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LOAN COMMITTEE

LC/M/79-13

January 28, 1980

Minutes of Loan Committee Meeting to Consider KOREA - Higher Technical Education Loan, held on November 28, 1979 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
W. Baum (CPSVP)
S. Husain (AENVP)
V. Chang (for VPF)
T. Asser (for VPG)

Other:

Messrs. S. Kirmani
D. Loos
R. Johanson
D. Goldberg
N. Horsley
Z. Kalim
F. Mayer
R. Morton
S. Sung
A. Vorkink

B. Issues

1. A meeting was called to consider the following issues relating to the draft documents submitted to the Loan Committee on November 16, 1979 for approval to negotiate a proposed loan in an amount of $100 million to the Republic of Korea to help finance a program to improve the quality of higher technical education in the country:

(a) the measures which are needed to bring about a better balance between the demand for, and supply of, various categories of technical manpower;

(b) the extent to which manpower planning could reduce such imbalances;

(c) the role of private institutions in the technical education sphere in Korea and means to improve their financial condition;

(d) the guidelines and criteria for subproject selection;

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COMMITTEE

Vice President, Operations (Chairman)
Senior Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

(e) the procurement arrangements proposed; and

(f) the use of an intermediary for disbursements under the proposed loan.

C. Discussion

2. It was noted that the major purpose of the proposed loan was to effect a significant upgrading in the quality of higher technical education in Korea by improving curricula, introducing accreditaiton procedures, supplying more and better equipment to selected private and public institutions, and increasing the number of qualified teachers. The proposed loan would help in the implementation of this program which had been evaluated and endorsed during appraisal. The major underlying concept of the loan involves:

(i) a strong emphasis on policy actions, e.g., accreditation, enrollment control and the provision of financial assistance to private institutions;

(ii) the delegation of the responsibility for subproject appraisal from the Bank to the Ministry of Education which had demonstrated during the execution of previous Bank-financed projects that it had the capability to perform this function; and

(iii) the liberalization of procurement and disbursement procedures.

This concept was endorsed at the outset of the meeting.

Demand and Supply of Technical Manpower

3. The question was raised whether the Bank should support a program the implementation of which may lead to an oversupply of engineers and technicians in the late 1980s. The Regional staff stated that the primary objective of the proposed loan was to effect quality improvements to the Korean system of higher technical education rather than any expansion of the latter. However, as a result of action taken to rectify what the Korean authorities perceived as an emerging shortfall in the supply of certain categories of technical manpower, it appeared that the system may have been over-expanded. The Government had raised intake quotas in engineering and technician courses in 1978 and 1979 without the benefit of any systematic manpower planning, prior to the Bank's becoming involved in the development and evaluation of the program. It was envisaged that various steps would be taken under the proposed loan which would work in the medium term to achieve a better balance between manpower supply and demand. These included the establishment of a manpower monitoring system which would take into account the needs of industry for specific categories of engineers and technicians. Also, it was intended to make the supply of such manpower more flexible by making entrance quotas less rigid than at present. The dialogue which the Bank had entered into with the Korean authorities during the course of processing this loan had already curbed further expansion of the system. In this regard, it should be noted that the Government had reduced

the proposed intake for engineering courses in 1980 from 15,000 to 1,300. It had also been agreed that the Government and the Bank would consult annually on the level of entrance quotas.

Decision

4. It was agreed that the President's Report should be revised to clarify the progress already made, as well as the future steps which are to be taken, to bring about a better balance in the demand and supply of technical manpower.

The Role of Private Institutions and Their Financial Condition

5. It was pointed out that private institutions accounted for 72% of the enrollment at the university level and 86% in respect of technicians. It was noted that the improvement of private institutions would be crucial in determining the success of the program which the proposed loan would support. Thus, it was essential that private institutions receive the funds they required to raise their standards. About 85% of the financial resources of these private institutions was obtained by fees charged to students. Although the level of these charges was roughly twice as high as those listed by public institutions, they were still insufficient to ensure the success of the program. It was suggested that the Government be asked to agree to raise the level of fees charged by private institutions whenever appropriate and feasible. The Regional staff pointed out that the Government followed a comprehensive policy applying to all private institutions and it may be difficult to raise fees for particular institutions participating in the project on a case by case basis. However, a detailed study on the issue of fees was included in the program and was expected to help resolve the problem constituted by insufficient funding of private technical institutions.

Decision

6. It was agreed that the level of fees charged by private institutions would form a specific element in the evaluation of proposals from such institutions when they applied for funds under the scheme which the Bank is supporting. The Government would be asked to make a determination of the financial viability of each such institution and, where necessary, permit fee levels to be raised, on an interim basis, until the study on fees referred to above is completed. Alternatively, the Government should agree to provide grant financing to cover deficits in such cases.

Guidelines

7. The guidelines and criteria which are to be used for evaluating subprojects were discussed. It was pointed out that some of these were imprecise and would need to be defined in greater detail.

Decision

8. It was agreed that the guidelines and criteria would be redrafted prior to negotiations and submitted to Messrs. Stern and Baum for review and approval.

Procurement Arrangements

9. It was noted that procurement under the proposed loan would call for only an *ex post* review of contract awards, in the field, on a selective basis. In view of the large number of contracts expected (2500-3000) it was agreed that the procurement arrangements envisaged were appropriate especially since it was envisaged that the Bank would review about 150 of the larger contracts covering roughly 40% of the value of all contracts.

Disbursement

10. It was noted that the Controller's Department was considering a scheme whereby a commercial bank in Korea would act as the Bank's disbursement agent. This bank would review and approve on behalf of the Bank certain withdrawal applications submitted by the Borrower and send an approved copy to the Bank against which the Bank would make disbursement. It was pointed out that the commercial bank may be subject to a potential conflict of interest since it would be to its advantage to be reimbursed for the funds it had advanced and, therefore, may not scrutinize disbursement applications with the thoroughness which the Bank required. Furthermore, it was pointed out that if the commercial bank charged a fee for performing this function, such an arrangement would not be satisfactory since the Government should not be required to pay for the services of the commercial bank since the latter would be relieving the Bank, and not the Borrower, of specific responsibilities relating to disbursements.

Decision

11. It was agreed that the proposal be reviewed by the Region, the Controller's Department and the Legal Department and specific recommendation on this point be included in the revised version of the President's Report which is to be submitted to Mr. Stern prior to negotiations.

Accreditation

12. An enquiry was made as to whether the accreditation mechanism referred to in the draft President's and Staff Appraisal Reports and which is to form a key element in the improvement of higher technical education in Korea would soon be functional. The Regional staff responded by saying that various evaluation committees within the Ministry of Education were already performing this role and it was expected that three accreditation agencies would be formed within the relatively near future. Thus, it was expected that this important feature of the program would be introduced in a timely fashion.

Incentive Package

13. The question was raised as to whether the incentive package to attract and retain better qualified teachers would be able to fulfill its objectives. The Regional staff replied that, on the basis of experience already gained, it appeared that the incentives offered to Koreans working overseas did result in attracting a sufficient number of them to take up teaching assignments in the country. Further, the amount and value of scholarships being made available are also regarded as sufficient to ensure that an adequate number of students would be encouraged to take up graduate courses in teaching. As regards supplementing the teaching staff by offering short-term assignments to individuals already working in industry, it was stated that although experience of this scheme was too limited to enable clear-cut conclusions to be drawn, it appeared to be fairly attractive to the potential participants who would broaden and refresh their skills during the break from their regular appointments.

Conclusion

14. It was agreed that, on the basis of the decisions noted above, principally that various sections of the President's report be redrafted and submitted to Messrs. Stern and Baum for review and approval prior to negotiations, the "Notice of Intention to Negotiate" should be issued.

Cleared by: Messrs. Stern
Baum
Husain
Chang
Asser

GDLoos/ALDuersten:ml

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/79-12

DECLASSIFIED

December 18, 1979

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Minutes of Loan Committee Meeting to Consider KENYA - Second Program Loan, held on December 7, 1979 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
W. Baum (CPSVP)
H. Golsong (LEG)
M. Hattori (for VPF)
J. Kraske (for EANVP)

Others:

Messrs. T. Asser
J. Edelman
D. Greene
P. Hasan
F. O'Brien
Ms. H. Goris

B. Sandberg
P. Wright
R. Hornstein
N. Horsley
C. Southall
Ms. M. Arpels
Ms. A. Duersten

B. Issues

1. The Committee met to consider Mr. Wapenhans' memorandum of December 7, 1979 submitting the draft documents for a proposed Second Program Loan to Kenya.

C. Discussion

2. The discussion focused on the adequacy of the reform measures proposed by the Government to accomplish their objectives.

3. Forward Budget -- In response to a question from Mr. Stern, the Region indicated that satisfactory progress was being made in revising the forward budget. The criteria to be used by the Ministries in preparing their submissions had been agreed and incorporated in the draft Letter of Intent. While the exact status of the revisions was not known there were strong indications that the Government was taking the exercise very seriously. The Region expected a full report on the present status of the work at the time of negotiations and a full

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Vice President, Operations (Chairman)
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Vice President and General Counsel
Vice President, Projects Staff
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President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

report on the outcome of the exercise, as soon as the revised budget had been completed. It was agreed that item (1) in Schedule 5 of the draft Loan Agreement should be strengthened to include completion of the revised budget and a report thereon.

4. Measures Affecting Imports -- Mr. Stern noted that the documents were imprecise with regard to the proposed tariff reform and, in particular, that there was no reference to an objective for the general tariff level nor to a timetable for its implementation. Mr. Golsong added that the undertakings incorporated in the Letter of Intent in this regard were, in his view, of little value. It was agreed that the Letter of Intent and the draft Loan Agreement be revised with a view to incorporating some of the basic undertakings into the Loan Agreement to make it more specific, particularly with regard to the objectives of the reform and the timetable and process for achieving them. In this connection, it was also decided that action to prevent the issuance of new "letters of no objection" should be taken before presentation of the proposed Loan to the Executive Directors.

