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Folder Title: Loan Committee - Minutes - 1968

Folder ID: 30043619

Dates: 1/22/1968 - 1/16/1969

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

Series: Minutes of Loan Committee Meetings

Fonds: Records of the Operations (Loan) Committee

Digitized: September 04, 2014

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Loan Committee - Minutes - 1968



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LOAN COMMITTEE

LC/M/68-33

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JUN 10 2014

January 16, 1969

Minutes of Loan Committee Meeting held on **WIG ARCHIVES**
Friday, December 20, 1968 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. B. Chadenet
Mr. R. Chaufournier

Mr. R.H. Demuth
Mr. A.G. El Emary
Mr. R.J. Goodman
Mr. M.L. Lejeune
Mr. A. Stevenson
Mr. G.B. Votaw
Mr. H.G. Hilken, Secretary

In Attendance:

Mr. W.C. Baum
Mr. B.A. de Vries
Mr. E.K. Hawkins
Mr. R. Kenney
Mr. S. Kuriyama
Mr. R.S. Nelson

Mr. D. Pearce
Mr. L.B. Rist
Mr. M. Ross
Mr. E.H. Rotberg
Mr. A.D. Spottswood
Mr. E.P. Wright

B. Jamaica - Family Planning Program

1. The Committee considered the memorandum dated December 17, 1968 from the Western Hemisphere Department entitled "Jamaica - Request for Assistance in a Family Planning Program" (LC/O/68-103) and noted the recommendation to send a Bank mission early in 1969, comprising three consultants and two Bank staff, to help the Government prepare a comprehensive multi-year family planning program and a specific project for its first phase suitable for consideration for Bank financing. The memorandum raised two issues: (a) whether, in view of the small capital content of population projects, the Bank should finance operating costs

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Committee:

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

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

(mainly in local currency), and (b) whether the Bank should be prepared to finance facilities whose full costs were justified for family planning even though they might be used for other purposes.

2. The Chairman said that planning should proceed on the assumption that the Bank would confine its financing of population control projects to the costs of facilities and expatriate personnel and thus exclude local operating expenditures. He suggested however that, in these circumstances, a more flexible approach to Bank cost-sharing on facilities -- even to the extent of 100% of their cost -- would be appropriate.

3. The Western Hemisphere Department stated that on that basis Bank financing would probably constitute only a minor fraction of the project cost. This might prevent the Bank from having adequate leverage regarding the project. On the basis of very preliminary figures, the total cost of the Jamaican program over the next three years was roughly \$2 million, of which only about \$300,000 (for expatriate personnel costs, vehicles and clinic facilities) would be eligible for Bank financing even if the capital cost of facilities were covered 100%. A further consideration was that a restriction on the financing of local operating costs would tend to put a premium on other types of projects with a high capital content but with much lower economic returns. Mr. Chadenet stated his view that local operating costs should not be excluded completely from Bank financing since the initial years of a program's operating costs could, in certain circumstances, be considered as investment in view of their lasting contribution to an organization; moreover, such Bank financing could be phased out over a small number of years. This had been done for highway maintenance. Mr. Aldewereld commented that the Bank should have adequate leverage for the project through its active lending in other sectors, although its leverage in this particular project might be small. Others expressed concern about the possible adverse effect Bank financing of local operating costs might have on the Bank's image and its ability to raise funds in the international financial community. Mr. Demuth, while being skeptical of Bank financing of local operating costs, felt that the criterion to be applied to the financing of facilities which were utilized concurrently for other health purposes could be more liberal than that proposed in the Western Hemisphere Department's memorandum.

4. The Chairman stated that the absolutely small amount of an individual family planning project eligible for Bank financing should not necessarily deter Bank assistance where it was needed. Moreover, there was a range of alternative financing devices (e.g. grants) available to finance current operating costs if it proved undesirable to finance these on a loan basis.

5. The Committee noted that current knowledge and experience of family planning projects, both within the Bank and outside, was extremely limited. Moreover, since this was the Bank's first direct involvement in the field, which raised controversial and as yet unresolved questions of both principle and practice, a neutral and cautious posture was desirable at this point. Accordingly, the Committee agreed that, in the absence of further information, definitive policy recommendations would be premature at this stage. The Committee concluded that the mission should not discuss the possible scope of Bank financing with the Jamaican authorities. It should instead indicate that, in view of the Bank's current extremely limited knowledge and experience of family planning projects, the mission would focus on the needs of the project irrespective of sources of

financing. The mission's report would in turn help to provide a basis for consideration of the financing which might appropriately be provided by the Bank.

6. Following considerable discussion, it was furthermore agreed that the mission would be Bank-sponsored and would invite the cooperation of the World Health Organization and the United Nations Population Division as well as the Population Council in the recruitment of consultants. Finally, the Chairman agreed that the Committee should be given an early opportunity to discuss the mission's findings immediately upon its return and before the project was put in definitive form.

C. Adjournment

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

Henry G. Hilken
Secretary

Secretary's Department
January 16, 1969

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LOAN COMMITTEE JUN 10 2014

WBG ARCHIVES

LC/M/68-32

December 26, 1968

Minutes of Loan Committee Meeting held on
Monday, December 16, 1968 at 3:30 p.m. in the Board Room

A. Present:

Mr. J. B. Knapp, Chairman
Mr. G. Alter
Mr. A. Broches
Mr. B. Chadenet
Mr. B. M. Cheek
Mr. R. H. Demuth

Mr. A. G. El Emary
Mr. R. J. Goodman
Mr. M. L. Lejeune
Mr. F. R. Poore
Mr. A. Stevenson
Mr. G. B. Votaw
Mr. C. F. Owen, Acting Secretary

In Attendance:

Mr. M. Shoaib
Mr. D. S. Ballantine
Mr. W. C. Baum
Mr. M. A. Burney
Mr. W. Diamond
Mr. P. Geli
Mr. M. L. Hoffman
Mr. J. A. King
Mr. A. D. Knox

Mr. J. C. Leeming
Mr. C. J. Martin
Mr. D. Pearce
Mr. V. J. Riley
Mr. E. H. Rotberg
Mr. R. Sadove
Mr. A. D. Spottswood
Mr. D. Stoops
Mr. W. A. Wapenhans

B. Bank Assistance in Project Management

1. The Committee considered the Memorandum on Bank Assistance in Project Management (LC/O/68-102, dated December 12, 1968) from the Working Party which had been established in May 1968 to consider the extent to which the Bank should help borrowers and member governments in securing management for Bank-financed projects, and to make recommendations.

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Committee:

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

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

2. The Committee noted that the Bank, while emphasizing the need for good management, had hitherto avoided taking direct responsibility for providing management; it had identified management needs, and on an ad hoc basis, had helped borrowers to locate and hire suitable managers. This policy was based on the fact that the Bank was a financing institution and on the concern that an individual, employed by the Bank but with executive responsibilities in a Bank-financed project, would be subject to divided loyalty and possibly conflicts of interest which might inhibit both his and the Bank's effectiveness.

3. The Working Party estimated (but only as an approximate order of magnitude) that about 25% of the needs for managers in Bank-financed projects over the next five years could not be met from normal sources (eg. direct hiring of individual expatriates or firms by the borrower, bilateral and international technical assistance programs). It therefore recommended that the Bank help provide management assistance to Bank-financed projects, where appropriate, by

- (a) helping borrowers find and hire suitable managers;
- (b) underwriting, in appropriate cases, the terms of the contract of a manager hired by the borrower;
- (c) helping borrowers make arrangements for the supply of managers by bilateral and international technical assistance programs;
- (d) helping borrowers make suitable arrangements with management or engineering consultants for the provision of a management team;
- (e) if managers were not available from these sources, hiring managers itself and seconding them to borrowers.

4. The Chairman pointed out that recommendations (a), (b) and (c) were in line with what the Bank was already doing in particular cases and that recommendation (d) was an innovation only insofar as paragraph 14 of Operational Memorandum 5.04 (which limits the role of consultants to advice, extending it to executive responsibility "only in exceptional circumstances") had apparently unduly restricted the use of management services from consultant firms. The Chairman said that if the distinction between consultant and management functions were kept clear, the Committee would have no difficulty in endorsing (d). To the extent that managers would be obtained by this method, it would reduce the need for the Bank to arrange for possible secondments.

Hiring and Secondment

5. As recommendation (e) constituted a departure from existing Bank practice which would have budgetary implications, most of the discussion dealt with this proposal. Main points raised were as follows:

6. Objective: The proposal was intended to improve the flow of managers to projects that the Bank Group wished to finance; management was often the most difficult input to help ensure the success of a project. In terms of the five-year development program many suitable projects, particularly agricultural and most likely in Africa, might not be feasible unless competent management could be ensured.

7. Secondment should be used only in special circumstances, as a last resort for priority and urgent needs when all other reasonable alternatives had not resulted in the recruitment of a suitable individual.

8. Scale of Build-up: If the proposal were implemented, the demand for managers could grow rapidly and therefore the scheme should be kept within definite bounds.

9. A "management service corps" hired under term contracts should not be created in advance of the identification of specific needs. Managers should be hired only to fill specific identified needs on such terms as were necessary to secure qualified individuals. However, assuming the approval of the Executive Directors and the success of the program, it was likely that a management service corps would evolve. While no prior commitments would be possible, the calibre of managers to be sought would probably require the inducement of an expected continuing association with the Bank Group. In the longer run, if the need for Bank assistance in project management were to diminish, it should prove possible to assimilate the type and quality of the individuals involved into the Bank's normal activities.

10. Immunities and Privileges: General Counsel considered that with secondment the managers would not be able to receive all the immunities of ordinary Bank staff. The immunity from legal process for official acts would not apply to the managers in the exercise of their functions as such.

11. It was agreed that the nature and extent of possible immunities and privileges (including sensitive issues such as possible tax exemptions) would have to be negotiated in each individual case and would depend, inter alia, on the circumstances and the bargaining position of the prospective manager.

12. Salary Levels; Coverage of Costs; Other Terms of Contract: In principle, the Bank should aim at being reimbursed by the borrower for the full costs of managers during their secondment, although these costs might well be financed in most cases out of a loan or credit. However, a flexible position should be kept and consideration should be given to grants for the purpose from the Bank. Generally speaking, the Bank might cover in selected cases the difference between the regular salary for the post (i.e. the salary that would be paid by the borrower according to local levels) and the manager's actual salary.

13. The specific terms for such "topping-up" arrangements would have to be considered further. General Counsel indicated that the operations of the staff pension plan raised technical issues that would have to be carefully examined.

14. Possible Conflict of Interest : While concern was expressed about possible conflicts of interest, it was thought that in practice these risks were small.

Recommendation

15. The Committee concluded that a prospective need had been demonstrated and that the Bank should adopt a flexible but more systematic policy in providing assistance in project management. Necessary administrative arrangements should be made so that assistance could be provided when it was clearly needed after exhausting other opportunities.

16. The Chairman requested the Working Party to redraft its report in the form of a memorandum to the Board seeking authorization for the new policy. The redrafting process would also help to clarify further some of the practical difficulties raised at the meeting. As well, the Working Party should consider, to the extent practicable, other possible means of arranging for the provision of management services, including the underwriting by the Bank of employment contracts.

17. On the proposal to hire and second managers, the recommendation to the Executive Directors should be presented as an experimental and limited program with a proposed budgetary allocation for a specific number of managers over a given time period. The program could be subsequently evaluated in the light of experience.

C. Adjournment

18. The Committee adjourned at 5:40 p.m.

Secretary's Department

LOAN COMMITTEE

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WBG ARCHIVES
LC/M/68-31

January 13, 1969

Minutes of Loan Committee Meeting held on
Tuesday, December 3, 1968 at 4:00 p.m. in the Board Room

A. Present:

Mr. S.R. Cope, Deputy Chairman
Mr. G. Alter
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. I.P.M. Cargill
Mr. R. Chaufournier

Mr. A.G. El Emary
Mr. D.J. Fontein
Mr. M.L. Hoffman
Mr. L. Nurick
Mr. F.R. Poore
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. B.M. Cheek
Mr. W.I. Cohn
Mr. J.C. de Wilde
Mr. S.D. Eccles
Mr. L.J.C. Evans
Mr. J. Kraske

Mr. A.J. Macone
Mr. M.J.W.M. Paijmans
Mr. L.B. Rist
Mr. R.E. Rowe
Mr. D. Suratgar
Mr. C.R. Wilkinson

B. Bank/IDA Investment in Oil Palm Projects

1. The Committee considered the memorandum on Bank/IDA Investment in Oil Palm Projects (LC/0/68-100 dated November 29, 1968) from Mr. L.J.C. Evans which concerned the future market conditions of palm oil and the policies which should be adopted with regard to future oil palm projects.

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Committee:

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

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

2. With regard to the general policy for agricultural surplus commodities the Committee noted that less developed countries cannot be held back from producing such products simply because more developed countries already are producing similar or competitive products. The Committee also agreed that the Bank/IDA should be primarily concerned with the rate of return in relation to alternative possibilities in the particular country. If a project is economically viable and has a higher rate of return than alternative projects in a particular country, it may not be highly relevant that the production costs are high relative to those in other countries.

3. The Economic's Department stated that present market forecasts were based on the department's evaluation of findings of a recent FAO study and were normally made in terms of constant dollars. While several members of the meeting expressed the view that projections should take into account future price trends of products involved in international trade, the Committee generally agreed that the present practice was sufficiently accurate for market forecasts. Further assessment of future marketing prospects for palm oil is presently being made by the Economics Department and by an international study group on fats and oils. Until this summer, the price of palm oil for the mid 1970s had been forecast at \$180 per ton. Since that time the forecast has been lowered to \$165 and it is felt that even this estimate may be somewhat optimistic. However, even if the price were to fall as low as \$140 the rate of return for the oil palm component of the Ivory Coast project would still be in the range of 9 to 10 percent.

4. The Committee also noted that in the appraisal of future oil palm projects, different rates of return should be presented based on a range of future prices with an assessment of the most probable future situation. It was also recommended that the next time a palm oil project is presented to the Executive Directors, a general presentation should be made on the future market prospects of palm oil.

C. Adjournment

The meeting adjourned at 5:15 p.m.

Michael A. Gould
Acting Secretary

November 14, 1968

NOTICE OF MEETING

A meeting of the Loan Committee will be held on Monday,
November 18, 1968 at 4:30 p.m. in Room 1038.

AGENDAArgentina

The Committee will consider the attached memorandum of
November 14, 1968 from the Western Hemisphere Department entitled
"Argentina - Proposed Loan of \$82 Million to HIDRONOR" (LC/O/68-93).

Henry G. Kilken
Acting Secretary
Loan Committee

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Committee:

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

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November 14, 1968

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LOAN COMMITTEE

Memorandum from Western Hemisphere Department

ARGENTINA - Proposed Loan of \$82 Million to HIDRONORIntroduction

1. On January 24, 1968, the economics of the El Chocon-Cerros Colorados scheme and its eligibility for Bank financing were discussed in a Special Loan Meeting (LM/M/68-4). It was decided that while a less capital intensive thermal alternative might be preferable, the Bank would be justified in helping to finance El Chocon. Accordingly, the Government was informed in March that the Bank was prepared to consider a loan of \$70 million for the project.

2. The Bank's five year program includes a lending forecast of \$435 million for Argentina. In view of the Government's progress under its economic program, we are preparing for a major expansion of the Bank's operations. The Economic Committee agreed in June that this was warranted by the prospects for stabilization and accelerated growth (EC/M/68-28), subject, however, to the commitment of funds being dependent upon continuing satisfactory economic and financial policies. The evidence we have received since June gives no ground to change our position. However, the Government will still need to make active efforts to maintain adequate incentives for agricultural growth and to increase public savings. The latter will call for new tax measures and a major attack on the railway deficit. The Government agrees with the need for these and is moving in the right direction.

The Borrower and the Project

3. The attached appraisal report (PU-1), prepared by the mission which visited Argentina in August 1968, recommends the El Chocon project for a 25-year loan of \$82 million.

4. The loan would be made to Hidroelectrica Norpatagonica, S.A. (HIDRONOR), a Government-owned stock corporation established in October 1967 to build and operate the El Chocon-Cerros Colorados scheme. The El Chocon hydroelectric project on Rio Limay and the Portezuelo Grande flood control works on Rio Neuquen make up the first stage of this scheme. The El Chocon project consists of a dam, a powerhouse with three 200 MW generating units, and two 700 miles long transmission lines to Buenos Aires. Work on the dam will start in early 1969 and the project should

be in operation in 1973. The second stage of the scheme, to be executed between 1972 and 1978, would consist of three more 200 MW units at El Chocon, and an intake and a powerhouse with three 150 MW units at Planicie Banderita on Rio Neuquen, although the Government may consider substituting a thermal plant for Planicie Banderita if the search for natural gas now going on in the area is successful.

5. The cost of the project is estimated at \$325 million, including interest during construction. Portezuelo Grande, to which no Bank financing would be attached, is estimated to require about \$31.5 million equivalent. The second stage of the scheme may cost about \$187 million.

Benefits of the Project

6. The principal benefit to be derived from the El Chocon-Cerros Colorados scheme will be electric power delivered in Buenos Aires. The appraisal report concludes that the project would be more attractive than the thermal alternative at interest rates less than $7\frac{1}{2}$ - 10 percent. We should regard a return in this range as acceptable. The flood control benefits of the scheme are modest. The irrigation benefits are very small, because new storage capacity for irrigation in the Rio Negro Valley will not be needed for another 25 years. In order to see whether the irrigation benefits might be increased, and realized sooner, the Bank suggested that FAO, in its capacity of Executing Agency for the UNDP-financed feasibility study of the development of the Comahue region in Northern Patagonia, review the work in progress on that study. This was done by personnel seconded to the El Chocon appraisal mission by the FAO/IBRD Cooperative Program. Their report is now being prepared at FAO headquarters and will recommend that the Comahue regional study be recast in order to identify specific projects for increasing agricultural production in the Rio Negro Valley.

7. In several discussions with the Argentines, Bank staff put forward a case for concentrating the entire generating capacity of the scheme at El Chocon and eliminating Portezuelo Grande and Planicie Banderita. This would save about \$90 million in capital costs and raise the rate of return slightly, even allowing for the fact that the project would produce substantially less energy. The flood control benefits of Portezuelo Grande appeared realizable simply by improving and enlarging, at the cost of some \$12 million equivalent, the inlet to the existing reservoir of Lago Pellegrini. However, the Argentines felt that the difference in the returns on the two alternatives was small and that the original scheme should be retained, despite its considerable additional cost.

The Financing Plan

8. The \$325 million needed to finance El Chocon would be obtained from the proposed \$82 million loan, bilateral buyer's credits estimated at \$60 million, and an Argentine contribution being raised through a five percent surtax on sales of electricity and refining of crude oil. The loan would cover the foreign exchange cost of the civil works at El Chocon, including penstocks and gates, consulting services, and interest during construction. HIDRONOR has been informed that the Bank is prepared to reimburse it for foreign exchange expenditure on civil works from October 23, 1968, the date of the letter of intent issued to Impregilo, the successful contractor.

9. Governments and banks in eight European and North American countries - Belgium, Canada, France, Germany, Italy, Switzerland, the United Kingdom and the United States - have offered to HIDRONOR buyer's credits to finance equipment purchased after competitive bidding restricted to suppliers from the lending countries. The proposed terms - 20-years life, 5-years grace and interest comparable to the Bank's lending rate - are more favorable than those usually granted for export transactions. Also, some medium term accommodation may be forthcoming from banks in some of those countries that would enable HIDRONOR to finance interest during construction on the buyer's credits. Firm arrangements are now being discussed and ought to provide HIDRONOR with adequate funds to meet the cost of foreign equipment not financed by the Bank.

10. The electricity and oil taxes are expected to bring in the equivalent of \$266 million during the construction of the El Chocon project. This is more than required to supplement the Bank's loan and the expected buyer's credits, and would enable the Government to make a substantial contribution to the second stage of the scheme. Any shortfall in the financing plan for El Chocon would have to be made up by the Government under the "provision of funds" clause in the Guarantee Agreement.

