Folder Title: Loan Committee - 1973

Folder ID: 30043686

Dates: 1/26/1973 - 12/7/1973

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

Series: Minutes of Loan Committee Meetings

Fonds: Records of the Operations (Loan) Committee

Digitized: September 17, 2014

~~Clausen's: FY83 Work Program~~

Loan Committee 1973

DECLASSIFIED
WBG Archives

The World Bank Group Archives
30043686
A1995-291 Other #: 15 213554B
Loan Committee - 1973

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED
AUG 2 9 2014
WBG ARCHIVES

LC/M/73-22

December 7, 1973

Minutes of Loan Committee Meeting to consider
"Bolivia - Mining Credit Project"
held on December 3, 1973 in Conference Room E1208.

A. Present

Committee:	Others	
J. Burke Knapp (Chairman)	G. Wiese	G. Renger
G. Alter	R. Dosik	C. Walser
W. C. Baum	R. Bosson	H. Van der Heijden
A. Broches	J. Martinez	D. Wittusen
	B. Rassmuson	

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Alter's memorandum of November 26, 1973, for approval to negotiate a proposed $6.2 million credit for a Mining Credit Project in Bolivia:

(i) whether negotiations should proceed before the Board had had a meeting on the mining sector paper;

(ii) whether the spread to BISA and the lending rates were appropriate;

(iii) whether the individual free limit proposed was tight enough;

(iv) whether the proposed covenant on the Mining Code was adequate.

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

C. Discussion

2. The Timing of Negotiations: The Chairman asked whether or not negotiations for the proposed credit should be postponed until the mining policy paper had been discussed by the Board. The Latin America and Caribbean Region pointed out that such a postponement would create a serious hardship for the proposed intermediary and for the potential sub-borrowers; and since the project contained nothing unusual, and it was rather non-controversial, they would not expect any difficulties which would justify the proposed delay. The Committee agreed.

3. The Spread to BISA and the Interest Rate: The Chairman brought up the proposed spread for BISA and the proposed relending rate. He said he had no views about the 4 percent spread but that he felt strongly that IDA money should not be relent to BISA at less than the current Bank lending rate, i.e. 7-1/4 percent, especially since BISA was a private institution lending to private firms. The proposed 8 and 12 percent lending rates were satisfactory on this score but he would also have no objection to a lower interest rate, say 11 percent, as long as BISA did not receive the money at less than 7-1/4 percent.

4. The Free Limit Provisions: The Chairman questioned whether the proposed individual free limit of US$250,000 was tight enough considering that this was the first time the Association lent to BISA and that BISA was entering a sector in which it had had no previous experience. The Region replied that the Appraisal Mission had concluded that BISA would have sufficient staff of adequate caliber to appraise the mining projects and that unlike the case of other DFC borrowers, the potential borrowers were few and we knew them reasonably well. The Chairman decided that irrespective of the free limit proposed, IDA should review the first three mining projects.

5. The Covenant on the Mining Code: The Chairman and the General Counsel inquired why there was a covenant regarding only the timing of the promulgation Mining Code and not the content of the Mining Code. The Region indicated that it had been advised by the Bolivians that the new Mining Code would largely be a codification of the 1965 Mining Code, the Investment Law of 1971 and subsequent mining legislation. Furthermore, this was a very sensitive issue in Bolivia and we believed it would be more effective for us to try to work with the Bolivians in an indirect way instead of insisting on consultation on the new Mining Code. The Committee agreed that during negotiations the Region should confirm that its understanding about the content of the Mining Code was correct; if so, the clause as proposed would be acceptable.

D. Conclusion

6. Subject to modification noted in paragraph 4 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Alter
Baum
Walser

JAMartinez/DFWittusen:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-21

October 2, 1973

Minutes of Loan Committee Meeting to consider "Afghanistan - Second Highway Improvement and Maintenance Project" held on September 17, 1973, in Conference Room A.

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
Hugh N. Scott
A. Karaosmanoglu

Others:

W. Wapenhans
R. Dosik
M. Wiehen
R. Armstrong
A. Davar
P. de Man
S. Hallgrimsson
S. Hassan
N. W. Noon
D. F. Wittusen

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Karaosmanoglu's memorandum of September 17, 1973, for approval to negotiate a proposed US$11.5 million credit for a Second Highway Improvement and Maintenance Project in Afghanistan:

(i) whether performance under the First Highway Maintenance Project justified going ahead with a second project and, if so, what remedial action should be required; and

(ii) suitability of recurrent expenditures for highway maintenance as a purpose of the credit.

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

C. Discussion

2. Performance under the First Highway Maintenance Project. The EMENA Region explained that Afghanistan's performance under the First Highway Project should be viewed in four distinct phases, as follows:

(i) the first year of the project, from signing in June 1969 to June 1970, when the requirement for parliamentary ratification of the credit delayed its effectiveness;

(ii) the next year or so, through mid-1971, when performance under the project was satisfactory;

(iii) the period from mid-1971 to November 1972, when performance under the project was poor; the project was considered a "problem project" during calendar year 1972; and

(iv) the period since November 1972, during which performance had been improving.

The Region also cited four distinct types of problems which had affected the project, particularly during the difficult 1971/72 phase noted in (iii) above. These four problems were in the following areas: delays in local cost financing; poor management; staff shortages; and inadequate procurement and storekeeping procedures.

3. With regard to local cost financing, the staff noted that during 1970 and 1971, Afghanistan had experienced a severe drought. In consequence, the Government had operated under serious fiscal constraints because funds had to be diverted to relief operations, especially toward the end of the drought period and during the year following it. While the provision of local funds for the first highway project had improved considerably over the past year, the staff was recommending as a condition of credit effectiveness of the second highway project the establishment of a "revolving fund", into which the Government would pay periodically in advance its contributions toward the project. The Committee approved this approach.

4. The problems of project management and staffing were discussed together. A fundamental problem in attracting and retaining good management and staff for the project was the low salary level in Government service. The staff noted the difficulties which would arise if it pressed for preferential salaries for the project department in relation to other departments and ministries. The possibility of establishing a Highway Improvement and Maintenance Authority had been mentioned during appraisal, but had not been discussed in detail. After the appraisal had been completed, consultants had submitted a report to the Government which recommended the establishment of a Highway Authority. In response to a question from the Chairman, the staff indicated that the establishment of such an Authority might solve the salary problem. However, the proposal had not been studied thoroughly, and in the circumstances, the staff was reluctant to insist upon the establishment of an Authority, but proposed to discuss the matter further with the Afghans during negotiations. The Committee agreed to this approach.

5. With regard to procurement and related storekeeping problems, the staff indicated that Afghanistan's performance in this area had improved during the past year. Further improvement would be sought as part of the present project. The Committee concurred with this approach.

6. The Legal Department pointed out that several requirements of the development credit agreement and supplementary letters for the 1969 Highway Maintenance Project had not been fulfilled, e.g., introduction of legislation on rights of way, improving licensing and registration of vehicles, improving traffic regulations, establishing new procedures for truck trip permits, and introducing third party liability insurance. The Legal Department asked whether consideration had been given to making completion of some of these requirements a condition of signing a new credit. The staff noted that there had been difficulties in getting started on these improvements, but that the Government was now moving forward with many of them. It was noted that some of these provisions in the 1969 project would be repeated under the agreements for the proposed project. The Chairman commented that we should press vigorously for fulfillment of Government obligations under the 1969 agreements, but that there was no problem in principle to repeating some of these covenants in the agreements for the proposed project. The Committee concurred with this approach.

7. Recurrent Expenditures. The Chairman asked to what extent the proposed project would involve IDA financing of recurrent expenditures for such items as highway maintenance materials and lubricants. The staff indicated that the proposed credit would only finance materials and lubricants for improvement works which could be considered as capital expenditures. The Committee agreed that this approach was acceptable.

D. Conclusion

8. Subject to the qualifications above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by Messrs. Baum
Karaosmanoglu
Scott
Wiehen

NWNoon/RArmstrong:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-19
August 21, 1973

Minutes of Loan Committee Meeting to consider "Egypt - Population Project" held on July 26, 1973 in Conference Room A.

A. Present

Committee

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
K. G. Gabriel
G. Votaw

Others

K. Kanagaratnam
W. A. Wapenhans
R. Dosik
G. B. Baldwin
J. R. Burfield
N. W. Noon
H. Pollan
J. C. M. Rath
M. Yulug

B. Issues

1. The meeting was called to consider Mr. Votaw's memorandum to Mr. Knapp of July 18, 1973 in which he asked for guidance on the following subjects before advancing the proposed project to the green cover stage:

(i) the high public health (vs. population) content of the proposed project; and

(ii) the institutional arrangements within Egypt which had contributed to the weak population component of the project.

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

C. Discussion

2. Public Health: The Chairman said that the public health emphasis of the project, even though it would make only a modest contribution to Egypt's family planning program, was not itself of major concern and should not impede further processing of the project. The real question, on which the ensuing discussion focused, was whether the project offered even a minimum basis for Bank Group entry into the population sector, given the present institutional difficulties.

3. Institutional Problems: Central Projects Staff indicated that the fundamental problem was the personality and approach of Dr. Bindary, Chairman of the National Family Planning Board (NFPB), with whom much of the preparation work for the project had been undertaken during the past 2-1/2 years. Dr. Bindary had been difficult to do business with, and an IDA mission in June was informed unofficially that NFPB did not wish IDA financing. This reluctance had led to a much smaller "software" component for family planning (less than 5 percent of the IDA credit) than was ideal from IDA's perspective. It was nevertheless felt that a modest beginning for IDA in the sector now could lay the groundwork for larger participation in the sector later provided that the difficulties with Dr. Bindary could be resolved in the next few years. Also, organizational changes were introduced this year designed to give a stronger role in family planning to the Ministry of Public Health, the Ministry which continues to show strong interest in the proposed project and with which IDA might therefore usefully establish good relations by participating in the proposed project, with a view toward a second, more comprehensive family planning project in FY76 or so. It was also thought that successful IDA-financed efforts in the three pilot areas could exert some pressure on Dr. Bindary and NFPB to perform.

4. During the ensuing discussion, the following points were made: that the project as presently formulated represented the best efforts of the staff in the present circumstances to develop a project in Egypt, and that nothing would likely be achieved by waiting; that the proposed credit (US$6.1 million) was about as small as it could be and still retain Egyptian interest in IDA financing for the project; that Dr. Bindary and NFPB have access to US$8.0 million of UNFPA funds for family planning work but have not worked out with ILO, WHO, UNESCO, and other UN agencies the detailed plans necessary before a substantial portion of the funds could be used; and that, while close formal coordination with UNFPA would be difficult in present circumstances, informal coordination had been close and the family planning work under the proposed project would not conflict with UNFPA-funded work.

