MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss various aspects of the proposed North Sumatra Estates Project in Indonesia, held in Room A 1212 on April 24, 1969.

David Pearce
Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss various aspects of the proposed "Indonesia - North Sumatra Estates Project", held in Room A 1212 on April 24 at 9:30 a.m.

1. Present: Messrs. Knapp (Chairman), Cope, Baum, Chadenet, Eccles, Evans, Fontein, T. Jones, Nurick, Rowe, de Silva, Stubenitsky and Pearce

2. Issue: The meeting had been called to review the draft (yellow cover) Appraisal Report and Mr. Rowe's memorandum to Mr. Chadenet concerning the above project. The Chairman had agreed to consider the project, for which a $16 million credit was proposed, at this stage in view of the President's desire that it be presented to the Executive Directors on June 17.

3. Discussion: The meeting reviewed the draft appraisal report and, based on the discussion and the Chairman's recommendations, the following amendments to its text were proposed:

(a) Amount of proposed credits (Para. 4.25)

The justification for the amount of the proposed credit ($16 million) would be based on the fact that it represented 50% of project costs rather than the "easily identifiable" foreign exchange component.

(b) Disbursement (Para. 4.28)

Savings in any one category of the credit's Allocation of Proceeds would be used, if needed, for increased expenditures in other categories; overall savings would be cancelled.

(c) Procurement (Paras. 4.29 and 4.30)

(i) Draft tender documents and analyses of bids would require IDA's prior approval for all contracts over $50,000, rather than $20,000.

(ii) The reason that PNP VII was not already licensed to act as an importer in its own right - namely that it was behind in its payments of corporation tax - would be stated. It would also be noted that payment of taxes (for which provision is made in the appraisal report's cash flow projections) would be arranged by the Government through its Subsidiary Loan Agreement with PNP VII.

(d) Directors/Managers (Paras. 5.02 and 5.03)

Initial appointments to the positions of Manager (as well as to Directorships) would be made conditions of the credit's effectiveness. Failure to make these appointments for one of the PNP's, however, would not prevent the other PNP sub-project from becoming effective, if all other conditions had been met.
(e) Military Interference (Para. 5.04)

The last sentence of this paragraph would be amended to read: "IDA's involvement with these PNP's, the introduction of foreign advisers and the decentralized management arrangements outlined above would lead to the end of military interference in the affairs of these estates - as has been the case where foreign owners of estates have recently recovered management control ...."
4. Conclusion: The Chairman agreed with the Area and Projects Departments' suggestion that the draft (yellow cover) appraisal report should be circulated to the Loan Committee for comment, together with a minute of the present meeting. The special circumstances covering the scheduling of this project justified this exceptional procedure.

David Pearce
Secretary

Cleared with Messrs. Knapp
Eccles
Fontein

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the Tarai Seeds Project, held in Room A 1212 on March 27, 1969.

David Pearce
Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss procurement of goods with components from non-member countries and preference for domestic suppliers in connection with the Tarai Seeds project, held in Room A 1212 at 5:00 p.m. on March 27.


2. Issue I: Since procurement decisions for items of equipment financed under the proposed loan would in some cases be left to individual farmers, it was possible that they would purchase domestically-produced tractors, which included components imported from countries not members of the Bank. The issue was what position the Bank, in view of its policy of not financing procurement from non-member countries (except Switzerland), should take regarding this possibility.

3. Discussion I: The Chairman proposed that any equipment with a non-member component of more than 50% should be excluded from Bank financing; if the non-member component were less than 50%, the Bank would finance the equipment. Some members of the meeting pointed out that under this proposal, the Bank would be financing procurement from non-member countries, counter to established Bank policy. It was recognized, however, that many such cases arose in the course of the Bank's regular operations which the Bank did not take the trouble to identify. The Projects and Area Departments explained that under the Chairman's proposed policy, Escorts Tractors would probably be the only major eligible item with a substantial non-member component. Since relatively few farmers were expected to purchase Escort tractors, the amount of equipment procured under the loan having a substantial non-member component would be small. The total amount of non-member components financed might be around $50,000.

4. Decision I: It was agreed that under this loan the Bank would be willing to finance procurement of equipment having a non-member component of less than 50%.

5. Issue II: It had been planned to submit the proposed loan, negotiated in November/December 1968 on the basis of a preference to domestic suppliers of 27 1/2% (or the level of customs duties whichever was less), to the Executive Directors after their consideration of the proposed new domestic preference policy. Since it now appeared that the new policy might not be discussed for some time, if ever, the issue was how to go forward with presentation of the loan without further serious delay.

6. Discussion II: The Chairman reported that the policy paper recommending a preference for domestic suppliers of up to 25%, might not be considered by the Board on April 15 and be postponed indefinitely. Several members of the meeting suggested that, in this event, the loan could be presented to the Board as a special case on the basis that a 27.5% preference to domestic suppliers was justified because of the overvaluation of the rupee. The Projects Department pointed out that the amount of procurement subject to the 27 1/2% import duty under this loan would be about $1,039,000. If tipping tractors and seed-processing equipment, whose procurement was unlikely to be affected by the level of import duty, were eliminated, the amount remaining would only be about $269,000 for road graders and auxiliary equipment for land-levelling machinery.
7. **Decision II:** The Chairman suggested that Mr. Cargill meet with the Indian Executive Director to explain the delay in Board consideration of the new preference policy and the staff's reluctance to present this loan to Executive Directors before this policy had been approved. Mr. Cargill might then suggest the possibility of classifying the land levelling equipment so that it would be subject to a customs duty of 15%. He should also make clear that the maximum preference for domestic suppliers under this loan would be 15%, even if the level of customs duties were subsequently increased.

Michael A. Gould
Acting Secretary

Cleared with Messrs. Knapp
Baum
Eccles
Votaw

Distribution: Loan Committee
Participants

N.B. The following day, Messrs. Cargill and Dunn met with Mr. Jagannathan who, while understanding the nature of the problem, said that he was under instructions from New Delhi to press for a 27.5% preference for domestic suppliers as the basis for bid evaluations in India - at least until the Executive Directors had specifically rejected the new domestic preference policy paper and/or eventual special arrangements for India.
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the Shashi Infrastructure Project in Botswana, held in Room A 1212 on March 27, 1969.

David Pearce
Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss power supply, assurances by the Mining Company and IDA financing in the Shashi Infrastructure Project in Botswana, held in Room A 1212 at 4:00 p.m. on March 27, 1969


2. Issue I: The Government of the Republic of Botswana had requested the Bank to finance the costs of detailed engineering and preliminary works, including the design of a power station, for infrastructure required to commence mining of nickel/copper deposits. However, consultants' studies showed that the price of power generated in Botswana would be 30% higher than the price of power imported from South Africa. The issue for discussion was whether the Bank should finance the project and, if so, who would bear the additional $1.1 million a year cost of using domestically produced power.

