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Loan Committee - Minutes - 1978



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A1995-291 Other #: 16 Box # 213555B

Loan Committee

MINUTES  
1978

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Loan Committee - Minutes - 1978



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A1995-291 Other #: 16

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# LOAN COMMITTEE

DECLASSIFIED

AUG 29 2014

LC/M/78-16

December 12, 1978

Minutes of Loan Committee Meeting to consider **WBG ARCHIVES**  
"Romania-Cattle Project" held on October 6, 1978  
in Conference Room E1208

## A. Present

### Committee:

E. Stern (Chairman)  
W. C. Baum  
M. Benjenk  
A. Broches  
M. Hattori

### Others:

Messrs. Chadenet	Nickel
Frank	Paijmans
Goodman	Pepper
Hardison	Stevenson
Hayes	van der Tak
Humphrey	Yudelman
Karaosmanoglu	Ms. Duersten
Knox	

1. The Committee met to discuss Mr. Benjenk's memorandum of October 2, 1978, covering Mr. Knox's memorandum of September 22, 1978, on the proposed Romania Cattle Project. In introducing the discussion the Regional Staff outlined Romania's plans for milk and beef production. They emphasized that these plans, designed to meet relatively modest future consumption targets, required the use of irrigated land to provide feed grains and fodder for cattle. The Bank's agricultural sector report had endorsed this strategy, which assumed that non-irrigated pasture would also make its full contribution to meeting future production targets. Production of livestock using irrigated land for feed grains and fodder was inevitably high cost, because of the high opportunity cost of irrigated land. However, it was part of Romania's development strategy to be self-sufficient in milk and beef in order to save foreign exchange, and to diversify their agriculture so that they would not have to rely on exports of feed grains to import higher valued agricultural products.

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Vice President, Projects Staff  
Regional Vice Presidents

### OTHERS

President  
Vice President, Development Policy  
Senior Operations Adviser  
Controller  
Others in attendance

2. The discussion then focussed on four major issues; (i) the technology; (ii) the milk prices used in the analysis; (iii) the beef prices used in the analysis; and (iv) the use of "average" versus "marginal" (incremental) prices.

#### Project Technology

3. The CPS representatives expressed concern that the project was an attempt to industrialize beef and milk production, using large units based on irrigated land in a fashion that was relatively untried. They were not convinced that this was an appropriate way of producing beef and milk in Romania. The Regional representatives pointed out that the scale of the investments was determined partly by the large land holdings available in the socialist sector. In addition, similar technology with similar sized units had been financed by the Bank in Yugoslavia. Experience on these projects had been good, and had demonstrated that the particular technology proposed for the Romania project was entirely feasible. The Chairman agreed that if similar units had been successful in Yugoslavia, we could not oppose the project on the grounds of unsuitable technology. He also asked for confirmation, which he received, that the high opportunity cost of land was fully captured in the economic analysis.

#### Milk Prices

4. In commenting on the differences of past practice in pricing milk in Bank financed projects, the CPS representatives said that we had tended to use either a farm gate price or a border price. Recently there had been a tendency towards greater consistency. They were convinced that milk should be treated as a tradeable item, and that the use of the New Zealand price with a 20 percent premium for milk used for direct consumption was appropriate. The Regional representatives pointed out that this price had been used in the analysis for milk other than that used for cheese, but were concerned that it was inappropriately low given the special circumstances in the world milk trade, which was heavily affected by EEC surpluses. The Chairman also commented that he had some reservations about the use of the New Zealand price.

#### Beef Prices

5. The Chairman asked for an explanation of the change in the forecast increase in beef prices from 56 percent over five years last April, to 34 percent over five years in the current projection. The DPS representative explained that the new forecasts were based on a different methodology, with a better coverage. The Region felt that there were still problems in applying the new forecast to this project, since both types of meat included in the new composite index were different from the meat to be produced under this project.

#### Average vs. Marginal Pricing

6. The Region indicated that the projected production of both milk and beef should, in their view, be priced on the basis of the expected end use for those products. A proportion of milk is allocated in Romania for the production of cheese; consequently, it was argued, a proportion of project milk should be valued to reflect the higher value of cheese (using the export price). Further, a proportion of beef is exported at significantly higher prices, which should also be reflected in the overall beef price. CPS indicated that if alternate sources of supply were used, the cheese and export beef markets could be met by diversion of existing (without project) output to these higher value uses, and that the border prices for milk and beef should therefore be applied to

the whole of the projected output. CPS further indicated that it was customary for "marginal" (i.e. incremental) prices on a "with" and "without" basis to be used in the cost/benefit analysis of all Bank projects, rather than an "average" prices.

Conclusion

7. In summing up the discussion, the Chairman said that whatever reasonable assumptions were chosen, the project appeared to be one with a return of around 8 or 9 percent which was low by Bank standards. The CPS representatives felt that the return on the project was closer to 3-1/2 percent. The Regional representatives emphasized that the main question was whether it was reasonable for Romania to use its resources in this way. If the project represented an appropriate use of Romanian resources, we should not be deterred from financing it by a marginal rate of return derived from very uncertain assumptions.

8. The Chairman said he wished to further consult on this matter. Meanwhile the Region might wish to pursue a suggestion by the DPS representative, to re-analyze the project using Yugoslav prices for costs and benefits. Subsequent to the meeting, CPS submitted two memoranda to the Chairman of the Loan Committee elaborating on points which had been touched on during the discussion and confirming the CPS view that the "best estimate" of the economic return on the project was less than 4 percent.

9. The Chairman conveyed the decision not to proceed with the project, and the reasons therefore, to Mr. Benjenk by a memo dated October 13, 1978.

Cleared by Messrs. Stern  
Baum  
Benjenk  
Broches

WSHumphrey/ALDuersten:jmd

# LOAN COMMITTEE

DECLASSIFIED

AUG 29 2014

LC/M/78-15

December 5, 1978

WBG ARCHIVES

Minutes of Loan Committee Meeting to consider  
"India-National Cooperative Development Corporation  
Project" held on November 3, 1978 in Conference Room E1208

## A. Present

### Committee:

E. Stern (Chairman)  
W. C Baum  
W. D. Hopper

### Others:

R. Picciotto  
R. Reidinger  
T. Turtiainen  
M. Choksi  
P. T. Tan  
G. Darnell  
W. Spall  
A. Duersten

## B. Issues

1. The Loan Committee met on November 3, 1978, to discuss the proposed National Cooperative Development Corporation Project. The basic issue was whether or not, in the event the Government of India (GOI) so requested, we would be justified in accepting an interest rate of less than the 10% specified in the draft Appraisal and President's Reports for loans made to cooperative societies under the proposed project.

## C. Discussion

2. In response to the memoranda of October 30 and 31 setting out the Central Projects Staff's concern over accepting an interest rate less than that specified in the Appraisal Report, the Regional Vice President and his staff pointed out that they were intending to press for a 10% on-lending rate but had wished to define a fallback position in case GOI wished to resist changes in current NCDC rates. They pointed out that a base rate of 7.25% for on-lending of credit funds from GOI to the National Cooperative Development Corporation (NCDC) was proposed under the project. Over and above this base, a spread of 0.5% for NCDC and 1.75% for the State Cooperative Banks, who would

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Vice President, Development Policy  
Senior Operations Adviser  
Controller  
Others in attendance

lend to the ultimate borrowers, was also considered acceptable by the Region. This would permit a minimum on-lending rate to cooperatives of 9.5%, or 0.5% lower than the 10% specified in the Appraisal Report. This rate was acceptable given recent inflation trends in India. It was somewhat lower than the interest rate charged to ultimate borrowers by the Agricultural Refinance and Development Corporation (ARDC), but there was good reason for this: ARDC was not considered by the Region a standard by which all credit programs should be judged, as different sorts of credit arrangements and institutions were required for different purposes. Moreover, ARDC's loans were on average one-third the size of those extended by NCDC and were generally extended to individual farmers rather than to cooperatives. ARDC's administrative cost per loan and risk were therefore higher than NCDC's, which necessitated a higher spread for the lending intermediaries.

3. The Vice President, Operations noted that there were clearly two issues involved in assessing the acceptability of a modification of the rate structure originally proposed in the project documents. One was the base rate for on-lending from GOI to NCDC and the second was the size of an acceptable spread over and above that base for NCDC and the State Cooperative Banks. He inquired whether the base rate to NCDC from GOI was fixed, to which the Regional Vice President responded that it was flexible. The Vice President, Operations then suggested that, assuming for the moment that the proposed base rate was set at an appropriate level, the issue of the required spread for the on-lending institutions be discussed more fully.

4. The Regional Vice President and his staff explained that the 10% interest rate to ultimate borrowers called for in the Appraisal Report was clearly the preferred rate, as it would allow NCDC and the State Cooperative Banks a financial cushion to use for further development of their own capabilities. The Region intended to argue in favor of retaining this rate in the event the Indians asked that it be lowered. However, in light of the 7% fee charged the cooperative societies by the State Cooperative Banks for technical supervision and service, which was equivalent to an additional percentage point on the interest rate, the Region felt it could, if necessary, accept the suggestion that NCDC's current rate structure 1/ be retained under the proposed project. This would allow for a 0.5% spread for NCDC and a 1.75% spread for the State Cooperative Banks.

5. The Vice President, Projects Staff inquired about the spread for the on-lending institutions in loans to cooperative societies in backward areas, as at 8% interest to ultimate borrowers their combined spread would seem to be only 0.75%. The Regional Vice President responded that the lower spread in backward areas was augmented by GOI or State subsidies which fully compensated NCDC and the cooperative banks. Thus the effective interest rate received by the cooperative banks in all areas was 9.5%.

6. The Vice President, Projects Staff inquired of his staff whether they found the spread implied by a 9.5% final lending rate acceptable. They replied that they did, and explained that their concern had really been over the possi-

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1/ 9.5% to cooperative societies in all but "backward areas" where a State/GOI subsidized rate of 8% is charged.

bility of agreeing to a rate even lower than that required by NCDC's existing rate structure, a figure of 8.5% having been mentioned in the covering memorandum to the Loan Committee.

D. Conclusion

7. It was agreed that at negotiations for this project the Region would seek to retain the 10% interest rate on loans to cooperative societies specified in the project documents. If agreement could not be reached on this basis, a reversion to NCDC's existing rate pattern would be acceptable. In the unlikely event GOI argued for an even lower final lending rate, the Region would insist on preserving a 2.25% combined spread for NCDC and the State Cooperative Banks by requiring a further reduction in GOI's on-lending rate to NCDC.

Cleared by Messrs. Stern  
Baum  
Hopper

MChoksi/GSlade/ALDuersten:jmd

# LOAN COMMITTEE

DECLASSIFIED

AUG 29 2014

LC/M/78-14

November 3, 1978

WBG ARCHIVES

Minutes of Loan Committee Meeting to consider  
Tanzania-Pulp and Paper Project held on  
October 18, 1978 in Conference Room E1208

## A. Present

### Committee:

Ernest Stern (Chairman)  
W. C. Baum  
L. Nurick  
M. H. Wiehen

### Others:

H. Fuchs	T. Asser
H. van der Tak	F. S. O'Brien
R. Goodman	A. Ewing
J. Bronfman	P. Lietard
S. Nayar	J. Adams
B. Sandberg	Ms. A. Duersten

## B. Issues

1. The Loan Committee met on October 18 to consider four questions raised during the Loan Committee review of this project:

- (i) whether potential downside risks were adequately considered in the analysis of the project;
- (ii) the accuracy of the pricing and export assumptions;
- (iii) the level of opportunity cost of capital in Tanzania; and
- (iv) the status of project financing.

## C. Discussion

2. Particularly in view of the large size and borderline rate of return of this project, the Chairman of the Loan Committee expressed concern on whether

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Senior Operations Adviser  
Controller  
Others in attendance

the project's potential downside risks were adequately reflected in the project assumptions. To address this matter, the Industrial Projects Department prepared for the Meeting a detailed memo outlining the important assumptions made in their analysis (attached). After confirming the consistently conservative nature of the major project assumptions, the Vice President, CPS, observed that the downside risks appeared adequately addressed.

