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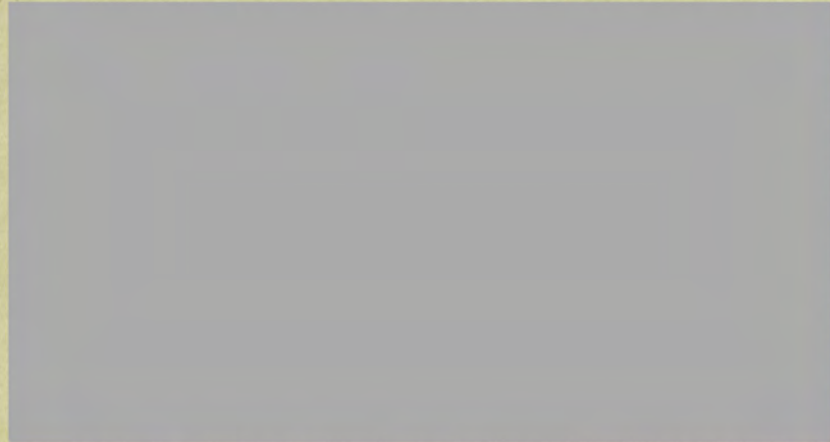
Loan Committee - Minutes - 1965



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## LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES

LC/M/65-21

December 23, 1965

Minutes of Loan Committee Meeting held on  
Wednesday, December 15, 1965 at 3:30 p.m. in Room 1038

A. Present:

Mr. S. R. Cope, in the Chair	Mr. R. H. Demuth
Mr. G. Alter	Mr. M. L. Hoffman
Mr. I. P. M. Cargill	Mr. A. M. Karmarck
Mr. R. W. Cavanaugh	Mr. A. Stevenson
Mr. B. Chadenet	Mr. J. H. Williams
	Mr. J. M. Malone, Acting Secretary

In Attendance:

Mr. L. B. Rist	Mr. R. M. Frost
Mr. O. A. Schmidt	Mr. A. Gue
Mr. W. Diamond (IFC)	Mr. W. M. Keltie
Mr. R. Skillings (IFC)	Mr. A. H. Mejia (IFC)
Mr. R. M. Fernandes (IFC)	Mr. E. M. Rojas (IFC)
Mr. C. Fligler	Mr. G. K. Wiese

B. Colombia - Proposed Bank Loan for the Five Colombian Finance Companies

1. The Committee considered the memorandum of December 9, 1965 from the Western Hemisphere Department entitled "Colombia: Proposed Bank Loan to the five Colombian Finance Companies" (LC/O/65-82). The Chairman informed the Committee of the President's feeling that Bank loans to finance companies should be disbursed only against foreign exchange expenditures by beneficiaries and that accordingly the proposed loan should be used only for the financing of the foreign exchange component of projects assisted by the five financieras. This was a question which he would discuss further with the President in view of the position already communicated to the Colombians in 1964. The Chairman, together with Messrs. Diamond and Nurick, was working on a paper on policies and procedures for lending to development finance companies which would cover, among other general policy matters, the general question of financing foreign versus local expenditures under such loans, and the Committee would have an opportunity to discuss the matter when the paper was finished.

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LC/M/65-21

2. Mr. Alter informed the Committee that the discussions between the Bank and the Government of Colombia on necessary economic measures would be concluded within a day or two. The Cabinet was approving a resolution embodying the Bank's policy recommendations and the Bank would now be able to go forward with the full lending program as envisaged previously.

3. The Committee noted that the proposed amount of the loan should not be materially altered by the fact that it would be restricted to the financing of foreign expenditures only, although the amount originally had been estimated on the assumption that part of the loan would be applied to the financing of local expenditures. Due to the uncertainties surrounding the likely rate of commitment on the part of the five financieras as well as the rate of development of the private sector and of the economy as a whole, the overall margin of error embodied in this estimate exceeded any difference which would be caused by elimination of local currency financing.

4. With regard to the recommendation that the Bank loan to the PIF be for a term of 20 years and the relending by the PIF to the financieras for terms of no more than 15 years, the Committee noted that the Bank, as Chairman of the Colombian Consultative Group, had continually encouraged the members of the Consultative Group to liberalize their terms of lending to Colombia and, further, that the Bank itself in recent operations in Colombia had accepted the concept of separating country and project criteria in determining the amortization of its loans. The Bank had recently learned that the PIF would probably not limit the financieras to relending the proceeds of the proposed loan at a minimum of 10 years repayment but would agree to significantly shorter periods of amortization. Thus, the case for breaking the link between repayments to be made by the financieras and repayments to be made by the country was even more compelling.

5. The Committee accepted the recommendations of the memorandum, except for the proposal to use part of the proposed loan to finance local expenditure, which is to be discussed further with the President, and agreed that the Bank should begin negotiations of a loan of \$25 million for the five Colombian finance companies on the other terms and conditions contained in the memorandum.

#### C. Adjournment

6. The meeting adjourned at 4:20 p.m.



## LOAN COMMITTEE

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WBG ARCHIVES

LC/M/65-20

December 29, 1965

Minutes of Meeting of Loan Committee held on Tuesday  
December 14, 1965 at 4:00 p.m. in the Board Room

### A. Present:

Mr. S. R. Cope, in the Chair  
Mr. G. Alter  
Mr. I. P. M. Cargill  
Mr. R. W. Cavanaugh  
Mr. B. Chadenet

Mr. M. L. Hoffman  
Mr. A. D. Kamarck  
Mr. L. Nurick  
Mr. A. Stevenson  
Mr. J. H. Williams  
Mr. J. M. Malone, Acting Secretary

### In attendance:

Mr. J. H. Adler  
Mr. H. B. Ripman  
Mr. W. C. Baum  
Mr. J. Brechot  
Mr. N. Koenig  
Mr. A. Le Clerc

Miss A. Maher  
Mr. G. Mehlem  
Mr. V. J. Riley  
Mr. J. D. Roulet  
Mr. F. Sander  
Mr. J. P. Uhrig

### B. Guinea - Engineering Loan

1. The Committee considered the memorandum of December 3, 1965 from the Africa Department entitled "Engineering Loan for Boke Infrastructure Project - Republic of Guinea" (LC/O/65-77) and the Economic Committee's "Conclusions and Recommendations on the Economy of Guinea" (EC/M/65-41) dated December 13, 1965.

2. The Committee was informed that the Bank had originally contemplated a loan for the construction of the project. This had now been delayed by possibly up to a year because the present field work was inadequate as a basis for preparing cost estimates, and because of the uncertainty surrounding arrangements for selling the bauxite and the possibility of additional outside financial participation in the venture.

Furthermore, although it was temporarily in abeyance, a claim for compensation arising out of the termination by the Government of the concession previously granted to a subsidiary of Aluminium Ltd. was still outstanding against the Government, and there was also a possibility of

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additional claims by Kaiser and Reynolds, (who had participated in the financing of the previous project), against Aluminium Ltd. although the amount and nature of the latter claims were not clear. Aluminium Ltd. had recently renewed its offer to waive any claims in return for a long term contract to buy bauxite from the project, this time, however, without making such a waiver subject to the consent of Kaiser and Reynolds on their claim against Aluminium Ltd.

3. The Committee noted that one of the merits of the proposed engineering loan was that it allowed work on the project to proceed uninterrupted while the above-mentioned issues were resolved, and also that the proposal was probably the only way in which these issues ever would be resolved.

However, the proposal involved risk in view of Guinea's lack of creditworthiness, since the engineering loan would not enjoy the same security as would a loan to carry out the full project, and it was possible that the Bank might decide not to proceed with such a loan. On the other hand, if a loan to carry out the full project were made, then the engineering loan would be refinanced.

It was pointed out that the Bank's involvement at this early stage would provide the necessary catalyst for the advancement of what would probably be a foundation of the country's future economic development and improved creditworthiness. The bauxite deposits - among the world's largest - were the most important resource available to Guinea, and the mere fact of their existence made it likely that Guinea, while not creditworthy in the short run, could expect to be so in the future. Therefore, the relatively small amount involved was justified by the large potential benefit to the country.

In view of the differing interests of Harvey and the Government of Guinea, and of the fact that the Government had good developmental grounds for wanting to own and control the port, railway and townsite itself, the possible alternative of Harvey's continuing to finance the engineering work, even assuming Harvey would be willing to do so, was not acceptable.

Moreover, the other alternative of limiting Bank assistance to the financing of consulting services for the Government to oversee the engineering work performed by Tractionel might be regarded by others as a partial but significant withdrawal of the Bank's support, and might undermine the obtaining of firm sales arrangements and additional financial participation. Finally, without financing the work of Tractionel, the Bank would have difficulty in ensuring the adequacy of technical standards in the design of the project. Thus, if the Bank wished to see the project put on a sound footing, the best course was the proposed engineering loan.

