Folder Title: Leonard B. Rist - Loan Policy - Correspondence - Volume 2
Folder ID: 1849849
Dates: 10/26/1953 - 6/25/1964
Fonds: Records of Individual Staff Members
ISAD(G) Reference Code: WB IBRD/IDA-09
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Mr. Eugene R. Black
Leonard B. Rist

March 6, 1961

Revaluation of D.M.

1. The revaluation of the D.M. affects the Bank in two ways: in the first place, our accounts will be immediately affected since we have capital and reserves in D.M. and since, furthermore, we are both creditors and debtors in D.M. In the second place, the evolution of the German financial market may in some ways affect our future operations.

A. Immediate effects on IERD accounts:

2. **18% Capital**: the dollar value of any 18% we may now hold in the Bank's name will be enhanced. Since the dollar equivalent is the measure of the German subscription, we will have to pay back to Germany some 5% of the D.M. held by us in this account so that the dollar equivalent shall remain unchanged.

3. **Accumulated profits**: IERD also holds profits in D.M. They remain unchanged in D.M. and their dollar equivalent is increased, showing an additional profit to us as soon as conversion is made in dollars on the books.

4. **Borrowings in D.M.**: The dollar equivalent of our D.M. obligations is increased. The proceeds of these borrowings are still held by us in D.M., either in Germany or on loan. The dollar value of these assets is also increased. We do not incur any exchange risk.

5. **Lending in D.M.**: The Bank borrowers who have incurred obligations in D.M. remain liable in this currency. The dollar equivalent of their obligation is thereby increased. To the extent that the loan was disbursed out of 18%, the German government, when repayments accrue, will receive a fraction corresponding to about 5% and the 18% account will be replenished at the original dollar equivalent only. To the extent disbursements were made out of borrowed funds, the repayments will match our borrowing liability. It is not unlikely that some of the borrowers who were charged in D.M. will find the German revaluation an undesirable burden. There are precedents, however. Similar uncertainties prevailed in the case of Canadian dollar borrowings. In other cases, such as French franc borrowings, devaluations operated to the advantage of the borrower.
6. It is worth noting that any amount of D.M. we still have available for lending (over $100,000,000 equivalent, old rate) will, if spent elsewhere than in Germany, buy more goods than it used to before the reform, since one D.M. is now worth more $ or £ or francs (over $5,000,000 more).

7. It is also worth noting that we do not stand to lose on interest account since our lending rate is higher than our borrowing rate. To the extent that we earn interest on loans financed out of 18%, our profits remain the same but their dollar equivalent is increased.

8. - Long-term Implications for the future of IEBD Operations:

The main question of course is whether this will make future borrowings in Germany easier and less expensive. The intention of the German government is clearly to bring about a slowing down of the boom and to avoid higher prices. The logical result of the operation, if successful, would therefore be that with lower profits and lower profit expectations, German industry may feel less urge to invest as heavily as hitherto, and that stock prices may level off if not decline, while the supply of savings in search of investment opportunities would rise. Bond prices would then rise and yields decline. This is by no means impossible and would favor bond issues for foreign account, for IEBD account and for account of the government if the latter should want to devote some of the proceeds of its own borrowings to foreign assistance. Even in this favorable case, however, it would be unlikely (a) that German rates would become comparable to the Swiss rates within the foreseeable future, (b) that the final outcome will be clear before several months.

9. The reason why a very cautious forecast is in order at this time is that it is impossible to foresee what the psychological reactions will be in Germany and outside the country. The dangers are not negligible. Withdrawal of foreign funds could take place at a very quick pace. If the foreigners who invested at short term or at long term in Germany were to a considerable extent speculating on a revaluation, they may wish to take their profit without waiting any further. This would tend to tighten the short rates and since in Germany the long term market is largely in the hands of the commercial banks, the long rates would tend to tighten similarly. True, the Central Bank would now be less reluctant to supply the market with liquidity, as the danger of an inflationary price rise is set aside for some time to come, thanks to the cheapening of imports. But this is always a question of measure and delicate balance. All the more as German investors may also wish to invest abroad more than they did in the past if they fear a decline in domestic profits. Should foreign funds withdrawals, plus German capital exports, become very large, should therefore the foreign exchange reserves of Germany
decline quickly, the freedom of action of the Central Bank may be lost and a cheaper money market may have to be postponed indefinitely.

10. A more hopeful hypothesis would be that after a flurry, capital exports would quiet down, that the boom would slow down without turning into stagnation, and that the Central Bank could therefore encourage a decline in both short and long rates over several months. In that case, the outlook for foreign issues would be brighter but only after a while.

C. - I.F.C. and I.D.A.

11. No special question arises in connection with I.F.C. Its capital is fully paid in and is expressed in dollars.

12. Insofar as I.D.A. is concerned, the only effect is to reduce the D.M. commitment of Germany on account of its 90% local currency subscription. But this leaves the dollar equivalent of its future payments unchanged. Furthermore, inasmuch as the first installment (18%) was paid by Germany in dollars and not in D.M., the question of a return payment does not even arise.

13. Whether the new monetary policy will make Germany more or less willing to consider special contributions to I.D.A. is an open question. The future trend of the financial market is uncertain, as indicated above. If unfavorable, it might prevent the government from pursuing a generous policy towards underdeveloped countries. In any case, this is in many ways a political rather than an economic decision and, in spite of Mr. Ehrart's press conference on Sunday, it remains to be seen whether the government will want to act boldly or cautiously for the months to come.
TO: Department Heads

FROM: J. Burke Knapp

SUBJECT: International Competitive Bidding Procedures

The attached memorandum entitled "International Competitive Bidding Procedures" with its two annexes

(a) "Guidelines Relating to Procurement under Bank Loans and IDA Credits"
(b) Example of Supplementary Letter on Procurement Procedures

is distributed with the request that you bring it to the attention of your staff. In due course an operational memorandum will be issued in printed form for insertion in the Manual of Operational Memoranda.
INTERNATIONAL COMPETITIVE BIDDING PROCEDURES

It is the policy of the Bank and IDA to require their borrowers to obtain goods and services (other than consultants' services) on an international competitive basis unless another procedure, more appropriate to the circumstances, is agreed with the borrower. In cases where there may be some question as to the appropriateness of international competitive bidding, the Working Party should bring the matter to the attention of the directors of the departments concerned so that a decision can be reached in advance of negotiations.

In the past the Bank and IDA have agreed with borrowers on an ad hoc basis as to procedures to be followed when international competitive bidding has been required. Questions have arisen from time to time as to the implementation of these procedures. Consequently, a general statement of requirements of the Bank and IDA entitled "Guidelines Relating to Procurement under Bank Loans and IDA Credits" has been prepared to guide borrowers, consultants and suppliers in bidding and contracting procedures relating to international competitive bidding. These Guidelines are attached hereto as Annex 1. They will be made applicable, as appropriate, to procurement under Bank loans and IDA credits when international competitive bidding is required.

These Guidelines should be discussed with our borrowers during negotiations and incorporated in an agreed supplemental letter, with any amendments which may be agreed to be suitable in the circumstances. An example of such a letter is attached as Annex 2.

These Guidelines may be given to consultants retained by our borrowers or the Bank and IDA for their guidance in preparing specifications and contract documents or to any other interested parties.

The Guidelines are not intended to be all-inclusive, but they cover the principal points which have frequently caused difficulties. It should be noted that these guidelines do not cover local or other preferences; guidance to staff on problems of this kind will be provided separately.

The precise terms of contracts between the borrowers and contractors or suppliers remain to be worked out between them, and none of the wording in the Guidelines is intended to be incorporated in such contract documents, except as indicated in paragraph (6).

Additional copies of the Guidelines are obtainable from the Technical Operations Department.

TOD June 25, 1964
GUIDELINES RELATING TO PROCUREMENT
UNDER BANK LOANS AND IDA CREDITS

1. Purposes and Objective

The International Bank for Reconstruction and Development (the Bank) and the International Development Association (IDA) are required by their Articles of Agreement to insure that the proceeds of their loans and credits are used with due attention to considerations of economy and efficiency. For this reason, and as cooperative international institutions, the Bank and IDA require their borrowers to obtain goods and services (other than consultants' services) on an international competitive basis unless another procedure, more appropriate to the circumstances, has been agreed between the Bank or IDA and the borrower. The Bank and IDA believe that it is in the interest both of borrowers and their suppliers that certain guidelines should be generally followed in the bidding and contracting procedures relating to cases where international competitive bidding is involved. This statement sets forth those guidelines. It is intended that this statement will be made applicable, as appropriate, to procurement under Bank loans and IDA credits.

2. International Competition and Advertising

In order to insure widespread international competition, all appropriate member countries of the Bank and Switzerland should be canvassed for bids. To this end, invitations to bid or to prequalify should be transmitted to local official representatives of these countries and advertised in at least one newspaper of general circulation in the borrower's country. For large and important contracts advertisements should be placed in well known technical magazines and trade publications of wide circulation.

3. Prequalification of Bidders

When contracts are to be sought for large or complex projects involving considerable expense for the preparation of bids, it is desirable to establish a list of prequalified bidders, thus saving the cost of bid preparation.

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1/ Borrowers are free to use the proceeds of Bank loans and IDA credits to make purchases in any member country and Switzerland. The arrangements between the Bank or IDA and the borrower regarding the use of the proceeds of the particular loan or credit, the contracts which are to be financed, the currency or currencies to be supplied by the Bank or IDA, and the extent to which procurement documents are subject to Bank/IDA review or approval will be set forth in each case in the contractual documents for the loan or credit.
preparation to those who would fail to qualify in any case. Prequalification, if employed as a procedure, should be based entirely upon ability to perform satisfactorily, taking into account: (i) the experience of the firm on similar work, (ii) its capabilities with respect to personnel, equipment and plant, and (iii) its financial position. Advertisement of the prequalification procedure should be carried out along the lines of the procedure described in Paragraph 2. Abbreviated specifications should be made available to contractors desiring to be considered for qualification.

4. **Time Interval between Advertising and Bid Opening**

The time allowed for preparation of bids will depend to a large extent upon the magnitude and complexity of the contract involved and the remoteness of the project from areas from which bids may be expected. Where large civil works are involved, generally about 90 days should be allowed for contractors to conduct investigations at the site. The time allowed, however, should be governed by the circumstances relating to each project.

5. **Size of Contracts**

In order to foster widespread competition individual contracts, whenever feasible, should be of a size sufficiently large so as not to discourage potential bidders. On the other hand, if the project can easily be divided into contracts of a specialized character, it should be so divided. Except in special cases, turnkey contracts are unacceptable.

6. **References to Bank or IDA**

If it is necessary and appropriate to refer to the Bank or IDA in bidding documents the following language is suggested:

"... (name of borrower)... has received (or in appropriate cases 'has applied for') a loan (credit) from the International Bank for Reconstruction and Development (International Development Association) in various currencies

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1/ Such as a power, water supply or large industrial project where it is feasible to invite bids separately for civil works and equipment or different types of equipment.

2/ Turnkey contract is a term used to describe a contract where the engineering, the equipment and the construction are all provided as a package by one party.
7. **Currency Clauses**

(a) **Currency Used for Payments.** The Bank and IDA require that their borrowers make reasonable efforts to assure that payment for goods and services procured under Bank loans and IDA credits be made in the currency of the country of origin.

(b) **Indication of Currencies.** Whenever expenditures in both local currency and foreign currency are involved, the tender documents should require that the amounts of these expenditures be shown separately.

(c) **Currency Equivalents for Bid Comparison.** Under contracts requiring expenditures in more than one currency or in cases where it is expected that bidders from several countries will submit bids expressed, in part or in whole, in their national currencies it will be necessary that, for the purpose of comparison of bids, all currencies be converted into one specified currency at a specified rate (or rates) of exchange. Such rates should be fixed as of a reasonable date (say 30 days) prior to the date fixed for the opening of the bids and the borrower should make arrangements whereby all prospective bidders may receive notification of such rates a reasonable time before (say 15 days) the date fixed for the opening of the bids.

(d) **Exchange Risks.** It is desirable that where a payment to be made to a contractor or supplier is based upon a conversion of local currency into foreign currency, the exchange risk should not be borne by the contractor or supplier. The manner in which this can best be effected will depend on the precise payment provisions of the contract and this statement of guidelines does not attempt to deal with the different ways in which this can be handled.

8. **Clarity of Specifications**

Every effort should be made by the borrower to ensure that specifications and conditions of contract are clearly drawn to include all necessary details and conditions and that plans are consistent therewith. They should be so worded as to permit and encourage free and full international competition.
9. Standards

If national standards to which equipment or materials must comply are cited, the specifications should state that goods meeting other authoritative standards, which insure an equal or higher quality than the standards mentioned, will also be accepted.

10. Use of Brand Name and Phrase "or equal"

Descriptions contained in specifications should not prescribe brand names, catalogue numbers, or types of equipment of a specific manufacturer unless it has been determined that this is necessary to insure inclusion of certain essential features. In such a case the reference should be followed by the words "or equal." The specifications should, as a rule, permit offers of alternative equipment, articles or materials which have similar characteristics and provide equal performance and quality to those specified.

11. Language Interpretation

In cases where tender invitations, specifications and contracts are prepared in more than one language, it is desirable to indicate the ruling language.

12. Settlement of Disputes

It is desirable that provisions dealing with the settlement of disputes be included in contract documents, but the Bank or IDA should not be named arbitrator nor asked to name an arbitrator.

13. Advance Payments

The percentage of the total payment to be made in advance upon signature of the contract for mobilization expenses should be reasonable. Other advances to be made, as for example for materials delivered to the site for incorporation in the works, should also be clearly described in the contract documents.

14. Escalation Clauses

In appropriate cases, provision may be made for adjustment (upwards or downwards) in the contract price in the event that changes occur, over which the contractor has no control, in the prices of the major cost constituents of the contract, such as labor and important materials.

15. Insurance

The specifications should state precisely the types of insurance, if any, to be provided by the successful bidder.
16. Retention Money

The percentage of the total payment to be held as retention money and the conditions for its ultimate payment should be stipulated in contract documents.

