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Loan Committee - Minutes - 1969

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-15

December 12, 1969

Minutes of Loan Committee Meeting held at 3:00 p.m. on Thursday, December 4, 1969 in Room C1006

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. L. Cancio
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. R.H. Demuth
Mr. A.G. El Emary
Mr. D.J. Fontein
Mr. K.G. Gabriel
Mr. M.L. Lejeune
Mr. C.G. Melmoth
Mr. A. Stevenson
Mr. M.L. Weiner
Mr. D. Pearce, Secretary

In Attendance:

Mr. C. de Beaufort
Mr. K.S. Krishnaswamy
Mr. P.M. Mathew
Mr. R.S. Nelson
Mr. C.E. Rosenblad
Mr. R.E. Ribi
Mr. R.H. Sheehan

B. Mexico - Third Power Sector Program

1. The Committee considered the Western Hemisphere Department's memorandum of December 3, 1969 (LC/O/69-105) entitled "Mexico - Proposed $125 million loan for Third Power Sector Program" and the accompanying appraisal report (PU-27) and noted that the proposed project comprised the 1970-71 investment program of the Mexican power sector. Total expenditures on the program were expected to amount to $491 million, of which $280 million external financing would be covered by $147 million from the Bank ($125 million from the proposed loan and $22 million from loan 544-ME), $76 million from supplying countries and $57 million from external bond issues and the remaining $211 million equivalent would be covered by internal cash generation and contributed by the government and others. While there were no major

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Committee:

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

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

issues for the Committee to decide, the meeting had been called to review two interesting aspects of the proposed project, namely (a) the proposed external financing plan and (b) the question of frequency unification.

2. The Western Hemisphere Department, drawing attention to the memorandum from the Secretary of July 17, 1969 (SecM69-376), described the proposed new system of "parallel financing" agreed with the Mexicans as a means of increasing the financing made available by equipment-supplying countries and reducing the administrative burden of previous joint financing arrangements under Loans 436-ME and 544-ME. However, at a meeting held in the Bank on November 6, the supplying countries had objected to one of the new features of the "parallel financing" system - the inclusion of credit terms as a factor in the evaluation of bids - and expressed preference for continuation of joint financing arrangements. They had also indicated their willingness to consider increasing their share of joint financing and another meeting was scheduled for December 17 in Paris to reach agreement on the financing plan. The Committee was told that $125 million was the absolute limit for the Bank's contribution to the project; as far as the 60 per cent/40 per cent formula for sharing the financing by the Bank and supplying countries respectively was concerned, about which the Mexicans were unenthusiastic, a compromise 50 per cent/50 per cent arrangement might be agreed. The Western Hemisphere Department added that agreement on uniform maturity terms of 12 years from date of delivery was unlikely but that the Bank would insist on a minimum of 10 years. Parenthetically, it was noted that a 12 year term would technically violate the Berne Convention on suppliers' credits but, if all the supplying countries in the project agreed, which was in any case unlikely, this would not be a substantive problem.

3. Apropos the problem of action on frequency unification, the Public Utilities Projects Department described the history of and plans for the conversion of the existing 50 cycle system to 60 cycles. The conversion of the Mexico City area system, at an estimated cost of about $150 million, continued to be economically justified (the estimated rate of return was 14 per cent). Progress in this matter should thus be an essential condition of the proposed project. Presentation of the loan to the Executive Directors would not be made until the Bank had received from the borrower a time-phased plan for the first phase of the physical changeover, with specified dates against which progress could be measured and, if necessary, disbursements linked (cf. Area Memorandum, paragraph 6).

4. The Committee approved the Area Department's recommendation (paragraph 8 of the Area Memorandum) that representatives of the Comision Federal de Electricidad and the Government be invited to Washington for negotiations of the proposed loan.

C. Adjournment

5. The meeting adjourned at 3:55 p.m.

Secretary's Department
December 12, 1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-15

December 12, 1969

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3:00 p.m. on Thursday, December 4, 1969
in Room C1006

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Mr. M.L. Weiner
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Director, Economics Department
Director, Development Services Department
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Vice President (IFC)

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C. Adjournment

5. The meeting adjourned at 3:55 p.m.

Secretary's Department
December 12, 1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-14

December 1, 1969

Minutes of Loan Committee Meeting held at 3:30 p.m. on Friday, November 14, 1969 in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. R. Cope
Mr. W. C. Baum
Mr. A. Broches
Mr. I. P. M. Cargill
Mr. A. G. El Emary
Mr. K. G. Gabriel
Mr. F. R. Poore
Mr. F. Povey
Mr. A. Stevenson
Mr. G. M. Street
Mr. G. K. Wiese
Mr. D. Pearce, Secretary

In Attendance:

Mr. J. H. Collier
Mr. W. Diamond
Mr. E. Erkmen
Mr. A. Memon
Mr. G. E. Okurume
Mr. C. V. R. Panikar
Mr. G. Wyatt

B. Malawi - Power Project

1. The Committee considered the Eastern Africa Department's memorandum of November 12, 1969 entitled "Malawi - Proposed Credit for a Power Project" (LC/O/69-98) and the accompanying appraisal report (PU-24), which recommended an IDA credit of $5.25 million for a project comprising the three year investment program (1970-72) of the Electricity Supply Commission of Malawi (ESCOM). The total cost of the project was estimated at $12.4 million, including foreign exchange costs of $8.25 million, of which the proposed IDA credit would meet the foreign exchange costs of hydro-electric power generation at Tedzani ($5.25 million) and a proposed African Development Bank (ADB) loan would finance those of power transmission from Tedzani to Blantyre and Lilongwe ($3 million). The main issue for discussion concerned the proposed joint financing arrangements

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with ADB, the first cooperative venture of this nature, including procedures for the joint administration of the project.

2. The Committee was told that the Government of Malawi had first requested financial assistance for the project in February, 1968, at which time Bank concern about the Government's handling of economic and financial matters had caused a hiatus in relations with Malawi. Following a letter from President Banda to the President of the Bank in April, 1969 requesting reconsideration of the project, an economic mission had re-examined the situation and concluded that Malawi's performance had sufficently improved to warrant consideration of renewed IDA lending. By this time, the African Development Bank, which had no soft (IDA-type) funds, had been invited to participate in the financing and an IBRD/ADB mission had appraised the project in October, 1969. The East African Department, noting these factors in the project's history, said that it would be difficult to exclude ADB from the project at this stage. Moreover, the participation of ADB, whose procurement procedures required international competition open to all countries of the world, was justified on general grounds of cooperation with a sister agency and also as a form of Bank technical assistance to a young, relatively inexperienced institution.

3. The Chairman, while accepting in principle this rationale for IDA/ADB joint financing, commented that this was hardly the most efficient way of financing and executing the project. Previous experience of joint financing in other countries indicated that joint administration of projects raised potentially serious problems. Furthermore, while he appreciated that ADB had no 'soft loan' funds, he was concerned, in view of the Bank group's assessment that Malawi was "IDA-worthy" and not credit-worthy for Bank loans, that we were accepting hard loan financing as part of the package (the ADB loan would be at 7 percent for 25 years including a 4 year grace period). Among other things, this meant that the ADB loan, as far as debt service was concerned, would enjoy a senior position to the IDA credit, contrary to our usual position vis-a-vis co-lenders.

4. The Eastern Africa Department pointed out that the project entity was self supporting. The proposed credit would be relent to ESCOM on conventional terms and the ADB loan would be relent to ESCOM on ADB terms.

ADB's loan to Malawi involved a greater risk than IDA's credit. The Deputy Chairman noted that ADB's higher risk in the project was not ultimately a concern of the Bank Group. The Chairman, summarizing the discussion on this point, agreed that the joint financing with ADB was acceptable for historical and technical assistance reasons. However, it was an inefficient way of financing this project and should not be regarded as establishing a pattern for the future.

5. The Committee reviewed the proposed arrangements with ADB (paragraph 8 of the Area Memorandum) and noted that, together with two separate sets of credit and loan agreements between the Government and IDA and ADB respectively, the two creditors would negotiate an understanding on such matters as loan/credit effectiveness, use of consultants, procurement procedures, supervision, disbursement and default conditions. While the parts of the project being financed by IDA and ADB were physically separable and different contractors would be employed for each part, the project entity was the same and the IDA-financed component (generation) was dependent on the ADB-financed component (transmission). The ADB loan and IDA credit agreements should contain common provisions to ensure effective joint implementation of the entire project.

6. The Committee finally noted that eventual surplus funds in the credit account would be used for additional investment within the purposes of the project and subject to the Association's approval. This provision was justified on the basis that the project comprised a slice (1970-72) of an on-going investment program.

7. The Committee approved the Eastern Africa Department's recommendation that representatives of the Government of Malawi and the African Development Bank be invited to Washington to commence negotiations for the proposed credit.

C. Adjournment

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

Secretary's Department
December 1, 1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-13
September 12, 1969

Minutes of Loan Committee Meeting held on August 27, 1969 at 11:00 a.m. in the Board Room.

A. Present:

Mr. S. R. Cope, in the Chair
Mr. B. Chadenet
Mr. J. H. Collier
Mr. W. Diamond
Mr. K. G. Gabriel
Mr. R. J. Goodman
Mr. M. L. Hoffman
Mr. M. L. Lejeune
Mr. P. Stella
Mr. A. Stevenson

In Attendance:

Mr. L. Cancio
Mr. J. Garcia Rayneri
Mr. P. C. H. Goffin
Mr. R. Helling
Mr. S. S. Husain
Mr. P. M. Matthew
Mr. F. Stubenitsky

B. Brazil - Banco do Nordeste do Brasil S. A.

1. The committee considered the Western Hemisphere Department's memorandum of August 20, 1969 entitled "Brazil - Proposed $25 million loan for industrial credit to Banco do Nordeste do Brasil, S. A. (BNB)" (LC/O/69-81) and the accompanying appraisal report (DB-52) and noted that the proposed loan, which was designed to cover the foreign exchange component of BNB's lending for medium and long-term industrial credit during 1970-71, would help finance industrial development in the Northeast of Brazil.