11. Since the draft appraisal report was prepared, we have been informed that HIDRONOR cannot, under Argentine law, issue shares not entitled to a dividend (paragraph 7.07 of the draft appraisal report). During the negotiations, we shall therefore have to agree with HIDRONOR on the issuance of junior non-interest bearing debt representing funds received from the Government for flood control and irrigation works.

Recommendation

12. I recommend that the Bank proceed to negotiate the proposed loan on the terms and conditions indicated in the appraisal report. I further recommend that we follow the Comahue regional study in the hope that in due course we may be able to assist an agricultural project in that region.

Gerald Alter
Director

LOAN COMMITTEE

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JUN 10 2014

LC/M/68-29 ~~WBG ARCHIVES~~

November 14, 1968

Minutes of Joint Meeting of Loan and Economic Committees,
held on Thursday, September 26, 1968 at 10:00 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp)		Mr. B.A. de Vries
Mr. Irving S. Friedman)	Joint Chairmen	Mr. A.M. Kamarck
Mr. S. Aldewereld			Mr. K.S. Krishnaswamy
Mr. G. Alter			Mr. H. Larsen
Mr. D. Avramovic			Mr. M.L. Lejeune
Mr. B.R. Bell			Mr. S. Lipkowitz
Mr. A. Broches			Mr. S.N. McIvor
Mr. I.P.M. Cargill			Mr. F.R. Poore
Mr. S.R. Cope			Mr. C.H. Thompson
Mr. R.H. Demuth			Mr. C.F. Owen) Joint
			Mr. M. Cherniavsky) Secretaries

In Attendance:

Mr. M. Shoaib	Mr. D.J. Fontein
Mr. J.H. Adler	Mr. R.J. Goodman
Mr. W.C. Baum	Mr. M.L. Hoffman
Mr. M.P. Benjenk	Mr. A.D. Knox
Mr. G.C. Billington	Sir Gordon Mackay
Mr. N.J. Brady	Mr. L. Nurick
Mr. J.H. Collier	Mr. A. Stevenson
Mr. D.A. Dunn	Mr. G.M. Street
Mr. L.J.C. Evans	Mr. G.B. Votaw
	Mr. M.H. Wiehen

B. International Competitive Bidding and Preferences for Domestic Suppliers

1. The meeting considered the memorandum of September 20, 1968 from Mr. Bell's Working Party entitled "International Competitive Bidding and Preferences for Domestic Suppliers" (distributed under cover of LC/A/68-29) and discussed

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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
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Vice President (IFC)
Members of Economic Committee

(a) the basis of the Bank's policies on international competitive bidding; (b) the margin of preference to be accorded to domestic suppliers and the basis on which bid comparisons should be made; (c) the circumstances in which the Bank should be prepared to finance a project in conjunction with tied aid ("external reservation") and (d) the extent to which the Bank should permit part of the procurement for a project to be reserved for domestic suppliers ("domestic reservation"). 1/

2. The meeting noted that the Bank's objective of getting the widest possible measure of international competitive bidding on projects which it financed 2/ reflected its concern that they were carried out in an economic and business-like way and that borrowers got "most for their money" as well as allowing suppliers "equal access" to Bank-financed projects. This philosophy had however been the subject of exchanges with the Indian Government (most recently in the Tarai Seeds case) 3/ and was likely to become a problem for other countries as their industrial base broadened. The Indians started from the position of giving almost absolute protection from foreign competition to most domestic industry. They therefore wished to submit to international competitive bidding on Bank projects only those items which could not be produced in India, "reserving" the remainder of project procurement for domestic suppliers, on the understanding that the Bank would be satisfied that such reserved procurement would be reasonably economic and efficient and would not adversely affect the project as a whole. The Indians were also hoping that the Bank would in certain circumstances finance a portion of such reserved procurement.

3. In this connection, it was recalled that one of the important factors bearing on the amount of a project which a borrower might wish to reserve for local procurement was the margin of preference which the Bank was prepared to accord to domestic suppliers. This margin was at present 15%, a level which it could be persuasively argued was too low in the case of India. In reviewing this general question the Bell working party had pointed out that it was impossible to justify one particular margin of preference rather than another (except in the broad sense that a very high level of protection would make a travesty of international competition and might encourage blatantly uneconomic production) and that the problem could not be considered in isolation from the Bank's policy on domestic reservation 4/ (i.e. completely-protected procurement). The appropriate

1/ References in this minute to the Bank apply equally to IDA unless otherwise specified. Note that the minute reflects the conclusions of a further discussion of the above issues at a meeting on October 10, chaired by Mr. Knapp, and attended by Messrs. Aldewereld, Alter, Baum, Chadenet, Collier, Cope, Nurick and Cherniavsky.

2/ With standard exceptions for procurement not suited to international competition.

3/ See minutes of Special Loan Meeting LM/M/68-18 dated October 29, 1968.

4/ See paragraph 7 below.

level of preference also had to be considered in conjunction with such questions as (a) should the margin of preference be based on value added or gross value; (b) should the margin vary between countries or should it be fixed and (c) should bid comparisons take account of duties which domestic suppliers paid on imported components? Overall, the Bank had to make a judgment as to what would represent a reasonable and, no less important, a workable bargain between the conflicting interests of supplying and borrowing countries.

4. The meeting's reactions to questions (a), (b) and (c) above were first, that despite the obvious theoretical merits of basing preferences on value added, such a system would not be workable. For practical reasons, preferences had to be related to gross value. Second, that the impact of a given margin of preference was by no means uniform and the Bank should administer it more flexibly, not only making the usual downward adjustment to the applicable level of duties where this was lower than the Bank's standard margin of preference, but also making an upward adjustment where it was clear that because of e.g., an overvalued exchange rate, domestic suppliers' effective margin of preference was lower than the one nominally accorded by the Bank. Upward adjustments would however need careful justification so as to avoid the impression that the Bank was being more generous to some countries than to others. Third, on the bid comparison question, the meeting noted that high duties on imported components could inflate domestic fabricating costs to such an extent as to put the local manufacturer at a disadvantage and to curtail or negate his nominal margin of preference unless the Bank was prepared to make special allowances. The meeting also felt that in comparing bids the Bank should not stand in the way of any tax or duties waivers which suppliers were granted by the Government in order to make them more competitive. 5/

5. Regarding Bank financing of a project in conjunction with tied external aid, the meeting recognized that countries had to accept the sources of aid which were available and it would be unrealistic for the Bank to take the position that there should be no tied external procurement unless it was at the same time prepared to meet all of a project's external financing requirements rather than only part. Even if the Bank was in principle prepared to meet all of the external financing requirements, it should willingly associate itself with tied aid being provided on a grant or near-grant basis.

6. Regarding the case where the Bank was not prepared, for whatever reason, to put up all of the external finance required for a project, the meeting noted that the working party's recommendation (that the Bank accept partners with tied funds) would represent a modest shift from the more restrictive posture which the Bank had normally taken hitherto. This shift could be justified on the grounds that there was often more to be gained by mobilizing resources for a project on second best terms than by postponing its execution until across-the-board international competition could be obtained. The justification for such a joint operation was not that the project was so high-yielding that it could bear a "mix" of tied and untied funds, but rather that in the absence of joint-financing it would probably not proceed at all. In any case, the Bank must be satisfied with the "reasonableness" of the overall financing package, and specifically that there was a reasonable degree of competition in the utilization of the tied funds and that

5/ Another new departure in the domestic preference area, which it was agreed should remain under consideration, would be to grant a margin of preference to suppliers in developing countries generally, as compared with those in developed countries.

the Bank was not being used merely to promote the consummation of a bilateral deal. Any restriction of the freedom with which funds can be used carried with it certain disadvantages and the Bank's aim should be to encourage the maximum freedom possible.

7. Regarding reservation of domestic procurement, the working party had suggested a ban on such procurement in a Bank-financed project, although it pointed out that the Bank would often lack the leverage to obtain, or the capacity to police, such a ban (particularly with "time-slice" program loans) and that it would tend to encourage narrower project descriptions at the expense of the Bank's influence over a broader area. Moreover, the working party's recommendations had been made in conjunction with a recommended 40% margin of preference for domestic suppliers and if the Bank took a less lenient position on preferences it would have to take a more lenient position on domestic reservation, so as to preserve the bargain between the borrowing and supplying countries. A "more lenient" position should not, however, extend either to Bank financing of reserved procurement or to tolerating such procurement ^{6/} if it would impose undue additional costs on the project. Furthermore, in the interest of timely and efficient project execution, the Bank should make it clear that (a) goods to be reserved for domestic procurement must satisfy the Bank as to performance, delivery, etc., the burden of proof to lie with the borrower where the Bank was in doubt, and (b) decisions as to what procurement should be reserved and what procurement should be open to international competition should be agreed in advance (normally during loan negotiations) in order to avoid uncertainties and delays. It was agreed that if the Bank insisted that certain items to be procured for a project were not to be reserved for domestic suppliers, then it should at the same time be prepared to finance them.

8. Summarizing, Mr. Knapp said that he interpreted the sense of the meeting as follows:

- (a) Although the Bank could not normally require international competitive bidding over the whole of a project unless it was prepared to meet all of the procurement resulting from such bidding, it should continue to press for as wide a measure of such competition as possible and always insist that its loans were so used;
- (b) There should be a standard margin of preference to be accorded to domestic suppliers, based on gross value, to be adjusted upward in specifically justified cases. The existing 15% level was too low, but a figure in the 40% range would be too high in conjunction with a more lenient policy on domestic reservation than the working party had suggested. He (Mr. Knapp) would therefore recommend that the Bank adopt as its standard rule "25% or the level of customs duties, whichever is lower."
- (c) He would also recommend that where an item contained major components which had borne high duties, the Bank would deduct from the domestic bid duties on components and materials imported by local manufacturers which were higher than the allowable margin of preference.

^{6/} Including procurement which is tantamount to "reserved" by virtue of bans or administrative decrees more or less precluding foreign competition.

- (d) The Bank should not object to tax or duty waivers which suppliers were granted by their Government;
- (e) The Bank should be prepared to accept partners with tied funds in a project if the conditions suggested in paragraph 6 were satisfied and should always be prepared to accept partners providing tied aid on a grant or quasi-grant basis;
- (f) The Bank would permit reserved domestic procurement only if it was agreed in advance and judged not to place an undue burden on the project (as described in paragraph 7);
- (g) If the Bank insisted that certain items not be reserved for domestic (or external) suppliers, then it must be prepared to finance them.

C. Adjournment

The meeting adjourned at 12:00 noon.

Secretary's Department

LOAN COMMITTEE

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N. 90 VII

LC/M/68-28

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JUN 10 2014

September 9, 1968

Minutes of Loan Committee Meeting held on **WBG ARCHIVES**
Tuesday, August 23, 1968 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. M.P. Benjenk
Mr. R.W. Cavanaugh
Mr. B. Chadenet

Mr. S.R. Cope
Mr. M.L. Hoffman
Mr. S.N. McIvor
Mr. L. Nurick
Mr. G.M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. J. Adler
Mr. W.J. Armstrong
Mr. R. Assa
Mr. G.C. Billington
Mr. D.J. Fontein
Mr. P. Piemphongsgain

Mr. M.J. Reis
Mr. D. Richardson
Mr. E.F. Schaad
Mr. P. Sella
Mr. J.P. Uhrig
Mr. G. Wyatt

B. Turkey - Keban Transmission Line Project

1. The Committee considered the memorandum of August 21, 1968 from the Europe Department "Turkey - Keban Transmission Line Project" (LC/O/68-74) and noted that the Keban syndicate was scheduled to meet on September 13 to consider the remaining foreign exchange requirements of the overall Keban project (plus an additional transmission line from Seyitomer to Seydisehir). The Chairman observed that at this advanced stage it would not be productive to review the history and set up of the Syndicate - it was clearly an unusual and not wholly satisfactory form of joint financing, but perhaps the best that could be expected in a situation where the Bank's leverage was limited because its proposed contribution of \$25 million was small relative to those of its partners. He would simply offer the comment that the importance of joint financing was no longer primarily as a device for conserving "scarce" Bank resources since this was not now a major constraint, but rather as a method of rationalizing bilateral assistance and improving its terms and effectiveness, by such means as broadening the area of international competition.

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

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

2. It was recalled that the "TEK bill" to establish an autonomous national electricity authority, which had been drawn up (and later modified) as part of a general reorganization and unification of the electric power industry which the Bank and its partners required as a condition of financing the project, had not yet been approved by the Turkish parliament. The Bank had however agreed, in the interests of not compounding delay, to appraise the project if the Government were in the meantime to reorganize the electric power industry insofar as possible by executive action, pending enactment of the bill. This had been done and the Government expected the TEK bill to be passed late in 1968 or early in 1969 and the Bank was not now proposing to make parliamentary approval of the bill a condition of negotiation of the loan or of its submission to the Board. However, there were a number of important assurances which the Bank would seek during negotiations (see paragraph 7.04 of the Appraisal Report) including a rate of return covenant (to be calculated on a realistic rate base) of between 8% and 10%.

3. It was noted that the Seyitomer - Seydisehir subsidiary transmission line, which it was proposed the Bank should finance in addition to the main Keban-Ankara-Istanbul line, would require a link to the main line. This link, running from Gokcekaya through Seyitomer to Izmir, was expected to be financed by the European Investment Bank. The Chairman commented that in the absence of a firm commitment by the European Investment Bank, the Bank should consider financing at least the first part of the link so as to assure power for the Seyitomer-Seydisehir line. The Committee was told that this might increase the loan amount by about \$2 million.

4. The Committee approved the recommendations of the European Department contained in paragraphs 23 and 24 of their memorandum.

C. Adjournment

The Committee adjourned at 4:00 p.m.

Mark Cherniavsky
Secretary

Secretary's Department
September 9, 1968

LOAN COMMITTEE

Loan 584/G-140 SE
No 90 IV

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JUN 10 2014

WBG ARCHIVES

LC/A/68-27

August 19, 1968

NOTICE OF MEETING

A meeting of the Loan Committee will be held on Wednesday,
August 21, 1968 at 3:00 p.m. in Room 1038.

AGENDA

Senegal

The Committee will consider the attached memorandum of
August 16, 1968 from the Africa Department entitled "Senegal -
Proposed Groundnut-Millet Project" (LC/O/68-73).

Mark Cherniavsky
Secretary
Loan Committee

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Vice President (IFC)

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LC/0/68-73

August 16, 1968

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LOAN COMMITTEE

Memorandum from Africa Department

SENEGAL: Proposed Groundnut-Millet Project

I. INTRODUCTION

1. In March 1966, an identification mission visited Senegal to look into a proposal to promote productivity of groundnuts. Following a project preparation mission and a short follow up mission, the Government of Senegal applied in April 1967 to IDA for a credit to help finance the continuation of the five-year groundnut-millet productivity improvement program started in 1964 with financial help from the European Economic Community. The objective of this program is to compensate for the loss of the French preferential market for groundnuts, through increasing both production and productivity. In order to continue some of the more effective parts of the program over the period 1968/69 through 1970/71, IDA finance was sought for up to US \$9 million, while the balance would come from the European Development Fund (FED), the Caisse Centrale de Coopération Economique (CCCE), the Banque Nationale de Développement du Sénégal (BNDS), farmers in the project area and the Government of Senegal.

2. As the appraisal progressed it became evident that the original proposal of the Government required revision in order to be suitable for IDA financing. The Association seriously questioned the priority given in the original project to an intensive and rather uneconomic extension service, while it felt that much more emphasis had to be given to the organization and efficient management of the agency responsible for providing the cooperatives with implements and equipment and for collecting the groundnuts and distributing seeds. Lack of timely action on these problems caused considerable delay in the progress of the appraisal work. In May, 1968, an IDA mission was able to work out, after consultation and in agreement with the Government of Senegal, a revised project suitable for IDA financing, in which emphasis was shifted from financing of extension work to an agricultural credit program coupled with improvement in the functioning and efficiency of the cooperatives' supply and marketing institution.

See p. 10 for further details on this project
P 10. in finance section but not done yet!

3. An appraisal report of the Senegal Groundnut-Millet Project (TO-685) is attached. It recommends an IDA credit of US \$9.4 million. The proposed credit would be the second IDA operation in Senegal. Thus far the World Bank Group activities in Senegal include:

(a) An IDA credit (No. 96 SE) of US \$9.0 million made in September 1966 for the rehabilitation of the Senegal railways. Disbursements on this credit amounted to about US \$1.2 million on July 31, 1968. After initial difficulties there is now evidence of improvement in the progress of the project.

(b) A Bank loan (No. 493 SE) of US \$4.0 million to the Port of Dakar Authority in May 1967. Disbursements amounted to about US \$620,000 on July 31, 1968. A recent supervision mission reported that the progress on this project is satisfactory.

(c) An IFC investment of about US \$3.46 million (Investment Agreement No. 114 SE, dated August 19, 1966) in a Senegalese company, Société Industrielle d'Engrais du Sénégal, established to build and operate a US \$12.4 million fertilizer plant near Dakar.

II THE PROJECT

4. The project consists of the provision of farm inputs and some financing of technical services:

(a) Farm Inputs: Provision of credit to the cooperatives through the Development Bank for the purchase of simple animal drawn implements, for some animals, and for fertilizer. Farmers would provide the funds needed to purchase the balance of the draft animals. . .

(b) Technical Services:

(i) Provision of funds to enable an international firm of consultants to study the management problems of the cooperatives' supply and marketing institution and to assist in managing it during a three year period at the end of which it should be able to operate efficiently with primarily Senegalese staff.

(ii) Provision of funds to enable Senegalese staff of the cooperatives' supply and marketing institution to be trained through overseas fellowships.

- (iii) Provision of funds to enable the extension service to continue to perform some technical services on behalf of the cooperatives.

5. The institutions directly concerned with the project are the cooperatives, the Office National de Coopération et d'Assistance au Développement (ONCAD), the Banque Nationale de Développement du Sénégal (BNDS) and the extension service presently provided by the French Société d'Aide Technique et de Coopération (SATEC). Under the project ONCAD would as in the past be responsible for distributing farm inputs to the cooperatives, and for collecting their groundnut crops for bulk sale to a government marketing institution, the Office de Commercialisation Agricole du Sénégal (OCAS); ONCAD would also manage the groundnut seed stock pile. BNDS would continue to finance short term credit for fertilizer and medium term credit for farm implements and draft animals through the cooperatives. It would also pay the cooperatives for the crops after having made deductions for farm input advances. The extension service would, for the time being, continue to devote part of its time to providing services to the farmers on behalf of the cooperatives. In order to ensure gradual take over of the extension services by Senegalese, as provided for in the Agreement between SATEC and the Government, most of the present staff of SATEC would be transferred to a newly established Senegalese institution, SODEVA (Société de Développement et de Vulgarisation Agricole). SATEC would manage it for a certain period, and later would provide technical assistance to SODEVA's own management. The Association felt that management of SODEVA by SATEC should last at least two years but since the appraisal report appeared, the Government informed IDA about its intention to limit it to one year followed by two years of technical assistance. Agreement on this subject will have to be reached during negotiations.

6. Project cost is estimated at about US \$23 million equivalent with an IDA contribution of about US \$9.4 million. The cost of the main components of the project is as follows (in million US \$):

	<u>Total project cost</u>	<u>IDA credit</u>
Farm inputs	17.6	6.9
Technical services	<u>5.1</u>	<u>2.5</u>
Total	22.7	9.4

The IDA credit would cover 75 per cent of the cost of farm implements and the foreign exchange component of the cost of ONCAD management services, counterpart training and SODEVA cooperative services. The project has a foreign exchange component of about US \$6.5 million. Of this, the IDA

credit will cover about US \$5 million (implements and technical services). Thus, about 53 per cent of the credit will cover foreign exchange costs and about 47 per cent will cover local costs. The portion of the IDA credit related to farm implements (US \$6.9 million) would be on-lent by Government to BNDS at 3.5 per cent for 14 years, including a grace period of four years; BNDS credit to cooperatives for farm implements and draft oxen would be for five years without any grace period at an interest rate of 5.5 per cent.