4. The Committee accepted the proposal to invite the Government of Guinea to negotiate a Bank loan of about \$1.3 million to finance the foreign exchange cost of the field survey and detailed engineering of the transportation and infrastructure of the Boke project, including the prequalification of contractors. The loan would provide for repayment over 10 years including a 2 year period of grace. The working party would reconsider the appraisal report, in preparing it for presentation to the Executive Directors, in light of specific comments made by members of the Committee.

C. The meeting adjourned at 5:20 p.m.



## LOAN COMMITTEE

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LC/M/65-19

November 4, 1965

Minutes of Meeting of Loan Committee held on Thursday,  
October 28, 1965, at 3:00 p.m. in the Board Room

A. Present:

Mr. J. B. Knapp (Chairman)  
Mr. S. Aldewereld,  
Mr. G. Alter  
Mr. A. Broches  
Mr. R. W. Cavanaugh  
Mr. S. R. Cope

Mr. R. H. Demuth  
Mr. A. G. El Emary  
Mr. R. J. Goodman  
Mr. A. M. Kamarck  
Mr. A. Stevenson  
Mr. J. M. Malone, Acting Secretary

In attendance:

Mr. O. A. Schmidt  
Mr. B. Chadenet  
Mr. D. Fontein  
Mr. M. L. Hoffman  
Mr. G. S. Mason  
Mr. W. C. Baum  
Mr. A. A. Casson  
Mr. J. L. Gabriel

Mr. H. S. Kaden  
Miss A. Maher  
Mr. C. J. Martin  
Mr. M. Palein  
Mr. C. W. Pinto  
Mr. V. J. Riley  
Mr. G. C. Wishart

B. Operational Memorandum

The Committee considered a draft dated October 22, 1965, of an operational memorandum entitled "The Financing of Detailed Engineering; Line of Credit for Related Projects" (LC/O/65-66), and proposed changes for incorporation in a revised draft operational memorandum. In particular, agreement was reached on the following proposals:

- (a) The revised draft should contain an introductory section, describing the circumstances in which the need for such financing is most likely to arise.
- (b) The section on advance financing of engineering should be amended to reflect the fact that the Bank and IDA would not necessarily discourage a borrowing country from obtaining finance for the

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construction of a project from other sources, even though the Bank and IDA, having financed the detailed engineering, were prepared in principle to finance the construction, and expected to be asked to do so.

- (c) In listing under para. 6 (ii) the alternatives to be considered before considering Bank/IDA engineering loans and credits, specific reference should be made to the alternative of the borrowing country financing the detailed engineering out of its own resources. This would be preferable to engineering loans or credits, because it would avoid the difficulty of setting up separate lending operations for this purpose. On the other hand, the reference to other sources of external finance should be deleted.
- (d) Loans and credits for sector and feasibility studies should be made for the same terms as engineering loans and credits; although there was some difference of opinion, it was the consensus that the terms should approximate eight to ten years plus a suitable grace period, with the additional provision that loans or credits for feasibility studies and detailed engineering, but not for sector studies, would be incorporated into the loan or credit for the construction of the project if and when it was subsequently approved.
- (e) Tentatively, sector and feasibility studies costing less than \$150,000 should still be eligible for grant financing.
- (f) "Line of credit" operations for related projects should be covered by a separate operational memorandum.

#### C. Pakistan Highway Engineering Credit

1. The Committee also considered the memorandum from the South Asia Department, "Pakistan Highway Engineering Credit" (LC/O/65-67) dated October 21, 1965. The Committee noted that the proposal was the first actual case under the procedure for the advance financing of detailed engineering. There were two main reasons for using this procedure in the case under consideration:

- (a) In view of the history of long delays in disbursements in other operations in Pakistan, it was hoped that the procedure of making a separate credit for detailed engineering would avoid the premature commitment of scarce IDA funds required for eventual construction of the project; and
- (b) Since the economic return of the project could not be calculated with the present information, it was necessary to have more accurate cost estimates before proceeding with a final appraisal of the economic justification of the project.



2. The Committee was informed that, as a result of recent events in West Pakistan, the cost of the consultants' services was likely to increase in the future and no account had been taken of such possibilities in the figures as presented. The Committee therefore felt that a revised estimate of cost should be obtained by the Government of West Pakistan before negotiations started.

3. It was felt that the draft legal documents could be simplified, possibly by omitting the Project Agreement entirely and relying on the wording of the standard covenant on execution of the project contained in the Credit Agreement itself. This possibility would be reviewed by the Working Party prior to negotiations.

4. In line with the earlier discussion on the draft operational memorandum, the Committee felt that the term of the proposed credit should be eight to ten years plus a grace period of four years, and, subject to the qualifications mentioned in para. 2, agreed with the recommendation that the Association invite the Pakistan Government to negotiate an IDA credit for the detailed engineering studies of the proposed road project.

D. The meeting adjourned at 4:50 p.m.



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## LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES LC/M/65-18

September 16, 1965

Minutes of Meeting of Loan Committee held on Friday,  
September 10, 1965, at 3:00 p.m., in the Board Room

### A. Present:

Mr. J. Burke Knapp, Chairman  
Mr. G. Alter  
Mr. R. W. Cavanaugh  
Mr. S. R. Cope  
Mr. A. G. El Emary  
Mr. A. M. Kamarck

Mr. A. Stevenson  
Mr. B. Chadenet  
Mr. E. E. Clark  
Mr. R. J. Goodman  
Mr. D. L. Gordon  
Mr. C. H. Davies, Secretary

### In attendance:

Mr. A. R. Chaufournier  
Mr. F. Bochenski  
Mr. P. Craig-Martin  
Mr. H. C. Hittmair  
Mr. J. C. L. Hulley  
Mr. W. M. Keltie  
Mr. E. Lerdau

Miss A. L. Maher  
Mr. R. S. Nelson  
Mr. A. Nespoulous-Neuville  
Mr. M. Piccagli  
Mr. J. K. Sheehan  
Mr. I. A. Sirken

### B. Mexico

1. The Committee considered a memorandum dated September 8, 1965 from the Western Hemisphere Department entitled "Mexico - Proposed Loan for Electric Power Sector Project" (LC/O/65-58).

2. The Committee noted that, because much of the equipment to be financed was of a kind which could be procured in Mexico (especially in view of the 15% preference for domestic suppliers to be allowed under the Bank loan) and also because the joint financing proposals did not include the U.S., where some orders were likely to be placed, the joint financing utilized was likely to be considerably less than the amount which European countries would be prepared to make available. The Committee nevertheless agreed that, because of Mexico's high credit standing, the proposed loan presented a good opportunity to initiate joint European financing of Latin American projects, and that the Bank should exert every effort to obtain such joint financing.

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3. The Committee took the view that Mexico, with its fundamentally strong economic position and good long-run capacity to pay, was a country where the Bank should normally tend to tighten, rather than relax, the terms of lending suggested by "project" considerations. It agreed that, while Mexico's heavy short-run external debt service warranted some concession in respect of period of grace, the probable amount of other financing on terms less advantageous than the Bank's would not be sufficient to justify a concession as regards the final maturity of the Bank loan. The Committee therefore agreed that the loan should be for 20 years, with 4 years of grace, compared with the 22 years with 2 years of grace suggested on project grounds, and the 22 years with 5 years of grace recommended in LC/O/65-58.

4. The Committee noted that, because lending from other sources was unlikely to be sufficient to absorb a high proportion of the early maturities, the recommendation that the Bank should not abandon all claims to repayment in the earlier years was unlikely to assume practical importance. For this reason the question whether it would in fact be undesirable for the Bank to yield all the early maturities to co-lenders (thus substantially increasing the grace period on its loan and having no maturities suitable for commercial bank participation), on which there was some difference of opinion, was left unsettled.

5. Noting that if the Bank underwrote all the external financing needed, it would be difficult to convince the Mexicans that any financing from the prospective co-lenders meant an addition to the external financing available to them, or the Europeans that their provision of such financing would increase their export orders, and noting also that it was undesirable to make a loan of which part would in due course be cancelled, the Committee accepted the latest Western Hemisphere Department recommendation that the Bank loan should cover only that part of the external financing which could not reasonably be expected to be provided by co-lenders.

6. Noting that a closer estimate of the amount of joint financing to be expected could be made after the negotiations with CFE and discussions with Europeans during the Annual Meeting and, moreover, that any shortfall in the Bank loan due to an over-estimate of joint financing could readily be made good by adjustment of the amount and/or timing of the next power loan to Mexico, which was expected to be made before the end of 1966, the Committee agreed to leave the determination of the exact amount of the Bank loan to the negotiators.

7. The Committee agreed that Mexico should be required to give an undertaking to use its best efforts to take advantage of financing from sources other than the Bank.