3. Discussion I: The Chairman, noting the decision that Bamangwato Concessions Limited, the mining company, would bear the extra cost of domestically produced power, asked what percentage of these costs would be passed on to the Government in the form of a decline in tax revenues and dividends resulting from reduced mining profits. The Area Department stated that a taxation agreement was not yet settled, but on the basis of present legislation and assumptions as to the debt-equity ratio of the mining company, royalty, tax and dividends would give the Government about a 37% share of mining profits during the initial years of the project. The Government would bear 15% of the additional cost to the project in these years resulting from the higher price of domestically produced power. The reduction in Government revenue would be about $165,000 a year, about 4½% of annual government revenue from the mining project. With the application of a 30% company tax from 1980 on awards, the Government would bear about 41% ($450,000) of the increased cost, which would reduce its total revenue from the project by about 6½%. It was also pointed out that political considerations would make it exceedingly difficult for Botswana to obtain power from South Africa. A local power station in Botswana, on the other hand, would generate increased employment, tax revenues and national income.

4. Decision I: The Chairman said that in the circumstances Bank financing of the project on the basis of locally produced power was justified.

5. Issue II: It was necessary for the mining company to provide assurances concerning the mining project's viability and guarantees concerning purchase agreements for power and water. In addition, the Bank needed to be satisfied that arrangements between the Government and the Company with respect to tax agreements and the Company's share in the financing of the township would give an adequate return to the government on its investment. The issue for discussion was the phasing of these assurances with progress in the engineering credit.
6. Discussion II: The Area Department said that, since mining company representatives were expected to visit the Bank in April, it should be possible to obtain assurances of their serious intention on these points at that time. Presentation of the credit to the Board would be made conditional upon the receipt of such assurances. It was suggested that negotiations with the Government might usefully take place while mining company representatives were at the Bank so that unresolved problems could be worked out.

7. Decision II: The Chairman agreed that it would be useful to start negotiations in April while mining company representatives were at the Bank.

8. Issue III: The issue for discussion was the terms of an IDA engineering credit and the possibility of subsequent refinancing of power and water investment costs through a subsequent Bank construction loan.

9. Discussion III: The Area Department's memorandum proposed an IDA credit of $2.8 million on standard terms of 50 years including a 10 year grace period, to finance the costs of detailed engineering and preliminary works for the Shashi project. This was felt to be a useful way of utilizing the limited IDA funds allocated to Botswana. Others in the meeting suggested that the power and water investment costs (about $1.7 million) be refinanced through a subsequent Bank construction loan to the mining company, thus increasing the amount of a loan from about $40 million to $41.7 million and reducing the amount of the IDA credit in due course from $2.8 million to $1.1 million; since Botswana's difficult credit position made normal Bank lending impossible except for self-liquidating projects such as Shashi, this proposal would increase the amount of Bank funds available to Botswana and save about $1.7 million of IDA funds for a subsequent project. The refinancing of items additional to the investment cost of power and water was also suggested, but some members of the meeting felt this would not be acceptable to the mining company. It was noted that with an IDA credit on standard terms of 50 years Botswana would not be faced with a difficult debt servicing situation if the construction project fell through.

10. Discussion III: The Chairman concluded that IDA should make a $2.8 million engineering credit for the Shashi infrastructure project on terms of 50 years including a 10 year grace period, on the understanding that a substantial proportion of the credit, to be determined later, would be refinanced by a Bank construction loan.

M.A. Gould
Acting Secretary

Cleared with Messrs. Knapp
Knox
Williams

Distribution: Loan Committee
Participants

N.B. It was subsequently decided by the President that, as further evidence of its "serious intentions", the mining company should be asked to participate in the financing of the $2.8 million credit, either by taking one third, or say $1,000,000 for its own account at the outset or by agreeing to reimburse the Bank for half of the credit if they did not in due course proceed with the mining investment.
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss various aspects of the proposed Sudan – Rahad project, held in Room A 1212 on March 26, 1969.

David Pearce
Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss various aspects of the proposed Sudan - Rahad project, held in Room A 1212 on March 26 at 10:00 a.m.

1. **Present:** Messrs. Knapp (Chairman), Cope, Bartsch, Burney, Chadenet, Collier, Douglas, El Emary, El Fishaway, Larsen, Nurick, Wapenhans, Williams and Pearce.

2. **Issue:** The Chairman had called the meeting to discuss the Area Department's memorandum and recommendations concerning the next steps to be taken with regard to the proposed Rahad project. The memorandum and accompanying draft letter to the Sudanese Minister of Finance and Economics raised three main issues: (a) a proposed economic mission to review the Sudan's general economic situation, in particular its public investment program, (b) the proposed re-appraisal of the project, and (c) the question of Sudanese-Ethiopian water rights.

3. **Discussion:**

   (a) **The Sudanese Economy**
   
   The Area Department stated that, while the Ministry of Finance and Economics was making good progress in preparing a five-year public sector investment program (1969/70 - 1973/74), the Sudan's fiscal and balance of payments position had deteriorated. Indeed, preparation of the investment program had served to underline the inadequacy of public savings and the exhaustion of foreign exchange reserves, two of the country's basic weaknesses. Moreover, there were two additional factors - military expenditures which, excluding possible credit/barter arrangements with Eastern countries, probably accounted for about 20% of the current annual budget, and continued instability in the South - whose influence on the economy was not yet clear.

4. The Chairman said that, without anticipating the eventual conclusions of an economic mission's review of the economy, the Sudan's creditworthiness for Bank and/or IDA assistance was presumably limited. However, in view of the Area Department's generally favorable expectations concerning the five-year plan and the Government's apparent commitment to measures to remedy the present unsatisfactory situation, he was inclined to accept the recommendation that the Bank should inform the Sudan that we were willing, subject to the conditions described in para. 25 of the memorandum, to send an economic mission from the second half of April to the end of May followed by a project reappraisal mission at the end of June. This was probably the most effective means of continuing the dialogue with the Sudan and therefore of helping to promote the measures necessary to ensure the eventual success of Rahad if it was found possible to proceed with the project.

5. **(b) The Rahad Project**

   The Agriculture Projects Department said that, since the April, 1968 Appraisal Report (10 268a), the costs of Phase I of the project had probably risen, partly owing to the closure of the Suez canal. It noted further that the project was based almost entirely on sensitive commodities, namely cotton and groundnuts. Even if cropping patterns could be intensified and yields increased, the economic rate of return, based on a transfer canal of 150 m³/sec. capacity making Phase I
independent of Rahad flood waters, was not expected to rise substantially above current estimates of 8%. If the project were extended to Phase II and assumed to use Rahad flows, however, the rate of return was estimated to be 10%. Alternatively, Phase II could be made independent of Rahad flows by construction of additional transfer capacity in which case the rate of return would probably approximate that of the first phase.

6. The Chairman, drawing attention to the project's modest rate of return, noted that, in the absence of a water rights agreement between the Sudan and Ethiopia, the extra cost of designing Phase I to avoid use of Rahad waters was about $12 million (10% of total project cost). Moreover, until the water rights question had been resolved, it was not clear that Phase II could proceed and thus that the increased benefits of the entire project would be achieved.