2. The Area Department, noting that an economic mission had visited Brazil in March/April and was now completing its report, said that the size of the Bank's proposed lending program to Brazil (e.g. up to $210 million in FY 1970) assumed continued progress in two main areas, (a) a further decline in the rate of inflation and (b) a flexible exchange rate policy. In addition, the proposed loan to BNB was contingent upon the introduction of a positive interest rate policy for medium and long-term industrial credit extended by government institutions. The Government had recently proposed full indexing

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for loans of more than five years by the three major official banks, Banco do Brasil, the National Development Bank (BNDE) and BNB (about 50% of their medium and long-term lending); the interest rates of these loans would be 4-8%. Loans for two to five years would bear a fixed interest rate of 22% which, assuming a rate of inflation in 1969 of somewhat less than 20%, would yield a low but positive interest rate. The proposed changes in interest rates would be introduced in January 1970 and their implementation would be a condition for effectiveness of the proposed loan. Loan negotiations would be delayed until the National Monetary Council had adopted a resolution giving effect to the new formula on January 1, 1970.

3. The Committee noted that the choice of BNB, a large well-established institution with government and private shareholdings approximating 70% and 30% respectively, as the vehicle for the proposed loan was based on two main considerations:

(a) BNB was a crucial instrument of government policy for the promotion on a priority basis through productive investments of the economic development of the Northeast, a hitherto relatively neglected region. The proposed loan would enable the Bank Group to improve its contribution to the development of the region.

(b) While the proposed loan was relatively small in terms of BNB's total resources and operations, it nevertheless provided the Bank with leverage to influence Government policy with respect to the cost of industrial credit and BNB's financial management and policy.

Moreover, while the proposed loan to BNB, which was primarily for industrial credit, could not be tied to performance in the area of agricultural credit - a subject of some concern to the Bank - it offered continuing opportunities to observe the agricultural credit operations of an important institution before negotiation of a proposed agricultural credit loan to BNB.

4. The Committee reviewed in some detail the conclusions and recommendations of the appraisal report (paragraphs 95-98), and noted that:

(a) The implemenation of a satisfactory system of interest rates for medium and long-term industrial credit extended by Government institutions would be a condition for the effectiveness of the proposed loan.

(b) The proposed restraint on BNB's total debt and term loans in relation to equity took into account the multipurpose nature of the institution's activities.

5. The Development Finance Companies Department suggested that an adequate rate of return on the capital employed by BNB in investing in industry which would be something over the Bank's lending rate, should be required and, in addition, assurances concerning an adequate return on BNB's equity. This second test, which concerned not the effective use of the BNB's overall resources, but rather the underpinning for the Bank's loan, should be

a return on equity which enabled BNB at least to cover all costs, including a fair estimate for losses. This should be about 4-5% in real terms. Consequently, in place of Section C of paragraph 98 of the Appraisal Report, the Development Finance Companies Department recommended the following approximate wording:

> "There should be an explicit understanding between the Brazilian Government, BNB and the Bank that (a) if the return on capital employed (in real terms) in financing industry drops below an acceptable level, or (b) if the return on BNB's equity (in real terms) drops below an acceptable level, the Brazilian Government will take measures, or will sllow BNB to take measures, to correct the situation."

6. The Committee accepted the Development Finance Companies Department's suggestion and approved the Area Department's recommendation that, subject to the condition referred to in paragraph 2 above, the Government of Brazil be invited to negotiate a loan of $25 million on the terms set forth in the Appraisal Report with the additional covenant mentioned in paragraph 5 above and in conformity with paragraph 7 of the Area Memorandum.

C. Adjournment

The meeting adjourned at 12:30 p.m.

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-12

August 21, 1969

Minutes of Loan Committee Meeting held on Wednesday, August 6, 1969 at 2:30 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. G. Alter
Mr. W.C. Baum
Mr. I.P.M. Cargill
Mr. B.M. Cheek
Mr. R.H. Demuth
Mr. K.G. Gabriel
Mr. A.M. Kamarck
Mr. M.L. Lejeune
Mr. P. Sella
Mr. G.M. Street
Mr. J.H. Williams
Mr. D. Pearce, Secretary

In Attendance:

Mr. F. Abbate
Mr. L. Cancio
Mr. J. Fajans
Mr. P.M. Mathew
Mr. Y. Rovani
Mr. R.F. Skillings
Mr. A.D. Spottswood
Mr. E.C. Wessels
Mr. G.K. Wiese

B. Argentina - Third Loan to SEGBA

1. The Committee considered the Western Hemisphere Department's memorandum of July 30, 1969 entitled "Argentina - Proposed Third Loan to SEGBA" (LC/O/69-76) and the accompanying appraisal report (PU-19), and noted that the proposed $60 million loan would help finance a $234 million equivalent project for the expansion of power facilities in Buenos Aires during the three year period 1970-72.

2. The Area Department drew attention to a minor change in the grace period for the proposed loan, which would be for a term of 20 years, including a grace period of 4, rather than 3½ years.

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3. The main issue for discussion concerned procurement, in particular SEGBA's proposal that the 15% preference margin for Argentine manufacturers be combined with conditional reservation of part of the orders for Argentine manufacturers. Under this proposal, bids for each of the various categories of equipment (cables, transformers, meters, etc.) would be invited for two-thirds of the quantity of each item required, with an option for the remaining one third. If the lowest evaluated local bid for two-thirds of the order did not exceed 115% of the lowest foreign bid, the entire order would be awarded to the Argentine supplier and the Bank would finance its foreign exchange cost. If, on the other hand, the lowest Argentine bid exceeded the 15% margin, the foreign supplier would be awarded two-thirds of that order with the Bank's full financing; in this case, the remaining one-third of the order would be financed by SEGBA and would go to the lowest Argentine bidder at a price related to the lowest foreign bid, probably about 20% in excess of the c.i.f. price of the lowest foreign supplier plus 15%.

4. The Area Department said that the Argentine proposal represented a compromise between the procurement procedure under the Bank's first loan to SEGBA (308-AR), where large blocks of orders had been received for Argentine procurement (and financed by SEGBA) without any limitation agreed with the Bank on the price, and the procedure under the second loan (525-AR), where all equipment had been subject to international competitive bidding. However, the effect of this new formula would be that the reserved portion of SEGBA's procurement would cost SEGBA around 138% of the lowest foreign bid, which was excessive. Accordingly, the Area Department proposed to seek agreement during negotiations to an effective preference of no more than 25% under the conditional reservation scheme.

5. The following points were noted in discussion:

(a) The Argentine proposal merited serious consideration in that, so far as the Bank was concerned, it retained an element of international competitive bidding, through a pricing test related to 115% of the lowest foreign bid, even in the one-third procurement reserved to domestic suppliers; this, in turn, resulted in a limitation upon the additional cost imposed on the project under the conditional reservation scheme.

(b) While a foreign bidder would not receive more than two-thirds of a particular order, an Argentine bidder, if his tender for two-thirds of the order did not exceed 115% of the lowest foreign bid, could receive the entire order, in which case the proposed Bank loan would finance the foreign exchange cost (45%).

(c) While the effective protection accorded to Argentine suppliers resulting from economies of scale under their option to bid for 100% of an order, compared with the 66% limitation on foreign suppliers, might be regarded as unfair by foreign bidders, the marginal economies in this particular case were not expected to be significant. In any event, foreign bidders would be aware at the outset of the Argentine option for the remaining one-third which, in the circumstances, was an acceptable procedure.

6. The Chairman, noting that the proposed formula would create a precedent in this area, in particular the introduction of two classes of protection, felt nevertheless that it was worth trying in this case. He added that the question of reserved procurement would have to be faced by the Executive Directors in due course but that, in the meantime, the present proposal with its pricing-test feature, was an acceptable formula.

7. The Committee approved the Area Department's recommendations (para. 17 of the area memorandum) namely, (a) that SEGBA and the Government be invited to negotiate a loan of up to $60 million on the terms and conditions given in the appraisal report and (b) that, in the event of the Government being unable to accept the Bank's normal procurement procedure, the Bank should explore a conditional reservation scheme, as a complement to the Bank's normal preference system, under which the extra cost to SEGBA of the reserved procurement would be limited to 25%. (cf. paragraph 4 above).

C. Adjournment

8. The meeting adjourned at 3:15 p.m.

N.B. Apropos paragraph 5 (b) above, it was found, subsequent to the meeting, that the average foreign exchange component was about 60% (the same percentage used in Loan 525-AR), not 45% as stated at the meeting.

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-11

August 15, 1969

Minutes of Loan Committee Meeting held on
Wednesday, July 30, 1969 at 11:00 a.m. in the Board Room

A. Present:

Mr. S.R. Cope, in the Chair
Mr. G. Alter
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. I.P.M. Cargill
Mr. B.M. Cheek
Mr. J.H. Collier
Mr. R.H. Demuth
Mr. S.S. El-Fishawy
Mr. G. Kalmanoff
Mr. F.R. Poore
Mr. G.M. Street
Mr. D. Pearce, Secretary

In Attendance:

Mr. M.P. Bart
Mr. P.M. Mathew
Mr. F. Mendoza
Mr. L.B. Rist
Mr. R. Sadove
Mr. R. Venkateswaran

B. Morocco - Highway Improvement and Maintenance Project

1. The Committee considered the memorandum from the Europe, Middle East, and North Africa Department of July 25, 1969 entitled "Morocco - Highway Improvement and Maintenance Project" (LC/O/69-74) and the accompanying appraisal report and noted the inclusion in the project of an additional road. The latter increased the amount of financing required for the project from $9.2 million to $14.4 million, which it was proposed to cover with a loan and a credit of $7.2 million each.