Sources of Finance are (in per cent of total project cost):

Farmers' contribution	: 18
BNDS resources	: 29
Government funds	: 11
IDA credit	: 42

Other parts of the program, not included in the project, will be financed by CCCE and the Government.

7. Procurement of the implements would be through local competitive bidding extended to local agents of overseas firms and to SISCOA, a local government controlled manufacturer. Disbursement would be on the basis of sums advanced by BNDS to the cooperatives as credits for implements. Since the program was due to start July 1, 1968, the mission which visited Senegal in May 1968, discussed the possibility of retroactive financing of certain expenditures, against the background of the delays experienced in the consideration of the project. The mission recommended, and I concur, that retroactive financing from July 1, 1968, should be accepted, especially since the program is planned on a harvest year basis, which the Association regards as an important factor.

8. One of the main problems encountered during appraisal of the project was the inexperienced management of ONCAD. The Senegalese authorities are well aware of this and are currently trying to obtain skilled management. A letter of invitation to selected management consultants and terms of reference for a study of the management and operating problems of ONCAD have been prepared in consultation with the Bank. In order to overcome institutional difficulties and to provide the necessary coordination, the Government agreed to the creation of a Project Coordinating Committee, consisting of a senior official of the Ministry of Rural Development as Chairman and representatives of the Ministries of Finance and Planning, the Directors General of ONCAD, BNDS and SODEVA, as members.

9. The project is technically sound and economically justified. As in many agricultural projects which rely for a large part of their success upon credit to and participation by small farmers, a quantitative assessment of the overall benefits cannot be made with accuracy. Since the project is concerned with the continuation of some of the more effective parts of the productivity program started in 1964, an economic rate of return calculation should take into account the impact of this program. On this basis, and calculating over a life of 10 years, the economic rate of return would be about 25 per cent.

III THE ECONOMY

10. A Special Meeting of the Economic Committee has considered the report "Current Economic Position and Prospects of Senegal" AF-73a, dated February 29, 1968, and concluded that Senegal should be considered eligible for IDA assistance up to \$10 million (EC/M/68-13, dated March 8, 1968). It also concluded that IDA lending could, from the economic point of view, appropriately provide local currency financing, if justified on project grounds.

11. Since the economic mission visited Senegal, more reliable figures on the groundnut crop 1967/68 have become available. It appears that the crop is about 20 per cent lower than expected at the end of last year. This will have repercussions in the field of public finance and the budget (1968/69) is expected to show a small deficit which will be covered by Treasury reserves. The Government had to face social unrest and was recently compelled to grant a substantial increase in minimum wages. This will increase costs in the industrial sector of the economy, which has already shown signs of stagnation in the recent past.

IV RECOMMENDATIONS

12. I recommend that:

- (a) representatives of the Republic of Senegal be invited to negotiate a credit of US \$9.4 million equivalent to assist in the financing of the Groundnut-Millet Project, substantially in accordance with the conclusions and recommendations of the attached appraisal report; and
- (b) that the Association be prepared to disburse against expenditures made for the project since July 1, 1968.

Reviewed!

S. Noel McIvor
Deputy Director

Attachment

LOAN COMMITTEE

Loan 563 ZA
Neg II

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LC/M/68-26
JUN 10 2014
August 28, 1968
WBG ARCHIVES

Minutes of Loan Committee Meeting held on Friday,
August 16, 1968 at 11:00 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. Benjenk
Mr. B. Chadenet
Mr. S.R. Cope
Mr. R. H. Demuth

Mr. R. J. Goodman
Mr. S. N. McIvor
Mr. L. Nurick
Mr. F. R. Poore
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. H. P. Gassner
Mr. A. F. Geolot
Mr. S. C. Hardy
Mr. M. L. Hoffman
Mr. V. W. Hogg

Mr. B. B. King
Mr. A. Kruithof
Mr. L. Y. Pouliquen
Mr. H. N. Scott
Mr. F. C. Soges

B. Zambia - Second Highway Project

1. The Committee considered the memorandum from the Africa Department dated August 12, 1968 "Zambia - Second Highway Project" (LC/O/68-67). It agreed that while the project's economic benefits (savings in transport costs, mainly for Zambia's international traffic) would yield an acceptable rate of return, the project had to be seen in the wider perspectives of Southern Rhodesia's UDI; of Zambia's need to find alternative outlets to the sea to counteract the prices charged by the traditional rail routes to the Indian Ocean, and of the likely consequences and timing of the proposed Tanzam railway from Zambia to Dar es Salaam.

2. The Committee was told that evaluation of the economic rate of return had been made on the basis of a probability analysis. Probability estimates had been made for, inter alia, construction costs of the highway, traffic

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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
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Executive Vice President (IFC)
Vice President (IFC)

volumes, traffic growth rates, the elasticity of demand for transport, vehicle operating costs and the opening date of the Tanzam railroad (Annex 2 of appraisal report). So far as the Tanzam railroad was concerned, the analysis had been based on an 80% probability that it would be constructed and in operation before 1980, with the best estimate being 1975. Despite the likelihood that the railway would thereafter carry the bulk of Zambia's "dry cargo" traffic (with oil moving in the Dar es Salaam pipeline, now coming on stream), leaving only local traffic on the road, the project produced an acceptable rate of return when the best estimates of the other variables (traffic volume, etc.) were met. Benefits accruing to local traffic in Zambia would be low since the area served by the road was sparsely populated and of little foreseeable agricultural potential. The road's quick-yielding justification was mainly attributable to the very large tonnages of copper and general imports expected to move over the proposed road project before 1975, and to the extent that construction of the Tanzam railway was delayed beyond that date, the expected economic return of the road project would be enhanced.

3. On a more general level, it was suggested that even without UDI, the Zambians would be justified in building an alternative link to the Indian Ocean as Rhodesian railway rates, in particular for copper, were high in relation to cost. The effect of UDI was essentially to expedite the search for alternative outlets to the sea as an insurance against undue dependence on the traditional transport system through Rhodesia and Mozambique. Because of UDI, however, and pursuant to the UN sanctions, Zambia wanted to divert traffic from Southern Rhodesia as soon as possible. In this connection, the Projects Department agreed that it would circulate a paper to the Loan Committee explaining the manner in which possible economic losses suffered outside Zambia because of the diversion of traffic to the road were reflected in the rate of return calculations.

4. The Projects Department said that it had so far had little experience of presenting probability analysis in appraisal reports and it was feeling its way towards expressing the concepts and results of analysis in language which everyone could readily understand. The Chairman commented that it was important that the justification for the project be presented to the Executive Directors both from the economic angle and in the more general terms which had just been reviewed. Many of the implicit assumptions in the report (which had emerged during the Committee's discussion) should be made clearer, particularly paragraphs 5.09 and 5.10 dealing with the economic evaluation. Meanwhile, the Chairman concluded, negotiations could begin in accordance with the recommendation of the Africa Department.

C. Adjournment

The Committee adjourned at 12 o'clock noon .

Secretary's Department
August 28, 1968

Mr. Ballantine UN1
Kainji
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LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES

LC/M/68-25

Loan 572 UN1
11/40

August 29, 1968

Minutes of Loan Committee Meeting held on
Monday, August 19, 1968 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. B. Chadenet
Mr. S.R. Cope
Mr. R.J. Goodman
Mr. M.L. Hoffman

Mr. K.S. Krishnaswamy
Mr. S.N. McIvor
Mr. L. Nurick
Mr. F.R. Poore
Mr. A. Stevenson
Mr. C.H. Thompson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. W.J. Armstrong
Mr. A.E. Bailey
Mr. J.P. Grenfell

Mr. P. Loh
Mr. M.S. Ram
Mr. J.P. Uhrig

B. Nigeria - Proposed Loan to Niger Dams Authority

1. The Committee considered the memorandum from the Africa Department dated August 7, 1968 "Nigeria - Proposed Loan to the Niger Dams Authority" (NDA) (LC/O/68-68), which recommended that the Bank make a loan of \$16 million to cover the additional foreign exchange costs of the Kainji Project, supplemental to the loan of \$82 million (383-UNI) of July 1964. The Committee noted that the cost of the project had originally been estimated at \$208 million (including \$135 million in foreign exchange) and had now risen to a reasonably firm \$246 million (including \$151 million in foreign exchange). In general, this increase had been beyond the control of the borrower and could not have been foreseen by the Bank or by the consultants at the time of the original loan.

2. The Committee was told that nearly all of the balance of the originally-estimated foreign exchange costs had been financed by a group of equipment-supplying countries, the largest contribution being from Italy, which had made

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Executive Vice President (IFC)
Vice President (IFC)

a \$26 million loan. A considerable proportion of the foreign exchange cost overrun on the project was on Italian civil works contracts but it did not seem likely that the Italians would meet part of the overrun and thus enable the Bank to reduce its loan. The Chairman commented that he understood Italian legislation to preclude supplier-financing if a country was in a state of civil war, but an alternative which might be explored would be for the Italians to buy a participation in the Bank loan. More specific information would meanwhile be required on the lira component of the cost overrun.

3. The Committee noted that the justification for proceeding with this loan in the absence of a Biafran settlement or any detailed assessment of Nigeria's public finance and creditworthiness situation was that NDA was a suitable borrower, was efficiently managed and any delay in completing the project would retard the development of the power sector with consequential damaging effects on the economy. Information available to the Bank (which had been reviewed by the Economic Committee) suggested that Government finances had been greatly strained for the short-term and there was little possibility of the Nigerians meeting any additional foreign exchange cost themselves.

4. The Committee was told that the equalizing discount rate between the cost streams of the project and the best thermal alternative was about 6.5 percent under the original cost estimates and would now be about 5 percent (without, however, allowing for escalation in the cost of the thermal alternative). The final stage of the project to be financed by the supplementary loan would show a very high rate of return, but the return on the total project (which the Nigerians were under an obligation to complete) was considered to be the more objective yardstick. Regarding the return which NDA should earn on its net fixed assets, it was now proposed that it not be required to earn a return of at least 8 percent until its fourth year of commercial operation and that NDA's rate base and debt service should be reduced by asking the government to assume the responsibility for certain expenditures incurred by NDA which were unrelated to the supply of power (mainly for navigation and other public works). If the government was also willing to assume responsibility for resettlement costs, so much the better, but (the Chairman suggested) there was no reason for the Bank to press for this.

5. The Committee accepted the recommendation of the Africa Department that the NDA and the Federal Government of Nigeria be invited to send representatives to Washington to negotiate a loan of about \$16 million equivalent substantially on the terms and conditions set forth in the appraisal report.

C. Adjournment

The Committee adjourned at 4:10 p.m.

Secretary's Department
August 29, 1968

LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES

T+T Tourism

LC/M/68-24

September 6, 1968

Minutes of Loan Committee Meeting held on
Thursday, August 8, 1968 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. B. Chadenet
Mr. S.R. Cope
Mr. R.J. Goodman

Mr. M.L. Hoffman
Mr. S.N. McIvor
Mr. L. Nurick
Mr. F.R. Poore
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. W.C. Baum
Mr. H. Davis
Mr. S. Kuriyama
Mr. R. Nelson

Mr. R. Sadove
Mr. A. Shourie
Mr. C.H. Thompson
Mr. P. Wright

B. Trinidad and Tobago - Tourism Development

1. The Committee considered the memorandum of July 19, 1968 from the Western Hemisphere Department "Trinidad and Tobago - Tourism Development" and noted that there was at present little knowledge, either in the Bank or outside it, which would permit sophisticated cost-benefit analyses of investments in tourism, either of one tourism project against another or of the economic priority in a given country of tourism development versus development in other sectors. With respect to the mobilization of private resources for hotel construction, it could be assumed that entrepreneurs would be guided by considerations of profit and financial return. But in cases (as in Trinidad and Tobago) where further tourism development also hinged on additional investments in infrastructure (extension of airport and of public services, road improvements, etc.), it was difficult to

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

Copies for Information:

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

compare alternative possibilities. Some such questions might be answered by the consultants' feasibility study on the proposed airport extension. But the Bank would need to develop a clear methodology of its own. It was agreed, however, that this much was clear: tourism development was a "natural" for Trinidad and Tobago, as had already been shown in the report entitled "Potentials for Tourism Development in Trinidad and Tobago" (TO-665).

2. The Committee also noted that tourism development in Tobago required a series of concomitant investments involving a mix of private and public money and many small or scattered projects, although such projects should be related to each other within the context of an integrated program for tourism development. It was suggested that, in the case of Tobago, the Bank should perhaps consider providing finance for the largest single investment within a tourism development program (for example, for the airport) while seeking to ensure that the related facilities were financed out of Government resources or by private interests and were completed in due time. The Committee noted that Bank Group financing of hotels (either by a direct IFC investment or indirectly through local development finance companies with which the Group was concerned) was another mode of participation in tourism development.

3. The possibility that the Bank might finance an airport extension for Tobago provoked an enquiry as to the Bank's posture on airport financing. The Chairman commented that proposals for airport financing should be considered on their merits and the fact that no loans had so far been made for airports should not be regarded as excluding them from future consideration. However, it must be recognized that there were competing demands for Bank financing and airports might often rank low because other projects of at least equal priority were more institution-building. Airports which were prestige-oriented obviously should be avoided. On the other hand, airport financing in countries where tourism was of prime importance or where the development of internal communications was handicapped by physical characteristics could be suited to Bank financing.

4. The Committee noted that it was not at present proposed to enter into negotiations with Trinidad and Tobago and approved the "next steps" which the area memorandum recommended the Bank Group should take.

C. Adjournment

The Committee adjourned at 4:00 p.m.

Secretary's Department
September 6, 1968

LOAN COMMITTEE

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July 17, 1968.

NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Monday,
July 22, 1968 at 3:00 p.m. in the Board Room.

AGENDA

Guinea

The Committee will consider the attached memorandum of
July 17, 1968 from the Africa Department entitled "Guinea -
Proposed Boké Project" (LC/O/68-62).

Mark Cherniavsky
Secretary
Loan Committee

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Committee:

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

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LC/O/68-62

July 17, 1968

LOAN COMMITTEE

Memorandum from Africa Department

GUINEA: Proposed Boké Project

I. INTRODUCTION

1. In June 1964, the Government of the Republic of Guinea asked the Bank to consider financing the foreign exchange cost of a railway, port and townsite necessary for the exploitation of the Boké bauxite project. The Government had in October 1963 entered into an agreement with a company now called Halco (Mining) Inc., a Delaware corporation, relating to the mining of bauxite in the Boké area. After preliminary study of the proposed project, the Bank felt that a much more detailed engineering study of the proposed railway and port was required before the Bank could determine whether to proceed with the financing of the construction itself. Consequently, on March 30, 1966, the Bank made a loan of \$1.7 million to Guinea (Loan No. S-1 GUI) to finance the engineering study. That study was completed in late 1967, and all but \$13,555 of the loan has been disbursed.

2. The project as originally proposed called for the shipment of approximately 1 to 1-1/2 million tons of bauxite annually from the mining operation. In late 1966 and early 1967, partially at the instance of the Bank, the Government of Guinea induced Halco, then wholly controlled by Harvey Aluminum Company, to expand the size of the operation in order to enhance the economic return. During this period agreements were concluded with other major aluminum companies providing for an increase in the annual sales of bauxite to approximately 5 million tons. At the time the additional purchases were arranged, the other aluminum companies were given minority interest in Halco, but Harvey retained voting control. During the course of 1967, it became apparent that Harvey was not in a position to meet the guarantee and other financial requirements for the larger operation in proportion to its majority position. Subsequently, in early 1968, Harvey and the other shareholders agreed to a sweeping reorganization of Halco so that the share ownership would conform to the proportion of purchases of bauxite which each shareholder was to make. (See paragraph 6, below.) This reorganization has been agreed in principle and a draft Participation Agreement has been drawn up and shown to the Bank. This Agreement will be signed and made effective prior to or at the time

of the effectiveness of the proposed Bank loan. Since the reorganization has not been formally effected and the management for Halco has not been set up, discussions have proceeded at a rather slow and cumbersome pace, and problems remain which will have to be settled during negotiations as indicated in the appraisal report and in this memorandum.

3. On March 29, 1968, the Republic of Guinea, the Bank, Halco and each of the shareholders signed a Memorandum of Understanding which, in essence, expressed the Bank's agreement in principle to finance the proposed railway and port provided certain conditions were met and appropriate agreements reflecting those conditions were reached between the Bank, the Halco group and the Government of Guinea. Many of these conditions have been met, but many points still have to be settled during the proposed forthcoming negotiations.

4. The proposed loan (US\$64 million equivalent) would be made to the Republic of Guinea. The Office d'Aménagement de Boké (OFAB), referred to in paragraph 8, will carry out and supervise the operation of a large part of the project, and it is proposed that the Bank enter into a project agreement with this agency. Local currency for the project will be provided by a loan from the U. S. Agency for International Development.

II. THE PROJECT

5. Attached is a report entitled "Appraisal of the Boké Bauxite Project" (No. TO- 672), which was prepared by the Projects Department in coordination with other members of the working party in the Bank and I.F.C. The report recommends a loan of \$64 million for a term of 24 years including a grace period of 4-1/2 years. This loan would finance the foreign exchange cost of a railway, port and related facilities needed for the Boké bauxite project. These facilities cannot be justified independently of the mining operation, and for purposes of the appraisal the Bank has considered both aspects as one project.

6. The bauxite mine will be located at Sangarédi near Boké in northwestern Guinea and will be constructed and operated by Compagnie de Bauxite de Guinée (CBG), owned jointly by the Guinea Government (49%) and Halco (Mining) Inc. (51%). Halco is in turn owned jointly by Alcan (27%), Alcoa (27%), Harvey Aluminum Company (20%), Pechiney-Ugine (10%), Vereinigte Aluminium-Werke (10%) and Montecatini-Edison (6%). The mining part of the project consists of the mine and townsite at Sangarédi, certain handling, processing and storage facilities and part of the townsite at the port of Kamsar and the provision and operation of ore-carrying trains. The total cost of the CBG investment is estimated at \$99 million. The six shareholder aluminum companies have entered into contracts with CBG in which they promise to purchase specified amounts of bauxite, initially 4.7 million tons per year and from the sixth year of operation to the twentieth year, 5.1 million tons per year. CBG expects to sell about an additional 1.5 million tons to other consumers.

7. The railway, port and townsite, which will be owned by the Guinea Government and for which Bank funds will be used, includes a 136 km railway between Sangarédi and Kamsar and the port and townsite of Kamsar. The total cost of this project, including engineering and interest and other charges during construction, as well as the principal of Loan No. S-1 GUI, is estimated at \$83 million, of which the foreign exchange component is about \$64 million. The railway and port could handle up to about 8 million tons of bauxite annually.

8. The railway, port and townsite project will be constructed and ultimately operated (other than bauxite trains) by the Office d'Aménagement de Boké (OFAB) with technical assistance from Halco. OFAB is a semiautonomous government agency which was set up in 1965. Its draft statutes and technical assistance arrangements with Halco are satisfactory to the Bank.

9. The Bank's normal international bidding procedures will apply to all procurement which is financed in whole or in part out of the proceeds of the Bank's loan. Prequalification procedures for prospective contractors have already been initiated.

10. In order to ensure proper coordination of the construction of the whole project, the Government and Halco have agreed to set up a Construction Coordinating Committee, with an independent Chairman having experience in the construction and administration of major works. This Committee will recommend the approval of contracts, certify applications for withdrawal of loan funds, coordinate the work of the consulting engineers, ensure progress of the works, and maintain direct liaison with the Bank. The Chairman of the Committee will be selected with the approval of the Bank and will be on the job prior to the issue of tender documents.

