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FORM NO. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/70-24

June 1, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Pakistan - West Pakistan Water and Power Development Authority (WAPDA) - Power Transmission and Distribution Project" held on May 22, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

\- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LM/M/70-24

June 1, 1970

Minutes of Special Loan Meeting to discuss "Pakistan - West Pakistan Water and Power Development Authority (WAPDA) - Power Transmission and Distribution Project" held on May 22, 1970 at 10:30 a.m. in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Baum, Weiner, Sella, W.J. Armstrong, Votaw, Melmoth, Rovani, Wiehen, Wyatt, Cunningham, Fish, Moreau, Rydell and Pearce (Secretary).

2. Issues: The meeting had been called to consider Mr. Votaw's memorandum of May 22, 1970 to the Chairman, accompanied by Mr. Wiehen's memorandum of May 21, 1970, which described the status of negotiations for a proposed $22.4 million credit to Pakistan to finance the foreign exchange costs of a $39 million project for the expansion of WAPDA's power transmission and distribution system for the period FY 1971 through FY 1974. The main issue for discussion was the Pakistan delegation's inability to accept financial covenants which would require WAPDA to obtain rates of return of 11% in FYs 1973 and 1974 and of 10% thereafter, enabling it to contribute 30% towards capital expenditure, and to observe a limit on new borrowing consistent with these returns.

3. Discussion: The meeting considered in some detail the respective impacts on WAPDA's financial structure and position of the Bank's original and modified rate of return and debt limitation proposals and the Pakistan delegation's counter proposal of a flat 8% rate of return covenant commencing FY 1973. During the discussion, the following points were noted:

(a) While the Pakistanis' offer of an 8% rate of return constituted a substantial improvement over past performance, this rate would permit WAPDA to contribute only about 23% from its internal resources towards projected capital expenditure. In view of the difficulties which Pakistan faced in mobilizing domestic resources and its low domestic savings rate, it was essential that public corporations such as WAPDA should make considerably greater efforts to finance their own expansion programs. In this context, the Pakistanis' offer was unacceptable as an adequate ultimate objective.

(b) The Pakistanis had explained that in order to obtain an 11/10% rate of return, WAPDA would have to increase its tariffs by 18% in mid-1972. While WAPDA was anxious to secure such an increase, the Government could not now, within a few months of elections, commit itself to a further substantial increase before mid-1972, particularly in view of the 18% tariff increase introduced as recently as June, 1969.

(c) WAPDA, including the power wing, obtained most of its funds from the Central and Provincial Governments. It was therefore dependent upon Government budgetary policy and did not yet exercise the degree of control over its capital structure or capital expenditure which would normally be expected of an autonomous public utility. The Government had initiated moves to transform the power wing into a more autonomous public utility but this change could take time; consequently, debt limitation covenants would be difficult to apply.

4. The Chairman said that he doubted whether this issue should become a breaking point in negotiations. He noted that, once the elections had been settled, the Pakistanis might still be able to introduce a tariff increase by mid-1972. In accepting an 8% rate of return covenant, the Association should emphasize that it considered this only a short-term target and that the objectives originally specified should be set out as goals for WAPDA.

5. Decision: It was decided that IDA should accept the Pakistanis' counter proposal of an 8% rate of return covenant annually commencing July 1, 1972 and agree on a declaration of intent by WAPDA to proceed towards a higher target (10% return and/or a 30% contribution to future investments) in later years. WAPDA's plans for achieving these higher targets should be reviewed with the Association by June 30, 1972. A specific debt limitation covenant would not be required.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Votaw/Wiehen
Baum
Sella/Moreau

cc: Loan Committee
Participants

Form No. 60
(3-70)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/70-23

June 1, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Zambia - Kariba North Project" held on May 21, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

\- DISTRIBUTION -

Committee:

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

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

LM/M/70-23

June 1, 1970

Minutes of Special Loan Meeting to discuss "Zambia - Kariba North Project" held on May 21, 1970 at 10:00 a.m. in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Chadenet, Weiner, Scott, J.H. Williams, Kruithof, Szasz, White, Onslow and Pearce (Secretary).

2. Issue: The meeting had been called to consider the East Africa Department's memorandum of May 18, 1970 entitled "Zambia - Kariba North Project" (LC/O/70-78) and the accompanying draft appraisal report which recommended negotiations of a $40 million loan to the Kariba North Bank Company Ltd. (KNBC), guaranteed by Zambia, to finance the foreign exchange costs, including interest during construction, of a 600 MW hydroelectric station on the North Bank at Kariba in Zambia to supplement existing generating facilities owned and operated by the Central African Power Corporation (CAPC) on the south bank of the river in Southern Rhodesia.

3. Discussion: In reviewing the complex administrative, financial and legal arrangements of the proposed project, described in paragraphs 8-19 of the Eastern Africa Department's memorandum, the meeting noted that:

(a) The urgency of proceeding with presentation of the proposed loan to the Executive Directors for approval related less to project reasons - invitations to bid would be issued in June and contracts awarded in January, 1971 - than to general considerations of maintaining momentum with all the parties concerned. In this connection, it was important that a procedural amendment to the British Order-in-Council establishing the Higher Authority to permit it to appoint two members was effective by the date of loan presentation. The timing of this amendment was related to the date of the forthcoming British General Election and, in the event of a change in government, might be subject to considerable delay.

(b) Since the British Government wished to proceed with amending the Order-in-Council only when Bank approval of the proposed loan was virtually assured, the Chairman suggested that British representatives be advised during negotiations that, subject to their successful conclusion, the President of the Bank was prepared to recommend approval of the loan to the Executive Directors at an early date.

(c) A British Government condition for action concerning the reconstitution of the Higher Authority - that the United Nations be informed by the Zambian Government about the proposed arrangements and that the Bank be satisfied that existing Security Council Sanctions Resolutions would not preclude Bank participation in the proposed arrangements - had been fulfilled as a result of the Zambian Government's letter of April 8 to the Secretary-General, which had been circulated to members of the Security Council. This action would put the Bank in the best possible position in the event of future criticism by U.N. members of the proposed project.

(d) The Commonwealth Development Corporation's (CDC) condition for its approval of the proposed arrangements - that CAPC's obligations under the lease agreement with KNBC be subordinated to CAPC's outstanding obligation to CDC under the Kariba Phase I loan - should be reconsidered with a view to ensuring that the proposed Bank loan to KNBC would rank at least 'pari passu' with CDC.

(e) It was most unlikely that the Commonwealth Development Finance Corporation's (CDFC) condition for its approval of the proposed arrangements - that it obtain Kariba Phase I loan repayments presently blocked in Southern Rhodesia - could be satisfied. It was noted, however, that this was probably only a hard bargaining stance and that in the end the British Government was unlikely to permit CDFC to frustrate the second Kariba operation.

4. Decision: The Chairman approved the Eastern Africa Department's recommendation that representatives of the interested parties be invited to negotiate a $40 million loan to the Kariba North Bank Company, guaranteed by Zambia, for the proposed project.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Chadenet
Weiner/White
Scott
Kruithof

cc: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/70-22

May 27, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Malaysia - Fifth Power Project" held on May 20, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

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Committee:

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

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

LM/M/70-22

May 27, 1970

Minutes of Special Loan Meeting to discuss "Malaysia - Fifth Power Project" held on May 20, 1970 at 3:30 p.m. in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Chadenet, Weiner, Fontein, Sella, Street, Sandberg, Sheehan, Foster, Sassoon and Pearce (Secretary).

2. Issue: The meeting had been called to consider a memorandum dated May 18, 1970 from the East Asia and Pacific Department entitled "Malaysia - Fifth Power Project for NEB" (LC/0/70-77) and the accompanying appraisal report (PU-43 dated May 17, 1970) which recommended negotiations for a proposed $20 million loan to the Malaysian National Electricity Board (NEB) to cover part of the foreign exchange cost of the third stage of the Port Dickson Thermal Station, transmission lines and associated sub-stations. The main issue for discussion was whether, in regard to bids for boilers and turbo-generators to be financed by bilateral or supplier credits after international competitive bidding, the Bank should (a) supervise the evaluation of these bids in accordance with its usual procedures, (b) ascertain only that the borrower's proposals for contract awards would not prejudice its finances or the project, as recommended in para. 4.14 of the draft appraisal report, or (c) not involve itself with the evaluation of these bids at all.

3. Discussion: The Chairman, drawing attention to the compromise procedure recommended in the appraisal report, suggested that the Bank should either formally supervise the evaluation of bids in the usual way or not at all. During the discussion, the meeting noted that:

(a) while Bank supervision of bid evaluation for contracts to be financed by bilateral or supplier credits was desirable in principle, it would be time consuming for the staff; moreover the borrower in this case might end up with less favorable financial terms;

(b) a debt service covenant in the loan agreement would inhibit the borrower's acceptance of bilateral or supplier credit financing prejudicial to its position or the project;

(c) the intermediate approach (alternative 2(b) above) recommended in the appraisal report, while less onerous for the staff than full supervision, was untidy and might provoke questions by the Executive Directors.

4. Decision: It was decided that reference to Bank supervision of bid evaluation for equipment to be financed by bilateral or supplier credits should be omitted from paragraph 4.14 of the appraisal report and the loan documents.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Fontein
Chadenet
Weiner/Sheehan
Sella/Sassoon

cc: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/A/70-5

May 25, 1970

NOTICE OF MEETING

A Meeting of the Loan Committee will be held on Wednesday, May 27, 1970 at 11:30 a.m. in the Board Room.

AGENDA

Jamaica

The Committee will consider the attached memorandum of May 25, 1970 from the Central America and Caribbean Department entitled "Jamaica - Proposed Loan for Population Project" (LC/0/70-80).

David Pearce
Secretary
Loan Committee

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Committee:

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

Copies for Information:

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

CONFIDENTIAL

LC/O/70-80

May 25, 1970

LOAN COMMITTEE

Memorandum from the Central America and Caribbean Department

JAMAICA - Proposed Loan for Population Project

1. At a meeting on April 30, 1970, the Loan Committee considered the memorandum from the Central America and Caribbean Department entitled "Jamaica - Proposed Loan for Population Project" dated April 28, 1970 (LC/O/70-69) and appraisal report (No. PP-2) entitled "Appraisal of a Population Project, Jamaica." The recommendation that the Government of Jamaica be invited to negotiate a $2 million loan for the proposed project was approved at the meeting. However, the Chairman of the Loan Committee indicated that since questions related to the methodology used for the economic analysis of population projects were still being discussed in the Bank and were only in part answered at the meeting, a redraft of Paragraphs 6.01 thru 6.10 in Chapter VI and of Annex 9 of the appraisal report should be submitted for the Loan Committee's consideration prior to the presentation of the proposed loan to the Executive Directors for approval (LC/M/70-3).

