Folder Title: Loan Committee - Minutes - 1975

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ISAD(G) Reference Code: WB IBRD/IDA 39-01

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-18

December 2, 1975

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Minutes of the Loan Committee Meeting to consider the Proposed Loan to "Societe National des Materiaux de Construction" for a cement expansion project held on October 10, 1975 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. Wapenhans
L. Nurick
O. Chang

Others:

W. E. Siebeck
H. Fuchs
L. H. Cash
H. O. Schulte
G. Wyatt
A. S. El Darwish
C. Merat
L. Forget
Ms. M. Haug
A. E. Elmendorf
J. Coudol
H. Sederlorf
R. S. Dosik
G. Kalmanoff
A. Gue
M. Cognet
A. Hilton
A. Tyrteos
R. A. Cambridge

B. Issues

1. The meeting was called to discuss the following issues:

(i) should the Bank participate in financing a project with high capital costs and low financial return?

(ii) to what extent do the institution-building aspects redeem the poor financial return of the project?

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussion

2. The Project. The Chairman pointed out two major problems concerning the proposed Bank loan to SNMC for the Saida project:

(a) High Cost and poor financial return: The high cost of the project raised the question of the effectiveness of the Bank's involvement in the design and bidding stages. Some explanation of this cost lay in the pressure put on SNMC by the Algerian authorities to implement a large investment program within one 4-Year Plan Period and the questionable relationship between SNMC and foreign contractors/suppliers who within 2 years have offered 6 major cement plants on a turnkey basis including foreign exchange financing, but at a significant premium. The Saida plant would be the fourth SNMC project with Japanese involvement and where a significant portion of the foreign exchange costs (more than 70 percent) is financed by Japanese Suppliers' Credits. It was also noted that the Algerians, in particular its technical staff, had not been as responsive to Bank advice at the project preparation state as would have been desirable.

(b) Priority of Bank lending to the Algerian industrial sector: As regards the desirability of Bank projects in the Algerian Industrial Sector, the Chairman expressed the view that certain Executive Directors would regard IBRD involvement in Algeria's industrial sector as a low priority, by comparison with other sectors. It was thought, nonetheless, that if the SNMC project was successful in its institution-building goals, further Bank involvement in the sector might be justified, in light of the overwhelming emphasis on industry in Algeria's development strategy. Also the present operation at least had the merit of concentrating the Bank's efforts in the building materials and sector which had also been supported by the Bank's recent loan to BAD. The Chairman concluded that further industrial projects should be included in the Algerian operations program only after very careful consideration.

3. High Capital Costs. The execution of the Saida plant under a turnkey arrangement, at a certain premium, was thought possibly justified in view of the shortage of local technical expertise. The high capital costs are symptomatic of the haste of industrial planning in the Algerian system. Industrial Projects Department pointed out four major factors that have contributed to inflating the cost of the plant:

- SNMC's insufficient cost-consciousness, resulting partly from the Algerian system, whereby the responsibility for project financing lies with the Ministry of Finance;
- over-design and ample security margins of plant capacity;
- excessive performance guarantees; and
- the premium pertaining to a turnkey "package."

A sensitivity analysis shows that by assuming a lot-by-lot procurement strategy, instead of the turnkey approach, the financial return on the Saida plant could be increased from 3.8 percent to 5.4 percent and the economic return from 10.3 percent to 12.8 percent. Thus, a return to the usual lot-by-lot procurement strategy, if at all feasible considering the staff problems in Algeria, would have had only a marginal impact on the return. It was noted that the economic return on new comparable cement projects elsewhere is about 10-15 percent.

4. Institution-Building Aspects. Industrial Projects department pointed out that, although the Saida plant itself was a marginal investment, the project as a whole offered substantial institution-building possibilities:

(i) the program of technical assistance to SNC (the state accounting firm) would improve accounting and financial management in the industrial sector as a whole:

(ii) the cooperation with SNMC on Saida offered the Bank scope for improving other aspects of SNMC's operations; such as cost accounting, financial planning, and primarily SNMC's distribution function, including transport, distribution channels and marketing planning and

(iii) BAD's involvement in the SNMC project and its participation in supervision would be in line with, and a complement to, the objectives of our FY 75 loan to BAD.

5. Financial Requirements: Turning to the detailed consideration of the proposed financial requirements for the operations of the Saida plant, the committee agreed that a cement pricing formula, based on average cost plus a fixed margin, would be necessary to ensure adequate debt service coverage. The Chairman was concerned that the Algerian system of internal cost subsidies might cause distortions by encouraging the uneconomic expansion or location of cement-consuming industries. IPD observed, however, that the automatic pricing mechanism was similar to public utility projects, and that the cement cost component of industrial construction (ca. 5 percent) was too small to cause substantial distortion. Moreover, Government subsidies to the cement industry were not intended to be on-going with the project, but only to cover initial start-up costs exceeding average costs for the industry. In response to the Chairman's question, it was explained that the proposed fall-back positions set forth in para. 11 of Mr. Siebeck's memorandum of October 3, 1975 would not affect the substance of the proposed covenants, but merely attempt, if necessary, to make the Bank's proposals more acceptable to the Algerians by not requiring that the details be set out in agreements generally available to the public. In any case, in approving the agreements, the responsible Algerian authorities would be fully aware of the nature of the commitments, which would also be explained, to the extent they were not contained in the Loan and Guarantee Agreements, to the Executive Directors in the President's and Appraisal Reports.

6. Repercussions on BAD. In the light of the minimum financial return criterion of 9 percent, laid down for BAD sub-project lending, the Chairman questioned if Bank acceptance of the Saida project might have a negative demonstration effect on BAD. The Region observed that the low profitability of the Saida plant was mainly due to Algerian cement pricing policies, based on average costs. On-lending under the BAD loan was designed for small and medium-size regional industrial projects (brick, tile, and wood plants), which were not so capital intensive, where prices were not so uniform, and where returns were greater than in the case of cement. It should, therefore, be possible to maintain the agreed lending standards.

7. Borrower. The fact that in the centrally-directed Algerian industrial sector SNMC cannot be expected to have the authority to decide changes in pricing policy or debt rescheduling that may be required under the Loan Agreement, raised the question of whether to lend to the Algerian Government or to SNMC. The Committee decided that there was not substantive difference, but that there would be considerable advantage in lending to SNMC as it might allow the Bank greater influence in helping to improve SNMC's operations more generally.

8. Distribution. The question was raised whether the proposed Bank financing of a substantial distribution compoenent ($10.1 million) would create a precedent and whether cement distribution was normally organized in the fashion proposed in the Appraisal Report. It was explained that in both developing and developed countries cement distribution and manufacture could either be undertaken by separate enterprises or by the same firm. However, in the case of a centrally-planned economy, such as Algeria, where private transport firms do not exist, an increase in SNMC's distribution facilities was a logical part of capacity expansion. Furthermore, it was pointed out that there would be a positive institution-building effect and substantial economic return in the improved efficiency of national cement distribution, which is quite low currently.

D. Conslusions

9. In summarizing the discussion and accepting the recommendations that the loan should be negotiated along the lines proposed by the Region, the Chairman stressed the importance of presenting a frank assessment of both strong and weak points of the project in the grey cover documents.

Cleared by: Messrs. Knapp
Wapenhans
Nurick
Chang

ATyrteos/RACambridge:jmd

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-17

October 20, 1975

Minutes of the Loan Committee Meeting to consider
"Romania - Flood Recovery"
held on September 15, 1975 in Conference Room E1208

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A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
M. P. Benjenk
P. Sella
M. Hattori

Others:

W. Wapenhans
M. Paijmans
H. Fuchs
D. Haynes
R. Dosik
A. Gue
E. Kopp

O. Maiss
G. LeMoigne
T. Asser
H. Cash
R. Mulligan
S. Niaz

B. Issues

1. The meeting was called to consider the following Romanian pre-negotiation positions for this project as set forth in Mr. Paijmans' memorandum of September 12 to Mr. Knapp:

(i) that the Romanians did not want the loan to be for equipment imports; and

(ii) that they did not want international competitive bidding for any of the goods to be financed.

C. Discussion

2. The meeting considered the Romanian financing proposals and alternatives attached to Mr. Paijmans' memorandum of September 12. Discussion of these alterna-

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COMMITTEE

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

OTHERS

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

tives concentrated on (i) the extent to which imports were essential to the project, (ii) the proportion of local cost financing which would be acceptable under the proposed loan, (iii) the desire to retain a balanced, multi-sector project in response to Romania's flood emergency, and (iv) the need for international competitive bidding wherever appropriate. Based upon these considerations, the most acceptable alternative appeared to be one in which no more than $10 million of the loan amount would be shifted from industrial equipment imports to agricultural credit resulting in about 38 percent of the loan financing local costs. It was also noted that, if the Romanians accepted this shift but declined to use the remaining $10 million allocated for industrial equipment, local cost financing would be about 50 percent of the reduced $50 million loan amount.

D. Conclusion

3. The Committee decided that:

(i) Subject to being satisfied that Romania's industrial rehabilitation program would be carried out, the Bank would be willing to reallocate up to $10 million from industrial rehabilitation to the agricultural component of the project; but that we would reduce the loan by $10 million if the Romanians wished not to use the remaining $10 million for industrial rehabilitation component worked out by the appraisal mission;

(ii) the Bank should insist upon the international competitive bidding procedures for equipment as set forth in the draft President's Report reviewed by the Loan Committee.

Cleared by Messrs: Knapp
Baum
Wapenhans
Sella
Hattori

NWNoon/RACambridge/jmd

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-16

October 1, 1975

Minutes of the Loan Committee Meeting to consider "Korea - Proposed Loan to the Medium Industry Bank (MIB)" held on September 17, 1975 in Conference Room E1205

A. Present

Committee:

J. Burke Knapp (Chairman)
G. Alter
G. Gabriel
S. Kirmani

Others:

B. Votaw
D. L. Gordon
H. Vergin
R. A. Cambridge
R. S. Dosik
A. Gue
D. Loos
R. L. Powell
P. Applegarth
T. Dinh
G. Hyde
Z. Kalim
B. Kavalsky
D. C. Rao
K. Siraj
G. Soussan

B. Issues

1. The meeting was called to consider the following issues relating to the draft documents submitted to the Loan Committee, September 11, 1975, for approval to negotiate a proposed loan for $30.0 million to the Medium Industry Bank:

(i) if the present general level of interest rates of Korea adequately reflected the real cost of capital and was sufficiently high to maintain the country's hitherto impressive financial and savings performance; and

(ii) the progress which had already been made in convincing the Korean authorities to make the adjustments in interest rate

DISTRIBUTION

COMMITTEE

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

OTHERS

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

policy necessitated by the economic circumstances which had prevailed over the last eighteen months, and to determine what should be urged upon the Government during the forthcoming negotiations for the proposed MIB loan.