7. The Agriculture Projects and Area Departments agreed that the extra cost of Phase I's design to achieve independence of Rahad could be regarded as insurance against the risk of failure to achieve a water rights agreement. The Bank's decision to finance the project should depend on whether or not the project, upon re-appraisal, could afford this premium. Furthermore, unless Phase I was made independent of Rahad waters, the project might be blocked or delayed indefinitely, thus increasing its cost and adversely affecting the Sudan's export earnings, 85% of which were dependent on irrigation. The Chairman replied that, although a delay incurred to negotiate a water rights agreement might increase the project's cost, an agreement affecting Phase I could reduce the investment cost by $12 million. The return from alternative investments of these funds should also be taken into account.

8. (c) Water Rights

The Area Department's memorandum recommended that the Bank's position, whereby the Sudan should clear with Ethiopia the intended use of Rahad water before re-appraisal of the project, should be modified. This recommendation was based on the Sudanese argument that (i) since Phase I could be designed to avoid the use of Rahad water, the Sudan had no need to obtain Ethiopia's concurrence, (ii) the Sudan was prepared to discuss a general water agreement with Ethiopia, including problems affecting subsequent phases (e.g. Phase II) of the project as these arose, but that (iii) no early conclusion of an agreement covering Rahad could be expected.

9. In reply to a question, the Area Department said that there was no evidence that Ethiopia had refused to discuss a general water agreement with the Sudan. On the other hand, little was known about Ethiopia's plans for upstream irrigation on the Rahad river which, in any event, were likely to be of only long-term significance. The Area Department recommended that the Bank should proceed with re-appraisal of Phase I as a separate and independent project and predicate financing of Phase II upon a resolution of the water rights question. The Bank should also offer to assist the Sudan and Ethiopia in carrying out the hydrological and other studies required to form the basis for a satisfactory water rights agreement.
10. Decision: The Chairman agreed that, subject to minor amendments to the Area Department's draft, he would write to the Sudanese Government indicating that:

(i) an economic mission would visit the Sudan towards the end of April, subject to finalization of the public investment program;

(ii) subject to the findings of the economic mission, a re-appraisal mission would visit the Sudan towards the end of June to re-appraise Phase I of the project based on the presently planned 150 m³sec transfer canal;

(iii) the possibility of Bank Group support for Phase II and subsequent stages would be conditional upon a resolution by the Sudan of the water rights question with Ethiopia.

David Pearce
Secretary

Cleared with Messrs. Knapp
Wapenhaus
Williams

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Mexico - Livestock and Agricultural Development Project", held in Room A 1212 on March 14, 1969.

David Pearce
Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss "Mexico - Livestock and Agricultural Development Project", held in Room A 1212 on March 14, 1969 at 3:00 p.m.

1. **Present:** Messrs. Knapp (Chairman), Alter, Baum, Bochenski, Cancio, Eugenio, Fransen, Nurick, Stoops, Wapenhans, Wright and Pearce.

2. **Issue:** The Chairman had called the meeting to discuss (a) the proposed structure of rediscount rates to participating banks, (b) the financing of local currency expenditures, and (c) the proposed amortization of the loan in relation to the terms for sub-borrowers.

3. **Discussion - Issue (a):** The Chairman, drawing attention to paras. 5 and 6 of the Area Memorandum, queried the rationale for the proposed increase in rediscount rates by the Fondo to participating banks which, as the appraisal report itself recognized, might reduce rather than increase participation by private credit institutions, the opposite effect to that intended. The Area and Projects Departments said that a major objective of the project was to increase the total flow of medium and long-term credit into agriculture; experience under loan 430-ME and a review of current rediscount patterns indicated that the proposed revision would make it marginally more attractive for participating banks to rediscount 80% rather than 90% of loans to sub-borrowers.

4. **Decision - Issue (a):** It was agreed that the negotiations with the Mexicans on a revision of rediscount rates be directed towards encouraging participating banks to invest a larger proportion of their own funds in the project.

5. **Discussion - Issue (b):** The Chairman, referring to paras. 10 of the Area Memorandum and 4.13 of the appraisal report, asked why, if it was desirable that participating banks be encouraged to increase investment of their own funds in the project (more than the 12% under loan 43-ME), the Bank and Fondo together proposed to finance 90% of eligible loans by participating banks. The Projects Departments explained that this was not the case. The proposed Bank loan had been computed on the basis of matching funds with the Fondo over the project as a whole, including working capital. If, as was hoped, participating banks financed up to 20% of eligible medium and long-term loans from their own resources (i.e. by rediscounting only 80%), the amounts of such loans financed by the Bank and Fondo would be 45% and 35% respectively.

6. The Chairman said that, when a revised rediscount rate structure had been negotiated with the Mexicans, its rationale should be clarified in the President's Report.

7. There was some discussion concerning an alternative to the proposed 25% local currency component ($16 million) of the loan; for example whether or not the $12 million commitment fees and interest on the Bank loan (to be financed by the Mexicans) could be justified as "interest during construction" and therefore eligible for Bank financing instead. The meeting concluded that this was not an appropriate device in this particular case.
8. Decision - Issue (b): The Chairman agreed that the $16 million local currency component should be justified on country grounds, as stated in para. 10 of the Area Department's memorandum.

9. Discussion - Issue (c): The meeting noted the Appraisal Report's recommendation that the proposed loan be for 18 years, including a 5 year period of grace, based on estimated maximum repayment periods for sub-borrowers of 13 years including a 3 year commitment period, and roll-over of parts of the loan for additional medium-term lending for purposes similar to those of the project. It was pointed out that, with average total final maturities for sub-loans of about 7 years plus a 3 year commitment period, a 20 year Bank loan, as recommended by the Area Department memorandum, would permit on average one complete roll-over of funds. Moreover, a 20 year term would contribute further to the Fondo's ability to expand the flow of medium and long-term credit to agriculture, a major objective of the project, and also to institution building services. Similar loans to Argentina, Costa Rica and Ecuador had carried 20 year terms.

10. Decision - Issue (c): The Chairman agreed with the Area Department's proposal that the proposed loan should be for 20 years.

David Pearce
Secretary

(Note: Apropos para. 5 above, the Mexicans subsequently indicated a strong preference for applying the disbursement percentages for the Bank and the Fondo to payments made by the Fondo. After adjusting for the 20% of the loans projected as being covered by participating banks, the percentage for the Bank and Fondo applied to the balance of payments made would be 56% and 44% respectively. The Bank would still share equally with the Fondo in the overall financing of the project. The Chairman agreed that negotiations should proceed on this basis (ref. Mr. Alter's memo to the Chairman of April 2, 1969).

Cleared with Messrs. Knapp
Baum
Wapenhans
Wright

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the terms of the loan, retroactive financing and the participation of the African Development Bank in the East African Harbors Project, held in Room A 1212 on March 12, 1969.

Michael A. Gould
Acting Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss the terms of the loan, retroactive financing and the participation of the African Development Bank in the East African Harbors Project, held in Room A 1212 at 4:00 p.m. on March 12.