2. The revised texts for Chapter VI and Annex 9 of the appraisal report are attached for the Loan Committee's consideration. While Chapter VI has been rewritten, substantial changes in Annex 9 have been made only on Pages 16, 17 and 23 and Pages 24 and 25 of the previous draft of the Annex have been dropped.

3. Negotiations for the proposed loan have been completed and with the final agreement of the Cabinet on the negotiated documents, which is expected very shortly, I anticipate that the proposed loan can be presented to the Executive Directors on June 16, for approval. I agree with the attached revised text of Chapter VI and Annex 9, and recommend their inclusion in the appraisal report.

Edgar Gutierrez
Director

Attachments

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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May 20, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Iran - Industrial and Mining Development Bank of Iran (IMDBI)

1. The Committee is requested to consider, without meeting, the attached memorandum of May 20, 1970 from the South Asia Department entitled "Iran - Proposed Loan to IMDBI" (LC/O/70-79).

2. Comments, if any, should be sent to reach Mr. Eschenberg (ext. 2291) by 5:00 p.m. on Thursday, May 21.

3. It is planned then, if the Committee approves, to inform the Government and representatives of IMDBI that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
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Mr. M. Shoaib, Vice President
Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

LC/0/70-79

May 20, 1970

LOAN COMMITTEE

Memorandum from South Asia Department

Iran - Proposed Loan to IMDBI

1. Attached for the consideration of the Loan Committee is the appraisal report (DB-68) dated May 12, 1970 on the Industrial and Mining Development Bank of Iran (IMDBI), recommending a Bank loan of $50 million. If approved, this would be the sixth loan to IMDBI.

Background

2. The Bank has made fourteen loans amounting to $405.4 million net of cancellations for projects in Iran, of which some $119.2 million was disbursed as of March 31, 1970. The first loan for $75 million, for general development, was made in 1957 of which about $70 million has already been repaid. Four loans totalling $125.2 million were made for road projects; a further four, totalling $100.5 million, for agriculture; and five amounting to $104.7 million, for IMDBI. Also, technical assistance grants have been made in the power sector and for a ports study.

3. The Bank lending program for fiscal years 1971 to 1975 (as set out in the country program paper) calls for loans in several sectors and totals over $600 million. In the current fiscal year a loan of $6.5 million has been approved for the Agricultural Development Fund of Iran (ADFI) and was made effective on April 23, 1970. A fifth road loan is being negotiated at the present time. For fiscal year 1971, one project for education and one for power have been appraised. A telecommunications project is under appraisal now.

4. The Iranian economy has been growing rapidly. Between 1962 and 1968, the annual average real rate of growth of GNP was 8 percent with population growing at 3 percent per annum. Although this impressive performance is likely to continue for some time, increasing signs of strains are emerging. The rate of growth of domestic savings, although good (14 percent per annum), has not kept pace with the rate of growth of investment (nearly 20 percent per annum). The problem has been aggravated over the last year by the decision of the Government to increase its defense capability very substantially.

5. The Government is aware of the need to improve the management of the economy. To date the extent of the rising resource shortage has been somewhat hidden by the success of the Government in negotiating increases

in oil revenues and by its heavy reliance on foreign borrowings, mostly on short-term. However, it is most unlikely that the Government will continue to negotiate increases in oil revenues sufficient to meet the economy's future need for capital. Efforts are under way to increase non-oil revenues, to increase private sector savings, to improve the terms of foreign borrowing and to improve the quality of the investment program. The last economic report (SA-8a dated December 31, 1969) drew attention to the existing difficulties but concluded that Iran was still creditworthy for further Bank lending. I agree with this conclusion.

6. The rate of growth of the industrial sector has also been impressive. Private industrial investment quadrupled between 1962 and 1968, and value added in industry increased by 11.6 percent per annum. However, this growth was achieved in an environment of high protection, generous tax loopholes and the channeling of budgetary funds through financial intermediaries such as IMDBI on concessional terms. The large amount of investment that took place was directed towards import substitution, at least part of which may prove to be uneconomic. The Government and IMDBI became increasingly concerned about the direction of industrial investment and last year asked the Bank to undertake studies which could be the basis for a revision of industrialization policy. Accordingly, Mr. Avramovic undertook a study of the industrial sector. His report (SA-14 dated May 11, 1970) has been discussed with the Government who agreed with its basic conclusions, and used these in the formulation of a new industrialization policy directed towards export promotion. It has been agreed that the Bank will carry out further studies of specific industries.

7. In the last six years, IMDBI's total loan disbursements have quadrupled and IMDBI has contributed some 13 percent of private fixed investment in industry. As a development bank, IMDBI has played an active role in the promotion of industrial projects, the creation of new industries, the attraction of direct foreign investment, the assimilation of new technology and the location of industries outside Tehran.

The Project

8. The Bank assisted in the formation of IMDBI in 1959, and with the exception of one loan from U.S. AID of $3.5 million in 1959, the Bank has been IMDBI's principal source of foreign exchange. To date, IMDBI has received five Bank loans amounting to about $105 million. The first loan made in 1959 was for $5.2 million; subsequent loans were made in 1965 ($10 million), 1966 ($25 million) and 1968 ($25 million). The last loan of $40 million was granted in May 1969. It has been utilized more quickly than was anticipated at that time: $22 million has been credited to IMDBI's loan account and $8 million has been earmarked for projects; this leaves $10 million for commitment against projects which are in an advanced stage of preparation. During the next two years, IMDBI will need $86 million to meet the projected level of its foreign currency requirements. A loan of DM 50 million ($13 million equivalent) is presently being negotiated with Kreditanstalt fur

Wiederaufbau (KFW). IMDBI has now requested a sixth loan of $50 million. The proposed loan, if approved, will cover the bulk of IMDBI's requirements for two years. We believe that IMDBI should continue its efforts to diversify the source of its foreign exchange requirements.

9. The attached report shows that IMDBI's operation has been financed largely by Government funds and by Bank loans. The interest rates charged on the Government funds are concessionary and although there was a recent increase from three to four percent, this does not fully reflect the recent upward adjustment in the prevailing interest rate structure. During the last 18 months, the Central Bank discount rate was increased from five to eight percent; this and other steps taken to reduce the liquidity of commercial banks led to an increase of about three percentage points in the interest rates charged by the commercial banks. IMDBI's lending terms have been based on the cost of money to itself and this is not entirely consistent with current Iranian conditions. As noted above, these concessionary terms are among the major factors contributing to the rapid industrialization of the country and to a probably serious misallocation of resources. Furthermore as the report notes, IMDBI has not started to mobilize rials from the private market. Even taking account of the planned allocation of funds by the Government, there will remain a serious shortage of rial resources during the next few years. The rigidity of its lending policies has meant that IMDBI has been unable to react as effectively as commercial banks have, to the changed situation, and while it is appreciated that long-term interest rates cannot move in line with fluctuations in short-term rates, a significant increase in IMDBI's lending rate will be required to attract private sector savings.

10. The appraisal report, which draws attention to current problems, to my mind does not emphasize enough how serious these are or how intractable these might prove to be. The present shortage of resources is not likely to disappear quickly, and solutions to the problems confronting IMDBI in these circumstances will not be easy to find. These matters will have to be discussed during negotiations. The report has made several recommendations aimed at improving the institutional strength of IMDBI. In particular, the report recommends that IMDBI should take steps to improve the economic aspects of project evaluation, give greater attention to end-use supervision, strengthen its staff at the department head level and diversify the source of its foreign exchange loans. The report also recommends IMDBI raise its interest rate by 1 to 2 percent, and such an increase would be welcomed by IMF. There is no doubt that a commercial institution would by this time have raised its interest rate by even more than this amount, and this recommendation, representing as it does minimum action, will only make sense provided the Government is willing to adapt certain policies to the new situation, which is radically different from the one in which these policies were formulated. IMDBI as an institution can do little more than raise its voice in the councils of government to induce basic changes in policy.

Recommendation

11. IMDBI continues to be a suitable recipient for Bank loans and I concur with the recommendation in paragraph 4.06 of the appraisal report that the Bank make a sixth loan to IMDBI for $50 million, and I propose that representatives of IMDBI be invited to Washington for negotiations to begin on May 25. We have also agreed with the DFC Department that a number of changes, particularly in Section III, will be made in the appraisal report before it is presented to the Executive Directors.

Gregory B. Votaw
Deputy Director

Attachments

Annex I: Iran - 5 Year Lending Program

ANNEX I

Population: 26.3 m
GNP Per Cap.: $280

IVa. IRAN - 5 YEAR LENDING PROGRAM

		($ millions) Fiscal Year 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
Fisheries	IBRD				30.0				
Agric. Development Fund	IBRD	6.5							
Agric. Development Fund II	IBRD			10.0					
Agric. Development Fund III	IBRD					20.0			
Agriculture Unidentified III	IBRD			40.0					
Agriculture Unidentified IV	IBRD					30.0			
Agriculture Unidentified V	IBRD						30.0		
Telecommunications	IBRD		38.0						
Telecommunications II	IBRD				25.0				
DFC - IMDBI VI	IBRD	50.0							
DFC - IMDBI VII	IBRD			50.0					
DFC - IMDBI VIII	IBRD					50.0			
Education I	IBRD		15.0						
Education II	IBRD			20.0					
Education III	IBRD					20.0			
Education IV	IBRD						20.0		
Power Transmission	IBRD		60.0						
Power II	IBRD		60.0						
Power III	IBRD				45.0				
Power IV	IBRD						50.0		
Transp. Unidentified III	IBRD				25.0				
Transp. Unidentified IV	IBRD						30.0		
Highways IV	IBRD	40.0							
Port Equipment	IBRD		8.0						
Pipeline	IBRD		10.0						
	IBRD	96.5	191.0	120.0	125.0	120.0	130.0	141.0	602.5
	No.	3	6	4	4	4	4	7	19

P & B 4/10/70

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

May 18, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Malaysia - Fifth Power Project for NEB

1. The Committee is requested to consider, without meeting, the attached memorandum of May 18, 1970 from the East Asia and Pacific Department, entitled "Malaysia - Fifth Power Project for NEB" (LC/O/70-77).

