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THE WORLD BANK

Washington, D.C.

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Operational - Development Banks - Sub Projects - Correspondence - Volume
2

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RETURN TO
RECORDS CENTER ROOM HB-1
1966-68 MATERIAL
BOX NO. 3413



THIS FILE IS CLOSED AS OF
DECEMBER 1968.
FOR FURTHER CORRESPONDENCE SEE:
1969 - 1971.

RECORDS MANAGEMENT SECTION
February 1969

Mr. P.M. Mathew

April 9, 1968

S. Gupta

Sub-Projects Reviewed by Mr. Pollan's Division

Seven sub-projects were reviewed by the Division (with the help of the Projects and Engineering Department) in the Quarter January - March 1968. Three of these projects were still under process at the end of the Quarter.

Project Appraisals Reviewed by Mr. Pollan's Division

(January 1 - March 31, 1968)

	<u>For Bank only</u>	<u>For Director only</u>	<u>For Both</u>	<u>Total</u>
China - CDC	2	-	-	2
India - ICICI	2	-	-	2
Iran - IMDBI	3	-	-	3
	<u> </u>			<u> </u>
Total	<u>7</u>			<u>7</u>

SGupta/bj

6

Mr. William Diamond

March 12, 1968

P. M. Mathew *PM*

Staff Group on Tourism - Interim Procedure for Reviewing Tourism
Sub-projects of Development Finance Companies

In the light of the decision to set up a Staff Group in the Projects Department to deal with tourism projects, I had a discussion with Messrs. Chadenet and Sadove on March 8th about the procedure for the review of tourism sub-projects submitted by development finance companies for financing from World Bank loans. Mr. Chadenet said that it would take some time before the Group actually got set up and began functioning in an organized way. When that stage was reached, we would, along the lines of our existing arrangement with IFC's Engineering Department, send to the Group the appraisals received from development finance companies for initial review. Mr. Chadenet and I agreed that until that stage was reached, the Development Finance Companies Department should, as in the past, make its own reviews of tourism sub-projects, keeping Mr. Sadove informed. Mr. Sadove would tell us, in due course, that he is ready to receive sub-projects for initial review, at which time we would begin sending projects to him.

We discussed briefly the Bank's and IFC's approach to the review of sub-projects. I emphasized that our review constitutes an appraisal of the appraisal rather than an appraisal of the sub-project and that our purpose was to check whether the development finance company had considered all factors relevant to a sound decision rather than to substitute our judgment for its own.

cc: Messrs. Chadenet, Sadove, Garcia, Jeffries, Pollan, Powell,
Sekse

Staff Instructions file

Circ: (3)

PMMathew:mbe

Mr. P. M. Mathew

January 5, 1968

E. Wessels

Sub-projects Reviewed by Mr. Pollan's Division

Two sub-projects were reviewed by the Division (with the help of *the Projects* and the Engineering Department) in the Quarter October-December 1967. One of these projects was still under review at the end of the Quarter.

Project Appraisals Reviewed by Mr. Pollan's Division

(October 1 - December 31, 1967)

	<u>For Bank only</u>	<u>For Director only</u>	<u>For both</u>	<u>Total</u>
China - CDC	-	-	-	-
India - ICICI	-	-	-	-
Iran - IMDBI	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
<u>Totals</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>2</u>

E. Wessels/jb

Messrs. Powell, Pollan, Jeffries, Sekse, Garcia

December 28, 1967

P.M. Mathew (mw)

Subprojects Reviewed by Development Finance Companies Department

Could you please send me by the close of business on January 5
a statement (along the lines of my memorandum to Files of November 9 ✓
on the same subject) showing the work relating to subprojects undertaken
by your division during the quarter October 1 - December 31, 1967.

PM:Mathew:mam

OFFICE MEMORANDUM

TO: Files

DATE: November 9, 1967

FROM: P.M. Mathew *PM*SUBJECT: Sub-projects Reviewed by Development Finance Companies Department

Attached is a statement showing the work relating to sub-projects undertaken by the Development Finance Companies Department (with the help of the Engineering Department) in the quarter July - September 1967. The total of 59 projects handled in this period compares with a total of 173 projects handled in the year July 1966 - June 1967.

Attachment

cc: Messrs. Rosen
Raj
Dodd
Paterson
von Hoffmann
Division Chiefs - DFC

PMMathew:mm

Project Appraisals Reviewed by Development Finance Companies Department

(July 1 - September 30, 1967)

	<u>For Bank Only</u>	<u>For Director Only</u>	<u>For Both</u>	<u>Total</u>
China - CDC	1			1
Colombia - CF Caldas)				
CF Colombiana)				
CF Nacional)	21			21
CF Norte)				
CF Valle)				
Finland - TR	2			2
Greece - NIBID		2		2
India - ICICI	1			1
Iran - IMDBI	1			1
Israel - IDBI				-
Malaysia - MIDF				-
Morocco - BNDE	4	1	7	12
Pakistan - PICIC	4			4
Philippines - PDCP	1			1
Spain - BANDESCO		2		2
Tunisia - SNI	7			7
Turkey - TSKB	<u>5</u>	-	-	<u>5</u>
<u>TOTALS</u>	47	5	7	59

November 6, 1967

Mr. P.M. Mathew

October 19, 1967

Hans Pollan

DFC - Sub-Projects Reviewed and Approved during the Period
January 1, 1967 to September 30, 1967

China - CDC (Free limit \$500,000 per loan agreement signed
August 7, 1967. Previously \$250,000)

Loan CHA-397

Project No. 26	Hwa Hsin Electric Wire & Cable Corp.	\$600,000
No. 27	Kwo Hwa Chemical Corp.	\$800,000
No. 28	Yu Chen Development Co.	\$500,000
No. 29	Lien Yu Industrial Co.	\$860,000
No. 32	Sung-I Cotton Mill Ltd.	\$620,000
No. 35	Fermosa Plastics Corp.	\$1,160,000
		<u>\$4,540,000</u>

Iran - IMDBI (Free limit \$750,000)

Loan IRN-459

Project No. 10	Kermanshah Sugar Co.	\$800,000
No. 19	Sanati Pars Lux	\$800,000
		<u>\$1,600,000</u>

India - ICICI (Free limit \$2.0 million)

Loan IN-4114

Project No. 58	Motor Industries Co. Ltd.	<u>\$ 83,333</u>
----------------	---------------------------	------------------

Reviewed because the project apparently contemplated production of military equipment. Later the project was changed to exclude the equipment for the questioned production. Amount reduced from \$666,700.

National Rifles Ltd.	<u>\$130,000</u>
----------------------	------------------

2/ Mr. Parekh agreed that ICICI should withdraw this project in September 1967; also because of defense implications.

1/ Approved since 6/30/67.

EWessels/ds

Mr. Donald Jeffries

June 21, 1967

T. Stephansen

DFC - Sub-Projects Reviewed and Approved during the Period
July 1, 1966, to June 30, 1967.

China - CDC (Free limit \$250,000)

Loan CHA-397

Project No. 26	Walsin Electric Wire & Cable Corp.	\$600,000
No. 27	Kuo Hwa Chemical Corporation	\$800,000
No. 28	Yu Chen Development Co.Ltd.	\$500,000
No. 29	Lien Yu Industrial Co.Ltd.	\$860,000

(Under review per 6.21.67) Sung-I Cotton Mill Ltd. \$620,000
\$3,380,000

Iran - IMDBI (Free limit \$750,000)

Loan IRN-459

Project No. 1	S.S. Aliaf Masnoole (nylon)	\$2,667,000
No. 10	Kermanshah Sugar Co.	\$800,000

(Under review per 6.21.67) Sanaati Pars Lux
 (bus bodies) \$800,000
\$3,267,000

India - ICICI (Free limit \$2.0 million)

Loan IN-4114

Project: Motor Industries Co. Ltd. \$666,700
 Reviewed because the project apparently
 contemplated production of military equipment.
 Later the project was changed to exclude the
 equipment for the questioned production.

TStephansen/bj
 1.1.

OFFICE MEMORANDUM

TO: Mr. S. R. Cope

DATE: March 22, 1967

FROM: William Diamond *WD**R. Fontaine*
blue copies

SUBJECT:

Because of Mr. Skillings' imminent departure from this Department, I am designating Mr. Donald Jeffries to act on my behalf in the review process for sub-projects of development finance companies, and to present our recommendations for action that needs to be taken by the Bank's Area Departments.

Consequently, beginning April 1, he, or I, will submit the recommendations which you have been accustomed to getting from Mr. Skillings.

cc Mr. Lejeune
DFC Division Chiefs

WDiamond:us

Dev. Bank's
Sub. Projects

Michael L. Lejeune

February 24, 1967

W.D.S. Fraser

PROCEDURES FOR HANDLING SUB-PROJECTS OF
DEVELOPMENT FINANCE COMPANIES

1. Mr. Cope has reviewed the draft dated January 20 of the paper I prepared on the proposed new procedure for handling DFC sub-projects. He has produced a revision dated February 23 and has asked me to discuss with you on how to proceed. He would now like to be out of the picture.
2. So far this has not been cleared with anyone. Am I correct in assuming that it is still our responsibility to see this through notwithstanding the fact that the Department of Program Evaluation and Control is responsible for reviewing operational procedures? If you agree, I will send it to Messrs. Diamond, Broches, Cavanaugh and Williams for their approval.

cc: General Files
WDSF:hh

OFFICE MEMORANDUM

TO: Michael L. Lejeune

FROM: W.D.S. Fraser *Wf*

SUBJECT: PROCEDURES FOR HANDLING SUB-PROJECTS OF
DEVELOPMENT FINANCE COMPANIES

DATE: February 24, 1967

1. Mr. Cope has reviewed the draft dated January 20 of the paper I prepared on the proposed new procedure for handling DFC sub-projects. He has produced a revision dated February 23 and has asked me to discuss with you on how to proceed. He would now like to be out of the picture.
2. So far this has not been cleared with anyone. Am I correct in assuming that it is still our responsibility to see this through notwithstanding the fact that the Department of Program Evaluation and Control is responsible for reviewing operational procedures? If you agree, I will send it to Messrs. Diamond, Broches, Cavanaugh and Williams for their approval.