3. The Chairman requested some clarification of the project pricing assumptions and questioned why there was not a more comprehensive analysis of export prospects. The Director, Industrial Projects Department explained that the project's pricing assumptions were based on a staff analysis of long-term pulp and paper prices. He emphasized that with the cyclical nature of the pulp and paper industry any analysis based on short-term prices would be inappropriate. In addition, he noted that the prices resulting from the long-term analysis were similar to those Tanzania has historically paid. On paper sales it was explained that while three extensive marketing studies were conducted on domestic consumption, no comprehensive export study was required because exports are projected only for the early years of operations in small volumes. Furthermore, since a significant price discount has been assumed on export sales, no difficulty is anticipated in achieving the export revenues assumed in the appraisal.

4. On the level of the opportunity cost of capital in Tanzania, the Chairman requested further information on the 10% figure being used in the report. Regional Staff reviewed the recent exercise which estimated this figure. It was explained that while previous analyses showed an opportunity cost of about 15% for the 1960s, recent developments in Tanzania support the conclusion that the lower 10% figure is appropriate.

5. A final question was raised by the Chairman on the appropriateness of the suggestion in the covering memo that commercial money be used for financing this project. The Region explained that with the developments since the submission of the Loan Committee package (in particular the \$10 million commitment of the OPEC Special Fund and the expected \$20 million contribution of CDC) no financing gap is expected to remain. Therefore, it is not now expected that any commercial money will be used in the project.

D. Summary

6. Summarizing the Meeting, the Chairman stated that as the various matters raised by the Committee were adequately clarified in the discussion and the Region was authorized to proceed to negotiations.

Cleared by Messrs. Stern  
Baum  
Nurick  
Wiehen

JAdams/ADuersten:jmd

# LOAN COMMITTEE

DECLASSIFIED

AUG 29 2014

WBG ARCHIVES

LC/M/78-14

October 23, 1978

Minutes of Loan Committee Meeting to discuss Financial Security Arrangements in "Mauritania-Guelbs Project" held on September 20, 1978 in Conference Room E1208

A. Present

Others

Committee:

Ernest Stern (Chairman)  
W. C. Baum  
V. C. Chang  
X. de la Renaudiere  
L. Nurick,

H. Fuchs  
R. Goodman  
P. Sella  
T. Asser  
H. Cash  
M. J. Gillette

C. Walser  
C. Vuylsteke  
I. Sam  
Ms. Duersten  
Ms. Ono

B. Issues

1. The Loan Committee met on September 20, 1978 to consider the issues raised in Mr. Gillette's back-to-office report of September 6, 1978 following a mission to discuss with Mauritanian authorities security arrangements for the US\$60 million Bank Loan for this project.

C. Discussion

2. The staff explained that, in seeking security for its loan, the Bank had proposed an arrangement under which SNIM, our prospective borrower, would assign its claims for payments under sales contracts to a trustee who would accumulate necessary amounts for debt service and security cushion. This proposal was rejected by the Government and SNIM because the assignment requirement would, in their view, act as a deterrent for the iron ore purchasers. As this issue will be discussed again during the co-lenders' meeting to be held in the Bank on September 22,

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Senior Operations Adviser  
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Others in attendance

the staff would like to have management's guidance as to the position to adopt vis-a-vis SNIM and the Mauritanian Government.

3. The Chairman asked what was Caisse Centrale and EIB's position on this issue. The staff replied that both institutions wanted to go ahead with the project and were prepared to accept a less secure system for their loans, i.e. a payments mechanism similar to the one used in the Zaire-Gecamines project, which would consist of a simple instruction given to SNIM (the borrower) to its purchasers to pay sales proceeds into a trust account as required for the next debt service payments and the maintenance of a minimum security "cushion" equivalent to six debt service payments. The Associate General Counsel said that Bank's general policy in enclave projects is to obtain some form of external security such as take or pay contracts, assignments of sales proceeds or third party guarantees; Gecamines was an exception. Under this system, the Bank - and the other lenders - would not have any means to ensure compliance, except suspend disbursements or premature the loan, should SNIM or the Mauritanian Government decide to modify the agreed upon arrangements. The Vice President, Projects Staff confirmed that Gecamines was an exception to the general practice, and considered at the time to be justified in the light of the substantial foreign exchange earnings of the borrower outside the project.

4. The Chairman asked whether there was any other security alternative. Mr. de la Renaudiere explained that an acceptable compromise might be found by combining the two systems described above: The Bank would require an assignment to cover all sales contracts, but such assignments would not be notified from the outset. Only if SNIM (or the Mauritanian Government) should fail to properly instruct its purchasers or otherwise divert sales proceeds from the trust account, would the purchasers be notified of the assignments. The Chairman said that this alternative was worth further investigation and asked the legal Department to analyse it in detail and to produce a working paper. For the moment, he instructed the Bank's representatives at the next co-lenders' meeting to maintain the Bank's original position, but to show flexibility and possibility of concession, if necessary, and to report back to him afterwards.

5. Recognizing that a well-run SNIM was essential to the security of the Bank loan, the meeting also discussed the necessity for the company to constitute the US\$50 million risk reserve and agreed that while such reserve was needed it could be modified to consist of US\$20 million in additional equity (as part of the initial financing plan) which then in turn could be expected to permit at a later stage the incurrence of additional long-term borrowings of about US\$30 million from commercial sources, should this prove necessary and in the Bank's opinion, desirable. Although cost overruns due to renewed guerilla activity might still occur (the risk appeared, however, lower than two months ago) it was felt that the project was adequately protected against this risk since with the US\$20 million equity alone SNIM was expected to end up with an accumulated cash generation of about US\$74.0 million by 1982, the year the 1st phase of the project was expected to be completed.

6. With regard to SNIM's operating budget, the staff reported that the Bank's position and that of SNIM and the Mauritanian Government were very close although

the involvement of the Central Bank in the set-aside process was still under dispute. The Chairman concluded the discussion by suggesting that, as far as this issue was concerned, we should leave the decision up to the Mauritanian Government and SNIM.

Cleared by Messrs. Stern  
Baum  
de la Renaudiere  
Nurick

CPhung/ADuersten:jmd

# LOAN COMMITTEE

DECLASSIFIED LC/M/78/13

AUG 29 2014 July 26, 1978

WBG ARCHIVES

Minutes of Loan Committee Meeting to consider  
PAKISTAN - Toot Oil and Gas Development Project  
held on July 12, 1978 in Conference Room E-1208

## A. Present

### Committee:

Messrs. E. Stern (Chairman)  
W. Baum  
L. Nurick  
M. Blobel

### Others:

Messrs. E. Friedmann  
P. Bourcier  
H. Schober  
R. Clements  
Ms. I. Zurayk  
T. Osgood  
D. Goldberg  
R. Goodman  
N. Horsley  
I. Sam

## B. Issues

1. The meeting was called to consider the following issues emerging from the draft (Green Cover) Staff Appraisal Report dated June 9, 1978 submitted to the Loan Committee, together with memoranda from Mr. Blobel of June 28 and Mr. Hopper of July 6:

- (i) Since the proposed drilling program depends upon the Williams Brothers' evaluation report due in mid-July, why not defer negotiations until we are certain about the scope of the Project?
- (ii) What is the principal concept underlying the on-lending terms and are there adequate assurances for the long-term financial viability of OGDC?

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### OTHERS

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Others in attendance

- (iii) Is the proposed pricing system for crude oil adequate?
- (iv) How do product prices in Pakistan compare with those in other oil-importing countries in Asia and Europe?
- (v) What program does Pakistan have for using its increased gas production?

C. Discussion

2. Drilling Program. The Acting Vice President, South Asia Region, explained that the scope of the drilling program was not as uncertain as might have been suggested by his memorandum and said it was quite unlikely that the results of the Williams Brothers' study would lead to any reduction in the size of the Project. The Vice President, Projects Staff, added that we already had a good idea of what will be in the Williams Brothers' report; that the results of recent drilling indicated that the pay zone of the Toot field was substantially greater than previously realized; and that long-term production from Toot could prove to be much larger than was suggested in the Appraisal Report.

3. On-Lending Terms. The Projects Staff elaborated on the concept of a production-scaled repayment schedule. It explained that the proposal entailed repayment by OGDC of the Credit funds on-lent to them by Government on a schedule that pro-rated payments of principal to production from the Toot project, subject to a maximum of 15 years. The initial repayment schedule would be agreed on the basis of the current best estimates of production from Toot. This schedule would be re-examined periodically and adjusted as new information regarding field reserves became available. The 15-year maximum repayment term is in line with present conservative estimates of the probable life of the Toot field.

4. The long-term financial viability of OGDC depends upon successful exploitation of fields other than Toot -- principally Dhodak. Expected production from Toot would not provide financial independence for OGDC. Until OGDC begins exploitation of another major discovery, it will be dependent upon the Government for the bulk of its investment funds.

5. Crude Pricing. The Appraisal Report had suggested that a crude oil price of \$8 per barrel would be necessary to assure OGDC a 10% return at constant 1978 prices on incremental investment in Toot. On the basis of more current estimates of production potential, it now appears that a price of only \$5-\$6 per barrel would be sufficient. This was close to the price (\$4.50 per barrel) recently agreed with AOC for Meyal crude.

6. Product Pricing. Projects Staff provided a table comparing petroleum product prices in Pakistan with those in a number of other countries. In general, prices in Pakistan compared quite favorably. The Chairman asked why a pricing study was necessary, if prices in Pakistan were so good. Staff explained that while the overall level of prices was reasonable, there appeared to be scope for "fine tuning" the structure of product prices. For example, with appropriate price adjustment, LPG, which was potentially available in

large quantities from domestic sources, might be substituted for imported kerosene. Furthermore, the present system was thought to entail considerable inefficiencies in matching the pattern of refinery output and domestic demand, in the purchase abroad of finished products for which domestic refinery output fell short of demand, and in internal transport.

7. Natural Gas. Projects Staff explained that the UK had agreed to finance a study of the potential use that might be made of Pakistan's natural gas. ODM will be preparing terms of reference for this study shortly. The Vice President, Projects Staff, said that it would be desirable for the Bank to be the executing agency of a gas sector study or, in the event such a study were undertaken by the UK, we should at least be consulted and involved. The Chairman suggested that first, GOP be warned against investing in LNG facilities in view of their high capital costs and uncertain returns to the economy; second, the proposed review of GOP's petroleum sector investment program include examination of any proposed investments in LNG projects. These points, he said, should be recorded in the Minutes of Negotiations. With regard to the potential increase in gas production, the Region noted that as production of associated gas rose with expanding oil output, it might be necessary to reduce gas off-take from the Sui field temporarily. This would extend the life of that field.

8. Finally, the Vice President, Projects Staff, suggested that we request the Secretary of the Petroleum Ministry to come to negotiations. The Committee endorsed this proposal.

D. Conclusion

9. It was decided that the Region should proceed with further processing of the project in the light of the above discussion.

Cleared with Messrs. Horsley (for Stern), Blobel, Baum, Nurick

TOsgood/IKSam:ml

# LOAN COMMITTEE

DECLASSIFIED LC/M/78-12

AUG 29 2014 July 14, 1978

WBG ARCHIVES

Minutes of Loan Committee Meeting to Consider  
TURKEY - Program Loan, held on  
June 28, 1978 in Conference Room E-1208

## A. Present

### Committee:

Messrs. J. Burke Knapp (Chairman)  
W.C. Baum  
L. Nurick  
M. Hattori  
M.P. Benjenk

### Others:

Messrs. E. Stern	S.E. Chernick
M.P. Bart	J. Thadani
M. ul Haq	D.W. Berk
H. Fuchs	A.E. Maffei
H. Pollan	J.J. McGibbon
A.J. Davar	R.J. Goodman
R.K. Chopra	N. Horsley
C. Merat	I.K. Sam

## B. Issues

1. The meeting was called to consider the issues emerging from the Issues Paper dated May 26, 1978, Decision Memorandum dated June 12, 1978 and Mr. Chernick's memorandum dated June 21, 1978 and, in particular, the recommended loan amount and the proposed program loan's linkages to the Turkish Government's medium-term economic program.