2. Comments, if any, should be sent to reach Mr. Foster (ext. 2273) by 1:00 p.m. on Thursday, May 21.

3. It is planned then, if the Committee approves, to inform the Government and representatives of NEB that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

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Committee:

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

CONFIDENTIAL

LC/O/70-77

May 18, 1970

LOAN COMMITTEE

Memorandum from East Asia and Pacific Department

MALAYSIA - Fifth Power Project for NEB

1. There is attached for the consideration of the Committee an appraisal report "Malaysia - Appraisal of the National Electricity Board of the States of Malaya, Fifth Power Project" (PU-43) dated May 7, 1970. The report recommends that a Bank loan of US$ 20.0 million equivalent be made to the National Electricity Board (NEB) to cover part of the foreign exchange cost of the third stage of the Port Dickson Thermal Station and transmission lines and associated substations to deliver the power to the load centers. The proposed project forms part of a continuous expansion program financed in part by the Bank. The NEB has received a total of US$ 122.7 million in four Bank loans since 1958 which have financed about 700 MW of generating plant, including two loans 458-MA (Third Power) and 579-MA (Fourth Power), for the first and second stages respectively of the Port Dickson Thermal Station. The projects financed under these loans have all been satisfactorily completed or are now under construction. No significant problems have arisen during this period.

Background

2. The proposed loan would be the Bank's fourteenth loan to Malaysia, including the second Jengka Land Settlement loan of US$ 13.0 million and the Jengka Forestry loan of US$ 8.5 million, both approved by the Executive Directors on May 12 but not yet signed. Other loans have been made for projects in agriculture, industrial finance, telecommunications, water supply and education. The execution of these projects has been satisfactory and the rate of disbursements of the loans has been roughly in line with expectations except for Loan 560-MA (Telecommunications) because of changes in equipment specifications, and for loan 434-MA (Muda Irrigation), because of delays in completing the internal reticulation system and the water control scheme. As of April 30, 1970 the amount of these loans - excluding the second Jengka Land Settlement loan and the Jengka Forestry loan not yet signed - held by the Bank net of cancellations, sales, and repayments was US$ 200.9 million. In addition the Bank has made a loan (405-MA) to Singapore guaranteed by Malaysia to finance the Johore River water project.

The Economy

3. An economic report (EAP-11a) on the current economic position and prospects of the economy was distributed to the Executive Directors on March 25, 1970. Malaysia's overall growth performance throughout the 1960's was satisfactory. GDP in real terms grew by a yearly average of about 6½ percent, mainly because of strong investment and production trends in rubber

and oil palm, tin mining, and timber as well as development of import-substitution industries. However, in the seventies Malaysia faces two difficult economic and social problems which have emerged in recent years despite the growth in output and income, namely increasing unemployment and rural/urban income disparity. They were important underlying causes of the disturbances in Kuala Lumpur in May 1969.

4. In the long run, accelerated economic growth appears to be a prerequisite for a solution to these problems. This in turn calls for more aggressive Government development policies than in the past. It will not be easy to develop and execute such policies since the financial and managerial capacity of the public sector is already being strained by extended Government activities. The Second Malaysia Plan (1971-1975), now under preparation and to be reviewed by the Bank, will have to propose increases in both public and private investments which have recently stagnated. Malaysia is unlikely to be able to finance the increased investments from internal resources and will therefore probably need a larger inflow of public capital in the next five years than in the past five. Fortunately, the debt-service ratio remains low at 2 percent as of end 1969 and is expected to remain below 5 percent for several years to come. Malaysia is creditworthy for substantial external borrowings on conventional terms.

The Lending Program

5. The latest tabulation of the five-year lending program is attached as Annex I. The lending program and Country Program Paper were reviewed and approved in March 1970. The proposed project is a significant part of the Bank's efforts to assist the Government in providing the infrastructure needed to maintain the current high rate of development in the private sector. There are no proposed loans remaining for FY1970; in FY1971 loans in addition to the proposed loan are expected to be made for telecommunications and port expansion.

The Project

6. The project consists of the third stage at Port Dickson Thermal Station and transmission lines and associated substations to deliver the power to the load centers. The third stage at Port Dickson comprises three new units (Units 5 to 7) each of 120 MW and will bring the station to its final total capacity of 600 MW. The total cost of the project is estimated at US$ 58.9 million equivalent, excluding interest during construction, of which US$ 46.7 million would be the foreign exchange component.

7. The Bank continues to urge the Government to make maximum use of other external sources of finance available on reasonable terms to finance projects in sectors such as power and communications. As with the fourth power project (Loan 579-MA) it is therefore envisaged that major items, i.e. boilers and turbo-alternators, would be financed from bilateral or suppliers' credits which should be available on reasonable terms. Under Loan 579-MA (Fourth Power) NEB obtained such financing

without difficulty. However, if contrary to present expectations such credits should prove not to be available on reasonable terms, the NEB would finance these items from other sources. In any event the Government would undertake in the Guarantee Agreement to fill any gap. The present financing plan for the project would thus include: (i) bilateral or suppliers' credits (estimated at US$ 26.7 million) for the boilers and turbo-alternators for the thermal station, (ii) the proposed Bank loan (US$ 20.0 million) for the foreign exchange cost of civil works, auxiliary equipment for the thermal station, materials and equipment for transmission lines and substation extensions, and consulting services, and (iii) NEB's cash generation for local currency expenditures (US$ 12.2 million). The above figures do not include interest during construction. Although other loans for public sector projects have financed interest on the Bank during the construction period, this is not being recommended in this case, because NEB has sufficient cash generation of its own to meet all project costs and loan charges after obtaining the proposed Bank loan and bilateral or suppliers' credits.

8. The items financed under the Bank loan would be procured after international competitive bidding in accordance with the Bank guidelines. As far as the boilers and turbo-alternators are concerned, NEB would follow its usual practice of awarding all contracts for equipment and civil works after inviting international tenders and would use its best efforts, with the Government's help, to obtain financing on reasonable terms. The NEB with the assistance of its consultants would evaluate the bids and make the awards for the boilers and turbo-alternators on the basis of technical features, price and financing terms. The Bank would not supervise evaluation of the offers and would only ascertain that the offer selected by NEB would not be prejudicial to the project or the enterprise. To meet construction schedules, tenders for some of the auxiliary equipment to be financed by the proposed Bank loan and for the turbo-alternators and boilers to be financed from other sources may be invited before the proposed loan is scheduled to be made, but no contracts are expected to be awarded before loan signature.

9. The disturbances in May 1969 slowed the growth in power demand from an average annual rate of 16% between 1963 and 1968 to 9.6% between 1968 and 1969. However, in view of the Government's efforts to stimulate the economy, power demand could resume its previous growth rate. Therefore two of the three 120 MW units (Units 5 and 6) will be installed immediately to meet the increase in power demand which can confidently be expected on a conservative basis by 1974. The third unit would be installed sometime later to meet growth in power demand as it develops. NEB would be required to obtain Bank approval before proceeding to place the order for the third new unit (Unit 7). Disbursement of the loan would not be affected by any delay in installing the third new unit which would be financed from non-Bank sources. To ensure the complete financing of the project, it is proposed that no disbursements of the Bank loan be made for the items for Port Dickson until contracts have been awarded and financing has been arranged for the boilers and turbo-alternators required for Units 5 and 6.

10. The Loan Agreement would include a covenant on the lines of preceeding loans to NEB, that NEB would continue to maintain a rate of return of not less than 8% per annum on its average net fixed assets in operation. The appraisal report forecasts a satisfactory average level of earnings during the nine years to August 31, 1978. However, because of sizeable additions to plant in some years and the irregular pattern of annual tax payments, the rate of return is expected to vary during this period between 7.5% and 10.4%. The growth of sales is based on a conservative estimate which is in fact expected to be exceeded, and it is therefore considered unnecessary to change the tariffs during the years that temporary shortfalls in the rate of return occur but instead to grant waivers of the rate of return obligation provided that the level of internal cash generation remains satisfactory.

11. The previous loan to NEB also included an undertaking that the Bank would be consulted before any changes were made to the positions of General Manager, Deputy General Manager and Chief Financial Officer and the Appraisal Report recommends that the understanding be repeated.

12. During the last loan negotiations an informal understanding was reached that NEB would take steps to improve the ratio of consumers per employee by keeping the number of new posts low, thereby increasing efficiency. However, subsequent to the disturbances in Kuala Lumpur in May 1969, the Government is making efforts to increase employment and has directed public enterprises to employ as many unskilled and semi-skilled workers as possible, even at the cost of efficiency. We propose to discuss the matter again during negotiations and to reach agreement with NEB on the steps they intend to take to meet this problem. One such step is the proposed employment of management consultants to advise the NEB on ways and means to increase efficiency particularly in the light of the rapid expansion of its operation. In order that the Bank be kept informed on further steps arising out of the consultants' report to increase efficiency, I recommend, and Public Utilities Projects Department agrees, that the Bank should be consulted on the consultants' recommendations and their implementation.

Recommendation

13. With the additional recommendation mentioned in paragraph 12 above, I agree with the Conclusions and Recommendations of the Appraisal Report including the one mentioned in paragraph 11 above, and recommend that we invite representatives of NEB and the Government of Malaysia to Washington to negotiate a Bank loan equivalent to US$ 20.0 million.