*Mr. Fraser**Please brief me on the
history of this affair*

cc: General Files
WDSF:hh

*Note**Mr. Lejeune decided to
defer action on this**Wf.*

D R A F T
SRCope:WFraser/hh

February 23, 1967

PROCEDURES FOR HANDLING SUB-PROJECTS OF
DEVELOPMENT FINANCE COMPANIES

1. This memorandum sets out responsibilities and procedures for handling development finance companies' sub-projects to be financed out of the proceeds of loans made by the Bank. References to the Bank include IDA, and references to loans include credits.
2. The IFC, through its Development Finance Companies Department, acts on behalf of the Bank in handling sub-projects submitted by finance companies, whether these sub-projects require prior Bank approval or not. Accordingly, whenever the Bank makes a loan to a finance company, it notifies the borrower and guarantor that the IFC is authorized to act on behalf of the Bank in handling sub-projects in accordance with the provisions of the relevant loan documents, and instructs the borrower to communicate on these matters with the Development Finance Companies Department.
3. The Development Finance Companies Department will be responsible for reviewing appraisal reports received from finance companies on projects requiring prior approval by the Bank, and will conduct any necessary correspondence with the finance company in connection therewith. In its communications with the borrower or guarantor regarding sub-projects, the Development Finance Companies Department signs on behalf of the Bank on Bank letterhead.
4. A copy of any letter approving a sub-project, disapproving it or requesting further information about it, is sent to the chairman of the Bank's working party for information. In making its decision,

the Development Finance Companies Department is under no obligation to consult the area department of the Bank or the working party unless it feels that a question of principle or Bank policy is involved.

5. The Development Finance Companies Department will consult the Bank loan officer who is chairman of the working party concerned if questions of principle or Bank policy are raised by any sub-project submission. The Department will consult with the Legal Department and the Treasurer's Department on any matters coming within their respective competences, and will advise the Treasurer's Department as necessary regarding amounts to be credited or debited to the borrower's loan account.

6. The Bank area department is responsible for keeping the Development Finance Companies Department of IFC informed of any general financial or economic developments in the country concerned which should be taken into account by IFC in dealing with sub-projects submitted for approval.

7. Responsibilities and procedures for dealing with other aspects of finance companies remain unchanged.

OFFICE MEMORANDUM

TO: Mr. S.R. Cope

FROM: W.D.S. Fraser *Wf*

SUBJECT: Procedure for Handling Sub-Projects
Submitted by Development Finance Companies

DATE: January 20, 1967

Mr. Cope

Attached is a draft of a memorandum to department heads outlining revised procedures. I have discussed it with Mr. Rigby of the Treasurer's Department, but with no one else pending your review.

Attachment

cc: Mr. Lejeune
General Files
WDSF:hh

Messrs. Bose, Garcia-Rayneri, Jeffries,
Pollan, Sekse
Robert F. Skillings

December 30, 1966

Amortization Schedules

Would you please jot down and let me have by January 4 a note, for each of the development banks to which the Bank has made a loan, showing when we receive amortization schedules for sub-projects. In each case what I am looking for is the practice under the most recent loan.

Also, in the case of loans using a composite amortization schedule which does not require formal agreement in respect of each sub-project, when is the proforma amortization schedule annexed to the loan agreement revised?

cc: Mr. Diamond

RFSkillings:vmv

Sub - Proj.

Mr. A. H. Mejia

August 25, 1966

H. G. Hilton *HG*

Handling of Projects and Related Memoranda

I have the following comments on your draft memorandum dated August 25th on the above subject:

Section (b) seems to me to be quite logical but sections (a) and (c) pose a particular problem.

In order to give rapid service we, in the Engineering Department, assign sub-projects to that engineer amongst those actually in the office at the time whose background of experience makes him most competent to deal with it. It could easily be that when the supplementary information is received this engineer may be out on an assignment and if the supplementary information is sent to him directly it could be overlooked until his return, resulting in a delay in processing.

It could also be that the particular problems posed by the project would be more familiar to an engineer who was actually in the office when the supplementary information was received but was out on an assignment when the original sub-project appraisal was made. It would therefore be that a more searching examination could be made by this second engineer.

We obviously cannot undertake permanently to maintain here engineers completely familiar with all the fields of work which the Development Finance Companies are likely to submit. It would be preferable, I think, if you followed the usual procedure and sent the supplementary information to Mr. Channugan who normally handles this work.

Obviously, if the original engineer who handled the work is our resident expert on the topic and is present at the time the supplementary information is submitted, we would re-assign the work to him. Should he be out we could hold it until his return and ask you if the delay is acceptable to you.

This procedure would obviate any possibility of "lost" sub-projects.

HHG:sfu

cc: Mr. Dodd
Mr. Channugan

*Dev. Banks -
Sub-projects*

July 21, 1966

INTER-OFFICE MEMORANDUM

To : DFC Professional Staff

From: William Diamond

Subject: Records of Projects submitted to Bank or IDA by
Development Finance Companies

1. Attached are copies of Mr. Lejeune's memoranda of June 14[✓] and July 18, 1966, concerning the handling of projects submitted by development finance companies for approval.
2. The new system imposes greater responsibilities than before upon this Department, and I want our records of projects received and of action taken on them to be complete and up to date. To this end, effective immediately, each division should institute the following two record systems :
 - (a) A chronological register (on the attached form, No. 312), of the projects submitted by each development finance company, both those requiring prior approval and those which do not. On this register will be entered the date the project was received, the name of the project and field of activity, the nature and date of action taken (credited, rejected, or withdrawn), the project number, the amount credited, and any later increases or decreases in amount.
 - (b) A file for each development finance company containing a standard form (as per the attached form, No. 312-A), for each project requiring the prior approval of the Bank or IDA, which records in detail the progress of the project through the approval and crediting procedure. These forms should be kept up to date continuously by the professional staff member responsible, and should be available for ready reference by any interested party.
3. Neither of these records will replace the normal correspondence forms, which, as at present, are prepared in triplicate at the time the project arrives in this Department.
4. The register described in (a) will be instituted immediately for projects now pending and new projects coming in. As soon as practicable, but not later than September 1, 1966, it should be extended back to cover all projects which arrived in the Bank or IDA after January 1, 1964.
5. The forms described in (b) will be prepared immediately for all projects now pending, and will be prepared for all new projects coming in from now on.

Attachments

WDiamond:us

Dev. Banks -
Sub-projects.

Mr. J. David Dodd

July 21, 1966

William Diamond *Q*

Review of Appraisals


*July 21/66
July 20/66*

Attached are copies of two memos I have
sent to the staff of this Department. Do you
have any thoughts on the subject ?

WDiamond:us

Messrs. Jeffries, Meja, Powell, Sekse

July 21, 1966

William Diamond 

Review of Appraisals

In a memo I sent you yesterday, I asked that, when you send me a report on a sub-project, you send also a copy of the report from the Engineering Department.

I am aware that in some cases there has been no written report, but only a conversation. In all such cases :

- (a) Our staff member who interviews the engineer concerned should make a note to Files on the principal points of the discussion, with a copy to the engineer.
- (b) I should like a copy of this note with the report on the sub-project.

WDiamond:us

cc Mr. Dodd

Messrs. Jeffries, Mejia, Powell, Sekse

July 20, 1966

William Diamond 19

Review of Appraisals

When you address to me your reports on appraisals submitted for prior approval, please do not send the original submission from our client and please do send a copy of the memo from our Engineering Department.

WDiamond:us

OFFICE MEMORANDUM

TO: Department Heads of Bank and IFC

FROM: Michael L. Lejeune

SUBJECT: Procedure for Handling of Sub-Projects
Submitted by Development Finance Companies

DATE: July 18, 1966

1. This memorandum follows up my memorandum of June 14, and explains new procedures for handling sub-projects submitted to the Bank or IDA by a development finance company for approval.
2. Since 1962, each project of this kind has been analyzed in the Development Finance Companies Department of IFC, which, after studying it (in consultation with the IFC Engineering Department) has presented a memorandum to the country Working Party concerned with recommendations for acceptance, rejection, or request for further information. The Working Party has considered this memorandum and then made its own recommendation to the Director of the Area Department concerned.
3. From now on, the Working Party will not consider these projects unless a question of policy arises. Responsibility for their study rests with the Development Finance Companies Department of IFC, in consultation with the IFC Engineering Department. The Director of the Development Finance Companies Department (or his Deputy) will recommend to the Bank Area Department concerned whether the Bank should approve or reject a project (or request further information), and he or the Director of the Bank Area Department will determine whether a question of policy has arisen for the consideration of the Working Party.
4. The following procedures will be applied:
 - (a) As at present, incoming correspondence from development finance companies relating to projects to be financed from Bank and IDA lines of credit will come to the Area Departments. They will, as at present, acknowledge it, and send copies of the correspondence to the senior staff member concerned in the Development Finance Companies Department, the Legal Department (Bank) and the Treasurer's Department.
 - (b) The Area Departments will be responsible, as at present, for handling all projects which do not require the prior approval of the Bank, to ensure that the amounts in question are immediately credited to the Loan Account.
 - (c) The Development Finance Companies Department will be responsible, as at present, for the review of appraisal reports received from development finance companies on projects requiring the prior approval of the Bank or IDA.

It will obtain the comments of the Engineering Department of IFC on technical and market aspects of each project. The Working Party, as such, will not be consulted during this review. However, staff members of the Development Finance Companies Department will consult informally with any individual member of the Working Party to the extent necessary to ensure that each case is handled correctly, and that questions of policy, if any, are identified at an early stage.

- (d) When this review has been completed, the senior staff member concerned in the Development Finance Companies Department will address a memorandum to the Director of that Department, containing a brief analysis of the appraisal and recommendations for acceptance, rejection, or request for further information by the Bank. The Director will review that memorandum, and, if he concurs in the recommendation, forward it with an indication of his concurrence to the Director of the Bank Area Department, attaching, in final form, a letter to be signed by the Area Department Director informing the development finance company of the acceptance or rejection of the project, or requesting further information, as the case may be.
- (e) Copies of the memorandum analyzing the appraisal and containing recommendations will be sent to all members of the Working Party, at the time the original is transmitted to the Director of the Area Department. Copies of the latter's letter to the development finance company will be sent to the Treasurer and to all members of the Working Party by the Area Department when the letter is dispatched.
- (f) If (at stage (d)), in the opinion of the Director of the Development Finance Companies Department, or the Director of the Area Department concerned, a question of policy should be considered before a decision can be taken, the Chairman of the Working Party will be so informed and advised to consult the Working Party, with or without a meeting. The Working Party will make recommendations for action to the Director of the Development Finance Companies Department and to the Director of the Area Department.
- (g) Normally, the reply to the development finance company will be sent within two weeks of the date the project is received in the Bank.

RFSkillings/WDSFraser/SRCope/
RMCavanaugh/WDiamond/JETwining/hom



Distributed to: Messrs. El Emery, Cope, Cargill, Stevenson, Alter, Aldewereld, Broches, Demuth, Kamarek, Graves, Mendels, Cavanaugh, Diamond, Dodd, von Hoffman, Paterson, Richards, Karasz, Howard Johnson, J. Adler, Twining, Fraser.

cc: General Files ✓ with previous correspondence.
copies were also sent to Mr. Rosen & Mr. Knapp on 7/21/66 with a R. Slip from Mr. Twining.

DEVELOPMENT FINANCE COMPANIES DEPARTMENT

Register of Projects Received From: _____
(Name of Development Finance Company)

Loan or Credit No.	Date	Name of Project and Type of Activity	Action <u>1/</u>	Date	Project No.	Amount Credited	Later Adjustments

1/ Approved and credited; rejected; or withdrawn.