5. Measures Affecting Exports -- Mr. Stern asked if further measures might be included in the program. The Region responded that the most important measure would in fact be an exchange rate adjustment but this was a matter that was being handled by the IMF. Mr. Stern agreed that it was impossible to deal with this issue explicity but that there were other ways of handling it. One way would be to concentrate on assuring adequate incentives, and to maintain the competitiveness of exports. It was agreed that the Loan Agreement should include a commitment to assure adequate incentives for exporters and that these should be subject to regular review. A study to lay the basis for the incentive policy should be carried out by say April 1980; the obligation to do so would be incorporated in Schedule 5 of the Loan Agreement.

6. In this context Mr. Stern also enquired why the simplification of the administration of the existing export compensation system could not be carried out now, whether the Bank should review the final proposal and whether it should be satisfactory to the Bank. The Region noted that this was a complex and difficult question but agreed that it should be reviewed in April. It was agreed that the draft Loan Agreement would be reviewed to ensure that the Bank could carry out a review of the adequacy of the measures taken by the Government.

7. With respect to export insurance and export financing the Region noted that a proposal had been prepared but it was lengthy and intricate and it is not clear that it ought to be implemented. A consultant would now be asked to review the proposal. Mr. Stern wondered if this was adequate. It was agreed that the scheme should be ready by an agreed date and that the Bank should have an opportunity to review it before implementation.

8. Amount of the Credit -- The Region noted that there were no hard and fast ways to determine the appropriate amount of the Program Loan. It was only one part of a package which also included IMF resources, bilateral aid and commercial sources. In addition, it was the first in a series of program lending operations in support of the Government's program and should

be seen in relation to the total balance of payments deficit projected for the 1979-83 period. It was agreed that the documents should make clear that the loan was part of a total package regarded as sufficient to fill the gap to allow a liberalization of imports to which the Government was committed. It was also agreed that the total operation would consist of $55 million from IDA and $15 million from the EEC Special Action Fund. Finally, it was acknowledged that there might well be a need for further program lending as part of the total package.

9. Relations with the IMF -- In response to a question from Mr. Stern the Region confirmed that the IMF had no substantive disagreement with the program which was regarded as complementary to that incorporated in the standby agreement. The Region also stated that while the IMF was anxious to see the two programs linked the Fund had no objection to the Bank proceeding before the first review of the program under the standby which was to take place in January/February 1980. Nevertheless, it was decided that the proposed program credit would not be presented to the Executive Directors until the results of the Fund review were known.

10. Debt Ceiling -- The Region explained that the choice of 12-year loans as the cut-off rather than eight years was tactical; Kenya might be able to obtain a commercial loan of over eight years but not loans of over 12 years on the Eurodollar market. It was also explained that the projections included some commercial borrowing. The initial suggestion was to limit such borrowing to these amounts which would lead to a stabilization of the debt service ratio. Although it might have been possible to incorporate this objective in the legal documents it was agreed to proceed as proposed but to explain the rationale in terms of the projected debt service objectives.

Cleared by: Messrs. Stern
Baum
Golsong
Hattori
Greene

BGSandberg/ALDuersten:ml

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LOAN COMMITTEE

LC/M/79-11

October 23, 1979

Minutes of Loan Committee Meeting to Consider PHILIPPINES - Program Loan, held on August 10, 1979 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
W. Baum (CPSVP)
M. Qureshi (VPF)
S. Husain (AENVP)
H. Scott (LEG)

Other:

Messrs. S. Please, S. Tolbert, M. Hattori, A. Golan, P. Hasan, B. de Vries, S. Chernick, N. Horsley, L. Forget, M. Singh, H. Amin-Arsala, S.C. Yang, L. Hinkle

B. Issues

1. The meeting was called to consider issues emerging from an initiating memorandum submitted to the Loan Committee by Mr. Husain on August 7, 1979. The memorandum sought the Committee's approval for the Region to begin discussions with the Government of the Philippines on a possible industrial program loan of $150 million in the FY80 or FY81 lending program.

2. The Bank had recently completed a green cover industrial sector report recommending specific reforms in trade and industrial policies in order to accelerate the growth of manufacturing production and employment, maintain the current rapid rate of export expansion, improve capital efficiency, and reduce import dependence. The proposed industrial program loan would be designed to

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Vice President, Projects Staff
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Senior Operations Adviser
Controller
Others in attendance

facilitate implementation of necessary reforms. The reforms would include broadening of export promotion measures, reducing the level of import tariffs and making the structure of protection more even, liberalizing remaining exchange controls, and reducing the complexity and capital intensive bias of the present system of investment incentives. The documents for the proposed loan would include a memorandum of understanding, or similar type of written agreement, on the policy package.

3. The following issues were discussed:

(a) the content of the industrial policy reform package and the Bank's strategy for supporting it;

(b) the linkage between the industrial program loan, on the one hand, and macro-economic policy and the public investment program, on the other; and

(c) the amount, additionality, and timing of the proposed loan.

C. Discussion

4. Industrial Policy Reform. In response to several questions about the exact nature, priority, and phasing of the policy measures to be supported, the Region replied that the details of the industrial policy package still had to be worked out. However, the nature of the measures needed to encourage more rapid labor-intensive and export-oriented growth was quite clear at this point. The industrial sector report was to be reviewed with the Government during a staff mission at the end of August. If agreement could be reached on the general thrust of the reforms, it should be possible subsequently to negotiate in detail the steps to be taken and their timing.

5. The proposed program loan -- although a major initiative -- would be only one component of an industrial lending program designed to support policy reform. Policy measures to be taken in connection with the proposed loan would be coordinated with those contemplated under other loans. Thus, the program loan would support the general revision of trade and investment policies, while subsequent loans for rehabilitation and rationalization of specific industries would be tied in with the lowering of protection for those industries. Similarly, the FY81 Apex Loan, under which the Central Bank will function as an apex institution, would provide an opportunity to improve financing facilities for export industries as well as to address various financial sector issues.

6. Macro-Economic Policy and Public Investment. The Region anticipated that the Government would agree on an overall macro program with the IMF in the context of an Extended Financing Facility (EFF) for the period 1980-82. As the Bank and the IMF were interested in encouraging similar types of reform and the two organizations were working

closely together, the EFF was likely to provide a satisfactory macro policy framework for the program loan, which would not need to incorporate the same types of measures.

7. While the meeting agreed that the EFF would provide an appropriate financial framework, several speakers asked if it would not be desirable to have also a specific Government commitment to implementation of an appropriately revised public investment program. The Region stated that it planned to schedule the preappraisal mission for the program loan to coincide with the IMF's November mission to consider the EFF, at which time the public investment program would be reviewed by Bank staff. However, the Bank was in general satisfied with the level and composition of the Philippine public investment program. While it was occasionally concerned about priorities assigned within individual sectors or subsectors, it would be more effective to raise these concerns in connection with other directly related lending operations rather than to link them with the industrial program loan.

8. Loan Amount. There was general agreement that, in light of the aggravation of structural balance of payments problem by the current oil price increase, the Philippines needed quick disbursing lending. However, speakers questioned how the size of the proposed loan had been determined, in particular whether it was directly related to an analysis of the balance of payments gap or to quantification of the impact of the proposed policy measures. The Region said that, on both counts, the Philippines was likely to need more foreign exchange than the Bank probably could provide, and that the size of the loan had been determined by the amount of Bank resources likely to be available rather than by a precise definition of the need for balance of payments support.

D. Conclusion

9. The Chairman summarized the conclusions of the meeting as follows:

(a) Policy Focus of Industrial Lending. The principal justification for the proposed program loan would be the industrial policy package that it would support, and in the course of loan preparation and appraisal more specific understandings should be worked out on the policy measures to be included in the package. The proposed program loan should be seen as only one element in the Bank's industrial lending strategy. The staff discussions with the Government should concentrate on how the entire industrial lending program could be designed to support policy reform.

(b) Importance of the Precedent. A program loan to support industrial policy reform would be an important precedent for the Bank and would follow up on the initiative announced by the President at the May UNCTAD meeting. The initiating memorandum provided a satisfactory basis for beginning discussions with the Philippine Government. However, at this stage, it should be made clear to everyone, including the Government, that the Bank as yet had no formal mandate to undertake program lending for the objectives and in the circumstances presented in the initiating memorandum.

(c) Loan Timing, Size, and Additionality. The quality of the policy package would be crucial to subsequent approval of the proposed loan by management and the Board. Therefore, the pace of policy reform should dictate the timing of the loan. The loan should involve commitment to specific actions, the progress of which could be monitored; and it might well be desirable to divide the loan into tranches. The Bank should, on the other hand, be as flexible as possible regarding disbursement arrangements and the other mechanics of the loan. Since the quality of the policy package would also affect the creditworthiness of the country, the question of additionality should be reconsidered when the policy package has been determined. For the time being, it appeared reasonable to plan on the basis of a program loan of about $150-200 million in 1980.

Cleared with: Messrs. Stern
Husain
van der Tak (for CPSVP)
Hattori (for VPF)
Forget (for VPG)

LDavis/LHinkle/ALDuersten:ml

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LOAN COMMITTEE

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LC/M/79-10

October 22, 1979

Minutes of Loan Committee Meeting to Consider
INDIA - Second Maharashtra Irrigation Project,
held on July 30, 1979 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
W. Baum (CPSVP)
M. Qureshi (VPF)
T. Asser (LEG)
M. Wiehen (ASA)

Others:

Messrs. R. Picciotto
M. Yudelman
A. Raizen
C. Morse
D. Sassoon
G. Tibor
Mrs. A. Hamilton
F. Hotes
N. Horsley
L. Forget
P. Ljung
P. Tan
W. Rodger
M. Beutgen
Ms. A. Duncan

B. Issues

1. The Loan Committee met on July 30, 1979 to consider the draft President's Report, Staff Appraisal Report and Legal Documents for the proposed Second Maharashtra Irrigation Project.

