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FORM No. 60
(8-67)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LC/M/67-16

December 5, 1967

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

A. Present:

Mr. J. B. Knapp, Chairman
Mr. B. R. Bell
Mr. M. P. Benjenk
Mr. R. A. Chaufournier
Mr. E. E. Clark
Mr. S. R. Cope
Mr. R. H. Demuth
Mr. S. N. McIvor
Mr. G. M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. L. W. Bartsch
Mr. R. L. Clements
Mr. S. P. Johnson
Mr. T. K. Mitchell
Mr. F. Povey
Mr. L. B. Rist
Mr. E. F. Schaad

B. Turkey - Seyhan Irrigation Project - Stage II

1. The Committee considered the memorandum from the Europe Department dated November 20, 1967 on the above project (LC/O/67-60) and noted that Stage I of the project, for which an IDA Credit of $20 million had been made in 1963, was now progressing satisfactorily after a slow start because of difficulties with on-farm development and overall project implementation. The successful completion of the overall program would be assisted by Bank presence on Stage II of the project.

2. It was noted that the total cost of the project was estimated at $62 million, of which the proposed Bank loan would finance $20 million, representing the minimum estimated foreign exchange cost of direct imports for the project (including consultants services) plus the estimated minimum

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

foreign exchange component of civil works and on-farm development. This minimum was estimated on the assumption that domestic contractors would win all the contracts awarded by international competitive bidding. The Chairman noted that,if, as was quite possible, foreign bidders were awarded some of the civil works contracts, the foreign exchange component of the project would rise above $20 million. Since there was no obstacle to the Bank financing foreign exchange expenditures which were the outcome of international competitive bidding over and above the project's minimum foreign exchange component of $20 million, the Chairman recommended that the Bank indicate its willingness to raise the loan amount to $25 million. The Turks should be told that any part of the loan not disbursed for foreign exchange expenditures would be cancelled. They would then have an incentive to put out more of the project to international competitive bidding instead of reserving as much as possible for domestic procurement.

C. Bank-Financed Contracts and the Devaluation of the Pound Sterling

4. The Deputy Chairman stated that, following the devaluation of the pound sterling on November 18, the Bank would be sending a cable to every Bank/IDA borrower who was about to issue invitations for international competitive bids or had already done so but had not yet awarded contracts, stating that:

(a) Where bid documents had specified the old exchange rates to be used for bid comparison and bids had been opened but not yet awarded, the borrower might either:

(i) Call for new bids, specifying the new exchange rates, or

(ii) Subject to a satisfactory statement of the rationale by the borrower and the Bank's concurrence, evaluate bids on the basis of the original exchange rates.

(b) Where bids had been invited but devaluation preceded the opening date, the borrower should issue new exchange rate tables and postpone the date for submitting bids for a reasonable period.

(c) All bidding documents issued in the future should show the new exchange rates.

D. Adjournment

5. The Committee adjourned at 3:30 p.m.

FORM No. 60
(8-67)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/67-15

December 5, 1967

Minutes of Loan Committee Meeting held on
Thursday, November 16 at 4:00 p.m. in Room 1038

A. Present:

Mr. J. B. Knapp, Chairman
Mr. G. Alter
Mr. M. P. Benjenk
Mr. B. Chadenet
Mr. A. G. El Emary
Mr. D. J. Fontein
Mr. M. L. Hoffman
Mr. L. Nurick
Mr. A. Stevenson
Mr. G. M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. L. W. Bartsch
Mr. B. R. Bell
Mr. F. Bochenski
Mr. E. L. Greenshields
Mr. W. M. Keltie
Miss A. L. Maher
Mr. R. S. Nelson
Mr. M. Ross
Mr. W. A. Wappenhans

B. Mexico - Proposed Loan for Rio Colorado Irrigation Project

1. The Committee considered the memorandum from the Western Hemisphere Department dated November 13, 1967 entitled "Mexico-Proposed Loan for Rio Colorado Irrigation Project" (LC/O/67-59).

2. The Western Hemisphere Department stated that the average annual return to the economy from the project, estimated on conservative assumptions at 10%, did not take into account the fact that, in the absence of the project, there would be added unemployment, both of manpower and of existing capital facilities in

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Director, Economics Department
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Treasurer

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Mr. M. Shoaib, Vice President
Directors, other Departments
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Executive Vice President & Vice President (IFC)

the region, and that the country as a whole would forego these additional economic and social benefits arising out of the project. The Western Hemisphere Department attached more importance to the benefits from the project accruing to the country as a whole than to those accruing to the Mexicali region; while the latter were more tangible, and of more immediate import to the Mexicans themselves, the Bank (it was suggested) should evaluate a project within the overall country picture.

3. It was pointed out that although the estimated direct return on the projected investment appeared to be on the low side, there was great certainty that the return would be realized (and there was also conservativism in estimating it), since this project involved merely rehabilitating an existing set of irrigation and drainage works serving a highly developed area, rather than undertaking to develop all phases of a new area. The Committee noted that while other irrigation projects might yield an estimated return well above 10%, the Rio Colorado Project, where relatively highly developed farming operations already existed, had the advantage of being free of all the uncertainties which inevitably surrounded new irrigation and settlement projects.

4. The Chairman noted that the farmers directly benefiting from the project would pay, in water charges, for all operating and maintenance costs of the project and, over 25 years, an amount which would allow the government to recover about half its capital investment in the project (with 6% interest). While it was in principle undesirable that a project's beneficiaries would be required to pay for only half of its costs, the farmers would themselves be investing an additional $17 million as their contribution to on-farm rehabilitation, in addition to paying water rates. Overall, the farmers would be required to set aside a large share of their net incremental income to cover these charges and the required on-farm investment. The rates had been set by a long negotiation between representatives of the water users and the government and were judged to be the highest which could be set at this time without jeopardizing the prospect of full and effective use of the project facilities. The Western Hemisphere Department commented that only in one of the three previous irrigation loans to Mexico (Loan 275ME) had the government arranged to recover a larger portion of its capital investment.

5. The Committee noted that the proposed loan of $25 million would finance the estimated foreign exchange component of civil works ($19.2 million), the entire costs of equipment imported for the project ($1.4 million) and made provision for $4.4 million in contingencies. If Mexican suppliers won contracts for the sale of equipment put out to international competitive bidding, the Bank would disburse only for the foreign exchange component of local procurement (estimated at 50%), in line with Bank practice in a number of recent cases. The Committee was told that, although the amounts to be disbursed against the foreign exchange component of local procurement would in the event probably be very small, the Mexicans would, in all probability, resist the exclusion of this feature from the loan since they regarded this exercise as an important precedent for obtaining Bank financing of the foreign exchange component of local procurement under the proposed power loan. Moreover, the Mexicans had originally submitted a request for a $40 million foreign exchange loan for the Rio Colorado Project and would not take kindly to any suggestion that the Bank Loan should be reduced even fractionally below $25 million. This was particularly

true since their own calculations of the foreign exchange component was a careful one, which took into account secondary and tertiary foreign exchange impacts while the Bank's was restricted to the most direct foreign exchange element.

6. On the use of the contingency, the Legal Department recommended that Paragraph 4.17 of the Appraisal Report be rewritten to make it clear that any cost overrun which the Bank deemed reasonable be met, in the first place, from the contingency fund, and only when this fund had been exhausted by a reduction in the reimbursement percentage. It would be improper for the Bank to reserve the right to withhold the disbursement of contingency funds when the size of the contract award, which the Bank had approved, made this necessary. The Projects Department commented that, while in this case the procedure suggested by the Legal Department was intended, there were other types of cases where it was not at all clear that this was the appropriate procedure; the signing and approval of contracts did not in all cases determine what costs would ultimately be and what disbursements might be requested. (It was subsequently decided that Messrs. Bell, Cavanaugh and Nurick would report and make recommendations on Bank policy in this area.)

C. Adjournment

7. The meeting adjourned at 5:05 p.m.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/67-14

December 4, 1967

Minutes of Loan Committee Meeting held on
Tuesday, November 14 at 11:00 a.m. in the Board Room

A. Present:

Mr. J. B. Knapp, Chairman
Mr. S. Aldewereld
Mr. B. Chadenet
Mr. E. E. Clark
Mr. A. G. El Emary
Mr. D. J. Fontein
Mr. A. M. Kamarck
Mr. M. L. Lejeune
Mr. G. M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. G. C. Billington
Mr. O. H. Calika
Mr. G. F. Darnell
Mr. L. J. C. Evans
Mr. B. Q. Lan
Miss A. L. Maher
Mr. S. N. McIvor
Mr. R. Petretti
Mr. W. A. Wappenhans

B. Dahomey - Hinvi Agricultural Development Project

1. The Committee considered the memorandum of November 7, 1967 "Dahomey - Hinvi Agricultural Development Project" (LC/O/67-58) and examined in particular the more unusual features of this project, namely the absence of any local contribution, the implications of the joint financing proposal for supervision and disbursement of the credit, and the need for reimbursement of ongoing expenditure on the project by FAC.

2. The Committee noted that while the Government of Dahomey had agreed to waive import duties on equipment imported for the Project, and to provide schools and dispensaries, it would make no direct financial contribution to the Project, the financing being wholly met from external sources, divided between IDA and the Fonds d'Aide et de Co-operation (FAC). Although the Bank/IDA did not normally finance projects in which the borrower had no direct pecuniary interest (which is one reason why we had only financed 100% of the

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Director, Economics Department
Director, Development Services Department
Treasurer

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Mr. M. Shoaib, Vice President
Directors, other Departments
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costs of a project in one exceptional case, Niger), in a country like Dahomey, with no indigenous budgetary surplus, even a contribution which appeared to come from the Government of Dahomey would in fact come from France. Thus whether the Dahomians had a "direct" stake in a project was largely a matter of form, depending on whether the French channelled investment funds to a project directly or via the Government.

3. The Committee noted that the French were moving more and more towards project finance and would in fact be placed in an embarrassing position now if they were to be asked to finance a Government contribution. Some Committee members felt that the Bank would have preferred, as a matter of psychology, for the Government of Dahomey to handle the French funds rather than for FAC to finance the project directly. The Chairman agreed but observed that this Project was not a normal "100% external financing" operation, since the French Government, through FAC and otherwise, played a very intimate role in the administration of Dahomey; FAC was clearly very much less of an outsider to Dahomey than, say, AID would be in a Latin American country.

