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A1995-291 Other #: 8

Box # 213547B

Staff Loan Committee - Meeting Minutes - 1968

Special loan committee meeting minutes
1968

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Staff Loan Committee - Meeting Minutes - 1968

CONFIDENTIAL

LOAN COMMITTEE

TV-Keban
Loan #568TU
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WBG ARCHIVES

LM/M/68-15

September 12, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to review the position the Bank should take on a rate covenant when negotiating the proposed loan for the Keban Transmission Line project, held in Room 1204 on September 6, 1968.

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

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)

LM/M/68-15
September 12, 1968

Minutes of Special Loan Meeting to review the position the Bank should take on a rate covenant when negotiating the proposed loan for the Keban Transmission Line project, held in Room 1204 on September 6, 1968.

1. Present: Messrs. Knapp (Chairman), Assa, Chadenet, Fontein, Knox, Raizen, D. Richardson, Schaad, Sella and Cherniavsky.
2. Issue: Subsequent to the Loan Committee meeting to consider the proposed loan of \$25 million to Turkey for the Keban Transmission Line project (see LC/M/68-28), preliminary talks had begun with the Government and the Etibank (the Government agency embracing a consolidated electric power group) from which it had emerged that the Government seemed unprepared to accept a covenant that electricity tariffs be set and maintained so as to achieve a minimum return of between 8% and 10% on a realistically valued assets base.
3. Discussion: The meeting was told that the Government did not see eye to eye with the Bank on this matter because (a) it did not allow the "market - mechanism philosophy" to play a sufficient role and specifically it was not prepared to establish electric power tariffs which would permit the power group to earn a reasonable rate of return (approximating the opportunity cost of capital) and to generate adequate cash towards expansion and (b) the Government did not want to circumscribe its freedom to subsidize the electric power industry by agreeing to a rate of return covenant for the 25 year life of the loan simply for the sake of a \$25 million loan from the Bank. In fact the Government would probably be unwilling to accept any firm commitment on tariffs beyond 1972.
4. In the Bank's view, an undertaking to "work towards" a satisfactory rate of return was all the more necessary because of the very heavy burden which the electricity investment program would place on the Government's resources if it was to be financed largely out of general revenue. The Bank considered that as a minimum the Turks should agree to a 15% tariff increase in 1970 and a further 8% increase in 1972, which would yield a rate of return on what would then be the revalued and consolidated assets of the power group (i.e. Etibank's assets and those of DSI which were operated by Etibank, plus new assets, such as Keban and Gokcekaya, which would be coming into operation) of about 8.5% and cash generation which would cover some 22% of the 1968-1972 construction program. Since the Bank had already yielded to the Turks on the timing and scope of the reorganization of the electric power industry, as embodied in the TEK bill now before Parliament, it was important that the Bank have an adequate commitment regarding the rate of return in order to assure that TEK was run to the extent possible as a commercial enterprise. Such an obligation was already provided in general terms under the pending TEK bill but since electricity was considered "a basic commodity" whose rates could be set at subsidized levels by the Council of Ministers, this provision on its own would amount to little more than an obligation on the part of the Government to cover TEK's operating costs.

5. Decision: The Chairman commented that the Bank's position on this matter had been clear to the Government all along and would not come as a surprise to the Keban syndicate, who indeed might welcome it even though the Bank's refusal to participate would leave a financing gap. While the Bank should be generous in allowing the Government time to work towards a satisfactory rate of return, particularly during the immediate period when new assets were coming into operation (in fact, what might be considered inadequate tariffs now might be adequate at a later date when the expanded system was working to capacity), the Bank must obtain a satisfactory commitment from the Government if it was to go ahead with the loan.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Chadenet
Fontein

LOAN COMMITTEE

LM/M/68-14

Loan 559 GUA
No 90 II

September 10, 1968

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WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of Special Loan Meetings to discuss the margin of preference to be accorded to local suppliers of boulder stone for the sea defense project (Guyana), held in Room 1204 on August 14, and August 28, 1968.

Mark Cherniavsky
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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General Counsel
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Executive Vice President (IFC)
Vice President (IFC)

LM/M/68-14
September 10, 1968

Minutes of Special Loan Meetings to discuss the margin of preference to be accorded to local suppliers of boulder stone for the sea defense project (Guyana), held in Room 1204 on August 14 and August 28, 1968.

1. Present: Messrs. Knapp (Chairman), Afrouz, Alter, Baum, Chadenet, Cope, Davar, Evans, J. Malone, R. Nelson, Sassoon, H. Scott, P. Wright and Cherniavsky.
2. Issue: The proposed loan to Guyana for the sea defense project (LC/0/68-71 dated August 12, 1968) would call for the expansion of local production capacity of boulder stones and aggregate from about 150,000 tons in 1967 to a peak level of 300,000 tons per year. Because a time lag might occur in the expansion of capacity and imported stone might prove cheaper than local, the Projects Department recommended that the Bank should either (a) require the Government to issue import licenses to contractors if the timely execution of the project was threatened or if overall costs were expected to increase because of a shortage or higher prices of locally quarried stone, or (b) require the Government to permit contractors to import stone subject only to a 15% preference for local stone. The Area Department's position was that it was the Bank's normal policy to concern itself only with procurement of equipment and materials directly financed under a Bank loan and not with goods procured by civil works contractors and that a change in such policy was not called for, as the timely completion of the project at reasonable cost could be assured if the Bank required the Government (a) to take steps to expand local quarrying capacity by the end of 1969 to a level sufficient to meet the anticipated demands of the project, and (b) to promptly issue import licenses if the timely execution of the project was threatened by a shortage of local stone.
3. Discussion: The Projects Department stated that boulder stones and aggregates represented about one-third of the project construction costs and it was therefore important that they were obtained at reasonable cost and that there was control on local prices through alternative sources of supply. It would not be sufficient for the Bank to rely simply on assurances from the Government that local production would be expanded by 1969 to meet the project's requirements.
4. The Area Department's position was that its recommendation would offer the Bank sufficient protection against undue price increases and/or local shortages and that the circumstances did not warrant departure from the Bank's normal policy of not "looking behind" a civil works contract. The Government would have an incentive both to expand local production and hold down local prices since any cost overrun would have to be met out of its own resources. Since a significant portion of the stone required would be boulder stone and since such stone was not available in Trinidad and could not therefore be brought from there in ballast, it was doubtful if the landed price of imported boulder stone from other sources, in which case regular and heavy ocean freight would have to be borne, would in fact be competitive. The Projects Department commented that the amount of boulder stone required would have to be studied further and did not agree with the Area Department's conclusion about quantity needed or the availability of such stone in Trinidad, and that it could not dismiss the possibility that imported stone

would be cheaper than local stone if a shortage developed.

5. Decision: The Chairman commented that there were precedents for the Bank requiring part of the civil works contract to be open to international competitive bidding and he felt that this was one of those cases because of the exceptional importance of one building material in the total cost. He therefore felt that the Government should be required to issue import licenses if the contractor could show that he was unable to obtain bids from local suppliers in quantities and at the time required at a price no more than 15% above the landed cost of imported stone. However, at a further Special Loan Meeting on August 28, 1/ the Western Hemisphere Department reported that the Guyanese Government were unwilling to accept the proposal, mainly on the grounds that a blanket obligation to issue import licenses for stone would leave little incentive to local producers to make investments necessary to increase capacity on competitive lines. Guyana's fledgling industrial development would not benefit from the project and, in the circumstances, such an obligation would also prove to be politically embarrassing to the Government prior to the forthcoming elections.

6. Following a further discussion on August 29, it was decided that the Bank could delete reference in the loan agreement to the import of stone. However, the loan documents should indicate that the Bank would withhold approval of a civil works contract and the financing thereof, if in the Bank's judgment, it imposed an excessive burden on the project cost or involved undue delay in the project's implementation. In order to provide a firm basis for such a judgment, the potential bidders should be asked to submit alternative offers based on (1) local stone and (2) imported stone or, at their option, any combination thereof. It would be recorded in the minutes of the negotiations that, since the Bank was expected to finance only the foreign exchange cost of domestic stone and not its full price, the Bank would be prepared to accept a premium of about 25% for the local stone element in the bids submitted, and that if the lowest acceptable bid was the one based on imported stone, the Government would promptly issue import licenses to the contractor.

1/ Attended by Messrs. Knapp (Chairman), Alter, Cope, Davar, Evans, Haynes, Higginbottom, Sassoon and Cherniavsky.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Chadenet
Alter

Distribution: Loan Committee
Participants

LOAN COMMITTEE

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LM/M/68-13/1

WBG ARCHIVES

August 26, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Please substitute the attached Minutes of a Special Loan Meeting held to discuss the use of the undisbursed balance on the Salandi Irrigation Project (India), for those distributed on August 23 (LM/M/68-13) which misstated the "issue" in paragraph 2.

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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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/68-13/1
August 26, 1968

Minutes of Special Loan Meeting to discuss the use of the undisbursed balance on the Salandi Irrigation Project (India) held in Room 1204 on August 8 at 3:30 p.m.

1. Present: Messrs. Knapp (Chairman), Chadenet, Clyde, Cope, Goodman, Guinness, Kirk, Nurick, Street and Cherniavsky.

2. Issue: Mr. Goodman's memorandum of August 1 to Mr. Cope ("India - Salandi Irrigation Project") reported that there was an unused balance of about \$1.5 million in Category I (imported equipment) of the project which the Indians wished to have transferred to Category II (civil works). The working party agreed that there should be a transfer of about \$1.1 million, excepting the Projects Department, which considered that in view of the poor performance on the project and because the equipment to be financed out of Category I was no longer required, IDA should cancel all of the unused balance in accordance with the normal treatment accorded to project "savings".

