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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

LOAN COMMITTEE

LC/M/71-1

January 26, 1971

Minutes of Loan Committee Meeting held at 4:30 p.m. on Monday, December 28, 1970 in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. A. Broches
Mr. G. Alter
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. B. Cheek
Mr. R.H. Demuth
Mr. W. Diamond
Mr. K.G. Gabriel
Mr. G. Kalmanoff
Mr. M.L. Lejeune
Mr. A. Stevenson
Mr. G.M. Street
Mr. E.P. Wright
Mr. D. Pearce, Secretary

In Attendance:

Mr. R.P. Armstrong
Mr. J. Coudol
Mr. S.S. El-Fishawy
Mr. D. Hartwich
Mr. C. Hassan
Mr. M.L. Hoffman
Mr. T.M. Jones
Mr. M.S. Joshi
Mr. O. Maiss
Mr. G. Mehlem
Mr. F. Mendoza
Mr. H. Pollan
Mr. D.S. Roessner
Mr. W. Wapenhans

B. Morocco - BNDE

1. The Committee considered a memorandum dated December 22, 1970 from the Europe, Middle East and North Africa Department entitled "Morocco - Proposed Fifth Loan to Banque Nationale pour le Developpement Economique (BNDE)" (LC/O/70-130), which recommended that the Government

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

and BNDE be invited to negotiate a $25 million loan to help finance part of BNDE's foreign exchange requirements through the end of 1972. The main issue for discussion was BNDE's lending rate and its effect on BNDE's ability to raise resources and on industrial investment in Morocco.

2. The Committee noted that, before the proposed loan was presented to the Executive Directors for approval, the Government and BNDE would be required to agree (a) that BNDE's lending rate be increased from 7 per cent to 9 per cent, (b) that the Government's subsidy to BNDE under the January 22, 1960 convention be discontinued on new borrowings and (c) that a procedure and timetable for the study and introduction of a selective system of incentives to encourage priority industrial investments be agreed during negotiations. The Committee also noted that, pending the adoption of the investment incentive scheme, the Bank would be prepared to accept, for a limited interim period, direct interest rate subsidies by the Government to BNDE's borrowers executing priority projects to mitigate the effects of the lending rate increase and ensure a smooth transition from the old system to the new.

3. The Chairman, while endorsing the Department's recommendations on BNDE's lending rate, questioned whether the "institutional" argument cited in its memorandum - that a 9 per cent lending rate would enable BNDE to diversify its sources of funds and thus reduce its excessive dependence on the Bank for capital and on the Government subsidy for income - would be sufficiently persuasive to the Moroccans. BNDE was probably not too concerned by the threat to its autonomy implied by its already excessive dependence on the Bank and the Government, and the Government was unlikely to agree that BNDE's lending rate should necessarily reflect, or approximate, international interest rate levels. While the Bank's concern on both points should be conveyed to the Moroccans, the Chairman continued, the main thrust of its case should be the conventional macro-economic argument that interest rates should reflect the opportunity cost of capital. A secondary argument was the increasing cost to the Government of its continued subsidy of BNDE's low lending rate, although the possible substitution of interim rebates to certain borrowers for the subsidy to BNDE would weaken this point.

4. The Europe, Middle East and North Africa Department stated that, in its view, the principal advantage of the resource diversification and dependency arguments adumbrated in its memorandum was that, if necessary because of Moroccan inaction, they could justify, more easily than the general economic argument, a Bank initiative to reduce future lending to BNDE. The Chairman commented that, if the Bank reduced its lending to BNDE, the Government would probably only increase its support, at least until the burden in relation to other demands on its budget became too high. For this reason, discussions with the Moroccans should deal with the cost to the Government of its subsidy of BNDE.

5. Turning to the general question of interest rates, the Chairman said that it was not clear why, in view of the history of discussions with the Moroccans on this issue and the fact that the April, 1970 economic mission, as part of its annual review, had been charged with initiating a study of the interest rate structure, the Bank was so reluctant to advance the economic case for increasing BNDE's lending rate. It was evident from the draft appraisal report that BNDE, the principal source of long term capital in Morocco and the main supplier of financing for imported equipment, could, with some interim adjustments, sustain a satisfactory volume of operations with a 9 per cent lending rate.

6. The Committee was told that the recent economic mission had found that the influence of interest rates on the overall level of investment and economic activity in Morocco was apparently marginal. Private investment decisions were primarily affected by market opportunities, the efficiency of Government administration and/or the availability of entrepreneurial talent and experience. While it was difficult to measure the responsiveness of investment decisions to long-term interest rates independently of a whole range of other incentives, such as accelerated depreciation, import exemptions etc., it was nevertheless clear that Moroccan investors were neither particularly aware of, nor very much influenced by, marginal changes in interest rates. In short, there was no 'prima facie' case, on economic performance grounds, to press for a general increase in long-term interest rates, except within the context of a reconsideration of the Government's whole package of investment incentives.

7. The Chairman, summarizing, said that he was still concerned about the effectiveness of the Bank's proposed approach. In his view, the case for increasing BNDE's rate rested essentially on the basic economic argument that the structure and level of interest rates and incentives, particularly in a developing country like Morocco, should be such as to encourage a rational allocation of scarce investment resources. However, the proposed system of selective incentives linked to priority project categories would at least establish, more clearly than the present general interest rate subsidy, the amounts and selective criteria for such incentives.

8. The Commitee approved the Europe, Middle East and North Africa Department's recommendation that the Government and BNDE be invited to negotiate a proposed $25 million loan, on the terms and conditions set forth in paragraphs 73-76 of the draft appraisal report and paragraph 17 of the memorandum.