2. The Loan Committee discussed and decided upon the following issues which arose from the draft documents submitted to the Loan Committee under cover of Mr. Hopper's memorandum of July 23, 1979;

(i) procurement arrangements including eligibility of five on-going contracts which were awarded on the basis of local competitive bidding;

(ii) expected project benefits and rates of return;

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Vice President, Projects Staff
Regional Vice Presidents

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Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

(iii) adequacy of proposed cost recovery arrangements;

(iv) adequacy of proposed conditions for completion of irrigation works;

(v) justification for Bank financing for completion of dams;

(vi) justification for proposed level of Bank financing of project preparation undertaken by the Government;

(vii) introduction of new irrigation design technology; and

(viii) other conditions relating to project implementation including road maintenance, the establishment of a training program and the proposed extension activities.

C. Discussion

3. The major part of the discussion focussed on the proposed procurement arrangements. The Region had proposed that five on-going civil works contracts accepted by the procurement specialist of the appraisal mission be included for IDA financing, although they had been let under local competitive bidding procedures, while two of them -- with a value of US$31 million within the five-year project period -- would have been suitable for international competitive bidding. The Regional staff explained that this proposal originated from the Loan Committee's decision of November 1977 and February 1978 in connection with the Karnataka Irrigation Project. The earlier decision (November 1977) was that in the right circumstances on-going contracts can be financed in time-slice projects if they are "tendered in accordance with Bank procedures". In February 1978, however, the Loan Committee decided that on-going "contracts let on the basis of tender documents and procurement guidelines jointly agreed between GOI and IDA" can be considered eligible for financing provided these guidelines are "in accordance with the criteria of efficiency, equity and competitiveness". The new standard tender documents recently agreed between GOI and IDA cover both ICB and LCB procedures. Therefore the appraisal mission felt that the five on-going contracts would be in line with the Loan Committee's decision since in those five cases the procedures followed were in accordance with the criteria of efficiency, equity and competitiveness.

4. The Regional staff also noted that the Government of Maharashtra had consulted IDA's staff at various stages during the tendering process and had strictly followed the staff's recommendations. Meanwhile, budget allocations by the Center to the State Governments had been finalized, and in the case of Maharashtra these were calculated on the basis that all five on-going contracts would be accepted by IDA. If IDA rejected the two larger contracts, Maharashtra would not only lose its "additionality"1/ for them, it would also

1/ i.e., additional budget support by the Center amounting to 70% of IDA disbursements or 35% of expenditures.

have to finance the entire contract value from its own resources, which would upset its budget at least for the initial years of project implementation.

5. Nevertheless, Mr. Stern, supported by Mr. Baum, felt that the case was not strong enough to justify a deviation from the Bank Group's general requirement of ICB. The Region's proposal would be bound to attract criticism in the Board. While it was correct that, by letting contracts under ICB procedures before credit effectiveness, GOM would have risked to incur obligations in foreign currency without a corresponding commitment by IDA to cover such foreign expenditures, this situation will always arise in cases involving retroactive financing or advanced contracting as described in OMS 2.41 and was taken into account when the Bank Group's policy regarding those issues formulated. The Regional staff's argument that IDA's insistence on ICB for civil works was a moot issue in India since in recent years no foreign contractor had placed a bid, let alone won a contract, was not convincing as it worked also in the opposite direction: by agreeing to ICB, Indian project authorities would run little risk that a foreign contractor would win the tender. In any case Mr. Stern felt that, in comparison with the overall size of the project, the exclusion of the two contracts would not seriously threaten GOM's irrigation development budget.

6. In this context, Mr. Baum commented on the Region's proposal that IDA be receptive to GOI's and GOM's request to allow execution of four earth dams by force account, instead of by contractors, if GOM can prove that this would be more economical. It would be unfair to the bidders for the first of these contracts, which would be used to compare contractors' prices with departmental expenses, if those bidders were not warned in advance of the risk that the contract may eventually not be awarded at all and the works rather be carried out departmentally. Therefore, the tender documents for the first contract should clearly indicate that the tender is being called for the purpose of comparison with force account cost and that the work may be implemented by the Irrigation Department if this would be substantially cheaper.

7. The proposed procurement arrangements for equipment and vehicles were found to be fully in line with the Bank Group guidelines.

8. With regard to expected project benefits and rates of return, the Regional staff explained the basis used for calculating economic returns for the irrigation systems included in the project. Since the credit would finance time-slices of these systems, where the benefits on investments made during this time-slice are conditional on both past and future investments, any attribution of economic returns to the time-slice would be arbitrary. Therefore, the economic rates of return had been calculated for each scheme from its inception to its completion. The representatives of CPS explained that they were satisfied with the economic rate of return and its calculation.

9. With regard to cost recovery, Mr. Stern questioned the Region's proposal that the initial review of water rates, to be carried out by GOM, should be completed only by December 1981, i.e., more than two years after expected credit effectiveness. He suggested that GOM be asked during negotiations to complete this study one year earlier.

10. Since each of the irrigation systems included in the project would yield its full benefits only after its completion, rather than at the end of the five-year time-slice financed by IDA, the Region had proposed to ask GOM for assurances, in the form of a covenant, that development of each scheme would be continued after 1984 and completed as soon as technically and financially feasible. Messrs. Stern and Baum felt that this, while sufficient to ensure completion of the schemes, would leave the timing somewhat vague. In response, the Region explained that it was intended, as under previous time-slice projects, to amplify the proposed covenant by recording in the agreed minutes of negotiations a detailed year-by-year implementation schedule for each scheme to its completion.

11. Responding to a question by Mr. Stern about the justification for IDA's involvement in the financing of dams under the project, the Regional staff explained that by including the dams in the project, they could be completed substantially earlier, since IDA financing would make them eligible for "additionality". While it was correct that IDA's financing of the dams would not provide an opportunity to influence construction designs of the dams, since they are already under construction, IDA would have a substantial impact on dam safety inspection and reservoir operation standards.

12. With regard to the US$10 million project preparation facility to be included in the project, the Regional staff explained that GOI expected to prepare over the next five years public sector major and medium irrigation schemes for a total area of 8 million ha. These schemes would have to be designed to more modern standards than in the past in order to ensure rapid utilization of the major investments. For this, detailed feasibility studies would be required to formulate projects suitable for financing by the Bank Group and other international agencies. Only items that had received prior approval by IDA would be eligible for funding under this category. Salaries of existing civil service staff assigned to project preparation would not be approved for financing from the credit. Disbursements would be made against 100% of eligible expenditures, while GOI would finance any other items from its own resources; thus, disbursements under this credit category would probably be less than 100% of overall preparation expenditures.

D. Conclusion

13. With regard to on-going contracts that would have been suitable for ICB, the Loan Committee decided that the two on-going contracts in question, comprising a total estimated value of US$31 million within the project time-

slice, should not be financed from the credit. As a consequence, the credit amount should be reduced and based on project cost net of the value of these contracts.

14. Regarding the other issues discussed for the Second Maharashtra Irrigation Project, the Loan Committee approved the Region's proposals in light of the above explanations.

Cleared with: Messrs. Stern
Asser
Wiehen
van der Tak (for CPSVP)
Hattori (for VPF)

MBeutgen/ALDuersten:ml

CONFIDENTIAL

LOAN COMMITTEE

LC/M/79-09
September 7, 1979

Minutes of Loan Committee Meeting to consider Turkey-Program Loan II, held on August 17, 1979 in Conference Room E1208

A. Present

Committee:

Messrs. E. Stern (VPO), Chairman
M. Qureshi (VPF)
A. Karaosmanoglu (EMENA)
H. Scott (LEG)
H. van der Tak (CPS)

Others:

Messrs. S. S. Husain
B. E. Waide
E. Asfour
V. Dubey
S. Chernick
D. Haynes
N. Horsley
J.N. Thadani
R.B. Palmer
C.M. Southall
J. Coudol
S.A. Faruqi

B. Issues

1. The meeting was called to discuss the August 8 Issues Paper prepared by the Appraisal Mission for a second program loan to Turkey and a letter from the Turkish Finance Minister to Mr. McNamara dated July 20, 1979 in the same connection.

C. Discussion

2. Linkage to Government's Medium-Term Development Strategy: The Chairman said at the outset that the first program loan had been made in the context of Turkish Government commitments to measures for export growth that were expressed in the Loan

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Agreement and in general terms in the Finance Minister's letter to Mr. McNamara dated August 23, 1978. In considering a second program loan it is necessary to examine the extent to which the Government had moved towards accomplishment of its stated objectives and the impact of measures taken by it on the balance of payments position. Policy issues and structural economic changes are the central point and not the mechanics of the Program Loan. There is thus need to focus on longer-term adjustments of the balance of payments and other medium-term issues that should be attached to the second program loan. The Vice President, Finance, added that there is need for an assessment of the conditions regarding investment policy and of the performance of State Economic Enterprises during the past year, examination of the priorities for allocation of investment resources to various sectors of the economy as well as the impact of Government actions on capacity utilization and foreign exchange earnings in the industrial sector. He also saw a need to assess the leverage effect of proposed program loan imports on the overall import pattern. The Director, Development Policy, inquired about the proposed timing of the program loan in relation to the report of the special economic mission which visited Turkey last April.

3. Concerning the implementation of Program Loan I commitments, the Regional staff explained, that while the State Planning Office had not submitted regular quarterly reports as envisaged in the Finance Minister's letter to Mr. McNamara, a staff review of export performance last April had indicated satisfactory growth, at an annual rate exceeding 25 percent, during the previous 15 months. The Government had now got a detailed proposal from the International Trade Centre, Geneva, for institutional and technical service arrangements for promoting export trade; implementation measures were awaiting resolution of differences between the SPO and Ministry of Commerce regarding control over these proposed facilities. A proposal for an export credit risk insurance facility was practically ready for implementation and was awaiting formal approval by Government. Export credit facilities of the Government were generally adequate, although there was some squeeze now following limits agreed to under the IMF Standby arrangement. Agricultural support prices had been raised and export prospects were good for this year. Under the Grain Storage Project last June, the Government had covenanted a study and improvement program for agricultural pricing and resource allocations. Formal meetings of the Coordination Committee on import licensing had not been held on a regular basis, but an effort appears to have been made to encourage private sector exports, and there is now a smaller backlog of pending licences at the Central Bank. The Chairman inquired about developments in regard to Government policy for protection of industries which had been envisaged in the Finance Minister's letter of August 1978, and it was noted that there had been no significant changes in the past year. For the medium-term it would be necessary to reform protection policies in order to reduce the distorting effects of the current regime on investment choices.

