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Loan Committee - Minutes - 1971



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Loan Committee - Minutes - 1971



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LOAN COMMITTEE

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JUN 10 2014

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September 10, 1971

LC/M/71-11

Minutes of Loan Committee Meeting held on
Tuesday, August 31, 1971 at 3:30 p.m. in
the Board Room.

A. Present:

J. Burke Knapp (Chairman)
S.R. Cope
G. Alter
A. Broches
B. Chadenet
V.C. Chang
R. Chaufournier
R.H. Demuth
L.J.C. Evans

D.J. Fontein
D. Gustafson
J.P. Hayes
C.G. Melmoth
D. Richardson
A. Stevenson
J.H. Williams
E.P. Wright
Dag F. Wittusen (Secretary)

Attending:

G. Aithnard
B.A. de Vries
D. Elz
P.T. Grosjean
H.J. Nissenbaum

C.R. Poncia
R.E. Rowe
R. Wadsworth
M.J. Walden

B. Ghana - Sugar Rehabilitation Project

1. The Committee considered a memorandum dated August 27, 1971 from the Western Africa Department entitled "Ghana - Proposed Sugar Rehabilitation Project" and the accompanying appraisal report. The memorandum recommended that the Government be invited to negotiate a \$7 million loan and a \$8 million credit to finance the foreign exchange component of a project to rehabilitate the Ghanaian sugar industry.

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

1971

C. Disoussion

3. The Chairman, in opening the discussion, asked the Committee to consider whether a good case had been made for Bank Group investment in a sensitive and generally believed "surplus" crop. The project, providing a high return in foreign exchange, would improve Ghana's precarious balance of payment position, but it required substantial nominal protection against imported sugar, and the project's justification relied heavily on the use of a shadow rate of exchange. The Chairman felt that a closer look should be taken at Ghana's comparative efficiency in sugar production as a justification for the proposed investment.

4. In reply, Agriculture Projects Department said, first, that the past world sugar surplus was disappearing. Second, a standard economic analysis relating Ghana's comparative efficiency to the world market price of sugar was inappropriate. Most of world sugar production was sold at preferential rates according to special producer-consumer arrangements and did not enter the "free" world market. The marginal supply that entered the free market and determined the world price was often "dumped," making the world price largely irrelevant as a yardstick of efficiency. Other tests of efficiency, however, indicated that Ghana was potentially as efficient as other sugar producing developing countries. Regarding the shadow rate of exchange, it was appropriate on account of the over-valuation of the cedi and Ghana's shortage of foreign exchange. It was agreed that Ghana's exchange rate and the world sugar market situation would be treated more extensively during Board presentation.

5. Further substantive discussion focussed on (i) the protection of the sugar industry, and (ii) financing of the expatriate management firm.

6. Protection of the Sugar Industry. The Committee noted that:

- (i) Some protection of the local sugar industry, via import duties on foreign sugar, was necessary and legitimate because of the absence of a truly competitive world market and the over-valued exchange rate of the cedi. At the same time, the system of protection should be flexible in order to avoid over-protection and should in particular be responsive to changes in the exchange rate.
- (ii) There was some criticism of the proposal to obtain assurance that the Government would take the measures necessary to enable Ghana Sugar Company (GSC) to earn a return of at least 7% on capital employed (Appraisal Report, 9.02(r)). While a nominal protection against imported sugar was acceptable on economic grounds, it was questionable how far the Bank should insist on

maintaining the financial viability of GSC. Several speakers maintained that the proposed rate-of-return covenant would compromise one of the prime objectives of the project, viz. to increase the technical and managerial efficiency of the sugar factories, by removing market pressure for reform and in effect guaranteeing a certain level of profits.

7. Financing of Expatriate Management Firm. The Committee noted that: 14

- (i) The Area Memorandum recommended that the cost of the expatriate management team be capitalized and be eligible for Bank financing for four years until the financial break-even point of the project was reached. In response to questions of why this cost was not treated as recurrent, the Area Department stated that since there was a constraint on Bank financing of recurrent costs a broader definition of capital cost had been sought. It was argued that, according to Projects Departments Director's Memorandum No. 2.5, recurrent cost which contributed to the creation of capital assets could be capitalized and thus made eligible for Bank financing. Regarding the period for financing these costs, it had been set at four years on the assumption that after the financial break-even point of the project the cost of management should be considered operating costs and hence no longer eligible for Bank financing, according to D.M. No. 2.5.
- (ii) The Chairman thought the financial break-even point of the project an arbitrary cut-off point for determining the amount of Bank financing. The Bank was fully accustomed to financing the foreign exchange component of management services for the entire period of disbursement of the loan (in this case, six years). The fact that the foreign exchange cost of management services in this project was an unusually large element of total financing should not prevent the Bank from following this guideline, particularly in view of Ghana's shortage of foreign exchange and great need for managerial assistance.
- (iii) It was agreed that Projects Departments Director's Memorandum No. 2.5^{1/}, entitled "Definition of Capital and Current Expenditures," should be circulated for review and further discussion.

D. Conclusion

8. The Committee concluded that:

- (i) The system of protection for the sugar industry should be flexible in order to avoid exclusion of competition with foreign sugar and the possible fostering of an inefficiently managed industry;
- (ii) the Bank should finance the foreign exchange component of the expatriate management team for the full length of the disbursement period;

and further concluded that:

- (iii) the Bank loan should be for 30 years, including 10 years of grace;
- (iv) the Government-to-GSC relending rates on loan and credit proceeds should both be 7 1/4%;
- (v) should some bilateral financing become available for the project, the Bank loan would be reduced accordingly;

and, subject to the modification in (i)-(v) above, approved the Western Africa Department's recommendation that negotiators be invited for the proposed loan and credit

E. Adjournment

9. The meeting adjourned at 4:40 p.m.

Dag F. Wittusen
Secretary

Cleared by: Messrs. Knapp
Broches
Chadenet
Chaufournier
Wadsworth/Evans

Secretary's Department
September 10, 1971

PROJECTS DEPARTMENTS

DIRECTOR'S MEMORANDUM No. 2.5

DEFINITION OF CAPITAL AND CURRENT EXPENDITURES

Introduction

1. The distinction between capital and current (sometimes referred to as recurrent) expenditure is important in determining the eligibility of items for Bank/IDA financing. While Article I of the Bank's Articles of Agreement refers to "facilitating the investment of capital for productive purposes" and to "the encouragement of the development of productive facilities and resources in less developed countries", there is no requirement that the projects financed by the Bank be capital in nature, provided that they come within the general purposes of the Bank set out in Article I. The Articles of IDA refer only to "providing financing to meet their [developing countries] important development requirements." There is therefore no legal requirement that the Bank should finance only capital expenditures, and whether or not it should do so is a policy question. This memorandum takes for granted that Bank finance should normally be limited to capital expenditures, but does consider whether in special or exceptional circumstances other kinds of expenditure should be financed.

2. While economic literature has dealt extensively with the subjects of capital, investment and consumption, and on the distinction between capital and current expenditures, considerable ambiguities remain and any set of definitions is arbitrary to some extent. Similarly, national accounting and budgeting practices in this field vary widely from country to country and time to time. The following attempts to give a practical definition of the concepts and to indicate how this definition applies to some of the principal types of Bank/IDA projects to which it is relevant.