Secretary's Department
January 25, 1971

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-10

October 16, 1970

Minutes of Loan Committee Meeting held at 4:00 p.m. on Thursday, October 8, 1970 in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. A. Broches
Mr. J. Baneth
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. R.H. Demuth
Mr. K.G. Gabriel
Mr. R.J. Goodman
Mr. E. Gutierrez
Mr. D. Hartwich
Mr. A.D. Knox
Mr. R. Sadove
Mr. A. Stevenson
Mr. J.H. Williams
Mr. D. Pearce (Secretary)

In Attendance:

Mr. W.C. Baum
Mr. W. Diamond
Mr. J. Elkouby
Mr. M. Ebstein
Mr. B.B. King
Mr. K.S. Krishnaswamy
Mr. E. Lerdau
Mr. C.E. Madavo
Mr. M.J. Schloss
Mr. R.M. Westebbe
Mr. E.P. Wright
Mr. H. Wyss

B. Venezuela - Caracas Metro

1. The Committee considered a memorandum dated October 2, 1970 from the Central America and Caribbean Department entitled "Venezuela - Request for Bank Assistance on Financing Caracas Metro" (LC/O/70-108), which recommended that the Bank should in principle consider participation in the first section of the proposed Caracas Metro project. The estimated

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Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
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Mr. M. Shoaib, Vice President
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Vice President (IFC)

1970

cost of this first section - from Pro Patria to La Hoyada, a distance of 7 kms with 8 stations - was about $110 million, including about $55 million in foreign exchange of which the Venezuelans planned to finance about $30 million, in respect of civil works, by a loan from an international development finance organization (e.g. the World Bank) and about $25 million, in respect of equipment and installation, by export credits from supplying countries.

2. In reviewing the Central America and Caribbean Department's recommendation, the Committee noted that:

(a) Venezuela's economy was heavily concentrated in the "Core Region," centred on Caracas. The population of Caracas had tripled during the last twenty years and was expected to double again - to over 4 million - by 1990. While the planned development of satellite towns in neighboring valleys would be a partial solution to the problem of urban concentration and congestion, the continued growth of Caracas itself was unavoidable and, given its physical location and configuration, the construction of an underground rail mass transportation system would be a key element in measures to alleviate the situation.

(b) The construction part of the project would be executed by the Ministry of Public Works and financed by central and local government contributions, expropriation bonds for the purchase of land, and by an international development loan to the central government. A Transit Authority would be responsible for acquiring the rails, fixed equipment and vehicles for the Metro and for servicing the debt incurred for this purpose from its operating revenues. In addition, betterment taxes would be levied on property owners benefitting from the construction of the Metro. Metro fares would be set at the highest level compatible with full use of the facility, taking into account existing and proposed road user charges. This pattern of financial and institutional arrangements was intended not only to permit adequate financing of the Metro system but also to ensure that the distribution of its costs bore some relation to the distribution of its benefits, in the interests of both equity and efficiency.

(c) The Government's interest in obtaining Bank assistance was linked to its belief that international competitive bidding would be the cheapest and most efficient method of procurement. In this connection, the question would arise whether the Venezuelans would need assistance in the procurement of equipment to be financed by supplier credits and if so, whether the Bank's role should be advisory or supervisory, i.e. should it establish guidelines only or, at the other extreme, police the award of contracts. The Chairman said that this question could be decided later after further consideration.

(d) With respect to the Bank's five-year lending program for Venezuela, the proposed Metro project was one of the few high priority infrastructure projects, apart from telecommunications, suitable for Bank financing at this time; the project was prima facie sound, both technically and economically, although these preliminary judgements would need to be checked carefully by the Bank; finally, the Metro project would offer the Bank practical experience in urbanization problems, a new area of operations.

3. The Committee endorsed the Central America and Caribbean Department's recommendation that the Bank should inform the Venezuelan Government of its willingness in principle to consider participation in the first stage of the Caracas Metro Project on the conditions specified in paragraphs 20-21 of the Department's memorandum.

C. Adjournment

4. The meeting adjourned at 5:10 p.m.

Secretary's Department
October 16, 1970

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-9

October 7, 1970

Minutes of Loan Committee Meeting held at 3:00 p.m. on Friday, September 4, 1970 in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. A. Broches
Mr. G. Alter
Mr. M.P. Benjenk
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. B.M. Cheek
Mr. J.H. Collier
Mr. M.L. Hoffman
Mr. B.G. Sandberg
Mr. A. Stevenson
Mr. F.R. Poore
Mr. M.L. Weiner
Mr. E.P. Wright
Mr. J. Chaffey, Acting Secretary

In Attendance:

Mr. W.J. Armstrong
Mr. B.A. de Vries
Mr. G.D. Loos
Mr. M.S. Ram
Mr. A.N. Memon
Mr. Y. Rovani
Mr. G. Wyatt

B. Method of Investment by Governments in Autonomous Public Bodies

1. The Committee discussed a general question affecting the financial relations between Governments and autonomous public bodies which had arisen in two projects recently considered by the Committee (Ghana - Second Power Distribution Project /LC/0/70-97, dated August 28, 1970/ and Iran - Tehran Power Distribution Project /LC/0/70-95, dated August 25, 1970/), namely how far the Bank should seek to determine

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Deputy Director, Projects
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(a) the method adopted by Governments for investing in autonomous public corporations, i.e. whether by way of equity or debt, and (b) the amount of dividends declared by such corporations. The Deputy Chairman said that the purpose of the meeting was not to formulate a uniform practice applicable in all situations, but rather to consider whether there was a general view on this issue.

Ghana - Second Power Distribution Project (LC/O/70-97)

2. The Western Africa Department said that the main issue in this project was the method by which the existing $6 million cash surplus of the Electricity Corporation of Ghana (ECG) should be made available to the Government for its general development program, and also the extent to which the Bank should seek to influence the method and amount of this transfer. ECG was one of only two public corporations in Ghana (the other was the Volta River Authority) which currently made a profit and did not require Government subsidies. It was a distribution company; its investment requirements were limited; and its tariff structure appeared to be satisfactory. The Public Utilities Projects Department emphasized that, if ECG's current surplus were not channeled into other general public investments, ECG would probably continue to invest funds unnecessarily and remain inefficient.