2. The main issue raised in the area memorandum (paragraphs 8-10) and appraisal report (paragraphs 4.13-14) concerned the preference to be accorded local assembly plants for vehicles to be financed under the project, in particular the possibility of relating the level of preference to domestic value added. Application of the normal 15% preference for domestic suppliers in comparing bids by adding 15% to the c.i.f. costs of

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competing imports (in lieu of existing duties) resulted in a negative preference on the domestic value added of locally assembled vehicles because duties on sub-assemblies and other components imported by the assembly companies increased ex-factory prices by about 22%. On the other hand, comparison of bids on the basis of a 15% increase in c.i.f. costs of imports and ex-factory costs of locally assembled vehicles net of duties on imported components resulted in an effective protection of 75% on domestic value added. Thus, current Bank policy presented difficulties where, as in this case, a local industry had a relatively low domestic value added and was subject to relatively high duties on imported components of the domestic product. An alternative approach was to base the decision on preference to domestic manufacturers on the desirable degree of effective protection for domestic value added. In this project, where the average domestic value added was 20%, the margin of preference on c.i.f. costs of competing imports required to achieve effective protection of 15%, 25%, or 40% would be 3%, 5%, or 8% respectively, provided that the duties applicable to imported components used in local assembly were not included in ex-factory costs for bid evaluation purposes. If duties were included, the margin to be added to c.i.f. costs in bid evaluation would be 25%, 27% or 30% respectively.

3. The Area Department, drawing attention to recent statements to the Executive Directors by the Bank's management that basing the margin of preference on value added would be administratively extremely complicated, questioned whether such a complex and sensitive proposal, which involved a substantial departure from previous policy and practice, should be presented within the context of a single project. Moreover, they doubted whether the preference margins proposed by the Projects Department, equivalent to 3-8% on c.i.f. costs of competing imports, would offer any effective advantage to domestic plants. Specifically, the value added proposal would make negotiations with the Moroccans extremely difficult in view of earlier precedents (cf. Caisse Nationale de Credit Agricole (CNCA) (433-MOR) where the c.i.f. costs of imported goods, plus the 15% margin, plus transportation from the point of entry had been compared to ex-factory prices of locally produced or assembled goods, minus taxes and import levies on imported components, plus internal transportation costs) and the absence of a new policy approved by the Executive Directors. Accordingly, the Area Department recommended the same formula used in Loan 433-MOR to CNCA which, although resulting in an effective protection on value added of 75% in this case, was broadly consistent with previous Bank practice in similar circumstances.

4. During the extensive discussion which followed, these main points were noted:

(a) In several countries, it was Government policy to waive import duties on foreign components for local assembly plants and industries which, under the Bank's normal policy of allowing 15% preference to

domestic suppliers, increased the effective protection on domestic value added above 15%; the precise amount of additional effective protection varied inversely with the proportion of domestic value added;

(b) This result of the application of the Bank's policy of according 15% preference to domestic suppliers was known and had been accepted by the Bank in previous cases;

(c) The procedure followed in Loan 433-MOR, and in several other cases, where import duties on components were disregarded for bid comparisons even though they were not rebated by the Government, was an exceptional one and not normal Bank policy;

(d) The above considerations raised the general economic question of protection of "infant" industries, including their definition, composition and viability; this issue was being included in current staff studies concerning domestic preferences;

(e) The introduction of the value-added concept at this transitional stage of the Bank's review of the entire protection issue was considered by some to be inappropriate.

5. The Deputy Chairman said that, apart from the Area Department's recommendation, there were three alternative approaches to the problem in this project:

(a) To allow the normal 15% preference to domestic suppliers which, depending on whether or not the Moroccans waived import duties on components, would result in negative protection or 75% protection on value added;

(b) To apply the 15% margin to the c.i.f. costs of imports and also to the imported components of locally assembled vehicles, which would provide effective protection of 15% on value added;

(c) To allow a waiver of import duties only on the 55% of the value of all assembled vehicles comprising directly imported sub-assemblies, which it was estimated would reduce the effective protection on value added from 75% to about 40%.

6. The first alternative (a) was clearly the most favorable for the Moroccans, assuming they waived import duties on components with the Bank's tacit approval. The other two would reduce the amount of effective protection permitted in the previous loan (433-MOR) to Morocco and the Area Department felt that it would be difficult to negotiate this loan on that basis. The Deputy Chairman said that he would refer these alternatives to the President for his views and decision.

7. Subject to a decision on the above, the Committee approved the Area Department's recommendation that the Government of Morocco be invited to send representatives to Washington to negotiate a loan and credit of $7.2 million each substantially in accordance with the recommendations of paragraph 6.02 of the appraisal report.

C. Adjournment

8. The meeting adjourned at 12.40 p.m.

N.B. At a Special Loan Meeting held on August 5, it was decided that alternative (b) above should apply, namely that for bid comparison purposes a 15% notional duty on imported components of locally assembled vehicles would be permitted in lieu of the present higher duties. The domestic bid price so adjusted would then be compared to the c.i.f. price of foreign bids increased by the Bank's normal preference margin of 15%. The resultant effective protection to local assembly operations would be 15%.

Secretary's Department
August 15, 1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-10

August 8, 1969

Minutes of Loan Committee Meeting held on
Wednesday, July 23, 1969 at 11:00 a.m. in the Board Room

A. Present:

Mr. S.R. Cope, in the Chair
Mr. G. Alter
Mr. W.C. Baum
Mr. M.P. Benjenk
Mrs. S. Boskey
Mr. B.M. Cheek
Mr. L. Nurick
Mr. F.R. Poore
Mr. A. Stevenson
Mr. G.M. Street
Mr. J.H. Williams
Mr. D. Pearce, Secretary

In Attendance:

Mr. L.W. Bartsch
Mr. L.J.C. Evans
Mr. S.S. El-Fishawy
Mr. P.M. Mathew
Miss A. Maher
Mr. J.M. Malone
Mr. D.H. McCall
Mr. L.B. Rist
Mr. W.A. Wapenhans

B. Morocco - Rharb (Sebou Basin) Irrigation Project

1. The Committee considered the Europe, Middle East and North Africa Department's memorandum of July 18, 1969 (LC/0/69-73) entitled "Morocco - Rharb (Sebou Basin) Irrigation Project" and noted that the proposed $40 million loan would finance the foreign exchange component of the first phase of the integrated development of the Sebou Basin, including the construction of the Arabat dam and irrigation and improved rainfed farming in part of the Rharb plain.

2. The Area Department, referring to the difficult history of two previous agricultural loans to Morocco (cf. paragraphs 2 - 6 of the area memorandum), said that the resumption of lending to the Moroccan agriculture sector was justified on three main grounds; namely (a) following protracted discussions with the Government, agreement had been reached in September 1968 on all outstanding issues, including corrective measures for the Sidi Slimane project and certain

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Committee:

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

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Vice President (IFC)

steps to improve the organization of the Ministry of Agriculture; (b) agriculture was a strategic sector for Morocco and the Government attached considerable importance to the proposed Rharb Sebou Basin project; by lending for this project, the Bank could exercise leverage with respect to agricultural, organizational and land reform policies in the most productive area of the country; (c) Bank assistance would help consolidate recently improved relations with Morocco. The Agriculture Projects Department added that, while the question of Government priorities for agricultural investment might remain a problem, there was no doubt about the proposed project's economic importance. As far as organization and management were concerned, which had caused problems in the two previous loans, the Moroccans had in principle accepted the Bank's advice with respect to consultants' services for strengthening the organization of the Regional Agricultural Development Office to carry out the project efficiently. Moreover, the employment of general and specialized consultants acceptable to the Bank for supervisory assistance during the project's execution would be a condition of effectiveness of the proposed loan.

3. During the discussion of particular aspects of the proposed project, the Committee noted that:

(a) The estimated rates of return to the economy (11% at full estimated capital cost and 13% assuming a zero opportunity cost for unskilled construction labor) excluded the cost to the Government of land to be expropriated for the project; however, they also excluded the domestic value added by increased farm input production or crop processing as a result of the project.

(b) The procedures to be followed in expropriation and evaluation of land were specified in the proposed Agricultural Investment Code, although the Moroccans' intentions with respect to evaluation of the land and repatriation of proceeds for compensation to foreign (mainly French) landowners were not yet clear. The Moroccans would be asked to specify proposals during negotiation of the proposed loan; the techniques for payment (e.g. directly in foreign exchange or indirectly through trade arrangements with France, as in the case of Tunisia) would also be discussed during negotiations.

(c) Although the project's foreign exchange component was relatively low ($28.6 million plus $11.4 million for interest during construction against $68.4 million local costs) and the Government had asked the Bank to consider financing some local currency costs, Morocco's satisfactory but not yet optimal public savings performance and the absence of other exceptional circumstances made it preferable to limit financing at this time to foreign exchange costs.

4. Apropos paragraph 3 (b) above, the question of the timing of Bank consultations with the French Government concerning compensation for expropriated land was discussed briefly. The Area Department said that, since the Moroccans' proposals were not yet known and in view of their probably complex nature, they did not intend to consult the French formally at this stage. The Committee noted, however, that the notice of intention to negotiate the proposed loan would advise the French Executive Director of the project's status.

5. The Committee noted that payments under the Arabat dam contract, signed May 13, 1969 would be eligible for reimbursement (cf. appraisal report, paragraph 4.28 and area memorandum, paragraph 10). The Projects Department said that these payments would amount to about $300,000, which the Bank would finance retroactively.

6. Finally, the Committee noted that the recent increase in the Bank's lending rate from 6½% to 7% would increase the interest component of the proposed loan by about $1.2 million. The Chairman agreed that the proposed loan should be increased by $1 million, to $41 million.