4. State Economic Enterprises continued to face substantial operational problems, particularly on account of rising wage costs. However, the Government had allowed substantial domestic price increases, so as to reduce the financial burden on the Treasury. Export targets for some enterprises had been formulated and were beginning to have a favorable impact. Utilization of installed capacities has improved on a selective basis in essential and export industries in both public and private enterprises, though overall output of the industrial sector could not improve in the face of the severe reduction of imports (by about 30 percent in real terms) during 1978. It was further stated that the Government's Fourth Five Year Plan had been reviewed by a special economic mission last April; and while the document itself as well as the Investment Program for 1979 were clearly too ambitious, the Government

had expressed its intention, during discussions, to limit actual investment expenditures to more realistic levels. These could not be explicitly articulated because of political problems related to the very slim majority that the Government enjoys in Parliament; but there was reason to expect that the Government would try to enforce economic discipline through short-term measures under the umbrella of the IMF Standby arrangements. The Government had expressed a desire to discuss the draft economic report with Regional staff before it announces its 1980 investment program (in November 1979).

5. Possible consequences of Government's inability to control Government and SEE spending and reduce the pace of inflation were then discussed. There had recently been a sharp curtailment of bank credit to private as well as public enterprises, following the Government's commitment under the IMF Standby arrangement of last July to limit credit expansion. The Chairman remarked there was need for the Government to start medium-term structural reform; for example, Central Bank credit ceilings may not be enough, and there was need to have spelled out the Finance Minister's aims regarding interest rates. Possible ways of improving the control of public investment were discussed. There was exploration of the idea of asking the Government to provide information for a review of its priority projects, particularly in agriculture and industry, which are expected to be completed within the next two years and would have impact on output and the balance of payments, and the problems of policing were pointed out. The Chairman said the question was how the Government could better use its existing coordination mechanisms to achieve closer linkage of policy measures and provide adequate control over public investment expenditures. The Chairman said that maintenance of an appropriate exchange rate for the Turkish Lira would be crucial, if repetition of the unfortunate history of the events of 1978 is to be avoided. He said this was the touchstone of medium-term economic policy, and the Bank would have to be pretty sure the Government was moving on this matter before approving Program Loan II.

6. The Chairman said that there should be a more explicit approach to the Government's intentions on major institutional measures to improve the balance of payments, many of which have been under consideration for some time, e.g., changes in protection, export risk insurance, a foreign trade institution, and a new decree for encouraging deployment of foreign resources into export oriented production. This approach should include specific measures and insofar as possible a time schedule of implementation that could be monitored. Reporting requirements should be strengthened so as to ensure compliance.

7. Case for Second Program Loan, Loan Amount and Allocation: There was general agreement regarding theneed for a second program loan; the possibility had been envisaged at the time of the first loan which was approved in October 1977. The proposed amount, and the details regarding allocations were approved; it was agreed that the Government should have flexibility in the utilization of loan proceeds for efficient support of eligible industries.

8. Procurement: After considering the opinions of Legal and Central Projects Staff, the Chairman concluded that if the procurement procedures of SEEs were substantially close to ICB, the proposed threshold of $5 million for formal ICB under Bank Guidelines would be satisfactory.

D. Conclusions

9. The Chairman summarized decisions as follows:

(i) The draft President's Report should include a detailed review of the Government's performance in regard to Program Loan I, including those contained in the Finance Minister's letter of August 23, 1978.

(ii) There should be a more explicit approach to institutional measures, agreement on a work program, time-bound if possible, for implementation of specific measures, as discussed in para. 6 above.

(iii) The mechanisms of the Program Loan are secondary; policy adjustments are essential (para. 5). There should be a broad-based discussion of medium-term strategy and policy measures which may have been taken or may be under consideration in the course of discussions of the Economic Report and subsequent reviews under the Program Loan Agreement.

(iv) The Region would report back to the Loan Committee via the Green Cover package in the light of the above discussion.

Cleared by Messrs. Stern
Qureshi
Karaosmanoglu (for Mr. Benjenk)
van der Tak (for Mr. Baum)
Scott (for Mr. Nurick)

R.Gregory/ALDuersten:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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WBG ARCHIVES

LC/M/79-08

August 1, 1979

Minutes of Loan Committee Meeting to Consider CARIBBEAN REGION - Proposed IBRD Loan/IDA Credit to the Caribbean Development Bank (CDB) held on July 13, 1979 in Conference Room E-1208

A. Present

Committee

Messrs. E. Stern, VPO, Chairman
W. Baum, VP, CPS
L. Nurick, VP, General Counsel
P. Nichols, for SVP, Finance
N. Ardito Barletta, VP, LAC

Others:

Messrs. S. van der Meer, M. Schloss, W. Thalwitz, D. Gordon, R. Gonzalez-Cofino, G. Renger, L. Cancio, N. Horsley, T. Asser, C. Amerasinghe, I. Dalla, H. Jones, J. Parker, R. Kanchuger, A. Meyer
Ms. A. Duersten

B. Issues

1. The meeting was called to consider the proposed loan/credit to the Caribbean Development Bank (CDB). The issues to be discussed were identified in a memorandum of July 9, 1979 to the Loan Committee, as the following:

(i) the appropriateness of the proposed interest rates and spreads;

(ii) the proposal to partially waive the commitment fee;

(iii) IDA eligibility of some of the participating countries;

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(iv) the proposed relending terms for the IDA credit;

(v) repayment guarantees for the proposed IDA credit and Bank loan; and

(vi) the extent to which sub-projects should be reviewed within the Bank.

C. Discussion

2. Mr. Stern inquired about the appropriateness of the proposed interest rates and spreads. The Region stated that the interest rates underlying the financial projections contained in the appraisal implied a 4% return on equity for CDB, as well as a phasing out of the UNDP technical assistance project by FY81. The rates charged by the CDB under its ordinary capital operations (OCR) in which CDB bears credit risks, vary from 8.5-10.5% p.a. depending on the sectors and type of borrowers, i.e. financial intermediaries or direct borrowers. The MDCs have not objected to paying CDB higher interest rates for IBRD funds than IBRD itself would charge on direct loans because loans from CDB were considered additional to their direct borrowing from the Bank. CDB's interest rate for its special fund operations which CDB administers without any credit risk is 4% p.a. Under the Region's proposal, IDA would be providing some direct credits to LDCs and continue to channel funds through CDB. CDB would charge 4% p.a. interest. Since these funds would be additional funds, LDCs should agree to pay higher rates than those charged on direct credits from IDA.

3. The Loan Committee decided that, in general, IDA should not lend directly to the LDCs, but should instead channel IDA resources for these islands through CDB. In that case, it was agreed that it would be unfair to ask IDA members to pay more for IDA resources than IDA's normal credit terms and IDA should compensate CDB for the costs it would incur in relending the IDA resources.

4. Mr. Stern asked if there were any difficulties in channelling IDA funds through CDB's ordinary capital operations. The staff replied that CDB might have some difficulty with this approach, since ordinary capital loans were made at commercial rates. Mr. Stern replied that CDB could make an exception in this case by revising its policy; he proposed that the staff review this with CDB. Mr. Nurick stated that there were no legal obstacles to this. He also suggested that consideration also be given to an arrangement whereby CDB would act as agent for IDA lending; under this arrangement direct IDA lending relationships with some of these countries was still a possible option. It would be a matter for IDA to decide which of these operations would require a direct IDA contractual relationship and the extent of Bank Group's involvement in such projects. The Region replied that the payment to CDB would have to be based on actual CDB costs of undertaking project work up to the Bank's standards, rather than on estimates of historical CDB costs, which reflect current CDB technical standards. Mr. Stern asked that the staff prepare a note to the Loan Committee making recommendations with respect to direct compensation to CDB for onlending IDA resources and reviewing, with the assistance of PAB, the Bank's and CDB's cost of lending.

5. On the proposal to partially waive the commitment fee to CDB, it was noted that the situations which led to granting CDB the concessionary treatment

had not changed. For example, the UK guarantee procedures regarding the UK Associated States and territories were still very time consuming. Moreover, the three-tier lending nature of CDB had not changed. The Committee agreed, therefore, that there will be a partial waiver of the commitment fee under the proposed loans as was agreed to in the first loan to CDB.

6. Mr. Stern asked why the LDCs should be grouped together for IDA since the per capita incomes of Antigua, Montserrat and St. Kitts were above the IDA cut-off point. The Region informed that the fundamental issue with respect to these islands was their economic viability and that they were not creditworthy for Bank lending. Also, all seven islands are presently grouped together in the ECCM. The three islands for which IDA eligibility was being proposed were the three smallest with a combined population of 130,000. Mr. Nurick stated that there were no legal obstacles and it was agreed that all seven ECCM member states would be eligible for IDA credits through a CDB operation.

7. It was noted that IDA Credits do not require a guarantee and it was agreed that for this credit no guarantees would be required.

8. It was noted that the first CDB loan did not contain a "free limit" since it had been established that the institution was capable of making sound judgments in evaluationg development projects. The Bank requires, however, before it authorizes withdrawals from the Loan Account that it receive a request from the CDB which contains a summary description of the sub-project, including a description of the expenditures proposed to be financed out of the loan, and the terms and conditions of the sub-loan. In practice, the CDB has been sending to the Bank appraisal and loan documents for all projects and the Bank has exchanged views with CDB on most projects. In addition, a number of projects staff in major sectors have worked closely with CDB in strengthening CDB's project evaluation capacity. Under the proposed operation, for all projects which cost US$3.0 million equivalent or more, and for all projects expected to be financed by the Bank, CDB would send to the Bank for comments: (i) project profiles; and (ii) appraisal reports. Also, where CDB proposes to use IDA funds for making equity investments in DFCs, CDB would submit such investment proposals to IDA for approval. This arrangement is satisfactory. Although CDB is a sound institution, there is a need to assist CDB in sectors in which it has to build up expertise and in the restructuring of DFCs in the LDCs. However, the amount of technical assistance would be reduced gradually as CDB gains experience.