5. It was suggested, if IDA were to proceed with the project, that during negotiations the Egyptians should be asked to make provision for some additional family planning "software" components listed in Mr. Votaw's memorandum, such as a study of an incentive system for acceptors, the establishment of family planning targets, family planning clinics to be established in conjunction with day-care centers, and research on successful family planning operations in Egypt, and that serious thought should be given to inclusion of provisions for preparing a second population project with wider impact.

D. Conclusion

6. Central Projects Staff concluded that IDA should proceed with the project on a "best available" basis. The Region, which on balance also favored proceeding with the project, had difficulties justifying depleting Egypt's FY74 IDA allocation on so weak a project and suggested that a decision to proceed should be linked with finding additional IDA funds for a high priority, technically stronger fertilizer project. Others thought that there was not sufficient justification for going ahead. The Chairman concluded that no formal decision should be made until he had consulted with the President.

E. Postscript

7. The Chairman subsequently informed Mr. Votaw that the President had agreed to proceed with the project.

Cleared by: Messrs. Baum
Broches
Votaw
Dosik

NWNoon/RSDosik:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-18

August 14, 1973

Minutes of Loan Committee Meeting to consider "Honduras - Second Livestock Project" held on July 31, 1973 in Conference Room B

A. Present

Committee

J. Burke Knapp (Chairman)
S. Aldewereld
G. Alter
W. C. Baum
A. Broches

Others

A. D. Knox
R. Dosik
G. Flood
K. Haasjes
H. Neufeld
D. Stoops
D. F. Wittusen

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Alter's memorandum of July 27, 1973, for approval to negotiate a proposed US$6.6 million credit for a Second Livestock Project:

(i) whether the proposed relending rates were satisfactory; and

(ii) whether the proposal that the IDA "counterpart funds" be deposited in an agricultural development fund was appropriate.

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

C. Discussion

2. Relending Rates: The proposed interest rate structure was 1-3/4 percent from the Government to the Central Bank (CB), 5 percent from CB to the participating banks and 9 percent from the latter to the ultimate sub-borrower. Under the First Livestock Project, the interest rate to CB was 4-1/2 percent, which gave it a 1/2 percent spread as opposed to the 3-1/4 percent spread that was being proposed under the Second Project. The Latin America and Carribean Region explained that the increased spread to CB was considered appropriate for the following reasons: As under the First Project, CB would be responsible for providing technical personnel to both supervise and supplement the technical services to be provided by the participating banks. Under the First Project, however, CB had incurred significant losses attributable to the costs of administration; moreover, under the Second Project the need for technical services by CB would increase substantially as the proposed emphasis on smaller ranches would result in a much larger number of sub-loans, a major portion of which would go to sub-borrowers requiring higher levels of technical assistance.

3. With reference to the 4 percent spread enjoyed by the participating banks, the Region noted that this was the same as in the First Project. The spread was necessary to induce private banks to participate in a program of supervised credit which was new in Honduras, and to cover the expenses of technical assistance being given by the participating banks to farmers. The Vice President, Projects Staff, pointed out that, with a 9 percent interest rate to the ultimate sub-borrower, the total spread to the intermediary institutions was 7-1/4 percent, which was unusually high. Valid reasons had been given for this at the meeting, but it was important that the appraisal report fully explain the justification for a spread of this magnitude. The Chairman agreed with the relending rates proposed by the Region with the minor exception that the rate of 1-3/4 percent to CB should be rounded off to 2 percent.

4. The Agricultural Development Fund: Responding to the Chairman's inquiry as to why the IDA "counterpart funds" were to be maintained in a special CB fund for agricultural development in the latter 30 years of the repayment period of the Credit, the Region responded that the appraisal mission had recommended it strongly in order to channel funds to the long-neglected agricultural sector. A representative of Central Projects Staff said that CPS had supported the proposal which it considered sound, if the proposed management and use of the fund, as outlined in the Appraisal Report, were followed. In response to the Chairman's question as to the Government's position on the matter, the Region replied that the appraisal team was of the opinion that the Government strongly endorsed the proposal, while the Loan Officer had felt that the Government's position was rather one of going along with the appraisal team's recommendation. The Chairman suggested that the proposal be modified, since it was a departure from the normal IDA policy. It was agreed, therefore, that the loan of IDA funds from the Government to CB would be repaid to the Government in 20 years and that there would be no earmarking of the use of these funds thereafter.

D. Conclusion

5. Subject to the modifications noted in paras. 3 and 4 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Alter
Baum
Dosik

GFlood/HNeufeld:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-17
August 14, 1973

Minutes of Loan Committee Meeting to consider
"Mexico - Las Truchas Steel Project"
held on July 31, 1973 in Conference Room B.

A. Present

Committee	Others	
J. Burke Knapp (Chairman)	A. D. Knox	R. N. Pigossi
S. Aldewereld	R. Dosik	P. Ruof
G. Alter	L. H. Cash	C. M. Southall
W. C. Baum	E. Lerdau	J. N. Thadani
A. Broches	J. C. Lithgow	D. F. Wittusen

B. Issues

1. The meeting discussed the following subjects emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Alter's memorandum of July 24, 1973, for approval to negotiate a proposed US$70 million loan for the Las Truchas Steel project:

(i) extent of iron ore reserves;

(ii) steel pricing; and

(iii) local preferences in procurement.

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

C. Discussion

2. Ore Reserves: The Chairman enquired whether Bank staff was satisfied with the amount of iron ore reserves of the Las Truchas mines. The staff responded that it was fully satisfied. According to the most recent exploration results there existed now 76 million tons of measured reserves of iron ore, more than twice the amount specified earlier this year as a minimum for Bank participation in the Project.

3. Steel Pricing: After discussing the steel price assumptions the meeting was satisfied that the Las Truchas steel mill could produce and sell finished steel products at competitive world prices. At the same time, it was agreed that the market share of the proposed project would not be large enough to exercise a dominant influence on Mexican steel prices. The Chairman asked whether the Guarantee Agreement included a covenant permitting the Bank to be consulted on the Mexican steel price ceilings. The Regional Vice President stated that an explicit consultation clause was not contained in the Agreement but that by implication and by the fact that it appeared under Article IV, Consultation and Information, Section 4.02 could be interpreted to include consultation. It was agreed to leave it in this way, despite a certain ambiguity.

4. Local Preferences: The Vice President, Projects Staff explained the procurement system to be followed for the proposed project and stated that the preferences for local value added differed from standard Bank policy. The difference refers in particular to the threshold for the application of preferences on local value added, which is usually 20 percent. The system as applied in the case of the proposed project, and in other projects in Brazil and Turkey before it, recognizes that much of procurement for the project must necessarily comprise large packages with single contractor responsibility -- i.e., the blast furnace, pellet plant, etc. Since no Mexican supplier could meet prequalification criteria for such overall responsibility, an incentive to use Mexican resources is given to non-Mexican bidders by way of a 15 percent margin of preference 1/ on the clearly identified Mexican components of non-Mexican bids. For this purpose, a component is defined as being of Mexican origin (i) when supplied by a company incorporated in Mexico and (ii) when the costs of local materials, labor and services used in its manufacture are not less than 50 percent of the total value of the component. In those cases where Mexican companies can prequalify to bid directly, and not simply as sub-suppliers, their bids are considered entirely Mexican when Mexican value added reaches 50 percent. It was agreed, after some discussion, that it was acceptable to apply the outlined preference system to the proposed project. The staff was requested to explain the rationale for using the preference system in both the grey cover Appraisal and President's Reports.

D. Conclusion

5. The Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Alter
Baum
Broches
Dosik

PRuof/WCBaum:mep

1/ Or the prevailing import duty in Mexico, if lower than 15 percent.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-16

August 6, 1973

Minutes of Loan Committee Meeting to consider "Lebanon - South Beqa's Irrigation Project" held on July 12, 1973, in Conference Room A.

A. Present

Committee

J. Burke Knapp (Chairman)
W. C. Baum
L. Nurick
G. Votaw

Others

H. G. van der Tak
R. Dosik
F. Atabani
M. Bart
J. Collins
G. Darnell
A. S. El Darwish
M. ffrench-Mullen
B. Habte-Selassie
D. Haynes
G. Le Moigne
M. Lenot
H. Pollan
D. F. Wittusen

B. Issues

1. The meeting was called to consider the following issues emerging from Mr. Hartwich's memorandum of June 20, 1973 to the Chairman for approval to proceed with the appraisal of an irrigation project in the South Beqa's Valley in Lebanon:

(i) low rate of return of the project;

(ii) indirect economic and social benefits of the project;

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

(iii) subsidization of sugar beet prices;

(iv) alternative approaches; and

(v) amount of lending proposed.

C. Discussion

2. Rate of Return: The Committee felt that further processing of the project should not be stopped despite its low rate of return (which most recent computations by the Region estimated to be about 9 percent). Substantial economic and social benefits were expected to flow from the project, and there were certain aspects of the Lebanon situation (low opportunity cost of capital, absence of alternative investment opportunities in agriculture) which also had to be taken into account when evaluating this project. The necessity of implementing agricultural projects was recognized as one means to arrest migration to the cities (cf. Country Program Note dated April 9, 1973). This urgent but hard to quantify social benefit was an important characteristic of the project.

3. Indirect Economic and Social Benefits: The Committee discussed the land betterment taxation, now before Parliament, which would be applied at a uniform 50 percent rate to the increase in land values resulting from any government project, and felt that it would help prevent speculation and could be considered as a type of income distribution scheme, since it applied only to land owners.

4. The Region expressed the hope that the rents would be stabilized through the introduction of three-year leases, and added that the land betterment taxation law, which would be general in its application, was at too advanced a stage of parliamentary consideration for the Bank to propose major changes such as a progressive feature in the tax schedule to replace the flat 50 percent rate. The possibility of exempting owners of less than 2 ha from payment of the betterment tax would be investigated with authorities in Lebanon (before and during negotiations) when reviewing the decrees applying the law. The Region said that compulsory participation in the irrigation system (through cancellation of water rights, with compensation), introduction of progressively increasing water charges and recovery of capital costs from larger owners (possibly above 2 ha) only would also be negotiated with the Lebanese authorities and that these measures would further increase the relative benefits to poorer farmers; however, success with these measures would be partially dependent on Bank leverage through financing a substantial part of the project. The Region added that diversification of the Lebanese economy was another benefit that ought to be taken into account when evaluating the project.

