Folder Title:	Energy Sector Management Assistance Programme [ESMAP] Donors - Cofinancing - Correspondence
Folder ID:	30189670
Series:	UNDP/World Bank Energy Sector Program Management and donor coordination
Dates:	11/14/1983 – 05/28/1987
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File Title	Barcode No.
Energy Sector Management Assistance Programme [ESMAP] Donors - Cofinancing - Correspondence	30189670

Document Date	Document Type
28 May, 1987	Memorandum

Correspondents / Participants
T: U. Kiermayr, VPCAU
From: B. Montfort

Subject / Title
Italian Consultant Trust Fund

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

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Sherrine M. Thompson	November 03, 2022

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File Title	Barcode No.
Energy Sector Management Assistance Programme [ESMAP] Donors - Cofinancing - Correspondence	30189670

Document Date	Document Type
29 April, 1987	Memorandum

Correspondents / Participants
T: Ulrich Kiermayr, Cofinancing Adviser. VPCOF
From: Bernard Montfort, Chief, EGYES

Subject / Title
Canadian Consultant Trust Fund

Exception(s)
Personal Information

Additional Comments

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Withdrawn by	Date
Sherrine M. Thompson	November 03, 2022

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File Title	Barcode No.
Energy Sector Management Assistance Programme [ESMAP] Donors - Cofinancing - Correspondence	30189670

Document Date	Document Type
01 April, 1987	Memorandum

Correspondents / Participants
T: Ulrich Kiermayr, Cofinancing Adviser. VPCOF
From: Bernard Montfort, Chief, EGYES

Subject / Title
The Netherlands Consultant Trust Fund Agreement

Exception(s)
Personal Information

Additional Comments

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Withdrawn by	Date
Sherrine M. Thompson	November 03, 2022

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File Title	**Barcode No.**
Energy Sector Management Assistance Programme [ESMAP] Donors - Cofinancing - Correspondence	30189670

Document Date	**Document Type**
22 December, 1986	Memorandum

Correspondents / Participants
T: Ulrich Kiermayr, Cofinancing Adviser
From: Robin Bates, Acting Division Chief, EGYS1

Subject / Title
Canadian Consultant Trust Fund Agreement

Exception(s)
Personal Information

Additional Comments

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Withdrawn by	**Date**
Sherrine M. Thompson	November 03, 2022

Cofinancing file

WORLD BANK INTERNATIONAL FINANCE CORPORATION

Al Gulstone (O/R)

Re: Canadian Trust Fund for Consultants

Good news: Cynthia Schein advised me that Lionel Smith's fees ~~[illegible]~~ will be financed by the Fund (up to 20x300 = $6000).

B
9/4/8

cc: Margaret / Vernetta
Boroumand

F 1852

FIC
Cofinancing #16

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: August 20, 1986

TO: All Units in Operations

FROM: Ullrich Kiermayr, Cofinancing Adviser, VPCOF

EXTENSION: 72441

SUBJECT: Handbook for Consultant Trust Funds

1. Our program of consultant trust funds is now firmly established with Canada, Ireland, Italy, Denmark and Switzerland. Soon similar arrangements with other major donors will come on stream. In the past, we have advised all Division Chiefs in Operations once a consultant trust fund arrangement became effective. As the program is expanding, we thought it should be helpful for all prospective users to have all relevant information available in a single reference file. We have, therefore, prepared the attached "handbook". We suggest you keep this handbook available for your staff and request them to refer to it before processing a consultant request.

2. As new trust funds become operational, or if conditions/procedures of existing arrangements change, we will send updates for inclusion in the handbook.

3. If you have any questions about these consultant trust funds please do not hesitate to call Mrs. Cynthia ~~Scherr~~ Kiermayr (Ext. 75486) or me.

Attachment

cc: Program Coordinators
Cofinancing Coordinators
OVP Budget Officers
Messrs. Ruddy, Davies, Rothchild, Langer, Toft, de Kievit
Ms. Anderson-Summers

POS-01 0070

Montfort, Bernard G.
D 629

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Energy Sector Management Assistance Programme [ESMAP] Donors - Cofinancing - Correspondence	30189670

Document Date	Document Type
August 1986	Correspondence

Correspondents / Participants

Subject / Title
Handbook for Consultant Trust Funds

Exception(s)
Personal Information

Corporate Administrative Matters

Financial Information iv

Additional Comments

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Withdrawn by	Date
Sherrine M. Thompson	November 03, 2022

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Cofinancing file

Angelica

(1) Copy for information
EGYSI H/L + Researchers
Margaret, Katrina
Al Gulston

(2) FIC Canada Donor File

August 15, 1986

8/28

ESA Program and Project Division Chiefs

Please note the attached information on Canadian consultant funds.

S. C. Schott

B.M.

I spoke to Cindy Scherr.
Canadian Trust Fund ruled out for us now because they will only pay for consultants working on project preparation/appraisal/ supervision missions for projects that are in the lending program. However, no such restrictions apply to Danish, Irish, Italian or Swiss funds.

Masood Ahmed
8/28

BANK/INTERNATIONAL FINANCE CORPORATION

FICE MEMORANDUM

Mr. Schott

file - Consultant Funding

DATE August 14, 1986

TO Regional Cofinancing Coordinators

FROM Cynthia Scherr, VPCAU

EXTENSION 75486

SUBJECT Canadian Consultant Trust Fund:
October-December 1986 Requests

1. We have been submitting requests for the hiring of Canadian consultants under this Trust Fund on an ad hoc basis. CIDA recently requested that we present consultant requests on a quarterly basis, 30 days prior to the start of the quarter.

2. Would you please ask Regional staff to submit Trust Fund requests for assignments to be undertaken by Canadian consultants between October 1 and December 31, 1986, to me by September 2. I shall forward all requests received by that date to CIDA for approval.

3. Please see the attached information sheet for conditions applicable to Canadian Trust Fund requests. We intend to distribute similar sheets for each of the Trust Funds to every unit in Operations.

Attachment

cc: Mr. Kiermayr

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Energy Sector Management Assistance Programme [ESMAP] Donors - Cofinancing - Correspondence	30189670

Document Date	Document Type
18 August, 1986	Form

Correspondents / Participants

Subject / Title
Canadian Consultant Trust Fund

Exception(s)
Financial Information iv

Additional Comments

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Withdrawn by	Date
Sherrine M. Thompson	November 03, 2022

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: March 17, 1986

NAME	ROOM NO.
EGYS1 Higher Level/Researcher Staff	
cc: Ian, Masood, Margaret	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

Please note the existence of these facilities. I suppose they apply to ESMAP and propose to use them as soon as the occasion arises. Please let me know of any possibility.

FROM:	ROOM NO.:	EXTENSION:
Bernard Montfort	D-622	74844

Record Removal Notice

File Title
Energy Sector Management Assistance Programme [ESMAP] Donors - Cofinancing - Correspondence

Barcode No.
30189670

Document Date
13 February, 1986

Document Type
Memorandum with attachments

Correspondents / Participants
To: All Operations Division
From U. H. Kiermayr, VPCOF

Subject / Title
Trust Fund for the Recruitment of Consultants from Ireland

Exception(s)
Financial Information iv
Corporate Administrative Matters

Additional Comments

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Withdrawn by	Date
Sherrine M. Thompson	November 03, 2022

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Mr. Bhasin
① ~~Bates~~ N/A
② Ahmed

DATE May 28, 1985

TO AEA Division Chiefs

FROM L. Schaeffer, RCC, AEN LS

EXTENSION 76897

SUBJECT 1) Bankwide review of Cofinancing Pipelines, FY86 & FY87
2) Sixmonthly Update of VPCOF Promotional Mailing Lists of Cofinancing Prospects

1. As indicated in Mr. Vibert's 5/07/85 memorandum (Attachment 1), the Bank's Third Annual Cofinancing Pipeline review should be completed in June. The review includes:

a) information on projects with cofinancing prospects (Please update Attachment 2);

b) country cofinancing strategies (Please update or rewrite Attachment 3);

c) status of B-loan prospects (Please update Attachment 4);

d) export credit prospects (Please update Attachment 5);

e) prospects for cofinancing promotional mailing list (See Attachment 6).

Re 1(e), data sheets are attached from the January 1985 promotional mailing on official and export credit/commercial cofinancing. As regards inclusion of projects for promotional mailing, please include only projects where cofinancing is being sought, not those where cofinancing sources are already identified.

2. I would greatly appreciate your completing the above material by c.o.b. June 14, 1985. I am sending duplicate material to the six Cofinancing Specialists and will be contacting them shortly to schedule review meetings similar to those held last year and to discuss with them the additional topics referred to in para. 4 of Mr. Vibert's memo.

3. A note of encouragement: East Asia and Pacific Region has come in pretty much on target for FY85 with its discounted cofinancing forecast as per the June 1984 Pipeline Review. I do not expect excessive staff effort will be required to arrive at a realistic assessment of the Region's cofinancing pipeline for the next two years. As valuable starting points we have the monthly timetable results, the recently reviewed tables on B-loans and export credits and the cofinancing strategies sketched out in FY85 CPP and Country Strategy papers. Where necessary, I hope you will consult with project colleagues concerned.

Attachments (6)

P-1866

Attachment 1: Memorandum of F. Vibert of 5/07/85 "Review of the Cofinancing Project Pipeline for FY86 and FY87.

Attachment 2: AEN Cofinancing Pipeline, FY86-FY88S as of April 30, 1985

Attachment 3: AEN: Regional and Country Cofinancing Strategies, as of June 1984

Attachment 4: AEN Region B-loan - Development of Cofinancings Current Status, as of March 1985.

Attachment 5: AEN Export Credit Prospects, as of March 1985.

Attachment 6: Memorandum of H. Hill of 5/20/85 "Updating of Half-Yearly Lists of Projects with Potential for Cofinancing for the Period ending June 30, 1985" plus cofinancing briefs included in the January 1985 promotional mailing lists.

cc (with attachments): AEA Cof. Specialists

cc (w/o attachments): AEN Management Group
AEP Division Chiefs
Messrs. & Ms. Goldberg, Segura, Rowat, Stern, McCarthy, Bharier, Husain, Vorkink.

LSchaeffer:bp

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Mr ~~Bhanu~~ E.B.

AEP & ETS

Masood: this looks very interesting and presumably we could use it in addition to our own Swiss money. Robin

DATE: May 6, 1985

TO: All Operational Divisions

FROM: Ullrich Kiermayr, Cofinancing Adviser, VPCOF

EXTENSION: 72441

Spoke to Kiermayr

SUBJECT: Special Facility for the Financing of Consultants to be Recruited from Switzerland

IDA countries only

On October 14, 1984, Switzerland and the Bank signed a cofinancing framework agreement under which Switzerland has made available Sw.Fr.200 million for the cofinancing of IDA projects during the IDA VII replenishment period. In this connection and for future cofinancing operations with the Bank, Switzerland wishes to develop a core of Swiss consultants who are familiar with Bank policies, standards and procedures on whom the Swiss aid administration may draw for advice regarding Bank projects.

Ass. / ESMAP

short missions

M

In order to build up a pool of Swiss consultants, Switzerland and the Bank recently signed a separate agreement under which Switzerland has agreed to make available Sw.Fr.600,000 for consultants whom the Bank may wish to recruit from Switzerland for short term operational assignments such as project preparation, appraisal, supervision, etc.

Under this arrangement Switzerland will pay the fees of the consultants to be recruited, while the Bank will be responsible for covering all other expenditures such as travel costs, and out of pocket expenses.

The procedures for recruiting consultants from Switzerland under this arrangement should follow the same selection and administrative procedures the Bank applies when recruiting consultants funded from its own operational budget. In other words, the professional judgement on the technical qualifications and suitability of a consultant to be recruited under this arrangement rests with concerned Bank staff. There is no restriction on the range of expertise from which Swiss consultants may be recruited. Any suitable Swiss national, recruited as an individual or from a consulting firm, will be eligible. Once a consultant has been selected and the Staffing Division of PMD has negotiated the contract, the consultant will be issued the Bank's regular letter of appointment, including the usual conflict of interest provisions.

4

The Swiss Development Cooperation has agreed to assist the Bank in identifying suitable consultants. However, Bank staff may proceed on their own to find consultants in Switzerland whom they wish to recruit under this arrangement.

To properly monitor the use of this facility, all requests for financing Swiss consultants under this arrangement should be channelled through this office.

UK/pp

cc: Messrs. Stern, SVPOP
Rajagopalan, PPDDR
Strombom, PPDPC
Gillette, ACTDR
de Kievit, PMDSD
Ohuchi, VPCOF
Vibert, VPCOF
Taylor, LEGVP
Topolsky, CSHRP
Dolenc, LCNVP
Beguery, WANVP
Schott, ESAVP
Siebeck, ASADR
Reitter, EMNVP
Ludvik, EISVP
Ms. Schaeffer, AENVP

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE March 5, 1985

TO Mr. Gautam Kaji, Acting RVP, AEN

FROM L. Schaeffer, AEN RCC

EXTENSION 76897

SUBJECT Back-To-Office Report: European Cofinancing Mission to Official Agencies

1. After participating in the Philippines Consultative Group Meeting in Paris from January 28-30, I visited three multilateral and 10 bilateral aid agencies in Europe from January 31 to February 14. These were the European Economic Community (EEC), the International Fund for Agricultural Development (IFAD) and the World Food Program (WFP), three French agencies concerned with technical and financial bilateral assistance, the Italian official aid Agency (DCD), the British technical and financial assistance agencies (ODA and CDC), the German Ministry for Cooperation (BMZ) and technical and financial assistance agencies (GTZ and KfW), and the Belgian technical assistance agency (AGCD). The purpose of my mission was to explore possibilities for (a) funding of short-term consultants to accompany Bank missions or for brief assignments under Bank TORs and supervision, (b) grant funding of prefeasibility, feasibility studies and preparation of projects, and (c) cofinancing of Bank-assisted projects. I also sought responses to a number of specific requests from AEN divisions and the VPCOF regarding project preparation, aid coordination and cofinancing in China, Lao PDR, Indonesia and the Pacific Islands.

General

2. I was surprised at the intensity of interest of bilateral and multilateral agencies in working more closely with the World Bank, particularly as regards East Asia and Pacific countries. This includes funding consultants, preparation of studies and cofinancing. Both bilateral and multilateral officials welcome more contacts and visits from regional staff as well as exchange of information on respective programs. Bilateral agencies and also the EEC (whose staff is extremely sensitive to policies of the 12 member countries) judge economic considerations as increasingly influencing aid-trade relations with East Asia. There is fierce competition among European suppliers to countries such as Indonesia, Thailand, Malaysia and Korea. Bilateral agencies view collaboration with Bank programs in Indonesia and Thailand as opportunities to participate in large-scale projects, enter new sectors and open wedges for subsequent procurement interests. Korea and Malaysia are generally considered more developed economies and therefore ineligible for bilateral grant funds and soft loans although some limited technical cooperation programs continue. The aid agencies in the five countries visited have only limited technical cooperation

programs with China which is currently classed as a "developed" country, together with Japan and Singapore. However, officials foresee reevaluation of aid policies and significant increases in technical and financial flows to China in the coming years. This possibly explains the widespread interest I also encountered in cooperation with the Bank's China program (See Table 1 below. Also see Annex 1 for details on terms, nature and sectors of interest of bilateral assistance.)

Table 1: INTEREST OF BILATERAL AND MULTILATERAL EUROPEAN AID AGENCIES IN EAST ASIA & PACIFIC COUNTRIES

Agency /a	Type /b of Aid	China	Korea	Indonesia	Malaysia	Philippines	Thailand	Lao PDR	PNG	Pacific Islands	
Bilateral											
French	TC	x	-	xx	-	-	xx	-	-	xx	Vanuatu (possibly others)
	FC	-	-	xx	xx	-	xx	-	-	xx	
British	TC	xx	-	xx	x	-	x	-	xx	xx	Vanuatu, Sol. Is. Fiju
	FC (CDC)	-	-	xx	-	x	xx	-	xx	xx	
German	TC	xx	x	xx	-	xx	xx	-	x	x	W. Samoa, Fiji
	FC	xx	-	xx	-	xx	xx	-	x	x	
Italian	TC	xx	-	xx	-	-	-	-	-	-	
	FC	xx	-	xx	-	-	x	-	-	-	
Belgian	TC	xx	-	xx	-	-	x	-	-	-	
	FC	xx	-	xx	x	xx	xx	-	x	-	
Multilateral											
EEC		xx	x	xx	x	xx	xx	x	x	xx	All islands (including interest in regional programs)
IFAD		xx	-	xx	-	xx	xx	xx	x	-	Fiji, Sol. Is., W.Samoa, Others
WFP		xx	-	xx	-	cc	-	x	-	-	

/a See Annex 2 for list of agencies visited.

/b TC = Technical Cooperation; FC = Financial Cooperation (includes loan, export credits and mixed credit).

Note: x = interest; xx = strong interest; - = little interest, no program or program being phased out.

Funding of Short-Term Consultants

3. Prospects appear excellent for full or partial funding from Italy, Germany, Belgium and possibly UK, France and Netherlands of consultants for Bank missions or short-term assignments. While in Rome, I visited Messrs Aloisi and Montecchi of the Italian Department for Cooperation and Development (DCD) to discuss a $2 million Special

Facility for the funding of short-term consultants. The main object of this Agreement is to increase exposure of Italian consultants to World Bank procedures and expertise. The Agreement, likely to be signed this week, will provide a Trust Fund, administered by the Bank, to cover fees and reimbursable costs for the use of Italian consultants in connection with "development projects and programs." There is no restriction on country, sector or type of short-term assignment and Bank staff will be free to select any Italian expert judged to have adequate qualifications. (The VPCOF will shortly issue instructions to operational staff on procedures for implementing the Agreement).

4. I also asked bilateral agencies in France, UK, Germany and Belgium about similar funding of short-term consultants. This has occurred on an ad hoc basis in the past, usually through Projects divisions (AEN Region and elsewhere in the Bank) contacts with line ministries of European countries or Canada and Australia.[1/] My inquiries had very positive responses. Both the German GTZ (Technical Cooperation) and KfW (Financial Cooperation) agencies are very interested in meeting costs of German consultants participating in East Asia Region missions or short assignments. Instead of earmarking specific sums of money for this purpose from their substantial self-generated funds, GTZ and KfW, both wish to approve the funding of consultants on a case-by-case basis. German funds would be used to cover consultant fees and travel. The Bank would pay per diem costs. Mr. Sinn, Director of the Asia Regional Department of GTZ specifically requested that AEN proposals for GTZ funding of German consultants be channeled through my office to facilitate administration.

5. I was not able to meet with the appropriate French aid agency in the Treasury Ministry (External Economic Relations Directorate - DREE) who might consider a similar arrangement for French consultants. I shall pursue this in the coming months. However Ms. Gerlo, Director of the Belgian Technical Cooperation Program (AGCD) showed keen interest in sharing the costs of Belgian consultants, particularly for sectors of Belgian interest such as railways, coal, ports and maritime training.

6. I received a less enthusiastic response from the British ODA and CDC officials in London concerned with East Asia Region. Subsequently, Mr. Shaw, Commercial Counselor of the British Embassy in Washington indicated that an initially small (about $50,000) fund to cover short-term consultant costs may be made available by this summer for individual British consultants selected for assignment in what are considered key sectors/countries of British interest in East Asia Region

---

1/ Curt Carnemark has successfully utilized bilateral funding for transport sector experts and Inder Sud has had encouraging responses from the French Urban Affairs sector agency. West Africa Region has a consultant funding arrangement with the FAC of the French Department for Cooperation, Ministry of External Relation for $100,000/year towards payment of salaries for French consultants.

only. A similar possibility has just been voiced by the Netherlands Embassy for funding Dutch consultants. I am awaiting official confirmation.

7. Table 2 below summarizes current possibilities for bilateral funding of short-term consultants for Bank missions or other assignments: (I would expect other bilateral agencies might be supportive if contacted and will try to follow this up).

Table 2: BILATERAL FUNDING OF SHORT-TERM CONSULTANTS

Bilateral source	Interest	$	Conditions
Italy (DCD)	Very high	$ 2 million over 3 years	No conditions: Choice of individual Italian consultant left to Bank staff; all costs met.
Germany (GTZ & KfW)	High	Not specified	Case-by case basis; Bilateral agency covers fees and transportation; coordination through RCC; specific interest in AEN Region.
UK (ODA Dept. of Trade)	Moderate	$50,000 may be available by FY86.	Case-by-case basis; limited to selected AEN countries and sectors.
France (DREE)	Not clear	-	Still to be explored.
Belgian (AGCD)	High	Not specified	Case-by-case basis and specific countries/sectors.
Netherlands	Unofficially indicated	Not specified	To be confirmed.
Australia (ADAB & Dept. of Trade)	Possible	-	Australia already has an active Cofinancing Frame Agreement (over $10 million/yr) which grants funds for project preparation by Australia consultanting firms. I will inquire whether the Agreement can also be used for short-term individual consultant assignments.

Note: At present Japan OECF, EXIM Bank and Australia ADAB each have one staff member on secondment to East-Asia and Pacific Region. Germany seconded 1 staff member for six months to WUD and is planning to send a staff member to the World Bank for a 3 month secondment.

Funding of Studies and Cofinancing

8. The European official bilateral aid agencies I visited are also willing to fund project preparation studies and cofinance Bank projects on a selective basis. For grant funding, prefeasibility and feasibility studies would need to be in areas of bilateral interest. As requested by AEN staff, I discussed proposals for funding of irrigation subsector studies in Indonesia with French, Italian and British

officials who also expressed interest in cofinancing Indonesia hydro/irrigation projects (Jatigede). Both German and Belgian officials inquired as to possibilities for cofinancing China Coal II and China Port Projects. Belgian officials stressed interest in supporting Maritime Training components. The Italian DCD asked for information on the Bank's involvement, if any in Shanghai Port Development and in a possible Indonesia Telecommunications Project. Various bilateral agencies (German, French, Belgian and Italian) inquired as to the staging of the Indonesia Paiton Power Plant. All bilaterals expressed concern with the recent Indonesia export credit decree which limits amounts, terms and procedures for arranging export credits on Indonesian projects.

Multilateral Agencies

EEC

9. I met with Mr. Fossati, Chief EEC Non-Associated Countries Division which includes China, Korea, Malaysia, Philippines, Lao PDR, Thailand and Indonesia. EEC aid to Non-Associated countries is limited to agriculture, rural development and poorer regions (see Table 3). Grant funding can also be applied to local costs (with the exception of China). Mr. Fossati noted that EEC receives frequent communication from ADB on areas of possible cofinancing and cooperation but that contacts and visits from the World Bank's East Asia & Pacific staff have dwindled in recent years. I assured Mr. Fossati that the Bank was interested in working more closely with the EEC, both in project preparation and cofinancing of loans and credits. We exchanged information on Bank and EEC programs in the Region. I also met with EEC desk officers working on all AEN countries (See Annex III for summaries regarding talks on the Philippines, Thailand and Lao PDR).

Table 3: EEC - 1983 PROGRAM EAST ASIA AND PACIFIC
NON-ASSOCIATED COUNTRIES

Country	Million ECU*
China	6.0
Indonesia	21.2
Thailand	26.7
Philippines	0.002 (Dairy Study)

* US$1 = ECU 1.26

10. EEC has confirmed its interest in possibly cofinancing $10-15 million of the proposed Indonesia Central and W. Java Irrigation Project and would like to participate in the Bank's April-May preappraisal mission. (AEPA4 has subsequently sent the initiating Project Brief and

mission timing). EEC would also appreciate information on the Bank's proposed Indonesia Vocational Training Project and other vocational training projects in East Asia. I left Mr. Dona, EEC Thailand-Lao PDR Desk officer proposals for funding prefeasibility studies for Lao PDR Upper Nam Ngum II and preparation work and technical assistance components to the proposed IDA-assisted Lao PDR Telecommunications Project. EEC is examining a Bank proposal for funding the China Rural Water Supply and Sanitation Technical Advisory Center and is awaiting Chinese indication of the priority for this assistance.

11. EEC staff working on the Pacific Islands (Division D/2 - Caribbean and Pacific Island associated countries) would like to examine possibilities for EEC funding of project preparation. They welcome exchange of information on respective programs and wish to participate in donor coordination efforts. I noted that Mr. Dutt planned to visit the EEC shortly. I also received a positive reply to the proposal that EEC fund a study Coordinator for the Vanuatu Education sector studies, pending of course, official government request (which subsequently the Vanuatu Government has decided not to submit). EEC would nevertheless like to be included in the Vanuatu Education Sector Donors' Roundtable later this year.

Table 4: EEC NATIONAL INDICATIVE PROGRAM 1984 FOR ASSOCIATED COUNTRIES IN EAST ASIA AND PACIFIC
(million ECU*)

Country	Lome I (1975-1980)				Lome II (1980-1985)			
	Total	Grant	Special Loan	(%) Disb.	Total	Grant	Special Loan	(%) Disb.
Papua New Guinea	10.0	6.5	3.5	95	23	14.8	8.2	46
Fiji	9.9	3.2	6.7	100	13	13.0	-	71
Solomon Islands	10.7	10.7	-	85	12	12.0	-	46
Western Samoa	4.6	4.6	-	98	6.2	6.2	-	92
Vanuatu	2.8	2.8	-	67	4.5	4.5	-	91

* US$1 = ECU 1.26

Note: EEC also has aid programs to Tonga, Tuvalu, Kiribati and Overseas Territories of EEC member states (French Polynesia, New Caledonia, Wallis and Futuna).

12. Judging from this visit, I would suggest that both Projects and Programs staff seek closer contacts with their EEC counterparts. Development Departments in the General Directorate for Development (DG VIII) are organized chiefly on a country basis. AEN countries are handled by two divisions (D/2 and D/3). A small Technical Division

(D/4) within this department gives specialized sector expertise to the three country divisions. The technical Division is divided into agriculture, rural development and infrastructure (transport, water, urban and social sectors). Organization charts, directories and general material on EEC as well as equivalent material for other bilateral and multilateral organization are available from office (See Annex V).

IFAD

13. I met with Mr. Benjamin, Director IFAD Project Management Department, Asia Division and staff working on AEN countries. The scope of IFAD's future operations is uncertain due to current difficulties in its replenishment. Given the recent sharp reduction in funds available, IFAD officials have intensified their search for cofinancing of IFAD-initiated projects. During my meeting with Mr. Benjamin and his staff, we discussed the IFAD-initiated Indonesia Second Livestock Project. The Bank recently appraised the project for IFAD, acting as cooperating institution under the IFAD/World Bank Agreement in which IFAD reimburses the Bank for technical assistance in appraising and supervising its projects. In view of the financial requirements of the project, IFAD officials seek cofinancing and agree that, should the Bank cofinance the IFAD-initiated Indonesia Second Livestock, IFAD would bear the appraisal costs. After the Bank's decision on supporting the project is taken, the project could become a regular Bank-assisted lending operation within the Region's work program.

14. IFAD is preparing a small project in North Fiji which will not require Bank assistance. The Bank as cooperating institution is presently preparing an IFAD-initiated PNG Food and Nutrition Improvement Project. IFAD staff raised the possibility of merging the two prospective IFAD and Bank projects in PNG. IFAD staff would like to participate in the forthcoming IFAD China Hubei Agricultural Project supervision mission to be undertaken by the Bank as cooperating institution. IFAD also intends to request Bank staff services under the IFAD/WB Agreement to supervise FAO IC preparation of an IFAD-initiated China Guangdong Freshwater Fish Culture Project. Concern was expressed about slow implementation of the Lao PDR Agricultural Production Support credit cofinanced by IFAD and IDA. IFAD has been asked by the Thai Government to finance a Thailand Communal Irrigation Project to be constructed, owned and managed by farmers so as to avoid O&M problems (UNDP has provided $300,000 for project preparation). IFAD official cited their reluctance to cofinance the Korea Agricultural Credit Project and concern with possible objections by their Board to using scarce resources on Korean projects, given Korea's level of development and access to funds. Finally, IFAD officials also inquired as to possibilities for more flexibility in the Bank's cost-sharing guidelines for the Philippines, in recognition of the current crisis.

World Food Program (WFP)

15. In Rome, I met with Messrs Ahmed, Deputy Executive Director, Cashin, Director, Pronk, Acting Director and staff of the WFP Project

Management Division. Discussions centered on possibilities for food-for-work cofinancing of Bank-assisted projects in East Asia as well as mechanisms for sales of commodities to generate counterpart funds for Bank-assisted projects. China remains the largest recipient of the WFP shipments (25%) world-wide. The WFP has a heavy pipeline of projects in China but is pleased with the $10 million cofinancing of food-for-work on the China Rural Water Supply I Project and would be happy to examine more proposals. Since China is nearing self-sufficiency in cereals, WFP is exploring a possible shift from wheat to dairy products. Proposals for cofinancing with the WFP in China should focus on poorest areas which are also food deficit and if possible avoid complicated logistic problems since WFP does not pay internal transport costs. Staff should keep in close contact with the WFP China representative in Beijing, John Murray (the Deputy UNDP representative).

16. WFP staff are very interested in cofinancing the Bank-assisted proposed Indonesia Transmigration VI Project. WFP is already heavily engaged in Indonesia transmigration projects in Kelimantan & S. Sumatra and provides food during land clearing and burning phases and in second stage rehabilitation. Mr. Muller, WFP Division Chief for Asia & the Pacific would welcome an Indonesian request for WFP cofinancing of the Bank's next transmigration project or ongoing projects. He hopes that the Indonesian authorities understand that the WFP contribution would be counted towards the local contribution and would not reduce the amount of Bank funds available for the project. He asked if Bank staff could possibly clarify this point during supervision or when discussing Transmigration VI with the Indonesian authorities. The WFP has one ongoing Lao PDR Forestry Development Project for $1.5 million which is experiencing slow implementation. WFP has a representataive in Vientiane.

17. Mr. Muller, Division Chief also requested additional information on possible WFP cofinancing of the proposed Philippines Mindanao Rural Development Project. The Philippines Government has requested typhoon relief from the WFP. WFP staff would like to develop a comprehensive post-emergency rehabilitation project with a five year commitment that allows approval of individual small projects by field staff. WFP staff were skeptical about the feasibility of a dried skim milk powder project in the Philippines to generate counterpart funds for a Bank-assisted project. They stressed that most WFP aid is emergency relief or used for development projects as food-for-work. Any sales of commodities are watched closely and strictly controlled. Milk powder, if sold would have to be used on dairy/livestock projects, the purpose being a temporary assistance (pump priming) while incremental dairy production is developed. As regards the Philippines, staff cited problems of pricing, limited administrative capacity and (though not insurmountable) donor objection - in this case Australia. Amin Ramadan and I followed up on the discussion last week with Mr. Nastorg, Division Chief for WFP West Africa who was visiting Washington. He too confirmed the WFP proceeds very gingerly on sales of commodities to generate counterpart funds for development projects. He did admit however that just as milk powder might be sold to generate counterpart funds for a

justifiable dairy project, other WFP commodities might also be considered for sale (although no precedent yet exists) if the case could be made for incremental production of that specific commodity through the project so assisted. World Food Program commodities include the range of cereals, rice, dairy products, edible vegetable oils and some dried/canned fish or meat. Commodities provided must adhere to local tastes and care must be taken to avoid creating demand for new products.

Attachments:

ANNEX I	Notes on Official Bilateral Agency Interest in East Asia and Pacific Region
ANNEX II	List of Agencies Visited and Persons Met
ANNEX III	Cofinancing Prospects by Country - Philippines, Thailand, Lao PDR
ANNEX IV	Follow-up Letters to Agencies
ANNEX V	Documents and reports received

cc: Messrs. A. Karaosmanoglu o/r, S. Kirmani o/r, O. Yenal o/r,
A. Bhattacharya, J. Adams, AEN Assistant Directors
AEN Division Chiefs
AEN Cofinancing Specialists
A. Vorkink, J. Taylor (LEG); D.C. Rao (AEFIN), Q. Hermans (AEFTH)
Messrs Goldberg, Segura, Rowat, Stern, McCarthy, Bharier (EIS),
I. Husain, PHN
F. Vibert, o/r, U. Kiermayr (VPCOF)
East Asia Files

cc: W/o attachments: Regional Cofinancing Coordinators

LSchaeffer:sd/jdw/ba (M-VP45)

Country/Agency — Notes on Bilateral Interest in East Asia and Pacific Region

GERMANY

GTZ
(Tech. Coop.)
(Duestsche Gesellschaft fur Technische Zusammenarbeit)

A. CHINA - Technical Cooperation DM 12 million; Financial Cooperation DM 15 million
Tropical, rainfed and irrigation agriculture; forestry
Power/Energy - coal, oil, renewable, energy saving
Institution building - standards, technical assistance for testing
Traffic studies, transport - rail, road (buses and inland waterways)
Vocational Training
Health

B. INDONESIA - Transmigration (E. Kalimentan, W. Sumatra)
Overseas Training (shipbuilding)

C. KOREA - Forestry, Vocational Training

D. PACIFIC ISLANDS - Technical Assistance (plant protection, maritime in W. Samoa)
Fiji (forestry T.A.)

E. LAO PDR - No program (Lao PDR does not recognize Berlin)

F. THAILAND - Technical Cooperation DM 18 million yearly

G. PHILIPPINES - Technical Cooperation DM 12.5 million

KFW
(Kreditanstalt fur Wiederaufbau)

A. CHINA - 1985 first year of activity; loans for small factory modernization

B. INDONESIA - Water supply, coal-fired steam power on W. Sumatra; has cancelled an irrigation project in W. Sumatra. Mixed credit problems from export credits decree. As a "middle income" country, Indonesia receives German soft loans on standard terms - 2% interest, 10 years grace and 30 years maturity.