7. The Committee approved the Area Department's recommendation that the Government of Morocco be invited to send representatives to negotiate a proposed loan of $41 million, substantially in accordance with the recommendations contained in Section VIII of the appraisal report and paragraph 18 of the area memorandum.

C. Adjournment

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

Secretary's Department
August 8, 1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-9

May 16, 1969

Minutes of Loan Committee Meeting held on Monday, April 28, 1969 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. A. Broches
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. S. R. Cope
Mr. R. H. Demuth
Mr. M. L. Lejeune
Mr. E. H. Rotberg
Mr. A. Stevenson
Mr. G. M. Street
Mr. J. H. Williams
Mr. I. M. Wright
Mr. D. Pearce, Secretary

In Attendance:

Mr. W. C. Baum
Mr. C. M. Bolt
Mr. L. J. Evans
Mr. K. D. Hartwich
Mr. M. L. Hoffman
Mr. A. Karaosmanoglu
Mr. J. M. Malone
Mr. P. M. Mathew
Mr. K. Myint
Mr. P. Sella
Mr. J. L. Upper

B. United Arab Republic - Nile Delta Drainage Project

1. The Committee considered the memorandum of April 23, 1969 from the Europe, Middle East and North African Department, entitled "United Arab Republic - Nile Delta Drainage Project" (LC/O/69-50) and noted that the proposed project, which was the first phase of a multi-stage program to provide improved drainage in four million feddans in the Nile Delta and eventually throughout the entire Nile Valley, would provide covered tile drainage for 947,000 feddans over six years at a total cost of approximately $144 million equivalent, of which $26 million, the amount of the proposed credit, was in foreign exchange.

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Committee:

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

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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

2. The Area Department, recalling that the Committee had last reviewed the Bank's relationship with the UAR in June, 1968 (cf. LC/O/68-44 of May 31, 1968 and LC/M/68-19 of June 17, 1968), stated that the January 1969 economic mission, which had paid special attention to the agricultural sector, had confirmed previous judgments that the UAR was not at present credit-worthy for Bank lending. However, despite serious deficiencies in economic performance, some IDA financing was justified and the proposed credit for the Nile Delta Drainage program, to which the Government attached high priority in its efforts to increase agricultural production, would contribute to a strengthening of mutual confidence and relations between the UAR and the Bank Group. In this connection, the Area Department added that, since the UAR was unlikely to become eligible for Bank loans in the near future, the probable modest scale of further lending, which would depend, among other factors, on the amount of IDA resources allocated to the UAR, was itself a problem. Consequently, the by-products of project financing, rather than the absolute volume of lending, would effectively determine the scope of the Bank's immediate influence in the UAR. In this case, for example, the proposed credit, while comparatively large in per capita terms, was very small in relation to the UAR's needs; on the other hand, the project was part of the largest single tile drainage operation ever undertaken anywhere.

3. The Chairman invited the Area Department to supplement its review of the UAR's current economic situation (area memorandum, paragraph 8). In reply, the Area Department said that, while the overall position was basically unchanged since March 1968, there were some indications of improving performance. The balance of payments, despite closure of the Suez Canal and reduced revenues from cotton exports, had improved and the Government now acknowledged the need to overcome short-term payments difficulties. Moreover, preliminary efforts to reorganize industry and preparation of a long-term development plan could be considered encouraging signs. During the last economic mission (January 1969), government officials had appeared more willing than in the past to discuss policy matters.

4. The meeting was told that the UAR's exchange rate was still an issue with the International Monetary Fund, which had made eventual standby arrangements conditional upon an exchange rate adjustment. However, the current position was not entirely clear, partly because the UAR, which was unwilling to make an adjustment at this time, had not requested a standby for 1969. Nevertheless, a standby would probably be required in 1970, to cover short-term foreign exchange obligations, in which case the exchange rate question would come up for discussion again.

5. Apropos arrears on external debt repayments, some further progress had been made in negotiating rescheduling agreements. The chief remaining obstacle in this area was a $80 million claim by the United States. At this moment, the initiative rested with the United States and a new proposal was expected shortly which, however, was believed to fall short of the UAR's full request and of the arrangements made with other countries with respect to the extension of new credits. The United States' position was partly circumscribed by the provisions of the Gruening amendment, domestic political constraints and the absence of diplomatic relations with the UAR, and a satisfactory solution would not be achieved easily. The status of comparatively small Belgian and Dutch compensation claims would be checked during negotiations. However, in view of the UAR's declared willingness to enter into negotiations, the Belgian and Dutch Governments were not expected to oppose presentation of the credit at this time.

6. Turning to the substance of the project itself, the Area Department said that there were two difficult issues to be resolved during negotiations, namely (a) the strengthening of the Executive Authority responsible within the Ministry of Irrigation for tile drainage, and (b) the employment of outside consultants to advise the Ministry in the latest techniques of project control. The latter was a particularly sensitive point for the Egyptians, who regarded themselves as irrigation and drainage experts and thus found it difficult to accept the need for outside consultants. The Agriculture Projects Department said that the consultants were required chiefly to advise on resource deployment, logistics, management and training, rather than tile drainage technology, and this aspect would be emphasized during negotiations. The Agriculture Projects Department regarded strengthening of the Executive Authority, and employment of outside consultants as essential to the success of the project. With respect to (a) above, the Area Department said that a report on internal organization was en route from Cairo. The Area Department added that, in view of the nature of the issues involved, the UAR had been pre-advised of the position the Bank Group would take during negotiations.

7. There was some discussion of contract procedures and staff training (area memorandum, para. 17 and appraisal report, paras. 4.21 and 5.08). The Chairman said that the case for Egyptian contractors undertaking all construction work, on the grounds that they were sufficiently efficient and competitive to render international competitive bidding 'infructuous', was persuasive. Accordingly, the appraisal report's reference to the fact that foreign contractors' costs, assuming that they submitted bids, would increase foreign exchange requirements above the amount of IDA resources available for the project, should be omitted. Apropos the commitment of Egyptian staff trained under the project programs to return and remain with the project for a minimum of two years, the Chairman said that the Government could not be held responsible for the failure of staff to do so. Enforcement of this provision, which was a standard feature of sponsored training and fellowship programs everywhere, was virtually impossible and it was generally understood that such a commitment represented simply 'agreement' to return to the project.

8. In conclusion, the Committee noted that the timing of the credit's presentation to the Executive Directors remained open and subject to a satisfactory resolution of the two main issues (para. 6 above) during negotiations. The Chairman said that if negotiations were successfully concluded, the risk that approval of the credit might coincide with renewed hostilities could not be avoided. While the UAR was extremely anxious to proceed with the project within the next two months, the timing of the negotiations and the credit's presentation would be decided by the Bank's management in the light of all the circumstances.

9. The Committee approved the Area Department's recommendation that representatives of the Government of the UAR be invited in due course to Washington for negotiation of a $26 million credit for the Nile Delta Drainage Project on the terms and conditions suggested in paragraph 8.02 of the appraisal report.

C: Adjournment

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

Secretary's Department
May 16, 1969

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-8
May 19, 1969

Minutes of Loan Committee Meeting held on Monday, April 14, 1969 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. S.R. Cope
Mr. R.H. Demuth
Mr. D.J. Fontein
Mr. M.L. Lejeune
Mr. L. Nurick
Mr. D.M. Sassoon
Mr. A. Stevenson
Mr. G.B. Votaw
Mr. J.H. Williams
Mr. D. Pearce, Secretary

In Attendance:

Mr. R.S. Dosik
Mr. D.C. Elliott
Mr. A.F. Geolot
Mr. P.M. Mathew
Mr. R. Sadove
Mr. R.F. Skillings
Mr. S.M.L. van der Meer
Mr. H. Wyss

B. Bolivia - Gas Pipeline

1. The Committee considered the memorandum from the Western Hemisphere Department dated April 11, 1969 entitled "BOLIVIA - Proposed $22.75 Million Loan for a Gas Pipeline Project" and noted that the Bank proposed to help finance the project, which called for the construction of a transmission system to enable Bolivia to export natural gas from the Santa Cruz area to the Argentine frontier at Yacuiba, in close cooperation with a major international company (Gulf Oil).

2. The Area Department explained that the reason for Bank participation in this project, which in principle could be financed entirely by Gulf, was, on the one hand, that Gulf wanted an international "presence" to help reduce its

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

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Executive Vice President (IFC)
Vice President (IFC)

exposure in Bolivia in view of the political risks in that country and, on the other, that Bolivia wanted the project to be carried out and financed by foreign and national interests on a 50/50 basis. Accordingly, the pipeline system would be owned jointly and in equal parts by YFPB, the Bolivian Government oil company, and BOGOC, the wholly owned Bolivian subsidiary of Gulf Oil, and each would have an equal opportunity through YABOG (the non-profit pipeline company established for the project) to supply gas . The financial plan, which was not practicable without Bank assistance to Bolivia, reflected the basic 50/50 concept. YABOG would borrow, on the credit of its sponsors, all of the funds required for the construction of the pipeline; the project would thus be wholly financed by loans to YABOG, the proposed $22.75 million Bank loan, guaranteed by Bolivia, and a loan of approximately equal amount from a U.S. investor, guaranteed by Gulf Oil. In addition, YFPB and BOGOC agreed, in establishing YABOG, that they would be responsible, jointly and severally, for all of its obligations.

3. In addition to the above considerations, the Area Department said that the project was of high economic priority for Bolivia. It was directed to one of Bolivia's main structural problems, namely the need to develop new exports. Despite some diversification, Bolivia remained highly dependent on tin for its foreign exchange earnings and the export of natural gas through the pipeline represented the only significant addition to exports on which Bolivia could count in the foreseeable future. After allowing for debt service and other foreign exchange costs, the pipeline could be expected to benefit the Bolivian balance of payments to the extent of about $6.5 million annually, as compared with present total exports of about $160 million annually. Finally, a loan for an enclave project of this type, with debt service covered by its own foreign exchange earnings, represented the only current possibility for Bank operations in Bolivia, which otherwise was eligible only for IDA funds.