4. The Committee was reminded that, within the West African region, Dahomey was not the best endowed for the efficient production of oil palms, but nonetheless the estimated return on the Project would be about 15%. There were furthermore some uncertainties connected with the choice of the future management of the mill - this would be the first Bank Group operation in Dahomey - but the problems should not be insuperable, particularly in view of FAC's continued "presence" and the Government's keen interest in the success of the Project. The Chairman commented that particularly in view of the mill management problems, IDA should ensure that the responsibilities it shared with FAC for supervision of the Project were clearly allocated, IDA's responsibilities being clearly predominant in respect of the factory (which it was financing) whilst FAC might have the main responsibility for the field operations. It was also noted that FAC was already financing the ongoing preliminary development costs for the project and that IDA would have to clarify how it proposed to share the financing with FAC, taking into account expenditures incurred by FAC between July 1, 1967 and the signing of the Credit.

5. The Committee, noting that disbursement of the IDA Credit would be spread out over a long period, was told that it would be impractical to divide the Project into two stages to allow IDA to reduce its immediate commitment. The Project was part of an ongoing program involving the development of palm oil production over a considerable area and the construction of associated processing facilities. The Chairman commented that an advance IDA commitment for disbursements over a ten-year period (1967-1976) should be regarded as exceptional, particularly in IDA's present critical position.

C. Adjournment

6. The Committee adjourned at 12:00 noon.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/67-13

November 17, 1967

Minutes of Loan Committee Meeting held on
Tuesday, November 7 at 4:00 p.m. in the Board Room

A. Present:

Mr. S. R. Cope, in the Chair
Mr. G. Alter
Mr. R. W. Cavanaugh
Mr. B. Chadenet
Mr. R. H. Demuth
Mr. A. G. El Emary
Mr. S. N. McIvor
Mr. L. Nurick
Mr. F. Povey
Mr. A. Stevenson
Mr. G. M. Street
Mr. H. G. Hilken (Acting Secretary)

In Attendance

Mr. S. K. B. Asante
Mr. B. R. Bell
Mr. G. F. Darnell
Mr. L. J. C. Evans
Mr. I. T. Friedgut
Mr. H. P. Gassner
Mr. T. U. Halbe
Mr. D. W. M. Haynes
Mr. P. Loh
Miss A. L. Maher
Mr. J. M. Malone
Mr. A. N. Memon
Mr. C. Prout
Mr. L. B. Rist
Mr. J. G. Scott
Mr. W. A. Wapenhans

B. Malawi - Lilongwe Development Program.
Malawi - Shire Valley Project.

1. The Committee considered the Africa Department's memorandum entitled "Malawi - Lilongwe Development Program" and "Malawi - Shire Valley Project" (LC/O/67-56) dated October 27, 1967, which recommended IDA credits covering 82% and 77% of the respective project costs.

2. The Committee noted that, in view of Malawi's relatively good development prospects combined with the Government's present inability to finance more than a nominal amount of the costs of development projects, a good case existed for external assistance, including IDA credits, to cover substantial amounts of the local currency costs.

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Director, Development Services Department
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3. The Committee also noted the relatively high proportion of staff and related costs, including housing and recurrent farm inputs, which would be financed by the proposed credits. This was felt to be in accordance with the Bank's policies for lending to agriculture, however, and it was agreed that the test for Bank/IDA financing of so-called "recurrent" expenditure should be whether, at the end of the project period, an earning project "asset" had been created as a result. It was felt that the two projects in question qualified in this regard.

4. The Committee turned to the appraisal reports, and, in particular, considered the conclusions and recommendations, which were, in some respects, common to both projects. It was noted that the assurances to be sought during negotiations with regard to the appointment of project management and the general terms and conditions of employment of expatriate staff were designed to help to maintain a satisfactory status quo in Malawi rather than to enforce any new system, and were within the guidelines laid down in Operational Memorandum 5.04. It was agreed that the assurance to be obtained with regard to the terms and conditions of employment should be general and designed to ensure that the existing terms and conditions of employment of expatriates should not be materially worsened, and would not extend beyond the completion of the project.

5. The Committee agreed with the recommendations of paragraph 12 of the Memorandum, i.e. that an invitation be sent to the Government to negotiate a $6 million IDA credit for the Lilongwe Development Programs substantially within the terms and conditions set forth in paragraph 8.02 of the appraisal report. The Government should also be invited to have discussions on a $3.7 million IDA credit for the Shire Valley Project, with a view to agreeing the final credit documents by correspondence, at a later date, to avoid the necessity of a second delegation visiting Washington.

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

FORM No. 60
(8-67)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/67-12

December 15, 1967

Minutes of Loan Committee Meeting held on
Friday, October 27 at 3:30 p.m. in the Board Room

A. Present:

J. B. Knapp, Chairman
Mr. ~~S. R. Cope, in the Chair~~
Mr. S. Aldewereld
Mr. A. Broches
Mr. R. W. Cavanaugh
Mr. B. Chadenet
Mr. R. A. Chaufournier
Mr. S. R. Cope
Mr. R. H. Demuth
Mr. A. G. El Emary
Mr. A. M. Kamarck
Mr. S. N. McIvor
Mr. G. M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:*

Mr. W. C. Baum
Mr. M. A. Burney
Mr. H. P. Gassner
Mr. S. C. Hardy
Mr. K. D. Hartwich
Mr. J. Hilmy
Mr. A. C. Huang
Mr. A. D. Knox
Mr. A. A. M. Onslow
Mr. F. Povey
Mr. F. D. T. Reid
Mr. J. F. Rigby
Mr. L. B. Rist
Mr. D. M. Sassoon
Mr. J. K. Schmedtje
Mr. P. Sella
Mr. R. B. Steckhan
Mr. D. Suratgar
Mr. J. L. Upper

* For all or part of meeting.

B. Sudan Power Project

1. The Committee considered the memorandum dated October 23 from the Middle East and North Africa Department entitled "Sudan - Power Project" (LC/O/67-54).

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General Counsel
Director, Economics Department
Director, Development Services Department
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Mr. M. Shoaib, Vice President
Directors, other Departments
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2. The Committee was told that negotiations for the power loan would begin at the end of October and were expected to be followed (probably in early 1968) by negotiations on the proposed loans for farm mechanization and for education. The Bank had had some reservations about embarking on a lending program in the Sudan in view of the Government's instability, uncertainties due to the closure of the Suez Canal and the repercussions of the Arab-Israeli conflict, but had now concluded that these projects should proceed provided the Sudanese Government adhered to its recent agreement with the IMF. The proposed loan and credit for the Rahad project, however, would be delayed pending IDA replenishment and, in view of the large amounts involved, would call for a more thorough examination of Sudan's economic performance and prospects.

C. Ethiopia - Fourth Highway Project

3. The Committee considered the memorandum of October 18 from the Africa Department entitled "Ethiopia - Fourth Highway Project" (LC/O/67-53).

4. The Committee was told that the government had now agreed with the Bank on arbitration clauses to be included in the construction contracts under the proposed Fourth Highway Project and that the Imperial Highway Authority (IHA) was proceeding in a reasonably orderly manner with the consideration and attempted settlement of contractors' claims under previous highway loans.

5. It was noted that supervision of construction under the project would not, as in the past, be carried out by the same firm as was providing IHA with administrative and technical assistance, since it was felt that the earlier arrangement could lead to conflicts of interest. The Committee was told that disbursement of loan and credit funds under the Fourth Highway Project would be suspended if there were not satisfactory progress, according to an agreed time schedule, in implementing the recommendations of a Bank-financed study concerning the reorganization of IHA's administrative and operational procedures. It was suggested that contractors would not be deterred from bidding by this provision, since their contracts with the Ethiopian Government would remain valid and it was also in the interest of the contractors to see improvements in the organization and the operations of IHA.

6. On the amount of the proposed loan and credit, the Chairman noted that the Africa Department was proposing to negotiate a Bank loan of $13.5 million equivalent and an IDA credit of $7.7 million equivalent for the project, on the assumption that the Swedish Cabinet would approve a Swedish credit for the project of 30 million kronor ($5.8 million equivalent) on IDA terms. If the Swedish credit was for less than $5.8 million, the amount of such reduction would be added to the amount of the proposed IDA credit, which, however, would not exceed $10 million, the balance of the required funds then being added to the amount of the proposed Bank loan.

D. Education loans - grace period and term.

7. The Chairman, noting that the Western Hemisphere Department was recomending a 30 year term (including 10 years of grace) on the proposed loan for education to Nicaragua (and would also propose a 30 year term including 10 years of grace on a forthcoming loan for education to Guatemala), recalled that the Bank's first four loans for education (to Chile, Malagasy Republic, Philippines and Thailand) had been on this 10 year grace and 30 year term basis, but primarily on country grounds. The loan to Jamaica had been made for a 20 year term including 5 years of grace, again primarily on country grounds. He (the Chairman) was not persuaded, either on project or on country grounds, that the proposed education loans to Nicaragua and Guatemala should be on a 10 year grace and 30 year repayment basis.

8. Among the views expressed by the Committee were (i) quantifying the benefits of an education project was still a rudimentary science and it was not possible to persuasively argue the merits of a 30 year term against e.g., a 25 year term on strict project grounds; (ii) some education projects (e.g. teacher training) could be characterized as faster yielding than others (e.g. primary schools), but it was difficult to refine the calculation of a fair grace period - in the case of Nicaragua, the components of the 10 year grace period might be taken as 4 years for school construction, 3 years for the new curriculum to be operating and 3 years for the first students to graduate; (iii) the Bank should not give less lenient terms on an education project than the most lenient it had given on other projects in a country unless there were new "country" factors to take into account; (iv) financial prudence argued for selecting the shorter of two terms where the choice between one term and another was finely balanced and (v) country considerations should be the determining factor in setting the term of a loan since the Bank should look at a country's overall foreign debt burden and the relative importance of the additional foreign debt it was incurring.

9. The Chairman commented that this discussion had shown up several distinct viewpoints and that the term and grace period of an education loan were in the last analysis more a matter of judgment than of following artificial rules about "project" or "country" considerations. In general, it was clear that education projects were slower-yielding than other projects and that, in cases such as those of Nicaragua and Guatemala, the standard terms applicable to education projects of this type should apply since there were no compelling economic country considerations to justify either longer or shorter terms.

