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ESMAP DONORS - ASIAN DEVELOPMENT
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ESMAP Donors - Asian Development Bank - Correspondence

OFFICE MEMORANDUM

Dir. Asst.
(2) file
B
1/21/86

DATE: January 13, 1986

TO: Mr. Robert J. Saunders, Chief, EGYPA

FROM: James J. Fish, *Power* Adviser, EGYPA

EXTENSION: 75088

SUBJECT: Asian Development Bank - Regional Seminar
on Power System Efficiency

1. This seminar, arranged under ADB's technical assistance grant program, was attended by senior and middle managers from power utilities in 17 ADB member countries, plus a large number of observers including consultants working in the region. ADB paid the expenses of the principal participants (generally two from each country), consultants who served as resource speakers, and other direct expenses of the seminar. The venue, Bangkok, was selected because the Metropolitan Electricity Authority is by far the most efficient distribution utility in the region (total losses less than 5%). MEA co-sponsored the seminar and arranged field trips to their meter workshop, billing center and system control facility.

2. The most obvious benefit of the seminar was to provide an opportunity for the participants to meet one another and trade views; our Bank would be well advised to consider whether we should not reactivate a similar program, now dormant many years.

3. The underlying theme of the seminar was adjustment in a climate of change, which means making efficient use of resources. Several participants echoed this in their presentations making the point that utilities are not isolated from shifting economic conditions--quite the contrary. In this respect it was obvious to the participants that those utilities with the greatest degree of autonomy were better able to cope, whereas those having the nature of government departments (e.g. Bangladesh) found themselves increasingly on the defensive, sometimes insisting that their function was simply to channel resources from government to consumers and therefore rejecting initiatives such as load management as being "not our job". On this same theme, several participants pointed out that their main task today was "allocating scarcity"--that is, determining priorities and deciding who should get service and who would go without. In this environment, talk of making investments to improve service quality was academic. There were several lively discussions on the self-defeating nature of this approach.

4. The seminar consisted of presentations by resource speakers on various aspects of power system efficiency, papers on specific case studies by the participants, and panel discussions. I was afforded the privilege of making opening and closing statements as well as participating in most of the panel discussions. In addition, Mr. Munasinghe and I each gave separate presentations on loss reduction in distribution systems, and Mr. Munasinghe

also spoke on the role of pricing and other tools for demand management. Resource material provided by the Bank (Energy Paper Nos. 6, 11, 18 etc.) was well received by the participants. Attendance was virtually 100% at all sessions and the level of discussion was good. Transactions and other material from the seminar (e.g. ADB's regional utility data book) are in the EGY library.

5. Unfortunately, there were few papers and not much discussion on control of non-technical losses, despite the significance of this issue in the region. There was strong interest in the subject but no focus or platform to build ideas on, which is not surprising given that this issue is unique to LDC's and therefore there is no organized body of research on the subject. It is recognized as a social problem yet the tendency is still to seek technical solutions (tamper-proof meter enclosures, better sealing systems etc.). The predominantly technical background of LDC utility managers may account for this; managers with financial and legal training are scarce. The Bank can play a stronger catalytic role here by illuminating issues and encouraging research to develop analytical tools and improve implementation.

6. The participants had a high and relatively uniform level of professional competence which contributed greatly to the free flow of ideas throughout the symposium. This would seem to be an important ingredient to such affairs.

7. A somewhat disappointing feature was that there was only one representative from India. It was agreed that a repeat symposium solely for India would be worthwhile. We are seeking the assistance of ASPPE in identifying a local co-sponsor.

8. As an aside, the participants took the opportunity of the symposium to vent their frustrations with the procurement rules of both Banks, which they felt forced them to purchase poor quality equipment. This came up in the context of a discussion on capacitors for power factor control, an area where quality is important and industry standards are variable, but was repeated several times during the seminar. In part the frustrations arise because of misunderstanding the intent and flexibility inherent in the Guidelines and in particular how to deal with issues such as specifying quality. There was also an opportunity to correct some other misconceptions regarding Bank(s) policy, such as the charge from Meralco that the Bank(s) would not finance "private" companies.

9. Among the wide range of ideas, issues and techniques presented at the seminar, the following seem most relevant:

- (i) It was agreed among the participants to standardize the calculation of losses in accordance with the EEI standard, which is losses = net generation minus billed consumption, stated as a percentage of net generation. This requires treating generating

station consumption, including step-up transformer losses, separately.

- (ii) The distinction between technical and non-technical losses in an economic sense (used and useful vs. actual loss) was a new concept to most participants, but led to a conclusion that non-technical losses affect true economic losses both by encouraging uneconomic consumption (no cost constraint) and by depriving the utility of financial resources needed to maintain and upgrade systems, thus leading to progressively higher technical losses.
- (iii) Contrary to the initial perception of most participants, loss-reduction programs should not be seen as a substitute for generating plant investment since, in many cases, loss reduction programs may result in increased generation requirements due to the resulting improvement in service quality.
- (iv) PCBs (see my memo of December 27).
- (v) Using long-run marginal costs for valuing losses (different costs for time of day and season, voltage level and location on the system) was a new concept to many participants (including some from "Bank" countries, raising questions about the effectiveness of our technology-transfer function).
- (vi) Transformer load management emerged as a little-understood but valuable technique for managing losses. It is an area where more work is needed, particularly in establishing loading classes and resulting economic evaluation criteria for purchasing distribution transformers.
- (vii) Several participants held to the view that it was somehow "unfair" to pass on the costs of inefficiency to consumers, yet agreed that someone had to pay. Since there was little difference between power consumers and "government" as a source of resources, this argument was circular.
- (viii) The danger of applying sophisticated analysis to uncertain data is very real in dealing with distribution systems, so there is a temptation to dispense with analysis. This is wrong and can be overcome by (a) better data systems (cost \$1-\$10/consumer), and (b) more analytical sophistication which specifically allows for data uncertainty (PLN), and (c) use of computer models for distribution planning and optimization, where the quality of local staff and data warrant this.

January 13, 1985

- (ix) Some innovative techniques are being used to deal with non technical losses. MEA has a successful informer-reward system (25% of recovered amount as reward), and PEA and NPC are using village metering schemes which make a village or district collectively responsible for payment.
- (x) Last but not least, the seminar gave an opportunity for distribution engineers to commiserate with one another--"there's no glory in distribution", "end of the queue for resources", "public whipping boy" etc.

cc: Messrs. Wackman EAP, Bauer WAP, Nayyar AEP, Elwan ASP,
Reekie EMP, Moscote LCP
Minnig EDI, Strombom PPD, Masters PMD
Rovani, Hume, de Capitani, Montfort, Heron, Munasinghe,
Green, Gulstone EGY

OK. Forw. -
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JJFish:mf

OFFICE MEMORANDUM

DATE May 30, 1985

TO Files

FROM L. Schaeffer, AEN RCC

EXTENSION 76897

SUBJECT 1985 World Bank/Asian Development Bank Annual Consultations

M. Bhadani
② Ahmed
jr. ADB

1. The 1985 Annual WB/ADB Consultations took place on May 3, in Bangkok, following the 18th Annual Meetings of the ADB. The agenda for the day-long consultations concerned general policy and coordination in the morning session and country and project-specific matters in the afternoon session. The morning's meeting, attended by the three ADB Vice-Presidents, Messrs. Bambawale, Schulz and Katz and the Bank's AEN RVP, Mr. Karaosmanoglu is reported in paras 1-19 of the 5/16/85 memorandum to Files of Mr. Siebeck, ASA RCC (see Attachment).

Highlights of Morning Session

2. ADB staff were keenly interested in the Bank's experience in umbrella operations for policy conditionality such as sector lending in Pakistan or the Korea Industrial Finance II loan. Views were exchanged on prospective difficulties for IDA and ADF replenishments. Mr. Katz did not exclude the possibility that the ADB might split its ADF replenishment (with and without the US) to avoid burden-sharing problems. Mr. Schulz foresaw policy issues as well as delays in project implementation and disbursements affecting the pace of ADB's future lending. Mr. Karaosmanoglu inquired as to conclusions of the ADB's recent Seminar on Privatisation. Mr. Bambawale stressed that although there were no operational conclusions, the Seminar had served as a forum for information on past experiences and discussions of privatisation definitions. Many Asian countries seemed ready to give a larger role to the private sector. Mr. Bambawale noted that, unlike the IBRD, the ADB's charter allowed it to operate along IFC lines. However he noted that 90 percent of current ADB lending does go to the public sector and that, while ADB would give advice on privatisation, its financial aid in this respect was not likely to increase greatly. ADB and WB staff agreed that Asian countries had generally good access to commercial financing and that the outlook for export credit or commercial cofinancing was relatively limited. WB/ADB cofinancing (joint and parallel) accounted for a substantial portion of ADB official cofinancing in the past year as well as the official cofinancing of AEN and ASA Regions.

3. While Mr. Bambawale urged establishment of local aid coordination mechanisms, particularly in Indonesia, Mr. Karaosmanoglu stressed that the success of local coordination efforts depended on government initiative and leadership and that countries differed in receptivity. The World Bank's policy was to encourage national authorities to undertake local coordination. Mr. Cheetham noted that in the case of Indonesia, donor coordination meetings were unlikely to resolve implementation problems and that local coordination efforts so far undertaken by the Dutch or UNDP had not met with positive government response.

4. Other items touched on by the Vice Presidents in their morning's discussions included the World Bank's lending and graduation policy towards Korea, the Bank's guidelines on environmental and tribal questions and feasible cost recovery levels in rural water supply schemes. There was agreement on the need to convince the Boards of both institutions of the dangers of driving end users to poor quality water with unrealistic water charges.

AEN Country Discussions

5. The afternoon sessions focused on specific country programs and aid coordination issues. Mr. Bakley commented on problems delaying opening of an ADB Thailand mission. The ADB staff paper in this regard had never been put on the Board agenda. The Board now requested a comprehensive resident mission paper which might be circulated by the end of June. However the new issue of a possible European office further complicated the outcome. Mr. Bakley also elaborated on ongoing staffing problems with the ADB's resident missions in Bangladesh and Vanuatu. The staff of three in Vanuatu were experiencing difficulties in supervising subloans on seven approved development bank projects as well as programming future operations.