17. Penalty Clauses

Provisions for penalty, sometimes called liquidated damage clauses, should be contained in contracts when delays in completion will result in extra cost or inconvenience to the borrower.

18. Bid Bonds

If used, bid bonds or other bidding guarantees should not be set so high as to discourage able bidders. Bid bonds or guarantees should be released to unsuccessful bidders as soon as possible after the bids have been opened.

19. Performance Bonds

Specifications for civil works should require performance bonds or other surety adequate to guarantee that the work will be carried on to completion. The amount required varies with the type of work, but it should be sufficient to protect the borrower in case of default by the contractor in performance. The life of the bonds or surety should extend sufficiently beyond completion of the contract to cover a reasonable warranty period. If desired, nominal performance bonds or sureties may be required in connection with contracts for the supply of equipment.

20. Bid Opening Procedures

The date, hour and place of bid opening shall be announced in the invitations and all bids shall be opened publicly at the stipulated time. Bids received after this time shall be returned unopened. The amounts of each bid shall be read aloud and recorded.

21. Clarifications or Alterations of Bids

No bidder shall be permitted to alter his bid after the bids have been opened, but clarifications not changing the substance of the bid may be accepted. The borrower may ask any bidder for a clarification of his bid but shall not ask any bidder to change the substance of his bid.

22. Examination of Bids

Following the opening, it shall be ascertained whether material errors in computation have been made in the bids, whether the bids are fully responsive to the terms of the specifications, whether the required
guarantees and sureties have been provided, whether documents have been properly signed and whether the bids are otherwise generally in order. If a bid does not substantially conform to the specifications or is not otherwise substantially responsive to the invitation, it shall be rejected. A technical analysis shall then be made to evaluate each responsive bid and to enable bids to be compared.

23. **Evaluation of Bids**

In analyzing bids factors other than price, such as the efficiency and reliability of the equipment offered by various bidders, the time of delivery, the time of completion of construction and the availability of service and spare parts, should also be taken into consideration (being expressed in monetary terms wherever possible) for the purpose of determining the lowest evaluated bid.

24. **Postqualification of Bidders**

In the absence of prequalification, the borrower shall determine whether the bidder whose bid has been evaluated the lowest has the capability and financial responsibility effectively to carry out the contract concerned. If the bidder does not meet that test, his bid shall be rejected.

25. **Award of Contract**

The award of a contract should be made to the bidder whose bid has been determined to be the lowest evaluated bid and who meets the appropriate standards of capability and financial responsibility. Such bidder shall not be required, as a condition of award, to undertake responsibilities or work not stipulated in the specifications.

June 5, 1964
Example of Supplementary Letter on Procurement Procedures

[Date]

International Bank for Reconstruction and Development

Loan No. (Project)

Procurement Procedures

Gentlemen:

(Note that this will be an "ad hoc" letter for each loan. The following are illustrative of what might be included.)

We refer to Section _____ of the Loan Agreement (Project) of even date (between the Bank and _______) and confirm that international competitive bidding will be employed for procurement of goods to be financed out of the proceeds of the Loan and the procedures will be as follows:

1. On all civil works contracts in excess of $_______ and for all equipment contracts in excess of $_______, before the award of any such contract is made we will submit to the Bank a summary of the [several lower] bids and state to whom it is proposed to award the contract. If it is proposed to award the contract to other than the bidder offering the lowest price, the reasons for such proposal will be stated. The Bank will be given a reasonable opportunity to review the proposed award and no award will be made before it is approved by the Bank.

2. On all civil works contracts of less than $_______ and on all equipment contracts of less than $_______ we will (the procedure desired to be set forth according to circumstances).

3. As soon as a contract to be financed out of the proceeds of the loan has been signed, we will send a copy thereof to the Bank (this is for Treasurer's Department).
4. We will abide by the procedures set forth in the attached “Guidelines Relating to Procurement Under Bank Loans and IDA Credits” dated June 5, 1964. (Except para. ____ if applicable)

5. For contracts mentioned in paragraph 1, we will send to the Bank:

(a) a list of the countries which will be (have been) notified of our intention to invite bids for the ________ Project,

(b) [A copy of the advertisements that will be (have been) published] [the name of the local newspaper and other news media in which advertisements will be (have been) placed concerning the invitations to bid for this Project]

(c) A copy of the specifications/tender documents to be sent to interested firms with an indication of the amount of performance bond or other surety to be furnished by the successful bidder,

(d) If prequalification of bidders is used,

   (i) the firms that expressed an interest in prequalifying as bidders for the Project
   (ii) the firms [invited] [to be invited] to prequalify, and
   (iii) the firms that [were] [are proposed to be] qualified and the reasons for the rejections of the firms not qualified.

Please indicate your agreement with the foregoing by signing the form of confirmation on the enclosed copy of this letter and returning it to us.

Very truly yours,

[Name of Borrower]

By [Authorized Representative]

CONFIRMED:

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By ____________________________

June 25, 1964
GUIDELINES RELATING TO PROCUREMENT UNDER BANK LOANS AND IDA CREDITS

1. The meeting considered the draft memorandum dated May 7 on the above subject (SSM/A/64-25). In addition to a number of drafting suggestions, the following points were made:

(a) A need for guidance on procedures for obtaining international competitive bids and for their evaluation had arisen because of abuses which had been brought to the Bank's notice, and also because many underdeveloped countries were unfamiliar with the subject.

(b) Some countries where industries were developing were interested in bidding for the supply of pieces of equipment needed for Bank-financed projects, but their representation in borrowing countries was often so rudimentary that invitations issued as prescribed in paragraph 2 failed to reach them. It was noted that Executive Directors could, and did, help to correct this situation, and that the issue of the memorandum under discussion might in itself help to draw attention to the problem.

(c) The nature of the "contracts of a specialized character" and "turnkey contracts" referred to in paragraph 5 should be elucidated in footnotes.

(d) The question whether it continued to be necessary to require that payment under Bank loans and IDA credits be made in the currency of the country of origin of the goods should be reviewed in connection with the revision of Loan Regulations.
(e) It was said that in India it was not customary to keep the cost estimates of the borrower and his consultants secret until the bids had been publicly opened, as in this way it was thought that better bids could be obtained. It was agreed that paragraph 8 should be reconsidered in the light of a review of Indian practice in this respect.

(f) The Bank's disapproval (expressed in paragraph 22) of pressures to change bids after the bids had been opened extended to pressure by the borrower on the lowest bidder to make him reduce his bid to a still lower figure; such pressure undermined the whole idea of competitive bidding.

(g) With reference to paragraph 24, the question was raised whether the memorandum should state how tariffs protecting domestic producers, and preferential agreements and tariffs discriminating among different foreign sources of supply should be treated in the evaluation of bids. In reply, it was stated that the memorandum was primarily directed against doubtful or dishonest practices which had been the subject of complaints to the Bank by suppliers. Tariffs and preferences had not prompted such complaints, and presented a different type of issue, on which the Bank's position could not be easily formulated for the purposes of the memorandum, and which it was best to treat on an ad hoc basis. It was noted that a paper was in course of preparation on the subject of the protection of domestic suppliers.

2. It was agreed that the memorandum, revised in the light of the discussion, should be circulated to the Executive Directors and ultimately made part of the Operational Manual.

STAFF CHANGES

3. The Chairman announced that:

(a) Mr. Schmidt would become Special Adviser to the President, with special reference to the Bank's collaboration with the Inter-American Committee for the Alliance for Progress and other agencies dealing with Latin America.

(b) Mr. Alter would succeed Mr. Schmidt as Director, Department of Operations, Western Hemisphere.

(c) Mr. Beevor wished to retire from his position as Vice President of IFC at the end of the year. He planned to return to the U.K., but would continue to represent IFC on the boards of several development finance corporations, including those in Nigeria, Morocco and Turkey.
MARKETING

4. The Chairman said that the Bank had deliberately decided not to offer any bonds on the U.S. market in 1964. Equally deliberately, it planned to offer $300 million or more in 1965. The possibilities of European markets were also being studied.

5. Mr. Johnson reported that a series of nine lunches - three in New York, and others in Boston, Philadelphia, Pittsburgh, Chicago, San Francisco and Los Angeles - for members of the financial community, sponsored by the Bank's underwriters (Morgan, Stanley and First Boston), had been successfully completed. 466 guests, representing 305 institutions (banks, investment and insurance companies, universities and foundations) had attended. The lunches had served to inform the guests of Bank policies and to introduce Mr. Wilson, Mr. van Zelm and himself to them.

6. Mr. Johnson asked those concerned with loan operations to bear in mind that the New York Office needed particulars (including maturities) of a proposed loan not less than two weeks before it was presented to the Board if participations were to be obtained in time.

PAPERS ON MAJOR POLICY MATTERS

7. The Chairman said that papers were being prepared for consideration by the Executive Directors in the latter half of June, with a view to their recommending that appropriate action be taken by the Boards of Governors at the September meeting, on the following subjects:

(a) A grant from Bank earnings to IDA. He hoped that the Governors would agree to empower the Executive Directors to decide on such grants in subsequent years.

(b) The Settlement of Investment Disputes.

(c) Provision of additional funds for IFC. The Executive Directors had indicated in the 1963 financial policy discussions that they would prefer the loans to industry without governmental guarantees which he had proposed to be made by IFC rather than the Bank, as they thought it inadvisable to seek the requisite change in the Bank's Articles of Agreement. Informal soundings of their views on how the Bank might make funds available to IFC for this purpose had revealed a consensus in favor of amending the Bank's Articles to permit lending to IFC without governmental guarantees, and amending IFC's Articles to permit borrowing from the Bank.

ADJOURNMENT

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

C. H. Davies
Secretary
SENIOR STAFF MEETING

SSM/A/64-30
May 18, 1964

SUBJECT FOR DISCUSSION

The paper entitled "Guide Lines Relating to Procurement under Bank Loans and IDA Credits" (SSM/A/64-25) will be considered at the meeting to be held at 9:30 a.m. on Wednesday, May 20.

C. H. Davies
Secretary

Distribution:

President
Vice Presidents (Bank and IFC)
Special Adviser
Department Heads
Mr. de Wilde
Personal Assistant to the President
GUIDE LINES RELATING TO PROCUREMENT BY OUR BORROWERS

ERRATUM

The reference in the fifth paragraph of the covering note by Mr. Ripman to the paper on the above subject (SSM/A/64-25) should be to paragraph 6, not 7, of the paper.

C. H. Davies
Secretary
GUIDE LINES RELATING TO PROCUREMENT BY OUR BORROWERS

The attached draft paper on the above subject, with covering note from Mr. Ripman, is circulated with a view to discussion at an early meeting.

C. H. Davies
Secretary
TO: Messrs. Woods, Knapp and Wilson

FROM: H. B. Ripman

DATE: April 28, 1964

SUBJECT: Guide Lines Relating to Procurement by our Borrowers

Attached is a draft of a paper setting forth certain guide lines or "ground rules" to guide our Borrowers and their consultants in bidding and contracting procedures relating to international competition.

As you know, we require this type of procedure to be used for procurement under many of our loans and credits. There are, of course, certain types of project for which it is not appropriate, such as some industrial projects and some projects in the more developed member countries, such as Italy, where our lending is mostly for local procurement. The draft paper is not intended to be used in connection with such cases.

The Bank's requirement for international competitive bidding has been interpreted and implemented in quite a wide variety of ways by our Borrowers. This paper is designed to explain the Bank's views on how international competitive bidding should be conducted.

It is intended that this document will be discussed with our Borrowers during negotiations and, if agreement is reached on all the items mentioned, to incorporate it in a supplemental letter. If any of our Borrowers cannot agree to all of the points listed, perhaps for some legal reason, the supplemental letter could amend the document accordingly. It is also intended that the document would be given to consultants retained by our Borrowers or the Bank for their guidance in preparing specifications and contract documents or to any other interested parties.

The document is not intended to be all-inclusive, but it covers the points which we have found frequently cause difficulties. The wording, except for that referred to in paragraph 7, is not intended to be incorporated in specifications or contract documents. These guide lines are not intended to indicate any change in our practice of reviewing bidding and contracting documents.

The paper has been drafted in cooperation with the Legal Department. Previous drafts have been circulated to other Departments in the Bank and their comments are, as far as practical, incorporated in this draft.

If you approve, the paper will be published in final form and distributed as indicated above. Copies would be sent to the Executive Directors for information.

Some consideration was given to publishing this document as an operational memorandum, but it was thought advisable that we obtain some experience in the use of these guide lines before doing so. In this way any changes which may be considered necessary or appropriate can be incorporated into the document before it is so published.
GUIDELINES RELATING TO PROCUREMENT
UNDER BANK LOANS AND IDA CREDITS

1. Purposes and Objective

The International Bank for Reconstruction and Development (the Bank) and the International Development Association (IDA) are required by their Articles of Agreement to insure that the proceeds of their loans and credits are used with due attention to considerations of economy and efficiency. For this reason, and as cooperative international institutions, the Bank and IDA require their borrowers to obtain goods and services (other than consultants' services) on an international competitive basis in member countries unless another procedure, which is more appropriate to the circumstances, has been agreed between the Bank and the Borrower. The Bank and IDA believe that in the interest of fairness both to their borrowers and to suppliers certain guidelines should be generally followed in the bidding and contracting procedures relating to cases where international competitive bidding is involved. This statement sets forth those guidelines. It is intended that this statement will be made applicable, as appropriate, to procurement under Bank loans and IDA credits.*

* Borrowers are free to use the proceeds of Bank loans and IDA credits to make purchases in any member country and Switzerland. The arrangements between the Bank or IDA and the Borrower regarding the use of the proceeds of the particular loan or credit, the contracts which are to be financed, the currency or currencies to be supplied by the Bank or IDA, and the extent to which procurement documents are subject to Bank/IDA review or approval will be set forth in each case in the contractual documents for the loan or credit.
2. International Competition and Advertising

In order to insure widespread international competition, all appropriate member countries of the Bank and Switzerland shall be canvassed for bids. To this end, invitations to bid or to prequalify shall be transmitted to local official representatives of such countries as may be appropriate and advertised in at least one newspaper of general circulation in the Borrower's country. For large and important contracts, advertisements shall be placed in well-known technical magazines and trade publications of wide circulation.