10. It was subsequently decided that the term on these loans should be 25 years, including 10 years of grace. This would be the norm for loans for education, the 25 year term to be shortened or extended only on substantial country grounds, and the 10 year grace period to be regarded as reflecting an education project's average gestation period.

E. Adjournment

11. The Committee adjourned at 5:10 p.m.

FORM No. 60
(8.67)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LC/M/67-11

December 14, 1967

Minutes of Loan Committee Meeting held on
Thursday, October 12 at 3:00 p.m. in Room 1038

A. Present:

Mr. J. B. Knapp, Chairman
Mr. G. Alter
Mr. I. P. M. Cargill
Mr. B. Chadenet
Mr. R. W. Cavanaugh
Mr. E. E. Clark
Mr. A. G. El Emary
Mr. D. J. Fontein
Mr. M. L. Lejeune
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. J. G. W. Agnew
Mr. L. W. Bartsch
Mr. W. C. Baum
Mr. B. R. Bell
Mr. A. A. Casson
Mr. J. H. Collier
Mr. R. J. Goodman
Mr. D. King
Mr. A. F. Kirk
Mr. A. D. Knox
Mr. D. Love
Mr. M. M. Mendels
Mr. T. H. Neuner
Mr. L. B. Rist
Mr. R. B. Steckhan
Mr. G. M. Street
Mr. G. B. Votaw

B. International Competitive Bidding, Local Expenditure Financing and Preferences for Domestic Suppliers - A Review of Bank/IDA Policies

1. The attached staff memorandum of September 8, 1967 ("Bank/IDA Lending Procedures in India"), supplemented by a memorandum dated October 11, 1967 from the Director of the Asia Department ("Procurement Policy: A Comment on the Exchange of Views between the Deputy Prime Minister of India and Mr. Knapp"), was the occasion for a wide-ranging review of Bank policies in the area of international competitive bidding, disbursement against local currency

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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, Economics Department
Director, Development Services Department
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expenditures and preferences for domestic suppliers on projects financed by the Bank. 1/ The major issues which were discussed are summarized below; paragraph references are to the attached memorandum.

2. Introductory paragraph. It was noted that in a few countries, of which India was the prime example, where the Bank's volume of lending was announced publicly in the context of consortium "pledging" and was openly discussed with the India authorities, different patterns of financing individual projects would make practically no difference to the aggregate amount of Bank assistance to India over a given period of time, although they might affect the rate at which disbursements occurred. In the majority of borrowing countries, however, where lending programs were not explicitly discussed with the borrowing country, the pattern of financing which the Bank adopted for individual projects might have an important effect on the aggregate amount of Bank assistance to that country.

3. Paragraph 3 (Bank financing of the foreign exchange component of equipment reserved for domestic supply to Bank-financed projects). The Chairman emphasized that international competitive bidding on materials and supplies imported for domestic fabrication and supply for Bank-financed projects was not a necessary condition of Bank financing; paragraph 3 simply stated that, in addition to being satisfied that the domestic fabrication was "reasonably economic and efficient", the Bank would require either domestic procurement by competitive tender or international competitive bidding for imported supplies. Both would be preferable, but not mandatory.

4. In contrasting Bank financing of imported components for domestic fabrication (paragraph 3) with Bank financing of the finished imported product (paragraph 1), it was pointed out that in India duties on parts and components were frequently higher than those on finished equipment, which currently paid duty at a general minimum rate of 27½ percent. Moreover, it was noted that India's import licensing system operated in a way that provided "absolute" protection to domestic makers of many products. This might explain why the Indians considered the domestic

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1/ In these minutes, references to the Bank apply equally to IDA unless otherwise indicated. It should be noted that in recent months Bank finance has generally not been made available for local currency expenditures, although such costs have been covered by IDA credits in some countries. For a fuller discussion of Bank policy in this area, see Loan Committee Minute dated September 20, 1967 (LC/M/67-8).

fabricator who required imported parts and components to be at a serious disadvantage compared to his foreign competitor unless the Bank would allow him a margin of preference of more than 15% over foreign suppliers of comparable finished equipment.

5. The Committee was told that India had proposed that in international competitive bidding the Bank agree to allow domestic fabricators a margin of preference higher than 15%. If the Bank would not agree to this, India would like the Bank, when comparing bids, to deduct all duties paid by domestic fabricators on imported components. (The Chairman tabled a possible alternative that in comparing bids all duties paid in excess of 15% of the c.i.f. costs of the imported component be deducted.) As a third possibility, if the Bank was unwilling to go along with either of the above proposals, India had considered granting the same tax and duty drawbacks to domestic fabricators bidding for Bank-financed contracts as it granted to exporters.

6. A discussion followed of the Bank's attitude to special waivers on taxes and duties which a government granted to domestic fabricators either for a specific Bank-financed project, or more generally, in order to put such fabricators on a more competitive footing with foreign suppliers. (cf. the SEGBA loan to Argentina). It was felt that since the Bank was not usually in a position to pass judgment on steps which a government might take to make domestic fabricators more competitive - moreover, it was noted that such steps could take a great many forms, and frequently the Bank only learned of them by accident - it would be as fruitless for the Bank to attempt to police "domestic dumping" as "foreign dumping". (The case of the Tarifa Fiscal in Spain, which had been alleged to give undue protection to the domestic fabricator, but which the Bank had accepted, was recalled in this connection.)

7. Paragraph 4 (Financing of Certain Local Currency Expenditures after International Competitive Bidding in which domestic fabricators are allowed a margin of preference of 15% or the existing level of duties, whichever is smaller). It was recognized that the Bank's practice of allowing domestic suppliers an across-the-board margin of preference of 15% could be criticized on the grounds that the "effective protection" which a domestic fabricator enjoyed depended on the domestic value-added rather than the total value of the product and that other factors entered like exchange rates, internal subsidies and taxes, and import duties on the imported component, and that the impact of a fixed margin of preference above c.i.f. cost was by no means uniform. The Asia Department, arguing the case for granting a 27½% margin of preference to domestic Indian fabricators, stated that its recommendation was based on the

concept (which was consistent with the IMF position) that India's new equilibrium exchange rate was made up of two components - the 55.5% devaluation of the rupee of June 6, 1966 and the simultaneous adjustment of import duties to a general minimum level of 27½%, which applied to most categories of capital goods imports. Therefore, in one sense the 27½% customs duty should be considered a part of the "equilibrium rate of exchange" for imports, and Indian bids should be evaluated with that "preference" of 27½% in mind. The Asia Department also observed that a higher level of preference, combined with international competition, rather than outright reservation, would be consistent with the Bank's desire to encourage India generally to rely more on prices than on administrative procedures in its economic decision-making.

8. The case for granting a 27½% margin of preference to India was also discussed in the general context of the problem of granting different margins of preference to different countries, either on the basis of special "calculations" or on the basis of taking the actual or the "average" of customs duties in a country as representing a fair level of protection for the domestic fabricator. It was suggested by some speakers that differential rates would place the Bank in an invidious position and would be impossible to administer fairly. Others suggested that any move towards granting countries preferences in excess of 15% would be opposed by capital exporting countries. All agreed that whatever practice was adopted, it should aim for simplicity, even at the expense of theoretical niceties.

9. Paragraph 5 (International Competitive Bidding on Procurement Not Financed by the Bank). 2/ It was noted that borrowing countries tended, to the extent possible, to "reserve" for domestic procurement a substantial part of the procurement for projects by excluding it from international competitive bidding and financing it themselves. The proportion of a project which a borrower reserved for domestic procurement was related to his estimate of the outcome of the bidding in the "gray area" of the project (i.e., the area where the items required could be supplied from either foreign or domestic sources). If the margin of preference which the Bank granted to domestic suppliers was inadequate, in the borrower's estimation, to ensure that some or all orders fell to domestic fabricators, then he would be encouraged to "reserve" as much procurement as possible, perhaps regardless of, and certainly without formal bidding to ascertain, the extra costs to the project. Particularly if the borrower reckoned that the Bank would refuse to finance orders to domestic suppliers (on the grounds that they were local currency expenditures), the Borrower would be inclined to reserve such procurement. Furthermore, the Bank's refusal to finance contracts won by domestic suppliers introduced an element of uncertainty into each project's financial plan, which did not assist in the efficient implementation of projects.

2/ See also Loan Committee Minute dated July 6, 1967 (LC/M/67-4) on this subject.

10. It was agreed that, from the point of view of the Bank and the project, the larger the proportion of the "gray area" exposed to international competitive bidding, the better, mainly for the reasons adduced in paragraph 5 of the September 8 memorandum. It was suggested by some that to the extent that the Bank insisted on a large amount of international competitive bidding in the "gray area", it should be more lenient about local currency financing and preferences for domestic suppliers; conversely, if the Bank refused to finance local expenditures or to be liberal on the matter of domestic preferences, it might have to settle for a smaller amount of international competitive bidding in the "gray area". (The Asia Department indicated that there were several examples of such a dilemma in India.)

11. It was agreed that the question of whether or not any local currency expenditures should be financed by the Bank could be decided separately in each case, but for many borrowers this issue would be closely related to how much of the project would be subject to international competitive bidding. A borrower's exposure to international competition was in turn related to the Bank's policy on granting a margin of preference to domestic suppliers.

12. The Chairman concluded that the margin of preference issue needed further consideration and asked the Bell working party on international competitive bidding to include in its terms of reference:

a. An examination of the Bank's policy on preferences, particularly those granted with respect to procurement of which the Bank would finance only the foreign exchange component, and

b. A review of the treatment of import duties in making bid comparisons.

C. Adjournment

13. The Committee adjourned at 5 p.m.

Staff Memorandum in response to the Memorandum from the Indian Ministry of Finance dated July 10, 1967

Bank/IDA Lending Procedures in India

The following memorandum has been prepared in response to the memorandum from the Ministry of Finance of the Government of India which was enclosed with Mr. Morarji Desai's letter to Mr. Woods dated July 10, 1967. Except as otherwise indicated, the lending procedures which it describes would be applicable to both Bank loans and IDA credits to India.