## C. Discussion

2. Loan Amounts: The Chairman felt the recommended amount of \$125 million might be on the high side. The Vice President, Operations, thought the amount was near the lower end of the range which could be accommodated in the lending program, and that if the Bank was satisfied as to the Government's medium-term intentions, the amount might well be raised to \$150 million. This would also be reasonable in

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Vice President, Development Policy  
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relation to Turkey's two-year (1978-79) balance of payments gap and IMF assistance. The Region noted that, with the Karakaya project dropping out of the lending program, a program loan of \$150 million would bring the Turkey lending program to just below 34 percent of the agreed five-year total of \$2,100 million. The Chairman concluded that the amount for the program loan should be left open within the \$125-150 million range, though noting that a program loan was not to fill a gap created by the dropping out of Karakaya. In response to a query, the Region indicated that the main source of funds to fill the balance of payments gap of \$800 million in 1978 and 1979 was loans from commercial banks. While the amount to be financed by commercial banks was still unknown, a range of \$300-500 million was being discussed.

3. Linkages to Government's Medium-term Program and Policies: The Chairman said that an adequate statement of Government intentions was an essential condition of the program loan. However, it was unlikely this could be obtained in July. He therefore suggested that the Region consider providing the loan in two tranches, with the second tranche conditional on presentation of a detailed medium-term program. The Vice President, Operations, agreeing that the plan's strategy document was likely to be fairly general at this stage, proposed instead that one or more topics, e.g., export promotion, which was crucial to credit-worthiness, be discussed in depth in July. The aim of such a discussion should be to reach agreement with Government on targets, policies and measures whose implementation could be monitored. The Director, Policy Planning and Program Review Department, agreed; he felt that the key issue was a switch away from capital-intensive import-substitution towards more efficient export-oriented industries. The Region explained the background of Mr. McNamara's visit which had led to the proposal to review the plan strategy document as the earliest approved statement of Government medium-term intentions. The understanding with the Government was that the mission would discuss not only the politically-approved document, but also details of investment totals and allocations, policies and specific measures to the extent possible. However, since it was difficult to know the level of detail at this stage, the intention was to report to the Loan Committee with suitable recommendations after the discussions. The choice should be left open whether to discuss a wide range of issues in less depth in July or a few issues in more depth. The Chairman concluded that no decision could be taken now on the scope of the discussions or the proposal for tranching of the loan.

4. Imports for Exporters: The Chairman and the Vice President, Operations, questioned whether the revolving-fund-scheme-for-exporters component should be included, in light of the Region's information that the scheme had already been brought into operation since the appraisal mission. The Region explained that the Bank's pressure played some part in the introduction of the scheme and also that the Bank could play a useful role in assisting its smooth early operation as well as securing desirable adjustments in its scope. It clarified that all imports needed by exporters would be eligible and that the proposal was designed not to substitute for Government money or the envisaged replenishment mechanism for the scheme. It was decided that the Government should undertake, as a condition of Board presentation, to (a) provide sufficient seed capital for the scheme; (b) ensure automatic replenishment of

the scheme from export proceeds; and (c) agree to providing up to 50 percent of the import needs of exporters. The Chairman left the inclusion of an imports-for-exporters component for later decision based upon the draft loan documents.

5. Allocations for Public and Private Sector Firms: The Region's proposal for a specific allocation for the private sector of about \$40 million of the loan to ensure adequate access for private sector firms was accepted.

6. Procurement: The Vice President, Operations, questioned whether the proposed floor of \$250,000 for ICB would not preclude fast disbursements. The Region explained that, in light of this and similar comments received during the Decision Meeting, it was prepared to recommend not requiring ICB for larger contracts, but instead securing at least three international quotations. The Vice President, Projects Staff, outlined the Bank's policy under program loans, of satisfying ourselves that the procurement procedures ensured adequate competition but not requiring ICB except for public sector bulk procurement. The Chairman agreed that this policy should be followed under the proposed loan.

7. Loan Allocations: The Chairman and the Vice President, Operations, pointed out that the list of eligible items should be flexible and wide enough for rapid disbursements. The Region indicated that the list had been chosen in light of criteria which included these points. Considerable flexibility was provided by the specification of only a few minimum amounts for the highest-priority items. The Director, Industrial Projects, felt that the allocation for spare parts should be increased at the expense of that for industrial raw materials, since licenses for spares were hard to obtain while alternative financing was still available for at least some industrial raw materials. He also suggested that the allocation for spares should be for all manufacturing industries. The Region clarified that exporters could get licenses for spares under the imports-for-exporters component. It also accepted that the allocation should be available for all manufacturing industries. The Chairman suggested a higher allocation out of the loan for spares.

8. Linkages to Ongoing Industrial Projects: The Director, Industrial Projects, pointed out that the Akdeniz project was not moving for lack of foreign exchange, and proposed that the program loan be linked to efforts by the Government to provide foreign exchange for other projects. The Vice President, Projects Staff, added that the Bank and the Government should favor ongoing projects over new ones. However, the Director, Policy Planning and Program Review, pointed out that such projects might not fit the Government's new policy directions. The Region pointed out that it was discussing the problems of ongoing projects with the Government the same week. Furthermore, the Bank should not single out one of many Bank projects for this kind of priority. In addition, the President had informed the Turkish Finance Minister that it would be very difficult to present the program loan to the Board unless disbursements on ongoing projects improved. The Chairman said that the Government had undertaken to finance the ongoing projects, and there should be no link between them and the program loan.

9. Counterpart Funds: It was agreed that the Bank should not attempt to impose priority for its projects and that the counterpart funds should thus be left for use to finance Turkey's investment budget.

D. Conclusions

10. It was decided that the Region would report back to the Loan Committee on its findings (via the green-cover package) in the light of the above discussions.

Cleared with Messrs. Stern, Benjenk, Baum, Nurick, Hattori

DWBerk/IKSam:ml

# LOAN COMMITTEE

DECLASSIFIED LC/M/78-11

AUG 29 2014

WBG ARCHIVES

June 28, 1978

Minutes of Loan Committee Meeting to Consider  
a Proposed Fourth Highway Project in Zaire,  
held on June 21, 1978 in Conference Room E-1208

## A. Present

### Committee:

Messrs. J. Burke Knapp (Chairman)  
Warren C. Baum  
Aron Broches  
Masaya Hattori  
Willi Wapenhans

### Others:

Messrs. E. Stern  
H. Adler  
J. Bronfman  
S. Burmester  
F.D.T. Reid  
S.C. Schott  
B. Varon  
T. Jones  
J. Schwartz  
A. Eguren  
R. Goodman  
N. Horsley  
I. Sam

## B. Issues

1. The meeting was called, at the request of the Region, to consider the draft documents and covering memoranda by Messrs. W.A. Wapenhans and S. Burmester, dated June 20, 1978, regarding a Fourth Highway Project in Zaire.

## C. Background

2. The proposed project had been a subject of Loan Committee discussion at the Decision Memorandum stage in October of last year. It was then a 3-year time slice of the road maintenance and rehabilitation program of the Zaire Bureau of Roads, with an estimated cost of \$77.0 million, including \$54.5 million in foreign exchange. Following further review of the project, the Region is now proposing a 2 1/2-year time slice with an estimated total cost of US\$121 million, including US\$91 million in foreign exchange. The estimated foreign exchange component would be financed by the proposed

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Vice President, Development Policy  
Senior Operations Adviser  
Controller  
Others in attendance

IDA credit of \$26.0 million, and contributions of \$65.0 million from several co-lenders.

3. In the memorandum from the Region, several issues had been mentioned which could possibly affect the successful implementation of the project. The Region expressed the view that before proceeding with negotiations, the Association would seek to assure: (i) that the implementing agency, Bureau of Roads (BR), has full control over its assets in order to avoid any ambiguity about the potential use of its equipment and fuel allocations; (ii) that proposed laws concerning BR's organizational structure be provided to the Bank for review to ensure that its structure would not prevent efficient operation; and (iii) that BR's 1978 budget be increased to the appropriate level in real terms (US\$35 million equivalent). In addition, two-thirds of the reported arrears in Government payments to contractors should be paid before the project is presented to the Board. Finally, given the importance of the Government's contribution to the project, it was proposed that before Board presentation, the Government confirm its commitment to fund the project. This confirmation would be sought after the Comptroller General of the Department of Finance -- accepted by Zaire at the recent Brussels Meeting -- was in position or after the new IMF stabilization program had been approved, whichever came first.

#### D. Discussion

4. Size of the Project. The Region stated that the proposed project is a priority project and constitutes an important element in Zaire's economic recovery. It recognized that the size of the project had expanded since the Loan Committee discussions of the Decision Memorandum in October 1977, because at appraisal in July 1977, BR's 3-year program had not yet been completed and its full scope was only presented at the Ad Hoc Co-lenders Meeting on Transport in Zaire, held in Paris last February. Although the project had not changed conceptually, its costs, particularly its capital cost, had been increased. The 3-year program, considered to be the minimum requirement, had been established in consultation with the Department of Agriculture and Planning and appeared justified.

5. Incremental Recurrent Expenditures. The Vice President, Projects Staff, commented that the incremental recurrent costs of the project had apparently been incorporated in the capital costs. At the Loan Committee meeting of October 1977, Central Projects had supported the financing of incremental recurrent expenditures (as an exception to the rule) on extreme poverty grounds, but these expenditures should be treated as recurrent, not capital costs. The Region confirmed that the incremental costs were based on the annual increments over each previous year of the project period, thus increasing annually the portion of recurrent expenditures to be covered by the Government. The Region agreed that it would discuss the presentation of these costs with Central Projects and make appropriate changes at the grey cover stage.

6. BR's Budget. The Chairman expressed concern about the inability of the Government to maintain BR's 1978 budget at the 1977 level, in real terms. He concurred with the proposal by the Region that US\$35 million be provided for BR's 1978 budget and that this should be a condition of credit negotiations. In reply to a question by the Chairman, the Region indicated that under the Second Highway Project (1972) the Government was required -- until project completion (mid-1979) -- to provide BR with budgetary funds of at least the equivalent of US\$20 million each year.

7. Government Contribution. The Chairman stated that because of the uncertainties regarding the Government's contribution to the project, the project should not be presented to the Board until a new stabilization program had been agreed between Zaire and the IMF, and the Government's commitment to the project had been fully ratified within the framework of this stabilization program and, if possible, with the concurrence of the expatriate Comptroller General to be appointed to the Department of Finance and/or with whatever authority that could ensure that BR's budget was within the Government's program.
8. The Chairman observed that the memorandum by the Country Programs Department (paragraph 8) suggested that in the event the Government did not contribute its full share to the project, its scope should be reduced. He raised the question whether -- after the above assurances had been obtained -- there would still be any doubt whether the agreed budget funds would actually be provided. The Region considered this an unlikely event and pointed out that the paragraph in question should rather be seen in the light of possible budget ceilings imposed by the stabilization program.
9. Arrears in Payments to Contractors. The Region explained that the substantial arrears of Government payments to contractors could present an obstacle to future contracts and needed to be substantially eliminated before Board presentation. In reply to the question by the Chairman, the Region confirmed that part of the arrears concerned contracts extended within the framework of IDA-financed highway projects.
10. External Financing. The Region confirmed that at the Paris Ad Hoc Co-lenders' Meeting several aid donors had expressed interest in participating in the Fourth Highway Project following the presentation by BR of its proposed 3-year road maintenance and rehabilitation program. The Saudi Fund for Development had offered its contribution of US\$33 million to the Government of Zaire sometime after this meeting. In reply to a question by the Chairman regarding the breakdown of the project items financed by the individual co-lenders, the Region pointed out that preliminary agreements had been reached with several co-lenders on the financing of specific investment items and that a preliminary list had also been discussed with the Saudi Fund. The allocation of project components among lenders would be confirmed at the stage of credit negotiations. The Saudi Fund had indicated that it would be glad to follow the Bank's lead in this respect. In reply to a question by the Chairman, the Region added that during the recent Brussels Meeting on Zaire, the importance of Zaire's transport sector had been noted by one delegation, but not discussed at any length.
11. Consequences of Delay in Project Processing. The Region observed that while the proposed conditions of credit negotiations and Board presentation were necessary to ensure the viability of the project, the resulting delays in project processing were likely to affect BR's capacity to carry out its operations. It was noted that despite the difficulties experienced in Zaire, BR had become a successful institution and that it would be regrettable if because of circumstances beyond its control, BR's continued effectiveness were harmed. The delays might jeopardize, in particular, the technical assistance team presently attached to BR as the funds for this assistance available under the Third Highway Project are expected to be exhausted by the end of 1978.

12. Several possibilities were discussed to secure financing of the technical assistance team during an interim period -- should that become necessary -- which would require over a quarter of a million dollars per month. The possibility of using the Project Preparation Facility was mentioned. The Chairman recommended that the matter be reviewed further.