3. Discussion: It was recalled that the credit, which had been signed in November 1961, had been substantially revised in 1966 after a long period of highly deficient performance, during which Category II disbursements had been suspended. Since that time review missions (the most recent in May 1968) had found that progress on the project was satisfactory even though the Indians had disbursed some \$0.4 million and which it was agreed among the working party should now be cancelled. 1/ The Area Department's view was that since the project was now proceeding on schedule, the transfer of about \$1.1 million to cover civil works would be justified, particularly since under the revised project the IDA credit would only be financing 38.5% of total costs against the originally intended 50%.

4. The Projects Department's position was essentially that to agree to this transfer would be to condone the Indians' poor performance, particularly their failure to purchase as and when needed, the equipment for which IDA financing had been made available. (See Mr. Bartsch's memorandum to Mr. Evans of June 12). Having failed to procure the equipment, the Indians had kept the project on schedule only by borrowing equipment and/or by overburdening other equipment and using it uneconomically. The Department was concerned lest the proposed transfer would be taken as a precedent, thus frustrating the Bank's long and hard efforts to improve Indian procurement procedures.

5. Decision: The Chairman said that this was a difficult case and he would certainly have said no if an extension of the closing date had been requested. However, given the relatively small amount involved and the fact that the project was in fact proceeding substantially according to the revised schedule, he would favor giving the Indians the benefit of the doubt and proceeding as recommended by the Area Department.

1/ The precise amount of cancellation would be determined by the Projects Department.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Chadenet
Goodman

Distribution: Loan Committee
Participants

LOAN COMMITTEE

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LM/M/68-13

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August 23, 1968

WBG ARCHIVESMEMORANDUM TO THE LOAN COMMITTEESubstituted by
LM/M/68-13/1
Aug 26

Attached for information are the Minutes of a Special Loan Meeting to discuss the use of the undisbursed balance on the Salandi Irrigation Project (India), held in Room 1204 on August 8, 1968.

Mark Cherniavsky
Secretary
Loan Committee

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

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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/68-13
August 23, 1968

Minutes of Special Loan Meeting to discuss the use of the undisbursed balance on the Salandi Irrigation Project (India) held in Room 1204 on August 8 at 3:30 p.m.

1. Present: Messrs. Knapp (Chairman), Chadenet, Clyde, Guinness, Kirk, Nurick, Street and Cherniavsky.
2. Issue: Mr. Goodman's memorandum of August 1 to Mr. Cope ("India - Salandi Irrigation Project") reported that there was an unused balance of about \$1.5 million in Category I (imported equipment) of the project which the Indians wished to have transferred to Category II (civil works). The working party, with the exception of the Projects Department, considered that in view of the poor performance on the project and because the equipment to be financed out of Category I was no longer required, IDA should cancel all of the unused balance in accordance with the normal treatment accorded to project "savings".
3. Discussion: It was recalled that the credit, which had been signed in November 1961, had been substantially revised in 1966 after a long period of highly deficient performance, during which Category II disbursements had been suspended. Since that time review missions (the most recent in May 1968) had found that progress on the project was satisfactory even though the Indians had failed to order some heavy earthmoving equipment against which IDA would have disbursed some \$0.4 million and which it was agreed among the working party should now be cancelled. ^{1/} The Area Department's view was that since the project was now proceeding on schedule, the transfer of about \$1.1 million to cover civil works would be justified, particularly since under the revised project the IDA credit would only be financing 38.5% of total costs against the originally intended 50%.
4. The Projects Department's position was essentially that to agree to this transfer would be to condone the Indians' poor performance, particularly their failure to purchase as and when needed, the equipment for which IDA financing had been made available. (See Mr. Bartsch's memorandum to Mr. Evans of June 12). Having failed to procure the equipment, the Indians had kept the project on schedule only by borrowing equipment and/or by overburdening other equipment and using it uneconomically. The Department was concerned lest the proposed transfer would be taken as a precedent, thus frustrating the Bank's long and hard efforts to improve Indian procurement procedures.
5. Decision: The Chairman said that this was a difficult case and he would certainly have said no if an extension of the closing date had been requested. However, given the relatively small amount involved and the fact that the project was in fact proceeding substantially according to the revised schedule, he would favor giving the Indians the benefit of the doubt and proceeding as recommended by the Area Department.

^{1/} The precise amount of the cancellation would be determined by the Projects Department.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Chadenet
Goodman
Distribution: Loan Committee
Participants

LOAN COMMITTEE

water supply
Loan 581 TUN
Neg III

DECLASSIFIED LM/M/68-12

SEP 09 2014 August 6, 1968

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the disbursement basis for a proposed loan for a water supply project in Tunisia, held in Room 1204 on July 9, 1968.

Mark Cherniavsky
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Copies for Information:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/68-12
August 6, 1968

Minutes of Special Loan Meeting to discuss the disbursement basis for a proposed loan for a water supply project in Tunisia, held in Room 1204 on July 9.

1. Present: Messrs. Knapp (Chairman), Bell, Cope, Jennings, Knox, Lejeune, Sella, Springuel, Thys and Cherniavsky.
2. Issue: The Chairman had called a meeting to seek clarification on the disbursement basis for the proposed Bank loan of \$15 million for the national water supply project in Tunisia.
3. Discussion: The appraisal report proposed (paragraph 4.17) that disbursement of the \$15 million Bank loan and parallel \$5 million Swedish loan proceed on a 3:1 basis (excepting interest during construction) against (a) the c.i.f. cost of imported goods and the actual foreign exchange cost of consultants services and (b) 48% of expenditures on all contracts for construction and local supplies awarded after international competitive bidding. Thus, in the case of (b), the Bank would be disbursing against 36% of the expenditures, which was estimated to be somewhat less than the average foreign exchange component of such expenditures, whether or not the orders went to local contractors.
4. The Chairman said that the appraisal report stated that the Bank was financing foreign exchange expenditures and that the Swedes were financing foreign exchange expenditures and local costs. In fact, however, all disbursements under (b) were being made on a 3 to 1 basis and the Bank was therefore financing 75% of all costs (including local costs) which would be covered by the Bank and Swedish loans. The Chairman said that while he understood that the Swedes would in this case have agreed that local costs covered by the joint loans be attributed fully to them, and not 75% to the Bank, he thought that this might turn out to be an exceptional arrangement since the Swedes (and more generally, other bilateral lenders) also had their reasons for keeping local currency financing to a minimum.
5. Decision: The Chairman said that he proposed no changes in the substance or the form of the disbursement procedures for this proposed loan, but he called attention to the fact that cost-sharing formulas and the consequent matter of "attribution" would become of special importance in identifying the source of procurement under second replenishment credits.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Bell
Lejeune

Distribution: Loan Committee
Participants

LOAN COMMITTEE

LN/M/68-11

August 6, 1968

DECLASSIFIED

SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to consider possible Bank financing for a pipeline from Bolivia to Argentina, held in Room 1204 on July 17, 1968.

Mark Cherniavsky
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

Minutes of Special Loan Meeting to consider possible Bank financing for a pipeline from Bolivia to Argentina, held in Room 1204 on July 17.

1. Present: Messrs. Knapp (Chairman), Baum, Bell, Broches, Chaufournier, Cope, Geolot, Sassoon, Skillings van der Meer and Cherniavsky.
2. Issue: The Chairman had called a meeting to consider Mr. Alter's memorandum of July 9, 1968 "Bolivia - Gas Pipeline to Argentina" which recommended that the Bank give consideration to making a loan for this project.
3. Discussion: It was estimated that the total project cost would be about \$42 million, including some \$18 million for the pipe and \$10 million for installation thereof. The Bank would regard a debt equity ration of 2 to 1 as satisfactory.
4. The meeting was told that the Argentines had already expressed interest in supplying pipe and would provide export credit if they were given the order. The Chairman pointed out that joint-financing of the pipeline by the Bank and the Argentines might be acceptable provided the order was placed in Argentina after international competition, but there would be a problem for Bank participation if the project involved tied procurement. It was noted that Argentina would be in a good position, because of competitors' transportation costs, to win the contract for pipe provided they could meet the specialized technical requirements. The size of foreign exchange costs other than for pipe was still unknown. If, as might well be the case, they were small, the amount of Bank funds that could be used for foreign exchange expenditures would be correspondingly small.
5. Decision: The Chairman concluded that the Bank should pursue the possibility of participating in this scheme, since it would be an important regional project involving a partner with the requisite know-how, in a country where there was little that could be done on the Bank side. Provided the major elements of the project - a satisfactory sales contract for the gas, a sound financial set-up for the operating company (including an adequate contribution by Gulf), and international competition for the major items of procurement - were agreed to the Bank's satisfaction, other problems would probably fall into place and a package might well emerge which would be suited for a loan.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Bell
Chaufournier

Distribution: Loan Committee
Participants

LOAN COMMITTEE

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WBG ARCHIVES

LM/M/68-10

July 29, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed IDA credit for agricultural development in Papua and New Guinea, held in Room 1204 on July 9, 1968.

Mark Cherniavsky
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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Mr. S.R. Cope, Deputy Chairman
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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

July 29, 1968.

Minutes of Special Loan Meeting to discuss the proposed IDA credit for agricultural development in Papua and New Guinea, held in Room 1204 on July 9, 1968.