8. Noting that a primary objective of the joint financing proposal was to obtain better terms than those of conventional suppliers' credits for the equipment in question, the Committee agreed that the prospective co-lenders should be urged to conform as closely as possible to the terms on which the Bank itself would lend. It agreed that while it would not be practicable to



stipulate in advance a maximum interest rate or minimum period of grace, a minimum term of 10 years should be stipulated in advance for loans from the co-lenders. The Committee also recognized that the co-lenders could not be expected to suspend their disbursements if the Bank suspended its own after completing the first tranche, since this would involve them in difficulties with their own suppliers.

C. The meeting adjourned at 4:35 p.m.



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## LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES

LC/M/65-14

August 2, 1965

Minutes of Meeting of Loan Committee held on  
Monday, July 12, 1965, at 11:00 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman  
Mr. S. Aldewereld  
Mr. A. Broches  
Mr. I.P.M. Cargill  
Mr. R. W. Cavanaugh  
Mr. S. R. Cope

Mr. R. A. Chaufournier  
Mr. J. A. Edelman  
Mr. H. Larsen  
Mr. G. S. Mason  
Mr. H. G. Hilken, Secretary

In attendance:

Mr. L. B. Rist  
Mr. E. E. Clark  
Mr. D. Fontein  
Mr. W. C. Baum

Mr. L. Cancio  
Mr. B. M. Cheek  
Mr. J. A. Torelli

B. Spain - Lending Policy

1. The Committee considered a memorandum dated July 7, 1965 from the Europe and Middle East Department entitled "Lending Policy for Spain" (LC/O/65-46).

2. The Committee had no doubts about Spain's creditworthiness for continued Bank lending or about Spain's great need for foreign capital for many high-priority sectors and projects. It was concerned, however, at the failure of the Government to borrow in European and U.S. markets to finance part of these needs. This failure was attributed in part to the Government's unwillingness to pay the high interest rates, possibly 6 1/2% to 7%, that the private market would probably demand, and in part to the difficulties of foreign borrowers in raising funds in many European countries. The Committee felt that 7% was not an unreasonable rate for Spain to pay in present circumstances. Since there seemed to be some evidence that Spain was attracted by the low interest rate at present available from the Bank, it

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was suggested that the possibility of treating Spain as a market eligible country should be kept under continual review. The Committee also noted that the Bank might find it necessary in the next year or so to introduce some rationing of its lendable funds and that in such circumstances the Bank might have to reduce the amount of lending it presently contemplated for Spain

3. The Committee agreed that:

- (a) The Bank continue the lending program for Spain previously envisaged, with the addition of loans to the agriculture sector. On this basis, Bank loans over the next four years or so might average \$60 to \$75 million per year;
- (b) Loans would be at the Bank's standard rate of interest for the present, but the possibility of applying to Spain the rates applicable to market eligible countries should be reviewed regularly;
- (c) Lending be concentrated in sectors where the Bank has the best prospects of securing improved performance and reform, particularly in transportation and agriculture;
- (d) Lending be conditional on suitable efforts by the Government to raise additional funds at home and in foreign capital markets, as well as on the maintenance of creditworthiness and on the satisfactory nature of the projects; and
- (e) The Government should be advised:
  - (i) that the Bank would expect Spain to have regular and substantial recourse to the international capital market, beginning this year with an attempt to raise some \$25 million in the Swiss and German markets;
  - (ii) that further efforts should be made through taxation and public borrowing to increase the funds available from domestic sources to finance public investments; and
  - (iii) that the Government inform the Bank promptly of its decision on financing the Autopista, so that the Bank could decide whether to continue consideration of that project.

C. The meeting adjourned at 11:55 a.m.



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## LOAN COMMITTEE

**DECLASSIFIED**

**JUN 10 2014**

**WBG ARCHIVES**

LC/M/65-13

June 21, 1965

Minutes of Meeting of Loan Committee held on  
Thursday, June 17, 1965, at 10:50 a.m. in Room 1038

**A. Present:**

Mr. J. Burke Knapp, Chairman  
Mr. G. Alter  
Mr. A. Broches  
Mr. R. W. Cavanaugh  
Mr. A. M. Kamarck  
Mr. A. Stevenson

Mr. B. Chadenet  
Mr. D. Fontein  
Mr. R. J. Goodman  
Mr. D. L. Gordon  
Mr. G. C. Billington  
Mr. H. G. Hilken, Secretary

**In attendance:**

Mr. K. D. Hartwich  
Miss A. L. Maher  
Mr. A. L. Pan

Mr. C. H. Thompson  
Mr. H. Van Helden  
Mr. M. H. Wiehen

**B. Greece - Lending Policy**

1. The Committee considered a Memorandum of June 15, 1965 from the Europe and Middle East Department entitled "Greece - Lending Policy" (LC/O/65-43), supplemented by an Economic Report, "The Economy of Greece," dated June 3, 1965, (EA-151) and a Memorandum of June 1, 1965 from the Economic Committee on "Conclusions and Recommendations on Greece's Creditworthiness."

2. The Committee noted that:

(a) Greece was making substantial progress towards the settlement of her external pre-war debt, that her record of economic growth was satisfactory, that the Government was seriously engaged in the preparation of a development plan, and that the Economic Committee had concluded that Greece was creditworthy for initial Bank lending subject to continued progress in settling her pre-war debts;

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(b) the selection and preparation of projects in accordance with the standards of the Bank might take much time and might require considerable assistance from the Bank, due to the inexperience of the Government and its tendency to be influenced in such matters by political and other non-economic considerations; and

(c) a road project could be prepared readily and would enable the Bank to become involved in Greece's economic development quickly.

3. The Committee agreed that the Bank:

(a) consider a road improvement and maintenance project for a first loan to Greece in an amount of up to \$20 million;

(b) offer to advise the Government on its contemplated study of the rehabilitation of the railroads;

(c) review its lending policy in the light of the Government's development plan when it becomes available;

(d) discuss with the Government the desirability of a study of basic agricultural problems;

(e) consider ways in which the Bank might bring its influence to bear in helping the development of industry in Greece; and

(f) satisfy itself with respect to the position of the external debts in default before recommending any loan to the Executive Directors.

C. The meeting adjourned at 11:55 a.m.



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## LOAN COMMITTEE

DECLASSIFIED

JUN 10 2014

WBG ARCHIVES

LC/M/65-12

May 27, 1965

Minutes of Meeting of Loan Committee held on Thursday,  
May 13, 1965, at 4:30 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman  
Mr. R. W. Cavanaugh  
Mr. S. R. Cope  
Mr. D. Kamarck  
Mr. E. Stevenson  
Mr. B. Chadenet

Mr. R. A. Chaufournier  
Mr. E. E. Clark  
Mr. R. J. Goodman  
Mr. D. L. Gordon  
Mr. M. Shivnan, Secretary

In attendance:

Mr. G. M. Wilson  
Mr. J. H. Adler  
Mr. H. B. Ripman

Mr. J. H. Collier  
Mr. W. D. S. Fraser  
Mr. M. Piccagli

B. Operational Memorandum: Payment Terms - Bank Loans and IDA Credits

1. The Committee considered a proposal that part of the above Memorandum be redrafted to state that Bank loans would normally be made for a period of 20 years, with a grace period covering the interval required for the start of the project. Simultaneously, it was proposed that a detailed listing of conventional payment terms for different types of projects should be deleted. It was explained that the Loan Committee had previously approved the draft Operational Memorandum on January 14, 1965, with minor verbal changes, subject to the understanding that a further meeting would be called, if necessary, to consider the above proposals.

2. The Committee concentrated on the basic issue of principle namely, whether the Bank, when deciding the repayment terms of Bank loans, should continue to be guided primarily by project considerations (listed in paragraph 10 of the Memorandum) or should instead decide upon a basic period (such as 20 years) which could be adjusted in the light of project considerations but which would be determined primarily by country economic considerations.

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### 3. The Case for a Change

The arguments in favor of changing the present practice were chiefly as follows:

- (a) When loans were made to projects financed by Governments out of budget revenues, there was no logical relationship between the life of the loan and the life of the project; service payments would always be small in relation to government revenues, regardless of the life of the equipment involved.
- (b) It would be very difficult to argue in the case of most autonomous revenue-earning enterprises that the life of the equipment financed by the Bank was the determining factor of the undertaking's ability to repay the loan. More logical criteria, for example, would be cash flows or earnings prospects.
- (c) Country economic criteria had already replaced the "life of project" criteria in the case of IDA and this example should be followed in the case of Bank loans.
- (d) If economic considerations were to be taken into account in modifying project considerations, it was important that this be done systematically since to proceed on an ad hoc basis could lead to inconsistencies.
- (e) The Development Advisory Committee (DAC) of OECD had recommended that terms of aid should be decided entirely on a country economic basis.