4. With respect to procurement, the meeting noted that a contract for supply of most line pipe had been awarded on March 9, 1969 to a German firm, which was sub-contracting about 25% of the order to the losing Argentine bidders. The Projects Departments said that there was nothing extraordinary about this procedure and the Chairman added that, since the contract had been awarded after international competitive bidding in accordance with the Bank's procedures, the Bank need not be further concerned, unless the project's total costs increased in consequence. The fact that up to $2 million retroactive financing was involved, which had already been approved (LM/M/68-21), was justified in this case on the grounds that Bolivia was obligated to deliver gas to Argentina by July, 1970.

5. With regard to the price the Argentines would pay for the imported gas, which had been negotiated and a contract signed before the Bank's involvement in the project, the Area and Projects Departments said they believed the price was reasonable in the circumstances. The Bolivians were unable to use the gas in significant quantities domestically and their contract with Argentina compared favorably with a similar Chilean contract with Argentina.

6. Apropos service of the Bank's loan, the Area Department said that the Argentine purchaser would pay directly for the gas into a special account at the Morgan Guaranty Trust Company in New York. The latter would be given irrevocable instructions under which it would be responsible for ensuring that sufficient funds for servicing YABOG's debts and meeting its operating and other costs were accumulated in the account before distributing the balance of the sales proceeds to the sponsors. If for any reason the proceeds from the sale of gas were insufficient at any time to cover YABOG's obligations, the trustee was empowered to call upon the sponsors to make up the cash deficiency under the terms of their joint and several guarantee and, in the event that this call was not honored, to enforce a claim against U.S. Gulf. The Bank would ensure that U.S. Gulf backed up the obligations of its Bolivian subsidiary.

7. The Committee approved the Western Hemisphere Department's recommendation that the Bank proceed to negotiate a loan of $22.75 million to YABOG, guaranteed by Bolivia, for the proposed gas pipeline project on the terms and conditions set forth in the appraisal report.

C Adjournment

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

Secretary's Department
May 19, 1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-7

May 16, 1969

Minutes of Loan Committee Meeting held on Thursday, April 3 at 11:30 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. W.C. Baum
Mr. R. Chaufournier
Mr. S.R. Cope
Mr. A.G. El Emary
Mr. D.J. Fontein
Mr. M.L. Lejeune
Mr. L. Nurick
Mr. E.H. Rotberg
Mr. A. Stevenson
Mr. G.B. Votaw
Mr. D. Pearce, Secretary

In Attendance:

Mr. J.H. Adler
Mr. L. Cancio
Mr. W. Diamond
Mr. J. Fajans
Mr. P. Glaessner
Mr. E. Haker
Mr. W.M. Keltie
Miss A.L. Maher
Mr. J.D. North
Mr. R. Sadove
Mr. R.F. Skillings
Mr. G.K. Wiese

B. Argentina - Proposed Second Loan for Roads

1. The Committee considered the memorandum from the Western Hemisphere Department, dated March 27, 1969, entitled "Argentina - Proposed Second Loan for Roads" (LC/O/69-33), which raised two main issues: (a) the amount of the proposed loan, and (b) the proposed disbursement procedure.

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Committee:

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Director, Development Services Department
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Vice President (IFC)

2. The Area Department, noting that the appraisal report assumed a loan of $18.5 million, representing the project's foreign exchange component (35% of road construction costs and 60% of consulting services costs -- except for foreign transport coordination experts, which would be financed in full) said that the Argentines, who considered this amount small, would probably request a larger loan during negotiations. In view of the substantial changes in administrative procedures and practices which the Bank wished to see adopted at this stage and in the interests of good country relations, the Area Department recommended that the Bank should finance 50% of construction costs, thus increasing the amount of the loan to $24 million, including an estimated $5.5 million of expenditures in Argentina.

3. The Area Department, replying to the Chairman's question about the presentation of the case for local currency financing (paragraph 8 of the area memorandum), added that (i) while gross capital inflow into Argentina was high, the net amount was almost zero, owing to debt service and (ii) Argentina's domestic capital goods industry was relatively well developed. The Area Department was satisfied that some financing of local expenditures was justified on country grounds.

4. Apropos the disbursement of the proposed loan, the Area and Projects Departments recommended a procedure (cf. Brazil - First Highway Project - Loan 567 BR) whereby disbursements for construction would be made on the basis of physical progress and unit costs expressed in U.S. dollars equivalent converted from peso cost at the exchange rate applicable on the date of bid opening. The purpose of this arrangement would be to ensure, in the event of varying relationships (i.e. time lags) between changes in exchange rates and changes in domestic cost levels, that disbursement of Bank funds would continue until physical completion of the project works, thus avoiding the possible exhaustion of loan funds before that date.

5. The Treasurer's Department objected to the above procedure on the following grounds:

(a) it constituted a change in disbursement procedures tantamount to the inclusion of a "dollar clause" in the loan documents; if the borrower paid the contractor in local currency and was compensated at a new rate after devaluation, the borrower would receive a local currency windfall which would not be accounted for in the project; in effect, the proposal would permit the borrower by its own action of devaluation to create a currency "profit".

(b) this precedent was unwise and would make it difficult for the Bank to refuse a "dollar clause" in any loan agreement;

(c) the precedent of guaranteeing disbursement of a given amount of dollars irrespective of the use of such funds in the project raised the question of the Bank's position with respect to revaluations of foreign currencies;

(d) finally, there was little justification for making this particular exception in Argentina.

6. The Area Department, replying to the above argument, said that:

(a) the main issue, to which the Treasurer's Department's objection did not apply, was the time lag between changes in exchange rates and changes in domestic cost and price levels (i.e. not time lags between payment and reimbursement);

(b) hitherto, the Bank had applied to the local currency value of work performed the exchange rate effective at the time of disbursement to the borrower, which procedure, however, often necessitated subsequent adjustments of the percentage of expenditures covered to ensure that the Bank's loan was not exhausted before completion of the project; the adjustment necessary was usually a reduction in the disbursement percentage; such reduction was often ill received by the borrower even though, at the time of loan negotiations, the borrower had conceded the Bank's right to implement a reduction unilaterally; the proposed formula would avoid, in most cases, such strains in Bank relations with borrowers;

(c) the objective of both the present and the proposed new disbursement procedures was the same, namely to ensure that disbursements of the loan extended throughout the construction period, irrespective of changes in domestic price levels and/or exchange rates; in the Area Department's view, the proposed new disbursement procedure, for countries such as Brazil and Argentina, was merely a simpler way of accomplishing this objective.

7. The Chairman, noting that the new formula would not eliminate entirely the need to adjust disbursement formulas resulting from other factors (e.g. changes in real costs), said that, in his view, this weakened the Area Department's case. Moreover, the discussion had raised a number of important and complicated questions - including the question of the appropriate date for determing the exchange rate applicable throughout the disbursement of a loan -- and the Chairman felt that it would probably be advisable to study this problem of disbursements in situations analogous to the Brazilian and proposed Argentine projects before creating potentially undesirable precedents. In the circumstances, the Chairman preferred that the proposed new procedure be left in abeyance for the time being; at the same time, he suggested that a small study group be established to examine the general issues raised. The Area and Projects Department agreed.

8. The Committee approved the recommendation of the Western Hemisphere Department that the Bank proceed to negotiate a loan of $24 million to the Government of Argentina for the proposed Second Road Project, on the terms and conditions set forth in the appraisal report (subject to the qualification in paragraph 7 above).

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

Secretary's Department
May 16, 1969

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-6

April 29, 1969

Minutes of Loan Committee Meeting held on Monday, March 24 at 3:00 p.m. and Wednesday, March 26 at 12 noon in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. A. Broches
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. S.R. Cope
Mr. A.G. El Emary
Mr. R.J. Goodman
Mr. M.C. Hoffman
Mr. A.M. Kamarck
Mr. M.L. Lejeune
Mr. E.H. Rotberg
Mr. G.B. Votaw
Mr. M.A. Gould, Acting Secretary

In Attendance:

Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. W. Diamond
Mr. E.K. Hawkins
Mr. R. Kenny
Mr. S. Kuriyama
Mr. L.J. Lind
Mr. R.S. Nelson
Mr. V.J. Riley
Mr. L.B. Rist
Mr. R. Sadove
Mr. A. Stevenson
Mr. E.P. Wright
Mr. G.C. Zaidan

B. Jamaica - Family Planning Program

1. At meetings held on March 24, and 26, the Committee considered the memorandum of March 20, 1969 from the Western Hemisphere Department entitled "Jamaica - Family Planning Program" (LC/0/69-28). The memorandum recommended that the Bank send the mission report of March 14, 1969 "Jamaica - Review of the Family Planning Program" (PP-1), after incorporating comments by the Loan Committee and such comments from the Pan American Health Organization (PAHO) as were acceptable to the Bank, to the Jamaican Government for comment, with an indication that the Bank would be prepared to: (i) consider a loan to cover up to 90% of the cost of

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Committee:

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

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Executive Vice President (IFC)
Vice President (IFC)

the extension of the Victoria Jubilee Maternity Hospital, extensions of parish hospitals, establishment of rural maternity homes and expansion of health centers; and (ii) to recruit and provide the services of an advisor for the program, if desired. It was noted at the outset of the meeting that since this was the first proposal for Bank participation in a family planning program, careful attention to the approach proposed in this project was necessary.