3. Prequalification of Bidders

When contracts are to be sought for large or complex projects involving considerable expense for the preparation of bids, it is desirable to establish a list of prequalified bidders, thus saving the cost of bid preparation to those who would fail to qualify in any case. Prequalification, if employed as a procedure, should be based entirely upon ability to perform satisfactorily, taking into account: (i) the experience of the firm on similar work, (ii) its capabilities with respect to personnel, equipment and plant, and (iii) its financial position. Advertisement of the prequalification procedure shall be carried out along the lines of the procedure described in Paragraph 2 above. Abbreviated specifications should be made available to contractors desiring to be considered for qualification.
4. **Time Interval between Advertising and Bid Opening**

The time allowed for preparation of bids will depend to a large extent upon the magnitude and complexity of the contract involved and the remoteness of the Project from areas from which bids may be expected. Where large civil works are involved, about 90 days generally should be allowed for contractors to conduct necessary investigations at the site. The time allowed, however, should be governed by the circumstances relating to each Project.

5. **Size of Contracts**

In order to foster widespread competition and hence obtain lower prices, whenever feasible individual contracts should be of a size sufficiently large so as not to discourage potential bidders. On the other hand, if the Project is of such a nature that it can easily be divided into contracts of a specialized character, it should be so divided. Except in special cases, turnkey contracts are unacceptable.

6. **References to Bank or IDA**

If it is necessary to refer to the Bank or IDA in bidding documents the following language is suggested:

"...(name of Borrower)... has received (expects to receive) a loan (credit) from the International Bank for Reconstruction and Development (International Development Association) in various currencies equivalent to $.... towards the cost of
(name of Project), and it is intended that proceeds of this loan (credit) will be applied to payments under the contract (contracts) for which this invitation to bid is issued. Payments by the International Bank for Reconstruction and Development (International Development Association) will be made only upon approval by the International Bank for Reconstruction and Development (International Development Association) of an application presented by (name of Borrower) in accordance with the terms and conditions of the Loan (Credit) Agreement and will be subject in all respects to the terms and conditions of that Agreement."

7. **Currency Clauses**

(a) **Currency Used for Payments.** The Bank and IDA generally require that payment for goods and services procured under Bank loans and IDA credits shall be made in the currency of the country of origin.

(b) **Breakdown of Currencies.** Whenever expenditures in both local currency and foreign currency are involved, the tender documents shall require that the amounts of these expenditures be shown separately.

(c) **Currency Equivalents for Bid Comparison.** Under contracts requiring expenditures in more than one currency or in cases where it is expected that bidders from several countries will submit bids expressed, in part or in whole, in their national currencies it will be necessary that, for the purpose of comparison of bids, all currencies
be converted into one specified currency at a specified rate (or rates) of exchange. Such rates shall be fixed as of a reasonable date (say 30 days) prior to the date fixed for the opening of the bids and the Borrower shall make arrangements whereby all prospective bidders may receive notification of such rates a reasonable time before (say 15 days) the date fixed for the opening of the bids.

(d) Exchange Risks. It is desirable that where a payment to be made to a contractor or supplier is based upon a conversion of local currency into foreign currency, the exchange risk should not be borne by the contractor or supplier. The manner in which this can best be effected will depend on the precise payment provisions of the contract and this statement of guidelines does not attempt to deal with the different ways in which this can be handled.

8. Cost Estimates

The cost estimates of the Borrower and its consultants shall be kept secret until after the public opening of the bids.

9. Clarity of Specifications

Every effort shall be made by the Borrower to ensure that specifications and conditions of contract are clearly drawn to include all necessary details and conditions and that plans are consistent therewith. They shall be so worded as to permit and encourage free and full international competition.

10. Standards

If national standards to which equipment or materials must comply are cited, the specifications should state that goods meeting
other authoritative standards, which insure an equal or higher quality than the standards mentioned, will also be accepted. The specifications should, as a rule, permit offers of alternative equipment, articles or materials which have similar characteristics and provide equal performance and quality to those specified.

11. **Use of Brand Name and Phrase "or equal"**

Descriptions contained in specifications should not prescribe brand names, catalogue numbers, or types of equipment of a specific manufacturer unless it has been determined that this is necessary to insure inclusion of certain essential features. In such a case the reference should be followed by the words "or equal".

12. **Language Interpretation**

In cases where tender invitations, specifications and contracts are prepared in more than one language, it is desirable to indicate the ruling language.

13. **Settlement of Disputes**

It is desirable that provisions dealing with the settlement of disputes be included in contract documents, but the Bank or IDA should not be named arbitrator nor asked to name an arbitrator.

14. **Advance Payments**

The percentage of the total payment to be made in advance upon signature of the contract for mobilization expenses should be reasonable. Other advances to be made, as for example for materials delivered to the site for incorporation in the works, should also be clearly described in the contract documents.
15. **Escalation Clauses**

As a general rule, provision should be made for adjustment to the contract price in the event that changes occur, over which the contractor has no control, in the prices of the major cost constituents of the contract, such as labor and important materials. Unlimited escalation is, however, not acceptable (i.e. escalation which could increase the total amount paid under the contract without any limit).

16. **Insurance**

The specifications should state precisely the types of insurance to be provided by the successful bidder.

17. **Retention Money**

The percentage of the total payment to be held as retention money and the conditions for its ultimate payment should be stipulated in contract documents.

18. **Penalty Clauses**

Provisions for penalty, sometimes called liquidated damage clauses, should be contained in contracts when delays in completion will result in extra cost or inconvenience to the Borrower.

19. **Bid Bonds**

If used, bid bonds or other bidding guarantees should not be set so high as to discourage able bidders. Bid bonds or guarantees should be released to unsuccessful bidders as soon as possible after the bids have been opened.
20. **Performance Bonds**

Specifications for civil works should require performance bonds or other surety adequate to guarantee that the work will be carried on to completion. The reasonableness of the amount required varies with the type of work, but should be sufficient to protect the Borrower in case of default by the contractor in performance. It should be ascertained that the life of the bonds or surety will extend sufficiently beyond completion of the contract to cover a reasonable warranty period. If desired, nominal performance bonds or sureties may be required in connection with contracts for the supply of equipment.

21. **Bid Opening Procedures**

The date, hour and place of bid opening shall be announced in the invitations and all bids shall be opened publicly at the stipulated time. Bids received after this time shall be returned unopened. The amounts of each bid shall be read aloud and recorded.

22. **Alterations of Bid**

No bidder shall be permitted to alter his bid after the bids have been opened, but clarifications not changing the substance of the bid may be accepted. The Borrower may ask bidders for clarification of their bids. However, no negotiation shall be entered into with the apparent low bidder or other bidders in an attempt to change the relative positions of bidders prior to the determination of the lowest evaluated bid.

23. **Examination of Bids**

Following the opening, it shall be ascertained whether material
errors in computation have been made in the bids, whether the bids are fully responsive to the terms of the specifications, whether the required guarantees and sureties have been provided, whether documents have been properly signed and whether the bids are otherwise generally in order. If a bid does not conform in all material respects to the specifications or is not otherwise substantially responsive to the invitation, it shall be rejected. A technical analysis shall then be made to evaluate each responsive bid and effect comparisons from the standpoint of cost.

24. Evaluation of Bids

In analyzing bids factors other than price, such as the efficiency of the equipment offered by various bidders, the time and cost of delivery, the time of completion of construction and the availability of service and spare parts, shall also be taken into consideration for the purpose of determining the lowest evaluated bid.

25. Postqualification of Bidders

In the absence of prequalification, an investigation shall be made to determine whether the bidder whose bid has been evaluated the lowest has the capability and financial responsibility effectively to carry out the contract concerned. If he does not, his bid shall be rejected.

26. Award of Contract

As a rule, the award of a contract should be made to the bidder whose bid has been evaluated as the lowest of those meeting all terms
and conditions of the specifications and who meets the appropriate standards of capability and financial responsibility. Such bidder shall not be required, as a condition of award, to undertake responsibilities or work not stipulated in the specifications.
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<td>Use of Bank Funds in Financing Purchases in Non-Member Countries - (R-945 dated February 21, 1956)</td>
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The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

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FROM: The Secretary

February 21, 1956

USE OF BANK FUNDS IN FINANCING
PURCHASES IN NON-MEMBER COUNTRIES

The attached memorandum on "USE OF BANK FUNDS IN FINANCING
PURCHASES IN NON-MEMBER COUNTRIES" will be considered at an
early meeting of the Executive Directors.

Attachment

Distribution:

Executive Directors and Alternates
President
Vice President
Assistant to President
Department Heads

Sec. 10-137
USE OF BANK FUNDS IN FINANCING PURCHASES IN NON-MEMBER COUNTRIES

1. Prospective borrowers under loans presently being considered propose to invite suppliers and contractors in Argentina, Czechoslovakia, New Zealand and Switzerland, non-member countries, to submit tenders unless use of loaned funds is restricted to purchases in member countries. Some of these prospective borrowers have inquired about the Bank's policy in respect of financing purchases in non-member countries.

2. The Bank's standard loan documents do not restrict use of Bank funds to purchases in member countries. Substantial purchases from non-member countries (e.g. Argentina, Portuguese East Africa) were financed under the Bank's early reconstruction loans, but except for purchases from Switzerland (which has a special relationship with the Bank and will be discussed separately below), subsequent transactions for the most part have been relatively small in amount * and have involved countries which were in the process of becoming or have since become members of the Bank.

3. Since the policy question is squarely raised and appears likely to recur frequently, the President is of the opinion that it should now be decided.

4. In the early days of the Bank when a seller's market prevailed and goods were in short supply, the opportunity of furnishing supplies required under Bank loans was of relatively minor value. Now the situation is quite different. Buyers are more deliberate in their purchasing. There is active competition among supplying countries. The interest shown by members in the policy of international competition is evidence that the opportunity of supplying Bank-financed goods and services has real value in present circumstances.

5. Membership in the Bank carries with it certain obligations. Members bear the ultimate financial risk of Bank operations. They accord the Bank substantial rights in the form of privileges and immunities. They subscribe to all the Bank's capital stock. As a cooperative institution it is entirely appropriate that the Bank should allow members to enjoy the advantages, as they bear the burdens, that accrue from Bank operations. These considerations should lead the Bank in present circumstances to give members a preferential right to supply Bank-financed goods and services.

* Rather substantial purchases were made in Germany before her admission to membership.
6. There are, moreover, special reasons for not permitting proceeds of Bank loans to be spent in certain countries, namely, the members of the Soviet bloc. Most of these countries have consistently displayed a hostile attitude toward the Bank and its operations. The President believes that use of Bank funds in financing goods and services supplied from these countries would adversely affect the markets for Bank bonds and the prospects for broadening those markets by legislation and administrative ruling, in the United States, Canada and perhaps other countries.

7. The case of Switzerland requires special discussion. The Swiss market has been a substantial source of funds in the past and promises to be one of the Bank's major markets in the future. On June 29, 1951, Switzerland entered into a formal agreement with the Bank (R-476) under which Switzerland agreed to extend to the Bank's bonds very substantial tax concessions and immunities and in other respects to accord to the Bank privileges and immunities comparable to those granted by members under the Articles of Agreement. The agreement does not contain any provision tying funds raised in Switzerland to Swiss purchases or requiring the Bank to allow its loan proceeds to be spent in Switzerland. However, in the course of negotiations the Bank assured the Swiss authorities that if Switzerland opened her markets to the Bank and in other respects gave the Bank substantially the same status that it enjoys in member countries, the Bank would consider itself bound not to discriminate against Switzerland in regard to use of funds for financing Swiss goods and services.

8. Because of the foregoing considerations, the Bank should continue to allow its loan proceeds to be spent for Swiss goods and services. At the present time Switzerland's relationship to the Bank is unique and there is no prospect that the Bank will establish a similar relationship with any other non-member.

9. For the foregoing reasons, the President proposes that the Bank be guided by a general policy under which

(a) use of proceeds of future Bank loans would be restricted to financing expenditures in the territories of members for goods produced in and services supplied from those territories;

(b) an exception would be made for goods produced in and services supplied from Switzerland in view of the special relationship established by the existing agreement between Switzerland and the Bank.
10. Adoption of the proposed policy would not mean any relaxation of the practice which the Bank has always followed of refusing to finance any goods and services unless the Bank is satisfied that they are suitable for the project and that the price and terms of purchase are reasonable.

11. The suggested course of action, while not required by the Articles of Agreement, is consistent with those Articles. There are two provisions in the Articles which might be considered relevant. One is Article III, Section 1(a), to the effect that "The resources and facilities of the Bank shall be used exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike." [Underlining supplied.] While the underlined words, considered alone, might be interpreted as having a bearing upon the present issue, read as a whole the provision relates to the purposes for which financing is granted and not to incidental effects such as the expenditure of loan proceeds. The provision has not in the past been interpreted as forbidding the use of Bank funds for purchases in non-member countries and in the opinion of the General Counsel should not be so interpreted. The other provision in the Articles which might be considered relevant is Article III, Section 5(a), to the effect that "The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members." This provision forbids discrimination among members in the use of loan proceeds; it does not, however, prohibit the Bank from distinguishing between members and non-members or from singling out a particular non-member for special treatment where that is considered to be in the interest of the members as a whole.

12. In order to give effect to the proposed policy, the President recommends that Loan Regulations No. 3, dated February 15, 1955, and Loan Regulations No. 4, dated February 15, 1955, be amended as set forth in Annex A hereto.
Proposed Amendment to Loan Regulations No. 3
dated February 15, 1955

Amend the last sentence of Section 4.01 to read as follows:

"Except as shall be otherwise agreed between the Bank and the Borrower, no withdrawals shall be made on account of (a) expenditures prior to the Effective Date or (b) expenditures in the currency of the Borrower or for goods produced in (including services supplied from) the territories of the Borrower or (c) expenditures in the territories of any country which is not a member of the Bank or for goods produced in (including services supplied from) such territories*.