5. The Vice President, Projects Staff said that in the opinion of his staff this was a marginal project and that therefore it should go forward only if improvements in the income of small farmers could be assured. It was not clear whether all of the measures proposed by the Government would in fact have positive income distribution effects. The burden of proof regarding the social benefits remained with the supporters of the project, which should not be recommended to Executive Directors unless social benefits had been secured satisfactorily during negotiations.

6. The Region assured the Committee that the Lebanese authorities had been notified of the type of measures the Bank wanted and that they had already taken preparatory steps in this direction on the instigation of the Bank. The Region mentioned that the land betterment tax was introduced following Mr. McNamara's visit to Lebanon and his discussions with President Franjieh and that various Bank missions had prompted the drafting of the water rights legislation. The Region indicated that Bank lending for the project found an additional justification in the fact that the introduction of the above-mentioned reforms in the agricultural sector as a whole (and not only South Beqa's) was hinged to a very large extent on the influence that the Bank commanded through the proposed loan. The Region would inform the Committee of further developments before negotiations.

7. Subsidization of Sugar Beet Prices: The Committee, having ascertained from the Region the nature and scope of the subsidies, recognized that subsidization of sugar beet prices was necessary now but may be less needed in the future, as a result of the project, and decided that the Government's ideas on the possibility of a progressive reduction of subsidies should be discussed during negotiations.

8. Alternative Approaches: The Committee discussed the possibility of the Bank financing an engineering loan in order to arrive at firmer cost estimates in view of the uncertainty of the general situation in the Middle East, and noted the objections of the Government, namely possible delays and loss of momentum in issuing and implementing the necessary legislation, which made this approach unfeasible. The Committee also discussed the possibility of phasing the loan but found this impractical since the only possible technical division of the project would imply discrimination between the two religious groups which live on different sides of the project area.

9. Amount of Loan: It was recognized that the initial figure of $15 million (indicated in the Country Program Note) was no longer realistic in light of the findings of the appraisal mission as explained in the Issues Paper. In view of the fluctuation of exchange rates and the resulting difficulty of arriving at precise estimates in dollar terms, the Region indicated that the foreign exchange component of the cost of the project was expected to be between $39 and $46 million. The Committee foresaw a loan amount between $35 million and $40 million, with the remaining foreign exchange to be provided by Lebanon, but deferred a final decision on the amount until cost estimates were firmed up and the project was resubmitted to the Committee for approval to begin negotiations.

D. Conclusion

10. The Committee decided that the Region could complete the appraisal report along the lines indicated above and that the Government should be informed of the Bank's requirements, particularly regarding new legislation, so that introduction of appropriate reforms could be made realistic conditions of the proposed Bank loan. The Committee urged the Region to stress to the Lebanese authorities the need for reform measures, to follow up closely the progress on these matters and to report back in some detail to the Committee before inviting negotiators.

Cleared by: Messrs. Knapp
Baum
Votaw

MLenot:pat

Form No. 60
(2–73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-15

July 2, 1973

Minutes of Loan Committee Meeting to consider "India - Calcutta Urban Development Project" held on June 18, 1973, in Conference Room B.

A. Present

Committee	Others	
J. Burke Knapp (Chairman)	W. Diamond	S. Sandstrom
S. Aldewereld	R. Sadove	D. Sassoon
W. C. Baum	H. van der Tak	H. Shipman
I. P. M. Cargill	M. Weiner	M. Singh
L. Nurick	R. Dosik	D. Strombom
	M. Wiehen	R. Woodford
	E. Cunningham	K. H. Willen
	F. H. Howell	D. F. Wittusen
	A. Raizen	

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Weiner's memorandum of June 1, 1973, for approval to negotiate a proposed $30 million credit for the Calcutta Urban Development Project:

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(i) whether the project should include garbage disposal, slum modernization and environmental hygiene, representing new areas for Bank Group lending;

(ii) whether the extent of institutional and financial reform under the project as suggested by the appraisal mission was appropriate;

(iii) whether provisions for procurement under the credit were adequate;

(iv) whether the economic justification of the project should include indirect economic benefits;

(v) whether a water availability covenant in the draft legal documents would be appropriate; and

(vi) amount and disbursement of the credit.

C. Discussion

2. The Chairman opened the discussions by complimenting the staff on the preparation of a difficult and innovative project.

3. Garbage Disposal, Slum Modernization and Environmental Hygiene: The Asia Region explained in some detail the purpose and contents of these three components. The Chairman raised the question of whether a Board preview of these components would be appropriate, since they represented innovation for Bank Group lending, but concluded that since these components were incidental, rather than essential, to the project and together represented less than ten percent of total project cost, no preview should be necessary.

4. Institutional and Financial Reforms: The Vice President, Projects Staff, pointing to the obvious need for institutional reform of the water supply and sewerage entities in the Metropolitan District, questioned whether the mission's recommendations were sufficiently far-reaching, or precise, in this respect. The Region explained the strategy of this operation, which essentially was to assist the Calcutta Metropolitan Development Authority (CMDA) in improving its implementation effectiveness and thereby help mobilize popular support in the district for necessary reforms. The Government of West Bengal was considering fundamental reform of the whole structure of local government, and the Association should be in a better position to contribute towards this effort through participation in the program. It would, however, still be premature to focus on individual institutions. The Calcutta Metropolitan Water and Sanitation Authority, established in 1966, had turned out to be quite ineffective, and it was an open question if and when this institution could be revitalized. Responsibility for execution of water, sewerage and drainage projects would be consolidated within CMDA; the project would provide for a study of organization and maintenance units in major operating agencies in these sectors. The Vice President, Projects Staff said that it was possible and desirable to improve on the operating and

financial policy objectives for the project, as compared with the appraisal report's recommendations, without foreclosing the pending municipal reform. The Region conceded that a stronger stand could be taken but cautioned that the legal documents should not be too rigid when specifying dates and measures of adherence to ensuing covenants. The Calcutta situation was still precarious and it was too early to assess the pace and direction of reform in the district. The Chairman requested the Vice President, Projects Staff to convene a meeting of representatives from Central Projects, the Region and the appraisal mission to consider ways of improving the operating and financial policy objectives of the project.

5. Procurement: The Vice President, Projects Staff suggested and the Committee agreed that the procurement paragraphs of the appraisal report should be redrafted, to reflect better the justification for waiving international competitive bidding for civil works contracts and certain equipment items.

6. Economic Justification of the Project: The Vice President, Projects Staff suggested and the Committee agreed that the economic justification of the project as presented in the grey cover Report should exclude indirect economic benefits, since the method of analysis was still experimental.

7. Hooghly River Water Availability: The Chairman questioned the report's recommendation that the Government of India and Government of West Bengal should be asked to maintain Hooghly River salinity within limits permitting efficient operation of water treatment plants. The Region explained that there were many claims upon the water released from the Farakka barrage on the Ganga River, and the purpose of a covenant would be to secure the district's raw water supplies. The Chairman noted the possible international complications arising from such a covenant, and it was agreed to delete the covenant from the legal documents.

8. Amount and Disbursements: The Region explained that the amount of the credit had been arrived at somewhat arbitrarily in striking a balance between the need to make a substantive contribution and limiting the risk involved in this project. Disbursement percentages against locally procured material and equipment (50%) and civil works contracts (29%) were also arbitrarily chosen. The Chairman suggested that the two actual percentages be averaged out.

D. Conclusion

9. Subject to the outcome of the meeting referred to in para. 4 above, and to the modifications noted in paras. 5 - 8 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Baum
Cargill

KHWillen/ECunningham/RWoodford:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED
AUG 2 9 2014
WBG ARCHIVES

LC/M/73-14

June 29, 1973

Minutes of Loan Committee Meeting to consider "India - Financing Indigenously Manufactured Tractors under Indian Agricultural Credit Projects" held on June 21, 1973 in Conference Room B.

A. Present

Committee	Others	
J. Burke Knapp (Chairman)	W. Diamond	E. B. Cunningham
S. Aldewereld	M. L. Weiner	G. F. Darnell
W. C. Baum	R. Dosik	C. Goderez
I. P. M. Cargill	M. H. Wiehen	J. C. Lithgow
H. N. Scott	F. Cabezas	D. Wittusen

B. Issues

1. The Committee was called to consider the proposal put forward in Mr. Diamond's memorandum to Mr. Knapp of June 8, 1973 that indigenously manufactured tractors should be eligible for financing from the allocations for imported tractors amounting to US$65 million under six agricultural credit projects. It was proposed that agreement with this proposal should be subject to the following conditions:

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

(i) Agreement by GOI to eliminate the interchangeability clause in future tenders.

(ii) GOI would agree that domestic tractor suppliers under IDA credits would not receive export incentives.

(iii) GOI would agree to pursue, in consultation with IDA, a program for relaxing controls on the tractor industry with a view to improving its efficiency.

C. <u>Discussion</u>

2. The Chairman opened the discussion by saying that Mr. Diamond's memorandum provided adequate justification for including procurement of local tractors under these credits. Procurement would be in accordance with farmers' choice, and competition between imported and indigenously manufactured tractors was satisfactory. GOI had also accepted under the Eighth Industrial Imports Credit, which was approved by the Board on June 7, to implement an action program to improve the performance of the local tractor industry.

3. The Vice President, Projects Staff, confirmed that the three necessary conditions for supporting this proposal appeared to have been fulfilled. There would be farmers choice; there would be an adequate degree of competition; and there would not be any unreasonable exclusion of or discrimination against particular models or makes, foreign or local.

4. Central Projects staff enquired about the prospects for raising domestic production of tractors. It was agreed that output could be increased through increasing imports of components and the recently approved Eighth Industrial Imports Credit would help in this respect.

5. The Chairman said that he did not see any need for adjustments to be made in respect of components imported from East European countries, so long as the indigenous content of tractors financed under these credits was expected to be 40 - 50 percent.

D. <u>Conclusion</u>

6. The Committee approved the proposal and recommended that a paper should now be prepared for the Executive Directors recommending the amendment of the legal documents to include the financing of indigenously manufactured tractors.

Cleared by: Messrs. Knapp
Baum
Cargill

EBCunningham:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-13

June 12, 1973

Minutes of Loan Committee Meeting to consider "Mauritius - Rural Development Project" held on May 18, 1973 in Conference Room B.