C. PHILIPPINES - about DM 25 million/yearly; project funds have been reprogrammed as BOP and commodity aid; active in telecom. (Manila & Visayas) Manila resettlement, 1985 program uncertain - would wish to continue in telecommunications and interisland infrastructure; feasibility study Mindanao local dispatching center; grain storage

Implementation Problems: only 10% of DM 30 million commodity loans were drawndown by end 1984; decision to postpone and cancel new commitments and to finance 100% of Manila Resettlement project (Das Marinos) and Island Electrification due to severe government underfunding; S. Leyte resettlement project also faces security problems and lack of overall plan from Ministry of Agrarian Reform - of DM 24 million less than DM 1 disbursed

D. THAILAND - Power (EGAT); DFC, railways (airbrakes, workshops, locomotives, passenger cars, hopper wagons); telecommunications (E. Seaboard); steel; Thai Govt. desires shift of German aid funds from EGAT projects to soft sectors such as agriculture, irrigation, rural development, eater supply and sanitation. As a "middle income" country, Thailand receives German soft loans on standard terms - 2% interest, 10 years grace and 30 years maturity.

E. KOREA - Technical Cooperation about DM 9-10 million/yearly
Financial project phasing out; no new commitments
Technical cooperation continues (dairy, health, forestry, vocational training)

F. MALAYSIA - no longer active

G. PNG - two ongoing projects in Water Supply and Sewerage and Roads; no new funds committed in past four years

H. WESTERN SAMOA - Water Supply project (Apio) cofinanced with Saudi Fund and New Zealand

I. Other Pacific Islands - no programs except for Tonga

Country/Agency

Notes on Bilateral Interest in East Asia and Pacific Region

UNITED KINGDOM

ODA (Overseas Development Administration)

Country	Total Aid	Technical Cooperation	Financial Cooperation
China	.2	.2	-
Indonesia	12.4	3.8	8.5
Korea	.07	.07	-
Lao PDR	-	-	-
Malaysia	3.9	2.2	1.7
Philippines	3.7	.2	3.5
Thailand	5.5	1.1	4.4

A. INDONESIA

1) Technical Cooperation: about $8 million grant aid/disbursed in 1984

- Groundwater Resources Planning and Development
- Land Resources Planning and Development, including transmigration, mapping, surveying and geological mapping
- Grain Storage and Post-Harvest Technologies; Pest Control
- Power-hydro, coal, diesel-generation and transmission
- Public Administration Management and Financial Services Training
- English Language Training - in country and overseas

2) Financial Cooperation: only 1 small mini-hydro scheme

3) Aid and Trade: proposed $1.5 billion Bilateral Line of Credit with 25 percent grant element for Technical Cooperation and mixed credits (ECGE guarantee of export credits) blocked by recent Indonesia export credits decree

B. CHINA

1) Technical Cooperation: $1.5 million began this year; $2-2.5 million for 85/86 with subsequent future growth likely

- English Language - Training of Trainers
- Energy - Coal, Oil, Gas
- Communications - Highways
- Steel Industry

2) Financial Cooperation: Discussions should initiate shortly for an initial annual allocation of about $10 million

3) Aid and Trade - nothing as yet

C. Other ASEAN Countries

1) Thailand) only technical cooperation of $1.2-1.3 million/yearly of
Malaysia) which 65 percent is training in U.K.

2) Philippines)- only training at $20,000/yearly
Korea)

3) Lao PDR - no ongoing bilateral program

D. Pacific Islands and PNG *

Tentative 85/86 Aid Proposals	Technical Cooperation $	Financial Cooperation $
Vanuatu	2.7 million	3.8 million
Solomon Islands	3.0 "	1.5 "
Fiji	1.2 "	none
W. Samoa	.03	none
PNG	none	none

(Note: PNG aid requirement regulations have caused difficulties.)

* At present total ODA aid to Pacific Islands (including Tuvalu and Kiribati) equals about $13 million capital aid and $10 million Technical Cooperation; likelihood of future cut in capital assistance and shift of projects to EEC funding.

Technical cooperation has focused on Education Development, Fisheries, Forestry, Agriculture, Transport, Health and Institution-building.

CDC (Commonwealth Development Corporation)

A. INDONESIA - Tree Crops, Hydroelectric

B. THAILAND - IFCT, Tree Crops

C. PNG - Sugar, Oil Palm and Cocoa Development

D. VANUATU - Cocoa Estates and Processing (cofinanced with French Caisse Centrale (CCCE)

E. SOLOMON ISLANDS - Oil Palm and Cocoa Development

F. FIJI - Citrus, DFC, Power, Sugar, Lumber, Steel

G. MALAYSIA - Plantation (problems with Malayanization policies)

H. PHILIPPINES - ongoing Mindanao (Agusan del Sur) oil palm project encountered security problems and human rights violation accusations related to land titling, compensation and workforce treatment

I. CHINA - no CDC mandate from ODA for work on China, Korea, India or Pakistan; CDC likely to enter India before China

Country/Agency

Notes on Bilateral Interest in East Asia and Pacific Region

FRANCE

Ministry of Finance (grants, loans & export credits)

COUNTRY	GRANT ELEMENT	1983 LOAN COMMITMENTS (US$ million)	COMMENT
INDONESIA	44%	67.5	Key area of interest
MALAYSIA	37-40%	18.2	
THAILAND	35-41%	29.2	
PNG	40%	-	
CHINA	-	-	No lending authorized as yet
KOREA	20%	-	No Korean interest
PHILIPPINES	?	-	No French interest (default)
LAO PDR	100%	-	No program due to Lao PDR default on prior loans

Ministry of External Relations DGRST & SCD (Technical Cooperation)

Total Technical Cooperation Aid to Asian Countries 1984 = FF 129 million

VANUATU - about 50 million (mainly education)

INDONESIA - 21 million

LAO PDR - French Embassy reopened in 1982, some possibilities for technical cooperation only

CHINA - handled through DGRST as "developed" country - no economic technical assistance

THAILAND - education, industry, water, agricultural, power, community development

CCCE (Caisse Centrale de Cooperation Economique)

VANUATU - only active country in AEN Region; FF 22 million 83/84, could double; 4 projects funded from special window with 30 years maturity including 10 years grace and 1.5%-2% interest

Pipeline - airfield upgrading, small harbor facilities, Coconut Plantation Rehabilitation DFC Line of Credit, Power Station

BELGIUM

AGCD (Tech. Coop.) (Administration Generale de la Cooperation du Developpement)

A. INDONESIA

Technical Cooperation $4-6 million grant aid/yr
State Loans about $6 million - no interest, 10 years grace and 20 years repayment (tied)
Export Credits $190 million (mixed credit package affected by recent export credit decree)

B. CHINA

One of first countries to give soft loans to China in power, telecommunications
Technical Assistance (about $4 million) in Port Training, Coal, Power, Railways (Belgium will set up Railway information and database training center), medical (pharmaceutical); non-ferrous mining
Export Credit Line for $190 million

C. MALAYSIA

No Technical Cooperation Program
Now negotiating mixed credit scheme of export credits plus concessional state loans (2%, 10 years grace, 20 years maturity) for export credits and equity investments for rubber plantation and palm oil development

D. PHILIPPINES

No Technical Cooperation Program
State to State concessional soft loans (no interest, 10 years grace and 30 years maturity) and export credits for Manila mass transit project; Diamond Board and some industrial projects; ongoing pulp and paper project

E. THAILAND

Technical Cooperation about $3 million annually; could be increased
Huai Mong Irrigation, ($5.2 million) Agro-industry, cassava, dairy, livestock T.A.
State loan for zinc refinery, some minor telecom projects
Almost all ongoing projects end by December 1985
Total aid envelope $8 million/yr could be increased if Thai Government desires
Export Credits - Open line

F. PNG - Interest only in refinery

G. PACIFIC ISLAND - No program

H. LAO PDR - No program

ITALY

DCD Ministry of Foreign Affairs (Development Cooperation Department)

A. INDONESIA

- Power - generation and transmission
- Irrigation - groundwater resources, pumps, tubewells, dams structures
- Fisheries
- Telecommunications

B. CHINA

- Power, energy
- Port development
- Irrigation

LIST OF AGENCIES VISITED AND PERSONS MET

I. MULTILATERAL AGENCIES

EEC - European Economic Community, Brussels, Belgium

Emilio FOSSATI	Division Chief Non-associated Countries Division Development Department (DG VIII, Div. 3)
Mario FERRUCCI	Philippines Desk Officer (DG VIII, Div. 3)
Giorgio DONA	Thailand, Lao PDR Desk Officer (DG VIII, Div. 3)
Mendel GOLDSTEIN	China Desk Officer (DG VIII, Div. 3)
Karl BORGOLTZ	Indonesia Desk Officer (DG VIII, Div. 3)
Serge NAINE	Vanuatu, Solomon Islands Desk Officer Caribbean and Pacific Division (DG VIII, Div. 2)
Steffen STENBERG	Fiji, PNG, W. Samoa Desk Officer (DG VIII, Div. 2)
Richard ARNDELL	Pacific Island Regional Programs (DG VIII, Div. 2)
Brian KENDALL	Cofinancing Officer (DG VIII/4)
Frank HESSKE	Asia Desk Officer External Relations Department (DG I, Div. C)
Jean-Michel CORRE	Coordination Officer External Relations Department (DG I, Div. D)

IFAD - International Fund for Agricultural Development, Rome, Italy

MacDonald BENJAMIN	Director, Asia Division
David RENDALL	PNG-Pacific Islands Desk Officer
Mohammed FAISAL	Thailand, Philippines, Lao PDR and Korea Desk Officer
M. TUNGUL	Indonesia Desk Officer
R. MAJID	China Desk Officer

I. MULTILATERAL AGENCIES - Contd.

WFP - World Food Programme, Rome, Italy

Salahuddin AHMED	Deputy Executive Director
R. M. CASHIN	Director, Project Management Division
Fritz PRONK	Acting Director, Project Management Division
R. MULLER	Division Chief, Asia and Pacific Branch
Angela Van RYNBACK	Philippines and Indonesia Desk Officer
Roger de BRISIS	China Desk Officer
J. RITCHIE	Asia and Pacific Desk Officer

II. BILATERAL AGENCIES

BELGIUM

Ministry of External Relations and Development

Ambassador Jan F. M. HENDRICKX	Head, Cofinancing with the World Bank
M. ARNOLD	Division Chief, Bilateral Loans
M. PEETERMANS	Division Chief, Multilateral Loans
M. CAUWET	Foreign Trade Institute (Procurement Matters)
M. FRANCOTTE	Personal Assistant to the Belgian Secretary of Commerce
M. Van EYKEN	Export Credit Agency, Studies Department
M. B. JEHIN	Export Credit Agency
M. Marc FRANCK	International Monetary and Finance Department

AGCD - Administration Generale de la Cooperation du Developpement

P. FRIX	Division Chief, Multilateral Division
Ms. Sonja GERLO	Director, Bilateral Aid Department

II. BILATERAL AGENCIES - Contd.

FRANCE

Ministry of External Relations

1) Department of Cooperation and Development (SCD)

Jean NEMO	Deputy Director
Nicole BLACK	Division Chief, Thailand, Korea, Philippines, Lao PDR, Malaysia Division
Corinne BEDO	Training Coordinator, Indonesia, Vanuatu, Fiji, PNG Division
Michel FLESCH	Development Projects Officer

2) Department of Scientific, Technical and Cultural Affairs (DGRST)

Giledas Le LIDEC	Coordinator, Asia and Pacific Division
Rodolphe de VEYRENES	Desk Officer, Asia and Pacific Division

Ministry of Finance

Thierry AULAGNON	Director, Treasury Loans Department
Patrice RAUT-MADOUX	Officer, Treasury Loans Department

CCCE - Caisse Centrale de Cooperation Economique

Jacques VICO	Director, East Africa, Middle East and Asia Department (VANUATU only)
Bernard LARFEUIL	Counselor, East Africa, Middle East and Asia Department (VANUATU only)

II. BILATERAL AGENCIES - Contd.

GERMANY

BMZ - Bundesministerium fur wirtschaftliche Zusammenarbeit
(Ministry of Economic Cooperation)

a) South East Asia Division

K. WUESTERMAN	Division Chief Philippines, Indonesia, Pacific Island, PNG
Reiner KRAETSCH	Philippines Desk Officer
Bodo WALTER	Indonesia Desk Officer
B. PALLMAN	Division Chief Lao PDR, Burma, Vietnam, Cambodia, Thailand, Korea
Heinz OBERMULLER	China Desk Officer

b) Multi-Lateral Development Banks Division

Gerhard BOEHMER	Division Chief
Uwe HENRICH	Deputy Division Chief

KFW - Kreditanstalt fur Wiederaufbau (Financial Cooperation)

Karl A. KERN	Director, Regional Dept III Asia and Oceanic
Wolfgang VOSS	Division Chief Thailand, Lao PDR, China, Korea (Burma)
Jurgen Reinhard TREDE	Division Chief Philippines, Indonesia, PNG & Pacific Islands (Tongo, W. Samoa)

GTZ - Deustsche Gesellschaft fur Technische Zusammenarbeit (Technical Cooperation)

Helmut SINN	Director Regional Department
Dieter BUCHER	Projects Coordinator Special Projects Division

II. BILATERAL AGENCIES - Contd.

ITALY

DCD - Development Cooperation Department

Francesco ALOISI	Director, Multilateral Department
Giovanni MONTECCHI-PALAZZI	Deputy Director, Multilateral Department
Rosina SALERNO	Trust Funds Division
Giovanni FERRERO	Division Chief, East Asia and South Asia Bilateral Aid Department

UNITED KINGDOM

ODA - Overseas Development Administration

Ralph L. BAXTER	Head, East Asia Department
David CRAXTON	Head, ASEAN Countries Section, East Asia Department
E. GILES	Desk Officer, Pacific Islands

CDC - Commonwealth Development Cooperation

Adrian KERWOOD	Deputy General Manager, West Africa and Asia
David STEVEN	Head, External Relations Department
R. HOYLE	Assistant Deputy Manager Pacific Islands, Caribbean and Latin America Department

III. FRENCH COMMERCIAL BANKS

Banque Nationale de Paris (BNP)

Thierry COUSSIEU	Area Manager for South-East Asia Asia-Pacific Division

Credit Lyonnais

Vincent DEHAIS	Director, Asia and Pacific Division
Pierre-Yves DIVISIA	Division Chief, Asia and Pacific Division

Societe Generale

Jacques PATAIN	Director, Asia Department

Banque Indosuez

Michel MOREAU	Senior Vice President

Banque Paribas

Jean-Philippe LALOY	Head, International Relations Department

Credit Commerciale de France

Francois LOMBARD	Vice-President
Didier BAILLET	Vice-President

Cofinancing Prospects by Country

1. PHILIPPINES
2. THAILAND
3. LAO PDR

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE February 21, 1985

TO Mr. A. Karaosmanoglu, AENVP

FROM L. Schaeffer, AEN RCC

EXTENSION 76897

SUBJECT Cofinancing Prospects - Philippines

1. As background for your forthcoming meeting with Prime Minister Virata in Tokyo, you may find helpful the following summary of cofinancing information concerning the Philippines collected during my recent talks with multilateral (EEC, IFAD and WFP) and bilateral (U.K., German, French, Italian and Belgian) agencies in Europe. As I already indicated to you, I found almost all the 12 agencies I visited eager to intensify collaboration with the World Bank, willing in many cases to finance consultants to accompany Bank missions, amenable to consider proposals for funding project preparation or other studies on a case by case basis or to cofinance Bank-assisted loans/credits in selected sectors in some of our borrowing countries.

2. While there was almost universal interest in closer collaboration with the Bank's work in Indonesia in particular, followed by Thailand and China, bilaterals were generally hesitant about aid to the Philippines and multilaterals also acknowledged diverse implementation problems.

Bilateral Agencies

3. Officials in bilateral agencies voiced genuine concern as to the Philippines capacity to implement ongoing projects and their own general reluctance to expand assistance at the present time. The German KFW and the British CDC have both experienced security-related problems with their ongoing projects. The CDC oil palm project in Minanao has also encountered human rights violation accusations related to land titling, compensation and workforce treatment and considerable local political opposition. KFW noted that it has cancelled or reprogrammed many of its commitments as BOP or commodity aid. German officials were concerned that less than DM 1 million of DM 30 million commitments were drawndown by the end of 1984. To resolve the issue of severe government underfunding, KFW increased financing of its Manila resettlement project to 100 percent. The German-assisted South Leyte project has faced both security problems and lack of a comprehensive plan which the Ministry of Agrarian Reform was to have prepared.

4. The Philippines is not an area of bilateral aid interest for the Italian DCD (the issue of human rights violations was given as one obstacle). Neither does Belgium have a technical cooperation program with the Philippines although there are some state to state concessional soft loans (no interest, 10 years grace, 30 years maturity) tied to export credits for Manila mass transit. (There is also ongoing Belgian involvement in the diamond board and some small industrial projects.) The French aid agencies I visited were cool on assisting the Philippines and cited their concern with Philippines default on prior French loans.

Multilateral Organizations

5. Some officials of the World Food Programme (WFP) recognize a need to develop an umbrella-type comprehensive typhoon relief program but no such policy has yet been worked out which would address problems of logistics, fragmented sites, administrative weaknesses on the part of Philippines counterparts, etc. I discussed possibilities for WFP approval of sale of dried skim milk powder to generate counterpart funds for dairy or cattle sector development. The response was generally negative, problems of pricing policy, administrative capability and donor country objections (Australia) being cited. Instead, the WFP would welcome more detailed proposals for cofinancing with food-for-work schemes on World Bank-assisted projects in the Philippines and mention was made of follow-up from Mr. Cleave.

6. IFAD is preparing a communal irrigation project in West Pangasinan Uplands, is interested in possible World Bank cofinancing and inquires as to what degree of flexibility exists on the Bank's cost-sharing policies re: the Philippines.

7. EEC grant aid to the Philippines could range from $7-10 million yearly. EEC can provide emergency as well as developmental food aid; the amount of 1985 direct food aid to the Philippines still remains in doubt due to a 40 percent reduction in the overall EEC food aid program; food aid to the Philippines in 1985 is likely to be only emergency-related (typhoon). Deputy Minister of Agriculture Sakay did request development food aid to finance dairy development. The EEC has financed one Indian study and is financing a Danish team to explore this possibility but doubts (similar to those expressed by the World Food Programme) have arisen. The EEC hopes to support an integrated rural development project in Aurora Province (about $7 million) and is examining the possibility of commodity aid (fertilizer) to help NCAID to provide counterpart funds. EEC officials are concerned that their funds be targetted clearly to the ultimate beneficiaries. Apart from rural development, the EEC would be interested in working with the World Bank in the rural drinking water sector.

Commercial Banks

8. While in Paris together with Bernard Snoy, Amin Ramadan and Regina Bendokat I met with senior officials of leading French Banks--Societe Generale, Paribas, Credit Lyonnais, Banque Indosuez, Banque Nationale de Paris, to discuss commercial cofinancing prospects in East Asia and Pacific and the Philippines in particular.* All bankers appeared skeptical as to short and medium-term economic prospects in the Philippines, and the potential for success of current stabilization policies. They were particularly worried with the outlook for political stability. They described their position as being "forced" through rescheduling to continue exposure in the Philippines, although acknowledging that they may have been overanxious to extend credit in the past.

* I also met separately with vice presidents of Credit Commerciale de France.

cc: Messrs. G. Kaji, S.S. Kirmani, A. Sonmez, J. Blaxall (o/r), K.G.V. Krishna, I. Sud, A. Ramadan
East Asia Files

LSchaeffer:bp

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE February 22, 1985

TO Mr. A. Cole, Division Chief, AEASE

FROM L. Schaeffer, AEN RCC

EXTENSION 76897

SUBJECT Cofinancing Prospects - Thailand - Notes for your forthcoming mission

1. Since you are leaving shortly on mission, I attach a summary regarding prospects for collaboration on Thailand with the 10 bilateral and three multilateral agencies I visited earlier this month in Europe. The most interesting potential sources of grant funds for project preparation, technical assistance or consultants for Bank missions appear to be the EEC, the German GTZ and KFW and the Belgium AGCD. Please note that all the above might have grant funding that could be blended with projects we assist in agriculture, rural development and possibly water supply. I suggest we keep in close contact with the EEC delegation in Bangkok, even though their headquarters did say that key policy decisions are made in Brussels. CDC continues to be interested in cofinancing a rubber replanting project. While the Italians presently have no cofinancing interest in Thailand, by April the Bank should have a $2 million special Italian fund to cover all costs of Italian consultants accompanying Bank missions, (with no Italian review of our consultant selection, country or sector of interest).

Timing of Mr. Karaosmanoglu's Bangkok and Tokyo Visits

2. I will shortly be contacting our Tokyo Office regarding their arranging Mr. Karaosmanoglu's visit to Japanese Ministries and OECF on May 6 and 7. This means that he will be leaving Bangkok by Sunday, May 5, at the latest. He hopes to meet with the Regional Mission staff in Bangkok on Monday, April 29 and leaves the decision on his meetings, if any, with Thai Government officials to you and Quill Hermans.

Attachment

cc: Messrs. A. Karoasmanoglu (o/r), G. Kaji, S.S. Kirmani (o/r), A. Davar, J. Blaxall (o/r), R. Wadsworth, I. Sud, K. Kikuchi.
East Asia Files

LSchaeffer:bp

THAILAND

Multilaterals

1. EEC - The main objective of the EEC aid program to Thailand is crop diversification away from cassava (threat on EEC market); EEC's current five year aid program to Thailand ending in 1985 called for about $2 million yearly of assistance. Instead about $15 million of EEC grant aid has been given yearly. EEC would like to reduce its annual aid in next negotiations but since cassava production has not declined, it is likely that the annual aid will continue near present level.

   EEC is going ahead with Agricultural Support Services project (will grant about $2 million) for a pilot project.

   EEC would welcome cofinancing and cooperation with the Bank, keeping in mind its two development objectives in Thailand; Cassava diversification for which about $21 million in grants will be available for 1985-1986 and normal grant aid to agriculture (irrigation subsector) of about $7 million in same period.

2. IFAD - IFAD about to initiate preparation of a communal-type irrigation project (using $300,000 UNDP grant funding) for which IFAD has drafted TORs. Private sector involvement maximized. Farmer should own, construct and manage to avoid cost recovery issues. Thais want soft funding or grants for this project. (IFAD currently considers Thailand, Indonesia and Philippines eligible for intermediate window with lending terms of four percent interest, 20 year maturities and five years grace.)

3. WFP - No program

Bilaterals

1. GERMANY - Technical Cooperation funds average about $6 million/year; GTZ and KFW active and interested in many sectors (Power-EGAT; DFC, railways, telecommunications, steel. Please note that the Thai Government has indicated to KFW that German aid funds should be shifted away from EGAT projects (which can take harder terms) to soft sectors such as agriculture, irrigation, rural development, water supply and sanitation. (We may therefore try to blend grant funds available in these sectors in our project T.A. and in project preparation.)

2. UNITED KINGDOM - ODA has a $1 million/yr training program (mainly in UK) ongoing for Thailand; CDC is active in tree crops (potential cofinancing of Rubber Replanting III (FY86) and is examining lending to IFCT.

3. BELGIUM - Technical cooperation agency (AGCD) very interested in cooperating with the bank and possibly funding preparation and technical assistance in projects in agriculture and agro industries; possibility to increase Belgium's current $3 million technical cooperation level.

4. FRANCE - In 1985, France will probably disburse about $50 million in aid to Thailand which is eligible for about 35-41 percent grant element. French technical cooperation interest in Thailand is in education, industry, water, agriculture, community development and power. French technical cooperation grant funding to all Asian countries in 1984 totalled only $14 million, of which nearly 40 percent went to Vanuatu; therefore grant funds for project preparation from France not likely to amount to much.

5. ITALY - No Thailand interest at present; however the Bank is about to sign an agreement with Italy which will provide $2 million to fund salaries, travel, per diem, etc. of Italian experts on Bank missions.

LSchaeffer
February 22, 1985

February 20, 1985

To: Carroll Long, AEASE
From: L.Schaeffer,RCC
Subject: Your mission to Lao PDR - Cofinancing and Cooperation possibilities

1. During my mission to 10 bilateral and 3 multilateral European aid agencies in early February, I inquired as to possibilities for cofinancing or cooperation with IDA-assisted projects in Lao PDR. While the bilateral response was very weak (only the British ODA may be interested), I did find the EEC interested in receiving more detailed information on both the Telecommunications and the Upper Nam Ngun proposals for assistance.

2. For your information on your forthcoming mission to Lao PDR, I attach:

a) a sample EEC report prepared for the Commission's approval of aid to a project in Lao PDR (as indication of type of information necessary);

b) a summary of bilateral and multilateral reaction to my request for cofinancing assistance for IDA-assisted projects in Lao PDR

Attachments

cc: T.Cole, S.Bhatnagar (AEN)
R.Stern (IND)
E.Asia Files

FOLLOW-UP LETTERS

TO

AGENCIES

The World Bank / 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 393-6360 • Cables: INTBAFRAD

March 4, 1985

Ambassador Jan F. M. Hendrickx
Ministere des Affaires Etrangeres
2 rue des Quatre-Bras
1000 Brussels, Belgium

Dear Ambassador Hendrickx:

It was a pleasure to meet last month with you and Belgian officials from the Foreign Relations Ministry and other agencies, concerned with aid, technical cooperation and export credit assistance to East Asia and Pacific countries. I appreciate your efforts to assemble representatives of varied Belgian agencies who share interest in implementing the Belgian cofinancing frame agreement with the World Bank.

I subsequently met, as you had advised, with Mr. Frix of the AGCD who introduced me to Madame S. Gerlo, head of AGCD's bilateral technical cooperation program. We reviewed the Belgian current and prospective technical cooperation programs and countries and sectors of Belgian cofinancing interest in East Asia Region. Madame Gerlo confirmed what had generally emerged from the round table you had organized, i.e., that in East Asia and Pacific Region, World Bank-Belgian cofinancing projects should be sought in the China, Thailand and Indonesian programs, the emphasis in China being on the coal, non-ferrous mining, railway, port and telecommunications subsectors.

As we agreed, I am forwarding this information to Bank staff working on these countries and sectors. I have also asked staff concerned to provide more detailed information on prospective World Bank-assisted projects in the coal subsector in China and have recently spoke with Mr. Shakin of BME in this regard.

Thank you once again for coordination of my visit to the Belgian Foreign Relations Ministry.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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February 20, 1985

Mr. A. Pilegaard
Division Chief
Caribbean and Pacific Islands
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

Dear Mr. Pilegaard:

I regret that your being away on mission prevented us from meeting during my visit to the EEC last week. I did have several very informative meetings with your colleagues Messrs. Naine, Stenberg and Arndell in which we reviewed EEC and World Bank programs in Papua New Guinea and the Pacific Islands.

I hope our respective efforts to secure funding for a coordinator for Vanuatu Education Studies will prove successful and that EEC funds will be available in this regard. Ms. Yvonne Jones of our Education Division is already following up on obtaining an official Government request to the EEC to fund the coordinator and, as suggested by Mr. Naine, authorization of EEC's direct contracting of the individual selected so as to expedite the process and ensure that a lead person will be in Vanuatu when the various education studies funded bilaterally and multilaterally begin this Spring. I am sure that during his scheduled visit in early March, Mr. Devbrat Dutt, our Division Chief, Malaysia, Papua New Guinea and the Pacific Islands will discuss this particular prospect with you and your colleagues, as well as regional and country specific aid coordination matters in the Pacific Islands and Papua New Guinea including a possible Round Table Education Sector Meeting in Vanuatu.

I have already given Mr. Dutt the material on EEC activities in the Pacific Islands which Messrs. Naine, Stenberg and Arndell so kindly provided me. I am noting to both our Programs and Project staff concerned EEC's possible interest in cofinancing to assist vocational/technical school development in the Solomon Islands and the education sector in Vanuatu, as well as agricultural and rural development in the islands and Papua New Guinea. I am also circulating the material Mr. Arndell provided me on EEC's involvement including the agricultural research work of IRETA of the USP.

As requested by your staff, I attach the recent Status Reports on IBRD/IDA-assisted projects in Papua New Guinea, Western Samoa, Fiji, Vanuatu and the Solomon Islands.

Once again my regrets at not having been able to meet you during my visit and my kindest regards and appreciation to Messrs. Naine, Stenberg and Arndell for their help and hospitality.

Yours sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosures

The World Bank
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February 21, 1985

Mr. Karl Borgoltz
Desk Officer
Indonesia
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

Dear Mr. Borgoltz:

It was indeed a pleasure to meet with you last week during my visit to the EEC and to reconfirm the possible interest of the EEC in cofinancing with the World Bank a Provincial Irrigation project in Central and Western Java. I trust you will shortly be receiving the background information on this project which I have asked Mr. Aizad Khan of our Indonesia Agricultural Projects Division to forward to you. Please contact Mr. Khan if you have further questions and to confirm when you will be able to join the Bank's preappraisal mission, currently scheduled for April 15-May 10, 1985. As we discussed, I have spoken to Mr. Khan of the possibility of EEC cofinancing of about $10-15 million of equipment, technical assistance and possibly civil works, the exact nature of the EEC component(s) to be determined during the course of preappraisal-appraisal.

I am also advising my East Asia and Pacific Region Projects Department colleagues of your interest in receiving information on possible projects in Indonesia for Agricultural Research (FY87) and Extension (FY86), since the EEC is currently assisting Indonesia Seed Farm development and the Government has recently requested replication of your ongoing project on other regional seed farms.

I am also asking staff concerned to forward information on a possible Indonesia vocational training project (FY86) which may be of interest for EEC cofinancing.

As we agreed, I attach a Status Report on ongoing World Bank-assisted projects in Indonesia. Once again, thank you very much for your kind cooperation. I hope we will be able to assist the Central and West Java Project or other projects in the irrigation subsector, agriculture or education sector in Indonesia.

Yours sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

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February 21, 1985

Mr. Giorgio Dona
Desk Officer
Thailand, Lao PDR
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

Dear Mr. Dona:

Thank you very much for meeting with me during my visit to the EEC last week. I am noting to World Bank colleagues concerned the nature and prospects for EEC aid to Thailand. I have also conveyed to Ms. Carroll Long, Lao PDR Senior Loan Officer, Mr. Sushil Bhatnagar, East Asia Energy Division and Mr. Stephen Ettinger, Industry Department the type of information you would need in order to assess whether the EEC could assist in either the final preparation or implementation of a proposed telecommunications IDA credit to Lao PDR or prefeasibility studies for a follow-up hydroelectric project on the Upper Nam Ngum River. I am asking them to follow-up on your request and have noted that EEC involvement would hinge on the rural development implications of the above projects.

For your information, I attach a copy of the most recent Status Report on IBRD/IDA-assisted projects in Thailand and Lao PDR.

Spero che le vacanze del Carnevale a Venezia siano state piacevoli. Di nuovo, La ringrazio per le Sue cortese attenzioni.

Sinceramente,

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

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February 22, 1985

Mr. Mario Ferrucci
Desk Officer
Philippines/DG VIII-Div. 3
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

Dear Mr. Ferrucci:

Thank you very much for your kind attention during my visit to the EEC last week. I found our discussion on EEC and World Bank programs in the Philippines most helpful. I am noting to my colleagues in the East Asia and Pacific Region the institutional and pricing problems the EEC has encountered in identifying a project suitable for possible sale of EEC milk powder to finance dairy development in the Philippines.

I am also flagging your request for information (re: location - timing, etc.) from a World Bank feasibility study regarding a north-south road construction in Aurora Province where the EEC Rural Integrated Development Program is located.

Finally I am alerting our staff as to EEC interest in collaborating with the World Bank on projects aimed to improve agriculture, rural development (including drinking water and sanitation) in the Philippines and advising them when on mission to contact, when appropriate, Mr. Benninson of the EEC Banghok delegation who closely follows your program in the Philippines.

I hope you will find useful the attached recent Status Report on World Bank-assisted projects in the Philippines. Cordiali Saluti,

Sinceramente,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

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February 22, 1985

Mr. Brian Kendall
Cofinancing Officer
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

Dear Mr. Kendall:

Thank you very much for organizing and reorganizing so patiently and efficiently my recent visit to the EEC. I am very pleased with the range of contacts made and I look towards improved World Bank and EEC collaboration in East Asia in general and possible cofinancing in the Pacific Islands, Indonesia, China and Lao PDR in particular.

I hope that you will also be able to assist Mr. Devbrat Dutt, our Program Division Chief for Malaysia, Papua New Guinea and the Pacific Islands who will be visiting the EEC about March 1st. Once again, thank you for all your efforts, the cofinancing material you have provided me and a most pleasant lunch together.

Yours sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

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February 22, 1985

Mr. Mendel Goldstein
Desk Officer
China/DG VIII-Div. 3
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

Dear Mr. Goldstein:

I enjoyed very much meeting with you last week and discussing the EEC and World Bank aid programs to China. I am referring to my Bank colleagues your interest in possible collaboration while noting the fact that EEC aid experience in China is relatively recent, limited in funding, and is confined principally to funding of technical assistance to projects aimed at agricultural and rural development (including rural roads and vocational education) in poorer regions.