One general introductory comment may be in order. The overall amount of Bank/IDA lending in India will continue to be closely governed by a) India's limited creditworthiness, and b) India's allocation from available IDA resources. It follows that while different patterns of financing individual projects may yield different amounts of lending on those projects, they will make no real difference in the aggregate amount of assistance that India may expect from the Bank/IDA. In these circumstances, it would appear in our common interest to seek out projects as the vehicle for Bank/IDA lending which - assuming all of them to be of high developmental priority - would provide reasonably large individual loans and credits, based so far as possible upon the financing of imported equipment, supplies, and services.

Subject to this general remark, our detailed comments follow:

1. We are prepared to finance imports of specific equipment, supplies, and services required for development projects in India. In this instance we would expect international competitive bidding among potential suppliers and contractors.

2. We are prepared to finance, in cases where this method of disbursement seems appropriate and more convenient, a specified percentage of expenditures on development projects (e.g. highway or irrigation projects) representing our best estimate of the foreign exchange component of investment in such projects. In this instance, we would expect international competitive bidding among potential contractors, or if no contractors were required, international competitive bidding among potential suppliers of the specific goods and services required.

3. We are prepared to finance, in appropriate cases, the importation of materials and supplies which are required in substantial amounts for the domestic fabrication of equipment needed for specific development projects or programs. Here we would want to be convinced that such domestic fabrication was reasonably economic and efficient and we would expect either a) that the domestic procurement was to be by competitive domestic tender, or b) that the imported supplies were to be purchased on the basis of international competitive bidding.

4. We may be prepared, especially in cases of obviously high priority development projects which appeared likely to have a relatively low foreign exchange component, to finance local expenditures in India either:

a) by extending Case 1 above to include local procurement of specific equipment and supplies, perhaps within specified limits. Here we would expect international competitive bidding but would be prepared to allow a margin of preference for domestic suppliers of 15 per cent or the existing level of customs duty, whichever were smaller; or

b) by extending Case 2 above to cover a percentage higher than the estimated foreign exchange component (procurement procedures would be the same as in (a) above).

The general policy of the Bank and IDA in the field of financing local expenditure is at present under review. In any case, such financing is authorized under our basic Charters only "in exceptional circumstances" (Bank) or "in special cases" (IDA). We would not desire to make any particular exception in India from our usual practice of allowing a 15 per cent margin of preference in lieu of customs duties which exceed that level.

5. There remains the question which is mentioned particularly in the letter from Mr. Morarji Desai, namely, the extent to which the Bank/IDA will insist on international competitive bidding on all procurement connected with development projects in India which we are helping to finance. This is indeed our normal policy, pursued for the reason recognized in the memorandum from the Ministry of Finance, namely, that this keeps the cost of construction to the minimum and assures the most economic and efficient execution of the project. On the other hand, we are not unmindful of some of the considerations advanced in the letter and accompanying memorandum in favor of reserving some procurement on particular projects for domestic suppliers, operating on the basis of domestic competitive tenders. We would therefore be prepared to consider, on the basis of facts presented to justify such action in particular cases, a pattern of financing for particular development projects in which our participation would be established as in paragraphs 1 - 4 above, and the remaining domestic procurement would be financed from Indian resources without international competitive bidding. We would not desire, however,

a) to be associated with the financing of a project where it appeared that the increase in cost resulting from the limitation of part of the procurement to domestic suppliers would be so large as to infringe upon what we would regard as the reasonably economic and efficient execution of the project, or

b) to finance merely a "remainder" 1/ of imported equipment required for a project being executed primarily with supplies from domestic sources. This is for purely practical reasons - such a case might not be worth, either to us or to India, the time and efort of processing it and working out the necessary terms and conditions; and it is also quite possible that such a case, by reason of the large share of procurement reserved for domestic suppliers, would encounter the difficulties listed in subparagraph (a) above.

1/ This might be tentatively defined as anything less than 25 per cent of the cost of the project concerned, or less than $5 million in amount.

JBK
September 8, 1967

FORM No. 60
(8-67)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LC/M/67-10

October 24, 1967

Minutes of Loan Committee Meeting held on
Thursday, October 5 at 2:30 p.m. in the Board Room

A. Present:

Mr. J. B. Knapp, Chairman
Mr. G. Alter
Mr. B. R. Bell
Mr. A. Broches
Mr. R. W. Cavanaugh
Mr. S. R. Cope
Mr. A. G. El Emary
Mr. M. L. Hoffman
Mr. M. L. Lejuene
Mr. A. Stevenson
Mr. G. M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. G. C. Billington
Mr. L. de Azcarate
Mr. L. J. C. Evans
Mr. K. H. S. Haasjes
Mr. S. N. McIvor
Mr. B. Q. Lan
Mr. F. Lutolf
Mr. L. B. Rist
Mr. Y. Rovani
Mr. R. E. Rowe
Mr. D. Suratgar
Mr. R. Wadsworth
Mr. W. A. Wapenhans

B. Ivory Coast - Oil Palm and Coconut Project.

1. The Committee considered the memorandum "Ivory Coast - Oil Palm and Coconut Project" (LC/O/67-49).

2. The Committee was told that the draft Appraisal (TO-603) dated September 13, 1967 would need to be up-dated in the light of new proposals for the organization and structure of the management of the project which the Ivorian Government, with the support of FED and other interested parties, was now examining. A recent Bank mission had been advised of the new proposals during the course of an exchange of views with the European Investment Bank (EIB), European Development Fund (FED) and Caisse Centrale

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Director, Projects Department
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Director, Economics Department
Director, Development Services Department
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Mr. M. Shoaib, Vice President
Directors, other Departments
Special Advisers to the President
Executive Vice President & Vice President (IFC)

de Cooperation Economique (CCCE), which were also participating in financing the development of the oil palm industry in the Ivory Coast. These proposals called for a contractual association which would be a form of joint-venture between the three corporate entities mentioned in the Appraisal Report. The ownership of the plantations would continue to be vested in SODEPALM, a government-owned company; the ownership of the processing factories would be vested in PALMINDUSTRIE, in which private interests would probably have a share of around 25% and the government the remaining majority share, while all operating and management functions (from planting through marketing) would be carried out by PALMIVOIRE, in which the same private interests participating in PALMINDUSTRIE would have a majority.

3. It was pointed out that this draft plan would transfer from the government to an agency dominated by private interests several of the responsibilities which would have devolved on it under the original plan (that is, the establishment and application of formulae to determine prices at various stages of what is essentially an integrated project, processing charges and management fees, as described in the Appraisal Report), and that SODEPALM and PALMINDUSTRIE would in fact remain fully empowered to act as operating companies under their present or future statutes. Further legal steps would be required to establish the new relationship between the three companies.

4. It was agreed that since Bank staff had learned about this draft plan (which was still in the early stages of formulation) at secondhand, and had not had time to carefully review its implications, it would be premature for the Loan Committee to discuss the details of the new proposal for the organization and structure of management of the project at this juncture. The Area Department commented that there would inevitably be delays and difficulties before the final details of this plan could be established satisfactorily to all interested parties, including other financing agencies involved (EIB, FED and CCCE). It was confident that a mutually acceptable plan of action could be found, since the government's posture was flexible and its relations with the principal negotiating parties satisfactory. In general, the mission was impressed by the willingness and technical ability of the Ivorians to execute the project and the changes proposed under the draft plan would not, on the face of it, raise intractable problems for the Bank.

5. The Projects Department agreed to reexamine the sections in the draft Appraisal Report dealing with consultation with the Bank (concerning appointments to key management posts) rather than "consent", and the proposed waiving of import duties on materials financed by the Bank. On this last point, it was agreed that unless private participation in the project hinged on the waiving of duties, there was no reason for the Bank to take a position on this issue either way. Some discussion of the Bank's general posture on waiving import duties followed and the Chairman concluded that a working party should review and clarify the Bank's (and IDA's) practices since it was clear that their policies had varied over the years.

6. In addition to the above comments on the Appraisal Report, other guidance to the working party was that:

(a) The Bank should fully discuss with the Ivorians and other interested parties the draft plan, if possible before final legal action was taken in the Ivory Coast to set up the new management structure of the project;

(b) Negotiations for the proposed loan would not be concluded until the draft plan was agreed by all concerned; and

(c) A loan to the parties responsible for carrying out the project would be preferable to one made to the government of the Ivory Coast.

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

Cleared with: Messrs. Knapp
El Emary
Suratgar
Wadsworth

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/67-9

October 6, 1967

Minutes of Loan Committee Meeting held on
Wednesday, September 20 at 11:00 a.m. in Room 1038

A. Present:

Mr. J. B. Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. B. Chadenet
Mr. R. H. Demuth
Mr. Mr. A.G. El Emary
Mr. R. J. Goodman
Mr. M. L. Lejeune
Mr. L. Nurick
Mr. F. R. Poore
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. D. S. Ballantine
Mr. W. C. Baum
Mr. B. R. Bell
Mr. R. A. Chaufournier
Mr. D. J. Fontein
Mr. A. Gue
Mr. M. L. Hoffman
Mr. W. Hughes
Mr. S. S. Husain
Mr. W. M. Keltie
Mr. E. Lerdau
Mr. R.A.D. Loven
Mr. V. Rajagopalan
Mr. L. B. Rist
Mr. R. H. Sheehan
Mr. R. B. Steckhan
Mr. G. K. Wiese

B. Brazil - Future Lending Operations

1. The Committee considered the Western Hemisphere Department's memorandum entitled "Brazil: Future Lending Operations" (LC/O/67-46) which recommended that the Bank be prepared to lend (during the 18-month period ending June 1969, subject to specific conditions) up to $100 million for two highway projects, a storage project, and two power projects; and that the Bank proceed to identify, prepare and appraise other

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

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Special Advisers to the President
Executive Vice President & Vice President (IFC)

projects for possible lending in 1969/70. With regard to the proposed lending program for the period ending June 1969, it was stated that:

(a) Highway I and Highway II. It was noted that the direct foreign exchange component of Highway I was now estimated at \$22 million, against \$13 million indicated in the memorandum, while the estimate of total cost had risen by \$6 million to \$66 million. Bank loans for these two projects would be contingent on reasonable progress being made in implementing institutional reforms in the transport sector so as to eliminate its huge deficit, which accounted for about two-thirds of the federal government's cash deficit in 1966. Consultants had done most of the preparatory work for a plan of action which the Bank expected the Brazilians to adopt. Although the proposed amount of the highway loans would not in itself give the Bank a lot of leverage against the Brazilians, it was evident that the government itself appreciated the overriding importance of transport reforms and would put its weight behind implementing them; moreover, it realized that the whole range of possible Bank lending to Brazil was in jeopardy so long as the fiscal deficit was not sharply reduced.