D. Conclusions

9. The conclusions of the meeting were:

(a) CDB's interest rates and spreads are appropriate for IBRD loans.

(b) A memorandum would be prepared by the staff making recommendations on the following: (i) the onlending mechanism for the proposed IDA credit, and (ii) direct payment to CDB for onlending IDA funds after reviewing CDB's and IDA's cost of lending in consultation with PAB.

(c) All seven ECCM member states would be eligible for IDA credits.

(d) IDA credits should be relent on IDA terms.

(e) No guarantees would be required for IDA credits.

(f) Sub-projects should continue to be reviewed as they have been.

cleared by: Messrs. Stern
Baum
Schloss (for Ardito-Barletta)
Asser (for Nurick)
Nichols

ALDuersten/rf

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LOAN COMMITTEE

LC/M/79-07

July 17, 1979

Minutes of Loan Committee Meeting to Consider SUDAN - Program Credit, held on July 2, 1979 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
W. Baum (CPSVP)
L. Nurick (LEG)
W. Wapenhans (EANVP)
Ms. M. Alexander (SVP)

Others:

Messrs. M. ul Haq
A. Gue
H. Adler
N. Horsley
P. Landell-Mills
C. Walton
L. Cancio
W. Maane
T. Blinkhorn

B. Issues

1. A Loan Committee meeting was convened by Mr. Stern at 11:30 a.m. on Monday, July 2, 1979 to discuss issues related to the proposed US$40 million Program Credit for Sudan (ref. Initiating Memorandum and Project Brief dated June 18, 1979).

2. Mr. Stern asked about the specific conditionality that the Region proposed for the Credit and what understandings and/or commitments would be sought from Government before or during negotiations. Mr. Wapenhans outlined various actions taken by Government so far in meeting preconditions for appraisal of the Credit, which had been agreed at the time of the last Sudan CPP review in January, 1979:

(a) implementation of an acceptable Three-Year Public Investment Program (1979-81), which had been formulated with assistance from Bank staff;

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Others in attendance

(b) agreement with the Fund on access to Extended Fund Facility (EFF); the Fund Board had approved this in May; and

(c) agreement with major creditors in resolving the serious debt arrears problem.

In addition, the Government was finalizing a specific action plan for increasing cotton production -- a step that had been proposed by the Region as essential to the success of the three-year investment program. The action plan, which included a list of high priority imports proposed to be financed under the Program Credit, would be reviewed during appraisal.

3. Beyond these measures, Mr. Wapenhans noted that Sudan had been put on notice that the Bank Group would want to review Government intentions and/or decisions on several other matters with a view to reaching understandings on actions to be taken as part of the Program Credit conditionality, including:

(i) renewed efforts to control recurrent budgetary expenditures including establishment of an Expenditure Control Commission which would, among other things, provide Government decision makers with an updated analysis of expenditure patterns;

(ii) further action in coming to grips with the serious debt arrears problem, including seeking multilateral arrangements for consolidation and rescheduling of arrears and ensuring that the new Debt Management unit in the Ministry of Finance is functionally effective; on the former point, the Government had already agreed, as part of the EFF conditionality, to seek a multilateral venue for dealing with the arrears problems;

(iii) review of Government revenue measures, including the need for a unified price for cotton;

(iv) policy and structural changes, particularly in the agricultural sector, which would help enhance Sudan's position in export markets.

On the latter point, the Fund had made some progress in getting Government to institute new cost/price arrangements and cropping patterns in the irrigated sub-sector, designed to strengthen incentives for producing cotton.

4. Mr. Stern emphasized that the main purpose of program lending was to encourage policy and structural changes that would address the underlying causes of the deterioration in Sudan's balance of payments position. He said it seemed clear that there was a real need to restructure cost/price relationships in the agriculture sector; the general principles included in the EFF agreement should also be incorporated in the conditionality for the proposed Credit. He also requested the Region to examine to what extent the Bank could achieve conditions that went beyond what the Fund and the Government had agreed.

5. Mr. Haq emphasized the need to ensure that the debt management capacity of Government was adequate and functioning effectively, and also the need to promote improved budgetary management. In this regard, an attempt should be made to identify the precise actions and targets to be achieved. He also suggested that it would be desirable, as part of the Program Credit conditionality, to try to initiate specific action by Government in dealing with the problems of public corporations. Mr. Wapenhans noted that a special study of Sudan's parastatals, instigated by the Bank, had been completed last year and was currently being reviewed by a Cabinet Committee in Khartoum. He agreed that the matter should be examined by the appraisal team.

6. It was decided that the proposals in the Project Brief provided an acceptable framework for proceeding to appraisal, but that the recommended conditionality would have to be expanded and defined more specifically, particularly with respect to disbursement of the Credit. Mr. Stern, in summarizing, noted that the following areas, among others, would require specific understandings with Government:

(1) the Three-Year Public Investment Program, its volume and composition;

(2) the Cotton Action Program, as well as general economic and financial policy measures, designed to promote exports;

(3) budget and debt management, including arrangements with major creditors to resolve the arrears problem; and

(4) parastatal reform.

Cleared by: Messrs. Stern
Baum
Adler (for Wapenhans)
Landell-Mills (for Haq)
Ms. Alexander

ALDuersten:ml

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LOAN COMMITTEE

LC/M/79-06

July 5, 1979

Minutes of Loan Committee Meeting to Consider PAKISTAN - Fourth Agricultural Development Bank Project, held on May 23, 1979 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
W. Baum (CPSVP)
L. Nurick (LEG)
M. Wiehen (ASA)
Ms. M. Alexander (SVP)

Others:

Messrs. M. Yudelman
R. Picciotto
H. van der Tak
R. Rowe
K. Pranich
R. Clements
D. Pickering
S. Suntharalingam
D. Berkoff
M. Artaza
H. Darmawi
Ms. G. Lituma

B. Issues

1. The meeting was called to consider two issues emerging from the documents distributed to the Loan Committee on May 8, 1979, requesting authorization to invite the GOP to negotiate the proposed US$30 million for the Fourth Credit to the Agricultural Development Bank of Pakistan:

(a) whether ADBP's proposed lending program by purpose of investment and size of its borrowers was adequate; and

(b) whether, as a condition of the credit, IDA should ask GOP to increase ADBP's onlending rate to ultimate borrowers.

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Others in attendance

C. Discussion

2. The Chairman noted that the additional documentation provided by the Region on May 22 had helped to clarify the issues. However, there were still some points which needed further explanation.

3. ADBP's Proposed Lending Program by Purpose of Investment and Size of its Borrowers. The Chairman requested further details on the definition of small farmers as set forth in the SAR. He also inquired how this definition compared with that of neighboring countries; whether credit allocated to small farmers was adequate; whether the proportion of ADBP's funds allocated for tubewells was adequate, and requested an explanation why this situation was so different from the one in Indian Punjab. The South Asia Region explained that the relatively low rural income levels in Pakistan are explained by the low productivity of the agricultural sector. While such comparisons are bound to be somewhat speculative, the per capita income of a Pakistan 12.5 ac farmer may be said to correspond to the average income of a 9 ac farmer in Uttar Pradesh. The difference in agricultural productivity between Pakistan and India is due to the poor level of Pakistan agricultural supporting services (agricultural research and extension, seeds production and distribution, fertilizer production and distribution), poor development of groundwater resources, inadequate water control and lack of farm power. The Region pointed out that although the project does not intend to solve all the agricultural constraints, the Bank's agricultural lending program for Pakistan as a whole is an integrated effort to help Pakistan to overcome initial development constraints. The Association is now financing the improvement of the irrigation infrastructure through SCARP projects, improvement of extension services, improvement of inputs production and distribution, and soon the Association may consider supporting a water management project. The proposed project fits in this lending strategy. It would help to improve the provision of agriculture development credit and to direct an increasing proportion of long-term credit to smaller farmers. ADBP until now has done very little medium and long-term lending for farmers of less than 25 ac, and almost none for farmers of less than 12.5 ac. Hence, the targets proposed in the SAR were already very difficult to achieve. During the first year of project implementation, not less than 50% of ADBP's medium and long-term loans would be directed to farmers of less than 25 ac and not less than 16% to farmers of less than 12.5 ac. During the third year of the project, not less than 75% of ADBP's medium and long-term loans would be directed to farmers of less than 25 ac, and not less than 25% to farmers of less than 12.5 ac. Tractor and tubewell investments (much more the former than the latter) are high-risk investments for small farmers. The farmers would need to rent a high proportion of the expected utilized time of tractors and tubewells to be able to repay the loans. This type of loan would have to be very carefully appraised to minimize the farmer's, and the ADBP's, risk. Although the Project aims at the reintroduction of loan appraisal, this would have to be a gradual process. Some members of the Committee stressed the fact that, given the need for renting out a high proportion of tractor hours, the level of tractor fees was an initial index of sub-project profitability. The Region explained that, at present, tractor fees were as high as Rs 50 per hour. The Rs 40/hr fee was adopted in the SAR as a conservative assumption.

4. In response to a question about the use of tractors smaller than the standard 45 h.p., the Region explained that ADBP did expect to finance small tractors. While the Government had done little research on small tractors and implements, testing of small tractors and power tillers was underway and it could be expected that small tractors will gradually take up an increasing share of ADBP financing.

5. The Chairman then inquired about the share of the IDA credit allocated for minor irrigation. The Region stated that the proposed targets are realistic. A higher target would be difficult to achieve; Pakistan does not yet have any institutions responsible for promotion of the private tubewell development. Pakistan's tubewell development has been done mainly in the public sector, through WAPDA. In comparison to India, the groundwater aquifer is not very favorable; nearly half of Pakistan groundwater is saline and not suitable for irrigation. Another factor affecting tubewell development in Pakistan has been the import ban on small high-speed engines. However, GOP has already taken steps to allow imports, and this should help disseminate fractional tubewells. In sum, the Region stressed that they viewed ADBP as the lead institution for promotion of private tubewell development.