I was pleased to note your interest in proposed EEC funding of the China Rural Water Supply and Sanitation Technical Advisory Center. I recognize that before any decision can be made you will first need to receive and examine this year's list of suggested EEC-assisted projects from your counterpart in the Chinese Ministry of Foreign Economic Relations and Trade but that the TAC project as outlined could fall within EEC-type of assistance to China. On our side, we will try to assess the priority the TAC funding is given by the Chinese authorities.

For your information I attach a recent Status Report on IBRD/IDA-assisted projects in China. Once again, it was a pleasure to meet you and I hope you will have a chance to meet other Bank staff working directly on China.

Yours sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

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February 22, 1985

Mr. Emilio Fossati
Head of Division 3, DG VIII
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

Dear Mr. Fossati:

Please accept my thanks for finding the time to meet with me during my EEC visit last week and for providing me with such a clear and detailed explanation of how EEC Development Aid to ASEAN and non ACP countries has evolved. From our talk and from my discussions with your staff, I am pleased to note that possibilities for EEC/World Bank cooperation and cofinancing may emerge in Indonesia and China, taking note, of course, that only parallel cofinancing would be possible in non ACP countries where EEC has stricter procurement regulations and that your aid program in China is basically restricted to technology transfer with no local cost criteria and limited funding.

After our meeting, I had a chance to see Mr. Brian Kendall who was able to give me a detailed printout of EEC cofinancing with member countries and non-member bilateral and multilateral institutions. For my part, I am sending information on current IBRD/IDA-assisted projects under implementation to your staff.

Once again, my appreciation for your kind attention and the assistance of your staff.

Cordiali Saluti,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

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February 22, 1985

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Cofinancing Officer
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

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Yours sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

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February 22, 1985

Mr. Mario Ferrucci
Desk Officer
Philippines /DG VIII-Div. 3
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

Dear Mr. Ferrucci:

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I am also flagging your request for information (re: location - timing, etc.) from a World Bank feasibility study regarding a north-south road construction in Aurora Province where the EEC Rural Integrated Development Program is located.

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I hope you will find useful the attached recent Status Report on World Bank-assisted projects in the Philippines. Cordiali Saluti,

Sinceramente,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

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February 22, 1985

Mr. Frank Hesske
Desk Officer
Asia/DG I- Div. C
Commission of the European Communities
200 rue de la Loi
1049 Brussels, Belgium

Dear Mr. Hesske:

Thank you very much for finding the time to meet with me to discuss EEC aid and trade policies in East Asia and the Pacific Region. I was pleased to note during my many meetings with EEC staff that there is a marked interest in exchange of information, coordination aid programs and possible cofinancing between our respective institutions. Once the current EEC reorganization decisions are implemented I look forward to working more closely with you and your colleagues.

Yours sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

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February 28, 1985

Mr. Karl A. Kern
Director
Regional Department III
Asia and Oceanic
KFW
PalmengartenstraBe 5-9
Postfach 111141
6000 Frankfurt am Main 11
Federal Republic of Germany

Dear Mr. Kern:

Thank you very much for finding the time to meet with me during my recent visit to the KFW. It was reassuring to note that even though KFW has faced a reduction in its worldwide financing cooperation budget of 40 percent over the past three years, neither the Philippines nor Thailand have been affected, Indonesia aid allocations have been only marginally reduced and that the current small sums allocated to China are likely to expand.

I have asked staff to contact you as to the exact timing of the Indonesia Bukit Asam supervision mission which KFW would like to join. I have also enquired as to the timing of the Indonesia Paiton power plant investment. We are currently scheduling a possible loan for Paiton Thermal Power Plant in our FY86 lending program with a tentative Board date of May 1986. However the Indonesian Government is presently reviewing estimates of demand for additional power and is likely to decide the staging of this investment by end April 1985.

I attach for your information a short description of a prospective Bank-assisted telecommunications project in Indonesia. On our side, Bank staff would appreciate information on KFW telecommunications activities in Indonesia.

I am also noting to staff working on East Asia and Pacific Region countries the possibility that KFW might be able to finance (from its own funds) German consultants to accompany Bank missions and the preparation of feasibility and prefeasibility studies for projects of possible German interest.

Thank you once again for your kind hospitality and my best regards to you and Messrs. Trede and Voss.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

INDONESIA - Telecommunications Project

Perumtel's investment program for the fourth five-year development plan is divided into two parts, a core program of about 320,000 lines to be completed by end 1987 and a further expansion program of about 700,000 lines to be started in 1988. Bank assistance, therefore, would be provided in two phases. The financing plan for the hardware requirements for the core program has been completed. Thus, the Bank's immediate assistance would focus on the technical and management assistance for Perumtel, particularly in the areas of overall project management, staff development and training, as well as the construction supervision on the outside plant and subscriber connection activities. Concurrently, the assistance for the preparation for the expansion program would be provided, which would include basic design and engineering work, and staff development and training activities.

For the expansion program, there exists some US$150-200 million of foreign exchange financing gap for hardware requirements. Although intensified efforts to identify cofinancing sources with attractive terms are expected to reduce this gap further, it is expected that there would still be a need for Bank financing of about $100-150 million for the hardware. In addition, the Bank assistance during the second phase would include further technical and managerial assistance, exact contents of which would be determined based on the experience gained during the earlier phase.

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February 28, 1985

Mr. Helmut Sinn
Director
Regional Department
GTZ
Dag-Hammarskjold-Weg 1-2
Postfach 5180
D-6236 Eschborn 1 bei Frankfurt/Main
Federal Republic of Germany

Dear Mr. Sinn:

I am writing to thank you for your kind attention during my recent visit to the GTZ earlier this month. I found the discussions of our respective aid programs extremely useful and hope that our common objective of increased cooperation in East Asia and Pacific Region will be realized.

Apart from GTZ's agreement to cofinance two China Projects in this current fiscal year (Coal I and Rural Water Supply I), I am pleased to note to Bank staff working on East Asia and Pacific Region, the interest of GTZ in cooperating with the World Bank primarily on projects in Indonesia, China, Thailand and the Philippines. I am also informing staff of possibilities for:

a) grants from GTZ for project preparation regarding the above four countries to be decided on a case by case basis; and

b) GTZ funding of German consultants to accompany Bank missions, noting that the Bank would be responsible for per diem consultant costs in the field as per your arrangement with Mr. Carnemark, Division Chief, East Asia and Pacific Region Transport I. I have also conveyed your request that staff proposals for GTZ funding of consultants should be channeled through my office to facilitate administrative matters for your organization and your interest in the education, health, agricultural development and health sectors.

Once again, my appreciation for your kind attention and my best regards to you and Mr. Bucher.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

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February 28, 1985

Mr. B. Pallman
Division Chief
Lao PDR, Burma, Vietnam, Cambodia
Thailand, Korea Division
BMZ
Karl-Marx-Strasse 4-6
5300 Bonn 1
Federal Republic of Germany

Dear Mr. Pallman:

I am writing to thank you for meeting with me on such short notice during my recent visit to Bonn and the BMZ. I found most heartening your confirmation of German interest in parallel cofinancing of World Bank projects and hope that we may be able to cooperate on forthcoming projects in Thailand which is the major East Asia country for which your office is responsible.

I have noted to staff working on Thailand, the possible German interest in funding prefeasibility studies or cofinancing projects in railways and telecommunications (traditional areas of German interest) and also in agriculture, irrigation, rural development, water supply and sanitation (other sectors indicated by the Thai Government for future German assistance).

I am also noting your plans to visit Washington in mid-September of this year.

Please feel free to contact me for further information. Kindest regards.

Sincerely,

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

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March 5, 1985

Mr. Heinz Obermuller
China Desk Officer
BMZ
Karl-Marx-Strasse 4-6
5300 Bonn 12
Federal Republic of Germany

Dear Mr. Obermuller:

It was a pleasure to meet with you during my recent visit to Bonn and to discuss the World Bank and German aid programs to the Peoples Republic of China. As you suggested, I am noting to Bank staff working on China possible German interest in cooperating in the funding of studies or preparation of project components regarding technical assistance for quality control of institution building.. For your information, I enclose a copy of the Bank's proposed five year lending program for China. Kindest regards.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

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March 5, 1985

Mr. Gerhard Boehmer
Chief
Multi-lateral Division
BMZ
Karl-Marx-Strasse 4-6
5300 Bonn 12
Federal Republic of Germany

Dear Mr. Boehmer:

Thank you very much for arranging to meet with me on such short notice during my recent visit to the BMZ. I found most useful your explanation of German aid organization and budgetary procedures and, as you suggested, I will continue my discussions with the office of the German Executive Director regarding cofinancing matters and possible areas for collaboration with German technical assistance agencies.

I am also noting to Bank staff working on East Asia Region the importance of closer contacts with the country desk officers in the Ministry of Cooperation and the implementing agencies. My kindest regards to you and to Mr. Henrich.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

The World Bank / 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 393-6360 • Cables: INTBAFRAD

March 5, 1985

Mr. K. Wuesterman
Division Chief
Philippines, Indonesia,
Pacific Island, PNG
BMZ
Karl-Marx-Strasse 4-6
5300 Bonn 12
Federal Republic of Germany

Dear Mr. Wuesterman:

It was a pleasure to meet with you and staff of the Ministry of Economic Cooperation who work on Indonesia, the Philippines, PNG and the Pacific Islands during my recent visit to Bonn. I have noted to World Bank staff involved with East Asia and Pacific Region countries, the areas of special interest for German technical and financial cooperation. I look forward to continued cofinancing with the GTZ and KFW on projects in the Region and I also hope that opportunities will arise for collaboration in preparation of projects of mutual interest.

For your information I am enclosing the World Bank's current Five Year lending program for those countries for which your Division is responsible. My kindest regards to you and Messrs. Walter and Kraetsch.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

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February 27, 1985

Mr. Thierry Aulagnon
Director
Treasury Loans Department
Ministry of Finance
93 rue du Rivoli
Paris, France

Dear Mr. Aulagnon:

It was a pleasure to meet with you and Mr. Raut-Madoux during my recent visit to Paris this month and to exchange views on our respective aid programs to countries in East Asia and the Pacific Region.

I am very grateful for Mr. Raut-Madoux's careful explanation of the French bilateral aid structure. Mr. Raut-Madoux also kindly offerred to contact the "Direction de Relations Economiques Exterieures" (DREE) and ACTIM regarding proposals I submitted to him for possible French assistance for studies on Irrigation Modernization in Indonesia and/or cofinancing of possible Bank-assisted Jatigede Dam/Irrigation projects. I hope that opportunities will present themselves for French cofinancing of Bank-assisted projects in Indonesia or Thailand in particular and for a fruitful coordination of our respective aid programs in the South Pacific.

As requested I enclose a copy of the World Bank's proposed Five-Year Lending Program to countries in this Region.

Once again, my gratitude to you and Mr. Raut-Madoux.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

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February 27, 1985

Mr. Giledas Le Lidec
Coordinator
Asia and Pacific Division
Ministry of External Relations
Department of Scientific, Technical and
  Cultural Affairs (DGRST)
64 avenue Kleber
Paris, France

Dear Mr. Le Lidec:

Thank you very much for meeting with me during my recent visit to the DGRST. I found very helpful our exchange of information on our respective aid programs in East Asia and Pacific Region. I have noted to our staff the importance of the Vanuatu aid program in the entire French aid program to the Region and that you would be particularly interested in receiving information on our activities in all the Pacific Islands with special attention to the needs for vocational training.

I am grateful for your having arranged for me to meet Ms. Bedo and hope that the three French curriculum experts will soon begin their work in Vanuatu. As we had agreed I spoke with officials in the EEC regarding EDF funding of a Study Coordinator for the Vanuatu education sector studies. They are interested in principle but would need, of course, a formal request from the Vanuatu Government which has not yet been made by the central government agency concerned. (I believe Ms. Jones of our Education Division has briefed you by phone of this possibility.)

Once again, my appreciation for your assistance and my regards to you and Mr. de Veyrenes.

Sincerely,

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

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93 rue du Rivoli
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Dear Mr. Aulagnon:

It was a pleasure to meet with you and Mr. Raut-Madoux during my recent visit to Paris this month and to exchange views on our respective aid programs to countries in East Asia and the Pacific Region.

I am very grateful for Mr. Raut-Madoux's careful explanation of the French bilateral aid structure. Mr. Raut-Madoux also kindly offerred to contact the "Direction de Relations Economiques Exterieures" (DREE) and ACTIM regarding proposals I submitted to him for possible French assistance for studies on Irrigation Modernization in Indonesia and/or cofinancing of possible Bank-assisted Jatigede Dam/Irrigation projects. I hope that opportunities will present themselves for French cofinancing of Bank-assisted projects in Indonesia or Thailand in particular and for a fruitful coordination of our respective aid programs in the South Pacific.

As requested I enclose a copy of the World Bank's proposed Five-Year Lending Program to countries in this Region.

Once again, my gratitude to you and Mr. Raut-Madoux.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

The World Bank / 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 393-6360 • Cables: INTBAFRAD

February 27, 1985

Mr. Jean Nemo
Deputy Director
Development Policy
Ministry of External Relations
Department of Cooperation and Development
20 rue Monsieur
75700 Paris, France

Dear Mr. Nemo:

Thank you for having taken the time to meet with me during my recent visit to the Department of Cooperation and Development earlier this month and to discuss our respective aid programs in East Asia and the Pacific Region, in particular in Vanuatu, Indonesia, Thailand and Vietnam. I have noted to my colleagues that most of the current SCD program in this region is targetted to Vanuatu and Indonesia and that technical cooperation with the People's Republic of China is presently handled through the DGRST. I trust that Ms. Bedo has already received the Terms of Reference for the Education Sector Curriculum Study for Vanuatu to be carried out with partial assistance from a French team of experts identified by the SCD.

Once again, my appreciation for the information you have shared with me. My best regards to Ms. Bedo and to your other staff including Mr. Flesch and Ms. Black.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

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East Asia and Pacific Region

The World Bank / 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 393-6360 • Cables: INTBAFRAD

February 27, 1985

Mr. Jacques Vico
Director
East Asia, Middle East and Asia Department
Caisse Centrale de Cooperation
4 Cite du Retiro
35-37 rue Boissy d'Anglas
75008 Paris, France

Dear Mr. Vico:

Thank you very much for finding the time to meet with me and to discuss the aid program of Caisse Centrale de Cooperation in East Asia and Pacific Region. I found most useful your description of the various facets of the French aid administration and was able to follow up our discussion with officials of the Treasury, and the Ministry for Cooperation (both SCD and DGRST).

I have noted to my colleagues working on the South Pacific Islands, that Caisse Centrale is presently only active in Vanuatu where it has an ongoing agro-industrial cocoa project cofinanced with the CDC and the ODA and that decisions will be taken in 1985 on other CCC project assistance. I have also noted that the CCC has a resident representative in Port Vila, that the CCC would be interested in supporting vocational hands-on training in the agricultural sector and might also be able to provide its own staff or hire outside French consultants for pre-and feasibility studies for possible loans of interest for French cofinancing.

Please accept my appreciation for your kind assistance and my best regards to Mr. Larfeuil as well.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

The World Bank / 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 393-6360 • Cables: INTBAFRAD

March 5, 1985

Mr. Ralph L. Baxter
Head
East Asia Department
Overseas Development Administration
Eland House
Stag Place
LONDON SW1E 5DH
England

Dear Mr. Baxter:

Thank you very much for a very informative meeting during my visit last month to the UK Overseas Development Administration. I found most useful your indication of areas and sectors of interest for the British ODA in East Asia and Pacific Region and the possibilities opened for future collaboration in preparation of projects of mutual interest.

I am noting to the Bank's East Asia and Pacific staff that while the ODA technical cooperation program for Indonesia is basically blocked out for the next two years, as regards China there may be some flexibility for ODA consideration of proposals for funding of project preparation or technical assistance for the fiscal year beginning April 1985.

Once again, my appreciation for your kind assistance. Best regards to you and to Mr. Craxton, Section Head ASEAN countries.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

The World Bank / 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 393-6360 • Cables: INTBAFRAD

March 5, 1985

Mr. Adrian Kerwood
Deputy General Manager
West Africa and Asia
Commonwealth Development Corporation
33 Hill Street
LONDON, W1A 3AR
England

Dear Mr. Kerwood:

It was pleasure to meet with you and officials of the Commonwealth Development Corporation during my visit to London last month. I found most helpful our discussion of World Bank and CDC activities in East Asia and Pacific Region and look forward to cofinancing of projects in countries where both our institutions are active, such as Indonesia, Thailand, the Philippines, Malaysia, PNG and the Pacific Islands.

As requested by Mr. Steven, Head of External Relations for CDC, I enclose a copy of our current Five Year Lending program for countries in East Asia and Pacific Region. Once again, my appreciation for your kind hospitality and my best regards to you and your staff.

Sincerely,

Loretta Schaeffer

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

Enclosure

DRAFT

FORM NO. 1884
(3-83)

FACSIMILE TRANSMITTAL FORM

DATE: March 1, 1985

NUMBER OF PAGES: 2

FROM: Ms. L. Schaeffer Extension 76897 Dept/Div., No. 172/05

TO: Mr. Giovangelo Montecchi-Palazzi
Dipartimento per la Cooperatione Allo Sviluppo, 00100 Roma, Italy

FAX NUMBER/ MACHINE TYPE: 392-784

SUBJECT:

Comments: Dear Mr. Montecchi:

It was a pleasure to meet with you and Mr. Ferrero during my visit to Rome last month. I am happy to note that the $2 million Italian Bank Agreement for a Special Facility for the funding of Consultants is about to be signed next week.

I am writing this letter in regard to implementation of the Special Consultants Facility. Specifically I would appreciate a list of qualified Italian railway engineers from which to select a consultant who might be able to accompany a World Bank Railways mission to China scheduled for June-July 1985. The Italian consultant should be expert in permanent mechanized maintenance of track. The period of availability would cover 4-5 weeks including 3 weeks in China (from June 20) and 3-4 days for report writing. As we had briefly discussed while I was in Rome, I would also appreciate any general listing the DCD is able to provide of Italian consultants in the various sectors and subsectors in which Italy has particular expertise.

cc:

Transmission Authorized by: L. Schaeffer, RCC, AEN

Special Instructions for Fax Operator:

Return Original to: AEN Information Center Room No. F745

This Form to be transmitted with document: [x] Yes [ ] No

Comments: Contd.

I am taking the liberty of copying this letter to Mr. Radicati in the Italian Embassy here in Washington. Since my return I have been in contact wit Bank staff and with Mr. Radicati on the two items of cofinancing interest given me by Mr. Ferrero (the China Shanghai Port Studies and the Indonesia Rural Telecommunications Studies). I trust Mr. Radicati has briefed you on the subsequent developments. Kindest personal regards.

Sincerely,

Loretta Schaeffer
Regional Cofinancing Coordinator
East Asia and Pacific Region

ANNEX V

Documents and Reports Received

Country/Agency	Name of Documents/Reports
UNITED KINGDOM	1. British Aid Statistics 1979-1983
	2. British Aid to Education in Developing Countries
	3. Statistics of the British Aid Programme by Financial Year (April to March) 1979-80 to 1983-84
	4. CDC News No. 2 - February 1985
	5. CDC Report and Accounts 1983
GERMANY	1. KFW - Co-operation with Developing Countries
	2. KFW - Functions and Activities
	3. GTZ - Key Services
FRANCE	1. La Politique Francaise d'aide au developpement en 1983 (DAC)
	2. CCCE - Annual Report 1982
	3. CCCE - Annual Report 1983
ITALY	1. DCD - Functions and Activities
	2. DAC Report 1982/83
BELGIUM	1. Development Cooperation Program between The Kingdom of Thailand and The Kingdom of Belgium
IFAD	1. Annual Report 1983
EEC	1. Seventh Report from the Commission to the Council and the European Parliament
	2. Cofinancing Tables
	3. Cooperation Financiere et Technique des Communautes Europeennes a l'Indonesie - Programme 1976-1983
	4. The Courier - No. 89 January-February 1985
	5. Summaries of EEC Country Programs, under Lome I & II
	6. EEC Aid to Pacific ACPs - Summary of major projects by category
	7. EEC Pacific Regional Projects under Lome II
	8. Copy of Program for Kiribati Development Coordination Meeting of Aid Donors
WFP	1. WFP Basic Documents

(6–83) THE WORLD BANK/IFC

ROUTING SLIP	DATE: 6/29/84
NAME	ROOM NO.
Mr Julian Bharier	D-451
cc Mr Masood Ahmed	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
✓	COMMENT		PER YOUR REQUEST
✓	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

Julian: I have been swamped with rush work but have now completed the attached. If you wish we could discuss before, or at, our Tuesday meeting. John

FROM:	ROOM NO.:	EXTENSION:
TAYLOR	E-707	72835

DRAFT
JLTaylor
June 29, 1984

Commercial Bank Cofinancing of ESMAP Projects

Four Possible Approaches

1. Traditional Formal Cofinancing Approach

Structure:

(a) An IBRD-administered UNDP Grant for say $0.1 million. The grant documentation between IBRD as executing agent and the recipient could include all project-related covenants.

(b) Commercial banks (CBs) loan for, say $10 million. The loan agreement between CBs and the borrower could specify that the loan proceeds would be applied to the project.

(c) Memorandum of Agreement between IBRD and CBs relating to the cofinancing arrangements and the relationship between IBRD and CBs (including, e.g., information sharing and billing by IBRD, if desired).

Comments:

(i) This approach seems preferable for IBRD due to the minimal IBRD involvement.

(ii) UNDP approval would be needed for use of its funds in this manner.

(iii) IBRD management, but not Board, approval would be required.

(iv) This approach may not be sufficiently attractive to the CBs.

2. Co-Funding of CBs Loan

Structure:

(a) CBs loan for $10.1 million of which $0.1 million would be provided by IBRD as executing agent for UNDP. Loan agreement would include IBRD as one of the lenders and IBRD's participation could be in late maturities. Relationship between lenders would be covered in the loan agreement.

(b) Project agreement between IBRD and the borrower. All project related covenants could be included in this agreement.

Comment:

(i) This approach provides greater comfort to CBs.

(ii) It is identical to the funding option under the "B" loan program; while it does not fall expressly within the authorization for the B-loan trial program (since there is no A-loan), specific management approval could be sought and, it is thought, would likely be given. (It could be argued that the project agreement substitutes for an A-loan). No IBRD money is involved, but closeness of relationship between CBs and IBRD suggests that IBRD Board approval would also be necessary, at least in the initial phases of the program.

(iii) UNDP approval would be required to channel their funds as a loan to the recipient.

3. Sales of Participations in IBRD Loans

Structure:

(a) An IBRD-administered UNDP Grant for say $0.1 million, as in 1(a) above.

(b) A loan by IBRD to the borrower for $10 million, on terms (including maturity and interest rate) previously agreed with CBs, and wholly sold to the CBs, without recourse to IBRD.

Comment:

(i) UNDP approval would be needed but this approach would enable the UNDP funds to be provided on a grant basis.

(ii) This approach would likely be the most attractive to the CBs. Query whether it is too attractive.

(iii) IBRD management and Board approval would be required, but the sales of participation technique has been authorized as part of the B-loan program. (While there is no A-loan in the present instance, it could be argued that the IBRD-administered UNDP Grant fulfils the same purposes as an A-loan).

4. <u>IBRD, as Agent for UNDP, Guarantees CBs Loan</u>

Structure:

(a) CBs loan for $10.1 million, partly guaranteed by IBRD as executing agent for UNDP. (The scope and form of guarantee needsto be considered).

(b) Project agreement between IBRD and the borrower, as in 2(b) above.

Comments:

(i) This approval would require UNDP approval for guarantee obligation.

(ii) It would also require IBRD management and Board approval. Comment 2(ii) above applies.

(iii) If the guarantee is limited to $0.1 million, it may not give sufficient protection to the CBs, although a "rolling" or "evergreen" guarantee might be attractive.

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: July 2

NAME	ROOM NO.
Jonas	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

For tomorrow's luncheon/
meeting with LEG.

FROM: Julian	ROOM NO.: D451	EXTENSION: 72781

Must cover admin expenses.

DRAFT
JLTaylor
June 29, 1984

Commercial Bank Cofinancing of ESMAP Projects

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Default under grant agreement i.e. project not being implemented. Would be default for Bank lending? Coml Bank agreement to have condition of disbursement that Borrower complies with grant agreement.

Comments:

(i) This approach seems preferable for IBRD due to the minimal IBRD involvement.

(ii) UNDP approval would be needed for use of its funds in this manner.

(iii) I~~BRD management, but not~~ Board, approval would be required.

(iv) This approach may not be sufficiently attractive to the CBs.

WB loan which is paid by UNDP on behalf ?

ws.

2. Co-Funding of CBs Loan

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(a) CBs loan for \$10.1 million of which \$0.1 million would be provided by IBRD as executing agent for UNDP or using IBRD funds. Loan agreement would include IBRD as one of the lenders and IBRD's participation could be in late maturities. Relationship between lenders would be covered in the loan agreement.

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Board wouldn't buy

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procurement? What have to be ICB; they wouldn't want to break ... Banks would want to.

higher rate but no conditionality.

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Masood

V. Good paper by John.

Julian

A LAWYER'S VIEW OF DEVELOPMENTS

IN

WORLD BANK COFINANCING

WITH

PRIVATE BANKS

by

JOHN L. TAYLOR*

Legal Adviser, Cofinancing

International Bank for Reconstruction and Development

1818 H Street, N.W.

Washington, D.C. 20433

U.S.A.

* Mr. Taylor, an Australian, is a graduate of the University of Adelaide and Harvard Law Schools. He was formerly engaged in the private practice of law in South Australia, New South Wales and Victoria, Australia and in the District of Columbia, U.S.A., and was Counsel, Asian Development Bank, Manila, Philippines. He has taught international law at the University of Sydney and is the author of books and articles on international trade, financial and constitutional law issues. This Paper describes its subject matter through February 1984. The views expressed in this Paper are not necessarily those of the World Bank.

This paper has been written for Conference II of the Singapore Conferences on International Business Law and is expected to be published under copyright of the Faculty of Law, National University of Singapore.

A LAWYER'S VIEW OF DEVELOPMENTS
IN
WORLD BANK COFINANCING WITH PRIVATE BANKS

Table of Contents

Page

A Lawyer's View of Developments in World Bank Cofinancing with Private Banks

The developments over the past two years in policy and law in World Bank cofinancing with private banks have been dramatic. As a staff member of the Bank who has been intimately associated with these developments, it gives me great pleasure to address the subject, with special emphasis upon the legal issues involved.

For readers of this Paper who may not be familiar with the World Bank and its practices, an appreciation of the recent developments in cofinancing may be enhanced by a description of the World Bank and the traditional practices and legal instruments used in its lending and cofinancing operations. Part I of this Paper, therefore, contains an overview of the World Bank and its lending practices and Part II provides a description of traditional cofinancing techniques used by the World Bank. Part III of the Paper provides an analysis of the new techniques for cofinancing and the major legal and documentational issues presented by those techniques to date. Some conclusions are drawn in Part IV.

I. THE WORLD BANK AND ITS LENDING PRACTICES

A. Organization of the World Bank

The International Bank for Reconstruction and Development, (the "World Bank" or the "Bank") [1], is an international organization which was established, together with the International Monetary Fund, under Articles of Agreement [2] negotiated at the International Monetary and Financial Conference held at Bretton Woods, New Hampshire, in July 1944.

The Bank may be described as a multilateral financial cooperative of its member countries. Its purposes include assisting in the reconstruction and development of territories of its members by facilitating the investment of capital for productive purposes, as well as the promotion of foreign investment by means of guarantees and participations in loans and other investments made by private investors and, when private capital is not available on reasonable terms, by direct financing for productive purposes (Article I, (i) and (ii)). Membership in

---

1/ Unless otherwise indicated, this Paper does not purport to describe the policies or practices of the International Development Association (IDA) and the International Finance Corporation (IFC), two other legally autonomous entities affiliatied with the International Bank for Reconstruction and Development.

2/ Articles of Agreement of the International Bank for Reconstruction and Development, 2 U.N.T.S. 134, as amended effective December 17, 1965, to permit IBRD to lend to IFC (see 606 U.N.T.S. 294). References in this paper to "Article" or "Articles" are to the Articles of Agreement of the International Bank for Reconstruction and Development. The Articles entered into force on December 27, 1945 and the Bank opened for business on June 25, 1946.

the World Bank is open to all member countries of the IMF (Article II, Section 1) through subscription to shares of the Bank's capital stock: current membership totals 146 countries, consisting of all member states of the United Nations, except some Eastern Bloc countries (including U.S.S.R.) and Switzerland.

The conduct of the general operations of the Bank is vested in its Executive Directors to whom are delegated virtually all the powers of the Bank (Article V, Section 4(a)). 3/ There are now 21 Executive Directors, where voting is based on the number of shares held by the member or members represented. Each of the Bank's five largest shareholders, namely, the United States (being the single largest shareholder), France, Germany, Japan and the United Kingdom, as well as China, has one Executive Director. Each of the other Executive Directors represents a group of countries, the numbers in the group depending on the number of shares held by each member. The President of the World Bank is Chairman of the Executive Directors and the chief of the operating staff responsible for the conduct of the ordinary business of the Bank (Article V, Sections 5(a) and (b)).

3/ All the powers of the World Bank are vested in its Board of Governors (Article V, Section 2(a)), in which each member country is represented and has a vote based on the number of its shares in the Bank (Article V, Section 3(a)). With the exception of certain powers specifically reserved to them by Article V, Section 2(b) (e.g., decisions on membership, distribution of net income, changes in capital stock), the Governors have delegated their powers to the Executive Directors (Section 14 of the Bank's By-Laws).

In accordance with the Articles, the Executive Directors "function in continuous session", which is somewhat of an unusual feature. The Executive Directors are in permanent residence at the Bank's headquarters and they meet at least once a week. Every borrowing that the Bank makes and every project that the Bank finances are presented to the Executive Directors for prior approval, usually on the basis of consensus.

B. Financial Structure of the World Bank

Financing for the World Bank comes from the paid-in capital of its member countries, borrowings on world capital markets and net income from its operations. The Bank's authorized capital is currently about $80 billion equivalent, divided into paid-in and callable portions. Initially, the paid-in portion was set at 20 percent (payable partly in gold or U.S. dollars and partly in the local currency of the member concerned) but has been reduced in successive capital increases with the result that it currently amounts to about 9 percent of subscribed capital. The rest is callable capital, which is available only upon call by the Bank to meet its obligations for funds borrowed or loans guaranteed (Article II, Section 5(ii)). Since the bulk of the Bank's finances comes from borrowing on the world's capital markets, the callable capital assumes a special significance. The Bank's borrowing operations this fiscal year (July 1, 1983 - June 30, 1984) will exceed US$11 billion equivalent from all major money centers, making the Bank the largest nonresident borrower in virtually all countries in which it borrows. The World Bank's net annual income is currently about $750 million equivalent.

Until recently, the Bank was able to satisfy its borrowing requirements exclusively through fixed-rate, medium to long-term borrowings, but the Bank's increased borrowing needs now necessitate the Bank to engage in about \$3 billion equivalent of short-term, variable rate funding as well.

On each loan negotiated prior to July 1982, the Bank charged an interest rate, set when the loan was committed, and fixed throughout its term. On loans negotiated since July 1982, the Bank charges interest at a variable rate, adjusted every six months to maintain approximately 50 basis points above the weighted average cost to the Bank of its outstanding borrowings. The current lending rate is 10.08%. Bankers lending U.S. dollars may think this is cheap, but the World Bank is not lending only dollars. The Bank disburses in the currencies in which it borrows, has the right to determine the currency of disbursement and also the right to determine the currency of recall on payments. The Bank's borrowers bear the foreign exchange risks under a system of currency pooling which equalizes those risks.

C. The World Bank's Lending Operations

The Bank has the power to guarantee, participate in or make direct loans to any of its members, or political subdivisions thereof, or to any business, industrial and agricultural enterprise in the territories of members (Article III, Section 4).

The framers of the Bank's Articles envisaged that the Bank would primarily act as a "guarantee institution", by guaranteeing in whole or in part loans made by private investors to fulfil the Bank's purposes (Article IV, Section 1(a)(iii)). In practice, however, the Bank has used its guarantee powers sparingly and only in a limited fashion. 4/ To the date of this Paper, the Bank has never guaranteed loans made by others. 5/ Rather, the Bank's practice has been almost exclusively to extend direct loans; only very recently has the Bank even participated in loans of others. 6/

Since its inception, the Bank has made almost 2400 loans to both public and private borrowers in almost all of its member countries. In its early years, the Bank's lending was mainly for the reconstruction of the war-torn economies of Europe and Asia. Since the mid-1950s, the emphasis has shifted to the financing of projects and other investments contributing to the development of third world developing countries. The Bank's annual lending program for the fiscal year ending June 30, 1983

4/ From 1948 until 1956, the Bank promoted the access of some of its borrowers to private capital markets, particularly in the United States, by extending its guarantee to debt obligations issued under loans by the Bank to those borrowers. These guarantees were extended under the authority contained in Article IV, Section 8(ii), which empowers the Bank to "guarantee securities in which it has invested for the purpose of facilitating their sale".

5/ But see Part III, Section B.2, <u>infra</u>.