Gordon M. Street
Assistant to the Director
East Asia and Pacific Department

Attachment

ANNEX I

Population: 10.1 m
GNP Per Cap: $290

IVa. MALAYSIA - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year						Total	Total
		1970	1971	1972	1973	1974	1975	1964-68	1969-
Agricultural Credit I	IBRD			10.0					
Agricultural Credit II	IBRD						10.0		
Land Settlement - Jengka II	IBRD	13.0							
Land Settlement - Jengka III	IBRD			15.0					
Land Settlement - Other	IBRD					20.0			
Livestock	IBRD			4.0					
Forestry I - Jengka	IBRD	8.5							
Forestry II	IBRD					10.0			
Telecommunications II	IBRD		12.0						
Telecommunications III	IBRD				12.0				
DFC - MIDF II	IBRD				10.0				
Education II	IBRD			10.0					
Education III	IBRD					10.0			
Power - NEB V	IBRD		20.0						
Power - NEB VI	IBRD			20.0					
Power - NEB VII	IBRD						20.0		
Power - SEB I	IBRD				5.0				
Airport - Sabah	IBRD				5.0				
Highways I	IBRD			10.0					
Highways II	IBRD				15.0				
Highways III	IBRD					15.0			
Highways - Sabah	IBRD						10.0		
Ports - Sabah	IBRD		10.0						
Railways	IBRD			12.0					
Water Supply/Sewerage I	IBRD				5.0				
Water Supply/Sewerage II	IBRD					5.0			
Unallocated	IBRD						10.0		
	IBRD	21.5	42.0	81.0	52.0	60.0	50.0	165.9	224.8
	No.	2	3	7	6	5	4	6	22

EA&P 5/15/70

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-4

May 18, 1970

Minutes of Loan Committee Meeting held at 4:00 p.m. on Tuesday, May 5, 1970 in the Board Room

A. Present:

Mr. S.R. Cope (in the Chair)
Mr. S. Aldewereld
Mr. G. Alter
Mr. M.P. Benjenk
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. R.J. Goodman
Mr. E. Gutierrez
Mr. M.L. Hoffman
Mr. M.L. Lejeune
Mr. C.G. Melmoth
Mr. F.R. Poore
Mr. H.N. Scott
Mr. M.L. Weiner
Mr. D. Pearce (Secretary)

In Attendance:

Mr. J.H. Collier
Mr. R. Gulhati
Mr. H.C. Hittmair
Mr. R.A. Hornstein
Mr. G.S. Kaji
Mr. F.H. Lamson-Scribner
Mr. Y. Rovani
Mr. C.H. Walser
Mr. J.H. Williams

B. Kenya - Nairobi Water Supply Project

1. The Committee considered a memorandum dated May 1, 1970 from the Eastern Africa Department entitled "Kenya - Nairobi Water Supply Project" (LC/O/70-72) and the accompanying appraisal report (PU-40 dated April 14, 1970) and noted that the proposed $8.3 million loan to the Nairobi City Council (NCC), guaranteed by the Government, would cover the full foreign exchange cost of a project to provide additional water supply facilities with an estimated total cost of $13.4 million including interest during construction.

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

2. The Committee readily agreed that although the Bank had not lent previously to a municipality there was no reason in principle why it should not. The Committee then turned to paragraphs 10-14 of the Eastern Africa Department's memorandum which described the practical problems of lending to a municipality. These problems arose in the area of financial and performance covenants because of the wide range of functions - including, in the case of Nairobi, housing, education, public health and police - typically undertaken by municipal authorities.

3. The Committee considered in some detail the purpose of the proposed debt limitation covenant applying to the operations of the Water and Sewerage Department (WSD) of the Nairobi City Council. Some Committee members wondered whether it was appropriate or meaningful in practice for the Bank to require NCC assurances that the WSD should have first claim, after provision for debt service, on funds generated by it, to finance further water supply and sewerage expansion, as needed. The Committee was told that the proposed assurances were intended to help ensure that needed future development of municipal water and sewerage services in Nairobi would be adequately provided for in the city's future budgets, and would thereby support one of the principal objectives of the proposed loan. However, the Chairman and several Committee members felt that, apart from the practical difficulties of monitoring the future disposition of WSD generated revenues not required for debt service, the proposal was meaningless because the City Council would not thereby relinquish any freedom in deciding on the municipality's future investment priorities. The Chairman suggested that the Area and Projects Departments should prepare a paper reviewing the merits of the provisions proposed.

4. Apropos paragraphs 3.07-09 of the appraisal report concerning the staffing of the WSD, it was agreed that a possible need for training of local staff should be checked during negotiations and, if necessary, appropriate provision made in the proposed loan.

5. The Committee approved the Eastern Africa Department's recommendation that the Government and Nairobi City Council be invited to send representatives to Washington to negotiate a $8.3 million loan for the proposed project.

C. Adjournment

6. The meeting adjourned at 5:40 p.m.

Secretary's Department
May 18, 1970

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

May 18, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Zambia - Kariba North Project

1. The Committee is requested to consider, without meeting, the attached memorandum of May 18, 1970 from the Eastern Africa Department, entitled "Zambia - Kariba North Project" (LC/0/7078).

2. Comments, if any, should be sent to reach Mr. Kruithof (ext. 3565) by 4:00 p.m. on Wednesday, May 20.

3. It is planned then, if the Committee approves, to inform the Governments of Zambia and the United Kingdom and the other interested parties that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

CONFIDENTIAL

LC/0/70-78
May 18, 1970

LOAN COMMITTEE

Memorandum from Eastern Africa Department

ZAMBIA - KARIBA NORTH PROJECT

Introduction

1. The attached Draft Appraisal Report sets forth proposals concerning a Bank loan of $40 million to a newly established Zambian company, the Kariba North Bank Company (KNBC), for the purpose of constructing a 600 MW generating station on the north bank of the Zambesi river at Kariba. The station would supplement the existing generating facilities owned and operated by the Central African Power Corporation (CAPC) on the south bank of the river in Southern Rhodesia.

2. The events leading up to the present proposals and their relation to the previous Bank loans to CAPC have been described in detail in Annex I to the Draft Appraisal Report. The draft is under review and subject to change before being put in final form. In order to save time, and since the proposal does not raise "project issues" requiring decisions by the Committee, it was agreed that this draft should be submitted in support of this memorandum for the use of the Committee in deciding whether to invite negotiators.

The Project

3. The project is part of the development for the years 1969-1976, of the system managed by CAPC. It consists of the construction of the Kariba North power station and the expansion of the 330 kv. transmission system in Zambia and Southern Rhodesia. Because of the uncertain situation of Southern Rhodesia the Bank is constrained to confine its finance to a project in Zambia and proposes accordingly to limit its project financing to the Kariba North station. CAPC will finance the entire cost of the expansion of the transmission system in Zambia and Southern Rhodesia and the local currency cost of the Kariba North station.

4. The expansion of the transmission system in Zambia includes installation of additional sub-station capacity and the construction of additional transmission lines. The cost is estimated at about $20 million. In Southern Rhodesia the transmission system will be expanded by construction of two new sub-stations and construction of two additional transmission lines. The total cost of the transmission program in Southern Rhodesia, estimated at about $30 million, would be financed by CAPC from its earnings in Southern Rhodesia and supplemented by short-term loans to be raised in Southern Rhodesia.

5. The Kariba North generating station will have an installed capacity of 600 MW provided by four 150 MW turbo generators, with the possibility of increasing the capacity to 900 MW. The cost of the generating station is estimated at $47.7 million, of which civil works $16.3 million and generating plant and equipment $16.8 million; interest during construction on the foreign exchange loan estimated at $9.4 million.

6. The proposal is for the Bank to finance the foreign exchange cost of the power station estimated at $33.6 million and interest during construction on the Bank loan estimated at $6.4 million. The total Bank loan would be $40 million, for a period of 25 years with a 5-year grace period.

7. The local currency of the project, estimated at $14 million, and $3 million as interest during construction on the local currency cost, will be financed by CAPC. The Government of Zambia has agreed to provide, on terms to be acceptable to the Bank, any funds required to complete the project. This would be confirmed during negotiations.

Proposed arrangements for carrying out the project

8. Under normal conditions, the Bank would have made a loan directly to CAPC for the foreign exchange costs of the power station and the transmission development in Southern Rhodesia and Zambia. The loan to CAPC would have been guaranteed in equal parts by the Zambian and Rhodesian Governments and, if the situation in Southern Rhodesia did so require, the United Kingdom government would have guaranteed that part of the loan for which Southern Rhodesia was responsible. The present situation in Southern Rhodesia makes these arrangements impossible. The proposed arrangements correspond as closely as practicable in present circumstances to the intent of the arrangements originally envisaged for implementing the second phase of the Kariba project. CAPC will as a practical matter be responsible for supervising construction and for operating the North Bank station. CAPC will not, however, own the station or borrow from the Bank for its construction. However, there is an understanding among the parties concerned that, if future conditions permit and the parties concur, CAPC would acquire the station and take over the outstanding debt of KNBC to the Bank. In that event, there would be a consequential rearrangement of guarantees to conform to what would have resulted from the application of the arrangements originally envisaged.

Administrative arrangements

9. A Zambian company, wholly owned by the Government, the Kariba North Bank Company Limited (KNBC) was incorporated in March 1970. The Memorandum and Articles of Association of this company were agreed upon by the Bank and CAPC, and allow KNBC among other things to borrow money and to construct the project. Pursuant to its Memorandum of Association

KNBC can engage in a much wider range of activities but through a covenant in the proposed loan agreement between KNBC and CAPC for the local cost of the project, CAPC's agreement will be required for KNBC to engage in any activities other than construction of the project.

10. KNBC will appoint CAPC as its agent for the construction of the project and as agent CAPC will employ the consultants for the design and supervision of construction of the project and other activities normally entrusted to consultants in similar cases. A draft Agency Agreement, satisfactory to the Bank, has been approved by officials of CAPC and the Zambian Government. Consultants have already been appointed by CAPC after consultation and in agreement with the Zambian Government, KNBC and the Bank. The consultants have in February 1970, with the consent of the Bank, issued documents for prequalification to contractors for the main civil works.

11. When the project is completed, KNBC will lease it to CAPC for management, operation and maintenance and the output of the project will be fed into the CAPC system. Rental to be paid by CAPC will be amounts equal to the debt service payments due by KNBC on loans made for the construction of the project plus all reasonable administrative costs of KNBC. A lease agreement, satisfactory to the Bank, has been agreed upon between officials of KNBC and CAPC.

Financial arrangements

12. The local costs would be financed by a loan from CAPC to KNBC. A draft loan agreement for this purpose has been agreed upon between officials of CAPC, KNBC, and the Zambian Government and will be formally approved before presentation of the Bank loan proposals to the Executive Directors. The draft loan agreement has been reviewed and approved by the Bank. The loan will be for 25 years with a grace period of 5 years and will also finance the interest during construction. The rate of interest would be the same as that of the proposed Bank loan but there would be no commitment charge on the CAPC loan to KNBC.