A. Present

Committee	Others	
J. Burke Knapp (Chairman)	S. Husain	D. Goldberg
S. Aldewereld	H. G. van der Tak	B. Lan
W. C. Baum	M. Yudelman	J. Roulet
S. S. Kirmani	R. S. Dosik	A. Schumacher
L. Nurick	M. H. Wiehen	C. Walton
	S. Please	R. van der Lugt

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee under cover of Mr. Kirmani's memorandum of May 11, 1973, for approval to negotiate a proposed $4.0 million credit for a rural development project, the first case of a Bank Group financed project using employment creation as its main rationale (the meeting also had before it a note on the proposed project, dated May 17, 1973, by Mr. Wiehen):

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(i) whether the analysis of the economic justification as presented in the draft documents was too detailed and complex;

(ii) whether the proposed organizational set-up was too complex;

(iii) whether the detailed hiring and wage policies proposed by the Regions were the most appropriate package, how long they should be enforced, and how they should be stipulated in the legal documents; and

(iv) whether full financing for the project was assured.

C. Discussion

2. Economic Justification: It was suggested that some of the detailed explanations presented in the report, and especially in the annexes, could be omitted without weakening the presentation and that the methodology used in the economic return calculations was perhaps too sophisticated and unnecessarily complicated compared to that used in appraisal reports generally. It was pointed out on the other hand that, as this was the first case of a Bank project aimed primarily at the creation of employment, a special effort had been made to develop the methodology and it would be unfortunate if these endeavors were not to appear in the report. The meeting agreed that the report presentation should be retained but that additional food aid granted by the U.S. to Mauritius, as a result of the project, should not be treated as an additional benefit in the calculation of the economic return.

3. Organizational set-up: The meeting noted that the Appraisal Report recommended that in addition to the Rural Development Unit which should be maintained within the Ministry of Economic Planning and Development to undertake overall coordination of project components, a Rural Development Committee of the Cabinet should be established. The proposed Committee would be chaired by the Prime Minister and would have as members no less than ten Cabinet Ministers. Questions were raised about the functions of this Committee, which was proposed not only to establish criteria and policy requirements, but also to "consider and approve or reject rural development projects" (Section 3.03 of the Development Credit Agreement). It was argued that, as the Project would use a large labor force, a strong policy committee was required to ensure that parochial ministerial or independent agency interests did not dominate overall Project strategy. As to the reference to approval of "Rural Development Projects" by the Committee, it was explained that what was meant was the approval of "integrated rural development programs" for the designated village council areas rather than of individual projects. The meeting was informed that the proposed organizational set-up reflected the Government's own proposal and agreed that even if it appeared cumbersome, it constituted a suitable basis for discussion.

4. Hiring and wages policy: The meeting, noting that the draft Project agreement and Appraisal Report stated that the Development Works Corporation (DWC) would alter its hiring policy to employ new workers in the proportion of at least one third males 16-20 years old, one third males 21-64 years old and the balance from the rolls of existing relief workers, questioned the rationale for excluding women from the Project, since the rate of unemployment among females was higher than among adult males. The Region replied that women had been excluded from the Project work force because of the alarming increase in the number of unemployed young males 16-20 years old, and because women were increasingly finding new employment opportunities resulting from the industrial development (especially textile establishments). In view of this, the meeting concurred with the hiring policy proposed in the Appraisal Report.

5. The Appraisal Report also recommended that DWC should maintain a wage rate structure for its unskilled employees equivalent to not more than 80 % of the wage package received by unskilled government workers. The meeting agreed with the proposal to maintain a differential between DWC wages and government minimum wages for unskilled workers but decided that some flexibility should be provided for in the credit documents. The meeting also decided that these undertakings should remain operative only during the construction period of the Project and that undertakings regarding the wage differential as well as the measures that DWC would take to encourage its workers to seekemployment on the outside should be dealt with in a supplementary letter specifying the objectives to be achieved.

6. Financing Plan: The meeting noted that 21% of project cost or about US $1.8 million equivalent would come from bilateral and multilateral sources (other than IDA). The Region stated that contributions from USAID and the U.K. were being firmed up; a letter of intent from USAID was expected shortly, while the U.K. had agreed in principle. No difficulties were expected from France, India, UNDP, and UNICEF with whom arrangements were being made by the Mauritian Government. In any event, the Government was prepared to provide any shortfall in bilateral commitments. The meeting agreed that since assistance from the two major contributors, namely the U.S . and the U.K., seemed rather firm, the financing plan as proposed appeared suitable.

D. Conclusion

7. Subject to the modifications noted in Paragraph 5 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Baum
Kirmani
Nurick

BQLan/JDRoulet/MWiehen:mep.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-12

June 11, 1973

Minutes of Loan Committee Meeting to consider "Mexico - Mexico City Water Supply Project" held on May 16, 1973 in Conference Room B.

A. Present

Committee:

J. Burke Knapp (Chairman)
S. Aldewereld
G. Alter
W. C. Baum
L. Nurick

Others:

F. Howell
R. Dosik
M. H. Wiehen
F. Cabezas
D. Dutt
E. Lerdau

B. Issue

1. The meeting was called to consider Mexican reluctance to accept the requirement that after bid opening and before contract award, the bid evaluations and award proposals be sent to the Bank, and that the Bank be afforded a reasonable time to comment on them. Negotiations had reached an impasse on this issue. A paper on the agenda item and Mr. Cabezas' memorandum of May 16, 1973 on the Mexican legislation were circulated to the Committee during the meeting.

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

C. Discussion

2. Opening the discussions, the Chairman enquired how general was the inclusion of the advance consultation clause in the Bank's loan documents. The Vice President, Projects Staff stated that as far as he knew all recent Bank/IDA agreements, excepting some in Mexico, required the Borrower to submit to the Bank bid evaluation reports before contracts (other than very small ones) were finally awarded. He considered this practice important to ensure efficient use of Bank funds and to maintain the confidence of the international community in Bank-sponsored international competitive bidding.

3. The Regional Vice President stated that it was unfortunate that the Mexicans regarded the ex ante consultation as an outside interference in their decision-making process, especially since the practice was very much in the interest of the Borrower and avoided disputes on Bank financing of the final contracts. Moreover, operationally, it was useful to have simple rules for universal application within the Bank and since the advance consultation arrangement was important for projects with lumpy contracts (e.g., for a single dam or power house), or where large-scale equipment purchases were involved, or in cases of joint or parallel financing, its universal application had basic merit. Mexico would be getting an additional input in bid evaluation which the Government should appreciate. However, he felt that, in this particular case, the risk to the Project in the absence of the ex ante consultation arrangement would not be significant. For one thing the country had reasonably sound public finances and external reserves and could fill any financing gap caused by Bank refusal to finance misprocured contracts. Secondly, the Project involved little equipment procurement and the civil works would be spread over several contracts (estimated at about six below $1.6 million, five between $1.6 - $5 million, and ten between $4 - $8 million). Moreover, the Ministry of Hydraulic Resources (of which the implementing Comision is a unit) had experience in procurement for Bank-financed projects. Therefore, in his view, the Bank could live, in this particular case, with ex post information on contract awards.

4. The Associate General Counsel discounted the Mexican legal argument (that their recent laws did not permit submission of ex ante information to the Bank) as tenuous; the Mexican Law could be interpreted to permit outsiders to see the bid evaluation and also laid down that the lowest evaluated bidder should be awarded the contract, the same as the Bank requirement. However, he was of the view that under the Loan Agreement the Bank could refuse to finance a contract in the event of misprocurement (whether the Borrower consulted the Bank before or after the award of the contract) and that even if there was a prior consultation arrangement, the Borrower normally had the option of awarding a contract without consulting the Bank and not seeking disbursement for such contracts. Historically, he said, prior consultation was introduced some years ago essentially to protect the borrowers and to avoid embarrassment if borrowers proposed to make awards inconsistently with the Procurement Guidelines. He concluded that we should not insist on prior consultations in the Mexican Water Supply Loan, that we should be prepared to disapprove any contract awarded under our agreement, and that we should be prepared to follow the same procedure under similar circumstances both in Mexico and elsewhere.

5. The Vice President, Finance agreed that prior consultations were required to protect the Borrower and it was essentially for the Borrower to decide if he wished to take the risk.

6. Further discussion centered on the question whether it was also in the interest of the Bank to require prior consultations. The Vice President, Projects Staff was of the view that in addition to the point mentioned by the Regional Vice President - regarding operational simplicity - arrangement for ex ante consultation helped to ensure proper supervision of international competitive bidding and better use of Bank funds by enabling the Bank to discuss the proposed award with the Borrower before final decision was made. He confirmed that there was nothing in the "Guidelines for Procurement" prescribing advance consultations.

D. Conclusion

7. In conclusion, the Chairman said that he would be inclined to hold to the Bank's present position of requiring consultation prior to contract award but that in view of the obdurate Mexican attitude, he felt he should consult with the President and convene a meeting when a decision had been taken.

E. Postscript

8. In a subsequent meeting, on May 17, the Chairman informed the meeting that Mr. McNamara had reached the conclusion that in this particular case consultations prior to contract award could be dispensed with. In the course of the ensuing discussion it was agreed that this decision was based on several special circumstances, among which was the long and satisfactory experience of Mexico with the Bank's procurement procedures. Other relevant factors were the fact that most of the contracts would be for civil works and would be won by Mexican contractors, that most of the loan funds would be used for medium-sized contracts and that no joint or parallel financing was involved. On the other hand, it was agreed that efforts should be made to maintain the prior consultations arrangements in projects such as the Las Truchas steel project, where imported equipment and parallel financing were involved.

Cleared by: Messrs. Knapp
Baum
Nurick

ELerdau/DDutt/RDosik:pat

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-11

June 11, 1973

DECLASSIFIED
AUG 2 9 2014
WBG ARCHIVES

Minutes of Loan Committee Meeting to consider "Tunisia - Tunis Urban Planning and Public Transport Project" and "Iran - Tehran Urban Transport Project," held on May 14, 1973 in Conference Room B.

A. Present

Committee	Others	
J. Burke Knapp (Chairman)	R. Sadove	S. El-Fishawy
S. Aldewereld	G. Votaw	A. E. Elmendorf
M. P. Benjenk	R. Dosik	U. Finzi
L. Nurick	M. Wiehen	P. Ljung
H. G. van der Tak	S. Aiyer	A. Maffei
	M. Bart	R. Sison
	N. C. Carrere	D. Suratgar
	A. Churchill	R. Venkateswaran
	G. de Lusignan	A. Wyatt

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee under cover of Mr. Benjenk's memorandum of May 9, 1973, for approval to negotiate a proposed $ 16 million loan and $ 7 million credit for an urban planning and transport project in Tunis, and from draft documents (in an earlier stage of processing) on a similar project in Tehran submitted under the

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

same cover memorandum for review, but not approval, by the Loan Committee:

(i) the deteriorating financial position of the public transport companies in both Tunis and in Tehran;

(ii) size of lending proposed for the Tunis Project; and

(iii) organization and finance in the case of the Tehran Project.