6/ See Part III, Section B.1, <u>infra</u>.

consisted of 136 loans totalling US$11,136 million equivalent to borrowers in 43 member countries. The Bank's loans are long-term: maturities of between 15 and 20 years are usual.

The Bank's lending operations have conformed generally to five principles derived from the provisions of its Articles. These principles, taken together, seek to ensure that Bank loans are made in member countries for financially and economically sound purposes to which those countries have assigned high priority and that the funds lent are utilized as intended. The five principles are:

(1) The Bank makes loans either to member States or governmental authorities or private enterprises in the territories of member states. Loans not made directly to the State in whose territories the project being financed is located must be guaranteed as to principal, interest and other charges by that State (Article III, Section 4(i)).

(2) Loans must be for productive purposes (Article I) and, except in special circumstances, for specific projects (Article III, Section 4(vii)). The Bank does not make loans which, in its opinion, cannot be justified on economic grounds.

(3) In making loans, the Bank must act prudently and pay due regard to the prospects of repayment (Article III, Section 4(v)). Before making a loan, the Bank studies, among other things, a country's economic structure and makes an assessment of the country's natural resources, the state of its basic infrastructure, industry and agriculture, the quality of its public

administration, its trade patterns and its balance of payments position. In addition, on the basis of information supplied by the country, the Bank estimates the country's (and the borrower's, if it is not the country itself) existing and prospective debt service obligations and assesses their ability to generate sufficient foreign exchange to meet them.

(4) The Bank must be satisfied that in prevailing conditions the borrower would be unable otherwise to obtain the loan on reasonable conditions (Article III, Section 4(ii)). The Bank is intended to promote private investment, not to compete with it, and does not undertake business which private investors are willing to transact on a reasonable basis.

(5) The use of loan proceeds is supervised. The Bank makes arrangements to ensure that funds lent are used only for authorized purposes with due attention to considerations of economy and efficiency (Article III, Section 5(b)) and Bank loans are disbursed only to meet eligible expenses as they are actually incurred (Article III, Section 5(c)). These policies are enforced primarily (i) by requiring borrowers to procure goods and services through procedures, including international competitive bidding, which the Bank judges to be likely to lead to cost-efficient procurement and (ii) by disbursing the proceeds of loans only on submission of documentation establishing, to the Bank's satisfaction, that the expenditure involved is made in conformity with the applicable lending agreements. During the loan supervision process, the Bank engages in continuous macro- and micro-economic dialogue with its borrowing countries.

The Bank lends for a great many sectors in most borrowing countries. The Bank is extensively involved in infrastructure, particularly in industry, energy, transportation, telecommunications, urban development as well as agriculture, health and education. All of these sectors may offer attractive opportunities to the private sector.

The work that the World Bank puts into each of the projects which it finances is very expensive and very time-consuming. On average, it takes about 1½ to 2 years from the identification of a project to the time the project is presented to the Executive Directors for their approval. The Bank has what is generally regarded as the largest and most capable body of technical staff of any development organization in the world today which assists the Bank's borrowers to formulate, and then scrutinize, each project to ensure that it is soundly conceived, not only technically but also financially, and that it is possible to implement within the resources likely to be available in the country concerned. The Bank applies very strict criteria; as a rule, it does not finance any project which has an estimated economic rate of return of less than 10%. As a consequence of insisting on very strict standards at the outset and during execution, the project operations of the World Bank have on the whole been very successful.

Whether the Bank finances any given project depends not only upon its technical and financial viability, but also upon the suitability of the project within the economic conditions of the country as a whole. In addition to its well-known project-oriented expertise, the Bank possesses a store of economic skills, enabling it to develop professional and objective knowledge of country economies and sectors.

D. Legal Instruments of World Bank Loans

The instruments generally used in connection with the Bank's loan transactions are:

1. a loan agreement with the borrower;

2. if the borrower is not the member in whose territories the project is located, a guarantee agreement with that member; and

3. if the beneficiary of the loan is not the borrower, a project agreement with the beneficiary.

1. World Bank Loan Agreements

Loan Agreements between the Bank and the borrower incorporate the Bank's General Conditions Applicable to Loan and Guarantee Agreements, currently dated October 27, 1980, (the "General Conditions") 7/ to the extent, and subject to modifications, if any, agreed upon for the purposes of the particular loan. The loan agreements also typically cover the following matters, among others: the financial terms (loan amount, interest, front-end fee, commitment charges and amortization)

7/ The General Conditions contain the "boiler-plate" of World Bank loan agreements and cover such matters as definitions, payment and currency provisions, withdrawal (drawdown) conditions and procedures, taxes, remedies, information covenants, enforceability, dispute settlement and miscellaneous provisions.

conditions of effectiveness; disbursement and procurement procedures; the carrying out of the project; and, depending on the type of borrower and project, financial covenants such as rate covenants, debt limitations and dividend restrictions. Due to its unique character as a cooperative lending institution of its member countries, the Bank is able to use its lending program as a means to assist borrowers in developing policy and sectoral improvements in the sector for which the loan is made. These improvements are also often reflected in loan covenants and are known in the Bank as "developmental covenants". Each loan agreement contains a negative (pari passu) pledge clause or, occasionally in the case of some non-governmental borrowers, positive in rem security. It lists events of suspension, cancellation and acceleration including, in appropriate cases, the occurrence of adverse change in legislation or contractual arrangements essential to the project. Generally speaking, the General Conditions permit the Bank to exercise remedies not only in the event of a default under the agreement concerned, but also if the borrower or the guarantor has failed to make payment, or if remedies have been exercised due to a failure to carry out their obligations, under other loan or guarantee agreements with the Bank or IDA. However, unlike commercial loan agreements, cross default clauses referring to other indebtedness or obligations of the borrower or guarantor are not customary and are included in Bank loan agreements in a limited fashion only in the context of cofinancing transactions.[8/]

8/ See Part II, Section E.2.i, infra.

2. <u>Guarantee Agreements</u>

Guarantee agreements between the member country and the World Bank (incorporating the General Conditions to the extent applicable thereto) provide for an unconditional guarantee by the member, as primary obligor and not merely as surety, of payment of World Bank loans to non member entities. In some instances of loans to public sector borrowers, a similar guarantee of full performance of the project is added. The guarantee agreement also typically contains a negative pledge (pari passu) clause, covering all public assets of the guarantor, and an undertaking by the guarantor not to interfere with, and to facilitate, the performance by the borrower of its obligations under its loan agreement with the Bank.

3. <u>Project Agreements</u>

Where the project entity (the "beneficiary" of the Bank loan) is not itself the borrower, it has been found convenient to deal with matters relating to the project in a project agreement directly between the Bank and that entity. Breaches of the project agreement constitute events of default under the loan agreement.

It is evident from the foregoing that the form, and in some respects the content, of the legal instruments developed by the Bank in its lending operations differ from commercial lending practices. Two additional important legal distinctions are provided in the case of the applicable law and dispute settlement provisions.

4. Applicable Law and Dispute Settlement

Each loan by the Bank involves either a loan agreement or a guarantee agreement with a member government. The World Bank has international personality and its dealings with other international persons, e.g., its members, are governed by international law. The Bank takes the position that its loan and guarantee agreements create rights and obligations under international law and are therefore governed by international law. 9/ Hence, these agreements are not governed by any specific domestic law. Moreover, in language substantially unchanged since the late 1940's the current General Conditions confirm in Section 10.01 that:

> "The rights and obligations of the Bank, the Borrower and the Guarantor under the Loan Agreement and the Guarantee Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any State, or political subdivision thereof, to the contrary."

Controversies under the Bank's loan, guarantee and project agreements are to be submitted, in accordance with Section 10.04 of the Bank's General Conditions, to arbitration to the exclusion of any other procedure. The arbitration provisions have never been invoked, but they provide that the parties would be the Bank on one side and

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9/ See A. Broches and P. Sella, International Bank for Reconstruction and Development, in Foreign Development Lending, Leyden, A.W. Sijthoff, 1971, 79 at 82; and G. Delaume, Legal Aspects of International Lending and Economic Development Financing, Dobbs Ferry, New York 1967, at 81-86.

the borrower (and guarantor, if any) on the other. Each side appoints one arbitrator and the third arbitrator, referred to as Umpire, is to be appointed by agreement of the parties or, if they do not agree, by the President of the International Court of Justice or, failing appointment by him, by the Secretary-General of the United Nations. Detailed provisions relating to the constitution of the tribunal, including the rendering of an award by default, guard against frustration of the arbitration undertaking. All decisions of the tribunal are final and binding. In case the award is not complied with within thirty days, any party may seek to enforce the award in any court of competent jurisdiction or pursue any other appropriate remedy, subject to one qualification, in Section 10.04(k) of the General Conditions, that this provision:

> shall not authorize any entry of judgment or enforcement of award against any party that is a member of the Bank except as such procedure may be available otherwise than by reason of the provisions of this Section.

The effect of this qualifying language is that the arbitration provisions are not to be considered as a waiver of sovereign immunity by member governments but that they permit enforcement where such enforcement is possible under the law of the forum.

II. THE WORLD BANK AND TRADITIONAL COFINANCING WITH PRIVATE BANKS

Against this background, it is appropriate to turn to the concept of cofinancing.

A. Definition

In World Bank terminology, "cofinancing" refers in general to any arrangement under which funds from the Bank are associated with funds provided by other sources outside the borrowing country for the financing of a project. Typically, the World Bank does not finance the entire costs of a project; it expects the borrower to take a substantial stake in the project. In addition, increasingly, the World Bank seeks to associate other sources of finance external to the borrower in the project. This association of others is what is meant by cofinancing.

B. The Need for Cofinancing

This fiscal year ending June 30, 1984, the World Bank expects to commit more than US$10.5 billion equivalent in its lending program. Bank lending is likely to exceed this amount in future years. In addition, lending from IDA is expected to exceed US$3 billion equivalent annually. The Bank and IDA are therefore among the principal sources of long-term capital for the developing countries.

Nonetheless, these amounts are only a small fraction of the capital requirements of these countries. The bulk of the flows of external capital comes from the commercial banking system.

The demands on that system have, however, increased very rapidly. Investment needs continue to grow and the developing countries today face an extraordinarily difficult international economic situation, especially in terms of declining or stagnant prices for many of their major exports and growing lending constraints (prudential as well as regulatory) in the commercial banking system. This makes spreads larger and, indeed, access to markets for a number of countries more difficult.

The World Bank, however, faces constraints in its lending program. The Bank's Articles provide a very conservative gearing ratio of one to one: the total amount outstanding of Bank guarantees, participations in loans and loans shall not be increased if, by such increase the total would exceed the Bank's unimpaired subscribed capital, reserves and surplus (Article III, Section 3). For the Bank to maintain a rate of lending sufficient to meet the legitimate needs of its borrowers would require further substantial increases in the Bank's capital, if only in callable capital. However, the current political climate seems not yet ripe for such increases.

Consequently, it is essential for the Bank to handle its resources as a scarce commodity and therefore to try and associate other sources of financing with what it believes are the highest priority development investments in its borrowing countries. It does this through cofinancing.

Cofinancing emanates from three main sources: official (e.g., bilateral aid or other multilateral financiers), export credit (e.g., U.S. Eximbank or officially supported lenders) and commercial private lenders. This Paper concentrates upon World Bank cofinancing with private sources and, since almost all of that cofinancing has come from commercial banks, the emphasis is upon the Bank's experience in cofinancing with such banks.

C. Some Benefits of Cofinancing

There are several reasons advanced by the World Bank why an association, through cofinancing, is desirable for the private cofinanciers.

First, the World Bank provides extensive information on the current creditworthiness of its borrowers and the status of the projects which it finances. More importantly, however, the Bank provides a longer-term perspective. Since the maturities of World Bank loans are from 15 to 20 years, it is of great importance to it to assess, from a reasonably sound analytical base, what is going to happen in the medium and longer term. Moreover, the Bank is interested not only, for example, in the product prices for whatever investment it is financing, but also in the suitability of the economic management of the borrower's economy and its behaviour towards the Bank and towards international capital markets. The assessments which the Bank makes over the short, medium and longer term for its own purposes are made available to cofinanciers. This information may be quite valuable to the Bank's cofinanciers and likely forms an important part of their investment-decision process.

Second, the World Bank, in conjunction with its borrowing countries, identifies high priority investment projects. Many countries have experienced difficulty and have required debt reschedulings or other similar operations because money which has been available has not been used very effectively.

Third, cofinancing with the World Bank offers a degree of comfort -- an "umbrella", as it is sometimes called. The Bank considers it extremely important that all parties associated with projects in which it is involved should observe their financial and other obligations. While in traditional forms of cofinancing, this has not amounted to any form of guarantee, the Bank's willingness to seek such observance is perceived in the market place as providing a unique form of protection to cofinanciers.

Fourth, the compartmentalization of finance (with the World Bank lending on its own, commercial banks lending on their own and export credits flowing on their own) is undesirable for both borrowers and lenders. Prudent lending decisions involve assessing such factors as the financial availabilities open to a borrower, whether appropriate debt management policies are being adopted, and whether funds are flowing to productive end uses. These assessments can be better made if the various sources of finance work more closely together. Cofinancing is the best mechanism for such a partnership.

Fifth, although the perspective of the World Bank and, particularly, commercial banks are different, their functions are complementary. It is a central part of the World Bank's functions to carry on a policy dialogue with borrowers on economic management issues, including such topics as the commercial policies of state enterprises, tariff and revenue policies of particular borrowers, and other policy areas. Policy advice by the World Bank in these areas complements what can be provided in the way of straightforward financing by commercial banks. It provides a crucial foundation for a safer environment for international lending.

D. Key Features of Traditional Cofinancing with the World Bank

With an eye on these and other benefits, commercial sources, mainly commercial banks, have entered into cofinancing arrangements for many projects. From mid-1973, more than 60 projects have been cofinanced by commercial banks that have extended loans exceeding $3.6 billion equivalent in association with the World Bank's loans. The process by which such traditional cofinancing has emerged has evolved during this period. Today, it may broadly be described as follows:

First, the World Bank discusses with the borrower those projects in the pipeline suitable for cofinancing with banks (taking account of the country's overall borrowing strategy in the market, the nature of the project and other factors).

Second, the opportunities thus identified are published by the Bank in semi-annual mailings to commercial banks and others interested.

Third, commercial banks are invited to select projects and borrowers of most interest. They may then pursue the opportunity directly with the borrower and/or approach the Bank for more information on the project and borrower concerned. Subject to any restrictions imposed by the borrower, information on the project within the Bank can be made available to colenders, excluding, for example, certain issues which might still be under negotiation between the Bank and the borrower.

Fourth, the commercial lender makes an offer to the borrower in the normal way. This may mean competing with other banks to obtain the borrower's mandate.

Fifth, the terms and conditions of the commercial loan are negotiated directly between the colender and borrower. Customarily, cofinancing deals have been patterned after a normal Euro-dollar transaction, although the presence of the World Bank in the project being cofinanced may influence the commercial lenders in providing more favorable terms than they otherwise would.

E. Legal Instruments in Traditional Cofinancing

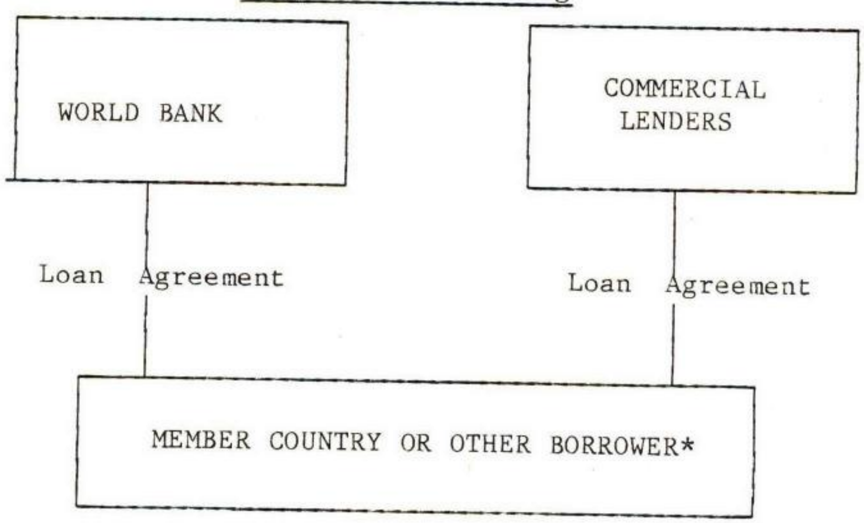
The legal structure and documentation for traditional cofinancing has been relatively simple. Two distinct forms have emerged.

1. Traditional "Informal" Cofinancing

In the earlier and simplest form (which is described in World Bank terminology as "informal" cofinancing), colenders have concluded their loan agreements with borrowers without any formal cross-connection or linkages with the World Bank's loan documentation. Separate loan agreements for the World Bank and commercial banks loans are negotiated separately, often at different times, and the borrower simply applies part or all of the proceeds of the commercial loan to the financing of the project financed by the World Bank. Diagramatically, "informal" cofinancing may be represented as shown in Table 1:

Table 1

Informal Cofinancing



* If the project is to be carried out by another entity, the World Bank may enter into a project agreement with that entity. If the borrower is not the member country, the member country must guarantee the World Bank's loan and may guarantee the commercial lenders' loan.

While the partial financing of the projects by the World Bank may have been a factor contributing to the making of the commercial cofinancing loans, informal cofinancing arrangements provide the least attractive cofinancing mechanism for commercial lenders, since they would have no assurance of continued dialogue with the World Bank on the projects or the borrowers should the need for such a dialogue arise during the term of the cofinancing loans.

During the mid-1970s, commercial banks sought to formalize cofinancing arrangements with the Bank so that they could draw greater comfort from their association in the financing of World Bank financed projects. This led to the development by the Bank, in consultation with the commercial lenders concerned, of what is known as "formal" cofinancing.

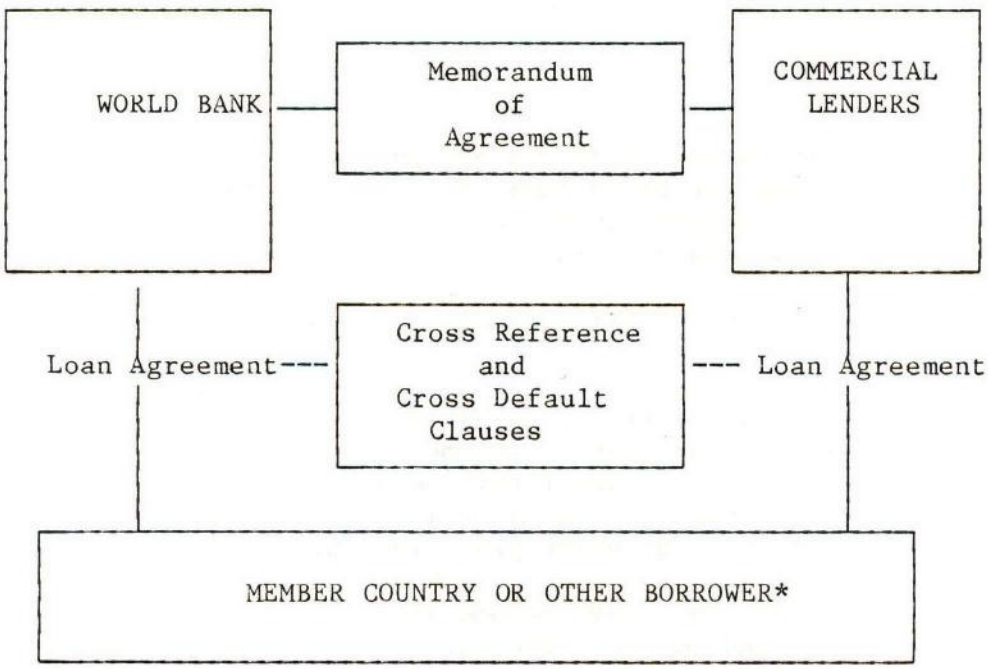
2. Traditional "Formal" Cofinancing

The characteristic features of "formal" cofinancing are the inclusion of special provisions in the World Bank's and the commercial lenders' agreements with the borrower, as well as the conclusion of contractual arrangements, generally in the form of a Memorandum of Agreement, between the World Bank and the commercial colenders. These features are designed to forge a closer link between the Bank and the cofinanciers in a manner consistent with the interests of the project and the role of the World Bank in its developmental financing efforts.

Diagramatically, "formal" cofinancing may be represented as shown in Table 2:

Table 2

Formal Cofinancing



* If the project is to be carried out by another entity, the World Bank may enter into a project agreement with that entity. If the borrower is not the member country, the member country must guarantee the World Bank's loan and may guarantee the commercial lender's loan.

The following explanation may assist in understanding these formal arrangements.

i. Special Provisions in World Bank Loan Agreements

Two provisions, in particular, are usually included in World Bank loan agreements when "formal" cofinancing of projects is involved. [10] The first of these is merely a "cross reference" provision, acknowledging the existence of the commercial loan agreement and the use by the borrower of funds under that agreement for the purposes of the project. The second customary provision is a "cross default" clause, usually in language similar to the following:

> If any of the following events of suspension shall have occurred and be continuing, the World Bank may by notice to the Borrower and the Guarantor suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account:]...
>
> (i) Subject to subparagraph (ii) of this paragraph:
>
> A. the right of the Borrower to withdraw the proceeds of any [grant or] loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the [agreement providing therefor], or
>
> B. any such loan shall have become due and payable prior to the agreed maturity thereof.
>
> (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement. [The event in sub-paragraph (i) (B) above is also specified as an additional event entitling the Bank to premature its loan to the Borrower].

As will be observed, the World Bank's cross default clause bears some similarity to, and a number of important distinctions from,

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10/ In certain instances, the World Bank has also agreed to adjust its amortization schedule so as to accommodate the earlier maturities of the private bank loan. Such adjustment is accomplished by reducing payments of principal due to the Bank in the earlier years of the amortization schedule and adding to the payments due in later years.

cross default clauses customarily found in commercial bank loan agreements, as follows:

(a) As in the case of commercial bank cross default clauses, the World Bank clause is optional, not mandatory. Some commercial banks have suggested that the Bank should offer them a mandatory clause, that is to say, a clause that would bind the Bank to exercise its remedies of suspension, cancellation or acceleration under its loan agreement if the commercial banks exercised corresponding remedies under their cofinancing loan agreement. The Bank has steadfastly refused to accede to requests for a mandatory cross-default provision to be included in its loan agreements. Such a clause would not only have the effect of transferring to commercial banks the World Bank's decision-making powers on these issues, but more importantly, would curtail the ability of the World Bank to respond in a practical and flexible manner in case of debt service difficulties by its borrowers. While a mandatory cross default provision is seen by some colenders as a deterrent to borrowers from defaulting on cofinancing loans, most commercial lenders have recognized the desirability of the World Bank retaining flexibility through an optional cross default provision. If the World Bank were forced to exercise remedies, it may have to curtail its entire lending program to the member country and, in a general debt crisis, this could damage the interests of both the borrower and the commercial cofinanciers alike.

(b) Unlike some commercial bank cross default clauses, the World Bank's clause is "action-oriented". Before the Bank can exercise remedies under the clause, the commercial banks must have exercised remedies (e.g., terminating their commitments or prematuring) under the cofinancing loan for good cause. The World Bank could not act if the commercial banks were entitled to exercise such remedies, but had not in fact done so. 11/

(c) The World Bank's cross default clause refers only to the parallel cofinancing loan and not other indebtedness of the borrower to third parties. To this extent, the clause is much narrower than commercial clauses that often cross default to all "external

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11/ For a discussion of the benefits and detriments of "action-oriented" cross default clauses from the perspective of counsel to parties to commercial loan agreements, see J. Speed Carroll, "The Worst Clause in the Euromarkets", Euromoney, June, 1981 at 90 and the rejoinder by R.G.A. Youard, "Why the Cross Default Clause Won't Go Away", Euromoney, July, 1981 at 170.

indebtedness" of the borrower and, sometimes, to "all" indebtedness. Implicit in the narrower scope of the World Bank cross default clause are two considerations: first, the clause is offered for the benefit of cofinanciers and the Bank itself, not for the universe of the borrower's creditors, and second, the clause is intended to emphasize to all parties the integrity of the financing plan for the project.

(d) The importance of the project is further emphasized by paragraph (ii)(B) of the World Bank's cross default clause. That paragraph precludes the Bank from exercising remedies under the clause if the borrower demonstrates that it is able to secure adequate financing for the project in the absence of the cofinanciers' loan.

ii. Special Provisions in Commercial Cofinanciers' Loan Agreements

The cofinanciers' loan agreements will usually contain clauses referring to the project and the World Bank's loan, and may also include provisions intended to give additional protection to the commercial lenders. The closer links of formal cofinancing (particularly the Memorandum of Agreement described in the next section of this Paper) are intended to provide the commercial lenders with certain benefits which would not otherwise be available in their lending operations to the particular borrowers concerned. Accordingly, before concluding the formal cofinancing arrangements in each cofinancing transaction, the World Bank requests the commercial lenders for an opportunity to review and comment upon drafts of the commercial loan agreement. In this review process, the World Bank pays special attention to a number of clauses in the commercial loan agreement, including clauses relating to special security arrangements, financial covenants, information obligations and cross default provisions. The World Bank's concerns in respect of these issues are as follows:

(a) Special security arrangements, if any, provided for in the commercial loan agreement or related agreements should be consistent with applicable negative pledge clauses in relevant World Bank loan or guarantee agreements. This issue poses particularly difficult questions whenever special payment arrangements are negotiated by the commercial banks with the borrower. If those payment arrangements provide the commercial lenders with a preferred position over the position normally enjoyed by unsecured creditors of the borrower, the World Bank would normally seek, under its own negative pledge clause, to benefit also from those arrangements.

(b) If the commercial bank loan agreement contains financial covenants (such as debt equity or other ratios), these covenants would be examined to make sure that they are not inconsistent with relevant financial undertakings given to the World Bank.

(c) Any obligations imposed on the borrower to provide information concerning the project or the World Bank's role therein should be reasonable. For example, the World Bank would object to clauses requiring the borrower to obtain any particular information from the Bank for transmittal to the commercial lenders, since the World Bank would prefer to deal directly with the commercial lenders on such matters.

(d) Often, cross default clauses in commercial bank loan agreements are very broadly drafted: they usually permit the lenders to declare a default under the loan agreement if the borrower defaults on other indebtedness, if that other indebtedness is accelerated, or even if it becomes capable of being accelerated. To the extent to which the "other indebtedness" includes general indebtedness of a borrower to the World Bank, such a cross default clause presents problems for the World Bank. In particular, such a clause could enable cofinanciers to declare a default whenever World Bank indebtedness is capable of being -- but has not in fact been -- accelerated, thereby giving the cofinanciers the right to "second-guess" the World Bank in the implementation of covenants in World Bank loan agreements. As previously indicated 12/, many of these covenants deal with sectoral, developmental or policy issues unique to the special relationship between the World Bank and its borrowers and a broad cross default clause in the commercial loan agreement could, in theory, adversely affect that relationship.

On the other hand, the World Bank recognizes that cross default clauses in commercial bank loan agreements serve objectives considered important by commercial lenders. In particular, the cross default clause provides a lever which lenders may use to persuade borrowers to discuss a deteriorating situation before it becomes critical (thereby providing an "early warning" mechanism) and, in the final analysis, acts as a safeguard that commercial creditors of the same class will be treated equally.

Accordingly, the World Bank has prepared a draft form of cross default clause, suggested for inclusion in cofinanciers' loan agreements, that

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12/ See Part I, Section D.1, *supra*.

attempts to balance the concerns of the Bank with the interests of the commercial banks. The draft form, which appears in Appendix I to this Paper:

(x) enables commercial banks to employ their usual language as regards defaults under other indebtedness, except for indebtedness to the World Bank; and

(y) limits the right of cross default in respect of World Bank indebtedness to instances where (m) the World Bank has accelerated its loan for the particular project, or (n) the World Bank debtor has failed to make due payment of a material amount agreed upon, after the elapse of a reasonable period of time specified in the clause.

iii. Memorandum of Agreement

The third aspect of a traditional formal cofinancing is a Memorandum of Agreement between the World Bank and the private banks, or the agent for a syndicate of lending banks. An indicative form of a Memorandum of Agreement appears in Appendix II to this Paper. One provision in the Memorandum of Agreement that prospective private lenders find attractive provides that the World Bank and the colenders will exchange information and will consult on those matters that affect the implementation of the project or the borrower's ability to meet its repayment obligations. In practice, this provision assures greater-than-usual access by private lenders to the wealth of country and project information that the World Bank collects and analyzes in the normal course of its activities. Each party, however, retains the right to withhold confidential information.

The Memorandum also includes any other arrangements of a special nature that have been agreed to by the World Bank and the private banks. The World Bank, for example, frequently has agreed to act as the billing agent for a private lender or a syndicate of lending banks. In this capacity, the Bank bills the borrower for payments of interest and principal on the private loan on the basis of information provided by the private lender, or agent bank, and instructs the borrower to make payment directly to the private bank. The World Bank does not act as a paying agent, but if the borrower fails to make payment, the World Bank, upon request of the private lender or agent bank, will follow up the matter with the borrower.

F. Drawbacks of Traditional Cofinancing and the Search for New Cofinancing Methods

By the early 1980s, it became clear that even the formal method of traditional cofinancing was not sufficiently attractive either to commercial banks or to borrowers to encourage the flows of capital to World Bank borrowers needed for financing their priority development projects. The total volume of commercial bank lending which had been cofinanced with the World Bank through the ten-year period ending mid-1982 (namely, about $3 billion) was a mere 1.5% of the total outstanding of commercial bank loans to World Bank borrowing member countries. Although some of these cofinancing arrangements (particularly those in formal cofinancing with the Bank), resulted in commercial funding on terms and conditions somewhat better than the terms and conditions which borrowers obtained in their regular borrowing operations, most cofinancing had not provided borrowers with tangible benefits and may have tended to complicate their direct relationships with the commercial banking community. In addition, there was a growing perception within the commercial banking community that a significant increase in cofinancing would require the World Bank to put in place additional instruments for cofinancing which would bring the World Bank and the commercial banks into an even closer association than that afforded by the formal traditional technique of cofinancing.

Accordingly, in the latter half of 1981, the World Bank began a dialogue with the commercial banking community to determine whether a wider range of cofinancing options would facilitate flows of additional private capital on appropriate terms for World Bank borrowers. These discussions centered upon the need to provide World Bank borrowers with improved and more clearly identifiable benefits from cofinancing, the World Bank's need to mobilize significantly larger volume of cofinancing, and the banking community's desire for forms of closer association, and therefore more "comfort", from the World Bank. A number of common themes emerged from these exploratory discussions with the commercial banks.

In particular, it became clear that, if the World Bank were to accept a financial presence in the colenders' loan, in addition to making a normal World Bank loan on its standard terms, this would be seen by the commercial lenders as a positive new factor in the evaluation of credit risk, and such loans would therefore be likely to provide improved terms to the borrower and offer the prospect of raising amounts additional to the regular loans of commercial banks. The most important benefits for borrowers that could be obtained through a World Bank financial participation in the cofinancing loan was perceived to be a substantial lengthening of the loan maturities. This would be achieved because the Bank's financial stake in the cofinancing loans would itself encourage the commercial lenders to extend their maturities to the maximum and, secondly, because the Bank's share of the cofinancing loan could be used to finance additional maturities beyond the longest maturity offered by the commercial lenders themselves.

Several different ways were identified in which the World Bank could have a participation in the cofinancing loan. The simplest and most obvious way would be if the Bank were to finance the later maturities of the commercial cofinancing loan. Other forms would include the offering by the Bank of an unconditional guarantee of payment of such late maturities or a "put" or contingent obligation to be exercisable by the commercial lenders on the happening of certain specified circumstances. It became clear during the preliminary discussions that the precise structuring of each cofinancing operation would have to take into account the preferences of the borrower and other factors, including the nature of the project and the standing of the borrower in the commercial marketplace. It also became clear that the commercial banks would find cofinancing loans progressively less attractive the more such loans departed from commercial practices and therefore in devising any new cofinancing program, it would be necessary to respect as closely as possible the relevant practices of the commercial marketplace.

A tactical difficulty in proposing that the World Bank undertake guarantee, or contingent, obligations was presented by the fact that, in its then 35 years of operation, the Bank had never assumed such obligations in respect of the commercial debts of its borrowers. [13/] To propose such options within the context of a new cofinancing program would therefore be a radical departure from tradition. Nor was that the only departure from tradition. In devising an acceptable new cofinancing program, in which the World Bank would take a financial stake in the cofinanciers' loan, account had to be taken of areas in

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13/ See Part I, Section C, *supra*.

which the procedures of both the World Bank and the commercial lenders would need to be adapted, so that the comfort given to the commercial lenders would be appropriately balanced by the benefits to borrowers from any new cofinancing mechanisms. A number of areas which were identified in this respect included the following:

1. The different lending rate practices of the World Bank and the commercial marketplace. The World Bank's pricing policies (then dominated by uniform fixed rates of lending for all borrowers) differed sharply from commercial lending, priced at a negotiated margin above fixed or floating bases. The basic question was whether long-standing World Bank practice could be changed to permit the Bank to participate in, or guarantee, commercially priced loans.

2. The different types of loan covenants: the "development" and institution building covenants which would appear in normal World Bank loan agreements would not be matched in commercial bank loan agreements. In this connection, the question was whether participation by the World Bank in the commercial lenders' loan would give such lenders an opportunity to influence the substance or implementation of the Bank's "development" and institution building covenants, thereby jeopardizing the special relationship existing between the World Bank and its borrowers.