13. Under the original arrangements contemplated for financing Phase II of the Kariba project, a loan to CAPC would have been guaranteed as to 50 per cent by Zambia and 50 per cent by Southern Rhodesia. All concerned agree that Zambia should not be required to incur a greater liability under the proposed arrangements than she would have incurred under the original arrangements. The United Kingdom, which will continue to guarantee in full the existing loans, has accordingly agreed that the Bank release Zambia of its obligations as guarantor of 50 percent of the amount of loans Nos. 145 and 392 to such an amount as will, when taken together with Zambia's guarantee obligation under the proposed loan, result in Zambia being responsible for not more than 50 percent of the total outstanding loan obligations for the Kariba system. Both Governments

have agreed that such release would take place at a date ("the agreed date") on which one-half of the discounted value of the payments of principal and interest on the portions of loans 145 and 392 held by the Bank and by the Metropolitan Life Insurance Company,a major participant, would equal one-half of the discounted payments of principal and interest on the new loan. The applicable discount rate would be 7%, the expected rate of interest on the new loan. The United Kingdom wishes, and Zambia agrees, that the release of guarantees be deferred as long as possible. On present estimates that could be as late as July 1, 1974. The proposed closing date of the new loan is July 1, 1976. It will therefore not be possible to give Zambia a full release from its guarantee liabilities until the new loan has been fully withdrawn since at any time the undrawn amount can be cancelled. There will, accordingly, have to be a release of part of Zambia's guarantee liabilities to be effective prior to the "agreed date" and a second release when the final amount of the new loan is known.

14. The amounts to be released do not include payments due to small participants in the loans. The Metropolitan Life Insurance Company has told the Bank informally that they would have no objection to the proposed release of Zambian guarantees. It will be necessary to obtain the formal agreement of Metropolitan Life. It is planned to incorporate the arrangements for the release of guarantees in an agreement to be negotiated simultaneously with the draft Loan and Guarantee Agreement for the proposed Bank loan, and to submit it also to the Executive Directors for approval.

Legal arrangements

15. For CAPC to take actions approving the various agreements to which it is a party it will be necessary to have a properly constituted Board. Three members of the Board are appointed by Zambia, three by Southern Rhodesia, and the Chairman and one member (the latter to be acceptable to CDC) by the Higher Authority. At present only three Zambian members are regarded by the governments of Zambia and the United Kingdom and by the Bank as being properly appointed and since a quorum of five is required the Board of CAPC is unable to exercise its statutory functions.

16. To cure the situation the United Kingdom has agreed (under conditions detailed in para. 17 below) to reconstitute the Higher Authority for Power, which then would permit the proper appointment of a Chairman of CAPC and of a Board member acceptable to CDC. This requires an amendment to the Order-in-Council establishing the Higher Authority to permit it to appoint the two members. That this action becomes effective is essential to the consummation of the whole operation as now planned and therefore should have taken place before the Executive Directors act on the loan. The British Government, on the other hand, would wish to take the action only when it is clear that the loan is virtually assured.

We are in discussion with the United Kingdom on the precise timing, which may have to take account of the possible dissolution of Parliament, preceding a general election. So far we have taken the position that the amendment should be effective by June 11, when we hope to distribute the draft loan documents to the Executive Directors.

17. The U.K. Government has required as a condition to taking action concerning the reconstitution of the Higher Authority that the United Nations be informed by the Zambian Government about the proposed arrangements and that the Bank be satisfied that there is nothing in the Security Council's Sanctions Resolutions which would make it inappropriate for the Bank to take part in the proposed arrangements. By letter of April 8 the Zambian Government has informed the Security Council, in a way acceptable to the Bank and the United Kingdom Government, of the proposed arrangements and there has been no adverse reactions from any of the members of the Security Council. This U.K. condition is therefore considered to have been met. The U.K. Government has also indicated an interest in ensuring that CDC and CDFC would not pursue any objections to the arrangements proposed as a whole. Both institutions made, together with the Bank, loan funds available for the construction of Kariba Phase I. These loans are guaranteed as to half by Zambia, half by Southern Rhodesia. Zambia is presently paying half of these loans as guarantor and the Southern Rhodesian portions are in default. CAPC reimburses Zambia for amounts paid by it and pays the Southern Rhodesian portion into blocked accounts in Salisbury. CDC has successfully brought suit against CAPC for payment of the Rhodesian portion in Zambia Kwachas. However, the Zambian Government does not allow the amounts thus recovered to be transferred. It is believed that CDC has reached an agreement with the Government of Zambia in respect of the use of these blocked funds in Zambia. CDC has indicated its willingness not to stand in the way of the proposals if CAPC would agree to advance repayments on the outstanding CDC loan in such a way that repayments would not fall later than the last payment on the new Bank loan and if CAPC's obligations under the lease agreement with KNBC are subordinated to CAPC's obligations to CDC. The Chairman of CAPC, in consultation with the Bank, has indicated that subject to the favorable outcome of the Bank's appraisal report, he would be willing to submit for approval to CAPC Board proposals accelerating repayments to CDC.

18. CDFC still objects to the arrangements. It has informed the Bank that it has received legal advice to the effect that CDFC's consent is required to the arrangements under the debt limitation clause of its existing agreement with the CAPC. The Bank and the United Kingdom Treasury have serious questions about such an interpretation of this clause but CDFC has thus far refused to submit a copy of its legal opinion to the Bank. CDFC has also stated that it will give its consent if it can obtain loan repayments presently blocked in Southern Rhodesia.

19. We believe that arrangements satisfactory to CDC can be arrived at and that CDC will not wish to sustain objections to the proposed arrangements. CDFC, on the other hand, seeks as a condition of its withdrawing objections that arrangements be made whereby it receive Sterling payments due to it in Southern Rhodesia. I do not consider that the matter of CDFC's funds being blocked by Rhodesian exchange control is germane to the proposed arrangements, and I know the United Kingdom Government shares that view. Accordingly, I would recommend that we be prepared to conclude the proposed loan arrangements even if CDFC is unwilling to state that it has no objections.

III. THE ECONOMY

20. The following is based on the findings of a Bank economic mission in February/March 1970; its economic report would be distributed with the draft loan documents for the proposed project.

21. The copper industry is the most important sector of Zambia's economy. It contributes about 42% of GDP and 95% of exports. Copper prices have been rising steadily since the end of 1968 and are now at a record level of 55% above the November 1968 level. This has put the economy in a strong position; there have been substantial budget surpluses and large reserves of foreign exchange have been accumulated. The future of copper prices is uncertain, but they would have to decline considerably before the government would have to face serious internal or external problems.

22. In August 1969, the Government announced its intention to take a 51% shareholding in the copper mining companies and negotiations for the take-over have been completed. At the same time, changes in the taxation system were introduced under which the royalties and export taxes based on copper production and prices were abolished and replaced by a new mineral tax based on profits. These reforms had two purposes. They were designed to curtail foreign influence in the leading sector of the economy and to give Government a direct control over it and to encourage mineral production by attracting new mining interests. The previous mining concessions in perpetuity have been replaced by 25-year leases in areas where mines are in operation. Elsewhere, to encourage the entry of new companies, the areas covered by existing prospecting and exploration licenses have been considerably reduced.

23. Since 1964, agricultural production has hardly increased at all; its share in GDP has declined from 11% to about 7% in 1968. On the other hand, manufacturing has grown fast. It now contributes about 10% to GDP and has surpassed trade as the second largest productive sector. The rapid growth of manufacturing is the result of import substitution, in particular of imports of manufactured consumer goods from Rhodesia following its Unilateral Declaration of Independence, and of the active role which Government is playing in the promotion of industrial activities through its Industrial Development Corporation.

24. The planned Kariba North power station will add sufficient capacity to meet Zambia's power requirements up to 1978. For many years to come, Zambia's creditworthiness will remain dependent on the fortune of her copper industry. Copper prices are expected to fall gradually to an "equilibrium level" of some 50 US cents per pound by about 1974 and may fall somewhat further thereafter. Given this assumption, foreign exchange reserves would have reached a level of almost two years of merchandise imports by 1973. In spite of its high budget surplus the Government is pursuing a cautious expenditure policy in order not to put too much strain on the economy. Zambia's external debt at the end of 1968 stood at US$264 million. Debt service represents about 5% of the annual foreign exchange earnings. Zambia's strong internal and external financial position justifies borrowing from abroad on conventional terms.

Other Operations

25. Past lending operations and the lending program for Zambia for FY-1970-FY-1975 are summarized in the attached tables. The Commercial Crops Farming Development project is scheduled for presentation to the Board on May 28, 1970. Two projects are scheduled for FY 1971, namely the Second Livestock, for which preparation is proceeding well, and a Third Highway Project. The Government has recently informed the Bank that it does not wish to borrow for the latter project in its present form, and it may either be cancelled or replaced by a Rural and Feeder Roads project. A country program paper with a revised lending program is under preparation for consideration in June.

Recommendations

26. I recommend that representatives of Zambia, the United Kingdom, KNBC, CAPC, CDC and CDFC be invited to participate (the latter two as observers) in negotiations to conclude the arrangements outlined above and to agree on draft loan documents for a loan to KNBC of $40 million, guaranteed by Zambia, on the conditions given in Section 8 of the attached Draft Appraisal Report, on the understanding that before the loan is presented to the Executive Directors the agreements referred to in Section 8.03 (c) be approved by the Committee of CAPC which is in effect acting as the Board of CAPC. These agreements would of course be formally approved by the CAPC Board when it has a legal quorum.

Michael L. Lejeune
Director

Attachments

SUMMARY STATEMENT OF BANK LOANS 1/ TO ZAMBIA, March 31, 1970

Loan No.	Year	Borrower	Purpose	Amount (US$ Million) Bank	Undisbursed
74-NR	1953	Zambia	Railways	14.0	-
145-RN	1956	Central African Power Corp. 2/	Electric Power	40.0 3/	-
197-RN	1958	Zambia 2/	Railways	9.5	-
392-RNS	1964	Central African Power Corp.	Electric Power	3.85 3/	-
469-ZA	1966	Zambia	Roads	17.5	5.9
562-ZA	1968	Zambia	Forestry	5.3	4.8
563-ZA	1968	Zambia	Roads	10.7	1.6
592-ZA	1969	Zambia	Education	17.4	17.4
627-ZA	1969	Zambia	Livestock	2.5	2.5
645-ZA	1969	Zambia	Education	5.3	5.3
Total (less cancellations)				126.1	
of which has been repaid to Bank and others				27.0	
Total now outstanding				99.1	
Amount sold:			37.6		
of which has been repaid			20.8	16.8	
Total now held by Bank				82.3	
Total undisbursed				37.5	37.5

1/ There have been no IDA operations in Zambia

2/ As a result of Loan Assumption Agreements entered into in connection with the dissolution of the Federation of Rhodesia and Nyasaland at the end of 1963.