11. The Government's income from the mining project will be derived essentially from its share (65%) of net taxable profits of CBG. OFAB will collect harbor dues from port users and charge CBG for operating costs and depreciation of certain facilities in Kamsar. The net increase in income to the Government after debt service is expected to be about \$4 million in the first year of operation and to increase thereafter reaching about \$18 million in the fifteenth year. The discounted financial rate of return to the Government on its investment of \$83 million will be close to 15% over the 20-year period of the bauxite contracts.

12. The economic rate of return to Guinea is estimated at 18%. The net annual increment to national income is expected to be \$7.4 million in the first year of operation and to increase thereafter, reaching \$21.2 million in the fifteenth year. The net foreign exchange accruing to Guinea as a result of the project would be approximately \$8.2 million in the first year, and \$18.2 million in the fifteenth year of operation.

III. SECURITY ARRANGEMENTS

13. In view of Guinea's lack of creditworthiness, the Bank at an early stage of discussions made it clear that the service of the Bank loan would have to be assured by the shareholders of Halco either in their role of purchasers of bauxite or by some other satisfactory form of assurance. Little progress was made on this matter until after the reorganization of Halco in January 1968, when the shareholders made certain proposals which were ultimately accepted in principle by the Bank in the Memorandum of Understanding of March 29, 1968. These proposals, which are now incorporated in a draft Financial Assurances Agreement to be entered into among Guinea, CBG, Halco, each of the shareholders and the Trustee and a draft Trust Agreement to be entered into between Guinea, the Bank, CBG, Halco, each of the shareholders and the Trustee are summarized as follows:

- (a) CBG will make payments in amounts and currencies required to cover the entire debt service of the Bank. (CBG will in turn receive tax deposit certificates for the amounts so paid against taxes to be owed by CBG to Guinea.) CBG will make the payments for the benefit of the Bank to a trustee acceptable to the Bank (probably the Bank of America) at the times required by the amortization schedule to the Bank's loan agreement.
- (b) If CBG does not make the payments 20 days prior to the date payments are due, Halco will advance for CBG's account the required funds.
- (c) If the Trustee has not received the appropriate funds 10 days prior to the required payment date, each shareholder is required to make a payment to the Trustee as an advance to Halco in proportion to its shareholdings in Halco. If the Trustee has not received payment by the day payment is due, it is authorized and directed to collect from each shareholder the amount such shareholder was required to provide.
- (d) These obligations, and other obligations of CBG, Halco and the shareholders with respect to overrun loans, construction of the mining project, etc., are subject to suspension only upon conditions making it impossible for 180 days to construct or operate the project when such conditions arise from political causes within, or acts of war directly relating to, Guinea or its territories. These obligations would be subject to termination only in the event that suspension for the reasons stated above continues for 600 days, upon acceleration of the Bank loan solely for such reason and for compulsory deprivation by Guinea of the shareholders' fundamental rights of ownership or their effective control of CBG.

14. The financial Assurances Agreement will also provide that CBG, Halco and the shareholders will make through the Trustee overage loans to cover any overrun of foreign exchange needed to complete the project. These overage loans would be made upon appropriate certifications by the Bank, the consulting engineer and the Chairman of the Construction Coordinating Committee. The Financial Assurances Agreement will also contain assurances relating to the construction and financing of the mining project.

15. The Bank has held preliminary discussions on various drafts of the Financial Assurances Agreement and Trust Agreement and is generally satisfied that the main lines of agreement have been reached. However, there still are some fairly complex legal matters to be agreed, and the Bank will have to be satisfied that the time lag contemplated between the completion of the railway-port project and the mining project is reasonable. The Bank will also have to be satisfied that the purchasers of bauxite will be obligated to take delivery of bauxite from CBG within a reasonable time after final completion of the railway. These matters are still under discussion, and we expect them to be settled in a satisfactory manner prior to submission of the loan for consideration by the Executive Directors.

IV. OTHER SOURCES OF FINANCE

16. As mentioned earlier, of the \$83 million required for the railway-port project, it is expected that the Bank loan would supply \$64 million. The local currency requirements are expected to come from a loan by the U.S. Agency for International Development. Preliminary negotiations are going on with AID for a loan of \$19 million for a term of 30 years including a 4-year grace period with interest at 2-1/2%. The source of this local currency finance is based on earlier P.L. 480 programs in Guinea. The Bank has raised the question with both the Guinea Government and AID of the advisability of setting aside an additional 10% of the estimated local cost (about \$2 million) from present and future P.L. 480 programs as a reserve against possible local expenditure overruns. There are indications that AID would be willing to work this out, but, in any event, the Bank will have to seek assurances for any local currency overruns from Guinea and the Halco group.

17. Halco's search for finance for the mining project has not yet advanced very far. In April, 1968 Kuhn, Loeb & Co. were brought into the picture by the Halco group to assist them in obtaining this finance. To date, Kuhn, Loeb has succeeded in getting short-term standby financing in an amount of \$75 million from a group of banks headed by the Bank of America; this would cover cash needs during construction. They are still searching for the long-term finance needed and, as of the date of this memorandum, were approaching the following sources:

- (a) The Export-Import Bank of Washington. The Halco group has requested a loan of up to \$30 million. Preliminary talks have indicated that the term of the loan would be 15 years as far as CBG itself was concerned. However, 90% of the loan would be subject to acceleration out of payments by CBG to Halco, the parent company. Acceleration would take place to the extent of 50% of the uncommitted cash flow of CBG. We expect to receive further information on the details of the transaction as talks proceed.
- (b) Suppliers' Credits. German suppliers have indicated an interest in supplier financing for a term of about 13 years including grace period. Some preliminary talks have also taken place in France and the United Kingdom.
- (c) Until recently the Halco group had hoped to borrow from the Metropolitan Life Insurance Company, but prospects for this look dim because of current U.S. balance of payments problems and guidelines relating to foreign investment which affect certain of the shareholders. This matter is being studied. Kreditanstalt für Wiederaufbau has recently indicated an interest in lending up to about \$15 million equivalent in DM for an 18-year term but would expect to tie its lending to German procurement.

18. The Bank has informed Kuhn, Loeb and the Halco group that we would not be prepared to present the proposed loan to the Executive Directors until we receive a reliable statement in respect of the financing plan for the mining project. We have also stated that we would expect all the mining project financial arrangements to be made effective at the time our loan is made effective. In view of the fact that completion of these arrangements is likely to require considerable time, it may be advisable for the Bank at a later point to accept an agreement between Halco and CBG for the provision of long-term finance on terms and conditions satisfactory to the Bank in lieu of final arrangements with the ultimate lenders. This agreement by Halco, appropriately guaranteed by each of the six aluminum companies, would assure that CBG receives the funds on terms substantially similar to those envisaged in the financial analysis in the appraisal report.

V. THE ECONOMY

19. A report entitled "Economic Trends and Prospects in the Republic of Guinea" (No. AF-63b), which was prepared following a mission to Guinea in November-December 1966, was distributed to the Executive Directors on January 22, 1968. The Economic Committee considered this report on August 10, 1967, and the conclusions and recommendations of that meeting (Economic Committee Memorandum EC/M/67-22) were that Guinea was not credit-worthy for Bank lending on economic grounds because of its debt burden and unsatisfactory economic performance. The Committee requested that the Africa Department discuss with Guinea its external debt problems and economic policies.

20. Thereafter, a mission visited Guinea in November 1967 to discuss the report's conclusions with the Government. The mission reported, and an official response from the Government confirmed, that there was a greater awareness of economic policy problems on the part of the Government and that there was reason to hope that the groundwork had been established for a continuing exchange of views between the Bank and Guinea on general economic policy which might in time produce improvements in performance.

21. We have proceeded in the belief that the Bank could justify making a loan for the Boké project if satisfactory arrangements were made for securing the servicing of the proposed Bank loan through assurances by the mining interests. Since satisfactory assurances have now in principle been agreed, the project should be considered despite Guinea's lack of creditworthiness on general economic grounds. The direct benefits to the economy, mentioned in paragraph 12 above, particularly the contribution to the alleviation of the foreign exchange stringency, should facilitate the Government's attempt to effect overall economic policy improvements.

VI. RECOMMENDATIONS

22. I recommend that:

Representatives of the Republic of Guinea and OFAB be invited to negotiate a loan of \$64 million for a term of 24 years including a 4-1/2 year grace period in accordance with the conditions set forth in the attached appraisal report and this memorandum.

A. G. El Emery
Director

LOAN COMMITTEE

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LC/M/68-22

July 29, 1968

Minutes of Loan Committee Meeting held on
Wednesday, July 3, 1968 at 10:30 a.m. in Room 1038

A. Present:

Mr. J. Burke Knapp, Chairman
 Mr. G. Alter
 Mr. B.R. Bell
 Mr. R.W. Cavanaugh
 Mr. S.R. Cope

Mr. A.G. El Emary
 Mr. R.J. Goodman
 Mr. A.M. Kamarck
 Mr. M.L. Lejeune
 Mr. P. Sella
 Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. W.C. Baum
 Mr. R.A. Chaufournier
 Mr. S.C. Hardy
 Mr. W. Hughes
 Mr. S.S. Husain
 Mr. E. Lerda

Mr. R.A.D. Loven
 Mr. D. Pearce
 Mr. L.B. Rist
 Mr. D.M. Sassoon
 Mr. E. Schaefer
 Mr. M.F. Verheyen
 Mr. G.K. Wiese

B. Brazil - First Highway Construction Project

1. The Committee considered the memorandum from the Western Hemisphere Department dated June 28, 1968, "Brazil: Proposed Loan for First Highway Construction Project" (LC/O/68-54) and noted that the proposed \$26 million loan was the first operation ready for negotiation in a \$90 - \$100 million lending program to Brazil which was authorized by the Loan Committee in September 1967. (See LC/M/67-9).

2. It was recalled that Brazil's general economic performance in 1967 had not been entirely satisfactory. The preliminary findings of an economic mission in April of this year indicated some weakening of stabilization policies despite a considerable improvement in controlling inflation. The fiscal deficit had risen in real terms and foreign exchange reserves had declined, partly as a result of

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

the import liberalization plan and partly due to depressed coffee prices. Following a year-end devaluation, the Government had reaffirmed its commitment to a realistic exchange rate policy and had undertaken a number of measures designed to bring the deficit under better control. However, the establishment of a new exchange system, originally scheduled for April or May, had been delayed, possibly on account of internal policy differences. The Government was aware of the high importance the Bank attached to exchange rate policy as a prior lending condition.

3. Notwithstanding these reservations concerning the country's general economic position, the Western Hemisphere Department recommended approval of the project. The Bank had been closely associated for several years with the comprehensive planning and reform of the Brazilian transport sector and regarded it as a high priority area. It had supervised and partly financed a major study and had assisted the authorities in formulating an integrated approach to transport policy and in recommending specific measures for improvement. The proposed project was the outcome of a continuing dialogue in this area. Following the completion of the first phase of the survey, a three-year program of sectoral reforms and project investments had been prepared and, based on this plan, discussions were proceeding on a draft letter from the Government to the Bank which would outline policy objectives and a proposed schedule for their implementation. It was intended that the Government's commitment to the terms of this letter should precede the signature of this loan.

4. The Committee was also told that substantial future lending was proposed in the transportation sector and that attempts would be made to relate future transport sector lending to the Government's performance in implementing the measures outlined in the letter. The emphasis on the reform of the sector arose, among other things, from the very heavy burden which the deficits of transportation entities placed on the Government's finances. The program of reform proposed in the draft letter would make an important contribution to the reduction of these deficits and the financial viability of transportation entities such as the railways. Thus, through sector policies related to transportation projects it was hoped to make a contribution to the more important areas of general economic policy.

5. A number of particular recommendations by the Area Department were noted and agreed. Specifically, the use of part of the proposed loan for local currency expenditures was justified by Brazil's exceptional circumstances. In addition, the legal effectiveness of an existing decree permitting duty free import of construction equipment or arrangements permitting the levy of duty on equipment imported by foreign contractors only on the portion depreciated during the execution of the project would be one of the conditions for effectiveness of the loan. Finally, the loan would be disbursed, as the Area Department proposed, on the basis of fixed unit costs expressed in dollar equivalent. This new procedure would alleviate the problem caused by a possible lag of exchange rate adjustments behind price increases during the disbursement period.

6. The Committee agreed with the recommendation of the Western Hemisphere Department that the Government's representatives be invited to negotiate a Bank loan in a total amount of \$26 million for the project on the terms and conditions indicated in the appraisal report.

7. The meeting adjourned at 11:10 a.m.

Secretary's Department
July 29, 1968

LOAN COMMITTEE

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LC/M/68-21
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July 29, 1968

Minutes of Loan Committee Meeting held on
Wednesday, July 3, 1968 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. B.R. Bell
Mr. R.W. Cavanaugh
Mr. A.G. El Emary

Mr. R.J. Goodman
Mr. H.N. Graves
Mr. A.M. Kamarck
Mr. M.L. Lejeune
Mr. P. Sella
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. G.C. Billington
Mr. W.I. Cohn
Mr. G.F. Darnell
Mr. X. de la Renaudiere
Mr. L.J.C. Evans
Mr. T.P. Lankester

Mr. A.J. Macone
Mr. J.M. Payen
Mr. R.E. Rowe
Mr. H.O. Schulte
Mr. D. Suratgar
Mr. R. Wadsworth

B. Cameroon - Oil Palm Project

1. The Committee considered the memorandum from the Africa Department dated June 21, 1968, "Cameroon - Proposed IDA Credit for an Oil Palm Project" (LC/0/68-53).

2. The Committee noted that it was proposed that IDA make a credit of \$6 million jointly with a French contribution of \$3.6 million, of which \$1.8 million would be a FAC grant and \$1.8 million a Caisse Centrale loan. The French were expected to make half their contribution available for international procurement, the other half being tied to the franc area to finance one of the two oil mills. It was pointed

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Director, Development Services Department
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Executive Vice President (IFC)
Vice President (IFC)

out that while the Bank would not normally enter into joint financing which involved tied procurement, in this case the amount of such procurement would be equivalent to the amount of grant money and in practice there was no logic to the Bank declining to jointly finance a project which included a "tied gift." There was some discussion as to what the Bank's posture should be on joint financing which included grant-like or "soft" contributions which were not strictly grants (c.f. the IADB's Fund for Special Operations, tied to U.S. procurement); the Chairman commented that while this matter had not been recently explored, it would probably be difficult to lay down hard and fast rules.

3. On the question of whether the tied French contribution would finance the first or the second oil mill, it was suggested that the Camerooneans would do best to use the grant first and not draw on the IDA credit until construction of the second mill began. From the Bank's viewpoint, the fact that the first oil mill would be French would probably not seriously prejudice the bidding for the second mill, while the French had already indicated that for administrative reasons they would like to finance the first mill and begin disbursements as soon as possible.

4. The Committee noted that the proposed financing plan called for a government equity contribution to SOPAME, the Development Corporation, of \$5.6 million, of which \$2.6 million would be government share capital and \$3 million would be out of the proceeds of the IDA credit. The Government would also make a loan to SOPAME of \$4.8 million, of which \$1.8 million would be from the French loan and the remainder from the balance of the IDA credit. While it might be thought preferable to avoid the "counterpart fund" problem by putting all of the IDA credit into SOPAME as equity, it was felt that a substantial loan element would impose a needed measure of financial discipline on SOPAME. It was agreed that while IDA could not realistically impose a rate of return covenant on an entity whose revenue would be a function of the market price for palm oil, IDA should at least have an undertaking in the credit agreement that SOPAME would be managed as a commercial enterprise and would attempt to achieve a rate of return satisfactory to the Association.

5. The Committee approved the recommendation of the Africa Department that IDA in due course invite the Government of Cameroon for the negotiation of the \$6 million credit substantially on the terms and conditions set out in the appraisal report.

C. Adjournment

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

LOAN COMMITTEE

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LC/M/68-19

June 17, 1968.

Minutes of Loan Committee Meeting held on
Tuesday, June 4, 1968 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. A. Broches
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. D.J. Fontein

Mr. M.L. Hoffman
Mr. M.L. Lejeune
Mr. S.N. McIvor
Mr. F.R. Poore
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary.

In Attendance:

Mr. L.W. Bartsch
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. D.H.F. Bickers
Mr. J.H. Collier
Mr. K.D. Hartwich

Mr. A. Karaosmanoglu
Mr. M. Karcher
Mr. K.S. Krishnaswamy
Miss A.L. Maher
Mr. J.L. Upper
Mr. P. Sella
Mr. W.A. Wapenhans

B. United Arab Republic

1. The Committee considered the memorandum from the Middle East and North Africa Department "United Arab Republic" (LC/O/68-44 dated May 31, 1968) and noted that the "exceptional circumstances" which might be held to justify a small amount of IDA financing in the UAR in spite of its serious deficiencies in economic performance were that : (i) the Bank had done no recent business with the UAR, which was an important member country; (ii) the sole Bank operation in the UAR (the Suez Canal Loan of 1959) was an enclave loan of a special character; (iii) economic missions had visited the UAR in 1962, 1966 and most recently in March 1968 and the

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

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Egyptians had come to expect some action, particularly as they had now arranged for some drawings on the IMF and in other respects felt they had met some of the Bank's prior conditions; (iv) a small amount of lending would be taken by the UAR as an earnest of the Bank Group's intention to be helpful, which was important for establishing a dialogue with the Government on the means for improving economic performance and (v) since the UAR was the most important Arab country, the Bank's relations with it were inevitably bound up with the Arab world as a whole.

2. The Area Department recalled that the Economic Committee had agreed that these exceptional circumstances qualified the finding of poor economic performance. The Department was therefore recommending a two-phase approach, the first designed to win the confidence of the Egyptian Government and to open a dialogue with it and the second to be a substantial contribution to the UAR's economic development, to be entered upon only after its economic performance was judged more satisfactory. To implement the first phase the Department was recommending a small initial amount of lending with some needed technical assistance, and to this end proposed that the Bank inform the UAR that it was prepared to proceed with the appraisal of a railway project for a credit of up to \$25 million and to make "engineering credits" (totaling some \$2 to \$3 million) for specified preinvestment studies, subject in both cases to continued progress being made in improving the short term balance of payments position and in settling compensation issues. The Department explained that the railway project had been selected because it was ready for appraisal, was of economic priority and was unlikely to produce controversial issues between the Association and the Egyptian Government in the course of appraisal and negotiation. The Egyptian Railway Administration was financially sound, well organized and well managed. The project (principally track renewal) could be quickly appraised and was undoubtedly of high priority whatever the subsequent findings of a transport survey. The Department added the following points :

- (i) that given the history of the Aswan Dam, it would be disastrous for the Bank's relations with the UAR to embark on appraising a project for financing and then to draw back from consummating the credit;
- (ii) that because of the UAR's acute balance of payments problem and their hopes of help from the Bank and IDA, any initial lending program of less than, say, \$15 million ran the risk of being thought derisory; and
- (iii) that to move ahead with the engineering studies but not a significant loan for an investment project would probably be insufficient to win the UAR's confidence that the Bank Group meant business.

Moreover, from the information at hand it seemed unlikely that significant projects in other sectors (such as agriculture) could be so easily and quickly worked out. It was stated that a grain storage project

initially involving an IDA credit of \$15-\$20 million might take about 12 months to work out, as would a Delta drainage project requiring a credit of \$10-\$12 million. There was some danger that a complicated initial program would compromise the objective of trying to establish a constructive relationship with the UAR.

3. The Chairman commented that even if a decision was made after consultation with the Part I countries that IDA should commence lending operations in the UAR, he had difficulty with the recommendation that there should be an immediate commitment of IDA funds of the order of \$20 to \$25 million. This amount would represent a sizable slice of second replenishment resources when they became available. He also felt that the Bank's first, pace-setting credit should be in a sector (probably agriculture) where the Bank could have a greater impact on economic development problems and policies than it would have by simply being the purveyor of foreign exchange for a routine track renewal credit.