3. The different practices of the World Bank and the commercial banks in the area of procurement and disbursement (drawdown) was also recognized. Procurement under World Bank loans follows strict rules, generally international competitive bidding, and drawdown under those loans occurs against eligible expenses as they are actually incurred, which may take several years. In contrast, commercial banks seldom oblige borrowers to observe particular procurement rules and the availability period of their loans is often very short (e.g., three or six months). The question was how to reconcile these differences if the World Bank were to participate in the commercial banks' loan.

4. Other areas which were perceived as potentially troublesome included the proper distribution of responsibilities for administering the commercial cofinancing loan, the decision-making arrangements appropriate under that loan if the World Bank were to be a participant therein, and the issue of governing law and jurisdiction, which, as indicated earlier, is handled in quite a different way under World Bank loan agreements than under commercial lending practices. 14/

14/ See Part I, Section D.4, *supra*.

A study of these and other matters by World Bank staff led to the conclusion that no fundamental obstacles existed to reconciling World Bank procedures and commercial bank procedures, if the World Bank were to participate in commercially structured cofinancing loans. Moreover, it was concluded that such a new form of cofinancing could provide substantial benefits for World Bank borrowers in need of commercial funding for projects financed by the Bank. Accordingly, recommendations were proposed by staff and management of the Bank to the Executive Directors and, in January of 1983, the Executive Directors of the Bank approved the introduction of a new cofinancing program on a two year trial basis. The balance of this Paper describes the new program and analyzes some particularly innovative features in policy and documentation associated with the program.

III. THE WORLD BANK'S NEW COFINANCING PROGRAM

A. The New Program In General

The pilot or trial program which the Executive Directors have authorized the World Bank to undertake enables the Bank to make 15 to 20 lending operations with a total World Bank commitment equivalent to US$500 million. The implementation of the program will be very much on a case by case basis and will be governed by the nature, size, number and timing of suitable cofinancing opportunities.

The main feature of the new program is that the World Bank, in addition to making its own loan for an investment, may participate in the commercial cofinancing loan, up to a maximum of 25% of that loan. This participation may be by way of funding the late maturities of the loan made by commercial banks, by guaranteeing those maturities, or by undertaking a defined contingent commitment in respect of the commercial loan. In the trial program, the Bank also has the authority to undertake sales of participations operations under which a cofinancing loan on commercial terms could be arranged by the World Bank, but would be sold before drawdown to participating commercial banks.

Each of the new techniques, which are described in more detail below, is intended to offer greater comfort to the colenders, through improving their perception of the quality and security of cofinanced assets. The major stake of the World Bank in the commercial loan (up to 25%) is designed to afford protection to commercial lenders because of the special relationship between the World Bank and its borrowers, as previously described in this Paper. In return for these benefits to colenders, the program seeks to achieve two major objectives for the Bank's borrowers:

(1) increase the borrower's access to, and familiarity with, the commercial markets. Although the new program was developed mainly because of resource constraints on the World Bank's own lending

operations, and this remains the long term rationale, the international debt crisis has sharpened the need for a program of this type to help overcome present day market constraints in international lending; and

(2) to encourage a lengthening of maturities and grace periods by commercial lenders so as to ensure that the amortization of the cofinancing loans are more suited to project financing and the borrower's capacity to pay.

The availability of the new cofinancing program is contingent upon these benefits being made available to borrowers in the context of each new cofinancing operation.

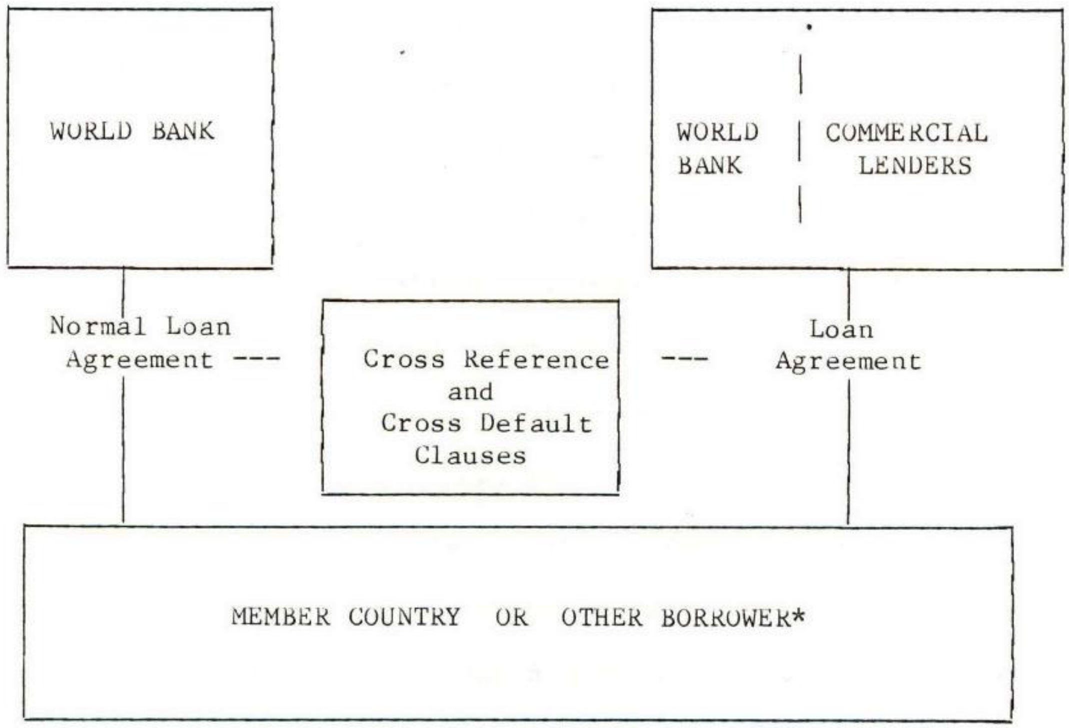
B. The Specific Alternatives of the New Cofinancing Program

1. Direct Financial Participation Option

In this option, which is the most likely option to be adopted in the new cofinancing program, the World Bank would directly participate as a lender in the late maturities of a commercial loan to provide the comfort to colenders and to achieve the intended lengthening of maturities beyond a point to which the commercial banks would normally commit themselves. Table 3 provides a diagramatical representation of this new cofinancing technique:

Table 3

New Cofinancing Program
Direct Funding by
World Bank



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* If the project is to be carried out by another entity, the World Bank may enter into a project agreement with that entity. If the borrower is not the member country, the member country must guarantee the World Bank's normal loan and its participation in the commercial lenders' loan, and may also guarantee the commercial portion of the commercial lenders' loan.

A sizable share of World Bank participation in the commercial lenders' loan would be around ten percent, but a larger share -- up to a maximum of 25 percent -- might be necessary to achieve the objective of lengthened maturities.

It is intended that the World Bank's direct financial participation would not simply be added to the maturities which commercial banks would otherwise have extended to borrowers, were the World Bank not present in the loan. In normal circumstances, such a presence of the World Bank would not provide the additionality desired. Rather, the World Bank's funding would be intended to provoke the commercial banks to extend the maturities of the commercial portion of their loan beyond the maturities they would otherwise have offered the borrower, and the World Bank maturities would then be added after that extended period. Thus, for example, if a borrower could normally obtain a commercial credit with a six-year maturity, and if the World Bank wanted to fund the commercial loan so as to add an additional year's maturity to that loan, the World Bank would not normally provide funding for year seven: it would offer its funding for year eight or nine and seek a lengthening of the commercial bank maturities from year six in order to meet the late maturity being financed by the World Bank.

In fact, three such loans to-date have been arranged involving World Bank funding of late maturities. Other similar loans are at an advanced stage of processing and should be completed shortly. In the three loans completed to-date, the maturity lengthening objectives have been impressive. In the first cofinancing of this new type, the Telephone Organization of Thailand was able to secure in September of 1983, from a syndicate of Japanese banks led by The Mitsui Bank Limited, a yen denominated credit having a final maturity of $16\frac{1}{2}$ years including a grace period of five years after the end of a $2\frac{1}{2}$-year drawdown period. Of the $16\frac{1}{2}$-year maturity, the World Bank's participation funded the last two years of maturities.

Two other loans involving the direct financial participation of the World Bank were organized for the National Bank of Hungary. The first of these loans was also a yen credit having a maturity of nine years, the first seven of which were for the commercial banks' account and the final two years for the World Bank's account. The second loan for the National Bank of Hungary was a $200 million Eurodollar syndicated credit having a final maturity of eight years, comprising six years for the commercial portion with an additional two years for the World Bank's participation. In both loans, a grace period of three years was arranged. These two loans for the National Bank of Hungary, which were arranged in the second half of 1983, represented a significant improvement over the terms and conditions of Hungary's then most recent comparable borrowing. (A $200 million club deal, concluded in April 1983, repayable in full after only three years.)

Particularly noteworthy policy and legal innovations which were associated with these three transactions are more fully discussed in Section C. of this Paper, <u>infra</u>.

2. The Guarantee Option

Instead of directly funding the late maturities, a second option under the new cofinancing program is for the World Bank to guarantee the late maturities of a loan made and funded wholly by commercial banks. It is expected that the existence of such a guarantee would provide an incentive for the colenders to fund the late maturities with short-term funds for a significantly longer period than would otherwise be the case. The longer term risk would, however, be somewhat offset by increased profitability of the larger outstandings and, as in other cases of cofinancing, provide an opportunity for a commercial bank to strengthen a working relationship with the borrower.

Alternatively, the World Bank could, under certain conditions, structure its guarantee as a "put" option on the late maturities of the commercial loan, thereby giving the commercial lenders the right to sell, and the Bank an obligation to purchase, the designated maturities at the request of the colenders.

The guarantee or "put" would be accompanied by a fee payable to the World Bank for issuing and maintaining such an obligation. The fee would be structured so as to encourage a "take out" by the commercial lenders as the commercial portion progressively comes within the normal range of market maturities. For example, if the guarantee or "put" fee were paid by the colenders, they would have a financial incentive to seek relinquishment of the guarantee or the "put" at the earliest possible date, since the guarantee fee could be built into the pricing of the overall loan and averaged over its life.

At the time of writing this Paper, no cofinancing transactions involving the guarantee option have been concluded, although a proposal for such a cofinancing opportunity was under consideration by the Bank's Executive Directors.

3. Contingent Obligation After Level Payments Option

Under this option, the World Bank would take a contingent participation in the final maturity of a commercial loan designed with a fixed level of installments that combine floating interest and variable principal repayments. If the interest rate rises above the initial or estimated rate used to determine the fixed level of installments, the amortization of the loan would not be completed on the original schedule and the World Bank would accept an obligation to finance the final repayment if the commercial banks are not willing to finance the balance of principal outstanding, if any, at final maturity. As in the case of the guarantee option, no new cofinancing has yet been arranged that incorporates the contingent obligation option to the date of writing this Paper. However, such a proposal is currently before the Executive Directors of the World Bank for their consideration.

4. Sales of Participations Option

The fourth new technique of cofinancing authorized by the World Bank's Executive Directors is a form of co-financing which has been practiced for some time by the International Finance Corporation, the Inter-American Development Bank, and more recently, by the Asian Development Bank.

Under this option, the World Bank, in addition to making a normal loan for a project, would make an additional loan on commercial terms and sell participations in the entire loan to a group of commercial banks who had previously indicated their interest in so participating. To date, no real interest has been expressed by the commercial banking community in selecting such an option for cofinancing and, if the sales of participations approach were to be adopted, the World Bank would have to be satisfied that the transaction was structured in such a way that its liabilities were clearly identifiable and its responsibility for providing information to participating commercial banks were carefully defined, particularly in view of the potential liability of managers and agents in respect of participations under United States law. 15/

15/ Much has been written on this topic. For recent texts, see Reade H. Ryan, Jr., "International Bank Loan Syndications and Participations" in International Financial Law (Euromoney Publications, 1980) 25; William C.F. Kurz, "Loan Participations After Penn Square", IFL Rev. 1982 (December, 1982) 24; and Peter T. McLaughlin, "Underlying Relationships in Bank Participations", IFL Rev. 1983 (November, 1983) 8.

C. Key Features of the Bank's New Cofinancing Program

1. Selection of Projects and Colenders

The selection of projects suitable for cofinancing under the new cofinancing program has largely followed the patterns established in the context of traditional cofinancing. 16/ The assistance of the World Bank can be drawn upon in identifying suitable opportunities with the concurrence of the borrower. The decision of the World Bank to participate in a new cofinancing loan will be taken by the borrower and the Bank.

The new trial program is genuinely a "cofinancing" program: the World Bank can only participate in commercial loans intended for those projects for which normal World Bank loans have been approved. However, in general, it can be said that the World Bank intends that the new cofinancing program should operate in a manner consistent with the practices of the lending marketplace. This principle has guided the World Bank in the development of its new cofinancing program and is evident in many aspects of that program. Thus, the borrower and the World Bank will decide on the particular segment of the commercial banking sector to be tapped as part of a negotiated approach to the market. Customarily, two or three commercial banks would be approached by the borrower and the World Bank for preliminary discussions in the light of the borrower's overall market strategy and the marketing objectives of each particular operation.

16/ See Part II, Section D, *supra.*

If these preliminary discussions with selected commercial banks on the structuring of such an operation show a positive result, an invitation to submit offers is extended by the borrower to the commercial bank or banks with the concurrence of the World Bank. The offers are reviewed and evaluated by the borrower and by the World Bank, and the borrower awards a mandate to organize the cofinancing loan, subject to the World Bank's participation, on terms and conditions previously indicated by the World Bank to the parties concerned.

An important element of the new cofinancing program which distinguishes it from the sales of participations techniques used by other multilateral financial institutions, is that the managerial and agency functions typical of syndicated credit lending are left entirely with the commercial banks, consistent with market practice. Thus, once a mandate has been awarded by the borrower, the commercial bank responsible for preparing the draft loan documentation fulfills this task although, in view of the critical role of the World Bank in the transaction, that draft would be reviewed by the World Bank to ensure that the latter's policy and other objectives are incorporated in the draft before it is submitted to the borrower for formal negotiations. For the same reasons, the World Bank is present during the negotiation of the new cofinancing loan in order that the final negotiated text may be acceptable to the lead commercial bank responsible for the documentation, the borrower and the World Bank itself. Syndication of the credit, if any, is undertaken by the managing group which also is responsible for arranging the signing of the loan. After loan signing, the responsibilities of the private bank appointed as agent bank then come into play and, if the World Bank has undertaken a direct financial participation in the cofinancing loan, its role becomes that of a mere colender in the syndicate.

2. Legal Documentation and Special Policy Requirements of the World Bank

As previously described in this Paper, the first three new cofinancing transactions so far completed have involved the World Bank taking a direct financial participation in the late maturities of commercially syndicated loans for projects approved by the World Bank for financing under normal World Bank loans. Based upon these three transactions, an early pattern has emerged and, although the World Bank intends to adopt a flexible approach in future similar transactions so as to ensure the attractiveness of the new cofinancing program, a number of generalizations may be made at this stage.

In each instance so far, the documentation has been in the form of a commercially syndicated loan agreement prepared by the lead managing bank. In cases where the commercial bank lenders have benefitted from a guarantee (for example, of the member country of the World Bank) the form of that guarantee has been included in the loan agreement, also consistent with market practice. The text of each loan agreement has differed, reflecting the preferences of the lead managing commercial bank and its lawyers, but the documentation has incorporated usual provisions on such matters as definitions; a description of the loan; the conditions precedent to drawdown; interest and default interest; fees, charges and expenses; repayment, prepayment and application of payments; taxes; yield protection/increased costs; representation and warranties; financial information; negative pledge, and positive and negative covenants generally; events of default and remedies; the role and responsibility of the agent commercial bank and the managers; the governing law and jurisdiction and waiver of sovereign immunity; and miscellaneous matters.

Additional provisions designed to reflect the World Bank's participation in the loan have also been included. Some of these provisions are required by the World Bank's Articles, some are intended to protect the World Bank itself and others are intended to provide a measure of comfort sought by the commercial lenders within the context of each cofinancing transaction. Described below are some of these unique provisions.

(i) Purpose of the Loan and Use of Proceeds

Consistent with IBRD's Articles, the purpose of each loan is clearly specified and, depending upon the drawdown period and the requirements of the project being financed, special provisions are added to ensure that the proceeds of the loan will be disbursed and used for that purpose and to enable the World Bank to monitor such use. These provisions have generally been welcomed by the commercial cofinanciers who have too often witnessed an inappropriate use of their funds by some borrowers. In some instances, especially where the drawdown period is long enough to cover the estimated timetable for eligible expenditures being financed under the loan, fairly simple provisions exist to ensure that the proceeds of the loan are properly used. In other instances where, due to the preference of the colenders, the drawdown period is very short, special account mechanisms have been required so that the proceeds of the cofinancing loan will be available for disbursement on the project being cofinanced.

In practice, it has not been too difficult to harmonize the World Bank's strict procurement rules with the flexibility traditionally afforded to borrowers in commercial lending transactions. The Bank has developed a policy requiring only that an amount of the new cofinancing loan at least equivalent to the portion financed by it should be spent on goods and services procured in accordance with the Bank's procurement procedures. The balance of the cofinancing loan may, however, be used in other ways, consistent with the general economy and efficiency dictates of the Bank's Articles. 17/

17/ See Part I, Section C (5) and Part II, Section F.1, *supra*.

(ii) Non-Rescheduling of the Cofinanced Loan

The World Bank follows a policy of not taking part in debt rescheduling agreements. One of the concerns shared by the Executive Directors when approving the introduction of the new cofinancing program was that the Bank's participation in the new cofinancing loans should not draw the World Bank into debt rescheduling arrangements. It was therefore necessary that the new cofinancing loan agreements should recognize the World Bank's special position if circumstances were ever to arise which suggested the possibility of a rescheduling of the cofinancing loan.

Although the World Bank wished to protect its own interests in this respect, however, it also considered it appropriate that, since the commercial lenders were prepared to offer benefits to the borrowers not otherwise offered in the marketplace, it was reasonable that those lenders should have some assurance that their portion of the cofinancing loan, too, should not be brought into debt rescheduling if at all possible. In essence, the colenders, by extending their own maturities, "build in" an element of rescheduling when making the loan. Nevertheless, the World Bank could not itself undertake to hold the commercial bank portion of new cofinancing loans out of rescheduling, either expressly or by implication, since such an undertaken would be tantamount to a World Bank guarantee of the entire cofinancing loan, which the World Bank is neither prepared nor authorized to give. A unique provision reflecting these various considerations, was included in the new cofinancing loan agreements to the following effect:

> Each of the parties hereto hereby expressly acknowledges that:
>
> (a) The terms and conditions of the Loan are substantially more beneficial to the borrower than would have been the case had the World Bank not been a party hereto; and
>
> (b) The World Bank follows a policy of not taking part in debt rescheduling agreements and, without imposing any obligation or liability on the World Bank, express or implied, each of the parties hereto intends that policy to apply to the payment by the Borrower of the amounts due to the lenders hereunder.
>
> Accordingly, notwithstanding any other provision of this Agreement, each of the parties hereto hereby agrees that none of the payment obligations of the Borrower set forth in this Agreement shall be varied or waived without the consent of the World Bank, which consent may be given on such terms and conditions (including amending the sharing provisions of Section _____ of this Agreement) as the World Bank in its absolute discretion may consider appropriate. The World Bank shall incur no liability, express or implied, with respect to the withholding or granting of such consent, nor shall any of the parties hereto take any action to compel the World Bank to agree to a variation or waiver of any of the obligations of the Borrower hereunder towards the World Bank.

As will be observed, the debt rescheduling clause formally recognizes the special characteristics of the new cofinancing loan and the World Bank's policy of non-rescheduling. In view of these facts, all the parties -- the borrower, the commercial colenders and the World Bank -- agree that the entire cofinancing loan obligations are not to be rescheduled without the World

Bank's consent. It is felt that this clause, unique in syndicated credit lending, will serve to protect all parties in the event of a debt rescheduling exercise in respect of the borrower's obligations generally. At the same time, the clause implicitly recognizes that there may be some circumstances under which a rescheduling may take place, if the World Bank should agree. Under current World Bank policy, such agreement would not, however, extend to the portion of the new cofinancing loan due to the World Bank.

(iii) Government Guarantee of World Bank Portion

If a member state of the World Bank is not the borrower, the Articles of the World Bank require that the World Bank portion must be fully guaranteed by the member state in whose territories the project is located (Article III, Section 4(i)). The terms of this guarantee are included in a separate guarantee agreement between the guarantor and the World Bank along the lines of the traditional form of guarantee agreement normally given to the World Bank in its lending operations. The terms of that guarantee agreement are made available to the commercial colenders for their information.

(iv) Government Guarantee of Commercial Bank Portion

Whether a government guarantee of the commercial bank portion of a new cofinancing loan should be provided is a matter to be decided by the guarantor and the commercial banks on normal market considerations. Thus, if the borrower is not creditworthy in its own right, a government guarantee may be given and, if provided, its terms may be included in the new cofinancing loan agreement consistent with usual commercial practice. If the World Bank portion of the cofinancing loan only is guaranteed, special issues concerning the sharing of guarantee payments arise, as discussed under the next heading.

(v) Sharing of Debt Service Payments

An essential characteristic of syndicated credit lending is that lenders share pro rata among themselves loan service payments received or recovered from the borrower in discharge of the borrower's obligations under the loan agreement. One of the particular benefits which commercial banks may obtain under the new cofinancing loan instruments in which the World Bank directly participates is provided by such a sharing arrangement. Hence, if the borrower misses a debt service payment, it would have failed in its obligations to the World Bank, as well as to the commercial lenders.

The financial impact of a missed debt service payment may, of course, depend upon the inclusion of provisions in the loan agreement relating to the application of debt service payments to different categories of indebtedness under the agreement. Thus, if the loan agreement should provide that loan service payments should be applied first in reducing the obligations of the borrower to pay charges, then to interest and finally to principal, a partial shortfall in debt service payments by the borrower may only affect the lenders to whom principal is due and payable. Because the World Bank is financing the late maturities, such a shortfall in debt service would affect only the commercial lenders. Nevertheless, the fact that a shortfall could adversely affect the World Bank (particularly if it was large enough to cause a shortfall in the payment of charges or interest due to the lenders, including the World Bank) makes it inconceivable that the World Bank would not view seriously a failure of the borrower to service its entire payment obligations under the new cofinancing loans.

A particular problem with respect to sharing, however, is presented in the case of those new cofinancing loans where the World Bank's portion might be guaranteed (in satisfaction of the requirements of the World Bank's Articles, as described above), but where the commercial bank portion of the loans is not guaranteed (for example, where the borrower is perceived as commercially creditworthy). In normal syndicated credit lending not involving the World Bank, such a situation would be very unlikely to arise: either the commercial loan would be fully guaranteed, or it would not be guaranteed at all. When fully guaranteed, it would be customary to include within the loan agreement provisions providing for <u>pro rata</u> sharing of payments, not only from the borrower, but also from the guarantor. In the case of the World Bank's new cofinancing instruments, however, which might be partially guaranteed as to the World Bank's portion only, the sharing of payments, if any, made by the guarantor to the World Bank under its guarantee poses particular problems for the World Bank, as follows:

(a) the Bank's Articles require that its portion of the commercial loan be "fully" guaranteed. Acceptance by the Bank of a prior contractual obligation to share such guarantee payments would deprive the Bank of the "full" guarantee given by the member country. On the other hand, a voluntary sharing of guarantee payments with colenders after their receipt by the Bank would require the Bank to reduce its assets in an unauthorized manner; and

(b) any sharing of guarantee payments by the World Bank would be tantamount to an indirect partial guarantee of the commercial bank portion, in circumstances where the member country intended that no guarantee be given directly to the commercial lenders.

In these circumstances, the approach has been taken that payments received by the World Bank from the guarantor need not be shared with commercial colenders. In order to satisfy the customary desire of syndicate members for equality of treatment among all lenders, two other unique provisions have been agreed upon. One of these provisions (which could be described as a "mutual non-sharing clause") indicates that, if the World Bank receives payments under its guarantee which it does not share with the commercial banks, the commercial banks may retain, for their own benefit, any amounts which they might recover from the borrower (whether by setoff or otherwise) until the proportion of commercial bank recoveries equals the proportion of recoveries due to the World Bank from the guarantee payments. In addition, and perhaps of more practical importance to the commercial banks, however, special information and consultation provisions may be included that require the World Bank and the agent commercial bank to exchange views on matters of mutual interest and to consult with each other and with the borrower concerning conditions which interfere or threaten to interfere with the accomplishment of the purposes of the confinancing loan, the maintenance of the service thereof, the performance by the borrower of its obligations under the agreement and any remedial measures which may be necessary or appropriate under the circumstances. The presence of these provisions, it is thought, offer a special comfort to the commercial lenders, even if their portion of the cofinancing loan is not guaranteed.

(vi) Decision-making -- Majority Voting

Consistent with commercial practice, decision-making by the syndicate is by a specified majority based upon amounts of loan outstanding (after initial drawdown) or of commitments (before initial drawdown). Such majority voting provisions mean that, since the World Bank is only partially funding the cofinancing loan, it can be outvoted until most of the commercial portion of the loan has been repaid, leaving the World Bank portion at a sufficiently high majority to exercise a veto or majority voting position. The fact that the World Bank is prepared to subject itself to majority voting provisions, where it can be outvoted, is also thought to be an attractive feature of the new cofinancing program in the eyes of commercial lenders.

(vii) Cross-Default Clause

The World Bank, it is thought, has adopted an especially pragmatic approach with respect to the cross-default clauses which commercial colenders would normally expect to have included in the new cofinancing loan agreements.

In the first place, a default by the borrower under the new cofinancing loan program is a default directly against the World Bank as much as it is against the commercial lenders. In addition, as in the case of traditional formal cofinancing, the cofinancing loan may be declared in default if the World Bank accelerates its parallel loan(s) for the project, or if there is a material debt service failure to the World Bank by the borrower or the guarantor, if any. The new cofinancing loan may not be cross-defaulted to World Bank loans in other circumstances: the developmental covenants in those loans are viewed by the World Bank as too sensitive to be administered by third parties.[18]

On the other hand, customary cross-default clauses referring to general indebtedness of the borrower (other than indebtedness of the borrower to the World Bank) may be included in the new cofinancing loan agreements. However, since the general indebtedness cross-default clauses are usually broader than would be permitted by long-standing World Bank policy,[19] the World Bank reserves the right

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18/ See Part II, Section E. 2(iv), _supra_.

19/ _Id_.

to instruct that any acceleration of the cofinancing loan based upon such broad clauses not apply to its portion of the cofinancing loan.

(viii) Option to Sell Part of World Bank Participation

In order to provide the World Bank with additional lending resources at the earliest opportunity, provisions enable the World Bank to assign (without benefit of the World Bank guarantee, if any), or to sub-participate, its portion of the cofinancing loan down to a specified minimum, by first offering such assignment or sub-participation to the commercial bank participants in the loan. An assignment or sub-participation below the specified minimum requires the consent of all lenders, so as to ensure the World Bank's continued involvement in the loan at a significant level.

(ix) The Role of the World Bank

The new cofinancing loan agreements have expressly defined the role and liability of the World Bank in such a way as to indicate that the World Bank should be liable only to the extent of the express commitments given in the loan agreements and should not be burdened with any implied liabilities. Provisions to accomplish this purpose follow in large measure the provisions customarily limiting the liability of managers and agent banks in traditional syndicated loan agreements.

(x) Governing Law and Jurisdiction

In a break with its customary lending practices, [20] the World Bank is prepared to accept governing law and jurisdiction clauses in the new cofinancing loan agreements as are normal in commercial lending, so long as those clauses are acceptable to the commercial lenders and the borrower and protect the rights of the Bank as a colender. As a result, the new cofinancing loan agreements [21] may be governed by such "lenders' law" (among others) as the laws of the State of New York, England or Japan and jurisdiction for the settlement of disputes may be vested in the domestic courts of those places.

Documentation is in the process of being developed for the guarantee and contingent obligation options available under the World Bank's new cofinancing program. However, until the transactions involving such options have been completed, it would be premature to speculate as to the structure or documentation likely to be involved in these transactions.

20/ See Part I, Section D.4 and Part II, Section F. 4, *supra*.

21/ If the Bank's portion of the cofinancing loan agreement is guaranteed by a member country, the guarantee obligations would generally be expressed in a separate document subject to international law and international arbitration, consistent with customary Bank practice. *Id.*

IV. CONCLUSION

The conclusion which emerges from the foregoing discussion of the World Bank's approach towards cofinancing with commercial sources is an obvious one: the practice of the World Bank has been evolutionary and pragmatic. In the early to mid-1970s, the need for commercial cofinancing of projects financed by the World Bank was not perceived to be great and the mechanisms by which such cofinancing took place were wholly informal. As the need for such cofinancing was increasingly perceived by the World Bank and as the commercial lenders became more aware of the benefits of a closer coordination with the World Bank in cofinancing, the techniques became more formalized and contractual linkages were established, albeit of a relatively simple nature. The increasing difficulties faced by World Bank borrowers in attracting commercial lending in the early-1980s, the growing resource constraints upon the World Bank's own lending capabilities and the international lending difficulties faced by commercial lenders, have all enhanced the need for even closer links between the World Bank and commercial lenders. As those links have strengthened, particularly through the new cofinancing program instituted in 1983, the World Bank has made special efforts to ensure that commensurate benefits would flow to its borrowers from such closer linkages.

The new cofinancing program of the World Bank offers a variety of new techniques to meet differing circumstances. These new techniques should not be viewed as static instruments to be applied rigidly in all cases. Rather, it is to be expected that they will be modified and adapted to meet a wide range of projects, borrowers and market conditions. The fact that the World Bank is now participating with commercial banks in ways which are so innovative when compared to its traditional practices suggests that the instruments now being offered in the Bank's new cofinancing program are merely some examples of an even broader, diverse and variable range of cofinancing instruments that will be developed in years to come.

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APPENDIX I

DEBT DEFAULT CLAUSE
SUGGESTED BY THE WORLD BANK
FOR INCLUSION IN COFINANCIER'S LOAN AGREEMENTS

I. Inclusion of the usual language of the cofinancier as regards defaults under other loan and guarantee agreements, but expressly excluding defaults under World Bank loan and guarantee agreements.

II. Inclusion of the following language relating to World Bank loan and guarantee agreements:

"(a) The Borrower [or the Guarantor] shall have failed to pay any amount due, whether in respect of principal, interest, fees, charges, or otherwise and whether by scheduled maturity, by required prepayment, by acceleration, by demand or otherwise under the World Bank Loan Agreement or under any other agreement involving a borrowing from World Bank to which the Borrower [or the Guarantor] is a party; provided, however, that: (1) the failure to pay such amount shall have continued for a period of not less than forty-five consecutive days and shall be continuing; and (2) the aggregate of the amounts due and payable under such agreements shall exceed the equivalent of ________ United States dollars (US$______________);*/ or

(b) The World Bank shall have declared the principal of the Loan then outstanding to be due and payable before its stated maturity."

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*/ The amount to be specified shall be about 1/24% of the aggregate amount payable by the borrower (and the Guarantor) to World Bank on existing loans (including the World Bank Loan for the project being cofinanced) during the calendar year of the first scheduled repayment of the World Bank for the project being cofinanced.

APPENDIX II

Indicative Form of Memorandum of Agreement
Between
The World Bank and Private Bank Cofinanciers

A. Recitals

1. International Bank for Reconstruction and Development (hereinafter called the World Bank) has agreed to lend to _______ ___________________ (hereinafter called the Borrower) an amount in various currencies equivalent to _______________ United States dollars (US$__________) (hereinafter called the World Bank Loan), on the terms and conditions set forth in the Loan Agreement dated __________ __________, _______________[, as amended as of __________ ,] (hereinafter called the World Bank Loan Agreement) to assist in financing a project [summary description of Project] (hereinafter called the Project).

2. Certain private banks including [Agent]___________ ____ _______ (hereinafter called the Private Banks) have agreed to lend to the Borrower _____________________________ ______________ ________________United States dollars (US$__ _________) (hereinafter called the Private Banks Loan), for the same Project, on the terms and conditions set forth in the Loan Agreement as of ______________________ (hereinafter called the Private Banks Loan Agreement). [Agent]__________________________ _____has agreed to act as agent for the Private Banks under the Private Banks Loan Agreement (hereinafter in such capacity called the Agent).

3. The World Bank and the Agent, on its own behalf and on behalf of the Private Banks, hereby acknowledge that neither party, in making its loan to the Borrower, has relied on information or judgments concerning the Borrower, the Project or the country in which the Project is located, provided by or obtained from the other party and that each party has made its loan in the exercise of its own judgment in accordance with its normal standards and practices.

4. The World Bank and the Agent, on behalf of itself and the Private Banks, have deemed it convenient to make arrangements, with the consent of the Borrower, for the exchange of information and views on matters of common interest and for the provision by the World Bank of certain services related to the servicing of the Private Banks Loans. It is, however, agreed that (i) neither the World

Bank on the one hand, nor the Agent and the Private Banks on the other, will rely on the other party to inquire into or verify the accuracy of any information provided by the Borrower or to review or evaluate the condition of the Borrower, the Project or the country where the Project is located and (ii) each party will take, or refrain from taking, any decision or action under the World Bank Loan Agreement or the Private Banks Loan Agreement, as the case may be, on the basis only of its own independent judgment, without reliance on the information provided by, or expected from, the other party or the views expressed by such party.