1. **Present:** Messrs. Knapp (Chairman), Cope, Baum, Carmichael, Chadenet, Clements, El Emary, Higginbottom, Jaycox, Loh, Nurick, Sadove, Sander, Scott, Williams and Gould.

2. **Issue I:** While the appraisal report recommended a loan for this project of 24 years including a four year grace period, other members of the meeting felt that 25 years including five years of grace was preferable as a round number.

3. **Decision I:** The Chairman said that the extension of the terms of this loan to 25 years including a period of grace of five years was justified.

4. **Issue II:** At the time of the appraisal of the project, one of the items in the project (the rehabilitation of two berths at Mombasa) had already started; further, two others (the construction of Mbaraki Wharf and the provision of six quay cranes at Mombasa) were planned to start before the proposed loan is expected to be signed. The issue was whether the Bank should reimburse East African Harbours Corporation (EAHC) retroactively for foreign exchange expenditures incurred on these items after January 1, 1969.

5. **Discussion II:** It was pointed out that going ahead with these works at this time is essential for efficient port operations and that it would be inadvisable to postpone them until the proposed loan had been approved. From the prospective cash flow point of view an alternative would be for the Bank to reimburse EAHC for an equivalent amount in local expenditures incurred on the project after loan approval, but it was felt that reimbursement for the items in question would be simpler. It was stated that the contracts for the part of the project which was already underway, the rehabilitation of two berths at Mombasa, had been let about a year and a half ago and this fact had been recorded in the Operational Summary. There had been delays in the letting of contracts for the other two items so that the amount involved in retroactive financing would probably be less than the estimate of $1.5 million set out in the memorandum from the Eastern Africa Department.

6. **Decision II:** The Chairman said that he would be willing to recommend to the Executive Directors reimbursement for the items referred to in paragraph 4 above.

7. **Issue III:** The African Development Bank (ADB) had expressed interest in participating in the financing of the project and had suggested that the tanker mooring at Dar es Salaam would provide a suitable item for it to finance. Preliminary indications are that the cost of this item would be just over $3 million, of which about $2.25 million would be in foreign exchange. The proposed Bank loan would be reduced by the amount of any ADB lending. The issue for discussion was the relationship which should exist between IERD and ADB in the financing and supervision of the East African Harbors project.
8. Discussion III: The Chairman said that there were three possible patterns for cooperation between IBRD and ADB: 1) ADB could finance the tanker mooring separately; 2) both parties could finance all items of the project on a percentage basis; or 3) ADB and IBRD could finance another larger part of the project jointly, say, on a 50/50 basis so that the IBRD would be in a better position to insist on supervising the entire project than might be the case in the first alternative. The Eastern Africa Department reported that the ADB was specifically interested in financing the tanker mooring because it wanted to finance a part of the project which could be identified as its own contribution.

9. A question arose as to what supervision arrangements would exist for the construction of the tanker mooring if ADB were to finance this part of the project. It was pointed out that the Bank does not know at this time exactly what ADB's policies or competence are regarding project supervision and that this matter will have to be explored with ADB's representative. The Projects Department reported that joint supervision of past projects had not usually been satisfactory and recommended that the Bank should supervise procurement and construction for the tanker mooring. The pattern for supervision agreed upon between IBRD and EIB in the potash project in Congo (B) was mentioned as a satisfactory instance of joint cooperation in project supervision.

10. Decision III: The Chairman said that during negotiations IBRD should take the position, initially at least, that IBRD should have responsibility for supervision of the East African Harbors project including the construction of the tanker mooring. However, the negotiating team should be left with flexibility to work out arrangements satisfactory to all parties concerned during negotiations, perhaps along the lines adopted in Congo (B), recognizing that it may be necessary for ADB to participate in the supervision of its part of the project.

Michael A. Gould
Acting Secretary

Cleared with Messrs. Knapp
Chadenet
El Emary
Higginbottom
Nurick
Sadove

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attended for information are the Minutes of a Special Loan Meeting to discuss the procurement of vessels and local currency financing in the proposed Ghana Fisheries Project, held in Room A 1212 on March 12, 1969.

Michael A. Gould
Acting Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss the procurement of vessels and local currency financing in the proposed Ghana Fisheries Project, held on March 12 in Room A 1212.

1. **Present:** Messrs. Knapp (Chairman), Cope, Baum, Chadenet, Chaufournier, Cheek, Clyde, Haynes, Hornstein, Nurick, Ram, Wapenhans and Gould.

2. **Issue I:** The appraisal report stated that Ghana would probably be able to make a competitive offer for construction of the vessels in this project against any international tender. Nevertheless, having regard to the surplus capacity available in the boatyards in Ghana and the need for sustaining this industry in the country, the Government was reluctant to put whole vessels up to international competitive bidding. The issue was whether to accept the recommendation of the appraisal report and the memorandum from the Western Africa Department that the construction of whole vessels be entrusted to the Boatyards Division (BD) of the Ghana Industrial Holding Corporation (GIHOC) with materials and components being subject to international competitive bidding.

3. **Discussion I:** Several members of the meeting pointed out that in previous fisheries projects, construction of vessels had been subject to international competitive bidding. The Agriculture Projects Department explained that the vessels in this project were much smaller and required more frequent servicing than vessels in other fisheries project. Locally constructed vessels could be much more easily serviced in local boatyard than imported vessels. Moreover, there were a number of projects, such as the Indian Railways project, where the Bank had financed procurement of imported components, but left construction to the local entity. It was also pointed out that there was idle capacity in the boatyards of Ghana and it was necessary to sustain the shipbuilding industry in order to ensure continued maintenance for the existing fleet and to stimulate an industry which would have a major role in the country's future development. Moreover, the cost of the vessels would be reasonable and the opportunity cost involved in local construction would be zero. Other members of the meeting, however, felt that the existence of idle capacity was not sufficient to justify the suspension of international competitive bidding for vessel construction.

4. **Decision I:** The Chairman interpreted the sense of the meeting to be that construction of whole vessels should be entrusted to BD with materials and components being subject to international competitive bidding.

5. **Issue II:** It was very likely that local suppliers would have the winning bid for the timber required for vessel construction (US $128,600). This item now appeared as a foreign exchange cost, but the memorandum of the Western Africa Department recommended that IDA should be prepared to finance the corresponding amount of local currency expenditure if a local supplier should have the winning bid.
6. Decision: The meeting agreed, since the amount involved was small, to accept the recommendation of the Western Africa Department for possible local currency financing. The justification for this local currency financing as an "exceptional circumstance" would be made in the President's Report.

Michael A. Gould
Acting Secretary

Cleared with Messrs. Knapp
Chadenet
Evans
Baynes
Nurick
Ram

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss advance tendering in the Sirikit Dam Project in Thailand and in the loan to the Public Utilities Board in Singapore, held in Room A 1212 on February 4, 1969.