4. Some Committee members felt that the proposal put forward by the Area Department might well be the "price" that the Bank would have to pay for establishing a relationship with the UAR after so many years of inactivity and lack of agreement, while others were of the opinion that the Bank should not put itself in the position of proffering a credit to the UAR in order to "buy" a dialogue with the Government or to get them to swallow some preinvestment studies. On the economic performance issue it was, on the one hand, argued that the Bank should not water down its normal criteria by introducing "special circumstances" and, on the other, that performance criteria could not after all be very precise and the Bank should consider the UAR case on its over-all merits. In this connection, it was suggested that the unsatisfactory economic performance of the UAR really consisted of its large defense expenditures, which it would be difficult for the Bank to criticize in the light of the tense situation in the Middle East.

5. Other comments which were offered on the Area Department's recommendation were that the caveat that the initial lending program would be subject to progress with the short term balance of payments and with compensation (Paragraph 2 above) would not be enforceable if failure by the Bank to follow through would in fact give serious offense; that in the absence of a massive aid effort and debt rescheduling it would be foolhardy for the Bank to go it alone in the UAR, since only a coordinated assault by a group of countries would have any lasting effect; finally, that a start should not be made with preinvestment studies unless they had the keen support of the Government and until country economic performance had improved sufficiently to justify the follow-up lending program.

6. In conclusion, the Chairman observed that no problems had been raised about a possible Bank loan to the Suez Canal Authority for canal investment or pipelines; this would be a service to the international community and such a loan would be an enclave operation, presumably secured by a firm pledge of foreign exchange revenues. On the choices the Committee faced on the IDA side, preinvestment studies along the lines recommended by

the Area Department were obviously needed and would represent an appropriate initial contribution from IDA funds; however he felt that one of the drainage or grain storage projects mentioned in the attachment to the Area memorandum would provide a much better vehicle for a first substantive lending operation. The fact that such a project would take longer to prepare and appraise and would probably call for a somewhat smaller credit than the railway project should in the circumstances be considered an advantage. He (the Chairman) would meanwhile report the Committee's views to the President in anticipation of the President's visit to Cairo in July, and no further steps should be taken until the President had decided on the best course of action.

C. Adjournment

The Committee adjourned at 5:00 p.m.

Secretary's Department
June 17, 1968.

LOAN COMMITTEE

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LC/M/68-18
WBG ARCHIVES
June 26, 1968

Minutes of Loan Committee Meeting held on
Wednesday, May 29, 1968 at 4:30 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. A. Broches
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. S.R. Cope

Mr. R.H. Demuth
Mr. A.G. El Emary
Mr. M.L. Lejeune
Mr. F.R. Poore
Mr. A. Stevenson
Mr. L. von Hoffmann
Mr. H.G. Hilken, Secretary

In Attendance:

Mr. M.P. Benjenk
Mr. T.M. Clyde
Mr. A.S. El Darwish
Mr. R.J. Goodman
Mr. A.F. Kirk
Miss A.L. Maher

Mr. C.S. Monsod
Mr. C.L. NaLamlieng
Mr. D. Pearce
Mr. G.M. Street
Mr. G.B. Votaw
Mr. M.H. Wiehen

B. India - Industrial Imports

1. The Committee considered the memorandum from the Asia Department dated May 24, 1968, "India - Fifth Industrial Imports Project" (LC/0/68-39) and noted that the proposed \$125 million credit, if approved, would account for about 45% of the IDA's lending program (including credits subject to replenishment) during the fiscal year 1967/68.

2. It was recalled that the four previous IDA credits to India for industrial imports, totalling \$405 million, had contributed significantly to meeting the country's foreign exchange requirements for imports of raw materials, components and spare parts from 1964/65 to 1967/68. These credits helped maintain or

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Director, Development Services Department
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Vice President (IFC)

increase industrial production and the most recent two helped support the import liberalization program introduced in 1966. Furthermore, the availability of foreign exchange for production imports, together with some relaxation of other controls, was beginning to produce the desired result of encouraging the growth of the more efficient firms. Nevertheless, the Committee noted that in 1967/68 the growth rate generally was disappointing, due to a cutback in Government purchases and the slower rate of private investment, and that export performance was poor.

3. The Chairman inquired about the status of the mission's recommendation that licenses for production imports give manufacturers more freedom to import restricted or even "banned" items (paragraph 38 of the draft appraisal report); this recommendation was made on the grounds that this would expose domestic producers to more competition and, incidentally, do away with the more time-consuming aspects of the present "banned" list. The Asia Department stated that the "banned" list (i.e., items produced locally) was growing steadily and that an increase in the free limit on licenses to, say 5 or 10%, would have the desired effect without unduly affecting India's balance of payments. This recommendation would be discussed with the Government.

4. The Committee recognized that the scope for full import liberalization was severely circumscribed by India's balance of payments situation. Although the Woods-Mehta understanding had foreseen a gradual movement away from direct administrative controls towards fiscal measures, such as a more effective tariff system, it was noted that few such steps had in fact been taken. Under the present circumstances, the proposed credit was an effective and useful form of assistance for India, simply as a means of maintaining production of essential capital goods and agricultural chemicals. Some further financing of this kind might prove necessary and desirable, but the Association should also resume lending in India for projects of the more conventional type.

5. With regard to the specific techniques of this credit, it was pointed out that in order to avoid any substantial interruption in the support for India's import liberalization program it was intended to reimburse eligible foreign exchange expenditures made since January 1, 1968. Moreover, in view of possible limitations on IDA's cash position, the draft Credit Agreement should contain a covenant permitting the Association to limit disbursements as required by the availability of IDA's cash resources.

6. The Committee agreed with the recommendation of the Asia Department that the Association negotiate with the Government of India a credit of \$125 million equivalent for industrial imports. The credit would be subject to ratification of the second replenishment of IDA's resources and subject to a limitation on the rate of cash disbursements.

7. The meeting adjourned at 5:40 p.m.

LOAN COMMITTEE

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LC/M/68-17

June 19, 1968

Minutes of Loan Committee Meeting held on
Friday, May 24, 1968 at 3:30 p.m. in Room 1038

A. Present:

Mr. J. Burke Knapp, Chairman	Mr. S.R. Cope
Mr. G. Alter	Mr. R.H. Demuth
Mr. M.P. Benjenk	Mr. A.G. El Emary
Mr. A. Broches	Mr. A. Stevenson
Mr. R.W. Cavanaugh	Mr. G.M. Street
Mr. B. Chadenet	Mr. H.G. Hilken, Secretary

In Attendance:

Mr. D.S. Ballantine	Mr. J.A. King
Mr. P. Engelmann	Mr. V.J. Riley
Mr. M.L. Hoffman	Mr. H.B. Ripman

B. Bank's Use and Management of Fellowships for Training Abroad.

1. The Committee considered the memorandum from the Development Services Department dated May 17, 1968, "Tentative Conclusions with Respect to the Bank's Use and Management of Fellowships for Training Abroad" (LC/O/68-17). Two issues dominated the discussion, whether the Bank was making sufficient use of fellowships or overseas training programs in the projects and sector and feasibility studies it financed, and how such programs should be administered or supervised by the Bank.
2. The meeting recognized that the Bank had already accepted the principle of including "overseas training programs" in appropriate projects as a part of its "institution building" activity. The most frequent use appeared to be in

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education and transport projects, but it was not clear that such programs had been used enough in other sectors or that they received conscious consideration continually in the Bank's operations generally.

3. With regard to the administration of "overseas training programs", the Committee thought that the memorandum before it underestimated the problems involved and was skeptical about the feasibility and desirability of the Bank's being directly involved in their administration. It was argued that the Bank would find it difficult to concern itself directly with individual trainees and their training programs; indeed, the heterogeneous nature of individual requirements, both geographically and functionally, would probably render this approach impracticable and costly. The Chairman underlined the desirability of delegating the tasks of candidate selection, placement, supervision, etc. to external agencies qualified for this purpose. The experiences of various bilateral and multilateral organizations with both methods of approach - direct involvement and delegation to specialized agencies - were noted as instructive in this respect. In the latter case, a substantially higher level of activity could be obtained and the work of the sponsoring or financing organization was limited to the task of selecting the appropriate agencies (rather than the individual programs) and of broadly overseeing their work. It was suggested that even this responsibility was probably not receiving sufficient attention at the Bank at present.

4. In conclusion, it was agreed that further information was required concerning the scope and adequacy of the use of overseas training programs in Bank operations, the alternative methods of administration of such programs and the role and nature of the Bank's supervision. Accordingly, it was agreed that a working party be established under the leadership of a representative of the Development Services Department and including representatives of all the Divisions of the Projects Department and a representative of the Administration Department to study and report on these subjects.

C. Adjournment:

5. The meeting adjourned at 4:30 p.m.

Secretary's Department
June 19, 1968

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LOAN COMMITTEE

JUN 10 2014
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LC/M/68-16

May 29, 1968

Minutes of Loan Committee Meeting held on
Monday, May 13, 1968 at 3:00 p.m. in Room 1038

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. B.R. Bell
Mr. B.P. Benjenk
Mr. S.R. Cope

Mr. R.H. Demuth
Mr. A.G. El Emary
Mr. L. Nurick
Mr. F.R. Poore
Mr. A. Stevenson
Mr. G.M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. W.J. Armstrong
Mr. G.C. Billington
Mr. L. Cancio
Mr. C. de Beaufort

Miss A.L. Maher
Mr. D.I. Miller
Mr. R.S. Nelson
Mr. R.H. Sheehan

B. Mexico - Second Power Sector Project.

1. The Committee considered the memorandum from the Western Hemisphere Department dated May 8, 1968, "Mexico - Proposed Loan for Second Power Sector Project" (LC/O/68-34) and noted that the Bank loan would form part of a joint-financing operation with other co-lenders on the basis also agreed for the Colombian projects (see LC/M/68-7 dated April 11, 1968). Because of delays and uncertainties over the timing, amount and scope of the joint-financing, the Mexicans had been negotiating "fallback" financing from individual suppliers in case the joint-financing did not materialize in the amount and on the conditions expected. As a result, there had been growing confusion and irritation among prospective joint lenders. In addition it was important to minimize the problem of retroactive financing, for both the Bank and joint lenders. The Area Department

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commented that it was for these reasons that it was exceptionally requesting the Committee's authority to invite negotiators before the completion of the appraisal report.

2. The \$75 million recommended for the Bank loan was based on estimated payment needs of the power sector over a 12-month period - April 1, 1968 to March 31, 1969. CFE had been concerned that during the period it would need to make commitments for major equipment which would be only partially financed. The Committee discussed the possibility of easing this concern and facilitating joint-financing either by increasing the loan to cover estimated payment needs for the entire project beyond the year ending April 1, 1969, (say, to December 31, 1969, as had been requested by the Mexicans) or alternatively by fully covering the Bank's share of financing of equipment with a relatively long production period rather than limiting the Bank's coverage to one year's payment needs for such equipment. The first alternative would restrict the Bank's opportunities to negotiate with joint lenders to raise the percentage above one-third during 1969. The second alternative would help to dispel CFE's concern regarding the placement of orders without financing being available, which centered particularly around items with a long lead time.

3. The Committee also noted that while frequency unification in Mexico had not proceeded at the pace which the Bank had foreseen at the time of earlier power loans, the Mexican Government was basically in agreement with the objective and could be expected to move toward it as quickly as the jurisdictional problems involved (which embrace both management and the labor unions) could be handled without provoking serious political difficulties. It was pointed out that as part of its "consolidated" approach to the two power companies (CFE and Centro) the Bank had for some time been basing its rate of return calculations on the power sector's overall performance and not on the performance of the two companies separately.

4. In conclusion, the Chairman suggested that the Mexicans be invited to negotiate a loan on the basis set forth in the Area Memorandum, but that:

- (a) Since CFE was a long-established company, it would not be appropriate to earmark \$2 million of the proposed loan for interest during construction.
- (b) Further consideration be given to increasing the amount of the loan to fully finance equipment with a long production period and a decision be taken as soon as information could be obtained on the amounts involved.

C. Adjournment

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

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LOAN COMMITTEE

LC/M/68-15
May 6, 1968.

Minutes of Loan Committee Meeting held on
Wednesday, May 1, 1968 at 11:00 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. B.P. Benjenk
Mr. R.W. Cavanaugh
Mr. S.R. Cope

Mr. R.J. Goodman
Mr. M.L. Hoffman
Mr. S.N. McIvor
Mr. L. Nurick
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. O.H. Calika
Mr. K.S. Krishnaswamy
Mr. S. Lipkowitz
Mr. S. Please

Mr. P. Sella
Mr. M. van der Mel
Mr. M.F. Verheyen

B. Review of Working Party on Customs Duties.

1. The Committee considered the Report of the Working Party established to review the treatment of customs duties on goods procured for Bank-financed projects, distributed to the Committee on February 20, 1968.

2. The Committee endorsed the conclusions and recommendations of the Report (paragraph 66) and agreed that the Report should form the basis for a new Operational Memorandum on the subject.

C. The Committee adjourned at 12:00 noon.

Secretary's Department
May 6, 1968.

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LOAN COMMITTEE

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May 6, 1968.

Minutes of Loan Committee Meeting held on
Friday, April 26, 1968 at 10:30 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman	Mr. R.H. Demuth
Mr. S. Aldewereld	Mr. R.J. Goodman
Mr. G. Alter	Mr. S.N. McIvor
Mr. M.P. Benjenk	Mr. F.R. Poore
Mr. B. Chadenet	Mr. A. Stevenson
Mr. E. Clark	Mr. L. von Hoffmann (IFC)
Mr. S.R. Cope	Mr. M. Cherniavsky, Secretary.

In Attendance:

Mr. B.R. Bell	Mr. W. Kaupisch
Mr. D.C. Elliott	Miss A.L. Maher
Mr. W.R. Ewing	Mr. C.G. Melmoth
Mr. H. Fuchs	Mr. R.B. Steckhan
Mr. M.L. Hoffman	Mr. S.M.L. van der Meer
Mr. N. Hori	Mr. R.H. Williamson
	Mr. H.C. Winterton

B. Pakistan - Dawood-Hercules (DH) Fertilizer Project

1. The Committee considered the memorandum from the Asia Department dated April 19, 1968 "Pakistan - Dawood-Hercules (DH) Fertilizer Project" (LC/O/68-31).

2. The Committee noted that the DH project and (if it materialized) the American-Cyanamid (AC) project would both draw their feedstock for fertilizer production from the Sui gas fields. Negotiations between the Government of Pakistan and the Sui Gas Transmission Company (the gas purifying company) on a rate increase for the feedstock (which would help it finance the expansion of its purification capacity) were expected to

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conclude satisfactorily within a month. Sui Northern Gas Pipelines Limited, the feedstock distributing company, would also have to expand its transmission facilities but work would not have to begin until 1969 and the amount of additional capacity needed would depend on whether the AC project was proceeding. In any case the Bank loan to DH would not become effective until an adequate gas supply contract was assured.

3. It was noted that the appraisal report estimated that the discounted dividend return on the equity investment of US \$29.2 million and on the total investment of US \$77.7 million equivalent were 12% and 13% respectively. The principal sponsors, Dawood and Hercules, were satisfied with the expected profitability since the return on capital employed before tax would be more like 15% and they assumed that the plant would come on stream more rapidly, and hence the pay-out would begin earlier, than the Bank did (whose projections were purposely conservative). Hercules was currently seeking U.S. Government permission for the export of capital; in the unlikely event of an unsatisfactory outcome to these talks, Hercules should be able to raise money in Europe, if they decided to do so.

4. The Chairman recalled that at the time of the Alcominas loan to Brazil, reservations had been expressed in the Board about making loans to private industrial companies at the Bank's standard interest rate, since this rate was well below what competing companies would have to pay elsewhere. Without pre-judging the conclusions of the review of the Bank's industrial loan policy, he (the Chairman) considered that charging DH the standard rate could be justified in this case, since Pakistan's fertilizer program was of national importance, being a key element in the drive for self-sufficiency in food production. Moreover, farmers rather than "rich" producers and middlemen would be the main beneficiaries of this subsidy.

5. The Chairman pointed out that the effective rate which DH would pay would be 6-3/4%, since the Government was charging DH 1/2% for its guarantee of the Bank loan. He commented that this was an interesting device which took the heat out of the "subsidy" issue to a considerable extent, although even 6-3/4% was well below what, e.g., PICIC would charge a borrower. On the other hand, a Bank loan involved DH in a government guarantee, which it might regard as a mixed blessing. In answer to a question why the loan was not being made by IFC, which would avoid the "subsidy" issue altogether, the Chairman said that the \$20 million ceiling on each IFC operation would entail in this case a joint Bank/IFC loan (assuming a \$32 million loan), in which he saw no clear advantage. However, the "division of labor" between the Bank and IFC in industrial lending was an area which needed clarification and which was under review.

6. The Chairman noted that with this loan, and the possibility of loans to AC and to Sui Northern Gas Pipelines Limited, plus the conditional commitment on Tarbela, the blend of Bank/IDA lending to Pakistan would have significantly hardened. The Asia Department commented that over the longer run the blend would again become softer; in the five-year forecast of operations the ratio came out at 76:24.

Apart from PICIC, other lending operations in Pakistan would be on the IDA side once replenishment became effective. The Chairman suggested that the Board be assured on this point in the President's Report.

7. The Asia Department said that it specifically sought the Committee's endorsement of the proposed term of the loan -- i.e., 15 years including four of grace. The Pakistanis were pressing for a longer term on "country" grounds, but the Department considered 15 years to be generous since DH's projected cash flow could even permit it to amortize the loan in a shorter period. Moreover, lengthening the term of the loan would be difficult to justify if combined with the "subsidized" interest rate. The Committee endorsed the Asia Department's recommendation.

8. It was agreed that certain minor changes would be made to the appraisal report, including a reference in the marketing section to the absence of duties on imported fertilizer and an explanation in Annex 7 of the basis on which depreciation on plant and equipment had been calculated.

9. The Committee approved the recommendation of the Asia Department that the Bank inform the sponsors and the Government of Pakistan of its willingness to negotiate a loan rounded to US \$32 million equivalent.

C. Adjournment

The Committee adjourned at 12:00 noon.

Secretary's Department
May 6, 1968.

LOAN COMMITTEE

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LC/M/68-13
WRC ARCHIVES

May 2, 1968

Minutes of Loan Committee Meeting held on
Tuesday, April 23 at 3:15 p.m. in the Board Room

A. Present

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. B. Chadenet
Mr. S. R. Cope
Mr. R. H. Demuth

Mr. W. Diamond (IFC)
Mr. M. L. Lejeune
Mr. S. N. McIvor
Mr. F. R. Poore
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:*

Mr. D. S. Ballantine
Mr. M. P. Bart
Mr. M. P. Benjenk
Mr. J. G. Boyd
Mr. S. S. El Fishawy
Mr. K. D. Hartwich
Mr. R. Helling
Mr. T. Jones
Mr. S. Kadleigh

Mr. W. Kodderitzsch
Miss A. L. Maher
Sir Denis Rickett
Mr. E. Sekse
Mr. J. J. Stewart
Mr. C. H. Thompson
Mr. G. A. Torelli
Mr. J. L. Upper
Mr. R. M. Westebbe

B. Morocco - BNDE.

1. The Committee considered the memorandum from the Middle East and North Africa Department dated April 19, 1968, "Morocco - Proposed Third Loan to the Banque Nationale de Developpement Economique (BNDE)".

* for all or part of meeting.

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2. The Committee was told that while an increase of 1% or 1.5% in BNDE's lending rate would vitally improve the Institution's capacity to earn a reasonable return, the Moroccan Government had set its face firmly against any increase, arguing that a rise in long-term interest rates would raise all rates throughout the country, which was to be avoided when the new Five-Year Plan was being launched. Some members questioned whether a general increase in rates was necessary or desirable, although they agreed it was difficult to see why this should prevent the Government from acting in the case of BNDE so that it could earn a reasonable return on capital employed.

3. The Committee noted that fundamental to the Government's posture was its belief that BNDE was an instrument of Government policy in the industrial sector, which ran directly counter to the Bank's posture, which was that BNDE should operate on a sound business basis. ^{1/}While the Bank had run into problems before in other countries on this specific issue, it was particularly disturbing in the Moroccan case that no resolution of the disagreement was in sight.