Definitions

3. Capital expenditures are those which result in the creation of an asset which gives rise to a stream of benefits over a number of years. The number of years may vary, but in practice it must be at least 5 to 10 years as an average for the assets created under a Bank project in order to make the project suitable for Bank lending. This does not, of course, preclude the financing under the project of some capital assets with a shorter economic life.

4. Current expenditures are those giving rise to benefits which terminate within a short period of time, generally one year or less. Current expenditures must therefore be repeated at short, periodic intervals.

5. Capital expenditures may be for the purchase of the physical assets themselves (plant, machinery and equipment) which, since they give benefits over a number of years, are by definition capital in nature. In the case of labor, materials, and services, their classification for Bank projects depends on the use to which they are put. If they are used to create an asset which produces a stream of goods and services over a period, they are capital expenditures; otherwise they are current. For example, the labor, steel and other materials and services used by a borrower to manufacture its own railway locomotives are capital expenditures; as is the outright purchase by the borrower of the locomotive. The labor and materials used, in conjunction with the asset (locomotive) which has been created or purchased, to provide current railway services (the movement of passengers and goods) are current expenditures. Similarly, the wages of laborers and expenditures on gasoline and asphalt as well as depreciation of the contractor's equipment, are capital if they are used to build a new road or upgrade an existing road, since they create or add to the value of a long-lived asset (the road); the same expenditures are current if they are used to maintain an existing road since they must be repeated periodically to keep the road in its present condition. If road maintenance is neglected over a number of years, the capital invested in the road has been consumed, and the expenditures to reconstruct the road may be classified as capital since they create a new asset.

6. To continue with the case of highway maintenance, which illustrates some of the conceptual issues involved, the purchase of assets such as maintenance equipment (tractors, graders, rollers) is a capital expenditure; the labor, gasoline, asphalt and other materials used with the equipment to maintain the road in its present condition are current expenditures. The depreciation of the maintenance equipment and expenditures on its maintenance are current expenditures. This does not, of course, preclude the financing of the actual replacement of the equipment by external borrowing (including, if appropriate on other grounds, further Bank loans) rather than internally-generated funds; what source of finance is used for replacement depends on the overall financial position of the entity in question.

Other Illustrations

7. Other examples may be given. The salary of an engineer designing or supervising new road construction is a capital expenditure; the salary of an engineer managing a road is a current expenditure.

8. A permanent increase in the inventory of materials, goods and supplies required to reach an initial level of operations, or to expand to a higher level, may also be classified as a capital expenditure; thereafter, such expenditures are considered as current. Thus, the incremental expenditures to build up a permanently higher inventory of asphalt and gasoline necessary for a higher level of road maintenance are a capital expenditure, as is the initial stock of textbooks and supplies for a new school. In the case of agricultural credit, short term credit to farmers for the purchase of seasonal inputs is a current expenditure to the farmer, but funds used to initiate such a credit program, or to expand its level, on a long term basis may be classified as capital expenditures.

9. The starting-up expenses of a project, covering the period until income from the assets created under the project is sufficient to meet expenses, are sometimes classified as capital and have been financed by the Bank, although the same types of expenditure are later treated as current: in effect, the development period for defining capital expenditures is taken as the time necessary to reach financial equilibrium. This would be the case, for example, of the expenditures for feed, etc. under a live-stock breeding project until the new ranches were in full production.

10. Similar considerations may apply in the case of non-revenue earning projects. Thus, the Bank has, in exceptional cases, financed a declining proportion of the additional current expenditures for an expanded highway maintenance program, until such time as the Government's financial position would enable it to cover them.

11. The foregoing illustrations have all dealt with actual cash expenditures rather than economic costs. In the case of livestock projects, the withholding of cattle from markets during the herd build-up period is a capital cost, involving the foregoing of possible revenue over a period of years, although not a cash outlay to the farmer. It may also have a foreign exchange cost, since the withholding may result either in the loss of foreign exchange revenue or in an actual foreign exchange outlay for additional imports to supply the domestic market. It may be appropriate in some cases to take such costs into account in measuring the size of the farmer's contribution, the (indirect) foreign exchange cost of the project, and the amount of Bank financing. However, they should not be shown in the cost estimate table of the appraisal report, which is based on cash expenditures.

12. The classification of technical services such as those of consultants and advisers likewise depends on the use to which the services are put. Most of these services are likely to be capital in nature since they are used to prepare studies, train local personnel, give advice on the reorganization of institutions, etc. which yield benefits over a number of years. On the other hand, while the salary of the expatriate manager of a construction project may be a capital expenditure, the salary of the expatriate manager of an on-going enterprise is generally considered a current expenditure although conceivably it may involve elements of both.

13. Education projects are financed by the Bank on the grounds that they are an investment in human capital which contributes to the economic development of the country. Expenditures on school buildings, training equipment, facilities, and an initial stock of supplies, are all investments to create a capital asset (the educational system) which produces an output of trained manpower. The salaries of the staff of a project unit would also be a capital expenditure. On the other hand, from one point of view, teachers' salaries are not an element in creating the asset, but a current expenditure made in conjunction with the school system towards the annual output of students. From another point of view, however, the trained manpower which is the output of the school system is itself an asset, yielding a stream of benefits over the productive life of each graduate. In this sense, teachers' salaries would also be a capital expenditure. However this issue is viewed, there are practical objections to the Bank's financing teachers' salaries. If they were made eligible for financing they would be a very large element of total project costs, involving largely local currency expenditure. It is desirable that the Government be in a position to finance these expenditures from its regular budget over the life of the project. It would be appropriate, however, to finance the salaries of expatriate teachers used to train local teaching staff, for the reasons indicated in paragraph 12.

14. In Family Planning, expenditures on building a clinic, on transport equipment, and on an initial inventory of medical supplies are capital; they create an asset (the family planning service) which produces a stream of benefits over time. The expenses of operating the clinic, including salaries of doctors and nurses, and pills for current consumption are generally considered to be current. It could, on the other hand, be argued that each pill for example is an asset, albeit a small one, producing a stream of benefits over a number of years (the costs saved by the prevention of a birth for one day). A further argument could be that, given the importance of family planning in certain countries and the need to start or expand a family planning program on the right basis, there may be instances in which the Bank could make a contribution, on a declining basis, to the initial or incremental cost of running a family planning program. The Bank has not yet made any loans for population purposes, and its policy in this field is still under consideration.

Presentation in Appraisal Reports

15. In the preparation of appraisal reports, the table on the cost estimate of the project should contain only capital expenditures, on a cash basis. In projects where there are important related expenditures of a current nature (education, highway maintenance, family planning) these should be presented separately in the text, and the two sets of

figures should not be added together. In the cost-benefit analysis, both capital and current expenditure are taken into account since both are necessary to achieve the benefits being measured.

)
Warren C. Baum
Associate Director, Projects

July 3, 1969

LOAN COMMITTEE

LC/M/71-10

August 24, 1971

Minutes of Loan Committee Meeting held on
Friday, August 13, 1971 at 4:00 p.m. in
the Board Room.