C. Discussion

2. General Level of Interest Rates:

(a) The view was expressed that in the light of recent inflationary trends the present 15.5 percent lending rate of banks like MIB did not provide a sufficient margin for financial institutions to pay the real interest rate - perhaps 4-5 percent which savers normally expect. In fact, explicit Government subsidies to cover the negative spread between medium terms borrowing and lending roles were envisaged for MIB. Moreover, evidence was already accumulating that at current interest rates financial savings relative to GNP had declined in 1974 and 1975. It was also possible that the current interest rate structure was causing a misallocation of resources by enabling marginal projects to be financed. It was, therefore, important that the Bank Staff should intensify their efforts to persuade the Government to implement an upward adjustment of interest rates.

(b) The Regional staff stated that it had paid close attention to the Government's financial management policies as they evolved following the oil crisis in late 1973. In this context, the interest rate issue had been discussed with the Korean authorities at the highest level on several occasions. Measures to control inflation and the reduction of subsidies to the agricultural sector through the operation of the "Grain Management Fund" and the "Fertilizer Fund" had also featured prominently in these discussions, which probably had an influence on the decision earlier this year to phase out these.

3. As regards interest rates, the Government had consistently defended its reluctance to move too precipitately to raise rates on the grounds that such an increase would fan inflationary pressures and have an adverse effect on the competitiveness of Korean exports. While conceding the weakness of these arguments, the Regional staff believed that the most crucial determinant of the adequacy (or otherwise) of the present rate structure was the actual rate of inflation which would prevail over the next few years. Price inflation measured around 45 percent in 1974 and 28 percent in the first half of 1975; the Government estimates that inflationary pressures are declining and believes that the rate will fall to about 25 percent for the current year as a whole with a further slowdown to around 15 percent in 1976 and below 10 percent in the subsequent years. The present interest-rate level, insofar as medium- and long-term lending is concerned, could not be considered inordinately low if these official forecasts of the rate of inflation proved correct. However, the view was expressed that the official forecasts were likely to prove optimistic in view of the historical level of inflation, and that it was not at all clear that private savers and investors were operating on the basis of such a forecast.

4. The Regional staff was continuing to analyse the validity of the assumptions on which forecasts of future price levels were based. In this connection, it had been working closely with the International Monetary Fund (IMF), which had just completed the negotiation of a Standby Agreement which will be presented to its Board during the next few weeks. It was understood that the Korean authorities had signified to the IMF their intention of raising some interest rates before the end of 1975.

5. The interest rate issue was being considered also in the context of the Region's work program related to Korea which includes:

(a) the appraisal and processing of the proposed second program loan;

(b) the assistance being given in the preparation of Korea's Fourth Five-Year Plan under a UNDP project, for which the Bank is the Executing Agency; and

(c) the Basic Economic Mission being planned for the latter half of this fiscal year.

D. Decision:

6. It was agreed that the Region should continue to review the Government's financial management policies and pursue its dialogue on the interest rate issue with the Government taking advantage of the opportunities which the MIB negotiations, the processing of the next program loan and the economic work program would afford.

7. The Proposed MIB Loan:

The meeting noted that: MIB charged a 10.5 percent rate for its foreign exchange lending (passing on the exchange risk to its borrowers) and 15.5 percent for its local currency lending. The lending rate for foreign exchange loans made by MIB appeared reasonable, but the interest rate for domestic currency loans appeared to be low in view of the high rate of inflation in the last eighteen months and because the rate now charged was below the market rate for the sale of bonds which has been suggested as a means of supplementing MIB's local currency resources. However, it was pointed out that the level of interest charged for domestic currency lending did not threaten MIB's financial viability or have any serious implications for its resource-position, since the bulk of its domestic resources was obtained as deposits at a weighted average cost of 8-9 percent. Demand deposits financed about 90 percent of MIB's short-term-lending and time deposits nearly 65 percent of its term lending (in domestic currency). Bonds would constitute only a small proportion of MIB's loan resources.

E. Conclusion

8. It was agreed that the adjustment of MIB's lending rate should not be a condition of the proposed loan. However, the general question of the adequacy of interest rate levels in Korea is to be discussed during negotiations.

Cleared by Messrs: Knapp
Alter
Gabriel
Kirmani

ZKalim/DLoos/GBVotaw/RACambridge:jmd

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-15

September 17, 1975

Minutes of the Loan Committee Meeting to consider "Romania - Flood Recovery Project" held on August 29, 1975, in Conference Room E-1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
M. P. Benjenk
A. Broches
G. Gabriel

Others:

M. Paijmans
W. Wapenhans
R. Sadove
D. Haynes
A. Gue
E. Kopp
G. LeMoigne
M. Hattori
H. Cash
T. Asser
R. Mulligan
S. Niaz
R. Cambridge
N. Noon

B. Issues

1. The meeting was called to consider the issues raised in the loan documents for this project submitted under cover of Mr. Benjenk's memorandum to the Loan Committee of August 27, in particular:

(i) the size of the proposed loan;

(ii) the proposed amortization and grace periods.

C. Discussion

2. Loan Amount. The Chairman opened the meeting by expressing the view that

DISTRIBUTION

COMMITTEE

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

OTHERS

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

the proposed $70 million loan was too large in view of (i) the precedent it might establish for Bank assistance in response to requests from other member countries for similar disaster financing, (ii) the rationing of Bank funds imposed recently as a result of the Board's limitations on FY76 lending, and (iii) the impact of the proposed loan on the size of the FY76 lending program for Romania. He felt that a loan of $50 million or less to cover only foreign exchange costs would be more appropriate. It was noted, however, that a good case for local cost financing could be made for this emergency project. The Region responded that the proposed loan amount was already small in comparison with the roughly $800 million in quantified flood damages to agriculture, industry and transport. The Region also noted that Romanian expectations for Bank assistance were high, given the Bank's rapid response in sending a six-man mission following Ambassador Bogdan's July 10 meeting with Mr. McNamara.

3. Lending Terms. In response to a question from the Chairman, the Region noted that the proposed 20-year amortization and six-year grace period were recommended on country grounds in view of the substantial flood damages sustained in Romania. The Chairman felt that the grace period was too long and that a weighted average grace period on project grounds would be more appropriate. The General Counsel observed that the separate Loan Agreements with the Investment Bank and the Bank for Agriculture and Food Industry (BAFI) would permit different grace periods for the two banks.

4. Procurement, Onlending, and Reports. The Chairman noted that a relatively high proportion of the proposed loan would be for imported items to be procured without ICB. The Region and Industrial Projects Department responded that this procurement recommendation fell within the provisions of the "Guidelines" because the equipment involved was proprietary in nature or available from only a limited number of suppliers, and its timely supply was critical to restoring production. The Vice President, Projects Staff, said that he concurred with the recommendations on procurement, although he would propose some presentational changes for the procurement section of the grey cover President's Report. In response to a question, the Chairman also noted that the onlending arrangements for the agricultural component of the project had already been dealt with in an earlier project (LC/M/74-18), and that the arrangements proposed for the other project components were similar to those already established for industrial, power, and irrigation lending to Romania. In response to another question, the Chairman indicated that the Region should decide whether or not it wished to submit the mission report on the flood damage, as well as the President's Report, to the Executive Director.

D. Conclusion

5. The Committee decided that:

(i) Mr. McNamara's views should be sought before deciding on the loan amount; 1/

(ii) the loan to the Investment Bank should be for 20 years including three years grace, and the loan to BAFI should be for 20 years including five years grace; and

(iii) the proposed procurement and onlending arrangements were appropriate.

Cleared by Messrs: Knapp
Baum
Benjenk
Broches
Gabriel

NWNoon/RACambridge:jmd

1/ Mr. Knapp met subsequently with Mr. McNamara, and it was decided that a loan for $50 million was appropriate for the project. This question was reopened by the Romanian delegation during the Annual Meeting, and Mr. McNamara agreed to increase the loan amount to $60 million.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-14

August 29, 1975

Minutes of Loan Committee Meeting to consider the Proposed Loan to the "Caribbean Development Bank" held on Thursday August 21, 1975 in Conference Room E1208

A. Present

Committee	Others:
J. Burke Knapp (Chairman)	G. Alter
A. Krieger	A. D. Knox
A. Broches	G. Wiese
H. Van der Tak	V. Chang
	G. Renger
	O. H. Calika
	F. Earwaker
	J. Chanmugam
	C. Ludvik
	R. A. Cambridge
	Y. Yokota

B. Issues

1. The meeting was called to discuss several issues arising from Mr. Clift's August 8 memorandum to Files on the Decision Meeting of the Proposed Loan to the Caribbean Development Bank. The issues were:

(i) whether the commitment charge should be waived

(ii) whether IDA or Third Window Funds should be allocated to CDB

(iii) suspension of "disbursement" and/or "commitments" in the case of creditworthiness deterioration.

DISTRIBUTION

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

C. Discussion

2. Paragraph 7 of the Decision Meeting minutes had recommended that, in view of exceptional circumstances of CDB, a recommendation should be made to the Management that the Bank's commitment charge be completely waived. At the beginning of the meeting, the LAC Region representatives stated that the Region did not stand behind this recommendation which, in fact, should have been deleted from the Decision Meeting minutes; its appearance there was due to a clerical error. The Region would be recommending neither a complete nor a partial waiver of the commitment charge. Expressing his approval of this recommendation, the Chairman stated that the best solution for CDB's financial problem would be an increase in CDB's lending rate and increased capital subscriptions by its members which included UK and Canada. It was explained by the LAC Region representatives that, at the present average of 8-1/2% (in foreign exchange), CDB's current lending rate was comparable with those of other international and regional lending institutions. The CDB was set up to promote economic integration in the Caribbean and, also, to assist its very small and less developed member countries (LDC's) to have access to development capital. Because of the small size of their projects, the latter had difficult access to IBRD or other major lending agencies and any significant increase in CDB lending rate would hurt the LDC's most. In contrast, the larger and more developed CDB member countries in the Caribbean (MDC's) had relatively easy access to IBRD and IDB funds at current lending rates. While Grenada was the only IBRD member among the LDC's, 2-3 others may become independent and may join IBRD within a year or two. These countries would claim their right as members to seek assistance from IBRD, and by taking over this function, CDB would be rendering a service to the Bank and saving scarce IBRD manpower. The Chairman noted that, while these points had some validity, they did not justify an IBRD subsidy to CDB which is a well-established institution. He added that there were obvious manpower limits to what IBRD could do for the LDC's, in view of their very small size.