3. The Government, sole equity shareholder, had not hitherto insisted on payment of dividends although the company was investing its liquid funds in Government paper. The problem was how to persuade the Government to reverse its policy and take steps to secure the transfer of ECG's surplus funds, particularly in view of Ghana's acute shortage of resources for development. The Area Department had proposed that, in addition to covenants in the credit agreement designed to improve ECG's efficiency, there should be a requirement that the company should pay annual dividends appropriate to its operating results; specifically that dividends should be determined after annual consultation with IDA, to ensure that the ECG retained sufficient cash for working capital and debt servicing purposes.

4. The Committee felt that a distinction should be drawn between requiring a company to declare dividends appropriate to its operating results and seeking to determine how the largest shareholder should remove surplus funds from the company. The former, a question of financial integrity, should be the extent of any legal obligation on the company; the latter, a question of persuading the Government to adopt a responsible attitude on the company's surplus, should be part of the Bank's continuing dialogue with the Government on fiscal and other reforms.

5. The Chairman, noting that the terms of the Government's relending to ECG would be shortened to 10 years maturity and 3½ years grace, suggested that a further hardening of the amortization terms would dispose of the initial cash surplus more quickly; the repayment schedule of Credit 118 GH might also be tightened further. The Area and Projects Departments replied that this might jeopardize the essential flexibility built into ECG's cash flow projections. It was generally agreed, however, that the Government's relending terms should be shaped in a more suitable way, taking into account the need for flexibility. Cash flow projections called for dividend payments to the Government from 1970-1976 of $11.0 million, compared with the proposed credit of $6.0 million, which might be repaid to the Government over 3 to 5 years.

6. It was also pointed out that the cash flow projections assumed that foreign capital requirements of $8.9 million from 1973-1976 would be financed by foreign borrowings. In the absence of such an assumption, the cash flow position would change considerably; it would also change if there were a merger between ECG and VRA which, according to the Area Department, would increase the cash surplus. While the Ghana lending program included proposed credits to both ECG and VRA in 1973, it was hoped that more deserving projects would have been identified by then.

7. Summarizing, the Chairman said that, in negotiating the proposed credit, IDA should assume that the Government could be induced to adopt a responsible fiscal policy. ECG's surplus funds should be siphoned off by imposing harder relending terms. The credit agreement should have a general covenant requiring dividend payments based on operating results; it should not call for annual consultation with IDA. In addition it was suggested that reference in the Appraisal Report's cash flow projections to foreign borrowings financing external capital requirements of phase II of the project should be omitted.

Tehran - Power Distribution Project

8. In this project, it was proposed that the Bank should require that further external financing channeled to the Tehran Regional Electric Company (TREC) by the Plan Organization should be made available as debt, until a reasonable ratio of debt to equity in the range from 50:50 to 65:35 was reached. The Area Department said that this was largely an accounting problem because, unlike the Ghana project, surplus TREC funds were always siphoned off by the Ministry of Power for less profitable power companies.

9. The Chairman agreed that the loan agreement should include protective covenants safeguarding the Bank loan to TREC from any bleeding of the company's funds. The main issue, however, was whether the Bank should concern itself with PLAN's method of transferring to TREC additional external resources not provided by the Bank. It was sensible to fix a maximum debt/equity ratio for TREC of say 2:1, but should the Bank insist on a minimum ratio.

10. The Projects Department said that the money borrowed by PLAN and made available as equity to (inter alia) power companies was serviced by PLAN from oil revenues. However, PLAN was not a shareholder in the power companies and had no legal means of getting dividends from these investments, which the companies regarded as grants. PLAN was concerned about the absence of amortization arrangements and was seeking to establish the autonomy of the various enterprises and the development of financial integrity within them. PLAN was apparently prepared to accept the idea of 50 per cent of future financing to the power sector, regardless of origin, being passed on as debt. The Area Department warned, however, that PLAN's view on this might not ultimately prevail in any conflict of opinion with the Ministry of Power. It considered that this was an ineffective way of allocating resources through the Plan Organization particularly as the investment requirements of the power sector would exceed the funds generated within it.

11. The Chairman said that he was impressed by the absence of proper amortization arrangements for PLAN loans. There appeared to be a power struggle between PLAN and the Ministry of Power and, noting that PLAN was unable to secure dividends from the power companies, he felt that there was merit in the Bank favoring PLAN's financing being made available to TREC as debt, to the extent that such financing originated from PLAN's borrowings. In the negotiations the Bank should press for future external resources borrowed by PLAN being passed on as debt, to the maximum amount consistent with maintaining a sound financial structure for TREC.

C. Adjournment

12. The meeting adjourned at 5:10 p.m.

Secretary's Department
October 7, 1970

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-8

September 30, 1970

Minutes of Loan Committee Meeting held at 3:30 p.m. on Monday, September 14, 1970 in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman	Mr. G. Votaw
Mr. S.R. Cope	Mr. J.H. Williams
Mr. A. Broches	Mr. K.G. Gabriel
Mr. G. Alter	Mr. M.L. Hoffman
Mr. W.C. Baum	Mr. A. Stevenson
Mr. M.P. Benjenk	Mr. W. Wapenhans
Mr. B. Cheek	Mr. D. Pearce (Secretary)

In Attendance:

Mrs. S. Boskey	Mr. N. Horsley
Mr. J. Edwards	Mr. S.N. McIvor
Mr. D. Gustafson	Mr. V.J. Riley
Mr. D. Hartwich	Mr. D. Stoops

B. Spain - Agricultural Research and Extension Project

1. The Committee considered a memorandum dated September 10, 1970 from the Europe, Middle East and North Africa Department entitled "Spain - Agricultural Research and Extension Project" (LC/O/70-100) and the accompanying pre-appraisal report dated August 24, 1970 which recommended appraisal of a project designed to improve the efficiency of agricultural research and extension. The project had originated from recommendations of a joint Bank/FAO agricultural survey mission in 1965 and, following considerable revision in the interim, envisaged the establishment of five specialist research centers, each dealing with priority research objectives

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Deputy Director, Projects
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Director, Development Finance Companies Department
Director of the Economics Department
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relating to Spain's agricultural development program. Total project cost was tentatively estimated at about \$21 million, of which about half - including \$5 million for building and equipment, \$2.5 million for international research specialists and \$1 million for overseas training of Spanish researchers - would be in foreign exchange.