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A. Present:

J. Burke Knapp (Chairman)
S.R. Cope
A. Broches
W.C. Baum
I.P.M. Cargill
V.C. Chang
R. Chaufournier
R.J. Goodman

E. Gutierrez
J.P. Hayes
C.G. Melmoth
D. Richardson
P. Sella
G.K. Wiese
J.H. Williams
J. Chaffey (Acting Secretary)

In Attendance:

D. Bahl
R.H. Cassen
G.F. Darnell
W. Diamond
L.J.C. Evans
S.C. Hardy
M.L. Hoffman
B.B. King

S.S. Kirmani
A.D. Knox
L.J. Lind
J.C. Lithgow
S.N. McIvor
W.P. Thalwitz
D.F. Wittusen

B. International Competitive Bidding for Civil Works ✓

1. The Committee considered a memorandum from Mr. Baum and Mr. Cope on International Competitive Bidding for Civil Works (LC/A/71-10 dated August 12, 1971). The Chairman reminded the Committee that the issue had originally been raised in relation to India, but in this paper was being considered as a matter of general policy. While it was ultimately intended

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

to submit a paper to the Executive Directors, the next step would be to send a fact-finding mission to India to review legal, administrative and other requirements relating to bidding for civil works and see to what extent they are consistent with the policies set out in the paper.

2. The Chairman identified for discussion three main issues arising from the paper:

- (i) the proposal that due consideration should be given to the use of labor-intensive methods in project design, using shadow pricing for labor whenever desirable, and that in the award of contracts for civil works borrowers should be permitted to provide bonuses or subsidies for the use of labor in appropriate cases;
- (ii) the conclusion that it would be impracticable to give preference to local contractors, although other measures should be employed to foster the local contracting industry; and
- (iii) the criteria that should be used to determine the suitability of civil works contracts for international competitive bidding.

C. Labor-Intensive Methods

3. There was general agreement with the proposals in the paper on this subject. One speaker asked how the shadow rate for labor should be determined in specific instances. In reply it was suggested that many variables entered into the calculation, and while precise measurement was impossible it should be possible to make some rough judgments at the design stage, based on the relative resource availability, which should result in a better use of labor vis-a-vis capital. The Chairman pointed out that the responsibility for determining the level of labor bonuses or subsidies would rest largely with the Government; the Bank would only pass judgment on the reasonableness of a proposal. One alternative open to the Government which would have the same effect as wage subsidies was to tax capital inputs.

4. The Chairman said that it was assumed that the Bank would be prepared to assist in financing the additional financial cost of a project arising from the choice of labor-intensive design or the payment of wage subsidies. This would often mean an increase in the local expenditure financing element, which would have to be examined on its merits.

D. Encouraging Local Contracting Industry

5. There was general agreement with the steps outlined in paragraph 31 of the paper for encouraging a local contracting industry. It was noted that the Bank's procedures enabled it to disburse the same amount for the civil works on a project irrespective of whether the balance of foreign and local costs differed from that estimated at the time of appraisal.

6. It was also generally felt that there was not much need for a margin of preference for local contractors and that it would not be worth the difficulties involved. Some speakers commented in particular on the difficulties in distinguishing between locally-owned companies and domestic offices set up by foreign contractors.

7. With reference to procurement (paragraph 4 of the paper), attention was drawn to the additional words, "and competitive international trade" in Article V Section 1 (g) of IDA's Articles of Agreement which were not in the Bank's Articles. It was agreed that this lent more weight to IDA support for international competitive bidding and that paragraph 4 should be amended to reflect this.

E. Suitability for International Competitive Bidding

8. In response to the Chairman, it was stated that while in some cases international competitive bidding was judged to be unsuitable because of the technical nature of the works (e.g. small scattered works best done by the borrower with its own forces) in more instances the judgment was not as to suitability but as to whether or not foreign firms would be interested in bidding. In the latter cases, the Bank tended to give international bidding the benefit of the doubt: unless it was very evident that foreign firms would not be interested in tendering, the Bank insisted that they be given the opportunity to do so. The Bank's approach in this regard had not changed over time. There was no rule of thumb about the minimum size of contract likely to interest foreign firms because of the many factors that would affect a decision in a particular case (for example, a contractor having existing capacity in the region under another contract). It was pointed out that the adoption of labor-intensive design and construction methods would have the effect of favoring domestic over foreign contractors and consequently diminished the need for protection for local contractors.

F. Adjournment

9. The meeting adjourned at 5:30 p.m.

LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES

LC/M/71-9

July 2, 1971

Minutes of Loan Committee Meeting held on
Thursday, June 24, 1971 at 11:00 a.m. in
the Board Room.

A. Present:

J. Burke Knapp (Chairman)
J.H. Williams
G. Alter
W.C. Baum
B. Chadenet
R. Chaufournier
R.J. Goodman
E. Gutierrez
D. Hartwich

J.P. Hayes
M. Hoffman
A.D. Knox
M.L. Lejeune
L. Nurick
A. Stevenson
G.B. Votaw
D. Pearce (Secretary)

In Attendance:

P.O. Cheryan
A. Douglas
M. Ebstein
S.L. Feldman
P. Geli
V.W. Hogg
G.S. Kaji

P.M. Mathew
P.M. Meo
C. Olivos
A. Ray
J. Richter
E.P. Wright

B. Panama - Airport and Fisheries Projects

1. The Committee considered a memorandum dated June 21, 1971 from the Central America and Caribbean Department entitled "Panama - Tocumen International Airport Project, Fisheries Project" (LC/O/71-86) and the accompanying appraisal reports, which recommended two loans: \$19.7 million to the Direccion de Aeronautica Civil (DAC), an autonomous government

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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Mr. M. Shoaib, Vice President
Directors, other Departments
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Vice President (IFC)

agency to help finance the construction of a new runway and passenger terminal at Tocumen International Airport, and \$3.4 million to the government to help finance the modernization of Panama's fishing fleet and to prepare studies for a fishing port.

2. The Committee's discussion focussed upon the two issues raised in paragraphs 4-11 and 13-15 of the Central America and Caribbean Department's memorandum: (a) Panama's economic situation, in particular its increasing external debt and (b) the economic analysis of the airport project, in particular the problem of quantifying its expected benefits to Panama's economy.

3. The Committee noted that, although government revenues had increased by about 20% during 1970, mainly due to increased taxation, current expenditures, particularly in education and administration, had increased much faster. Since the contribution of public savings to public investment was insignificant, short- and medium-term borrowing from commercial banks had resulted in a rapid increase in external public debt. The Government, which recognized the need for remedial fiscal action, planned to introduce an austerity program, including a new \$15 million (1.5 per cent of GNP) tax package by the end of 1971, external borrowings only within the agreed limits and terms of the IMF standby, and strict budget controls limiting growth in current expenditures to 3 per cent in 1971. A new gasoline tax, currently under consideration, would account for a substantial proportion of the \$15 million package. While public savings as a proportion of gross public investment (including amortization) had dropped to 7-8% in 1970, these measures would increase the ratio to about one-third within two years. Since prospects for continued rapid economic growth were good and the Government had recently acted to improve its fiscal performance, Panama could be considered creditworthy for the proposed loan.