David Pearce
Acting Secretary
Loan Committee

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

Copies for Information:
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The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)
Minutes of Special Loan Meeting to discuss advance tendering in the Sirikit Dam Project in Thailand and in the loan to the Public Utilities Board (PUB) in Singapore, held on Tuesday, February 4, 1969 in Room A 1212.

1. **Present:** Messrs. Knapp (Chairman), Armstrong, Chadenet, Cope, Gibbs, Goodman and Gould.

2. **Issue:** In the case of the Sirikit Dam project, the issue was whether a mission should appraise this project sooner than originally planned so that the project could be submitted to the Executive Directors before the main supply contracts had been awarded. In the case of the loan to PUB, the issue was whether the loan should cover payments arising from commitments entered into by the PUB before the loan could be presented to the Executive Directors. These projects raised questions about the Bank's policy of dissuading borrowers from placing contracts of significant value before the project had been approved by the Executive Directors.

3. **Discussion:** The Chairman said that the Executive Directors were highly sensitive to the awarding of substantial contracts before a loan was presented to them because under this procedure they felt that they had little option but to approve the loan. It had therefore been Bank policy to permit such actions only in exceptional cases. Some other members of the meeting, particularly those from Projects Department felt that this went too far. They thought that the awarding of contracts before Executive Director's approval was no more sensitive than inviting bids, particularly since the Executive Directors were informed through the "5th column" of the Monthly Operational Summary (Available Information on Procurement). This policy would also delay disbursements and could hamper borrowers in carrying out their business with due diligence. They pointed out that it was unfair to borrowers to have them invite bids and then not allow them to award contracts during the option period, although the lending operations were often delayed for reasons outside their responsibility. In cases of large, monolithic projects, such as Tarbela or Chacon, it was agreed that advanced awarding of contracts would be financially imprudent. However, the Bank was becoming increasingly involved in on-going projects or "slices" of utility programs where awards of contracts are a continuous process, and cannot be delayed before Board presentation.

4. **Decision:** The Chairman said that he agreed that the Sirikit Dam project presented exceptional circumstances and that it would be better to stick with the original timing of the appraisal mission, even though some of the main supply contracts were to be awarded in the near future.

In the case of the Singapore PUB project he felt that no significant harm would be done, in the light of the financial position of the PUB and of Singapore, to apply the loan to a later "slice" of the power program, thereby avoiding the financing of contracts placed before the loan was made.
P.S. The Chairman subsequently asked Mr. Cope, in consultation with Mr. Chadenet, to draft a new statement, for inclusion in the Operational Manual, of the policy to be followed by the Bank Group in approving the awarding of contracts before loans and credits are made.

Michael A. Gould
Acting Secretary

Cleared with Messrs. Knapp
Chadenet
Armstrong
Gibbs

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the Margin of Preference to be allowed for Domestic Suppliers in the Upper Pampanga Irrigation project in the Philippines, held in Room A-1212 on February 25, 1969.

Michael A. Gould
Acting Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss the Margin of Preference to be allowed for Domestic Suppliers in the Upper Pampanga Irrigation Project, held in Room A 1212 on Tuesday, February 25, 1969 at 4:00 p.m.

1. **Present:** Messrs. Cope (Chairman), Baum, Cancio, Darnell, Fontein, Golan, Street, Wang, Wapenhans and Gould.

2. **Issue:** The Philippine Authorities were considering new legislation for the Upper Pampanga Irrigation project. Section 5 of the legislation would provide that a preference would be applied in favor of domestic bidders and that in the bid comparisons customs duties would not be included in the price of foreign bids. Section 6 of the proposed law would provide that all purchases for the project would be exempt from taxes, fees, restrictions and charges of any kind. This Section is interpreted to include an exemption from customs duties. The issue to be decided was the degree of preference, if any, to be allowed to local bidders in view of the language of Section 6 of the proposed law and of the Bank's proposed policy on preferences, which recommends that the Bank should be prepared to consider a margin of preference for domestic suppliers in international bid comparisons which should not normally exceed 25 per cent "or the prevailing tariff rate whichever is lower". A strict interpretation of the Bank's proposed policy would rule out any preference in favor of local suppliers, since Section 6 of the proposed legislation would exempt imports for the project from customs duties, and the President's policy paper did not appear to cover protective measures other than customs duties. The question therefore was whether under its proposed policy the Bank could regard the preference proposed in the law for domestic suppliers as equivalent to customs duties.

3. **Discussion:** The meeting noted that under the proposed legislation there would be no discrimination in this project between bidders due to the proposed waiver of duties because all goods for the project would be exempt from all taxation including customs duties. The Chairman also pointed out that the exemption from customs duties would have the same effect as the refunding of customs duties which the Bank would normally allow without objection. The waiver or refunding of customs duties was a separate issue from the question whether such duties, or an equivalent type of preference, was legally required for bid evaluation purposes. Several members of the meeting suggested that the customs duties upon which the Bank's proposed preference policy should be based be the level of tariffs generally applicable to the type of goods in question, irrespective of specific exemptions for particular projects. Under this interpretation, there would be no difficulty in applying the Bank's proposed policy on preference for domestic suppliers. The meeting agreed, however, that in cases where an act having the force of law stipulated a preference for domestic suppliers, a more useful approach would be for the Bank to treat this preference as if it were a customs duty. Thus, in the case of the Upper Pampanga Irrigation project, the level of preference the Bank would allow under its proposed policy would be the preference provided
for under Section 5 of the proposed legislation or 25% which ever was lower. The Korea All Weather Farming case could not be treated in the same way as the Upper Pampanga Irrigation project in that while imports for the All Weather Farming project were exempt from customs duties, there was no legislation in Korea granting preference to domestic suppliers.

4. The meeting also noted that the reference in Section 5 to "domestic bidders" was somewhat ambiguous since it might include local dealers offering products of foreign origin. It was agreed that the Bank should suggest to the Government that wording of Section 5 be changed to read that preference shall be applied in favor of "a domestic manufacturer" rather than of "a domestic bidder".

5. Decision: The Chairman said that the East Asia and Pacific Department should send a cable to Mr. Goodman in Manila informing him that for purposes of its preference policy the Bank would treat the preference proposed in Section 5 of the new legislation as if it were a customs duty and recommending the change in wording of Section 5 of the legislation proposed in paragraph 4 above.

Michael A. Gould
Acting Secretary

Cleared with Messrs. Cope
Baum
Fontein
Golan
Wapenhans

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss proposed addition to the road project in Iraq, held in Room A-1212 on February 12, 1969.

David Pearce
Acting Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss "IRAQ - Loan 457-IRQ : Proposed Addition to Road Project", held in Room A-1212 on Wednesday, February 12 at 9:30 a.m.

1. **Present:** Messrs. Knapp (Chairman), Cope, Baum, Benjenk, Bergan, Hardy, Lamers, Suratgar, Upper and Pearce.

2. **Issue:** The meeting had been called to discuss the Appraisal Report and the Area Department's memorandum to the Chairman dated February 10, 1969 recommending the inclusion of additional items in the Project (IRAQ - Loan 457-IQR), to utilize $4.7 million of an expected $6 million surplus in the Loan Account, and the financing of expenditures from January 1, 1968.