### 4. Arguments Against Change

The arguments against changing the present Operational Memorandum were as follows:

- (a) The amortization period was comparatively unimportant in its impact on the borrowing country, compared with grace periods and interest rates.
- (b) The Bank's own ability to raise funds in the market might be impaired if it appeared that the Bank was departing from the conventional practices it had followed hitherto.
- (c) Country economic criteria might dictate repayment terms which would involve the Government or enterprise in debt service charges long after the equipment for which the loan has been made had worn out.
- (d) It would be extremely difficult to reach precise and defensible judgements regarding the place of different countries on an amortization spectrum which might range, say, from 15 to 35 years.



- (e) If country criteria were governing, it would frequently be necessary to "break the link" between the country terms and the terms to the eventual project and this would further encumber loan negotiations and administration.

5. Conclusion

The Chairman concluded the meeting by saying that he thought that the Operational Memorandum should remain unchanged, but that in view of the substantial differences of opinion expressed he would report the discussion to the President and obtain his judgement.

[The Chairman subsequently reported that the President decided that the memorandum should not be changed.]

C. Adjournment

The meeting adjourned at 5:40 p.m.



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## LOAN COMMITTEE

DECLASSIFIED

LC/M/65-11

JUN 10 2014

May 21, 1965

WBG ARCHIVES

Minutes of Meeting of Loan Committee held on  
Tuesday, May 11, 1965, at 10:30 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman  
Mr. A. Broches  
Mr. R. W. Cavanaugh  
Mr. S. R. Cope  
Mr. A. M. Kamarck  
Mr. A. Stevenson

Mr. B. Chadenet  
Mr. R. A. Chaufournier  
Mr. R. J. Goodman  
Mr. D. L. Gordon  
Mr. S. N. McIvor  
Mr. M. Shivman, Secretary

In attendance:

Mr. G. M. Wilson  
Mr. W. Brakel  
Mr. F. R. Poore  
Mr. P. Callejas  
Mr. J. A. Edelman  
Mr. L. Lind

Mr. C. J. Martin  
Mr. G. S. Mason  
Mr. R. Sadove  
Mr. H. Vergin  
Mr. C. E. Webb

B. Pakistan: Lending Policy

The Committee considered a memorandum from the South Asia Department "Pakistan: Lending Policy" (LC/O/65-29), supplemented by the report, "Economic Development of Pakistan" Volume I and II, dated April 26, 1965 and the minutes of the Economic Committee Meeting, dated May 3, 1965 (EC/M/65-16) on the above report.

1. It was pointed out that Pakistan's economic performance had improved substantially over the last three years, since the formation of the Pakistan Consortium, and that the Second Five-Year Plan would end on June 30 this year having met or exceeded its original targets. Moreover, the Committee could now be satisfied that Pakistan would be able to disburse its project and non-project aid at roughly the same rate at which it was seeking new pledges from the Consortium. Although disbursement problems remained, they were largely a hangover from earlier commitments in excess of near-term absorptive capacity and these problems also were now gradually being resolved.

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2. Pakistan was seeking the same total pledges for the first year of its new Five-Year Plan in 1965/66, as it had requested in the previous fiscal year (\$500 million). It was anxious to increase the proportion of aid untied to projects in order to continue the policy of liberalizing imports of industrial materials. A strong argument in support of this was the substantial benefits, in the form of better utilization of industrial capacity, which were already being derived from such aid. The argument for increasing the amount of lending to roll over Pakistan's foreign debts was less important because the debt service ratio was currently running at a rate of only 10 percent of export earnings; unlike India, Pakistan's debt servicing problems were not yet acute, although they could become so five or ten years hence if steps were not taken to prevent this from happening. It was also pointed out that the financing of the proposed \$900 million Tarbela Dam project would not arise at the Consortium meeting to be held in June and July this year because the Pakistan Government had decided to defer issuing tender documents until 1966.

#### Conclusions

3. The Committee accepted the view of the Economic Committee that Pakistan should remain a soft blend country and that, despite some increase in its creditworthiness, the proportion of IDA credits should be increased if possible, mainly on the grounds of Pakistan's continuing poverty, its good economic performance, and the heavy capital requirements of the Third Five-Year Plan, which would require roughly 30 percent more foreign aid than the Second Plan. The Committee recognized, however, that the question of whether IDA could increase its contribution to Pakistan above the \$50 million level which had prevailed recently depended upon decisions to be reached in the near future, in consultation with the Part I countries, regarding the total IDA commitments to be undertaken in 1965-66.

4. The Committee agreed therefore that at the first meeting of the Consortium in June, it should be stated that the Bank/IDA family expected to increase its total contribution without becoming committed to any specific figure, and that at the second meeting in July, after the completion of discussions with the Part I countries regarding the IDA program for 1965-66, the Bank/IDA should pledge \$100 million, if \$70 million could be made available from IDA funds. If the IDA contribution should be limited to \$50 million, the question of how much the Bank might increase its figure should be the subject of another meeting.

#### Tarbela Dam

5. It was pointed out that Pakistan has still to incorporate the Tarbela Dam project in its development program and that, when it had done so, the Bank would appraise the program as a whole, with special attention to the water development sector. Data now being acquired by the Bank consultants in the comprehensive phase of the Study of West Pakistan's water and power development would help the Bank to judge the priority that should be attached to the Tarbela Dam project.

#### Adjournment

6. The meeting adjourned at 11:55 a.m.



## LOAN COMMITTEE

DECLASSIFIED

JUN 10 2014

LC/M/65-10

WBG ARCHIVES

May 4, 1965

Minutes of Meeting of Loan Committee held on Thursday,  
April 29, 1965, at 10:30 a.m., in the Board Room

### I. Present:

Mr. J. Burke Knapp, Chairman  
Mr. G. Alter  
Mr. A. Stevenson  
Mr. B. Chadenet  
Mr. E. E. Clark  
Mr. B. A. De Vries

Mr. R. J. Goodman  
Mr. F. R. Poore  
Mr. J. H. Williams  
Mrs. S. Boskey  
Mr. C. H. Thompson  
Mr. H. G. Hilken, Secretary

### In attendance:

Mr. J. H. Adler  
Mr. R. A. Chauffournier  
Mr. E. B. Arnold  
Mr. W. C. Baum  
Mr. M. G. Blobel  
Mr. C. Fligler  
Mr. R. M. Frost  
Mr. E. K. Hawkins  
Mr. F. H. Howell  
Mr. H. S. Kaden

Mr. W. M. Keltie  
Mr. R. A. D. Loven  
Miss A. Maher  
Mr. C. P. McMeekan  
Mr. H. Mirza  
Mr. M. Piccagli  
Mr. R. H. Springuel  
Mr. M. L. Weiner  
Mr. G. K. Wiese

### II. Colombia

A. The Committee considered a Memorandum from the Western Hemisphere Department, "Colombia - Future Bank Operations" (LC/O/65-28), dated April 22, 1965. The Committee also had before it a draft report of the Department, "Current Economic Position and Prospects of Colombia," revised as of April 23, 1965, and a Memorandum of April 26, 1965 to the Economic Committee by its acting Secretary, entitled "Economic Committee Conclusions and Recommendations on Colombia" (EC/M/65-10).

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B. The Committee noted that the Economic Committee at a recent meeting had concluded that Colombia would not be fully creditworthy for the approximately \$160 million of external lending required in 1965 by the "Project List for Submission to the Consultative Group" until the Government was willing to devalue the foreign exchange rate, accompanied by appropriate monetary, import and wage policies, and to raise additional revenues to increase public savings (all as described more fully in the Memorandum); however, that Colombia would retain some limited creditworthiness if the Government, while unwilling to carry out such a full devaluation program, was prepared to control short- and medium-term foreign indebtedness and to raise some additional public revenues. The Committee was informed that these conditions for further Bank lending had the approval of IMF, that a Bank mission was planning to visit Colombia to explain the conditions and that while the strongest effort would be made to persuade the Colombians to undertake the full devaluation program, it was uncertain that the Government, because of political and social difficulties, would be able to accept it.