Thailand

6. In reply to ADB queries, Mr. Hermans explained policy and institutional constraints on the Bank's lending to Thailand, the future work program and staffing reductions foreseen for RMB. Regarding TOT, Mr. Hayashi said that TOT had agreed with ADB to introduce a plan of action by September and that management changes currently envisaged might facilitate the tariff increase.

Lao PDR

7. The prospective Upper Nam Ngum II project posed problems re: sale of electricity to Thailand and a possible marginal rate of return. In addition, Mr. Bakley expressed concern with the prospective financing shortfall of about \$15 million. ADF funds were limited to \$10-12 million and a maximum of \$15 million. He saw only slight chances for \$3-4 million of Swedish grant cofinancing.

Philippines

8. Mr. Sonmez explained that the opening of a WB one man office in the Philippines had been deferred for budget reasons to the end of 1985. ADB staff sought information on the coconut and sugar studies as well as the status of fertilizer disbursements, which information was provided.

Indonesia

9. Both ADB and WB staff agreed that institution building aspects of the WB Export Development loan and the ADB Ag-Fisheries loan (which may be channeled through the same four state banks) needed close coordination.

Malaysia

10. Mr. Juneja, the newly appointed Infrastructure Projects Director expressed unease with prospective WB/ADB cofinancing of the Pulau Lumut Port expansion project. Given the reduced foreign exchange requirement he believed that ADB could finance the project's needs alone or with some commercial cofinancing. When reminded of the Malaysian Government's desire to have the project cofinanced by both institutions, Mr. Juneja stressed that the ADB would in this case prefer parallel cofinancing and would not want to finance the bridge and road components. ADB staff also requested information on the status of the WB Study of Malaysia's agricultural policy. ADB staff agreed that their timing of the Sungei Selangor Water Supply project was premature and that it should be possible to reconcile WB and ADB timetables on processing. However ADB expressed concern regarding the apparent prospective financing gap of about \$60 million and inquired as to prospects for export credits.

Pacific Islands

11. Mr. Juneja, initially criticized the World Bank's initiatives in the Pacific Islands, citing in particular recent Bank missions to Papua New Guinea. However Mr. Bakley agreed with World Bank staff who pointed out that the special ADB/WB cofinancing relationship in which ADB normally takes the lead, covers the Pacific Island but not PNG. Mr. Juneja requested information on possible WB assistance for manpower training and technical non-formal education in PNG. ADB staff also raised the question of which agency would be lead institution in the Fiji Roads project. Mr. Bakley acknowledged the need for aid coordination in the Pacific Islands but was clearly reluctant to commit ADB to a strong role at the present time. He cited again the uncertain start of the Vanuatu office operation and suggested that perhaps Australia might lead Pacific Island coordination. Bank staff noted that, assuming government desire for aid coordination, sensitivities would preclude leadership by bilaterals even though it was likely that Australia and possibly New Zealand might be willing to volunteer staff and other resources.

Attachment

Cleared with and cc: Mr. Sonmez

cc: AEN Management Group
AEN Division Chiefs and Senior Economists
Messrs. & Ms. Goldberg, Segura,
Rowat, Stern, McCarthy, Bharier, Husain,
Vorkink, Fisher/Howlett, Yoon
Messrs. Cheetham and Siebeck, ASA
Messrs. Ohuchi, Vibert and Kiermayr, VPCOF
Messrs. Rao, AEFIN, Hermans, AEFTH
East Asia & Pacific Information Center

LSchaeffer:bp

ADB/World Bank Coordination Meeting

Date : Friday, 3 May 1985

Time : 9:30 a.m.

Venue : Silom Room

Participants : World Bank

1. Vice Pres. Karaosmanoglu
2. Mr. Siebeck
3. Mr. Sonmez
4. Mr. Cheetham
5. Mr. Hermans
6. Ms. Schaeffer

Asian Development Bank

1. Vice Pres. Bambawale
2. Vice Pres. Schulz
3. Vice Pres. Katz
4. Mr. Robert N. Bakley
5. Mr. A. Tsusaka
6. Mr. B. M. Soeksmono
7. Mr. K. Takase
8. Mr. S.V.S. Juneja
9. Mr. L. Hayashi
10. Mr. S. Mahboob Alam
11. Mr. K. Hoffarth
12. Mr. S. Baha
13. Mr. E. Watanabe
14. Mr. M. Ahmed

Lunch hosted by Vice Pres. Bambawale

Date : Friday, 3 May 1985

Time : 12:15 p.m.

Venue : Lumpini Room

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 16, 1985

TO: Files

FROM: Wolfgang E. Siebeck

EXT: 32246

SUBJECT: World Bank/Asian Development Bank Consultations

1. This year's Annual Consultations with the Asian Development Bank (ADB) took place on May 3 in Bangkok. Annex I lists the participants. Annex II is the agenda, prepared by ADB, which contains amendments earlier suggested by the Bank. The discussions did not always follow the agenda, and the following reports summarize them in the order which items came up during the meeting.

Outlook

2. ADB reported on the steep increase by 18% in the OCR lending in 1984. There was a slight decline in the volume of ADF lending in that year, which was mainly due to the delayed appropriation of the US contribution to ADF IV by the US Congress. The picture for 1985 was mixed; with the recent release of the full balance of the Japanese contribution of \$164 million, which was followed by a release of \$46 million by some European countries, ADF would be able to at least operate at last year's level, while OCR lending would probably be somewhat lower than in 1984.

3. There is no immediate need for a general increase in ADB's capital. While it had previously been expected that ADB's currently-subscribed capital would have to be increased by the end of 1987, more recent indications are that it may suffice for three more years, i.e., until the end of 1990.

4. The Bank reported on the need and prospects for a general capital increase and an eighth replenishment of IDA, and on the status of the Special Africa Facility. It pointed to the increasing tightening of funds and conditionality in some countries, including IDA recipients, such as Bangladesh and Nepal. A similar development was reported on ADB's side, where the emphasis for policy conditionality and stricter monitoring of project implementation appears to come from the Board of Directors who are increasingly reluctant to approve new lending for bad performers.

Coordination Between the Two Institutions

5. There was full agreement that the rationale for coordination was not to give conflicting advice to borrowers. This required a close look at the totality of policy and conditionality prescriptions of the two institutions which, in turn, could only be achieved through regular consultation. The Bank reported on its endeavors to increasingly subsume policy conditionality under umbrella operations, thus easing the conditionality content

of individual projects. The recent Industrial Credit loan to Korea was an example. The Bank's approach to sector lending in Pakistan was also explained.

Cofinancing

6. The discussion covered primarily commercial cofinancing, and the Bank reported on its recent experience and prospects for commercial cofinancing in South and East Asia and its efforts to assess the borrowing capacity and borrowing strategies of individual countries. Since availability of aid funds did not grow in line with rising investment needs, countries which have established or can establish their creditworthiness for commercial borrowing, increasingly will have to do so. This pointed to the need for building-up an institutional planning capability which most countries lacked. Bank staff would prepare position papers on a borrowing strategies for both Pakistan and Sri Lanka, which should be available within six months and which could be shared with ADB. The Bank also reported on the B-loan discussions with Malaysia, Korea, China and Pakistan, and the recent rescheduling of the commercial debt of The Philippines, in which some Bank-cofinanced assets were involved.

7. ADB is skeptical about the benefits of export credit cofinancing, fearing that it leads to inflated prices. We pointed out that whenever countries tendered for credit offers on an international scale, they had been obtaining attractive prices. ADB is preparing a complementary cofinancing operation for two hydropower units at Tarbela (Pakistan) for an amount of \$8.5 million, this being the third application of its complimentary cofinancing tool. (The two previous ones were for Nepal and Pakistan.) They hoped to obtain better terms than Pakistan could on its own, with maturities of eight-to-ten years. Prospects for commercial cofinancing, particularly through their complimentary cofinancing instrument, are considered slim because East Asian countries can access commercial markets on their own, without the help of ADB.

8. With regard to export credit cofinancing, ADB mentioned their airport project in Nepal where, in order to cover cost-overruns, they had allowed Nepal to invite price as well as price-and-terms bids. Bid evaluation was still to be completed. The most favorable term-bid was for eight years at 7.5% interest. The sum involved was too small to create a debt-service problem for Nepal.

9. Both sides agreed that commercial cofinancing would remain important for Asia as long as market perceptions of Asian borrowers did not substantially change.

Private Sector Role

10. ADB reported on a seminar on privatization it had sponsored earlier this year, and which had been chaired by the former Japanese Foreign

Minister, Dr. Suburu Okita. The seminar had shown that many countries were ready to give the private sector a larger role and to denationalize some of its public enterprises. However, few knew how to do it, and the main purpose of the seminar had been to elaborate methods and procedures for transferring ownership and/or management into private hands.

11. The Bank reported that it has not yet established a policy in this regard. Policy advice had been directed at inducing more efficiency into the running of public enterprises. It was emphasizing the need for exposing public enterprises to market forces.

Economic Development Institute

12. The Bank recalled successful training seminars, conducted jointly by ADB and Bank staff in the past. A problem had been the absence of a contact point in ADB. ADB confirmed that there was no central responsibility for training. Training was expected to remain a marginal activity, since resources were likely to remain very limited. But, ADB would like to explore the possibility for more joint training, and will reply with specific suggestions.

Expanded ADB Role in Local Aid Coordination

13. ADB pointed to its local presence in Manila, Dhaka and Vanuato, and suggested that this would enable it to coordinate local aid discussions. The Bank replied that local aid coordination should remain a responsibility of the respective governments. When setting-up local coordination mechanisms, donor agencies should proceed carefully since often this raised wrong expectations of additional funds to become available to the host country while, at the same time, allowing the host country to deflect the blame for shortfalls in implementation and disbursement on the donors. Local coordination mechanisms should be established where it can help countries, but certainly not where it would stifle their own efforts. Such mechanisms were working well where they had been set up at the government's request, as had been the case in Pakistan, Nepal and Bangladesh. Whether there was a need for setting-up a local group in The Philippines, was not evident. Previously, the government had effectively coordinated, and one should hope that it would take back the reins in due course. Concerning the sub-committee meeting on The Philippines, ADB would agree to this meeting taking place in the latter half of June in Tokyo, as had been proposed by the Government.