Present: Messrs. Knapp (Chairman), Baig, Bell, Cargill, Cope, Darnell, de Silva, Evans, Goodman, Kraske, Lecuona, P. Nelson, Rowe, Sella and Cherniavsky.

1. Issue: The Chairman had called a meeting to discuss questions related to the on-lending arrangements for the proposed IDA credit of \$6 million for agricultural development in Papua and New Guinea. The questions raised by the Chairman concerned the terms and interest rates of sub-loans to beneficiaries, the channeling of the proceeds of the IDA credit and the use of counterpart funds by the Papua and New Guinea Development Bank (PDB).
2. Discussion: Part of the proceeds of the IDA credit would be re-lent by the PDB (a) to oil palm smallholders, at 6% interest, with a term of nine years including four of grace; (b) to coconut planters, at not less than 6%, with a term of up to 20 years, including up to 11 of grace and (c) to beef cattle ranchers, at not less than 6%, with a term of up to 12 years including five of grace. PDB's minimum relending rate of 6% appeared to be on the low side, but was comparable to interest rates for similar purposes in Australia.
3. The Government would on-lend part of the proceeds of the IDA credit to PDB at 1½% for a term of 25 years. It was explained that PDB had only recently been established and therefore required a substantial spread for institution building purposes. The Chairman wondered whether, in these circumstances, the proceeds of the IDA credit should not be passed on to PDB as an equity contribution by the Government, or, at least, as a loan for the full term of the IDA credit thereby giving PDB maximum use of counterpart funds generated. It was reported, however, that the Australians favored the proposed 25 year term in order to place stronger financial discipline upon PDB's management, which was desirable in view of PDB's limited experience in the field of development lending.
4. Decision: It was agreed that the issue should be discussed during negotiations with an open mind to PDB's needs for long-term financing. The Chairman pointed out that the counterpart fund problem was about to be reviewed by the Board of Directors so that the Bank's attitude in this case might be guided by the deliberations of the Board on this matter.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Evans
Goodman
Distribution: Loan Committee
Participants

LOAN COMMITTEE

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WBG ARCHIVES

LM/M/68-9

July 18, 1968.

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss a proposed assistance program in Congo (Kinshasa), held in Room 1204 on Tuesday, July 2, 1968.

Mark Cherniavsky
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Chairman
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Mr. S. Aldewereld, Vice President
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Vice President (IFC)

LM/M/68-9
July 18, 1968.

Minutes of Special Loan Meeting to discuss a proposed assistance program in Congo (Kinshasa), held on Tuesday, July 2, in Room 1205.

1. Present: Messrs. Knapp (Chairman), Baum, Bell, Cope, Delaume, de la Renaudiere, de Wilde, El Emary, Evans, Graves, Payen, Wouters, Young and Cherniavsky.
2. Issue: The Chairman had called a meeting to discuss the recommendations in Mr. El Emary's memoranda of June 17 and June 26, 1968 "Congo (Kinshasa) - Proposed Assistance Programs". In the light of a Bank/UNDP meeting on June 24, the June 26 memorandum proposed in essence that: (i) The Bank assist the Congolese Government in submitting to UNDP applications for technical assistance for water transport (to be financed by UNDP in an amount of US\$0.7 million) and highways (for which an IDA credit or if necessary a Bank loan of \$2.2 million was proposed together with a UNDP grant of \$1.3 million); (ii) the Bank Group offer to make a creditor loan of US\$5 million to finance urgent imports of maintenance equipment, spare parts and materials to initiate the road maintenance program; (iii) the Bank enter into discussions looking towards the establishment of a development finance company in the Congo and (iv) the Bank express willingness to discuss technical assistance for agricultural development projects. In transmitting these proposals to the Government, the Bank would at the same time press for action by the Government on certain subjects, including constructive steps to resolve outstanding disputes with foreign investors (particularly Union Minière).
3. Discussion: The meeting was told that a mission would have to be sent to the Congo before the end of July if the Bank were to take advantage of the UNDP offer of technical assistance since the Government's applications for (i) above would have to be filed with UNDP by August 31 if they were to be given advance approval by the Agency Consultative Board in October, thus enabling the Bank, as executing agency, to proceed with the necessary contracts prior to final approval by the UNDP Governing Council in January 1969. Since UNDP could finance only part of the proposed technical assistance program, it was important that the Bank/IDA should take up the remainder and also finance the concomitant imports recommended under (ii) to allow integral execution of the overall highway reorganization and rehabilitation program. In the circumstances, it was better that the Bank provide the necessary loan or loans now rather than wait until IDA funds were available, even though in principle the Congo was to be considered an IDA country. Bank loans of \$7.2 million to the Congo would not significantly exacerbate the country's debt-servicing problem. The proposed program was required as a matter of urgency, since in their existing state the roads were a major bottleneck to the recovery of the economy, particularly in the agricultural sector. The Congolese recognized the urgency of initiating a road program and improving the management of the transport sector and were already exploring ways and means of doing this.
4. The meeting was told that on the matter of compensation for foreign investors, particularly Union Minière, there had as yet been no response to

the Bank's willingness to mediate, but there were signs of some improvement in relations between the Congo and Belgium, which should facilitate a settlement. The Chairman commented that the Bank Group could certainly not contemplate the development finance company proposal until the Congo had made some concrete proposals on the settlement of the Union Minière dispute, and that the President had indicated reluctance to go beyond financing the technical assistance part of the transport program until there was concrete evidence of progress on the compensation issue.

5. Decision: The Chairman said that he thought financing for the Congo should be done through IDA, either when the replenishment became effective or perhaps if and when a transfer of Bank profits was made to IDA. He therefore felt that while Bank staff should continue to advance preparations for financing both parts of the proposed program, and plan on having a mission in the Congo by the end of July in order to meet UNDP's deadlines, the decision whether to finance all of the proposed program or only the technical assistance component, and what prior conditions the Bank would require on the compensation issue, would have to await the President's return to the Bank.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
El Emary
Bell

Distribution: Loan Committee
Participants

LOAN COMMITTEE

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SEP 09 2014

LM/M/68-8/BG ARCHIVES

July 16, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to further review the appointment of Technical Managers in Brazil for the livestock development project, held in Room 1204 on Friday, June 28, 1968.

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)

LM/M/68-8
July 16, 1968

Minutes of Special Loan Meeting to further review the appointment of Technical Managers in Brazil for the livestock development project, held in Room 1204 on June 28.

1. Present: Messrs. Knapp (Chairman), Alter, Chadenet, Cope, Evans, McMeekan, Sassoon, Stoops, Wiese and Cherniavsky.
2. Issue: At a Special Loan Meeting on June 17 (see Minutes LM/M/68-7 dated June 21, 1968) to discuss the appointment of Technical Managers in Brazil for the livestock development project, it was decided to present the Brazilians with three choices. Messrs. Wiese and Stoops subsequently reported that the Brazilians had rejected the first two proposals and before they had a chance to submit the Bank's third proposal, the Brazilians had presented them with a counter-proposal. Under this proposal, CONDEPE (the Executing Agency) would begin to carry out the project with its own funds for a period of about one year, and the Bank would be asked to disburse only after it had become satisfied with project execution.
3. Discussion: During discussions with the Brazilians, it emerged that CONDEPE had already received from the Government the equivalent of about \$2.5 million. This would be sufficient to cover about one year's total disbursement to ranchers for loans. The third tentative Bank proposal to initially limit its disbursements to \$10 million would mean that the "cut-off date" would run substantially beyond the end of 1969. By then, Bank disbursements would probably not exceed \$5 million. It was agreed that the Bank should therefore now propose a solution different from this third alternative. Under this solution the Bank would specify a cut-off date for disbursements of December 31, 1969 (long enough to give the Brazilians a fair chance to begin satisfactory execution of the project), without however putting a ceiling on the amount of Bank disbursements and without prejudicing the Bank's right to suspend disbursements at any time under the Loan Agreement's general performance covenant (Section 5.01 (a)). Disbursements beyond this date would be made only if the Bank, which would follow the project closely in the meantime, was satisfied with prior project execution or if the Government modified arrangements for subsequent implementation to the Bank's satisfaction.
4. Decision: With the Chairman's approval, the following cable was later sent to the Brazilians:

"Following careful review outcome recent discussions Wiese/Stoops in Rio on livestock project Bank proposes following alternative solution. Bank prepared disburse up to December 31, 1969. Disbursements beyond this date would be made only if Bank, which will follow project closely, is satisfied with prior project execution or if Government modifies arrangements for subsequent execution to mutual satisfaction. Kindly cable Government's acceptance of above proposal which in no way prejudices all other provisions contained in Loan Agreement 516 BR including in particular section 5.01 (a) of said Agreement."

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Wiese
Stoops

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LOAN COMMITTEE

LM/M/68-7

June 21, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the appointment of Technical Managers in Brazil for the livestock development project, held in Room 1204 on Monday, June 17, 1968.