DEVELOPMENT FINANCE COMPANIES DEPARTMENT

Record of Review of Project Submitted for Approval by: _____ on _____ (date)

Name of Project:	Kind of Activity:
------------------	-------------------

Amount of Bank or IDA Funds:	Loan Number:	Project Number:
------------------------------	--------------	-----------------

CHRONOLOGY OF REVIEW	DATE
Received in Bank/IDA:	
Received in DFC Department:	
Engineering Advice Requested:	
Engineering Advice Received:	
Memorandum and Reply Prepared:	
Memorandum and Reply Sent to Bank Area Department:	

REPLY		
Date:		
Action Taken:	Approved <input style="width: 40px; height: 20px;" type="checkbox"/> Rejected <input style="width: 40px; height: 20px;" type="checkbox"/>	Further Information Requested <input style="width: 40px; height: 20px;" type="checkbox"/>

FURTHER CHRONOLOGY (for projects about which further information is requested):

Request for Credit of Loan Account: _____ (date received)

Loan Account Credited: _____ (date)

Subsequent Changes:

ROUTING SLIP

Date

July 18, 1966

NAME

ROOM NO.

Mr. Michael L. Lejeune

General Files

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

This has now been cleared with everyone concerned except that the most recent changes suggested by Messrs. Cope and Cavanaugh, which are largely editorial, have not been shown to Mr. Diamond. If you approve as is, please initial and we will then show the final version to Diamond before it is reproduced for distribution.

From

James E. Twining, Jr.

ROUTING SLIP

Date

July 18, 1966

NAME

ROOM NO.

Mr. Diamond

950

Mr. Lejeune

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

*This looks ok to me.
Diamond.*

From

Michael L. Lejeune

ROUTING SLIP

Date

7/12/66

NAME

ROOM NO.

Mr. Lope

*June 10
5:00 PM*

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

☒

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

*May I speak with you
about the attached draft
memorandum please.
We have already received
comments from Mr. Fonten
and are hopeful that the
From slight change on page 2 will
see his objections. J. J. J. J. J.*

Sent to

① Cavanaugh

② Cope -

Renting Ship & Cope asked
& Speak - referred to
Martin's comment, and
said that hopefully the
ship change in page 2
would meet his objection

Almond says if Cope agrees
& memo - will change ok. &
meet

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

Send copy to

Cavanaugh. - ask his
comment

Consuet. Cope

If he buy
the change
in the memo

~~Spoke to~~
Diamond
7/12/66.

OFFICE MEMORANDUM

TO: Mr. Michael L. Lejeune

DATE: July 6, 1966

FROM: J. E. Twining, Jr.

SUBJECT: Procedure for Handling of Sub-Projects
Submitted by Development Finance Companies

Comments from all Area Departments are now in. Two, (Far East and Western Hemisphere), have no changes to suggest. One, (South Asia), suggests a minor amendment to paragraph 4(e) which would provide the Working Party with the appraisal analysis details at an earlier stage than contemplated in the draft. Two, (Europe and Middle East Department and Africa Department), raise questions about the difference between the possible policy issues which might be involved in the procedure proposed and about the extent of participation of the Working Party.

As to Mr. McIvor's point, although the amendment appears minor the effect of it is major. It would result in Working Party consideration prior to a decision that a policy issue is involved rather than as intended only after a decision that a policy issue is involved. This appears to negate the intended simplification of the whole procedure despite the fact that formal Working Party consideration is not proposed.

The second point raised by Mr. Fontein (and endorsed by Mr. Williams) is really directed to the same objection voiced by Mr. McIvor. It is Mr. Fontein's contention that Area Department Directors and the Director of the Development Finance Companies Department must rely on members of the Working Party to bring to their attention questions of policy and, unless the Working Party is involved early on in the consideration of a specific proposal, the respective Department Heads will not get the guidance they need to decide realistically whether or not policy questions are involved.

I believe that Messrs. McIvor, Fontein and Williams are underestimating (or ignoring) the importance in the proposed procedure of the consultation between staff members of the Development Finance Companies Department and individual members of the Working Party as outlined in paragraph 4(c). Surely this consultation will provide an opportunity for Area Department members of the Working Party to consider whether policy matters are involved and to alert their Department Heads to these issues. In any case, even if Working Party members, individually consulted, do not spot possible policy issues the Area Director and the Working Party members have a "second chance" when the analysis and recommendations are sent to them by the Director of the Development Finance Companies Department as provided in paragraph 4(e).

July 6, 1966

This objection on the part of Messrs. McIvor, Fontein and Williams might be overcome if the language in paragraph 4(c) were amended to make informal consultation with members of the Working Party mandatory rather than "to the extent necessary."

As to Mr. Fontein's question about the distinction between policies, I fail to see why further clarification is needed. As written the procedure provides that if any policy question is thought to be involved the Working Party will be called upon to consider the matter. This is the broadest possible interpretation. Any attempt to define the types of policy issues which might be involved will only complicate the procedure and raise issues about the possible overlap between the different policies involved.

Unless you see more in the comments of Messrs. McIvor, Fontein and Williams than I do or put a different interpretation on these comments, I suggest that they be told that having taken their comments into consideration we believe that the procedure as drafted is appropriate and will be issued - with the one amendment suggested for paragraph 4(c).

JET:eg

OFFICE MEMORANDUM

TO: Mr. James Twining

DATE: July 5, 1966

FROM: S. N. McIvor SUBJECT: Procedure for Handling of Sub-Projects Submitted by Development Finance Companies

Mr. Stevenson is heavily engaged with the Pakistan Consortium for the next two days, so in his stead I am commenting on the draft memorandum attached to Mr. Fraser's memorandum of June 16. ✓

I have one suggestion. In order to keep the Working Party members informed at an earlier stage than is proposed in the present draft memorandum from Mr. Lejeune to the Department Heads, I suggest that paragraph 4 (e) be amended to read:

"Copies of the memorandum analyzing the appraisal and containing recommendations will be sent to all members of the Working Party at the time the original is transmitted to the Director of the Development Finance Companies Department. Copies of the Area Department Director's letter to the development finance company will be sent to all members of the Working Party by the DFC Department before the letter is dispatched."

SNMcI/uz

OFFICE MEMORANDUM

TO: Mr. Michael L. Lejeune

DATE: July 1, 1966

FROM: J. H. Williams *JH*SUBJECT: Procedure for Handling of Sub-Projects
Submitted by Development Finance Companies

I have discussed the above matter with Mr. Fontein and fully agree with the comments set down in his memorandum to you of June 27, with nothing to add.

JHWilliams:rsg

cc: Mr. Diamond
Mr. Fontein
Mr. Fraser

Dev Bogen

Mr. Alexander Stevenson

June 28, 1966

S. Noel McIvor

NSM

Procedure for Handling Sub-Projects Submitted by Development Finance Companies

1. The draft memorandum ^{✓ 6/14/66} which is submitted for your clearance raises a number of questions which can hardly be answered satisfactorily unless we are clear on the main objective of the new procedure. I am assuming that the new procedure is designed to leave the handling of sub-projects which have to be approved entirely in the hands of the staff of the Development Finance Companies Department of IFC except in cases where either the IFC staff or the Bank staff considers, with the concurrence of one or both of the Department heads concerned, that a question of policy should be considered by the Working Party. If that is the objective, it seems a reasonable one to me. There is the question of deciding what are and what are not policy questions and this could cause confusion and argument but that, I think, is inevitable. The other question is whether the proposed procedure provides adequate opportunity for the Area Department Director to spot policy questions for reference to the Working Party.
2. Mr. Wang has some comments, which I attach. A part of his comment is concerned with the question whether the letter which the Area Department Director receives from IFC should be in final form or in draft. I do not think this is a very significant point, and even if in final form it can still be redrafted. My suggestion would be that in Paragraph 4. (e) "DFC" be substituted for "Area" in both sentences and the word "before" be substituted for "when" in the second sentence. This would give the Working Party members a better opportunity to raise policy questions, if the Director of the Area Department concurs. A consequential change would need to be made in Paragraph 4. (f) by the insertion of "(e) or" before "(d)" in the first sentence.

Attachment

SNMcIvor:ptv

cc: Mr. Wang

OFFICE MEMORANDUM

TO: Mr. Michael L. Lejeune

DATE: June 27, 1966

FROM: Douglas J. Fontein

SUBJECT: Procedure for Handling of Sub-Projects
Submitted by Development Finance Companies

1. I have two comments to make on the draft memorandum dated June 16, on the above subject. Paragraph 3 of the draft memorandum states that the Working Party will not consider a sub-project unless a question of policy arises. The same paragraph states that the Director of the Development Finance Companies Department (or his Deputy) or the Director of the Bank area department will determine whether a question of policy has arisen for the consideration of the Working Party. Paragraph 4 (f) of the draft states in substance that after the Development Finance Companies Department has completed its review of appraisal reports on projects requiring prior approval by the Bank or IDA and the Senior Staff member in that Department has made his recommendations to his Director (or his Deputy) and the Director of the Development Finance Companies Department or the Director of the area department concerned are of the opinion that a question of policy should be considered before the taking action, the Chairman of the Working Party will be so informed and advised to consult the Working Party.

2. I am of the opinion that this proposed procedure needs to be amended in two respects. In the first place, the memorandum fails to distinguish between types of policy questions. I can think of at least two, the first having to do with our policy towards development finance companies, the second with our relations with the particular country in which the development finance company is located. The first are the particular responsibility of the Development Finance Companies Department of I.F.C., the second that of the area department concerned of the Bank. There may also be questions about the eligibility of goods and services for reimbursement in which the Treasurer's Department would have a special interest. I think this distinction should be made clear.

3. My second comment stems from the first. I think it is unrealistic to expect the Director of the Development Finance Companies Department (or his Deputy) or the Director of the Bank area department concerned to determine whether a policy question exists. The volume of work does not permit them in every instance to go through all the papers involved. In my opinion it should be the duty of the working party, and of every member thereof, to ascertain in the first instance whether a policy problem exists. The working party should then consider the problem and make its recommendations to the two Directors concerned. It is up to these Directors to agree or disagree with the recommendations. In addition, these Directors are entitled to bring to the attention of the working party any question of policy which the latter may have overlooked. (the

Does this really matter?

Mr. Fontein also questioned the Board's suggestion of sending copies

procedure outlined in paragraph 4 (f) of the memorandum would seem adequate for this purpose). It seems to me that only in this manner will we act in conformity with the stated policy of delegation of which so much has been said of late.

DJFontein:jh
IBRD

cc: Mr. Diamond
Mr. Williams
Mr. Fraser (on return)

OFFICE MEMORANDUM

1) BAC
2) GAO/r

TO: Mr. Gerald Alter

DATE: June 16, 1966

FROM: W.D.S. Fraser *WJ**OK 22*SUBJECT: Procedure for Handling of Sub-Projects
Submitted by Development Finance Companies

Mr. Lejeune has asked me to obtain the clearance of all Area
Department Heads to the attached draft memorandum ^{✓ 6/16/66} before it is issued
in final form to all Department Heads.