14. ADB mentioned some problems that had recently occurred in Indonesia with consultants' billings and a new value-added tax. Some of ADB's staff apparently felt that this could call for a local aid coordination mechanism. The Bank pointed out that Indonesia had not favored local coordination meetings which involved Government officials when they had been proposed in the past, although donors met regularly themselves.

The Future Roles of ADB and the World Bank

15. ADB is preparing strategy papers on its future role for its Board, and also plans to do one on the role of the private sector. They will make these papers available to us as they are finalized. We promised to send the paper on the the Future Role of the Bank, submitted to the Development Committee, and advise ADB on the status of discussions thereon.

Country Strategy for India

16. The item was dropped from the discussions. There had been no progress in ADB's plans to lend to India during its Annual Meeting. ADB's President had expressed hope that the problem would be resolved "soon" which, in the view of ADB staff, meant that the beginning of its lending to India had become very uncertain.

Lending to Korea

17. ADB explained that it was becoming increasingly difficult to justify lending to Korea. The Bank suggested that Korea's per capita income was still too low to graduate the country. The Bank was, however, limiting the number of projects in its annual lending program, and thus the manpower involved in their preparation. Lending support was primarily directed to innovative projects, of which there was no shortage in Korea.

Environmental Policies

18. ADB considers the World Bank policy on environmental protection unworkable. The Bank replied that there was, indeed, a need for an environmental impact statement was required for each project at Board presentation.

Cost Recovery in Rural Water Schemes

19. There was agreement that full cost recovery was rarely possible because it would militate against the goal of improving public hygiene.

Country Discussions

20. These took place in the afternoon without the Vice Presidents present.

21. Burma. ADB is encountering severe difficulties in their lending relations with Burma. This year they may lend nothing, unless agreement can be reached on the onlending rate. This is holding up three projects. ADB has consistently been insisting that the onlending rate should be the rate at which it lends its OCR funds, currently 10.25% per annum. They complained that IDA's position, taken for the Second Wood Industries Project in February 1984 (onlending rate of 8.5%) had undercut ADB's efforts.

22. Sri Lanka. The Bank reported that negotiations of the Livestock Project had been successfully concluded. ADB would like to know of any differences in the negotiated documents from the earlier drafts that had been sent to ADB. (We should send the whole final package.) The agenda item concerning Sri Lanka's industrial sector was dropped as there was nothing to discuss. With regard to the power sector, we explained that we expected the Germans to finance Rantembe. A gap could be covered from commercial sources, such as export credit. In our present estimates, Sri Lanka could borrow about \$200 million commercially, per annum, and the power sector would be the most suitable sector for such funding.

23. ADB pointed out that Sri Lanka was reluctant to borrow OCR funds from them. The Bank replied that this was difficult to accept in light of the loan maturities that OCR funds would carry.

24. With regard to "post-Mahaweli development", we mentioned the Bank's emphasis on diversification of production. A sector report was underway and should be completed by the end of the year, at which time it would be sent to ADB.

25. We asked about the security situation. ADB had not encountered any problems. This included their Trincomalee Power Project.

26. Pakistan. We explained the various features of the energy sector loan, in particular the agreement contained therein on a sector investment program and handed ADB copies of the draft President's Report.

27. The cofinancing arrangements for the Fifth Telecommunications Project were discussed in detail. We reported on the plans to syndicate a B-loan. ADB had doubts about Pakistan's creditworthiness and debt-servicing capability. We explained that a series of B-loans, as they had been made for Hungary, would gradually improve the creditstanding of Pakistan and greatly reduce borrowing costs, and urged ADB to support the commercial cofinancing of the Telecommunications Project.

28. Kalabagh was discussed briefly.

29. ADB is concerned about the Islamization policy. This view had been reinforced by the results of some of their recent studies on the financial sectors, which included (i) a domestic resource mobilization study, which they will send to us, (ii) the capital market study, which has been done by Morgan Grenfell, and (iii) ADB's strategy paper. The Morgan Grenfell study, about which ADB seems to have serious reservations, will not be further refined, but will be integrated into a summary report of a six-country study. The paper would be submitted at a conference, to be held in September of this year.

30. With regard to its future lending strategy towards Pakistan, ADB wants to move out of energy and concentrate more on social sectors. We

commented that this would imply passing more money to the provinces with which neither ADB nor the Bank had established effective working relations. ADB is considering a proposal for pooling funds for financing provincial projects at the Federal level. They had proposed this to Secretary-General Naik in Bangkok, who had listened politely.

31. ADB's program for Pakistan for 1985 amounts to \$425 million, including \$150 million of ADF funds. They could go higher on OCR funds. We advised on our plans for the various sector loans, and promised to share details with them as these operations emerge. ADB promised to give us their agriculture sector position paper.

32. Concerning the forthcoming Consortium Meeting, it was agreed that ADB may want to raise the need for a well-balanced foreign borrowing strategy and better resource mobilization.

33. Nepal. There was a brief discussion on power tariffs, in which we reported on the recent increases.

34. ADB is planning to carry out a transport sector study and would like to receive the terms of reference for our transit traffic study.

35. In the power sector, the Government has asked for ADB financing for Sapt Gandhaki and Aroon No. 3. No ADB decision has yet been taken.

36. We explained our priorities in Nepal, i.e., (i) agriculture/irrigation, including hill development to produce more food, (ii) family planning, (iii) manpower development, and (iv) improved implementation performance.

37. ADB plans to discuss agricultural issues with HMG, probably on the basis of their earlier sector report. They will give us a summary paper when it is completed. They are also doing an industrial sector study.

38. We explained the status of the riparian issue on the Babai Project and promised to send them a copy of our new OMS on international water rights.

39. India. ADB has appraised ICICI, which then was beaten down by the US. They also appraised Aonla, where they are not moving because of US objections.

40. Bangladesh. We reported on the status of discussions on IPC XIII and, in particular, the fertilizer pricing issue. ADB intends to follow our conditionality.

41. We promised to make the water sector plan available.

42. We reported on our plans to sponsor a study on the viability of the Jamuna Bridge. One of the aspects that needed a later study would be the possible displacement effect on other projects.

43. We pointed out that we did not have an apex loan for industry in our program (this was an item put on the agenda by ADB).

44. With regard to the Consortium meeting, ADB intends to raise questions on macro as well as micro performance. ADB has recently seen some marginal improvements in disbursements. Its local office has certainly made a difference. We pointed out that the IPC XIII project addresses some of these problems, including Bangladesh's internal project and contract approval processes.

cc: Messrs. Cheetham, Lerdau, Haynes, Geli, Chernick, Nowicki
Clift, Madavo, Robless, Tsantis
Ms. Schaeffer

WES:ss
Attachments

1985 Bank-ADB Consultations

Agenda proposed by ADB

1. General policy issues.

a. Prospects for development financing in the short term in the Asian and Pacific Region.

(1) Possible reduction in 'demand' for external financing in some low and middle income DMCs, in the short term due to rising debt service burden, lower absorptive capacity and budgetary constraints, and likely impact on the operations of both institutions.

(2) Prospects for encouraging increased participation of the private sector in economic development in some of the DMCs where such efforts are warranted.

b. Concessional aid to low-income DMCs.

(1) Implications of reduction in IDA-7 replenishment for IDA assistance to eligible DMCs.

(2) Reduction in availability of ADF IV resources due to exchange rate fluctuations and delays in contributions and its possible implications for ADF lending during 1985 and 1986.

(3) Proposed ADF V replenishment program (1987-90).

c. Operational approaches and coordination.

(1) Experience of structural adjustment loans of both institutions.

(2) Prospects for cofinancing with commercial sources in the short term.

(3) Prospects for an expanded role of ADB in local aid coordination in some DMCs.

d. Sectoral policies.

(1) Exchange of views on road user charges and on pricing policies for water supply and sanitation projects.

(2) Exchange of views on environmental policies and associated operational procedures.

(3) Exchange of views on energy pricing policies and possible policy coordination between the two institutions.

(4) Status of a World Bank Study, by an internal taskforce on the future role of the World Bank in the private sector of its DMCs.

(5) Status of World Bank's review of its policies relating to DFIs.

2. Other country and sectoral issues.

a. General discussions on operational strategies of both institutions in Burma, Korea, India, Thailand.

b. Indonesia -

(1) World Bank/ADB cooperation in the power sector.

(2) Food policy (IFPRI) and irrigation strategy (IIMI) study for Repelita V.

c. Malaysia - National agricultural policy - mode of future assistance to this sector.

d. Pakistan - rationalization of the power sector.

e. Philippines -

(1) Exchange of views on the outcome of the sub-committee of the Philippine consultative group on policy agenda.

(2) Opening of World Bank office in Manila.

f. Sri Lanka -

(1) Industrial sector reforms.

(2) Power sector planning.

(3) ADB and World Bank livestock projects.

(4) Post-Mahaweli program.

g. Thailand - review of irrigation development (including irrigation water charge).

h. South Pacific - respective roles of ADB and the World Bank in the South Pacific.

In addition, if time permits the following items could also be discussed:

i. Bangladesh -

(1) Apex loan for rural- and agro-based industries.

(2) Outstanding issues in the gas sector.

j. Nepal -

(1) Electricity tariff.

(2) Progress of the international river negotiations.

It is also proposed that Item 1 on general policy issues would be discussed during the morning session, and Item 2 on other country and sectoral issues during the afternoon session.

Mr. Ahmed
Mishra
Balesh
ju

BANGLADESH

Coordination with ADB

Energy Sector

1. Our energy sector operations in Bangladesh have encountered a number of problems with ADB. We had to drop the Greater Dhaka Power Distribution Project out of our lending program only a few months prior to scheduled appraisal because ADB agreed with GOB to finance the project in spite of an earlier and clear understanding both with ADB and GOB that IDA would finance the project. Likewise the appraisal of the Second Gas Development Project has been delayed for several months because ADB insisted that the project be held in abeyance until the ADB-financed gas development study of the options for augmenting gas supply in the Titas franchise area had been completed. These and other outstanding energy sector issues with ADB were discussed at the recent coordination meeting in Manila. The main points of discussions are summarized in Mr. Choi's memorandum, a copy attached at Annex I. (Incidentally the ADB have never sent us draft minutes of these discussions which they promised to do.)