5. Whenever used in this memorandum the terms defined in the World Bank Loan Agreement and the Private Banks Loan Agreement have the meanings therein given to them [and the term _____ means ____________].

B. Service Payments of the Private Banks Loan

6. The World Bank and the Agent hereby agree to act as follows in respect of payments to be made by the Borrower to the Private Banks pursuant to the Private Banks Loan Agreement.

(a) The Agent shall, not more than 90 days nor less than 60 days before each Interest Payment Date, give notice to the World Bank of: (i) the date of such Interest Payment Date (as defined in the Private Banks Loan Agreement); (ii) the amount of interest on such Interest Payment Date; and (iii) the principal loan amount, if any, of the Private Banks Loan to be due and payable on such Interest Payment Date.

(b) The World Bank shall, on behalf of the Agent and on the basis only of the information received on time from the Agent pursuant to the preceding paragraph, bill the Borrower for payment to the account referred to in paragraph 6(c) below of the amounts of principal and interest to be paid by the Borrower under the Private Banks Loan Agreement, with the same advance notice and using substantially the same procedures as it applies to similar billings for the World Bank's own loans, but in any event within 30 days of its receipt of the Agent's notice, and shall promptly send a copy of such bills to the Agent.

(c) The Agent shall open and maintain on its books, at its office [address] and without cost to the World Bank, a special account entitled "____________ ____________(herein called the Special Account) to which there shall be credited all amounts received by the Agent on account of payment of principal and interest for which the World Bank will have billed the Borrower pursuant to the preceding paragraphs.

(d) Amounts received by the Agent in the funds and by the time and date specified in Section ____for credit to the Special Account shall be deemed to have been paid by the Borrower to the Agent and shall pro tanto satisfy the Borrower's obligations under the Private Banks Loan Agreement.

(e) If any such payment from the Borrower is not received on time, the Agent shall give written notice thereof to the World Bank, and the World Bank shall, on behalf of the Agent, promptly request the Borrower, by cable or telex, that such payment be made. A copy of such cable or telex shall be promptly sent by the World Bank to the Agent.

(f) The World Bank does not undertake any responsibility with respect to the billing or payment of amounts owed by the Borrower to the Agent or the Private Banks other than as defined in the procedures elaborated above.

C. Information and Consultation

7. The World and the Agent, on its own behalf and on behalf of the Private Banks, shall as soon as practicable

make available to each other all information received from the Borrower that may be of common interest with respect to the service, or the accomplishment of the purpose, of their respective loans, except information received by the World Bank or the Agent or any Private Bank which the recipient, in its sole judgment, considers to be of a confidential nature.

8. The World Bank and the Agent, on its own behalf and on behalf of the Private Banks, shall (a) to the extent practicable, afford each other a reasonable opportunity to exchange views before taking any action which may lead to (i) the suspension, cancellation, or acceleration of their respective loans, or (ii) a substantial amendment of the Project, and (b) at the request of either party, exchange views on any substantial and adverse change in the financial condition of the Borrower or in the progress or cost of the Project; provided, however, that this shall in no way limit or impair the independent right of decision and action of the World Bank or of the Agent and the Private Banks under the World Bank Loan Agreement or the Private Banks Loan Agreement, respectively.

D. Miscellaneous

9. The rights or obligations of the World Bank or the Agent under this Memorandum shall not be assigned or otherwise transferred to any third party (including a substitute agent of the Private Banks under the Private Banks Loan Agreement) without the written consent of the other party.

10. The parties hereto agree that any notice or request given or made pursuant to this Memorandum shall be deemed to have been duly given or made when it shall be delivered to the following addresses:

For the World Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable Address:

INTBAFRAD
Washington, D.C.

For the Agent

Cable Address

With Copy to:

This Memorandum will come into force and effect upon signature by the World Bank and the Agent and acceptance by the Borrower.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	[AGENT]
By____________________	By____________________
Date____________________	Date____________________

ACCEPTED :

[BORROWER]

By____________________

Date____________________

(logged under Bruim) WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: CPS Department Directors

DATE: July 16, 1981

FROM: A. A. Raizen, CPSVP

SUBJECT: Re: Memorandum of May 7, 1981 from Frank Vibert on "Expanded Co-financing with Export Finance Institutions"

In responding to the above memo, we suggested that a copy be sent to each CPS Department, and that it be asked to indicate what further distribution it would like for its Department.

I am not sure whether this was done; to be on the safe side, I am forwarding you the attached copy of the memo. If you would like to have additional copies for distribution in your Department, please let me know.

Please attach to subject paper — sent to you earlier.

Thanks

Please order 20 copies for

(1)	McCarthy	(3)
(2)	Fitzpatrick	(3)
(3)	Bhavan	(3)
(4)	Fish	(1)
(5)	Dr...	(1)
(6)	D...	(1)
(7)	Collette	(1)
(8)	Front office	(4)
9	Library	(3)

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NATIONAL PROGRAMS OF EXPORT FINANCE

XI. The Netherlands

Institutions

1. Insurance against export credit risks is provided by NCM (Nederlandsche Crediet-verzekering Maatschappij), a private company acting with the support of the Government.

2. The Central Bank (de Nederlandsche Bank) provides refinancing and loan facilities to commercial banks at less than market rates for export credits with repayment periods of two to five years (later maturities would be at market rates). The program, known as the Export Financing Arrangement (EFA), limits its support to not more than Fl. 50 million ($21 million) per transaction involving exports of capital goods insured by NCM.

3. The NV Export Financiering Maatschappij, a group of private Dutch banks, specializes in export financing, generally at market rates.

Contact

Mr. J.W. Hoobroeckx
NCM
Postbus 473
NL 1000 AL Amsterdam
Netherlands

Procedure

Inform NCM (through Mr. Hoobroeckx) on co-financing. NCM is a focal point on export credit matters in the Netherlands.

Terms of Lending

a. Interest - The rate for EFA financing at the end of last year was about 10.5 to 11.0 percent (inclusive of miscellaneous charges), or roughly one percentage point below prevailing market rates.

b. Repayment - Commences at six months after delivery of goods or project completion, and generally runs up to five years with EFA support; at market rates, repayment periods may be up to 8½ to 10 years. Both EFA and unsupported commercial financing may be combined.

Recent Volume

Average annual gross flows of $500 mil to developing countries.

Sectors of Interest

Petroleum and gas equipment
Chemicals and Synthetic materials
Electrical equipment
Mechanical engineering and metal-working eq ment
Optical equipment
Ships (dredging, drilling rigs, floating drydocks)

Countries of Likely Interest

Africa - Cameroon, Ivory Coast, Kenya, Nigeria
EMENA - Algeria, Egypt, Libya, Morocco, Syria, Tunisia, Yugoslavia
Asia - Indonesia, Korea, Philippines

Latin America - Argentina, Brazil, Trinidad and Tobago

Special Programs

a. Matching Fund - The Economics Ministry provides special funds to help Netherlands exporters of capital goods to compete with officially-supported export credit terms offered by other countries when these are m favorable than EFA financing. Established 1976 with an initial allocation of Fl. 50 m lion ($21 million), the Fund's resources ha virtually tripled due to heavy demand.

b. Local Costs - These may be insured and financed under the EFA program up to 15 per of contract costs.

c. Overseas Direct Investment - Insurance is available against political risks.

Recent Co-financing Operations - n.a.

XIII. Switzerland

Institution

1. GERG (Geschaefstelle fuer die Exportrisikogarantie), a Government agency, insures export credits against political risks; commercial risks are covered by private insurance companies.

2. Export financing is mostly channeled through the private banking system which normally requires GERG insurance.

3. The Office of the External Economic Affairs, Ministry of Economy, provides concessional aid funds which are combined with private export finance at ma·ˈet terms.

Contact

Mr. Peter E. Vogler
Secretary of Embassy of Switzerland
2900 Cathedral Ave., N.W.
Washington, D.C. 20008

Procedure

Inform Mr. Vogler of co-financing prospects. He has undertaken to act as the intermediary on co-financing matters involving Swiss export financing.

Tr s of Lending

a. Interest - Because of low domestic interest rates, typical export credit interest rates through the banking system at the end of 1980 were 5 3/4 percent for maturities up to ten years, but with interest recalculated after five years; on a fixed rate basis, interest ranged from 6 1/2 to 7 1/2 percent. (These rates include the insurance premium but not other charges.)

b. Repayment - Commences six months after delivery of goods or project completion and runs up to about 10 years.

Recent Volume

Average annual flows of about $900 million to developing countries.

Sectors of Interest

Countries of Likely Interest

Africa - Cameroon, Ivory Coast, Kenya, Nigeria, Senegal, Zimbabwe

EMENA - Algeria, Egypt, Iraq, Libya, Morocco, Portugal, Romania, Syria, Tunisia, Yugoslavia

Asia - China, India, Indonesia, Korea, Pakistan, Philippines, Sri Lanka, Thailand

Latin America - Argentina, Brazil, Chile, Honduras, Mexico, Peru

Special Programs

a. Small amounts of concessional funds are made available by the Office of External Economic Affairs for mixed financing with private banks' export credits at market rates. The concessional funds are free of interest and carry maturities of 20 years (inclusive of 10 years grace). These credits are intended by the Government to assist development as well as to promote Swiss exports. In 1981, the Government expects to provide $32 million of concessiona funds combined with $43 million of commercial export credits (total $75 million) to Cameroon, Kenya, Honduras, Morocco and

Zimbabwe. This compares with \$7.2 million in concessional funds and a comparable amount of commercial export credits (total \$14.3 million) for Senegal.

b. Swiss banks will occasionally finance downpayments and some local costs.

c. <u>Overseas Direct Investment</u> - Insurance is available against political risks in developing countries.

<u>Recent Co-financing Operations</u>

<u>FY 1980</u>

Power project, Turkey; \$295 million; terms n.a.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

To: Mr. K. Yamaguchi, EDS

Date: February 14, 1984

From: Ernest Stern, SVPOP

Subject: UNDP/World Bank Energy Sector Programs

1. You may recall that in November 1982 we circulated to the Board a report on the above programs which described their objectives and scope and invited contributions from donor countries to help us continue this work. Since then, considerable progress has been made in both the execution of the programs and in raising finance for them. Under the Energy Assessment Program, which helps individual developing countries analyze their principal energy issues and develop a strategy for their resolution, missions have now visited 48 countries and reports have been completed on 29. At the same time, the Energy Sector Management Assistance Program which was proposed in the November 1982 report, has now become operational and has already provided thirteen countries with specific assistance to help prepare priority investment projects or resolve important institutional, managerial or policy issues. The achievements to date of the programs and our plans for the coming years are described in an updated Progress Report which will be circulated to the Board during this month and which I am attaching for your information.

2. On the funding side, the initial contribution of the Bank and the UNDP have been supplemented with substantial additional contributions made by the following countries through the UNDP Energy Account: The Netherlands, Sweden, Australia, Switzerland, Finland, United Kingdom, Denmark, Norway and New Zealand. Contributions are also being negotiated with Canada, France and the EEC. However, while these contributions have been instrumental in maintaining the momentum of this important venture, there remains a substantial funding gap (see pages 23-24 of the attached Progress Report).

3. As you know Japan is one of the few donor countries which has not contributed to either of these programs so far and I would like to ask you to convey to your authorities our interest in having them join with the other countries in supporting these programs. Apart from the demonstrated and now widely recognized usefulness of these programs, you may also wish to point out to your authorities that the programs carry out the preparatory work for technical assistance projects and feasibility studies in areas that are of high priority to the countries and which can subsequently be financed by bilateral agencies as part of their regular assistance activities. There is, moreover, considerable potential for the use of the Japanese consulting and contracting industry in helping to carry out this work. But, most important, I know that Japan is vitally concerned in moderating the growth of energy consumption in order to conserve scarce resources and in reducing the energy dependence of the developing countries. This program serves both these objectives.

4. If your authorities would consider it useful, the staff responsible for these programs would be ready to visit Tokyo with additional information or clarification. We would, of course, also be glad to furnish any additional information to your office. I look forward to hearing from you on this.

Attachment.

cc: Mr. Ohuchi (VPCOF)

bcc: (w/o attachment)
Messrs. Dherse (VPEIS)
Rovani, Rao, Bharier (EGY)

MAhmed:aaf.

afl

Gen. Cofinancing

ENERGY SECTOR MANAGEMENT PROGRAM

Status of Cofinancing Projects

While about 20 large ($100,000+) feasibility studies and pilot projects have been identified by ESMP staff to date, we have focussed on half a dozen of the most promising ones in our discussions with potential cofinanciers. The current status of negotiations for these projects (profiles attached) is as follows:

Sri Lanka - Rural Industry Efficiency Study

Cost $175,000 1/: EEC has agreed to finance $100,000 of the costs. The Dutch may also finance a share. The EEC contribution is being processed internally and should be available by April 1984. Project implementation can proceed thereafter. An ESMP mission is planned for May/June to agree implementation arrangements with the Government.

Niger - Improved Urban Cookstoves Project

Cost - Phase I $150,000, Phase II $350,000: EEC has agreed to finance $100,000 of the costs of Phase I; the money is likely to be available by April. The Germans and the Dutch have also indicated strong interest. Their contributions will help finance Phase II for which the EEC is also likely to contribute upto $200,000.

Ethiopia - Crop Residue Briquetting Project

Cost $200,000: No firm commitments have been made but EEC, Germans, Dutch and Swedes have indicated interest. ESMP staff are following up.

Ethiopia - Improved Stoves Project 2/

Cost - Phase I $120,000: ILO has agreed to collaborate with staff input at their cost. Dutch and Germans are interested but have made no firm commitments.

Kenya - Coal Import Action Plan 2/

Cost $450,000-500,000: Canadians have agreed to finance subject to overall agreement on ESMP contribution. No other cofinanciers being sought.

Kenya - Periurban Fuelwood Plantations Feasibility Study

Cost $260,000: Canadians have agreed to finance subject to overall agreement on ESMP contribution; Dutch have also expressed interest.

1/ All costs include ESMP supervision and management costs.
2/ Project profile being prepared.

February 2, 1984

UNDP/World Bank
Energy Sector Management Program
Preliminary Project Profile

Sri Lanka Rural Industry Energy Efficiency Project

Background

Given the present trend of fuelwood consumption in Sri Lanka, it is expected that the natural forest cover will be completely denuded in about 30 years. Long before then localized fuelwood shortages will emerge with important social, environmental and economic implications. Furthermore, reduced fuelwood availability will inevitably lead to some increase in commercial energy demand, which will have important consequences for the import bill of Sri Lanka. Rural industry, (mainly tea drying, brick making and copra processing), accounts for 25% of total fuelwood consumption and for a considerable amount of oil consumption. It is expected that through improved efficiency of processing techniques about 30-40% savings in the consumption of fuelwood (and oil products) can be achieved in these industries. However, a more detailed analysis of their energy use patterns is needed in order to establish the most appropriate technology package to realize the possible energy savings.

Project Proposal

This project will further define the prospects for upgrading energy efficiency in rural industries such as tea drying, brick making and copra processing as identified by the energy assessment. The project will make an inventory of the various technologies used in these industries on the basis of which it will formulate detailed proposals with regards to designs and technologies which will result in considerable energy savings. The project will in this connection inter alia pay special attention to the possible use of heat gasifiers and will provide a detailed study of the economics of the energy saving technologies. It will prepare cost estimates for any recommended investments and will also prepare a detailed outline of any further feasibility or pre-investment work required. Finally, the project will identify the most appropriate role of government both with regard to investment and institutional requirements such as training.

Schedule and Costs

The project will approximately take 12 months to complete after the selection for consultants and will require inputs from at least three specialists for varying periods. The total cost is expected to be about $170,000 including supervision by ESMP staff. Detailed terms of reference and a breakdown of project costs can be provided if necessary.

EGYEA/WF/October 1983

UNDP/ World Bank

Energy Sector Management Program

Preliminary Project Profile

NIGER: Woodstoves Dissemination Project

Ba ckground

Fuelwood is the main source of energy in Niger and accounts for about 85% of both rural and urban energy requirements satisfying basic needs for cooking and heating. Total fuelwood consumption is, at present, three times the net available increment of fuelwood. Moreover, the depletion of the national forest cover is causing a decline in soil fertility, while it also intensifies desertification. Both these developments will result in heavy losses in agricultural production.

Variuos NGO's have developed and disseminated so-called improved mud stoves. The results, so far, have been disappointing due to the low number disseminated (about 1,000), the high price (subsidized price is FCFA 7,000), low fuel savings and short life time. Moreover, there are some major obstacles inherent in disseminating mud stoves. These are inter alia: limited production output, high production cost, limited possibility for quality control, and high maintenance requirements. What is needed are stoves that are portable, actually save a substantial amount of fuel, can be mass produced, require little maintenance, and are cheap. Fortunately, this type of technology is now available in the neighbouring country of Upper Volta where the so-called Ouaga stove, which appears to meet these requirements, has been developed with German assistance and disseminated to about 1,000 households. The price of this portable metal stove, as produced in Ouagadougou, is FCFA 1,000 (US$ 3), has a lifetime of two years, and can be mass produced in existing workshops at the rate of 60 per day. Fuelsavings are 45%, while this one pot-hole stove is suitable for traditional aluminium pots. Cooking habits, climatic consitions and other relevant parameters are reasonably similar between the two countries to suggest that the Ouaga stove could be adapted for Niger with little socio-technical difficulty.

Project Proposal

The objective of this project is to show that a self-sustaining technology of fuel-saving woodstoves is strongly dependent on the availability of: a technically sound product at affordable prices; a range of products to cater for the needs of different socio-economic classes; a commercial decentralized production and marketing system; and an institutional support for carrying out R&D on a sustained basis. The project will focus on applying proven existing stoves to the Niamey market rather than on developing a new suitable model from scratch.

To this end the project will be implemented in two phases. During the first phase the Ouaga stove (both with and without chimney) will be tested in a representative sample of the urban population of Niamey, and if necessary adaptations will be made. During this testing period, which lasts 6-8 months, the (private sector) workshops which will produce these stoves will be identified and their production record (quantity and quality) will be evaluated. Finally, the project will carry out a market analysis and design marketing arrangements for the improved woodstoves.

If the results warrant a follow-up, a production, promotion and marketing effort will follow during the second phase, which will last 18 months, in order to disseminate the basic tested stove design through normal commercial (private sector) channels. In parallel with this effort improvements of this basic design (viz. with ceramic liner) will be developed. These "better" designs are more expensive and therefore may cater to the need of those who wish to spend more money on a stove or kitchen comfort. These better stoves will be tested in control households, and if warranted, the project will set up channels for the production of these better stoves and for their marketing.

The expected output of the project is that at the end of two years there will be at least 5,000 stoves of the basic design dèsseminated. Furthermore, there will be a production capacity for the production and marketing of 45,000 stoves per year. Finally, there will be a R&D and quality control capability, which will provide technical assistance to private sector stove producers, will "certify" stove products, and carry out promotion and consumer awareness campaigns.

Schedule of Costs

The project will take 24 months to complete after the selection of consultants. It will be executed in two phases of respectively 6-8 and 18 months and will require input from at least three specialists for the duration of the project. The project cost for phase one are expected to be about $ 160,000 and for the second phase about $ 340,000. Thus, the total project cost is about $ 500,000 including supervision by ESMP staff. Detailed terms of reference and a breakdown of project costs can be provided, if necessary.

WF/ls

Joint UNDP/World Bank
Energy Sector Management Program

Preliminary Project Profile

ETHIOPIA: Crop Residue Briquetting Feasibility Project

Background

The fuelwood resource is so diminished in many of the Sudano Sahelian zone countries that market prices of firewood have risen to between US$75-US$100 per tonne and much inferior fuels such as sorghum and corn stalks and dung are commonly traded. In these markets, more highly processed fuels, such as briquettes of various lignocellulosic crop wastes, which were previously too expensive to consider, appear now to be competitive. Briquetting is a process whereby dry, fine ligno-cellulosic residues are compressed at very high pressures forming small logs, discs or pellets of basic density in excess of 1,000 kg/m^3. The lignins in these materials become the "binder" at the temperatures and pressures created in the required heavy duty presses. Some durable and relatively expensive briquetting equipment has been available commercially since the 1950s though now numerous varieties and sizes of similar equipment are marketed. Production units ranging from several hundred to tens of thousand of tonnes of briquettes per year are in use in India, Thailand, Kenya, Niger and elsewhere in Africa there are plants under trail, such as in the Gambia and in South African dependencies. The same equipment is quite commonly in commercial use in wood-working or fibrous crop processing plants in North America, Western Europe, Japan and Australia. In Japan, it has long been common to briquette sawdust which is then carbonised to produce high quality charcoal briquettes for industrial and household use. Wherever agricultural crop wastes are available in a dry (5-15 percent moisture by weight) and finely divided form (less than 2-4 cm), or can be comminuted cheaply, there is a possibility that industrial and household fuels can be produced and sold competitively.

During the course of the recent Ethiopian energy assessment, several crop residues were evaluated as prospective household and industrial fuels and found to be very worthy of pilot production, or more detalied engineering, logistical and economic analysis. These included coffee husks, and the state farm crop residues of cotton stalks, corn and sorghum stover and wheat straw. Of these, the potential for briquetting coffee husks appears to be most immediately realizable because of the concentrated availability of this residue in relatively large coffee processing mills who currently burn off the husks as a means of disposal to avoid the danger of spontaneous combustion.

In terms of marketability, the use of residue briquettes for household cooking is only at the pilot stage with consumer acceptance to be established in the field in parallel with pilot fuel producion for each cooking appliance and method. Surveys in the Gambia found consumers to be prepared to use these fuels if the price was right, though problems of smoking and ignition were experienced with briquettes in open fires. However, if consumer acceptance in the household sector proves a major constraint, these briquettes can be used without difficulty by industrial users of wood and charcoal. They could also be carbonized and substituted for charcoal as a household fuel.

Specific Project Proposal, Cost and Timing

This project provides for the installation and monitoring of two briquetting presses, of 1,000-2,000 tonnes per year capacity each, to process coffee husks, and to evaluate the use of briquettes as a household and industrial fuel in Addis Abeba, Ethiopia. One plant will be installed in Addis Abeba, and the other in Dila, 360 km away. The combined cost of hardware, installation and monitoring is about US$100,000. Pilot production and evaluation of briquetted fuel use could begin six months after the committment of funds. While the household sector will provide the larger ultimate market for this fuel, the production from the pilot project could also be used in the currently wood fueled boiler plant in Addis Abeba. Thus the pilot project would be assured of a ready market even if a larger subsequent program were decided against. The second component of the project will be to fund a detailed feasibility study of the optimum technical package for harvesting, storing and processing cotton, corn and wheat crop residues in Ethiopia leading to the design, costing and preliminary economic analysis of a major pilot program of commercial fuel briquette production in each case. This activity should also cost about US$100,000. Preliminary economic analyses and a detailed budget for this project are available on request.

Joint UNDP/World Bank
Energy Sector Management Program
Preliminary Project Profile

Kenya Peri-urban Fuelwood Plantation Program

Background

About three-quarters of Kenya's energy use is in the form of fuelwood or woody residues, and more than 80 percent of this is used in the domestic sector. Rapid urbanization has concentrated the demand for woodfuel on a regional basis and put severe pressure on forests within reach of major towns and cities, resulting in deforestation, soil erosion, and reduced agricultural potential. According to a comprehensive evaluation of the fuelwood economy in Kenya, by the Beijer Institute and the Government of Kenya, wood and charcoal end-use will grow at an annual rate of 3.6 percent and 6.7 percent, respectively, between 1980 and 2000, causing a serious imbalance between supply and demand nationally by the mid-1980's. Symptoms of severe shortage and environmental deterioration are already apparent in some more populous regions. By 2000, the annual deficit in fuelwood will exceed 30 million tonnes. The GOK and the Beijer Institute have advanced a strategy and several specific technical proposals for alleviating the impending Kenyan fuelwood crisis, including a major emphasis on agro-forestry, peri-urban plantations, industrial plantations, replanted degraded forests and enhanced management of existing forests. Various agencies are contributing initiatives in agroforestry and improved forest management. However, no initiative has yet been taken in the vital area of peri-urban energy forestry.

Project Proposal

This project is to undertake pre-investment analysis for 25,000 ha of peri-urban forestry to be established by 1990, and to identify the key policies and incentives required to facilitate timely implementation. The project places heavy emphasis on careful, systematic evaluation of land tenure and procurement issues, and on private sector participation at all levels down to small-holder entrepeneurs. Apart from defining an the initial investment package, a broad plan of action will be identified, specifying the requirements for studies, technical assistance, and the overall investment for a program of peri-urban fuelwood plantation development to satisfy the needs of Kenyan urban populations through the year 2000. Finally, the project will identify the most appropriate role of government in this program of investment and planning, identifying the specific needs for institutional strengthening manpower training.

Schedule and Costs

The project will take approximately six months to complete after the selection of consultants and will require input from at least six specialists for varying periods. The total project cost is expected to be about US$260,000, including supervision by ESMP staff. Detailed terms of reference and a breakdown of project costs can be provided if necessary.

EGYEA/KN/ls
October, 1983

(logged under Cofinancing) WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: CPS Department Directors

DATE: July 16, 1981

FROM: A. A. Raizen, CPSVP

SUBJECT: Re: Memorandum of May 7, 1981 from Frank Vibert on "Expanded Co-financing with Export Finance Institutions"

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Thanks

Please order 20 copies for

(1) McCarthy (3)
(2) [illegible] (3)
(3) Bhavan (3)
(4) Fish (1)
(5) [illegible] (1)
(6) [illegible] (1)
(7) Collette (1)
(8) Front office (4)
9 [illegible] (3)

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NATIONAL PROGRAMS OF EXPORT FINANCE

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Contact

Mr. J.W. Hoobroeckx
NCM
Postbus 473
NL 1000 AL Amsterdam
Netherlands

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b. Repayment - Commences at six months after delivery of goods or project completion, and generally runs up to five years with EFA support; at market rates, repayment periods may be up to 8½ to 10 years. Both EFA and unsupported commercial financing may be combined.

Recent Volume

Average annual gross flows of $500 mil to developing countries.

Sectors of Interest

Petroleum and gas equipment
Chemicals and Synthetic materials
Electrical equipment
Mechanical engineering and metal-working e ment
Optical equipment
Ships (dredging, drilling rigs, floating drydocks)

Countries of Likely Interest

Africa - Cameroon, Ivory Coast, Kenya, Nigeria
EMENA - Algeria, Egypt, Libya, Morocco, Syria, Tunisia, Yugoslavia
Asia - Indonesia, Korea, Philippines

Latin America - Argentina, Brazil, Trinidad and Tobago

Special Programs

a. Matching Fund - The Economics Ministry provides special funds to help Netherlands exporters of capital goods to compete with officially-supported export credit terms offered by other countries when these are favorable than EFA financing. Established 1976 with an initial allocation of Fl. 50 lion ($21 million), the Fund's resources ha virtually tripled due to heavy demand.

b. Local Costs - These may be insured and financed under the EFA program up to 15 pe of contract costs.

c. Overseas Direct Investment - Insurance is available against political risks.

Recent Co-financing Operations - n.a.

XIII. Switzerland

Institution

1. GERG (Geschaefstelle fuer die Exportrisikogarantie), a Government agency, insures export credits against political risks; commercial risks are covered by private insurance companies.

2. Export financing is mostly channeled through the private banking system which normally requires GERG insurance.

3. The Office of the External Economic Affairs, Ministry of Economy, provides concessional aid funds which are combined with private export finance at market terms.

Contact

Mr. Peter E. Vogler
Secretary of Embassy of Switzerland
2900 Cathedral Ave., N.W.
Washington, D.C. 20008

Procedure

Inform Mr. Vogler of co-financing prospects. He has undertaken to act as the intermediary on co-financing matters involving Swiss export financing.

Terms of Lending

a. Interest - Because of low domestic interest rates, typical export credit interest rates through the banking system at the end of 1980 were 5 3/4 percent for maturities up to ten years, but with interest recalculated after five years; on a fixed rate basis, interest ranged from 6 1/2 to 7 1/2 percent. (These rates include the insurance premium but not other charges.)

b. Repayment - Commences six months after delivery of goods or project completion and runs up to about 10 years.

Recent Volume

Average annual flows of about $900 million to developing countries.

Sectors of Interest

Countries of Likely Interest

Africa - Cameroon, Ivory Coast, Kenya, Nigeria, Senegal, Zimbabwe

EMENA - Algeria, Egypt, Iraq, Libya, Morocco, Portugal, Romania, Syria, Tunisia, Yugoslavia

Asia - China, India, Indonesia, Korea, Pakistan, Philippines, Sri Lanka, Thailand

Latin America - Argentina, Brazil, Chile, Honduras, Mexico, Peru

Special Programs

a. Small amounts of concessional funds are made available by the Office of External Economic Affairs for mixed financing with private banks' export credits at market rates. The concessional funds are free of interest and carry maturities of 20 years (inclusive of 10 years grace). These credits are intended by the Government to assist development as well as to promote Swiss exports. In 1981, the Government expects to provide $32 million of concessional funds combined with $43 million of commercial export credits (total $75 million) to Cameroon, Kenya, Honduras, Morocco and

Zimbabwe. This compares with \$7.2 million in concessional funds and a comparable amount of commercial export credits (total \$14.3 million) for Senegal.

b. Swiss banks will occasionally finance downpayments and some local costs.

c. Overseas Direct Investment - Insurance is available against political risks in developing countries.

Recent Co-financing Operations

FY 1980

Power project, Turkey; \$295 million; terms n.a cofinancing Gen.

European Input into 1984 ESMAP Work in ACP Countries

		Cost	European Input %	European Input $
10	Energy Assess. Status Reports @ $20,000	200,000	10	20,000
5	Power Efficiency Audits @ $60,000	300,000	30	90,000
10	Preinvestment Activities @ $40,000	400,000	40	160,000
10	Management & Policy Support @ $40,000	400,000	40	160,000
	TOTAL	1,300,000	33	430,000

MAhmed:aaf.
February 15, 1984

chron file M. Ahmed

November 4, 1982

Mr. Rao:

Re: Guidelines for the Presentation of Energy Data

Mr. Najmabadi has now responded with his comments on the draft I sent him. These are:

(i) It might be better to delay issuing any guidelines until the WEC deliberations on this subject have produced an internationally agreed set of numbers. This may come about in the next six months, but further delays are always possible. The TOE value they are likely to decide on is 10 million kcal as opposed to 10.2 million kcal which is the current UN number and our own recommendation. We agreed that the guidelines could be issued as "interim guidelines" to be modified when final international agreement on conversion factors, definitions, etc. is reached. OK.

(ii) He felt that the guidelines should be cleared by Mrs. Hughes. I said I would pass this on to you and if you agreed, we would send a copy of the guidelines to Mrs. Hughes with a note indicating that they had been discussed with Mr. Najmabadi and noting his comment regarding coordination with WEC. not necessary at this stage.

Masood Ahmed

cc: Mr. J. Bharier

GUIDELINES FOR THE COFINANCING OF TECHNICAL ASSISTANCE PROJECTS AND FEASIBILITY STUDIES WITH THE JOINT UNDP/WORLD BANK ENERGY SECTOR MANAGEMENT PROGRAM

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Project Design, Consultant Selection and Supervision

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(viii) Bank staff working on the ESMP will be responsible for the technical supervision of the consultants work (regardless of how financed). The staff of the cofinancing agency may, if they wish, participate in any supervision missions. However, the final directions for the consultants' work and the review will be the responsibility of Bank staff. Where payment to consultants is contingent on satisfactory execution of specific tasks, the final determination of whether this criterion has been met will also be done by the Bank.

Fund Administration

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(x) No specific management fee would be charged for administering cofinanciers' funds (whether tied or not). However, to help defray the Bank's administration costs, any cofinancing funds provided in advance would generally be invested in an interest bearing account until their disbursement.

Energy Sector Management Program
January 18, 1984
MAhmed:jrs

FORM NO. 75
(9–78)

THE WORLD BANK

ROUTING SLIP	DATE: 4/30

NAME	ROOM NO.
Mr. Masood Ahmed	D-449

Jake
E5 MP
Sorry for ...
(HM)

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

I sent the original
to Julian Blauer

FROM:	ROOM NO.:	EXTENSION:
Carl Ludvik		74111

376

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Senior Vice-President, SVPOP — January 18, 1984

FROM: Jean-Loup Dherse, Vice-President, EIS

SUBJECT: Cofinancing Guidelines for the Energy Sector Management Program

1. Attached please find for your approval a revised draft of these guidelines which takes account of your earlier comments. In particular, the role of the Bank as the executing agent for the program has been clarified. These revised guidelines have been cleared with the cofinancing advisory unit.

2. Regarding the Bank's contribution to the ESMP, we will be sending you, shortly, a draft progress report on the Assessment and Sector Management Programs planned for external publication in February, together with supporting material which spells out the various issues.

Attachment

MAhmed:jrs

C. Ludwig
what do you think for (vii)?

(vii) is ok as is -- the recipient has a voice in the selection through consultation - Masood Ahmed agrees and in any event he will discuss these guidelines with EEC and other donors next week. No need to respond to Stern.