2. In reviewing the proposal, the Committee noted that:

(a) Consideration would be given to the feasibility of securing UNDP financing for the project's technical assistance component, although the amounts involved were probably more than UNDP, which had just approved two other projects, wished to allocate to Spain. Moreover, UNDP was expected to reduce its activities in Spain, which was now only marginally eligible for UNDP technical assistance.

(b) While FAO, which had been closely concerned with the original project's initial development, had not yet been formally consulted about the revised project, largely for reasons of time, staff consultations indicated that it did not object to the revised proposal.

(c) The amortization terms of an eventual Bank loan, which in the Chairman's view should not exceed the project's estimated foreign exchange cost, would be relatively short, i.e. 12-15 years.

(d) The relatively large amount of the loan tentatively allocated for expatriate research specialists and overseas training of Spanish researchers was justified by the comparatively backward state of existing agricultural research in Spain and the project's institution-building objectives. The Spaniards apparently welcomed this particular feature of the project.

(e) The conditions which the Bank proposed to attach to the project were necessary to ensure its successful implementation and continuation by the Spaniards in future. In this respect, they were analogous to the conditions required of borrowers for conventional education projects.

3. The Committee approved the Europe, Middle East and North Africa Department's recommendation that, subject to confirmation of the Spanish Government's acceptance of the Bank's proposals, project appraisal be undertaken in November.

C. Adjournment

4. The meeting adjourned at 4:10 p.m.

Secretary's Department
September 30, 1970

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-7

August 17, 1970

Minutes of Loan Committee Meeting held at 4:00 p.m. on Wednesday, August 5, 1970 in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. W.C. Baum
Mr. I.P.M. Cargill
Mr. R. Chaufournier
Mr. R.J. Goodman
Mr. E. Gutierrez
Mr. M.L. Lejeune
Mr. C.H. Thompson
Mr. G.K. Wiese
Mr. R.H. Demuth
Mr. A.M. Kamarck
Mr. F.R. Poore
Mr. P. Sella
Mr. D. Pearce, Secretary

In Attendance:

Mr. F. Abbate
Mr. L. Cancio
Mr. W. Diamond
Mr. S.S. Kapur
Mr. W.M. Keltie
Sir Gordon Mackay
Miss A.L. Maher
Mr. P.O. Malone
Mr. A. van Dijck
Mr. H. van Helden
Mr. H.M. Sapir
Mr. C.M. Southall

B. Peru - Proposed Road Reconstruction Loan

1. The Committee considered a memorandum dated August 3, 1970 from the South America Department entitled "Peru - Proposed Road Reconstruction Loan" (LC/O/70-88) and the accompanying Transportation Projects Department report dated July 30, 1970 (PTR-59), which recommended that the Peruvian Government be invited to send representatives to negotiate a $30 million loan to assist in the reconstruction of roads affected by the May 31, 1970 earthquake.

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Deputy Director, Projects
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2. The Chairman, introducing the discussion, said that, in considering how to respond to Peru's request for a $150 million loan and in view of the extraordinary circumstances, the question of IDA assistance had been reviewed. In this connection, the constraints upon IDA resources through FY 1971 and the fact that Peru was not "IDA-worthy" on income per capita grounds had been relevant, but not decisive considerations. The decision against resorting to IDA in this case had been based finally on the principle that IDA was not a disaster-relief organization and should not be given that image. However, in view of the essentially humanitarian nature of this operation and Peru's limited creditworthiness, at least in the short-term, exceptionally favorable terms were appropriate for the proposed $30 million loan.

3. In response to the Chairman's request for comments and questions, the Committee noted that:

(a) While the absence of progress on the IPC issue was not considered a bar to the proposed Bank loan in these exceptional circumstances, the Bank had not determined its position on this question. Accordingly, no further lending to Peru was contemplated pending a satisfactory Bank finding on the IPC issue.

(b) Creditworthiness was a separate although related problem. Resolution of the IPC issue would not by itself decisively affect foreign investors' attitudes towards Peru, which were based mainly on other factors, primarily the Government's general policy towards foreign investment. Peru's future creditworthiness depended in large measure on the extent to which new mining investments by foreign companies went forward.

(c) In view of Peru's need and the nature of its reconstruction program, which necessitated quick action, the loan was proposed exceptionally as a "line of credit." While this technique would not in fact result in more rapid execution of the project than under the Bank's conventional loan procedures, an early commitment of funds was an appropriate gesture in the circumstances.

4. The Committee approved the South America Department's recommendation that negotiators be invited for the proposed loan.