2. Subsequent to the coordination meeting, there was a further snag with ADB in the gas sector. Following the recent GOB decision to proceed with the Bakhrabad-Demra pipeline project with its own financing, we discussed with GOB the possibility of IDA financing the project essentially as an extension of ongoing Bakhrabad Gas Development Project. We also informed the ADB headquarters of our interest in this project and were told that ADB would have no problem with IDA proceeding with this project. However, subsequently we found out that, in parallel with this, ADB had been talking with GOB about its financing of this project and GOB decided that ADB should be requested to finance the project. ADB claimed that there had been a long-standing arrangement with GOB that the Bakhrabad-Demra project would be for ADB to finance. In the end we agreed to let ADB finance this project since our main interest in the gas sector has been the development of Beani Bazar and Kailashtila fields. (Copies of telexes exchanged with ADB are attached at Annex II for information.) Since ADB now has the Bakhrabad-Demra project, they seem willing to let IDA take the lead role with respect to the Beani Bazar/Kailashtila project. This will be the largest project (a US\$75 million credit) in our FY85 program and we will soon have to take a decision about appraising the project; however, we are also discussing (at this stage only within the Bank) the possibility of some appraisal well drilling also.

3. Since energy is such a key sector and energy development and proper energy pricing policy a critical aspect of macro-economic management, there is a need that IDA continues to be present in this sector. In order to avoid confusions and minimize conflicts in the future, however, we would need to initiate discussion with ADB on alternative ways of delineating roles and responsibilities of the respective institutions. One solution would be to divide responsibility along the sub-sectoral lines (e.g., power, oil and gas,

renewable and traditional energy). The sub-sectoral responsibilities could be assigned on the basis of relative technical capability of the institutions. IDA which does have greater technical expertise in oil and gas could be assigned the lead responsibility for this sub-sector, and ADB could be assigned the lead responsibility for power. While such an approach would make the division of work clear and have a number of other advantages, it would be extremely difficult to agree on sub-sectoral responsibilities, since ADB would probably insist to continue to get involved in both power and oil and gas sub-sectors. An alternative and probably the only practical solution is to strengthen existing ad hoc consultation mechanism and try to resolve problems as they arise. If, however, such a mechanism is to be workable, a few ground rules would need to be established. For instance, there has to be an explicit agreement that, if one institution is approached by GOB for financing a project, that institution should consult the other before responding to the request. Similarly if one institution wishes to initiate financing a project, the other institution should be consulted before the proposal is sent to GOB. Furthermore there has to be an agreement that once an understanding has been reached between the two institutions, each should act vis-a-vis the Government in accordance with the understanding and should not deviate from it without prior consultation with the other institution. Since both ADB and IDA maintain resident offices in Dhaka, the resident representatives could serve as the primary point of contact between the two institutions on issues related to energy sector coordination. Where a problem cannot be resolved at this level, it should be elevated first to the respective Programs Directors, and then to the respective Vice Presidents. A copy of Mr. Hopper's telex to Mr. Bambawale on this subject is attached at Annex III.

Road Maintenance and Rehabilitation

4. In light of rapid deterioration of the national highway system which resulted from inadequate maintenance in the past, GOB has recently decided to give priority to rehabilitation and maintenance of trunk roads and is in the process of formulating a five-year program. This strategy is fully consistent with the advice that IDA has given the Government in the past and we are planning to respond to GOB's initiatives with a highway maintenance and rehabilitation project. A project identification mission is scheduled for early May 1984 followed up by a preparation mission tentatively scheduled for June. Similarly, ADB is processing a highway sector credit (of about US\$60 million) to provide support to trunk road maintenance and rehabilitation. Since IDA and ADB would be the two most important donors in the road sector, we believe it would be highly desirable if IDA and ADB could take a common stance on major sectoral issues (e.g. proper balance between new investment and maintenance, adequate funding mechanism for maintenance, standards of equipment maintenance and training). As stated in Mr. Stern's memorandum of February 15, 1984 on road maintenance (a copy attached at Annex IV), on our side we will have to attach a great deal of importance to the resolution of such sectoral issues in moving forward with the next road project. However, our impression is that ADB is more interested in providing a quick-disbursing

sector credit and does not seem concerned about the sectoral issues to the same extent as we are. In order to avoid duplication of project preparation work on the part of GOB and to ensure that the two institutions provide consistent policy advice on road maintenance issues, we should consider with ADB the possibility of cofinancing the project with them. The IDA project identification mission will be visiting Manila in late April to discuss this possibility with ADB.

Irrigation

5. ADB may enquire with us at Amsterdam about our plans to review irrigation investment needs in Bangladesh. You may wish to draw ADB's attention to ongoing UNDP-financed Water Sector Master Plan study of which IDA is the executing agency. We intend to keep interested donors informed of progress of the study (and can let ADB have copies of the progress reports if they so wish) and to convene donors' meeting to discuss the consultant's report when it is completed. A draft final report is expected in August 1985.

6. It seems that ADB is not clear about the nature of the IDA-assisted Irrigation Management Program. An Irrigation Management Program (IMP) was introduced in the IDA-financed Rural Development Project (Cr. 631-BD) in 1979/80 to maximize utilization of irrigation capacity and minimize operation cost of minor irrigation equipment. Under this program, field officers of the Bangladesh Rural Development Board (BRDB), the Department of Agriculture Extension (DAE) and BADC are jointly responsible for supporting cooperatives to carry out the following essential features: (a) preparation of plans for better water management; (b) organizing cooperative meetings; (c) training; (d) laying of irrigation channels; (e) preparation of irrigation budgets; and (f) obtaining credit for production costs. During its first years of implementation, IMP increased the area serviced within the command areas, farmers participation, and yields. Because of the promising results, GOB has decided to replicate this program on a nationwide basis. We understand that ADB is considering an Intensive Command Area Development Project which would provide inputs such as pumps, engines and minor structures in 9,000 selected sites. We are asking RMB to find more about this ADB project to determine whether there are any problems to be sorted out with ADB. We will advise you separately if there are likely to be problems.

Proposed Livestock Development Project

7. During early 1983, FAO/CP consultants identified a livestock development project for possible financing by IDA. At the same time, however, ADB was also considering preparation/identification of a second phase of their ongoing livestock project. Following discussions between IDA and ADB staff responsible for project identification/preparation, it was agreed in principle by the management of both institutions that given the relatively low absorptive capacities of institutions in the sector and the linkages between the components of the two projects, consideration would be given to develop-

ing one project which IDA and ADB would jointly prepare, appraise and finance. For the past six months, the respective staff of the two Banks have been working in close collaboration.

8. Preparation started in February 1984. The FAO/CP preparation team and the ADB consultants were in the field concurrently. Most important discussions, including wrap-up meetings with GOB, have been and will continue to be held jointly. On May 7, the draft preparation reports of the two teams will be reviewed with GOB with headquarters staff from both IDA and ADB participating. After these discussions, further processing steps, including the need for production of one combined preparation report, will be determined. IDA has tentatively agreed to conform to the current ADB schedule for a late July appraisal provided the preparation report is found to be satisfactory and agreements are reached with GOB and between IDA and the ADB.

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

Annex I
Page 1

DATE: April 11, 1984

TO: Files

FROM: S. H. Choi, Senior Loan Officer, ASADD

SUBJECT: BANGLADESH: Energy Sector Coordination with ADB

1. The IDA-ADB coordination meeting on energy was held in Manila from February 23 to 25, 1984.^{1/} The discussion on Bangladesh took place on February 24. This memorandum summarizes for the record main points discussed on Bangladesh.

Dhaka Power Distribution (Second Stage) Project

2. We pointed out to ADB that the manner in which ADB handled this project had considerably strained the relationship between the two institutions and raised a fundamental issue of aid coordination. This was a case where IDA had included the project in our lending program after consultation with ADB but subsequently ADB decided to finance the project on grounds that Government wanted it to do so. We stressed the point that while Government has a right to approach any institution of its choice with a request to finance a particular project, aid coordination would not have much meaning, if one donor felt free to change its position without consulting the other simply on grounds of Government preferences. In order to strengthen aid coordination, therefore, it was important to ensure that, once an understanding is reached with respect to a particular issue, each institution try to adhere to the understanding. Where subsequently one institution found a strong reason to deviate from such understanding, the other institution should be consulted before the position is communicated to Government. ADB seemed fully in agreement with the above.

Ashuganj Thermal Power Project

3. We drew the attention of ADB staff to a telex that ADB had sent to Government, suggesting to convene a donors meeting to discuss utilization of savings from ongoing credits to finance an additional generating unit at Ashuganj. We pointed out that since IDA is a lead agency, ADB should have been in touch with IDA rather than communicating directly with Government. ADB admitted that the telex was improper. With respect to the further Ashuganj extension phase, we told ADB that IDA would process a separate project and scheduled an appraisal mission in September 1984. ADB had no objection to IDA taking the lead and would consider cofinancing by applying savings from its existing Ashuganj power loan towards an additional unit. With respect to a feasibility study needed to prepare this extension phase, ADB noted that the study would be carried out by Acres International as

^{1/} The official minutes of the meeting are being prepared by ADB.

-2-

part of the Power System Master Plan exercise. Upon checking with BPDB and Acres staff subsequently in Dhaka, we found that this was not the case. We have subsequently advised ADB by telex that at the request of GOB, IDA would finance the required feasibility study.

Second Gas Development Project

4. We explained that the project had been conceived when we appraised the Petroleum Exploration Promotion Project in response to a strong Government request to include development of Kailashtila and Beani Bazaar fields as a component of this project. We had thought that the purpose of the ADB-financed study, for which technical assistance grant was approved in June 1983, was to assess the long-term gas demand and supply options for the Titas Franchise Area rather than to identify and prepare a specific project for ADB financing. Moreover, in March 1983 IDA had written to inform ADB of its intention to prepare and approve the Kailashtila and Beani Bazaar Project. There had been no response to this letter from ADB. ADB argued that the study had all along been intended to identify and prepare a project and IDA had been shown the TORs of the study at a very early stage. ADB agreed, however, that due to lack of internal communication, ADB had failed to respond to the IDA letter. In any event it was understood that the roles to be played by the respective institutions in further gas development would be defined, following the review of the preliminary consultant report expected by mid-March 1984.