Mark Cherniavsky
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Chairman
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
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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)

Minutes of Special Loan Meeting to discuss the appointment of Technical Managers in Brazil for the livestock development project, held in Room 1204 on June 17, 1968 at 11:00 a.m.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Alter, Broches, Chadenet, Evans, Husain, McMeekan, Sassoon, Stoops and Cherniavsky.
2. Issue: The Loan Agreement for the livestock development project in Brazil (Loan 516-BR) stipulated that the Brazilians would appoint three qualified and experienced livestock experts as Project Directors of the three regional offices on terms and conditions satisfactory to the Bank. Although CONDEPE's nominations for these positions had been found unsatisfactory, the Bank had acquiesced provided that senior and experienced Technical Managers were appointed to each project office. The names which CONDEPE had now submitted for these positions had also been found unsuitable.
3. Discussion: The Projects Department stated that the three Brazilian nominees for the Technical Manager positions were people with an academic background, with no broad practical experience in developing and maintaining commercial cattle ranches and with insufficient knowledge of specialized techniques to improve pasturage in the conditions peculiar to Brazil. It would not be sufficient, as the Brazilians suggested, to recruit foreign experts in an advisory capacity. Men were needed who would take on operational responsibilities; they must ensure that the offices were run effectively and impart on-the-job training to the Brazilians. Inadequate leadership in the technical field could jeopardize the success of the project.
4. It was pointed out that the Appraisal Report had indicated that the Bank would require the Project Directors to be "internationally recruited." This did not of course exclude the appointment of qualified Brazilians and the Bank had recently made it clear that the sole criterion for selection of the Technical Manager positions would be qualifications and experience. However, the Brazilians were still under the impression that the Bank was "insisting on" foreigners and had responded by stating that foreigners would not be acceptable for these posts.
5. The Chairman commented that if the only course open to the Bank was to reject CONDEPE's nominations, logically the Bank should be prepared to cancel the loan if better Brazilian candidates were not available or if CONDEPE was not prepared to accept expatriates. This would have serious repercussions for the Bank's relations with Brazil and he therefore felt that, despite the Bank's serious reservations about the success of the project with CONDEPE's Project Director appointees and Technical Manager nominees, the Bank should ultimately base its judgment on the initial results of the project.

6. Decision: The Government should be informed that its nominees as Technical Managers were unsatisfactory to the Bank and should be presented with three choices:

- (i) CONDEPE should nominate new candidates for Bank approval; or
- (ii) The Bank should nominate for consideration by CONDEPE suitable expatriates (including possibly Uruguayans and Paraguayans) for the Technical Managers' positions; or
- (iii) Failing (i) or (ii) above, the Bank should inform the Government that it would be prepared to accept CONDEPE's nominees if the Government would agree to the Bank initially limiting its disbursements to \$10 million. In the meantime the Bank would undertake very close supervision of the project and review its progress. Disbursements beyond the initial \$10 million would be made only if, on the basis of supervision and review, the existing arrangements were found to be satisfactory or if they were modified to the Bank's satisfaction.

7. It was agreed that the Bank would communicate its position to the Brazilian through Mr. Wiese, now in Brazil, and Mr. Stoops, who would join him there. A formal letter should only be sent after these discussions.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Alter
Evans

Distribution: Loan Committee
Participants

LOAN COMMITTEE

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WBG ARCHIVES

LM/M/68-6

May 23, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the role and content of supplementary letters, held in Room 1204 on Friday, May 10, 1968.

Mark Cherniavsky
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
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Mr. M. Shoaib, Vice President
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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

Minutes of Special Loan Meeting to discuss the role and content of supplementary letters, held in Room 1204 on May 10, at 4:00 p.m.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Alter, Armstrong, Broches, Chadenet, Cope, Krombach, Renger, Sella and Cherniavsky.
2. Issue: The Chairman had called a meeting to discuss the extent to which contractual obligations and other matters of substance affecting a borrower should be contained in supplementary letters (which are not normally distributed to the Executive Directors) rather than in the Loan Agreement and/or President's Report. The issue had arisen in connection with the preparation of the President's Report and attachments on the proposed \$14 million loan for the Bogota Water Supply Project.
3. Discussion: Mr. Broches said that, mainly in order to reduce the volume and detail of paper going to the Board, more and more matters of substance were being put into supplementary letters and the practice had reached a stage which threatened to transgress the basic principle that agreements into which the Bank entered should have been seen and approved by the Board. This practice was also undesirable in that the contents of supplementary letters were often wrongly believed by the borrower to be less binding than the Loan Agreement itself. The desire to standardize loan agreements and to make them short and simple should definitely not be at the expense of making them incomplete. Matters of substance should be contained in the Loan Agreement (or an attached annex); only routine matters should go into the supplementary letters.
4. There was general agreement with Mr. Broches' criticism of recent practice, and with the principle that supplementary letters should contain only details which were truly supplementary to substantive commitments in loan agreements.
5. Decision: It was agreed that loan agreements which were already negotiated or substantially advanced should not be reopened, but that in such cases (including the agreements on the Bogota Power and Water Supply Projects) the President's Report should fully describe any substantial obligations of the borrowers and guarantors which had been incorporated in supplementary letters. It was also agreed that the representatives of the Legal Department on Working Parties should in future ensure that:
 - (i) loan agreements cover all matters of substance, either in the main body of the agreement or in an attached annex;
 - (ii) supplementary letters revert to their original role of covering only matters of supplementary detail.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Broches
Alter

Distribution: Loan Committee
Participants

LOAN COMMITTEE

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LM/M/68-5/BG ARCHIVES

February 16, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the Bank's position on operations in Morocco, held in Mr. Knapp's office on Friday, February 9, 1968.

Mark Cherniavsky
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Mr. M. Shoaib, Vice President
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Executive Vice President & Vice President (IFC)

LM/M/68-5

February 16, 1968

Minutes of Special Loan Meeting held in Mr. Knapp's Office on Friday, February 9, 1968 at 2:30 p.m. to decide what action to take with regard to two agricultural loans in Morocco and to discuss future lending to Morocco

Present: Messrs. Knapp (Chairman), Aldewereld, Bart, Broches, Chadenet, Evans, El-Fishawy, Goffin, Kodderitzsch, Lejeune and Cherniavsky.

1. Issue: For some time the Bank had been trying to assist the Moroccans in improving the administration and organization of their agricultural sector, and the Moroccans had recently requested Bank loans for three new agricultural projects (the Tadla, Sebou and DERRO projects). In view of the recent Supervision Mission's findings that performance with respect to the two existing agricultural loans (Agricultural Credit Project 433-MOR and Sidi Slimane Project 389-MOR) was highly deficient and unsatisfactory, the Bank should decide what sanctions it would apply on these projects and in what circumstances it would be prepared to start processing one or more of the new projects which the Moroccans had submitted for financing.

2. Discussion: The Area Department, amplifying the recommendations contained in their memorandum dated February 8 to the Chairman, stated that they favored proffering a little bit of carrot to the Moroccans as well as applying the stick on one of the two existing agricultural projects. In their view, it would be a serious mistake for the Bank to put Morocco completely in the "deep freeze" by closing the door on the prospect of further Bank operations. The Moroccans should be told that as soon as agreement was reached on the reorganization of the Ministry of Agriculture in a manner satisfactory to the Bank, the Bank would be prepared to appraise the Tadla project and take a preliminary look at the other two projects. Further processing of the Tadla and/or Sebou projects should be made conditional on satisfactory action on the Ministry's reorganization and on a return to adequate performance under the two existing projects, both as regards general organizational matters and the remedying of specific breaches of the Loan Agreements.

3. The Projects Department stated that while the Moroccans had recognized the need, in the course of the recent discussions, for reorganizing agricultural services, the Minister concerned had so far

stopped short of exchanging an aide-memoire with the Bank or committing anything to paper, apparently because of the absence of delegation and the fear of the King's reaction. At the working level, the Mission had found that officials had little control of the problems which beset the two projects. The Supervision Mission's Reports spelt out very clearly the general and specific remedies which the Moroccans must apply and, in the Projects Department's submission, the Bank should not in any way compromise the leverage it had on the Moroccans by processing new projects before the Bank's minimum corrective requirements had been met. The Chairman commented that while the poor performance under the Agricultural Credit Project would not itself "contaminate" or preclude success with the Tadla project, the present organization of Ministry of Agriculture clearly would.

4. Decision: (a) Agriculture Credit Project

The undisbursed balance of about \$0.2 million under Part B of the project should be cancelled and the undisbursed balance of about \$5.6 million (less approximately \$0.35 million being processed against Application 18) under Part A of the project suspended forthwith. The Bank should indicate the specific remedial actions to be taken promptly by the Government in order to permit resumption of disbursements under Part A of the Project. Mr. Bart would give notice to the Moroccans of this decision by letter as soon as he reached Morocco.

(b) Sidi Slimane Project

The Bank should indicate by showing and discussing a draft aide-memoire to be delivered by Messrs. Bart and Goffin to the Moroccan Government that unless "remedial actions" are taken "in the immediate future", the Bank would "consider" suspending disbursements on the loan. Such "remedial action", which should be explained in detail to the Moroccans should include both

- (i) a change in project administration giving adequate power to the Project Manager and
- (ii) specific action on the more important points noted in the Mission's Supervision Report of January 15 (para. 5).

(c) Future Lending for Agricultural Projects

The Moroccans should be informed that until they took action on (i) and (ii) in sub-paragraph (b) above, and began to proceed with reorganizing the Ministry of Agriculture along the lines indicated in paragraph 4 of the aide-memoire attached to Mr. Chadenet's

letter to Mr. Tahiri of December 18, 1967, the Bank would not be willing to proceed with appraisal of any new agricultural project in Morocco. If the Moroccans showed signs of taking such actions, a new mission would be sent to verify what progress had been made and whether the suspension of disbursements for the Sidi Slimane project need remain under consideration. If the mission's findings were favorable, then the Bank would proceed with appraisal of the Tadla project. The Moroccans could be told now about the possibility of such a mission and its significance.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Chadenet
Lejeune

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Participants

LOAN COMMITTEE

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LM/M/68-4 WBG ARCHIVES

February 16, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the possibility of lending to Argentina for the El Chocon-Cerros Colorados Project, held in Mr. Knapp's office on Wednesday, January 24, 1968.