J-L
This looks OK.
In vii, it would of course be possible to have the recipient make the selection, subject to our review. I assume we are doing it this way because UNDP prefers it.
E
1/20/84

CL

OK

GUIDELINES FOR THE COFINANCING OF TECHNICAL ASSISTANCE PROJECTS AND FEASIBILITY STUDIES WITH THE JOINT UNDP/WORLD BANK ENERGY SECTOR MANAGEMENT PROGRAM

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Project Design, Consultant Selection and Supervision

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Fund Administration

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(x) No specific management fee would be charged for administering cofinanciers' funds (whether tied or not). However, to help defray the Bank's administration costs, any cofinancing funds provided in advance would generally be invested in an interest bearing account until their disbursement.

Energy Sector Management Program
January 18, 1984
MAhmed:jrs

FORM NO: 75
(9–78)

THE WORLD BANK

ROUTING SLIP

DATE: 3 2

NAME	ROOM NO.
~~Mr Julian Blanier~~	D-451
Masood	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
✓	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

I sent a copy to Masood, too

FROM:	ROOM NO.:	EXTENSION:
Carl Ludvik	C-503	74111

WAIVER: ORIGINAL TAKEN BY Z. KALIM / S O'LEARY MAR 8, 90

2.76

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Senior Vice-President, SVPOP January 18, 1984

FROM: Jean-Loup Dherse, Vice-President, EIS

SUBJECT: Cofinancing Guidelines for the Energy Sector Management Program

1. Attached please find for your approval a revised draft of these guidelines which takes account of your earlier comments. In particular, the role of the Bank as the executing agent for the program has been clarified. These revised guidelines have been cleared with the cofinancing advisory unit.

2. Regarding the Bank's contribution to the ESMP, we will be sending you, shortly, a draft progress report on the Assessment and Sector Management Programs planned for external publication in February, together with supporting material which spells out the various issues.

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MAhmed:jrs

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E 1/20/84

C. Lud work

what do you think for (vii)?

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CL

OK

GUIDELINES FOR THE COFINANCING OF TECHNICAL ASSISTANCE PROJECTS AND FEASIBILITY STUDIES WITH THE JOINT UNDP/WORLD BANK ENERGY SECTOR MANAGEMENT PROGRAM

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Energy Sector Management Program
January 18, 1984
MAhmed:jrs

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: Jan. 1, 1984

NAME	ROOM NO.
Messrs. Rovani, Rao, Bharier,	
Kalim	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
X	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

.ARKS:

.OM:	ROOM NO.:	EXTENSION:
M. Ahmed	D-449	74545

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: Jan. 18, 1984

NAME	ROOM NO.
Mr. Frank Vibert	F-718

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
X	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE	X	URGENT

REMARKS:

FROM:	ROOM NO.:	EXTENSION:
Masood Ahmed	D-449	74545

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Senior Vice-President, SVPOP January 18, 1984

FROM: Jean-Loup Dherse, Vice-President, EIS

SUBJECT: Cofinancing Guidelines for the Energy Sector Management Program

1. Attached please find for your approval a revised draft of these guidelines which takes account of your earlier comments. In particular, the role of the Bank as the executing agent for the program has been clarified. These revised guidelines have been cleared with the cofinancing advisory unit.

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Attachment

MAhmed:jrs

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Energy Sector Management Program
January 18, 1984
MAhmed:jrs

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

To: Mr. Ernest Stern, SVPOP

Date: January 10, 1984

Through: Messrs. Jean-Loup Dherse (VPEIS) and Teruyuki Ohuchi (VPCOF)

From: Masood Ahmed (EGYEA) and Ullrich Kiermayr (VPCAU)

Ahmed.

Subject: Cofinancing Procedures for the Joint UNDP/World Bank Energy Sector Management Program (ESMP)

1. Most of the project definition and prefeasibility studies being carried out by the Energy Assessments Division under the ESMP cost under $60,000 each and are being financed entirely from ESMP resources, which so far have come almost entirely through the UNDP. However, we have also identified a number of somewhat larger feasibility studies and pilot projects in the $200,000-500,000 range, where we believe the Bank's direct participation would be useful but which cannot be financed from ESMP resources alone. Consequently UNDP and ourselves have explored the possibility of cofinancing these projects with other donor agencies. A number of them -- EEC, Finnida, the Dutch Government, GTZ and the Nordic Investment Bank -- have already responded positively to this idea and others may do so soon. All have indicated that they would be willing to contribute the bulk of the cost of each project (80-90%) in a cofinancing arrangement with the ESMP, (or even a general contribution to the program, i.e. covering a number of pre-agreed projects) as long as ESMP staff were involved in supervising project implementation. However, some of these agencies may wish to tie their contributions to the procurement of consultants and services from their country (or, for the EEC, member countries plus the ACP countries).

2. EIS and COF staff have discussed the question of accepting tied cofinancing for these ESMP operations and have jointly developed the attached guidelines which are consistent with the Bank's experience to date and which are submitted for your approval.

3. The basic objective of these guidelines is to build adequate safeguards into all cofinancing arrangements to ensure that project quality is maintained. A second objective is to design procedures which will minimize the risk of any perception of partiality in the choice of cofinanciers.

4. The first objective is to be achieved by reserving the Bank's right to approve all aspects of project selection, design and implementation as well as the choice of consultants and their terms of reference. In effect we propose to enter into only those cofinancing arrangements where we will clearly be designated the "managers" of the total project. Regarding the second objective, we intend to minimize this risk by circulating a list of prospective cofinancing projects to all prospective donors at regular intervals. Where more than one donor expresses interest in cofinancing the project, the choice will be made by

the recipient government, although we would retain the right to opt out of the project if we felt that there was inadequate consultant expertise in the chosen country for the type of project concerned.

5. Following your approval these guidelines, which have been approved by the Legal Department and PAS, will be applied in finalizing individual cofinancing operations under the ESMP.

Attachment.

cc and cleared with: Messrs. Rovani (EGY); Vibert (VPCAU); Ludvik (EIS);
Dickerson/Spier (PAS); Taylor (LEG).

MAhmed:aaf.

GUIDELINES FOR THE COFINANCING OF TECHNICAL ASSISTANCE PROJECTS AND FEASIBILITY STUDIES UNDER THE JOINT UNDP/WORLD BANK ENERGY SECTOR MANAGEMENT PROGRAM

The following guidelines will be applied to technical assistance projects, feasibility studies and demonstration or pilot projects to be executed under the joint UNDP/World Bank Energy Sector Management Program (ESMP) and for which part of the funds are provided by other cofinanciers. These cofinancing agencies include other multilateral assistance agencies, bilateral aid agencies and other official government agencies. The guidelines will be reviewed after an initial operation period of twelve months and revised as necessary.

Selection of Cofinanciers

(i) In all discussions with potential cofinanciers, UNDP and ourselves will first seek to obtain untied cofinancing funds.

(ii) If these are not forthcoming, then if the recipient government so requests we will accept cofinancing funds on a tied basis but only after ensuring that there is adequate technical expertise available in the country(ies) of procurement for the type of project(s) envisaged.

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(iv) ESMP management will reserve the right to withdraw from a prospective cofinancing arrangement if it cannot satisfactorily establish that adequate technical expertise (consultants, equipment, etc.) for the type of project envisaged is available in the country (ies) eligible under the proposed cofinancing arrangement.

Project Design, Consultant Selection and Supervision

(v) Before embarking on a cofinancing arrangement for a particular project, all major aspects of project design and implementation will be agreed with the Government concerned and the cofinancing agency. However, ESMP staff will retain the right to make minor modifications to project design and implementation arrangements as the work proceeds, if this is necessary.

(vi) All consultants selected for work on these projects will have to be approved by ESMP management as well as the recipient country and by the agency financing their work.

(vii) All terms of reference for such consultants will be approved similarly by ESMP management in consultation with the recipient Government and the cofinancing agency.

(viii) Where more than one consultant or consultant firm submits a proposal to carry out work under a cofinanced project, the final selection of consultants in the light of their proposals will be made by a committee of Bank staff (appointed by the Assistant Director, Energy Policy and Assessments and comprising at least three staff members) in consultation with the staff of the cofinancing agency and of the recipient government.

(ix) ESMP staff will be responsible for the technical supervision of the consultants work (regardless of how financed). The staff of the cofinancing agency may, if they wish, participate in any supervision missions. However, the final directions for the consultants' work and the review will be the responsibility of ESMP staff. Where payment to consultants is contingent on satisfactory execution of specific tasks, the determination of whether this criterion has been met will also be done by ESMP staff in consultation with the staff of the recipient government and of the cofinancing agency.

Fund Administration

(x) Where we participate in a tied cofinancing arrangement, we would express a strong preference for the cofinanciers to administer their own funds — i.e., they would pay directly for the consultants and other services employed on the project and financed by them.

(xi) At the special request of the donor, we would be prepared to administer tied cofinancing funds, but there would have to be strong reasons to do so. (An example is the possible reluctance of the EEC to become involved in administering consultant contracts for political reasons). Before accepting this responsibility, ESMP staff would discuss each individual case with the Cofinancing Advisory Unit and obtain its prior approval.

(xii) No specific management fee would be charged for administering cofinanciers' funds (whether tied or not); however, we would normally insist on the right to invest these funds until their disbursement. The interest income would go towards defraying administration costs and would not be added to the funds available for the project.

Energy Sector Management Program
January 10, 1984
MAhmed:aaf.

358(P)

(MI + CL have copies)

361

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

January 11, 1984

Mr. Stern

In passing this memo over to you, I would like to make just one remark.

I think it would be appropriate, and even necessary, for the Bank itself to start contributing to the Energy Sector Management Program. I understand that you had indicated that this issue would have to be dealt with when the Program will have gained momentum. It now has. It would look quite strange to go on looking for 100% outside co-financing. (!) On the contrary, contributing might spark even more outside contributions, which in turn might indirectly allow the Bank to do more or save money elsewhere.

Jean-Loup Dherse

cc: Mr. Ohuchi
Mr. Rovani
Mr. Ludvik

Jean-Loup

My point has been that we contribute a great deal already. We contribute the management at no cost; we defray part of the staff overhead costs; and part of the work is based on our sector work. But I think we should see what this program

No

Double counting

P-1852

results in, i.e. what projects and actions can be "mined" (to use your terminology) before we embark on too rapid an expansion of more report writing.

I have some problems with the guidelines – which are noted. Please also show them to CoFin.

E

OFFICE MEMORANDUM

To: Mr. Ernest Stern, SVPOP   Date: January 10, 1984

Through: Messrs. Jean-Loup Dherse (VPEIS) and Teruyuki Ohuchi (VPCOF)

From: Masood Ahmed (EGYEA) and Ullrich Kiermayr (VPCAU)

Subject: Cofinancing Procedures for the Joint UNDP/World Bank Energy Sector Management Program (ESMP)

1. Most of the project definition and prefeasibility studies being carried out by the Energy Assessments Division under the ESMP cost under \$60,000 each and are being financed entirely from ESMP resources, which so far have come almost entirely through the UNDP. However, we have also identified a number of somewhat larger feasibility studies and pilot projects in the \$200,000-500,000 range, where we believe the Bank's direct participation would be useful but which cannot be financed from ESMP resources alone. Consequently UNDP and ourselves have explored the possibility of cofinancing these projects with other donor agencies. A number of them -- EEC, Finnida, the Dutch Government, GTZ and the Nordic Investment Bank — have already responded positively to this idea and others may do so soon. All have indicated that they would be willing to contribute the bulk of the cost of each project (80-90%) in a cofinancing arrangement with the ESMP, (or even a general contribution to the program, i.e. covering a number of pre-agreed projects) as long as ESMP staff were involved in supervising project implementation. However, some of these agencies may wish to tie their contributions to the procurement of consultants and services from their country (or, for the EEC, member countries plus the ACP countries).

2. EIS and COF staff have discussed the question of accepting tied cofinancing for these ESMP operations and have jointly developed the attached guidelines which are consistent with the Bank's experience to date and which are submitted for your approval.

3. The basic objective of these guidelines is to build adequate safeguards into all cofinancing arrangements to ensure that project quality is maintained. A second objective is to design procedures which will minimize the risk of any perception of partiality in the choice of cofinanciers.

4. The first objective is to be achieved by reserving the Bank's right to approve all aspects of project' selection, design and implementation as well as the choice of consultants and their terms of reference. In effect we propose to enter into only those cofinancing arrangements where we will clearly be designated the "managers" of the total project. Regarding the second objective, we intend to minimize this risk by circulating a list of prospective cofinancing projects to all prospective donors at regular intervals. Where more than one donor expresses interest in cofinancing the project, the choice will be made by

the recipient government, although we would retain the right to opt out of the project if we felt that there was inadequate consultant expertise in the chosen country for the type of project concerned.

5. Following your approval these guidelines, which have been approved by the Legal Department and PAS, will be applied in finalizing individual cofinancing operations under the ESMP.

Attachment.

cc and cleared with: Messrs. Rovani (EGY); Vibert (VPCAU); Ludvik (EIS);
Dickerson/Spier (PAS); Taylor (LEG).

MAhmed:aaf.

GUIDELINES FOR THE COFINANCING OF TECHNICAL ASSISTANCE PROJECTS AND FEASIBILITY STUDIES UNDER THE JOINT UNDP/WORLD BANK ENERGY SECTOR MANAGEMENT PROGRAM

ought we to make it clear that the cofinancing is with the program, for which are the executing agent?

The following guidelines will be applied to technical assistance projects, feasibility studies and demonstration or pilot projects to be executed under the joint UNDP/World Bank Energy Sector Management Program (ESMP) and for which part of the funds are provided by other cofinanciers. These cofinancing agencies include other multilateral assistance agencies, bilateral aid agencies and other official government agencies. The guidelines will be reviewed after an initial operation period of twelve months and revised as necessary.

If suppose we discover a problem in the 6th month?

Selection of Cofinanciers

(i) In all discussions with potential cofinanciers, UNDP and ourselves will first seek to obtain untied cofinancing funds.

(ii) If these are not forthcoming, then if the recipient government so requests we will accept cofinancing funds on a tied basis but only after ensuring that there is adequate technical expertise available in the country(ies) of procurement for the type of project(s) envisaged.

(iii) To ensure that all potential cofinanciers have an opportunity to participate in these projects, ESMP staff will regularly circulate to all the major donors, a list and brief description of all as yet unfunded projects which have been identified as suitable for cofinancing with the ESMP. The donors will be asked to indicate their interest in any of these projects within a given period (one month). In the event of more than one donor expressing an interest in cofinancing the project, the choice of cofinancier will be made by the recipient government. The recipient government will also, of course, need to approve all cofinancing arrangements even if a single donor is interested in the project.

(iv) ESMP management will reserve the right to withdraw from a prospective cofinancing arrangement if it cannot satisfactorily establish that adequate technical expertise (consultants, equipment, etc.) for the type of project envisaged is available in the country (ies) eligible under the proposed cofinancing arrangement.

who is that? the Bank as executing agent? or the Bank & UNDP? define

ii - seems to say we will no accept unless we are satisfied the skills exist.

(iv) - says we will withdraw if the skills don't exist.

either inconsistent or a safety against mistakes?

Project Design, Consultant Selection and Supervision

(v) Before embarking on a cofinancing arrangement for a particular project, all major aspects of project design and implementation will be agreed with the Government concerned and the cofinancing agency. However, ESMP staff will retain the right to make minor modifications to project design and implementation arrangements as the work proceeds, if this is necessary. the Bank

makes IV all the more irrelevant?

(vi) All consultants selected for work on these projects will have to be approved by ESMP management as well as the recipient country and by the agency financing their work. define

(vii) All terms of reference for such consultants will be approved similarly by ESMP management in consultation with the recipient Government and the cofinancing agency.

(viii) Where more than one consultant or consultant firm submits a proposal to carry out work under a cofinanced project, the final selection of consultants in the light of their proposals will be made by a committee of Bank staff (appointed by the Assistant Director, Energy Policy and Assessments and comprising at least three staff members) in consultation with the staff of the cofinancing agency and of the recipient government. no longer ESMP? why

(ix) ESMP staff will be responsible for the technical supervision of the consultants work (regardless of how financed). The staff of the cofinancing agency may, if they wish, participate in any supervision missions. However, the final directions for the consultants' work and the review will be the responsibility of ESMP staff. Where payment to consultants is contingent on satisfactory execution of specific tasks, the determination of whether this criterion has been met will also be done by ESMP staff in consultation with the staff of the recipient government and of the cofinancing agency.

what liability are we accepting? As executing agent? suppose we say "no" & the others yes. Who is responsible?

Fund Administration

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(xi) why At the special request of the donor, we would be prepared to administer tied cofinancing funds, but there would have to be strong reasons to do so. (An example is the possible reluctance of the EEC to become involved in administering consultant contracts for political reasons). Before accepting this responsibility, ESMP staff would discuss each individual case with the Cofinancing Advisory Unit and obtain its prior approval.

option would be to 1) EEC to provide untied funds, 2) borrower to administer.

(xii) No specific management fee would be charged for administering cofinanciers' funds (whether tied or not); however, we would normally insist on the right to invest these funds until their disbursement. The interest income would go towards defraying administration costs and would not be added to the funds available for the project.

its unlikely, isn't it that we will get funds in advance. Surely we need not insist. If payment is on completion, bills go directly to financier.

Energy Sector Management Program
January 10, 1984
MAhmed:aaf.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Cofinancing file

To: Mr. Ernest Stern, SVPOP

Date: December 22, 1983

Through: Messrs. Jean-Loup Dherse (VPEIS) and Teruyuki Ohuchi (VPCOF)

From: Masood Ahmed (EGYEA) and Ullrich Kiermayr (VPCAU)

Subject: Cofinancing Procedures for the Joint UNDP/World Bank Energy Sector Management Program (ESMP)

1. Most of the project definition and prefeasibility studies being carried out by the Energy Assessments Division under the ESMP cost under \$60,000 each and are being financed entirely from ESMP resources, which so far have come almost entirely through the UNDP. However, we have also identified a number of somewhat larger feasibility studies and pilot projects in the \$200,000-500,000 range, where we believe the Bank's direct participation would be useful but which cannot be financed from ESMP resources alone. Consequently UNDP and ourselves have explored the possibility of cofinancing these projects with other donor agencies. A number of them -- EEC, Finnida, the Dutch Government and GTZ -- have already responded positively to this idea and others may do so soon. All have indicated that they would be willing to contribute the bulk of the cost of each project (80-90%) in a cofinancing arrangement with the ESMP, (or even a general contribution to the program, i.e. covering a number of pre-agreed projects) as long as ESMP staff were involved in supervising project implementation. However, some of these agencies may wish to tie their contributions to the procurement of consultants and services from their country (or, for the EEC, member countries plus the ACP countries).

2. EIS and COF staff have discussed the question of accepting tied cofinancing for these ESMP operations and have jointly developed the attached guidelines which are consistent with the Bank's experience to date and which are submitted for your approval.

3. The basic objective of these guidelines is to build adequate safeguards into all cofinancing arrangements to ensure that project quality is maintained. A second objective is to design procedures which will minimize the risk of any perception of partiality in the choice of cofinanciers.

4. The first objective is to be achieved by reserving the Bank's right to approve all aspects of project selection, design and implementation as well as the choice of consultants and their terms of reference. In effect we propose to enter into only those cofinancing arrangements where we will clearly be designated the managers of the total project. Regarding the second objective, we intend to minimize this risk by circulating a list of prospective cofinancing projects to all prospective donors at regular intervals. Where more than one donor expresses interest in cofinancing the project, the choice will be made by the recipient government, although we would retain the right to opt out of the project if we felt that there was inadequate consultant expertise in the chosen country for the type of project concerned.

5. Following your approval these guidelines, which have been approved by the Legal Department and PAS, will be applied in finalizing individual cofinancing operations under the ESMP.

Attachment.

cc and cleared with: Messrs. Rovani (EGY); Vibert (VPCAU); Dickerson (PAS); Taylor (LEG).

MAhmed:aaf.

GUIDELINES FOR THE COFINANCING OF TECHNICAL ASSISTANCE PROJECTS AND FEASIBILITY STUDIES UNDER THE JOINT UNDP/WORLD BANK ENERGY SECTOR MANAGEMENT PROGRAM

The following guidelines will be applied to technical assistance projects, feasibility studies and demonstration or pilot projects to be executed under the joint UNDP/World Bank Energy Sector Management Program (ESMP) and for which part of the funds are provided by other cofinanciers. These cofinancing agencies include other multilateral assistance agencies, bilateral aid agencies and other official government agencies. The guidelines will be reviewed after an initial operation period of twelve months and may be revised at that time.

Selection of Cofinanciers

(i) In all discussions with potential cofinanciers, UNDP and ourselves will first seek to obtain untied cofinancing funds.

(ii) If these are not forthcoming, then if the recipient government so requests we will seek and accept cofinancing funds on a tied basis but only after ensuring that there is adequate technical expertise available in the country of procurement for the type of project(s) envisaged.

(iii) To ensure that all potential cofinanciers have an opportunity to participate in these projects, ESMP staff will regularly circulate to all the major donors, a list of brief description of all as yet unfunded projects which have been identified as suitable for cofinancing with the ESMP. The donors will be asked to indicate their interest in any of these projects within a given period (one month). In the event of more than one donor expressing an interest in cofinancing the project, the choice of cofinancier will be made by the recipient government. The recipient government will also, of course, need to approve all cofinancing arrangements even if a single donor is interested in the project.

(iv) ESMP staff will reserve the right to withdraw from a prospective cofinancing arrangement if they cannot satisfactorily establish that adequate technical expertise (consultants, equipment, etc.) for the type of project envisaged is available in the country (ies) eligible under the proposed cofinancing arrangement.

Consultant Selection and Supervision

(v) All consultants selected for work on these projects will have to be approved by ESMP staff as well as the recipient country and by the agency financing their work.

(vi) All terms of reference for such consultants will also need to be approved similarly.

(vi) Where more than one consultant or consultant firm submits a proposal to carry out work under a cofinanced project, the final selection of consultants in the light of their proposals will be made by a committee of Bank staff (appointed by the Assistant Director, Energy Policy and Assessments and comprising at least three staff members) in consultation with the staff of the cofinancing agency and of the recipient government.

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Fund Administration

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(x) In exceptional circumstances, we would be willing to take on the responsibility for administering tied cofinancing funds, but there would have to be strong reasons to do so. (An example is the possible reluctance of the EEC to become involved in administering consultant contracts for political reasons). Before accepting this responsibility, ESMP staff would discuss each individual case with the Cofinancing Advisory Unit and obtain its prior approval.

(xi) In line with previous Bank experience, no management fee would be charged for administering cofinanciers' funds (whether tied or not). However, we would normally insist on the right to invest these funds in an interest-bearing account until disbursed. The interest income would go towards defraying administration costs and would not be added to the funds available for the project.

Energy Sector Management Program
December 22, 1983
MAhmed:aaf.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

MA - your copy

To: Messrs. Vibert, Kiermayr (VPCAU); Dickerson (PAS) and Taylor (LEG)

From: Masood Ahmed, Acting Chief, EGYEA

Date: January 5, 1984

Subject: Cofinancing Procedures for the Energy Sector Management Program

1. You will recall that we discussed a draft memorandum on this subject in November 1983. The attached revised draft is substantially the same but it incorporates the comments you made then and also spells out the procedures in some greater detail. This draft has been cleared by the Energy Department.

2. I would, therefore, appreciate your clearance or comments on it by tomorrow if at all possible. We can then ask Messrs. Ohuchi and Dherse for their signatures.

Attachment.

MAhmed:aaf.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

To: Mr. Ernest Stern, SVPOP | Date: January 5, 1984

Through: Messrs. Jean-Loup Dherse (VPEIS) and Teruyuki Ohuchi (VPCOF)

From: Masood Ahmed (EGYEA) and Ullrich Kiermayr (VPCAU)

Subject: Cofinancing Procedures for the Joint UNDP/World Bank Energy Sector Management Program (ESMP)

1. Most of the project definition and prefeasibility studies being carried out by the Energy Assessments Division under the ESMP cost under $60,000 each and are being financed entirely from ESMP resources, which so far have come almost entirely through the UNDP. However, we have also identified a number of somewhat larger feasibility studies and pilot projects in the $200,000-500,000 range, where we believe the Bank's direct participation would be useful but which cannot be financed from ESMP resources alone. Consequently UNDP and ourselves have explored the possibility of cofinancing these projects with other donor agencies. A number of them -- EEC, Finnida, the Dutch Government, ~~and~~ GTZ and the Nordic Investment Bank -- have already responded positively to this idea and others may do so soon. All have indicated that they would be willing to contribute the bulk of the cost of each project (80-90%) in a cofinancing arrangement with the ESMP, (or even a general contribution to the program, i.e. covering a number of pre-agreed projects) as long as ESMP staff were involved in supervising project implementation. However, some of these agencies may wish to tie their contributions to the procurement of consultants and services from their country (or, for the EEC, member countries plus the ACP countries).

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5. Following your approval these guidelines, which have been approved by the Legal Department and PAS, will be applied in finalizing individual cofinancing operations under the ESMP.

Attachment.

cc and cleared with: Messrs. Rovani (EGY); Vibert (VPCAU); Ludvik (EIS); Dickerson (PAS); Taylor (LEG).

MAhmed:aaf.

GUIDELINES FOR THE COFINANCING OF TECHNICAL ASSISTANCE PROJECTS AND FEASIBILITY STUDIES UNDER THE JOINT UNDP/WORLD BANK ENERGY SECTOR MANAGEMENT PROGRAM

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major

Project Design, Consultant Selection and Supervision

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at the special request of the donor, ~~the~~ we would be prepared to administer

(xi) ~~In exceptional circumstances, we would be willing to take on the responsibility for administering~~ tied cofinancing funds, but there would have to be strong reasons to do so. (An example is the possible reluctance of the EEC to become involved in administering consultant contracts for political reasons). Before accepting this responsibility, ESMP staff would discuss each individual case with the Cofinancing Advisory Unit and obtain its prior approval.

(xii) ~~In line with previous Bank experience,~~ ~~with the~~ No specific management fee would be charged for administering cofinanciers' funds (whether tied or not); ~~However,~~ we would normally insist on the right to invest these funds ~~in an interest-bearing account~~ until ~~disbursed.~~ their disbursement. The interest income would go towards defraying administration costs and would not be added to the funds available for the project.

Energy Sector Management Program
January 5, 1984
MAhmed:aaf.

Mr Ludwik

Draft
DAStrombom:erf
12/8/83

OPN NO. PROCUREMENT IN COFINANCED PROJECTS

I. INTRODUCTION

1. Many Bank-financed[1] projects now involve cofinancing from other sources and, with increased emphasis on attracting other external sources of capital for cofinancing, this will be a more common pattern of financing projects in the future. The sources of cofinancing are varied and include governments, regional development banks, commercial banks, and export credit agencies. Cofinancing, in most cases, introduces procurement issues that do not arise when the project is financed entirely by the Borrower and the Bank, mainly because of the variance in the terms and conditions under which the cofinancing may be provided.[2] Funds may be provided under either joint financing or parallel financing arrangements; they may be "tied", i.e., available only for specified kinds of purchases or for purchases from the country offering the financing; amounts may be limited and they may be subject to other restrictions on their use. The new cofinancing instruments ("B" loans)[3], which lead to the amalgamation of Bank funds or guarantees and commercial bank funds into a single syndicated loan, also raise issues relating to the use of these funds.

2. These conditions affect the choice of arrangements which will be appropriate for procurement in cofinanced projects. In general, cofinancing requires that earlier attention be given to procurement planning during

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1/ References to the Bank and loans also include IDA and credits.

2/ See OMS 1.24, Cofinancing, for more detailed explanation.

3/ See Cofinancing with Commercial Banks: Short Note on New Instruments; February 3, 1983.

project formulation to achieve optimum use of cofinancing resources in a manner which will help ensure successful project implementation. The purpose of this note is to guide staff, who in turn may be requested to advise and assist Borrowers, on procurement matters in cofinanced projects.

3. Cofinancing is an evolving activity in the Bank. Ways which could help enlarge its scope are continuously under discussion and review in consultation with the cofinanciers. The present guidelines may, as a consequence, undergo changes about which the staff will be advised. Staff who wish to explore procurement or financing arrangements are encouraged to seek guidance from regional cofinancing coordinators, the Central Procurement Unit in PPD, VPCOF and Legal Department.

II. PROCUREMENT UNDER JOINT FINANCING ARRANGEMENTS

4. Joint financing refers to a cofinancing operation for which there is a common list of goods and services and where the financing of and disbursement for all or certain items are shared between the Bank and the cofinancier in agreed proportions. Joint financing is not widely used, but some official aid agencies and Regional Development Banks, as well as other agencies such as IFAD, have participated in this type of financing with the World Bank. In the 1960s joint financing was also undertaken in projects cofinanced with export credits, and the revival of this approach is under discussion.

5. All procurement under joint financing arrangements must be carried out in accordance with the Bank's Guidelines,[4] and the responsibilities of the Bank relating to procurement are generally the same as in lending operations where no cofinancing is involved. Eligibility to prequalify, if required, or to compete for procurement contracts under joint financing is open to all who are eligible under the Bank's Guidelines.[5] If this is not acceptable to the cofinanciers, parallel financing should be the selected approach so that it can be ensured that Bank funds will only finance procurement carried out in accordance with the Guidelines.

6. In procurement where Bank financing is anticipated, it cannot be made a condition for bidding that bidders for goods or equipment must provide suppliers credits or any other form of financing. Such a condition

4/ Guidelines for Procurement Under World Bank Loans and IDA Credits, hereafter referred to as the Guidelines.

5/ Bank member countries, Switzerland and Taiwan, China.

would limit the participation of otherwise eligible bidders who are unable to offer such financing, and is therefore unacceptable. In joint financed projects, such a mandatory condition cannot be included in the invitation to bid. However, since the Bank would be providing only a proportion of the payment required, bidders may be asked on an optional basis to indicate their ability to provide finance for the balance of the payments. The availability or the terms of such financing cannot be taken into account, however, in the bid evaluation.

7. In joint financed projects, the Bank normally will review notices of invitations to prequalify and to bid, bidding documents, bid evaluation and award recommendations, and proposed contract awards. An agreement with cofinanciers may specify the extent to which cofinanciers may participate in the review process and the Bank's responsibilities with regard to keeping cofinanciers informed of procurement decisions and providing copies of related documents.

III. PROCUREMENT UNDER PARALLEL FINANCING ARRANGEMENTS

8. Parallel financing refers to a cofinancing arrangement in which the Bank and cofinanciers finance different goods and services or parts of a project. Generally it is used in cases where:

(a) cofinanciers' funds are required to be limited to disbursements for specified purposes, or more frequently, to financing purchases from limited sources, e.g., firms established in the country of the lender or in member countries of the lending organization; and

(b) the procurement can be divided into packages which can be procured separately without seriously affecting project costs, implementation schedules or overall performance.

Since many sources of cofinancing, including most national official aid and export credit institutions, regional development banks and special funds established by regional blocs or marketing groups put limitations on the use of their funds, parallel financing arrangements will have to be used in most cofinanced projects.6/

9. Procurement considerations to be weighed when arranging parallel cofinancing include:

(a) the need for economy and efficiency and overall project integrity, including concerns for fair prices, compatibility of goods and

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6/ When there are multiple cofinanciers, it may be possible to have one part of a project financed under joint financing arrangements and another part under parallel financing.

equipment, quality standards, coordinated timing of implementation, and adequate total financing;

(b) the borrower's interest in obtaining the most advantageous combination of prices and financing terms, although, at the project level, the offers that can be considered may be constrained by national borrowing strategies that, for example, link projects in certain sectors with particular sources of funds; and

(c) the complexity of project organization and management, and the need for timely decision making.

The choice of arrangements for parallel financing is basically the responsibility of the borrower. The remainder of this section discusses some of the options available to borrowers and suggests ways to meet the concerns listed above.

Contract Packaging

10. The structuring of procurement arrangements and the way in which contracts will be packaged are issues requiring special attention in parallel cofinancing. Each project must be considered separately and from two different aspects: the size and scope of the project components and the likely sources of cofinancing. As the project size and scope are generally known at an earlier stage in the project cycle than are the sources of cofinancing, procurement planning usually will be an iterative process.

11. Planning for procurement should start with the technical considerations relating to the economic and efficient implementation of the project. For a project consisting mainly of works or a combination of

works and equipment installation (e.g., port development, mining, industrial plants), the best sequence and timing of construction activities should first be determined irrespective of cofinancing considerations, using techniques such as the critical path method of analysis. From this analysis, a logical grouping of activities should emerge which can form the basis for a preliminary proposal for the size, nature and timing of contract packages. In some cases works that, from a technical point of view, could have been done under a single contract, may have to be split into several contracts to match the available cofinancing from various sources.

12. For some kinds of projects, (e.g., health, population and nutrition; education), contract packaging will depend mainly on grouping purchases of equipment and supplies into packages that will interest bidders because of the similarity of goods (e.g., textbooks in one, laboratory equipment in another) and the value of purchases. By giving firms the option to bid on individual contracts (slices) or on a group of contracts to be awarded at the same time (package), both small and large firms may be encouraged to bid.

13. The preliminary plan for procurement should be developed by the Borrower, with the Bank's assistance if needed, as early as possible. The description of the proposed size and scope of the different contract packages can be a valuable aid in determining potential cofinanciers' overall interest in the project and their interests in particular project elements. Cofinanciers' interests and requirements may, in turn, require modifications of the preliminary procurement proposals to reflect the actual financing plan that is adopted.