2. At the March 24 meeting, representatives of the Economics and Projects Department explained, at the request of the Chairman, the method used to calculate a rate of return for the proposed Jamaican family planning project. They stated that benefits were estimated on the basis of costs avoided in the maintenance of individuals up to the age of fifteen resulting from reduction in the number of people born due to the existence of the family planning program. The Economics Department pointed out that, after the age of fifteen, individuals were capable of contributing to the economic welfare of society; however, these potential benefits to society were disregarded in the calculation of the rate of return because of underemployment and frequency of emmigration in Jamaica and because the discounted benefits of an individual's contribution after the age of 15 were small. There were also benefits not included in the calculation such as the improved welfare of mothers and children resulting from the introduction of the program. On the cost side, the Economics Department reported that at present relatively little was known about the cost of family planning programs and how these costs would vary over time as programs expanded and family planning methods improved. The calculation assumed that the program's basic purpose was to raise the per capita income of the existing society; it did not consider psychological benefits foregone by a family not having more children. Some members of the meeting objected to this approach on the grounds that:

i) in many countries there was no serious underemployment and thus the eventual positive productive impact of persons born might be greater than the present method of calculating the rate of return suggested;

ii) the practice of ignoring future benefits contributed by individuals over the age of fifteen might lead to the improbable conclusion that it was impossible ever to justify a birth in any society.

It was agreed that there were unresolved problems in the calculation of rates of return for family planning projects of this type, but that the costs and benefits should be set out in the text of the Mission's Review of the Jamaican family planning program since this was at present the most satisfactory means of giving policy-makers an indication of the project's quantitative impact. Annex IV of the report should, however, be expanded to provide a fuller explanation of how these costs and benefits were calculated and to clarify the remaining limitations of this approach.

3. The Chairman inquired to what extent the Bank would be drawn into financing public health programs by its proposed financial participation in the facilities mentioned in paragraph 1 above. The Projects Departments explained that the Bank would be financing mother and child health programs related to family planning. While the connection between the facilities financed and family planning was somewhat tenuous in the case of parish hospitals and health clinics, Bank

(financial) participation in these items was necessary to ensure that the family planning program would be adequately implemented in Jamaica. The Projects and Area Departments agreed that, in view of the relatively small capital costs involved and in order to achieve adequate leverage, the Bank should finance a higher percentage than usual, say 90%, of the cost of facilities. Other members of the meeting felt that Bank lending in the field of family planning should not be limited to facilities and that the Bank should be prepared to finance a portion of the current expenditures. A third opinion was that both of these approaches would disrupt established Bank procedures and possibly jeopardize the Bank's borrowing capacity; this risk was too high to justify Bank participation in family planning.

4. On March 26, three alternatives were suggested: i) Bank financing of large percentages of the capital costs of facilities related to mother and child health; ii) Bank financing of current expenditures for family planning programs; iii) no Bank participation in family planning programs. The Chairman said that while the Bank should be associated with family planning programs, he favored the first alternative of financing, for example, 75% of related facilities because the Bank should not as a development investment institution become involved in the financing of current expenditures. Other members of the meeting felt that in many cases poorer countries could not afford to finance the current expenditures necessary for the implementation of family planning programs and that in any case financing of current expenditures was more straight forward than financing unusually high percentages of the capital costs of facilities related to mother and child health. It was also argued that expenditures on the implementation and materials necessary for family planning programs did not constitute a current expenditure in economic terms because a current expenditure was defined by the purposes to which funds were put, not the repetition with which such expenditures were made. Thus, inputs into programs normally identified as "recurrent" led to the permanent prevention of a birth, and were therefore capital expenditures in an economic sense. Another possible alternative mentioned by the Chairman was to provide grants from Bank profits for financing of current expenditures in family planning projects.

5. The meeting agreed that a general presentation should be made to the Executive Directors on Bank financing of family planning programs, using the Jamaican case as an example. Some members of the meeting felt that the presentation should cover only the alternative of Bank financing of high percentages of capital costs related to mother and child health proposed in the mission report "Jamaica - Review of the Family Planning Program." Other members felt that the alternative of financing current expenditures should also be presented.

6. The Chairman said that he would present the alternatives discussed in the meeting to Mr. McNamara and seek guidance on the best way to present the Jamaican family planning project to the Executive Directors. If Mr. McNamara favored Bank financing of a high percentage of capital expenditures for facilities related to mother and child health, the Area Department should submit the mission report reviewing the proposed family program to the Jamaican Government explaining the decision made at the staff level, but noting that this decision would be subject to Board approval.

7. The meeting adjourned at 4:30 p.m. and 1:00 p.m., respectively.

N.B. The Chairman and the President subsequently discussed the question of what contribution the Bank might make to this project. The President was prepared to support a loan of $500,000 against the health facilities associated with the Jamaican family planning program and having an estimated total cost of $700,000. He expressed doubts about the desirability in general of using Bank loans to finance recurrent expenditures on family planning programs, and in any case felt that so far as Jamaica was concerned, there would be no justification for this approach.

Secretary's Department
April 29, 1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-5

March 7, 1969

Minutes of Loan Committee Meeting held on
Wednesday, February 19, 1969 at 2:30 p.m. in the Board Room

A. Present:

Mr. S.R. Cope, in the Chair
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. A.G. El Emary
Mr. D.J. Fontein
Mr. M.C. Hoffman
Mr. A.M. Kamarck
Mr. B.B. King
Mr. S.N. McIvor
Mr. L. Nurick
Mr. F.R. Poore
Mr. E.P. Wright
Mr. M.A. Gould, Acting Secretary

In Attendance:

Mr. W.J. Armstrong
Mr. H.D. Davis
Mr. W. Diamond
Mr. F. Habib
Mr. R.S. Nelson
Mr. L.B. Rist
Mr. R. Sadove
Mr. J. Simmons
Mr. H. van Helden

B. Mexico - Integrated Tourism Project

1. The Committee considered the memorandum of February 17, 1969 from the Western Hemisphere Department "Mexico - Suggested Approach to Financing of Integrated Tourism Project on Pacific Coast" (LC/O/69-18) which considered possible future Bank participation in the financing of the development of tourism on the Pacific Coast of Mexico in the area between Acapulco and Puerto Vallarta. The Mexican Government has indicated an interest in obtaining such assistance and inquired what the Bank's approach to such a project would be. The Committee

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Committee:

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

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

noted that Bank participation in this tourism project would contribute to the overall development of the economy, the promotion of a well conceived and implemented tourist project, the improvement of Mexico's balance of payments situation and the amelioration of living conditions of the depressed areas of the country where the project would take place.

2. The memorandum of the Western Hemisphere Department recommended that the Bank should concentrate on investment in public infrastructure including airports, roads, water and sewerage, electricity and telephones as it was felt that the private sector in the tourist field was very active and would be willing and able to finance superstructure including hotels and related enterprises needed to justify the public sector investments in infrastructure. A question was raised about the assurances the Bank might need that this private investment would actually be forthcoming. The Tourism Projects Department reported that during discussions with the Government they had been informed that the Government was in the process of creating master plans for the project area which would designate land area to be developed for the construction of hotels. In accordance with these master plans the Government might itself acquire the land for development in one or more project areas, but in others there were municipalities already established whose interests would have to be considered. Assurance of the interest of private investors was provided by the past record of the tourist industry in Mexico. Hotels in the past had very high rates of occupancy and the hotel business had been exceptionally profitable. In other areas of Mexico the opening up of new areas by improved transport links had led to rapid private investment in hotels and related tourist facilities. The IFC representative reported that IFC had already received applications from private investors in connection with hotel projects in Mexico estimated to cost $80-100 million. The Committee agreed that the Bank would want to be satisfied that the Government was formulating a satisfactory master plan and taking the steps necessary for its implementation. While the Bank could not insist that all private hotel investment was committed before it agreed to help finance the infrastructure of the project, it would want to be satisfied that negotiations between the Government and potential hotel investors, airlines and other interested parties were proceeding satisfactorily, and that there would be no long delays in getting the superstructure investment under way.

3. The Chairman asked what assurance there would be that institutional arrangements would be adequate to draw up and implement the master plan for tourism. The Western Hemisphere Department reported that the Government now planned that the whole project should be coordinated by some federal authority, with the various public facilities being constructed and operated by the usual federal, state and local agencies. The institutional arrangements were somewhat complex in this project due to Mexico's federal structure. In Manzanillo and Puerto Vallarta, work would have to be coordinated between the federal government and local minicipal authorities, while in Zihuatanejo, where there was no existing municipality, the Government was thinking of setting up a special trust fund to supervise the development of the resort area. The Committee agreed that the Bank would need to have a separate project agreement with the federal agency which would have the responsibility for supervising the executing of the project, coordinating investment and channelling the loan proceeds on appropriate terms to the different federal and local authorities which would construct and operate the infrastructural facilities. Since all the major construction would be in the

hands of federal agencies with which the Bank was already familiar, it should not be necessary to have separate project agreements with each, but in the agreement with the supervising agency the Bank would want to define the terms and conditions under which the completed facilities would be handed over to the authorities eventually responsible for operating them, including any special covenents that might be appropriate. It was also pointed out that careful attention was necessary in drawing up and implementing the master plan to ensure that the various parts of the public infrastructure investment and the superstructure investment were effectively coordinated.

4. Since the Bank would be financing airports, highways, water and sewerage and other facilities related to tourism, the question arose as to whether the tourist project could be sub-divided and treated as a number of smaller projects. The Tourism Projects Department thought that this approach would not be useful as each sub-project would be small and as there was such a close link between all of the parts of the tourism project. The Committee agreed that the tourism project raised questions regarding the calculation of the economic rate of return including whether: a) a separate rate of return should be calculated for each part of the infrastructure investment or whether an overall rate of return for the entire tourism project would suffice; b) a rate of return should be calculated for each separate tourist area and c) rates of return should include costs and benefits of superstructure investment. It was felt that further study of these questions was necessary so as to be able to inform the Mexican Government as soon as possible what the Bank's approach would be.