Mark Cherniavsky
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
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Executive Vice President & Vice President (IFC)

LM/M/68-4

February 16, 1968

Minutes of Special Loan Meeting to discuss the El Chocon-Cerros Colorados Project held in Mr. Knapp's office on January 24, 1968 at 4:45 p.m.

1. Present: Messrs. Knapp (Chairman), Alter, Bell, Cope, Chadenet, Chaufournier, Fajans, Knox, Nurick, Sheehan, Skillings, and Miller.

2. Issue: The Projects Department's revised economic evaluation of the El Chocon-Cerros Colorados project based on a revised estimate of the investment cost of the project and its alternative indicates that the economic rate of return is unlikely to exceed 7-1/2% nor is it likely to drop much below 7%. The revision helped to remove some of the uncertainty regarding the rate of return which had previously been estimated to range between 5-3/4% and 7%. However the rate of return was still in the marginal category and so the question of eligibility for Bank lending still existed.

3. Discussion: The Area Department was willing to consider Bank financing for the project only if the Argentines could not be persuaded to carry out a thermal program and provided that:

- (a) The Bank was able and willing to lend not only for El Chocon but also for other projects in Argentina; and
- (b) The Bank could induce the Argentines to rationalize the remainder of their investment program.

4. The present Project Department cost estimate of US\$489 million for the El Chocon project, excluding interest during construction, was about half way between the estimate of Sir Alexander Gibb and Partners (US\$446 million) and the estimate based on the study done by Jacobs Associates of San Francisco (US\$526 million). The foreign exchange cost of US\$265 million did not include the foreign exchange component (estimated at US\$35 million) of goods which might be procured locally. The total cost estimate might be slightly reduced when a study presently underway by Gibb was completed. If the thermal alternative (most likely a nuclear development) was adopted the total capital cost would be approximately US\$300 million but the foreign exchange cost would be of the same order of magnitude as under this hydro alternative, (shown below). In any case Argentina had to make a choice; if they proceeded with El Chocon the Bank should obtain an assurance that they would postpone any nuclear development for many years.

	Total Cost	F.E. Cost
	(U.S. \$ Millions)	
Civil Works	228	121
Transmission System	110	40
Electrical and Mechanical Plant	54	47
Other (contingencies administration, etc.)	97	57
	489	265

5. It was considered that a loan of less than \$75-100 million would not give the Bank a dominant position in the financing arrangements. It was pointed out that even a Bank loan of \$100 million might present difficulties in organizing joint financing, since the Bank would be providing less than 40% of the foreign exchange cost. It was agreed, however, that it was premature to discuss possible methods of joint financing until much further information had been assembled regarding the different components of the project and the costs thereof.

6. It was noted that the Argentine authorities were very anxious to bring this project to fruition and that we had not received many projects from Argentina during the recent past. The meeting noted the possibility of other projects suitable for Bank financing in Argentina, i.e., roads, SEGBA III, livestock, and the Acindar project. More up to date information on the existing capital needs would be available when the Bank economic mission returned from Argentina.

Decision

7. The 7-7 $\frac{1}{2}$ % rate of return range was not sufficient grounds for rejecting the project as on balance there were more factors in favor of the project than against it. It was decided to inform the Argentine authorities that while the Bank would have favored a less capital intensive thermal alternative it would be willing to help finance El Chocon. It was noted that an appraisal team would not be available to go to Argentina until May or June but this date would not delay the starting date for the project.

D. Miller
Acting Secretary

Cleared with Messrs. Knapp
Fajans
Knox

Distribution: Loan Committee
Participants

LOAN COMMITTEE

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WBG ARCHIVES

LM/M/68-3

February 12, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the Bank's position on operations in Zambia, held in Mr. Knapp's office on Thursday, January 18, 1968.

Mark Cherniavsky
Secretary
Loan Committee

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

February 12, 1968

Minutes of Special Loan Meeting to discuss the Bank's position on operations in Zambia, held in Mr. Knapp's office on Thursday, January 18, 1968

1. Present: Messrs. Knapp (Chairman), Aldewereld, Baum*, El Emary, Chadenet, R. Dean*, Knox*, Kruithof*, MacKay*, McIvor, H. Scott*, C. White* (*Part time only).
2. Issue: The meeting had been called to review the Bank's position on subjects which the Zambian delegation had raised with Mr. Woods on January 17, 1968.
3. Discussion: (a) Highways: The delegation had asked for early financing of three sections of the Great North Road for which bids had already been invited and contracts awarded. It was recalled that at the time of the first highway loan (469-ZA) to Zambia, the Bank had promised retroactive financing for these sections in case they were found to be suitable for a second Bank loan and subject to the expenditures being otherwise eligible for Bank financing. It was decided to inform the Zambians of the Bank's willingness to investigate without delay the procedures followed in inviting tenders and awarding contracts. If these were to be found in line with Bank procedures, the Projects Department would arrange for an appraisal mission in March 1968.
4. (b) Education: It was noted that the Zambian delegation had preferred to include in the proposed education loan the government's secondary school program rather than to proceed with a more limited project of technical education first, and a secondary school project at a later date. It was decided to offer the delegation assistance in project preparation in cooperation with UNESCO. If the UNESCO mission could do its work promptly and successfully, every effort would be made for the Bank to appraise the project by the end of March 1968.
5. (c) Forestry: The Zambian Government had objected to the establishment of a separate commercial entity to implement the proposed forestry project. The Zambian delegation had stated that the Government desired that the project be implemented by the Forestry Department. It was decided to inform the delegation that this suggestion would be reviewed in the Bank, and, if necessary, in the field, in an attempt to find a mutually acceptable solution.
6. (d) Kafue Power Scheme: The Zambian delegation had stated that bids had been received for the construction of the main works of the project, including generating equipment, power station, tail-race tunnels, spillway and transmission lines.* Bank's staff had estimated the cost of the dam at Meshe-Teshie at L2.8 million and the transmission lines at about L2.4-5 million. It was clear

* It is believed that, in fact, the bids did not cover transmission lines.

that since the Government's decision to build a 500 MW station at Kafue (capable of extension to 750 MW) was obviously irrevocable, the immediate development of Kariba North, although more economic, would not be taken in hand. It was then considered whether the amounts involved in the Kafue contracts, for which bids had been opened, might be regarded as "sunken costs" and whether, therefore, the Bank could consider financing the up-stream dam and the transmission lines. Some were of the opinion that these investments were not essentially different from other parts of the project and that there would be difficulties in demonstrating the justification for financing them in isolation from the justification for the whole project.

7. It was decided that the Bank should not offer to consider financing the contracts for which bids had just been received but if the Government of Zambia were to ask for financing of the up-stream dam and the transmission lines, the Bank would consider such financing. In addition, the Zambian delegation should be informed that the refusal to finance Kafue should not be taken as meaning that the Bank would not be interested in participating in power development in Zambia in the future.

8. (e) Diversion Tunnels at Kariba: The Zambian delegation had explained the position on the building of the tunnels as follows:

- (i) That the tunnels should be built on and from the North Bank;
- (ii) That the Zambian government would not have any direct dealings with the rebel government in Rhodesia;
- (iii) That the financial arrangements should not involve the Zambian government in guaranteeing more than 50% of the loan for the construction.

9. The Bank would have no difficulty with the first two points, but the third point could only be met either by an arrangement with the British Government to reduce some of the Zambian guarantees in respect of the existing Kariba loans by the amount of one half of the loan for the tunnels, or by a grant to Zambia for one half of the foreign exchange cost of the tunnels.

10. It was noted that the method which had been worked out a year to eighteen months earlier, when the construction of Kariba north was being considered, would have enabled the project to be financed without involving recognition of, or direct dealings with, the Smith regime in Rhodesia. At that time the reaction of the U.K. Government had seemed "very positive" but it was doubted that in the present circumstances the same reaction would be given to similar suggestions to finance the cost of the diversion tunnels.

11. It was decided to inform the Zambian delegation that Mr. Aldewereld would speak to U.K. officials while he was in London on Monday, January 22, about the possibilities of the U.K. agreeing to a release of a part of the Zambian guarantee on the Bank's existing Kariba loans, so that, if a loan were made to Zambia for the diversion tunnels on the North Bank, Zambia would not have at risk more than one-half of the total loans for the Kariba project.

12. A suggestion was made that the U.K. might be prepared to make a grant within its aid program to Zambia for half of the foreign exchange cost of the tunnels which would remove the problem of guarantees, and that this also be taken up in discussions with the British Government. It was decided, however, that this was mainly a Zambian problem and that the question of a grant was one for the Zambians to raise themselves.

A. Kruithof
Acting Secretary

Cleared with Messrs. Knapp
Aldewereld
El Emary

Distribution: Loan Committee
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LOAN COMMITTEE

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SEP 09 2014

LM/M/68-2 WBG ARCHIVES

January 15, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss bid evaluation of conductor wire for the Keban 380 kv transmission line, held in Mr. Knapp's office on Thursday, January 4, 1968.

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

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)

January 15, 1968

Minutes of Special Loan Meeting to discuss bid evaluation of conductor wire for the Keban 380 kv transmission line, held in Mr. Knapp's office on January 4, 1968 at 11:00 a.m.