Footnote to Section 4.01
* For the purposes of sub-paragraph (c) Switzerland, with which the Bank has by agreement established a special relationship, shall be treated as a member of the Bank."

Proposed Amendment to Loan Regulations No. 4
dated February 15, 1955

Amend the last sentence of Section 4.01 to read as follows:

"Except as shall be otherwise agreed between the Bank and the Borrower, no withdrawals shall be made on account of (a) expenditures prior to the Effective Date or (b) expenditures in the currency of the Guarantor or for goods produced in (including services supplied from) the territories of the Guarantor or (c) expenditures in the territories of any country which is not a member of the Bank or for goods produced in (including services supplied from) such territories*.

Footnote to Section 4.01
* For the purposes of sub-paragraph (c) Switzerland, with which the Bank has by agreement established a special relationship, shall be treated as a member of the Bank."
TO: Committee on Financial Policy

FROM: The Secretary

FINANCIAL POLICY COMMITTEE

Notice of Meeting

There will be a meeting of the Financial Policy Committee in the Board Room on Tuesday, June 7, 1955, at 3:30 p.m., to discuss certain aspects of the Bank's financing in Canada, and to begin consideration of the Bank's policy regarding the statutory commission.

Distribution

Members of the Financial Policy Committee
President
Vice President
Assistant to the President
Department Heads

Sec. 9-259
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**Remarks**

I concur in the views expressed in the attached memorandum by General Naffey.

Are there any contrary views?

Copies of attached memorandum have been circulated to:


From  

Milton C. Cross
Bank's policy on loans for aviation projects

1. At a regular meeting of Department Heads on October 24, 1954, a discussion took place on the subject of loans for financing the purchase of airplanes. As a result of the discussion it was decided that an examination should be made of this subject, with a view to determining whether any general principles could be deduced which would be helpful in determining the Bank's attitude toward such projects. Following the meeting, you instructed me to ascertain the views of the three Area Departments on this matter, and to consider whether or not it would be profitable to pursue the matter further by assigning it to a working party for a more thorough study.

2. I have discussed this question with Messrs. Knapp, Cheng and Cope, and with a number of other members of the Area Departments and of the T.O.D. It appears that proposals for the purchase of airplanes, for both external and internal airlines, are being advanced from time to time by various member countries, including some which now have no nationally-owned airlines and which seem to think that they should have such airlines as a matter of prestige, if for no other reasons. It would obviously be convenient if some general principles could be stated concerning the Bank's attitude toward such projects (similar, perhaps, to the principle that municipal waterworks and sewerage projects are not ordinarily considered suitable for Bank financing), which would save time and trouble in the handling of unsuitable airplane projects. I believe that some such idea was in the minds of those who suggested a study of the subject.

3. After rather careful consideration, I have come to the conclusion that it is not practicable to set forth any general principles on this matter, and nearly everyone with whom I have discussed the problem has concurred in that conclusion.

4. It is true that projects for the purchase of airplanes are not likely to have a high priority in most countries, but that does not seem to be a sufficiently good reason for arbitrarily ruling out all such projects, regardless of the special conditions on which they may be based. For example, a project to purchase planes for an internal airline in a small country already well provided with road and railroad transportation would perhaps receive short shrift from the Bank, while a similar project for a large, thinly-populated area like Brazil or East Africa, where other means of transportation are inadequate and slow and where air transport is an important aid to the government and development of the area, could conceivably stand quite high on the
development program. Similarly, a case warranting Bank consideration might be made for financing an external airline for an important isolated country which is inadequately served by existing lines or which fears to be too largely dependent for its external air transport on foreign airlines which might be withdrawn in an emergency.

5. In my opinion, each project for financing airplanes should be considered strictly on its own merits. As a general rule, however, the Bank would be entirely justified in regarding each project of this kind with caution, and in requiring the sponsor at the outset to furnish convincing information on the need for the project and its financial validity, before the usual investigations of other features of the project are undertaken. The chances are that very few such projects can withstand careful scrutiny, but where a good project does come along it should not be rejected out of hand solely because it is an airplane project.

6. I do not believe that it would be worth while to assign this subject to a working party for further study.
METHODS OF PROCUREMENT
UNDER IBRD LOANS

The Articles of Agreement of the Bank provide (Article III, Section 5(a)) that "The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members"; and (Article III, Section 5(b)) that "The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency ...". Thus the Bank cannot make tied loans. The borrower is free to use the proceeds of the loan in making purchases in any member country if the standard of economy and efficiency is respected.

It seems within the spirit of these provisions that the Bank should allow its borrowers to exercise their own business judgment in making purchases. Considerations of various kinds may reasonably influence borrowers to purchase in one market rather than another; for example, familiarity with certain types of equipment, the desire to standardize equipment in order to avoid complications in maintenance and spare parts control and the availability of dealers' maintenance and service facilities for specific types of equipment. It is inappropriate for the Bank to attempt to impose its own judgment on its borrower in such matters unless the borrower's preference appears likely to result in an uneconomic use of the Bank's resources.

Subject to the foregoing, the Bank wishes all of its member governments to have a fair opportunity to supply goods required under Bank loans. Such an objective is appropriate to the Bank's character as a cooperative international institution among whose principal purposes is the promotion of "The long-range balanced growth of international trade" (Article I (iii)). Therefore, the Bank favors procurement on a competitive international basis, where this is appropriate.

In particular loans, these two desires of the Bank, to defer to the borrower's reasonable business judgment and to favor international competition in procurement, may come into conflict. The Bank has not attempted to resolve these conflicts by any absolute rule. Instead, it has followed the practice of encouraging its borrowers to invite bids on an international basis, or at least to test the availability of supplies in the leading markets, but has not insisted on that course where the borrower has satisfied the Bank that it has substantial reasons for using another purchasing method and that its preferred method will procure suitable goods at fair prices and on reasonable terms.

Many of the Bank's borrowers are familiar with competitive bidding and employ the technique on their own initiative because of domestic legal requirements or as a matter of sound business practice. In some cases, particularly where experience in procurement is lacking, the Bank has advised,
or even required, the borrower to employ international bidding and to retain a qualified consultant to assist in determining the qualifications of bidders, in preparing specifications and in analyzing the relative merits of bids.

It follows from what has been said that the Bank never proposes that a borrower should place a contract with a designated supplier, or that competition should be restricted to a designated group of suppliers. The Bank does not furnish lists of suppliers to its borrowers. The borrower must decide which suppliers should be invited to bid, and to which of them the contract is to be awarded. The Bank will want to satisfy itself that the goods supplied are suitable for the requirements of the project.

Similarly, in the case of construction contracts, the Bank will want to satisfy itself that the contractors employed are competent. It is, however, the borrower who is responsible for the qualification and selection of such contractors. It has happened on a few occasions that a borrower has asked the Bank to supply a list of firms experienced in a particular type of construction. In such cases the Bank is prepared to supply a list, compiled on an international basis, of firms with specialized experience in the field in question, but in each case with the proviso that the list should not be regarded as exhaustive, and that it should be supplemented from other sources as far as may be possible. In preparing such a list, the Bank draws on information submitted by a large number of contractors in various countries on their own initiative, on the experience of its staff members, and on the contacts it maintains in supervising the operations of the projects which it finances.

In some other cases, the Bank has been asked by a borrower to submit the names of individuals or firms experienced as consultants in various special fields. The Bank maintains contact with specialized international agencies, professional associations, etc. in various countries in this connection. It is therefore usually in a position either to suggest names of consultants from its own records or to obtain such names from sources of information in various countries. Such lists of consultants are compiled on an international basis, and submitted to borrowers with the same proviso that they should not be regarded as exhaustive, and should be supplemented from other sources as far as may be possible.

Although many borrowers employ the system of competitive bidding, whether on their own initiative or at the Bank's request, there are a number of loans in connection with which the system has not been applied. Some of these are loans to which it is in any case inapplicable, such as impact loans. In others it has not proved to be appropriate. The most usual reasons why the method is sometimes inappropriate are explained in the following paragraphs.

There are cases in which the goods in question may be available from only one country.

In other cases, the Bank's loans are needed and granted to cover the cost of goods to be supplied from a particular area, the borrower being able to pay for goods from other areas with its own resources.
Sometimes the greatest efficiency and economy may be attained in operation and maintenance, and the cost of carrying spare parts may be minimized, by standardizing on a particular make of equipment. This may have the additional advantage of maintaining continuity of relationships with manufacturers and obtaining technical assistance from them.

There is one type of loan in which the goods pass through normal trade channels, and both the importer and the ultimate purchaser have no relationship with the Bank. In such cases it is not practical to stipulate a particular method of purchase, and the consumer's preference will determine the source of supply.

There are some cases in which an experienced and "sophisticated" purchaser knows the market so well that the best prices and terms can be obtained by carrying out procurement on a negotiated basis.

It sometimes happens that orders have been placed before the loan is granted. In such cases the Bank expects the borrower to prove that the contract prices are reasonable, but cannot of course do more than this.

These are the most usual reasons why international bidding is not practiced in all the operations financed by Bank loans, and why the Bank has never adopted any rigid policy that all its borrowers should always use the method.
FROM: The Secretary

METHODS OF PROCUREMENT UNDER I.B.R.D. LOANS

With reference to the paper on "Methods of Procurement under I.B.R.D. Loans" which was circulated on October 11, 1953 under Report R-742, it appears that the first full paragraph on page 2 was incomplete and subject to misinterpretation. Accordingly, this paragraph has been amended and the attached revised paper is circulated for the consideration of the Executive Directors at their meeting on December 8, 1953.

Distribution:

Executive Directors and Alternates
President
Vice President
Assistant to President
Department Heads

Sec.8-90
METHODS OF PROCUREMENT
UNDER IBRD LOANS

The Articles of Agreement of the Bank provide (Article III, Section 5(a)) that "The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members"; and (Article III, Section 5(b)) that "The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency ...". Thus the Bank cannot make tied loans. The borrower is free to use the proceeds of the loan in making purchases in any member country if the standard of economy and efficiency is respected.

It seems within the spirit of these provisions that the Bank should allow its borrowers to exercise their own business judgment in making purchases. Considerations of various kinds may reasonably influence borrowers to purchase in one market rather than another; for example, familiarity with certain types of equipment, the desire to standardize equipment in order to avoid complications in maintenance and spare parts control and the availability of dealers' maintenance and service facilities for specific types of equipment. It is inappropriate for the Bank to attempt to impose its own judgment on its borrower in such matters unless the borrower's preference appears likely to result in an uneconomic use of the Bank's resources.

Subject to the foregoing, the Bank wishes all of its member governments to have a fair opportunity to supply goods required under Bank loans. Such an objective is appropriate to the Bank's character as a cooperative international institution among whose principal purposes is the promotion of "The long-range balanced growth of international trade" (Article I (iii)). Therefore, the Bank favors procurement on a competitive international basis, where this is appropriate.

In particular loans, these two desires of the Bank, to defer to the borrower's reasonable business judgment and to favor international competition in procurement, may come into conflict. The Bank has not attempted to resolve these conflicts by any absolute rule. Instead, it has followed the practice of encouraging its borrowers to invite bids on an international basis, or at least to test the availability of supplies in the leading markets, but has not insisted on that course where the borrower has satisfied the Bank that it has substantial reasons for using another purchasing method and that its preferred method will procure suitable goods at fair prices and on reasonable terms.

Many of the Bank's borrowers are familiar with competitive bidding and employ the technique on their own initiative because of domestic legal requirements or as a matter of sound business practice. In some cases, particularly where experience in procurement is lacking, the Bank has advised,
or even required, the borrower to employ international bidding and to retain a qualified consultant to assist in determining the qualifications of bidders, in preparing specifications and in analyzing the relative merits of bids.

It follows from what has been said that the Bank never proposes that a borrower should place a contract with a designated supplier, or that competition should be restricted to a designated group of suppliers. The Bank does not furnish lists of suppliers to its borrowers. The borrower must decide which suppliers should be invited to bid, and to which of them the contract is to be awarded. The Bank will want to satisfy itself that the goods supplied are suitable for the requirements of the project.

Similarly, in the case of construction contracts, the Bank will want to satisfy itself that the contractors employed are competent. It is, however, the borrower who is responsible for the qualification and selection of such contractors. It has happened on a few occasions that a borrower has asked the Bank to supply a list of firms experienced in a particular type of construction. In such cases the Bank is prepared to supply a list, compiled on an international basis, of firms with specialized experience in the field in question, but in each case with the proviso that the list should not be regarded as exhaustive, and that it should be supplemented from other sources as far as may be possible. In preparing such a list, the Bank draws on information submitted by a large number of contractors in various countries on their own initiative, on the experience of its staff members, and on the contacts it maintains in supervising the operations of the projects which it finances.

In some other cases, the Bank has been asked by a borrower to submit the names of individuals or firms experienced as consultants in various special fields. The Bank maintains contact with specialized international agencies, professional associations, etc. in various countries in this connection. It is therefore usually in a position either to suggest names of consultants from its own records or to obtain such names from sources of information in various countries. Such lists of consultants are compiled on an international basis, and submitted to borrowers with the same proviso that they should not be regarded as exhaustive, and should be supplemented from other sources as far as may be possible.

Although many borrowers employ the system of competitive bidding, whether on their own initiative or at the Bank's request, there are a number of loans in connection with which the system has not been applied. Some of these are loans to which it is in any case inapplicable, such as impact loans. In others it has not proved to be appropriate. The most usual reasons why the method is sometimes inappropriate are explained in the following paragraphs.

There are cases in which the goods in question may be available from only one country.

In other cases, the Bank's loans are needed and granted to cover the cost of goods to be supplied from a particular area, the borrower being able to pay for goods from other areas with its own resources.
Sometimes the greatest efficiency and economy may be attained in operation and maintenance, and the cost of carrying spare parts may be minimized, by standardizing on a particular make of equipment. This may have the additional advantage of maintaining continuity of relationships with manufacturers and obtaining technical assistance from them.

