as an example and the Lower Khalis project as another. Mr. Benjenk described the details of this project.

The Minister of Finance said that it is important to understand the Arab environment which may at times be very difficult to predict. Mr. McNamara said that our job is just that--to predict the environment and thereby increase the probability of success.

The Minister asked Mr. McNamara's views on the monetary situation. Mr. McNamara replied that the situation is still unstable and that there is a great need for both monetary and trade agreements. The delay to agree brought on the recent crisis.

In view of the fact that The King was delayed in his trip through the country, it was decided that Mr. McNamara would make a field trip the following day and a meeting would be tentatively planned for Friday evening, February 16.

Meeting with the Minister of State for Financial Affairs and National Economy, Muhammad Aba Al-Khayl, and the Deputy Director of the Planning Organization, Mr. Badr. Also present were Messrs. McNamara, Shoaib, Benjenk, Duncan (Stanford Research Institute) and Ljungh

The Minister of State for Financial Affairs and National Economy said that the main objectives of the current plan were first to educate the manpower needed for the development plan, secondly, to diversify the economy, and, thirdly, to increase GNP. The programs in manpower development were ahead of the plan while diversification lagged behind. Still, manpower constraints remained the most serious obstacle to rapid economic growth. School facilities were being increased at all levels, but dropout rates were a major concern. The exact population of the country was not known and, since there had been no comprehensive census, a new census would show both the numbers of population and the proportion of nomads which was an important factor in planning education.

In agriculture, the Minister said, the results are encouraging but agriculture is lagging in relation to other fields. The Government is providing much of the infrastructure necessary and teams of consultants are evaluating the potentials, especially regarding water availability. Almost all agriculture has to be irrigated. Agricultural production is estimated to be growing at 5.6% and there is an active Government subsidy program and distribution of fallow land. Figures on cultivated land are unreliable but the Minister envisaged a 4.5% growth of agriculture in the next planning period, mostly through increased area but also through more intensive cultivation and higher value crops. New varieties of wheat, such as Mexipak, are doing well. Livestock projects are being tested in order to encourage settlement of Bedouins. The most encouraging results have been reached with sheep.

(Mr. McNamara later visited the Harad agricultural development project east of Riyadh where the main activity was growing of forage crops for sheep farming. The project was technically reasonably successful and the availability of water and suitable soil were obvious. However, in a financial sense, the project would not show a positive financial return or even a positive cash flow for most of its projected life. The main mistakes made were that the whole land development activity had taken place before any crops were put into the ground instead of a gradual development. It is possible that similar projects could be developed and be marginally economically justified if the lessons were drawn from the present Harad project.)

Industry had been declared the domain of the private sector. The growth rate had been slow--only about 6%. The Minister said that the basic industrial infrastructure is there but the response in terms of investment by the private sector had been slow, since there is no entrepreneurial experience in industry and returns in commerce and real estate are higher and more easy to obtain. The state-owned petroleum company, Petromin, would expand its industrial activity in the chemical and petroleum fields. An investment fund for the support of government-industrial projects and mixed projects had been set up and the Government was due to issue industrial policy guidelines in the near future. The most successful industries were cement, where the capacity had reached one million tons with local production receiving priority under a fixed price system. Plastic pipe and asbestos cement products were also being produced.

In transportation the physical achievement had been impressive but the economic justification was probably doubtful.

The Minister said that the next plan would essentially contain the same objectives of manpower development, economic diversification and increase in GNP, but with somewhat revised figures. The main constraint would still be technical manpower.

The subject of technical assistance was raised again and Mr. Benjenk explained how the Bank's technical assistance is organized. For assistance in planning, the Bank would use its own personnel, while, for some activities, we would hire consultants. In planning our response could be rapid but, if we are to make major efforts in assisting in project evaluation, we would need more time. For planning assistance we would use our own staff, but, for a major effort, we may have to charge a fee to Saudi Arabia. But this could be discussed later.

The Minister of Finance asked whether the Bank could assist in evaluating specific projects in Saudi Arabia's development plan. Mr. McNamara replied in the affirmative but warned that this would have to be planned with longer notice in order to fit into the Bank's work program. In education Mr. McNamara said that Messrs. Benjenk and Ballantine would pay special attention to the needs of Saudi Arabia.

Later at lunch Mr. McNamara said to the Minister of Finance: "You mentioned that you would like to have the Bank's assistance in planning. Please do not be dissatisfied with what we provide. I wish to emphasize that it will take time for us to learn your requirements, find people to work on Saudi Arabia, have them gain experience and for our efforts to bear fruit. But if we work together and are tolerant during the initial learning period, then after five years you will feel that you are getting valuable assistance from the Bank."