4. Turning to the airport project, the Chairman, noting that the appraisal report emphasized the time saved by airport users, mostly foreigners, rather than the improved airport's benefits to the Panamanian economy, commented that one of its most important features would be the encouragement of business and tourism in Panama. In addition, the report did not mention the probable impact of the airport's improvement on freight traffic.

5. The Committee, agreeing that the project's basic justification for Panama was improved communications, tourism and business with the outside world, noted that these effects were difficult to quantify. The Transportation Projects Department said that the economic analysis and justification of airport projects was conceptually the same as that of ports and some highways since they all resulted in time savings, the cost and benefits of which were quantifiable. However, the Bank did not attempt to trace the ultimate benefits to the economy of such projects and, although these might be described in general terms, they could not provide a basis for reaching conclusions on the timing and review of airport or other projects. The Department

nevertheless agreed that the economic justification section of the appraisal report could be expanded to include reference to these ultimate benefits.

6. Replying to other comments, the Transportation Projects Department also agreed that the appraisal report's review (Annex 3) of the incidence of benefits should be included in the main text. In this connection, the terms of reference of consultants engaged to review the structure of airport charges would include criteria for designing procedures, consistent with maintaining the airport's competitiveness, to enable Panama to recapture at least part of the benefits accruing to (foreign) airport users.

7. The Chairman, replying to another question, said that the Bank's approach to airport financing should be selective.

8. In conclusion, the Committee noted that one condition of effectiveness of the proposed loan would be the conclusion of arrangements, satisfactory to the Bank, for the provision and financing of an aircraft refuelling system. The Chairman said that, if the airlines and oil companies concerned were unwilling to handle this part of the project, which amounted to about \$1.2 million, including \$1 million in foreign exchange, the Bank could consider its inclusion in the loan, but that such an offer should only be made after other possibilities had been exhausted.

9. The Committee approved the Central America and Caribbean Department's recommendation that negotiators be invited for the proposed loan.

C. Adjournment:

10. The meeting adjourned at 12:00 noon.

Secretary's Department
July 2, 1971

LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES

LC/M/71-8

June 15, 1971

Minutes of Loan Committee Meeting held at
11:00 a.m. on Wednesday, May 26, 1971 in
the Board Room.

A. Present:

J. Burke Knapp, Chairman
S.R. Cope
G. Alter
W.C. Baum
A. Broches
B. Chadenet
R. Chaufournier
R.H. Demuth
K.G. Gabriel

R.J. Goodman
L.J.C. Evans
P.D. Henderson
M.L. Lejeune
E. Lerdau
D. Richardson
G. Votaw
E.P. Wright
D. Pearce (Secretary)

In Attendance:

H. Adler
G.B. Baldwin
J. Bevan
F. Chaudhri
B.M. Cheek
S.M. Denning
B.A. de Vries
J.N. Halverson

M.L. Hoffman
G. Losson
F. Lowenstein
S.N. McIvor
B.G. Sandberg
N. Sukkar
D. von Busse
R. Wadsworth

B. Liberia - Rubber Rehabilitation Project

1. The Committee considered memoranda to the Chairman dated May 11 and 21, 1971 from Messrs. Chaufournier and Evans respectively and a draft (yellow cover) appraisal report dated January 2, 1971 prepared by the Agriculture Projects Department. The issue for discussion was whether, in view of t

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
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Executive Vice President (IFC)
Vice President (IFC)

appraisal mission's negative findings, IDA should help finance a \$5.8 million rubber rehabilitation project in Liberia. Mr. Evans' memorandum, drawing attention to the project's high risk and low economic rate of return (about 6-7 per cent) concluded that IDA financing for this or any other rubber project in Liberia in the present state of knowledge could not be justified. Mr. Chauffournier's memorandum, on the other hand, while acknowledging the project's risks and marginal economic justification, recommended that, in the absence of alternative agricultural projects in Liberia, IDA should finance a scaled-down pilot project as the best first step towards developing Liberia's non-enclave agriculture.

2. In considering the various issues noted in paragraphs 6-13 of Mr. Chauffournier's memorandum, the Committee noted that:

- (a) While the appraisal report's estimate of a 6-7 per cent internal economic rate of return assumed a price for project labor of 70 cents/day, it had subsequently been agreed that 50 cents/day should be used as the opportunity cost of project labor. This estimate, which the Western Africa Department still considered high, combined with a long-term rubber price projection of 16.5 cents/lb c.i.f. New York, resulted in an internal economic return of 9.5 per cent, which might almost satisfy the Bank's conventional criterion for financing projects.
- (b) The project's rate of return was depressed by (i) the long gestation period before rubber trees became effective, (ii) modest yields, (iii) declining rubber prices forecast by the Economics Department, and in particular, since extension and credit services were at present inadequate, by (iv) the high overheads (about 40 per cent of total project costs) of the Rubber Development Agency (RDA). The latter largely accounted for the disparity between the appraisal report's estimate of the project's economic return (6-7 per cent) and the financial rate of return (14 per cent) to farmers. While overhead costs had been included in the economic rate of return calculation, the secondary extra-project benefits resulting from RDA's extension services, if any, had not. However, in the Agriculture Projects Department's view, the exclusion of the RDA from the project and its separate financing by, e.g. a grant, would not affect the economic analysis because these costs, however financed, were essential to achieve the estimated benefits of the project.

- (c) Another consequence of excluding the RDA component from the project might be too rapid exploitation of rubber trees and little or no replanting. In this event, the risks to Liberia's rubber industry and economy of not proceeding with the project and the RDA component, would, in the Western Africa Department's judgement, be greater than with IDA's participation.

3. The Committee, noting that the assumptions underlying the project's technical aspects and justification were subject to varying interpretations, agreed with the Chairman that the basic issue was one of how much confidence could be placed in the project's successful execution and impact, in the absence of alternatives for lending to Liberia's agricultural sector. The Agriculture Projects Department felt strongly that, quite apart from a marginal economic return, the risks that the project would fail were too high to justify IDA support at this time. The Western Africa Department, on the other hand, felt equally strongly that in the circumstances, IDA should be prepared to accept these risks and help finance a scaled-down pilot rubber project. ✓

4. The Chairman, responding to suggestions that the project be re-defined to include substantial technical assistance, eventually to be financed separately, proposed that the Western Africa and Agriculture Projects Departments should discuss recasting the project as appraised into a small experimental pilot project with a heavy element of technical assistance. The amount of IDA financing originally envisaged (\$4 million) should be considerably reduced and, in presenting the revised project to the Directors in due course, IDA should disclose fully the experimental nature of the operation and its associated risks.

5. The Chairman approved Mr. Chaufournier's recommendation on the basis noted in paragraph 16 of his memorandum and paragraph 4 above.

