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Folder ID: 1772833

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4540S

Series: Travel briefings

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: July 16, 2013

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Washington, D.C.

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The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
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McNamara Papers

Travel
May



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A1995-259 Other # 18

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Travel Briefings: Saudi Arabia, Kuwait, Travel briefs

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SAUDI ARABIA - KUWAIT, May 20-25, 1976

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VISIT TO MIDDLE EAST, May 20-25, 1976

887 2r 8245 0345
 1 Am 0745 0845+1:30 10:15
 1138

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
May 20	0700	1100	Depart Washington (National)	Shuttle (reservation has also been made on AA519 which departs National at 7:00 and arrives La Guardia at 7:55 in case the shuttle is delayed). Mr. Paijmans will accompany you. AF010 (707). Economy. non-stop. Hotel Jacques Borel. Small suite.
Thurs.	0800	1200	Arrive New York (La Guardia)	
	1000	1400	Depart New York (JFK)	SV174 (L10). First. Stop in Jeddah. Hotel Intercontinental. Small suite.
	2310	2110	Arrive Paris (de Gaulle)	
May 21	1410	1210	Depart Paris (de Gaulle)	Betagram #1 will arrive at Intercontinental. Small suite.
Fri.	2350	2050	Arrive Riyadh	
May 22			Meetings with Saudi Arabian officials and Sir Gordon Mackay. Mr. El Fishawy will arrange in Riyadh	Chartered beechcraft (Gulf Air) Sheraton. Small suite.
Sat.				
May 23			Meetings with Saudi Arabian officials.	Betagram #2 will arrive at Sheraton.
Sun.				
approx.	1900	1600	Depart Riyadh	BA489 (VC10) First. Non-Stop. PA001 (747) First. Non-stop. Shuttle
	2130	1830	Arrive Kuwait	
May 24			Meetings with the Emir, the Prime Minister, Mr. Al-Ateeqy, and Mr. Al-Hamad. Mr. El Fishawy will arrange.	
Mon.				
May 25	0910	0610	Depart Kuwait	
Tues.	1340	1240	Arrive London.	
	1515	1415	Depart London	
	1750	2150	Arrive New York (JFK)	
	1900	2300	Depart New York (La Guardia)	
	2000	2400	Arrive Washington (National)	

Handwritten notes:
 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25
 Riyadh

Handwritten note: Shihata DG OPEC fund wanted to see me

cc: Messrs. Knapp, Paijmans, El Fishawy

SB
 May 19, 1976

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

Al Quarshie - 4/30
A Fund to help Egypt over 5 yrs for BOP,
infrastructure & shift to private investment -
May need our help for studies, go-finance,
etc -
They want to organize their help to Egypt, it
is now disorganized -- & thereby to put
more pressure on for rational policies -
Haven't reached conclusion re total figures --
not grants but soft loans -
They want to finance only the priorities -
will be ready to talk to us about it in April

Saudi Arabia + Kuwait

I Bank Borrowing

A. IBRD is both the largest source of funds for the LDC's & the one which gives highest assurance that funds will be well used (102 Arab League - 452 to Western countries). Our credit rating is the highest. We need to borrow large sums in the capital markets (approx 4% p.a.). And yet in the face of the great need, the efficiency with which we serve the LDC's, & our high credit rating, in this fiscal year (76) we have borrowed from Saudi Arabia only 150 million*. I am concerned as to why the sum is so low.

* and from Kuwait with the exception of one small sum (400m DM - 150m in 3/76) no borrowing since 1/75.

B. Moreover we have not been able to work out any general understanding as to the sums we can expect to borrow in future years.

C. My question therefore is why:

We are failing to tell our story in a convincing way. Have we failed to adapt our proposals to the particular circumstances they face?

Or do they look upon us as just one of a no. of competing borrowers seeking to tap their resources, rather than an institution of which they are part owner, which is helping them achieve their objective of assisting the 3rd world, while at the same time providing them the highest quality investment.

II IDA

Hope that at Helsinki they will:

- A. Support principle that S⁸ & R should provide an inc. in real terms
- B. Support a total of 96. (102 Arab League - 332 Arab League countries)
- C. Indicate a willingness to contribute a substantial amt on assumption that it will be split to & not substitute for contributions of OECD nations.

From the 6 OPEC countries, approx 152 (¹⁴⁰⁰ * 1500m * to be pd over 11 yrs)

From Saudi Arabia approx 6 1/2 % of the total of 96 (600m) to be paid over 11 yrs:

'78	16	'80	102	'84	93	'84	49	'86	24	'88	16
'79	80	'81	97	'83	72	'85	34	'87	17		

From Kuwait approx 2 1/2 % of the total of 96 (225m) to be pd over 11 yrs:

'78	6	'80	39	'84	18	'86	9	'88	6
'79	30	'81	36	'83	27	'85	13	'86	6

Qant's proposal for OPEC far less than they contributed to Food Fund (502) + far less than proposed share (502) in Resources Fk + far less than US proposal for IDA (502) - Saudi Food Fund Kuwait

1. State the basis
2. Traditional OLC
3. Importance of K's leadership
4. Proposing a small 12

* In Jamaica I had said $\frac{750}{3}$ & $\frac{950}{3}$ + agreed to 4 Hamudis: Saudi 9 $\frac{350}{3}$ v Kuwait $\frac{150}{3}$

1. 1976: Imports 4.98, Exports 1.92 - Trade Def 3.06

Surplus Rev + Remitt.