3/ Amount guaranteed by Zambia; i.e., one-half of loan.

Population: 4.1 m (1969)
GNP Per Cap.: $285 (1967)

IV a. ZAMBIA - 5 YEAR LENDING PROGRAM

($ million)

		Fiscal Years 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
Livestock II	IBRD		5.0						
Commercial Crops Farming Dev. Pro.	IBRD	5.5							
Agriculture Unidentified I	IBRD			10.0					
Agriculture Unidentified II	IBRD					10.0			
Education II	IBRD	5.3							
Education III	IBRD				10.0				
DFC	IBRD			5.0					
Kariba North Power	IBRD	40.0							
Power Transmission Dev.	IBRD						10.0		
Tourism	IBRD						5.0		
Highways III	IBRD		18.0						
Highways IV	IBRD				15.0				
Railways	IBRD						10.0		
Lusaka Water Supply	IBRD			10.0					
Copperbelt Water & Sewerage	IBRD					10.0			
Unallocated	IBRD					10.0			
	IBRD	50.8	23.0	25.0	25.0	30.0	25.0	21.4	159.7
	No.	3	2	3	2	3	3	2	14

P & B 3/20/70

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/70-21

May 18, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "China - Second Nuclear Power Project" held on May 13, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LM/M/70-21

May 18, 1970

Minutes of Special Loan Meeting to discuss "China - Second Nuclear Power Project" held at 5:00 p.m. on May 13, 1970 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Chadenet, Weiner, Armstrong, Scott, Street, Howell, Baig, Kalim, Loh and Pearce (Secretary).

2. Issue: The meeting had been called to resume discussion of whether, and on what basis, the Bank should consider lending for the non-nuclear portion of a proposed second 600,000 kw nuclear power generating unit to be constructed by the Taiwan Power Company (Taipower) to meet power generation requirements in 1976 (cf. LM/M/70-16 dated April 24, 1970).

3. Discussion: The meeting was told that Taipower had been advised by its consultants to procure the turbo-generator from the same United States manufacturer which had supplied the turbo-generator for the first nuclear unit, and that this advice was soundly based. Accordingly, Taipower hoped to exercise its existing option with Westinghouse. With respect to financing arrangements, Taipower had suggested three alternative procedures:

(a) inclusion of the turbo-generator in a proposed Bank loan, with the Bank permitting Taipower to exercise directly its option with Westinghouse;

(b) exclusion of the turbo-generator from the Bank loan, with Taipower exercising its option with Westinghouse but obtaining financing from United States sources; in this case Bank financing would be limited to internationally procured auxiliary equipment and transmission facilities amounting to about $19 million;

(c) inclusion of the turbo-generator in the Bank loan, with procurement under international competitive bidding using stringent specifications to qualify only experienced manufacturers.

4. The meeting noted that, in the circumstances, Taipower was well advised on technical and economic grounds, to procure both the nuclear reactor and turbo-generator for the second power project from the same manufacturers (General Electric and Westinghouse respectively) who had supplied the first. Taipower had already elected to exercise its option with General Electric for the nuclear reactor and, assuming it also exercised its option with Westinghouse for the turbo-generator, this would preclude Bank financing of the latter, owing to the absence of international competitive bidding. Moreover, the United States Export-Import Bank had indicated its willingness to consider financing both the reactor and the turbo-generator. Thus, the only remaining issue was whether the Bank should consider financing the residual $19 million auxiliary equipment and transmission facilities.

5. The Chairman, noting that a Bank loan would merely supplement what was essentially a bilaterally negotiated and financed project in which most of the goods would be procured without international competitive bidding, expressed the view that the Bank should not consider further participation in the financing of the proposed second nuclear power plant.

6. Decision: The Chairman agreed that a cable conveying this decision should be sent to Mr. Goodman, who would be discussing this issue with the Chinese authorities in the next few days.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Chadenet
Weiner/Howell
Street/Kalim

cc: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

May 14, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Bolivia - Third Livestock Project

1. The Committee is requested to consider, without meeting, the attached memorandum of May 14, 1970 from the South America Department, entitled "Bolivia - Proposed $6.9 million IDA Credit for Third Livestock Project" (LC/O/70-76).

2. Comments, if any, should be sent to reach Mr. Skillings (ext. 2483) by 5:00 p.m. on Tuesday, May 19.

3. It is planned then, if the Committee approves and subject to the condition specified in paragraph 19 of the attached memorandum, to inform the Government that the Association is prepared to begin negotiations for the proposed credit.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

CONFIDENTIAL
LC/0/70-76

May 14, 1970

LOAN COMMITTEE

Memorandum from South America Department

BOLIVIA: Proposed $6.9 Million IDA Credit for Third Livestock Project

1. Attached is report number PA 51 appraising the proposed third livestock project and recommending that IDA assist in its financing by making a credit of $6.9 million to the Republic of Bolivia. The proposed operation follows on the $2 million livestock credit of May 1967, of which $0.3 million remains undisbursed, and the $1.4 million credit of January 1970 (for an interim livestock project), which we expect to declare effective shortly.

Economic Performance

2. A report on the Current Economic Position and Prospects of Bolivia will be distributed to the Executive Directors shortly. The report recommends a development strategy for Bolivia centered on the expansion and diversification of exports, and outlines a five-year public investment program which, if implemented, should enable the economy to continue the 5% annual growth rate experienced in recent years. In order to achieve optimum growth, or indeed to carry out a public investment program of any magnitude, the Government would have to take far-reaching measures to increase public savings substantially, to give adequate price incentives for exports and to discourage imports (especially contraband). The conclusions of the report were discussed with the Government in La Paz in mid-April.

3. Throughout most of the sixties, Bolivia's growth was supported by a fairly high level of investment activity and by rising exports. A large inflow of external capital helped finance infrastructure, mainly in transport and power, and additional productive capacity for metals and oil. Manufacturing and housing construction also expanded significantly. At the same time, however, fiscal performance was deficient. Public savings, especially those of the Central Government, were inadequate and the large government-owned tin and oil enterprises, COMIBOL and YPFB, never succeeded in making significant contributions to the treasury. The Government failed to raise revenue to a level necessary to meet essential current expenditure and make even a modest contribution to the cost of investment projects financed by external funds. Instead, it borrowed from the Central Bank and delayed payments to suppliers of goods and services, thus aggravating the lack of working capital in the private sector.

4. The political changes in 1969, and the nationalization of the properties of the Bolivian Gulf Oil Company in October of that year, brought about a crisis of confidence, slowed down business activity and interrupted oil exports (except to Argentina). The Government of General Ovando has not been able to rally the politically conscious urban population behind it. It alienated the business community, without satisfying the miners and students. As a consequence, the Government's ability to take unpopular measures has been restricted and may remain so for some time. This was evident during the discussions on the draft economic report with the Government. While the Ministers concerned, and President Ovando himself, concurred with the recommendations of the draft report, they admitted that it was not possible to accept its major recommendations for increasing public savings at this time. In particular, the Government agreed with the conclusion that a realistic exchange rate policy would enhance faster growth and better use of Bolivia's natural resources, but thought that a devaluation of the peso was politically unacceptable at the moment.

5. In fact, fortunate circumstances have enabled the Government to avoid the financial crisis that seemed imminent a few months ago and might have forced the Government's hand. Very high world prices for tin and other non-ferrous metals have in recent months prevented any decline in foreign exchange reserves (despite continuing capital flight), and should in the course of the year raise export earnings by about $40 million and bring in an additional $10 million equivalent in export taxes. This evidently permitted the Government to postpone a measure which it regards as very unpopular because of the bitter experience of the early 1950's.

6. However, the Government has taken a number of steps to improve fiscal administration. Among these steps were the introduction of a tax on bank loans and the extension of income tax to small mining ventures, the modification of the export tax on some non-ferrous metals, and the introduction of tax withholding for factory workers. In the first quarter of 1970, the income tax yielded 14% more than in the same period of 1969. In addition, the Government is trying to improve the administration of urban real estate tax and is considering a rural land tax, the proceeds of which would accrue to local authorities thus relieving the central budget of certain expenditures. Financial control over government-owned enterprises is being tightened. The Government has just adopted a major administrative reform. It has also made significant progress in arranging to restart exports of petroleum, reconstitute the gas pipeline project and compensate Gulf Oil.

7. In a situation in which the Government appears politically unable to take the measures needed to assure an optimum rate of development, it is difficult to assess the country's performance for the purpose of access to IDA funds. Bolivia could not put to good use any substantial flow of IDA resources without a marked improvement in performance. On the other hand, the country should be able to use effectively assistance on a modest

scale for high priority projects which, as in the case of the proposed livestock project, do not call for budgetary support. IDA's assistance should also constitute a net addition to resources and not merely a substitute for domestic effort. That condition is met at the present time as a result of the high level of metals prices that has eased the foreign reserve and treasury positions so that the authorities should not have to contract (in real terms) the volume of credit to the private sector. This latter finding is based on the assumption that a settlement will soon be reached with Gulf, with some restoration of business confidence and a halt in short-term capital outflow.

8. Bolivia also meets IDA's tests of poverty and lack of creditworthiness. Gross national product per head is estimated at $170. Debt servicing capacity is narrowly circumscribed, even on fairly optimistic assumptions as to future exports. This is demonstrated by the fact that on the assumption of 5% annual growth, the ratio of debt service to exports would rise from 11% in 1969 to 18% in 1974 and 25% in 1980, if external capital requirements were met on average terms for Bank loans. Future external borrowing should therefore, to the greatest possible extent, be on concessional terms and involve a minimum reliance only on conventional debt. The IDA credit can even under present conditions be put to effective use in expanding productive capacity. Its main purpose is to continue in the Beni Department a successful program supported by two previous credits, while an IDB-financed livestock project is carried out in another part of the country. For the present at least, meat exports are profitable even without an exchange adjustment; the sector conditions attaching to the proposed credit should enhance the production of beef of exportable quality. The ranchers are greatly interested in the project and the Government regards it as central to the strategy of promoting non-traditional exports.