6. <u>Request GOP to Increase ADBP's Onlending Rate to Ultimate Borrowers.</u> The Region confirmed its view that a general increase of interest rates was a macroeconomic proposition that the Association would pursue in its discussions with GOP without prospects for early progress given the political situation. The Region also stressed that such an increase would in itself probably have only a limited impact on domestic resource mobilization. Thus, the International Monetary Fund did not view this issue as important enough to figure in its stabilization proposals.

7. The Chairman inquired whether IDA should not insist on ADBP charging higher interest rates, at least to larger farmers, even though the general level of interest rates remained unaltered. The Region pointed out that such an increase would have a minimal effect on resource mobilization. A general increase in ADBP's lending rate would discriminate against small farmers for whom ADBP was likely to remain the only form of institutional development credit. If such an increase was confined to larger farmers, it would impair ADBP's ability to compete with the commercial banks (CBs) and tend to undermine a primary aim of the credit which was to re-establish ADBP as an effective, viable development institution. To achieve this objective, and maintain its financial integrity, it was important for ADBP to continue lending to larger (more creditworthy) borrowers while moving as quickly as possible into the riskier area of small farmer lending. Under the credit, ADBP was to increase the required down payment on tractors by larger farmers from 7% to 25% to make it consistent with CB practice. It would, therefore, be competing on equal terms with the CBs.

D. <u>Conclusion</u>

8. The Committee agreed:

(a) to authorize the Region to invite the GOP to negotiate a credit of US$30 million for the Fourth Credit to the Agricultural

Development Bank as proposed in the documents distributed to the Loan Committee on May 8, 1979; and

(b) the Board documentation should be revised to deal more effectively with the issues raised in the process of Loan Committee review.

Cleared with:: Messrs. Stern
Baum
Nurick
Wiehen

GLituma/SSuntharalingam/MArtiza/ALDuersten:ml

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/79-05

July 11, 1979

Minutes of Loan Committee Meeting to Consider
GUYANA - Second Program Loan/Credit
Held on May 18, 1979 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
W. Baum (CPSVP)
L. Nurick (LEG)
N. Ardito-Barletta (LCNVP)
Ms. M. Alexander (SVP)

Others:

Messrs. S. van der Meer
E. Lerdau
S. Chernick
N. Horsley
K. Awunyo
J. Sokol
K. Venkatraman

B. Issues

1. The meeting was called to consider the following issues regarding the proposed Second Program Loan ($5 million Bank and $5 million IDA) to Guyana:

(a) justification for a second program loan/credit;

(b) measures to diversify and expand exports;

(c) Guyana's investment program;

(d) financing arrangement and outlook for allocation of IDA funds; and

(e) mid-term review of performance.

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Others in attendance

C. Discussions

2. Justification for Second Program Loan: The Policy Planning and Program Review (PPPR) staff supported that proposed second program loan/credit, taking into account Guyana's performance under the first program loan, and the need for continued program assistance in collaboration with the IMF's extended facility program. A structural change in Guyana's export composition would be necessary. Specific measures would have to be agreed on to stimulate export-oriented production, and preferably of non-traditional items. Technical assistance for this purpose may be appropriate. Also, assistance in project preparation would be necessary to build up a pipeline of well-prepared projects for external financing. Responding to the foregoing comments of the PPPR staff, the Region stated that:

(i) project preparation assistance on soft-terms was being provided by various bilateral and multilateral agencies; and

(ii) the principal problems in Guyana's development lay in project execution, caused by inadequate financial and managerial resources.

The Vice President, Projects, stressed that program lending should not be at the expense of project lending; unless the proposed program loan constituted a second phase of the program lending started last year, the proposed loan would not be justified. The Region stated that the program loan was not at the expense of project lending and the proposed loan was in fact the second installment of the Bank's contribution to solving Guyana's economic adjustment problem. In this context the Region recalled that, when the first program loan was made in 1978, it was pointed out that Guyana's adjustment process would take some years and that non-project assistance would have to be continued. The Committee agreed that a second program loan of $10 million would be appropriate.

3. Export Expansion Measures: The Region stated that ongoing irrigation projects in Guyana would expand rice production substantially and some assistance in export marketing would be provided by USAID. Other projects for timber production and rum manufacture would result in increased exports. Further development of the rice irrigation and timber extraction projects was contemplated. The Chairman stated that there was need to have an action program for export diversification. It was agreed that the appraisal mission should seek ways in which the program loan could support export diversification and propose an action program for exports.

4. Investment Program: The Region stated that Guyana was likely to seek Bank assistance for a large hydropower project. The project was not included in the FY79-81 investment program. There was need for Guyana to invest in a relatively small hydropower project soon. The Chairman commented that the Bank could not say that it was fully satisfied with the

1979-81 investment program if it included the large hydropower project which would make the 1979-81 investment program unviable, and an assurance that the project would not be financed was a prerequisite for a program loan.

5. Financing Arrangement: The Region stated that, in view of Guyana's limited credit-worthiness for Bank lending and its relatively low per capita income, IDA allocation for the proposed program assistance would be appropriate. The PPR staff stated that Guyana had received a comparatively high per capita IBRD/IDA allocation for FY78-80, 50% being in IDA funds. In view of the scarcity of IDA resources, the Chairman decided that the program assistance should be through a Bank loan of $10 million. If IDA resources became available in the meanwhile, the matter could be reconsidered.

6. Mid-term Review: Responding to the Chairman's inquiry if it would be necessary to have a mid-term review of performance under the proposed program loan, the Region stated that, inasmuch as the IMF would be reviewing the situation periodically under its extended facility agreement, it would not be necessary for the Bank to do such a review. The Chairman agreed with this position.

D. Conclusion

7. The Committee agreed with the Region's recommendation to provide a second program loan of $10 million.

Cleared by: Messrs. Stern
Baum
van der Meer (for Ardito-Barletta)
Awunyo (for Nurick)
Chernick

KVenkatraman/ALDuersten:ml

CONFIDENTIAL

LOAN COMMITTEE

LC/M/79-04

July 11, 1979

Minutes of Loan Committee Meeting to Consider
INDIA - Thal Fertilizer Project
held on May 11, 1979 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
W.C. Baum
L. Nurick
W.D. Hopper

Others:

Messrs.	H. van der Tak	N. Horsley
	R. Picciotto	A. Perram
	H. Fuchs	T. Asser
	J. Lee	S. Sandstrom
	E. Jaycox	H. Kohli
	R. Clements	M. Singh
	A. Raizen	S. Venkataraman
	V. Rajagopalan	E. Melder
Mrs.	A. Hamilton	Ms. A. Duersten

B. Issues

1. The Loan Committee met on May 11, 1979 to discuss the environmental issues surrounding the proposed Thal Fertilizer Project. The meeting first considered whether the proposed loan should be made directly to the Rashtriya Chemicals and Fertilizers Ltd. (RCF) or indirectly through the Government of India (GOI), and the nature of reference to be made to possible UK co-financing in the associated documents.

C. Discussion

2. Mr. Fuchs outlined the rationale underlying the standard Bank practice of making loans for industrial enterprises directly to the beneficiary. The subsequent

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Senior Operations Adviser
Controller
Others in attendance

discussion revealed that the considerations involved -- e.g., the autonomy of the enterprise and its ability to attract commercial financing -- had little relevance in the Indian context. The Chairman noted that the various documents submitted to the Loan Committee implied that there would be a difference in the maturity of the proposed loan, depending on whether it was made directly to RCF or through the Government; the staff responded that this was an oversight and that no such distinction had been intended. The meeting concluded that either GOI or RCF would be acceptable as the borrower, as long as the terms would be the same in either case.

3. Mr. Fuchs said that, in view of the size of the proposed loan, the possibility of UK co-financing should be highlighted. The Chairman enquired about the apparent reluctance of the Region to refer to such financing. The Regional staff explained that their only objection had been to the inclusion of UK co-financing in the legal documents as a condition of loan effectiveness, which could lead to unnecessary delay in project implementation; there was no objection to references to possible UK co-financing being made in other documentation for the project. It was concluded that completion of arrangements for UK co-financing should not be a condition of credit effectiveness, and that reference should be made to the subject as appropriate in the President's and Staff Appraisal Reports.

4. The meeting discussed the background and nature of the environmental issues surrounding the project. The site had been selected and approved by the Maharashtra Cabinet and Legislative Assembly as well as by the GOI Cabinet, in the context of the State Government's desire to industrialize the area south of Bombay. Mr. Fuchs clarified that the GOI Task Force had not rejected the Thal site; rather, it had ranked it lowest among the three sites it had examined and found acceptable. The Bank had compared the Task Force's preferred location (Tarapur) with the proposed site and found its economic advantage over Thal to be only marginal. With the pollution control measures agreed during appraisal, the Thal site was acceptable. Mr. Lee expressed a desire that outside experts confirm the Bank staff's views with respect to the pollution safeguards proposed. The meeting concluded that consultants should be hired to review the appraisal mission's technical findings on plant emissions and should submit their report as soon as possible and in any case prior to presentation of the project to the Executive Directors.

5. In response to questions raised about the broader environmental aspects of the project, Mr. Jaycox described two separate areas of potential concern: its immediate impact on the nearby town of Alibag, and the longer-term possibility of unplanned development that could result from the availability of the infrastructure associated with the project. The Chairman pointed out that it was Maharashtra's intention to industrialize the area south of Bombay, irrespective of whether a fertilizer plant was constructed at Thal. Mr. Jaycox explained that Maharashtra had still to develop the necessary capability to handle the task of planning the development of the region, but that the proposed project should afford an opportunity to get the State Government to focus on the need for such planning. It was concluded that the matter should be discussed during negotiations with a

view to having the Government of Maharashtra study the broader environmental impact of the project and increase its capacity for urban planning on a regional basis.

6. Mr. Lee called attention to the allegations that the project constituted a potential risk to a nearby geomagnetic observatory and bird sanctuary. The staff reported that the Government had taken into account the possible impact on the observatory in deciding on the proposed site. The risk to the bird sanctuary had been raised only subsequent to appraisal, with the result that no information was available on the subject. The meeting concluded that no further action by the Bank was required with respect to the observatory, since there was adequate evidence that the State and Central Governments had taken an informed decision in this regard. However, the Region should ascertain more facts about the bird sanctuary to determine whether any potential impact of the fertilizer factory on it, could be significant and might endanger any aspect of India's wildlife resources given the large number of other sanctuaries.