Less A/C Def. 2.58

Net + 2. T. Deficit .4

Financing Need 2.9

Short-Term Debt 2.5, Net + 2. T. Deficit 5.18

In Chri '76 reports of delays of 1 mo in BA Pmts; 3 mo in Supplier credits.

III UAR

A. General Situation

Unless UAR resolves some of its current economic problems, the possibility of a stable pol regime continuing into the future is unlikely.

The solution of the economic problems requires far reaching economic and social reform.

Such reforms are difficult to discuss in a bi-lateral context - need of an international +/or multi-lateral forum (consultative gp) is almost req'd -

unless such discussions are carried on, aid to UAR will simply finance BOP deficits + Budget deficits with little development impact + resultant political instability.

Referring this, B. Al Qasbi (1/30/76) said they wish to organize their assistance to UAR on a rational basis ("is now disorganized") - they want to finance "only the priorities" + will be prepared to talk to us 5/77

- What would they like us to do?
- a) Consultative Gp (curr proj. prog. could take 700 m pa)
 - b) Joint-financing; Co-financing
 - c) Quarterly Econ. "Progress" Reports
 - d) Coordination of Bank, Saudi, Kuwait + Arab Fund aid programs
- (Who will be main pt of contact)
(Will they push UAR to 1974)

C. Current Situation

1. [above]

2. IMF + WB have pushed the change reform (shift to commercial mkt of all imports, except a few basic comods, by end '76); reduction of subsidies, particularly of middle class; reduction in other current budgetary expenditures (+ hence reduction in consumption to permit financing of development investment); preparation of a balanced

UAR (cont)

investment program (balanced to priorities + available domestic savings + foreign if acceptable); limitations + reduction of short-term debt.

3. UAR has agreed on prog. with IMF - will lead to IMF financing (94m Compten
150m STDB)
4. UAR has promised BR 5Yr Plan approx July. If acceptable should form basis for a Program Loan + continuation of approx 225m BR Ep fin. pa.
5. But after debt fund for UAR ($\frac{26}{5}$); IMF; + BR, as shown on IC, UAR will be short perhaps 750m pa in '77 + 750 in '78.

*Spv Copy to: Abalkhast
Alquaisi*

Office of the President

AIDE MEMOIRE

On World Bank Borrowings in Saudi Arabia

I believe it would be helpful if we could reach an understanding on the financial needs of the Bank and agree on an annual level of borrowing by the Bank from Saudi Arabia over the next few years. The level of borrowing would of course be subject to regular review in the light of Saudi Arabia's surplus position.

To finance its program of lending to developing countries the Bank needs to borrow about \$4 billion a year. Approximately one quarter of this sum is expected to be provided by the refinancing of maturing obligations held by the Central Banks of member countries which invest part of their reserves in Bank bonds. For the remainder of its borrowings of about \$3 billion a year the Bank must look to the private capital markets and to those oil exporting member countries that have a surplus of capital.

During the present fiscal year, ending June 30, 1976, the Bank has already borrowed over \$3.8 billion, of which about \$900 million from Central Banks. Much of the rest has been raised in the capital markets of developed countries, and only \$347 million was placed directly with OPEC countries (Kuwait, Libya and Saudi Arabia). This is in sharp contrast to fiscal year 1975 when the Bank borrowed over 40% of its total requirements of \$3.5 billion in OPEC countries. The direct placement in FY75 of almost \$900 million with Saudi Arabia contributed materially to the Bank's capacity to mount a larger lending program at a time of special difficulty for the non-oil producing developing countries.

When I last visited Saudi Arabia in March 1975 I suggested that the Bank might look to Saudi Arabia for loans on the order of \$1 billion a year. We understand that Saudi Arabia is likely to have a surplus of investible funds in excess of \$20 billion a year during the next several years. I hope the Government would be prepared to invest a part of this annual surplus in the Bank.

This proposal for a significant investment of Saudi Arabia's foreign resources in the Bank is based on the following considerations:

a) The Bank is the leading agency supporting the efforts of the less developed countries to improve their productive capacity and the standard of life of their peoples. The external capital requirements of these countries are very large if they are to sustain even a modest rate of growth, and they depend on the Bank to provide a continuing flow of resources at the maximum feasible level in support of their development efforts.

b) Approximately ^{10?} 10% of the amount of IBRD's lending has been to members of the Arab League and about ~~one fourth~~ ^{30?} to Moslem countries.

c) As an international cooperative owned by Governments, the Bank looks to its capital surplus members to provide the resources which it transfers to developing country members through the financing of sound projects. In the early years of the Bank these surpluses were found only in North America, but in the last ten to fifteen years Germany, Japan and some of the smaller European countries have become, and will continue to be, important sources of borrowed funds. More recently, several oil exporting countries have accumulated large surpluses, and the membership looks to them to play an appropriate part in financing the Bank's lending activities. Saudi Arabia is by far the best-placed of these countries.

d) From Saudi Arabia's own point of view, the purchase of World Bank obligations forms a sound and profitable investment for part of its surplus funds, while providing major support for the less developed countries. The Bank's financial policies are based on the principle that it is a borrowing institution which must meet the test of the marketplace. Its obligations carry the highest credit rating in world capital markets. The reasons are straightforward:

1) The Bank has liquid investments of approximately \$6-1/2 billion which it maintains to meet its cash requirements, without the need to enter unstable or excessively high-cost capital markets.