C. The Committee agreed that:

1. If the Colombian Government is not willing to accept the full devaluation program, the Bank should nevertheless be prepared to lend up to \$30 million before June 30, 1966 for high priority private sector projects (thus not inducing an increase in public investment), including a \$20 million loan for Colombian Financieras and possibly a loan of up to \$10 million for agricultural credit, provided that:

(a) the Government was prepared to limit its external borrowing on short and medium term and to raise some additional public revenues; and

(b) in the case of a loan for agricultural credit, arrangements were made leading to the elimination or reduction of restrictions on relevant agricultural exports;

2. If the Colombian Government is willing to undertake the full devaluation program, the Bank should be prepared to lend an additional \$100 million prior to June, 1966 for the power-interconnection, telecommunication, Atlantico Sur irrigation and road construction projects, or suitable alternatives. Such loans would be subject, in the case of the power-interconnection project and telecommunications, to satisfactory arrangements being made to speed up the adoption of public utility rate increases as needed; in the case of an irrigation loan, satisfactory arrangements to reduce restrictions on agricultural exports; and in the case of a transportation project, an increase in gasoline taxes or equivalent road-user charges to induce a better use of transportation facilities and to obtain additional public revenues. In addition, these loans would be subject to conditions, as needed, requiring improvements in the execution of existing Bank projects;

3. The Bank should urge the members of the Consultative Group to continue lending policies in harmony with the Bank's proposed course of action; and



4. The Bank would keep Colombia's performance under continuous review and regard the foregoing position as flexible. With a certain measure of improvement in Colombia's performance it might be possible to include at least the high priority interconnection loan in the Bank's firm lending program for the next year.

D. The Western Hemisphere Department had also proposed in its Memorandum that, if the Government accepted the full devaluation program, these loans should be made with grace periods of at least six years and that payments of interest should also be covered by the same period of grace even if such period extended beyond the construction period during which interest was customarily capitalized. It was argued that these measures were justified by the country's economic problems and would be a contribution towards ameliorating Colombia's balance of payments difficulties anticipated to last at least until the early 1970's. It was pointed out that (on the assumption that all the loans had been fully disbursed and project construction completed) the service payments on the \$130 million of additional loans would be about \$12 million in 1970 or so, of which about \$8 million would be interest. The Department explained that the additional years of grace were intended to relieve only the Government and not the separate project entity (if any), and that a technique for breaking the link between the two for this purpose should and could be developed. The Committee believed, however, that:

1. While the Bank should take into account Colombia's "country" problems and should have a generous attitude in determining the grace periods on principal payments under these loans, a set formula should not be adopted and the grace period should be determined according to the circumstances of each individual loan; and

2. Application of grace periods to interest payments beyond the years of the customary capitalization of interest during the period of construction was a considerable change in Bank policy and should not be adopted without substantially more investigation.

III. The meeting adjourned at 12:15 p.m.



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## LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES

LC/M/65-9

May 5, 1965

Minutes of Meeting of Loan Committee held on  
Wednesday, April 7, 1965, at 2:30 p.m., in the Board Room

### I. Present:

Mr. J. Burke Knapp, Chairman	Mr. A. M. Kamarck
Mr. S. Aldewereld	Mr. A. Stevenson
Mr. G. Alter	Mr. D. Fontein
Mr. A. Broches	Mr. R. J. Goodman
Mr. R. W. Cavanaugh	Mr. D. L. Gordon
Mr. A. G. El Emary	Mr. H. G. Hilken, Secretary

### In attendance:

Mr. G. M. Wilson	Mr. L. Nurick
Mr. L. B. Rist	Mr. W. J. Armstrong
Mr. J. H. Adler	Mr. W. C. Baum
Mr. D. Avramovic	Mr. L.J.C. Evans
Mr. B. Chadenet	Mr. M. Piccagli
Mr. R. A. Chaufournier	Mr. A. D. Spottswood

### II. Delays in IDA Disbursements

A. The Committee considered a study by the Projects Department on "Delays in IDA Disbursements," dated March 15, 1965 and a related study on "Delays in Bank Disbursements," dated March 19, 1965.

B. The Committee noted that:

1. The rate of disbursement on IDA credits was substantially less than the rate which IDA itself had estimated as a basis for its project appraisals. This slow rate of disbursement could be a source of embarrassment in connection with the next round of IDA replenishment, even though there were extenuating factors, such as the fact that advance estimates have been deliberately tightly drawn without allowance for contingencies in order to set standards for good performance, that such estimates are made at a stage in the evolution of a project when there is often considerable uncertainty as to the time necessary to complete the measures required for

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effectiveness and disbursement, and that slow disbursements sometimes reflected merely delays in making claims for reimbursement rather than slow progress in project execution.

2. Although in the case of the Bank the problem is less acute than in the case of IDA, the slow rate of disbursements on Bank loans might also prove embarrassing and any remedial measures which could be taken to expedite IDA disbursements should in most cases be applied equally to the Bank.

3. It should at the same time be recognized that an extended period of disbursement was inherent in the project financing approach of IDA and the Bank. It should also be recognized that the basic objective of IDA and the Bank should be to expedite the execution of their projects. The statistical record on disbursements could be improved if credits and loans were not signed until borrowers had taken all the necessary measures to make them simultaneously effective, or indeed until large disbursements on the project had already been made which could then be covered by quick reimbursement; yet if such practices were carried too far, the effect might be to discourage borrowers from carrying project preparation forward and the basic objective of prompt and efficient execution of projects might be endangered.

C. The Committee concluded that present practices and procedures in the processing of credit and loan applications should be tightened up with a view to:

1. making a sustained effort to see that, to the extent practicable, all the requirements for the efficient utilization of a credit or loan are satisfied before credit or loan agreements are signed, and

2. bringing greater pressure on borrowers to accelerate the completion of the remaining requirements, i.e. those established as conditions of effectiveness or disbursement, after credit and loan agreements are signed.

D. For the purposes of C(1) above, the Committee agreed that:

1. Proposed credits and loans should not be presented to the Executive Directors until the projects are as fully prepared as practicable.

2. Legal requirements for the utilization of the credit or loan should, as far as practicable, be satisfied before or at the time the agreement is signed. For example, except in cases where under the laws of the borrowing or guaranteeing government necessary action to make the agreement effective can be taken only after the agreement is signed, every effort should be made to assure that necessary governmental action (including the enactment of legislation or issuance of decrees) is taken care of before the agreement is signed and to agree in advance on the necessary legal opinions.

3. Other requirements which affect the disbursement of the credit or loan and which in the past have been made conditions of effectiveness or obligations contained in covenants should, whenever practicable, be satisfied before the credit or loan is signed. For example, engineering consultants



could often be retained on a basis conditional on the credit or loan becoming available. At the same time it must be recognized that in some cases a borrower must be given firm assurance of a credit or loan before he can be expected to satisfy all the necessary conditions. For example, the borrower may be unwilling (and rightly so) to take steps which will cost him money or commit himself to a particular course of action until he has a signed credit or loan agreement in hand.

4. Where there is reason to believe that the usual procurement procedures of the borrower are likely to cause delay in executing a project, special arrangements for procurement should be agreed with the borrower whenever practicable before the credit or loan is signed.

5. Procedures to be followed by the borrower in preparing and submitting applications for disbursement should be agreed with the borrower so far as possible before the credit or loan is signed, and there should be more effective follow-up to assure that borrowers observe their obligation under the existing credit and loan regulations to make disbursement applications promptly.

E. For purposes of C(2) above, the Committee agreed that:

1. In future all Bank loan agreements and IDA credit agreements should provide that, if the conditions established therein for effectiveness (and in appropriate cases for disbursement) are not fulfilled by an agreed target date, the agreement shall be cancelled automatically, unless the Bank or IDA, on a showing of satisfactory reasons for the delay, takes affirmative action to set another subsequent target date. This would mean that the present practice of merely giving IDA and the Bank an option to cancel the agreement after the expiration of 60 days would have to be replaced by the careful calculation of the period estimated to be required in each case. It was considered that the inclusion of such a provision in credit and loan agreements, particularly insofar as it might involve going back to the Executive Directors for authority to extend the target date, would bring strong pressure to bear on borrowers both to complete as many requirements as possible before agreements were signed and then to take prompt action to satisfy the remaining conditions of effectiveness and disbursement.

[It was subsequently determined by the President, upon the recommendation of the Chairman of the Committee, that future credit and loan agreements should not require approval by the Executive Directors of applications for the extension of target dates for effectiveness, but that the President would announce his intention to keep the Executive Directors closely informed regarding action in this field and to consult them in any troublesome cases - cf. the present practice on extension of closing dates.]

2. Efforts should be made after a credit or loan is signed, including where practicable an early visit to the borrower by a staff member, to expedite the steps necessary to satisfy the conditions of effectiveness and disbursement and to proceed promptly with the execution of the project.



F. The Committee also agreed that:

The Bank should raise with the Governments of India and Pakistan, as a matter of urgency and importance, the question of revised legislation governing the acquisition of land. In the meantime, this aspect of projects in these two countries should be carefully considered during appraisal and all steps practicable should be taken to acquire the necessary land before a credit or loan was signed.