13. Vehicle Axle Load Limits. The Chairman noted that paragraph 2.21 of the Appraisal Report, while noting that regulations regarding permitted axle load limits are frequently violated, does not make any concrete proposals as to the enforcement of these regulations. He considered such enforcement of prime importance and recommended elaborating on this matter at the grey cover stage.

E. Conclusion

14. The Chairman agreed with the proposals made by the Region as discussed above and concluded that the distribution of the Notice of Intent to Negotiate to the Executive Directors should be postponed until the Government of Zaire had complied with the proposed conditions of credit negotiations.

Cleared with Messrs. Knapp, Wapenhans, Baum, Hattori, Cancio (for Broches)

JSchwartz/IKSam:ml

# LOAN COMMITTEE

DECLASSIFIED

AUG 29 2014

LC/M/78-10

May 26, 1978

WBG ARCHIVES

Minutes of Loan Committee Meeting to consider  
"Pakistan-Fauji Fertilizer Project" held on  
May 17, 1978, in Conference Room E1208

## A. Present

### Committee:

J. Burke Knapp (Chairman)  
W. Baum  
A. Broches  
W. David Hopper  
V. C. Chang

### Others:

E. Stern  
M. G. Blobel  
R. Picciotto  
R. Clements  
C. Dewey  
A. Perram  
H. H. Burmeister  
D. Goldberg  
H. Darmawi  
H. Alsegaf  
R. Goodman  
N. Horsley  
I. Sam

## B. Issues

1. The meeting was called to consider the following issues emerging from the Issues/Decision Memorandum dated May 1, 1978, for approval to proceed with processing a proposed \$55 million credit for the Fauji Fertilizer Project:

- (i) whether the Bank should support the proposed Fauji Project in view of the interest Dawood Hercules Chemicals may develop towards expanding their existing plant near Lahore;
- (ii) whether the amount of the proposed equity participation of Haldor Topsoe A/S was sufficient to ensure a strong commitment to the success of the Project;
- (iii) whether the selection of Snamprogetti as engineering

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Senior Operations Adviser  
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Others in attendance

"contractor" was acceptable under the Bank's procedures and whether their relationship with the foreign project sponsor Haldor Topsoe A/S was acceptable;

- (iv) whether the proposals for dealing with sector issues in paras 9 and 10 of the Issues/Decision Memorandum were adequate.

### C. Background

2. In April 1977, the Executive Directors approved a loan of US\$55 million to help finance the establishment of a 1,000 tons-per-day (tpd) ammonia and a 1,725 tpd urea plant at Goth Macchi in Punjab Province. Additional foreign exchange financing for the Project, which was sponsored by the Fauji Foundation (Fauji, Pakistan) and Agrico Chemical Co., (Agrico, USA), was to be contributed by Agrico (US\$25 million equity), USAID (US\$40 million), KfW (US\$39 million equivalent) and a Japanese Supplier's Credit (US\$16 million equivalent). On May 20, 1977 and before signing of IBRD loan documents, Agrico informed the Bank and the other parties concerned of its decision to withdraw from the Project. One June 9, 1977, the Executive Directors were informed (SEC M77-497) of Agrico's withdrawal and that if the Bank, together with the co-financing agencies, GOP and Fauji succeed in formulating alternative arrangements, a new proposal will be presented for their consideration.

3. As a result of their search for foreign partners to replace Agrico, Fauji has entered into agreements with Haldor Topsoe A/S (Topsoe, Denmark), a company with extensive knowledge and experience in the engineering and implementation of fertilizer projects, and with ANIC of Italy, a company operating fertilizer plants and refineries. Discussions were held at various times between Fauji, Topsoe and the lenders on the proposed new arrangements and following discussions in January the Industrial Projects Department proposed and the South Asia Region agreed that the Bank proceed with further consideration of the Project subject to clarification of the Government's intentions regarding other additional fertilizer plants in Pakistan (specifically, an expansion of the Bank/IFC-financed Dawood Hercules urea plant) and satisfactory project preparation.

### D. Discussion

4. Fauji Project vs Expansion of Dawood Hercules (DH). The Chairman enquired whether it would not be more rational for Pakistan to expand the existing Bank-IFC assisted DH plant. The Industrial Projects Department explained that the proposed Fauji project and expansion of the DH plant should not be considered as alternatives. Available demand projections indicate that eventually there would be room for both and the question was really one of sequence. DH was awaiting the Government's decision on its request for a retroactive price increase and there was no assurance, even if it received a favorable decision, that it would expand its plant. Moreover, to the Bank's knowledge, DH had not yet undertaken any technical preparatory work. It was further pointed out that, if the DH expansion, which was expected to be the same as the present DH plant and thus 60% of the Fauji plant, were to come in first, projected consumption in Pakistan indicated that another plant would be necessary within less than two years after completion of a DH plant. The South Asia Region noted that it was unlikely that this would allow sufficient time to complete arrangements for another private sector plant, as the Fauji project would be effectively killed if the Bank withheld support now and another plant would thus have to be

wholly in the public sector. Moreover, USAID, which had already obligated \$40 million for the Fauji Project, had stated that this financing could not be transferred to any other fertilizer project, including a DH project. Financing on appropriate terms for any new fertilizer project in Pakistan, other than the Fauji project, would appear, therefore, difficult to obtain.

5. Topsoe's Equity Participation. Mr. Stern expressed concern that the amount of Topsoe's equity participation in the project (up to \$5.4 million equivalent) was insufficient to ensure Topsoe's continued commitment to the project, particularly in view of the fact that Snamprogetti (Snam), the engineering firm selected after the Pakistan Government and the Fauji Foundation reconstituted the project arrangement, owned 50% of Haldor Topsoe A/S. It was felt that this relationship might make it difficult to enforce contractual provisions against Snam. With regard to Topsoe's equity, the Industrial Projects Department pointed out that, while the amount was much smaller than the amount Agrico was to contribute earlier, Topsoe's participation, in view of the company's smaller size, was more significant to Topsoe. Moreover, it should also be taken into account that the \$5.0 million equity participation by the Danish Industrialization Fund (IFU) only existed because of Topsoe's involvement. With regard to the Topsoe/Snam relationship, the Industrial Projects Department noted that this relationship had both negative and positive aspects, the positive being the ability of Topsoe to push Snam to give the project high priority and to avoid divided responsibility among sponsors, contractors and operating staff which had occurred in other projects. Special attention had been devoted to the provisions of the revised project's contractual arrangements and to strengthening the Fauji Fertilizer Co., which would carry out the project, with independent legal and technical expertise. Fauji, supported by the consultants James Chemical Engineering of U.S., would be in a position to monitor Snam's performance and not depend on Topsoe.

6. Selection of Engineering Contractor. The Vice President, Projects Staff, expressed concern at the lack of competition for the engineering contract and questioned whether the appointment of Snamprogetti was compatible with Bank procedures. The Industrial Projects Department pointed out that Snam's contract was essentially for the provision of engineering services and therefore treated under the Bank's guidelines for use of consultants. It was pointed out that Snam had competed with four other firms under the Fauji Agrico project and the price and terms of their services were competitive. Procurement of materials and equipment would be carried out by ICB. The Chairman requested the Vice President, Projects Staff, to investigate this matter in greater detail and to ascertain that the selection was consistent with Bank procedures.

7. Sector Issues. The Chairman expressed disappointment at the inaction of the Pakistani Government in establishing the task forces and considering the issues facing the fertilizer sector, as agreed under the Fauji Agrico project. Under the circumstances, the establishment of these task forces and the receipt of work programs and timetables satisfactory to the Association should be made conditions of Board presentation instead of effectiveness, as proposed in the Issues/Decision Memorandum. Also, the Government should have reviewed and reached agreement with the Association on an adjustment in dealers' commissions before Board presentation, with implementation of an adjustment a condition of effectiveness. With regard to the price increase request of DH, the South Asia Region noted that this matter touched wider concerns and that it would be more appropriate to record agreement outside the legal documents of the Fauji project.

Conclusion

8. Subject to the satisfactory review of the Vice President, Projects Staff, of the selection of Snam and the modifications noted in para 7 above, the Committee agreed:

- (a) to further processing of the Fauji project; and
- (b) the use of IDA funds for the project in view of Pakistan's present economic circumstances.

Postscript

The Vice President, Project Staff, subsequently concluded that the selection of Snam had been consistent with Bank procedures.

Cleared by Messrs. Knapp, Baum, Chang, Hopper, Stern and Dewey

Halsegaf/IKSam:jmd

# LOAN COMMITTEE

DECLASSIFIED

LC/M/78-09

AUG 29 2014

WBG ARCHIVES May 17, 1978

Minutes of Loan Committee Meeting to Consider  
VIET NAM - Dau Tieng Irrigation Project Held on  
May 8, 1978 in Conference Room E-1208

A. Present

Others

Committee:

Messrs. J. Burke Knapp (Chairman)  
W.C. Baum  
A. Broches  
S.S. Husain  
V. Chang

Messrs. S.S. Kirmani  
S. Please  
N. Gibbs  
E. Hawkins  
P. Sella  
A. Golan  
J. Caparas

E. Lim  
L. Forget  
G. Alter  
R.J. Goodman  
Miss T. Sato  
I.K.Sam

B. Issues

1. The meeting was called to review the state of readiness of the proposed project for implementation - this being the Bank Group's first operation in Viet Nam. Issues considered included (a) form and adequacy of agricultural services to be provided; (b) incentive system for farmers; (c) adequacy of cost recovery; (d) training requirements; (e) arrangements for supervision; (f) amount of credit and need for co-financing; and (g) Viet Nam's settlement of external claims.

C. Discussion

2. In opening the meeting the Chairman noted that in view of the fact that this is the first operation in a member country, great care should be taken to scrutinize the project to ensure that the project would meet the Bank Group's standards for projects in other countries. This was particularly important in view of the fact that we would be dealing with a country with a different economic system - strongly nationalistic - and one with which we had no previous operational experience. The Vice President, East Asia and Pacific Region, fully agreed with

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Senior Operations Adviser  
Controller  
Others in attendance

the Chairman's comments and said that the staff had exercised great care in the preparation of this project to ensure that the project was ready for implementation and that arrangements were satisfactory for the supervision of the project. He further noted that the Bank Group's relationship with the Viet Nameese Government, which took its seat at the Board in 1976, had improved and that our understanding of Viet Nam and its economy and sectors had been greatly enhanced through the economic and project work.

3. He said that the staff had been impressed with Viet Nam's management capabilities and that development was up to the standards expected from other countries at a comparable stage of development. The Chairman noted that the papers, as presented, made an appealing case for assistance. The project was a high priority project as it would foster food production. He wanted, however, to examine the risks associated with the project.

4. Form of Agricultural Organization. The Chairman asked if in view of the transitional nature of land ownership pattern and the absence of a firm program for agricultural services, were there not serious risks that the benefits of the project might be seriously delayed. The Region responded that while this was, indeed, a difficult issue, the long experience with cooperatives and collectives in the northern part of the country, where production was most impressive, was a good assurance. As to the risk of delays in production, the sensitivity analysis showed that in the event full development was delayed until year 19 (full production is presently conservatively scheduled to be attained in year 10), the rate of return would still be acceptable (10%). Moreover, the Viet Nameese Government was fully aware of the need to provide incentives for the farmers and of the potential difficulties in changing the pattern of ownership from private to cooperatives and collectives and had announced that it would proceed cautiously. As evidence of its cautious approach the government was establishing in the southern part of the country a few pilot cooperatives to test their acceptability. The process of changing into a cooperative system would thus take time. The Region felt that in view of the recent changes in the administration, the government should be given time to prepare a plan for agricultural services. For this reason, the Region had suggested a two-year period and noted that the Government of Viet Nam had requested IDA assistance in formulating a suitable plan.

5. Incentives to Farmers and Availability of Consumer Goods. The Chairman requested clarification on the marketing of produce and the availability of consumer goods. The Region explained that in the north cooperatives keep part of the produce for consumption, part of it for sale to the government at a fixed price and the remainder for sale in the open market. Basic necessities were rationed at low prices; industrial consumer goods were scarce and effectively rationed by very high prices relative to prices of food. In the south, because of the limited consumer goods available, a barter system between government trading companies and individual farmers was being developed under which cooperatives exchanged agricultural produce for consumer goods. The Region noted that the Government was concerned about the fact that lack of consumer goods could become a disincentive, but that as the economy developed it was the Government's intention to raise the standard of living for farmers and take measures to that effect. This had been a major recommendation of the Bank

Group's economic report and policy dialogue with the Government.