2) As mentioned earlier, it has established a diverse and broad-based market for its obligations. Of the Bank's outstanding debt of approximately \$14 billion, the equivalent of \$5.4 billion is held directly by official government institutions or Central Banks. The Bank has also issued its obligations in the public markets of Belgium, Canada, Germany, Holland, Japan, Switzerland, The United Kingdom, the United States and elsewhere.

3) The Bank's capital provides direct support by way of a guarantee for its obligations. Under the Bank's charter, its outstanding loans may not exceed the total of its capital and accumulated reserves. Thus, the Bank's accounts receivable from its borrowers must be matched on a one to one basis by its equity. The Bank's capital is currently \$33 billion, and its Executive Directors have recommended an increase to \$41 billion. Of the present \$33 billion of capital, approximately \$28 billion is callable, and \$3.1 billion has been paid in. The Bank's retained earnings amount to approximately \$2 billion. The callable capital can only be used for the protection of the Bank's bondholders and not in connection with its lending operations or to meet administrative expenses.

4) The Bank pays particular attention to the creditworthiness of the countries to which it lends. Less creditworthy countries are assisted by the Bank's affiliate, the International Development Association (IDA). In its 30 year history the Bank has not had any losses on loans, and has a firm policy against debt rescheduling.

On the basis of its financial policies, its demonstrated financial strength, the diversity of its sources of funds, and its strong liquidity policy, the Bank ranks as one of the premier credits of the world. It provides, therefore, a unique investment opportunity with returns frequently higher than similar government-quality obligations. It offers the flexibility of a wide range of maturities to suit the preferences of potential investors and obligations in a variety of internationally traded currencies should the investor prefer to hold investments other than U.S. dollars. It also can and does make arrangements to ensure that its obligations are liquid and marketable. The Bank's obligations are marketed throughout the world, both in the new-issue market and the secondary market by leading investment banks, merchant banks and commercial banks in each country. These provide a ready facility for the sale of Bank bonds.

Taking account of Saudi Arabia's desire to help the developing countries and to obtain market rates of return on its investments, I know of no better way of accomplishing these twin objectives than of investing in Bank bonds.

Robert S. McNamara

May 22, 1976

4/27: Abalkhalil
Algeria

May 22, 1976

AIDE MEMOIRE

Contributions to the Resources of the International
Development Association

The Institution

1. The International Development Association (IDA) was established in 1960 as part of the World Bank Group when it had become increasingly recognized that the poorest countries could not afford to borrow the amounts they needed on Bank terms.
2. Over the years, IDA has become the leading multilateral institution lending to the poorest countries. Most of its lending is for specific development projects; about one-third of its lending is in agriculture and two fifths in basic infrastructure projects such as power and roads. IDA projects have to meet the same standards as Bank projects and IDA does not finance projects unless the economic and financial return to the recipient country is sufficiently high. IDA's staff is the same as that of the IBRD; it identifies, prepares, appraises and supervises IDA projects in exactly the same way as with Bank projects. Countries which receive IDA credits are also the subject of extensive economic study by Bank staff, and there is a continuous exchange of views on development policies. The economic performance of recipient countries is one of the important factors taken into consideration before extending IDA credits to them.

Beneficiaries

3. IDA assistance is focused on the poorest developing countries, at the lowest per capita income levels. Currently, over 90% of IDA's credits go to countries with per capita incomes below \$200. Broadly speaking, the poorest countries are those which cannot afford to borrow except on the highly concessionary terms that IDA makes available. (IDA credits are repaid over 50 years with no repayment in the first 10 years; at no interest rate but carry a service charge of only 0.75%.)
4. Through the end of the current fiscal year (IDA's fiscal year ending June 30, 1976), IDA's credits will have totalled \$10.1 billion. Included among the poorest developing countries and receiving a substantial proportion of IDA credits are a number of Arab countries, such as Jordan, Egypt, Mauritania, Somalia, Tunisia and the Sudan, and Islamic countries, such as Afghanistan, Bangladesh and Pakistan. (See attached Table). Two major oil producers, Nigeria and Indonesia, were recipients of IDA credits before the recent improvement in their financial positions. About one-half of IDA projects are currently carried out in the poorest countries of Africa south of the Sahara. About 60% of the total amount of lending goes to countries in South Asia, where much of the poorest population of the world lives.

Resources

5. IDA's original funding was provided by initial subscriptions and it has continued to receive resources through four replenishments taking place at three-year intervals. The last replenishment agreement (The Fourth Replenishment) was reached at Nairobi in September 1973 and IDA is now committing these resources. They will be totally committed by June 1977. In order to ensure the continuation of operations for the next three-year period (July 1977 to June 1980), negotiations are now taking place for the Fifth Replenishment of IDA's resources. Participating in these negotiations are the traditional contributors to previous replenishment, mainly the industrialized developed countries but including also Kuwait; in addition, a number of potential new donors have agreed to participate in the negotiations, including Iran, Saudi Arabia, Venezuela, U.A.E. and Qatar.

The Status of the Fifth Replenishment Discussions

6. So far, two meetings have been held of the Deputies appointed by Governors of the Bank and IDA to represent them in the negotiations on the Fifth Replenishment. A third meeting is to be held on June 3 and 4, 1976. These discussions are taking place at a time when many countries face political and economic difficulties, and as a result, discussions are progressing slowly. There is now a clear risk that, unless progress is made fairly rapidly in these discussions, there will be a hiatus in IDA operations beginning July 1, 1977. We are, therefore, hoping that countries at the next meeting in June will be able to work towards an agreement on the amount of the replenishment, thereby clearing the way for the discussion of the other issues which will need to be settled before the negotiations conclude.