1. Present: Messrs. Knapp (Chairman), Bell, Chadenet, Cope, Fontein, T. Jones, Knox, Lithgow, Nurick and Cherniavsky.

2. Issue: Bids would shortly be invited for supplying about 18,000 tons of conductor wire for the Keban 380 kv transmission line. The Projects Department recommended evaluating foreign bids and the one expected local bid net of duties ^{1/} and either (a) adding an agreed percentage of preference to the c.i.f. cost of the foreign bid only (i.e., granting the local supplier protection based on total cost) or (b) adding an agreed percentage of preference to the foreign component of the foreign bids and the local bid (i.e., granting the local supplier protection on the value added only).

2. Discussion: The Projects Department stated that there was one local supplier of conductor wire in Turkey, who used imported aluminum billet and imported galvanized strand; the cost per ton of finished wire, on a large order, would probably be a minimum of about \$690, some 67% of this amount (about \$465) being directly attributable to the cost of the imported materials. Foreign bidders could probably offer finished conductor wire in the quantities envisaged at about \$635 c.i.f. Turkish port.

3. The Area Department pointed out that the Turkish lira was recognized as overvalued and a devaluation of the rate of exchange by one-third was expected during 1968. It was very likely, however, that the bids would precede any devaluation and, at the present rate of exchange, the application of the Bank's standard 15% margin of preference on the value added (alternative (b) above) gave no real advantage to the Turkish supplier. The Area Department therefore recommended granting a 25% margin of preference on the value added as "compensation" for the overvalued rate of exchange, but only as long as there was no devaluation of the lira.

4. Decision: The Chairman said that he accepted the logical case for basing preferences on value added rather than on total cost and recognized that in this instance, when the import component of the local supplier's total cost was easily identifiable, the use of the value added concept would be simple. However, in many cases the Bank would get into interminable disputes with borrowers over the

^{1/} Existing customs duties and other taxes at the port or entry were a major problem in this case, being 101.6% on finished wire and 62.2% and 68.8% on aluminum billet and galvanized strand respectively.

calculation of value added and he saw no need to move away in this case from the total cost concept. The Chairman therefore favored giving the local supplier a 15% margin of preference on total cost (alternative (a) above); if it was alleged that this gave an effective margin of preference to the local supplier far in excess of 15%, the Bank could point to the handicap of the overvalued exchange rate. The Chairman agreed that this decision did not imply that the Bank would evaluate subsequent bids (e.g. for transmission towers) in exactly the same manner.

5. The Chairman also agreed that the Bank should be prepared to reimburse the borrower for expenditures incurred on and after January 1, 1968 and before the effective date of the proposed loan, assuming there was no undue delay in processing the loan.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Cope
Knox

Distribution: Loan Committee
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LOAN COMMITTEE

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SEP 09 2014

WBG ARCHIVES

LM/M/68-23

December 9, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the effect of the Shashi project (Botswana) on downstream riparians, held in Room A-1212 on December 2, 1968.

Mark Cherniavsky
Secretary

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Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/68-23
December 9, 1968

Minutes of Special Loan Meeting held on December 2, 1968 in Room A-1212 to discuss the effect of the Shashi project (Botswana) on downstream riparians.

1. Present: Messrs. Cope (Chairman), Baum, Broches, Knox, Kruithof, Lejeune, Williams and Cherniavsky.
2. Issue: The Shashi project in Botswana, under study by the Bank, would include the construction of a dam on the Shashi river. This dam would affect the flow in the Shashi river downstreams of the dam site, possibly reducing the flow in the Limpopo river. Since the lower portion of the Shashi river forms the Botswana/Rhodesia border and the Limpopo river the Rhodesia/South Africa border (before flowing into Mozambique) the project would affect water rights among the Shashi and Limpopo riparians - i.e., South Africa, Portugal (for Mozambique) and the United Kingdom (for Rhodesia).
3. Discussion: General Counsel noted that, according to the consultant's feasibility study, regular meetings between the riparians "were understood" to be held and each country "advised" the other of proposed abstractions from rivers. In this matter, however, the Bank should not rely on secondary sources. As a first step we should ascertain what exchange of information had in fact taken place. Subsequently the Bank should solicit confirmation from the riparians that they would have no objection to the proposed dam on the Shashi. The Public Utilities Department commented that, on present information, it appeared that the dam would significantly affect the Shashi river flow only on the Botswana/Rhodesia border and the effect on the Limpopo riparians would be negligible.
4. Decision: The Chairman endorsed General Counsel's recommendation.

Mark Cherniavsky
Secretary

Cleared with Messrs. Cope
Knox
Sassoon

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LOAN COMMITTEE

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SEP 09 2014

WBG ARCHIVES

LM/M/68-22

December 6, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss whether the Bank's consent should be required for key management appointments under the proposed Ivory Coast oil palm and coconut project, held in Room A1212 on November 27, 1968.

Mark Cherniavsky
Secretary

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Committee:

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Mr. S. Aldewereld, Vice President
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General Counsel
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Executive Vice President (IFC)
Vice President (IFC)

LM/M/68-22
December 6, 1968

Minutes of Special Loan Meeting held on November 27, 1968 in Room A1212 to discuss whether the Bank's consent should be required for key management appointments under the proposed Ivory Coast oil palm and coconut project.

1. Present: Messrs. Cope (Chairman), Aldewereld, Baum, Broches, Chaufournier, Cheek, Evans, Halbe, Rowe, Suratgar and Cherniavsky.

2. Issue: The Agriculture Projects Department recommended that in negotiating the proposed loan to the Ivory Coast for an oil palm and coconut project, the Bank require that a number of key management appointments be subject to its consent. The Area Department considered that only the appointments of the Directors General of SODEPALM and PALMIVOIRE should be subject to Bank consent and that all other appointments be subject only to consultation with the Bank.

3. Discussion: Mr. Chaufournier recalled that when the Loan Committee had discussed this project (see Minutes LC/M/67-10 dated October 24, 1967), it had been suggested that consultation would be sufficient. He also noted that OM 5.04 made it clear that the Bank should require consent in exceptional cases only. It was, he believed, agreed that the management set-up for the project was at present satisfactory and the appraisal report indicated that there would be no difficulty in filling key positions. If in these circumstances consent was required, he believed it would be tantamount to making it a general rule for all agricultural projects in Africa.

4. Mr. Evans said that since the Ivorians would apparently accept consent without objection, he would prefer it to consultation since in the last analysis this gave the Bank greater control over a project which might well encounter serious management difficulties at a later stage. A "mix" of consent and consultation, as suggested by the Area Department, might well dilute the Bank's authority and mean even less effective control over the project than with consultation throughout. Mr. Broches commented that he would prefer consultation throughout since some Board members opposed consent and it could in certain circumstances work against the Bank if, for example, it caused the borrower to act passively and to put on the Bank the responsibility of getting a project completed.

5. Decision: The Chairman said that since it was agreed that the management set-up was at present satisfactory, consultation throughout appeared sufficient, unless after discussions with the Bank's financing partners it appeared desirable for the Bank to conform to their own requirements of consent for the two senior posts. He also noted that

the provision which the Bank proposed to seek to enable PALMIVOIRE to obtain fair prices for domestic sales for palm oil (paragraph 16 of the Area Memorandum) might well have to be further examined after negotiations had got underway.

Mark Cherniavsky
Secretary

Cleared with Messrs. Cope
Chaufournier
Evans

Distribution: Loan Committee
Participants

LOAN COMMITTEE

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SEP 09 2014

WBG ARCHIVES

LM/M/68-21

November 19, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss possible Bank financing of the Bolivian gas pipeline project, held in Room 1204 on November 6, 1968.

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

IM/M/68-21
November 19, 1968

Minutes of Special Loan Meeting to discuss possible Bank financing of the Bolivian gas pipeline project, held in Room 1204 on Wednesday, November 6 at 9:15 a.m.

1. Present: Messrs. Knapp (Chairman), Carmichael, Cope, D. Elliott, Sassoon, Skillings and Cherniavsky.

2. Issue: Further to the meeting of July 17 (See IM/M/68-11 dated August 6, 1968) to consider possible Bank financing of the Bolivian gas pipeline project, further discussions had been held with the Bolivian authorities and Gulf about a financing plan.

3. Discussion: The meeting was told that for political reasons the Bolivian Government did not want Gulf to have more than a 50% ownership interest in the pipeline company. Gulf, on its part, was willing to guarantee, ^{1/} jointly and severally with YPFB (the Bolivian Government oil concern) all obligations of the pipeline company but would not duplicate security arrangements by purchasing preferred stock or subordinated strips of Bank loan as well. Gulf proposed that the financing be met half by the IBRD and half by New York Banks, without any cash contribution from Gulf.

4. It was noted that the reason for Bank participation in this project, which in principle could be financed wholly by Gulf, was that Gulf wanted a Bank "presence" (but would not apparently require a force majeure clause which would argue more strongly for Bank participation) and the Bolivians wanted to limit foreign ownership and attract private/official capital on a 50-50 basis.

5. Regarding procurement, the meeting was told that the contract award for pipe would probably be in December and payments might begin in February. The Bank loan would not be submitted to the Board until at least May, thus raising a retroactive financing problem. The Chairman commented that while there were persuasive reasons for allowing procurement to go ahead as planned, retroactive financing was a sensitive issue and it was important that the Executive Directors be kept informed of the status of procurement through normal channels. The justification for agreeing in this case was Bolivia's obligation to deliver gas to Argentina by July, 1970.