4. The Committee noted that among the conditions on which the Bank would insist during negotiations would be a reorganization of the procedures and practices of the Board of Directors and engagement of a foreign adviser. With regard to the first condition, the changes would make BNDE's management more responsive to shareholders, although Government domination of the Board would of course continue. With regard to the second condition, the Bank had recently suggested a name but the BNDE would probably postpone engaging an adviser until the loan was ready for Board presentation. The Moroccans would be reminded that the cost of the foreign adviser could be met out of the Bank loan.

5. It was noted that the Government was proposing to change BNDE's capital structure in order to improve the net return on BNDE's shareholders' equity. The return, after making provision for bad debt reserves, was expected to be of the order of 6-7% after tax. These changes would not be sufficient to make BNDE more attractive to shareholders, but they represented progress towards this goal.

6. The Chairman concluded that in the difficult circumstances of the Bank's relations with Morocco, the Bank would probably have to accept some lowering of its standards on this particular loan. The Government had agreed in principle to meet the Bank's requirements as regards BNDE's investment policy and management practices which represented a step forward in strengthening the institution. However, it should be made clear to the Moroccans that the changes in BNDE's capital structure were not regarded by the Bank as a substitute for a higher interest rate and that the Bank would attach special importance to finding a mutually acceptable solution to this question in its continuing review of BNDE's operational and financial performance, and in considering future loan applications.

7. The Committee accepted the recommendation of the Area Department that representatives of the Government and BNDE be invited to negotiate a loan of \$10 million on the conditions set forth in paragraph 16 of the Area memorandum.

^{1/} cf. the recent discussion on government-owned Agricultural Credit Institutions
- see Loan Committee Minutes LC/M68-11 dated April 26, 1968.

C. Sudan - Education Project

8. The Committee considered the memorandum from the Middle East and North Africa Department, "Sudan - Education Project" and particularly the history of Bank/UNESCO cooperation in the preparation of the project.

9. Mr. Ballantine said that the UNESCO preparation mission which had visited the Sudan in April 1966 had been weakly staffed and had also encountered difficulties with the Government, which had insisted on making ill-conceived proposals to the Bank regardless of the mission's advice. The Bank appraisal mission of August 1966 had therefore had to revise the project substantially. All this had happened at a relatively early stage of the Bank/UNESCO Cooperative Program.

10. Mr. Ballantine added that this sort of difficulty arised from time to time especially where the content of the project had not been precisely defined and the government was not inclined to follow UNESCO advice. However, technically the Bank had been very pleased with the quality of the last four or five project requests on which UNESCO had assisted. In line with Professor Mason's recent recommendations, and within the severe limitations of its own manpower, the Education Division had been attaching a staff member for part of each UNESCO identification and preparation mission. This would continue.

11. The Committee noted that the amount of the proposed credit (\$7 million) represented 50% of the project cost and had evolved not so much on project or country ground but for reasons connected with the allocation of remaining first replenishment IDA funds. It was suggested that a 50% cost sharing basis was on the low side for a country like the Sudan. The Chairman agreed that a more appropriate basis would be about 60% and recommended that the amount of the credit be increased to \$8.5 million. The Committee was told that it would be highly desirable to earmark \$0.4 million of this additional amount for technical assistance for an intermediate teacher training institute. This would ensure that the technical assistance aspect of the project progressed hand in hand with the physical aspect. The Chairman agreed to this proposal and the Committee accepted the recommendation of the Area Department that the Association invite representatives of the Government of the Sudan for negotiations.

D. Adjournment.

12. The meeting adjourned at 4:45 p.m.

Secretary's Department

May 2, 1968

LOAN COMMITTEE

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WBG ARCHIVES

LC/M/68-12

May 6, 1968

Minutes of Loan Committee Meeting held on
Wednesday, April 17, at 3:00 p.m. in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. A. Broches
Mr. I.P.M. Cargill
Mr. B. Chadenet

Mr. S.R. Cope
Mr. R.H. Demuth
Mr. A.G. El Emary
Mr. M.L. Lejeune
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. W. Brakel
Mr. W. Clark
Mr. L.J.C. Evans
Mr. P. Geli
Mr. R.J. Goodman
Mr. R.E. Grosvenor
Mr. M.L. Hoffman
Mr. S.P. Johnson
Mr. A.D. Knox

Miss A.L. Maher
Mr. A.E. Matter
Mr. O.J. McDiarmid
Mr. H.M. Mendels
Sir Denis Rickett
Mr. M. Shoaib
Mr. R.B. Steckhan
Mr. E. van Helden
Mr. L. von Hoffmann
Mr. W. Tims
Mr. J.H. Williams
Mr. H. Ziegler

B. Indonesia - Technical Assistance and Lending Operations.

1. The Committee considered the memorandum and attachments from the Asia Department "Indonesia - Future Technical Assistance and Lending Operations" (LC/0/68-27 dated April 15, 1968).

- DISTRIBUTION -

Committee:

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

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

2. Mr. Cargill said that in the light of his recent talks in Indonesia, he was recommending that the Bank establish a resident mission in Djakarta under Mr. Matter, who would be initially assisted by two or three experienced (but not highly specialized) staff members. This mission would identify areas in which the Indonesians required technical assistance and would call on specialists from the Bank (or from outside) to advise (where appropriate) on the retention of consultants and to "work up" a project (whether a physical or a pre-investment project) suitable for external financing. The mission should be seconded to the Indonesian Government and while under instructions from and reporting to Bank headquarters, would be autonomous in the sense that the prime operational responsibility for executing the Bank's technical assistance program would lie with the mission and not with Washington.

3. Mr. Cargill added that the Indonesians were already getting planning and policy advice from other groups and that the Government's immediate interest was in obtaining from the Bank strictly practical assistance in preparing and implementing specific proposals which could be presented to interested parties for financing. The Committee noted that while the Government's organization and mode of operation was in many areas chaotic, there were leaders who had a grasp of what needed to be done and who were responsive to outside advice. Once the Government framework had been refurbished, technical assistance could work smoothly and produce results.

4. Some Committee members felt that a small resident mission aided by "commuting" specialists would be inadequate for the task and that the Bank should station a large mission in Djakarta (eight to ten people perhaps), partly recruited from the staff and partly recruited from outside. Mr. Cargill commented that he regarded a small mission as the first step in building up a larger mission; while it was clear in what sectors Indonesians needed assistance, the timing and precise scope of such assistance could not now be decided with certainty. In any case, the Bank was not facing a cut and dried choice between a large mission or a small mission plus commuters; these elements could be varied according to the circumstances prevailing at the time. Either way, the continuity of personnel would be very important.

5. Mr. Cargill said that in view of Indonesia's extremely difficult budgetary situation, it might be difficult to get a contribution from them towards the local currency costs of the Bank's technical assistance program, but other members pointed out that this would create an unfortunate precedent. Mr. Cargill proposed that the costs of the resident mission and of the commuting service be covered out of the Bank budget, and that a "lump sum" IDA credit be extended to cover a variety of studies and technical surveys, to be allocated at the discretion of the President.

6. The Chairman indicated that he favored this approach. A paper should be prepared for Board consideration recommending budgetary appropriations for the resident mission and the commuters on the basis described by Mr. Cargill and an IDA line of credit of \$2 million to be used for a defined category of studies and specialist services in Indonesia. This paper should cover such questions as cost

sharing, the precise function and size of the resident mission, its relation to headquarters and the "mix" of management assistance and technical assistance.

7. Regarding the Area Department's recommendation on a lending program to Indonesia, the Chairman concluded that Section III of the Area memorandum provided an acceptable basis for "working towards" an IDA lending program.

C. Adjournment.

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

Secretary's Department

May 6, 1968

LOAN COMMITTEE

DECLASSIFIED
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LC/M/68-11
April 26, 1968.

RECEIVED ARCHIVES

1016

Minutes of Loan Committee Meeting held on
Thursday, April 11, at 2:30 p.m. in Room 1038

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. B. Chadenet
Mr. R.H. Demuth
Mr. A.G. El Emary

Mr. D.J. Fontein
Mr. R.J. Goodman
Mr. M.L. Lejeune
Mr. L. Nurick
Mr. F.R. Poore
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. B.R. Bell
Mr. R.A. Chaufournier
Mr. A.F.H. Dockx
Mr. C.E. Eugenio
Mr. L.J.C. Evans
Mr. S.L. Feldman
Mr. J.M. Fransen
Mr. J.C. Gerring
Mr. M. Hassid
Mr. M.L. Hoffman

Mr. F.H. Knobel
Mr. C.G. Melmoth
Mr. P.G. Nelson
Mr. S. Please
Mr. A.T. Schumacher
Mr. A.H. Stoneham
Mr. D. Stoops
Mr. S. Takahashi
Mr. W.A. Wapenhans

B. Government-owned Agricultural Credit Institutions - A Review of Bank Policies.

1. The Chairman had convened a meeting to consider the general issues set forth in the attached agenda and the particular case of the proposed US\$10 million credit to Pakistan for the second Agricultural Development Bank (ADB) project. This proposed credit had provoked the

1/ References in this minute to the Bank apply equally to IDA unless otherwise specified.

- DISTRIBUTION -

Committee:

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

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

the discussion because the Pakistanis were unwilling to concede the principle, on which the Bank was insisting, that the ADB be permitted to accumulate general reserves in addition to those against bad debts, which would, inter alia, contribute to the building up of lendable resources.

2. The Area Department described the Pakistani position as follows: The Government regarded the ADB as an instrument of its agricultural credit policy, and while agreeing that the ADB must adopt a financial policy which would permit it to cover its operating costs and to accumulate reserves against possible losses, was against allowing the ADB to accumulate lendable reserves which would give the Bank a measure of independence of the Government. ADB would always be provided with the funds it needed for its operations, but having an independent source of funds might tempt it to make unsound loans or incur unnecessary administrative expenditures.

3. The Projects Department stated that time and time again it had found that an agricultural credit institution could not operate effectively if it was wholly dependent on the Government for its lendable resources. There was no necessary conflict between requiring such an institution to operate within the general framework of Government policies and permitting it to accumulate some resources of its own for lending. If it was entirely beholden to the Government in financial matters, then it would have no built-in strength to withstand the vagaries of politics and budgeting and the whims of influential outsiders, and its efforts to ensure that its resources were employed soundly and productively could be frustrated. In answer to a question by the Chairman, the Department agreed that so far the ADB in Pakistan had operated with reasonable efficiency.

4. It was agreed that the overriding consideration in setting an agricultural credit institution's relending rate was to adopt an "economic" interest rate which in some measure reflected the scarcity of capital and the return it could earn if invested elsewhere. An economic rate would induce farmers to employ their loans for priority purposes with a high economic return. The Committee noted that a Government might legitimately wish to lend to farmers at concessional interest rates, particularly in the poorest countries or in depressed regions, but the Bank would not wish to become associated with agricultural credit programs which were primarily a vehicle for social subsidies.

5. The Projects Department commented that "economic" interest rates by no means meant extortionate rates which would squeeze the farmer; a Bank-financed agricultural credit institution's typical borrower was a creditworthy farmer. The only alternative source of finance was probably the short-term credit available from money lenders, often bearing interest in the region of 100%. Money lenders still met by far the greater part of (especially) the less well-to-do farmers' credit requirements and it was obviously to the community's advantage to add to the lendable resources of an agricultural credit institution through an appropriate interest rate policy affecting the wealthier part of the

rural community than to unwittingly contribute to the growth of a money lender's surplus, which typically went into urban investments of a speculative nature.

6. Regarding subsidies to the operating costs of agricultural credit institutions, it was noted that these could take several forms (see paragraph 7 below). The Bank had no objection in principle to such subsidies, recognizing that the nature of an agricultural credit institution's lending operations could impose heavy administrative costs and that, particularly in its early years, it might need outside support to establish itself as a viable concern. The Committee noted that the Bank's policy in this area had been spelled out in the President's report to the Executive Directors on Agriculture (FPC/64-1 dated January 17, 1964) which stated that "... we should regard such a subvention (to agricultural credit institutions) in appropriate cases as an advantage rather than disadvantage so far as Bank/IDA financing is concerned. On the other hand, I believe that we should usually insist that agricultural credit institutions financed by the Bank or IDA should not relend to their ultimate borrowers at concessional interest rates".

7. It was noted that such subsidies might take the form of equity contributions by the Government, annual operating subsidies, guaranteed access to the central bank or rediscount facilities, or (the best method) concessional interest rate on funds provided to the institution by the Government. As for the specific question before the Committee, that is whether an agricultural credit institution should accumulate lendable reserves (in addition to reserves against bad debts), it was further noted that an adequate spread between the institution's borrowing and lending rates was one way of achieving this.

8. With respect to the specific case of Pakistan, the Chairman said that in his view the ADB's proposed lending rate of 7 per cent was certainly on the low side of an "economic rate" and that he thought every effort should be made to persuade the Pakistanis to raise it somewhat. In the meanwhile, IDA should seek to assure that the rate at which the Government provided funds to ADB (and specifically, the rate at which they relent IDA funds to the ADB), should be low enough to provide the institution with a spread which would cover its administrative costs and its bad debt reserve and provide some margin for the accumulation of general reserves for relending. The Area Department commented that the Pakistanis had agreed to raise the ADB's relending rate in due course; they only parted ways with the Bank on the matter of lendable reserves. They agreed that the proceeds of the upcoming \$10 million IDA credit would be relent to ADB at 4 per cent, but only on the Bank's assurance that in doing so they were not conceding the principle. The Chairman observed that this disagreement would have to be resolved before consideration could be given to any further IDA operations with the ADB.

C. The Committee adjourned at 4:30 p.m.

Attachment.

Secretary's Department
April 26, 1968.

LOAN COMMITTEE

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LC/A/68-11

April 9, 1968

NOTICE OF MEETING

A meeting of the Loan Committee will be held on Thursday, April 11, 1968 at 2:30 p.m. in Room 1038.

AGENDA

1. The Committee will review the factors which should determine the appropriate financial policy of a government-owned agricultural credit institution, and in particular the extent to which such an institution should accumulate reserves, not only against possible losses, but also for the specific purpose of building up its lendable resources.
2. The Committee will also consider what distinction, if any, should be made in these respects between a government-owned agricultural credit institution and (a) a privately-owned bank or agricultural credit institution and (b) other autonomous entities such as power companies, port authorities or private development banks.
3. No paper will be distributed for this discussion, but Committee members are requested to come prepared to review their recent experience in this area.

Mark Cherniavsky
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

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JUN 10 2014

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LOAN COMMITTEE

LC/M/68-10
April 24, 1968.

Minutes of Loan Committee Meeting held on
Friday, April 5, at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman	Mr. A.M. Kamarck
Mr. S. Aldewereld	Mr. M.L. Lejeune
Mr. G. Alter	Mr. S.N. McIvor
Mr. R.W. Cavanaugh	Mr. L. Nurick
Mr. B. Chadenet	Mr. G.M. Street
Mr. D.J. Fontein	Mr. M. Cherniavsky, Secretary

In Attendance:

Professor E. Mason	Mr. F.J. Lethem
	Miss Agnes L. Maher
	Mr. L.B. Rist
Mr. B.R. Bell	Mr. D.M. Sassoon
Mr. S.J.G. Burt	Mr. J.K. Schmedtje
Mr. R.A. Chaufournier	Mr. A. Shibusawa
Mr. T.E.B. da Costa	Mr. H.H. Thias
Mr. C.L. Germanacos	Mr. M.J. Walden
Mr. W.M. Keltie	Mr. B. Zinman

B. Ecuador - Proposed Credit for Education: A Review of the Bank's Education Policies.

1/

1. The memorandum from the Western Hemisphere Department "Ecuador - Proposed Credit for Education" (LC/O/68-24) was the occasion for a general review of the Bank's approach to appraising education projects and of its experience and policies in financing them.

1/ Reference in this minute to the Bank applies equally to IDA unless otherwise specified.

- DISTRIBUTION -

Committee:

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

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

2. Professor Edward Mason, who had been invited to the meeting to report the main conclusions of his review of Bank policies and practices in this area, said that he believed that the Bank could make more extensive use of cost-benefit techniques in appraising education projects. The Bank's appraisals at present relied considerably on traditional methods of projecting a country's manpower requirements on the basis of an overall development strategy and finding the least-cost way of satisfying these requirements by expanding certain outputs of the educational system. Such an exercise, while useful, tended to be rigid and to make little allowance for such factors as capital/labor substitution possibilities, labor versatility and on-the-job training. While an education project's economic return could not be calculated with remotely the same precision as a power project's (education was, so to speak, a multipurpose project and the relation between a given input and economic benefits could not be readily compared and predicted), there was, in his submission, room for more exhaustive analyses of, e.g., labor markets, labor supply elasticities and the effects of technical innovation and capital/labor permutations on manpower requirements. Within the constraints imposed by shortages of time and the availability of the relevant statistical data, the Bank should be able to build up a more sophisticated model of a country's changing manpower structure and from there proceed to a meaningful cost-benefit analysis.

3. Regarding the Bank/UNESCO Cooperative Agreement, Professor Mason said that he had been well impressed by UNESCO's Educational Financing Unit and had found that collaboration between the two organizations was working smoothly. However, he felt that in certain respects this collaboration could be closer; as a matter of routine, Bank staff should participate in UNESCO's project identification and preparation missions and procedures should be streamlined so that less time was lost before such a mission's report reach the Bank and the Government.

4. Professor Mason expressed the hope that the Bank would give consideration to broadening its educational financing policies in respect of the type of projects it would finance. In concluding, he said that he had sensed wide disparities in the Area Departments' attitudes towards financing education. He thought that these disparities should be corrected if education projects were to be accorded the same priority as other projects financed by the Bank.

5. The Economics Department, commenting on cost-benefit analyses, stated that it had followed up the suggestion in a consultant's report ("A Cost-Benefit Approach to Educational Planning in Developing Countries" - EC-157, dated December 20, 1967) and embarked on the collection and analysis of the type of data, to which Professor Mason had referred, in Kenya. As in most developing countries, such data were not readily available and the Bank had had to organize a local team to interview a cross-section of the Kenya labor force. The Committee agreed that such an exercise could not form part of a regular Bank appraisal but might well in future be organized and undertaken by local officials as a prelude to any sustained Bank lending for education in that country. However, it was stressed that this should not be made a formal condition for a Bank appraisal of an education project.

6. The Committee was told by the Economics Department that cost-benefit analysis could be applied to educational planning problems at three general levels, namely: (a) to compare the profitability of investments in education with that of investments in other sectors of the economy; (b) to identify those levels and branches of the educational system where investments would be most rewarding and (c) to assess the costs and benefits of certain well-defined education projects within a particular branch. However, given the acute scarcity of data and the still experimental state of techniques of analysis, one could only expect tentative answers, but such exercises might improve through experience.

7. It was furthermore noted that the Bank's existing policies for financing education projects (see, e.g., Operational Memorandum 5.02) gave explicit priorities to certain segments of the education system which might not necessarily be confirmed by cost-benefit analysis. On the other hand the most evident gaps in the educational system might be spontaneously closed by the Government because of political pressures and the Bank had an interest in concentrated, rather than diffuse, assistance so that it could exert greater influence on the level of education which it was financing.

8. Regarding the number of education projects in the Bank pipeline, the Committee was told that there had been a slow but steady increase and that this trend was continuing, more or less in step with the increase in the total pipeline. Mr. Chadenet said that following Professor Mason's recommendation, he had given instructions that whenever feasible appraisal reports on education projects include a cost-benefit analysis. At first the methodology would be rather crude, but it would be refined through experience and improved by judicious use of the type of data to which Professor Mason had referred.