3. Referring to the recommendation in the Decision Meeting minutes (Para 8) that the Bank should consider allocating some IDA or Third Window funds to CDB, the Chairman reaffirmed that the subsidy elements in any such soft lending should not benefit CDB; the benefit would accrue to governments. He added that the question of IDA or Third Window funds allocations was a separate issue which would be determined later on Bank-wide basis. He doubted the priority of the CDB's members in access to limited Third Window funds, in competition with other much poorer claimants elsewhere in the world.

4. As to the United Kingdom guarantee of the relending of the proceeds of the IBRD loan in UK-associated territories, the Chairman decided that the receipt of a UK guarantee of lending in a particular territory should be a condition of "commitment" rather than "disbursement" (ref. Para. 9 of the Decision Meeting minutes). Similarly, receipt of guarantee from the government concerned should be a condition of "commitment" rather than "disbursement" in CDB's relending of the IBRD loan proceeds in independent member states.

5. With reference to Para. 11 of the Decision Meeting minutes which referred to suspension of disbursements of the IBRD loan proceeds by CDB in case of serious deterioration in the creditworthiness position of a borrowing country, the Chairman stated that the Bank should in such cases seek a suspension of new "commitments" by CDB rather than a suspension of "disbursements" under commitments already made.

6. The meeting agreed that the paragraphs 12-19 of the Decision Meeting minutes did not raise any policy issues and recommendations made therein were supported.

Cleared by Messrs: Knapp
Broches
Krieger
van der Tak

OHCalika/RACambridge:jmd

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-13

August 19, 1975

Minutes of Loan Committee Meeting to consider the Thialand "Phitsanulok Irrigation Project" held on May 23, 1975 in Conference Room E1208

A. Present

Committee

J. Burke Knapp (Chairman)
B. R. Bell
W. C. Baum
P. Sella

Others:

A. Gue
G. F. Darnell
F. L. Hotes
G. B. Votaw
S. S. Kirmani
R. A. Cambridge
N. A. Gibbs
S. Ruffini
C. Vuylsteke

B. Issues

1. The meeting was called to consider Mr. Bernard R. Bell's memorandum to Mr. J. Burke Knapp, dated May 22, 1975, which brought to the attention of the Chairman of the Loan Committee the covenant on cost recovery for the Phitsanulok Project (Section 4.03 of the draft Loan Agreement), as it had been agreed during negotiations with the Government delegation.

C. Discussion

2. The Chairman said the covenant as agreed in negotiations seemed deficient in three respects; no provisions were included to recover the capital costs of the project other than the costs of on-farm development

DISTRIBUTION

COMMITTEE

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

OTHERS

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

works, no provisions had been made to include interest charges on the recovery of capital costs and no provisions had been made to take account of inflation. Central Projects Staff added that there should also be a requirement for periodic reviews to determine the appropriateness of the level of charges.

3. With regard to the Chairman's first point the East Asia and Pacific Region replied that the recovery of the costs of irrigation works in Thailand was a new concept. Up until the Chao Phya Irrigation Improvement Project the Bank Group had accepted the Government's contention that the rice premium (an export tax on rice) which resulted in a corresponding reduction in the paddy farm-gate price received by the farmer, provided an adequate level of cost recovery. However, with the gradual reduction in the level of the rice premium in the early '70s the Government had been required under Credit 379-TH to carry out a study on cost recovery, including the capacity of farmers to pay. This study would be completed in the course of the Phitsanulok project, at which time the Government and the Bank would agree on appropriate levels of cost recovery. While agreeing that the rice premium was a form of cost revovery, CPS pointed out that this applied to all farmers whether or not they benefited from an irrigation scheme and could be adjusted downwards by the Government. CPS said that it was recognized that beneficiaries had different size farms and incomes which affected farmers' ability to pay. The Bank's requirements should be that Borrowers attempt to recover as much as possible of the capital costs; if a minimum level of recovery was set, in time, this became the maximum for all beneficiaries - the minimum was expected to be applied to the poorest farmers in the Project Area.

4. The Chairman's second and third points - interest charges and inflation - and CPS's requirement for a periodic review were discussed together. The Chairman pointed out that if there was excessive inflation, a farmer which was required to repay capital costs of nominal terms could do so in a few years and the amount recovered by the Government would be far less than the current value of the investment. CPS said the usual mechanism for dealing with the problem of inflation was through appropriate periodic adjustments in the water charges rates, taking into account the general level of inflation and other relevant factors. A review at intervals not exceeding five years would be appropriate. Another technique for determining the appropriate level of water charges was through indexing. The Region pointed out that except in 1974 there had been little inflation in Thailand and the Government was likely to resist indexing strongly. It was noted that in the case of O and M charges, indexing was not required as the amount to be recovered was based on actual costs.

5. CPS also enquired about the proposed grace period of three years following the completion of each block, before any cost recovery was undertaken. The Region replied that this had been requested by the Government and was consistent with existing legislation.

D. Decision

6. The Committee requested that agreement be reached with the Government that:

(i) the costs of all on-farm development and a reasonable portion of other capital costs be recovered taking into account farmers incentives and capacity to pay,

(ii) an appropriate level of interest should be added to the recovery of capital costs, and

(iii) the level of charges for cost recovery be reviewed at intervals not exceeding five years.

7. The Chairman left it to the Region to decide how best to reach agreement with the Thai delegation on these matters and record the agreement so reached.

Cleared by : Messers. Bell
Baum
Sella

NGibbs/RACambridge:jmd

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-12

July 16, 1975

Minutes of Loan Committee Meeting to consider
"Equatorial Guinea - Highway Maintenance Credit"
held on Wednesday, July 2, 1975, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren C. Baum
Xavier de la Renaudiere
Lester Nurick
Georg K. Gabriel

Others:

E. Jaycox
A. Gue
R. Dosik
R. Maubouche
L. Pouliquen
F. Soges
H. Kaden
A. Carvalho
R. Cambridge

B. Issues

1. The meeting was called to consider the following issue emerging from Mr. Chaufournier's memorandum of June 23 to Mr. Knapp.

(i) whether or not to cancel the Highway Maintenance credit to Equatorial Guinea

C. Discussion

2. Mr. Knapp stated that from the beginning the Credit had represented an attempt to achieve at least something in a thoroughly unpromis-

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Vice President, Finance
Vice President and General Counsel
/ice President, Projects Staff
Regional Vice Presidents

OTHERS

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

ing situation and that it was now obvious that the attempt had failed. There were several counts on which the Credit could be terminated. However, it should be recognized that cancellation of the Credit entailed terminating, for the present, the Bank Group's activities in Equatorial Guinea. No other project is currently appropriate for Bank Group financing nor is such a project likely to become available in the foreseeable future.

3. Mr. Knapp inquired about the reasons for the abrupt expulsion in March of the leader of the technical assistance team. Mr. de la Renaudiere stated that the Government had not given either the Bank or UNDP any explanation. However, Mr. Rueda's knowledge of the country and its officials might have led Government to consider that he had access to confidential information.

4. Concern was expressed for the safety of the remaining UNDP team member left in Equatorial Guinea. Agreement was reached that the Government should be advised of the cancellation only after Mr. Van Brummelen had left the country.

5. Mr. Knapp asked whether it could be alleged that commitments existed other than for the US$ 13,300 for small equipment, for which a disbursement application was pending. It was stated that we were not aware of any other commitments and prior approval would be required from the Association before any new commitments could be assumed by the Government.

6. Questions were raised about the future of the UNDP-financed technical assistance component of the project. The UNDP contract is to end in November 1975 and only one of the four team members is likely to wish to renew his contract. Therefore, given personnel problems and the fact that the technical assistance has little raison d'etre without the Credit, UNDP would probably decide to cancel its component also.

7. Mr. Nurick pointed out that a two-step procedure was involved in cancellation. First the Government would be adivsed of the suspension of the Credit. If the legal conditions stated by the Association for non-fulfillment of contractual obligations were not complied with during a thirty-day period, the Credit could then be cancelled.

8. Mr. Knapp closed the meeting by stating that the funds under the IDA credit were badly needed elsewhere, as was the manpower which the project was consuming in the Bank. Therefore, the meeting recorded its formal decision to suspend the Credit after consultation with the UNDP.

Cleared by : Messers. Knapp
Baum
Nurick
Gabriel

DECalvo/RACambridge:jmd

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-11

June 4, 1975

Minutes of Loan Committee Meeting to consider "Algeria - Industrial Credit Project to Banque Algerienne de Developpement" held on May 9, 1975, in Conference Room E-1207

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	M. Bart	U. Finzi
M.P. Benjenk	H. Fuchs	L. Forget
A. Broches	D. Gustafson	R.H. Frank
G.K. Gabriel	W. Wapenhans	M. Haug
G. Alter	A. Gue	E. Loeschner
	F. Batzella	H. Pollan
	P. Bourcier	H. Sederlof
	J. Coudol	E. Sekse
	R.S. Dosik	H. Schulte
	A.E. Elmendorf	R.A. Cambridge

B. Issues

1. The meeting was called to discuss issues raised in a memorandum to Mr. Knapp from Mr. Benjenk dated May 5, 1975, concerning a proposed industrial credit to the Banque Algerienne de Developpement (BAD). The following issues were discussed:

(i) should the Bank proceed with the lending operation to BAD;

(ii) should subsector conditions be imposed, and were appraisal criteria for individual projects to be financed out of the loan adequate;

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

(iii) the relending rate; and

(iv) the amount of the loan.

C. Discussion

2. The Project. The Chairman believed that the Bank should proceed with the project and that BAD should be the recipient of an eventual loan. The project should not be viewed as a DFC-operation but, rather, as a line of credit through an industrial financing intermediary for a specific sub-sector, and including a technical assistance component. The project would require a large input of manpower by the Bank. Responding to a question by the Chairman as to whether the Algerians really were prepared to take into account aspects of economic and financial viability, it was explained that the authorities are becoming increasingly aware of the need for greater efficiency of investments and operations of industrial enterprises.

3. Subsector conditions. The DFC Department pointed out that in the absence of firm decision rules in the application of economic and financial appraisal criteria, the Bank would face serious problems at the time of consideration of subprojects. The meeting agreed that economic rate of return calculations on individual projects as well as on a sub-sector basis would be a necessary test for BAD projects, although the application of this test would be relatively difficult for non-tradable goods. The Region doubted that it would be possible to lay down subsector conditions in the present Algerian context. However, the project would assure that each individual Bank-financed BAD sub-project would maintain adequate debt service and working capital coverage and if Government subsidies were required, they would have to be explicitly estimated and thus recognized as a financial cost to the Government. Such tests would be required in the Statement of Policy for the appraisal unit to be established in BAD. The need for a statement of policy of this type had already been discussed with the authorities, who had been receptive to the approach. The Region added that the only workable approach in Algeria at this time was to demonstrate at the project level through such tests the results of imperfections in the system and in policies affecting the sector. The Industrial Projects Department maintained that in the Algerian context of average cost pricing, the necessary criteria are sub-sector conditions such as a minimum financial rate of return in the sub-sector related to price adjustments. The experience of the Saida cement project appraisal mission indicated that the Algerian authorities might be willing to accept such sub-sector conditions in the case of cement and for the state monopoly (Societe Nationale des Materiaux de Construction, SNMC) in the construction materials sector as a whole. It might therefore be desirable to apply similar sub-sector conditions for other construction material projects financed for SNMC through BAD.