C. Adjournment

6. The meeting adjourned at 12:30 p.m.

Secretary's Department
June 15, 1971

LOAN COMMITTEE

DECLASSIFIED

JUN 10 2014

WBG ARCHIVES

LC/M/71-7

May 27, 1971

Minutes of Loan Committee Meeting held at
4:00 p.m. on Friday, May 7, 1971 in Room
C1006

A. Present:

J. Burke Knapp (Chairman)
S.R. Cope
M. Shoaib
G. Alter
W.C. Baum
V.C. Chang
B.M. Cheek
J.H. Collier

R.J. Goodman
D. Hartwich
J.P. Hayes
C.G. Melmoth
P. Sella
A. Stevenson
E.P. Wright
D. Pearce (Secretary)

In Attendance:

D.S. Ballantine
O.H. Calika
W. Diamond
S.S. El Fishawy

D.J. Fontein
N.A. Gibbs
K.S. Krishnaswamy
A. Maillard
G.M. Street

B. Thailand - Kasetsart University

1. The Committee considered a memorandum dated May 5, 1971 from the East Asia and Pacific Department entitled "Thailand - Kasetsart University Project" (LC/O/71-76) and a memorandum dated May 5 from Mr. Ballantine to the Chairman regarding a proposed \$13.5 million loan to finance the estimated foreign exchange cost of a \$27 million project for the expansion and improvement of the Kasetsart (Agricultural) University.

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Committee:

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
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Mr. M. Shoaib, Vice President
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Vice President (IFC)

2. The two memoranda addressed themselves to the general questions of procedures for the preparation and appraisal of education projects, the timing of education loans and credits and the interval between commitment and disbursement of education loans and credits. The basic issue in this respect was whether a loan or credit should be made (a) after completion of the first stage of project preparation, i.e. determination of the courses and physical facilities required, or (b) after completion of the second stage, i.e. detailed design of buildings and preparation of equipment and furniture lists. The East Asia and Pacific Department, noting that a loan after stage (a) resulted in a substantial interval between commitment and significant disbursement and also in a heavy load of project administration during stage (b) which in other sectors would normally be considered part of project preparation and appraisal, recommended that, if the Thais so requested, the proposed Kasetsart loan be postponed until after completion of stage (b) (expected to be about 15-18 months hence) and that it include up to \$500,000 to reimburse the Government for project preparation costs incurred in the interim. The Education Projects Department, on the other hand, objected to postponement on the grounds that the Bank's immediate leverage in confirming the agreement reached on the University's location would be reduced, that some re-appraisal would be necessary 15-18 months hence, and that, if the East Asia and Pacific Department's proposal became standard procedure, Education Projects' ability to meet its commitments to the Bank/IDA lending program would be seriously impaired, at least in the short term. The Education Projects Department also stated that the cost estimates obtained for education projects under existing procedures had proven reasonably accurate compared with the wide variations in costs that sometimes resulted, in the absence of detailed engineering, in other sectors.

3. During the discussion, the Committee noted that:

- (a) Although the lag between commitment and significant disbursement of education loans and credits, corresponding to the detailed engineering phase of projects in other sectors, was often as long as 18 months, the main thrust of the Bank/IDA institution-building role took place during this period. Some felt that a signed loan or credit probably enhanced Bank/IDA leverage in this respect.
- (b) While there might be scope for reducing this lag, by streamlining supervision procedures, its existence was a function of education projects generally which, unlike most projects in other sectors, often lacked objective technical criteria, and were subject to frequent and often substantial change after approval. In addition, the initial implementation of education projects, e.g. establishment of project unit, selection of consultants and key personnel, was a time-consuming process.

- (c) While there were arguments for and against advancing or postponing the timing of education loans and credits within the project preparation cycle, a flexible approach was desirable.
- (d) The alternative proposed in para. 11(c) of the East Asia and Pacific Department's memorandum to make a separate project preparation loan would involve two appraisal operations and add substantially to the Education Projects Department workload.

4. The Chairman, winding up the discussion, said that, in his view, the two decisive considerations were: effective leverage and, in this case, the Bank's manpower constraints. He was impressed by the arguments advanced by the Education Projects Department and favored proceeding with the proposed Kasetsart loan as soon as legislation enabling the Government to borrow at the Bank's current lending rate (7-1/4 per cent) had been enacted. In the meantime, the Education Projects Department would continue its studies and experiments with various techniques to shorten the project implementation period.

5. The Chairman approved the East Asia and Pacific Department's recommendation to discuss with the Government the next steps in the processing of the project on the basis of alternative (a) in paragraph 11 of its memorandum. If, in the absence of enabling legislation to borrow at 7-1/4 per cent, loan presentation had to be postponed, retroactive financing of project preparation costs incurred in the meantime could also be considered.

C. Adjournment

6. The meeting adjourned at 4:50 p.m.

Secretary's Department
May 27, 1971

LOAN COMMITTEE

DECLASSIFIED

JUN 10 2014

WBG ARCHIVES

LC/M/71-6

April 26, 1971

Minutes of Loan Committee Meeting held at
4:30 p.m. on Friday, April 2, 1971 in
the Board Room.

A. Present:

Mr. J. Burke Knapp (Chairman)
Mr. S.R. Cope
Mr. S. Aldewereld
Mr. R. Chaufournier
Mr. K.G. Gabriel
Mr. R.J. Goodman
Mr. E. Gutierrez
Mr. D. Hartwich

Mr. M.L. Lejeune
Mr. L. Nurick
Mr. H. Scott
Mr. A. Stevenson
Mr. G. Votaw
Mr. G.K. Wiese
Mr. David Pearce (Secretary)

In Attendance:

Mr. G.F. Bain
Mr. J. Bravo
Mr. L.H. Cash
Mr. H. Fuchs
Mr. R. Gulhati

Mr. S.S. Husain
Mr. J.W.P. Jaffe
Mr. E.V.K. Jaycox
Mr. G. Kalmanoff
Mr. A.D. Knox
Mr. R.N. Pigossi

B. Brazil - MBR

1. The Committee considered a memorandum dated March 30, 1971 from the South America Department entitled "Brazil - Proposed Bank Loans for MBR Iron Ore and Railway Project" (LC/0/71-48) and accompanying draft appraisal reports, which recommended that negotiators be invited for loans of \$50 million to the Mineracoes Brasileiras Reunidas, S.S. (MBR), a private corporation,

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
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Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

and \$46 million to Rede Ferroviaria Federal, S.S. (RFFSA), a public corporation encompassing all federal railways in Brazil, to help finance mining installations, a deep water sea terminal and a railway link.

2. The Committee's consideration of the project focussed upon the three issues discussed in paragraphs 12-20 of the South America Department's memorandum: the railway freight contract, the iron ore sales contracts and the sponsors' obligations.

3. The Committee noted that the railway freight contract between MBR and RFFSA established freight rates in US dollars for its 15 year duration. While iron ore prices would probably keep pace with inflation, they were an insignificant element in the freight rate formula and RFFSA would need specific protection against erosion in the real value of its rates (i.e. receipts) during this period. RFFSA and MBR would therefore be required to negotiate a dollar escalation provision, under which freight rates would be adjusted automatically every four years by reference to the US wholesale price index. In addition, since RFFSA's contract with MBR was not a profit-sharing arrangement, it was inappropriate to require RFFSA to share MBR's commercial risk, a possibility under the proposed "force majeure" clause and MBR would therefore be asked during negotiations to agree that "force majeure" would not apply in respect of commercial risks.