Nationalization of Gulf

9. Since the nationalization of Bolivian Gulf last October, discussions have continued between the parties involved in the Bank-financed gas pipeline project with a view to its reconstitution. Substantial progress has been made in this direction. The Bolivian Government, which from the beginning declared its intention to compensate Gulf, has maintained contact with the Company. Argentina agreed to postpone by a year, to August 5, 1971, the date by which Bolivian gas deliveries should start, and has offered to guarantee the Bank loan and any other loans that might be necessary to complete the project. The Bank postponed three times the deadline for fulfillment of effectiveness conditions, last time to August 3, 1970. Since last February, the Spanish and Bolivian Governments have been discussing a proposal for a Spanish state company to manage the Bolivian oil and gas fields, assist Bolivia to construct and operate the gas pipeline, and market the products. Proceeds of oil and gas sales would be earmarked for service of the debt contracted to build the pipeline, reimbursement to Gulf of new funds that it would put in to continue the development of the oil and gas fields, and payment of compensation to Gulf

for loss of its past investment. The Spanish Government also agreed to assume responsibility for any shortfall in the financing of the pipeline project. Within the framework of these arrangements, a concrete proposal for compensation has recently been discussed between President Ovando and representatives of Gulf, and the parties are quite close together. Once agreement has been reached on all major points, it will be necessary to renegotiate certain features of the Bank loan.

Lending Program

10. A Country Program Paper is now being prepared. Because of the shortcomings in the current performance, the paper will present a very reduced lending program which, for the fiscal years 1971-75, will consist of five IDA credits totalling \$27.9 million. This reduced program is attached. However, even lending on this scale may prove too ambitious, and the situation will have to be followed closely. In fact, performance could deteriorate to a point where no lending would be justified. On the other hand, it is always possible that the Government may decide to adopt the economic and financial policies recommended in the economic report, and for this reason the country program paper will also set out a possible expanded lending program, totalling \$67.4 million in IDA credits in 1971-75 or about 20% of Bolivia's estimated capital import requirements for that period.

The Project

11. The project is larger and more diverse than the two previous projects and should have a greater economic impact. While long and short-term credit programs for cattle ranchers in the Beni Department, and related technical services, still represent the most important element, the project also includes a credit program for sheep raising on the altiplano, provision of spare parts to aircraft operators shipping meat from the Beni to the consumption centers, consulting services to deal with the organization of meat processing and marketing, and the construction and renovation of slaughterhouses. The execution of the project will take about five years, with commitment of long-term funds to the farmers and disbursement of amounts committed stretching over three years. Loans for slaughterhouse construction would be made only following detailed recommendations by consultants on the organization of the industry.

12. The cost of the project is estimated at \$11.2 million equivalent, of which about \$9.5 million would support the credit programs for cattle and sheep ranchers, \$700,000 would pay for technical and consulting services, and \$1 million would be spent on aircraft parts and repair, and on slaughterhouse construction. The foreign exchange component of the project cost is estimated at about \$6.9 million, or 62%. The appraisal report recommends that this be financed by IDA, with the local expenditure being defrayed by Banco Agricola (23% of the project cost), the farmers (12%), and the slaughterhouse operators (3%).

13. Except for the amount allocated for consulting services, the credit proceeds would be relent by the Government to Banco Agricola for 16 years (including 5 years grace) at 7% per annum. Banco Agricola, the beneficiary under IDA's previous livestock credits, is the foremost agricultural credit institution in Bolivia and the channel for loans for agriculture by other external agencies. The competence of its management has greatly contributed to the success of the first IDA credit. Although Banco Agricola's activity and efficiency increased in recent years, its profitability is still very low and the incidence of defaults quite high. When the first livestock credit was negotiated, IDA agreed that its proceeds be relent to Banco Agricola at 4% interest, in order to give it a larger margin and thus strengthen its financial position; the same rate was also accepted in the case of the second credit. However, with the expansion of externally supported long-term lending to commercial farmers for well-prepared and remunerative farm development, the proportion of small loans to less viable farmers should gradually decline, resulting in lower administrative expenses, better profitability and less defaults. The appraisal report therefore concludes that Banco Agricola should be able to contribute over five years the equivalent of $2.5 million to the project cost, without support from the Government budget, and to pay interest to the Government on IDA credit proceeds at the rate of 7%, if the Government agrees that interest during project execution be deferred and capitalized.

14. As in the case of the previous credits, Banco Agricola would lend to farmers for 12 years (including 4 years grace) at 12%; short-term loans would be for one year and also at 12%. At the rate of inflation prevailing in recent years, the real interest to Banco Agricola would be about 6%. However, to protect the resources of Banco Agricola against more rapid inflation and to minimize undue gains to the ranchers, the appraisal report recommends that, during negotiations, IDA seek assurances from the Government that in the event of the rate of inflation rising above 10% per annum during the commitment period, it would agree to a mutually satisfactory indexing system to be applied to new loans made subsequently. Failing agreement, no further commitments would be made by Banco Agricola. Subsequent to the completion of the appraisal report, we have discussed this question further with the Agriculture Projects Department and both Departments now recommend that 8%, instead of 10%, be agreed upon as the "danger point", in order to ensure that the real rate of interest paid by the ranchers does not fall below 4% on new loans.

15. Financial accommodation to air transport operators would be provided through Banco Agricola to enable them to maintain an adequate supply of spare parts and carry out the necessary repairs. Lack of credit facilities for this purpose has in recent months cause periodic breakdown in air services and consequent shortages of meat in the mining and other consumption areas. As present freight rates leave them with little profit, the operators are in a financially strained position. During the negotiations, we shall want to ensure that the Government maintain air rates at levels allowing reasonable profit margin to efficient operators.

16. Expanded beef production resulting from the proposed project, and from the livestock project in the Santa Cruz region supported by the recent IDB loan of $5 million, will bring about in the mid-70's an exportable surplus. To prepare Bolivia for the role of beef exporter, the appraisal report recommends that all quantitative export restrictions be abolished as a condition for making the proposed credit effective. It further recommends that IDA during credit negotiations obtain assurances that price control regulations on beef be amended following the receipt of a report by consultants. The amendments are to be effected within 18 months from the effective date and are to provide for satisfactory price differentials between meat cuts and grades, so as to create incentives for the producers of beef of exportable quality. Since the appraisal report was prepared, we have discussed the matter of price controls on meat with the Agriculture Projects Department and agreed that it would be premature to commit the Government, during the negotiations, to changes in the price control system. The need for changes would be determined only in the light of the conclusions of the consultants and agreement on any necessary changes would be sought thereafter.

17. The appraisal report further recommends that the use of credit proceeds for building slaughterhouses be subject to special approval by IDA, such approval to be given only after the Government, following the consultants' recommendations, has agreed with IDA to introduce proper sanitary and inspection measures. I agree with this recommendation.

18. Goods for on-farm investment, transport and office equipment for project services, and spare parts for aircraft would be bought through normal commercial channels. Plant and equipment for slaughterhouses would be procured after international competitive bidding.

Recommendation

19. I recommend that IDA invite the Government and Banco Agricola to negotiate the proposed credit on the terms and conditions given in the appraisal report, as amended to meet the points I have made in paragraphs 14 and 16 above. We would time the invitation to negotiate with an eye to progress in resolving the oil and gas issues, and would issue the invitation only after clearance with the Chairman of the Loan Committee. It is possible that our willingness to proceed with the credit could play a part in inducing the Bolivians to bring their negotiations with Spain and with Gulf to a conclusion. In any case, we would only present the credit to the Executive Directors if we can demonstrate that adequate progress is being made toward a settlement with Gulf Oil Corporation on compensation, and would only extend the invitation if there is a reasonable prospect for such progress.

Gerald Alter
Director

Attachments.

Population: 4.8 m
Per Cap. Inc.: $178

BOLIVIA - REDUCED 1971-75 LENDING PROGRAM

		Fiscal Year											Total	Total	Total
		1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1964-68	1969-73	1971-75
Livestock I	IDA			2.0											
Livestock II	IDA						1.4								
Livestock III	IDA							6.9							
Agriculture unidentified	IDA										5.0				
Livestock IV	IDA											7.0			
Minerals Development (credit to private sector)	IDA									5.0					
ENDE Power I	IDA	10.0													
BPC Power I	IDA	5.0													
ENDE Power II	IDA					7.4									
Gas Pipeline	IBRD						23.3								
Railways	IDA								4.0						
	IBRD						23.3							23.3	
	IDA	15.0	—	2.0	—	7.4	1.4	6.9	4.0	5.0	5.0	7.0	17.0	24.7	27.9
	Total	15.0	—	2.0	—	7.4	24.7	6.9	4.0	5.0	5.0	7.0	17.0	48.0	27.9
	No.	2		1		1	2	1	1	1	1	1	3	6	5

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/70-3

May 11, 1970

Minutes of Loan Committee Meeting held at 11:00 a.m. on Thursday, April 30, 1970 in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. A. Broches
Mr. G. Alter
Mr. M.P. Benjenk
Mr. I.P.M. Cargill
Mr. B. Chadenet
Mr. R. Chaufournier
Mr. D.J. Fontein
Mr. E. Gutierrez
Mr. M.L. Hoffman
Mr. A.M. Kamarck
Mr. P.M. Mathew
Mr. F.R. Poore
Mr. J.H. Williams
Mr. D. Pearce, Secretary

In Attendance:

Mr. G.B. Baldwin
Mr. W.C. Baum
Mr. A.J. Davar
Mr. E.K. Hawkins
Mr. K. Kanagaratnam
Mr. G.W. Votaw
Mr. E.P. Wright
Mr. H. Wyss
Mr. G.C. Zaidan

B. Jamaica - Population Project

1. The Committee considered a memorandum of April 28, 1970 from the Central America and Caribbean Department entitled "Jamaica - Proposed Loan for Population Project" (LC/O/70-69) and the accompanying appraisal report (PP-2 dated April 23, 1970) and noted that the proposed $2 million loan would finance the foreign exchange costs and interest and commitment charges during construction of a project with estimated total financing requirements of $3.3 million.