There is one type of loan in which the goods pass through normal trade channels, and both the importer and the ultimate purchaser have no relationship with the Bank. In such cases it is not practical to stipulate a particular method of purchase, and the consumer's preference will determine the source of supply.

There are some cases in which an experienced and "sophisticated" purchaser knows the market so well that the best prices and terms can be obtained by carrying out procurement on a negotiated basis.

It sometimes happens that orders have been placed before the loan is granted. In such cases the Bank expects the borrower to prove that the contract prices are reasonable, but cannot of course do more than this.

These are the most usual reasons why international bidding is not practiced in all the operations financed by Bank loans, and why the Bank has never adopted any rigid policy that all its borrowers should always use the method.
As requested by the Executive Directors, the attached paper on "Methods of Procurement under I.B.R.D. Loans" is circulated for information.

This paper will be placed on the agenda of the Executive Directors for the regular November meeting.

Distribution

Executive Directors and Alternates
President
Vice President
Assistant to the President
Department Heads
METHODS OF PROCUREMENT
UNDER IBRD LOANS

The Articles of Agreement of the Bank provide (Article III, Section 5(a)) that "The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members"; and (Article III, Section 5(b)) that "The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency ...". Thus the Bank cannot make tied loans. The borrower is free to use the proceeds of the loan in making purchases in any member country if the standard of economy and efficiency is respected.

It seems within the spirit of these provisions that the Bank should allow its borrowers to exercise their own business judgment in making purchases. Considerations of various kinds may reasonably influence borrowers to purchase in one market rather than another; for example, familiarity with certain types of equipment, the desire to standardize equipment in order to avoid complications in maintenance and spare parts control and the availability of dealers' maintenance and service facilities for specific types of equipment. It is inappropriate for the Bank to attempt to impose its own judgment on its borrower in such matters unless the borrower's preference appears likely to result in an uneconomic use of the Bank's resources.

Subject to the foregoing, the Bank wishes all of its member governments to have a fair opportunity to supply goods required under Bank loans. Such an objective is appropriate to the Bank's character as a cooperative international institution among whose principal purposes is the promotion of "The long-range balanced growth of international trade" (Article I (iii)). Therefore, the Bank favors procurement on a competitive international basis, where this is appropriate.

In particular loans, these two desires of the Bank, to defer to the borrower's reasonable business judgment and to favor international competition in procurement, may come into conflict. The Bank has not attempted to resolve these conflicts by any absolute rule. Instead, it has followed the practice of encouraging its borrowers to invite bids on an international basis, or at least to test the availability of supplies in the leading markets, but has not insisted on that course where the borrower has satisfied the Bank that it has substantial reasons for using another purchasing method and that its preferred method will procure suitable goods at fair prices and on reasonable terms.

Many of the Bank's borrowers are familiar with competitive bidding and employ the technique on their own initiative because of domestic legal requirements or as a matter of sound business practice. In some cases, particularly where experience in procurement is lacking, the Bank has advised,
or even required, the borrower to employ international bidding and to
retain a qualified consultant to assist in determining the qualifications
of bidders, in preparing specifications and in analyzing the relative
merits of bids.

It follows from what has been said that the Bank never proposes
that a borrower should place a contract with a designated supplier, or
that competition should be restricted to a designated group of suppliers.
The borrower must decide which suppliers should be invited to bid, and to
which of them the contract is to be awarded. It does, however, happen
sometimes that a borrower will ask the Bank to supply a list of firms
qualified to bid on a particular contract or contracts. The Bank is pre-
pared to supply such a list, compiled on an international basis; but it is
always made clear to the borrower that such lists are not exhaustive, and
should be supplemented from other sources as far as it may be possible to
do so.

Although many borrowers employ the system of competitive bidding,
whether on their own initiative or at the Bank's request, there are a
number of loans in connection with which the system has not been applied.
Some of these are loans to which it is in any case inapplicable, such as
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usual reasons why the method is sometimes inappropriate are explained in
the following paragraphs.

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and maintenance, and the cost of carrying spare parts may be minimized, by
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obtained by carrying out procurement on a negotiated basis.
It sometimes happens that orders have been placed before the loan is granted. In such cases the Bank expects the borrower to prove that the contract prices are reasonable, but cannot of course do more than this.

These are the most usual reasons why international bidding is not practiced in all the operations financed by Bank loans, and why the Bank has never adopted any rigid policy that all its borrowers should always use the method.
FROM: The Secretary

January 14, 1955

TENTATIVE AND APPROXIMATE LOAN FORECAST

For the information of the Executive Directors, attached is a summary of the Bank's Loan Operations during the first half of the current fiscal year (July 1 - December 31, 1954), together with a tentative and approximate forecast of loan operations during the last half of the fiscal year (January 1 - June 30, 1955), as given by the Directors of the Area Operations Departments at the last meeting of Executive Directors on January 11, 1955.

Attachment

Distribution

Executive Directors and Alternates
President
Vice President
Assistant to the President
Department Heads

Sec. 9-92
### A. Loan Operations (July 1 - December 31, 1954)

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount ($ million)</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Asia and Middle East</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ceylon</td>
<td>19.1</td>
<td>Electric power development (Aberdeen-Laksapana)</td>
</tr>
<tr>
<td>India</td>
<td>16.2</td>
<td>Trombay thermal power project</td>
</tr>
<tr>
<td>India</td>
<td>10.0</td>
<td>Industrial Credit and Investment Corporation</td>
</tr>
<tr>
<td></td>
<td><strong>45.3</strong></td>
<td>Total</td>
</tr>
<tr>
<td><strong>II. Europe, Africa and Australasia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>12.0</td>
<td>Reisseck-Kreuzbeck power project</td>
</tr>
<tr>
<td>Belgium</td>
<td>20.0</td>
<td>Ports and inland waterways (in conjunction with public issue of $30 million)</td>
</tr>
<tr>
<td></td>
<td><strong>32.0</strong></td>
<td>Total</td>
</tr>
<tr>
<td><strong>III. Western Hemisphere</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>5.0</td>
<td>Purchase of farm machinery</td>
</tr>
<tr>
<td>El Salvador</td>
<td>11.1</td>
<td>Highway development</td>
</tr>
<tr>
<td>Mexico</td>
<td>61.0</td>
<td>Rehabilitation of Pacific Railway</td>
</tr>
<tr>
<td>Peru</td>
<td>5.0</td>
<td>Agricultural credit to Banco de Fomento Agropecuario del Peru</td>
</tr>
<tr>
<td></td>
<td><strong>82.1</strong></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td><strong>159.4</strong></td>
<td>Grand Total</td>
</tr>
</tbody>
</table>

Sec. 9-92
## B. TENTATIVE AND APPROXIMATE LOAN FORECAST - (Jan. 1 - June 30, 1955)

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount ($ million)</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. ASIA AND MIDDLE EAST</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>6.0</td>
<td>Agricultural development</td>
</tr>
<tr>
<td>Japan</td>
<td>4.0</td>
<td>Steel Project</td>
</tr>
<tr>
<td>Malaya</td>
<td>4.0 to 8.0</td>
<td>Malacca thermal power project and other items of a power program</td>
</tr>
<tr>
<td>Pakistan</td>
<td>4.2</td>
<td>Paper mill</td>
</tr>
<tr>
<td>Pakistan</td>
<td>14.0</td>
<td>Power project - Karachi Electric Supply Corporation</td>
</tr>
<tr>
<td>Pakistan</td>
<td>13.6</td>
<td>Karachi - rehabilitation of East Wharves</td>
</tr>
<tr>
<td>Thailand</td>
<td>10.0</td>
<td>Railway program</td>
</tr>
<tr>
<td>Syria</td>
<td>5.0</td>
<td>Road program</td>
</tr>
<tr>
<td>Syria</td>
<td>2.5</td>
<td>Equipment of Port of Latakia</td>
</tr>
<tr>
<td>Syria</td>
<td>10.0</td>
<td>Irrigation and land reclamation in the Ghab region</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>73.3 to 77.3</td>
<td></td>
</tr>
<tr>
<td><strong>II. EUROPE, AFRICA AND AUSTRALASIA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>50.0</td>
<td>Agriculture, transport, mining and manufacturing</td>
</tr>
<tr>
<td>Algeria</td>
<td>10.0</td>
<td>Electricity and gas</td>
</tr>
<tr>
<td>East Africa</td>
<td>21.0</td>
<td>Railways and harbors in Kenya, Uganda and Tanganyika</td>
</tr>
<tr>
<td>Austria</td>
<td>10.0</td>
<td>Hydroelectric power development of the Vorarlberger Ilverken A.G. in Western Austria</td>
</tr>
<tr>
<td>Finland</td>
<td>12.0</td>
<td>Woodworking industries and electric power</td>
</tr>
<tr>
<td>Italy</td>
<td>60.0</td>
<td>Projects in the Cassa area, possibly irrigation, manufacturing and electric power</td>
</tr>
<tr>
<td>Country</td>
<td>Amount ($ million)</td>
<td>Purpose</td>
</tr>
<tr>
<td>------------</td>
<td>-------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Norway</td>
<td>15.0</td>
<td>To meet foreign exchange needs of Norway's development (probably in conjunction with a public issue)</td>
</tr>
<tr>
<td></td>
<td>178.0</td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Colombia</td>
<td>16.0</td>
<td>Extension of Magdalena Valley Railway, Gamarra to Santa Marta</td>
</tr>
<tr>
<td>Colombia</td>
<td>4.5</td>
<td>Enlargement of Anchicaya power project serving the city of Cali</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>3.0</td>
<td>General agricultural and industrial development</td>
</tr>
<tr>
<td>Ecuador</td>
<td>3.0</td>
<td>Increasing hydroelectric capacity to serve the city of Quito</td>
</tr>
<tr>
<td>Guatemala</td>
<td>5.0</td>
<td>General agricultural development and for agricultural processing industries</td>
</tr>
<tr>
<td>Honduras</td>
<td>4.0</td>
<td>Power project</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>7.0</td>
<td>Steam power plant in Managua</td>
</tr>
<tr>
<td>Panama</td>
<td>1.5</td>
<td>Highway maintenance</td>
</tr>
<tr>
<td>Peru</td>
<td>18.0</td>
<td>Second stage of the Quiroz-Piura irrigation project</td>
</tr>
<tr>
<td>Peru</td>
<td>2.5</td>
<td>Cement plant</td>
</tr>
<tr>
<td>Peru</td>
<td>2.0</td>
<td>Hydroelectric project of private power company serving the city of Arequipa</td>
</tr>
<tr>
<td>Uruguay</td>
<td>5.0</td>
<td>Livestock project</td>
</tr>
<tr>
<td>Uruguay</td>
<td>10.0</td>
<td>Railroad program</td>
</tr>
<tr>
<td>Uruguay</td>
<td>6.0</td>
<td>Additional 50,000 KW unit for Montevideo</td>
</tr>
<tr>
<td></td>
<td>87.5</td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td></td>
<td>338.8 to 342.8</td>
<td><strong>GRAND TOTAL</strong></td>
</tr>
</tbody>
</table>

Sec. 9-92
ARRANGEMENTS WITH UNITED KINGDOM

The purpose of this memorandum is to inform the Executive Directors of the arrangements which have been worked out with the United Kingdom for the implementation of the negative pledge clauses in the Bank's Guarantee Agreements with the United Kingdom, if the United Kingdom pledges securities to the Export-Import Bank of Washington to secure advances from the latter.

At their meeting on December 21, 1956, the President informed the Executive Directors that the United Kingdom had reached agreement with the Eximbank on a line of credit, under which advances were to be secured by a pledge of securities. On that occasion, the President stated that he had been informed by the Executive Director for the United Kingdom that the United Kingdom intended to implement the negative pledge clauses contained in its Guarantee Agreements with the Bank.

The agreement between the United Kingdom and the Eximbank, of which a copy is attached as Annex A, was signed on February 25, 1957. It provides, among other things, that, upon each advance, securities are to be pledged...

Distribution:
Executive Directors and Alternates
President
Vice Presidents
Department Heads

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having a market value (as defined) of 120% of the amount of the advance. The agreement defines "market value" as being the market value determined quarterly by J. P. Morgan & Co., Inc.

Each of the Bank's Guarantee Agreements with the United Kingdom contains a "negative pledge" clause (Section 3.01) under which the United Kingdom, in effect, agrees that, if any external debt is secured by a pledge of assets of the United Kingdom then the Bank loan to which such Guarantee Agreement relates shall be equally and ratably secured.

It has been arranged that, as securities are pledged to the Eximbank, the United Kingdom will make similar pledges of securities to the Bank to secure its payment obligations (other than those payable in sterling) under the Guarantee Agreements. Attached as Annex B is a copy of the form of letter of pledge which is to be delivered to the Bank by the United Kingdom at the time of the first pledge of securities to the Eximbank. On the delivery of that letter of pledge, the United Kingdom will make an initial pledge of securities to the Bank of a market value (as defined in the Eximbank Agreement) equal to the lesser of (a) the market value of securities pledged to the Eximbank or (b) 120% of the amounts outstanding under the Bank Loan Agreements.

The securities pledged to the International Bank will secure the parts of the loans sold by the Bank to others, as well as the parts held by the Bank for its own account and participants are being informed of these arrangements.

The arrangement covered by the attached form of letter of pledge (Annex B) will last only as long as the United Kingdom's pledge under its

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agreement with the Eximbank continues. That agreement contemplates that each advance shall be repaid over a period ending 90 months after the date of the advance and, unless otherwise agreed, there are to be no advances after February 28, 1958.

It is not known when (if at all) the United Kingdom will avail itself of the Eximbank credit.

Attachments
THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

AND

EXPORT-IMPORT BANK OF WASHINGTON

Agreement

Dated, February 25, 1957.