Rural Electrification Project

5. The recent ADB-sponsored study on rural electrification raised a number of questions about the viability of rural electrification schemes in Bangladesh. Main issues were heavy capital investment implied by the Area Coverage Rural Electrification (ACRE) concept and the ability of the rural electricity cooperatives to sustain themselves financially without Government subsidy. For the time being ADB was not contemplating to finance any rural electrification projects in Bangladesh. Thus ADB saw no conflict with a second rural electrification project included in IDA's FY86 lending program.

System Loss and Finances of BPDB

6. Based on the findings of ADB's power mission in January 1984, ADB felt that BPDB was making good progress in controlling system losses and the quality of its accounting and financial management had appreciably improved. ADB believed that BPDB was doing its utmost to improve its efficiency and no more external pressure would be warranted. ADB was processing a large power sector credit (US\$120 million) which would have no major sector conditionalities. We responded that our findings about BPDB were very different from those of ADB as we believed that BPDB still have serious deficiencies in respect of system loss, billing and accounting control and collection performance, although there had been some improving

-3-

trend in recent months. We advised ADB that IDA was contemplating to provide financial and technical assistance to help BPDB implement the system loss reduction program as well as improve billing and collection performance. Given substantially divergent views on the matter, we agreed to exchange mission reports and other relevant information. In the meantime, ADB asked that it would like to be consulted before IDA decides to suspend disbursement or take any other punitive actions with regard to the Ashuganj Power Project.

Oil Refinery Project

7. We advised ADB that a study on the feasibility of a secondary conversion facility at ERL refinery was underway financed by ongoing Energy Efficiency and Refinery Rehabilitation Project. If the feasibility of a secondary conversion facility is established by the study, we would appraise the Oil Refinery Project some time in the Fall. ADB showed no interest in this project.

Energy Sector Studies

8. ADB was furnished with information on ongoing energy sector studies and technical assistance activities being financed or sponsored by IDA (see Attachment). ADB expressed a particular interest in the power tariff and gas pricing studies and would like to be kept informed of the outcome of these studies. As regards energy sector studies being executed under ADB's auspices, ADB indicated that the Power System Master Plan Study would be completed by July 1984 and IDA would be invited to a tripartite meeting to review the draft final report. With respect to the Energy Planning Project (EPP), it was expected that an interim report would be ready in August 1984 and a draft final report in December 1984. ADB agreed to keep IDA involved in the review of the consultant's report. With respect to the East-West Gas Interconnector Project, ADB noted that the project would be further examined in the context of ADB. Following subsequent discussions with GOB in Dhaka, we have informed ADB that IDA would finance an in-depth review of a number of issues left unanswered by the previous consultant's study in order to better assess economic feasibility of the project.

cc: Messrs. Hopper, Wiehen, Thalwitz, Geli, Clift, Brandreth, Masood Ahmed, McCarthy, Segura, Siebeck, Antonescu, El-Menshawry, Pinard, Rowe, Bowlin, ASADD

BANGLADESH

IDA-Assisted Energy Sector Studies and Technical Assistance

<u>Hydrocarbon Sector</u>	<u>Description</u>	<u>Start</u>	<u>Completion</u>	<u>Status</u>
Hydrocarbon Habitat Study	Examination of stratigraphical data, a geochemical investigation of source rock potential and construction of regional cross-sections, to be included in a promotional package	March 1984	1986	Contract negotiations with BGR under way; financed under Petroleum Exploration Promotion Project
Hydrocarbon Seismic Study	Reconnaissance survey of about 1,500 line km in the Southwest Delta area and detailed seismic surveys of about 900 line km over seven producing gas fields	March 1984	December 1985	Bid evaluation completed for both data acquisition and data processing contracts; financed under Petroleum Exploration Promotion Project
Technical Training for Petrobangla	Short overseas courses in petroleum exploration (geological evaluation, geophysical acquisition and processing)	October 1984		Financed under Petroleum Exploration Promotion Project
Accounting Assistance to Petrobangla	Technical assistance to upgrade financial systems, inventory and fixed asset control procedures	October 1984		Consultants to be selected; financed under Petroleum Exploration Promotion Project
Legal/Contractual Assistance to Petrobangla	Review of GOB's existing legal framework for petroleum exploration and strengthening Petrobangla's ability to negotiate production sharing contracts with IOCs	October 1984		Consultants to be selected; financed under Petroleum Exploration Promotion Project
Training Assistance to BGSL	Technical assistance in preparation and implementation of a staff training program			Contract with PLT financed under Bakhrabad Gas Project
Second Gas Development Project	Production testing and pre-project engineering on Kailashtila and pipeline	March 1984	June 1984	Invitation to be issued, financed under ODA grant
Methanol R&D	Studies by BUET of methanol as blended fuel and other potential use as domestic and/or industrial fuel	September 1984	September 1985	Financed under Energy Efficiency and Refinery Rehabilitation Project

Gas-Based Exports	Study of potential uses of natural gas for direct export or for export-oriented chemical industries	April 1984	April 1985	Contract negotiations with James Chemical completed; financed under Energy Efficiency and Refinery Rehabilitation Project
Gas Tariff Study	Study on appropriate levels of gas prices, LRMC, evaluation of options for optimizing natural gas use and impact on the economy	March 1984	June 1984	Contract negotiations with Montreal Engineering under way; financed under Bakhrabad Gas Project
CNG Research (automotive)	Study on use of CNG as automotive fuel	September 1982	June 1984	Being executed by Gas Development Corporation and TNO; financed under Bakhrabad Gas Project
CNG Research (locomotive and barges)	Study on use of CNG as fuel for locomotives and barges	1985	1986	To be included as component of Second Gas Development Project
Chemical Industry Study	Review of ongoing studies on use of natural gas as chemical feedstock	1985	1986	In-house study
Gas Subsector Review	Review of ongoing exploration and development work for formulation of lending strategy in gas subsector	1985	1986	In-house study
Small-Scale Use of Gas	Study on use of gas by small and medium industrial/agricultural commercial establishments in areas near pipelines			In-house study
Technical Assistance to BPC	Strengthening BPC's accounting and management information systems and overseas training	May 1984	December 1986	Price Waterhouse selected; financed under Energy Efficiency and Refinery Rehabilitation Project
Refinery Modification	A feasibility study of debottlenecking and secondary conversion facilities at ERL refinery	February 1984	June 1984	Being executed by Lummus Co.; financed under Energy Efficiency and Refinery Rehabilitation Project

Technical Assistance to ERL	Technical assistance to improve operation and maintenance and to strengthen staff training	June 1984		Invitations issued to consultants; to be financed under Energy Efficiency and Refinery Rehabilitation Project
<u>Power Sector</u>				
Training Assistance to BPDB	Training of operational level staff in construction and maintenance of distribution facilities			Financed as component of Greater Khulna Power Distribution Project
Power Tariff Study	Study of appropriate power tariff levels based on LRMC			
Power Sector Strategy	Review of Power Sector Master Plan and formulation of IDA lending strategy in the power sector	1984	1984	In-house study
Ashuganj Power Extension	Feasibility and engineering studies for expansion of Ashuganj power plant	April 1984	October 1984	To be financed under TA-5
System Loss Reduction	Review of system loss reduction program and accounting and financial management of BPDB	April 1984	June 1984	To be financed under TA-5 or under UNDP/World Bank Energy Assessment Program
<u>Traditional Energy</u>				
Assistance for Rural and Renewable Energy	Promotion of rural and renewable energy through technical assistance, studies, research and pilot projects; strengthening institutions responsible for traditional energy	July 1984	June 1987	To be financed under TA-5 and NLD grant
<u>General</u>				
Energy Strategy Paper	Review of GOB policies and programs, issues and constraints and formulation of IDA lending strategy	January 1984	April 1984	In-house study

Industrial Energy
Conservation

Technical assistance to Energy
Monitoring Unit (EMU) to prepare
a national energy conservation
program with emphasis on
industrial energy efficiency
measures

June
1984

December
1985

Evaluation of proposals
under way; financed
under Energy Efficiency
and Refinery Rehabilitation
Project

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11 APRIL 1984

MR. DAVID HOPPER
VICE PRESIDENT
INTBAFRAD

YOU MUST HAVE SEEN BAKLEY'S CABLES TO MADAVO AND
CLIFT RESPECTIVELY ABOUT THE BIN QUASIM-PIPRI AND BAKHARABAD-
DEMRA PROJECTS. WE HAVE TO EVOLVE SUITABLE MECHANISM TO
RESOLVE SUCH GRASSROOTS COORDINATION ISSUES, PARTICULARLY
IN THOSE COUNTRIES WHERE AID COORDINATION CAPABILITY HAS
DECLINED IN RECENT YEARS. HOPE TO BE ABLE TO SPEAK TO YOU
ABOUT THIS AT AMSTERDAM.

BEST REGARDS

BAMBAWALE
ASIANBANK

cc Mr. Wiebe

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*cc. Mem. Hopper
cc. Mem. Walsh
Seli*

BOOK OF TWO (SEE ATTACHED TEXT)

1. MR. BAKLEY

ASIABANK

MANILA, PHILIPPINES

TELEX 63587 ADE PI.