(b) Agricultural Storage. The Chairman stated that this project would require careful examination, particularly the proposed financing by the Bank of relatively large amounts of local currency.

(c) FURNAS and CEMIG Power. In the absence of further loans to the Brazilian power sector, the Bank's operations in Brazil might be too limited to exercise sufficient influence on economic policies and institutional reforms. However, the Western Hemisphere Department modified the position set forth in its memorandum and would not now recommend joint financing for the power project, since it appeared that Brazil would be able to obtain, on its own, reasonable credit terms from supplying countries for the remaining projects, without jeopardizing the competent execution of the power program. The Department proposed Bank lending of \$35-40 million for one or more projects in the program (to be selected by a Bank mission in October); it was estimated that this would cover the total cost of contracts awarded to foreign suppliers and the foreign exchange content of contracts awarded domestically under international competitive bidding with a 15 percent domestic preference.

2. As regards the highway and storage projects, the Chairman stated that Bank participation to the extent of 50 percent of total cost would be excessive, but that 40 percent participation would be acceptable. Including the proposed lending for power projects, gross Bank commitments to Brazil in the 18-month period under review might thus come to between \$90 million and \$100 million. Concerning the estimated foreign exchange component of the proposed projects, the Western Hemisphere Department pointed out that their figures were preliminary. The Committee was told

that recent experience with disbursements for two power loans showed that local suppliers (enjoying a 15% margin of preference) were winning only about 10% of the orders under the loans. In this connection, it was pointed out that equipment and supplies procured in Brazil contained a considerable foreign exchange component and that the figures in the Area Department's memorandum did not include any estimate of the foreign exchange component of local procurement. Thus the real foreign currency element in the projects under dicussion was higher than indicated in the memorandum.

3. It was noted that following the recent economic mission to Brazil, control of the federal government's deficits and maintenance of a realistic exchange rate were judged by the Western Hemisphere Department and the Economic Committee as "the key tests" in recommending lending to Brazil. The Chairman commented that the new government and its economic performance would have to be watched closely. The magnitudes which the Bank was prepared to lend to Brazil in the 18 months ending June 1969 (allowing for slippage, probably little more than $75 million) were still relatively small, reflecting the Bank's judgement that it must move cautiously.

4. Concluding, the Chairman stated that subject to the comments and qualifications recorded above, the lending program recommended by the Western Hemisphere Department for the period ending June 1969 and the simultaneous project preparation and appraisal work for lending thereafter could be pursued along the lines indicated in the memorandum.

C. The Committee adjourned at 12:00 noon.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/67-8

September 20, 1967

Minutes of Loan Committee Meeting held on
Monday, August 28 at 3:00 p.m. in Room 1038

A. Present

Mr. J. B. Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. M.P. Benjenk
Mr. A. Broches
Mr. I.P.M. Cargill
Mr. R.W. Cavanaugh
Mr. B. Chadenet
Mr. A.G. El Emary
Mr. M.L. Hoffman
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. M. P. Bart
Mr. D. S. Ballantine
Mr. R. A. Chaufournier
Mr. L.J.C. Evans
Mr. A. F. Geolot
Mr. R. J. Goodman
Mr. A. D. Knox
Mr. D. A. Schmidt
Mr. R. B. Steckhan
Mr. G. M. Street

B. Local Currency Financing - A Preliminary Discussion

1. The Chairman, referring to Mr. Woods' recent decision to review the Bank's 1/ local expenditure financing practices, stated that there appeared to be some confusion among the staff as to what constituted local expenditure. Firstly, there was the conventional situation where the Bank loan was in excess of the foreign exchange component of a project and the Bank financed some "straight" local expenditures covering, e.g., payrolls and land acquisition. Secondly, there was the less common

1/ Reference in this Minute to the Bank and Bank loans applies equally to IDA and IDA credits, unless otherwise indicated.

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situation where the Bank made a loan to finance certain foreign exchange expenditures but would also finance such expenditures locally if the orders fell to domestic suppliers as a result of international competition ("fringe" local expenditure financing). In the second case, to the extent that the Bank financed more than the foreign exchange component of such local procurement, it was financing local expenditure. He (The Chairman) had observed some lack of clarity on this point in papers coming forward to the Loan Committee.

2. Some committee members explained that "fringe" local expenditure financing tended to have been counted as foreign exchange financing in the past, because as in the case of genuine foreign exchange financing, international competition was involved and the Bank would not wish to "penalize" local suppliers for their creditable performance in winning orders. In fact, there had been no precedent for the Bank making disbursement contingent on whether orders fell to local or foreign suppliers until the recent SEGBA case, when it was decided to limit the amount of local orders which the Bank would finance out of the loan to a flat amount of $10 million. (See Minutes of Loan Committee Meeting (LC/M/67-4) dated July 6, 1967). In contrast to the sometimes permissive attitude to "fringe" local expenditure financing, "straight" local expenditure financing had always been critically examined at every level in the Bank.

3. Some of the consequences of curtailing "fringe" local expenditure financing were discussed. It was agreed that such curtailment could put a borrower's industries at a disadvantage if a country suffered from severe shortages of domestic resources as well as of foreign exchange. Moreover, restricting "fringe" local expenditure financing could jeopardize the orderly allocation of budgetary resources in accordance with an overall plan if the usable amount of a Bank loan depended entirely on the size of the foreign exchange component, determined after international competition. The financial plans of Bank borrowers could not be established in advance of the results of international bidding. It was suggested that in some cases it might be better if the Bank agreed to finance a flat amount of local expenditures in advance (as in the SEGBA case) rather than an indeterminate amount of actual and estimated foreign exchange expenditures.

4. It was also pointed out that there were practical difficulties involved in financing the foreign exchange component of locally procured goods. It would not always be as straightforward as in the recent Singapore Telecommunications case, where there was relatively simple local assembly of imported equipment and where the actual imported component could be easily and accurately identified. For example, if the Bank was financing a complex project or program involving hundreds or even thousands of different parts and components which were in varying degrees locally assembled or fabricated, it would be impossible for the Bank to estimate the foreign exchange component of each item individually. It was agreed that in such cases the Bank would have to adopt a flat reimbursement rate which it considered reflected the average foreign exchange component of the domestic procurement (cf. the provision in the Ghazvin agricultural loan in Iran).

5. Concluding, the Chairman said that there was no objection to financing the foreign exchange component of a project howsoever identified - whether direct imports, the estimated foreign exchange component of civil works contracts or the estimated foreign exchange component of domestically procured goods. If a loan was set up as a straight foreign exchange loan, it should be tailored to conservative assumptions about the project's maximum foreign exchange component; if, as a result of international competition, the amount of foreign procurement which the Bank had agreed to finance was reduced, there would be a corresponding reduction in the usable amount of the loan.

6. The Chairman added that the curtailment of local expenditure financing would act as a rationing device to the extent that it had an effect on the Bank's volume of lending to particular countries. There was no suggestion, however, that this curtailment should be absolute. Selection of projects for Bank financing would be made according to established economic and planning criteria and there would obviously continue to be exceptional cases where the Bank would consider it appropriate to finance some local expenditures in order to get the job done.

C. The Committee adjourned at 4:00 p.m.

Form No. 60
(2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/67-7

August 21, 1967

Minutes of Loan Committee Meeting held on
Wednesday, August 9 at 3:00 p.m. in the Board Room

A. Present

Mr. S. R. Cope, in the Chair
Mr. B.R. Bell
Mr. I.P.M. Cargill
Mr. R.A. Chaufournier
Mr. E.E. Clark
Mr. R.H. Demuth
Mr. A.G. El Emary
Mr. M.L. Lejeune
Mr. A. Stevenson
Mr. G.M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. S.J.G. Burt
Mr. J.M. Duarte
Mr. J.A. Guerra
Mr. M.L. Hoffman
Mr. H. Mirza
Mr. A.R. Perram
Mr. P.J. Prudence
Mr. O.A. Schmidt
Mr. R.H. Sheehan
Mr. R.B. Steckhan

B. Central America - Future Bank Lending Operations

1. The Committee considered the memorandum from the Western Hemisphere Department dated July 31, 1967 entitled "Central America - Future Bank Lending Operations" (LC/O/67-41).

2. The Western Hemisphere Department observed that while from an operational viewpoint the five Central American republics under consideration (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) were quite distinct, economically they were increasingly interdependent. At the policy level, and in specific cases at the project level, the Bank had to think inter-regionally, while on the international level, coordination of the lending activities of the various external agencies involved in the region was particularly important.

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3. It was noted that the Western Hemisphere Department was recommending that the Bank be prepared to lend up to $113 million to the five Central American republics during the period ending December 1968 and had estimated that because of slippage, the actual amount of lending might be as low as $51 million during that period. Several Committee members asked what degree of commitment would be implied by Loan Committee approval of this recommendation and whether a firm commitment to lend up to $113 million would be wise in view of the Bank's own difficulties in the market. The Chairman stated that while a shortage of Bank funds was anticipated over the foreseeable future, formal rationing had not been introduced. He regarded the Western Hemisphere Department's memorandum as a legitimate attempt to look ahead so that they could discuss lending operations with the Central Americans - both as to amounts and as to purposes - fairly specifically. The Loan Committee was being asked to approve a general approach, not a detailed program of lending; clearly the timing and amount of each loan would be reviewed in the light of any "rationing" criteria and would depend on the usual project and economic performance considerations, on which final judgment could not be passed at this stage.

4. With regard to the particular projects which the Western Hemisphere Department proposed to discuss with each country, it was noted that:

(a) Guatemala

(i) $6.5 million education loan. $1 million of this loan would finance local currency expenditures. The Chairman stated that no commitment should be made to financing such relatively large local currency expenditures. The Bank should consider reducing its proposed 50% financing of total costs. The Western Hemisphere Department commented that the provision of $1 million equivalent in local currency would impose a considerable burden on Guatemala.

(ii) $7.0 million telecommunications loan. In view of the new relations which the Bank was fostering with Guatemala, every effort should be made to proceed with this loan.

(b) El Salvador

(i) $2.8 million 3rd highway loan. This loan might be subject to considerable slippage since the National Assembly had deleted a section of the draft Loan Agreement.