Providing for a Line of Credit of Not to Exceed $500,000,000.
AGREEMENT

THIS AGREEMENT made and entered into this 25th day of February, 1957, by and between THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (hereinafter referred to as the "United Kingdom"), and EXPORT-IMPORT BANK OF WASHINGTON (hereinafter referred to as "Eximbank"), an agency of the United States of America.

WITNESSETH:

WHEREAS, to enable the United Kingdom to finance dollar requirements for United States commodities, materials, equipment and services and its dollar requirements for petroleum, petroleum products and related services, the United Kingdom has requested a credit up to Five Hundred Million Dollars ($500,000,000) from Eximbank to be secured by the pledge of certain collateral on the terms and conditions hereinafter set forth; and

WHEREAS, the extension of such credit will facilitate exports and imports and the exchange of commodities between the United States and the United Kingdom;

Now, THEREFORE, in consideration of the premises and mutual covenants herein contained, it is agreed that:

ARTICLE I.

Line of Credit.

Eximbank hereby establishes in favor of the United Kingdom a line of credit of not to exceed Five Hundred Million Dollars ($500,000,000) against which Eximbank will make advances from time to time, subject to the terms and conditions hereinafter stated, to assist the United Kingdom in financing its dollar requirements for United States commodities, materials, equipment and services, and its dollar requirements for petroleum, petroleum products and related services.
ARTICLE II.

Advances.

Subject to the provisions of Article VI and all other conditions precedent contained herein, upon the written request of the United Kingdom, Eximbank will make advances from time to time for the account of the United Kingdom in a bank in the United States designated by the United Kingdom. As a condition to the making of each such advance the United Kingdom with its request will furnish to Eximbank the following documents:

(a) A duly executed promissory note, substantially in the form annexed hereto as Exhibit A, in the principal amount of the advance requested, as provided in Article IV hereof;

(b) A certificate of the Bank of England, substantially in the form annexed hereto as Exhibit B, certifying that payments as described therein in an amount at least equivalent to the amount requested by the United Kingdom have been made for the purposes of this Agreement subsequent to December 31, 1956;

(c) A true copy of an Instruction substantially in the form annexed hereto as Exhibit C from the Bank of England on behalf of the United Kingdom to Agency Bank of Montreal, New York City, to transfer collateral as set forth in Article VI and to furnish Eximbank with a confirmation of such transfer when effected.

ARTICLE III.

Availability.

No advances will be made under this Agreement by Eximbank subsequent to February 28, 1958, except to the extent Eximbank may consent in writing.
ARTICLE IV.

Notes.

1. Each such advance will be evidenced by the promissory note of the United Kingdom in the principal amount of such advance. Each of such notes shall be dated as of its date of issue, shall be payable to the order of Export-Import Bank of Washington, at the office of the Export-Import Bank of Washington, Washington, D. C., or such commercial bank or other financial institution in the United States as may be satisfactory to Eximbank, and shall be payable as to both principal and interest in lawful money of the United States of America. Each such note shall bear interest at the rate of four and one-half per cent (4½%) per annum, payable semiannually. The principal amount of each of such notes shall be paid in ten (10) semiannual installments according to the following schedule:

<table>
<thead>
<tr>
<th>Months after date of note</th>
<th>Percent of face of note</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>7</td>
</tr>
<tr>
<td>42</td>
<td>8</td>
</tr>
<tr>
<td>48</td>
<td>8</td>
</tr>
<tr>
<td>54</td>
<td>11</td>
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<tr>
<td>60</td>
<td>11</td>
</tr>
<tr>
<td>66</td>
<td>11</td>
</tr>
<tr>
<td>72</td>
<td>11</td>
</tr>
<tr>
<td>78</td>
<td>11</td>
</tr>
<tr>
<td>84</td>
<td>11</td>
</tr>
<tr>
<td>90</td>
<td>11</td>
</tr>
<tr>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Interest shall be computed on the basis of actual number of days, using a factor of 365 days, and will be payable only from the date of each advance.
2. The form and text of each note issued hereunder shall be satisfactory to Eximbank and substantially that of Exhibit A annexed hereto, and shall be printed or lithographed.

3. Eximbank agrees not to negotiate or transfer any note or notes issued hereunder nor to dispose of any participations in any of said notes unless the United Kingdom consents in writing to such transfer or participations.

**ARTICLE V.**

**Tax Exemption.**

The notes issued pursuant hereto and the proceeds and income of any such note shall be exempt from taxation for any purposes by or within the United Kingdom of Great Britain and Northern Ireland or by any political subdivision or taxing authority thereof.

**ARTICLE VI.**

**Pledge of Collateral.**

1. All advances made under this credit shall be secured by the pledge of collateral consisting of securities selected by the United Kingdom from the list of securities held by Agency Bank of Montreal, New York City, for Bank of England Special Account (as initially filed with Eximbank under letter from Agency Bank of Montreal, New York City, dated December 21, 1956, and as such list may be revised from time to time through additions, sales or purchases by or on behalf of the United Kingdom). At the time of each advance the United Kingdom agrees to direct or cause to be directed Agency Bank of Montreal, New York City, to deliver to Eximbank or its nominee, as collateral security for any and all advances made hereunder, so much of said securities as equals in Market Value, as hereinafter defined, One Hundred Twenty per cent (120%) of the amount of such advance.
The United Kingdom will advise Eximbank from time to time of changes in said list of securities.

2. If at any time the aggregate Market Value of all the collateral is less than the then unpaid principal amounts of such note or notes, the United Kingdom, upon request in writing from Eximbank, agrees to deliver to Eximbank or its nominee, to be held as part of the collateral hereunder, additional collateral of a Market Value at least equal to such deficiency. In the event the United Kingdom fails to pledge such additional collateral as herein provided within sixty (60) days after being requested to do so by Eximbank, then the United Kingdom agrees to prepay forthwith a sufficient amount of the outstanding principal balance so that the Market Value of the collateral then pledged shall at least equal the then outstanding amount of principal after such prepayment has been made.

3. If at any time the aggregate Market Value of all the collateral amounts to more than One Hundred Twenty per cent (120%) of the then unpaid principal amounts of such note or notes, then upon the request of the United Kingdom, Eximbank will cause to be released from the pledge so much of said securities selected by the United Kingdom as equals in Market Value the amount of such excess.

4. The Market Value of the securities set forth in the list herein referred to, as revised from time to time, shall be determined by J. P. Morgan & Co. Incorporated quarterly, (i) if such securities are listed on a national securities exchange in the United States, then on the basis of the last sale price on such exchange on the date of such valuation or failing such price, the last bid price, or (ii) if not so listed, then on such basis as J. P. Morgan & Co. Incorporated in their discretion shall determine. A copy of such list and valuation thereof shall be delivered to Eximbank. For the purposes of this Agreement the Market Value of the collateral shall be deemed to be the latest such quarterly valuation as determined by J. P. Morgan & Co. Incorporated.
ARTICLE VII.

Collateral.

1. All securities at the time of their delivery to Eximbank or its nominee as part of the collateral shall be duly endorsed in blank for transfer or accompanied by proper instruments of assignment in blank, with such signature guaranties as may be deemed necessary by Eximbank, but, unless and until an event of default as hereinafter set forth shall have occurred and shall not have been cured by the United Kingdom or waived in writing by Eximbank, no transfer of record title of any of the collateral shall be made by Eximbank except with the consent in writing of the United Kingdom and no rights of ownership in or to the collateral shall be exercised by Eximbank.

2. From time to time the United Kingdom may sell any of the collateral. Such sales may be made in such manner and in such place, and either publicly or privately, and through such agent or agents as the United Kingdom may deem advisable. In addition certain of said collateral may be redeemed from time to time. In case of any such sale or redemption, Eximbank shall cause to be released the part of the collateral so sold or redeemed upon receipt by it of the net proceeds of the sale or redemption as certified in writing to it by the United Kingdom, the date of such release and delivery of securities to be the date specified in said writing. The net proceeds of any such sale or redemption shall be applied upon receipt by Eximbank to the reduction of the principal of any note or notes outstanding at the time of such sale or redemption in the same manner as provided in paragraph 1 of Article VIII.

3. The United Kingdom reserves the right to substitute for any of such securities held as collateral other securities of equal Market Value.
4. Unless and until an event of default as hereinafter set forth shall have occurred and shall not have been cured by the United Kingdom or waived in writing by Eximbank, the United Kingdom shall have and enjoy all rights arising out of ownership of the pledged securities including, but not limited to, the right to vote the pledged securities with the same effect as though they were not subject to this pledge and the United Kingdom shall have the right to receive all dividends whether paid in cash or in stock or other payments (including rights, if any) made upon or in respect of such shares as though such shares were not subject to this pledge.

ARTICLE VIII.
Prepayment and Installment Payment:
Release of Collateral.

1. The United Kingdom may prepay at any time all or from time to time a part of the unpaid principal (without premium) of any of such notes with accrued interest upon at least ten (10) days written notice to Eximbank of its intention so to do. Such partial prepayments will be applied to the latest maturing installments of principal of the note or notes on which such prepayments are being made.

2. Notwithstanding the provisions of Paragraph 3 of Article VI, in the event of any such partial prepayment (unless an event of default as hereinafter set forth shall have occurred with respect to any of such notes and not have been cured by the United Kingdom or waived in writing by Eximbank), Eximbank agrees to release or cause to be released from pledge under such notes and this Agreement and to deliver or cause to be delivered to the order of the United Kingdom, such amount of collateral selected by the United Kingdom, the Market Value of which shall bear the same proportion to the total Market Value of all collateral pledged hereunder and not heretofore released, as the amount of such prepayment bears to the total principal amount
outstanding and unpaid hereunder at the time of such prepayment; provided, however, that such release of collateral shall not reduce the total Market Value of all collateral which remains pledged hereunder below an amount equal to One Hundred per cent (100%) of the total principal amount outstanding and unpaid hereunder after such prepayment has been made.

3. Notwithstanding the provisions of Paragraph 3 of Article VI, at the time of payment of each installment of principal due on the notes hereunder, Eximbank similarly agrees to release and deliver collateral selected by the United Kingdom; the amount of such collateral to be released at the time of each such payment shall be determined on the same proportionate basis and shall be subject to the same limitation as is provided in paragraph 2 above, with respect to releases in the event of prepayment.

4. At the time of each prepayment or installment payment or reduction of principal pursuant to Article VII, Section 2, Eximbank will stamp each note with respect to which payment is made to evidence the reduction by the amount of such payment in the principal amount of such note which remains outstanding and unpaid.

ARTICLE IX.

Default.

If any one or more of the following events of default shall have happened and shall not have been cured by the United Kingdom or waived in writing by Eximbank, as provided in Article X hereof, with respect to each of such notes, viz.:

1. Failure to pay any installment of principal of any of such notes within sixty (60) days after the due date thereof;
2. Failure to pay any installment of interest on any of such notes, within sixty (60) days after the due date thereof; or
3. Failure by the United Kingdom to perform or observe any other covenant or condition which it has agreed to perform or observe hereunder for a period of sixty (60) days after the date on which notice in writing of such failure, requiring the United Kingdom to remedy the same, shall be given to the United Kingdom by Eximbank;

then Eximbank at its option may declare by notice in writing to the United Kingdom the principal of all such notes to be due and payable immediately, and upon any such declaration the same shall become and be due and payable immediately, anything in this Agreement or in such note or notes contained to the contrary notwithstanding.

Upon the nonpayment of the principal of all such notes declared due as aforesaid, the securities constituting the collateral pledged under Article VI hereof shall at its option be transferred into the name of Eximbank and Eximbank directly or acting through its nominee is empowered to sell, assign, collect and convert into money and deliver the whole or any part of the collateral at public or private sale, without demand, advertisement or notice of the time or place of sale or of any adjournment thereof which are hereby expressly waived. After deducting all expenses of such sale or sales, Eximbank shall apply the residue of the proceeds thereof to the payment of such notes and unpaid interest thereon at the rate specified in such notes, returning the excess, if any, to the United Kingdom.

ARTICLE X.

Waiver Provisions.

Eximbank may waive in writing the observance by the United Kingdom of any of the terms and provisions of this Agreement or of any note or notes issued hereunder, but no such waiver or any failure on the part of Eximbank to insist on any such terms and provisions shall operate as a waiver thereof in respect to any subsequent
act or transaction hereunder, or of any other terms or provisions hereof. No delay on the part of Eximbank in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or power hereunder preclude other or further exercise thereof or the exercise of any other power or right.

ARTICLE XI.
Final Payment.

Upon payment in full of the principal of and interest on all the notes issued hereunder and advances incurred or made pursuant to Article XII hereof, Eximbank shall release or cause to be released from pledge under such notes and this Agreement and shall deliver or cause to be delivered to the order of the United Kingdom the then remaining collateral and the remaining note or notes, and thereupon this Agreement shall terminate.

ARTICLE XII.
Costs and Expenses.

The United Kingdom shall pay all transfer taxes and expenses of any nature in connection with or arising out of this Agreement or any transaction contemplated thereby, including the expenses of Eximbank and the reasonable fees and expenses of Agency Bank of Montreal, New York City, incurred under this Agreement, including all expenses in connection with the administration, supervision, preservation, protection of, or realization on default upon the collateral. In event of failure of the United Kingdom to pay, Eximbank is authorized to pay at any time any or all of such expenses on behalf of the United Kingdom and add the amount of such payment to the amount of the indebtedness.
ARTICLE XIII.

Commission and Fees.

The United Kingdom hereby represents and warrants that no commission, fee, or payment of any kind has been or will be paid to any person, firm or corporation in connection with the application which has resulted in the extension of the financial assistance by Eximbank provided for in this Agreement or in connection with any negotiations incident thereto, except reasonable compensation for bona fide professional, technical, or other comparable services incident to presenting the merits of the application or to the establishment of the credit or operations hereunder; and the United Kingdom covenants that upon request of Eximbank the amount of payments made to any such person, firm or corporation for services in connection herewith will be disclosed to Eximbank.

ARTICLE XIV.

Legal Opinions and Authorizations.