3. **Discussion:** The Chairman expressed concern about the date (January 1, 1968) proposed for retroactive financing. According to the Appraisal Report, a substantial proportion of the supplementary road and bridge construction, including road Section A and Contract I bridges were already completed or would be completed by the probable date of Bank approval of the project. About $1.8 million of the total $4.7 million proposed financing would be retroactive. This amount appeared large absolutely and in proportion to the total and could be justified only in exceptional circumstances. The Chairman preferred that the completed items be specifically excluded from any retroactive financing, alternatively that the date of retroactivity be advanced to, for example, July 1, 1968.

4. Mr. Benjenk said that there were indeed exceptional circumstances to support the Area Department's recommendation. At the time of the appraisal mission's visit to Iraq in February 1968, the subsequent delay in finalizing the project, due to changes in the Iraq Government in July 1968 and to lengthy discussions concerning design standards, had not been foreseen. Moreover, January 1, 1968 had been proposed to the Iraqis during the mission, albeit without committing the Bank and in the circumstances the Area Department considered retroactive financing to that date still appropriate.

5. Mr. Baum added that, except for the road Section A and Contract I bridges completed in 1968, it would be difficult, without further delaying the project's presentation to the Executive Directors, to identify the amount of additional expenditures which would become ineligible for retroactive financing if a later date were chosen, as suggested by the Chairman.

6. **Decision:** The Chairman decided that, while accepting the Area Department's recommendation that expenditures incurred after January 1, 1968 be considered eligible for retroactive financing, reimbursement for the completed Section A road and bridge Contract I, amounting to $0.3 million, should be excluded.

Cleared with Messrs. Cope
Benjenk
Baum

Distribution: Loan Committee Participants

David Pearce
Acting Secretary
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of Special Loan Meetings to discuss proposed Bank assistance to the telephone sector in Argentina, held in Room A-1212 on February 4 and 7, 1969.

Michael A. Gould
Acting Secretary
Loan Committee
Minutes of Special Loan Meetings to discuss proposed Bank assistance to the telephone sector in Argentina, held in Room A-1212 on Tuesday, February 4 at 10:00 a.m. and Friday, February 7 at 2:30 p.m.

1. **Present:** Messrs. Knapp (Chairman), Aldewereld, Alter, Armstrong, Broches, Chadenet, Cope, Piccagli, Scoffier, Skillings, Vasudevan, Wiese and Gould.

2. **Issue:** The Argentine Government has requested the Bank to consider assisting the telephone sector. The Empresa Nacional de Telecomunicaciones (ENTEL) has given to the Bank some preliminary information on its six-year expansion program the total cost of which is estimated at $580 million. ENTEL also sent to the Bank copies of two large six-year contracts that ENTEL proposes to conclude with Siemens and Standard (ITT) of Argentina for a total of US $220 million for the switching equipment included in the six-year program. The Projects Department feels that the prices in these contracts are much too high. The Area Department has accordingly prepared a letter to the Government proposing as a means of lowering procurement costs that during the first two years ENTEL should obtain part of the switching equipment through international competitive bidding with the balance reserved for local factories. In addition, the letter suggested that ENTEL obtain a reduction in the size and duration of the contracts to cover two rather than six years and negotiate a reduction in the prices paid in the present contract for switching equipment. It is felt that this approach would reduce procurement costs and promote the development of an economically viable project in which the Bank could usefully participate. The main issues were whether and on what basis the Bank should participate in a project in which there are initially excessive procurement costs for part of the equipment needed since a sizeable part of switching equipment would be reserved for Argentine factories.

3. **Discussion:** The Projects Department reported that while there were a number of reasons given for the high prices of switching equipment, including the small scale of production, high labor costs and inferior materials requiring high quality control costs, nevertheless a considerable reduction in the prices should be possible from the level set out in contracts between ENTEL and Siemens and Standard. In the meantime, it was agreed that the Bank should insist that the contracts between ENTEL and Siemens and Standard should cover only the first two years of the program and that ENTEL should negotiate a further reduction in prices below the level specified in the contracts. It was also felt that there was possible scope for the eventual entry of a third telephone equipment company in Argentina and that this could have the effect of lowering prices of telephone equipment substantially.

4. The Area Department stated that subject to the level of prices for the reserved procurement being settled satisfactorily, the Bank should be willing to permit reservation of up to 75% of the first two years' requirements of switching equipment for Argentine suppliers. It was explained that any reduction in the amount of reserved procurement below this level would probably not be acceptable to the Argentine Government, particularly in view of the concessions which would also have to be made on the duration of the contracts and the procurement prices. If the Bank were to insist on a lower percentage of reserved procurement, it would mean that
ENTEL would probably finance the project from its own cash generation without the assistance of a Bank loan and the opportunity of securing long term reduction in the prices of Argentine telephone equipment through exposure of local producers to a degree of international competition would be lost. After the first two years of the project, the Bank would seek to negotiate a reduction in the area reserved for local procurement.

5. Decision: The Chairman said that the Area Department should send the letter which it had prepared and which outlined the Bank's position in general terms. However, the size of the possible Bank loan mentioned in the letter should be raised from $40 to $50 million so as to improve the Bank's bargaining position. The economic mission presently in Argentina should also be informed that the Bank would be firm in insisting that the duration of contracts be reduced to two years, the procurement prices in the contracts be lowered to a level satisfactory to the Bank and that at least 25% of the procurement be opened to international competitive bidding.

Michael A. Gould
Acting Secretary

Cleared with Messrs. Baum
Armstrong
Vasudevan
Wiese

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting, held on February 4, 1969 in Mr. Knapp's Office, to discuss procurement implications of a proposed nuclear power plant in China.

Michael A. Gould
Acting Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss Procurement Implications of a proposed Nuclear Power Plant in China, held in Mr. Knapp's Office on February 4, 1969 at 11:30 a.m.


2. Issue: The Government and Taiwan Power Company (Taipower) have asked whether the Bank would be prepared in principle to finance a nuclear power plant or if not the whole of it then the non-nuclear part of the facility. Taipower's Consultants, Bechtel, have advised that the choice of suppliers for the nuclear island should be limited to American manufacturers as the United States is the only country capable of producing the type of facility likely to be proven by the time the Taipower unit is needed in operation. Since Taipower can probably find financing for the nuclear portion of the plant, from other sources, the issue is whether the Bank would be willing to make a loan for the purchase, after international competition, of conventional equipment required for a nuclear plant in which the nuclear portion was procured after bidding among manufacturers in the United States only.