Level of Contributions to the Replenishment

7. IDA has proposed that traditional donors should make a contribution providing for an increase in real terms compared with the resources totalling \$4.5 billion they agreed to provide for the Fourth Replenishment. According to staff calculations, traditional contributors will have to increase their contributions in nominal terms by at least 60% to \$7.2 billion simply to offset the price increases which have eroded the real value of IDA resources since the Fourth Replenishment and which may affect the Fifth Replenishment. The total will have to be larger still to provide for an increase in real terms. We hope that, if the traditional donors can increase their contributions by at least this amount, new donors will also agree to make a significant contribution towards a high level of Replenishment. An effort by the traditional donors of the magnitude indicated above will give potential new donors the assurance that new contributions will not substitute for a reasonable effort by the old contributors. At the same time, traditional donors will be greatly encouraged in contributing to the Fifth Replenishment if they know that new contributors will also be making a significant contribution to the Replenishment. Many Ministers at the last Annual Meeting of the World Bank spoke in favor of IDA being supported in this way both by its traditional donors and by those additional countries which have benefitted since the Fourth Replenishment by major improvements in their financial position. Subsequent resolutions by the U.N. General Assembly and the Group of 77 Developing Countries at Manila also supported the view that the Fifth Replenishment should represent an increase in real terms.

Attachment

IDA Lending Program FY61-77

IDA LENDING PROGRAM FY61-77^{a/}
(in current dollars)

Country	FY61-65		FY66-68		FY69-71		FY72-74		FY75-77	
	\$ m.	No. of Operations	\$ m.	No. of Operations	\$ m.	No. of Operations	\$ m.	No. of Operations	\$ m.	No. of Operations
<u>Oil Producers</u>										
Indonesia	-	-	-	-	227.4	16	334.4	22	-	-
Nigeria	35.5	2	-	-	-	-	-	-	-	-
Total	35.5	2	-	-	227.4	16	334.4	22	-	-
<u>Arab League</u>										
Morocco	-	-	11.0	1	7.3	1	18.5	2	14.0	1
Tunisia	5.0	1	19.0	2	23.8	3	22.0	4	-	-
Mauritania	6.7	1	-	-	3.0	1	11.6	3	11.0	2
Egypt	-	-	-	-	26.0	1	125.1	8	195.0	3
Somalia	6.2	1	2.3	1	3.9	2	32.6	3	39.2	6
Sudan	13.0	1	8.5	1	-	-	99.0	6	105.0	9
Jordan	8.5	3	3.0	1	6.0	1	24.3	3	29.5	6
Syria	8.5	1	-	-	-	-	38.8	3	-	-
Yemen AR	-	-	-	-	-	-	38.2	5	73.4	8
Yemen PDR	-	-	-	-	1.6	1	4.1	2	32.7	4
Total	47.9	8	43.8	6	71.6	10	414.2	39	499.8	39
<u>Other Islamic Countries</u>										
Bangladesh	119.2	17	37.3	7	68.9	13	142.2	6	487.1	15
Pakistan	150.6		57.7		104.3		164.0	5	223.0	10
Afghanistan	3.5	1	-	-	15.0	3	25.0	4	86.0	7
China	-	-	-	-	8.1	3	16.1	3	23.0	2
Mali	-	-	9.1	1	7.7	1	42.2	6	57.7	5
Niger	1.5	1	-	-	12.4	3	8.3	1	39.3	4
Upper Volta	-	-	-	-	7.0	2	23.8	5	60.9	5
Turkey	65.7	6	15.0	1	31.5	3	66.3	4	-	-
Total	340.5	25	119.1	9	254.9	29	487.9	34	977.0	48
<u>Other IDA Recipients</u>										
India	485.0	16	406.0	5	623.4	13	1296.2	28	1955.1	26
Other Asia ^{b/}	29.3	5	13.0	2	77.4	12	209.4	20	297.4	23
Other Africa ^{c/}	48.8	8	143.8	24	260.9	54	615.5	71	946.0	69
LAC	100.5	13	18.6	4	59.2	13	94.6	12	111.0	8
Total	663.6	42	581.4	35	1020.9	92	2215.7	131	3309.5	126
GRAND TOTAL	1087.5	77	744.3	50	1574.8	146	3452.2	227^{d/}	4786.3	213

- ^{a/} Amounts and number of operations shown are actuals through FY75. The FY76-77 data are estimates derived from the lending operations program. Joint IBRD/IDA projects are counted as IDA projects.
- ^{b/} Burma, China, Korea, Nepal, Papua & New Guinea, Philippines, Sri Lanka, Thailand and Western Samoa.
- ^{c/} Cameroon, Central African Republic, Congo, Dahomey, Guinea, Ivory Coast, Madagascar, Senegal, Togo, Burundi, Rwanda, Zaire, Botswana, Equatorial Guinea, Ethiopia, Gambia, Ghana, Kenya, Lesotho, Liberia, Malawi, Mauritius, Sierra Leone, Swaziland, Tanzania and Uganda.
- ^{d/} This includes the drought relief operation for \$14 million shared by Chad, Mali, Mauritania, Niger, Senegal and Upper Volta.