5. With regard to the financing of two jet airports, the Western Hemisphere Department recommended that:

a) the Bank should be prepared to consider the financing of the proposed jet airports provided that the whole tourism development project of which they would be an integral part could be shown to be economically justified;

b) the Bank's appraisal of the airport component of the infrastructure investment should focus on ensuring that the designs and costs were appropriate for the traffic envisioned;

c) procurement of airport equipment should be subject to the usual rules of international competitive bidding; and

d) the Bank should go along with the normal arrangements for the operation of civil airports in Mexico provided that these appear on investigation to be reasonably satisfactory.

The Committee agreed with this approach and accepted the position of the Western Hemisphere and Projects Departments that the Bank could not insist on special conditions relating to management or airport charges, since the two airports would be a small part of a national system, and the arrangements for managing them would have to conform to those existing elsewhere in Mexico.

6. With regard to roads, the Committee agreed with the recommendation of the Western Hemisphere Department that, subject to being satisfied that the

standards were adequate and the costs reasonable, the Bank should be prepared to finance any kind of road, including streets, that could be shown to be necessary for the tourist development proposed. With regard to water and sewerage, the Committee agreed that it would be necessary to take a closer look at the management side than would be necessary for the rest of the infrastructure because water and sewerage facilities had proved to be a weak point in the development of tourism elsewhere in Mexico. It was also agreed that the Bank should proceed on the basis that financial charges for water and sewerage services would yield an adequate rate of return on investment. The Committee also accepted the recommendation of the Western Hemisphere Department that the Bank keep open the possibility of some local currency financing, but with the reservation that if the amount involved were large such financing would have to be reconsidered.

7. The Committee approved the recommendation of the Western Hemisphere Department contained in paragraph 21 of their memorandum.

C. Adjournment

8. The meeting adjourned at 4:15 p.m.

Michael A. Gould
Acting Secretary

Secretary's Department
March 7, 1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-4

April 10, 1969

Minutes of Loan Committee Meeting held on
Thursday, February 6, 1969 at 10:00 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. M.P. Benjenk
Mr. B. Chadenet
Mr. S.R. Cope
Mr. R.H. Demuth
Mr. A.G. E. Emary
Mr. D.J. Fontein
Mr. S.N. McIvor
Mr. L. Nurick
Mr. E.H. Rotberg
Mr. A. Stevenson
Mr. G.B. Votaw
Mr. M.A. Gould, Acting Secretary

In Attendance:

Mr. J.H. Adler
Mr. W.J. Armstrong
Mr. W.C. Baum
Mr. G.C. Billington
Mr. R.J. Goodman
Mr. M.L. Hoffman
Mr. J.A. King
Mr. K.S. Krishnaswamy
Mr. P.M. Mathew
Mr. P. Sella
Mr. G.K. Wiese
Mr. E.P. Wright

B. Policies on Joint Financing

1. The Committee considered the memorandum of February 3, 1969 from Mr. Demuth entitled "Recommended Policies on Joint Financing" (LC/O/69-14) and discussed: a) the general advantages and disadvantages of a joint financing; b) the circumstances in which Bank/IDA should participate in jointly financed projects; and c) the form which such Bank assistance should take.

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Committee:

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

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Executive Vice President (IFC)
Vice President (IFC)

2. The Committee noted that participation by Bank/IDA in jointly financed projects was advantageous in that such participation could encourage an increase in the total flow of development finance, permit distribution of limited Bank group finance (particularly IDA funds) over a larger number of projects, encourage the channelling of funds from bilateral sources into priority projects, improve the quality of projects internationally financed, increase the amount of international competitive bidding in development projects over what would otherwise take place and provide assistance to countries which are finding it difficult to use available sources of bilateral finance. The Committee also noted that Bank participation in such projects had disadvantages in that it could increase the time necessary to provide financing for a project, absorb the energies of limited Bank staff, reduce the leverage that the Bank has in a particular project and inhibit corrective action during project implementation. It was also noted that many developing countries would not need Bank assistance in preparing jointly financed projects and that in some cases assisting countries are not interested in participating in joint projects with the Bank. The Committee agreed that projects should be weighed in terms of these advantages and disadvantages in deciding whether Bank participation in joint financing was warranted.

3. The above-mentioned memorandum recommended that all projects likely to involve external costs and financing of $25 million or more should be examined to determine their suitability for joint financing. Some members of the Committee felt that only projects requiring external financing of $50 to $100 million would be large enough to justify the additional demands on Bank staff and to attract the participation of donor countries. It was also pointed out that the size of the project for which the Bank should be willing to arrange joint financing would depend on the terms offered by co-lenders. When such terms were particularly favorable, the Bank should be prepared to participate in smaller projects.

4. The memorandum "Recommended Policies on Joint Financing" recommended that when the Bank participated in joint financing it should arrange the financing so that there is a Bank-financed part and non-Bank-financed part (as in the El Chocon and Keban projects), rather than arrange financing so that disbursements for procurement jointly financed by the Bank and its co-lenders are divided between them on a percentage basis (as has been done in Mexico and Colombia). The latter method, it was felt, led to administrative complications. Some other members of the Committee, however, favored the continuation of this latter approach because they felt that some projects were not easily divisible into Bank and non-Bank portions and that some borrowing countries actually preferred this method.

5. The memorandum recommended that in cases in which the Bank joined in the financing of projects partly financed by tied bilateral credits, the Bank should endeavor to set the project up in such a way that those parts of the project for which suppliers from developing nations might be expected to be competitive were financed by the Bank. This recommendation was questioned by several members of the meeting on the grounds that it would be very difficult to determine in advance those portions of a project for which suppliers from developing nations might be competitive, and that more developed members of the Bank might object that the Bank was only financing purchases made in less developed nations.

6. The memorandum recommended that upon request from the borrowing member, the Bank should be prepared, in appropriate cases, to assist in making financing and procurement arrangements for projects or programs which the Bank is not financing but which, after examination, it believed to be of high priority. The Projects Departments commented that the Bank might not know what was a priority project in the initial stages and that the Bank had rarely in the past helped evaluate bids, because this was very time consuming and made great demands upon limited staff. Moreover, the Bank would probably have little influence in these matters where it was not assisting in financing.

7. Summarizing, the Chairman stated that the memorandum provided a useful background against which to consider proposals for joint financing. However, the nature of Bank participation in joint financing raises highly complex issues and it is probably not possible to reduce the questions involved to a single set of rules. Each case would have to be considered on its own merits taking into account the particular advantages and disadvantages of joint finance for the particular project. Any project which is to be joint financed or is of sufficient size, say $50 million, to have the potential of being so financed should be brought to the early attention of the Loan Committee with accompanying explainations as to why joint financing was or was not proposed.

C. Adjournment

8. The meeting adjourned at 12:00 noon.

Secretary's Department
April 10,1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-3

February 13, 1969

Minutes of Loan Committee Meeting held on
Monday, February 3, 1969 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. W. C. Baum
Mr. M. P. Benjenk
Mr. S. R. Cope
Mr. R. H. Demuth
Mr. A. G. El Emary
Mr. D. J. Fontein
Mr. A. M. Kamarck.
Mr. P. M. Mathew
Mr. S. N. McIvor
Mr. L. Nurick
Mr. F. R. Poore
Mr. G. K. Wiese
Mr. M. A. Gould, Acting Secretary

In Attendance:

Mr. J. D. Dambski
Mr. P. Eigen
Mr. J. M. Fransen
Mr. E. Lerdau
Mr. P. Sella
Mr. W. A. Wapenhans
Mr. R. Wilhelm
Mr. B. Zinman

B. Paraguay - Third Livestock Project

1. The Committee considered the memorandum of January 31, 1969 from the Western Hemisphere Department "Paraguay - Proposed Loan to the Republic of Paraguay for a Third Livestock Project" (LC/O/69-12) which recommended a Bank loan and an IDA credit, each of $4.3 million equivalent, to assist the Government in the financing of a third livestock project. Both the loan and the credit, as in the case of the previous IDA credits for livestock, would be made to the Government and relent to producers directly by the Government, with the Central Bank and the National Bank acting as agents.

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Committee:

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

2. The Western Hemisphere Department recommended that the Bank loan be made with a thirty year maturity, including a ten year grace period, as contrasted with the recommendation in the appraisal report for a fifteen year maturity, including a five year period of grace, related to the period of the sub-loans. The Chairman said that there had in the past been much opposition among Executive Directors to such softening of Bank loan terms, particularly in cases where the Government would have unrestricted use of the funds flowing back from the initial sub-loans. The Committee also noted, however, that extending the terms of the Bank loan would assist Paraguay's creditworthiness situation and in this case the Government would be obligated in the Loan Agreement to relend the repayments on sub-loans through the same mechanisms and on the same terms for purposes of livestock development. It was also pointed out that this project was originally intended to be financed entirely by an IDA credit and that it had been the Bank's past practice to provide Bank loans on soft terms when a project was switched from IDA to Bank financing. In view of the shortage of IDA funds, it was increasingly important that the Bank be prepared to extend the terms of its loans to ease the debt service problem of developing nations. The Chairman noted the above arguments and accepted the recommendation of the Area Department to extend the terms of the Bank loan to thirty years, including a grace period of ten years.

3. The Committee also noted that the Bank would allow the IDA credit to be disbursed first before disbursements commence on the Bank loan. This decision was in accordance with the recent practice of the Bank of making such concessions in cases of projects which have been switched from IDA to Bank/IDA financing.

4. The Chairman asked why in this project the ranchers would, on average, provide only 15% of the estimated cost of ranch development plans as compared to 20 and 25% under the first and second livestock projects, respectively. It was explained that since the second project, the farmers working capital had become depleted partly because local livestock prices have fallen and the return to ranchers on their investment would be lower than previously. As a result farmers had been slaughtering heifers rather than keeping them for breeding purposes. This situation would be particularly detrimental to this project which would stress increasing productivity and the retention of animals for breeding purposes.