6. Economic Rate of Return and Cost Recovery. It was noted that in calculating the economic rate of return the full cost of the development of the dam construction was charged to the 42,000 ha, included in the proposed project while it was expected that the dam would eventually serve some 165,000 ha. The Chairman suggested that this should be made clear in the reports. He also suggested that the Region provide a fuller analysis of the cost recovery.

7. Training and Procurement. The Chairman requested additional information about the engineering capabilities of the Ministry of Water Conservancy. The Region noted that while the engineering capabilities in the south were rather limited, the north had an impressive cadre of irrigation engineers, some of which had been assigned to the project. The training components included in the project were of a short-term nature for training of engineers and operators in the use of new equipment with which they would be unfamiliar. Concerning the panel of experts for dam design it was noted that Viet Nam probably had experienced staff to serve on the panel but that, if necessary, outside experts could be called in. In any event the dam design was relatively simple.

8. The Association was giving assistance to the Vietnamese in drafting tender documents and foresaw no problem on procurement as the Government had agreed to full international competitive bidding in the draft tender documents just received from the Government.

9. Supervision. The Chairman asked whether IDA would have adequate rights to supervise the project during its implementation phase. The Region noted that travel in the country was restricted to the extent that all trips conducted by Bank staff had to be arranged ahead of time (mainly due to poor communications and the need to arrange for translation services) but that the staff had not encountered difficulties in visiting the project area and other places they needed to visit. The Chairman said that the Viet Nameese should be left in no doubt that if the Association could not obtain full access to properly supervise the project, no funds could be disbursed.

10. Outstanding Claims. In reply to a question about outstanding claims against the Government, the staff said that the Government had not nationalized foreign holdings on a large scale and to the staff's knowledge there were no outstanding claims on assets. As to external debts, France and Japan had successfully settled with Viet Nam, and the Federal Republic of Germany had, despite outstanding debt, engaged in commercial dealings with the Government. Despite contacts with numerous countries in the course of arranging co-financing, no country had mentioned any claims. As to the US, although Viet Nam had not nationalized US assets in Viet Nam, US laws prevented US nationals from carrying out any business with Viet Nam. It is estimated that US assets and outstanding debt service in Viet Nam totalled some \$50-60 million. However, Vietnamese assets frozen by US banks are estimated to exceed the outstanding US claims.

11. Amount of Credit. The Chairman noted that at the time of the Decision Meeting, the Region had proposed a credit of \$90 million. This the Chairman said was much too high for a first credit to a country with which the Association had no previous lending experience; he had suggested a credit of \$40-50 million. He noted with satisfaction that some \$30 million in cofinancing had been raised but said that he would welcome an additional amount of \$10 million from other cofinancing sources. He suggested that based on his recent discussions in Tokyo, Japan might be willing to provide this amount after reaching a settlement with Viet Nam on earlier debts. The Region noted that Japan had now signed an aid agreement with Viet Nam in which the debt issue had been settled but that all Japanese aid funds for Viet Nam had been allocated to commodity aid and a power project. Based on the many countries contacted, the Region expressed doubt that additional funds could be raised unless IDA were willing to defer the project for a considerable period of time.

D. Conclusions:

12. The Chairman said that he would report on the discussions to the President. He requested the Region to:

- (a) submit to him a supplementary note on the status of Viet Nam's settlement of external claims; and
- (b) give further consideration to the possibility of Japanese cofinancing.

cleared with Messrs. Knapp, Baum, Broches, Chang, Husain.

TSato/IKSam:ab

# LOAN COMMITTEE

DECLASSIFIED

AUG 29 2014

LC/M/78-08

WBG ARCHIVES

May 10, 1978

Minutes of Loan Committee Meeting to Consider  
EGYPT - Second Textile Project Held on  
April 28, 1978 in Conference Room E-1208

A. Present:

Committee:

Messrs. Knapp (Chairman)  
Baum  
Sella  
Chang  
Benjenk

Others:

Messrs. Fuchs Paijmans  
Nayar Haynes  
Sandig KBpp  
Carpio Kaps  
Asser Goodman  
Krishna Horsley  
Sam

B. Issues:

1. The meeting was called to consider the following issues emerging from the draft documents to the Loan Committee, under cover of Mr. Paijmans' memorandum of March 24, 1978, and Mr. Benjenk's subsequent memorandum of April 26, 1978, for approval to negotiate a \$35 million IDA credit and a \$32 million Bank loan for a Second Textile Project:

- (1) whether the establishment of a subsidiary to the National Spinning and Weaving Company (National), the project beneficiary, would be sufficient to allow the introduction of a compensation and incentive package which would make it possible for National to attract and retain qualified management and staff, and whether the assurances regarding the staffing of the Project Implementation Unit (PIU) and addition of senior staff to National's management were satisfactory;

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Vice President, Finance  
Vice President and General Counsel  
Vice President, Projects Staff  
Regional Vice Presidents

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Vice President, Development Policy  
Senior Operations Adviser  
Controller  
Others in attendance

- (ii) whether assurances received regarding prequalification criteria for civil works would be adequate to ensure that only joint venture (Egyptian/Foreign) or foreign contractors would bid for the project's civil works component;
- (iii) whether the proposed language regarding the exchange of views between Egypt and the Bank Group on issues concerning the Egyptian textile sector was acceptable; and
- (iv) what impact the potential establishment of a large private integrated textile plant would have on the further processing of the proposed Bank Group project.

C. Discussion

Compensation and Incentive Package for National and Strengthening of National's Management

2. The Chairman repeated earlier comments that the proposed project was a highly risky one and that he had therefore reserved his approval of the terms and conditions of the proposed credit and loan until a mission had reviewed outstanding issues with the Government and National. (The preliminary comments of the Loan Committee are recorded in Mr. Kaps' memorandum to files, dated April 27, 1978.) The Government's agreement, as reported by the mission, to establish a subsidiary to National to allow the introduction of an adequate compensation and incentive package was encouraging since it should contribute to overcome one of the major hurdles affecting the present poor performance of the company. The Assistant General Counsel suggested that the establishment of a subsidiary be made a condition of effectiveness under the loan/credit, since meeting this condition would coincide with meeting the other conditions of effectiveness, i.e., (i) the full staffing of the PIU and the counterpart team to work with National's consultants on the organizational improvement program as a condition of Board presentation, and (ii) the filling of certain key management positions (commercial and production managers), and (iii) the addition of a high level financial manager to the staff as a condition of effectiveness.

Civil Works

3. The Chairman inquired whether an agreement on the prequalification criteria for civil works had already been reached and, if not, whether the Bank/IDA would review the bidding documents. The staff explained that these criteria have been discussed in principle and that National's consultants would include them in the relevant bidding documents. The Assistant General Counsel referred to the Procurement Schedule of the draft Project Agreement between National and Bank/IDA which provided for a specific review of prequalification criteria by Bank/IDA before prequalification submissions are invited. Responding to a question regarding the 7 1/2 percent margin of preference for civil works, the staff explained that Egypt was eligible for this preference and that it would apply to joint venture firms, provided

the Egyptian partner had a majority ownership. The meeting was satisfied that the agreement reached with the Government and National was adequate to ensure that only qualified civil works contractors will be invited to bid.

#### Sector Issues

4. At the suggestion of the Assistant General Counsel and the Vice President, Projects Staff, the Committee agreed to modifications in the wording of sector covenants referred to in paras. 10 and 15 (ii) of Mr. Benjenk's memorandum. To clarify the intent of Section 3.03 of the draft Development Credit Agreement, the negotiating team would negotiate on the basis of the following rewording:

"The Borrower shall continue to exchange views with the Association on the Borrower's policies and plans (including the organizational framework and procedures), for the development of its textile industry as they may affect or relate to the Project, and shall to this end, furnish, or cause to be furnished, to the Association, all such information as the Association shall reasonably request."

The covenant to be included in the legal documents in accordance with the recommendation in para. 15 (ii) of Mr. Benjenk's memorandum should reflect that the Association would be informed of the findings of the periodic review of investment plans in Egypt's textile sector.

#### El Ameria Textile Project

5. The Chairman wondered as to whether the Bank Group was taking a hostile view vis a vis the possible establishment of a large private integrated textile plant (called El Ameria). The staff clarified that although the El Ameria project was licensed under Law 43 (governing foreign and Arab investments in Egypt) and thus making it a private sector firm which was not bound by the restrictions of the public sector <sup>1/</sup> with respect to wages, incentives and the likes, the project was in fact being sponsored and financed by Bank Misr, a public sector bank. It is the intention of Bank Misr to sell part of the capital stock to private (Egyptian) investors as well as foreign (Arab) investment banks. The staff further explained that the Bank Group had not taken a position whether or not the El Ameria project should go ahead. This matter was entirely for the Government to decide. But at the request of the Government, the recent Bank mission had evaluated the sectoral impact of the project and pointed out that unless the scope of the El Ameria project was substantially reduced, it would lead to a continuous large surplus of yarn and fabrics throughout the 1980s; such surplus would arise even if the proposed Bank/IDA project was not forthcoming. Because of the strong objections of the Ministry of Industry to the El Ameria project, it was already being reviewed by the High Committee for Foreign Investment, which is chaired by the Prime Minister, even before the Bank raised with the Government the potential surplus capacity that would

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<sup>1/</sup> The proposed subsidiary of National will also be established under Law 43 and will have the same legal status (i.e. private sector) as the El Ameria project.

result from the project. The Minister of Economy has also just informed the bank Group that he was discussing the matter with the Minister of Industry and that he would inform a Bank mission, including Mr. Paijmans, which was scheduled to visit Egypt in early May about the Government's decision.

#### Conclusions

6. The Committee decided not to proceed with the proposed loan and credit until it was satisfied that the El Ameria project would not interfere with the economic viability of the proposed Bank/IDA project; it authorized Mr. Paijmans to convey this decision to the Egyptian Government.
7. While approving the general terms and conditions of the proposed loan and credit, the Committee added the following qualifications:
  - (i) as requested earlier by the Chairman, the maturities of the loan should be identical for the Government and National, i.e. 15 years, including 4 years' grace; (the IDA credit would be onlent to National on the same terms);
  - (ii) the establishment of a subsidiary to National be a condition of effectiveness of the loan and credit;
  - (iii) in view of the likely delay in the further processing of the project, the various dates referred to in the reports by which certain actions had to be accomplished be carefully reviewed, and
  - (iv) certain modifications be made to the wording of covenants dealing with sector issues (para. 4 above).
8. The Committee also approved Mr. Benjenk's recommendation to authorize the EMENA Region to issue the notice of intention to negotiate, once the Region and the Industrial Projects Department were satisfied with the resolution of the El Ameria issue. The Chairman asked that the Committee be kept informed about further developments.

cleared with Messrs. Benjenk, Baum, Sella, Chang.

FKaps/IKSam:ab

# LOAN COMMITTEE

CONFIDENTIAL

LC/M/78-07

Minutes of Loan Committee Meeting to Consider  
EGYPT - Sohag-Minufiya Agricultural Development Project  
Held on April 25, 1978 in Conference Room B.

May 8, 1978

A. Present:

Committee:

Messrs. Knapp  
Broches  
Baum  
Benjenk  
Hattori

Others:

Messrs. Paijmans	Köpp
Knox	Economides
van der Tak	Bose
Yudelman	Goodman
Asser	<u>Horsley</u>
Abu-Akeel	Sam
Haynes	

B. Issues:

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Paijmans' memorandum of April 14, 1978 for approval to negotiate a proposed \$32 million credit for the EGYPT - Sohag-Minufiya Agricultural Development Project:

- (i) whether the assumptions of milk production and crop yield increases used in the economic analysis of the project were justified, and
- (ii) whether the project would have an unfavorable social (employment) effect.