Attachment

Serry
This is an improvement to the
existing procedure. I have no other
suggestion

RR

ROUTING SLIP		Date June 10	
NAME		ROOM NO.	
Mr Diamond		URGENT	
Mr FRASER		BY HAND	
1. OK			
2. I've received Legation			
<input type="checkbox"/>	To Handle	<input type="checkbox"/>	Note and File
<input type="checkbox"/>	Appropriate Disposition	<input type="checkbox"/>	Note and Return
<input checked="" type="checkbox"/>	Approval	<input type="checkbox"/>	Prepare Reply
<input type="checkbox"/>	Comment	<input type="checkbox"/>	Per Our Conversation
<input type="checkbox"/>	Full Report	<input type="checkbox"/>	Recommendation
<input type="checkbox"/>	Information	<input type="checkbox"/>	Signature
<input type="checkbox"/>	Initial	<input type="checkbox"/>	Send On
REMARKS			
<p>news. Who else did?</p> <p>3. When will this issue?</p> <p>LG 1/15</p> <p>with Mr Ginnings agreement Draft of June 9 '66 Jm Ginnings destroyed. 100 7/21</p>			
From William Fraser			

ROUTING SLIP

Date

June 9.

NAME

ROOM NO.

Mr. Leguine

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

Questions

- ① Are we as DFC to clear this with area departments? *Wd*
- ② Should it be a memo from you, or from the chairman of the Loan Committee? *Wd*
- ③ Shall I first clear it with Diamond. *yes*

From *William Fraser*

OFFICE MEMORANDUM

TO: Mr. I.P.M. Sargill

DATE: June 16, 1966

FROM: W.D.S. Fraser *WJ*SUBJECT: Procedure for Handling of Sub-Projects
Submitted by Development Finance Companies

Mr. Lejeune has asked me to obtain the clearance of all Area
Department Heads to the attached draft memorandum^{✓6/16/66} before it is
issued in final form to all Department Heads.

Attachment

This is OK with Sargill and me.

ZJS 6/20

Department Heads of Bank and IFC

Michael L. Lajeune

Procedure for Handling of Sub-Projects
Submitted by Development Finance Companies

1. This memorandum follows up my memorandum of June 14, ✓ and explains new procedures for handling sub-projects submitted to the Bank for approval by a development finance company.
2. Up to now, each project submitted to the Bank or IDA by a development finance company for approval under a Bank or IDA line of credit was analyzed in the Development Finance Companies Department of IFC, which, after studying the project (in consultation with the IFC Engineering Department) presented a memorandum to the country Working Party concerned with recommendations for acceptance, rejection, or request for further information. The Working Party considered this memorandum and then made its own recommendation to the Director of the Area Department concerned.
3. From now on, the Working Party will not consider a sub-project unless a question of policy arises. Responsibility for study of such projects rests with the Development Finance Companies Department of IFC, in consultation with the IFC Engineering Department. The Director of the Development Finance Companies Department (or his Deputy) will recommend to the Bank Area Department concerned whether the Bank should approve or reject a project (or request further information), and he or the Director of the Bank Area Department will determine whether a question of policy has arisen for the consideration of the Working Party.
4. The following procedures will be applied:
 - (a) As at present, incoming correspondence from development finance companies relating to projects to be financed from

Bank and IDA lines of credit will come to the Area Departments. They will, as at present, acknowledge them, and route copies of the correspondence to the senior staff member concerned in the Development Finance Companies Department, the Legal Department (Bank) and the Treasurer's Department.

- (b) The Area Departments will be responsible, as at present, for the handling of all projects which do not require the prior approval of the Bank, to ensure that they are immediately credited to the Loan Account.
- (c) The Development Finance Companies Department will be responsible, as at present, for the review of appraisal reports received from development finance companies on projects requiring the prior approval of the Bank or IDA. It will obtain the comments of the Engineering Department of IFC on technical and market aspects of each project. The Working Party, as such, will not be consulted during this review. However, staff members of the Development Finance Companies Department will consult informally with any individual member of the Working Party to the extent necessary to ensure that each case is handled correctly.
- (d) When this review has been completed, the senior staff member concerned in the Development Finance Companies Department will address a memorandum to the Director of that Department, containing a brief analysis of the appraisal and recommendations for acceptance, rejection, or request for further information by the Bank. The Director (or his Deputy) will review that memorandum, and, when he concurs in the recommendation, forward it with an indication of his concurrence to the Director of

draft

the Bank Area Department, attaching, in final form, a letter to be signed by the Area Department Director (or his Deputy) informing the development finance company of the acceptance or rejection of the project, or requesting further information, as the case may be.

- (e) Copies of the memorandum analyzing the appraisal and containing recommendations will be sent to all members of the Working Party, at the time the original is transmitted to the Director of the Area Department. Copies of the latter's letter to the development finance company will be sent to all members of the Working Party by the Area Department when the letter is dispatched.
- (f) If (at stage (d)), in the opinion of the Director of the Development Finance Companies Department, or the Director of the Area Department concerned, a question of policy should be considered before a decision can be taken, the Chairman of the Working Party will be so informed and advised to consult the Working Party, with or without a meeting. The Working Party will make recommendations for action to the Director of the Development Finance Companies Department and to the Director of the Area Department.
- (g) Normally, the reply to the development finance company will be sent within two weeks of the date the project is received in the Bank.

OFFICE MEMORANDUM

TO: *[see below]*

DATE: June 14, 1966

FROM: Michael L. Lejeune

(signed) Michael L. Lejeune

SUBJECT: Development Finance Companies

I am informing you that Mr. Knapp and Mr. Rosen have decided that joint Bank/IFC Working Parties will not consider "sub-projects" submitted by development finance companies to the Bank or IDA for approval unless, in the opinion of the Director of the Bank area department concerned or of the Director of the Development Finance Companies Department, there is a policy issue involved.

Sent to:

Mr. Abdel G. El Emary
Mr. S. R. Cope
Mr. I. P. M. Cargill
Mr. Alexander Stevenson
Mr. Gerald Alter
Mr. S. Aldewereld
Mr. Aron Broches
Mr. Richard H. Demuth
Mr. Andrew M. Kamarck
Mr. Harold N. Graves, Jr.
Mr. M. M. Mendels
Mr. Robert W. Cavanaugh
Mr. William Diamond
Mr. J. David Dodd
Mr. Ladislaus von Hoffmann
Mr. Neil J. Paterson
Mr. R. B. J. Richards

MT/ST #130

OFFICE MEMORANDUM

TO: Mr. Martin M. Rosen

DATE: June 8, 1966

FROM: Michael L. Lejeune

SUBJECT: Development Finance Companies - Approval of Sub-Projects

Since writing my memorandum of May 26 to you reporting where we stood on this question I have heard from Mr. Diamond and Mr. Cope that they have agreed on the attached wording of a statement to be issued on this subject. If you agree, could you please initial the statement and I will issue it for the information of all concerned. Detailed instructions on procedure will follow immediately.

Attachment

cc: Mr. B roches
Mr. Cope
Mr. Diamond
Mr. Fraser
G eneral files

Let's push this out

Today.

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

FROM: Michael L. Lejeune

SUBJECT: Development Finance Companies - Approval of Sub-Projects

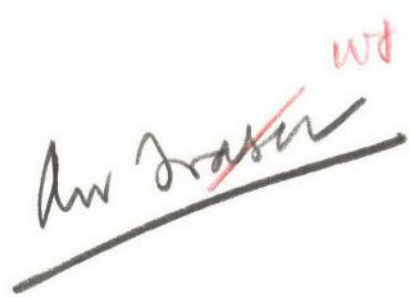
DATE: June 7, 1966

Since writing my memorandum of May 28 to Mr. Rosen reporting where we stood on this question I have heard from Mr. Diamond and Mr. Cope that they have agreed on the attached wording of a statement to be issued on this subject. If you agree, could you please initial the statement and I will issue it for the information of all concerned. Detailed instructions on procedure will follow immediately.

*on file
May 19*

Attachment

cc: Mr. B roches
Mr. Cope
Mr. Diamond
Mr. Fraser
General files



ROUTING SLIP

Date

May 26, 1966

NAME

ROOM NO.

Mr. Rosen



*I have received
a copy
nd*

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

Since I wish to get you a prompt answer to your enquiry I have not been able to show this memorandum to Mr. Cope and Mr. Diamond. I have, however, sent them copies and, if I have not properly represented their views on the narrow point at issue, I will let you know.

From Michael L. Lejeune

OFFICE MEMORANDUM

*Dev Bank's gen**X to P&P Working
Parties*

TO: Mr. Martin M. Rosen

DATE: May 26, 1966

FROM: Michael L. Lejeune

SUBJECT: Approval of Sub-Projects Under Bank Loans
to Development Finance Companies

You asked what had happened about putting into effect the change abolishing consideration of sub-projects by joint IFC/IBRD working parties and vesting responsibility in the Development Finance Companies Department.

The issuance of an instruction has been held up because we have had difficulty in producing for your and Mr. Knapp's approval a draft acceptable to both Mr. Cope and Mr. Diamond. There is no problem over the question of dispensing with routine consideration of sub-projects by a joint working party when there is no policy issue. The problem, as I understand it, is over two inter-related questions: (a) responsibility in matters of policy and (b) the degree to which Bank Area Directors are required to "act on the advice of the Director of the Development Finance Companies Department." As to (a), it is agreed, I believe, that matters of policy shall be jointly considered, but Mr. Diamond interprets your instructions to be that he is to decide what is a matter of policy while Mr. Cope feels that as long as a Bank Area Department Head bears ultimate responsibility for approving a sub-project he should have an equal opportunity to raise and consider points of policy. In the same way Mr. Cope feels that a Bank Area Department Head should not necessarily be bound to accept the advice of the Director of the Development Finance Companies Department, particularly if he is estopped from considering whether policy issues exist.

This issue would have been illuminated if at the same time as you and Mr. Knapp agreed on dispensing with joint working parties for routine consideration of sub-projects you had also decided on who should sign for the Bank in these matters, but you both put that aside for further exploration, which you asked me to undertake. The technical position on this is that under the existing resolutions of the Executive Directors of the Bank only a staff member of the Bank may sign approvals, and both the Director and Deputy Director of the Bank Area Department concerned are authorized so to sign. Routine correspondence is not covered. Presumably, technically Mr. Diamond could be authorized to sign approvals either by making him a staff member of the Bank or by modifying the controlling resolution. To my mind, however, such a technical solution would not go to the heart of the matter.