9. Regarding the proposed \$5 million credit for education in Ecuador, the Committee was told that a lot of data (particularly manpower and labor statistics) had in fact been collated and analyzed but had only been presented in summary form in the appraisal report, viz. in the table on page 12. Two amendments to the appraisal report were suggested and agreed: (i) that the appraisal report specify (paragraph 6.08) that the appointment of a project director and a project architect/engineer be subject to IDA's agreement during the period of disbursement only. After that, IDA would rely on the leverage of additional lending for education to ensure satisfactory execution of the project; and (ii) that the last sentence of paragraph 5.21 relating to technical assistance be deleted from the appraisal report.

10. The Committee approved the recommendation of the Western Hemisphere Department that IDA proceed to negotiate a credit of \$5 million to the Government of Ecuador for the proposed education project, on the terms and conditions set forth in the appraisal report (subject to the qualifications in paragraph 9 above).

C. The Committee adjourned at 4:45 p.m.

Secretary's Department
April 24, 1968.

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LOAN COMMITTEE

JUN 10 2014

WBG ARCHIVES

LC/M/68-9

April 11, 1968

Minutes of Loan Committee Meeting held on
Tuesday, April 2, at 3:00 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. A.G. El Emary

Mr. D.J. Fontein
Mr. R.J. Goodman
Mr. M.L. Hoffman
Mr. M.L. Lejeune
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. G. Apcar
Mr. S. Asanuma
Mr. B.R. Bell
Mr. W. Brakel
Mr. W. Clark
Mr. J. Foster

Mr. A.D. Knox
Miss A.L. Maher
Mr. V. Rajagopalan
Mr. L.B. Rist
Mr. G.M. Street
Mr. E.B. Waide

B. Malaysia - Kuala Lumpur Water Supply Project

1. The Committee considered the memorandum from the Asia Department dated March 28, 1968 "Malaysia - Kuala Lumpur Water Supply Project," which sought a recommendation from the Committee (a) on an appropriate term for the loan and (b) on the margin of preference to be accorded to domestic suppliers.

2. With regard to (a), the Asia Department recognized the project grounds (adduced in the appraisal report) for setting the term of the loan at 15 years, including three and a half years of grace, but recommended that on country economic grounds, Malaysia be granted a loan on a 20-year term including three and a half years of grace. Malaysia could fall into debt servicing problems if other lenders followed the precedent of a shorter term.

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Committee:

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

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

The Chairman agreed that during negotiations the Bank should offer to make the loan on a 20-year term (or less if the Malaysians preferred).

3. With regard to (b), the appraisal report recommended that in comparing domestic and foreign bids, the domestic suppliers be accorded a margin of preference of 15% or the level of custom duties "whichever was lower," while the Asia Department recommended that they be accorded a margin of preference up to the full level of customs duties. Most of the items which would be imported for domestic fabrication were in fact understood to be either not subject to duty or dutiable at less than 15%, although this would be clarified during negotiations. The Chairman voiced a preference for allowing a margin of preference up to the full level of customs duties, since the average level of duties would be clearly less than 15% and on grounds of administrative convenience, any minor exceptions to the 15% ceiling should be tolerated. The Chairman added that in any case the "15% rule" applied more to instances where the Bank was comparing foreign and local bids and would finance the local bid in toto (i.e., including the local component) if it fell within the 15% margin; the criterion for financing the foreign exchange component of domestic fabrication was more that such fabrication should be "reasonably economic and efficient" and that there should be domestic procurement by competitive tender or, as in this case, international competition for imported supplies (See LC/M/67-11 dated December 14, 1967).

4. The Committee noted that it was the State Government's policy to enforce uniform water charges throughout the State and that the appraisal mission had estimated that while such charges would yield a return on the average net fixed assets in the Kuala Lumpur area of about 8%, the return in the State as a whole, when all water supply systems were considered, would be only about 3.5%, because the rural systems were small, widely scattered and under-utilized. As the rural excess capacity decreased, so the overall rate of return on the state systems would improve; meanwhile, the Bank would require an 8% return to be earned in the Kuala Lumpur area and would periodically review the investment program for future expansion of water supply systems in the state. The Committee accepted that while a higher overall return would be desirable now, it would not be appropriate for the Bank to get into the details of cross-subsidization between the urban and rural systems or to require differential rates. The reason for the low overall rate of return was not so much the level of the water charges as the rural excess capacity, and since the marginal cost of installing the new Kuala Lumpur system was close to the average costs of the existing systems, there was not even a theoretical case (as, for example, in Caracas, where the marginal cost of installing new water supplies was very high) for requiring the users of the new system to pay higher charges.

5. The Committee approved the Asia Department's recommendation that the Bank invite the government of Malaysia and the State Government of Selangor to send representatives to Washington to negotiate a Bank loan of US \$3.5 million on the terms and conditions set forth in the appraisal report (subject to the qualifications in paragraph 2 and 3 above).

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

Secretary's Department
April 11, 1968

LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES
LC/M/68/8

April 9, 1968

Minutes of Loan Committee Meeting held on
Wednesday, March 27, at 3 p.m. in Room 1038

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. R.W. Cavanaugh
Mr. B. Chadenet
Mr. E.E. Clark
Mr. R.H. Demuth

Mr. D.J. Fontein
Mr. A.M. Kamarck
Mr. M.L. Lejeune
Mr. S.N. McIvor
Mr. G.M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. L. W. Bartsch
Mr. K.D. Hartwich
Mr. M.L. Hoffman
Mr. J.M. Malone

Mr. L.B. Rist
Mr. P. Sella
Mr. J.L. Upper
Mr. W.A. Wapenhans

B. Sudan - Rahad Irrigation Project

1. The Committee considered the memorandum dated March 22, 1968 from the Middle East and North Africa Department entitled "Sudan - Rahad Irrigation Project" (LC/O/68-18) and discussed certain major aspects of the proposal, namely:

- (i) The project's economic rate of return. The Committee noted that the estimated economic rate of return on phase 1 of the project (costing about US\$150 million) was 8%, with a return of 10% on the total project if Phase 2 (costing approximately an additional \$82 million)

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Committee:

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

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

was subsequently executed. The Projects Department stated that the return on most Bank surface irrigation projects fell in the 9% to 14% range; in this case the return was low, partly because the Rahad Project was a "first stage" project, bearing some costs which might ultimately benefit the second stage project, and partly because crop yields and intensities had been projected to remain relatively low, and cropping patterns relatively elementary, because of unresolved production problems related to difficult soil and climatic conditions. Some Committee members commented that an 8% to 10% return on a large project of this type should be considered satisfactory in the Sudan and, more generally, in most African countries; it was also suggested that the appraisal mission's marketing forecasts were very conservative and that the value of the incremental crop output might well be greater.

- (ii) Alternative projects in the Sudan. The Committee was informed that the Rahad Project was the best scheme immediately available for using some of the uncommitted storage capacity of the Roseires Reservoir and clearly held the balance of advantage over other potential schemes, such as intensifying cropping in Gezira, irrigating the Roseires Right Bank or installing pumps on the Blue Nile. Possibilities in other sectors were limited and often presented serious administrative problems; it was highly doubtful that the Economic Mission now in the Sudan (whose report could be expected in mid-summer) would identify any comparable, viable alternative.
- (iii) Co-lenders for the project. It was noted that the Bank planned to associate other sources of lending with the financing of Rahad in order to reduce the share which might be provided by the Bank and IDA. A US contribution (assuming resumption of diplomatic relations with the Sudan) might be affected by the fact that the project would involve increasing Sudanese output of medium-staple cotton; other prospects were Germany (again, if diplomatic relations were resumed), Italy, the U.K. and the Kuwait Fund. The Committee was told that it would be difficult to find discrete portions of the project for a co-lender to finance unless his contribution was exceptionally large; moreover, fragmentation of the project would complicate its integrated execution.
- (iv) The project's financial return. The Committee noted that the cost of irrigation and maintenance would be recovered through a land and water charge of £Sd2.50 per acre which, after meeting the Rahad Board Organization's expenses, would contribute about £Sd 0.6 million annually to Government

revenue. The proposed LSd2.50 charge was related to the Government income target for the Rahad settlers, which was to be sufficiently above that prevailing among settlers in comparable areas of the Sudan (such as Gezira) so as to attract settlers to Rahad. The Chairman commented that this income target was a flimsy basis on which to set the charge on the project's beneficiaries; moreover, he questioned the inclusion of some of the other revenues described in Paragraph 5.20 of the appraisal report in computing the financial return on the project of 4% (which might in itself be considered inadequate). The Projects Department agreed to reexamine this section of the report and to revise it as appropriate.

- (v) The Bank/IDA blend. The Committee noted that the foreign exchange component of the project (Phase 1) was estimated to be \$88 million, which might be financed by a Bank/IDA blend and by co-lenders' resources. Whatever "hardness" of blend was ultimately deemed appropriate in the light of the economic mission's findings on Sudan's creditworthiness and the amount and terms of the co-lenders' contributions, the IDA Credit would be for a substantial amount and would represent a significant claim on second replenishment resources. The Chairman commented that a heavy commitment of scarce funds to a project with a frankly marginal economic return would be difficult to justify, particularly in the case of IDA. The Committee was told that a harder blend than 50/50 might well be found appropriate; Sudan had a reasonable debt service ratio and the direct foreign exchange earnings attributable to the project would several times exceed the cost of servicing a Bank loan forming part of a 50/50 blend.

2. The Committee noted that prior to any negotiations, the Bank would require more information and some action by the Sudanese on a number of project matters and on other basic organizational and management reforms, some of which were of a sensitive political nature. It was agreed that the Bank could not reasonably expect the more fundamental and sensitive reforms to be implemented until the Government had good reason to believe that the Bank would participate in the Project. The Chairman stated that substantive discussions about such reforms would have to be deferred until the Bank had decided to move closer to negotiations but that meanwhile, on the clear understanding that it was on a no-commitment-basis, the Bank could keep the dialogue open with the Sudanese by exchanging views on technical and less sensitive issues, thereby preparing the ground for the major issues which would have to be resolved if the Bank/IDA should undertake to finance the project.

3. The Chairman concluded that in the absence of an economic report, the Bank could not at this time "cross any bridges" on financing the Rahad Project, nor (presumably) would any co-lenders wish to do so. He (the Chairman) was troubled by the project's weak economic justification, not only because large amounts of scarce Bank and even scarcer IDA resources would be involved, but also because the Bank would be soliciting contributions from co-lenders. Therefore while technical discussion with the Sudanese could be pursued, the decision "in principle" whether to lend for the Rahad Project would have to be deferred until the Economic Committee reviewed the mission report and recommended, inter alia, on the priority of the Rahad Project within Sudan's total development effort and the appropriate blend of assistance. Only at that time would the Loan Committee have a basis on which to recommend for or against further processing and ultimate negotiation of a loan and credit.

C. Adjournment

The Committee adjourned at 4:30 p.m.

Secretary's Department
April 9, 1968

LOAN COMMITTEE

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WBG ARCHIVES

LC/M/6847

April 11, 1968

Minutes of Loan Committee Meeting held on
Friday, March 22, at 4 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. R.W. Cavanaugh
Mr. B. Chadenet
Mr. A.G. El Emary
Mr. D.J. Fontein

Mr. M.L. Hoffman
Mr. M.L. Lejeune
Mr. L. Nurick
Mr. A. Stevenson
Mr. G.M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. E.B. Arnold
Mr. R.A. Chaufournier
Mr. W.M. Keltie
Mr. J. Krombach
Miss A.L. Maher
Mr. G.B.H. Renger

Mr. L.B. Rist
Mr. H.R. Shipman
Mr. D. Suratgar
Mr. J.D. Teigeiro
Mr. J.P. Vigie
Mr. M.C. Zenick
Mr. B. Zinman

B. Colombia - Proposed Loan to Empresa de Energia Electrica de Bogota

1. The Committee considered the memorandum from the Western Hemisphere Department of March 20, 1968 "Colombia - Proposed Loan to Empresa de Energia Electrica de Bogota" (LC/O/68-17).

2. The Area Department recalled that agreement had been reached between the Bank and the participating countries on joint financing of projects in Colombia and Mexico (see JF 68-2 dated January 24, 1968). Although the negotiation of this agreement and its implementation for the specific projects had been complex and time-consuming it was likely to mobilize \$20-25 million for Colombian projects (an amount comparable to a recent Bank bond issuance in Germany), as well as establish a precedent for the 50/50 joint financing formula.

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

3. Among the general advantages of joint financing, it was noted that it enabled the Bank to participate in the financing of a greater number of projects than would be the case if Bank resources were used on their own and hence to exact more influence upon institutions and sector policy in the borrowing country. It also enabled the Bank to get international competitive bidding over a wider range of projects. Finally, joint financing improved the quality of export credit financing, to the extent that it mobilized export credits for high priority projects on sound conditions.

4. So far as the specific features of this joint-financing was concerned, the Committee was told that the agreement was important in that the Bank had succeeded in attracting financing (including official money in some countries on terms which were normally only accorded to large contracts) for individual contract amounts as small as \$200,000, provided the aggregate amount of orders placed in any single country was at least \$1 million.

5. It was reliably estimated that the amount of joint financing mobilized for the Bogota Power project in the participating countries would amount to some \$7 million, and quite possibly more. If more were provided, the proposed amount of the Bank loan could be correspondingly reduced. The role of the Bank in joint financing would be as described in JF 68-2, which also provided that the amortization schedule of the Bank loan would be adjusted, within limits, to the schedules of joint loans, so that total annual amortization payments required of the borrower would be close to those which would have been required if the entire amount had been provided by the Bank.

6. There was some discussion of the system of joint financing applied in Colombia and what might be called the system of parallel financing which was being applied to the El Chocon project in Argentina. The point was made that many of the advantages the Bank was achieving in joint financing in Colombia could probably be obtained without full international competitive bidding if a project were large and individual contracts very attractive, as was the case with El Chocon. In such circumstances, dividing the project into segments or even into individual contracts, some of which would be financed fully by the Bank under complete competitive bidding and some of which would be financed fully by the countries winning orders under restricted competitive bidding, would be convenient. It was suggested that it was much simpler to mobilize credit from other sources in the present international environment if the provision of credit was a pre-condition of participating in the bidding. On the other hand, such a pre-condition virtually eliminated the possibility of procurement in developing countries, some of which could win international competitive bids but could not provide long-term financing.

7. It was noted that the Bank had told the borrower that it would be prepared to make reimbursements for past expenditures for up to \$2.5 million for down payments on long delivery items made not more than four months before the loan was approved. The Chairman commented that normally reimbursement was only permitted for expenditures of the "preinvestment" type, but in this case the exception was justified both because the project had been prepared in the expectation that the power interconnection project would proceed more rapidly than it in fact had and because of the time it had taken to arrange the joint financing. After further discussion of the Bank's reimbursement policies, the Chairman asked Mr. Chadenet to review the relevant paragraphs of Operational Memorandum 6.05 which dealt with this subject.

8. The Committee approved the recommendation of the Western Hemisphere Department that the Bank commence negotiations for a loan of \$18 million to Empresa de Energia Electrica de Bogota on the terms and conditions set forth in the appraisal report.

C. Adjournment

The Committee adjourned at 5:15 p.m.

Secretary's Department
April 10, 1968

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LOAN COMMITTEE

JUN 10 2014

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LC/M/68/6

March 19, 1968

Minutes of Loan Committee Meeting held on
Monday, March 11, at 3 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. E. Clark

Mr. S.R. Cope
Mr. R.H. Demuth
Mr. A.G. El Emery
Mr. M.L. Lejeune
Mr. F.R. Poore
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. M.G. Blobel
Mr. N.A. Gibbs
Mr. S.C. Hardy
Mr. G.H. Homsí
Mr. J. King
Mr. P.R. Morris

Mr. S. Park
Mr. J.F. Rigby
Mr. P. Sella
Mr. G.M. Street
Mr. R.B. Steckhan
Mr. D. Suratgar

B. Thailand - Third Highway Project

1. The Committee considered the memorandum dated March 6, 1968 from the Director of the Asia Department "Thailand - Third Highway Project" (LC/O/68-14).

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Mr. S.R. Cope, Deputy Chairman
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Director, Economics Department
Director, Development Services Department
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Executive Vice President & Vice President (IFC)

2. It was noted that the project would include the carrying out of a Transportation Coordination Study, which USAID would finance, with the Bank participating in the selection of consultants and in the supervision of the work. The Committee was told that this study had first been given serious consideration at the time of the second highway loan in 1966. The terms of reference for the study had been agreed with USAID and now awaited the formal approval of the Thai Government. Transport coordination was of special concern to the Bank in view of the past and proposed loans to Thailand for transport projects. The Chairman commented that the Bank's relations with USAID and the consultants in this matter should be limited to informal consultations, since it would not be appropriate for the Bank to be jointly responsible for the administration and supervision of a project which it was not financing.

3. The amount of the proposed loan was discussed and it was decided that the loan should be for up to \$35 million, rather than for up to \$37 million. The Committee approved the Area Department's recommendation that the Government of Thailand be invited to negotiate a loan in this amount, on the terms and conditions set forth in the Appraisal Report, and on condition that the Bank of Thailand took \$30 million in a full strip of maturities.

C. Adjournment

The Committee adjourned at 4:10 p.m.

Secretary's Department
March 19, 1968

LOAN COMMITTEE

DECLASSIFIED

JUN 10 2014

LC/M/68/5
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March 19, 1968

Minutes of Loan Committee Meeting held on
Monday, March 4, at 3 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. R.H. Demuth
Mr. A.M. Kamarck
Mr. M.L. Lejeune
Mr. S.N. McIvor
Mr. L. Nurick
Mr. G.M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:*

Mr. W.C. Baum
Mr. B.R. Bell
Mr. O.H. Calika
Mr. W. Clark
Mr. W. Hammel
Mr. H. Hansen
Mr. N. Horsley
Mr. S. Johnson
Mr. J. King

Mr. A.D. Knox
Miss Maher
Mr. E.A. Minnig
Mr. M. Piccagli
Mr. A. Raizen
Mr. M.S. Ram
Mr. L.B. Rist
Mr. D.W. Vollmer
Mr. W.A. Wappenhans

B. Ghana - Proposed Credit to the Electricity Corporation of Ghana

1. The Committee considered the memorandum from the Africa Department dated February 29, 1968 "Ghana - Proposed Credit to the Electricity Corporation of Ghana (ECG)" (LC/O/68-13), which recommended that IDA make a credit of US\$10 million for ECG's 1968-1970 expansion program.

* for all or part of meeting

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Committee:

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Mr. S. Aldewereld, Vice President
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Executive Vice President & Vice President (IFC)

2. The Committee noted that this credit would be IDA's first operation in Ghana and would permit fuller use to be made of power from the Volta Dam which the Bank had financed with a US\$47 million loan (310-GH) in 1962. With the prospect of increased sales to ECG, the Volta River Authority's (VRA) financial position, which had failed to develop along the lines foreseen in 1962, would improve. The Chairman suggested that the appraisal report should bring out more clearly the significance of the expansion program as a logical sequence to the Volta project and its impact on Volta system utilization and the financial position of VRA. He also suggested that for staff purposes it might be useful to compare VRA's present position with what had been expected at the time of the loan.

3. In answer to a question whether what IDA would finance was a time-slice of a program representing a clearly identifiable project rather than a list of goods which was part of the program, the Projects Department stated that, while from the technical and financial point of view a project to expand electricity distribution had to be considered in the context of the larger program of which it formed a part, the IDA-financed portion of the program was largely a self-contained project. The other developments planned under the 1966-1972 expansion program (a portion of which was being financed by a long term German loan and by supplier credits) were parallel to, rather than an inseparable part of, the IDA project. It was pointed out, however, that to a small extent the IDA project would be dependent on work already under construction and on materials procured through supplier credits. It was also noted that the project justification in the appraisal report related to the total expansion program. It was agreed that:

- (i) The appraisal report should be revised to make it clearer that the IDA-financed portion of the program consisted of work which would be completed and in operation by 1970;
- (ii) The appraisal report should note how the expected benefits would be affected if the 1970-1972 part of the program was not accomplished or its realization was postponed; and
- (iii) While IDA should require a commitment from the Ghanaians that the portion of the program already under way as well as the IDA-financed portion would be completed, it would not be appropriate for IDA to require a commitment to complete the 1970-1972 part of the program.