4. Relending rate: The Committee noted the divergence between the recommended Bank lending rate for the Saida cement project (10 percent) and the relending rate for sub-projects under the BAD project (9 percent). It was decided that a relending rate of 10 percent should be applied for the BAD project.

5. Loan amount. The Chairman pointed out that the proposed loan amount of $40 million was too high in view of the uncertainties surrounding the project. No decision on the amount was taken at the meeting, but the Chairman decided subsequently that the loan amount should be $30 million.

D. Conclusion

6. Subject to the modification noted in paras. 3 and 4, the Committee agreed that the project should be negotiated along the lines proposed by the Region.

KNAPP
Cleared by: Messrs. Benjenk
Gabriel
Nurick
Alter

HSederlof/RACambridge:pdf

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(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/75-10

May 29, 1975

Minutes of Loan Committee Meeting to consider "Brazil- Proposed Nutrition Project", held on May 9, 1975, in Conference Room E 1208

Present were:

Committee:

J. Burke Knapp (Chairman)
A. Broches
A. Krieger
H. van der Tak

Others:

D. Knox
G. Wiese
K. Kanagaratnam
A. Berg
A. Gue
H. Messenger
R. Skillings
R. Dosik
S. Venkitaramanan
E. Johnson-Sirleaf
R. Cambridge

1. The following comments affecting the amount, terms and conditions of the proposed loan of US$25 million for the Nutrition Project were made.

2. The Senior Vice President suggested that the amount of the proposed loan be reduced to US$20 million, approximating the estimated foreign exchange content of the Project.

3. The Senior Vice President questioned the desirability of including in the Project components in which the Bank would not financially participate and it was therefore decided that the Bank would disburse against all components, including the BNDE and Banco do Brasil credit components and the FINEP pre-investment study component. Within this context, it was

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Regional Vice Presidents

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Senior Operations Adviser
Controller
Others in attendance

suggested that the Bank loan would be disbursed against the one large identifiable foreign exchange component (the imported pre-mix), the import content of the BNDE credit component, and a residual uniform percentage of all other expenditure categories (including the Banco do Brasil and FINEP components).

4. It was suggested that Section 4.01 of the Preliminary Report relating to implementation of the Project treat more generally the question of the form of organization that INAN should adopt to implement the Project effectively. It was decided that the establishment of an effective organizational structure for INAN and the setting up of an appropriate project implementing unit should be a condition of loan negotiations rather than loan effectiveness (Section 7.02).

5. It was suggested that Section 3.01 of the Preliminary Report be revised to include the formulation of a national nutrition program as an objective of the Project.

6. Subject to the modifications noted above, the Committee agreed that the report, together with the covering memorandum as drafted, should be transmitted to the Executive Directors as the basis for a preliminary discussion of the Project. In view of the policy character of the discussion, the Board should receive the report not less than three weeks before the meeting.

Cleared by Messrs. Knapp
Broches
Krieger
van der Tak

EJohnson-Sirleaf/RACambridge:pdf

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(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-09

May 28, 1975

Minutes of Loan Committee Meeting to consider "Turkey-Corum Cankiri Rural Development Project" held on April 28, 1975, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
M. P. Benjenk

Others:

M. P. Bart
W. A. Wapenhans
Y. Rovani
M. Yudelman
A. Gue
D. Haynes
A. J. Davar
M. D. ffrench-Mullen
R. S. Dosik
U. Finzi
J. R. Vaughn
R. Gregory
J. Collell

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Benjenk's memorandum of April 18, 1975, for approval to negotiate a proposed $69 million loan for the Corum Cankiri Rural Development Project:

(i) whether the Bank should ask for consultation prior to the appointment of the Project Extension Service Director and Deputy Directors;

(ii) whether the cost recovery provisions proposed in the documents were adequate.

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COMMITTEE

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

OTHERS

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

C. Discussion

2. Interest Rates: Responding to the Chairman's query, it was noted that the interest rates were not an issue in the project, but that it had been agreed to provide a fuller discussion of the current interest rate situation in Turkey in the grey cover President's and Appraisal Reports.

3. Consultation on the Appointment of the Project Extension Service Director and Deputies. The Vice President, EMENA Region, supporting the Region's view that a consultation clause should not be required, noted that the Turkish Government had consistently refused to agree to such a covenant affecting civil service appointments as they felt this was an unwarranted infringement of sovereignty, to which they were particularly sensitive. Moreover he felt that such a provision implicitly involved the Bank, to an undesirable degree, in questions of approving appointments of candidates merely on the basis of paper CVs. He felt that the Bank could exercise an adequate degree of influence through more general provisions requiring qualified and experienced staff, and by specifying the job description of and qualifications required for the posts and then exercising the legal options available to the Bank in case the persons appointed did not manage the project well.

4. The Vice President and General Counsel said that he favored the inclusion of a consultation clause on appointments in this case although Section 9.01 of the General Conditions could be construed to include the right of the Bank to ask the Borrower for consultations and the Bank could on major appointments notify the Borrower in advance that we would exercise this right. The Vice President, Central Projects Staff, pointed out that the Bank had an obligation to participate in major decisions affecting the successful execution of a project and this included key appointments. Moreover, in hiring consultants and staff, the Bank regularly had to make judgments on the ability of individuals to operate in different environments. Finally, the fact of consultation itself encouraged the Government to take the appointments more seriously and to take greater care in the selection of candidates.

5. The Chairman noted that consultation was the rule, rather than the exception, for Bank projects. The formula of a supplemental letter on qualifications and remedies (a la Sebou) had serious practical deficiencies; it was at best a fall-back position and should not be considered a normal approach. Since the Extension Service was new and key to the project success, the first appointments were particularly crucial. Ideally these should have been made before negotiations, but as it was too late for that, a condition of effectiveness of appointments satisfactory to the Bank might be considered, with a supplemental letter covering consultation on reappointments. Following further discussion, the Vice President and General Counsel noted an approach that would satisfy the concerns of the Chairman and the Vice President, EMENA Region. As for initial appointments, he proposed a separate supplemental letter by which the Government would agree not to present the evidence for loan effectiveness to the Bank until appointments satisfactory to the Bank had been made. For reappointments, he proposed that the Bank give advance notice that it would exercise its legal remedies in case the appointed persons did not manage the project satisfactorily. It was decided to accept these proposals.

6. Cost Recovery. Responding to the Chairman's question, the Region described the provisions for irrigation and power cost recovery, which were considered satisfactory. The Region was not recommending a provision for cost recovery for the central village water supplies, as it was the Government's policy to provide these as a public service in its rural areas. The Region did not feel the project, with its small water supply component, was the appropriate vehicle for attempting a change of this policy. The Vice President, Central Projects Staff, noting that the proposal was contrary to the recent draft policy paper on rural water supply, and that the cost of providing water in rural areas was very high per capita, thought that as a minimum, during negotiations and in presenting the project to the Board, the Bank should indicate that while it accepted the Government's position for this project, the Bank in no way endorsed this policy which was fiscally questionable. However, the cost recovery provision should be on the basis proposed in the appraisal report. It was agreed to follow this approach.

D. Conclusion

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

Cleared by Messrs. Knapp
Baum
Broches
Benjenk

RGregory/RACambridge:mep

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-08

May 23, 1975

Minutes of Loan Committee Meeting to consider Partial Lifting of Suspension under the Third East African Railways Project (Loan No. 674 EA) held on May 14, 1975 in Conference Room E 1208

A. Present

Committee:	Others	
J. Burke Knapp (Chairman)	B. Chadenet	M. A. Hattori
A. Broches	H.A. Adler	R.A. Cambridge
S.S. Husain	S. Please	D. Koromzay
K.G. Gabriel	H.N. Scott	V.D. Freeman
H.G. van der Tak	A. Gue	P-C. Loh

B. Issues

1. The Meeting was called to consider the following recommendations contained in a memorandum dated May 5, 1975 from Mr. Please to Mr. Husain:

(i) whether the Bank should partially lift suspension to permit disbursements to the suppliers for goods shipped prior to April 1, 1975; and

(ii) whether the Bank should also lift the suspension to permit it to withdraw on behalf of the Borrower to pay to itself interest payment due on June 15, 1975.

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

C. Discussions

2. It was the consensus of the Meeting that the suppliers did not have any legal claims for disbursements from the Loan Account after notice of suspension had been given to the Borrower on February 13, 1975. The issue was whether the Bank should permit such disbursements to relieve difficulties encountered by the suppliers who had acted in good faith in shipping the goods to the Borrower before the suspension or before the Borrower informed them of the suspension. The discussions focused on the timing of the Borrower's notice to the suppliers, the reasons for setting the cut off date (April 1, 1975) and the problem of claims by other suppliers who might have shipped the goods after the cut off date.

3. It was also the consensus of the Meeting that for purposes of disbursements a distinction should be made between suspension and cancellation. In the latter case, the Bank should permit disbursements to be made to the suppliers on a discretionary basis. In the case of suspension, the Bank should not partially lift suspension to make payments to suppliers even though the goods are shipped prior to the date of suspension or to the date of receipt of the notice of suspension by the suppliers.

4. As to disbursement from the Loan Account for interest payment to the Bank, since the amount was allocated for the payment of interest, there was no reason not to apply that amount for the payment of interest even though the Loan was under suspension. Question was raised whether the Bank treated itself more generously than the suppliers. It was pointed out that the loan account contained a separate allocation for interest during construction. Furthermore, the position of the Bank was definitely different from that of the suppliers because the interest payments were guaranteed by the Guarantors. The Bank, therefore, was in a preferred position vis-a-vis the suppliers.

D. Conclusion

5. (i) The Committee did not approve the partial lifting of suspension to permit disbursements to the suppliers referred to in paragraph B(i) above. The Bank, however, would be willing to consider such disbursements in the event of cancellation of the Loan;

(ii) the Committee approved the recommendation referred to in paragraph B(ii) above; and

(iii) for future cases, in recommending suspension of disbursement, advance consideration should be given to the status of disbursements pending as the cut off date.

Cleared by Messrs. Husain
Please
Gabriel
van der Tak
Broches

PCLoh/RACambridge:kyc

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

OFFICE MEMORANDUM

TO: Files

DATE: May 6, 1975

FROM: M. Edward Peries, Office of SVP

SUBJECT: Tin Buffer Stock

A meeting to discuss the feasibility of Bank financing of an expanded Tin Buffer Stock as requested by the International Tin Council was held on April 23, 1975 in Conference Room E1208.