Cleared by: Messrs. Stern
Baum
Nurick
Mrs. Hamilton (for Mr. Hopper)

EVMelder/AOHamilton/ALDuersten:ml

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/79-04

April 9, 1979

Minutes of Loan Committee Meeting to Consider
JAMAICA - Second Program Loan held on
March 30, 1979 in Conference Room E-1208

A. Present

Committee

Messrs. E. Stern, VPO, Chairman
H. van der Tak, for VP, CPS
L. Nurick, VP, General Counsel
M. Hattori, for SVP, Finance
N. Ardito-Barletta, VP, LAC

Others

Messrs. E. Lerdau
L. Cancio
R. Gonzalez-Cofino
M. Ayub
X. Simon
N. Horsley
R. Kanchuger
Ms. A. Duersten

B. Issues

1. The meeting was called to consider the Green Cover President's Report and draft legal documents for a proposed second Program Loan to Jamaica. The issues to be discussed were identified in a memorandum of March 29 to the Loan Committee as the following:

(i) export growth projections; incentives and disincentives to export;

(ii) sectoral composition of the public investment program; and

(iii) proposed changes to the exchange rate system.

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Controller
Others in attendance

C. Discussion

2. Mr. Stern stated that it was the Loan Committee practice to hold meetings on all proposed program loans to be sure that everyone understood, and concurred in, the program that was to be financed.

3. Mr. Stern asked what was known about the public investment program. The Region replied that the effectiveness of the First Program Loan had been conditioned on the presentation to the Bank of a satisfactory public sector investment program. The Government had presented a three-year investment and financing program to the Bank which had been found satisfactory. A revised program, adding a new third year to the program was now in preparation. Bank staff had been working closely with the Government in its preparation. The adoption of a revised satisfactory three-year public sector investment program was a condition of Board presentation of the proposed Second Program Loan and it was expected that such a program would be completed and adopted by the Government in the very near future.

4. Mr. Stern noted that little was said in the President's Report about the sectoral composition of the public sector investment program and whether the Bank was satisfied with its sectoral balance. He said that the President's Report should indicate whether the investment program was a suitable one for getting Jamaica on the right track. The Region explained that material on the new investment program had not been placed in the President's Report, because the new program had not yet been completed or adopted. It was the Region's intention to include a brief analysis of the new investment program in the grey cover President's Report. It was noted that the dialogue between the Bank and the Government had influenced the composition of the investment program. As a result, some of the highly capital intensive projects that had been contemplated by the Government had been eliminated or indefinitely postponed.

5. Mr. Stern and other speakers questioned the Region about the side letter that was being proposed in connection with the proposed changes in the exchange rate system. The Region expressed its concern that the adoption of a more restrictive wage policy and fixed exchange rate system in place of the crawling peg system now in use, could result in an overvalued exchange rate which would discourage exports, especially the nontraditional ones. As a result, the Region had recommended a parallel review with the IMF of the economic program in mid-October to assess the competitiveness of exports. The review would focus on the changes since presentation of the loan to the Executive Directors on trends in wages and relative prices compared with Jamaica's principal trading partners, as well as exchange rates. A side letter, between the Bank and the Government, would be prepared after negotiations had been completed with the IMF at the end of April. (The Bank would have a representative(s) at the negotiations.) The letter would incorporate the understandings of the Bank and the Government on the measures which would be taken to maintain the international competitiveness of Jamaican exports and would make provision for the mid-October review.

6. Mr. Nurick stated that major provisions of the agreement between the Government and the Bank should be incorporated in the loan agreement itself, including the proposed provision regarding disbursements. Mr. Stern stated that the loan agreement should describe the consequences of the Bank and the Government not agreeing after the mid-October review. It was therefore concluded that the loan should be tranched, so that no more than half of the loan destined for financing imports of exporters could be disbursed before completion of the October review. Similarly, no disbursements would be made after the mid-October review is completed, unless the Bank and the Government were in agreement that the factors affecting the international competitiveness of Jamaican nontraditional exports had not deteriorated significantly or, if they had deteriorated, on the measures that would be taken to restore the competitiveness of these exports. It was also concluded that a provision such as the foregoing would be included in the loan agreement.

D. Conclusions

7. The conclusions of the meeting were the following:

(a) Investment Program. The grey cover President's Report would contain an analysis of the investment program, reviewing its sectoral balance and evaluating its adequacy with respect to Jamaica's economic stabilization and development needs.

(b) Exchange Rate. The proposed loan would be tranched in the manner suggested in paragraph 6 above and a provision to that effect would be included in the loan agreement. A more detailed description of the measures to be taken to maintain the international competitiveness of Jamaica's exports and the nature of the mid-October review to assess the adequacy of these measures would be described in a side letter between the Bank and the Government, which would be written as a consequence of the discussions that are to be held between the Bank and the Government at the end of April (reference paragraph 5 above).

Cleared by: Messrs. Stern, Nurick, Hattori, Lerdau, Gonzalez-Cofino, van der Tak, Ayub

cc: Messrs. van der Meer, Glaessner, Wyss, Holsen, Chernick, Renger, Jaspersen

RKanchuger/ALDuersten:ml

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LOAN COMMITTEE

LC/M/79-03

April 11, 1979

Minutes of Loan Committee Meeting to Consider
PERU - Program Loan held on March 22, 1979
in Conference Room E-1208

A. Present

Committee

Messrs. E. Stern, VPO, Chairman
W. Baum, VP, CPS
T. Asser, for VP & Gen. Counsel
N. Ardito-Barletta, VP, LAC
V. Chang, for SVP, Finance

Others

Messrs. E. Lari
S. Chernick
N. Horsley
L. Cancio
E. Chaparro
F. Aguirre-Sacasa
R. Cucullu
M. Penalver
S. Weissman
S. Yang
Ms. A. Duersten

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Ardito-Barletta's memorandum of March 16, 1979 for approval to negotiate a proposed $115 million program loan for Peru:

(i) Are we satisfied with the Economic Recovery Program (ERP) as a basis for this loan?

(ii) Is the public savings objective acceptable?

(iii) Are the changes in the Public Investment Program satisfactory? Is the proposed sectoral distribution acceptable?

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Controller
Others in attendance

(iv) Is Peru creditworthy for such lending?

C. Discussions

2. Acceptability of the ERP: It was agreed that the ERP provided an acceptable basis for the proposed loan.

3. Public savings: The Chairman inquired as to whether the rate of public savings, which is projected to reach 5 to 6 percent of GDP in the early 1980s, was adequate. The Region pointed out that the projected savings level represented a substantial improvement in savings performance compared with recent years (dis-savings equal to -2.8 percent of GDP in 1977 and savings equivalent to one percent of GDP in 1978). Moreover, this improvement was being obtained by attacking the basic problems which had resulted in poor performance in the past. The Government had taken major steps to eliminate public sector price subsidies and was substantially improving its fiscal performance. If the progress thus far achieved is maintained, this would, indeed, be a significant turnaround and an impressive performance in the Peruvian context. It was also pointed out that projected public savings was in line with levels in other Latin American countries.

4. Adequacy of the public investment program: The Chairman inquired as to whether the Government had made sufficient progress in excluding from the public investment program economically unattractive projects. Regional staff answered that the Government had made a major effort to develop a more rational public investment program. As the Bank had expected all along, however, it proved impossible to eliminate altogether a few large, politically important but economically questionable projects on which large sums had already been committed. Even in the case of these projects, however, project implementation had been significantly slowed down and several new "white elephants" were either postponed or eliminated. As it now stands, the program is essentially sound and responds to Peru's current investment priorities.

5. Creditworthiness: The Chairman asked whether Peru could now be considered creditworthy for the proposed loan. The Region pointed out that the country had made great progress since mid-1978 in improving its creditworthiness with the stand-by and debt rescheduling. However, it was still vulnerable because of its dependence on such primary commodities as copper. The new policies of opening the economy and strengthening exports, which were being adopted in conjunction with the program loan, should provide added assurance of increased creditworthiness.

6. The Chairman observed that exports were expected to double in the 1979-82 period, which implied a real growth rate of about 7 percent. He wondered whether it was realistic to expect this level of performance and whether the Fund was in agreement with our balance of payments projections.

The Region responded that the Fund was in general agreement with the balance of payments projections in the President's Report and that these projections were basically conservative and achievable, in the absence of serious new problems. The projections had been constructed on an item by item basis. The copper and petroleum prices used were quite conservative; it was assumed that the anchovy catch would continue to be depressed and there would be no major oil discoveries. Moreover, the projections of non-traditional exports performance were also conservative.

7. The Chairman then noted that the country's debt service ratio remained quite high into the mid-1980s. The Region pointed out that this was the result of the country's extremely heavy debt burden (estimated at $8.3 billion for the public and private sectors); Peru might have to seek further rescheduling in the early 1980s.

8. Finally, the Chairman suggested that the Region do a sensitivity analysis to determine how the debt service ratio would be affected by a lower rate of growth in exports and/or an increase in the cost of capital.

9. Other matters:

a) The Chairman suggested that the President's Report contain greater information on the Fund's exposure in Peru and on possible future IMF lending to the country;

b) The Chairman inquired as to the adequacy of the 12 percent interest rate to be charged borrowers under the FENT. It was explained that these loans would be denominated in US dollars and that the 12 percent would be in the range of other commercial rates for such lending;

c) Mr. Baum suggested that the dates for Bank reviews of performance be expressed in the Loan Agreement in terms of specific time periods following loan signature;

d) Mr. Baum also asked whether it was necessary to provide for retroactive financing of the $25,000 cost of the tax consultant. The Region explained that since there was a severe restriction on the level of Government salaries, only by providing loan financing could the consultant be paid an adequate fee. Our agreement to this allowed the preparation of the tax enforcement program, which is an essential part of the ERP, to begin promptly.

e) It was suggested by the General Counsel's Office that the criteria for determining whether progress on the Economic Recovery Program was sufficient to justify release of the tranches should be made as specific and objective as possible in the Loan Agreement.