III. The meeting adjourned at 4:00 p.m.



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## LOAN COMMITTEE

DECLASSIFIED

JUN 10 2014

WBG ARCHIVES

LC/M/65-8

April 8, 1965

Minutes of Meeting of Loan Committee held on  
Tuesday, March 23, 1965, at 3:30 p.m., in the Board Room

### I. Present:

Mr. J. Burke Knapp, Chairman  
Mr. S. Aldewereld  
Mr. G. Alter  
Mr. A. Broches  
Mr. A. G. El Emary  
Mr. A. M. Kamarck

Mr. A. Stevenson  
Mr. R. J. Goodman  
Mr. D. L. Gordon  
Mr. F. R. Poore  
Mr. M. van der Mel  
Mr. H. G. Hilken, Secretary

### In attendance:

Mr. I. S. Friedman  
Mr. L. B. Rist  
Mr. O. A. Schmidt  
Mr. D. Avramovic  
Mr. N. J. Patterson (IFC)  
Mr. R. A. Chaufournier  
Mr. H. A. Adler  
Mr. L. Cancio  
Mr. D.J.A. DuPre (IFC)

Mr. H. Fuchs  
Mr. S. S. Husain  
Miss A. L. Maher  
Mr. O. Maiss  
Mr. L. V. Perez  
Mr. M. F. Verheyen  
Mr. M. L. Weiner  
Mr. G. K. Wiese  
Mr. G. C. Wishart

### II. Brazil

A. The Committee considered a memorandum from the Western Hemisphere Department, "Brazil - Future Bank Operations" (LC/O/65-22), dated March 19, 1965. The Committee also had before it Volume I of the Report of the 1964 Economic Mission to Brazil, "Current Economic Position and Prospects of Brazil" (WH-146), dated March 17, 1965, and a memorandum dated March 18, 1965 from the Chairman of the Economic Committee to the President, entitled "Economic Committee Meeting on Brazil" (EC/M/65-1).

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B. The Committee noted the conclusions of the Economic Committee that on economic grounds, assuming that the forthcoming discussions with the Government on its economic and financial policies confirmed the Economic Mission's earlier findings and expectations, Brazil was creditworthy for the resumption of Bank lending at the present time, and that over the next few years, if the Government continued to implement satisfactory policies, Brazil would be eligible for a substantial amount of additional loans. On this basis the Committee considered the program of Bank operations in Brazil suggested in the memorandum of the Western Hemisphere Department and reached the following conclusions:

1. With respect to an immediate lending program, the Bank should be prepared to lend Brazil between \$100 and \$130 million in the next 12 months, provided the forthcoming discussions with the Government were satisfactory and suitable projects were available. No doubts were expressed about possible loans for the CEMIG Jaguarua Hydro-electric power project and the Furnas power transmission project, but it was observed that it might prove difficult to work out a suitable basis for a loan for the power project involving former AMFORP properties owned and operated by Eletobras;

2. In lending to Brazil under (1) above, the Bank should be prepared to finance more than the foreign exchange component of the cost of the projects in appropriate cases, but it was not desirable at this time to set 50% or any other percentage of the cost as the proportion that the Bank would consider financing;

3. Whereas Brazil's economic and financial position appeared to justify extended grace periods in Bank loans, it was not desirable at this time to adopt a fixed formula in this matter;

4. With respect to longer-term operations in Brazil, the Bank should organize a program of missions for project identification and preparation, including technical assistance support where appropriate, with a view to substantial Bank lending in 1966 to 1968 if the Government should continue to pursue successfully sound economic policies. It was agreed that, as a beginning, the Bank should examine

- (a) the power sector, having in mind particularly the impending recommendations of CANAMBRA under the UN Special Fund Power Survey in South Central Brazil;
- (b) the agricultural sector, particularly livestock credit and other agricultural credit, and agricultural storage;
- (c) roads projects in the three States indicated; and
- (d) arrangements to provide medium- and long-term finance to industry.

Further consideration should be given to the possible organization of missions to examine, and identify possible projects in, the steel, telecommunications and railway sectors;



5. Whereas the efficient reorganization and development of the Brazilian railways was of the highest priority for the Brazilian economy, the Bank should not propose technical assistance for the railways until the Government on its own initiative had determined to take action to resolve the railroad problem and had requested the Bank's help;

6. It would be premature for the Bank to propose a Consultative Group for Brazil and in any event a Consultative Group was not a suitable forum for discussions on the rescheduling of Brazil's future debt service payments. However, after the Economic Report of the 1964 Bank Mission had been cleared with the Brazilian Government and distributed to the Executive Directors, it would be appropriate for the Bank to arrange a meeting (probably in Paris) with those member countries that were interested in Brazil to review and explain the report and to explore possible future courses of action with respect to the coordination of external assistance to Brazil.

III. The meeting adjourned at 5:15 p.m.



## LOAN COMMITTEE

DECLASSIFIED *IC/M/65-7*

*JUN 10 1965*  
April 10, 1965

WBG ARCHIVES

Minutes of Meeting of Loan Committee held on Monday  
March 22, 1965, at 3:15 p.m., in the Board Room

### A. Present:

Mr. J. Burke Knapp, Chairman  
Mr. G. Alter  
Mr. A. G. El Emary  
Mr. A. M. Kamarck  
Mr. B. Chadenet  
Mr. E. E. Clark

Mr. D. Fontein  
Mr. R. J. Goodman  
Mr. D. L. Gordon  
Mr. S. N. McIvor  
Mr. F. R. Poore  
Mr. H. G. Hilken, Secretary

### In attendance:

Mr. L. B. Rist  
Mr. O. A. Schmidt  
Mr. W. Brakel  
Mr. R. A. Chaufournier  
Mr. L. Cancio  
Mr. H. Fuchs

Mr. H. C. Hittmair  
Miss A. Maher  
Mr. R. S. Nelson  
Mr. R. H. Sheehan  
Mr. M. Shivnan  
Mr. M. L. Weiner

### B. Mexico

1. The Committee considered a Memorandum from the Western Hemisphere Department, "Mexico - Bank Lending Program for 1965" (IC/O/65-21). It was noted that in July, 1964 the Committee had concluded that Mexico was credit-worthy for \$460 million of additional Bank loans through June 1966 but that the Bank's readiness to commit funds should be dependent on the Government's performance in substantially increasing public savings. The Committee was informed that although the Mexican economy remained basically sound, the economic performance in the public sector had been poor in 1964. The financial situation had deteriorated during the year, principally through the rapid increase of short- and medium-term foreign debt resulting from unexpected increases in public sector spending, and also because of the postponement of previously promised revenue measures. However, the Bank had been told that the new Government (elected in 1964) was planning to reduce public investments in 1965 below their peak 1964 levels and to curb short- and medium-term borrowing from the banking system and from overseas.

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2. With regard to the overall lending policy towards Mexico, the Committee agreed that:

- (a) The Bank should establish for the present a limit of \$200 million on further loan commitments during the remainder of 1965, although it should proceed with the appraisal of the projects listed in paragraph 7 of the Memorandum, as they became ready; and
- (b) The Bank should invite the Government to indicate its intentions during 1965 to curb internal and external borrowing and to bring public investment and financing plans into better balance.

It was pointed out that the \$200 million limitation on new lending in 1965, since it was a much smaller amount than the Mexicans had expected, was mainly a tactical device to permit the Bank to underline the need for improved performance.

3. The Committee agreed that, subject to the findings of an appraisal mission, the Bank should proceed with preparation of a power sector loan, tentatively estimated at \$135 million, to consist of two tranches, with the second tranche to become available in 1966 only after specific increases, to be agreed upon during negotiations, had actually been made in the electric power rates and/or power tax.

It was explained that at a Special Loan Meeting on March 16, 1965, (see LM/M/65-5) and in conversations with representatives of CFE it had been agreed that the rate covenant should provide for a specific rate of return rather than continue the provision calling for earnings sufficient to make a percentage contribution toward new investment, and that a rate of return of 8 percent would be reasonable. The Government had stated that it could not initiate rate and/or power tax increases in 1965 but would do so in 1966. In addition, the new head of CFE planned a cost-cutting program which he hoped would make a substantial contribution to increased earnings. In these circumstances the two-tranche loan was proposed as a device which, through the first tranche, would provide the power sector with funds in 1965 and yet would underscore the necessity of the Government and CFE meeting performance tests in order to obtain the release in 1966 of the funds in the second tranche.

The Western Hemisphere Department stressed that an appraisal mission scheduled in April-May 1965 would evaluate the necessary gross revenue target and the measures needed to achieve it. It would also try to obtain details of the cost-cutting program undertaken and planned so that this could be taken into account as far as possible. Release of the second tranche would depend on actions to obtain additional revenue in an amount to be agreed upon during the negotiations; if these actions were not taken by an agreed date, the second tranche would be cancelled.