2. MR. ROWE

INTBAFRAD

DHAKA, BANGLADESH

(FOLLOWING SENT TO ASIABANK)

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RE BAKHRABAD/DEMRA GAS PIPELINE IN BANGLADESH. AS YOU KNOW, DURING THE LAST REVIEW MEETING IN DHAKA OF BECHTEL'S INTERIM REPORT GOB REQUESTED, AND THE ADD REPRESENTATIVE AGREED, TO EXCLUDE THE BAKHRABAD-DEMRA LINK FROM THE SCOPE OF THE STUDY. SUBSEQUENT TO THIS REVIEW, PETROBRANGLA RAISED WITH IDA THE POSSIBILITY OF IDA FINANCING FOR THIS PROJECT. SINCE WE HAD UNDERSTOOD IN THE COURSE OF THE REVIEW THAT ADD WOULD HAVE NO INTEREST IN FINANCING THIS PROJECT WE INDICATED TO GOB THAT IDA WOULD CONSIDER FINANCING IT. WE VIEWED THIS PROJECT BASICALLY AS AN EXTENSION OF THE BAKHRABAD-CHITTAGONG PROJECT. MR. MCCARTHY, YOU WILL RECALL, TELEPHONED YOU LAST SUNDAY TO INFORM YOU OF OUR CONSIDERATION OF THIS PROJECT. SUBSEQUENT TO MCCARTHY'S TELEPHONE CONVERSATION IN WHICH YOU INDICATED THAT ADD WOULD HAVE NO OBJECTION IF IDA PROCEEDED WITH BAKHRABAD/DEMRA PIPELINE, WE WERE TOLD BY OUR RESIDENT MISSION IN BANGLADESH THAT APPARENTLY FOLLOWING AN INITIATIVE BY ADD'S RESIDENT MISSION GOB WAS NOW THINKING OF PROPOSING THAT ADD SHOULD BE ASKED TO FINANCE THE PIPELINE. WE ARE PUZZLED BY THIS TURN OF EVENTS. WE MAINTAIN OUR INTEREST IN FINANCING THIS PROJECT AND WOULD MUCH APPRECIATE YOUR LETTING US KNOW WHETHER

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Cleared with and cc:

Messrs. Geli, Pinard, Siebeck
cc: Mr. McCarthy

AUTHORIZED BY (Name and Signature):

S. Choi

DEPARTMENT:

South Asia Programs

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Annex 11

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O/ABZ-166
9 APR 1984

ARNOLD CLIFT
CHIEF BANGLADESH DIVISION
WORLDBANK

RE: BAKHRABAD/DEMRA GAS PIPELINE PROJECT

1. THANKYOU FORURTELEX OF 5APRIL1984.
2. ADMITTEDLY IT IS A BIT SMOGGY HERE IN MANILA BUT WE DO SEE FACTS/SEQUENCE OF EVENTS SOMEWHAT DIFFERENT.
3. AT THE MEETING IN DHAKA ON 13-15MARCH TO REVIEW THE BECHTEL STUDY, THE GOVERNMENT SAID THAT IT HAD DECIDED TO PROCEED WITH THE BAKHRABAD/DEMRA GAS PIPELINE. BOTH ADB AND IBRD REPRESENTATIVES AGREED THAT THIS LINK WAS NEEDED EVEN THOUGH THERE WAS SOME DISAGREEMENT ON GAS DEMAND PROJECTIONS. IT WAS AGREED THAT THE DOWNWARD REVISED PROJECTIONS WOULD STILL SHOW BAKHRABAD/DEMRA LINK AS A PRIORITY. CONSULTANTS WERE THEREFORE TOLD TO TAKE BAKHRABAD/DEMRA AS A QUOTE GIVEN UNQUOTE IN THEIR FINAL REPORT. THATIS, IT NOT TO BE INCLUDED AS AN OPTION IN VARIOUS SCENARIOS. OBVIOUSLY IT CANNOT BE EXCLUDED FROM STUDY SINCE PURPOSE OF STUDY IS TO DETERMINE THE ECONOMIC SUPPLY OF GAS TO THE TITAS FRANCHISE AREA. AT THIS MEETING ADB REPRESENTATIVE DID NOT EXPRESS AN OPINION ON FINANCING, NEITHER NEGATIVE OR POSITIVE, SINCE IT WAS NOT THE PURPOSE OF THE MEETING.
4. FOLLOWING THIS REVIEW MEETING ADR REPRESENTATIVE MET WITH GOVERNMENT OFFICIALS AND WITH PETROBANGLA OFFICERS AND DISCUSSED WITH THEM THE PROJECT SCOPE FOR A 1984 ADR LOAN WHICH WOULD FOCUS MAINLY ON THE BAKHRABAD/DEMRA LINK. THERE WAS NO NEED FOR HIM TO CONSIDER POSSIBILITY OF WORLDBANK FINANCING FOR THIS PROJECT SINCE WORLDBANK HAD ALREADY STAKED OUT BENI BAZAR INVESTMENT AND TRANS-MISSION AS ITS PROJECTS AND HAD AGREED THAT THE BAKHRABAD-DEMRA LINK WOULD BE FOR ADR, IF IT WAS DETERMINED TO BE A PRIORITY. YOU MAY RECALL, THIS MATTER HAD BEEN A THORN IN OUR RELATIONS BECAUSE INITIALLY WORLDBANK HAD WANTED TO PROCEED WITH BENI BAZAR INVESTMENT BEFORE COMPLETION OF STUDY, WHICH WAS AN APPROACH THAT ADB AND EVENTUALLY THE GOVERNMENT DID NOT SUPPORT.
5. ON 17TH AND 18TH OF MARCH, TELEXES WERE EXCHANGED BETWEEN OUR RESIDENTOFFICE IN BANGLADESH AND MANILA ON TEXT OF A LETTER TO BE SENT TO GOB, WHICH WOULD CONFIRM DISCUSSION BETWEEN ADR REPRESENTATIVE AND GOB/PETROBANGLA. THIS LETTER WAS SENT TO ADDITIONAL SECRETARY-IN-CHARGE ALAM ON 20MARCH (A COPY HAS BEEN PROVIDED TO YOUR RESIDENTOFFICE).
6. ON 31MARCH EUGENE MCCARTHY CALLED ME AND SAID THAT THE WORLDBANK HAD BEEN APPROACHED BY THE GOB TO FINANCE THE BAKHRABAD/DEMRA LINK SINCE THERE WOULD BE SAVINGS IN TIME BY CONTINUING FIRMS WORKING ON BAKHRABAD-CHITTAGONG PROJECT, MCCARTHY ASKED IF THIS APPROACH (I'M SURE HE SAID APPROACH NOT POACH) WOULD PRESENT ANY PROBLEMS TO ADR. I INFORMED EUGENE THAT IF THE GOB HAD DECIDED TO SEEK WORLDBANK FINANCING IN LIEU OF ADR BANK FINANCING WE COULD HAVE NO OBJECTIONS.
7. ON 27MARCH, WE WERE INFORMED BY OUR DHAKA RESIDENTDIRECTOR THAT ACCORDING TO GOB OFFICIALS IT WAS NOT THE GOB THAT HAD APPROACHED THE WORLDBANK FOR THE FINANCING OF THE BAKHRABAD-DEMRA LINK, GOB OFFICIALS REPORTED THAT THE WORLDBANK HAD DIRECTLY APPROACHED THE GOB, AND HAD OFFERED TO FINANCE THE LINK, DESPITE THE FACT THAT ADR HAD PREVIOUSLY REACHED AGREEMENT WITH THE GOB/PETROBANGLA ON THE MATTER. (PLEASE SEE ROWE TO LEE LETTER OF 29MARCH1984).
8. I HAVE NOW BEEN INFORMED THAT GOB CONVENED AN INTER-AGENCY MEETING ON 2APRIL1984, AND THAT THIS MEETING DECIDED THAT ADR SHOULD BE ASKED TO FINANCE BAKHRABAD-DEMRA PIPELINE PLUS RELATED INVESTMENTS. BASED ON THIS DECISION A PREAPPRAISAL MISSION ARRIVED IN DHAKA ON 5APRIL.
9. IF THE ABOVE FACTS/SEQUENCE OF EVENTS ARE CORRECT, I INTEND TO PROCEED WITH FINANCING THE PROJECT THIS CALENDARYEAR, IF THEY ARE INCORRECT, PLEASE LET ME KNOW, SO THAT I CAN CONSIDER CHANGES. THIS TELEX COPIED TO OUR BANGLADESH RESIDENTOFFICE.

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ASIANBANK

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ASIAN DEVELOPMENT BANK, MANILA, PHILIPPINES

FOR MR. BAMBAWALE, VICE PRESIDENT.

AAA MANY THANKS URTEL 11 APRIL CONCERNING ADB/IDA COORDINATION.

I VERY MUCH SHARE YOUR CONCERN THAT COORDINATION BETWEEN THE TWO
INSTITUTIONS SHOULD IMPROVE AND WILL BE GLAD TO DISCUSS WITH YOU
AT AMSTERDAM HOW BEST TO EVOLVE AN EFFECTIVE COORDINATION

MECHANISM. IT APPEARS THAT WE COULD SAVE A LOT OF CONFUSION IF

ADB AND IDA WOULD AGREE ON AND ADHERE TO A FEW SIMPLE GROUND

RULES. I WOULD LIKE TO SUGGEST FOR YOUR CONSIDERATION AND

DISCUSSION AT AMSTERDAM THE FOLLOWING RULES: (1) IF ONE OF THE

INSTITUTIONS IS APPROACHED BY GOVERNMENT FOR FINANCING OF A

PROJECT (OR A STUDY), THAT INSTITUTION SHOULD GET IN TOUCH WITH

THE OTHER TO SEE WHETHER THERE IS A PROBLEM BEFORE RESPONDING TO

GOVERNMENT. LIKEWISE, IF ONE OF THE INSTITUTIONS WISHES TO TAKE

INITIATIVE IN PROPOSING FINANCING OF A PROJECT (OR A STUDY),

THAT INSTITUTION SHOULD INFORM THE OTHER BEFORE SENDING THE

PROPOSAL TO GOVERNMENT SEMICOLON (2) FOR PURPOSES OF (1) ABOVE,

THE PRIMARY POINT OF CONTACT BETWEEN THE TWO INSTITUTIONS SHOULD

BE THE RESIDENT REPRESENTATIVE OF THE RESPECTIVE INSTITUTIONS.