6. Decision: The Chairman said that the basic reason for Bank participation in the project was the Bolivian insistence on a 50-50 private/official financing plan. He would recommend that the Bank indicate its willingness in principle to meet half of the project costs, the remainder to be covered by New York Banks (who would have

1/ The relationship between Gulf (the parent company) and Bolivian Gulf in this and other matters would have to be clarified to ensure that Gulf's obligations extended back to the parent company.

claims on the pipeline company pari passu with IBRD), provided Gulf would guarantee all of the pipeline company's obligations, and that Gulf's guarantee obligated the parent company.

Mark Cherniavsky
Secretary

Cleared with Messrs. Cope
Carmichael
Skillings

Distribution: Loan Committee
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LOAN COMMITTEE

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WBG ARCHIVES
LM/M/68-20
November 18, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the change of legal seat of CAMEL from France to Algeria, held in Room 1204 on November 11, 1968.

Henry G. Hilken
Acting Secretary
Loan Committee

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Committee:

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Executive Vice President (IFC)
Vice President (IFC)

LM/M/68-20
November 18, 1968

Minutes of Special Loan Meeting to discuss the change of legal seat of CAMEL from France to Algeria, held in Room 1204 on Monday, November 4 at 2:00 p.m.

1. Present: Messrs. Knapp (Chairman), Benjenk, Broches, Cope, Delaume, Kreuter, Lejeune, Springuel and Cherniavsky.

2. Issue: In May 1967 the Algerian Government had requested CAMEL, the borrower under the U.S. \$20.5 million loan for gas liquifaction, to move its "siege social" from France to Algeria. The Bank had not been informed of the seriousness of this demand until a year later and because CAMEL had ignored it, the Algerians had in July 1968 suspended the preferential exchange regime accorded to CAMEL as a foreign company operating in Algeria, thus placing CAMEL in a difficult financial position. CAMEL's shareholders were now apparently prepared to accede to the Algerian's demand and Mr. Lejeune's memorandum of November 4 to Mr. Knapp reviewed recent events and recommended a course of action for the Bank.

3. Discussion: The meeting noted that the Bank had told CAMEL's shareholders that the transfer of the company to Algeria was a matter for them alone and in no way created, in the Bank's view, new political risks which could justify enlarging the scope of the force majeure clause in the shareholders' guarantee agreement. The Bank's main concern was that CAMEL's legal existence should continue uninterrupted, thereby safeguarding all the long term contracts, including the Bank's loan and guarantee agreements and the sales contract with British Methane, the latter being the sole source of income for CAMEL. Therefore the Bank could approve the transfer of CAMEL's "siege social" only when the maintenance of CAMEL's personality had been formally preserved through an exchange of diplomatic notes between France and Algeria. Once the notes had been exchanged and the Bank had given its consent to the transfer, there was a reasonable possibility that relations between CAMEL and the Algerian Government could be mended and the Bank could use its influence, e.g. through project supervision, to make certain that CAMEL's status in Algeria be adequate to the continuance of its operations as a company in Algeria.

4. Decision: The Chairman agreed with Mr. Lejeune's recommendation that the Bank send a cable to CAMEL, either approving the transfer of the company to Algeria if the Bank learned that an exchange of notes had taken place between the French and Algerian Governments, or indicating that no Bank approval would be forthcoming until such an exchange had taken place.

Mark Cherniavsky
Secretary

Cleared with Messrs. Cope
Broches
Lejeune

Distribution: Loan Committee
Participants

LOAN COMMITTEE

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WBG ARCHIVES

LM/M/68-19

November 18, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss a loan to Iran for the Dez Irrigation Project, held in Room 1204 on November 4, 1968.

Henry G. Hilken
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
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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/68-19
November 18, 1968

Minutes of Special Loan Meeting to discuss a loan to Iran for the Dez Irrigation Project, held in Room 1204 on Monday, November 4 at 2:45 p.m.

1. Present: Messrs. Knapp (Chairman), Benjenk, Broches, Cope, Darnell, Evans, Golan, Hartwich, T. Jones, Lejeune, Votaw and Cherniavsky.
2. Issue: During negotiations for the proposed \$30 million loan to Iran for the Dez Irrigation Project (Stage I), the Iranian representatives had been instructed to seek Bank agreement to allocating any part of the 57,000 ha. project area to "agribusiness" (large-scale mechanized farming). The Bank's original proposal was that only 3,800 ha. be set aside for agribusiness in the project area, the remaining 53,200 ha. to be developed for improved traditional farming.
3. Discussion: The Agriculture Project's Department stated that the project had been appraised as a smallholder's scheme with only a small area set aside for agribusiness since this would be a new venture and it was uncertain how it would work out. Agribusiness would require foreign firms with capital and knowhow possibly in cooperation with Iranian interests. So far no firm offers had materialized. Certainly it was highly improbable that the Iranians could attract agribusiness to anything like 57,000 ha. within the next two years or so. Moreover the Bank might not wish to be associated with an operation on this scale, since it would involve eviction of the indigenous farmers who have recently acquired title to the land under the Agrarian Reform. It would also disrupt the peasant farmers already settled in the Dez Pilot Irrigation Area which had been financed by the Bank in 1960. Finally, allowing the Iranians to allocate "up to" 57,000 ha. to agribusiness in areas selected by would-be agribusinesses would make it impossible to plan in time investments for improved traditional farming and concomitant technical services over the non-agribusiness project area and would in practice mean that irrigated land, instead of being fully utilized as water became available, would lie unproductive until agribusiness got underway in that area.
4. Mr. Lejeune's memorandum of October 31 to Mr. Knapp, suggested a possible compromise, namely that the Bank agree to allocate 20,000 ha. of specified areas to agribusiness, provided (inter alia) that the Iranians agree that the land would revert to improved traditional farming if, by certain cut-off dates (determined by the time at which water became available) the agribusiness had not materialized. This possibility had been discussed with the Iranians negotiators, who had, however, received subsequent instructions from Teheran to seek full flexibility (i.e., agribusiness for up to 57,000 ha.) or to adjourn negotiations.
5. Decision: The Chairman commented that it would seem likely, as Mr. Lejeune had suggested, that there had been some crossing of wires in Teheran since a "57,000 ha. or nothing" position was extreme and unreasonable. If it really was the case that the Iranian representatives could not now consider the 20,000 ha. proposal, then negotiations should be adjourned to give the Iranian delegation the opportunity to discuss the situation with their Government. If necessary, a small mission should be sent to Teheran as soon as possible to explain the Bank's position and explore the Iranian's motives.

Mark Cherniavsky
Secretary

Cleared with Messrs. Cope
Lejeune
Golan
Distribution: Loan Committee
Participants

LOAN COMMITTEE

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SEP 09 2014

LM/M/68-18 WBG ARCHIVES

October 29, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss procurement under the proposed loan to India for the Tarai Seeds Project, held in Room 1204 on September 27, 1968.

Mark Cherniavsky
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

Minutes of Special Loan Meeting to discuss procurement under the proposed loan to India for the Tarai Seeds Project, held in Room 1204 on September 27.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Cargill, Chadenet, Cope, Darnell, Dunn, Evans, Goodman, Kirk, Neuner, Nurick, Pickering, Street, Votaw, Wappenhans, Wiehen and Cherniavsky.
2. Issue: The memorandum and attachment from the Asia Department "India - Tarai Seeds Project" (LC/O/68-81 dated September 24, 1968) raised two important issues for consideration before negotiation of the proposed loan: (a) the criteria for agreeing with the borrower on the precise list of goods which would be subject to international competitive bidding and (b) the level of preference for comparing the bids of domestic manufacturers with those of foreign suppliers.
3. Discussion: It was recalled that the Loan and Economic Committees had met jointly on September 26 to consider the report from the Bell Working Party entitled "International Competitive Bidding and Preferences for Domestic Suppliers" and had concluded that the Bank should normally accord domestic suppliers a margin of preference of 25 percent or the existing level of duties, whichever was lower, with a waiver of the "25 percent rule" when there were special circumstances, for example, a clearly overvalued exchange rate. It was recognized that, for reasons already explained elsewhere, ^{1/} the appropriate ceiling for India would be 27.5 percent.
4. So far as the question of "reserved" procurement ^{2/} was concerned, the consensus at the September 26 meeting had been that the Bank (with very few exceptions) would not finance even the foreign exchange component of such procurement. The Bank might accept such procurement in a project which it was financing if (i) it was judged not to place an undue burden on the economic and efficient execution of the project and (ii) it was agreed in advance what specific items would be reserved.
5. The meeting was told that the "burden" which reserved procurement might place on the Tarai seeds project could in fact be particularly troublesome for the Bank. The Projects Department stated that the performance and delivery date of locally fabricated tractors was unreliable and could jeopardize a project where timing was so critical. There were no testing facilities or other means for the Bank to form an objective judgment on the dependability and suitability of Indian tractors or other farm machinery required for the project. Consequently, the Bank would have to rely on participating farmers' good sense and experience by permitting them to choose between locally fabricated and imported tractors.

^{1/} See Minutes of Loan Committee Meeting on International Competitive Bidding (LC/M/67-11 dated December 14, 1967) and Mr. Cargill's references thereto in the attachment to LC/O/68-81 mentioned above.

^{2/} "Reserved" procurement is procurement reserved for domestic suppliers even though it could feasibly be supplied either by international or local suppliers, and which the Bank would ordinarily require to be subject to international competitive bidding; it does not include procurement limited to local suppliers because the Bank recognizes that international competitive bidding is impractical or inappropriate.

This, of course, would preclude reserved procurement. Mr. Cargill commented that there was in fact a strong possibility that the Indians would go along with the Bank so far as tractors were concerned. In any case India was a net importer of tractors and in such circumstances the Government should not object to the importation of tractors for this particular project.