(c) Honduras

(i) $5 million livestock loan. The possibility of financing this project through USAID should be pursued.

(d) Nicaragua

(i) $4 million loan for education. As in the case of the proposed education loan to Guatemala, the Bank should reserve its position on financing local currency expenditures.

(ii) $17 million loan to ENALUF (Power Development). Part of the project had already been submitted to international bidding and it would not be possible to arrange bilateral financing without delaying the execution of the project.

(e) Costa Rica

(i) $5 million loan for agricultural credit. This loan would involve local currency financing of about $0.6 million. The Chairman agreed that it would damage relations with Costa Rica if the Bank now declined to finance such expenditures at this late stage.

(ii) $13.5 million loan to ICE (Power Development). This loan might be subject to slippage well beyond the end of 1968. The possibility of bringing other lenders into the project (total cost $22.0 million) would be investigated.

5. The Committee had no comments on the other projects noted in the Western Hemisphere Department's memorandum. The Chairman observed, however, that the proposed loans to Costa Rica, including those in 4 (e) above, would total $35 million, which might be considered excessive if committed over an 18-month period.

6. The Chairman concluded that the Committee's qualifications about the Western Hemisphere Department's recommendation concerned more the timing of the loans than their substance. The lending program recommended in the memorandum was, as an order of magnitude and in general outline, reasonable, provided it was clearly understood that the program was subject to review and that individual loans might be modified or postponed. The Western Hemisphere Department's memorandum of July 31, 1967 provided appropriate guidance for further discussion with the five Central American countries, subject to the comments and qualifications recorded above.

7. The Chairman subsequently reported the Loan Committee's conclusions to Mr. Knapp, who decided that the proposed $6.5 million loan to Guatemala for education and the proposed $4 million loan to Nicaragua for education could proceed on a 50/50 cost-sharing formula.

C. Adjournment

The Committee adjourned at 4:45 p.m.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/67-6

July 25, 1967

Minutes of Loan Committee Meeting held on Wednesday, July 12 at 11 a.m. in the Board Room

A. Present:

Mr. S. R. Cope, in the Chair	Mr. D. J. Fontein
Mr. G. Alter	Mr. M. L. Hoffman
Mr. B. R. Bell	Mr. A. M. Kamarck
Mr. M. P. Benjenk	Mr. S. N. McIvor
Mr. E. E. Clark	Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. R. S. Dosik	Mr. R. H. Sheehan
Mr. W. M. Keltie	Mr. R. F. Skillings
Mr. A. D. Knox	Mr. R. B. Steckhan
Mr. Y. Rovani	

B. Argentina - Procurement under the Proposed SEGBA Loan

1. The Committee considered the memorandum from the Western Hemisphere Department dated July 7, 1967 entitled "Argentina - Procurement under the Proposed SEGBA Loan" (LC/O/67-3).

2. The Chairman said that it would at this stage be premature to discuss the four procurement alternatives described in the memorandum before the Committee. He would like the Committee to focus on the implications for Argentina and for SEGBA of any decision by the Bank not to finance local currency expenditures.

3. The Western Hemisphere Department pointed out that Argentina had relatively sophisticated and diversified capital goods industries so that a substantial part of the equipment required for projects could usually be procured locally. Argentina also had a heavy burden of short-term external indebtedness, only about half of which could be financed from the current account surplus. The financing of local currency expenditures helped redress the deficit - short of obtaining non-project aid, which was unlikely,

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the only other way of closing the balance of payments gap was by an extensive rescheduling of amortization payments, which the government understandably wished to avoid. On general economic grounds, there was a strong case for financing some local currency expenditures in Argentina and for treating the country under the "exceptional circumstances" clause of Article 4, Section 3c of the Bank's Articles of Agreement.

4. The Projects Department recalled that SEGBA had improved its operational efficiency mainly as a result of the Bank's "presence" and the prospect of continued Bank assistance on a substantial scale. If the Bank declined to finance some portion of SEGBA's local expenditures, then SEGBA would probably have to trim its high priority power expansion program, since a recourse to budgetary assistance was not feasible in the circumstances. SEGBA's financing gap for its expansion program had already been severely stretched by the Bank's previous decision to reduce the loan amount and finance only the indirect foreign exchange component of the civil work contracts. Any further reduction in the loan amount would be a grave setback to SEGBA.

5. It was pointed out that one way of closing any additional gap in SEGBA's financing plan arising out of the Bank's refusal to finance local currency expenditures would be for SEGBA to maximize the amount of foreign procurement. This, however, would be politically difficult since local industries heavily depended on orders from SEGBA. Alternatively, the Bank could help SEGBA out by financing, in addition to direct foreign exchange expenditures, the imputed (or actual) foreign exchange component of locally manufactured goods. This would reduce, but not eliminate, any additional financing gap.

6. The Chairman stated that he would communicate these views to Mr. Knapp on his return. Both on country and on project grounds, strong arguments had been put forward for treating the proposed loan to Argentina as a special case.

7. It was subsequently decided at a meeting with Mr. Woods that the Bank would make a loan of up to $50 million to SEGBA, of which up to $10 million would be available for purchases from Argentine suppliers, who would be granted a 15% margin of preference. The Bank would not limit the the amount of procurement which SEGBA reserved for Argentine suppliers.

C. Adjournment

The Committee adjourned at 11:45 a.m.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/67-5

July 17, 1967

Minutes of Loan Committee Meeting held on
Monday, July 10 at 10:30 a.m. in the Board Room

A. Present:

Mr. S. R. Cope, Deputy Chairman
Mr. G. Alter
Mr. B. R. Bell
Mr. M. P. Benjenk
Mr. I. P. M. Cargill
Mr. E. E. Clark
Mr. D. J. Fontein
Mr. M. L. Hoffman
Mr. A. M. Kamarck
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. R. S. Dosik
Mr. W. M. Keltie
Mr. A. D. Knox
Mr. V. Masoni
Mr. O. A. Schmidt
Mr. R. V. Sear
Mr. R. F. Skillings
Mr. M. L. Weiner
Mr. A. R. Whyte

B. Prospective Bank Lending to Peru and Negotiation of Matucana Power Loan

1. The Committee considered the memorandum of July 3, 1967 from the Western Hemisphere Department, entitled "Prospective Bank Lending to Peru and Negotiation of Matucana Power Loan" (LC/O/67-35).

2. It was noted that the recent economic mission to Peru had concluded that Peru's present fiscal situation was unsatisfactory, so that the Western Hemisphere Department was recommending that the Bank should not lend for projects requiring support from public funds. However, the economy was basically strong and the fiscal situation was not so serious as to call into question Peru's creditworthiness. Hence the Department proposed to negotiate a loan of up to $17.5 million for the Matucana Hydroelectric Project. The Department was also proposing that work should continue on the preparation and appraisal of high priority projects (like the agricultural credit project), even those requiring support from public funds, so that when the situation had sufficiently improved the Bank could enter into negotiations with the Government and continue other lending operations without long delays.

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3. In reply to a question whether the proposal to negotiate the Matucana Hydroelectric Project contradicted the Bank's normal insistence on satisfactory economic performance as a condition of a loan, the Western Hemisphere Department reiterated that the present financial situation was undoubtedly unsatisfactory but it was mainly a product of a serious public finance position and was not as of now of a kind or degree which would preclude lending for those projects which did not call for budgetary support.

4. A member of the Committee referred to newspaper reports about new legislation affecting the International Petroleum Company. The Western Hemisphere Department recalled the unusual nature of IPC's concession and said that the two sides were actively negotiating a settlement. The new legislation might hasten such a settlement.

5. The Western Hemisphere Department pointed out that, although the Inter-American Bank took a more lenient view of Peru's present financial situation, other members of the Consultative Group were in accord with the Bank's lending posture.

6. The Chairman commented that there could be no hard and fast rules about "satisfactory" and "unsatisfactory" economic performance, and each case had to be considered on its merits. In this case, he supported the conclusions and recommendations of the Western Hemisphere Department.

C. <u>Adjournment</u>

The Committee adjourned at 11:15 a.m.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/67-4

July 6, 1967

Minutes of Loan Committee Meeting held on
Wednesday, June 14 at 10:30 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. R. W. Cavanaugh
Mr. B. Chadenet
Mr. R. A. Chaufournier
Mr. R. H. Demuth
Mr. A. G. El Emary
Mr. D. J. Fontein
Mr. R. J. Goodman
Mr. A. M. Kamarck
Mr. M. L. Lejeune
Mr. L. Nurick
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. J. G. W. Agnew
Mr. W. C. Baum
Mr. B. R. Bell
Mr. B. M. Cheek
Mr. J. H. Collier
Mr. A. D. Knox
Mr. R. A. D. Loven
Mr. R. B. Steckhan
Mr. G. K. Wiese

B. International Competitive Bidding for Goods and Services not Financed by the Bank. 1/

1. The Committee considered the application of international competitive bidding to procurement which, although proceeding under a Bank-financed program or project, was not being directly financed by the Bank. (See LC/A/67-4 of June 12, 1967.)

1/ References in this minute to the Bank and Bank loans apply equally to IDA and IDA credits.

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2. The Chairman recalled that with certain explicit exceptions where international competitive bidding was clearly not appropriate, and subject to granting a degree of protection to domestic suppliers, the Bank always insisted that the proceeds of its loans were used to obtain goods and services through international competition. The Bank's attitude to procurement which, while forming part of a Bank-financed project, was not being financed by the Bank, but by domestic or other external sources, had been less rigid and precise, partly because of the great variety of projects and financing arrangements in which the Bank had been involved over the years and partly because there could be no hard and fast rules when a "Bank project" was sometimes defined in a narrow, technical sense, at other times in a wide "program" sense and frequently in some hybrid sense.

3. Despite this flexibility about procurement which the Bank was not financing, it was clear that the Bank had been more insistent on international competitive bidding for all goods and services financed under a project than for those financed outside it. In the latter case, the Bank was not generally in a position to insist on international competition. As a result, the Bank could become associated with projects which were not being carried out in the most economical way, either because of uneconomic domestic procurement and/or foreign procurement at high prices.