Cleared by: Messrs. Stern, Baum, Ardito-Barletta, Asser, Lari, Chang, Aguirre-Sacasa, Penalver, Cucullu, Grothe

SJWeissman/ALDuersten:ml

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LOAN COMMITTEE

LC/M/79-02

March 14, 1979

Minutes of Loan Committee Meeting to Consider
BANGLADESH - Fertilizer Sector Lending Program
held on February 28, 1979 in Conference Room E-1208

A. Present

Committee	Others	
Messrs. E. Stern	Messrs. H. Fuchs	D. Parsons
W. Baum	R. Picciotto	H. Gassner
W.D. Hopper	V. Rajagopalan	D. Jeffries
T. Asser (for Mr. Broches)	D. Dunn	Ms. A. Duersten

B. Issues

1. The meeting was called to consider the proposals for fertilizer sector financing in Bangladesh included in Mr. Hopper's memorandum to Mr. Stern dated February 23, 1979.

C. Discussion

2. It was agreed that the proposed fertilizer imports credits were of high priority. Mr. Hopper said that he was satisfied that the combination in the proposed policy package of increased fertilizer prices and increased procurement prices for paddy would not unduly reduce the incentive for farmers to use fertilizer. Estimates for black market prices for fertilizer ranged from 160% to 200% of the official prices. The Bangladesh fertilizer prices were on average 60% below those in India. Mr. Hopper noted that food aid pledges were tapering off, and given the 3:1 food-to-fertilizer production ratio, increasing Bangladesh's

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Regional Vice Presidents	Others in attendance

fertilizer consumption had extremely high priority. Mr. Picciotto confirmed that the precise fertilizer pricing proposals for FY81 (as noted in paragraph 4(a) of Mr. Hopper's memorandum) would be adjusted to reflect any changes in actual prices of fertilizer from those projected in the memorandum.

3. Mr. Baum commented that the proposed operation was an import credit and not a "sector" operation in the sense the term was used in the Bank, and it was agreed that it would be given a more appropriate title.

4. Mr. Hopper stated that the fertilizer coordinating committee referred to in the memorandum would be at the Secretary level, possibly associated with the Cabinet Food Committee. Under the proposal for removal of the fertilizer subsidy from the Ministry of Agriculture development budget, a separate account would be kept for the fertilizer subsidy, as is currently the case for the food subsidy. The fertilizer subsidy would be outside of the development budget and part of the current account. Mr. Stern stated that one of the conditions for the proposed fertilizer imports credit should be the submission of an annual fertilizer plan to the Association in time for the Association to comment.

5. Mr. Hopper stated that IDA's requirements for the encouragement of private fertilizer distribution would be based upon the experience of the USAID experiment in private sector distribution in the Chittagong Division. Our information to date indicates that the experiment seems to be functioning fairly well.

6. Mr. Stern indicated that he did not care whether the proposed requirement (paragraph 3(e) of Mr. Hopper's memorandum) for priority allocation of fertilizer for IDA project areas was included in the proposal or not. However he stated that if a covenant for this was included and was not met, there should be no second fertilizer imports credit. It was agreed that the priority allocation should be expanded from IDA "area development" projects to include all irrigation areas.

7. Mr. Stern emphasized that he would have to be satisfied that the conditions of the first fertilizer imports credit had been met before he would agree to any proposal for a second fertilizer imports credit.

D. Conclusion

8. The proposals included in Mr. Hopper's memorandum to Mr. Stern were approved with the following modifications:

(a) The amount of the proposed FY79 fertilizer imports credit would be reduced (at least for the time being) to US$25 million.

(b) The requirement for priority allocation of fertilizer would be extended to include all irrigation areas.

(c) There would be an explicit requirement for submission of an annual fertilizer plan to IDA in time for us to comment on it.

(d) The proposed policy package was an integral part of the loan proposal and agreement on it would be a prerequisite to consideration of the credit.

Cleared with: Messrs. Stern (VPO)
Hopper (ASNVP)
Baum (CPSVP)
Picciotto (ASP)
Dunn (ASA)
Parsons/Jeffries (ASP)

AWS

HGassner/ALDuersten:ml

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LOAN COMMITTEE

LC/M/79-01

March 14, 1979

Minutes of Loan Committee Meeting to Consider TURKEY - Ports Rehabilitation Project held on February 16, 1979 in Conference Room E-1208

A. Present

Committee	Others	
Messrs. E. Stern	Messrs. M. Bart	A. Carmichael
W. Baum	A. Knox	A. Raizen
L. Nurick	T. Asser	D. Elliott
M. Hattori	H. Pollan	R. Palmer
M. Benjenk	A. Davar	T. Pankaj
	N. Horsley	R. Gregory
	C. Duval	Ms. A. Duersten

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under the cover of Mr. Benjenk's memorandum of February 8, 1979, seeking approval to negotiate a proposed $75 million loan for the Turkey Ports Rehabilitation Project:

(i) whether the proposed national ports authority was important for the Project and the appropriate solution to the problems of the sector and to be pushed further by the Bank; and whether the interim arrangement proposed by the Region were sufficient;

(ii) whether the proposed financial covenants were adequate as to their formulation and scope, and in particular, why the Region had proposed a cash, rather than a rate of return, covenant;

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Senior Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(iii) whether the proposed arrangements for controlling other investments in the sector were sufficient.

C. Discussion

2. Port Organization: The Vice President, Projects Staff, observed that the commitment to establish a national authority was not effectively binding on the Government, because of the need for Parliamentary action, and asked how important the proposed authority was to the Project. The Region noted that the proposed authority was not central to the Project. In any case, some doubt remained as to whether a national ports authority was the only appropriate solution in Turkey, particularly in view of the poor experience with other centralized government organizations. Moreover, the draft Turkish proposal still had a number of specific deficiencies, even if a national organization were the best way to proceed. Indeed, the Turks themselves wished to review what would be the appropriate legal and administrative framework under Turkish circumstances, and whether a national authority would work effectively if such a single authority was to be established. Hence, a national port authority was a possible, perhaps even a good, solution to the problems faced by the Turkish port sector, but not the only solution. Therefore, on balance, the Region felt it was prudent to take more time to review this issue before taking action.

3. The Chairman noted that a national authority was, in his view, a far too complex solution to what seemed to be a problem of coordination between Turkish State Railways (TCDD) and the Turkish Maritime Bank (DB) in one or two regions. A better solution, at least initially, might be to establish regional authorities, at least for two or three of the key ports. He would, therefore, prefer to press for more formal arrangements for coordination between the DB and TCDD in the Istanbul region, the area of the main problem. The Region noted that it was proposing to require better coordination by the establishment of arrangements between DB and TCDD in the Istanbul region; what was also envisaged were informal committees to coordinate operations. The Region felt it was premature to overly formalize this situation until the details of the long-term solution were clearer. The Chairman proposed, and those present concurred, that the Bank should not press for a national authority, as the only institutional solution, but encourage more measured consideration of other alternatives by the Turks, including regional or local authorities within a reasonable time frame, before the decision on the appropriate institutional solution was made.

4. Project Financial Arrangements: The Vice President, Projects Staff, inquired why a rate of return covenant was not being proposed rather than a cash covenant, and whether the proposed level of contribution to future investments under the latter, 35 percent, was adequate in view of the low level of debt service. The Region explained that it had tried to agree on rate of return covenants with the Turkish Government for many years; but this had only led to conflict and unhappiness on both

sides. Moreover, a rate of return covenant required a knowledge of the asset base, which was missing in this case, and a continuing revaluation of assets which had always presented problems in the Turkish context. The objective of a rate of return covenant would, in any case, be to achieve a satisfactory internal cash generation from the port operating agencies to make a reasonable contribution towards future port investments. The proposed cash covenant was a more direct means to achieving that objective, and at the same time, be politically less troublesome with the Turkish Government.

5. The proposed level of 35 percent contribution to future investment was chosen as a reasonable level of contribution, which roughly would yield a return of abour 5 percent. This appeared to be a significant gain, when considering that the internal cash generation for future investments today is zero. The Chairman suggested that the proposed cash covenant was satisfactory, although as a negotiating tactic, the Region might wish to start with a higher level. He wanted the Region to ensure that the final level negotiated should not go below 35 percent.

6. The Vice President, Projects Staff, questioned whether on the basis of current Bank practice, the funds provisionally allocated for training, should not be cancelled in the event that the expected UNDP financing materialized, rather than being reallocated to equipment as had been proposed by the Region. The Region noted that the equipment needs were substantially larger than those provided for under the loan, and hence, purchase of equipment with the monies earmarked for the training would be more than justified; however, it would attempt to clarify the availability of UNDP financing for training, and reallocate the funds, if necessary, before the loan went to the Board.

7. Control of New Investment: It was questioned whether the limit of $10 million for projects not requiring prior Bank approval was not too high, since it would allow for construction of one or two new berths. The Region noted that the purpose of the covenant was to prevent major investments such as completely new ports pending completion of the planning studies, but not to hinder the normal expansion and rehabilitation activities of what was, after all, a large and complex port sector. In any case, because of Turkish sensitivity about involvement in their investment policies, it would be better to reformulate the covenant to refer only to projects that are not in the Fourth Five-Year Plan. CPS staff then clarified that current costs would not permit even one berth to be constructed for $10 million, and hence, the proposed ceiling was unlikely to give rise to unwise investments. With this background, it was agreed that the Region's proposals were acceptable.

D. Conclusion

8. Subject to the modifications noted in paras. 3, 5, 6 and 7 above, the Committee approved the recommendation to invite negotiations on the terms and conditions proposed by the Region.

Cleared by Messrs. Stern (VPO)
Benjenk (EMNVP)
Hattori (CTR)
Bart (EM2)
Nurick (LEG)
Davar (EM2)
Elliott (EMP)

cc: Messrs. Knox (EMP) (o/r)
Pollan (EMP) (o/r)

ALD

RGregory/ALDuersten:ml