IN CASE OF PAKISTAN THE RESPECTIVE PROGRAMS DIVISION CHIEFS

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CLASS OF SERVICE: TELEX

TELEX NO.: 23103 ADB PH

DATE 04/19/84

SUBJECT:

ADB/IDA COORDINATION

DRAFTED BY:
SCHOLEXTENSION:
32392

CLEARANCES AND COPY DISTRIBUTION:

Cleared with and cc: Messrs. Robless,
Geli, Siebeck, Madavo, McCarthy

cc: Messrs. Wieheno/r

Thalwitz, Haynes, Brandreth

AUTHORIZED BY: [Signature]

W. DAVID HOPPER, VICE PRESIDENT

DEPARTMENT:

SOUTH ASIA REGION

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SHOULD SERVE AS PRIMARY CONTACT POINTS SEMICOLON (3) ONCE AN
UNDERSTANDING HAS BEEN REACHED BETWEEN THE TWO INSTITUTIONS ON A
PARTICULAR PROJECT OR ISSUE, EACH INSTITUTION SHOULD ADVISE THE
GOVERNMENT IN ACCORDANCE WITH THE UNDERSTANDING AND NOT TO
DEVIATE FROM IT WITHOUT PRIOR CONSULTATION WITH THE OTHER
INSTITUTION.

BBB THE ABOVE IS BASICALLY IN LINE WITH DISCUSSIONS IDA
DELEGATION HAD WITH ADB DURING FEBRUARY, 1984 ENERGY
COORDINATION MEETING IN MANILA AS WELL AS DURING RECENT PAKISTAN
CG MEETING IN PARIS. WE WOULD WELCOME ANY IDEAS OR SUGGESTIONS
FROM YOUR SIDE. REGARDS, W. DAVID HOPPER, VICE PRESIDENT, SOUTH
ASIA REGION.

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TEXT

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CLASS OF SERVICE: Telex

TELEX NO: 23103 ADB PH

DATE: 04/19/84

SUBJECT:

DRAFTED BY:

Schoi/y

EXTENSION:

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AUTHORIZED BY (Name and Signature):

W. David Hopper, Vice President

DEPARTMENT:

South Asia Region

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OFFICE MEMORANDUM

Annex IV
Page 1

DATE: February 15, 1984

TO: Projects Directors

FROM: Ernest Stern, SVP, Operations *ES*

SUBJECT: Highway Maintenance/Rehabilitation Projects

I have recently reviewed a number of highway maintenance/rehabilitation projects which have failed to address, or contain detailed analysis of, basic issues for this type of operation such as: (i) the size and composition of the government's current highway investment program; (ii) the balance between investment and maintenance expenditures, and the overall adequacy of budgetary allocations for maintenance works; (iii) the standard of maintenance of highway department equipment and workshops; and (iv) training arrangements, and the formulation of training programs.

References to these issues in most project documents are generally descriptive and qualitative, with a notable lack of specific proposals for necessary early improvements. Enquiries by my office about this deficiency normally bring the response that these matters are to be studied, and changes designed, as part of the proposed project. This is not sufficient. These issues should be the focus of attention from the initial stages of project identification and preparation. While further refinements may be desirable, highway maintenance/rehabilitation projects are not justified - and will not be accepted - unless immediate measures are included to begin to correct past neglect and current weaknesses in these areas.

cc: Mr. Husain
cc: Regional Vice Presidents
Programs Directors

POS-01

0016

Wiehen, Michael H.
H 5049

Aid Coord:

ESMAP File
Bangladesh General

November 11, 1983

Messrs. Antonescu
Pinard
Agarwal ✓

The attached has been prepared as a brief for Mr. Paul Geli who will be visiting Manila shortly to prepare ground for the January energy sector meeting with ADB. I should be most grateful to have your comments/suggestions by noon next Monday (November 14). Thank you.

S. Choi
ext. 32392
H-5137

cc: Messrs. Clift, Elek, Siebeck
Mrs. Handwerker

BANGLADESH

Coordination with ADB in Energy Sector

In the energy sector it has become evident that better collaboration between IDA and ADB would be needed if Bangladesh is able to implement various important sector studies and investment projects in the most efficient and timely manner. Ongoing energy projects in Bangladesh financed by IDA and ADB are summarized in Annex 1. Both IDA and ADB have a substantial program for Bangladesh's energy sector and GOB relies principally on these two institutions to help develop and carry out its energy program including mobilization of other external resources. Energy projects in the pipelines of IDA and ADB for the next few years are shown in Annex 2. Also there are a number of difficult policy and institutional issues GOB will have to address, with which both IDA and ADB are concerned. Therefore, it is essential that the two institutions work closely together to ensure that consistent policy advice is provided and that there is a clear delineation of the roles and responsibilities of the respective institutions so that duplication of efforts, contradicting and conflicting advice and unnecessary delays are avoided. The problems of coordination with ADB in the energy sector may be classified into two categories: an immediate question of who will be financing the two proposed projects in FY85 (i.e., Second Gas Development Project and Greater Dhaka Power Distribution Phase Two Project) and the longer term question of how best to ensure effective sector coordination between the two agencies.

Proposed Second Gas Development Project

2. The project was conceived last year at strong request of GOB in view of the urgent need to provide additional back-up gas supply to the Titas Franchise Area (attached at Annex 3 is a brief outline of the project). During pre-appraisal (in October 1982) and subsequent appraisal (in January 1983) of the Second Hydrocarbon Project (presently called Petroleum Exploration and Promotion Project), GOB had pressed IDA very hard to include further development of the Beani Bazaar gas field as a component of this project. Since this would have delayed processing of this project, we agreed to prepare a separate project (the Second Gas Development Project) which would concentrate on developing the Beani Bazaar and nearby gas fields and linking them to the Titas area by constructing a transmission pipeline. We have already mounted three project preparation missions and planned to appraise the project in November 1983. ADB had been kept informed of what IDA was planning to do during Mr. Oestreicher's visit to Washington (February 1983) and during IDA staff visit to Manila (March 1983). However, in June 1983 ADB signed a technical assistance credit which included a study on augmenting gas supply to the Titas area and suggested to GOB that the IDA project should be held in abeyance pending completion of the ADB-financed study (originally expected for completion in December 1983 but now in April/May 1984). As a result there has been a delay in initiating necessary project preparation activities and we will probably have to slip the project from FY85 standby to FY85 regular.

3. Given the urgent need for this project, the Government is keen to seeing that the project be appraised as soon as possible but, in light of current ADB involvement in the technical assistance project, the Government is anxious not to upset ADB. In a recent meeting held in Dhaka under the auspices of ERD in which the resident representatives of both IDA and ADB participated, the Government agreed to proceed with necessary pre-engineering work as suggested by IDA and expressed the desire that the project be cofinanced by IDA, ADB and other donors. Inasmuch as ADB would like to have an option of financing any projects emerging from the current technical assistance project and to avoid further embarrassments, we would agree to consider cofinancing the project with ADB. Before the project is firmed up, we would take into account the conclusions of the ADB-financed study. There is, however, an immediate need to embark on necessary pre-engineering work (including well testing) since this is needed before we can mount an appraisal mission. We are hoping that we will be in a position to appraise the project in January 1984. ADB would also benefit from the results of well testing as it is important to confirm reservoir potentials before investment decision is made. An IDA energy mission is visiting Bangladesh from November 13 to 18 to firm up arrangements for pre-engineering work and to discuss how best to divide up project components for possible cofinancing with ADB and other donors.1/

1/ We understand that ADB's Resident Representative in Dhaka is attempting to have someone from ADB headquarters projects staff present during the visit of the IDA energy mission which could permit resolution of the issue. We will keep you informed of development in Dhaka since

Greater Dhaka Power Distribution (Phase Two) Project

4. The project is in our FY85 program and we are planning a pre-appraisal mission early in 1984. ODA which is financing the first phase project had approached IDA to see whether we would be interested in cofinancing with ODA a proposed second phase project. We understand that ODA had made a similar approach to ADB and was told that ADB would be willing to include this project in an expanded version of a proposed ADB-financed district power distribution project. When Mr. Clift visited Manila last July, the matter was discussed with ADB staff and there was an agreement that it would not make sense for both ADB and IDA to cofinance with ODA and that ADB would proceed with the district power distribution project as presently defined. ADB had no objection to IDA proceeding with the Dhaka II distribution project with ODA. Apparently the matter has not been completely settled within ADB and subsequently ODA was told by ADB staff that ADB was still very interested in financing the Dhaka project with ODA. We had to bring this issue to the attention of ERD and its final decision is being awaited. Given the earlier understanding with ADB and, since this is the only power distribution project in our lending program for FY84-87, we hope that IDA will be requested by Government to cofinance the project with ODA.

otherwise the problem will have to be thrashed out with ADB headquarters at a higher level.

Framework for Sector Coordination

5. It is clear that in the future the two institutions should work much more closely than in the past if they are to play an effective role in helping to develop the Bangladesh's energy sector. To this end we believe that the forthcoming energy sector discussions with ADB scheduled for January 1984 should focus on possible modalities of improving coordination covering the following areas: 1

- a) Technical Assistance and Studies. Currently ADB is financing major energy sector studies and technical assistance programs which include an Energy Planning Project (EPP), a Power Sector Master Plan Study and a gas sector development study. These studies are intended to provide necessary inputs to the formulation of the Government's Third Five-Year Plan and are expected to have major influences on the shape of future development of the country's energy sector. In particular the Energy Planning Project would address such critical questions as long-term development strategies, energy supply options, energy pricing, institutional and manpower development, rural energy management and an energy investment plan to the year 2000. Similarly the Master Plan Study on the power sector is expected to address policy and institutional issues and generate specific investment projects in this sub-sector.

Considering that a number of major energy sector studies were

carried out by IDA or are being implemented under various energy projects financed by IDA, and further that the scope of the ADB-financed studies is such that they are likely to have major implications for our own energy sector program for Bangladesh, we think it is appropriate for IDA to declare a special interest in the ADB-financed studies. Annex 4 contains a list of major energy sector issues being addressed under various studies sponsored by IDA and ADB. During the forthcoming energy sector meeting with ADB, we could discuss the scope of the various ADB-financed studies and the consultants' TORs to ensure that there is no duplication or overlapping with IDA-sponsored studies and that the thrust of the ADB studies complements past and ongoing efforts by IDA. We should also discuss key macro-economic and energy sector policy issues and constraints likely to be imposed by overall resource availability and implementation capacity that should be taken into account in the ADB-financed studies. It is expected that an inception report of the EPP consultants will be completed in time for review at the January meeting. In view of our special interest, we would also like to have an understanding with ADB that IDA have an opportunity to comment on preliminary and final draft reports on EPP, Power Sector Master Plan and gas sector development studies. Such arrangements could be

reciprocated in the case of studies being sponsored by IDA in which ADB may express a special interest.