Secretary's Department
August 17, 1970

FORM No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-6

July 9, 1970

Minutes of Loan Committee Meeting held at 3:00 p.m. on Wednesday, July 1, 1970 in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. B. Chadenet
Mr. B.M. Cheek
Mr. R.H. Demuth
Mr. R.J. Goodman
Mr. E. Gutierrez
Mr. D. Hartwich
Mr. A.M. Kamarck
Mr. M.L. Lejeune
Mr. F.R. Poore
Mr. R. Sadove
Mr. H.N. Scott
Mr. D. Pearce, Secretary

In Attendance:

Mr. W.C. Baum
Mr. D.J. Fontein
Mr. J. Foster
Mr. M.L. Hoffman
Mr. B.B. King
Mr. K.S. Krishnaswamy
Mr. C.E. Madavo
Mr. V.J. Riley
Mr. B.G. Sandberg
Mr. G.M. Street
Mr. D.A. Strombom
Mr. R.M. Westebbe

B. Singapore - Mass Rapid Transit Proposal and Urban Development

1. The Committee considered a memorandum dated June 26, 1970 from the East Asia and Pacific Department entitled "Singapore - Mass Rapid Transit Proposal and Urban Development" and the report of a Special Projects Department reconnaissance mission which described the current status of urban planning and programs in Singapore, examined a proposal for an urban mass rapid transit system in the context of overall urban development, and identified prospects for Bank involvement. The main issue for

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
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Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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discussion was the report's recommendation that further studies be undertaken of a comprehensive project for the development of the so-called Western Corridor between the city of Singapore and the new town of Jurong and of mass rapid transit alternatives leading to an integrated transport system, and the East Asia and Pacific Department's recommendation that the Bank discuss with UNDP the possibility of their financing the proposed studies with the Bank as Executing Agency.

2. The Committee noted that:

(a) In May, 1967, the Government had begun a $5.2 million Urban Renewal and Development Study Project with assistance from the United Nations Special Fund. A State and City Planning Board (SCP) had been set up; its first task was to implement the project with assistance from planning and transport consultants and recommendations were expected in April, 1971. Subsequently, the Government had sponsored a consultants' study in 1968 to investigate the feasibility of a mass rapid transit system. The latter had developed independently of Singapore's overall urban planning program.

(b) While the planning study was deficient in various respects and was unlikely to result in better coordination between the agencies concerned with Singapore's development, it would provide a sufficient data base for the Bank mission's proposed comprehensive study of the development of the Western Corridor, which would link urban development with specific project preparation.

(c) Similarly, the mass rapid transit study, apart from the fact that it did not comprise part of an integrated transport system, was inadequate both in terms of the geographical area to be served and the characteristics of the system. Bank involvement in further studies of mass transit alternatives would ensure that the analyses would meet its requirements for project consideration and financing.

(d) Finally, the two proposed studies would enable the Bank to gain its first direct experience in urban mass transportation and organization. In this respect, Singapore, a small city state in which national and urban development priorities coincided, was an ideal case-study.

3. The East Asia and Pacific Department enquired (a) whether a mass transit project in Singapore would in principle be suitable for future Bank financing and (b) whether, if the proposed comprehensive study for development of the Western Corridor resulted in the establishment of agencies for implementing urbanization projects, the Bank would be prepared to consider financing these projects through such agencies. To the first question (a), the Chairman replied in the affirmative and to the second (b), stated that while Bank financing of urbanization projects could be considered in principle, the Bank was far from having any established policies in this field and specific projects should be considered on their merits, as and when they arose.

4. The Chairman also stated that, while the financing of the two proposed studies should logically be provided by the UNDP, the Bank might be prepared to consider a loan for this purpose if, in the event, UNDP was unable to help.

5. The Committee approved the East Asia and Pacific Department's recommendation that, following consultations with the Government, the UNDP be asked to consider financing the proposed studies with the Bank acting as Executing Agency.

Secretary's Department
July 9, 1970

LOAN COMMITTEE

LC/M/70-5

June 10, 1970

Minutes of Loan Committee Meeting held at 11:30 a.m. on Wednesday, May 27, 1970 in the Board Room.

A. Present:

Mr. J.B. Knapp, Chairman
Mr. S.R. Cope
Mr. G. Alter
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. R. Chaufournier
Mr. R.H. Demuth
Mr. D.J. Fontein
Mr. E. Gutierrez
Mr. M.L. Lejeune
Mr. F.R. Poore
Mr. H.N. Scott
Mr. A. Stevenson
Mr. G.W. Votaw
Mr. D. Pearce, Secretary

In Attendance:

Mr. A.J. Davar
Mr, R. Gulhati
Mrs. Singh Hardy
Mr. E.K. Hawkins
Mr. M.L. Hoffman
Mr. K. Kanagaratnam
Mr. T. King
Mr. K.S. Krishnaswamy
Mr. H. Wyss
Mr. G.C. Zaidan

B. Jamaica - Population Project

1. The Committee considered a memorandum dated May 25, 1970 from the Central America and Caribbean Department entitled "Jamaica - Proposed Loan for Population Project" (LC/O/70-80) and the accompanying redraft of paragraphs 6.01-10 and Annex 9 of the appraisal report (PP-2). At a meeting on April 30 (cf. LC/M/70-3), the Chairman had proposed that the Committee should reconsider these revised sections of the appraisal report before recommending whether or not they should be included in the final report for presentation of the proposed $2 million loan to the Executive Directors.

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

2. Mr. Cope (in the Chair for the first part of the meeting) advised the meeting that, since this was the Bank's first venture in a new and potentially controversial field and in view of the uncertainties of existing methodologies for analyzing the economic benefits of population projects, the President had provisionally decided that Annex 9 should not be distributed to the Executive Directors in support of the proposed $2 million loan and that the section of the appraisal report concerning the project's economic justification and benefits (paragraphs 6.01-10) should be brief, couched in very broad and qualitative terms and omit the detailed quantitative analysis.

3. The Committee then considered two issues: (a) the merits of the methodology employed in paragraphs 6.01-10 and Annex 9, and (b) the form this material should take in the final appraisal report.