4. The Chairman asked for comments on these problems in the light of the Bank's lending operations in the semi-industrialized countries, where there was a growing amount of domestic procurement. He said that the immediate occasion for the present discussion was the proposed loan of $50 million to Spanish Railways. As the proposal now stood, a lot of domestic procurement could and probably would be financed by the Spaniards at prices out of line with international prices. (For a full discussion of the proposed second loan to Spanish Railways, see the Minutes of the Special Loan Meeting LM/M/67-10, dated July 6, 1967.)

5. Committee members quoted examples of the different situations which had arisen in the past or which were now on the horizon, viz.:

(a) Kariba Project. The whole $225 million project was open to international competitive bidding although the Bank financed only a part of it. In the case of the Keban Dam, however, the Bank had been unable to get other lenders to agree to international competition for the whole project and had consequently indicated it would be prepared to consider lending only for the construction of transmission lines. This was an example of a purposeful re-definition of "the project" in order to exclude the large tied element.

(b) With many railway loans, the Bank had systematically defined "the project" as the overall modernization program, with the result that the Bank loan sometimes represented a small, and occasionally very small, fraction of that program. In some such cases, the Bank had not attached conditions with respect to procurement of non-Bank-financed goods and services, particularly in those countries (e.g. India) which already had railway equipment industries and/or long-established relations with overseas suppliers.

(c) In the Philippines, international competitive bidding for civil works contracts was proscribed by law. In two projects (Manila Water Supply Project - 386-PH and the Dredging Project - 290-PH), the Bank had included in its List of Goods equipment for the civil works contracts, but not the civil works contracts themselves, which however still remained part of the project as defined by the Bank. In the three power projects (183-PH, 297-PH, 325-PH), the foreign exchange component of civil works contracts was financed from the loans and the contracts submitted to international competitive bidding.

(d) In the Singapore Port Project, the procurement of boats formed part of the project and the Bank would have financed their construction in Singapore with a margin of preference had this preference been mentioned in the invitation to bidders. In the forthcoming Singapore Telecommunications Loan, the Bank declined to accept, as part of the project, tied external procurement of certain equipment even though it agreed that the Borrower, on standardization grounds, was right to purchase this equipment from its previous suppliers.

(e) The $95 million loan to SEGBA (Argentina) was mainly for local labor and services ($60 million) and imported equipment ($25 million). The balance of equipment ($100 million) required for the project was financed locally (at much higher prices than those of comparable imported equipment) because the Borrower wished to reserve part of the market for the domestic industry. Under a forthcoming loan to Argentina for electricity development, the Argentines were proposing a modification of the conventional 15 per cent domestic preference rule, which would reserve for the Argentine electrical industry a part of the market while keeping the increase in the cost of the project within certain limits.

(f) In the case of the proposed IADB loan to Brazil for the Ilha Solteira hydroelectric project, the IADB was providing about 50 per cent of the external financing on the basis of international competition with the remaining 50 per cent procured on the basis of limited competition between consortia of lenders. In other power loans in Brazil, the Brazilians had sought a compromise between international competition and direct bilateral procurement.

6. These and other examples showed that the Bank treated procurement it was not financing on a case-to-case basis, pressing for the widest possible measure of international competitive bidding over the whole project but not insisting on it as a condition of Bank participation. Two reasons for this were:

(a) A borrower could justify domestic procurement or tied bilateral finance, although he might have to pay higher prices, on the grounds that the country was short of foreign exchange and that the Bank loan was not sufficient, in relation to the total foreign exchange costs of the project, to permit international competition over the whole project.

(b) The Bank had recognized the need to give a fair chance to domestic industries and neither the Part I countries, nor overseas suppliers, expected countries to procure abroad when this could be avoided without great cost. If the Bank insisted on international competition throughout the project, there could be pressure on the Bank to raise the margin of preference which it accorded to domestic suppliers.

7. The Chairman recognized that many of these arguments carried weight and that, to judge from the variety of cases which had been described, the Bank's attitude to procurement which it was not financing did not follow any rigid rules. However, something more explicit was required than simply the understanding that the Bank should ensure that the borrower's procurement practices were "reasonable." In the absence of a systematic approach, the Bank could slip into participating in projects by way of financing "gaps" which arose precisely because costs had been inflated by local procurement and/or by tied lines of credit.

8. The Chairman concluded that, even though this problem might have to remain a "gray area" of Bank policy, a working party should be formed to clarify the issues which had been discussed.

C. Adjournment

The Committee adjourned at 12:10 p.m.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/67-3

September 19, 1967

Minutes of Loan Committee Meeting held on
Friday, May 26, at 11:00 a.m. in the Board Room

A. Present

Mr. S. R. Cope, Deputy Chairman
Mr. G. Alter
Mr. B. R. Bell
Mr. R. A. Chaufournier
Mr. E. E. Clark
Mr. R. H. Demuth
Mr. A. G. El Emary
Mr. D. Fontein
Mr. F. R. Poore
Mr. A. Stevenson
Mr. H. G. Hilken, Acting Secretary

In Attendance:

Mr. W. C. Baum
Mr. C. Fligler
Mr. R. M. Frost
Mr. F. H. Howell
Mr. A. D. Knox
Mr. A. R. Perram
Mr. L. B. Rist
Mr. E. M. Rojas
Mr. O. A. Schmidt
Mr. J. D. Teigeiro
Mr. M. L. Weiner

B. Colombia - Future Bank Lending Operations

1. The Committee considered the memorandum from the Western Hemisphere Department, "Colombia - Future Bank Lending Operations" (LC/O/67-27).

2. The Committee was informed that Colombia was a case in which the Bank and other international financial agencies (IMF, IDB, AID) had been successful in obtaining the adoption of an economic policy program and the recognition of the need for satisfactory policy performance. In this connection it was emphasized that Colombia's policy performance would continue to be monitored closely and that a relapse in performance might have to result in holding back a loan even though the project was ready.

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3. It was noted that the result of the proposed Bank lending program to Colombia for fiscal 1968, amounting to $89 million, would be to maintain the projected net Bank/IDA share of Colombia's estimated external debt through 1972 at about 36% of the total. This percentage was recognized to be high but not necessarily bad since a large part of Colombia's development was financed internally and Colombia's inability to tap the private capital market necessarily resulted in aid agencies holding a large proportion of her external debt. It was an important reason, however, for the Bank's proposal for joint financing.

4. With respect to the Consultative Group project list and the proposed sources of financing, questions were raised particularly about assigning the Bogota Water Supply project to joint financing. It was argued that the Bank had already done much work on the project and had an important stake in its institution building aspect, and that the project was almost ready for financing. The Western Hemisphere Department pointed out that the alternative of passing other projects to non-Bank lenders might be even more objectionable and that if joint financing was arranged the Bank's role would not be lost. It was also argued that the strength of the Bank's forthcoming proposals for joint financing required that the Bank take the position that proceeding with certain specific important projects depended on the availability of joint financing.

5. With respect to the forthcoming discussions on joint financing, the Committee agreed that the Bank should try to obtain acceptance of a 50-50 formula, but that the most important objective should be to obtain agreement on the principle of joint financing. It was recognized that ideally the most practical procedure would be first to obtain the commitment for joint financing of a project, then to hold international competitive bidding for the project goods and only thereafter to arrange the final allocation and details of the financing, including the terms of the Bank loan. Amortization schedules and interest rates could be worked out at the end in terms of the prevailing circumstances.

6. In summary, the Committee concluded that the Bank should:

(a) be prepared to make new loans during the year ending June 30, 1968 for the projects indicated in para. 13 of the memorandum, subject to the maintenance of satisfactory economic policies to which the Government was already committed. It was recognized that due to uncertainty about joint financing of some projects, the total amount of Bank lending, given at $89 million, could be between $80 and $100 million;

(b) discuss with certain of the principal supplying countries the bases recommended for dividing the financing of the Bogota Power, Interconnection and Bogota Water Supply projects;

(c) convene a meeting of the Consultative Group on June 20 and 21, 1967, to discuss the provision of up to $350 million of loans for projects included in the Project List, and to continue the discussion of methods of sharing the financing of the above mentioned Bank projects.

(d) continue its long-term program of project identification in the transportation, agriculture, industry and power sectors.

C. Adjournment

7. The Committee adjourned at 11:45 a.m.

FORM No. 60
(2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/67-2
March 9, 1967

Minutes of Loan Committee Meeting held on
Monday, February 20 at 2:30 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. A. Broches
Mr. R. W. Cavanaugh
Mr. S. R. Cope
Mr. R. H. Demuth
Mr. A. G. El Emary
Mr. R. J. Goodman
Mr. A. M. Kamarck
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. B. Chadenet
Mr. R. A. Chaufournier
Mr. T. E. B. da Costa
Mr. A. J. Davar
Mr. C. E. Eugenio
Mr. L. J. C. Evans
Mr. J. Fajans
Mr. J. M. Frasen
Mr. R. M. Frost
Mr. S. S. Husain
Mr. K. W. M. Keltie
Mr. S. Lipkowitz
Miss A. L. Maher
Mr. R. Picciotto
Mr. L. B. Rist
Mr. D. M. Sassoon
Mr. W. Schaefer-Kehnert
Mr. A. Shibusawa
Mr. D. Stoops
Mr. G. K. Wiese
Sir John Crawford

B. Brazil - Livestock Development Project

1. The Committee considered the memorandum of February 10, 1967 from the Western Hemisphere Department, entitled "Brazil - Proposed Loan for Livestock Development Project" (LC/O/67-9).

2. The Committee recalled that in May, 1966, it had authorized preparation to lend up to $150 million to Brazil in the first six months of 1967, subject to sound balance of payments management and adequate control over the budgetary deficit and the expansion of credit. The incumbent government had satisfied

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these criteria and the President-elect of the new government, which would assume office on March 15, had assured Mr. Woods of his intention of continuing the policies of the outgoing government. The Committee was told that economic and political developments in Brazil would require further review as soon as the new government had settled in.

3. The Committee noted that a second Brazilian project (a $22 million aluminum smelting project) was expected to be ready for negotiation shortly, but that further projects were unlikely to be ready before the middle of the year. The Committee was told that Mr. Woods had indicated that Bank lending to Brazil would now focus on agricultural and transportation projects, rather than on steel projects (for which other finance was available) or power projects, where the Bank had done enough for the time being.