The basic question is one of responsibility for the administration of a Bank loan. This is a question which comes up in the internal relations in the Bank, particularly between Area Departments and the Projects Department. In this context the principle of "collegiality" has been accepted. The analogy with respect to the administration of sub-projects

May 26, 1966

financed by Bank loans (or IDA credits) would be acceptance of the principle of shared responsibility, particularly on questions of policy. The vehicle for sharing the responsibility (e.g. a joint working party or joint consideration at the Department Head level on matters of importance) is secondary to the principle.

Mr. Cope's proposed draft of the instructions to be issued (attached) would provide that either the Bank Area Department Head or the Director of the Development Finance Companies Department could determine that a matter of policy was involved. This would be in keeping with basic responsibilities as they have been up to now. It may well be that once the Cope/Diamond/Nurick Committee has finished its deliberations, we may need to restate responsibilities, but there is a good case for leaving them as they are meanwhile.

Another reason for leaving this basic question for separate consideration is that it also arises with respect to the division of responsibilities between Bank Area Departments and IFC Area Departments when IFC is acting as an arm of the Bank in the appraisal, negotiation, and administration of industrial loans made by the Bank. The issues are so similar that they should be considered at the same time.

At Mr. Knapp's request I had a brief discussion with him yesterday about the sub-project question, but we had to break off before getting very far.

I would suggest that for the present you and Mr. Knapp accept Mr. Cope's version and that we come back to the more basic question after the Cope/Diamond/Nurick Committee has submitted its report.

Attachment

A handwritten signature in blue ink, appearing to read "Arthur H. Rosen", is written over a horizontal blue line.

cc: Mr. Broches
Mr. Cope
Mr. Diamond
Mr. Fraser

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

May 24, 1966

Mr. Lejeune: *- attached*

The May 9 draft was cleared with Mr. Diamond, but Mr. Cope didn't like it because:

- (a) he thought that mention of the Committee was irrelevant
- (b) he felt that Mr. Diamond should not be the only one to judge whether there was a policy issue. He was not prepared to "base his action" on the advice of the DFC without having had an opportunity to consider it himself (or to have one of his loan officers do so). *- attached*

So Mr. Cope redrafted it (May 19 draft) but Mr. Diamond doesn't like that because it does not repeat Mr. Rosen's instructions re his October 21 memo.

I sympathize with Mr. Cope and believe that if Bank loan officers are properly instructed there will be no need to go through the Working Party procedure automatically every time a sub-project is submitted for approval.

You may wish to take the matter up with Mr. Knapp or Mr. Rosen.

Wf

W. D. S. Fraser

Messrs. Wiese, Fligler, Keltie

May 23, 1966

A. Hernán Mejía

COLOMBIA - Projects sent by CF-Nacional and CF-Norte
for Preliminary Study

1. CF-Nacional has sent us their project "Industrias Metalurgicas Apolo" (metalurgical industry). CF-Norte has also sent us their project "Tejidos Celta Ltda." (textile industry), in order to obtain our preliminary opinion as to their eligibility for financing under the proposed Bank loan.
2. I am sending copies of the projects to our Engineering Department. Our division will prepare two memoranda to the Joint Working Party, after our study of the projects is finished. The conclusions of the Working Party will be transmitted to the financieras.

5/25
Mr. Leguina
Knapp and I agreed
a couple of months ago
that this procedure
would be changed.
What has happened to
putting this change
into effect.

AHMejia/va

cc: Division

DRAFT
WDSF:eg

May 19, 1966

*Issued in final
on June 14 '66*

Department Heads of Bank and IFC

Michael L. Lejeune

Development Finance Companies

I am informing you that Mr. Knapp and Mr. Rosen have decided that joint Bank/IFC Working Parties will not consider "sub-projects" submitted by development finance companies to the Bank or IDA for approval unless, in the opinion of the Director of the Bank area department concerned or of the Director of the Development Finance Companies Department, there is a policy issue involved.

5/9
DRAFT
WDSF:eg
MLL
May 9, 1966

Department Heads of Bank and IFC

Michael L. Lejeune

Development Finance Companies

*Issued in final
on June 14 '66.*

~~As you know, A small~~ Committee consisting of Mr. Cope (Chairman),
Mr. Nurick and Mr. Diamond is reviewing the policies of the Bank and IFC
on development finance companies. ~~and expects soon to render a report.~~
Pending any decisions that may be made as a result of its recommendations,
the only change to be instituted at present is ⁱⁿ the procedure to be followed
in considering and approving sub-projects submitted by Borrowers under ~~the~~
^{or credit agreements or IDA} loan ~~contracts~~ with the Bank. Mr. Knapp and Mr. Rosen have asked me to
inform you that effective immediately the consideration of sub-projects will
be the responsibility of the Development Finance Companies Department of
IFC and the Director of the area department concerned will base his action
on its advice. No consideration by a joint Bank/IFC working party will be
necessary unless, in the opinion of the Director of the Development Finance
Companies Department, a policy issue is involved.

OK with WD.

OFFICE MEMORANDUM

TO: Mr. Michael L. Lejeune

FROM: William Diamond *W*

SUBJECT: Working Parties on Development Finance Companies

DATE: April 29, 1966

Can you tell me the situation regarding the new instruction on joint working parties?

As you know, we expect to agree with the Bank's Area Directors the details of procedure, along the lines of the attached draft. But I don't want to take the draft to them until, either the instruction has been issued or they have been informed that it is about to be.

cc Mr. Skillings

WDiamond:us

*with Mr. Twinn's permission,
Mr. Skillings's draft of April 22 '66
destroyed. IAN
7/21*

4/17

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

April 19, 1966

Mr. Lejeune,

This could, I suggest, be done an alternative way, i.e. inform Wishart so that the matter is brought up at tomorrow's SSM meeting. It would then be recorded in the SSM minutes.



WF

Bill Fraser

DRAFT
WDSF:eg
April 19, 1966

President's Council and Department Heads (Bank & IFC)

George D. Woods

Development Finance Companies

As announced at the Senior Staff Meeting on April 13 (SSM/M/66-14), the Ad Hoc Committee consisting of Mr. Cope (Chairman), Mr. Diamond and Mr. Nurick, which was created in February 1965 to review the policies of the Bank and IFC on development finance companies, has been reactivated. Pending any decisions that may be made as a result of its recommendations, existing procedures will remain unchanged, except that joint Bank/IFC working party consideration of sub-projects is not needed unless, in the opinion of the Development Finance Companies Department, a policy issue is involved.

Cleared with Cope and Diamond

D R A F T

JETWINING:ian
April 12, 1966

DEVELOPMENT FINANCE COMPANIES DEPARTMENT

AMENDED PROCEDURE FOR SUB-PROJECT APPROVALS

Under present procedures consideration of sub-projects proposed for approval under Bank loans and IDA credits to development finance companies is undertaken by members of a joint (Bank/IFC) Working Party. It is proposed that this procedure be changed and that joint Working Party consideration in these cases be abolished.

Responsibility for reviewing and approving sub-projects would be given to the Director of the Development Finance Companies Department. He would be advised on technical questions by the IFC Engineering Department. If, in considering sub-projects, either a question of new policy or a change in any contractual arrangements with a development finance company were involved the Development Finance Companies Department would take no action without the concurrence of the Bank Area Department concerned. If no question of policy or changed contractual arrangements were involved no Working Party review or Bank Area Department concurrence would be required.

MEMORANDUM

(DRAFT) No circulation
4/11/66
Pls Hold
7/25

FROM: William Diamond

SUBJECT: Operational Memorandum on Development Finance Companies

The attached draft of Operational Memorandum 5.10 on development finance companies reflects current policy and practice. Since there has been a fair amount of confusion on that subject lately, the memo is much more detailed than, perhaps, it needs to be.

Some aspects of current policy and practice have been the subject of considerable discussion in the past year or so. Following is a list of the principal questions that have been raised.

1. Link between the Bank and the ultimate beneficiaries of its funds

Should there be specific links between the Bank and those clients of the company which get the use of the Bank's funds? Several reflections of the link may be considered separately:

- a. Committing and disbursing the Bank loan by specific projects. (See para 25 - 27.)
- b. Pre-approving only those large projects which are financed by the Bank loan. (See para 28 - 30.)
- c. Giving the Bank direct and independent rights vis-a-vis those enterprises. (See para 43.)
- d. Tying amortization of the Bank loan to repayments from specific enterprises financed from the proceeds of the loan. (See para 31 - 32.)

2. Domestic expenditure

Should general Bank policy be applicable to development finance companies thus making it possible to use Bank loans to such companies for domestic expenditures in certain circumstances? (See para 36.)

3. Relationship to government

- a. Should the Bank consider loans to a company in which the government has a voting majority, if management and policy are satisfactory? (See para 7.)
- b. Should we insist on "quasi-equity"? (See para 11.)

4. Debt/Equity ratio

The ratio we use is related to the safety of the Bank's loan, for it concerns the ratio of senior debt to all junior capital (whether equity or debt). The law under which a development finance company operates, its charter or its policy statement usually applies a different ratio (a ratio of true equity to all debt of no matter what rank). Should we make use of the second ratio, which is a better test of the company's financial prudence and which indicates its true leverage? (See para 44.)

5. Technical assistance

Should the Bank cover part of the cost of managers, senior staff or advisors of development finance companies in certain cases? (See para 21.)

6. Simplification of procedure for administration of loans to development finance companies (See para 14 - 18.)

- a. Messrs. Knapp and Rosen have agreed that working party consideration of sub-projects is not needed unless, in the opinion of the Development Finance Companies Department, a policy issue is involved. Para 18, the only new element in the draft memorandum, reflects that decision, which has not yet gone into effect.
- b. Should routine correspondence with development finance company borrowers (receipt, acknowledgement and questioning of sub-projects, receipt of and correspondence on end-use reports, crediting the loan account for sub-projects, etc.) be dealt with by the Development Finance Companies Department?

7. Adjustability of "free limits"

Should the Bank be free to raise or lower the free-limit unilaterally, in the light of its continuing assessment of the company? (See para 26.)

OPERATIONAL MEMORANDUM 5.10

Development Finance Companies

1. The Bank is particularly interested in the promotion and strengthening of development finance companies. Its principal objective in this regard is to help build strong and effective domestic investment institutions which can channel domestic savings, as well as external capital, into productive enterprises in the private sector, thereby contributing to the development of the capital market in its member countries. Another objective is to use development finance companies as vehicles through which it can finance private enterprises which, for whatever reason, it cannot finance directly. The Bank's relations with a development finance company reflect these two objectives; its focus is both on the enterprises the company finances, and on the company itself, which it seeks to build into a strong, viable, independent institution.^{1/}

2. There are a variety of institutions which may be called development finance companies and which have in common the objective of formulating, promoting and providing medium- and long-term finance and technical assistance for productive investments. However, the Bank's interest is in companies which are private or predominantly private institutions designed to promote private industrial and other investment on business principles in the interest of the sound economic growth of the country. Such institutions can perform a valuable function by identifying promising fields for investment and helping to bring together the factors of production. By becoming active elements in a country's capital market, they can help to mobilize domestic savings and, in combination with technical know-how, channel them into productive activities. At the same time, they can become channels through which foreign and international capital and skills can flow into the country, reaching enterprises too small to be able alone to attract foreign capital and technology. Because they are themselves private, these finance companies can play a unique role in helping the growth of the private sector.