A. Present

Loan Committee:	Others:
J. Burke Knapp (Chairman)	H. B. Chenery
W. C. Baum	E. Stern
A. Broches	H. Fuchs
B. Bell	H. G. van der Tak
A. Krieger	B. A. de Vries
K. G. Gabriel	A. Gue
	M. Hattori
	S. Singh
	A. Ray
	M. E. Peries

B. Introduction

1. In his introductory remarks Mr. Knapp said that although the subject under discussion has not reached operational stage, he thought it would be appropriate to consider the request made by the International Tin Council (ITC) for Bank financing of an expanded tin buffer stock at a Loan Committee meeting to more clearly define the Bank's views on this subject before holding discussions with the representatives of ITC who were expected to visit the Bank shortly (April 29).

2. Before taking up for discussion issues and recommendations in Mr. Stern's memorandum of April 17, 1975, it was important to stress the distinction between direct financing of the buffer stock and financing of member contributions. If the Bank lent directly to ITC, it would be the borrower and would be obligated to repay the loan from its own resources (proceeds from operation of the tin stockpiles). In such a direct lending operation, member country guarantees would be required.

C. Discussion

3. Legal Aspects. Mr. Broches pointed out that the Bank may lend to a buffer stock authority with the guarantee of less than all of its members, provided the loans are in respect of the proportionate shares in the buffer stock of producer countries which are Bank members and are eligible for Bank financing, and are guaranteed by them pro rata. Thus, the fact that the buffer stock authority may include both consumers and producers, developed and developing countries, and members and non-members of the Bank is no obstacle to direct buffer

stock financing. On the other hand, if some producers should be regarded as not eligible for Bank lending by our creditworthiness criteria, no guarantee of such members in respect of their shares would be acceptable to the Bank. The amount of a Bank loan would have to be determined in relation to the amount of eligible producer country contributions. There would be some producer countries to whom the Bank would not be prepared to lend, e.g., Australia which is a Part I country or Zaire whose creditworthiness is not acceptable.

4. <u>Operational Aspects</u>. Mr. Stern felt that from a legal standpoint, the Bank could make a loan directly to ITC and help finance individual member country contributions excluding consumers and exporting countries like Australia and non-creditworthy countries. Mr. Broches agreed that we could and that we would require <u>pro rata</u> guarantees. Precedents would be the loans contemplated for a Central American telephone authority and the Caribbean Development Bank.

5. In reply to a question, all agreed that the Bank should not displace the IMF or other sources of finance and should consider itself a lender of last resort.

6. <u>Methodology for Assessing Benefits</u>. Mr. Knapp said that this would be an operation which could bring benefits for many members of the international community (as in the case of the Suez Canal or some of the shipping and mining projects where both producing and consuming countries would benefit). Mr. Chenery added that a methodology for estimating benefits could be worked out.

7. <u>Beneficiaries</u>. Mr. Knapp said that it would be important to distinguish between the overall benefits and the distribution of those benefits. Mr. van der Tak was concerned that the buffer stock scheme might benefit the consuming countries and not the producing countries; this would not be a desirable use of Bank resources. However, it was generally agreed that so long as the producing developing countries received an adequate part of the benefits to justify the Bank investment, it did not matter whether in addition others also received benefits. If besides the producing countries the consuming countries also received benefits, those benefits would be in fact be additional. Mr. Knapp said that ITC had been set up and managed in a manner that could be regarded as serving the general welfare of the international community. There may however be other commodity schemes or cartels the purpose of which was simply to maximize the interests of a few producing countries who were withholding the products from the market for price advantage, and a loan to the ITC should not be taken as a precedent for such cases. Mr. Stern stated that this was certainly not the case with tin. In fact ITC had seen a close collaboration between producers and consumers and it had helped maintain the floor price while at the same time trying to stop undue price increases. However such action was easier for mineral products and more difficult for agricultural products. If the Bank were to finance non-mineral buffer stocks the benefits may be more difficult to identify and match and we would have to be very clear about the criteria for Bank involvement. In the case of tin, even the U.S. which is not a member of the Tin Agreement has been cooperating with ITC in stabilizing the market.

8. The tin buffer stock had been managed well in the past 20 years and we would have to ensure that it will continue to be managed well. We should not be overly concerned about creating a precedent as there are not too many commodities which would satisfy the conditions that can be set in the case of tin.

9. Maturity of Loans. In reply to Mr. Knapp's question as to what would happen to the stockpile if the Agreement were terminated, Mr. Singh replied that the proceeds of the sale of the stockpile would be divided on the basis of contributions to the buffer stock. On the question of amortization Mr. Knapp suggested that a Bank loan could be amortized over a period of 15 years with outstanding amounts to be repaid in 5 years if the Agreement were terminated before then. In answer to Mr. Knapp's question as to how the service on the loan would be paid, Mr. Singh said that the cash the ITC generates through its marketing operations could serve to meet interest payments.

10. Size of Buffer Stock. Mr. Knapp said that determining the optimum size of a stock was a complex problem that would have to be looked into carefully. In reply to a question Mr. Singh said that the EEC favors a 35,000 ton buffer stock.

D. Conclusions

11. a) The consensus was that the Bank could, in a loan to the buffer stock agency, finance part of the producer member governments' contributions to the buffer stock, with the qualification that the Bank would not finance contributions of those countries which were not creditworthy or conversely, which were not qualified for Bank lending because of high income levels.

b) Since Bank lending for this purpose would not be additional to lending planned for those countries, member countries would have to decide whether they wanted Bank loans for buffer stock financing to be part of our lending program. Hence the countries would have to define their priorities before agreeing to provide their pro rata guarantee on a buffer stock loan from the Bank.

c) It was the general view that the Bank should not displace the IMF or other sources of finance. We should act as lenders of last resort.

d) It may not be possible to devise a methodology for estimating precise benefits. However we would have to ensure that sufficient benefits would flow to the producing countries as well as to the international community as a whole.

e) Consumer country participation in a commodity agreement is not a necessary condition for Bank lending but we would have to see to it that the stabilization scheme was designed to pursue long-term equilibrium objectives rather than short-term price gouging.

f) A Bank loan could be amortized over a period of 15 years, but if the Agreement were terminated before maturity of the loan, any outstanding balance would be repayable in the subsequent 5 years. Conditions would be introduced in the loan agreement which dealt with repayment if the buffer stock was liquidated.

E. Decision

12. It was decided to set up a Working Committe which would prepare an Issues Paper on this matter by Tuesday, April 29. The Working Party would be composed of representatives from East Asia and Pacific Region, Legal Department, Central Projects Staff and Development Policy Staff.

Cleared by Messrs. Knapp, Baum, Bell, Broches, Chenery/Stern, Krieger/de Vries
Gabriel

cc: Participants, Mr. Cargill and Mr. Burmester
MEPeries/AGue:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-07

May 15, 1975

Minutes of Loan Committee Meeting to consider "Syria - Second Mehardeh Thermal Power Project" held on April 24, 1975, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
W. A. Wapenhans
E. Nurick
M. Hattori

Others:

G. G. Wyatt
A. Gue
D. Haynes
W. E. Siebeck
J. Fish

W. Kupper
R. H. Cucullu
C. E. Webb
J. Guillot-Lageat

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Benjenk's memorandum of April 16, 1975, for approval to negotiate a proposed $58 million loan for a Syrian Thermal Power Project:

(i) status of the hiring of management and other consultants;

(ii) arrears due from municipalities and other government agencies;

(iii) tariff covenant and rate increase;

(iv) status of auditing of accounts.

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussion

2. Hiring of Consultants. The Regional staff explained that some delay had affected the hiring of consultants under the first loan. The final dates for the signing of consultants' contracts as per the Loan Agreement had been postponed after consultation and in agreement with the Bank, and satisfactory progress was now being made. The management consultants had received their contract; terms of reference prepared by the Bank for the tariff study had been sent to consulting firms in Great Britain and France, and consultants were expected to be hired before the agreed final date of July 31, 1975. It was agreed that both the original and the new deadlines for the hiring of consultants should be explained in the appraisal report for the second project, and that it should be ensured during negotiations that the Ministry of Electricity because of its key role in sector planning would participate in the review between EPE and the Bank of the management consultants' proposals for EPE's reorganization.

3. Settlement of Arrears from Municipalities and Other Agencies. The Regional staff explained that the status of arrears originated from the take-over of municipal generating installation by EPE. While this situation had been discussed by the Bank in 1973, there had been no legal undertaking from the Syrians under the previous loan to resolve this matter within a definite time limit. The Chairman suggested that at least the amount of unpaid bills, which exceeded (in the aggregate) the undisputed value of the assets taken over by EPE, should be paid immediately, and it was agreed that, as a condition of Board presentation: (i) a settlement should be reached on pending bills for electricity to the extent they were not affected by claims concerning the value of assets; and (ii) that a schedule for payments would have been defined.

4. Rate Increases. Some speakers noted that the appraisal report for the first project stated that existing rates should be sufficient until 1978 while the report on the second project implied that rate increases would be necessary before that date. If this was the case, the Bank should insist on an interim rate increase. Regional staff explained that the Bank had agreed to defer to 1978 the achievement of a 9 percent rate of return to account for the additional costs incurred by EPE following the 1973 war; these costs reflected the need until about 1978 to utilize expensive gas turbines and imports of power to make up for the destruction of generating capacity during the war of October 1973. The staff also pointed out that any decision on rate increases hinged on the consulting study, the conclusion of which it would not be advisable to preempt. Some speakers, however, pointed out that it would be possible to envisage an early interim increase of the average tariff since the magnitude of the total increase would still allow an adjustment of the tariff structure later. It was agreed that the magnitude of the necessary tariff increase to reach the agreed rate of return and the possibly resulting need for an interim increase should be determined at negotiations.

5. Status of Auditing. The Regional staff explained that EPE's accounts would be restructured following the recommendations of the management consultants and that EPE had hired Arthur Andersen, Saba and Co. as auditors with the concurrence of the Bank. It was agreed that Section 5.02 of the Loan Agreement would be amended in order for EPE to furnish to the Bank audited accounts commencing for the year 1975.

Cleared by Messrs. Knapp, Baum, Wapenhans Nurick, Hattori

JGuillot/RACambridge:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/75-06

April 29, 1975

Minutes of Loan Committee Meeting to consider "Morocco - Meknes Agricultural Development Project" held on April 18, 1975 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
M. P. Benjenk
E. Nurick
M. Hattori

Others:

W. Wapenhans
M. Yudelman
D. Haynes
A. Gue
D. Pickering
D. ffrench-Mullen
W. E. Siebeck
L. Forget
J. C. Collins
M. F. Carter

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Benjenk's memorandum of April 10, 1975, for approval to negotiate a proposed $14 million credit for a Morocco Meknes Agricultural Development Project:

(i) arrangements for cost recovery under the project;

(ii) legislation required for project execution.