4. The main methodological question raised was whether, in conventional analysis of aggregate costs and benefits, so-called private cost savings (represented by the avoided costs of child raising as a result of the project) could appropriately be regarded as part of the project's benefits, except insofar as their effect on per capita incomes (discussed in Annex 9) led to a redistribution of national income amongst the resultant smaller population. The Population Projects Department replied that the cost savings measures used as part of the cost benefit analysis of Bank projects in other sectors (i.e. estimates of total private and public resource savings generated by project expenditures) were also applicable to population projects; in this case, they showed, on the basis of aggregate benefits and costs, that the Jamaican project constituted a highly attractive use of economic resources. However, while conventional cost-benefit analysis always assumed that a favorable balance of benefits over costs would generate additional development (secondary benefits) outside the project, it did not ordinarily attempt to quantify such benefits. In addition, conventional analysis did not express cost benefit measures in per capita terms since non-population projects did not affect the number of people amongst whom costs and benefits were shared. In population projects, therefore, it was desirable to base cost benefit tests on per capita values since these illustrated the distinctive economic effect which such projects produced - i.e. their direct contribution to the raising of per capita incomes through the reduction in population growth.

5. The procedural question (paragraph 3(b) above) was considered briefly. A majority of Committee members favored distributing paragraphs 6.01-10 and Annex 9 'in toto' to the Executive Directors as part of the loan presentation. They argued that, while the case for Bank financing of the Jamaican population project might be obvious for a variety of reasons, this did not remove the need to present an economic justification based on the appropriate data; the fact that this was the Bank's first venture in this field made it particularly desirable to advance the strongest possible case, supported by a full economic analysis.

The President, in his public pronouncements on this issue, had specifically linked the problem of population growth with economic development and it was important that the Bank's first population project should demonstrate in practical terms the validity of this viewpoint. Moreover, possible criticism of population programs could best be answered by full disclosure of the appropriate facts.

6. The Chairman said that he supported the President's view in this matter. He would draw the President's attention to the revised paragraphs 6.01-10 and Annex 9 and report to him the views expressed by members of the Committee.

C. Adjournment

7. The meeting adjourned at 12:20 p.m.

N.B.: At a subsequent meeting with Messrs. Knapp and Chadenet to consider the views expressed by the Loan Committee on May 27, the President decided that Annex 9 should be excluded from the final appraisal report and that paragraphs 6.01-10 should be redrafted to reflect the project's 'socio-economic considerations' in very broad and qualitative terms.

Secretary's Department
June 10, 1970

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-4

May 18, 1970

Minutes of Loan Committee Meeting held at 4:00 p.m. on Tuesday, May 5, 1970 in the Board Room

A. Present:

Mr. S.R. Cope (in the Chair)
Mr. S. Aldewereld
Mr. G. Alter
Mr. M.P. Benjenk
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. R.J. Goodman
Mr. E. Gutierrez
Mr. M.L. Hoffman
Mr. M.L. Lejeune
Mr. C.G. Melmoth
Mr. F.R. Poore
Mr. H.N. Scott
Mr. M.L. Weiner
Mr. D. Pearce (Secretary)

In Attendance:

Mr. J.H. Collier
Mr. R. Gulhati
Mr. H.C. Hittmair
Mr. R.A. Hornstein
Mr. G.S. Kaji
Mr. F.H. Lamson-Scribner
Mr. Y. Rovani
Mr. C.H. Walser
Mr. J.H. Williams

B. Kenya - Nairobi Water Supply Project

1. The Committee considered a memorandum dated May 1, 1970 from the Eastern Africa Department entitled "Kenya - Nairobi Water Supply Project" (LC/O/70-72) and the accompanying appraisal report (PU-40 dated April 14, 1970) and noted that the proposed $8.3 million loan to the Nairobi City Council (NCC), guaranteed by the Government, would cover the full foreign exchange cost of a project to provide additional water supply facilities with an estimated total cost of $13.4 million including interest during construction.

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Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

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Sir Denis Rickett, Vice President
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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

2. The Committee readily agreed that although the Bank had not lent previously to a municipality there was no reason in principle why it should not. The Committee then turned to paragraphs 10-14 of the Eastern Africa Department's memorandum which described the practical problems of lending to a municipality. These problems arose in the area of financial and performance covenants because of the wide range of functions - including, in the case of Nairobi, housing, education, public health and police - typically undertaken by municipal authorities.

3. The Committee considered in some detail the purpose of the proposed debt limitation covenant applying to the operations of the Water and Sewerage Department (WSD) of the Nairobi City Council. Some Committee members wondered whether it was appropriate or meaningful in practice for the Bank to require NCC assurances that the WSD should have first claim, after provision for debt service, on funds generated by it, to finance further water supply and sewerage expansion, as needed. The Committee was told that the proposed assurances were intended to help ensure that needed future development of municipal water and sewerage services in Nairobi would be adequately provided for in the city's future budgets, and would thereby support one of the principal objectives of the proposed loan. However, the Chairman and several Committee members felt that, apart from the practical difficulties of monitoring the future disposition of WSD generated revenues not required for debt service, the proposal was meaningless because the City Council would not thereby relinquish any freedom in deciding on the municipality's future investment priorities. The Chairman suggested that the Area and Projects Departments should prepare a paper reviewing the merits of the provisions proposed.

4. Apropos paragraphs 3.07-09 of the appraisal report concerning the staffing of the WSD, it was agreed that a possible need for training of local staff should be checked during negotiations and, if necessary, appropriate provision made in the proposed loan.

5. The Committee approved the Eastern Africa Department's recommendation that the Government and Nairobi City Council be invited to send representatives to Washington to negotiate a $8.3 million loan for the proposed project.