3/47 Copy to: AbulKhalid
Alqurashi

May 22, 1976

AIDE MEMOIRE

Saudi Arabia's Contribution to the Fifth Replenishment of IDA

The Total Amount of the Fifth Replenishment

1. IDA has proposed that the total for the Fifth Replenishment should represent an increase in real terms compared to the Fourth Replenishment. IDA has made clear to the traditional supporters of IDA (mainly the OECD countries) that it expects them to increase their effort for the Fifth Replenishment compared with the effort they made for the Fourth Replenishment. In addition, discussions so far with potential new donors have led IDA to believe that meaningful contributions will be made by new contributors whose economic situations have improved substantially in the past several years. Taking into account the effort to be made by traditional donors and possible contributions from new donors, we believe that the aim should be to work towards an agreement for a total Replenishment of about \$9 billion for the three years FY78-80. A total of \$9 billion would represent a doubling of IDA's resources in nominal terms from the \$4.5 billion provided for the Fourth Replenishment, and a 25% increase in real terms.

2. We hope that at the Helsinki meeting, which will take place on June 3 and 4, Saudi Arabia will:

- a. State its support for the principle that the Fifth Replenishment should represent an increase in real terms.
- b. Indicate support for a total of the Replenishment of about \$9 billion, taking into account the best efforts of both the traditional and potential new contributors to IDA.

Saudi Arabia's Own Contribution

3. In addition, we urge Saudi Arabia to indicate its own preparedness to make a significant contribution towards meeting the objectives outlined above. Specifically, Saudi Arabia might wish to announce that it would be prepared to consider supporting commitment authority of \$200 million per year for each of the three years of the Fifth Replenishment. The total of \$600 million would be paid by Saudi Arabia over a period of about 11 years, on a schedule approximately as follows:

FY78	\$ 16 m	FY82	\$ 93 m	FY86	\$ 24 m
FY79	80	FY83	72	FY87	17
FY80	102	FY84	49	FY88	16
FY81	97	FY85	34		

Saudi Arabia may wish to condition this offer by emphasizing the importance it attaches to the actions of the traditional contributors. That is, Saudi Arabia may wish to assert that it will make a substantial contribution only if traditional contributors provide something more than the real value of their contribution to the Fourth Replenishment. ✓

4. A contribution from Saudi Arabia's assistance program of the amount suggested, even when paid over 11 years, is very substantial, but we believe there are strong reasons for Saudi Arabia to consider a contribution of this amount:

- a. A contribution of this magnitude would give Saudi Arabia a major role in the leading multilateral institution channelling assistance to the poorest developing countries. IDA finances directly productive investments that have to meet high economic and financial standards, thus assuring that the resources are not wasted but contribute to developing countries ultimately being able to reduce their dependence on external assistance.
- b. Approximately 10% of the amount of IDA's lending has been to members of the Arab League and almost one-third, to Moslem countries. ✓
- c. For Saudi Arabia to channel a meaningful proportion of its total aid program to IDA would make a major difference to the outcome of the Fifth Replenishment negotiations. Saudi Arabia's leading role in ensuring the success of IDA would be clearly visible to all countries.
- d. For the poorest developing countries, IDA has a special significance because it is a major source of assistance; in the concessionary terms of its lending and in its orientation to the poorest developing countries, it is widely regarded as having set a standard for many donors. A major contribution by Saudi Arabia to IDA will, therefore, win widespread appreciation from the poorest developing countries. ✓

5. Finally, in making a statement at Helsinki, we would welcome a recognition by Saudi Arabia of the need to avoid a hiatus in IDA operations starting July 1977 and a statement that it is in this spirit that Saudi Arabia has come forward to pledge support in concrete terms and hopes that its action will enable other countries to do likewise.

6. Attached is a copy of Mr. Cargill's letter of May 3, 1976, to Governor Al-Quraishi on the subject of Saudi Arabia's contribution to IDA.

COPY

May 3, 1976

His Excellency
Sheikh Abdul Aziz Alquraishi
Governor, Saudi Arabian
Monetary Agency
P.O. Box 394
Jeddah, Saudi Arabia

Dear Mr. Alquraishi:

Attached is a copy of the agenda of the Third Meeting of IDA Deputies which will take place on June 3 and 4 in Helsinki. Attached also is a note on Item 2. The first Item, "Resumption of Discussion of Amount of Fifth Replenishment", will be the main subject of discussion, and it is on that subject that I would like to focus attention. Hence this letter to you, and similar letters which I am writing to representatives of other countries in the IDA negotiations.

In my opinion we must make every effort to reach an agreement in Helsinki on the total amount of the Replenishment. Unless we can approach agreement on the amount and thereby open the way to addressing related dependent matters, it is likely that we will not have commitment authority on July 1, 1977, thus risking a hiatus in the flow of commitments and ultimately in the flow of capital to the poorest among the less developed countries.