Prior to and as a condition of the first advance under the credit, Eximbank shall be furnished with the following without cost to it:

(a) An opinion or opinions of counsel demonstrating to the satisfaction of the General Counsel of Eximbank, or counsel designated by him (1) that the United Kingdom has taken all action necessary and appropriate under its laws and regulations to authorize it to incur the indebtedness contemplated by the credit; (2) that this Agreement has been validly signed and entered into by the United Kingdom and is binding upon it in accordance with its terms; (3) that the notes, when and as signed and issued pursuant thereto, will constitute the valid and binding obligations of the United Kingdom in accordance with their terms; and (4) that the delivery of such collateral
pursuant to the agreement to pledge as provided in Article VI will constitute a valid and effective pledge;

(b) Evidence of the authority (1) of the person or persons who will sign this Agreement on behalf of the United Kingdom; (2) of the person or persons who will date and sign the promissory notes to be issued hereunder; and (3) of any other person or persons who will act as the representative or representatives of the United Kingdom in connection with the operation of the credit; together with the authenticated specimen signature in duplicate of each such person.

From time to time thereafter, Eximbank shall be furnished without cost to it with such additional opinion or opinions of counsel and such additional evidences of authority, authenticated specimen signatures, documents and other information as it may reasonably request.

ARTICLE XV.

Notices, Demands and Deliveries.

Unless otherwise provided in this Agreement, all notices, demands and deliveries to be given or made to the United Kingdom or Eximbank shall be given or made, as the case may be, at The British Embassy, Washington, D.C., or Export-Import Bank of Washington, Washington, D.C.

Either party may take such action as may be required or permitted under this Agreement through its duly authorized agents or representatives.
ARTICLE XVI.

Applicable Law.

All questions with respect to the execution or interpretation of this Agreement and the notes or with respect to performance or non-performance hereunder or thereunder shall be interpreted according to New York law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed in duplicate in Washington, District of Columbia, United States of America, on the date first mentioned above.

THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

By.....................................

Title..................................

EXPORT-IMPORT BANK OF WASHINGTON

By.....................................

President

Attest:

Secretary
For Value Received, The Government of the United Kingdom of Great Britain and Northern Ireland (the Government) hereby promises to pay to Export-Import Bank of Washington (the Bank) or order against this promissory note the principal sum of $........................., in installments as hereinafter provided and to pay interest from the date on which the principal sum has been deposited to the credit of the Government in Bank on and semiannually thereafter at the rate of four and one-half per cent (4½%) per annum on the unpaid principal balance of this note from time to time outstanding.

For the prompt payment of principal and interest on this promissory note in accordance with its terms the Government hereby pledges its full faith and credit.

Both the principal of and interest on this note are payable at the office of in the City of New York, New York, in lawful money of the United States of America, without deduction for or on account of any present or future taxes, duties or other charges imposed or levied against this note or the proceeds or holder hereof by or within the United Kingdom of Great Britain and Northern Ireland or any political subdivision or taxing authority thereof.

The principal of this promissory note shall be payable in ten (10) consecutive semiannual installments in the amounts and at the times set forth in the following schedule of payments:

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This note is one of a series of notes issued under and pursuant to the terms of the Agreement dated February 25, 1967 between the Government and the Bank, and is subject to the conditions and entitled to the benefits thereof. As provided in the Agreement, the undersigned shall have the right to prepay, without penalty or premium, all or any part of the principal of this promissory note, with accrued interest on the amount so prepaid.

This note together with all other notes issued pursuant to said Agreement, is secured by the pledge with Agency Bank of Montreal, New York City, New York, as custodian for the Bank of certain collateral as set forth in said Agreement to which reference is made for a description of the rights and obligations of the parties in the premises.

Upon the happening of an event of default which shall not have been cured by the undersigned or waived by the Bank as specified in said Agreement, the entire unpaid principal amount of and interest accrued on this note and all other notes issued pursuant to said Agreement shall become due and payable immediately at the option and upon the demand of the holder hereof.

The non-exercise by the holder hereof of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

This note shall be non-negotiable and non-transferable except with the consent in writing of the Government.

The Government of the United Kingdom of Great Britain and Northern Ireland

By ........................................................................................................................................
We hereby certify that we have satisfied ourselves that in the period 1st January, 1957 to ........................................ the following payments, authorized by the U. K. Exchange Control, have been made by U. K. residents

(a) To the American account area for petroleum, petroleum products and services related thereto; $  

(b) To the U. S. A. for other commodities, materials, equipment and services; $  

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<tr>
<th>Type of Goods or Services</th>
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<th>B</th>
<th>C</th>
<th>Less amounts already drawn</th>
<th>Balance</th>
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The Government of the United Kingdom of Great Britain and Northern Ireland
AGENCY BANK OF MONTREAL, NEW YORK CITY,
NEW YORK, NEW YORK.

1. Reference is made to that certain agreement (hereinafter called the "Agreement") dated February 25, 1957, between the Government of the United Kingdom of Great Britain and Northern Ireland and Export-Import Bank of Washington (hereinafter referred to as "Eximbank"), an agency of the United States of America, a copy of which Agreement has been delivered to you.

2. As provided in the Agreement, the collateral pledged at the time of each advance must be delivered by you to Eximbank or its nominee. We understand that you have been named by Eximbank as its nominee to accept delivery of and hold such collateral as security for the advances to be made by Eximbank.

3. Accordingly, you are hereby instructed to earmark, segregate, and hold in pledge for Eximbank, as from ......................... as collateral to secure all advances made by it under the agreement, the securities set forth in our immediately following telegram.

4. Please furnish Eximbank with a confirmation of the transfer of such securities when effected and advise us by cable of such transfer.
Dear Sirs:

1. The Government of the United Kingdom of Great Britain and Northern Ireland (hereinafter called the United Kingdom) by its Guarantee Agreements with the International Bank for Reconstruction and Development (hereinafter called the International Bank) dated February 27, 1952, March 11, 1953, March 15, 1955 and June 21, 1956, (hereinafter called the Guarantee Agreements) has agreed (except as the International Bank shall otherwise agree and subject to certain other exceptions) to secure equally and ratably with secured external debt of the United Kingdom the payment of principal amounts, together with interest and other charges thereon, loaned or to be loaned by the International Bank pursuant to Loan Agreements dated February 27, 1952, March 11, 1953, March 15, 1955 and June 21, 1956, (hereinafter called the Loan Agreements) between the International Bank and the Colony of Southern Rhodesia, the Territory of Northern Rhodesia, the East Africa High Commission and the Federal Power Board of the Federation of Rhodesia and Nyasaland, respectively.

2. By agreement dated February 25, 1957, (hereinafter called Eximbank Agreement) between the United Kingdom and Export-Import Bank of Washington (hereinafter called Eximbank), an agency of the
United States of America, the United Kingdom has agreed to secure each advance made by Eximbank under the Eximbank Agreement by the pledge of certain securities selected as therein set forth. Pursuant to the Eximbank Agreement the United Kingdom has secured an advance obtained thereunder by the pledge of securities having a market value as defined in the Eximbank Agreement (hereinafter called Market Value) of $ ____________.

3. Accordingly, by delivery of the instruction referred to in paragraph 4, the United Kingdom does pledge to the International Bank, subject to the conditions hereinafter set forth, as security for the obligations of the United Kingdom under the Guarantee Agreements, the securities set forth in the schedule annexed hereto having a Market Value equal to $ ____________, which have been selected by the United Kingdom from the list of securities held by Agency, Bank of Montreal, New York City, for Bank of England Special Account (as initially filed with Eximbank under letter from Agency, Bank of Montreal, New York City, dated December 21, 1956, and as such list may be revised from time to time through additions, sales or purchases by or on behalf of the United Kingdom).

4. Enclosed is a true copy of an instruction from the Bank of England on behalf of the United Kingdom to Agency, Bank of Montreal, New York City, instructing such bank to deliver to the International Bank or its nominee the securities referred to therein and to furnish the International Bank with a confirmation of the transaction when effected.
5. In the event additional advances are made under the Eximbank Agreement or additional disbursements are made under any of the Loan Agreements, upon request in writing by the International Bank, the United Kingdom will pledge to the International Bank, subject to the conditions hereinafter set forth, as security for any obligations of the United Kingdom under the Guarantee Agreements, securities selected by the United Kingdom from the list of securities filed with Eximbank, as revised from time to time as aforesaid, having a Market Value which when added to the Market Value of all securities previously pledged hereunder and not released would result in a Market Value at least equal to the lesser of (a) the Market Value of all securities pledged under the Eximbank Agreement and not released or (b) a Market Value which shall bear the same proportion to the aggregate unpaid principal amount (by whomever held) secured by pledge hereunder as the Market Value of all collateral pledged under the Eximbank Agreement and not released bears to the unpaid principal amount thereunder. To effect such pledge the United Kingdom will deliver or cause to be delivered to the Agency, Bank of Montreal, New York City, an instruction similar to that described in paragraph 4 above relative to the pledging of such securities.

6. If at any time the aggregate Market Value of all the collateral pledged hereunder and not released is less than the lesser of (a) the then aggregate unpaid principal amount (by whomever held) secured by pledge hereunder, or (b) the Market Value
of all collateral pledged under the Eximbank Agreement and not theretofore released, the United Kingdom, upon request in writing from the International Bank, will deliver to the International Bank or its nominee, to be held as part of the collateral hereunder, additional collateral of a Market Value at least equal to the deficiency between such aggregate Market Value and the lesser of (a) or (b).

7. If at any time the aggregate Market Value of all the collateral pledged hereunder and not released amounts to more than the lesser of (a) One Hundred and Twenty per cent (120%) of the then aggregate unpaid principal amount (by whomsoever held) secured by pledge hereunder, or (b) the Market Value of all the collateral pledged under the Eximbank Agreement and not released, then upon request in writing of the United Kingdom, the International Bank will release or cause to be released from pledge hereunder and deliver or cause to be delivered to the United Kingdom such amounts of collateral selected by the United Kingdom as shall be equal in Market Value to the excess of such aggregate Market Value over the lesser of (a) or (b).

8. For the purpose of determining the equivalent (in terms of U.S. dollars) of any part of any loan repayable in another currency, the value of such other currency shall be as recorded in the books of the International Bank for the purposes of disbursement. For all the purposes of this Letter of Pledge, there shall be disregarded all portions of loans which are repayable in
currency of the United Kingdom and any amounts payable as principal (including premium), interest or other charges on such portions.

9. All securities at the time of their delivery to the International Bank or its nominee as part of the collateral shall be duly endorsed in blank for transfer or accompanied by proper instruments of assignment in blank, with such signature guaranties as may be deemed necessary by the International Bank; but, subject to the provisions of paragraph 14 hereof, (i) no transfer of record title of any of the collateral shall be made by the International Bank except with the consent in writing of the United Kingdom and (ii) no rights of ownership in or to the collateral shall be exercised by the International Bank.

10. From time to time, the United Kingdom may sell any of the collateral. Such sales may be made in such manner and in such place, and either publicly or privately, and through such agent or agents as the United Kingdom may deem advisable. In addition certain of said collateral may be redeemed from time to time. In case of any such sale or redemption, the International Bank shall release and deliver, or cause to be released and delivered, to the United Kingdom the part of the collateral so sold or redeemed upon receipt by the International Bank of the net proceeds of the sale or redemption as certified in writing to the International Bank by the United Kingdom, the date of such release and delivery of securities to be the date specified in said writing. The net
proceeds of any such sale or redemption shall be reinvested in securities selected by the United Kingdom, such securities to be similarly pledged hereunder.

11. The United Kingdom reserves the right to substitute for any of such securities held as collateral other securities of equal Market Value.

12. Subject to the provisions of paragraph 14 hereof, the United Kingdom shall have and enjoy all rights arising out of ownership of the pledged securities including, but not limited to, (i) the right to vote the pledged securities with the same effect as though they were not subject to this pledge and (ii) the right to receive all dividends, whether paid in cash or in stock, or other payments (including rights, if any) made upon or in respect of such securities as though such securities were not subject to this pledge.

13. Notwithstanding the provisions of paragraph 7 hereof, in the event of any prepayment or installment payment by the borrower or the guarantor under any of the Loan Agreements (unless the United Kingdom shall have defaulted under any of the Guarantee Agreements and such default shall not have been cured by the United Kingdom or waived in writing by the International Bank), the International Bank agrees, upon the request of the United Kingdom, to release or cause to be released from pledge hereunder and to deliver or cause to be delivered to the order of the United Kingdom, such amount of collateral selected by the United Kingdom, the Market
Value of which shall bear the same proportion to the total Market Value of all collateral pledged hereunder and not released, as the amount of the prepayment or installment payment bears to the then aggregate unpaid principal amount (by whomsoever held) secured by pledge hereunder, provided, however, that such release of collateral shall not reduce the total Market Value of all collateral which remains pledged hereunder below the lesser of (a) the Market Value of all collateral pledged under the Eximbank Agreement and not released, or (b) the aggregate unpaid principal amount (by whomsoever held) secured by pledge hereunder after such prepayment or installment payment has been made.

14. In the event of a default by the United Kingdom under any of the Guarantee Agreements, which default shall not have been cured by the United Kingdom or waived by the International Bank within sixty (60) days thereafter, the International Bank directly or acting through its nominee shall have the right to transfer into its name or into the name of its nominee and to sell, assign, collect and convert into money and deliver at public or private sale without demand, advertisement or notice of the time or place of sale or of any adjournment thereof which are hereby expressly waived, such amount of the pledged securities (selected by the International Bank) as shall bear the same proportion to the total amount pledged hereunder and not released as the amount of the obligation of the United Kingdom under the defaulted Guarantee Agreement bears to the total amount of the obligations of the United Kingdom under all the Guarantee Agreements and the rights
of the United Kingdom set out in paragraph 12 shall cease with respect to such securities. After deducting all expenses of such sale or sales, the International Bank shall apply the residue of the proceeds thereof to the payment of the principal, interest and other charges outstanding and unpaid under the relevant Loan Agreement and under any Bonds (by whomsoever held) issued thereunder, returning the excess, if any, to the United Kingdom.