C. Discussion

2. Tunis and Tehran - Financial Position : In view of the deteriorating financial position of the public transport companies whose investment programs were to be supported under the two projects, the Committee felt that attempts should be made to secure increases in tariffs as early as possible and certainly as soon as project-financed service improvements were introduced. This was particularly important in Tehran where Government subsidies of over $ 20 million were required in 1972/73. While it was recognized that some subsidies would inevitably be required for public transport agencies, a link should be established between such subsidies and operational and financial targets to be achieved. It was thought that in the case of Tehran, it should be possible to reach agreement on some targets or performance criteria during negotiations, with further targets to be determined through studies under the project. In Tunis such targets would have to await studies to be undertaken in the first months of project execution, with targets to be agreed with the Bank within six months of effectiveness.

3. It was generally thought that the primary justification for projects such as those being reviewed lay in their institution building and urban and transport policy improvement aspects, which should be firmed up more in future projects.

4. Tunis - Lending Amount: The amount of lending proposed for the Tunis Project was criticized as being of disproportionate size relative to the country lending program, especially in view of the experimental nature of the Project. The Project as proposed would represent two-thirds of the annual contribution of the Bank and IDA to Tunisia's development. It was thought inappropriate to make such a large commitment for a project which was largely breaking new ground, and with results heavily contingent on still uncertain action to implement urban transport policy and institutional changes.

5. The EMENA Region argued that the proposed lending amount was justified by the importance of the capital city in the economic and social life of Tunisia. Furthermore, in FY73 only one operation, for \$ 14 million, had been approved for Tunisia, so that the Bank Group was a long way from filling its \$ 35 million program. On the experimental nature of the Project, it was noted that a series of studies had been carried out by SOFRERAIL and BCEOM on the suburban railway and bus needs of the public transport company, as well as on the traffic improvement program of the municipality of Tunis. Bank consultants from London Transport and other agencies associated with the appraisal mission had reviewed this work and had found the proposals made in the green cover appraisal report to be sound.

6. It was also noted that while the project had originally been programmed for a loan and credit of \$ 16 million it was now proposed to commit \$ 23 million for the project. The Committee briefly discussed the possibility of cutting various components of the project, including the buses and bus depot, to reduce the size of Bank Group commitment to the project. It was agreed that Mr. Benjenk would submit proposals to the Chairman under which Bank Group financing might be reduced from \$ 23 million to \$ 14 - \$ 18 million.

7. Lastly it was asked whether the project required that the borrower make an open-ended commitment to accept policy recommendations to be formulated by consultants during project execution without having any clear notion in advance of the scope of such recommendations. The Region explained that the borrower would be required to reach agreement with the Bank on follow-up action in lieu of recommendations to be prepared by consultants but that it would be unreasonable of the Bank to insist that any borrower commit himself to accept consultants' recommendation in advance of their preparation.

D. <u>Conclusion</u>

8. <u>Tunis Project</u>: Subject to the Chairman's approval of the revised lending amount (see para. 6 above), the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region. (The Chairman subsequently approved the proposal in Mr. Benjenk's memorandum of May 15 for an \$ 11 million Bank loan and \$ 7 million IDA credit.)

9. <u>Tehran Project</u>: It was agreed to postpone discussion of the issues of organization and finance pending the outcome of the scheduled field mission to Tehran.

Cleared by: Messrs. Knapp
Benjenk
van der Tak

AEElmendorf/SAiyer:mep.

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-10

May 14, 1973

DECLASSIFIED
AUG 2 9 2014
WBG ARCHIVES

Minutes of Loan Committee Meeting to consider "Ecuador - Milagro Irrigation Project" held on May 7, 1973 in Conference Room B.

A. Present

Committee

J. Burke Knapp (Chairman)
S. Aldewereld
G. Alter
L. Nurick
H. G. van der Tak

Others

E. Gutierrez
A. David Knox
R. Dosik
M. Wiehen
J. Balcazar
P. Goffin
J. Hendry
E. Lari
D. Lecuona
C. Moret
D. F. Wittusen

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee under cover of Mr. Wiese's memorandum of May 1, 1973, for approval to negotiate a proposed $5.5 million credit for an irrigation project in the area of Milagro:

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

(i) whether the level of water rates was satisfactory; and

(ii) whether the Instituto Ecuatoriano de Recursos Hidraulicos (INERHI), the agency responsible for project implementation, had the capability to carry out the project.

C. Discussion

2. Water Rates. The Chairman, noting that the proposed level of water charges - S/400 per irrigated hectare in the first year of irrigation and gradually increasing to S/1,000 per hectare in the fourth year - would recover only about 21 percent of capital investment at 8 percent interest, thought that there were grounds for higher rates. In his view, the expected annual increases in family income of \$1,540; \$2,900 and \$5,300 for small, medium and large farms at full production, were rather substantial, and he saw no equity or incentive reasons why these farmers, especially the larger ones, could not support higher tariffs since the ones proposed represented, on the average, only about 15 percent of the farmer's incremental income.

3. The Latin America and Caribbean Region explained that the level of water rates had also been one of its concerns in the processing of the credit. In the absence of a firm Bank policy on this subject, the Region's frame of reference had been past Bank practice, and in this context the proposed rates did not appear out of line when compared with those in similar projects approved as of the end of 1972. Also, noting that the Ecuadorian farmers were not used to paying for irrigation services, the Region indicated that one basic consideration in arriving at the proposed rates had been the need to secure the farmer's participation. The Region felt that the proposed level of water rates would give the farmers the necessary incentives for effectively participating in the irrigation scheme, thus reducing migration to the nearby heavily populated city of Guayaquil.

4. Responding to the Chairman's question about the possibility of introducing a tariff which would be progressive in terms of farm income, the Region indicated that such possibility had been discussed with the Ecuadorian authorities. The Ecuadorians, while not unsympathetic to the idea had, however, expressed doubts about the desirability of introducing a progressive tariff at the start of the project in consideration of the difficulties in implementing it and of the farmer's likely negative reactions. Progressivity was not ruled out, however, at a later date, and since a review mechanism was being incorporated in the project, the possibility of such a progressive tariff as well as of appropriate adjustments in the level of rates would be examined at periodic intervals as the project developed.

5. Reiterating the desirability for a higher capital recovery, the Committee concluded that, as a minimum, agreement should be reached on the rate structure set forth in Para. 2 above, with provision for adjustment to take account of inflation; and that further, the IDA representatives should strive to achieve agreement on (i) minimum rates higher than those proposed in the credit documents, (ii) some element of progressivity in the rate structure, and (iii) a review mechanism.

6. INERHI's Capability. Responding to the Chairman's query about INERHI's capacity to execute and manage the project, the Region explained that, while establishment of INERHI was fairly recent, it was an efficient institution, particularly in the engineering aspects of irrigation. The Agency was weak on the agricultural side, but was giving increasing emphasis to an integrated approach to irrigation and was now creating a nucleus of staff well trained in agricultural development. Studies for reorganizing and further strengthening the institution were underway with IDB assistance, and INERHI had already indicated a willingness to engage competent consultants, in consultation with IDA, to assist in various aspects of project implementation (the proposed project includes a construction superintendent, an irrigation expert and the general manager of the agricultural production unit to be set up under the project). During negotiations the Region would further review these arrangements and ascertain the status of the IDB-supported management studies. The Committee accepted the proposed arrangements.

D. Conclusion

7. Subject to the modifications noted in Para. 5 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Alter
van der Tak

JBalcazar/JBKnapp:hm

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-9

May 14, 1973

DECLASSIFIED
AUG 29 2014
WBG ARCHIVES

Minutes of Loan Committee Meeting to consider "Nigeria - Second Lagos Port Project" held on April 30, 1973 in Conference Room B.

A. Present

Committee	Others
J. Burke Knapp (Chairman)	E. V. K. Jaycox
S. Aldewereld	W. P. Thalwitz
A. Broches	E. P. Wright
R. Chaufournier	R. Dosik
H. G. van der Tak	M. Wiehen
	R. Krishna
	H. Mirza
	T. Oursin
	D. Pearce
	F. Povey
	D. F. Wittusen

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Thalwitz's memorandum of April 24, 1973 for approval to negotiate a proposed $55.4 million loan for a second Lagos port project:

(i) what assurances should the Bank obtain in respect of further port expansion investments by Nigerian Port Authority (NPA); and

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(ii) whether the proposed Bank loan should be for the full estimated foreign exchange costs of the project as proposed by the Region.

C. Discussion

2. Consultation on Port Expansion. The Western Africa Region stated that the Government was requesting UNDP financing for a port development study for which the Bank had been requested to act as Executing Agency, and recommended that the Bank accept this role only if NPA undertook not to start any major new port development beyond the proposed project without agreement with the Bank, until the final stage of this study was completed. However, the Region felt that it would be inappropriate to make this a condition of financing the proposed port project. The Chairman and others accepted this position, but felt that, as a minimum, NPA be required to consult the Bank on any new ventures of this kind, especially since the large loan the Bank was making to NPA would in effect release some of NPA's other resources for financing such other projects. It was decided that a consultation clause should be included. In addition, the Chairman considered it most desirable that agreement on the terms of reference for the UNDP study should be reached before Board presentation of the loan.

3. Amount of Loan. Since NPA's financial position looked strong, Central Projects Staff questioned the need for the Bank to finance the full foreign exchange costs of the project ($55.4 million); in fact, Bank assistance in financing of port development did not appear necessary until the late 1970's. The Region pointed out that the proposed loan was in accordance with the strategy approved in the CPP and discussed with the Board during the Economic Review Seminar. While NPA's financial position appeared to be strong, the real situation was clouded by the lack of reliable financial data. Furthermore, the possibility of NPA obtaining additional loans, as assumed in the Appraisal Report, for financing the dredger and the planned rehabilitation of the ports of Calabar and Warri was very speculative. If these loans did not materialize and NPA had to finance these expenditures out of its own resources, its financial position would not be as strong as it appeared to be now. This issue would be explored during negotiations. It was also likely that additional financing would be required in two or three years for investments expected to be recommended by the UNDP study.