C. Adjournment

6. The meeting adjourned at 5:40 p.m.

Secretary's Department
May 18, 1970

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-3

May 11, 1970

Minutes of Loan Committee Meeting held at 11:00 a.m. on Thursday, April 30, 1970 in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. A. Broches
Mr. G. Alter
Mr. M.P. Benjenk
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. D.J. Fontein
Mr. E. Gutierrez
Mr. M.L. Hoffman
Mr. A.M. Kamarck
Mr. P.M. Mathew
Mr. F.R. Poore
Mr. J.H. Williams
Mr. D. Pearce, Secretary

In Attendance:

Mr. G.B. Baldwin
Mr. W.C. Baum
Mr. A.J. Davar
Mr. E.K. Hawkins
Mr. K. Kanagaratnam
Mr. G.W. Votaw
Mr. E.P. Wright
Mr. H. Wyss
Mr. G.C. Zaidan

B. Jamaica - Population Project

1. The Committee considered a memorandum of April 28, 1970 from the Central America and Caribbean Department entitled "Jamaica - Proposed Loan for Population Project" (LC/O/70-69) and the accompanying appraisal report (PP-2 dated April 23, 1970) and noted that the proposed $2 million loan would finance the foreign exchange costs and interest and commitment charges during construction of a project with estimated total financing requirements of $3.3 million.

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Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

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Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

2. During its review of the organizational and technical assistance arrangements for the proposed project, the Committee noted that:

(a) agreement upon the establishment of the National Family Planning Board (NFPB) as an authority responsible for the Government's family planning programs, including minimum essential Government representation on the Board and definition of the office and powers of its chairman and/or chief executive officer should be reached during negotiations; during negotiations, the Bank should also be informed of the name of an appropriately qualified person to be chief executive officer, so that the Bank and Government could agree on his selection before presentation of the loan to the Executive Directors for approval;

(b) establishment of NFPB, and appointment of the Board and of the chief executive officer would be conditions of loan effectiveness;

(c) if contracts with the architects and hospital adviser were not signed before loan presentation to the Executive Directors, their signature should be made conditions of loan effectiveness;

(d) terms of reference and selection of the annual external review team to assess the progress of the family planning program would be subject to Bank approval.

3. The Committee considered the project's economic justification (Appraisal Report, paras. 6.01-10 and Annex 9) in respect of which the Chairman raised two questions: (a) how far existing methods for calculating rates of return for family planning projects were valid measures of the attractiveness of population projects as a use of national economic resources, and (b) whether, even if they were, it was necessary to present to the Executive Directors, and by implication to the world, a formal economic justification for the population project, whose need was obvious in a country like Jamaica.

4. Several Committee members, including the Chairman, while commending the merits of the economic justification presented in paras. 6.01-10 of the Appraisal Report, had substantial doubts as to whether this material should be presented in the report in any detail. Other Committee members, on the other hand, felt that, since this was the Bank's first venture in this field, a strong case should be presented to the Executive Directors, supported by a full economic analysis and justification of the project on the basis of the rate of return and/or benefit-cost ratio yielded by the project and the economic impact it would have in national terms through increases in per capita income. This would support the basis on which several of the President's public pronouncements on this subject had been made.

5. The Chairman, noting that questions relating to the methodology used for the economic analysis of population projects were still being discussed within the Bank, proposed that paras. 6.01-10 and Annex 9 of the appraisal report be redrafted and reconsidered at a subsequent meeting, before presentation of the proposed loan to the Executive Directors for approval.

6. The Committee approved the Central America and Caribbean Department's recommendation that the Government be invited to send representatives to Washington to negotiate a $2 million loan for the proposed project.

C. Adjournment

7. The meeting adjourned at 12:20 p.m.

Secretary's Department
May 11, 1970

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-2

February 16, 1970

Minutes of Loan Committee Meeting held at
11:00 a.m. on Friday, February 6, 1970
in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. S.R. Cope
Mr. D.J. Fontein
Mr. E. Gutierrez
Mr. M.L. Hoffman
Mr. K.D. Hartwich
Mr. P.M. Mathew
Mr. F.R. Poore
Mr. H.N. Scott
Mr. A. Stevenson
Mr. G.K. Wiese
Mr. J.H. Williams
Mr. D. Pearce, Secretary

In Attendance:

Mr. D.A. Dunn
Mr. C.E. Eugenio
Mr. P.C.H. Goffin
Mr. A.F. Kirk
Mr. K.S. Krishnaswamy
Mr. C.G. Melmoth
Mr. S. Takahashi
Mr. M.J. Walden

B. India - Gujarat Agricultural Credit Project

1. The Committee considered a memorandum dated February 3, 1970, from the South Asia Department entitled "India - Gujarat Agricultural Credit Project" (LC/O/70-10) and the accompanying draft appraisal report (PA-34 dated January 30, 1970) which recommended negotiation of a $36 million IDA credit to help finance a three year investment program in minor irrigation works (including drilling rigs and spares) and farm mechanization (tractors, tractor implements and spares) in the State of Gujarat in west-central India. The project's estimated total cost was $67 million, including $8.6 million direct foreign exchange cost,

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Committee:

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Mr. S. Aldewereld, Vice President
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General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

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Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

and the proposed IDA credit, equivalent to about 54 per cent of total project costs, would finance the entire foreign exchange cost and $27.4 million (or about 47 per cent) of total local expenditure costs. It was noted that the amount of the proposed credit had been computed on the basis of an IDA contribution representing 100 per cent of the project's foreign exchange cost and about 50 per cent of eligible local expenditures.

2. The Chairman drew attention to the proposed arrangements for the procurement of 2,200 tractors for the project: international bulk procurement based on farmers' choice through tractor dealerships. He wondered how individual farmers could be expected to choose their specific make of tractors when the price he would eventually have to pay would vary according to the total quantity of that make ordered by all the participating farmers. The Agriculture Projects Department replied that, while it was difficult to say that the proposed system would not present some problems of administration, it was hoped that it would serve to achieve the desired aim of taking into account individual preferences, encouraging lower prices, strengthening local dealerships, and ensuring adequate after-sales service.