C. Discussion and Conclusion

2. Arrangements for Cost Recovery. The Regional staff explained that capital costs would be recovered through (i) payments for land, which would include the cost of improvements carried out under the project and (ii) a water charge levied

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Controller
Others in attendance

on beneficiaries of the extension of the Betit irrigation system. It was agreed that charging the market price for land implied recovery of 100 percent of the capital cost of the improvements provided with the land, and that a softening of the covenant to allow for a lower rate of recovery of these costs would be acceptable. Concerning charges levied on beneficiaries of the Betit extension, the meeting concluded that the fact that the nature of the works involved will result in a higher than usual capital cost per hectare did not justify any relaxation of the assurance proposed in the appraisal report, namely that beneficiaries should pay a reasonable share of capital costs.

3. Legislation for Tribal Land in the Project Area. In discussion, some speakers questioned whether the fact that this additional legislation which is required for the project has been under consideration for a considerable period of time and would take a considerable further amount of time to enact, indicated a lack of interest in the project on the part of the Government. In response, Regional staff pointed out that during the recent negotiations for the Souss Project, the Government representatives had provided detailed information on the intended content of the legislation. It was agreed that, since the legislation required relates to only part of the project, accounting for only a modest portion of the proposed credit, the approach proposed by the Region, namely that enactment of the legislation would be a condition of disbursement of that part of the credit relating to tribal lands, was acceptable. However, it would be necessary to obtain from the Moroccan delegation to negotiations information as to the principles and timing of such legislation, and to obtain a positive commitment of the Government to seek its enactment.

Cleared by Messrs. Knapp
Baum
Benjenk
Nurick
Hattori

MFCarter/AGue:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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LOAN COMMITTEE

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LC/M/75-05

April 28, 1975 AUG 2 9 2014

WBG ARCHIVES

Minutes of Loan Committee Meeting to consider
"Turkey - Turkish Electricity Authority (TEK)
Transmission Project II"
held on April 11, 1975 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
M. P. Benjenk
K. G. Gabriel
H. N. Scott

Others:

M. P. Bart
W. A. Wapenhans
Y. Rovani
A. Gue
A. Davar
J. Fish
A. Maffei
R. B. Palmer
G. Park

B. Issues

1. The meeting was called to consider the following issues emerging from draft documents submitted to the Loan Committee, under cover of Mr. Benjenk's memorandum of April 7, 1975 for approval to negotiate a proposed $50 million loan for the TEK Transmission II Project:

(i) whether fulfillment of the conditions of effectiveness for Loan 1023-TU (Elbistan), particularly those related to raising power tariffs and asset revaluation, should be a condition for negotiation or a condition for presentation to the Board;

(ii) the approach to be followed regarding measures to alleviate TEK's critical staffing situation through improvement in salaries;

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Senior Operations Adviser
Controller
Others in attendance

(iii) the proposed approach for handling the question of arrears owed to TEK by municipalities; and

(iv) whether negotiations should take place until actions on these key issues were taken by the Turkish authorities.

C. Discussion

2. Conditions of Effectiveness for the Elbistan Loan. The Chairman reviewed the status of the three unfulfilled conditions of effectiveness. The Government is now considering TEK's tariff proposal. The revaluation of TEK's assets as of December 31, 1973 has been completed and needs only to be confirmed. The third condition of effectiveness, compliance with the conditions of disbursement of the first EIB and KfW loans, would be difficult to fulfill soon since the KfW loan has not yet been signed, and is expected to be met once discussions now planned between Germany and Turkey have clarified misunderstandings over the terms of the German Hermes guarantees for suppliers credits which are part of the German financing package. In the circumstances, it was agreed that if the first two conditions were met by the Turks, we could proceed to present the proposed project to the Board.

3. In response to the Chairman's question as to whether the average net revenue of TL 0.51 per kwh now proposed is still adequate, the Region confirmed that it remains a satisfactory target. However, further changes would become necessary from time to time, if TEK was to maintain an 8 percent rate of return as specified in its law. The Region also noted that TEK would be asked to suggest measures to be taken to clarify and speed up internal governmental procedures for handling tariff increases, and agreement on a formula as to the study and implementation of such procedures, would be sought during negotiations. The Chairman also queried the timing of the new study under the proposed loan to rationalize the tariff system, noting that in view of the Bank's long relationship with TEK, such a study should have been conducted earlier. The Region noted that in fact the Ministry of Energy had been carrying out studies for some time, but instead of such ad hoc reviews and adjustments, we considered that a nationwide tariff study should now be undertaken in Turkey.

4. Reorganization of TEK. The Chairman reviewed the status of an additional Elbistan matter, TEK's reorganization, which was not a condition of effectiveness, but which was to have been completed by December 31, 1974 although this date had since been postponed to December 31, 1975. The Region noted that the reorganization plan had been approved in principle by TEK's Board, and detailed planning on its phased implementation was being worked out, the major constraint affecting implementation being a lack of adequate and qualified staff in TEK. Referring to the proposal that the proposed loan would provide for the submission of a schedule by the end of 1975 for implementation of the reorganization in stages, the Chairman said he understood this to mean that the entire reorganization would be implemented by that time. In response, it was pointed out by the Region that it would not be feasible to expect TEK to complete the full reorganization by that time, but only to adopt the proposed organization form as its "official" structure, and to prepare a complete schedule for its phased implementation. Under the Elbistan loan TEK undertook to complete its reorganization as indicated above. The intention was, however, that the poan and its detailed implementation be approved by TEK and by the Turkey authorities by such a date and thereafter implemented in accordance with the approved timetiable. It was agreed that TEK's plans for implementation of the reorganization would be discussed during negotiations, and that TEK would be asked to complete and submit a realistic and a well-conceived phased implementation program by December 31, 1975

for the reorganization which its Board had already approved. It was also agreed that meanwhile, the iniation of the reorganization should be required as a condition of Board presentation, and steps to reorganize TEK's Accounting Department could be considered as a fulfillment of this condition.

5. Staffing of TEK. In view of the increasingly critical staffing situation in TEK, it was agreed that the Government and TEK would be asked to formulate a specific plan for improving the salary level of key technical personnel. The preferred basis for such a plan would be Government approval to exempt TEK from restrictions of the personnel law, under the provision for key staff whose jobs affected the productivity and profitability of the State Economic Enterprise. If agreement along these lines was not reached, an alternative proposal which would satisfactorily meet the problem would be presented to the Loan Committee. Whatever plan was finally agreed upon, provisions for the approval and implementation of the plan would be incorporated in the Loan and Guarantee Agreements. It was also agreed that a covenant would be included specifying that TEK prepare a detailed staff training program, acceptable to the Bank, by December 31, 1975 but that the appraisal report's proposal that the allocation of the proceeds of the loan set aside for training purposes would not be disbursed until such a program is submitted and could not be used for other purposes should be dropped, since that would dilute the impact of the covenant requiring submission of the program by a certain specific date.

6. Problem of Arrears. It was agreed that a significant reduction in TEK's receivables and the enactment of provisions to provide or protect TEK from a further recurrence of the arrears problem, would be a condition for Board presentation.

7. Tactics for Negotiations. The Central Projects Staff expressed the view that negotiations should take place only after actions were taken by the Turkish authorities on the aforementioned critical issues. The Region responded that the Turks had been made sufficiently aware that unless tariffs were increased and TEK's assets up to December 31, 1973 revalued as required by the conditions of effectiveness of the Elbistan Loan, and satisfactory proposals for the phased implementation of reorganization, staffing of TEK and resolution of the problem of municiapl arrears were made during negotiations, the Bank would not proceed with the proposed loan. A Bank staff member would also visit Turkey in the week of April 14, to impress this further on the Turks. In view of this background, the Chairman concurred that negotiations on the proposed loan should take place, although he anticipated that the difficult problems that would need to be resolved, might take time and delay Board consideration of the project beyond June 1975.

D. Conclusion

8. Subject to the modification noted in para. 5 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by Messrs. Knapp
Baum
Benjenk
Gabriel
Scott

GPark/ADavar/AGue:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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LC/M/75-04
April 21, 1975

Minutes of the Loan Committee Meeting to consider "Afghanistan - Kabul Water Supply and Sanitation Project"
held on April 8, 1975 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
M. P. Benjenk
M. Hattori

Others:

R. Goodman
W. Wapenhans
M. Paijmans
G. Wyatt
H. van der Tak
H. Shipman
E. Köpp

A. Thys
A. Gue
E. Williams
V. Dubey
R. Krishna
W. von Buelow

B. Issues

1. The meeting was called to consider the main issues of the Kabul Water Supply and Sanitation Project expected to come up during negotiations and for which fallback positions were proposed (see Mr. Paijmans' memorandum of April 1, 1975). The issues are:

a) whether the Association should insist on the right of approval as regards the employment of a qualified director of finance and administration and on the right of prior consultation with IDA over any changes in this and the positions of the main officials of the new Water Authority (AWSSA);

b) whether the Association should insist on the employment of consultants for the supervision of construction works throughout

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OTHERS

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

the whole construction period;

c) whether the Association should insist on a tariff increase from AF $0.275/m^3$ to AF $7.5/m^3$ for metered water supply to be introduced by March 21, 1976.

C. Discussion

2. Staffing of the Water Authority (AWSSA) - The Committee discussed the importance of the positions of the Director of Finance and Administration as well as the other top officials of the Water Authority of which three are already in office. It also noted the training element included in the CIDA financed technical assistance project. Though a duly qualified Director of Finance and Administration was considered important for the new institution (AWSSA), it was felt that the right of approval imposed on IDA was not only a task difficult to fulfill in practice, but also the responsibility for future performance. On the other hand it was felt that the Association should retain the right of prior consultation for the appointment to said Director's position and for any new appointments to this and other positions in question. Should it become necessary the relevant covenant could explain what is intended by the consultation clause.

3. Consultants - To the Chairman's enquiry of how many consultants would be required, the Region responded that this matter was subject to discussions expected to be held between the Afghan Government, CIDA and WHO in early May, details of which could not yet be forecasted. The Committee noted the general "allergy" in Afghanistan against consultants which was due to the negative experience the Government has had in general in this respect. The Chairman underlined the need to ensure that construction will be nevertheless adequately supervised and that the number of consultants required to perform this job adequately should be provided.

4. Water Rates - The Committee noted that the present rate charged in Kabul for metered water supply was practically zero and any meaningful rate would necessarily be a high multiple of the present tariff. In response to the Chairman, the Region underlined the importance of ensuring that the new Water Authority starts operations on a reasonably sound financial basis, and confirmed that we should during negotiations convince the Government of the justification to increase the tariff by March 21, 1976 to $7.5/m^3$ which would then be in line with tariffs charged elsewhere in Afghanistan. However the Region felt that it was unrealistic to expect that the Government for political reasons would agree to this increase in one step.