4. The Chairman still felt that the case for a loan to cover the full foreign exchange costs of the project was a weak one, but in view of the above arguments, the consultation clause to be included in the loan agreement (see Para. 6 below), and the likelihood that Bank lending to Nigeria in FY73-74 would fall substantially below the approved lending program, it was decided that the amount of the proposed loan should remain at $55.4 million.

D. Conclusion

5. Subject to the modification noted in Para. 2 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

E. Postscript

6. With reference to Para. 2 above, it was subsequently agreed within the Region that the draft loan agreement be amended to read as follows:

> "4.05 The Borrower shall consult with the Bank on its plans for the carrying out of any major investment in development of port facilities."

Cleared by: Messrs. Knapp
Broches
Chaufournier
van der Tak

FPovey/DFWittusen/JBKnapp:hm

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-8

May 7, 1973

DECLASSIFIED

AUG 29 2014

WBG ARCHIVES

Minutes of Loan Committee Meeting to consider "Zambia - Program Loan" held on April 27, 1973 in Conference Room B.

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
K. G. Gabriel
S. S. Kirmani

Others:

E. Stern
S. S. Husain
S. Please
R. S. Dosik
M. H. Wiehen
R. M. Dean
D. F. Wittusen

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Kirmani's memorandum of April 18, 1973, for approval to negotiate a $30 million program loan to Zambia:

(i) what should be the scope and form of the assurances on Zambia's economic policy which the Bank should seek before recommending the loan to the Executive Directors;

(ii) whether disbursements of the loan should be against expenditures on the 1973 development program or against imports, and whether retroactive financing would be acceptable; and

(iii) the terms of the loan.

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

C. Discussion

2. Assurances on Economic Policy: The Committee decided that the assurances which the Eastern Africa Region had proposed to obtain during negotiation as to the economic policy measures which the Zambian Government would follow should be obtained in a written form, specifying the measures to be taken and the timing of their implementation. It was agreed that the area of major concern was the Government's fiscal performance. Major objectives in negotiations should be the reduction of Government deficit spending in 1973 and changes in subsidy policies, recurrent expenditure patterns and investment priorities in 1974 and beyond. It was agreed that the text of such a written undertaking should be cabled to the Chairman of the Loan Committee before final agreement was reached with the Government.

3. Disbursement: The Committee decided that, while the purpose of the loan was to support Zambia's 1973 investment program, the disbursement should be made against imports, the counterpart funds should be placed in a special account in the Bank of Zambia, and arrangements should be made to disburse these counterpart funds against appropriate categories of the investment program, as set out in Para. 52 of the draft President's Report. Arrangements should also be made to insure that no double financing took place of imports or of local costs already financed by the Bank under projects currently in execution. It was decided that there should be no retroactive financing under the loan.

4. Terms of Loan: The Region's proposal of a five-year grace period was accepted, but it was decided that the terms of the loan would be 20 years, rather than 25 years.

D. Conclusion

5. Subject to the modifications noted in Paras. 2-4 above, the Committee approved the recommendation to send a mission to Zambia to negotiate a $30 million loan on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Baum
Broches
Kirmani

RMDean/DFWittusen:hm

LOAN COMMITTEE

LC/M/73-7

April 30, 1973

Minutes of Loan Committee Meeting to consider "Nicaragua - Earthquake Reconstruction Credit" held on April 13, 1973 in Conference Room B.

A. Present

Committee:

J. Burke Knapp (Chairman)
S. Aldewereld
W. C. Baum
A. Broches
G. K. Wiese

Others:

E. Gutierrez
H. van der Tak
R. Dosik
J. Balkind
O. Calika
H. Dunkerley
J. Holsen
F. Kaps
D. Koulourianos
D. Lecuona
W. McCulloch
H. Meier
D. F. Wittusen

B. Issues

1. There were no particular issues to be resolved in the draft documents submitted to the Loan Committee, under cover of Mr. Wiese's memorandum of April 9, 1973 for approval to negotiate a $20 million credit for an Earthquake Reconstruction Project in Nicaragua. Rather, the Chairman had convened the Committee for a general review of the project in view of its special nature and features. He complimented the staff for the quality and speed with which this comprehensive project had been prepared and processed.

C. Discussions

2. Relocation of Managua: The Chairman referred to the critical question of the overall reconstruction of Managua. The Latin America and Caribbean Region replied that studies had been carried out, including one financed by the Mexican Government, which were later reviewed by an International Advisory Panel jointly sponsored by the Bank, IDB and OAS. The studies were presently under review by the Nicaraguan Government, and on April 26 and 27 an international meeting would be convened by General A. Somoza in Managua to discuss the recommendations of the International Advisory Panel.

3. The meeting noted that the proposed project did not significantly depend upon the ultimate location of Managua but that it did support the Government's efforts to decentralize the capital city. It was recognized that the Association did not have the necessary manpower to actively help the Government in preparing and executing studies on the location and reconstruction of the capital city and thus could only play an advisory role with the right to be consulted on major reconstruction issues.

4. Housing Fund: The Region proposed the establishment of a Housing Fund within the Banco de la Vivienda, into which the sub-borrowers of the IDA credit would channel their repayment, for financing of a continuing low-income sites and services housing program. Although the proposal represented a departure from general IDA policies of not specifying how the Governmnet could use funds repaid from sub-loans, the Committee agreed with the proposal in view of Nicaragua's particular need for a continuing low-income housing program. However, the Committee decided that it would not be appropriate to link the Housing Fund to the debt servicing of the credit, which should be the responsibility of the Government. Thus, all debt service payments from AGUADORA, ENALUF and INFONAC as well as the amount initally allocated to the sites and servies project, would go to the Housing Fund in the form of a grant. It was also decided that the funds relent by the Government to AGUADORA and ENALUF should be interest-free during the grace period to improve their financial situation.

5. INFONAC: The Chairman also raised the issue of the participation of the National Development Bank (INFONAC) as a sub-borrower for the proposed industrial credit sub-project. In the past, this agency had not been considered creditworthy for Bank financing because of its financial position, inadequate management and political interference in its investment decisions. Furthermore, it was the Bank's policy to channel funds for industrial finance in Central America through CABEI. However, given the emergency situation and the fact that INFONAC was the only technically equipped institution in Nicaragua to handle this sub-project, it was agreed that with particularly careful supervision such as proposed, including the stationing of a Bank staff member in Nicaragua, the participation of INFONAC was acceptable.

D. Conclusion

6. Subject to the modifications noted in paragraph 4 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Baum
Wiese

FKaps/DFWittusen:pat

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-6

April 25, 1973

Minutes of Loan Committee Meeting to consider "India-Rural Electrification Project" held on April 6, 1973 in Conference Room B.

A. Present

Committee:

J. Burke Knapp (Chairman)
W.C. Baum
A. Broches
M.L. Weiner
K.G. Gabriel

Others:

W. Diamond
Y. Rovani
H.G. van der Tak
M. Yudelman
E.B. Arnold
J. Beach
G.F. Darnell
J.H. Jennings
J. Kraske
C.G. Melmoth
D.M. Sassoon
M. Singh
D.M.I. Thomas
D.F. Wittusen

B. Issues

1. The issue for discussion, emerging from pre-appraisal of the project, was

(i) whether the IDA funds should be relent at concessionary rates to the beneficiaries, especially in view of the present structure of subsidies for rural electrification,

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

as proposed in the Issues Paper from Messrs. Beach, Montfont and Scales to Mr. Arnold of January 26, 1973 and in Mr. Kraske's Decision Memorandum to Files of March 22, 1973.

C. Discussion

2. The Chairman drew attention to the statement in the Decision Memorandum that since rural electrification investments in general required subsidies, they should be shared between the States and the Center and an interest rate structure devised to reflect this objective, and to the recommendation of the Issues Paper that "a concessionary on-lending rate of, say, one percent should be used for Rural Electrification Corporation (REC) on-lending to the ultimate beneficiary". Against this background, the appraisal mission's terms of reference to "discuss with GOI appropriate terms of on-lending the credit to REC and the terms on which REC would on-lend to the beneficiary State Electricity Boards (SEBs)" carried an implication that the Association would agree to concessionary on-lending rates. The Chairman pointed out that, as a principle, the objective of IDA funds was not to subsidize a project but to relieve the country of its foreign exchange constraint. Consequently, if the beneficiary of an IDA credit was not the government, and especially if it were a revenue-producing entity, the proceeds of the credit should be relent on conventional terms.

3. The Chairman suggested that there was no prima facie justification in this project for considering a relending rate less than the established average rates for REC lending, which were around 5-1/4 percent. Also, since the SEBs were already getting subsidies in one form or another to meet the costs of rural electrification, it was difficult to understand why, additionally, a subsidized interest rate structure should be contemplated. Another speaker questioned the need for subsidies at all.

4. The Acting Vice President, Asia, replied that the Region had not adopted any specific posture in this matter. The question of subsidies and concessionary relending rates would be examined and evaluated upon return of the appraisal mission now in the field. He agreed with the Chairman that in the meantime the mission's terms of reference should be modified to indicate that relending rates would be on conventional terms unless the mission could justify otherwise.

D. Conclusion

5. The Committee agreed that the mission now in the field should be instructed to proceed with appraisal on the assumption that the proceeds of the credit would be onlent on conventional terms, (perhaps in this case the average terms presently in force between the Government, REC and the SEBs) and that the mission would have to justify any departure from this.

Cleared by: Messrs. Knapp
Baum
Weiner

DMIThomas/DFWittusen:pat

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED
AUG 2 9 2014
WBG ARCHIVES

LC/M/73-5

April 9, 1973

Minutes of Loan Committee Meeting to consider "Mexico-Mexico City Water Supply Project" held on March 29, 1973 in Conference Room B.

A. Present

Committee:

J. Burke Knapp (Chairman)
S. Aldewereld
W.C. Baum
A. Broches
G.K. Wiese

Others:

E. Gutierrez
A. David Knox
Y. Rovani
H. van der Tak
F. Cabezas
D. Dutt
J.H. Jennings
J. Kalbermatten
E. Lerdau
D.F. Wittusen

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Alter's memorandum of March 22, 1973, for approval to negotiate a proposed $90 million loan for a Mexico City Water Supply Project:

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

(i) whether the Bank was taking an undue risk in lending for the project when the Comision was still being organized;

(ii) whether the Bank should not directly finance the distribution works in the Federal District and in the State of Mexico; and

(iii) whether the level of water rates was satisfactory.