6. It was further noted that another major item which the Indians might wish to reserve for local procurement was land-levelling machinery to be employed by local contractors. It was agreed that if the Indians did not press this point it would be perfectly feasible to work out a formula for giving local contractors a margin of preference to reflect their use of domestic rather than imported machinery. It appeared, however, that if the Indians insisted upon reserving land-levelling machinery for local procurement, it would be very difficult to establish any clearly defined criteria for making a judgment, after the bids were in, whether this restriction would place "an undue burden on the economic and efficient execution of the project."

7. The Chairman noted that the amount of the loan earmarked in the appraisal report for investment items (\$9.2 million) represented some 50 percent of the project investment costs. He felt that the Bank might be able to meet 60 percent of the investment costs of the project, but the amount of the loan would have to be fixed, not as a percentage of total investment costs, but as a percentage of the cost of the project after deduction of any reserved items, no part of which the Bank would finance, in accordance with paragraph 4 above. In addition, the loan should also include an amount for financing fertilizer imports, as suggested in the appraisal report.

8. Mr. Cope suggested that the counterpart funds from the sale of fertilizers financed by the Bank be passed on to the Tarai Development Corporation (TDC). In this connection there was some discussion of having the TDC as the borrower, but it was generally felt that this would be inappropriate since not all of the project funds would need to pass through the TDC, which had not been envisaged as an investment agency.

9. Decision: The Chairman said that the discussion had clarified the issues but that precise solutions on procurement would have to be settled during negotiations. In outline, he considered that (i) if the Bank were to offer the Indians a level of domestic preference equal to existing tariff duties up to a ceiling of 27.5 percent, this would represent a significant softening of the Bank's previous position and the Bank should therefore expect India to ask for little or no reserved procurement; (ii) if the Indians were to ask for reserved procurement on land-levelling machinery the Bank would have to make a broad judgment in advance as to whether this condition was acceptable; (iii) to the extent that negotiations with the Indians took place before the Board discussion on preferences for domestic suppliers, the Bank would have to explain that its position was still under review and (iv) the Bank should now consider financing up to 60 percent of the project costs as defined in paragraph 7. Finally, he recommended that thought be given to passing on to the TDC as working capital the counterpart funds from fertilizer sales financed by the Bank loan.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Chadenet
Goodman

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SEP 09 2014

LM/M/68 **WBG ARCHIVES**

October 24, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss whether the appointment of an advisor to the Nigerian Industrial Development Bank (NIDB) should be a condition of presenting the proposed \$6 million loan to the Board or a condition of the loan's effectiveness, held in Room 1204 on October 17, 1968.

Mark Cherniavsky
Secretary
Loan Committee

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Executive Vice President (IFC)
Vice President (IFC)

LM/M/68-17

October 24, 1968

Minutes of Special Loan Meeting to discuss whether the appointment of an advisor to the Nigerian Industrial Development Bank (NIDB) should be a condition of presenting the proposed \$6 million loan to the Board or a condition of the loan's effectiveness, held in Room 1204 on October 17.

1. Present: Messrs. Knapp (Chairman), Asante, Diamond, El Emary, McIvor, Pollan, Scott and Cherniavsky.
2. Issue: The appraisal report on the proposed \$6 million loan to the Nigerian Industrial Development Bank (DB-42, dated August 22, 1968) recommended that before the loan was submitted to the Executive Directors, arrangements be made to hire an advisor satisfactory to the Bank. The Africa Department agreed that the appointment of an advisor was an essential prerequisite to the disbursement of money under the loan, but felt that in view of the possible delays in hiring one, his appointment should be made a condition of the loan's effectiveness rather than a condition of Board presentation.
3. Discussion: The meeting was told that loan negotiations were expected to begin in the second half of November, permitting Board presentation at the end of the year at the earliest. The Area Department felt that in view of the Bank's uneasy relations with Nigeria, particularly over this loan which had already been subject to very long delays, it was important to show that we were in earnest and to present the loan to the Board as soon as possible after negotiations. The Nigerians regarded Board presentation as a landmark and to postpone it might raise suspicions in their minds that the Bank was "not serious".
4. Mr. Diamond said that the defect to such an approach was that it would put pressure on the Bank to make the loan effective once it had been approved, whether or not an entirely satisfactory appointee had been found and mutually agreed. There was in fact a very reasonable chance that an advisor would be found in the next two or three months, in which case the amount of delay involved would be slight or even nil, and he saw no reason for the Bank to expose its position now by agreeing in advance to submit the loan to the Board before an advisor was found.
5. Decision: The Chairman said that as a general principle the Bank preferred to settle problems of this kind before Board presentation rather than to risk a long delay in the effectiveness of a loan after Board approval. He also felt that the conclusion of loan negotiations should provide ample evidence that we were "serious". Although a final decision need not be taken until negotiations had been completed - at which time an advisor might already have been suggested or even appointed - he was inclined towards the approach advocated by Mr. Diamond.

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
Diamond
El Emary
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LOAN COMMITTEE

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WBG ARCHIVES

October 14, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the amount of the proposed loan to Malagasy for a beef-cattle development project, held in Room 1204 on September 18, 1968.

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

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)

LM/M/68-16

October 14, 1968

Minutes of Special Loan Meeting to discuss the amount of the proposed loan to Malagasy for a beef-cattle development project, held in Room 1204 on September 18, 1968.

1. Present: Messrs. Knapp (Chairman), Baum, Broches, Cope, de la Renaudiere, El Emary, Evans, Hassid, Knobel, McIvor, Payen, Rovani, van Gent and Cherniavsky.
2. Issue: The appraisal report on the beef-cattle development project in Malagasy Republic (TO-684 dated August 9, 1968) recommended that the Bank make a loan of \$2.1 million for the project, with a contribution of \$2 million from the Government, equivalent to about 50% of the total project cost, including working capital and interest during construction. The Area Department considered such a governmental contribution to be high in relation to Malagasy's local resources and recommended that the Bank make a loan of about \$2.8 million, equivalent to 66% of the total project cost.
3. Discussion: It was pointed out that a Bank loan of \$2.8 million would impose a high debt-service on the ranch agency and postpone by several years the date at which the agency could begin to accumulate a positive cash balance. The Area Department therefore recommended that the proceeds of the Bank Loan be contributed to the ranch agency as quasi-equity, i.e., a kind of subordinated loan, at an interest rate of 6-1/2%, interest and amortization to be payable after the income generated by the ranches had accumulated an adequate level of liquid assets.
4. Decision: The Chairman commented that while he favored increasing the amount of the loan to \$2.8 million, it seemed unnecessary to place all of the Bank loan as quasi-equity when the problem could probably be solved by extending the period of grace beyond the proposed seven years. The projected operating and income expenses should therefore be recalculated on the basis of a \$2.8 million loan and a nine year grace period to see what effect the increase in debt would have on the agency's cumulative balance. (Subsequent to the meeting, it was decided that a nine year grace period would be acceptable).

Mark Cherniavsky
Secretary

Cleared with Messrs. Knapp
El Emary
Baum

LOAN COMMITTEE

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LM/M/68-1

January 3, 1968

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the Singapore Port Project (Loan 462-SI), held in Mr. Cope's office on Monday, December 11, 1967.

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

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)

January 3, 1968

Minutes of Special Loan Meeting to discuss the Singapore Port Project (Loan 462-SI), held in Mr. Cope's office on December 11, 1967 at 2:30 p.m.

1. Present: Messrs. Cope (Chairman), Baum, Bell, Brakel, Goodman, Jentgen, Scheiner, Street, van Helden, Webb and Cherniavsky.
2. Issue: The Port of Singapore Authority (PSA - The Borrower) had requested a change in the project description, and the Area Department was proposing a postponement of the closing date, to substitute for four general-cargo berths, two berths designed to handle containerized traffic as well. The Asia Department and Projects Department recommended submission of PSA's proposal to the Executive Directors on a "no objection" basis, without reconsideration of the interest rate should the Bank's standard rate be raised above the 6% of the loan.
3. Discussion: The Projects Department explained that the introduction of containers by the shipping lines had taken place much more rapidly than was foreseen when the loan was signed. PSA, having had the benefit of various advisers, now intended to construct facilities to handle containers and general cargo at two berths, one cross berth and one auxiliary narrow berth, instead of four berths of lighter construction to handle general cargo only, envisaged in the original project. The Projects Department supported this recommendation as appropriate to Singapore in order to provide facilities having the maximum flexibility in view of its position as the leading entrepot port in the area.
4. It was noted that it was too early to say when containerization would come to Southeast Asia, and, in the absence of any agreed tariff structure for handling containers, what impact it would have on PSA's finances and the project's economic rate of return. However, there was no doubt that it was sound business judgment for PSA to be prepared for containerization by constructing slightly more expensive facilities which could handle general cargo, either conventionally or in containers, rather than those which could handle only the former. This might be considered a form of insurance, the cost of which could be considered reasonable in view of the key role of the port of Singapore in the traffic of the region and the known interest of the shipping lines in introducing containers at an early date.
5. Decision: The Area Department's recommendation for a change in the Project Description and for a postponement of the Closing Date to be submitted to the Executive Directors on a "no objection" basis was acceptable. It was decided that the President's Memorandum should be accompanied by a paper giving a detailed technical description of the proposed changes in the project and explaining the factors which justified modifying the project despite uncertainties regarding the financial and economic impact of containerization.

Mark Cherniavsky
Secretary

Cleared with Messrs. Cope
Baum
Goodman

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