AL
March 23, 1973

F

UNDP ACTIVITIES

1. The UNDP's Regional Office for the Gulf Area is situated in Saudi Arabia.

2. UNDP Indicative Planning Figure (IPF) for the Saudi Arabia Country Program for the 5-year period 1972-76 was $10 million. Approximately 75% of this amount was estimated to have been spent by the end of 1974.

3. UNDP assistance has been concentrated in the sectors of agriculture, industry, transport and communications, science and technology, and social security and other social services. Assistance consists mainly of providing training, and in carrying out studies. IBRD is executing agency for the National Transport Survey, Phase II of which was approved in December 1973.

4. For ready reference, the name and address of the UNDP Regional Representative is as follows:

Mr. Abdullatif Succar

Mail Address:

P.O. Box 558
Riyadh, Saudi Arabia

Tel: 22564
26807

Street Address:

Al-Washam Street, Murabba
Riyadh, Saudi Arabia

EM1DA
February 14, 1975

Content of the country programme
according to sectors and subsectors

5. The sectoral breakdown of the country programme is:

(a) Agriculture: UNDP assistance in this sector is primarily concerned with groundwater development and irrigation and the effective maintenance and repair of agricultural equipment;

(b) Industry: The major projects in this sector concern manpower development and managerial training and assistance in carrying out studies for industrial development;

(c) Transport and communications: UNDP activities in this sector include assistance for training in civil aviation, planning and development of highway projects including a transport survey 1/ and the establishment of a telecommunication training centre;

(d) General economic and social policy and planning: The projects under this sector aim at providing training in the fields of economic and social planning, and public and financial administration;

(e) Science and technology: UNDP assistance in these fields provides mainly for training in geology and also in meteorology;

(f) Education: UNDP is assisting in the establishment of teacher training colleges and supporting educational research. While table 1 indicates that only 3 per cent of the total IPF is budgetted for education, other sectors such as industry, agriculture, transport and communications and social services and labour have training and educational components included in them;

(g) Social security and other social services: The major emphasis in this sector is designed to assist the Government in preparing and implementing programmes for physical planning, institutional co-ordination and to strengthen training programmes in community development;

(h) Labour, management and employment: The Government is receiving assistance through small-scale projects in manpower assessment and planning, the organization of vocational training and development of employment organizational policies.

1/ The Bank is Executing Agency for the transportation survey.

G

U.S. Is Helping Saudis Set Up Social Security System

By Austin Scott
Washington Post Staff Writer

Saudi Arabia, the nation with the third-largest monetary reserves in the world, is using U.S. help to set up a mechanism to keep people from becoming poor — a social security system.

A three-man delegation of U.S. technical experts, all of whom work for or have retired from the Social Security Administration, is scheduled to leave Baltimore Wednesday for Saudi Arabia.

They will spend three months advising the Saudis, along with technical experts from Britain, Egypt and Pakistan.

Saudi Arabia is the world's largest petroleum exporter. Last year the Saudis earned about $29 billion by selling nearly one-fifth of all the oil consumed by non-Communist countries. In 1973, their national budget was $6 billion, and they were unable to spend nearly half of it.

The International Monetary Fund estimated earlier this month that they held international reserves of $14 billion, only $2 billion less than the $16 billion held by the United States. West Germany is first with $32.7 billion in reserves. International reserves include foreign exchange, gold, and Special Drawing Rights.

Sid Nibali, the man in charge of the mission, said the Saudi social security program was not changed by their sudden incease in oil wealth. "Their contribution rates are on a par with other countries, but their benefit structure is, I would say, very generous in comparison with the U.S.," he said.

Saudi Arabian workers pay 5 per cent of their wages into the system, Nibali said, while the employer contributes 8 per cent, plus an additional 2 per cent for workmen's compensation.

Upon retirement at age 60, a worker will receive retirement benefits calculated by averaging his monthly salary for the last two years he worked, and granting him 2 per cent of that figure for every year that the program covered him.

A Saudi who was covered for 40 working years would thus receive 80 per cent of his last — and presumably highest — wages. By comparison, U.S. retirement benefits for a 40-year worker retiring at age 65 would range between 30 and 60 per cent of his monthly salary averaged over his lifetime, a Social Security spokesman said. U.S. workers and employers each pay 5.85 per cent of a worker's earnings into the system for those eligible.

It is not clear how much of Saudi Arabia's whopping national income trickles down to the average Saudi citizen.

The World Bank put annual per capita income in Saudi Arabia at only $550 in 1974, but the State Department figure for the same year is $5,273.

Some 90 per cent of the gross national product is oil income, a department spokesman said, and much of that goes abroad again immediately.

Some flows into new construction projects that have made it possible for anyone who wants a job to find one.

Some oil income also flows into subsidies. Hightest gasoline costs 16 cents a gallon, and government subsidies also hold down the costs of electricity and water, rice and sugar, so that consumers do not bear the brunt of inflation for those commodities.