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Vice President, Development Policy  
Senior Operations Adviser  
Controller  
Others in attendance

C. Discussion:

2. Economic Analysis: The Vice President, Projects, and other representatives of CPS, pointing to the results of studies in other countries, questioned the assumption made by the EMENA Region, unsupported by specific data, that with the project milk production would increase by 80 percent and crop yields by 5 percent. Experience in tractorization in other countries, they said, did not result in increased crop yields, and at best only in marginal increases in milk output. Indeed, most owners sell their animals as soon as tractorization is introduced. The Region admitted that the available data in Egypt did not permit precise estimates, but emphasized that the data that were available and the appraisal mission's impressions based on interviews in the field confirmed the judgments presented in the appraisal report. Worldwide, there was little if any data on milk production of working animals. While the assumed increase with respect to milk was large, the "with project" production assumed was quite low (e.g. lower than the "without project" yields in India). Where tractors had been introduced in Egypt, yields had increased substantially due solely to more timely planting (e.g. a 10-15 percent increase was reported to have been achieved in maize); the project would, moreover, not only ensure timeliness of planting but also introduce more appropriate implements. CPS questioned the basis for this assertion and the attribution of the increase to mechanization alone.

3. Prompted by questions by the Chairman, the Region stressed the far-reaching importance of the project in terms of modernization of Egyptian agriculture. While in the Region's view the project was justified on the basis of milk production and crop yield increases alone, the project would, in addition, open up substantial further possibilities by either reducing the area (25 percent of total) presently used for fodder crops and substituting cash or other crops or by allowing substantial livestock development. Nobody could predict in what direction or at what speed Egyptian agriculture would in fact be transformed as a result of tractorization, but there was undoubtedly a considerable potential for development which should not be disregarded in the assessment of the project. CPS accepted that there might be such additional benefits in the future which, however, had not been quantified in any way and could not be in the absence of studies and data; they questioned any optimistic assumptions regarding the further directions of agricultural land use. At any rate, as presented, the economic justification of the project rested on the assumed increases in crop yields and milk production, and they remained unconvinced on this score.

4. Employment Effect: CPS pointed to the fact that the project reports frankly stated that the project would result in a loss of employment about twice as large as the new employment it created (which in the CPS view appeared to be somewhat overstated). The seasonal jobs lost (mainly for threshing) affected a large number of relatively poorer people while the permanent jobs created (e.g. tractor drivers) would benefit a much smaller number of somewhat better off people; this was socially unfavorable as the documents pointed out. The Region explained that one should distinguish between the effect of the project on total mandays worked and the impact of the project on paid labor. While undoubtedly the total mandays worked would decrease (i.e. families would work less but would earn higher income as a result of the project), the number of mandays created would be about in balance with hired mandays lost. In response to comments from CPS the Region agreed that the reduced work opportunities for some family members might cause some spill-over to the general labor market but pointed out that (i) there was evidence of agriculture labor shortage

during the peak season (see Section 5.17 of the Appraisal Report), (ii) some of the jobs done by families now were done by children, who should go to school, and (iii) the jobs created (e.g. tractor drivers, mechanics) would largely attract younger people who otherwise might go to the cities.

5. The Region emphasized the general importance of the project, pointing to the stagnation in agriculture, the absence of a well-conceived government policy in agriculture and the urgent need for institutional reforms in agricultural credit and cooperatives. The project would address these issues; it would certainly include risks (which would be frankly stated in the President's Report) but constitute a first major step towards realizing the existing potential in agriculture and breaking out of a vicious circle causing stagnation. CPS shared the view that action was needed in this regard but felt that it would be preferable to address institutional development issues with a project, possibly risky, that would not involve tractorization of agriculture.

6. Decision: The Chairman decided that the Region should proceed with the project as proposed. The Director of CPS Agriculture asked to be recorded in the Minutes as disagreeing with this decision.

cleared with:

Messrs. Knapp, Baum, Benjenk, Haynes, van der Tak, Yudelman, Broches, Chang.

WCBaum/MYudelman/EKÜpp/IKSam:ab

# LOAN COMMITTEE

DECLASSIFIED LC/M/78-06

Minutes of a Loan Committee Meeting to Consider  
"Turkey - Erdemir Stage II Steel Project"  
Held on April 14, 1978 in Conference Room E-1208

AUG 29 2014

April 21, 1978

WBG ARCHIVES

## A. Present

### Committee:

S.S. Husain (Acting Chairman)  
W.C. Baum  
A. Broches  
M. Hattori  
M.J.W.M. Paijmans

### Others:

A.D. Knox  
H.G. van der Tak  
G.A. de Lusignan  
N. Horsley  
M.T. Baig  
H. Fuchs  
W.P. O'Neil

M. Haug  
M. Smith  
R.B. Palmer  
D.W. Berk  
T.M.C. Asser  
C. Duval  
M.W.P. Baxter  
I.K. Sam

## B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Paijman's memorandum of April 7, 1978, for approval to negotiate a proposed \$80 million loan for the Erdemir Stage II Steel Project, and from Mr. van der Tak's memorandum to Mr. Husain of April 13, 1978:

- (a) whether to insist that the Erdemir I over-run financing (an estimated \$4 million in foreign exchange) should be made available by the Government prior to negotiations for Stage II;
- (b) the uncertain scope and cost of the project, including the status of the NKK contract and the proposed Euro dollar loan financing and the prospects of alternative sources of co-financing, and whether negotiation could proceed pending NKK's review and confirmation of the project scope and cost;

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Vice President, Development Policy  
Senior Operations Adviser  
Controller  
Others in attendance

- (c) whether the financing plan was sufficiently firm to proceed to negotiations;
- (d) whether the new Erdemir Board and management team is satisfactory and if, as the Region proposed, whether a satisfactory solution of the management problem should be a condition of Board presentation rather than of negotiations.

C. Discussion

2. Stage I Over-run Financing: The Region explained the background to the present situation and noted that while the project would have high priority when foreign exchange becomes available, it was not feasible to press for provision of the \$4 million required in foreign exchange financing as a condition of negotiation. The Vice President and General Counsel responded that if \$4 million to start-up a \$425 million investment could not be found, the problem appeared to be one of establishing priorities rather than the shortage of \$4 million per se. The Acting Chairman then raised the matter of whether, in light of the experience with the \$4 million, there were grounds for confidence that the proposed project's financing plan was viable. The Region responded that there were encouraging signs that sound economic management was being regarded by the Government as a high priority, which was significant as many of the problems of Erdemir I were attributable at least in part to the policies of former Governments. The Acting Chairman proposed, and the Region and Central Projects subsequently agreed, that Erdemir's gaining access to the required \$4 million in foreign exchange financing should be a condition of Board presentation of the Erdemir Stage II loan, and that it would be desirable to have this amount made available before negotiations.

3. Project Scope, Cost and Financing Plan: The Director of the Industrial Projects Department outlined the financing situation, and informed the Committee that both the engineering contract with NKK and a financing arrangement with a Swiss bank for such contract were about to be signed, upon which NKK would accelerate its work. To the Acting Chairman's query of whether substantial completion of the NKK review should be a condition of negotiation, the Director of the Industrial Projects Department responded that rapid progress was expected and that the definition that remained to be done in both project scope and cost was unlikely to be more than "fine tuning" to existing estimates. The point was raised that, given the uncertainties regarding project scope and cost and the absence of a financing plan, the project was possibly being presented to the Loan Committee prematurely. The Region responded that it may have been a marginal case, but processing was being done now in order to reactivate operations in Turkey although Bank funds for the project were not expected to be required before December 1978. The Acting Chairman then suggested that prior to the conclusion of negotiations, the Chairman of the Loan Committee should be advised of the project's final scope, cost estimates, financing plan and procurement arrangements.

4. Management: The Region informed the Committee that a new Chairman had been appointed on March 30, members of the Board had been nominated (also on March 30), and that the President was expected to be appointed at a Board meeting on April 18. The

Minister of Industry had assured the Bank that appointments to Erdemir would be based on technical and managerial competence. First indications of the new Erdemir appointments suggested this was in fact happening. The Acting Chairman proposed that the new management should represent the company at negotiations. (Subsequently, the Bank was informed that Mr. Aktutay, heretofore Vice-President in charge of Stage II expansion and highly regarded by Bank staff for his technical competence had been appointed President of the company on April 18, following shortly upon the appointment of Mr. Kenan Okan, for many years a senior executive of the company, as Chairman of the Board of Directors.)

5. Technical Questions: The meeting also briefly reviewed the following technical questions raised by Central Projects, which it was agreed would be handled in the Grey Cover documents:

(i) what assumptions should be made for price contingencies and exchange rates, given domestic inflation rates; and (ii) whether Erdemir should be required to consult with the Bank before making any changes in steel prices, or should agreement be sought on a broader statement of the major objectives of pricing policy and criteria (such as with regard to appropriate profit margins, for example) within which price adjustments would be made.

6. The Director, Projects Advisory Staff was in favor of general principles for steel prices (such as a relationship to profit margins and rates of return) and the Bank being involved in general consultation about price changes, rather than in the review of every individual price change. The discussion that followed centered on the merits of the general principles and consultation approach (as has occurred, for example, in Brazil and Mexico) and the case-by-case involvement approach (as has been the case in Turkey). The Acting Chairman concluded that Industrial Projects should modify the price consultation proposals in consultation with Projects Advisory Staff in line with the more general approach used in Brazil.

7. The Acting Chairman suggested that the question of apparent inconsistencies in financial and economic prices and rates of return were better left for resolution within Central Projects. The Vice President, Projects Staff noted that there was no ready solution to establishing realistic price contingencies in a situation of high domestic inflation and possible but uncertain exchange rate adjustments but it was proposed that prior to Board presentation, a satisfactory statement on price contingencies and exchange rates should be developed with input from the Region.

D. Conclusion:

8. Subject to the modifications noted below, and confirmation on the amount of the loan (see para. 9), the Committee approved the recommendation to invite negotiations on the terms and conditions proposed by the Region. Modifications accepted by the Committee were: (i) the Government would be expected to provide the Erdemir I over-run financing of \$4 million in foreign exchange as a condition of Board presentation, and it would be desirable for this to be done prior to

negotiations; (ii) before the completion of negotiations, the Loan Committee would be advised of the project's final scope, cost estimates, financing plan and procurement arrangements; (iii) the new management should represent the company at negotiations; (iv) Industrial Projects Department and Projects Advisory Staff should reach agreement on a price consultation procedure; and (v) a satisfactory statement on price contingencies should be prepared in consultation with the Region, prior to Board presentation.

9. On April 17, after consultation with Mr. McNamara and Mr. Benjenk, the Acting Chairman approved the amount of the Loan at \$80 million as recommended by the Region.

cleared with Messrs. Husain, van der Tak (for Mr. Baum), Broches, Hattori, Fuchs, Paijmans.

MWBaxter/IKSam:ab

# LOAN COMMITTEE

DECLASSIFIED LC/M/78-05

AUG 29 2014

April 4, 1978

WBG ARCHIVES

Minutes of Loan Committee to consider  
"Jordan - The Arab Potash Project" held on  
March 22, 1978 in Conference Room E-1208

A. Present

Committee:

J. Burke Knapp (Chairman)  
I.P.M. Cargill  
A. Broches  
Martijn J.W. M. Paijmans  
H. Fuchs

Others:

L. Nurick  
A. Maffei  
M. Hattori  
H. Kohli  
E. Segura  
M. Bart  
S. El Darwish  
W. Siebeck  
J. Guillot-Lageat  
N. Njomo  
R. Goodman  
N. Horsley  
I. Sam

B. Issues

1. The meeting was called to clarify several aspects of the project documents submitted to the Loan Committee under cover of Mr. Paijmans' memorandum of March 14, 1978 for management's approval of (a) the position the Bank would take regarding its participation in the project during the co-lenders' meeting scheduled for April 1978, (b) authorization to distribute the Project Executive Summary and Staff Appraisal Report (without Recommendations chapter) to potential co-lenders and (c) authorization to begin negotiations on a proposed \$25 million loan for the Arab Potash Project.