^{1/} There are, however, occasional special cases when the Bank's primary, if not sole, interest is the final user of its finance, and the intermediary institution is simply a vehicle. This has been the case of the Bank's loans to the Japan Development Bank, for the benefit of particular coal, steel and power enterprises, or the Bank's loans to CORFO and Nacional Financiera for various public projects. Here circumstances peculiar to the member country require the use of an intermediary, but the intermediary is only an incidental object of the Bank's interest.

Conditions for Assistance to Development Finance Companies

3. In looking at requests to help establish, finance or otherwise assist a development finance company, the Bank is governed by the following considerations:

- (a) The development of a strong private sector must be consistent with the member country's over-all aims, and there must exist a climate conducive to the growth of the private sector.
- (b) There must be opportunities for a fairly large volume of private industrial and other productive investment, and hence good prospect for a continuing demand for medium- and long-term loans and for equity capital.
- (c) There must be a clearly defined institutional gap in the capital market which a development finance company will be able to fill.
- (d) The creation or expansion of a development finance company must be a matter of relatively high economic priority in the member country concerned.

4. Where these conditions do not exist, the Bank will not promote or finance development finance companies, but will seek other means to assist such countries in financing their productive sectors. On the other hand, where these conditions do exist, the Bank is prepared to be flexible in applying its policies regarding development finance companies.

Characteristics of Development Finance Companies to be Supported by the Bank

5. In promoting and assisting development finance companies, the Bank prefers a company owned by a broad range of investors, both foreign and domestic, but with a clear domestic majority; having government support in a form which does not give control to the government; providing finance only to privately controlled enterprises, principally but not exclusively in the manufacturing sector; empowered to make medium- and long-term loans, invest in share capital and underwrite securities; committed to act in such a way as to contribute to the growth of the capital market; acting primarily as a financial institution rather than a holding or management company; making its investment decisions after careful appraisal, on the basis of a sound investment criteria and giving due weight to the economic benefits to be obtained; combining financial prudence with a promotional outlook and a willingness to take risks; having both the objective and the prospect of paying a reasonable dividend to its shareholders, while setting aside adequate reserves. It is the developmental orientation of a development finance company, as well as its broadly based ownership, which justify the company's being considered a national institution, and which justify a government in assisting the company. They are also the basic justification for Bank assistance.

6. The Bank prefers these characteristics. However, it is concerned with establishing and supporting in a member country, not an institution with pre-devised characteristics, but rather an institution which fits the needs and suits the conditions of the country. Hence the capital structure, the distribution of ownership, the scope of operations, the policy orientation and other characteristics of development finance companies may differ widely, depending on the interests of their sponsors and the conditions and needs of the member countries in which they are located, while still qualifying for Bank assistance. But several characteristics are essential for Bank assistance.

7. Private Control. Private control helps assure the continuity of sound policy and experienced management and the conduct of operations on economic and financial rather than political criteria. The existence of a governmental interest (direct or indirect) in the company's voting share capital does not preclude Bank assistance if the requisite private capital is not available, if the government is prepared to dispose of its holdings to private investors as and when they become interested, and if the government's interest is not so large as to give it a controlling voice in the company's policies and investment decisions. Normally, the Bank expects a government participation not to exceed 25%, but it is prepared to accept a larger participation. A government participation in excess of 50% is unacceptable, as are also any special rights or powers that give government an overriding voice in the company's affairs (including the choice of management).

8. Domestic Control. The Bank seeks to encourage foreign as well as domestic investors to participate in the ownership of a development finance company, so as to facilitate the introduction of experience in investment banking and contacts with foreign business, both technical and financial. However, domestic investors must hold a majority of the voting capital, in order to assure that the company is identified with the member country and to facilitate the governmental support which it is likely to need.

9. The Corporation has been regarded as national, rather than foreign, in some member countries so that a majority made up of holdings by genuinely domestic investors (including the government) and the Corporation can give the company the requisite image of a national institution. The Corporation is willing, when circumstances justify, to restrict its sales of shares of a development finance company to private investors within the country concerned. The participation by the Corporation can thus help, not only to provide the capital needed to create a development finance company, but also to assure private control and domestic control.

10. Profitability. The development finance company must be potentially profitable. The company should have prospects of paying, in due course, a dividend reasonable in terms of investor expectations in the country concerned. Profitability is a measure of the company's effectiveness and efficiency. And only if it pays appropriate dividends, can the company look forward to increasing its share capital as needed, borrowing ultimately from private sources at home and abroad, and encouraging (by demonstration) others to go into the field of private investment banking.

11. Adequate profitability is sometimes difficult to achieve, especially in the early years, because of the inability of the company to obtain sufficient leverage and a wide enough spread between its borrowing and lending rates. Accordingly, interest-free long-term and subordinated loans, which serve to increase both leverage and spread, are desirable in some circumstances. Such funds, which are called "quasi-equity", serve in various ways to increase the interest of investors in the share capital of the institution. There are, of course, other devices which may be used to achieve the goal of adequate profitability. But, in general, quasi-equity is sought; and, in its absence, there is a preference to wait for concrete results of operation before participating in financing a development finance company.

Statement of Operational Policies

12. On the occasion of a first loan to a development finance company which has not had a long operational record, the Bank normally requires that its sponsors and directors draw up and formally approve a statement setting forth the company's policy orientation. The object of this statement is to assure the Bank that the company's objectives are, and that its behavior will be, consistent with the Bank's own objectives and with the developmental objectives of the member country in which the company is located. The statement is expected to spell out, more precisely and clearly than its charter will, the scope of operations of the company, its investment policies, its general intentions regarding reserves and dividends, and its plans concerning development of a staff.

13. The Bank attributes considerable importance to this statement of policies. The behavior of the company will be continuously judged, in part, for conformity with it. However, the statement is intended to provide, not inflexible regulations, but general guidelines, from which departures may be made in exceptional circumstances, after due deliberation. Additions to, or changes in, the statement may from time to time be required, in the light of the development of the company and the changing conditions of the country. Such amendments require the approval of the Bank.

Organization and Responsibility

14. Responsibility for the formulation, study and promotion of arrangements for the establishment of new, or the reorganization and expansion of existing development finance companies rests with the Development Finance Companies Department of the Corporation.

15. That Department is also responsible for the appraisal of, and negotiations with, development finance companies in connection with proposed investments by the Corporation in them; for the appraisal of such companies in connection with proposed Bank loans; for the recommendation of operational policies, managerial services, technical assistance, and terms and conditions of Corporation investments and Bank loans; for the review of individual investment projects when required; and for the continuing review and reappraisal of the companies in which investments, or

to which loans, have been made. For the purpose of making and administering Bank loans, the Department acts as technical advisor to the Area Departments of the Bank.

16. Development finance companies are dealt with by joint working parties. The Corporation's Area and Development Finance Companies Departments are represented on Bank working parties dealing with development finance companies, even if there is no existing or prospective investment by the Corporation. (The appropriate Area Department of the Bank is represented on a Corporation working party involving a development finance company, even if no loan is involved.) In cases involving only a loan or a loan cum investment, the chairman of the working party is the representative of the Bank Area Department concerned. (In the case of an investment alone, the chairman is the representative of the Development Finance Companies Department.)

17. A loan for a development finance company will be arranged and negotiated in accordance with the regular procedure. If a Corporation investment is being made jointly with a loan or credit, arrangements should be made for simultaneous negotiations; and, subsequently, a joint meeting of the Boards of the Bank and the Corporation will be held to consider the loan and investment documents.

18. In approving projects requiring Bank approval before the Loan Account may be credited, the Bank Area Department Director acts on the advice of the Development Finance Companies Department. The Working Party is not consulted unless, in the opinion of the latter Department, a policy issue is involved.

Types of Assistance Available from the Bank

19. Technical. The Corporation provides technical assistance principally to development finance companies which are present or potential financial clients of the Bank and Corporation. It is available to other companies, including government-controlled companies only when there are prospects that they are likely to become eligible for the Bank's financial assistance.

20. The Corporation advises on the organization or reorganization of a development finance company in a form suitable for Bank assistance, if the conditions referred to in Paragraph 3 prevail.

21. The Corporation is willing to assist a private development finance company in finding management, advisors and senior staff. Neither the Bank nor the Corporation will share the cost of managers, staff or advisors of development finance companies.

22. The Bank and the Corporation arrange training for the senior staff of development finance companies, in modest numbers, in the EDI, the Corporation and other development finance institutions.

23. Financial. The Bank provides loans to help meet the capital requirements of a development finance company. Normally the amount provided at any one time is the sum which (together with other available funds) the company needs, within the limits of prudent borrowing policy, to meet the expected demand for capital over a period of about two years. (The decision as to the amount may be modified in the light of the country's creditworthiness and, in the case of countries eligible for Association funds, by the amount of such funds that can be made available to the country, not earmarked for higher priority projects within that country.) However, the size of a particular loan is not usually a matter of importance since the Bank stands ready, other conditions being favorable, to provide successive loans when the need for fresh funds becomes apparent.

Special Terms of Loans to Development Finance Companies

24. Project Description. The description of the project for which the loan is made reflects the double focus of the Bank's interest: the financing of private enterprises, and provision of capital to enable the company to carry on its business.

25. Commitment of Funds. The commitment and disbursement of the proceeds of the loan are related to the specific investment projects for which they are to be used. A commitment fee is charged only when a commitment is made for a specific investment project, and is applicable only to the amount credited to the loan account for that investment project.^{/1}

^{/1} In the case of an IDA credit, the entire amount of the credit is credited to the credit account on the effective date and no commitment fee is charged, either by the Association to the government-borrower or by the government borrower to the development finance company. In such a case, the Company does not request a credit to the credit account; it asks for permission to withdraw from the credit account.

26. The Bank expects a development finance company to apply high standards in the appraisal of its investment projects. Nevertheless, the Bank takes the right to approve all investment projects before portions of the proceeds of the loan are committed for them. The degree to which the Bank exercises this right depends on its experience with the company; it normally allows a certain degree of freedom. In general, the Bank starts with a new development finance company by allowing it to request commitment of funds for an individual project up to a limit of about \$50,000, without prior approval by the Bank. As the company's staff and experience develop, and as the Bank's confidence in the company grows, the degree of freedom is increased until, in practice, no projects need to be submitted for prior approval.

27. Upon request of the company, the Bank credits the loan account with the amount required for the investment project.¹ In the case of an investment project which does not require approval, the loan account is credited automatically upon request of the company. In the case of an investment project requiring prior approval, the credit is not made until the Bank's approval has been given. Approval and crediting in such cases, are normally simultaneous. However, in certain circumstances, where simultaneous action would create a hardship on a company, the Bank is prepared to consider postponing crediting the account for a reasonable time after approval has been given, pending a request for a credit.