C. Discussions

2. Organization of the Comision: The Latin America and Caribbean Region explained that, in view of the recent formation of the Comision, there was a legitimate concern on the institutional aspect of project execution and management and for that reason the Appraisal Report recommended several actions to be conditions of negotiations and Board presentation of the loan. However, since preparation of the Appraisal Report, discussions with the Government and the Comision had revealed a willingness on their part to engage competent consultants, in consultation with the Bank, to assist the Comision on organizational matters. During negotiations we would further review these arrangements and would either require satisfactory action on institutional aspects before presentation of the loan to Executive Directors or introduce a covenant in the Guarantee Agreement seeking assurance of such action. The Committee approved this approach and also noted its appreciation of the Government's initiative in organizing an autonomous Comision to handle bulk water supply to the metropolitan region.

3. Distribution Works: The Vice President, Projects, pointing to the fact that the Bank would not be financing the works which would distribute the water generated by the project, voiced concern at the absence of direct Bank relationship with the distribution agencies and the construction of the works. The Region reported that the Government was not interested in Bank assistance for the distribution works and that the Federal District as well as the State of Mexico had competent staff to carry out the distribution works. In view of this and the assurance on timely construction of the distribution works being sought from the Government, there would be no undue risk regarding distribution of the water to be generated under the project.

4. Water Rates: Responding to the Chairman's enquiry as to who would be paying the difference between Mex\$1.20/m^3, the price the Federal District would be charged by the Comision, and Mex\$1.00/m^3, the average retail tariff in the District, the Region explained that 70 - 80 percent of the water retailed would be generated by the District from its cheaper existing sources and the average unit cost of water to the District in 1976, the year the project was scheduled for completion, would be around Mex\$0.80. At the 1973 tariff levels the Federal District was estimated

to generate a surplus (after meeting operational and maintenance expenses) of US$80 million, sufficient to finance the distribution and sewerage investments required in the years 1973 to 1976.

5. The Vice President, Projects pointed out that, even though rates had recently been raised, water was still underpriced in the metropolitan region relative to the cost of supply and water consumption was higher than in comparable countries. In view of the large investment requirements for future water works, which would be increasingly costly, an adequate tariff policy was essential to the allocation of resources in this sector. The Region replied that, in the past, the Bank had asked for tariff covenants but the recent unfortunate experience with the incapacity of the Government to fulfill its earlier commitments on increasing electricity rates had made the staff cautious of such covenants and they had therefore insisted on water tariff revision prior to final processing of this loan; the Government had doubled the average retail tariff from January 1973 which, together with improvements in revenue effectiveness, was likely to assure that the water department of the District would be financially sound until 1976 and that the District would be able to pay to the Comision a rate which would assure financial soundness of the Comision as well. A further tariff increase would probably be needed in the mid-seventies and, as a condition for the loan, comprehensive studies on the retail pricing of water would be arranged.

6. The Vice President, Projects, noting that the Government was apparently reluctant to have the Bank finance these studies, thought that ideally we should do so in order to gain some leverage on the retail pricing policy of the borrower; at least, the studies should be dealt with more thoroughly in the loan documents. It was agreed that the principles which should guide the tariff studies would be adequately defined in the loan documents and the relevant covenant in the draft Guarantee Agreement suitably modified to enable a follow-up action of the tariff studies. The Committee did not think it necessary to insist that the studies or the distribution works be financed by the Bank, but suggested that the Government be persuaded to consult with the Bank promptly on the tariff issue as soon as the results of the studies become available.

D. Conclusion

7. Subject to the modifications noted in para. 6 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Baum
Wiese

DDutt/DFWittusen:as

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-4

March 27, 1973

Minutes of Loan Committee Meeting to consider "India-Bombay Water Supply and Sewerage Project" held on March 13, 1973 in Conference Room B.

A. Present

Committee:

J. Burke Knapp (Chairman)
S. Aldewereld
W.C. Baum
M.L. Weiner
P. Sella
D.F. Wittusen (Secretary)

Others:

W. Diamond
Y. Rovani
H.G. van der Tak
E.B. Arnold
J. Kraske
C.G. Melmoth
M. Mould
V. Rajagopalan
L. Rasmusson
D.M. Sassoon
M. Singh
K.H. Willen

B. Issues

1. The meeting was called to clarify the following matter emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Cargill's memorandum of March 6, 1973, for approval to invite negotiators for the proposed credit:

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

(i) why the incremental financial return on the proposed investment was negative while the return on net fixed assets and the financial position of the Water Supply and Sewerage Department were projected to be satisfactory.

C. Discussion

2. The Asia Projects Department explained that the incremental financial return was low (actually slightly positive, not negative as stated in the appraisal report) basically because the average price charged for water, while adequate from the overall financial perspective of the borrower, was below the marginal cost of system expansion represented by the project. Also, the distribution system provided under the project would initially be underutilized, and the benefits resulting from the improved quality of water provided by the $15 million water treatment plant in the project were not reflected in revenues.

3. Return on net fixed assets in service was initially high because most of the old assets, while still in service, had virtually been written down to zero value. Further, investments in source facilities already made by the State Government would result in a 50% increase in supply from 1972/73, giving rise to a considerable increase in revenues. Together with the revenues accruing from the project, these facts should ensure a satisfactory financial position for the Water and Sewerage Department.

D. Conclusion

4. The Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Asia Regional Office.

Dag F. Wittusen
Secretary

KWillen/DFWittusen:as

Cleared by: Messrs. Knapp
Weiner
Rovani

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-3

March 13, 1973

Minutes of Loan Committee Meeting to consider
"Nigeria-Sixth Highway Project"
held on March 2, 1973 in Conference Room B.

A. Present

Committee:

J. Burke Knapp (Chairman)
S. Aldewereld
W.C. Baum
L. Nurick
E.P. Wright
D.F. Wittusen (Secretary)

Others:

J.H. Williams
W.P. Thalwitz
E.V.K. Jaycox
V.W. Hogg
H.W. Kaden
F. Povey
A. Weckerle

B. Issues

1. The meeting was called to consider the following issue set out in Mr. E.P. Wright's memorandum to Mr. J. Burke Knapp of March 1, 1973 entitled "Nigeria - Lagos/Ibadan Expressway" and the investment analysis attached to it:

(i) whether the Bank should be prepared to finance, as a major portion of the proposed sixth highway loan, the whole four-lane expressway between Lagos and Ibadan in spite of the fact that the incremental rate of return on an investment in the third and

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

President
Vice President, Development Policy
Senior Operations Adviser
Controller
Others in attendance

fourth lanes during the next 5-10 years would be extremely low, particularly for the section between Shagamu and Odo Ona.

C. Discussion

2. Briefly elaborating on the paper, the Western Africa Region maintained that, while the economic analysis clearly indicated that the expressway should be completed in stages, it was desirable to be forthcoming in order to avoid the risk of serious difficulties in our relations with the Government which could possibly jeopardize future Bank operations in Nigeria. To the Nigerian Government the expressway was an important structure which it had decided to build, and for which it sought financial assistance from the Bank. The Government considered it essentially as a single road and had indicated that it was not interested in obtaining Bank financing for anything other than the full project. Further, the Government was building up substantial foreign exchange reserves, and the opportunity cost of capital was therefore very low, equivalent to the real return on the investment of the country's reserves abroad. While the economic returns on the project were below the criteria normally applied to similar Bank projects, this did not necessarily mean that the Government's decision to proceed with a four-lane expressway was a wrong one from its own point of view, considering its strong foreign exchange position and shortage of alternative investments. The Region emphasized that there were no financial limitations on public investment in agriculture and education at the present time; the problem was rather one of absorptive capacity.

3. Other speakers, while recognizing that the data supplied by consultants, on which the economic feasibility was based, were incomplete, felt that construction should be limited to two lanes at this time. However, the financing of lanes 3 and 4 from Lagos as far as Shagamu and from Odo Ona into Ibadan could be marginally justified. The 10 percent estimated traffic growth was regarded as fairly generous.

4. Several speakers agreed with the Chairman's statement that Bank financing of the full four-lane expressway was not in keeping with one of the Bank's major roles in Nigeria, namely to help the Government spend its resources wisely. The Chairman also questioned whether the opportunity cost of capital was as low as the Region maintained in view of the many other substantial projects that might be undertaken during the next 5-10 years. Furthermore, he was not convinced that the Government's decision to seek alternative financing, if the Bank was not willing to assist in the financing of the whole expressway, was irreversible. Nevertheless, he thought that the Bank should be prepared to finance all four lanes as far as Shagamu, leaving the Nigerian Government to finance the rest of the road which could then be built according to their standards; or alternatively, the Bank could finance four lanes as far as Shagamu and

from Odo Ona into Ibadan, together with two lanes over the rest of the road, if the Government would agree to defer construction of the third and fourth lanes between Shagamu and Odo Ona to a later date to be determined after some form of consultation with the Bank.

5. The Vice President, Finance stated that Bank financing of the full four-lane expressway, with its very low rate of return, could be detrimental to the Bank's standing in the capital markets. Similarly, the Vice President, Projects said the Board's reaction might be to limit future lending to Nigeria, seeing the very low opportunity cost of capital implied by the rate of return on the four-lane expressway. Both Vice Presidents nevertheless agreed with the Chairman that the Bank would be justified in financing four lanes over the first and last part of the expressway provided that the Government agreed to limit construction of the middle section to two lanes.

D. Conclusion

6. The Committee agreed that, subject to consultation with the President, a letter, to be signed by the Senior Vice President, should be sent to the Government urging it to reconsider its decision to construct immediately a four-lane highway from Lagos to Ibadan and pointing out that economic considerations favor construction in stages, the first stage consisting of up to four lanes from Lagos to Shagamu and between Odo Ona and Ibadan, with two lanes only between Shagamu and Odo Ona. Should the Government decide to proceed with the financing of four lanes throughout, the Bank would be unable to participate in its financing. The Bank should be prepared, however, on completion of the appraisal, to consider financing of the other roads in the project to the extent that these could be economically justified.

E. Postscript

7. In consultation with the President, it was subsequently decided that the Bank could also agree to a further alternative, namely to finance four lanes for the first part of the road as far as Shagamu (which was also the first section of the road from Lagos to the East) but none of the rest of the expressway to Ibadan, if the Government agreed to divide the project in this way and to finance the rest of the expressway from its own resources.