C. Discussions

2. Simultaneous Implementation of Large Projects in Jordan:

The Chairman inquired whether Jordan had the financial and administrative resources to implement simultaneously the Maqarin Dam project, the Phosphatic Fertilizer project and the Potash project. In addition, he also asked why IFC was processing the Phosphatic Fertilizer project while the Bank was processing the Potash project. EMENA staff responded that the Bank had apprised Jordanian authorities on several occasions of the inherent problems of a small country like Jordan attempting to implement simultaneously

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Senior Operations Adviser  
Controller  
Others in attendance

these above three projects whose total costs exceed \$1.3 billion. EMENA staff indicated that Jordanian authorities had been repeatedly urged to time the implementation of the Maqarin Dam and related irrigation so as to avoid a heavy financial burden of implementing all three projects concurrently. However, because of the high political significance attached to implementing the Maqarin Dam project in Jordan and elsewhere in the Arab world the Jordanians had been reluctant to present a phased project to potential lenders, who may well at this stage pledge much less than what would be needed to start all projects components at the same time. The Bank would reiterate its position on appropriate occasions. Concerning the split responsibility for processing both the Potash and Phosphatic Fertilizer projects within the Bank Group, it was explained that the Bank had been associated with the Potash project for over 15 years. The Phosphatic Fertilizer project concept and ownership had from the outset started as a privately-owned proposition and did not require Bank financing in addition to the funds IFC had been able to attract. The Potash project, on the other hand, was an entirely publicly-oriented venture and there was no need for a private technical partner nor could the conditions be established to attract such a partner. Also, the principal risks of the Potash project are financial and commercial rather than technical since the principal technical aspects of the project had been adequately covered during the execution in 1976-77 of the Pilot Engineering project which was partially financed by IDA.

### 3. Management and Organization

The Chairman said that in the absence of a foreign partner, the key to the successful operation of the project was an adequate operations management contract with a qualified consulting firm. He inquired whether Jacobs International, Inc. (JII), the consulting firm which supervised the implementation of the Pilot Engineering project and is the prime engineering consultant for the Potash project, would also be awarded the operations management contract. The Chairman also inquired why the appointment of the consultant was being made a condition of effectiveness rather than of Board Presentation. Projects staff explained that because of JII's accumulated experience acquired during implementation of the pilot project, of all prospective candidates for the operations management contract for the full-scale project, only Jacobs (by assuming full responsibility for all phases of the project) can provide a comprehensive performance guarantee, and therefore is likely to be awarded the contract. Presently, JII has already submitted a bid on the operations management contract and delays in contract award were due mainly to Jordanian authorities who consider it good negotiating strategy not to award the operations management contract to JII until current discussions with the consultants regarding the implementation part of the project are finalized. It was noted that the award of the operations management contract (which would be effective two years before plant start-up and run for six years) to a qualified consulting firm satisfactory to the Bank, was vitally important to the successful implementation of the project. In addition, the Committee decided that for the time being the appointment of operations management consultants should be a condition of Board Presentation unless the Region had overriding reasons to make it a condition of effectiveness, in which case it would then have to refer back to the Loan Committee.

4. The General Counsel inquired about the nature of the performance guarantees being provided to APC during project implementation. Projects staff explained that the engineering contract included bonus clauses under which incentive payments would be made to the engineering consultants for the timely completion of project facilities. Furthermore, the proposal on operations management submitted by JII included production guarantees under which penalties of up to 50 percent of the annual contract fees would be applicable if the project fails

to achieve agreed upon annual production targets. The Chairman, while accepting these arrangements as satisfactory, concluded that the exact terms of the proposed operations management contract and the exculpatory clauses thereon be carefully evaluated.

5. Marketing Arrangements

The Chairman inquired about the reason for separating the credit facilities for term financing of APC's potash sales to the Indian subcontinent from APC's working capital requirements and for not making the required funds for credit sales an integral part of the project financing plan. Project staff explained that the financing plan included working capital for "normal" credit sales in the potash market but that essential sales to the Indian subcontinent (and possibly some other markets) may necessitate special credit terms for APC to be able to compete effectively. Project staff also stated that it was preferable to separate term financing of sales from APC's working capital management as is presently the case with Canadian potash firms whose term sales are financed by CIDA. If suitable sources for the term financing of APC sales on satisfactory terms could not be found, then such financing would be made an explicit and integral part of APC's working capital requirements. It was agreed that to maintain APC's flexibility in financing its sales, the Bank would continue to encourage APC to explore the possibility of obtaining from the shareholders a separate facility for term financing of APC's sales to the Indian subcontinent and possibly other markets.

6. In response to the Chairman's query regarding the amounts to which the proposed letters of intent refer, Project staff said that the proposal is that such letters should cover about 50 percent of APC's 1985 and ultimate capacity, i.e. for about 600,000 tons of potash per year. This quantity constitutes a much higher proportion of APC's production during the initial years when production would be restricted due to the limitation imposed on the carnallite production by the solar evaporation process. Project staff added that initial feedback on APC's marketing efforts had been encouraging even at this early stage, primarily because the Arab Potash project would be coming on stream in the early to mid-1980's when it is expected that potash demand/supply would be more in balance as compared with the current supply surplus. Project staff agreed with the General Counsel that the proposed letters of intent would not constitute a legal commitment to buy potash but would be merely indications of interest. The letters of intent are a part of APC's overall strategy outlined in the Marketing Plan of Action to be carried out during the next few years and which will further define APC's competitive advantages in various segments of the potash market. Concerning the nature and purpose of the Seeding Program, Project staff explained this usual procedure for new firms entering a controlled commodities market was proposed to familiarize APC with its potential customers.

7. Riparian Issue

The Chairman requested that satisfactory technical arrangements be worked out with regard to the Haad channel in between the APC and the Dead Sea Works (DSW) dikes.

8. Project Financing Plan

The Chairman questioned the need to show a gap of \$15 million, to be met by commercial sources in the project financing plan of \$421 million. It was agreed that the \$15 million would be added to the loan amount expected from

bilateral and multilateral agencies and the documents modified accordingly.

9. Comments from the Legal Department

The Associate General Counsel informed the Chairman that all the issues raised in his memorandum of March 20, 1978, to the Chairman had been satisfactorily resolved with the Region, in prior discussions and at the meeting.

10. Loan Amount

The Chairman agreed in principle that consideration could be given to increasing the Bank loan, depending on the outcome of the co-lenders' meeting in April 1978, but cautioned that the amount of such an increase, if any, would depend on a careful review of Bank and country considerations.

11. Terms of the Bank Loan

The Chairman agreed with the Region's proposal that the terms of the Bank loan could be modified to 13 years including 6 years of grace at the Region's discretion.

D. Conclusion

12. Subject to the modifications noted above, the Committee approved the Region's proposal to distribute the Executive Summary and the Staff Appraisal Report, without the Recommendations chapter, to the co-lenders and to start discussions with the Government and the co-lenders. The Committee also requested that the Region report back to it the outcome of the co-lenders' meeting.

cleared with Messrs: Horsley (for Knapp), Cargill, Broches, Paijmans, Fuchs.

ENJomo/IKSam:ab

# LOAN COMMITTEE

DECLASSIFIED

AUG 29 2014

LC/M/78-04

WBG ARCHIVES

March 23, 1978

Minutes of Loan Committee Meeting to consider the Syria - Highway III Project held on March 9, 1978, in Conference Room E-1208

A. Present

Committee:

J. Burke Knapp (Chairman)  
Warren Baum  
M.P. Benjenk  
P. Sella

Others:

M.P. Bart  
S. El Darwish  
D. Haynes  
W. Siebeck  
C. Morse  
C. Hardy  
T.M.C. Asser  
D. Sassoon

B. Issues

1. The meeting was called to consider a clause in the draft agreement (Schedule 4, paragraph 4) which required the Syrian Government:

- (a) in general to "... ensure equality for all bidders in the evaluation and comparison of bids ...", and
- (b) in particular, to require bidders to state the cost of bid and performance bonds/guarantees and to deduct such costs when making comparisons with bidders exempted from providing such securities, i.e. specifically, Syrian public sector enterprises.
- (c) A related issue was whether the guarantee provided by the Syrian Arab Republic in the law establishing the public sector enterprises was an acceptable security as a substitute for conventional bid or performance bonds/guarantees.

C. Discussion

2. CPS stated that it had raised these questions as part of a larger problem of ensuring that bidding requirements applied equally to all bidders in cases where public corporations in the borrowing country were participating in the

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Regional Vice Presidents

President  
Vice President, Development Policy  
Senior Operations Adviser  
Controller  
Others in attendance

bidding. While the general rule still held that the Bank would not "look behind bids" to identify cost advantages or penalties enjoyed by the various bidders, it was concerned to ensure that the tendering and evaluation procedures treated all firms equally. Similar agreements to those proposed in Highway III had been accepted in two previous loans to Syria and had been applied in the Ivory Coast and Algeria. In other cases, such as India and Nepal, state-owned enterprises were required to post bid and performance guarantees. The problem had come to light relatively recently, which was the reason the latest edition of the Procurement Guidelines did not, in its final form, address it specifically, although the principle of equality of treatment appeared elsewhere in the Guidelines. The further problem of the participation of public corporations and government agencies in competitive bidding also needed consideration but was not a factor here. While it was correct that the material implications of the present case were minor (less than one percent of the bid sum in the case under review), the Bank should not concede on those grounds, because the principle involved may have wider implications.

3. The Region argued, as in its memorandum of March 8, 1978, that it was difficult to expect the Syrians to accept provisions which were not yet fully established Bank policy and therefore not yet public knowledge. It, therefore, would be preferable to drop the draft clause until a Bank policy had been established. The Syrians had accepted similar clauses for two previous loans only because it was unlikely that any public sector enterprises would compete; but under the Highway III project their state-owned enterprises stood a good chance to compete. The Legal Department inquired into the validity of the guarantee for public enterprises and suggested that confirmation be obtained during negotiations that such guarantees applied in the specific case that parts of the proposed project were to be carried out by Syrian public enterprises. It was pointed out that in Syria the banks which would otherwise be expected to provide the bonds and/or guarantees were also state-owned, so that they did not provide an independent source of financial support in the event that the public contractor failed to perform on his contract.

#### D. Conclusion

4. It was agreed that the fact that a Syrian Government performance guarantee would be provided to the public contractors free of charge was not a relevant consideration, in accordance with Bank policy not to consider the subsidies or other elements which affected the costs of individual bids. The Chairman agreed to drop the draft clause provided that the requirements of the Procurement Guidelines, and in particular of paragraph 2.14 (Guarantees and Performance Bonds) would be met by a Government guarantee that was equivalent in substance to bid and performance bonds. Confirmation to this effect should be obtained as suggested by the Legal Department.

Cleared with and cc: Messrs. Knapp, Baum, Benjenk, Sella.

WESiebeck/WCBaum/CAMorse/IKSam:ab

# LOAN COMMITTEE

DECLASSIFIED LC/M/78-03

AUG 29 2014 March 6, 1978

WBG ARCHIVES

Minutes of the Loan Committee Meeting to consider  
"Philippines - Rural Electrification Project" held on  
February 22, 1978, in Conference Room E-1208

A. Present

Committee:

J. Burke Knapp (Chairman)  
W. Baum  
A. Broches  
S. Husain  
E. Stern

Others

H. van der Tak  
Y. Rovani  
N. Horsley  
S. Please  
M. Gould  
J. Beach  
J. Sneddon  
J. Cavallotti  
M. Singh  
Ms. C. Long  
I. Sam

B. Issues

1. The meeting was called to consider the following issues relating to the draft documents submitted to the Loan Committee under cover of Mr. Husain's memorandum, dated January 31, 1977, which requested approval to negotiate a proposed loan of \$60 million to the National Electrification Administration (NEA) for a rural electrification project:

- (i) were the level of subsidization of the rural electrification program and the relending terms to the cooperatives appropriate?
- (ii) was the program, which relied on rural electric cooperatives, properly designed? and
- (iii) was the economic rate of return calculation appropriate?

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Senior Vice President, Operations (Chairman)  
Vice President, Finance  
Vice President and General Counsel  
Vice President, Projects Staff  
Regional Vice Presidents

OTHERS

President  
Vice President, Development Policy  
Senior Operations Adviser  
Controller  
Others in attendance

### C. Discussion

2. The Chairman questioned the degree of subsidization in the rural electrification program, which he felt might be excessive. The Regional Vice President, East Asia and Pacific, explained that the cooperatives would be expected to earn positive rates of return after the first five years of operation and the concessional initial loans made by NEA to the cooperatives were only necessary to ease cash flow constraints which resulted from the gradual build up in load growth. In a program of this kind, it was necessary to make heavy initial investments in the back bone system which would only come into operation over a ten-year period. NEA expected to gradually harden the terms of its subsequent loans to the cooperatives, but could not be expected at this point to adjust the terms of its initial loans because 90 loan agreements had already been signed and it would be politically difficult for NEA to insist on harder terms for the initial loans to the balance of the cooperatives.