D. Conclusion

5. The Committee decided that:

I. a) the Borrower should have the obligation to consult with the Association before appointing the Director of Finance and Administration and also consult with the Association before making any new appointments to the positions of this Director, the General President, the Vice President or AWSSA's General Director for Kabul;

b) if necessary, the relevant covenant could spell out specifically what was meant by consultation.

II. despite the Government's general reluctance to employ consultants, the Association should nevertheless ensure that project construction will be adequately supervised and that the number of consultants required for this job would be provided;

III. that the rates for metered water supply in Kabul should be increased to AF 7.50/m^3 by March 1976 or soon thereafter.

Cleared by Messrs. Knapp
Baum
Benjenk
Broches
Hattori

WvBuelow/AGue/yib

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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LOAN COMMITTEE

LC/M/75-03

April 17, 1975

Minutes of Loan Committee Meeting to consider "INDIA - Fertilizer Industry Project" held on April 3, 1975, in Conference Room E1208

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	B. Chadenet	C. F. Dewey
W. C. Baum	W. Diamond	E. B. Cunningham
M. L. Weiner	R. J. Goodman	D. M. Goldberg
K. G. Gabriel	H. Fuchs	Ann O. Hamilton
L. Nurick	R. Picciotto	
	J. Kraske	
	A. Gue	

B. Issues

1. The meeting was called to consider the composition of, and procedural arrangements for, a proposed sector-wide fertilizer credit to India, as set out in Mr. Diamond's memorandum to Mr. Knapp of March 28, 1975.

C. Discussion

2. The discussion explored the various elements proposed for inclusion in the credit. These may be grouped under the following principal headings:

(a) Modernization and Balancing of Existing Plants. The meeting endorsed the priority of this activity as an efficient means to the attainment of increased fertilizer production. Mr. Knapp concurred in the desirability of including the Hindustan Petroleum

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

refinery among the subprojects, since it would contribute directly to the availability of fertilizer feedstock. It had been agreed that funds for modernization of plant in the private and joint sectors should be channelled through the Industrial Development Bank of India (IDBI), but Mr. Diamond had suggested that these funds be made available through the fertilizer credit rather than through the proposed IDBI credit, in order to avoid the undesirable precedent of earmarking a segment of a line of credit to a development bank. There was no objection to this approach.

(b) Completion of On-Going Projects. Mr. Diamond, Mr. Fuchs and Mr. Picciotto pointed out that providing the financing necessary for completion of projects which were well under way was a very high priority means to the attainment of the Bank's objectives in the Indian fertilizer sector. This had been reflected in the review of that sector undertaken at Mr. McNamara's request in October 1974 by the Industrial Projects Department and in the terms of reference of the preappraisal mission for the proposed project. Mr. Knapp explained that this constituted overrun financing and had been specifically rejected by Mr. McNamara. Thus, no supplementary financing of on-going projects should be included in the credit.

(c) NFL Projects. Mr. Fuchs and Mr. Brown explained that the proposed financing for the two NFL projects, which were being partially financed by Japan on a tied basis, was not really overrun financing even though procurement on these plants was already underway. The cost estimates which had been used when the projects were sanctioned by the Indian Government in November had reflected the full foreign exchange cost. Thus, the Government had decided to proceed with only partial financing in hand and to underwrite what couldn't be found from external sources; they had been urging the Bank for almost a year to join as a co-financier with Japan. Procurement was being carried out on this assumption, and the procedures being applied were satisfactory to the Bank. On the basis of orders placed so far, it seemed likely that enough bids would be won in Japan to make workable the cost-sharing arrangements envisaged, even if the Japanese were to increase their contribution by US$20 million for each project. Since the cost estimates were based on experience with closely similar projects in India now being financed by the Bank, the possibility of exceeding these estimates was relatively small; the facts would be clear by the time of Board presentation, since most of the orders for the first plant would have been placed by then and options on identical equipment would be available for the second plant. Mr. Knapp stressed the importance of having the Japanese put up the balance of the foreign exchange financing required, and said that he or Mr. McNamara would send a letter to the President of the Japanese Export-Import Bank or the Minister of Finance to request this.

(d) Shaw-Wallace and GSFC Projects. These projects were clearly not cases of overrun financing, since work on them was not yet under way and final cost estimates have not been prepared. It was agreed that no procurement problems would be involved in IDA's association with KfW (Germany) in financing the GSFC project, since German aid funds were fully untied; however, Mr. Knapp suggested that the Bank press for an increased German contribution before committing its own funds.

The Shaw-Wallace project, on the other hand, to which the U.K. would be the major foreign exchange contributor, was a more difficult case because of the potential problems of associating Bank Group funds with high-cost tied procurement. Mr. Brown pointed out that the U.K. had the flexibility to untie about US$15 million worth of its funds. If we also contributed US$15 million in untied funds, it was reasonable to expect that British suppliers would win the balance of international procurement. Thus, any cost penalty associated with post-allocation would be quite small. Mr. Knapp suggested that the Bank should also explore whether an increased British contribution could be made available for the Shaw-Wallace project. (Subsequent to the meeting, Mr. Brown was informed by U.K. officials that they intended to provide only tied funds. Since they estimate that 25-35% of the necessary equipment is not available in the U.K., IDA involvement would have to be through parallel financing.)

Mr. Knapp agreed with Mr. Diamond and Mr. Fuchs that IDA should be responsible for an effective appraisal of the GSFC and Shaw-Wallace projects.

(e) Other Matters. Mr. Knapp pointed out that the procurement procedures proposed for the various components of the project were quite varied and complex. Although he expected no problems with international shopping as long as it was consistent with IDA's normal procedures in comparable circumstances, he asked Mr. Baum to review the procurement arrangements to ensure that they were acceptable. Mr. Knapp concurred in the desirability of postponing the Trombay V project, and asked that the legal documents for the IDA-financed Trombay IV project be amended as necessary to take account of this postponement. He agreed that the documents for the proposed industry-wide credit need not contain any covenants regarding the reorganization of the public sector fertilizer industry.

D. Subsequent Development and Conclusion

3. Mr. Knapp subsequently reported that, in a conversation on April 7, Mr. McNamara had decided against participation by IDA in either of the NFL projects or in Shaw-Wallace and GSFC projects. The appraisal mission, some of whose members had already left Washington, would be instructed to proceed on this basis.

Cleared by Messrs. Knapp
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Weiner
Gabriel
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AOHamilton/AGue:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/75-02
March 13, 1975

Minutes of Loan Committee Meeting to consider "Cofinancing arrangements for proposed Fourth SEGBA Power Project in Argentina" held on March 6, 1975 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
I. P. M. Cargill
W. C. Baum
G. K. Wiese
L. Nurick

Others:

G. K. Gabriel
R. J. Goodman
C. R. Dickenson
F. Cabezas
P. Geli
B. E. Lehbert
R. Salazar
R. Kanchuger
R. Cambridge

B. Issues

1. The meeting was called to consider Mr. Alter's memorandum of February 20, 1975 to Mr. Knapp, concerning cofinancing arrangements for the proposed Fourth SEGBA Power Project in Argentina and the draft documents concerning this matter which have been prepared by the Legal Department.

C. Discussion

2. There was considerable discussion as to (a) whether the Bank should enter into any agreement regarding cofinancing with private banks, and (b) what the terms of an agreement might be. It was decided that if the Borrower wanted the Bank to do so, the Bank should be prepared to enter into a cofinancing arrangement, but that it should be made clear that it would be the Borrower, not the Bank, who would choose the private bank. As far as the form of the cofinancing agreement was

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Controller
Others in attendance

concerned, it was felt that, since it was probably impossible to quantify the benefits, if any, to the Borrower, the Bank should not depart substantially from its normal arrangements and should not undertake any significantly greater risks or responsibilities in administration. More specifically, the following were discussed and decided:

a. Amortization Schedule: There is no justification to modify the Bank's amortization schedule since the proposed repayment period for the commercial bank loan is relatively short.

b. Disbursing Agent: The commercial bank loan would probably be disbursed independently and prior to the Bank loan and there is therefore no reason to have the Bank function as a disbursing agent.

c. Collection Agent: The Bank would not be a collection agent, but would instead only act as a channel for repayment of the commercial bank loan. The Bank will not charge the commercial bank a fee for this service.

d. Cross Default: An unexercised right of the commercial bank to declare a default will not constitute a basis for a default under the Bank loan. The Bank will, however, have the option to declare its loan in default if an actual default occurs under the commercial bank loan.

D. Conclusion

3. The Legal Department will make the required changes in the draft documents and the Region will then advise the commercial bank of the Bank's position.

Cleared by Messrs. Knapp
Baum
Nurick
Wiese

RKanchuger/RACambridge:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/74-28
January 7, 1975

Minutes of Loan Committee Meeting to consider "Chile - Agricultural Rehabilitation Project" held on December 23, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. Baum
A. Broches
G. Gabriel

Others:

A. Krieger
M. Yudelman
A. D. Knox
R. Goodman
R. Dosik
J. Blaxall
P. Goffin
R. Nelson
J. Carvalho
D. Lecuona
R. Cambridge

B. Issues

1. The meeting was called to consider the following issues:

(i) scope of the project;
(ii) amount of the loan;
(iii) roll-over of loan proceeds;
(iv) interest rate for short-term farm loans;
(v) procurement;
(vi) allocation of loan funds between short- and medium-term credit; and
(vii) timing of negotiations.

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Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

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

C. Discussion and Decisions

2. Scope of the Project. The Committee decided that agricultural policy matters, such as the land titling program, on which the Bank expects to reach agreement with Chile as a condition for the loan should not be presented as parts of the project description, as defined in the President's Report, the Appraisal Report or the Loan Agreement. The General Counsel advised that these matters can properly be dealt with through covenants in the loan agreement.

3. Amount of the Loan. The Chairman inquired why the proposed amount of the loan did not cover the entire foreign exchange cost of the project. The Latin America and the Caribbean Regional Projects staff explained that normally a loan covers a credit institution's financial gap, which is usually equivalent to the project's foreign exchange component. However, in the unusual circumstances prevailing in Chile, the gap is primarily of a fiscal nature since the largest lending agency, Banco del Estado, is getting all its lendable funds from the Government's budget. Consequently, the project size was determined by the tentative amount of the loan, i.e., $20 million, predetermined by the overall lending limits for Chile. Then, on the basis of the traditional financing formula used in Chile for this type of credit (i.e., farmers 28 percent, Government 72 percent) the staff selected a hypothetical group of loans which would amount to approximately $40 million, out of which the Bank would finance 50 percent of the Government's contribution. The Committee approved the recommended amount of the loan. The meeting recognized that while the proposed loan has some of the features of a sector loan it was quite different in other respects and therefore its amount should be justified in the same way as any other project loan.