The prospect of a hiatus is one which none of us can contemplate with pleasure. Mr. Jamjoom, who represented Saudi Arabia at our first meeting, in November, will have reported that the meeting was characterized by a sense of urgency about getting on with the negotiations so that IDA's commitment authority will not run out next summer. And as you know from Mr. Abdullatif, when we met again in February, many Deputies agreed that the Fifth Replenishment should show an increase in real terms over the Fourth. There was, however, no general understanding about what level would be equivalent in real terms to the Fourth Replenishment (the "threshold"). Also, the question of what would be an appropriate increase remains open. Hence the Deputies asked us to prepare a study indicating the amount which would be equal in real terms to the Fourth Replenishment and suggesting options for the amount of increase. This we did. Our report, which was circulated on April 7, and a copy of which was sent to Mr. Abdullatif, provides, I believe, the essential facts and analysis

May 3, 1976

needed to reach a conclusion on the total size of the Fifth Replenishment. On the basis of our study, the equivalent in real terms to the Fourth Replenishment would be around \$7.2 billion for the three-year period of the Fifth Replenishment. I hope the traditional donors will accept this "threshold" level and will agree on a significant additional amount, representing an increase in real terms.

One difficulty which stands in the way of reaching agreement on the total amount of the Replenishment is that the traditional contributors await a concrete indication of significant contributions from new donors, while potential donors await an assurance that their contributions will not substitute for those of the old. In these circumstances, I am convinced that the traditional supporters of IDA should take the lead at Helsinki by agreeing to contribute something more than the equivalent in real terms of the Fourth Replenishment. I am urging them to do so.

I also hope that some new contributors, and especially the oil-surplus countries, will be able to indicate where they stand. I am therefore writing to ask for your help. I hope Saudi Arabia can indicate a specific figure for the Fifth Replenishment which it would support and a specific amount which it would be willing to contribute. Such a position would contribute much to achieving an agreement in Helsinki.

During my recent visit to Saudi Arabia, we discussed the amount which it might be reasonable to ask from Saudi Arabia. This is an extremely difficult and delicate question. There is no generally accepted criterion on which one can automatically pin a national contribution. Even among the traditional contributors to IDA, contributions, while linked in a general way with a measure of "economic strength" (GNP), have been determined in the final analysis by negotiation, and that negotiation has had to be repeated with each Replenishment. Moreover, in present circumstances, account should be taken of measures, not only of "economic strength" but also of liquidity.

Having regard to these factors, I would consider it appropriate to suggest, as Saudi Arabia's contribution, about \$200 million per year for the three-year period. For many reasons, this figure cannot be put on a basis comparable with the contributions of the old donors but it is consistent with the share of IDA in the ODA of the DAC countries. It would assure Saudi Arabia a significant position among IDA contributors, would encourage other oil-exporting countries to make meaningful contributions and would, I believe, encourage the traditional donors to fix their own contributions at a level which itself assures an increase in real terms.

Sheikh Abdul Aziz Alquraishi

- 3 -

May 3, 1976

As you know, Mr. McNamara will be visiting Saudi Arabia in the latter part of May, and you will no doubt want to discuss this matter with him. In any event, I hope you will find it possible to have your representative in Helsinki give an indication of your position on both the total Replenishment and Saudi Arabia's contribution.

With best wishes,

Yours sincerely,

sgd. I.P.M. Cargill

I.P.M. Cargill
Vice President, Finance

5/24 TD: *Attegi* *Case*
Al Hamed
May 24, 1976

AIDE MEMOIRE

Kuwait's Contribution to the Fifth Replenishment of IDA

The Total Amount for the Fifth Replenishment

1. After two meetings of Deputies, the time has now come for countries to indicate in concrete terms both the total amount for the Replenishment that they support and, as far as possible, the amount they themselves would be prepared to contribute. With respect to the total amount for the Fifth Replenishment, IDA has proposed that the total should represent an increase in real terms compared with the Fourth Replenishment. More specifically, IDA proposed that its traditional contributors themselves provide resources in excess of the Fourth Replenishment in real terms, and that, in addition, substantial sums be sought from certain new contributors whose economic situation has improved significantly in the past several years. Kuwait's Deputy has given his strong support to these proposals at both meetings of the IDA Deputies, in November 1975 and in February 1976. From discussions with Kuwait's Deputy, we believe that Kuwait would support a total for the Replenishment of about \$9 billion, which would represent a doubling of IDA's resources in nominal terms from the \$4.5 billion provided for the Fourth Replenishment and a 25% increase in real terms. We hope that, at the Helsinki meeting on June 3 and 4, Kuwait will repeat its strong support for the principle that the Fifth Replenishment should represent an increase in real terms and, furthermore, that it will indicate the total amount that Kuwait believes would fulfill this principle. ✓

Kuwait's Own Contribution

2. In addition, we hope that, at Helsinki, Kuwait will state what its own contribution towards meeting such a total would be. At the same time, Kuwait might wish to indicate that its pledge is related to the action taken by other traditional supporters of IDA, specifically that it is dependent on the willingness of other traditional contributors at least to maintain the level of the effort called for under the Fourth Replenishment and to maintain roughly their same shares. ✓

3. We believe Kuwait might wish to indicate, as its contribution to the Fifth Replenishment, commitment authority of \$75 million per year for each of the three years of the Fifth Replenishment. The total of \$225 million would be paid in over a period of about 11 years, on a schedule approximately as follows: ✓

*2.25m = 2.571 * 90*

FY78	\$ 6 m	FY82	\$ 35 m	FY86	\$ 9 m
FY79	30	FY83	27	FY87	6
FY80	39	FY84	18	FY88	6
FY81	36	FY85	13		

A contribution of the magnitude suggested, even when paid over 11 years, would represent a very substantial increase in the real value of Kuwait's contribution to IDA compared with its contribution to the Fourth Replenishment and would raise Kuwait's share to 2.5% if the total Replenishment were to amount to \$9 billion (compared with 0.6% now). However, we believe Kuwait should consider such a contribution for the following reasons:

- a. Kuwait has a unique role in IDA not only as one of the traditional contributors to IDA but also as a country with strong links to potential new contributors. Kuwait's enlarged support for the Replenishment will be regarded by other traditional contributors as indicative of the support that might be obtained from potential new contributors and will give a lead to countries that are potential new contributors.
- b. About 10% of the amount of IDA's lending has been to members of the Arab League and almost one-third, to Moslem countries.
- c. It has been the practice among traditional contributors that a country takes up an increased share in IDA if there is a significant change in its economic situation. For example, Germany increased its share in IDA from 7% in initial subscription to 9.8% in the First Replenishment and to 11.7% in the Fourth; Japan increased its share from 4.5% in initial subscription to 11.2% in the Fourth Replenishment. Kuwait is unique among the Part I countries in the dramatic improvement that has taken place in its economic and financial position since the agreement on the Fourth Replenishment was concluded in September 1973.
- d. Kuwait is an exception among countries in its region in having a long-established development assistance program and aid institutions of proven efficiency. For Kuwait to make a substantial contribution to IDA would be a signal to potential new contributors that a contribution to established multilateral institutions is reasonable as a complement to bilateral aid efforts.
- e. For the poorest developing countries, IDA has a special significance both as a major source of assistance; and because in its highly concessionary terms of lending and in its orientation to the poorest developing countries,

✓
✓
Kuwait
we are
toward
7 US

it is widely regarded as having set a standard for many donors. A major contribution by Kuwait to IDA is likely, therefore, to win widespread appreciation by the poorest developing countries that rely on IDA.

3. Attached is a copy of Mr. Cargill's letter of May 3, 1976, to Mr. Al-Hamad on the subject of Kuwait's contribution to IDA.

C O P Y

May 3, 1976

Mr. Abdlatif Y. Al-Hamad
Director General
Kuwait Fund for Arab Economic Development
P.O. Box 2921
Kuwait, State of Kuwait

Dear Abdlatif:

Attached is a copy of the Agenda of the Third Meeting of IDA Deputies which will take place on June 3 and 4 in Helsinki. Attached also is a note on Item 2. The first item, "Resumption of Discussion of Amount of Fifth Replenishment", will be the main subject of discussion, and it is on that subject that I would like to focus attention. Hence this letter to you and similar letters which I am writing to other Deputies.

In my opinion, we must make every effort to reach an agreement in Helsinki on the total amount of the Replenishment. Unless we can approach agreement on the amount and thereby open the way to addressing related dependent matters, it is likely that we will not have commitment authority on July 1, 1977, thus risking a hiatus in the flow of commitments and ultimately in the flow of capital to the poorest among the less developed countries.

I hope that the "threshold and options" paper which was circulated on April 7 will enable the traditional contributors to make up their minds on the amount of the Fifth Replenishment and that, in doing so, they will make it clear that they will provide something more than the equivalent in real terms to the Fourth Replenishment.

I have been very grateful for your strong support of IDA in our meetings and also at Kingston, both your emphasis on the urgency of progress in the discussions and your support for the principle that the Fifth Replenishment should represent a substantial increase in real terms. I am now writing to ask that at Helsinki you take the further step of indicating the total figure you consider appropriate and the amount Kuwait might contribute. The reason I am asking this is that Kuwait holds a crucial position, being regarded not only as a traditional Part I country but also a leader to potential new contributors. Because of the special relationship which Kuwait has to other traditional contributors to IDA and to other potential new contributors, a lead by Kuwait at Helsinki could be crucial in obtaining the sort of results we need from this meeting.

When I visited Kuwait in February, we discussed Kuwait's contribution to the Fifth Replenishment. I thought at the time that \$75 million for each of the three years would be appropriate, and I still think so. Of course, a contribution of this size would represent a substantial increase in Kuwait's share of the IDA Replenishment even if the \$9 billion target was agreed upon, and this is in a situation in which few other traditional contributors are likely to raise their shares more than fractionally. However, that figure is consistent with the share of IDA in the ODA of the DAC countries, and I hope Kuwait would be able to agree to such a figure. Doing so would provide both an example to other oil-producing countries who will become new contributors and a source of considerable encouragement to the traditional contributors.

My thought is that it would not be inappropriate to seek from new contributors and Kuwait a total of \$400 to \$500 million. This total would include, on the basis of the same kind of rough calculation which led me to suggest \$75 million per year from Kuwait, a contribution of about \$200 million per year from Saudi Arabia, about \$60 million per year from the United Arab Emirates and about \$50 million per year from Qatar. I am, frankly, not as optimistic about contributions from Iran and Venezuela but I still hope that something will be coming from them; and if that proves to be so, we would then be brought into the \$400 to \$500 million range.

I hope that you can see your way clear to firming up a figure of around \$75 million a year, when we meet in Helsinki. As you know, Mr. McNamara is planning to visit Kuwait in mid-May and will wish to talk over the matter with you.

I was sorry to hear you will not arrive in Helsinki early enough on June 2 to join me at lunch that day. If your plans change, please let me know. Your presence would be greatly welcomed by everyone.