3. The Projects Department supported the contention of Taipower's Consultants that at present only the United States has the demonstrated technology required to produce the nuclear island for the plant, but even the American nuclear facility has not yet been fully technically proven. There are three or four American companies that could be capable of producing the nuclear island so that there would be some possibility of competition between manufacturers in the United States. It was also noted that we are at a point in time where reactor system designs of several other nations are likely to be "proven" in a matter of several years at most. Thus, it is in the interest of the Chinese to pursue a policy of "wait and see."
4. The members of the meeting were nonetheless doubtful about the Chinese proposal because the Bank would be financing equipment amounting to only $25 to $30 million in a project which had a total cost of over $100 million. In these circumstances, the Bank could be criticized for helping to finance what would appear to be an American nuclear plant. It was also pointed out that the Bank has general reservations about the nuclear project in any case on the grounds that building a plant of the capacity of 500 MW is premature in view of its large size vis-a-vis Taipower's present and expected power requirements. The Area Department also reported that there were a sufficient number of alternative projects in China which could absorb the amount proposed for this project. Moreover, it is likely that other sources of finance for the nuclear project can be found.

5. Decision: Mr. Knapp said that in view of the above circumstances, the Bank should not offer to assist in the financing of the proposed nuclear power plant.

Michael A. Gould
Acting Secretary

Cleared with Messrs: Cope
Armstrong
Baig
Chadenet
Howell

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting, held on February 4, 1969 in Mr. Knapp's Office, to discuss the failure of the National Waterworks and Sewerage Authority (NWSA) in the Philippines to complete one tunnel of the aqueduct and to implement new water rates agreed with the Bank.

Michael A. Gould
Acting Secretary
Loan Committee
Minutes of Special Loan Meeting held at 12:00 noon on
February 4, 1969 in Mr. Knapp's Office to discuss the failure of
the National Waterworks and Sewerage Authority (NWSA) in the
Philippines to complete one tunnel of the aqueduct and to implement
new water rates agreed with the Bank.

1. Present: Messrs. Knapp (Chairman), Armstrong, Cope, Gibbs,
   Goodman and Gould.

2. Issue: By a letter dated January 16, 1969, NWSA, the borrower
   under this loan, informed the Bank that it had withdrawn a resolution
   by its Board passed last November to increase the water rates effective
   January 1, 1969. As this action was in violation of a previous
   agreement with the Bank, a question arose as to how the Bank should
   respond.

3. Discussion: The Area Department reported that it was probably
   not possible to suspend disbursements under Section 5.08 (the rate
   clause) because of the implication in the supplemental letter that the
   rate increase be dependent upon an improved supply of water to Manila.
   The case for suspension would have to rest on Section 5.01 the "due
diligence and efficiency" clause as NWSA had been excessively slow in
   completing the construction of one tunnel on the aqueduct, the principal
   project item now delaying an improved water supply. Moreover,
   since nearly all major supply contracts which the Bank is financing
   have now been awarded and carry the Bank's irrevocable guarantee,
suspension would not be much incentive for NWSA to increase its efforts
   to complete the project and implement the rate increases. The Area
   Department, therefore, suggested that maximum pressure could be exerted
   on NWSA and the Government to complete the remaining work on the aqueduct
   and to raise water rates not by suspending disbursements, but by
   informing the Government that the Bank would not present to the Executive
   Directors the next Bank project in the Philippines, the Second
   Rural Credit Project, until the supply works are completed and the
   agreed level of new rates are in effect.

4. Some members of the meeting felt that disbursements should also
   be suspended as an additional means of exerting pressure on the NWSA
   and the Government as notice of suspension would go before the Executive
   Directors and thus bring widespread attention to NWSA's failures
   in implementation. Other members of the meeting felt that suspension
   would not achieve any more than the proposal to defer presentation of
   any loan proposals to the Executive Directors. With the exception of
   NWSA, project execution had gradually improved and there were several
   projects well advanced for which the Government was very anxious to
   obtain loans. Moreover, it was felt that suspension of disbursements
   could create further delays in the completion of the project rather
   than expedite progress.
5. Decision: The Chairman said that suspension was probably not the most effective course to follow: the Bank should cable the Government that the Bank will negotiate the loan for the Second Rural Credit Project, but will not seek the Executive Directors' approval until the supply works are completed and the agreed level of new rates are in effect.

Michael A. Gould
Acting Secretary

Cleared with Messrs. Cope
Armstrong
Gibbs

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Committee Meeting, held on January 9, in Room A-1212, to discuss the present prospects of oil palm and the negotiations for an oil palm and coconut project in the Ivory Coast.

Michael A. Gould
Acting Secretary
Loan Committee
Minutes of Special Loan Committee Meeting held on January 9, 1969 in Room A-1212 to discuss the present prospects of oil palm and the negotiations for an oil palm and coconut project in the Ivory Coast.


2. Issue I: Subsequent to the Loan Committee Meeting of December 3, 1968 to consider Bank/IDA investment in oil palm projects (see LC/H/68-31), further questions arose as to the future price of fats and oils and the effect of these trends on the economic feasibility of a large number of forthcoming Bank/IDA financed agricultural projects. It had now become necessary to reconsider these price trends and to determine what action should be taken regarding the agricultural credit projects in Senegal and Papua - New Guinea which were to be presented to the Executive Directors on January 14.

3. Discussion: The Economics Department reported, that at an initial discussion that morning at the United States Department of Agriculture (USDA), a USDA staff member had given a personal opinion that the price of palm oil could drop as low as $112 per ton as compared with the present Bank estimate of an average of $160 (range $155 - $165). However, there was no indication that the USDA estimate was based on a careful study of the future prospects for fats and oils such as was in progress in the Economics Department. It was felt that the USDA estimate was unduly pessimistic but that further intensive investigation of the matter was required. The possibility was also raised of deferring the planned submission of the Senegal and Papua - New Guinea projects to the Executive Directors until the completion of further analysis of the market prospects for fats and oils.

4. Decision: The Chairman commented that in view of the fact that the Papua - New Guinea project was relatively small and that the Senegal project was primarily designed to increase the efficiency of existing production rather than to promote new production it should be unnecessary to defer presentation of these projects to the Executive Directors. In the meantime, high priority should be given to the analysis of the future price trends of fats and oils.

5. Issue II: Negotiations on the Ivory Coast Oil Palm and Coconut Project had become complicated by desire of the Fonds Europeen de Developpement (FED) for:

(a) A unilateral right to revoke the investment and management mandates being given to a firm (PAL E IVOIRE) by the Bank's borrowers (SODEPAL and PAL INDUSTRIE);

(b) Pari Passi status with the repayment to the Fonds d'Extension et de Renouvellement (FER) of the funds FED has already made available to SODEPAL.
(c) Priority to be ascribed to social objectives, in the use of FER funds, over FER payments to one of the borrowers (SODEPALM).

Since all parties, including FED, have to approve the Protocol d'Accord, the master agreement between the Ivory Coast and the various foreign and local investors in the project, a reconciliation between the views of the Bank and FED is necessary.

6. Discussion: On the question of the investment and management mandates the Western Africa Department reported that the observer from FED had expressed general agreement with the Bank's position that the mandates could not be revocable for reasons relating to one source of funds alone.