4. The Committee noted that the iron ore sales contracts between MBR and five Japanese steel companies also included a "force majeure" clause, somewhat wider than that normally accepted by the Bank, which might be construed to excuse performance by the parties because of adverse commercial circumstances, in which event MBR's liquidity and/or support from its sponsors would have to be sufficient to cover inter alia its obligations until other buyers of ore were found. The extent to which MBR's sponsors were prepared to guarantee support in such circumstances would determine whether or not the Bank should seek a stricter interpretation of the "force majeure" provision.

5. The Committee noted further that the sponsors' obligations to guarantee MBR's liquidity and to provide all funds necessary to complete the MBR project or, alternatively, to repay the Bank's loans to MBR and RFFSA if the project were abandoned, would require a shareholders' agreement entered into by Antunes and Hanna. This would preferably be on a joint and several basis since the value of Antunes' guarantee would probably be limited to local currency obligations. If a joint and several guarantee were unobtainable, however, the Bank would need to be satisfied about the Antunes group's ability, in view of Brazil's exchange restrictions, to discharge its obligations in foreign exchange.

6. The Committee noted that, although the terms of the two loans were not coterminous, they would contain related provisions. The railway loan would extend 3 years beyond that of the mining loan and longer if the latter were prepaid. However, since the sponsors' obligations were both backed up by the Brazilian Government's guarantee and the amount outstanding

on the railway loan would be small by that date, the Bank's risk during the final years of the railway loan would be minimal.

7. The Committee also noted that the Bank would require accelerated repayment of the MBR loan by an amount equal to any gross dividend payments in excess of \$5 million per annum. Dividends paid rather than earnings was an appropriate criterion in this respect, in view of the difficulty of rigorously defining earnings.

8. The Committee approved the South America Department's recommendation that negotiators be invited for the proposed loans.

C. Adjournment

9. The meeting adjourned at 5:20 p.m.

Secretary's Department
April 26, 1971

LOAN COMMITTEE

DECLASSIFIED

JUN 10 2014

WBG ARCHIVES

LC/M/71-5

March 19, 1971

Minutes of Loan Committee Meeting held at
4:00 p.m. on Thursday, February 4, 1971
in the Board Room.

A. Present:

J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. S. Aldewereld
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. D.J. Fontein
Mr. K.G. Gabriel

Mr. H.N. Graves
Mr. E.K. Hawkins
Mr. M.L. Lejeune
Mr. L. Nurick
Mr. G. Votaw
Mr. G.K. Wiese
Mr. I.M. Wright
Mr. David Pearce, Secretary

In Attendance:

Mr. R. Adams
Mr. H.B. Bachmann
Mr. D. Bahl
Mr. B. Cheek
Mr. W. Diamond
Mr. J. Elkouby

Mr. T.M. Jones
Mr. R. Meda
Mr. L.A.G. Moss
Mr. R. Sadove
Mr. J.G. Yenny

B. Senegal - Urban Site and Services Project

1. The Committee considered a memorandum dated January 26, 1971 from the Western Africa Department entitled "Senegal - Request for Bank Assistance in Financing an Urban Site and Services Project" (LC/0/71-10), which recommended that the Bank should consider financing a project designed to accommodate part of Senegal's low-income urban population, specifically the clearing

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Committee:

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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and plotting of land, the installation of drainage, sewerage and water systems and sanitary facilities, and the construction of roads. The total cost of this urban development program, accommodating about 100,000 people on 360 ha. in Dakar and about 60,000 on 200 ha. in eight other cities, would be about \$10 million, of which the Dakar component would represent \$6.5 million.

2. The Committee, noting that Senegal's "Parcelles Assainies" program, of which the proposed project would form a part, constituted a new and practical approach to the urban problems now confronting many developing countries, endorsed the principle of Bank Group financing for this type of project.

3. The Committee also noted that:

- (a) Subject to certain minimum specifications, settlers would be permitted to build on their parcels of land whatever housing was within their means. Experience in a pilot project in Pikine, a suburb of Dakar, and also in similar projects in Korea, Chile, Peru and Turkey indicated that the quality of such housing improved as the owners' incomes increased.
- (b) Settlers would be given technical assistance in constructing their own housing. The provision of ancillary "community extension services" would be crucial to the success of the scheme.
- (c) By providing basic urban infrastructure and encouraging self-help housing, the project would create both private and public savings. It would also generate substantial indirect benefits, such as improved health and welfare and increased labor productivity. Its economic justification would be conceptually similar to that of a population project.
- (d) Bank association with the project would, in addition to helping Senegal minimize the economic and social costs of urbanization, serve as a vehicle for acquiring experience in a new area of operations. If successful, it would also "demonstrate" one solution to a problem shared by many developing countries.

4. The Committee approved the Western Africa Department's recommendation that, subject to appraisal, the Bank should advise the Government of its agreement in principle to consider financing the proposed Parcelles Assainies project.

Secretary's Department
March 19, 1971

LOAN COMMITTEE

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JUN 10 2014

WBG ARCHIVES

LC/M/71-4

March 15, 1971

Minutes of Loan Committee Meeting held at
4:15 p.m. on Thursday, February 18, 1971
in the Board Room.

A. Present:

J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. M.P. Benjenk
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. D.J. Fontein
Mr. K.G. Gabriel

Mr. E. Gutierrez
Mr. A. Koch
Mr. P. Sella
Mr. A. Stevenson
Mr. G. Votaw
Mr. G.K. Wiese
Mr. J.H. Williams
Mr. David Pearce (Secretary)

In Attendance:

Mr. J.G. Boyd
Mr. R.A. Calkins
Mr. P. Glaessner
Mr. R.S. Gregory
Mr. N. Horsley
Mr. A. Karaosmanoglu

Mr. H.E. Kopp
Mr. J. Kulski
Mr. E. Lamers
Mr. A. Odone
Mr. D.T. Scarisbrick
Mr. J.A. Simmons

B. Yugoslavia - Babin Kuk Tourism

1. The Committee considered a memorandum dated February 16, 1971 from the Europe, Middle East and North Africa Department entitled "Yugoslavia - Proposed Loan for Babin Kuk Tourism Project" (LC/O/71-19) and the accompanying draft appraisal report (PT-1 dated January 15, 1971), which recommended that the Federal Government and Minceta, a trading enterprise in Dubrovnik and the sponsor, be invited to negotiate a \$18 million loan to finance the estimated foreign exchange component and interest during construction of a

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Mr. S. Aldewereld, Vice President
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Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

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Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

\$49 million tourism project - the Bank's first operation in this sector. The project, one of the largest of its kind in Yugoslavia or elsewhere, would establish an integrated tourism complex at Dubrovnik comprising 9 hotels and associated facilities for over 5,000 persons.

2. The Europe, Middle East and North Africa Department, recalling that all previous loans to Yugoslavia had been channeled through the Federal Government or the Yugoslav Investment Bank, said that the recent decentralization of Yugoslavia's economy now made it possible to lend directly to enterprises. The proposed loan would be made to the "Babin Kuk Hotel Tourist Center, Dubrovnik (BKHTC)," an entity analogous to a subsidiary company, whose sole "shareholder" would be Minceta. The establishment of BKHTC, a condition of loan presentation, would insulate the project from Minceta's other diverse activities and facilitate its supervision by the Bank. The project's size and pioneering nature required particular attention to be given to its organization and management and, owing to the absence of foreign or Yugoslav technical partners, substantial power and responsibility would be assumed by the internationally established firms of architects and management consultants to be employed. Since the project would place additional demands on the Dubrovnik area's already strained infrastructure, particularly roads, water supply, sewerage and the airport, the Federal Government, the loan's guarantor, would be required to give assurances that the appropriate investments would be undertaken in accordance with an agreed schedule.