4. The Committee approved the Africa Department's recommendation that the Electricity Corporation of Ghana and the Government of the Republic of Ghana be invited to send representatives to Washington to negotiate on IDA credit of US\$10 million on terms and conditions set forth in paragraph 8.04 of the appraisal report.

C. Review of Completed Sector and Feasibility Studies

5. The Committee considered the memorandum and attachments from the Development Services Department, dated January 31, 1968 "Review of Completed Sector and Feasibility Studies" (LC/O/68-3) and, recognizing a natural tendency within the Bank to treat lending operations as primary and sector and feasibility studies as secondary, noted that these studies were in fact usually a necessary preliminary to lending and that a number of steps had been taken to make sure that they were treated accordingly.

6. The Committee noted also that the studies had been considerably more successful in developing sound investment programs and projects than in institution-building and transfer of skills. It was suggested, however, that the Bank's contributions to institution-building and skill transfer should be looked at from the point of view of its total operation because this work could usually be performed more effectively in the course of carrying out an investment project than in making a study.

7. The Committee accepted the report's recommendations (summarised in paragraphs 63 to 68, plus a recommendation in the last sentence of paragraph 14) with the following reservations:

- a) Paragraph 63: Where it could be done without causing costly delays, it was sometimes desirable for the Government to take part in the final selection of consultants, because this provided training benefits and increased the likelihood of close cooperation between the government and the consultants.
- b) Paragraph 64: The level of supervision recommended would require additional staff and this would require recognition in the budget. The use of part-time outside experts for supervision was likely to be feasible only in exceptional circumstances (e.g., Prof. Mason in the Indian Coal Transport Study).
- c) Paragraph 66: The use and management of fellowship programs required further study. In this connection, fellowships could be for academic work in universities or for on-the-job training programs in highway departments, power enterprises and the like.
- d) Paragraph 67: The concept of designating a single individual in the front office of the Projects Department to oversee

these studies was rejected and it was agreed that that office would retain its normal supervisory function and delegate responsibility for technical assistance work to division chiefs.

8. The Chairman concluded that the Development Services Department's memorandum provided useful guidelines for Bank policy on feasibility studies and agreed that, with some changes in the text, it could be made available to the staff of outside agencies which were working in this area.

D. Adjournment

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

Secretary's Department
March 19, 1968

LOAN COMMITTEE

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LC/M/68-74

March 21, 1968

Minutes of Loan Committee Meeting held on
Monday, February 5, 1968 at 11 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. A. Broches
Mr. B. Chadenet
Mr. S.R. Cope

Mr. A.G. El Emary
Mr. R.J. Goodman
Mr. M.L. Hoffman
Mr. M.L. Lejeune
Mr. F.R. Poore
Mr. A. Stevenson
Mr. D.I. Miller, Acting Secretary

In Attendance:

Mr. A.H. Casson
Mr. N.G. Jones
Mr. A.D. Knox
Mr. K.S. Krishnaswamy
Miss Maher
Mr. C.G. Melmoth

Mr. K.B. Norris
Mr. L.B. Rist
Mr. J. Roulet
Mr. P. Sella
Mr. A.D. Spottswood
Mr. G.M. Street
Mr. C. White

B. Pakistan - Tarbela Project

1. The Committee considered the memorandum from the Area Department "Pakistan - Tarbela Project" (LC/O/68-5) and was told that the Executive Directors had already been informed that it was proposed to make a Bank loan of up to \$25 million for the Tarbela Project. This loan together with an Eximbank loan of up to \$50 million would be considered residual financing and both would be subject to cancellation or prepayment on a pro rata basis if aid from other sources or lower costs reduced the gap to be financed.

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

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

2. It was noted that Pakistan had undertaken to meet the rupee costs of the project in full. The original estimate of the foreign exchange financing gap (\$75 million) had been obtained by subtracting the Indus Basin Development Fund (IBDF) carryover (\$310 million), plus a conservative estimate (\$105 million) of the usable amount of the tied bilateral aid likely to be available, from the Liefstinck study estimate of the project foreign exchange cost (\$490 million). Since then actual bids for the main civil works contract have been received and on the basis of the foreign exchange cost of the two lowest bids* and a revised IBDF carryover of \$324 million, it was possible that part of the World Bank loan might not be needed. It was noted, however, that uncertainties as to which of these bids might be accepted, combined with the uncertainties of forecasting costs for a project to be constructed over an eight year period, made it very difficult to know how much of the residual financing to be provided by Eximbank and the Bank would be required.

3. It was noted that in accordance with the provisions of the IBDF Supplemental Agreement of 1964, any non-rupee surplus remaining in the IBDF (i.e., the \$324 million mentioned above) could be carried over to help finance the Tarbela project. The countries which were providing the additional bilateral aid for the project had indicated (with the exception of France) that their contributions to the Fund would "count" as Consortium assistance. The several countries which had offered to contribute to the Tarbela Fund and other IBDF members had been invited to a meeting in Paris on March 5 to discuss the draft agreement which would cover the financing plan for Tarbela.

4. It was pointed out that the carryover from the IBDF was untied and, as well as meeting part of the costs, would be used as working capital to be reimbursed on a periodic basis by the bilateral lenders against procurement which had taken place in their country. Thus the tied bilateral loans could be disbursed before the IBDF surplus was finally spent. Any surplus remaining in the Tarbela Fund after completion of the project would first be used to prepay the Eximbank and Bank loans and any further surplus would be distributed pro rata to the countries which had made specific loans for the Tarbela project.

5. The Committee was informed that the report of the Project Engineer (TAMS) was expected shortly on the evaluation of bids and the Water and Power Development Authority (WAPDA) should be in a position to issue a letter of intent to award a contract by late March. The bidders had been asked to state which currencies they would expect to receive as payment

* German/Swiss bid = \$327 million
Italian/French bid = \$361 million

and in what countries they expected procurement to take place. This data would form part of the final contract. The Committee noted that with a main civil works contract of this size, it was quite possible that individual items might not be procured by contractors entirely on the basis of international competition.

6. The Committee reviewed the difference between the original Bank loan of \$90 million (PAK-266) made to the IBDF in 1960 and the present proposal for Tarbela. The original loan had a flexible interest rate on each drawing and no commitment charge until sums were credited to the loan account. However, only about \$30 million of this had been disbursed so far, since the IDA credit of \$58.5 million (PAK-60) made in 1964 as part of the IBDF Supplemental Agreement had been drawn down before the remainder of the loan.

7. The Committee noted that the Area Department's proposal was that the Bank should make a commitment to lend \$25 million for the Tarbela project now, but that the loan agreement should not be signed until much later when the funds were actually needed, so that Pakistan would avoid paying a commitment charge long before disbursement began. The Area Department felt that this arrangement was reasonable since the Bank loan would be residual financing and there was a possibility that some part of the Bank loan might never be disbursed.

8. Some Committee members suggested that a loan agreement should be signed now but that, in the light of the fact that the Tarbela loan might never be needed, the Bank should either (a) not charge a commitment fee until the funds were required, or (b) levy the standard commitment fee but agree to a refund if the loan was never used, or (c) soften its terms by charging a fee which was less than the regular commitment fee. Another suggestion was that a "condition of disbursement" clause should be introduced into the loan agreement which would preclude drawing down the loan (and thus the levying of a commitment charge) until the \$90 million loan had been fully disbursed.

9. The Chairman said that he did not consider the IBDF loan, which was a very special case, to have set a precedent for foregoing a commitment fee on the proposed Tarbela loan. The terms of the new loan should be considered on its merits as a development loan. However, it was clear that there were also very special circumstances in this case because of the very long period during which no disbursements would be made and indeed the uncertainty whether any disbursements would ever be required.

10. It was agreed that further thought should be given to the question of a) whether the Bank should rest for now on the general commitment in the Tarbela Development Fund Agreement to make a future loan, or whether a full

Loan Agreement should be negotiated in the near future, and b) in either case, what should be done about a commitment fee.

11. (It was subsequently decided that a full Loan Agreement should be negotiated in the near future and presented to the Executive Directors, with two special provisions - namely, that the interest rate on the loan should be fixed at the time that disbursements commence, and that no commitment fee would be charged until disbursements commence.)

C. Adjournment

The Committee adjourned at 12:30 p.m.

Secretary's Department
March 21, 1968

LOAN COMMITTEE DECLASSIFIED

JUN 10 2014

LC/M/68/3
WBG ARCHIVES

February 28, 1968

Minutes of Loan Committee Meeting held on
Friday, February 2, at 3:30 p.m., in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. G. Alter
Mr. A. Broches
Mr. B. Chadenet
Mr. S.R. Cope

Mr. A.G. El Emary
Mr. M.L. Hoffman
Mr. M.L. Lejeune
Mr. F.R. Poore
Mr. A. Stevenson
Mr. G.M. Street
Mr. D.I. Miller, Acting Secretary

In Attendance:

Mr. W.C. Baum
Mr. B. Bell
Mr. T.M. Clyde
Mr. D. Fontein
Mr. R.J. Gavin
Mr. W. Hughes
Mr. S.P. Johnson

Mr. K.S. Krishnaswamy
Mr. M. Lipkowitz
Mr. G. Lubbeke
Miss Maher
Mr. J.A. McCunniff
Mr. D. Richardson
Mr. L.B. Rist
Mr. J.A. Simmons

B. Yugoslavia - Proposed loan for the Belgrade Bar Railway

1. The Committee considered the memorandum from the Europe Department "Yugoslavia - Belgrade - Bar Railway Project," (LC/O/68-2) and discussed the proposed conditions for the loan as well as the basis on which the Bank should lend to Yugoslavia.

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Mr. S. Aldewereld, Vice President
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Executive Vice President & Vice President (IFC)

2. The Committee noted that the Bank would request assurances from the Yugoslav Authorities that the Port of Bar would be expanded so that it could handle the additional traffic arising from the completion of the proposed Belgrade-Bar railway project. The Area Department explained that the Yugoslav authorities might not agree to the proposed 6% rate of return covenant. They accepted the concept of a rate of return on investment but in light of the poor present performance they might not consent to a covenant above 5%.

3. The Committee concurred in the use of an expression of intent rather than a specific commitment regarding a) staff reductions and b) the availability of road construction funds for forestry enterprises since the former was already under way and the latter was only one of many developments planned along the line. The General Counsel explained that to accept a statement of intent instead of a specific commitment, the Bank must be satisfied that the circumstances in which the borrower might depart from that statement and the circumstances in which the Bank would accept such a departure would be the same. He pointed out that a mere change in policy by the present Government, or by a new Government, would not exonerate them from any obligations made in a statement of intent.

4. The Committee noted that the rolling stock and locomotives would be included in the project although Bank financing was not required for these items. They would be financed by the railways. The rolling stock would normally be procured locally while the locomotives would either be imported or produced locally under license agreements. The foreign exchange element involved was not being financed by the Bank loan since a) the funds were not needed until after the main construction was complete and b) the loan was being made through the Yugoslav Investment Bank in effect to supplement the Government's contribution, which only financed the construction of permanent ways.

5. The Committee noted that the proposed amount of the loan (\$50 million) was considered by the Bank to be appropriate contribution to the development of Yugoslavia, reflecting the country's debt bearing capacity and the rate at which the Bank wanted to lend to Yugoslavia. The Area Department pointed out that \$50 million should not be taken to be the country's credit worthiness limit nor an amount designed to fill a resources "gap". The Committee observed that the foreign exchange component of the project could vary from a minimum of 47% of the Bank loan to a maximum of 141%. The Projects Department pointed out that the percentage of contracts expected to be won by foreign and local bidders after international competitive bidding generally depended on the "mix" of large and small contracts.

6. The Committee noted that under the bidding arrangements the average rate of protection would be about 15% depending on the particular imported item. The Committee noted that it was not possible to verify exactly the source of all foreign exchange purchases and would have to accept in good faith that purchases were made only in member countries. It was noted that the borrower also made routine quarterly reports of currencies used for payments against which the Bank made disbursements. The bidding and disbursement procedures were the same as under the two previous railway loans to Yugoslavia.

7. The Committee agreed with the recommendations of paragraph 14 of the memorandum, i.e., that the Yugoslav Government and the Yugoslav Investment Bank be informed that the Bank is prepared to negotiate a loan for the project along the lines proposed in the appraisal report and the memorandum, namely, US\$50 million to the Yugoslav Investment Bank for a term of 25 years, including 6 years grace.

C. Adjournment

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

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WBG ARCHIVES

LOAN COMMITTEE

LC/M/68-2

January 22, 1968

Minutes of Loan Committee Meeting held on
Monday, January 8 at 11:00 a.m., in the Board Room

A. Present:

Mr. J.B. Knapp, Chairman
Mr. A. Broches
Mr. I.P.M. Cargill
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. R.J. Goodman
Mr. M.L. Lejeune
Mr. A. Stevenson
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. W. Brakel
Mr. C. Creyke
Mr. G.F. Darnell
Mr. C.R. de Silva
Mr. J.M. Jentgen
Mr. T.M. Jones
Mr. D.I. Miller

Mr. L.B. Rist
Mr. R.E. Rowe
Mr. G.M. Street
Mr. E.B. Waide
Mr. M.J. Walden
Mr. C.E. Webb
Mr. W.A. Wappenhans

B. Malaysia - Proposed Loan for the Jengka Triangle Project

1. The Committee considered the memorandum from the Asia Department "Malaysia - Jengka Triangle Project," (LC/O/68-1) and discussed some of the administrative and financial aspects of the project presented in the Appraisal Report "Malaysia - Jengka Triangle Project," (TO-617).

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Committee:

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

Copies for Information:

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

2. Some members raised the question of whether the palm oil processing facilities should not be entrusted to private ownership or at least management. However, the Committee was assured that FLDA had already taken sound steps to prepare for the establishment and operation of these facilities. This industry was already established in Malaysia and experienced people were available locally to assist FLDA. The Committee noted that experts were to be hired to study possible marketing channels and it supported the Projects Department's proposal that the Bank be consulted on the recommendations of the experts since the maximization of the benefits to the settlers and the whole economy was directly dependent on a judicious selection of marketing channels.

3. The Committee discussed the Bank's role in the appointment of key staff for the Jengka Division of FLDA. Committee members who felt that the Bank should insist on a special covenant requiring the Bank's approval of several key appointments referred to the need for competent staff to carry out successfully all the objectives of the project. They stressed the importance of ensuring that the new Division's staff was of sufficient quality to work on its own while resisting the tendency toward centralization in FLDA. Other Committee members who felt that consultation with the Bank was sufficient noted that FLDA was an experienced and dedicated organization and that the Bank could influence the borrower both with its general covenants and the possibility of a second loan. The Chairman concluded that the Bank should seek to have as many positions as possible filled in satisfactory fashion before the loan signing; thereafter the Bank should retain the right of agreement to the remaining initial appointments coupled with a right of consultation for subsequent important appointments.

4. The Committee noted that the loan was being made to the Government and not to FLDA; the need for an amendment of Malaysia's enabling legislation for FLDA to be the borrower was mentioned; furthermore, FLDA was in a precarious financial position since neither its present obligations to the Government nor the settler's obligations to the FLDA had been finally settled. If these difficulties were removed, the next Jengka Triangle loan could be made directly to the FLDA. The Committee also requested that more up-to-date figures be obtained for the Balance sheet, with an indication whether or not these figures took into account the agreement between the FLDA and the Government regarding previous loans made by the Government to FLDA.

5. The Chairman agreed to a suggestion that the amount of the loan be raised from \$12.5 to \$13.0 million to cover the larger interest payments and commitment charges during construction resulting from the recent increase in the Bank's charges.

6. The Committee agreed with the recommendations of paragraph 10 of the memorandum, i.e. that an invitation be sent to the Government of Malaysia and FLDA to send representatives to Washington to negotiate a Bank loan of \$13.0 million (revised amount).

C. Adjournment

7. The meeting adjourned at 12:20 a.m.

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LOAN COMMITTEE

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WBG ARCHIVES

LC/M/68-1

January 22, 1968

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

A. Present

Mr. J.B. Knapp, Chairman
Mr. S. Aldewereld
Mr. A. Broches
Mr. R.W. Cavanaugh
Mr. B. Chadenet
Mr. R.A. Chaufournier

Mr. S.R. Cope
Mr. A.G. El Emary
Mr. M.L. Lejeune
Mr. A. Stevenson
Mr. G.M. Street
Mr. M. Cherniavsky, Secretary

In Attendance:

Mr. S.K.B. Asante
Mr. B.R. Bell
Mr. C.M.F. Bruce
Mr. J.C. de Wilde
Mr. J.C. Elliott
Mr. L.J.C. Evans
Mr. J.M. Fransen

Mr. E.A. Mawussi
Mr. S.N. McIvor
Mr. L.B. Rist
Mr. H.N. Scott
Mr. H.B. Thomas
Mr. H.E. Tolley
Mr. H. von Oppenfeld
Mr. W.A. Wapenhans

B. Kenya - Livestock Development Project

1. The Committee considered the memorandum from the Africa Department dated December 14, 1967 entitled "Kenya - Livestock Development Project" (LC/0/67-61) and examined in particular the main issues arising out of the Appraisal Report (TO-616).

2. The Committee was told that the Agricultural Finance Corporation would act as an intermediate lender. It would borrow the proceeds of the credit from the government for a period of eighteen years, (with five years of grace at 3½%), and would then channel the IDA funds into the development of livestock on the four categories of ranches described in the Appraisal Report. It was noted that the loans made to "group" ranches carried a higher risk and would

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

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

be guaranteed by the government while the loans to ranches in the three other categories would be made at AFC's risk. This relending to participating ranches would be at 8% for a term of twelve years, including a four-year period of grace. The interest spread of 4½% received by AFC was not considered unduly high and the Committee accepted as reasonable the four year contingency period between the date that AFC could expect to receive repayment of its loans and the repayment date to government. This contingency period allowed for possible slippages and the fact that all the money would not be lent by AFC at one time.

3. The Committee noted that there would be some small rollover of the annual cash surplus remaining with AFC after provision for amortization and interest payments to the Government. After discussing the merits of reserving AFC's cash surpluses for loans for livestock development the Committee decided in favor of simply allocating the funds to the agricultural sector; the final lending decisions to be made by AFC. In the area of livestock pricing the Committee agreed that the price and marketing study should be started as soon as possible and should be completed within a specified period from the date of signing and not from the date of effectiveness.

4. The Committee endorsed the percentage of local cost to be financed by the credit as presented in the memorandum. The Committee also endorsed the use of funds from the credit for improvements in technical services. Members of the Committee suggested that in future for projects where technical assistance would be necessary over an extended period of time (as was the case in Africa) the Association should consider participating for a limited period; to perform an initiating function. The work could then be continued with finance provided by other sources.

5. The Chairman felt that there should be a statement in the Appraisal Report indicating that the duties charged were reasonable and that there were no discriminatory import quotas or controls. He also asked that the report state that there were no racial discrimination regulations concerning the acquisition of Kenyan citizenship since the government wished to limit the provision of credit to Kenya citizens.

6. The Chairman raised a question concerning the part of the financing for which IDA could "take credit" so far as procurement was concerned. He asked why it would not be possible for IDA to "take credit", at least notionally for financing the whole foreign exchange component and not half of this amount as implied by the 50:50 sharing basis with SIDA. The Africa Department indicated that it would take this matter up with the Swedes; in all probability, they would be amenable to such an arrangement since it was for them entirely a matter of presentation rather than substance.

7. The Committee agreed with the recommendations of paragraph 7 of the memorandum, i.e. that the Government of Kenya be invited to send representatives to Washington to negotiate a credit of about US \$3.6 million equivalent substantially on the terms and conditions set forth in paragraphs 6.03 and 6.04 of the Appraisal Report; and that representatives of SIDA would join the Association in conducting simultaneous negotiations with the Government on the proposed credits.

C. Adjournment

8. The meeting adjourned at 5:00 p.m.