A tribal as well as extended family structure helps spread money around, the State Department spokesman said, adding that many Saudis are related in some way to the royal family, which helps bring money in, too.

The United States has provided technical aid to Saudi Arabia on the social security system since 1971, when the Saudis, who had decided to set up such a system in 1969, asked for the help of two experts from the Department of Health, Education and Welfare. There were follow-up trips in 1973 and 1974.

Nibali said his team will be helping "to establish the whole system, registration of employers, registration of workers, record-keeping processes, keeping track of contributions."

There are unusual problems, he said. Checks cannot be mailed, as they are in the United States, because there are no street addresses. A Saudi who wants to receive mail has to get a post office box. Other unresolved problems are whether workers should be paid in cash and how overpayments can be recovered, he said.

"The system they are putting in is similar to the U.S. system, with old age, survivors and disability benefits and workmen's compensation," Nibali continued.

"So far they have registered employers having 50 or more workers. They now have 700 employers and about 170,000 workers registered so far."

When the system is finished, he said, a half-million workers, not including the self-employed or those in agriculture, will be registered.

Nibali is a system analyst who retired from the Social Security Administration in 1973. Accompanying him will be Mel Greenwood, also a systems analyst, and Mahmoud Abbasi, An Arabic-speaking computer programmer who first came to this country in 1957, Nibali said.

Born in Jordan, Abbasi is a naturalized American citizen who worked for the Arabian-American Oil Co. in Saudi Arabia before coming here, Nibali said. He came to the Social Security Administration in 1970 from the American Oil Co.

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Saudi Arabian Oil Output Falls Sharply Because of World-Wide Oversupply

By JAMES C. TANNER
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — A world-wide oversupply of oil has resulted in a sharp drop in petroleum production in Saudi Arabia, kingpin of the oil cartel.

Sources said production by Arabian American Oil Co., or Aramco, is about one million barrels a day less than what the U.S.-Saudi consortium is allowed to produce by the Saudi government. Aramco accounts for the bulk of Saudi Arabia's oil output and is allowed to produce up to 8.5 million barrels a day.

Additionally, an Aramco subsidiary, Trans-Arabian Pipe Line Co., has ceased sending oil through its 1,000-mile pipeline from Saudi fields to a Sidon, Lebanon, terminal because of slackened demand.

The latter development isn't much of a surprise. As previously reported, the rate of flow of oil through the pipeline, never more than 500,000 barrels day, has been shrinking in recent months, largely because of cheap tanker rates. Oil buyers have found they can fare better by transporting Saudi crude by tanker from the Persian Gulf rather than by paying the pipeline tariff and then picking up the oil at the Lebanese port. With current tanker rates, sources said, shipping Saudi oil from the Persian Gulf costs $2-a-barrel less than shipping from the Mediterranean after the pipeline tariff is taken into account.

The drop in production puts Saudi Arabia again in third place among the world's biggest petroleum producers. The Soviet Union is considered by most oil observers to have gained first place this year with about nine million barrels a day of crude oil production. The U.S., whose production continues to decline and is currently around 8.6 million barrels a day, is again slightly ahead of Saudi Arabia.

Nonetheless, Saudi Arabia still ranks as the leading producer in the Organization of Petroleum Exporting Countries and could surpass both the U.S. and Russia if oil demand warranted such production rates.

Most of Aramco's oil is purchased by four U.S. oil companies, which share a 40% interest in the consortium. They are Exxon Corp., Standard Oil Co. of California, Texaco Inc. and Mobil Oil Corp. The remaining 60% ownership of Aramco is held by the Saudi government.

The U.S. oil companies have been taking less oil from Aramco in recent weeks because of a slowing in petroleum consumption world-wide, due partly to the high price of oil and partly to the economic recession.

Aramco doesn't forecast production levels, because output is subject to change if the owner companies request different amounts of oil than they had been taking But Aramco has disclosed that production for January averaged only 7.6 million barrels a day. Sources outside Aramco said that the February production level is likely to be even lower than January output.

First word of the stopping of oil through the Tapline, as the Trans-Arabian pipeline is called, came from Beirut sources. An Aramco spokesman in New York confirmed the end of the flow and said that the pumping had been stopped because "there are few if any requests" for oil to be delivered through the line. There were indications that the flow mightn't be resumed for some weeks, and possibly for months.

The Tapline has been operating below capacity for many months. Flow through the line last year averaged only 175,555 barrels a day.

Some of the oil going through the Tapline has been used by a refinery in Lebanon and by one in Jordan. But there is more than enough oil in storage at the Sidon terminal tanks for these refineries.

The Aramco spokesman said that the Sidon tanks, which have a capacity of 4.5 million barrels of oil, currently hold 3.5 million barrels.