With best wishes,

Sincerely yours,

sgd. I.P.M. Cargill

Vice President, Finance

YDS SA
76 R
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385
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*3/24 To: Muzi
Al Hamid
Rosen*

Office of the President

May 24, 1976

AIDE MEMOIRE

On World Bank Borrowings in Kuwait

I believe it would be helpful if we could reach an understanding of the financial needs of the Bank and agree on an annual level of borrowing by the Bank from Kuwait over the next few years. The level of borrowing would of course be subject to regular review in the light of Kuwait's surplus position.

To finance its program of lending to developing countries the Bank needs to borrow about \$4 billion a year. Approximately one quarter of this sum is expected to be provided by the refinancing of maturing obligations held by the Central Banks of member countries which invest part of their reserves in Bank bonds. For the remainder of its borrowings of about \$3 billion a year the Bank must look to the private capital markets and to those oil exporting member countries that have a surplus of capital.

During the present fiscal year, ending June 30, 1976, the Bank has already borrowed over \$3.8 billion, of which about \$900 million from Central Banks. Much of the rest has been raised in the capital markets of developed countries, and only \$347 million was placed directly with OPEC countries, including a DM 400 million (\$153 million) placement in Kuwait. a/ This is in sharp contrast to fiscal year 1975 when the Bank borrowed over 40% of its total requirements of \$3.5 billion in OPEC countries. These borrowings contributed materially to the Bank's capacity to mount a larger lending program at a time of special difficulty for the non-oil producing developing countries.

We understand that Kuwait is likely to have a surplus of investible funds of \$5 or \$6 billion a year during the next several years. I hope the Government would be prepared to invest a part of this annual surplus in the Bank. For its part, the Bank could readily absorb, each year, \$300 million to \$500 million of investments from Kuwait.

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✓
307 625102
annual
surplus*

This proposal for a significant investment of Kuwait's foreign resources in the Bank is based on the following considerations:

a) The Bank is the leading agency supporting the efforts of the less developed countries to improve their productive capacity and the standard of life of their peoples. The external capital requirements of these countries are very large if they are to sustain even a modest rate of growth, and they depend on the Bank to provide a continuing flow of resources at the maximum feasible level in support of their development efforts.

a/ Other than this borrowing, the Bank has had no issue in Kuwait since 1973.

b) Approximately ¹⁶²10% of the amount of IBRD's lending has been to members of the Arab League and about ³⁰²~~one-fourth~~ to Moslem countries.

c) An an international cooperative owned by Governments, the Bank looks to its capital surplus members to provide the resources which it transfers to developing country members through the financing of sound projects. In the early years of the Bank these surpluses were found only in North America, but in the last ten to fifteen years Germany, Japan and some of the smaller European countries have become, and will continue to be, important sources of borrowed funds. More recently, several oil exporting countries, including Kuwait, have accumulated large surpluses, and the membership looks to them to play an appropriate part in financing the Bank's lending activities.

d) From Kuwait's own point of view, the purchase of World Bank obligations forms a sound and profitable investment for part of its surplus funds, while providing major support for the less developed countries. The Bank's financial policies are based on the principle that it is a borrowing institution which must meet the test of the marketplace. Its obligations carry the highest credit rating in world capital markets. The reasons are straightforward:

1) The Bank has liquid investments of approximately \$6 1/2 billion which it maintains to meet its cash requirements, without the need to enter unstable or excessively high-cost capital markets.

2) As mentioned earlier, it has established a diverse and broad-based market for its obligations. Of the Bank's outstanding debt of approximately \$14 billion, the equivalent of \$5.4 billion is held directly by official government institutions or Central Banks. The Bank has also issued its obligations in the public markets of Belgium, Canada, Germany, Holland, Japan, Switzerland, the United Kingdom, the United States and elsewhere.

3) The Bank's capital provides direct support by way of a guarantee for its obligations. Under the Bank's charter, its outstanding loans may not exceed the total of its capital and accumulated reserves. Thus, the Bank's accounts receivable from its borrowers must be matched on a one-to-one basis by its equity. The Bank's capital is currently \$33 billion, and its Executive Directors have recommended an increase to \$41 billion. Of the present \$33 billion of capital, approximately \$28 billion is callable, and \$3.1 billion has been paid in. The Bank's retained earnings amount to approximately \$2 billion. The callable capital can only be used for the protection of the Bank's bondholders and not in connection with its lending operations or to meet administrative expenses.

4) The Bank pays particular attention to the creditworthiness of the countries to which it lends. Less creditworthy countries are assisted by the Bank's affiliate, the International Development Association (IDA). In its 30-year history the Bank has not had any losses on loans, and has a firm policy against debt rescheduling.

On the basis of its financial policies, its demonstrated financial strength, the diversity of its sources of funds, and its strong liquidity policy, the Bank ranks as one of the premier credits of the world. It provides, therefore, a unique investment opportunity with returns frequently higher than similar government-quality obligations. It offers the flexibility of a wide range of maturities to suit the preferences of potential investors and obligations in a variety of internationally traded currencies should the investor prefer to hold investments other than U. S. dollars. It also can and does make arrangements to ensure that its obligations are liquid and marketable. The Bank's obligations are marketed throughout the world, both in the new-issue market and the secondary market by leading investment banks, merchant banks and commercial banks in each country. These provide a ready facility for the sale of Bank bonds.

Taking account of Kuwait's desire to help the developing countries and to obtain market rates of return on its investments, I know of no better way of accomplishing these twin objectives than of investing in Bank bonds.

Robert S. McNamara