3. The Committee noted that the Agricultural Refinance Corporation (ARC) would supervise and refinance at 6% per annum, plus an annual 1% service fee, the project lending operations of the Gujarat State Cooperative Land Development Bank (LDB); the LDB would in turn lend to individual borrowers at 9.5% per annum, plus a one-for-all evàluation fee of 0.5% of the total cost of projects for tubewells, lift irrigation, and farm mechanization. The Agriculture Projects Department stated that the 9.5% rate to ultimate borrowers was reasonable and reflected the prevailing cost of capital in the market.

4. The Chairman, noting that it was proposed that the proceeds of the IDA credit be made available by the Government to ARC for 25 years, including a four year grace period, at 4.75% interest per annum, suggested that the ARC should receive these funds on IDA terms. This arrangement would avoid the problem of a flow of "counterpart" funds from the ARC to the Government and the issue of their use or control. The South Asia and Agriculture Projects Departments, agreeing with the Chairman's proposal, noted that the ARC, through which IDA expected to finance other agricultural credit projects in the future, was a pivotal institution which it was important to strengthen; it was therefore an appropriate recipient of the proceeds on IDA terms.

5. The Committee approved the South Asia Department's recommendation that the Government of India be invited to negotiate the proposed $36 million credit on the conditions set forth in the appraisal report.

C. Adjournment

6. The meeting adjourned at 11:50 a.m.

Secretary's Department
February 16, 1970

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LC/M/70-1

January 30, 1970

Minutes of Loan Committee Meeting held at 3:00 p.m. on Monday, January 19, 1970 in Room C1006

A. Present:

Mr. S.R. Cope, in the Chair
Mr. A. Broches
Mr. B. Chadenet
Mr. B.M. Cheek
Mr. R.H. Demuth
Mr. L.J.C. Evans
Mr. R.J. Goodman
Mr. R. Gulhati
Mr. E. Gutierrez
Mr. K.D. Hartwich
Mr. C.G. Melmoth
Mr. F.R. Poore
Mr. A. Stevenson
Mr. G.K. Wiese
Mr. J.H. Williams
Mr. D. Pearce, Secretary

In Attendance:

Mr. W.C. Baum
Mr. D.J. Fontein
Mr. D.M. Gold
Mr. J. Foster
Mr. M.L. Hoffman
Mr. R.E. Rowe
Mr. B.G. Sandberg
Mr. D.M. Sassoon
Mr. G.M. Street
Mr. W.A. Wapenhans

B. Malaysia - Second Jengka Triangle Project

1. The Committee considered a memorandum dated January 16, 1970 from the East Asia Department entitled "Malaysia - Second Jengka Triangle Project" (LC/O/70-3) and the accompanying appraisal report (PA-31 dated January 9, 1970) which recommended two loans totalling $21 million, comprising: (a) $13 million to help finance the second stage of land settlement in the Jengka Triangle, and (b) $8 million to cover the foreign exchange costs of a forest industry complex. The estimated total cost of the land settlement project, comprising the clearing of about 32,000

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Committee:

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Director, Projects Department
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Director, Economics Department
Director, Development Services Department
Treasurer

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Executive Vice President (IFC)
Vice President (IFC)

acres of forest and the planting of 16,800 acres of oil palms, 13,650 acres of rubber and 700 acres of other crops, was \$28.5 million of which approximately \$7.2 million, including interest on the proposed Bank loan during the estimated seven year disbursement period, represented the foreign exchange component; the proposed \$13 million loan would thus include about \$5.8 million of local expenditure financing. The estimated total cost of the forestry project, comprising equipment, a sawmill and buildings for the extraction, processing and marketing of lumber, was \$11.8 million, of which \$8 million represented the foreign exchange component and the amount of the proposed loan.

2. During its review of the proposed land settlement project, the Committee noted that:

(a) Apropos the market prospects for rubber and oil palm, the Economics Department regarded the projections contained in Annexes 13 and 14 of the appraisal report, which forecast a drop in current prices by the mid-1970's, as still valid. Estimates of project earnings and settlers' incomes were based on these assumptions of longer-term lower prices which would nevertheless yield economic rates of return of 18% and 11% for oil palm and rubber respectively.

(b) The basis for determining the management levy to be paid by the settlers, which would be on a sliding scale geared to possible fluctuations in commodity prices and thus to settlers' incomes, would be agreed with the Government and the Federal Land Development Authority (FLDA) during negotiations of the proposed loan.

(c) Procurement would be undertaken on the basis of international competitive bidding and local manufacturers would be allowed a 15% margin of preference or the customs duty whichever was lower. In evaluating bids, duties on imported components of locally manufactured goods in excess of 15%, provided they were in fact payable, could be waived if the Government so requested - this facility was in line with the more flexible policy on preferences for domestic suppliers recently approved by the Executive Directors.

(d) The proposed local expenditure financing of $5.8 million was justified on the country economic grounds indicated in the Area Department's memorandum. In addition, a Bank loan representing a reasonable proportion of project costs (in this case 45%) was necessary to ensure adequate Bank leverage on the project. However, it was noted that these project considerations were a subordinate argument for local expenditure financing and it was suggested that the appraisal report be amended accordingly.

3. In considering the proposed forestry project, the Committee noted that:

(a) The establishment of an efficient and profitable forestry complex, together with the development of markets for Malaysian forest products, was an issue on which the Bank had previously made representations to Malaysia. The project's 'demonstration' effect would lead to better future utilization of Malaysia's other forest resources. This was an important benefit not included in the project's estimated economic rate of return of about 33%.

(b) The rate of return calculation did not include a factor for 'capital consumption' (i.e. for the costs of replanting trees) since logging would be on a selective "sustained yield" basis.

4. The Committee approved the Area Department's recommendation that representatives of the Government, the Federal Land Development Authority and the Majlis Amanah Ra'ajat be invited in due course to Washington for negotiations of the two loans in accordance with terms and conditions specified in the appraisal report.

C. <u>Adjournment</u>

5. The meeting adjourned at 3:50 p.m.

Secretary's Department
January 30, 1970