3. The Committee's discussion of the project centered upon two main issues: the financing plan and hotel/tourism subsidies.

4. The Chairman, drawing attention to the project's reliance on loan capital and to BKHTC's unfavorable debt/equity ratio in the early years of its operations, said that he was concerned about the small equity contribution proposed (comprising land valued at \$1.5 million, \$1.2 million initial working capital to be provided by Minceta from its own resources, and the investment of an \$8 million loan to Minceta from the Privredna Banka of Zagreb) on two grounds: (i) the security of the Bank's loan, apart from the Federal Government's guarantee, and (ii) the subsidy to BKHTC implied by Bank assistance to a single enterprise which, in the absence of foreign equity participation (e.g. by IFC or by IIYC), might invite criticism of the Bank. In reply, the Tourism Projects Department said that, in Yugoslavia's peculiar circumstances, a 20 per cent actual equity contribution was very good. Moreover, Minceta's \$20.1 million loan to BKHTC (42 per cent of total project cost), also to be financed by the Privredna Banka on terms of 30 years at about 3 per cent interest, could be considered quasi-equity. The Bank's loan, which the Yugoslavs had agreed would rank senior to Minceta's loan and to any other medium- and long-term loans raised by BKHTC, would be adequately protected. Finally, while a Bank

loan represented the most favorable foreign financing, it was much less favorable than Yugoslav financing; neither, however, was available. The Chairman, while agreeing that the Bank would be protected adequately, said that, in his view, it would be desirable if the proportion of equity financing could be increased to permit participation by a foreign investor, who might also contribute to the project's management.

5. Turning to the issue of hotel/tourism subsidies, the Chairman, noting that the Bank's loan would not qualify for Yugoslav federal and republic interest rate subsidies for tourism projects, questioned whether the project should benefit from the subsidy element involved in a Bank loan. The project was a commercial operation and the question arose whether its sponsor should not be expected to pay the market rate for capital; for tourism projects in other countries, the Chairman continued, the Bank should probably increase the cost of its loan to the borrower by means of a guarantee fee, thus making it comparable to market rates.

6. In reply, the Tourism Projects Department stated that:

- (a) Tourism incentive schemes, including loans at favorable interest rates, loan guarantees, grants and fiscal incentives, were a world-wide phenomenon and reflected Governments' desires to earn more foreign exchange than would otherwise accrue if tourism's capacity and prices were determined only by market forces. Since other countries in the Mediterranean employed such subsidies, Yugoslavia would be at a competitive disadvantage if it did not follow suit.
- (b) It was rational for Governments to subsidize hotel loans for tourism because the benefits of tourism were shared throughout the economy, not just by the hotel/facilities concerned, which bore the cost of attracting tourists.
- (c) The Bank, in lending to the Credit Immobilier et Hotelier, Morocco, had accepted the Moroccan Government's subsidy on sub-loans to the hotel industry.

7. The Chairman commented that, although tourism incentive schemes might be justified, interest rate subsidies were not necessarily the best mechanism. The Bank could accept selective incentives but, in his view, general interest rate subsidies on its loans would be undesirable.

8. Regarding other aspects of the project, the Committee noted that:

- (a) A \$20 million loan, as recommended by the Tourism Projects Department, would be justified on grounds of leverage and avoidance of an undue burden on the co-lender, Privedna Banka.
- (b) Depending on the outcome of bidding, the loan might finance a small amount of local costs. The post-script to the President's Review Meeting on the Country Program Paper confirmed that this would be justified in Yugoslavia.
- (c) The question of IFC participation in the project would, at IFC's request, be considered further.

9. The Committee approved the Europe, Middle East and North Africa Department's recommendation that the Government and Minceta be invited to negotiate a \$20 million loan substantially in accordance with Section 8 of the appraisal report, as modified by the Department's memorandum.

Secretary's Department
March 15, 1971

LOAN COMMITTEE

DECLASSIFIED

JUN 10 2014

WBG ARCHIVES

LC/M/71-3

March 12, 1971

Minutes of Loan Committee Meetings held at
11:00 a.m. on Wednesday, February 17, 1971
in the Board Room, and 10:30 a.m. on February
18, 1971 in Room C1006.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. H. Chenery
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. A. Broches
Mr. R. Chaufournier
Mr. D.J. Fontein

Mr. K.G. Gabriel
Mr. P.D. Henderson
Mr. M.L. Lejeune
Mr. H.O. Schmitt
Mr. G. Votaw
Mr. G.K. Wiese
Mr. David Pearce (Secretary)

In Attendance:

Mr. N.J. Bennett
Miss A.L. Datar
Mr. H. Mirza
Mr. L. Nurick

Mr. T.K. Osgood
Mr. S. Sankaran
Mr. H. Scott
Mr. A. Stevenson

B. Nigeria - Rehabilitation Program Loan

1. The Committee considered a memorandum dated February 12, 1971 from the Western Africa Department entitled "Nigeria - Rehabilitation Program Loan" (LC/0/71-18), which recommended that the Bank invite the Nigerian Government to negotiate an \$80 million loan to finance part of its postwar rehabilitation needs as outlined in its Second National Development Plan (1970-74).

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Committee:

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Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Deputy Director, Projects
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Vice President (IFC)

2. The Committee noted that the justification for program assistance to Nigeria - the first such operation since the Directors' recent reconsideration of Bank/IDA program lending policies and procedures - was threefold: (a) Nigeria's substantial rehabilitation needs, which exceeded normal development requirements, (b) its reduced pipeline of projects, owing to the recent civil war, and (c) its immediate short-term requirement, until export earnings and public savings had increased, for free foreign exchange to finance the capital imports needed for new investment. Nigeria's estimated foreign exchange gap, net of expected private capital inflows, would be about \$350 million for the two years 1970/71-1971/72, of which \$150 million would be covered by disbursements from existing Bank/IDA and bilateral commitments. The Nigerians hoped to finance the remaining \$200 million from the proposed \$80 million rehabilitation program loan and by \$120 million of new commitments from bilateral and other multilateral agencies.

3. The Chairman, noting that Nigeria had not yet used its IMF drawing rights or its \$31 million SDR holdings, that part of its large pipeline of foreign exchange applications - equivalent to the value of 2-3 months imports as of mid-January, 1971 - included overdue payments to foreign suppliers, and that the Western Africa Department proposed not to attach specific conditions to the loan, asked why the Nigerians had not drawn upon their IMF resources to liquidate their overdue payments. Their failure to do so was costly to the Nigerians themselves and constituted a potential embarrassment to the presentation of the loan to the Directors for approval, even though Bank disbursements would be limited to expenditures incurred after the date of the loan agreement.