- b) Lending Operations. With respect to future lending operations in the energy sector, Annex 3 shows IDA's present pipeline for FY84-86 along with ADB's pipeline for FY84-85. During the January energy sector meeting it would be useful to discuss the respective pipelines at least up to FY87 and the scope of various proposed projects to see whether there is any overlapping and whether it makes sense to cofinance certain projects. As regards cofinancing, we would need to discuss whether ADB would be prepared to accept IDA's appraisal reports without insisting on its own (as IDA has done in the case of Ashuganj Fertilizer Project). Since the pipelines of both institutions are in flux and project contents and financing are subject to change, it might be useful to have a periodic consultation on proposed operations (say at least twice a year) so that potential problems may be detected and resolved as early as possible. The January meeting could discuss specifics of such consultation mechanism including procedures for resolving any differences. Beyond such mechanism, it does not appear particularly desirable to try to delineate specific areas for financing by the respective institutions, in view of the present sector-wide involvement of both IDA and ADB and

inherent uncertainties about the size and composition of lending programs in both institutions.

- c) Interchange of Staff. In order to promote coordinated approach in energy operations, particularly in the case of major energy sector studies and cofinancing operations, it would be useful to consider more frequent interchange of staff to join project identification, appraisal and other sector missions. This has been practiced to some extent (e.g., the energy assessment study) but needs to be expanded.

6. While there is a clear case for strengthening energy sector coordination between IDA and ADB and coordination should be more formalized than in the past, we believe that initially only fairly modest and immediate objectives should be set (e.g., periodic consultation, interchange of staff, exchange of views on studies and issues of special importance), leaving aside more integrated planning and division of work and responsibilities which must be considered as a long-term objective. It is important to point out, however, that the attainment of even such modest and short-term objectives would require that there be a strong commitment at the top management level of both institutions to the principle of coordination and that such commitment be clearly communicated to the working level staff. It will, therefore, be necessary that prior to the January meeting the Vice Presidents of the respective institutions get in touch with each other to reaffirm and re-emphasize the importance of energy

sector coordination between the two institutions and that the staff of the respective institutions be properly sensitized to the need to work more closely than in the past.

BANGLADESHONGOING ENERGY SECTOR OPERATIONS OF ADB AND IDAA. Power SectorADB

1. ADB's involvement in the power sector covered generation, distribution, system rehabilitation and technical assistance. Two loans (\$10.45 million) financed the West Zone Power Project, in which a 40 MW gas turbine power station was constructed at Bheramara. A \$4.55 million loan helps finance the construction of the 27-mile Ishurdi-Shahzadpur 132 kV transmission line and a 13.3 MVA substation. The Greater Chittagong Power Distribution Project, which ADB is supporting with a \$27.75 million loan, will improve the distribution system in the Chittagong area and is scheduled for completion in the fourth quarter of 1983. The second stage Chittagong Power Distribution Project financed by ADB is expected to start soon. In 1981 ADB approved a loan of \$26.5 million for a Power System Rehabilitation and Expansion Project which was formulated as a result of the earlier Power System Rehabilitation Study financed by ADB. The project will rehabilitate existing generating stations, grid substations and transmission lines, construct two new 132 kV transmission lines and generally upgrade the quality of power system operations. ADB is also supporting, together with France, the implementation of the Greater Rajshahi Power Distribution Project (\$2.73 million). ADB is a cofinancier of the Ashuganj Thermal Power Station Extension II Project and its loan (\$30.6 million) is financing part of auxiliary electrical equipment and the training of simulator (see paragraph 2

below). ADB is providing technical assistance of US\$0.75 million for the preparation of the Power System Master Plan to develop a comprehensive plan for both near-term transmission expansion and long-term power system expansion.

IDA

2. IDA's involvement in the Power Sector started with a \$28 million credit for the Greater Khulna Power Distribution Project approved in June 1979. The credit assists BPDB in upgrading and improving the distribution network in Khulna and in three smaller neighboring towns. Subsequently two other IDA credits were approved in the power sector. One is the Ashuganj power generation and transmission project (Ashuganj Thermal Power Station, Extension II) with a total cost of \$328 million and a foreign exchange component of \$228 million. Cofinanciers for this project are IDA with \$92 million, Kuwait with \$35 million, OPEC Fund with \$30 million, ADB with \$30.6 million, and the Federal Republic of Germany with \$48 million. This project will expand the Ashuganj steam power plant through the addition of two new gas-fired units of 150 MW each and the construction of a 48 km 230 kV double circuit transmission line between Ashuganj and Ghorasal including a 230/32 kV substation. The IDA credit is financing mainly two boilers and ancillary equipment. The second is a Rural Electrification Project for which a credit of \$40 million was approved in June 1982. It will provide power to 7 rural electrification cooperatives in Dhaka, Chittagong and Khulna Divisions, covering some 3,000 square miles and one million rural households.

B. Hydrocarbon Sector

ADB

3. ADB provided a \$31 million loan in 1980 in support of gas field development at the Titas and Chhatak fields, financing the expansion of gas production and transmission facilities, and \$12.2 million for an earlier gas distribution project. In 1982, ADB approved a \$45.6 million loan for the Southeast Bangladesh Gas Distribution Project which would utilize gas drawn from Bakhrabad through the Bakhrabad-Chittagong pipeline now under construction (see paragraph 4 below) for distribution (through 600 miles of distribution lines) in Chittagong and several other major towns in the southwestern districts. The Greater Titas Franchise Area Gas Distribution Project was approved in 1983 by ADB which consists of a transmission line from the Titas field to the Dhaka area and of additional distribution facilities in Dhaka and its surroundings. In June 1983, ADB provided a technical assistance grant (\$348,000) to prepare a gas development project to provide additional gas supply to the Titas Franchise Area to meet the projected demand up to 1991.

IDA

4. The current involvement of the IDA in the hydrocarbon sector is dominated by the Bakhrabad Gas Development Project and an IDA credit of \$80.5 million extended in 1981 for the construction of the 110-mile, 24-inch Bakhrabad-Chittagong gas transmission line, which is being cofinanced by the OPEC Fund with a \$21 million loan. This project is being implemented in

conjunction with the Bakhrabad Gas Field Development Project financed by Japan with a loan of \$26 million (Yen 6.6 billion). The two projects include field development, well drilling, gathering and conditioning facilities, the transmission pipeline to Chittagong and a distribution system in the Chittagong metropolitan area. As part of this project, IDA is also providing technical assistance and financial support (totaling \$4.6 million) for a number of studies on gas pricing, gas utilization and hydrocarbon development.

5. In addition, two IDA credits were approved in 1983 in the hydrocarbon sector. One is an Energy Efficiency and Refinery Rehabilitation Project for which an IDA credit of \$28.5 million was approved in May 1983. This project will finance rehabilitation of the ERL oil refinery in Chittagong to increase capacity utilization and a study to determine further modifications required to improve the refinery's yield pattern. The project also includes development of an energy conservation/diversification program to improve the efficiency of energy use in the industrial sector as well as studies on gas-based export-oriented projects to exploit the foreign exchange potential of the country's natural gas. The other operation approved by IDA was a Petroleum Exploration Promotion Project (an IDA credit of \$23 million approved in July 1983) which seeks to support efforts to stimulate interest among foreign investors to resume petroleum exploration in Bangladesh. The project includes seismic surveys of about 2,400 line km and a hydrocarbon habitat study which will reinterpret and integrate seismic, geological and geochemical data.

BANGLADESHEnergy Sector Lending Program

	<u>IDA</u>	<u>ADB</u>
FY84	Petroleum Exploration and Promotion (\$23 M)	Urban Power Distribution and Expansion (\$75 M)
		Natural Gas Dev. II (\$40 M)
FY85	Gas Development II (\$60 M)	Power Transmission, Generation & Expansion (\$75 M)
	Oil Refinery (\$60 M)	Program Loan (Energy) (\$20 M)
	Power Distribution II (Greater Dhaka) (\$35 M)	Natural Gas Dev. III/ <u>a</u> (\$50 M)
FY86	Gas Exploration (\$60 M)	
	Power IV (Ashuganj) (\$65 M)	
	Rural Elect. II (\$65 M)	

/a Pipeline project.

PROPOSED SECOND GAS DEVELOPMENT PROJECT (FY85)

The project would assist in the development of three gas fields in order to meet part of the future gas requirements of the greater Titas area which serves the Dhaka area and adjacent industrial sites. The three fields which would be developed under the project are the Beani Bazar and Kailashtila fields, located within 13 miles of one another in the Sylhet District of eastern Bangladesh, and the Rashidpur field, located midway between the Beani Bazar/Kailashtila area and Ashuganj. A major component of the project would be the construction of a 110-mile pipeline between Beani Bazar/Kailashtila and Ashuganj. The project would provide an additional gas supply of 165 MMSCFD and about 300,000 - 400,000 of condensate annually. The pipeline would also be used to distribute gas to consumers (primarily tea estates) located along the route.

Project components would include:

(a) Development of the Rashidpur gas field including workover of the two existing wells and construction of surface facilities.

(b) Development of the Beani Bazar and Kailashtila gas fields including the drilling of two wells at Kailashtila and construction of surface facilities. Development of Beani Bazar would be based on the discovery well only.

(c) Condensate pipeline from Beani Bazar to Kailashtila and condensate treatment facilities at Kailashtila.

(d) Gas transmission pipeline, approximately 110-mile long, from Beani Bazar/Kailashtila to Ashuganj.

(e) Gas distribution to tea estates and other gas consumers located along the pipeline route.

(f) Telemetry and telecontrol equipment for the Titas system.

(g) Technical assistance and training.

(h) Study of potential gas utilization in rural areas.

(i) Study of potential utilization of CNG in railroad and river transport.

ESTIMATED PROJECT COSTS: (US\$ millions)

Foreign Exchange	80
Total Project Cost	90

PROPOSED FINANCING:

IDA	60
Cofinanciers	---

STATUS OF PROJECT PROCESSING:

Appraisal scheduled for January 1984

TENTATIVE BOARD DATE: July 1984

IMPLIMENTING AGENCY: Petrobangla

(11/03/83)