5. The Area Department recommended that Bank/IDA should agree, as under the previous projects, to a sliding scale for withdrawals of both the loan and the credit in the proportion of 80%, 65% and 50%, respectively, for the first three years of the credit program. Some other members of the meeting pointed out, however, that under this proposal there would be no Bank/IDA disbursements during the fourth year of the credit program and that the Bank Group would, consequently, have little leverage to influence the project during this period. Furthermore, the large Bank/IDA disbursements in the first year of this project would have the effect of relieving the Government of its obligation of financing the large remaining amounts still necessary to cover the costs of the fourth year of the second livestock project as a result of the sliding scale used in that project. The Chairman

said that in view of these circumstances the Bank loan and IDA credit should be disbursed evenly over the period of the third livestock program.

6. The Area Memorandum stated that if during negotiations the Paraguayan representatives were to object to having a foreign livestock expert in charge of the livestock department, the Bank should accept a qualified Paraguayan head of the department. The Committee thought it preferable for the Bank to be in a position where it would be willing to accept a foreign livestock expert if a qualified Paraguayan could not be found.

7. The Committee approved the recommendation of the Western Hemisphere Department contained in para. 20 of their memorandum, subject to the modifications in the phasing of disbursements as in para. 5 above.

C. Adjournment

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

M. A. Gould
Acting Secretary

Secretary's Department
February 13, 1969

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-2

February 7, 1969

Minutes of Loan Committee Meeting held on Friday, January 17, 1969 at 2:30 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. W.C. Baum
Mr. R. Chaufournier
Mr. S.R. Cope
Mr. W. Diamond
Mr. R.J. Goodman
Mr. M.L. Hoffman
Mr. M.L. Lejeune
Mr. P. Sella
Mr. A. Stevenson
Mr. G.B. Votaw
Mr. J.H. Williams
Mr. D. Pearce, Acting Secretary

In Attendance:

Mr. S.K.B. Asante
Mr. M.T. Baig
Mr. L.W. Bartsch
Mr. H.T. Chang
Mr. J.C. Douglass
Mr. L.J.C. Evans
Mr. D.J. Fontein
Mr. H.G. Hilken
Mr. J. Kraske
Miss A.L. Maher
Mr. J.M. Malone
Mr. P. McCarthy
Mr. K. Myint
Mr. G.M. Street
Mr. S.C. Yang

B. Korea - Pyongtaek-Kumgang Irrigation Project

1. The Committee considered the memorandum dated January 16, 1969 from the East Asia and Pacific Department entitled "Korea - Proposed $42 Million Loan for Pyongtaek-Kumgang Irrigation Project" (LC/O/69-6) and noted that the proposed loan would cover the estimated foreign exchange component (47%) of the project's total cost.

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Committee:

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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General Counsel
Director, Economics Department
Director, Development Services Department
Treasurer

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Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
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Vice President (IFC)

2. The Committee was told that the report of the recent economic mission, which was in preparation, would state that economic conditions in Korea had not changed basically since the last economic report in January 1968. On this basis, the Area Department had concluded that Korea was creditworthy for the proposed loan.

3. The Committee noted that, depending on the value of contracts awarded to Korean firms, after international competitive bidding, some $10 million of the proposed loan might be used to finance local currency expenditures because Korean bidders might win contracts for some of the equipment and civil works. However, since this amount would probably contain a substantial foreign exchange component which could not be isolated, and since Korea's total foreign exchange needs could not be met by financing the foreign exchange requirements of Bank type projects, (para. 8 of the Area Department memorandum) the Area Department recommended that the Bank be prepared to finance these local currency expenditures. The amount of the proposed loan (47% of the project's total cost) had been calculated on the basis of the estimated foreign exchange cost assuming procurement of equipment from foreign suppliers and the award of civil works' contracts to foreign contractors.

4. The Chairman pointed out that there were several means of calculating the appropriate amount of Bank financing in projects of this kind. He noted the Area Department's argument about Korea's foreign exchange gap which could not be entirely met by financing only the foreign exchange costs of projects suitable for Bank consideration. The Chairman said that in this case the Bank could appropriately finance 50% of the project's total cost ($45 million) and justify the possible element of local currency financing on "exceptional circumstances" criteria.

5. There was some discussion concerning water rates charged to farmers benefitting from new or improved irrigation and reclamation projects. The Area Department said that water charges, which were established by law and Presidential decrees, would cover the full costs of operation and maintenance (including agricultural extension services) and the repayment of 40% of capital costs with interest at 3.5% over 35 years. On this basis, about one-third of a typical farmer's expected annual increase in net cash income would go towards payment of water charges. Both water charges and the capital cost repayment were high in relation to similar projects in Korea, but were justified in view of the high capital cost of this project. The Chairman concluded that the proposed water rates were adequate in present circumstances.

6. In conclusion, the Committee agreed with the recommendation of the Area Department that the borrower be invited to negotiate a Bank loan of $45 million for the project on the terms and conditions indicated in the appraisal report.

C. Adjournment

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

David Pearce
Acting Secretary

Secretary's Department
February 7, 1969

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/69-1

January 29, 1969

Minutes of Loan Committee Meeting held on
Monday, January 6, 1969 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. S.R. Cope
Mr. R.H. Demuth
Mr. R.J. Goodman
Mr. M.L. Lejeune
Mr. L. Nurick
Mr. F.R. Poore
Mr. A. Stevenson
Mr. J.H. Williams
Mr. M.A. Gould, Acting Secretary

In Attendance:

Mr. M.G. Blobell
Mr. J.C. Douglass
Mr. L.J.C. Evans
Mr. N.A. Gibbs
Mr. P. Loh
Mr. J. Marinet
Mr. J.F. Rigby
Mr. L.B. Rist
Mr. G.M. Street
Mr. C. Wang
Mr. W.A. Wapenhans

B. Philippines - Upper Pampanga River Irrigation

1. The Committee considered the memorandum of January 3, 1969 from the East Asia and Pacific Department "Philippines: Upper Pampanga River Irrigation Project" which recommended a loan of $35 million to cover the foreign exchange cost of the irrigation project. It was recalled that in May 1968 the Bank had decided that the economic performance of the Philippines had sufficiently improved, assuming that revenue measures of about ₱200 million would be enacted, to justify the resumption of Bank lending. The Committee also noted that the Philippines had not resorted to deficit financing of expansionary credit policies on a major scale.

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Committee:

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

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Executive Vice President (IFC)
Vice President (IFC)

2. The Committee agreed that the special conditions and, in particular, the past administrative performance of the Philippines make it necessary for the Bank to insist on the right to approve the appointment of the Irrigation Administrator of the National Irrigation Administration (NIA) before such appointments are sent forward for approval to the President. This assurance should be obtained during negotiations and a failure of NIA to comply with this requirement would be an event of default.

3. The Legal Department reported that there was still a question whether the President had the authority to waive restrictions on international competitive bidding under Act, RA 5183 and that the department was consulting its lawyer in Manila on this point. It was agreed that the Bank should continue to seek special legislation to exempt all Bank projects from such restrictions, but that for the purposes of this project it would be sufficient to obtain as a condition of negotiations, a legally secure waiver of the restrictions under this Act. The Committee also noted that an additional condition for negotiations would be that the Government enact any amendments to existing laws which may prove necessary to comply with the Bank Group's requirement (assuming the Executive Directors approved the policy paper recommending a level of protection up to 25%) that the level of protection for local goods and supplies be the level of custom duties plus the 15% "Buy Filipino" preference, or an overall preference of 25% whichever is lower.

4. The Committee noted that in view of past difficulties in selling Government bonds the Government would be required to obtain Congressional appropriation for the full amount of the peso requirements of the project out of general revenues as a condition of negotiations. To the extent that bonds were sold, this would reduce demand on budgetary funds. Since there had been difficulties in the past in the Philippines in securing local funds for projects even when there was an appropriation, the Government would, in addition, be required to set up a special fund for the project. The Government will deposit, prior to the beginning of each fiscal year, funds sufficient to cover the local currency costs of the project for the next six months of the following year, and maintain the fund at a level sufficient to cover the local costs of subsequent six month periods through quarterly installments. This fund would serve as a device for providing the Bank with warning of any shortage of local finance.

5. The Chairman raised the question of the precise meaning of the water charge figure of ₱150 per hectare per annum to be levied by 1979 as set out in paragraph 7.04 of the Appraisal Report. The Projects Department explained that this level of charges appeared to be feasible and would be sufficient to cover the annual costs of operation and maintenance and recover investment costs, excluding the costs of interest over a 40 year period. At the same time, it was pointed out that the ₱150 figure was only indicative. NIA would be required to recover in water charges the whole of the cost of operation and maintenance and as much as practicable of the capital cost of the project. It was further felt that the NIA Act which provided for the recovery of capital costs including costs of interest in not less than 25 years could not serve as a basis for negotiations on the question of water charges. The Committee agreed that the Agricultural

Projects Department should prepare a paper which would review past irrigation projects to determine more precisely what the past Bank/IDA policy had been with regard to water charges and recommend guidelines for appropriate ranges of water charges for future projects. With regard to the project under discussion, the Loan Committee recommended that NIA gradually increase the level of water charges to recover as much as practical of the capital cost of the project and that the level of charges should be subject to periodic review by the Bank.

6. The Committee noted that in view of the prospect that the approval of the proposed loan might be delayed, the Bank would agree to reimburse foreign exchange payments made by NIA for pre-construction work up to six months prior to loan approval in an amount not exceeding $1 million. The pre-construction costs during this period will probably be much lower than this.

7. The Committee approved the recommendation of the East Asia and Pacific Department contained in paragraph 20 of their memorandum.

C. Adjournment

8. The meeting adjourned at 4:15 p.m.

Michael A. Gould
Acting Secretary

Secretary's Department
January 29, 1969