15. Upon payment in full of the principal and interest and other charges outstanding under the Loan Agreements and under any Bonds (by whomsoever held) issued thereunder, or upon termination of the Eximbank Agreement, whichever shall first occur, the International Bank shall release or cause to be released from pledge and deliver or cause to be delivered to the United Kingdom the then remaining collateral pledged hereunder and this Letter of Pledge shall terminate.

16. The United Kingdom shall pay all transfer taxes and expenses of any nature in connection with or arising out of this Letter of Pledge or any transaction contemplated thereby, including the expenses of the International Bank and the reasonable fees and expenses of Agency, Bank of Montreal, New York City, incurred under this Letter of Pledge, including all expenses in connection with the administration, supervision, preservation, protection of, or realization on default upon, the collateral.

17. The terms and conditions of the foregoing Letter of Pledge having been agreed between the United Kingdom and the
International Bank and it having also been agreed by the International Bank that the carrying out of the said terms and conditions of the foregoing will satisfactorily fulfill the obligations of the United Kingdom under the Guarantee Agreements in respect of the arrangements for collateral in the Eximbank Agreement, please sign the enclosed copy of this letter in the space provided below in confirmation of the foregoing and return it to the United Kingdom at its Embassy in Washington, D.C.

Very truly yours,
STAFF LOAN COMMITTEE

Memorandum from Department of Operations
Europe, Africa and Australasia

The Negative Pledge Clause

1. The accompanying memorandum, which has been prepared by the General Counsel, is intended to state the basic purpose of the negative pledge clause in the Bank's agreements with member governments. While this memorandum was prepared particularly for use in discussions now being carried on with the United Kingdom, it is also intended as a statement of general Bank policy for use in any other appropriate cases.

2. Would members of the Staff Loan Committee who have comments to make on the accompanying memorandum please give them to Mr. Sommers or to Mr. Nurick before March 10. If any member so desires, the memorandum can be discussed at an early meeting of the Committee.

A. S. G. Hoar
Director of Operations
MEMORANDUM REGARDING NEGATIVE PLEDGE CLAUSE

In making loans, the Bank normally does not ask for security (except where private borrowers are concerned) or special priority. Instead it asks a general assurance from the borrowing or guaranteeing member that the Bank's loans will be given not less favorable treatment than comparable future debt. This assurance takes the form of the so-called "negative pledge clause" which is a standard provision of the Bank's loan documents. The Bank's members have generally accepted the principle of the negative pledge clause as necessary for the protection of the Bank and its members and its application to all member governments as appropriate to the Bank's cooperative character.

The basic purpose of the negative pledge clause is to protect the Bank against the use of governmental resources, or the use of governmental authority to mobilize other resources, to enable other foreign creditors to obtain foreign exchange in preference to the Bank through the creation of liens or priorities. However, the clause is not prohibitory. It does not prevent the creation of liens or priorities but merely accords to the Bank the right, if it desires, to share in any lien or priority accorded to other credits.

In the standard form used in guarantee agreements (see Annex 1), the negative pledge clause provides in effect that if any lien is created on assets of the Guarantor to secure external debt, the lien will equally and ratably secure the Bank's loan unless the Bank otherwise agrees or the transaction falls within certain specified exceptions. The term "assets of the Guarantor" as defined in the clause, normally includes not only property of the member itself but also property of "political subdivisions" and of government "agencies".* The need for broad scope becomes apparent upon consideration of the types of security transactions most likely to have an adverse effect on repayment of a Bank loan.

The governmental assets which can most readily be pledged are the central gold and foreign exchange reserves. In view of the relative ease with which these assets can be pledged and the frequency of proposals to pledge them, the Bank has always required that these be covered by the negative pledge clause. Sometimes these reserves are property of the Government itself (as may be the case where they are held in an exchange equalization account); more often they are the property of the central bank and will be covered only if the central bank is expressly mentioned or if it is included by use of some such category as "agencies".

* The loan documents normally define "lien" broadly to include any pledge, mortgage, charge or priority, and define "assets" to include revenues. These definitions do not give rise to negotiating problems.
Also significant to the Bank are export revenues which can readily be mobilized and pledged to secure debt. Examples are proceeds of rice exports from Thailand (where all rice produced is purchased and exported through a Government monopoly), proceeds of coffee exports from Brazil, Colombia and several Central American countries, and oil royalties from Iraq. Several of the Bank's members earn a substantial part of their foreign exchange revenues from a single export commodity and could seriously cripple the safety of an unsecured Bank loan by a single pledge of these revenues. Revenues of this kind, and the commodities from which they are earned, are not likely to be the property of Bank members or their political subdivisions. If they are publicly owned, they are usually owned by nationalized corporations or public institutions. Similar bodies will normally be the means of mobilizing private revenues of this kind for public purposes. One major coffee-producing country in Latin America in which the Bank has substantial investments recently had under consideration a scheme to earmark 10% of coffee export revenues for service of new debt.

Beyond these two categories, there is a long list of other kinds of assets which could be the subject of pledges. These are probably of less importance to the Bank, but it is impossible to be categorical on the point. For example, the Bank would normally not be prejudiced by a pledge of local currencies. However, if such a pledge were accompanied by some special arrangement for preferential transfer, the Bank would be concerned. Arrangements of that nature are frequently made in some of the Bank's member countries, particularly by municipalities and public bodies.

Although the Bank has, for the foregoing reasons, normally drafted the negative pledge clause so as to cover not only assets of the government itself, but also assets of its political subdivisions and agencies, the Bank has always been prepared, and is still prepared, to limit the scope of the provision in various respects.

First, the Bank is prepared to modify its terminology to conform to the prevailing constitutional law and practice of the member concerned. In several cases the terms "political subdivision" and "agency" have been defined or replaced by terms which are more familiar in local usage.

Second, the Bank is prepared to take due account of constitutional limitations. In some cases where Federal systems limit the powers of central governments over member states, the Bank has been willing to make appropriate modifications in the negative pledge clause.

Third, the Bank does not always insist on sharing in the precise security arrangement created for another creditor. Some contracts, for example, give the Guarantor the choice of permitting the Bank to share in liens created by political subdivisions and agencies or of otherwise providing equivalent security for the Bank's loan.
Fourth, the Bank is prepared to exempt security arrangements which do not significantly affect foreign exchange availabilities. A partial exemption along this line has appeared in one contract but since what is intended is difficult to define precisely, the matter can usually best be dealt with by an assurance that the Bank will not apply the clause in cases of this kind.

Fifth, the Bank does not insist on the inclusion of all government agencies within the scope of the clause, but has been willing to make exceptions depending on the nature of their operations and the extent to which governmental control is exercised over them. For example, an exception may be made for agencies which carry on essentially commercial functions and are free to carry on their business independently and to borrow and give security without special governmental participation or authorization. Or exception may be made for agencies whose activities have no material financial or economic significance in relation to a country's ability to service a Bank loan. Moreover, except in cases where the Bank may need special protection, there need be no specific reference in the clause to "agencies" as such, if the language of the clause is broad enough to include security arrangements for which special governmental action (something over and above ordinary exchange control approval) is required.

With this flexibility, the Bank can adapt the negative pledge clause to meet the varying circumstances of its several members while maintaining, as a matter of general policy, the substance of the provision for general application.

March 5, 1954
It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will ipso facto equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; or (iii) any lien in the ordinary course of banking transactions securing a debt maturing not more than one year after its date.

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or any of its political subdivisions or any agency of the Guarantor or of any such political subdivision, including the name of central bank.
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

STAFF LOAN COMMITTEE

(This document is for the use of the President, Vice President and members of the Staff Loan Committee only. Its contents should not be communicated to other persons except in the course of duty.)

Minutes of Staff Loan Committee Meeting held Thursday, December 3, 1953 at 10:30 a.m. in Room 1005

1. Present:
   Mr. Eugene B. Black
   Mr. A. L. Gardner
   Mr. W. A. E. Iliff
   Mr. A. S. G. Hear
   Mr. J. E. Knapp
   Mr. M. C. Cross

   Mr. D. Sommers
   Mr. L. E. Mast
   Mr. H. W. Riley
   Mr. R. H. Demuth
   Mr. J. Ruminski
   Mr. H. C. A. Woolley, Secretary

   In attendance:
   Mr. H. E. Ripman
   Mr. E. Symonds

2. Problem of Management in Financing Industry

   The Committee considered Memorandum SLC/0/621, "The Problem of Management in Financing Industry" and

   APPROVED

   (a) its incorporation, subject to certain minor amendments, in the series of Operational Memoranda;

   (b) that staff members should be invited to raise any questions they may have on this memorandum, and on the memoranda on "Foreign Exchange Loans for Local Expenditure" and "Form of Country Economic Reports" (see SLC/11/173 of November 25, 1953), at the next Professional Staff Meeting.

3. The meeting adjourned at 11:20 a.m.
FROM: Office of the Secretary
Secretary, Staff Loan Committee

DATE: November 30, 1953

NOTICE OF MEETING

A meeting of the Staff Loan Committee will be held on Thursday, December 3 at 10:30 a.m., in Room 1005.

AGENDA

Management in Financing Industry


DISTRIBUTION

President
Vice President
Assistant to President
Director, Department of Operations - Asia and Middle East (2)
Director, Department of Operations - Europe, Africa and Australasia (3)
Director, Department of Operations - Western Hemisphere (2)
Director, Department of Technical Operations (2)

General Counsel (2)
Director, Economic Staff (2)
Treasurer (2)
Director, Technical Assistance and Liaison Staff
Secretary
Director, Public Relations
Files

General Wheeler
Memorandum to the Staff Loan Committee

The Problem of Management in Financing Industry

1. Although the primary field of Bank lending has been public works and public utilities, from time to time industrial projects are presented which appear deserving of Bank support. Industrial financing involves most of the same problems as public works and public utility financing, and a number of special problems as well. One problem which is always an important aspect of industrial financing is the question of management. This problem is also involved in many other types of Bank financing, but it is likely to be particularly significant in the case of industrial projects both because they are normally competitive in character and because of the relative complexity of most types of industrial operations. This memorandum sets forth the considerations which are to guide the staff in dealing with the problem of management in loans for industrial projects.*

2. The basic principle is that, before financing any industrial project, the Bank must be satisfied that the management provided for the project is capable of assuming the responsibilities inherent in running the type of enterprise being financed. The extent of these responsibilities will vary with the nature of the project (running a cement plant is obviously less complex than running a steel mill), but the manner in which they are discharged will always be important to the success of the project.

3. Management covers far more than mere technical supervision of a plant. Management must deal with financing problems, supply, budgetary and cost control, production planning, quality control, sales promotion, personnel policy, labor relations and many other nontechnical matters. Besides its more specific responsibilities, management must furnish centralized direction and initiative for the whole enterprise; in short it must run the business. Hence a key problem of industrial organization is to provide management with adequate authority and incentives. The successes achieved by the system of private enterprise in the most advanced industrial countries are due in large part to the fact that this system has provided an effective answer to this problem.

4. When a loan is proposed to an established industrial enterprise, the quality of the management can be assessed by looking at the company's past record. Inadequacies in management will normally be reflected in operating

* Loans to credit institutions like the Turkish Industrial Development Bank are beyond the scope of this paper.
results over a period of years. But when a loan is proposed for a new
industry this evidence is unavailable. The Bank must then try to judge in
advance the adequacy of the contemplated management arrangements. This is
far from an easy task, even when the proposed borrower is a private company.

5. When the proposed borrower is a government-owned industrial concern,
still more care must be exercised. There is normally reason to fear that
the management of government-owned industries may be inadequate for either
or both of two reasons: (a) the management is apt to lack incentive to exer-
cise initiative and to keep operations at maximum efficiency; and (b) the
government, being government and having objectives other than the commercial
success of a particular industrial enterprise, may subordinate the interests
of the enterprise to extraneous considerations and may therefore interfere
with management's independence by exerting political influence on appointments
or policies.

6. In view of the above considerations, the Bank will normally not finance
industrial enterprises, however meritorious in themselves, in which a member
government is the sole or majority stockholder unless it is satisfied: (a)
that private capital is not available to do the job, and this for no fault
of the government; (b) that the government intends to sell the enterprise to
private interests if and when conditions permit it to do so on reasonable
terms; (c) that the government's participation will not have an undue deter-
rent effect upon the expansion of private initiative and enterprise in the
same or other fields; (d) that, to the extent the circumstances (which may
vary materially from case to case) permit, the management arrangements vest
an effective degree of independence, responsibility and initiative in the
person or organization actually in charge; and (e) that the person or organi-
zation selected to manage the enterprise is qualified for the job. For this
purpose, covenants in loan contracts for government-owned industries (e.g.
covenants that the "management of the enterprise will be conducted under
arrangements satisfactory to the Bank" or that "the management will be accep-
table to the Bank") are usually not sufficient in themselves, though some
provision of the kind may be useful. The Bank will wish the arrangements
to be completed, or at least substantial steps taken toward their completion,
before the loan documents are signed.
OFFICE MEMORANDUM

TO: Mr. Leonard Rist
FROM: S. R. Cope
DATE: November 19, 1953

SUBJECT: Guarantees of Loans for Projects in Dependencies

Mr. Iliff has asked me to set up a working party to consider the degree to which a guarantor of a loan to a dependency (or to a body in a dependency) should be made responsible for the borrower's performance of his obligations in connection with the project. The question has been raised specifically by the United Kingdom in connection with discussions of the so-called "access to markets" clause as contained in Section 2.02 of the Southern Rhodesia Guarantee Agreement dated February 27, 1952. It has also arisen in current discussions with the French Government and will undoubtedly recur as we consider other loans for projects in dependent territories.

Would you please nominate a representative of your department to serve on this working party?

S. R. C.

cc: Mr. Davidson Sommers
Mr. Leonard Rist
Mr. Burke Knapp
Mr. J. Rucinski
Mr. Milton C. Cross

[Handwritten note: Altin. Will you tell him you are the fellow. L.R.]