4. Roll-over of Loan Funds. It was remarked that if the roll-over of loan funds is limited to seven years, as presently proposed, the Government would have free use of the funds for a minimum of twelve years, until the final repayment date, twenty years hence. The Committee decided that unamortized loan funds should remain in the hands of the Banco Central for the entire life of the loan.

5. Interest Rate. The Regional Projects staff explained that the Government was now charging 200 percent interest on short-term loans to be repaid within 12 months. In the Regional Office's opinion this was adequate in view of the expected rate of inflation for 1975. The Regional Office added that actually the Government was projecting a rate of inflation of 150 percent for 1975 and that such figure was expected to be contained in the forthcoming standby agreement with IMF. The Committee decided that during negotiations the current 200 percent interest rate should be reviewed, taking into account the prospective rate of inflation in 1975, as foreseen in connection with the IMF standby.

6. The meeting noted, however, that the language in the loan agreement providing for quarterly review of the interest rate was somewhat weak in giving the Bank adequate rights to ask for changes if this became necessary in the Bank's opinion. The Committee decided that the wording in para. 3 of Schedule 4 to the Loan Agreement and in para. D(c).1 of the Annex to such Schedule be modified so that the interest rate be at all times satisfactory to the Bank.

7. Procurement. The meeting noted that Chile does not utilize full international competitive bidding including notification of embassies to procure fertilizer and, instead, procures on the basis of suppliers' quotations from the major exporting countries. The Committee concluded that the present procedure was acceptable.

8. Short- and Medium-term Credit. The meeting noted the unusually large proportion of loan funds to be used for short-term credit. The Regional Projects staff explained that short-term credit is the one most needed at this point to increase production and reduce food imports. Besides, the IDB has already made a $22 million loan for medium-term credit, generally under the same terms and conditions proposed for the small amount of medium-term credit in the Bank loan. The Regional Office reported that the IDB loan was disbursing very slowly and this was deemed evidence that farmers' credit demand for investment is still weak, while there is strong demand for production credit. The Committee approved the proposed allocation of loan funds between short- and medium-term credit.

9. Timing of Negotiations. The Regional Office reported that the Fund management was expected to approve by December 27 the terms of the standby agreement negotiated by a mission which returned from Chile the preceding week. The Chairman said he would like to be informed as soon as the Fund management acted; he would advise the Regional Office on inviting negotiations after talking to the President.

Cleared by Messrs. Knapp
Baum
Carvalho

DCLecuona/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-29

January 20, 1975

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WBG ARCHIVES

Minutes of Loan Committee Meeting to consider
"Zaire - Third Highway Project"
held on December 16, 1974 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
S. S. Husain
K. G. Gabriel
L. Nurick

Others:

H. Adler
R. J. Goodman
E. Jaycox
R. Dosik
F. D. T. Reid
S. Schott
T. Jones
H. Peters
I. Smith
R. Chadwick
A. Sonmez
D. Lister
R. Cambridge

B. Issues

1. The meeting was called to consider the following issues relating to the draft documents submitted to the Loan Committee, December 6, 1974 for approval to negotiate a proposed $26 million credit to Zaire for a Third Highway Project:

(i) should the Association lend to Zaire for a highway project of the size proposed, in view of the Government's past performance in the sector;

(ii) should the Association finance additional road rehabilitation, given the country's poor maintenance capacity;

(iii) whether a part of the project funds, should be earmarked for training;

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COMMITTEE

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

OTHERS

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

(iv) should financing be provided for the detailed engineering of roads appraised, but not included in the project;

(v) was the ADB's apparent reluctance to co-finance the project due to any disagreement with project content;

(vi) whether the data on which the economic justification of road rehabilitation was based could be regarded as adequate.

C. Discussion

2. Past Performance. While recognizing that performance under the Second Highway Project has until recently been poor, the Eastern Africa Region explained that a gradual improvement had taken place. Over 700 Zairians had been trained under various projects, road rehabilitation work was well under way, and most of the road maintenance equipment had arrived in the country and was being used for the maintenance of about 20,000 km of roads. The Credit was now 100 percent committed. An effective Director General had also been appointed to the Bureau of Roads, and our relations with the responsible Minister were good. There had been a discernible improvement in the highways administration. These factors combined with the closer supervision made possible by the presence of two transport experts in the Resident Mission in Kinshasa made it reasonable to expect improved implementation in the future. Moreover, given the extent of consultant support provided for in the project, implementation should not impose an unmanageable burden on the highway administration.

3. Maintenance. It was felt that present road maintenance in Zaire is unsatisfactory. This is due to a number of things: poor administration, the disappointing performance of consultants financed by UNDP/Bank, and the late arrival of road maintenance equipment. Moreover, the Bureau of Roads had failed to prepare the comprehensive highway maintenance plan provided for in Section 4.04 of the Credit Agreement for the Second Highway Project. The meeting, therefore, agreed that firm commitments should now be obtained from the Government with regard to a maintenance plan on which its performance can be judged. Also the highway maintenance plan should be drawn up on the basis of data to be collected under the project. A new date should, therefore, be agreed upon for this.

4. Training: It was suggested that funds should be provided in the project for training purposes. The Region explained that training was being proposed under most of the project components but was not separately listed in the cost tables. Furthermore, it was explained that technical assistance would be provided for a review of the programs of a number of existing training institutions in Zaire with the object of determining required program revisions to ensure a coordinated efficient training of highway personnel.

5. Financing of Detailed Engineering: It was agreed that financing was justified for the detailed engineering of one road scheduled for rehabilitation under the project (Kabinda-Kindu), but that the Association should not finance detailed engineering for the road appraised but not included in the project (Gemena-Libenge) or for the road scheduled for rehabilitation by the ADB (Lubumbashi-Kasenga).

6. ADB Participation. Some concern was expressed about the ADB's apparent reluctance to cofinance the project. It was explained that ADB's slowness was not due to any disagreement with the project *per se*, but apparently resulted from staff

and resource constraints. The ADB is still expected to finance in due time the part of the project reserved for it.

7. Economic Justification. It was generally agreed that the only data available for the economic evaluation was poor. It was, however, considered adequate to establish the economic justification of the project.

D. Conclusion

8. In the light of recent improved performance, it was agreed that it was reasonable to expect further improvement in the future. With regard to maintenance, it was agreed that clear objectives should be defined and adhered to. The question of an allocation for training was left to discussion with the Government representatives. The Committee accepted the recommendation that the proposed Credit of $26 million be negotiated with the Government of Zaire. The Association would finance retroactively the detailed engineering of the Kabinda-Kindu road.

Cleared by Messrs. Knapp
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Nurick

DLister/SCSchott/HPeters/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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LC/M/75-01

January 29, 1975

Minutes of Loan Committee Meeting to consider
"Chile - Copper Sector Project"
held on January 13, 1975, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
G. Alter
W. C. Baum
K. G. Gabriel
L. Nurick

Others:

A. Krieger
A. D. Knox
H. Fuchs
R. Goodman
P. Glaessner
G. Pffeffermann
H. Cash
R. Nelson
E. McCarthy
J. Carvalho
R. Cambridge

B. Issues

1. The meeting was called to consider the following issues:

(i) project size and composition;

(ii) copper prices;

(iii) procurement; and

(iv) timing of negotiations.

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COMMITTEE

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

OTHERS

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

C. Discussions and Decisions

2. Project Size and Composition. Noting that the total 1974-75 copper investment program is $500 million, that the total project cost is $117 million and that the Bank would be covering only a part of the foreign exchange component of the project, the Chairman inquired about the basis for defining its size and the criteria used for the selection of subprojects. Regional staff explained that, as with the Agricultural Rehabilitation Loan, an overall limit on Bank lending to Chile was the major factor determining the size of the project and the total project cost. With regard to the individual subprojects, Industrial Projects Department staff explained that selection was made primarily on the basis of their urgency, their impact on the economy, and suitability for international competitive bidding.

3. In response to a question as to why the Ventanas smokestack, which might require up to US$1.0 million retroactive financing and which would be financed through limited international competitive bidding procedures, had been included in the project, it was explained that the Government had requested that the proposed loan cover some of ENAMI's needs and not exclusively CODELCO's. The urgency of the Ventanas subproject -- in view of the impact on the sector's limited smelting capacity -- and the help the Bank could give in strengthening ENAMI provided additional justification for inclusion of this subproject. The Chairman concluded by suggesting that the rationale for selection of the Ventanas smokestack be made more explicit in the Grey Cover Appraisal Report.

4. A further question was raised as to the efficiency of the Exotica mining operation, as well as the significance of the Government's decision to close it down for six months starting last December, as part of a concerted action by the CIPEC countries to cut back exports by 10 percent in an attempt to stabilize falling copper prices. It was explained that the closure was justified to permit needed technical modifications to the plant since it operates at considerably lower than fully rated capacity and is currently not economic. It was pointed out that Exotica ore is processed in the Chuquicamata Oxide Plant, and that modification of this plant, which would be financed in part by the Bank loan, would solve a serious production bottleneck and bring about a substantial increase in output accompanied by a reduction in costs when the operation reaches capacity in 1980. It was further emphasized that the investment would be justified even if copper prices were to remain considerably lower than currently forecast.

5. The Committee raised a question regarding the large contingency allowance for the Chuquicamata Oxide Plant, the cost estimate for which had been based on preliminary plans. Industrial Projects Department staff explained that engineering was now more advanced and that a lower contingency estimate could now be applied. It was agreed to include a more accurate cost estimate of the subproject, which should allow a consequent reduction of the physical contingency before presentation to the Board.

6. Copper Prices. Reference was made to the use of "conservative" copper price "forecasts" in the Appraisal Report and the discussions now underway between the Commodities Division (DPS) and the Industrial Projects Department (CPS) on copper price projections. It was agreed that the "most probable" copper price forecasts resulting from these discussions would be used in the Appraisal Report (with appropriate sensitivity tests) and the President's Report before presentation of the project to the Board.

7. Procurement. In response to a question on procurement, it was agreed that, in the unlikely event that domestic manufacturers would be successful bidders after international competitive bidding following Bank guidelines, the Bank should be prepared to finance local goods.

8. Timing of Negotiations. The timing of authorizing the invitation to negotiate the copper sector project in relation to the Board presentation of the Agricultural Rehabilitation Loan, presently planned for late February or early March, was discussed. The Regional staff felt that negotiations might be undertaken earlier. The Chairman agreed to pre-negotiations on the loan at the end of January in order to subsequently facilitate obtaining the Government's final agreement on the legal documents, but the question of the timing of final negotiations was left open pending further developments.

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