28. Approval of Investment Projects. The requirement of approval is a device for introducing development finance companies to the methods and practices of investment banking, raising their appraisal standards and familiarizing the Bank and the company with each other. It is not primarily designed to assure that particular projects and investment decisions are sound and that the Bank's funds are being properly used in particular projects, or to remove decision-making on particular investment projects from the company to the Bank. In a sense, therefore, the Bank's review constitutes an appraisal of the appraisal rather than an appraisal of the investment project, a check to see that the company has considered all factors relevant to a sound decision. The responsibility for the investment decision remains firmly with the company. Only in unusual circumstances would the Bank substitute its own judgment for that of the company.

¹/In the case of an IDA credit, the entire amount of the credit is credited to the credit account on the effective date and no commitment fee is charged, either by the Association to the government-borrower or by the government-borrower to the development finance company. In such a case, the Company does not request a credit to the credit account; it asks for permission to withdraw from the credit account.

29. The larger the investment project, the greater the care with which the company should have appraised it, and the greater the care with which the appraisal will be reviewed by the Bank, for prior approval of the project. In the case of an unusually large and complex project, the Bank might go more deeply into the substance of the project and might even undertake a field appraisal. However, the Bank expects the company, in most such cases, to seek partners, including the Corporation, to share the risk.

30. To review an investment project, the Bank requires that an adequate amount of information be submitted about it. In order to minimize extra work required of the company, the Bank ordinarily asks for the same documentation that is submitted to the company's Board of Directors, if that is adequate. As regards investment projects which do not require prior Bank approval, the Bank asks only for the basic data required to permit the commitment of funds and their disbursement, and to keep itself informed of the end-use of its funds.

31. Amortization. A Bank loan to a development finance company is repaid in approximate symmetry with the repayments received by the company from its own borrowers. The amortization schedule of the Bank's loan is the composite of the amortization schedules agreed with the company for all the investment projects it has financed with the proceeds of the loan. In order to simplify the administration of this policy, a single amortization schedule is agreed during negotiations, which reflects the estimated composite of repayment schedules of loans to be made with the proceeds of the loan. This prepared schedule is modified from time to time as needed, to bring it into approximate conformity with the amortization schedule of the loans actually made by the company. If the company receives a prepayment from one of the enterprises it has financed from the proceeds of the Bank loan, it must repay the Bank correspondingly.

32. The loan contract specifies a maximum period (usually 15 years) within which repayment of the loan will be completed. The period relates to the individual investment projects financed with its proceeds.

33. Interest Rate. A loan to a development finance company does not fix an interest rate. When a part of the loan is committed with respect to an investment project, the rate applicable to that part of the loan is the Bank's lending rate when the commitment is made.

34. Scope of Operations. The fields of enterprise for which the proceeds of the loan may be used are all those in which the development finance company is allowed by its charter and its policy to operate. If public law or the charter of the company allows operations considered inappropriate for the use of a Bank loan, this fact will be dealt with in the policy statement, which would require withdrawal from such activity.

35. Use of Loan for Share Capital. The loan may be used to finance the company's investments in share capital as well as its loans. However, this is permitted only within the framework of an agreed prudent policy with respect to the aggregate of the company's exposure in equity investments and every such project requires prior Bank approval no matter what its size. When the loan is used to finance an investment in share capital, an arbitrary amortization schedule is agreed with the company for the part of the loan used in this fashion, spread over the maximum number of years allowed in the loan contract.

36. Use of Loan for Working Capital. The loan may be used to finance not only fixed assets, but also the initial stock of raw materials and supplies needed for the commencement of operations, or the increase in such stock needed for the expansion of operations, of an investment project.

37. Use of Loan for Imports. As an exception to normal Bank policy described in 2.03, the proceeds of a loan to a development finance company may be used only for imported goods (whether paid for abroad or purchased from the shelf at home, and including the import component of domestic goods).

38. Use of Loan for Refinancing. Ordinarily the loan may not be used to cover expenditures incurred more than 90 days before the submission of the investment project to the Bank for approval (or, where approval is not required, before the request to credit the loan account). This is designed to encourage a company to enter into the planning of a project at an early stage. However, in the circumstances in which many development finance companies operate, this is very difficult to achieve. Where there are good reasons, therefore, the Bank will consider providing for a longer period in dealing with some companies or waiving it in the case of certain specific investment projects.

39. Although the Bank does not encourage a development finance company to engage in refinancing operations, which may often be required because of poor planning or poor management, the Bank does not object to a development finance company's using some of the proceeds of the Bank loan for refinancing if the investment projects have been carefully appraised and merit finance. For example, the refinancing of permanent working capital in order to achieve a properly balanced financial structure, is often particularly important. Such cases, when considered meritorious, are dealt with as an exception to the normal restriction on financing expenditures already incurred.

40. Foreign Exchange Risk. The Bank will assure itself that the development finance company can and will adequately protect itself against exchange risk. There are various methods by which this can be done.

41. Period of Commitment and Disbursement of Loan. The Bank sets a time limit for the submission of investment projects for crediting to the Loan Account. Since the amount of the Bank's loan is normally determined by the expected demand on the company over a period of about two years, the time limit is usually set at two years, subject to extension by mutual agreement. An additional one to two years is allowed for completion of disbursements.

42. Supervision. The Bank obtains the rights to receive information it requests concerning the operations and financial condition of the development finance company, and to visit the company. The information and regular visits are used to maintain a continuing reappraisal of the performance, position and prospects of the company. All the operations of the company are scrutinized, and not simply those financed with the proceeds of the Bank loan.

43. The Bank also requires that the company obtain from its clients who receive finance from the proceeds of a Bank loan, certain contractual rights on behalf of the Bank, including the right of independent access to the individual investment projects. In practice, the Bank carries out its inspections of investment projects in the presence of the company's representatives.

44. Debt/Equity Ratio. The loan contract carries a limit on the debt which any company may incur. The limit used is an agreed multiple of the equity of the company plus any other sums which, for purposes of the calculation, the Bank is prepared to consider as equity. The agreement reached reflects a compromise between the Bank, which seeks security for its loan, and the company, which seeks maximum leverage. The Bank normally fixes the ratio at three, at the beginning of its experience with a development finance company. It is prepared to increase that ratio in the light of its assessment of the company's loss record, of its portfolio and prospects, of the economic outlook of the country, and of other relevant factors.

45. Audit. The development finance company must retain a firm of independent public accountants acceptable to the Bank, to audit the company's accounts annually.

46. Procurement. It is not practicable to require international competitive bidding of the clients of a development finance company. The Bank does expect, however, that the company, in appraising investment projects, will satisfy itself that the goods and services to be purchased are suitable to the projects and are reasonably priced. In the case of unusually large investment projects, the company is expected to go further and ensure that its clients have canvassed the main sources of supply and are purchasing from the most advantageous source or, if the expense is not prohibitive, are basing procurement on international bidding.

47. General. The Bank relies fundamentally on the Board and management of a development finance company to act in accordance with sound investment banking practices within the framework of a body of policy agreed before the loan is made. The quality of management and performance remain under continuing review. Arrangements must be made for adequate and timely discussion of any intention to change the management or to change substantially the policies agreed upon.

W. Diamond

April 11, 1966

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

Notes by Mr. Lyne

1. What is the written basis for the present ~~at~~ IFC/IBRD working Party review of sub-projects? ~~It~~
2. If (1) exists, does it ~~require~~ name and change
3. Apparently all are left agree that ^{joint} W.P. procedure ~~will~~ should be dropped, what, however, would be the ~~the~~ substitute working and review? (See Rorer letter to Daimons).
4. What is ~~the~~ present position re signing sub-project commitments and correspondence? Do Area Depts save handing over formally? Does Daimons want it? (See Rorer letter).

5. What was the substance
of the memo from Rosen &
Knapp? (see Rosen letter)

6. Did we ever get any
memo from Knapp (see
Turnings memo to M.L.L.) No

7. Is there any legal
problem in transferring
signing responsibility?

8. ~~Is new~~ ^{Is new} org. Sub. Diamond's / But
~~drafting?~~

9/10 I think we should
have a memo for all
concerned setting out
the philosophy and
procedure. This would be
backed up with new or
revised "official documents" &

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#

9. The final paragraph of
the old statement expressed,
albeit in a negative way,
the role of the IDA/IBRD
area Dept. I think
this statement should
make this role clear in
a positive way I appreciate
the role today may be
different from what it
was when the existing
statement was written,
but I don't think
it has evaporated.

#.

OFFICE MEMORANDUM

TO: Mr. Michael L. Lejeune

FROM: J. E. Twining, Jr.

SUBJECT: DEVELOPMENT FINANCE COMPANIES DEPARTMENT

DATE: March 31, 1966

Mr. Diamond is pressing for action to notify appropriate Departments of the Bank and IFC of the changes in procedures agreed to between Messrs. Knapp and Rosen relating to working party considerations of sub-projects of development finance companies.

In his memorandum to me of March 14, which you have seen but which we have not yet discussed, Bill Fraser quite properly points out that three documents are affected by the changed procedures.

For present purposes we can ignore the Operational Memorandum No. 5.10 which is not yet ready for issuance and the Signature of Written Instruments, a draft of which you have and which is also being reviewed by Ellsworth Clark in Legal.

There remains the Organizational Bulletin No. 7 which should be revised and which could serve as a vehicle for announcing the changed procedure. Attached is a draft which incorporates changes which Bill Diamond proposes to make. For your information I have noted on a copy of the present Organization Bulletin which appears in the IFC Manual the changes represented by the new draft. In addition to the necessary revisions in language (e.g. "development finance companies" or "institutions" for "development banks") four basic changes are made in this new draft:

- (1) References to "private" or "privately owned and managed" have been eliminated.
- (2) Paragraph 7, referring to the reorganization of government controlled development finance companies along private enterprise lines, has been eliminated.
- (3) A new paragraph, 8, has been inserted giving the Development Finance Companies Department responsibility to review and approve projects submitted by development finance companies.
- (4) The last paragraph, containing a restraint on Development Finance Companies work with development finance companies without Bank/IDA Area Department review and approval, has been eliminated.

* DEPT's

It seems to me that the changes suggested by Diamond go somewhat further in reorganizing the work of his Department vis-à-vis the Bank

yes.
see my
suggestion

ok
yes, but
it covered
in 6, so ok.

see my
suggestion

Mr. Lejeune

-2-

than contemplated by the Knapp/Rosen agreement -- at least if one uses the letter from Mr. Rosen to Mr. Diamond as the basis for what has been agreed.

I will gladly discuss this with Diamond before proceeding further but meanwhile would like your views.