4. The features of the proposed Livestock Development Project which aroused comment in the Committee were (a) the intermediary credit institutions which would channel livestock loans to farmers; (b) the provisions for maintaining the value of these loans in inflationary conditions; (c) the undertakings which the Bank would require that price and foreign trade controls on beef and wool would be removed, and not reimposed; (d) the procurement of equipment and (e) the proposed amortization schedules between the Bank and the borrower and the intermediary credit institutions and the farmers.

5. With regard to (a), the Committee was informed that the Bank had assisted in setting up the necessary administrative and technical machinery for chanelling the loan through the Central Bank and participating banks to individual farmers. The Government would set up an organization to assist in the preparation, appraisal and supervision of farmers' investment programs, and the Central Bank and authorized commercial banks would expand their respective organizations to facilitate a smooth flow of funds to the selected farmers.

6. With regard to (b), the Committee welcomed the innovation of an adjustment index (linked to wool and beef prices) which would maintain the value of the loan principal while the general level of prices increased, and which would ensure that interest be charged at a positive rate, in real terms, whatever the future course of inflation. The Committee recalled that earlier agricultural loans to Chile had suffered from an unrealistic index which tied loan principal to the general agricultural wholesale price index rather than to the index for beef and wool, the increased production of which was being financed under the Project. In this instance, the proposal for an index had emanated from the Brazilians themselves.

7. The issue which was the object of most discussion was (c) above - the nature of the Brazilians' undertakings to the Bank to remove, and not to reimpose, price and foreign trade controls on beef and wool, and the scope of the Bank's rights and remedies if such undertakings were not honored. The Committee was reminded that the Bank's objection to price and export controls was because of their effect on participating farmers and on exports. The reimposition of price and export controls would destroy the farmers' incentive to invest in livestock and related facilities; the success of the project, and the solvency of the participating farmers, was premised on the assumption of a free market for their products.

8. If the objective of the undertakings which the Bank would require from the Brazilians was clear, their form as well as the method of enforcing them - i.e. the sanctions which the Bank could invoke if these undertakings were not observed - raised delicate issues. It was agreed that it would be perfectly legitimate for the Bank to make the reimposition of controls during the disbursement period an event entitling the Bank to suspend further disbursement until the Brazilians had rectified the position. It should be made clear to the Brazilians that in the period subsequent to disbursement and during the remaining life of the loan, the Bank would expect the Brazilians to desist from reimposing price and export controls in such a way as to do serious damage to the livestock industry; any such reimposition could affect the Bank's lending program and overall relations with Brazil. Such an understanding would assure that the question of controls would always be a legitimate "talking point" between the Bank and the Brazilians; it could be incorporated in a letter of intent forming part of the Loan Agreement.

9. In connection with (d) above, the Committee was asked what arrangements, if any, were proposed for international competitive bidding and for allowing a 15 percent margin of preference to local manufacturers. It was stated, in reply, that procurement would be in accordance with each farm's needs (taking account of the specific technical, economic and financial circumstances of each farm applicant), so that only local trade channels, which had adequate repair facilities and with which farmers had been accustomed to doing business, would be appropriate for the procurement requirements of the Project. It was pointed out that there were several major international firms manufacturing farm implements and tractors in Brazil, with distribution and service facilities over the project area. Competition among local farm equipment manufacturers and local dealers in farm supplies was keen and overseas suppliers had now been placed in a more favorable position since import duties on farm machinery and fertilizers had been reduced.

10. Finally, with regard to (e) above, the Chairman pointed out that the Appraisal Report proposed that the loans which the farmers obtained from the intermediary credit institutions should be amortized on the basis of equal annual instalments of principal (plus interest), while the borrower should amortize the Bank loan on the basis of level total payments (i.e. equal instalments of principal and interest). This 'break in the link' resulted in a large cash accumulation. The Committee was told that the credit institution - farmer amortization terms could not be changed without undermining the indexing provisions (Para. 6 above). The Chairman therefore suggested that consideration be given to assimilating the amortization terms between the Bank and the borrower to those proposed between credit institution and farmer.

C. Bolivia - Livestock Development Project

1. The Committee also considered the memorandum of February 13, 1967 from the Western Hemisphere Department entitled "Bolivia - Livestock Development Project" (LC/O/67-10).

2. It was noted that the proposed IDA credit would be administered by a Central Bank Fund, which would make the initial proceeds of the IDA credit available to BAB (the Agricultural Bank of Bolivia), in local currency, for a term of 16 years including five years of grace. Following the inital 16 year period, the Government would make the funds available for livestock development (through the Fund or similar channels) to BAB and/or other institutions on a year to year basis during the remaining life of the IDA credit. The Committee was told that the counterpart funds would be used for livestock development on the general authority of the Bank, which would not, however, approve individual sub-projects. BAB's repayment terms had been set relatively short since BAB's performance and potential was uncertain. The Bank judged that a revolving fund, involving other banks besides BAB, should be set up as soon as feasible.

D. Ecuador - Livestock Development Project

1. The Committee also considered the memorandum of February 14, 1967 from the Western Hemisphere Department entitled "Ecuador - Proposed Bank Loan to the Government of Ecuador for Livestock Development" (LC/O/67/11).

2. It was agreed that the amortization terms for the loan should be modified from the 20 year term (including 5½ years of grace) proposed in the draft Appraisal Report to an 18 year term, including 6 years of grace. The Committee's attention was drawn to a paragraph in the Appraisal Report which stated that "assurances would be obtained . . . that the Government . . . would not restrict the movement and marketing of cattle . . . and would allow domestic prices to adjust to export market levels." It was pointed out that obtaining such assurances raised problems similar to those raised by the undertakings which the Bank proposed to obtain from Brazil (Paras. 7-9 above). The Committee concluded that the undertakings which the Bank would require from Ecuador should be on a similar basis - i.e. the Bank would have the right to suspend disbursements if the Ecuadorians broke their undertakings; during the remaining life of the loan, the Bank would have no legal remedies if the Ecuadorians departed from their declared policy but would rely on the expressions of intent contained in a Letter forming part of the Loan Agreement.

E. Adjournment

The Committee adjourned at 5:05 p.m.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/67-1

January 30, 1967

Minutes of Loan Committee Meeting held on
Friday, January 20, 1967 at 2:30 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. R. W. Cavanaugh
Mr. B. Chadenet
Mr. S. R. Cope
Mr. B. A. de Vries
Mr. A. G. El Emary
Mr. A. M. Kamarck
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. W. J. Armstrong
Mr. M. Benjenk
Mr. D. C. Eynon
Miss A. L. Maher
Mr. I. A. Menezes
Mr. F. Povey
Mr. R. F. Robertson
Mr. L. B. Rist
Mr. H. R. Shipman
Mr. R. B. Steckhan
Mr. J. H. Williams

B. Morocco - Preappraisal of Tourism Development Project

1. The Committee considered the memorandum from the Africa Department, "Morocco - Tourist Infrastructure in Tangier", dated January 19, 1967, and the attached preappraisal report, dated December 14, 1966. The issues in these papers were found to raise a three-tier question:

(a) Was the Bank prepared to enter into the general area of tourist development by financing "tourist infrastructure" projects?

(b) Was a "tourist infrastructure" project the type of project which the Bank would next choose to finance in Morocco?

(c) What qualifications did the Committee have about the particular tourist development project as described in the papers under consideration?

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2. With regard to the first, most general, question, it was noted that in many countries (of which Morocco was probably an example), the tourist industry was one of the fastest-growing sectors of the economy, earning large amounts of foreign exchange and generating considerable additional income and employment. Whilst IFC, rather than the Bank, would be the appropriate vehicle for direct participation in hotel construction projects, the Bank could in principle participate in a tourist infrastructure project, involving either singly or (as in this case) jointly the construction of roads, drainage, water supply and other public services. The Committee noted that a combination land development project of the kind proposed in Morocco might demand of the Bank new evaluation techniques and a new expertise in the management techniques involved, but it was felt that there was nothing peculiar to the individual components of tourist infrastructure projects which would preclude the Bank from considering them.

3. In debating the second question, the Committee noted that the Bank at present had a relatively small stake in the Moroccan development program and that tourism was only one of several sectors where additional Bank finance might be appropriate. The Committee was reminded that the Bank loan for the tourist infrastructure project, as it now stood, would be mainly for local expenditures since only about 10% of the overall cost was expected to be in foreign exchange.

4. The third question raised several doubts among the Committee, although it was suggested by some that these doubts were of a secondary nature, hinging on the organization and powers of the development company, and not on the principle of financing tourist infrastructure. It was recognized that the Moroccan Government might legitimately wish to preserve the scenic beauty of the coastline by fostering an orderly development of tourist facilities under the aegis and strict control of a public or semipublic land development company. However, this did not explain why the Government was said to envisage a development company which would sell at below cost the land it had developed, or why the Company apparently intended to invest money in the necessary infrastructures without assurances that hotel companies and other enterprises would purchase the land and erect superstructures. The Committee felt that the Bank could not take the project any further until the Bank had been presented with a more complete package, including more definite information on the intentions of potential investors, and unless the development company was put on a sounder financial footing.

5. Some members of the Committee observed that the hotel companies and other enterprises which would purchase and build on the land might be able to provide part of the finance sought from the Bank. Moreover, a soundly structured development company might be able to attract loans from mortgage companies or from other financial institutions (the possibility of a share being taken by the BNDE was discussed). For that matter, the local utility companies might be in a position to take a financial interest in the project since they would undertake much of the work. As against this, the Committee was told that the local utilities were in no position to finance such a project and that private capital might not be drawn into the project unless the Bank was there in the first place.

6. One view was that the project "fell between stools," i.e. that either it was too risky without solid assurances from the prospective investors in the actual tourist facilities, or that if such assurances were forthcoming, capital for the financing of the infrastructure could be found from other sources. It was further pointed out that if the project were really successful, it should pay itself out within a short span of years; since it was agreed that in such circumstances the Bank loan should have a short period of amortization, the project did not provide a very useful or attractive vehicle for the basic financing of Moroccan development.

7. In conclusion, a majority of the Committee expressed the view that while important practical changes would have to be made in the organization of the project, they would favor further exploration of the Moroccan proposal. The Chairman, supported by other members of the Committee, dissented from this view and expressed the opinion that this project should not be given a priority place in Bank lending to Morocco. The Chairman undertook to report these different views to the President. (The President subsequently supported the view that this project should not be pursued further in the Bank's lending program in Morocco).

C. Adjournment

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