3. With respect to the rural electrification program in the Philippines, it was noted that the program had thus far been quite successful in providing electricity to rural areas through cooperatives, which generally were well managed. However, the program was still relatively new and most of the cooperatives had not yet begun to repay their loans to NEA. The present method of constructing trunk lines to meet demand growth for a ten-year period was considered to be the most cost effective means of establishing new systems in rural areas.

4. With respect to the economic rate of return calculation, the Regional staff explained that the only indirect benefits taken into account in the calculation of the internal rate of return were the savings derived from replacement of kerosene through the utilization of electricity. The costs used in the calculation were NPC's marginal cost of power and the incremental cost of investment and operation, all at 1977 border prices. The internal rate of return was relatively high (22 percent). The power sector in rural areas was only now beginning to be developed and the administrative costs and losses within the distribution system are currently high; but substantially lower system losses and economies of scale could be expected to emerge as the program expands.

### D. Decision

5. It was agreed that it was appropriate to include the main policy and financial objectives for NEA and the electric cooperatives in a Policy Statement to be approved by NEA's Board. Specific adjustments in the Policy Statement were made at the meeting. NEA's relending terms to cooperatives would be explicitly set out either in the loan documents or the Policy Statement and also in the President's Report. Explicit provision will also be made in the loan documents for the bearing of the foreign exchange risk on the Bank loan by the Government. While it was agreed that it would be necessary to accept NEA's existing relending terms for the initial loans, the Policy Statement should commit NEA to hardening these terms in subsequent loans to take into account the expected improvement in the debt servicing capacity of the rural electric cooperatives.

Cleared by Messrs. Knapp, Baum Singh (for Mr. Broches) and Husain

ISam/CLong/MGould:gs

# LOAN COMMITTEE

LC/M/78-02

January 31, 1978

Minutes of Loan Committee Meeting to consider  
"Mauritania - Guelbs Project"  
held on January 13, 1978 in Conference Room E-1208

DECLASSIFIED

AUG 29 2014

WBG ARCHIVES

A. Present

Committee:

J. Burke Knapp (Chairman)  
W. C. Baum  
A. Broches  
X. de la Renaudiere  
M. Hattori

Others:

H. Fuchs  
R. Goodman  
P. Sella  
H. Cash  
M. Gillette  
C. Walser  
Y. Duvivier  
C. Lorenz  
C. Vuylsteke  
R. Cambridge  
Ms. S. Ono

B. Issues

1. The Loan Committee met on January 13, 1978 and again at 4:00 PM on January 19, 1978 to consider the recommendations in Mr. de la Renaudiere's Back-to-Office Report of January 9, 1978 following a co-donors' meeting on the project in Taif, Saudi Arabia, the Decision Memorandum of November 29, 1977, and the Issues Paper of November 4, 1977.

C. Discussion

2. The Chairman observed that even though a final decision on the project does not appear to be necessary right now, its financial and economic viability have not been clearly established by the documentation produced so far. In particular, certain aspects of the economic analysis of the project are not clear, most notably the reference in the November 4, 1977 Guelbs Issues Paper to shadow pricing of the foreign exchange effect of the project. The staff explained that iron ore operations were such a dominant factor in the economy of Mauritania -- they now generate 75-80% of Mauritania's gross foreign

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Vice President, Development Policy  
Senior Operations Adviser  
Controller  
Others in attendance

exchange receipts and contribute 16% of the Government's current budgetary revenues — that foreign exchange earned by the project should be valued much higher than its official value for purposes of economic evaluation of the project. After an extended discussion about the difficulty of applying conventional incremental investment appraisal techniques to a project whose "without" case would leave the economy profoundly changed, it was agreed that the economic analysis of the project should reflect, insofar as possible, the macro effects of not doing the project (the loss of induced economic activity, for example, in the mining city of Zouerate where 14,000 people live but only 2-3,000 are directly employed in mining and no other economic support for the settlement exists outside of mining, in the port city of Nouadhibou, and in the capital of Nouakchott). The staff stated that they would have no difficulty justifying the project economically.

3. With regard to the financial security arrangements, the Chairman asked whether the project's market was assured. The staff said they were confident that the Guelbs products would find a ready market and that a high proportion of the sales would be assured through long-term contracts which would specify quantities of ore to be taken but not prices. In our proposed trustee arrangement, claims for the proceeds from sales under these contracts, which represent about 60% of SNIM's sales, would be assigned to a trustee for his use in making provisions for debt service. It is likely that the CCCE and the EIB would wish to participate with us in such an arrangement, and most of the other lenders to SNIM (the state-owned mining company which will be the borrower) might participate as well. Some lenders (Islamic Development Bank and Arab Mining Company) plan to make equity available directly to SNIM, and some other lenders may channel their loans to the Government to be passed on to SNIM as equity; none of the donors involved in these equity arrangements would participate in the trust setup. We will, of course, have to make sure that neither Mauritania nor SNIM has entered into any "negative pledge" agreements which would render the trust arrangement inoperable; this matter will be the subject of a special review of Mauritania's and SNIM's existing lending agreements which will be carried out at the end of this month. The Chairman asked if any of these security arrangements would effectively preclude Mauritania from making good on compensation settlements it had worked out with the former shareholders of MIFERMA, SNIM's nationalized predecessor; the staff replied that the Government had never suggested it would not make good on shareholder compensation, but there was some evidence they were trying to obtain more generous terms from Kuwait on a \$40 million loan contracted to make the down payment to the shareholders.

4. The Chairman asked whether our role in the project could be restricted to that of technical leader and financial advisor to the borrower without the necessity of investment in the project. The staff explained that, while we are certainly playing an important technical and financial advisory role, we could not withhold our financial contribution and expect everybody else to maintain theirs. The Chairman concluded this aspect of the discussion by acknowledging that most of the other donors would wish to see the Bank with a financial stake in the project as well as an advisory role.

5. Since the current round of donors meetings only aims to finance a first phase of the project, Mr. Knapp asked if the first phase could stand on its own. The staff replied in the negative, explaining that the first phase only sufficed to maintain production above breakeven with the gradual phaseout of the existing Kedia reserves, that the first phase was heavily loaded with investment but could only be credited with half of the production which would eventually be generated by the project, and that the second phase would have to proceed some 5 to 6 years after the first phase was completed. All the economic analysis of the project has taken both phases into account; and in the financial projections which were the basis for the financing plan being sought for the first phase, the underlying assumptions were designed to bring SNIM to a sufficiently sound financial position so that it could finance the second phaseout of internally generated funds and commercial credits. A special US\$50 million extra risk premium had been provided for in the first phase financing plan to cover possible cost overrun due to political problems in the project area; if not needed for overruns, the risk premium, which would take the form of equity, might be applied to help finance the second phase.

6. The Chairman agreed with the staff's analysis of the political situation and with the prognosis that the present unsettled conditions would probably continue for an indeterminate period. He acknowledged that the presence of many Arab donors amongst those who proposed to finance the project, particularly Saudi Arabia which seemed to have a genuine interest in promoting peace and stability in that part of the Arab world, was an encouragement for us as was the defense support in the project area being provided to Mauritania by Morocco and France. The provision of the risk premium was a favorable element also in that it would enable project execution to continue even if some damage or delays in execution, or unusually high contract costs due to political uncertainty, were to occur. He did not feel that attempting to further limit our exposure by tying our disbursements to the latest project components was a course of action we could pursue very far without irritating other donors.

7. The Chairman ended the discussion by stating that the President fully understood the political risk and was willing to go along with the Bank's participation in the project. The Loan Committee was not in a position to approve the project at this stage, however, but must await submission of a full set of documents according to normal procedures. For the moment he directed that the Bank's representatives at the next donors' meeting in Paris at the end of this month maintain the earlier-mentioned Bank figure of \$50 million and drop any suggestion of IDA funds (for which the Chairman could see no real need as equity was apparently forthcoming from other donors). Should it become very clear that substantial contributions from other donors might be forthcoming were the Bank to manifest some inclination to increase its own (as had been hinted by the Arab funds in attendance at Taif), then the Bank's representatives could mention a figure of \$60 million.

Cleared by Messrs. Knapp, Baum, Broches, de la Renaudiere, Hattori, Fuchs

MGillette/RCambridge/bm

# LOAN COMMITTEE

LC/M/78-01

January 19, 1978

Minutes of Loan Committee Meeting to consider  
"India -- Korba Thermal Power Project"  
held on December 27, 1977 in Conference Room E-1208

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AUG 29 2014

WBG ARCHIVES

A. Present

Committee:

J. Burke Knapp (Chairman)  
W. C. Baum  
M. Hattori  
P. Sella  
R. Picciotto

Others:

M. Blobel	C. Ohri
V. Rajagopalan	S. Yoshida
B. Alisbah	N. Horsley
E. Williams	R. Jabri
A. Hamilton	R. Cambridge

B. Issues

1. The Loan Committee met on December 27 to consider the draft Appraisal and President's Reports on the proposed Korba Thermal Power Project. The basic question at issue was whether the procurement arrangements were justified in the form proposed.

C. Discussion

2. The Vice President, Projects Staff gave it as his view that where the amount of Bank Group financing is determined as a proportion of total project cost, there is a strong case for arguing that we are financing that proportion of all items and that therefore our procurement guidelines should apply across the board and not merely to the items we happen to choose to disburse against. In the Korba case, as in many other Indian projects, the Bank loan had been established as 50% of project costs. In particular, since the proposed Korba project involved sizeable (about US\$57 million) expenditure on civil works,

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Senior Operations Adviser  
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Others in attendance

concentrated in one location, there was prima facie justification for requiring ICB on large contracts, without regard to whether disbursements are made against such contracts. If India was asked to tender such contracts in accordance with the Bank's Guidelines and refused to do so, the contracts should be treated as reserved procurement and their cost deducted from the estimated project cost in determining the amount of our financing. This procedure had been followed in other cases of reserved procurement in India.

3. The prospect that foreign contractors would almost certainly not bid on any civil works contract under the Korba project led to a discussion of the appropriate cut-off point for ICB. The Vice President, Projects Staff, considered that, in the Indian context, the appropriate cut-off for ICB on civil works was likely to be more than US\$3 million but less than US\$20 million, but that determination of the "correct" level was a matter of judgment in each case.

4. The Acting Regional Vice President and his staff explained that ICB would apply to all contracts against which IDA would disburse; for the balance, the Region was satisfied that NTPC's procurement practices ensured that procurement would be undertaken economically and efficiently and that the procurement procedures followed would be appropriate to the circumstances of the project. They considered these procurement arrangements to be entirely consistent with past practice, in the Region, and strictly in accord with the Operational Memorandum on the subject (O.M. 2.40, paragraph 9(b), which does not distinguish between methods of determining the amount of Bank Group financing -- e.g., foreign exchange costs or percentage of total project cost. In particular, the proposed procurement arrangements followed the pattern of the Singrauli project approved in FY77. More specifically, the Acting Regional Vice President and his staff pointed out that, in the case of the Korba project, the definition of project cost was essentially arbitrary because the present project was the first phase of a much larger scheme; by expanding the scope of the project to cover additional items, the amount of our financing could easily have been shown as a lower proportion of total costs. Finally, they argued that insistence at this stage on ICB for civil works would probably lead to delays in project implementation; it would also tend to divert emphasis during discussions with Government away from the Bank's larger objective in the power sector.

5. In the ensuing discussion it was recognized that there was ambiguity in the Bank as to the precise relationship between "financing" and "disbursing" which needed to be clarified. The Vice President, Projects Staff, while not agreeing with the Region's interpretation of O.M. 2.40, confirmed that in any event an important consideration was whether the procurement arrangements, including the rationale for packaging of bids, and the Region's judgments as to the likely interest by foreign firms, were correct in this case.

#### D. Conclusion

6. In the light of the explanation provided by the Region, the Senior Vice President concluded that the procurement arrangements proposed for the

Korba project were acceptable in the circumstances. He concurred with the Vice President, Projects Staff, that procurement arrangements for projects where the Bank Group financed a substantial proportion of local currency costs involved sensitive issues with respect to the Board. He suggested, therefore, that particular care be taken to respond effectively to any question which might arise at the Board in this connection.

Cleared by Messrs. Knapp  
Baum  
Jabri  
Alisbah  
Rejagopalan  
Blobel  
Picciotto

AOHamilton/RPicciotto/MBlobel/RCambridge:lvb:bm