7. With regard to the pari passu status of funds repayable by SODEPALM to FER, an autonomous Ivory Coast government fund which is to administer and reapply funds originating from existing FED grants, the Legal Department noted that the funds repayable by SODEPALM to FER were in practice per kilogram production fees. Since this was the case, SODEPALM's repayments to FER would actually have priority over repayment of the Bank loan. It was agreed that this situation would not jeopardize repayment of the Bank loan (i) as SODEPALM's capacity to meet its obligation to the Bank and its co-lenders as well as to FER would be guaranteed by the Government and; (ii) as the priority for payments to FER would cease once the "social objectives" program of FER were completed in 1976 whereas service on the Bank loans to SODEPALM would not commence until 1975.

8. On the question of the rechanneling of funds by FER first into social purposes, it was noted that FED had a long standing and heavy financial involvement ($40 million) in the oil palm development program of the Ivory Coast and that the Bank was interested in promoting future cooperation and good relations with FED. Also, the conflict of FER's commitment to social objectives and the Bank's demand that the first call on FER's funds should be to meet FER's obligation to help finance to SODEPALM outgrower program would occur only in 1975 and 1976 and the amount involved would be relatively small ($1.0 million). Moreover, the security of the outgrowers' program would, in any case, be provided by the overall government guarantees, both to the Bank and FER to provide the necessary funds.

9. Decision: The Chairman said that in view of the above consideration, the Bank should not accept FED's requirement of a unilateral right to revoke the investment and management mandates. However, the Bank should be prepared to accept:
(a) the priority of the per kilogram production fee payable by SODEPALM to FER until the completion of the social objectives program by the end of 1976;

(b) the channeling of FER funds first into social objectives until the end of 1976.

Michael A. Gould
Acting Secretary

Cleared with Messrs. Knapp
Cheek
Halbe
Rowe
Suratgar

Distribution: Loan Committee Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss various issues in the Ghana Second Volta Project, held in Room A-1212 on January 21, 1969.

Michael A. Gould
Acting Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss various issues in the Ghana Second Volta Project, held in Room A-1212 on January 21, 1969 at 10:30 a.m.


2. Issue: There were a number of remaining issues in this project including Bank association with tied procurement, the retaining of consultants, agreement on the rate structure for the interconnection and export of power from Ghana to Togo and Dahomey, the relending terms of Canadian funds, and the terms of the Bank loan.

3. Discussion: The Chairman pointed out that the Bank was participating in a project which had a tied source of finance as the Canadian loan was for the purchase of two additional generators, transformers and auxiliary equipment from Canadian sources. It was agreed that this was justified in this particular case because of the very favorable Canadian financing terms (50 years, interest free) and the fact that Canada had supplied the first four generators installed under the first project under conditions of international competitive bidding and therefore the cost of this additional equipment, which had been adjusted for intervening price increases, was therefore likely to be in line with present international prices. The Chairman said that this issue should be presented in the Appraisal Report or the President's Report.

4. The Western Africa Department reported that discussions with Kaiser Engineers and Contractors, Inc., the consultants proposed to be retained to supervise the design and construction under financing from USAID, were still going on. The Department also reported that the Bank has been informed that agreement in principle regarding the rate structure for the interconnection and export of power from Ghana to Togo and Dahomey, a pre-condition for the Canadian loan, was expected to be reached in January.

5. The Chairman raised the question of why the Government was relending funds borrowed from Canada to the VRA at the concessionary interest rate of 21/2%, particularly when the Government was to receive from VRA, in turn, a dividend on Government equity of approximately 4%. The Chairman suggested that the Western Africa Department ask the Canadians what their general policy was regarding the relending of their funds.

6. The memorandum from Western Africa Department (LC/0/69-4, dated January 14, 1969) recommended that the grace period of the Bank loan be extended from 4 to 10 days if the Government so requested during the negotiations. Though this extension was not necessary on project grounds, it was decided in view of Ghana's foreign exchange difficulties and anticipated debt rescheduling to offer the loan for a period of 25 years including a grace period of 10 years (rather than for a period of 24 years including a four year grace period as proposed in paragraph 13 of the Western Africa Department's memorandum).
7. Decision: It was decided that the Bank would proceed on the lines proposed in Western Africa Department's memorandum, subject to the modification on the terms of lending as in paragraph 5 above.

Michael A. Gould
Acting Secretary

Cleared with Messrs. Knapp
Baum
Chaufournier

Distribution: Loan Committee
Participants
MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Philippines - Second Rural Credit Project", held in Mr. Knapp's office on January 16, 1969.

David Pearce
Acting Secretary
Loan Committee
Minutes of Special Loan Meeting to discuss "Philippines - Second Rural Credit Project", held in Mr. Knapp's office on January 16, 1969 at 10:30 a.m.

1. Present: Messrs. Knapp (Chairman), Baum, Cope, Gibbs, Goodman, Knobel, Wapenhans and Pearce.

2. Issue: The meeting had been called to discuss the proposed size of farmers' contributions to the project's costs.

3. Discussion: The meeting noted that under the First Rural Credit Project, farmers had been expected to contribute 30% and rural banks 10% towards the cost of each investment project from their own resources with the balance, 60%, being provided by the $5 million Bank loan. In practice, it was found that a 30% contribution by farmers was beyond their means and rural banks were unwilling to provide their expected share owing to their reluctance to divert funds from short-term operations into longer-term credit. Consequently, farmers' contributions had averaged 14% and rural banks about 5% with the balance being provided by funds from the Government's Agriculture Guarantee and Loan Fund (AGLF). The farmers' average would have been even lower but for the fact that initially some of the larger farmers who could afford to make use of the Bank credit did so. For the second project therefore, the appraisal mission recommended, and the Area Department agreed, that farmers should only be called upon to contribute 10%.

4. The Chairman asked if the proposed reduction in farmers' contributions, from 30% to 10%, was not too drastic. The farmers were principal beneficiaries of the project and could expect to double their net annual income within five to seven years or less. Moreover, the capacity of individual farmers to contribute varied and some would be able to pay more than 10%.

5. The Area and Agriculture Projects Departments agreed that the ideal solution was a sliding scale of contributions according to the farmers' ability to pay. This was impracticable, however, owing to the difficulty and cost of estimating the income of individual farmers. An additional problem was that farmers' contributions normally had to be in cash because the type of investment made (principally purchase of machinery) was not suitable for payment in labor or kind: they would have to make a first loan repayment as well as a down payment in the first year. This difficulty would be obviated however by flexible grace and amortization terms geared to the cash projections of the farm development plans (Appraisal Report para. 4.22). Finally, it was pointed out that a 10% farmers' contribution compared favorably with similar Bank-financed projects in Mexico and Pakistan.

6. Decision: The Chairman agreed with the Area Department's recommendation that the farmers should contribute a minimum of 10% toward the cost of each investment project. The Proposed 10% minimum was consistent with the project's objective of reaching the smaller farmers. However, without establishing it as a condition in the Loan Agreement, the Rural Banks should be asked to seek a larger contribution (say 15%) where the individual farmer's resources permitted this.

Cleared with Messrs. Knapp
Goodman

Distribution: Loan Committee
Participants

David Pearce
Acting Secretary