Some members of the Committee thought that in practice it would be very difficult for the Bank to cancel or delay the effectiveness of the second tranche; they felt that similar results might be achieved by making two



separate loans, the second to be negotiated in 1966 if the necessary performance requirements had been met. However, the Western Hemisphere Department argued, and the Committee agreed, that the two-tranche scheme was an interesting experiment and was worth applying in view of the role the Bank was seeking to play, by the use of inducements and conditions, to obtain a better economic performance in Mexico. Moreover, it was indicated that the Mexican officials had supported the two-tranche approach and would welcome the leverage of the Bank's position behind their efforts to increase the net revenues of the power sector.

4. With regard to the proposed Mexico City water and sewerage project, the Committee agreed that the appraisal should give particular attention to the local contribution to the financial plan, for example through special assessments or property tax surcharges, and to water rates and ordinary property taxes to ensure that beneficiaries paid adequately for the benefits received.

5. The Committee agreed that while there would be no objection in principle to financing local currency expenditures in the water supply and sewerage and agricultural credit projects, a final decision on the percentage of the cost that the Bank might finance should be deferred until the appraisals of the projects had been completed.

C. The meeting adjourned at 4:20 p.m.



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## LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES

LC/M/65-6

May 12, 1965

Minutes of Meeting of Loan Committee held on Tuesday,  
March 16, 1965, at 2:30 p.m. in the Board Room

### I. Present:

Mr. J. Burke Knapp, Chairman  
Mr. S. Aldewereld  
Mr. G. Alter  
Mr. A. Broches  
Mr. R. W. Cavanaugh  
Mr. S. R. Cope

Mr. R. H. Demuth  
Mr. A. G. El Emary  
Mr. R. J. Goodman  
Mr. H. Larsen  
Mr. S. N. McIvor  
Mr. H. G. Hilken, Secretary

### In attendance:

Mr. L. B. Rist  
Mr. O. A. Schmidt  
Mr. W. Brakel  
Mr. B. Chadenet  
Mr. L. Nurick

Mr. R. L. Bloor  
Mr. J. H. Collier  
Mr. R. J. Gavin  
Miss A. L. Maher

### II. Turkey

A. The Committee considered a Memorandum of March 11, 1965 from the Europe and Middle East Department, entitled "Turkey - The Keban Project" (LC/O/65-18).

B. The Committee was informed that despite the relatively small participation (about \$25 million) that IDA might be able to take in the financing of the Keban project, interested Governments had asked the Bank/IDA to take the lead in working out the appraisal, financial arrangements, riparian problem, and ultimately the supervision of the project, and that preliminary discussions had revealed several problems including that of continuing tied aid with international competitive bidding.

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The Committee discussed several possible sets of circumstances and alternative methods of arranging financing with tied aid under which an adequate degree of international competitive bidding might be provided. Possible financial plans that would be too restrictive to permit IDA's participation were also noted, such as, for example, arrangements that would limit disbursement of IDA funds to countries in the financing group, and arrangements that would break up the project into parts, with the IDA funds being confined to a particular part and other parts being financed by individual lenders on a tied basis.

C. The Committee agreed that:

1. Representatives of the Bank/IDA should continue to meet with representatives of the Governments which are potential lenders for the Keban project and should take the lead in trying to work out financing plans for the project, with liberal terms and as unrestricted procurement as possible, subject to the understanding that IDA's participation in financing would depend on whether the final appraisals showed that the project was economically and technically sound and whether the financial plan and procurement arrangements, ultimately proposed, were acceptable; and

2. The Bank/IDA should accept the responsibility for investigation of the riparian problem raised by the Keban project, including a study of the water requirements of Syria and Iraq from the Euphrates River, for the purpose of determining the rate of flow of water during the period in which the reservoir was being filled, that would be necessary in order to protect the interests of Syria and Iraq. To secure the cooperation of Iraq, Syria and Turkey in the investigation, these Governments should be approached through the appropriate Executive Directors. It was also suggested that a formal agreement between the countries concerned would probably not be necessary if the Turkish Government made satisfactory commitments to meet the requirements that resulted from the investigation.

III. The meeting adjourned at 4:00 p.m.



# LOAN COMMITTEE

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WBG ARCHIVES

LC/M/65-5

March 29, 1965

Minutes of Meeting of Loan Committee held on Thursday,  
March 11, 1965, at 11:00 a.m. in the Board Room

A. Present:

Mr. S. R. Cope, in the chair  
Mr. G. Alter  
Mr. A. G. El Emary  
Mr. A. Broches  
Mr. R. W. Cavanaugh  
Mr. R. H. Demuth

Mr. A. M. Kamarck  
Mr. B. Chadenet  
Mr. R. J. Goodman  
Mr. S. N. McIvor  
Mr. H. G. Hilken, Secretary

In attendance:

Mr. E. Reid  
Mr. J. H. Williams  
Mr. W. C. Baum  
Mr. W. Brakel  
Mr. O. H. Calika  
Mr. J. A. Edelman  
Mr. J. D. Elliott

Mr. E. V. K. Jaycox  
Mr. B. Q. Lan  
Mr. R. A. D. Loven  
Mr. F. Sander  
Mr. H. N. Scott  
Mr. M. Shivan  
Mr. G. C. Wishart

B. East Africa

1. The Committee considered a Memorandum from the Africa Department (LC/O/65-17), "East Africa - Proposed Loan for East African Railways and Harbours Administration" and Appraisal Report No. TO-469, "Appraisal of Modernization and Improvement Project, East African Railways and Harbours".

2. The Committee noted that:

(a) By means of the proposed joint and several guarantees, the creditworthiness of the three East African countries, Kenya, Uganda and Tanzania, would be "pooled" for the project, thus reinforcing the debt-

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servicing capacity of the individual countries. While the strongest partner, Uganda, would probably be capable of carrying the whole of the debt service for the project, if necessary, the pooling arrangement would permit access to all three countries' foreign exchange earnings. The average debt service ratio on the existing debt and the proposed loan would be about 9 percent over the next decade, provided that the expectation is borne out that export earnings of all three countries would continue around recent high levels or improve slightly.

(b) One of the conditions for the proposed loan would be the receipt of adequate assurances from the three Governments that, among other things, the East African Railways would continue to be operated as a common service of the three countries. It was stressed that the loan, itself, could conceivably make it easier for the countries to continue and strengthen their economic co-operation, in view of the possible economic penalties that would be associated with a break-up of the system into two or more separate entities. Nevertheless, it was explained, even if the East African Common Market and the East African Common Services Organization should break down, there were convincing reasons to expect that an operating agreement would be evolved under which the railways would continue as a revenue producing organization to serve the three countries.

(c) The three countries concerned and the East African Railways and Harbours Administration would face a heavy accumulation of debt maturities in 1968-71. Accordingly, the proposed grace period of seven years was justified from a "country" point of view, in order not to aggravate the problem of the "hump" in debt service payments. Moreover, because the creditworthiness of all three countries for conventional borrowing was nearing its limits and because their borrowing requirements for developmental purposes would continue to be high for some time to come, an extension of the amortization period on the railways loan to 30 years was justified as a marginal contribution to the alleviation of the countries' debt service burden. The Committee was told that there were no project considerations which would make these terms undesirable.

3. The Committee agreed that:

(a) The three East African countries, taken together, were creditworthy for the proposed Bank lending.

(b) The modernization and improvement program of the East African Railways and Harbours Administration was suitable for a Bank loan of up to \$38 million with a maturity of 30 years, including a grace period of about seven years, provided that assurances were given by the Governments of Kenya, Uganda and Tanzania and by the East African Common Services Authority along the lines outlined in paragraph 137 of the appraisal report.

C. The meeting adjourned at 12:00 noon.



# LOAN COMMITTEE

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**JUN 10 2014**

**WBG ARCHIVES**

LC/M/65-4

May 17, 1965

Minutes of Meeting of Loan Committee held on Friday  
February 26, 1965, at 2:30 p.m. in the Board Room

## I. Present:

Mr. S. R. Cope, Chairman  
Mr. S. Aldewereld  
Mr. G. Alter  
Mr. A. Broches  
Mr. R. H. Demuth  
Mr. A. G. El Emary

Mr. A. M. Kamarck  
Mr. A. Stevenson  
Mr. D. Fontein  
Mr. R. J. Goodman  
Mr. F. R. Poore  
Mr. H. G. Hilken, Secretary

## In attendance:

Mr. E. Reid  
Mr. W. Diamond (IFC)  
Mr. B. Chadenet  
Mr. E. E. Clark  
Mr. W. Brakel  
Mr. R. Skillings (IFC)

Mr. W. H. Black  
Mr. H. Fuchs  
Mrs. C. Ryshpan  
Mr. P. Sella  
Mr. G. A. Torelli  
Mr. G. C. Wishart

## II. Italy

A. The Committee considered a memorandum from the Europe and Middle East Department, (LC/O/65-11) "Italy - Proposed Loan to the Cassa per il Mezzogiorno" and the appraisal report TO-467, "The Development of Southern Italy, The Cassa per il Mezzogiorno and the three Special Credit Institutes, ISVEIMER, IRFIS and CIS."