Dag F. Wittusen
Secretary

FPovey/DFWittusen:as

Cleared by: Messrs. Knapp
Aldewereld
Baum
Nurick
Wright

International Bank for Reconstruction and Development
International Development Association

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-2

February 5, 1973

Minutes of Loan Committee Meeting to consider "Ireland-Livestock Development Project" held on December 13, 1972 in Conference Room B

A. Present

Committee:	Others:
J. Burke Knapp (Chairman)	J.H. Williams
S. Aldewereld	E. Stern
W.C. Baum	L.J.C. Evans
M.P. Benjenk	G.B. Votaw
A. Broches	J. Gerring
D.F. Wittusen (Secretary)	D. Haynes
	D. McCall
	H. Pollan
	C. Poncia
	D. Stoops
	J.L. Upper

B. Issues

1. The meeting was called to consider Mr. Wapenhans' memorandum to Mr. Benjenk of December 7, 1972 (entitled "Ireland-Proposed Livestock Development Project; Subsidization of Interest Rates") and the Appraisal Report attached to it (18-IRE), submitted to the Loan Committee to obtain guidance on the major issue in this project - the Irish Government request that the Bank accept the subsidization of the interest rate for sub-lending to farmers participating in the Project in accordance with EEC Directives.

DISTRIBUTION

Committee:	Other:
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

C. Discussion

2. The Chairman noted that the livestock project presented difficult decisions for the Bank because the beef to be produced would be sold in EEC, a highly protected market that limited meat imports from some of the Bank's other borrowers, notably Argentina, Brazil, and Uruguay. Moreover, the Government had recently asked that, in accordance with EEC Directives, the Bank accept subsidization of the interest rate on sub-loans to Irish farmers, who would be selling within this preferred market. The Chairman asked whether it would not be possible to switch Bank lending to another project. The EMENA Region explained that when Bank lending to Ireland began in 1969, the first loans had been to the power sector because resources could be absorbed most quickly there. The Bank then switched to reform-oriented projects in education and agriculture. The Bank now was studying possible additional loans for industry, although an existing loan for the Industrial Credit Corporation had been slow to be disbursed. Over the intervening three years the proposed project had been prepared in the livestock sector, which was particularly appropriate, since Ireland had a comparative advantage in beef production within the Common Market and a Bank loan also afforded an opportunity for the Bank to support institutional reform in the sector. Having prepared the project, the Region was reluctant to abandon it and feared that disassociation would be embarrassing in relation to EEC members who were also main shareholders of the Bank. The Chairman replied that the Bank had not hesitated in the past to be critical of EEC agricultural policies.

3. The EMENA Agriculture Projects Division emphasized and the Program Department concurred that there were no immediate alternatives for Bank lending for agriculture in Ireland. It was pointed out that the EEC Common Agricultural Policy (CAP) was temporary, and was a package of measures designed to make agriculture more efficient by subsidizing those farmers who were ready to modernize and move towards income parity with industrial workers. While the Bank did not like high agricultural subsidies, some subsidization was necessary in order to achieve the CAP objectives of income equalization which was also a Bank objective in developing countries. In the case of Ireland, the Bank was faced with the reality of the EEC policies, and beef was the commodity easiest to defend in this situation since it was in short supply internationally and it was difficult to increase beef production elsewhere quickly.

4. The Senior Adviser, Development Policy noted that a paper was currently being prepared for Board consideration on the Bank's agricultural lending policies that argued, inter alia, that the developed countries must increase access to their markets. The Bank should be consistent in its agricultural lending policies, and he expressed concern that Irish beef producers might enjoy a windfall from their sales in EEC at the expense of the poorer member countries of the Bank.

5. The Region pointed out that the Bank had been aware of the existence of the EEC price subsidies since the project was first considered for inclusion in the lending program. EEC Directives providing for the interest subsidies had not been issued until late April 1972, and the Government had not been in a position to raise this question with the Bank until November 1972 when the EEC confirmed that they would apply to Ireland. In the Chairman's opinion, however, the interest subsidy had now to be considered together with price protection as part of the aggregate subsidy for beef producers.

6. Mr. Wapenhans' memorandum (paragraph 17) proposed as a possible basis for continued Bank participation in a livestock project in Ireland that Bank funds would be used to finance potentially viable farms on which parity incomes could be achieved or maintained only with substantial investment subsidization. This criterion would limit the interest rate subsidy to the smaller, lower income farmers and appeared acceptable to the Committee. As a second criterion, farm plans would have to provide for some minimum level of specific investment in pasture improvement, buildings, drainage and water supply, in order to limit the danger of excessive mechanization being encouraged in a high unemployment situation by subsidized interest rates. Investment by commercial farmers would also be eligible for Bank financing, provided lending to them would be at full commercial interest rates, any subsidization being directed towards specific infrastructure investments.

D. Conclusion

7. While agreeing that Mr. Wapenhans' proposals offered a possible basis for continued Bank participation, the Chairman said that the basic issue was whether Irish beef production was internationally competitive. Since the calculations of the economic return on the project had been based on sales at EEC prices, the Chairman deferred further consideration of the proposal by the Loan Committee until the rates of return had been recalculated on world market prices and additional information provided on market conditions in the EEC.

Dag F. Wittusen
Secretary

DMcCall/JHWilliams:as

Cleared by: Messrs. Knapp
Baum
Broches
Haynes

International Bank for Reconstruction and Development
International Development Association

CONFIDENTIAL

LOAN COMMITTEE

LC/M/73-1

January 26, 1973

Minutes of Loan Committee Meeting to consider "Mexico-Fourth Power Sector Program (834-ME)" held on December 22, 1972 in Conference Room B

A. Present

Committee:	Others:
J. Burke Knapp (Chairman)	J.H. Williams
S. Aldewereld	A.D. Knox
A. Broches	E. Lerdau
W.C. Baum	Y. Rovani
G.K. Wiese	L. Cancio
D.F. Wittusen (Secretary)	G. Prenoveau
	P. Ruof

B. Issues

1. The meeting was called to consider the following issue brought out in Mr. Lerdau's memorandum of December 21, 1972 to Mr. Alter (entitled "Mexico - Discussions with CFE") and the Chairman's draft outline of position to be communicated to the Mexican delegation presently in Washington, dated December 22, 1972:

(i) what course of action should the Bank follow in response to the Mexican request that Loan 834-ME of $125 million to the Federal Electricity Commission (CFE) be declared effective on December 31, 1972 as planned, despite the fact that tariff increases required as a condition of effectiveness would not have been made by that date.

DISTRIBUTION

President
Senior Vice President, Operations
Vice President, Finance
Vice President and General Counsel
Vice President, Development Policy
Vice President, Projects
Regional Vice Presidents
Senior Operations Adviser
Controller
Loan Committee and Central Files

C. Discussion

2. The Latin America and Caribbean Region briefly outlined the Mexican position. The Government had informed the Bank at the time of signing of the Loan 834-ME on June 23, 1972 that it would not submit the evidence required to make the Loan and Guarantee Agreements effective unless average power rate increases of at least 17-1/2 percent had been introduced before December 31, 1972. Owing to mainly political circumstances, the Mexican Government had decided to postpone the rate increases. Because of CFE's financing needs the Government sent a delegation to the Bank requesting that the loan be made effective on December 31, 1972, despite the absence of rate action. The delegation, headed by the new Director-General of CFE, Lic. Lopez Portillo, stressed that the Government would take adequate rate action during 1973, but not before elections for both the Senate and State governments in July 1973; that the Government had made great efforts to improve the situation of Mexico's poor, to improve the precarious balance of payments situation at the end of 1970 by a conscious policy of deflation, and that it had introduced unpopular measures in the field of prices and taxation. Mr. Lopez Portillo had just solved a long-standing, highly explosive labor problem in the power sector in addition to getting frequency unification fully underway, and he felt that his efforts at turning CFE's internal problems around should not be handicapped by the additional financial problems that would be created if the Bank loan were not made effective.

3. The Chairman stated that despite the additional information on CFE's financial standing which had been obtained from the Mexican delegation that morning, the Bank could not be satisfied with the information supplied and felt that the financial position of CFE had deteriorated further since the signing of the Loan Agreement. There was no doubt that one of the first priorities of CFE management would have to be the establishment of a detailed financial plan for the years 1972-74.

4. In view of CFE's financial difficulties, the question was whether the Bank should extend the deadline for completing the conditions of effectiveness of the loan. The suggestion had been made to extend the date of effectiveness to June 30, 1973. During the ensuing discussion it was agreed that such an extension would be too long from the Bank's point of view and too short from the point of view of the Mexican authorities, who felt that rate action could not be taken before the second half of 1973. Several reasons were given for a shorter extension: the Chairman did not think the extension should be dictated by the Mexican elections; a speaker questioned how far effectiveness could be postponed without compromising the nature and objectives of the project; and another speaker maintained that the Bank should be firm lest its credibility be further undermined: the Bank had already granted the Mexicans a six months extension on rate action, which originally was a condition for Board presentation. Therefore it was decided that the extension should be allowed until April 30, 1973.

5. It was agreed that if the Bank was to extend to April 30, the Mexican Government and the borrower should be obliged to present to the Bank a program to improve the financial position of CFE. The insistence should no longer be placed on the rate increase alone but on the presentation of measures to put CFE's finances on a sounder footing. These might include consolidation of CFE's debt or an increase in CFE's equity. At the same time he pointed out, however, that there was no alternative to a rate increase, especially in view of the demand on Government funds by other sectors of the economy. Therefore it was agreed that in addition to rate increases, the Bank should call for a program to improve CFE's financial situation.

6. The Chairman suggested that, in recognition of the special difficulties which would be created for CFE if the Bank were not to proceed with financing those elements of the project which were subject to joint financing between the Bank and other lenders, the Bank should be prepared to allow CFE to draw up to $35 million of the loan which was allocated to joint financing.

7. The Chairman felt that there was no need to consult the Board on the extension of the terminal date of effectiveness. However, the Board would have to be consulted regarding the release of the $35 million.

D. Conclusion

8. The Committee approved the following position to be communicated to the Mexican Delegation:

(i) that the terminal date of effectiveness of Loan 834-ME would be extended from December 31, 1972 to April 30, 1973;

(ii) that, subject to Board approval, the Loan would be made partially effective without delay, viz., in respect of the $35 million allocated to joint financing;

(iii) that the remaining $90 million of the loan would be made effective before April 30, 1973 subject to implementation of a rate increase and submission of a financial plan for CFE, both to be satisfactory to the Bank;

(iv) that the Mexican Government should give serious consideration to cancelling the $90 million portion of the loan if the Government felt unable to take tariff action by April 30, 1973.

Dag F. Wittusen
Secretary

PRuof/DFWittusen:as

Cleared by: Messrs. Knapp Broches
Baum Lerdau