Selection of Project Elements for Bank Financing

14. Under parallel financed projects, the Bank and cofinanciers generally agree with Borrowers in advance of loan approval on the parts of the project to be financed by each. This selection is influenced by a number of considerations, some of which may be conflicting. The availability of parallel financing depends, inter alia, on the prospective cofinanciers' interests in the borrowing country, the type of proposed project and the specific procurement opportunities that will result from their involvement. Contract packages must therefore include goods, works or services that can be supplied by firms who are eligible under the cofinanciers' rules. Cofinanciers generally limit the kind and size of contracts they will finance. Financing may be available for equipment manufactured in the cofinancier's country, but not for civil works contracts or consultants' services. At the same time, procurement for the Bank-financed part of the project must be carried out in accordance with the Guidelines, including international competitive bidding wherever appropriate. The choice of the part of the project to be financed by each cofinancier will also depend on the amount of financing each can provide. It may be necessary for the Bank to select some project components for Bank-financing that are unlikely to attract cofinancing offers.

15. To the extent possible, contract packages and financing arrangements should be designed so that the outcome of one contract award does not unduly influence the competition for other contract packages. If, for reasons of compatibility, the choice of one piece of equipment determines the choice of associated pieces of equipment, all such related equipment generally should be in a single contract package.

16. In projects involving multiple contracts for civil works, some to be financed by the Bank and others by cofinanciers, there are advantages

from the standpoint of competition in having the Bank finance the first contract in the normal construction sequence. By so doing, it will be assured that competition for that contract is open to all eligible bidders, without any requirement to provide financing as a condition of bidding, and that the award will be made to the bidder submitting the lowest evaluated bid on a cash basis. Contracts to be financed by cofinanciers, in contrast, may require that bidders offer financing as a condition of bidding, and the financing terms are taken into account in selecting the best offer (see para. 18). Such a requirement limits competition to those who can make such financing available, and many otherwise qualified bidders from eligible sources for Bank procurement cannot do so. If bidding for the first contract is open only to bidders who can provide financing, the successful bidder may gain a distinct advantage over those other bidders in competing for subsequent contracts because of being already on site, having received mobilization advances, etc.

Competition

17. Competition among interested suppliers is a widely used and proven method for achieving economy and efficiency in procurement. Competition uses the market mechanism to test how attractive an offer is, and this testing is equally valid whether or not cofinancing is involved. Borrowers often will have more than one potential source of parallel financing and, when this is the case, it is in their interest to create a procurement environment in which the broadest possible competition can occur.

18. The method used most often to obtain competition is to develop a procurement plan based on a prior decision that the Bank will finance only a portion of the project, consisting of specified items up to a stated

amount, and that other items, selected for their suitability for export credit or other cofinancing, will be procured through competitive bidding among suppliers who can provide the necessary cofinancing. Only bidders who are able to guarantee such financing would be eligible to compete for the cofinanced portion. The invitation to bid may set out the minimum financing requirements for bids to be considered, and would call for financing terms and disclose the evaluation method and the rate to be used to discount to present value. The borrower would take the bid price and financing terms into account during bid evaluation and would award the contract to the bidder offering the most advantageous bid based on discounted present value.7/

19. The procedures outlined in paragraph 18 cannot be used if procurement is to be undertaken in accordance with the Bank's international competitive bidding (ICB) procedures. However, some cofinanciers are willing to offer funds when suppliers who meet their eligibility criteria win contracts after ICB in accordance with Bank Guidelines. In addition, some Borrowers may find it beneficial to seek (but not require) alternative financing offers when inviting bids under ICB procedures. When this is the case, the Borrower should employ ICB procedures that are open to all eligible bidders, as set out in the Guidelines, determine the lowest evaluated bidder on a cash basis and then, whenever possible, use parallel cofinancing offered by the lowest evaluated bidder.8/ There is no assurance under this arrangement that the lowest evaluated bidder will have

7/ See Annex 1, Attachment 1.

8/ Under these circumstances, Bank loan proceeds may be used to finance downpayments for cofinanced contracts for goods and equipment. Bank financing of downpayments is not permitted for contracts where the provision of cofinancing has been a mandatory requirement for eligibility to bid. (The circumstances in which Bank loan proceeds could be used for financing downpayments in respect of export credits used in cofinancing is a matter that is presently under consideration).

such cofinancing support, as it would not be a condition for bidding. The uncertainty that this creates must be taken into account in the design of the overall project financing plan and provisions made to cover contract costs in such an eventuality (see paras. 22-25).

20. Competition for procurement among suppliers representing different cofinancing sources may not always be possible; alternative sources of cofinancing may simply not be available. In such cases, the borrower may carry out procurement without international competition provided that it is economic and efficient. Even when cofinancing is offered for procurement only from a single country, there may be several eligible suppliers from that country who are able to furnish the required goods, and it is to the Borrower's advantage for competition to take place among them.

Sequential Earmarking of Funds

21. Large projects may attract many potential cofinanciers, each with different limitations on the use of their funds. Overall project financing requirements may make it necessary to use most, if not all, of the offered funds. The problem becomes one of applying these funds as efficiently and economically as possible for procurement of the various project items, taking into account any limitations on their use. In such cases, a good strategy for the Borrower is to begin by earmarking those funds with the least flexibility for particular items which can be procured with reasonable efficiency and economy. For example, if funds are tied to procurement in one country, it may be advantageous if they are used to procure items which are manufactured by several firms in that country so that the Borrower may still have the advantage of competition. If this is not feasible, the Borrower may be able to select items of a standardized nature for which current price indications are widely available for a number of countries, e.g., structural steel, fertilizers, etc. This may

assist the Borrower in determining and bargaining effectively for an economical price. Such funds could also be used to procure items which, for reasons of compatibility or standardization, need to be procured from a single supplier in any case and that supplier is in a country in which these tied funds may be disbursed. By following such a process successively for funds with increasing degrees of flexibility, the borrower can maximize the efficiency of their utilization. Bank funds will generally have the least restrictions on their use and may therefore be applied to items which cannot be financed by cofinanciers.

Financing Plans

22. In cases of cofinancing with official aid sources or with regional development banks, the availability of their funds is known firmly in most cases by the time of Board presentation. The same degree of certainty may not be possible in the case of cofinancing with export credit agencies and commercial banks. The precise source of export credit is dependent on the completion of the procurement process, and commercial banks do not favor making long-term commitments of funds well ahead of the time they are actually needed. Typically, therefore, at the time of Board presentation it may only be possible to indicate "export credits" or "commercial bank loans" as likely sources without identifying the particular export credit agency or commercial bank which would provide the funds. Even though the total funds estimated to be available from all potential sources may exceed the amount needed, the sources which will actually be used thus may not be known until the procurement process is completed. In the event that all potential sources cannot be utilized because of restrictions imposed by cofinanciers on their use, there may emerge a financial gap that will need to be filled by other means. Also

potential cofinanciers may want to be assured of the Bank's commitment to a project before they firm up their participation, so that a project may have to be presented for Board approval without all sources of needed funds being firmly identified. Either situation requires a greater degree of flexibility in the project financing plan than would otherwise be required at the time of loan approval.

23. Much of the concern stemming from uncertainty about the specific sources and applications of cofinancing funds can be offset by a carefully developed overall approach to procurement and cofinancing, using procedures outlined above. If it is expected that cofinancing will be required in the financing plan, this should be noted in Project Briefs, Issues Papers and Decision Memoranda. Staff appraisal reports, in describing proposed cofinancing arrangements, should, to the extent possible:

(a) identify the potential sources of cofinancing, particularly those that have already made commitments or expressed interest, and the kinds of procurement involved and the amounts likely to be available;

(b) assess the risks of a shortfall in funds, for whatever reasons; and

(c) propose ways for meeting any such shortfalls in the event they do occur.

With this type of supporting analysis and planning, projects may be presented for Board approval with a reasonably firm, but not necessarily complete, financial plan. In such cases the loan agreement should provide, where appropriate, for a condition of disbursement restricting the disbursement of Bank funds either entirely or beyond a certain limit until the financing needed to cover any major shortfall has been firmed up.

24. The degree of flexibility that can be permitted in a project financing plan will also depend on the particular country's situation. Countries with a high degree of creditworthiness and numerous options for cofinancing are more likely to be able to obtain cofinancing, and so greater flexibility is permissible. Countries whose creditworthiness and available sources for cofinancing are limited will need a correspondingly higher degree of firmness of financing arrangements at the time of loan approval; especially since a shortfall because of the failure of expected cofinancing to materialize will likely affect the availability of foreign exchange, the portion most difficult to be made up by the Borrower.

25. A situation may arise, at the other extreme, where there is an abundant availability of funds from other sources so that little or no Bank financing is required. While one objective of cofinancing is to enable the Bank, by better leveraging its resources, to support a larger number of projects in any country, it is also necessary to create an environment which will encourage partners to enlarge their cofinancing activities. This consideration and the need for the Bank to continue policy dialogues with the Borrower require that the Bank retain a meaningful financial involvement in the project. Similarly, a minimum involvement of the Borrower in the project financing is also necessary for successful implementation and operation of the project. In the process of reviewing CPPs, guidelines are established regarding the nature and extent of Bank participation in projects for different countries, which may be applied with some flexibility to individual projects. The staff should, however, bring any proposals for major departures from these guidelines to the notice of the management for their guidance.

IV. PROCUREMENT WITH "B" LOANS

26. Under its "B" loan program, the Bank will finance, or undertake a contingent obligation to finance (through guarantees or otherwise), a portion of a commercial bank loan made for a project which the Bank will also be financing under a normal Bank loan (the "A" loan). The Bank's Articles require that the proceeds of any loan guaranteed, participated in or made by the Bank must be used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency.[9] Therefore, the Bank will have to be satisfied that the entire "B" loan will be used for proper purposes, which will be specified in each "B" loan agreement, and that the procurement of all goods and services financed out of the "B" loan will be carried out in an economical and efficient manner.

27. Procedures will have to be established within the context of each "B" loan transaction to achieve the specified purposes for both the commercial banks' and the Bank's participations in the "B" loan. In establishing these procedures, an effort should be made to retain, to the extent possible, the benefits to Borrowers of commercial lending, including, for example, the greater flexibility usually available in the use of commercial loan proceeds.

28. Depending upon the individual circumstances of the project and the preferences and constraints of the Borrower and the commercial lenders, the proceeds of the "B" loan could be applied towards:

(a) The local or foreign exchange costs of some or all of the goods and services to be partly financed out of the "A" loan (to the extent not financed by the "A" loan). In this event, the

9/ Articles of Agreement, Article III, Section 5(b).

procedures for procurement of the goods and services would be governed by the "A" loan and would be in accordance with the Bank's Guidelines.

(b) The local or foreign exchange costs of other goods and services required for the projects. In this event,

(i) an amount of the "B" loan at least equivalent to the portion which the Bank is financing, or is under a contingent obligation to finance, will have to be applied towards expenditures for goods or services procured in accordance with the Bank's Guidelines. This amount of the "B" loan should normally be applied to the financing of the foreign exchange component of goods or services procured under the Bank's international competitive bidding procedures.

ii) the balance of the goods and services to be financed out of the proceeds of the "B" loan should be procured under procedures which ensure economy and efficiency in the project as a whole. Judgments on such matters will usually be expressed the Appraisal Report for the "A" loan, which may state the compatibility with the criteria of economy and efficiency of certain procurement practices outside the Bank's Guidelines (e.g., the Borrower's own procurement practices).

(c) The local or foreign exchange costs of projects expenditures such as interest during construction, working capital or other approved project expenditures not directly involving procurement (but taxes are excluded).

29. The "B" loan agreement will normally specify the contracts or items to be financed from the "B" loan proceeds as well as the applicable disbursement procedures. While the entire proceeds may be applied to the financing of contracts awarded before, and/or after, the signing of the "B" loan agreement, the selection of contracts or items will be influenced by the status of the project, and the disbursement procedures will depend upon the period through which the commercial banks in the "B" loan syndicate are prepared to hold open their lending commitment to the Borrower. If the contracts to be financed out of the "B" loan have been awarded before the signing of the "B" loan agreement and if the commitment period of the "B" loan is long enough to coincide with expected expenditures under those contracts, it should be possible in the "B" loan agreement to list the contracts and provide a disbursement mechanism that will meet the expenditure schedule.[10] If the contracts have not been awarded before the

10/ See, for example, the first "B" loan for Thailand (Doc. No. R83-281. dated September 2, 1983.

signing of the B loan agreement and if the commitment period is short (as often happens in commercial lending), other procedures will have to be used. For example, the "B" loan agreement or related documentation could specify the procedures to be used for procuring particular items and could provide that the proceeds be drawndown into audited project acocunts from which withdrawals could be made for the agreed upon project expenditures as they occur.[11]

11/ See, for example, the "B" loans for Hungary (Doc. No. 83-291, dated September 12, 1983). In resolving the procurement and disbursement issues in each "B" Loan, it should also be borne in mind that the share of the "B" loan proceeds actually used to finance Bank eligible sourced procurement should not fall below the share of the "B" loan that the Bank has committed itself to finance. This could occur if the proceeds of the "B" loan were first applied to non-Bank eligible sourced procurement. One method of avoiding this consequence would be to ensure that a sufficient proportion of earlier drawdowns of the "B" loan proceeds are applied to expenditures upon Bank eligible sourced procurement. Another method would be segregate an equivalent of the Bank's share of the "B" loan proceeds into a separate account for disbursement against identified items.

V. ROLE OF BANK STAFF

30. Cofinancing does not alter the basic responsiblity of appraisal teams to examine and report on the overall soundness and feasibility of the entire project. It does give added importance to the need for staff to address the issues of procurement packaging as early as possible in the project cycle. Specifically in the area of procurement, staff must be able to satisfy management that the proposed arrangements are consistent with the Bank's concerns for economy and efficiency, that prices are reasonable and quality is satisfactory, and that cofinanced elements can reasonably be expected to be completed or delivered in accordance with the overall project schedule. In order to do this, staff may be required to spend more time than usual in assisting the Borrower with procurement planning and contract packaging. This may include advising Borrowers as to the kinds and sizes of contracts that are likely to attract cofinanciers, the sequence and scheduling of procurement activities, and the procedures to use for inviting bids and for bid evaluation to promote competition and to facilitate the assessment of costs, quality and credit terms.

31. Borrowers may also want Bank staff to assist in identifying potential sources of, and in arranging for, cofinancing. The Bank collects general data from many entities about their interests in cofinancing, including their areas of special interest, both geographically and sectorally, and the amounts available and conditions for lending. Staff can assist by making this information available to Borrowers and, conversely, by providing information covering procurement aspects of particular projects to interested potential cofinanciers.

32. Borrowers may request the Bank to go beyond the role of providing information and to act on their behalf in arranging cofinancing. The

nature and extent of this type of assistance by Bank staff that is appropriate will depend in part on the experience and stage of development of the Borrower. Some Borrowers have their own organizations and methods for securing cofinancing and need little assistance in this respect from the Bank. Others may be seeking cofinancing for the first time and may need more guidance. In some cases, e.g., large and complex projects, it may be preferable for the Borrower to engage a financial adviser to assist in financial planning and in identifying potential sources of cofinancing.[12/]

33. Staff must take care to avoid real or perceived conflicts of interest between the advice and assistance they provide to the Borrower and their responsibility to appraise and assess the suitability of the proposed cofinancing and procurement arrangements. It is especially important when staff assist Borrowers in procurement matters that there is a perception of impartiality and of maximum openness for interested contractors, suppliers and cofinanciers to participate. If there is any question about the propriety of providing assistance that has been requested by Borrowers, staff should obtain the management's approval before proceeding.[13/]

12/ See OPN 4.07, Guidelines for Engagement of Project Financing Advisers by Borrowers, October 31, 1983.

13/ A procedure that is followed by one region is to list any such requests for advice, and assistance given, in a monthly report on procurement matters to regional management.

GUIDELINES ON PROCEDURES FOR THE USE OF TIED CREDITS IN PROCUREMENT

Background

1. Tied credits[1/] are a major source of external capital. They are often made available by supplying countries on attractive lending terms for competitive reasons. A Borrower can use such tied credits in parallel cofinancing transactions with the Bank. Borrowers should, however, be aware of certain aspects of tied credits when arranging procurement for those portions of a project not financed by the Bank. The most important among these aspects is the risk that attractive credit terms may be totally offset by higher costs of the goods than may be available from other sources of supply.

2. The purpose of this note is to suggest an approach whereby the Bank may not finance goods for which tied credits can be readily obtained but where, if requested by the Borrower, the Bank can advise the Borrower on procedures which should enable the Borrower to obtain the advantages of competitive bidding to the maximum extent possible while using such tied credits.

3. If alternative arrangements (e.g. engaging consultants) are not appropriate, the Borrower may be given assistance by the Bank on bidding and bid evaluation procedures which will make it easier for the Borrower to assess the combined features of quality, cost and credit terms.

1/ These include export credits, mixed credit, and tied ODA soft loans and grants.

Approach

4. The suggested approach, in summary, is as follows:

a. The Borrower should invite bids from all practical sources of likely supply and credit.

b. The Borrower should ask suppliers to submit not only bids for the supply of goods or services but also credit offers for their financing since, under parallel financing, a Borrower is free to take credit terms into account in the evaluation of bids. Such combined offers from competing suppliers in a number of countries increase the likelihood of a Borrower procuring suitable equipment and services at reasonable prices and with credits supported by national governments or agencies on attractive terms.

The Procedure

5. The procedure envisaged involves the following steps:

a. The Borrower should invite as many bidders as possible to submit financing offers with their bids.

b. Invitations to bid should specify in some detail the considerations to be used in the evaluation of bids so as to elicit responsive offers and facilitate bid evaluation on a common basis.

c. The cost of all technically acceptable bids, including the financial terms of the tied credits, should be reduced to its present worth using a preselected and announced discount rate.

d. The award should be made to the lowest evaluated bid in terms of its present worth.

6. This arrangement requires that the standard bidding documents asking for bids on a particular contract be expanded to include the invitation to submit financing offers and the method used for evaluating the financing offers. Attachment 1 provides sample clauses of a financing bid that could be included in the bidding documents by a Borrower.

The Invitation Process

7. Tender documents should make it clear that Bank financing and other outside sources of financing are not available for the contracts on which bids are invited.

8. In order for the Bank to go ahead with negotiations for its proposed loan, it may be desirable in some circumstances (depending on the type of project to be financed and the country concerned) for the Borrower to obtain expressions of interest from the concerned national agencies to indicate whether they would be willing to provide financial support in the event their national suppliers won the bid. Although the Bank does not ordinarily participate in these discussions, Borrowers have in the past found it useful to approach such agencies through Bank staff responsible for the Bank's project financing in Borrowers' countries. The Bank staff may assist Borrowers in this to a reasonable extent if desired.

Uniform Features of Offers

9. In order to exclude unqualified bidders, it is important that a Borrower specify clearly any minimum standards below which a financing offer would be unacceptable. Some of these could be:

(a) Minimum percentage of financing - An important question concerns the portion of the bid price to be covered by the financing offer. It could cover all or part of the bid price, it could pertain to the foreign exchange portion of the bid price or to both the foreign and local currency portion. Since a Borrower is unlikely to be able to finance a sizeable amount of the bid price, he may wish to discourage offers for only a small percentage of the total bid price. A Borrower should therefore clearly indicate the minimum acceptable amount of financing in the bidding documents. For the present worth evaluation, the entire offer should be taken into account. The present worth of the financed portion will be combined with the undiscounted balance, to arrive at the price to be used for ranking the offers.

(b) Minimum acceptable credit terms - A Borrower may also disclose minimum credit terms for acceptable financing offers. What terms are acceptable will depend in part on the debt servicing capacity of a Borrower, to be assessed by himself, and on the terms commonly extended in export financing.

(c) Non-financed payments - As indicated in sub-paragraph 10 (c) of Attachment 1 hereto, all non-financed payments should be treated as cash payments and not discounted.

Present Worth Evaluation

10. In order to evaluate the bids on this basis, a discount rate should be selected and the same rate should be applied in the evaluation of all bids. For this purpose, a Borrower may use the discount rate of the central bank of his country or some appropriate market rate. Information on interest rates is generally published by the central bank in the Borrower's country. In selecting the discount rate, various considerations might be kept in mind by the Borrower. Among these are the cost of marginal borrowing to the Borrower; the cost of project funds which would otherwise have to be used for the intended purchase; and the marginal cost of foreign exchange to the country. The discount rate selected for present worth evaluation will, of course, have to be disclosed in the tender documents.

11. The lowest evaluated bid is based on the sum of the non-financed portion plus the present value of the financed portion.

SAMPLE CLAUSES ON FINANCING AND BID EVALUATION

Bidding

1. The Bidder is required to submit a price for his Bid, hereinafter referred to as the Bid Price.

2. In addition, the Bidder is required to submit a separate "Financing Offer" to finance the whole or a part of the Bid Price by means of deferred payments over as long a period as possible after the starting point, i.e., the point in time when the (Name of Borrower) hereinafter called the Employer, receives delivery of the financed goods or takes possession of a completed plant. This offer should cover the foreign exchange portion of the Bid Price less the specified downpayment and may, in addition, cover at least part of the local currency portion. The Bidder shall give full particulars of his Financing Offer (including all information requested in the Pro Forma Financing Offer accompanying the Invitation to Bid).

3. The Bidder should ascertain the extent to which his Government is prepared to support the Bid with officially supported export financing including, where available and appropriate, the use of mixed credits.

4. The attention of the Bidder is drawn to the fact that the Employer's Government may have bilateral credit arrangements (apart from mixed credits) with certain countries. The Bidder is advised to ascertain initially from his own Government whether bilateral credit arrangements could be used to financed the whole or a part of the Bid Price. A Bidder

who proposes to utilize such bilateral credit arrangements should also give full particulars of these arrangements in the Financing Offer and state clearly any limitations on the disbursement of such credit.

5. Where bilateral credit arrangements (apart from mixed credits) are available but inadequate to finance the whole of the foreign exchange portion of the Bid Price, the Bidder may submit an offer to finance the remaining part of the foreign exchange portion of the Bid Price. Full particulars of parallel financing offers shall be given in the separate Financing Offer.

6. The Bidder is advised that the Employer has received [or in appropriate cases, has applied for] a loan from the International Bank for Reconstruction and Development in various currencies toward the cost of parts of the (Name of Project) not being bid for herein.

7. The local currency portion of the Bid Price, except to the extent that the successful Bidder offers to finance it, will be financed by the Employer.

BID EVALUATION

8. The Bids will first be evaluated technically, as described [elsewhere in the bidding documents].

9. All technically acceptable Bids will then be evaluated on the basis of discounted cash flow techniques.

10. For the Present Worth Evaluation the following criteria will be used:

(a) Rate of Discount

The discount rate for the Present Worth Evaluation will be ( ) percent.

(b) The Financing Offer

The entire Financing Offer will be discounted to its present value.

(c) Non-Financed Payment

The downpayment, interest during construction (IDC), and if applicable, financing charges such as guarantee premiums, management fees and commitment charges will be treated as not financed under Financing Offers unless it is explicitly stated otherwise. Downpayment, IDC and financing charges if not financed will be treated as cash payments. If these costs are financed under Financing Offers, they will be capitalized and matched with the corresponding financing terms to form part of the repayment cash stream.

11. The Employer reserves the right to accept or reject the Bidder's Financing Offers.

12. The discounted portion and the cash portion will be added to determine the total Bid Price for purposes of bid evaluation. If the Financing Offers are acceptable, the award will be offered to the lowest evaluated Bid based on the Present Worth Evaluation.

13. The Employer does not bind itself to accept the lowest or any Bid and no reason will be given for rejecting any Bid.

14. When the Employer has decided to accept a Bid, a Letter of Acceptance will be sent to the Bidder who submitted the Bid stating the terms on which the acceptance is given.

MEMORANDUM

To: Messrs. Rovani, Rao, Heron, Ludwig, Kalim, Bates (EGY)

Date: November 14, 1983

From: Julian Bharier, Chief, EGYEA

Subject: Cofinancing under the Energy Sector Management Program

1. I am attaching for your comments two memos: the first from Masood Ahmed to me reporting on recent discussions with Messrs. Vibert and Kiermayr of the Cofinancing Advisory Unit; the second a draft memo to Mr. Stern setting out the principles under which we could accept cofinancing, particularly when this may be tied. As you will see from Masood's memo, this was the approach recommended by Messrs. Vibert and Kiermayr.

2. I would be grateful for your views and will be pleased to arrange a meeting to discuss the subject if this is considered necessary.

Attachments.

cc: Mr. Ahmed (EGY)

JBharier:aaf.

ICE MEMORANDUM

To: Mr. Julian Bharier, Chief, EGYEA   Date: November 14, 1983

From: Masood Ahmed, EGYEA

Subject: Cofinancing Procedures for ESMP

1. I met with Messrs. Vibert and Kiermayr of the Cofinancing Advisory Unit to seek their advice on the above matter. As you know, this meeting had been prompted by the expressions of interest in cofinancing specific ESMP projects by the Finns and the EEC, as well as the prospect of similar offers by other donor agencies. The basic question is whether the Bank can accept (if these agencies so wish) to have their contributions to individual projects tied to the procurement of services and equipment from their country (or countries in the case of the EEC). A related issue is the extent to which the Bank should get involved in the administration of such tied financing if requested to do so.

2. Messrs. Vibert and Kiermayr told me that these matters had been treated in an ad hoc manner to date and a task force was about to be set up to prepare a set of comprehensive Bank-wide guidelines on them. However, as the schedule for the task force's work is still unclear, they recommended that we proceed in the interim on the basis of the Bank's accumulated experience.

3. On this basis, the recommended approach is as follows:

(i) The Bank would take full responsibility for designing and executing the projects. In financing these projects the Bank would obviously prefer its cofinanciers to provide untied funds, but would recognize their constraints and is willing to accept cofinancing which is tied to procurement by origin.

(ii) In cases where such cofinancing is tied, our strong preference is for the cofinancing agency to take the responsibility for administering those funds and for recruiting the consultants (selected by ESMP staff) or procuring equipment directly. However, we would be willing to provide technical support for, and supervision of, those consultants; this would include preparing terms of reference, helping to identify and evaluate consultants, supervising their work in the field and reviewing their reports. In practice, this means that we would do everything but the actual contracting and fund administration.

(iii) However, in exceptional cases the Bank is willing to take over the responsibility for the actual administration of tied cofinancing funds. There must be a strong justification for this -- such as the demonstrated inability of the agency to administer the funds or a very strong preference on their part not to do so. Operationally, this means that we would accept this responsibility only if we were satisfied that refusal to do so would jeopardize the cofinancing offer and if we attach a high priority to the task to be financed.

(iv) Where the Bank does accept responsibility for administering cofinanciers' funds (whether tied or not) we would not generally charge a management fee. The cost of this service would be borne by the Bank's administrative budget. However, we do normally request that the cofinanciers give us authority to invest their funds in an interest bearing account until disbursement. The proceeds of this go to the general Bank budget and help to cover the cost of administering the funds. Generally, cofinancing agencies have no objections to this arrangement.

4. The implications of this for the ESMP are that we should:

(i) seek cofinancing on an untied basis but be willing to accept tied financing;

(ii) ask the cofinanciers to administer their share when tied;

(iii) if they are not willing to do so, consult with Mr. Kiermayr before accepting responsibility for administering tied cofinancing funds.

5. The merits of each case in 4(iii) would have to be judged individually. Messrs. Vibert and Kiermayr both suggested that this could be done at the working level. However, they also recommended that we seek Mr. Stern's approval of the proposed approach at the outset by outlining this in a joint memo from Mr. Kiermayr and ourselves through Messrs. Dherse and Ohuchi. A draft of this memorandum is attached.

6. It is important to note that our meeting did not address the related but separate issue of accepting tied or partially tied contributions for the program as a whole (specifically the 60% tied Canadian contribution that is in the works). We may want to include this point as well in the memo to Mr. Stern.

cc: Messrs. Vibert, Kiermayr (VPCAU)

MAhmed:aaf.

To: Mr. Ernest Stern, SVPOP Date: November 14, 1983

Through: Messrs. Jean-Loup Dherse (VPEIS), Teruyuki Ohuchi (VPCOF)

From: Julian Bharier (EGYEA) and Ullrich Kiermayr (VPCAU)

Subject: Cofinancing Procedures for the Joint UNDP/World Bank Energy Sector Management Progam (ESMP)

1. Most of the project definition and prefeasibility studies being carried out by the Energy Assessments Division under the ESMP cost under \$60,000 each and are being financed entirely from ESMP resources, which so far have almost entirely come through the UNDP. However, we have also identified a number of somewhat larger feasibility studies and pilot projects in the \$200,000-500,000 range where we believe the Bank's direct participation would be useful but which cannot be financed from ESMP resources alone. Consequently UNDP and ourselves have explored the possibility of cofinancing these projects with other donor agencies. A number of them -- EEC, Finnida, the Dutch Government and GTZ -- have already responded positively to this idea and others may do so soon. All have indicated that they would be willing to contribute the bulk of the cost of each project (80-90%) in a cofinancing arrangement with the ESMP, (or even a general contribution to the program, i.e. covering a number of pre-agreed projects) as long as ESMP staff were involved in supervising project implementation. However, some of these agencies may wish to tie their contributions to the procurement of consultants and services from their country (or, for the EEC, member countries plus the ACP countries).

2. EIS and COF staff have discussed the question of accepting tied cofinancing for these ESMP operations and have jointly developed the

following guidelines which are consistent with the Bank's experience to date and which are submitted for your approval. These principles are:

(i) In all discussions with potential cofinanciers, UNDP and ourselves will first seek to obtain untied cofinancing funds.

(ii) If these are not forthcoming, we will accept cofinancing funds on a tied basis but only after ensuring that there is adequate technical expertise available in the country of procurement for the type of project(s) envisaged. (We are already working on building up a roster of specific expertise in the energy sector in the major donor countries).

(iii) Where we participate in a tied cofinancing arrangement, we would express a strong preference for the cofinanciers to administer their own funds -- i.e., they would recruit and administer the consultants (approved by ESMP for the project) and other contracts directly. However, we would provide technical supervision of the consultants and review their qualifications and their output.

(iv) In exceptional circumstances, we would be willing to take on the responsibility for administering tied cofinancing funds, but there would have to be strong reasons to do so. (An example is the possible reluctance of the EEC to become involved in administering consultant contracts for political reasons.) Before accepting this responsibility, ESMP staff would discuss each individual case with the Cofinancing Advisory Unit and obtain its prior approval.

(v) In line with previous Bank experience, no management fee would be charged for administering cofinanciers' funds (whether tied or not). However, we would normally insist on the right to invest these funds in an interest-bearing account until disbursed. The interest income would go towards defraying administration costs and would not be added to the funds available for the project.

3. Following your approval, these principles will be applied in finalizing individual cofinancing operations under the ESMP. For all cofinanced projects we would, of course, retain full responsibility for approving project design and implementation as well as the consultants who would carry out the work.

cc & to be cleared with: Messrs. Rovani (EGY), Vibert (VPCAU)

MAhmed:aaf.

FORM NO. 75
(9–78)

THE WORLD BANK

ROUTING SLIP	DATE: 8/16/83.

NAME	ROOM NO.
Mr Masood Ahmed	D449

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

Is the attached acceptable as policy?
Can we discuss?

FROM: [illegible signature]	ROOM NO.:	EXTENSION:

TEXTNAME: UNDP/WB (R)P: 01

file ESMP Cofinancing

Draft
MWDickerson:erf
8/10/83

To Mr. D.A. Strombom, Chief, Procurement Unit, PAS

From M.W. Dickerson

Subject Joint UNDP/WB Energy Programme
Bilateral Funds and Consultant Selection

1. This memorandum addresses the issue of the Bank as UNDP Executing Agency, being asked to restrict the choice of consultants to those of a country providing bilateral cost sharing funds.

2. In November 1982, the Bank and UNDP issued a report[1] in which bilateral funds were sought to make up an annual shortfall of about US$10.0m over four years for two Energy Sector programs. The report did not indicate how the selection of consultants financed in part (or wholly) by bilateral funds would take place.

Offers to contribute to the programs have been received from several bilateral sources but most wish that, where their funds are used, consultants from their countries should be employed. This would seem to raise questions of a) restricting the Bank in its desire to choose the most capable and suitable consultant for the assignment; b) subverting our well known policy of inviting proposals from a wide geographic spread of consultants; and c) possibly giving the perception that, for Bank-financed projects the Bank might accept tied procurement for contributions to pooled funds.

1/ (Name of Report).

In the light of the above, I recommend that we do not accept bilateral contributions that insist that consultants from the donor agency be employed but that we adopt a policy of making our best efforts to ensure that, over the four year period, consultants from the donor country will be employed for assignments to the approximate value of the contribution. This can probably be achieved as many of the assignments will be small in value with a consequent large number of contracts to be made. In effect the Bank would keep a 'balance sheet' of contracts awarded against contributions made.

Another issue has arisen over whether or not the Bank should accept contributions from private companies-most notably oil companies.2/

Again, I recommend that we accept these offers but that there must clearly be no strings attached. For example, we could not and should not give a private company the right to review draft reports or to take part in Bank discussions with Governments.

If you agree with the above we can inform the Energy Department accordingly.

2/ Exxon has already inquired about contributing.