As to procedure, it appears to me that once we have an agreed revision of the Organization Bulletin it should be issued in the old format for immediate distribution since it will be some time yet before the proposed new Organizational Manual Bank/IFC will be ready. Distribution of this document will adequately inform IFC staff of the changed procedure. To inform Bank staff I suggest that a memorandum from Mr. Knapp to Bank Area Department Heads be prepared to which might be attached a copy of the IFC Organization Bulletin. A draft of such a memorandum is also attached for your review but it would need revision if we ultimately decide that the Organization Bulletin as proposed by Diamond is inconsistent with the Knapp/Rosen agreement.

Attachments:(7)

JET:ian

*11/1/68
Agreed*

Agreed

D R A F T

JETWINING:ian
March 31, 1966

TO: Area Department Heads
FROM: J. Burke Knapp
SUBJECT: MODIFICATION OF PROCEDURE - DEVELOPMENT FINANCE COMPANIES

Further to our discussion of a revision in the procedure for working party consideration of sub-projects submitted by development finance companies, there is attached for your information and for the information of your staff a revised version of the Organizational Bulletin of the Department of Development Finance Companies, IFC. This Bulletin incorporates the procedure we have discussed (see paragraph 8) whereby formal review by working parties of sub-projects will be unnecessary.

Bill Diamond

Have talked with
McC. about the Revised
Org. Bulletin.

Several questions: General
specific

2. Does he have copy of
Rosen memo & Kuapp
referred to in letter to Diamond
This seems to go beyond what is said in
the letter.
- If formal review by
working party is dropped
how will the working level
be kept informed?
3. Isn't signing an
integral part of this and
can we not have the org.
bulletin before we know the answer

Form No. 75
(2-60)

INTERNATIONAL BANK FOR
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CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP		Date	
NAME		ROOM NO.	
	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On
REMARKS			
From			

Agreeing. Who signs for
such projects now? Where
does the signing room stand
are Area Syst. reporting
back to Burke -

(Check copies on this
point)

Is there a legal problem
here?

4. Should we not have
a memo setting out
the philosophy and
procedure for all to
agree - then follow up
with official documents?

5. Eliminate last para
effectively eliminate
Area Syst role - They would
not have some part to play

Form No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date

NAME

ROOM NO.

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

From

the morning,

Need a meeting
of the minds

Who is doing what -

drafting what pieces of
papers -

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

I'm reading & discuss
this whole affair, soon,
briefly, with you and
work with those concerned
(Darius & Cope?) and those
who will write all the relevant
papers.

From

AL

Pls Hold
7/25/66

DEVELOPMENT FINANCE COMPANIES DEPARTMENT

The principal responsibilities of the Development Finance Companies Department are:

- (1) To formulate and promote arrangements for investigating and carrying out projects to establish new development finance companies;
- (2) To consider whether a survey is required, in the country concerned, of the need for and the nature and functions of the proposed development finance company, and to make recommendations for the composition of the survey mission;
- (3) To study and make recommendations for a suitable capital ^{structure} ~~stock~~ for each institution, its legal form and method of constitution, the composition of the Board of Directors and the provision of experienced management; *Policy*
- (4) To prepare a program, for each proposed institution, for exploring sources of capital from private investors or governments or other agencies, and to supervise the carrying out of the program including discussions with potential private investors, local and foreign;
- (5) To make recommendations on proposed operational policies, plans for managerial and technical services, and such other matters as may appear appropriate;
- (6) To make similar arrangements, as in (1) to (5) above, in connection with the reorganization or reconstruction or expansion of existing development finance companies;
- (7) To keep informed on all matters concerning the policies, procedures and problems of development finance companies and provide advice and guidance to the President and Executive Vice President, and the Bank and IFC area departments on these matters;

Does this mean subproject?

- 2 -

- (8) To review projects submitted by development finance companies for Bank, IDA or IFC approval and authorize the approval of the project and subsequent crediting of the loan or credit accounts;
- (9) To handle, in consultation with the appropriate departments of the Bank and IFC, requests from development finance companies for recruitment of foreign personnel;
- (10) To advise, in conjunction with the Administration Department, on programs for training staff members of development finance companies at headquarters of the Bank and IFC.

Ans
clear
who
has
responsibility

WFraser/WDiamond:eg

To ~~exercise~~ ^{exercise} on behalf of the Bank such right or obligations as the Bank may have

With respect to individual projects or purposes of the borrower, a loan or development finance company on its behalf, provided by the Bank or IDA and within policy approved by the Bank or IDA, to exercise on behalf of the Bank or IDA all of the rights or obligations enjoyed by the Bank or IDA under loan or credit agreements between the Bank or IDA and the development finance company.

This would
usually carry
with it the
right to sign

OFFICE MEMORANDUM

TO: Mr. J.E. Twining, Jr.

DATE: March 14, 1966

FROM: W.D.S. Fraser *WDF*SUBJECT: I.F.C. Procedures - Development Finance Companies Department

The proposed new procedure for handling sub-projects of development finance companies will affect three documents:

(a) Operational Memorandum No. 5.10

This O.M., while not yet issued, has been under consideration by a special committee under Mr. Cope's chairmanship for several months. The committee has recently completed its work, and it is now up to Mr. Diamond to prepare a revised draft for consideration by SSM.

(b) IFC Organization Bulletin No. 7

Issuance of a new draft has been held up for several months because of IFC's unwillingness to revise all their organization bulletins for the new Organizational Manual. The attached version was originally prepared by Mr. Diamond. I have changed the nomenclature and have added a new section (9) to cover the subject point. I have sent a copy of the bulletin to Mr. Diamond for approval. We could issue it in the old format for the time being.

(c) Signature of Written Instruments - Bank

Currently a new version of this is being prepared in Legal for inclusion in the "Basic Documents" instead of the Administrative Manual. I have informed Mr. Clark of the proposed change in procedure and he is making the necessary insertions. The revised "Signature of Written Instruments" will shortly be submitted for Mr. Broches' consideration by Mr. Clark. I have suggested to Mr. Clark that Mr. Lejeune ought to have a sight of it. Obviously the fact of Mr. Crowley and Mr. Rasmussen signing certain things should be incorporated. Something may also need to be included about the powers of Chiefs of Resident Missions.

If and when IFC makes loans to development finance companies, a parallel change will have to be made to IFC's "Signature of Written Instruments".

As they are now drafted there is no need to change the existing O.M. on "Country Working Parties" No. 1.04, or the proposed organization bulletins for Bank area departments.

Attachment

OFFICE MEMORANDUM **CONFIDENTIAL**

TO: Mr. W.D.S. Fraser
FROM: J. E. Twining, Jr.
SUBJECT: IFC PROCEDURES - DEVELOPMENT FINANCE COMPANIES DEPARTMENT

DATE: March 11, 1966

DECLASSIFIED**AUG 30 2011****WBG ARCHIVES**

As you will see from the two memos attached Messrs. Rosen and Knapp have been discussing a new procedure for the handling of sub-projects of development finance companies and Mr. Rosen at least thinks that agreement has been reached on part of the arrangements. Mr. Knapp called me about this early last month and Mr. Lejeune and I have been patiently waiting for a memorandum Mr. Knapp said he was preparing which would apparently give his version of the kind and amount of agreement reached. So far I have not been able to get my hands on Mr. Knapp's memorandum - if he ever produced one - although I have called his office about it on several occasions.

In any case, we now have Mr. Rosen's views and must consider the implications of the proposed procedure. Will you please review this memorandum and let me have your comments at least on the question of an Administrative Circular (and what it should say) and on the question of signing authority.

Mr. Lejeune has made a note or two on my memorandum to him of February 4 one of which indicates that Mr. Broches may have contrary views on the recommended procedure. This we will want to discuss with Mr. Lejeune on his return unless Mr. Diamond presses for some action in the meantime.

Attachments:

Mr. Twining's memo of February 4 to Mr. Lejeune;
Copy of Mr. Rosen's handwritten note of February 20 to Mr. Diamond.

JET:ian
ccGeneral Files

FORM NO. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

313

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date

3/2/66

NAME

ROOM NO.

Mr. Lejeune

1210

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

From

William Diamond

Copy of letter written by hand
to Mr. Diamond

20 February 1966

Dear Bill:

*Oct 21 '65
copy attached*

I forgot to tell you that just before I left, Burke Knapp and I talked about my memo to him of a couple of months ago regarding working party review of sub-projects submitted by development finance companies. He has met with all area departments on this and they all unanimously agreed that formal working party consideration -- or even distribution of the documents -- is not needed, unless in the opinion of the Director of DFCs (i.e. you) there is some policy question which ought to be referred to the working party.

*Do we
have
that memo*

I don't know whether any change in the administrative circular is needed for this or not, but I think you should arrange with Mike Lejeune for whatever circular is needed^{so} that this modification of procedure can be put into effect immediately.

Burke and I also talked about the idea of having correspondence with DFCs handled by you, rather than by Bank area directors in so far as it dealt with approvals and other day-to-day matters. He favors this action, but this was not yet settled, since on this point some of the area directors had some things they wanted to think about. You might also ask Lejeune to look into the question of what administrative action would be needed to give you signing authority for sub-projects. You yourself should also think over whether this signing duty for yourself and Skillings would add any burdens to what you are presently doing. If you won't have a working party review of the letters, will you have some sort of internal review system.

Under any circumstances, let's act now to get rid of the present system of working party review of sub-projects, the rest, on signing, can follow later.

Yours,

sgd. MARTY

Martin M. Rosen

copies to Messrs. Knapp
Lejeune ✓
Skillings

OFFICE MEMORANDUM

CONFIDENTIALTO: ~~Mr. Michael L. Lejeune~~

DATE: February 4, 1966

FROM: J. E. Twining, Jr.

DECLASSIFIEDSUBJECT: IFC - CHANGE IN PROCEDURES**AUG 30 2011****WBG ARCHIVES**

Mr. Knapp called Friday afternoon to say that he had a memorandum from Mr. Rosen suggesting that it no longer be considered necessary to put through the Working Party procedure the subproject proposals from development banks and that they could be dealt with directly by the Development Banks Department of IFC with coordination, as required, with Bank Area Departments. Mr. Knapp said that he had consulted the Area Department Heads concerned and that he and they both felt this was a reasonable proposal.

However, he would like us to consider the administrative aspects of this change (among others I can think of this would mean a change in the Operational Memorandum) and would like someone to consider its legal aspects. He said he was not sure whether there were any legal requirements which would make it impossible for, say, Bill Diamond to sign for the Bank or whether there might be other legal impediments to doing what Mr. Rosen suggests.

In any case he will send us a memorandum pointing out the questions he has and asking for our recommendation.

Jim

*It's like to talk to you and
Bill Draser about this some time
soon*

JET:ian

ROUTING SLIP

Date

7/14/66.

NAME

ROOM NO.

Mr. Levine

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

I checked with Knapp's office. He is still gathering info and has not yet written the memo he called me about.

From

[Signature]