### B. The Committee noted that:

1. The Italian Government's efforts to promote the economic development of Southern Italy, a major object of its economic policy in the post war period, had, since the late 1950's, been increasingly concentrated on accelerating the industrialization of the region, that government assistance in expanding the supply of medium- and long-term credit and provision of interest subsidies on loans to industrial investors had been among the most

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important means towards this end, that the principal channel for such loans in the South had been three Special Credit Institutes, and that the loan funds available to these Institutes in the immediate future from domestic and foreign sources would not be adequate to permit them to continue lending at a rate that would make possible the desired progress toward industrialization;

2. The proposed \$100 million loan would be made to the Cassa, the Government's main instrument in developing the South, to which the Bank has already made seven loans, for a total amount of \$298 million, which would relend it in local currency (with the Italian Treasury bearing the exchange risk) to the three Special Institutes, through which four of the previous seven Bank loans to the Cassa had been channeled; moreover, the three Institutes were competently managed, and the loan funds would constitute only a little over 10% of the amount they might be expected to lend (on reasonably conservative assumptions) in the thirty months April 1, 1964 - September 30, 1966; and

3. The interest rates charged on the lire loans from the Cassa to the Institutes would be subsidized by the Treasury to enable the Institutes to lend at the rates set by the Government for loans to industrial investors.

C. The Committee agreed that:

1. The Bank should make the proposed loan to the Cassa for the purpose of helping to finance industrial development in Southern Italy, with a life of 15 years and at an interest rate appropriate to a market eligible country;

2. The Bank staff's proposals for the administration of the proposed loan, namely that the Bank would watch the Institutes' general performance but limit its supervision to determining that the loan funds were being used efficiently and effectively, without becoming involved in the selection, appraisal and follow-up of individual sub-loans (more fully explained in paragraphs 135 to 149 of the Appraisal Report), were reasonable and, although they might require some modification in practice, were acceptable for this loan to Italy.

It was argued in the discussion that the Bank should not concern itself even to the extent proposed, with the choice of projects, but it was explained that the Bank must retain general responsibility for ensuring that the loan was used properly and for the purposes desired by the Bank.

3. It was argued further that the use of Bank loan funds for sub-loans to ultimate borrowers at subsidized interest rates was inconsistent with its practice in connection with loans made to development banks for relending. It was pointed out, however, that the Special Credit Institutes were not development banks but among the many institutions for medium- and long-term lending established under Italian law, that the interest on loans made by all such institutions for industry in the South were subsidized, and that these interest subsidies were one of a number of incentives offered by the Government in support of its program to industrialize Southern Italy. The Bank had already approved lending for that program several times, on the ground that it represented a sound program for regional development.

III. The meeting adjourned at 3:30 p.m.



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## LOAN COMMITTEE

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LC/M/65-3

March 9, 1965

Minutes of Meeting of the Loan Committee held on  
Wednesday, February 24, 1965, at 2:30 p.m. in the Board Room

A. Present:

Mr. S. R. Cope, Chairman  
Mr. A. Stevenson  
Mr. G. Alter  
Mr. S. Aldewereld  
Mr. R. H. Demuth  
Mr. J. H. Williams

Mr. R. J. Goodman  
Mr. L. Nurick  
Mr. F. R. Poore  
Mr. H. Larsen  
Mr. H. G. Hilken, Secretary

In attendance:

Mr. J. H. Adler  
Mr. E. Reid  
Mr. O. E. Schmidt  
Mr. B. Chadenet  
Mr. B. A. de Vries  
Mr. C. Fligler  
Mr. H. Fuchs  
Mr. W. M. Keltie

Mr. A. D. Knox  
Mr. J. Loftus  
Mr. C. P. McMeekan  
Mr. M. Piccagli  
Mr. Y. Rovani  
Mr. R. H. Sheehan  
Mr. G. C. Wishart  
Mr. H. Wyss

B. Argentina

The Committee considered the Western Hemisphere Department's Memorandum "Argentina - Basis for Lending Program," (LC/O/65-9) and the accompanying "Memorandum on the Development Program and Economic Policies of the Argentine Government," dated Buenos Aires, revised January 29, 1965. The revised economic report on Argentina (WH-144) was not considered because copies were received too late by members of the Committee.

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The Committee agreed that:

1. The Bank would be justified in resuming lending to Argentina after the middle of 1965 in an amount up to about \$100 million, provided that:

- (a) The Government was successful in arranging a satisfactory rescheduling of payments due on its external debt in 1965 and 1966;
- (b) The Government had made satisfactory progress in putting into effect its policies with respect to:
  - (i) taxes and the budget;
  - (ii) increase in rates of public enterprises;
  - (iii) money, prices and wage rates; and
  - (iv) flexible exchange rates; and
- (c) Suitable projects were available.

2. In informing the Argentine Government of its provisional willingness to resume lending, the Bank should not mention a specific amount and should be careful to emphasize that the making of loans would be conditional on the actual implementation of, and sound performance under, the policies noted in para. 1 (a) and (b) above.

3. The Bank, in the meantime, might send missions to Argentina to complete the appraisal of the ACINDAR steel project, to identify and make a preliminary examination of an agricultural credit project, and to review the progress of the first SEGBA project, especially the adequacy of the depreciation allowances used in determining the tariff structure (but not to appraise the proposed second SEGBA project).

C. The meeting adjourned at 3:45 p.m.



## LOAN COMMITTEE

**DECLASSIFIED**

LC/M/65-2

**JUN 10 2014**

March 19, 1965

**WBG ARCHIVES**

Minutes of Meeting of Loan Committee held on  
Monday, January 25, 1965, at 3:00 p.m. in the Board Room

### I. Present:

Mr. J. Burke Knapp, Chairman  
Mr. A. G. El Emary  
Mr. S. R. Cope  
*Mr. A. Stevenson*  
*Mr. R. W. Cavanaugh*  
Mr. D. Avramovic

Mr. R. J. Goodman  
Mr. R. A. Chaufournier  
Mr. B. Chadenet  
Mr. L. Nurick  
Mr. D. L. Gordon  
Mr. H. G. Hilken, Secretary

### In attendance:

Mr. E. Reid  
Mr. L. B. Rist  
Mr. O. A. Schmidt  
Mr. H. N. Graves  
Mr. B. A. de Vries  
Mr. S. Lipkowitz

Mr. J. Loftus  
Mr. P. Reitter  
Mr. M. Ross  
Mr. C. R. Willoughby  
Mr. G. C. Wishart

### II. Chile

A. The Committee considered the Memorandum from the Western Hemisphere Department, "Chile - Creditworthiness for Additional Bank Lending" (LC/O/65-3), dated January 21, 1965, and the minutes of a meeting of the Staff Economic Committee held to review an earlier draft of the Memorandum.

B. The Committee was informed that the proposed copper expansion program in Chile might be financed from sources outside the Bank. It was suggested that this would probably raise the question of a waiver of the negative pledge clause in that a lender might wish to look to the foreign exchange proceeds of Chile's copper exports as security for his loan. It was pointed out that at present the Bank could look only to that part of foreign exchange proceeds that are returned by the copper companies to Chile

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for local currency expenditures and tax payments in U.S. dollars and that whether the Bank or another lender financed the new copper program the reserve of creditworthiness for other Bank loans would be essentially the same. The Committee requested that the working party examine this problem fully.

C. The Committee agreed that:

1. Over and above loans of \$7.2 million in preparation and possible loans to help finance the copper expansion program, the Bank should be prepared to make additional loans to Chile late in 1965 in the total amount of \$30 to \$40 million for high priority projects, provided that:

- (a) Satisfactory arrangements had been made with Chile's major creditors for a substantial deferment of amortization payments on Chile's external debt;
- (b) the new copper agreements had been approved by the Chilean Congress or had otherwise become effective under Chilean law;
- (c) the Bank's own appraisal, later in 1965, of Chile's economic performance showed that the new Government had made substantial progress in carrying out its economic program and policies as stated in its letters of intent to the IMF and CIAP, especially with respect to the exchange rate.

2. With respect to debt rescheduling, the Bank should be prepared to provide the participants in the conference of Chile's creditors an objective analysis of Chile's balance of payments prospects, along the lines summarized in the tables attached to the Department's Memorandum.

3. In addition, the Bank should support and be prepared to assist in working out a system to control the quality and quantity of additional indebtedness of Chile in the future; in this connection, quiet soundings might be made during the creditors' meetings about the possible usefulness of a consultative group for Chile.

III. The meeting adjourned at 4:00 p.m.