4. The Western Africa Department replied that Nigeria wanted to conserve its IMF resources, which were small compared with its large payments backlog, as a contingency against eventual unforeseen, short-term crises. Its net short-term financial position was precarious and, if needed, IMF holdings, unlike any other source of assistance, could be called upon very quickly. It was therefore reasonable for Nigeria to seek as much long-term assistance as possible to meet its enormous reconstruction needs and, although all financial resources were in principle fungible, its IMF holdings could not be considered a substitute for the type of long-term assistance proposed by the Bank. As far as their overdue obligations were concerned, the Nigerians themselves were not exactly sure what proportion of the pipeline of foreign exchange applications these represented. This information would be sought during negotiations. Finally, since the Nigerians and the Bank had established a satisfactory dialogue, assurances on selected issues (e.g. Nigeria's rehabilitation financing plan, balance of payments management, preparation and administration of a project program) rather than specific conditions would, in the Western Africa Department's view, provide a sufficient basis for presenting the loan to the Directors. A letter of representation from the Nigerian Government on these issues, to accompany the draft loan agreement, was envisaged.

5. The Chairman said that he was still concerned about (i) the possibility that loan proceeds would be disbursed against overdue payments - in his view, the Bank could not permit its funds to be used directly to liquidate overdue payments - and (ii) the status of a letter of representation in the event of the Nigerians' failure to adhere to their assurances. Other Committee members also felt that, compared with the Bank's conditions of assistance to other countries, a letter of representation by the Nigerians was a less onerous obligation.

6. The Western Africa Department said that, whatever procedures were applied, the Bank's loan would help finance, directly or indirectly, Nigeria's pipeline of foreign exchange applications in respect of qualifying imports, some of which had reached Nigeria as early as December, 1970. It would be difficult, if not inappropriate, to distinguish between payments that were actually overdue, i.e. for which payment was outstanding beyond normal commercial limits, and those which were not. Regarding the proposed letter of representation, the Department pointed out that the proposed program loan was a single operation; Nigeria's policy performance was satisfactory; and, in the context of the Bank's fruitful but sensitive relations with Nigeria, the imposition of specific conditions would not add to its substantial leverage by virtue of its proposed lending program.

7. The Chairman decided that, in view of the arguments advanced by the Western Africa Department, a letter of representation on economic policy issues would provide a satisfactory basis for the loan.

8. The Chairman, at a separate meeting held in his office on Monday, February 22, decided that the Bank should ask the Nigerians to liquidate the backlog of their overdue payments within a defined period. Secondly, disbursement procedures should be set up in such a way that, while no distinction need be made between contracts signed or imports made before and after the loan was signed, the Bank's loan would not be used to finance payments overdue when the loan was signed.

9. The Chairman approved the Western Africa Department's recommendation that the Government be invited to negotiate the proposed \$80 million loan.

Secretary's Department
March 12, 1971

LOAN COMMITTEE

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LC/M/71-2

February 8, 1971

Minutes of Loan Committee Meeting held at
2:00 p.m. on Friday, January 22, 1971 in
the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope
Mr. W.C. Baum
Mr. M.P. Benjenk
Mr. V. Chang
Mr. R.H. Demuth
Mr. B. de Vries
Mr. S.S. El-Fishawy

Mr. D.J. Fontein
Mr. E. Gutierrez
Mr. K. Kanagaratnam
Mr. M.L. Lejeune
Mr. C.G. Melmoth
Mr. A. Stevenson
Mr. G.K. Wiese
Mr. David Pearce (Secretary)

In Attendance:

Mr. J.R. Burfield
Mr. G.A. de Lusignan
Mr. W. Diamond
Mr. N.C. Faltas

Mr. S. Julin
Mr. K.S. Krishnaswamy
Mr. D. Miller
Mr. D.S. Roessner
Mr. G.C. Zaidan

B. Tunisia - Population

1. The Committee considered a memorandum dated January 13, 1971 from the Europe, Middle East and North Africa Department entitled "Tunisia - Proposed Credit for a Population Project" (LC/0/71-4) and the accompanying draft appraisal report (PP-4(a) dated December 24, 1970), which recommended that IDA invite the Tunisian Government to negotiate a \$4.8 million credit to finance the estimated foreign exchange component of a \$7.7 million

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Committee:

Mr. J. Burke Knapp, Vice President, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
General Counsel
Director of the Development Services Department
Directors of the Area Departments
Deputy Director, Projects
Directors of the Projects Departments
Director, Development Finance Companies Department
Director of the Economics Department
Controller

Copies for Information:

President
The Economic Adviser to the President
Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Executive Vice President (IFC)
Vice President (IFC)

population project - the Bank Group's second operation in this field and the first to be financed by IDA.

2. The Committee noted that the project was similar to the Jamaican population project (Loan No. 690-JM), except that it was larger and, owing to the ineffectiveness of Tunisia's national family planning program hitherto, its technical assistance component was relatively high (3.7 per cent of total project cost).

3. The Committee considered: (i) whether the proposed project, the effects of which would be small in relation to its costs, would contribute to the overall effectiveness of Tunisia's national family planning program, and (ii) whether, since neither the Jamaican nor the proposed Tunisian population projects promised more than limited and distant effects, the Bank's objective in financing population projects in general was clear. Regarding (i) the Committee noted that:

- (a) While the project's direct effects on population would be small and inevitably long-term - resulting in a Tunisian population and labor force respectively 3.2 per cent and 1.6 per cent smaller than otherwise by the year 2000 - its cost-benefit ratio was low and its non-quantifiable social and economic benefits, such as improved health and welfare, would be substantial.
- (b) The project would contribute more broadly to the effectiveness of the national family planning program through its technical assistance component, institutions and "demonstration effect."
- (c) The project's costs were high because they were all allocated to family planning. However, they included a large health component, which it was difficult to separate.

Regarding (ii), the Committee was told that the Bank Group's non-financial contribution to population projects would be as important as its finance. While the reduction of births directly attributable to the Bank Group's population projects would be small, there would be a considerable indirect effect, partly through the training of personnel, and partly through the "demonstration" effects of the projects. These indirect benefits were thus the appropriate primary focus of Bank/IDA lending policy in this field rather than the obviously marginal direct effects of individual projects.

4. Noting that negotiations might be long and difficult, the Europe, Middle East and North Africa Department drew attention to the following:

- (a) Depending on the status of the Government's plans at the time of negotiations, the Tunisians would be required either to centralize the administration of maternal and child health (MCH) centers as recommended in para. 7.01 of the appraisal report, or to establish the proposed Institute of Family Planning with statutes and organization satisfactory to IDA.
- (b) The Tunisians would be required to agree on a specific schedule for using more doctors in the family planning program and for delegating some functions to para-medical personnel - the latter was an important aspect of the project.
- (c) While the Tunisians would be required to justify the location of the hospitals and clinics, the credit documents would be less precise than usual on this point, to permit flexibility.

5. The Committee noted further the Chairman's recommendation that the nomination of a Project Administrator should be a condition of effectiveness of the credit.

6. The Committee approved the Europe, Middle East and North Africa Department's recommendation that the Government be invited to negotiate a proposed \$4.8 million credit, on the terms and conditions set forth in chapter 7 of the appraisal report and its memorandum.

C. Adjournment

7. The meeting adjourned at 2:55 p.m.

Secretary's Department
February 8, 1971