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Committee:

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

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Mr. M. Shoaib, Vice President
Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

2. During its review of the organizational and technical assistance arrangements for the proposed project, the Committee noted that:

(a) agreement upon the establishment of the National Family Planning Board (NFPB) as an authority responsible for the Government's family planning programs, including minimum essential Government representation on the Board and definition of the office and powers of its chairman and/or chief executive officer should be reached during negotiations; during negotiations, the Bank should also be informed of the name of an appropriately qualified person to be chief executive officer, so that the Bank and Government could agree on his selection before presentation of the loan to the Executive Directors for approval;

(b) establishment of NFPB, and appointment of the Board and of the chief executive officer would be conditions of loan effectiveness;

(c) if contracts with the architects and hospital adviser were not signed before loan presentation to the Executive Directors, their signature should be made conditions of loan effectiveness;

(d) terms of reference and selection of the annual external review team to assess the progress of the family planning program would be subject to Bank approval.

3. The Committee considered the project's economic justification (Appraisal Report, paras. 6.01-10 and Annex 9) in respect of which the Chairman raised two questions: (a) how far existing methods for calculating rates of return for family planning projects were valid measures of the attractiveness of population projects as a use of national economic resources, and (b) whether, even if they were, it was necessary to present to the Executive Directors, and by implication to the world, a formal economic justification for the population project, whose need was obvious in a country like Jamaica.

4. Several Committee members, including the Chairman, while commending the merits of the economic justification presented in paras. 6.01-10 of the Appraisal Report, had substantial doubts as to whether this material should be presented in the report in any detail. Other Committee members, on the other hand, felt that, since this was the Bank's first venture in this field, a strong case should be presented to the Executive Directors, supported by a full economic analysis and justification of the project on the basis of the rate of return and/or benefit-cost ratio yielded by the project and the economic impact it would have in national terms through increases in per capita income. This would support the basis on which several of the President's public pronouncements on this subject had been made.

5. The Chairman, noting that questions relating to the methodology used for the economic analysis of population projects were still being discussed within the Bank, proposed that paras. 6.01-10 and Annex 9 of the appraisal report be redrafted and reconsidered at a subsequent meeting, before presentation of the proposed loan to the Executive Directors for approval.

6. The Committee approved the Central America and Caribbean Department's recommendation that the Government be invited to send representatives to Washington to negotiate a $2 million loan for the proposed project.

C. Adjournment

7. The meeting adjourned at 12:20 p.m.

Secretary's Department
May 11, 1970

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/70-20

May 12, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of Special Loan Meetings to discuss "Brazil - Industrial Finance" held on April 29 and May 1, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
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Mr. M. Shoaib, Vice President
Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/70-20

May 12, 1970

Minutes of Special Loan Meetings to discuss "Brazil - Industrial Finance" held on April 29 and May 1, 1970 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Alter, Diamond, Fuchs, Mathew, Koch, S.S. Husain, Mirski, Dosik, Fernandes and Pearce (Secretary).

2. Issue: The meetings had been called to consider Mr. Alter's memorandum to the Chairman of April 20, 1970 entitled "Brazil - Industrial Finance," which described three alternative proposals, based on the report of a mission to Brazil in October, 1969, for a proposed $50 million loan to Brazil for industrial finance to be made in FY 1972. The memorandum, noting that the objectives of developing the capital market and increasing the flow of private savings for industrial investments in Brazil could not be achieved through a conventional development finance company loan, stated that the three proposals - A: financing directly through investment banks; B: a Fund for Investment Banks; and C: a Fund for the Capitalization of Industry (FCI) - departed in varying degrees from established Bank practice with respect to industrial financing. The main issue for discussion therefore was whether either or both alternatives B (recommended by the South America Department) and C (preferred by the Development Finance Companies Department, which, however, favored further exploration of both alternatives) provided an acceptable basis on which to continue discussions with the Brazilians concerning the proposed loan.

3. Discussion: On April 29, the Chairman, noting that he was not prepared at this meeting to make a final decision in favor of either proposal, said that he wished to clarify certain points concerning the proposed Fund for Capitalization of Industry (alternative C). He assumed, and the meeting generally agreed, that the proposed Bank loan would be considered, under both alternatives B and C, as interim assistance until the scheme for issuing securities by participants and arrangements for the support of these issues by the proposed Funds had become firmly established.

4. Apropos paragraphs 85-86 of the mission's report, the Chairman said that he was concerned about the apparent immobilization of FCI resources implied by the proposed provision that, in order to ensure the availability of adequate redemption funds, the proceeds from sales of fixed interest securities by FCI would be transferred to a separate account for the discounting of such securities. He wondered whether this redemption provision, for which the support of a Bank loan was recommended, and a guarantee of the securities, were needed and, if so whether this was not an appropriate function for the Government or Central Bank to undertake. The Development Finance Companies Department replied

that, although this was a matter of judgement, both a redemption fund to assure liquidity and a guarantee provision were probably necessary at this time to help develop the market. The South America Department pointed out that, in any case, Bank funds would not necessarily have to be used to support the redemption fund, since it was envisaged that Brazilian funds, and perhaps other foreign financing, would be associated with the project.

5. In reviewing the respective merits of both proposals (summarized in paragraph 13 of Mr. Alter's memorandum), the meeting noted that the main advantage of alternative B, which offered prospects of strengthening the long term resource base of intermediary institutions, was that it would preserve a direct link between the disbursement of Bank loan proceeds and the mobilization of domestic resources for medium and long term industrial financing, since use of Bank funds would be conditional upon complementary resources being raised by participating investment banks through the sale of their own securities. On the other hand, while Alternative C emphasized development of a broader securities market through the promotion and underwriting of a wide variety of industrial securities, it did not make the sale of such securities on the market a prerequisite for the utilization of Bank funds.

6. The Chairman stated that he recognized that, in order to accomplish the principal purpose of the proposed loan of stimulating the development of the capital market, and since most of the capital goods required by Brazilian industry were manufactured domestically, it would be necessary to try new approaches to Bank financing of industry. He was inclined to agree with the IFC Economic Adviser's suggestion that certain features of both alternatives B and C should be integrated. A basic condition of a proposal combining both alternatives should be the preservation of a link between the disbursement of Bank loan proceeds and their end-use. Secondly, a Bank loan should be related to the raising of matching funds in the Brazilian market, by participating investment banks through the issue of their own indexed securities and/or by the public sale of securities of their client industrial firms. By this flexible requirement, (a) a larger volume of securities would develop and (b) investment banks, as well as industrial enterprises, would be encouraged to issue securities suited to the Brazilian market. It was agreed that the Development Finance Companies Department would explore further this proposal with interested parties in Brazil.

7. The meeting considered at some length the related issues of local expenditure financing and the level of protection enjoyed by domestic manufacturers of equipment (cf. Mr. Alter's memorandum, paras. 16-19). The main questions in this respect were (a) how much leverage the Bank could expect to exert concerning basic institutional and policy reforms, if its loan were restricted to financing only the purchase of foreign equipment and (b) if, in the event some financing of domestic procurement were permitted from the Bank loan, what level of protection for domestic suppliers could the Bank tolerate.

8. Since it would be difficult for the Executive Directors to accept the recommended conditions for full Bank financing of domestic purchases, (which would raise the acceptable level of tariff protection accorded to domestic manufacturers from 15 to 30%), and equally difficult to obtain the Brazilian authorities' approval for a reduction in the existing level of tariff protection, it was suggested that Bank financing and disbursements should be related to foreign procurement and the foreign exchange component of local procurement, which would be estimated more precisely during project preparation. (The need to reduce protection would be discussed with the Brazilian authorities in the context of the proposed loan, but such action would not necessarily be a condition for it.)

9. Decision: It was agreed that discussions with the Brazilians should proceed broadly on the basis of paras. 6 and 8 above.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Alter/Dosik
Diamond

cc: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

May 8, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Honduras - Transmission Extension Project

1. The Committee is requested to consider, without meeting, the attached memorandum of May 8, 1970 from the Central America and Caribbean Department, entitled "Honduras - Proposed Bank Loan and IDA Credit for Transmission Extension Project" (LC/0/70-74).

2. Comments, if any, should be sent to reach Mr. DaCosta (ext.3881) by 4:00 p.m. on Tuesday, May 12.

3. It is planned then, if the Committee approves, to inform the Government that the Bank and Association are prepared to begin negotiations for the proposed loan and credit on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
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President
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Sir Denis Rickett, Vice President
Mr. M. Shoaib, Vice President
Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

 CONFIDENTIAL

 LC/0/70-74

 May 8, 1970

LOAN COMMITTEE

Memorandum from Central America and Caribbean Department

HONDURAS - Proposed Bank Loan and IDA Credit for Transmission Extension Project

1. Attached for consideration by the Loan Committee is Report No. PU-42 "Appraisal of Fourth Power Project" dated May 6, 1970, recommending a Bank loan and an IDA credit, each for US$5.5 million, to the Empresa Nacional de Energia Electrica (ENEE) in Honduras. The revised FY1970-75 Lending Program is also attached.

Introduction

2. The Bank has made eight loans to Honduras since 1955 totaling US$46.9 million, and four IDA credits totaling US$19.1 million. No lending took place in FY1969, while during the current fiscal year the Association has given the Government a US$2.6 million credit for livestock development. For FY1971, the Lending Program includes only a Bank loan of US$3.0 million for the expansion of Puerto Cortes.

3. On March 31, 1970, a total of US$20 million remained to be disbursed on four loans and two credits, one of which, the livestock credit, has not yet become effective. Disbursements on the other credit and on the loans are proceeding satisfactorily. The North Road project (Credit 71-HO/Loan 400-HO, made in FY1965) was delayed initially due to difficulties in alignment, but is now advancing well, with the credit portion already fully disbursed.

4. ENEE has been our borrower since 1959. With three loans and one credit, for some US$21.8 million, we have provided ENEE with the bulk of the financing required to implement its generating capacity expansion plans. In the process, we have been instrumental in the building and strengthening of the institution itself. When the Five-Year Lending Program for Honduras was reviewed on October 28, 1969, a Bank loan of US$7 million was included for two power projects; the proposed project is larger in scope than formerly envisaged and the foreign exchange requisite is now $11 million.

Economic Situation

5. An economic mission visited Honduras in February 1969. Its findings are contained in the report entitled "Current Economic Position and Prospects of Honduras" (WH-193a, dated September 26, 1969). As indicated in this report, Honduras, one of the poorest countries in the Western Hemisphere, has demonstrated a satisfactory economic performance

over the recent past. Under conditions of political stability and prudent fiscal and monetary management, private confidence has increased, and so have private investment expenditures and capital inflows. The Government has been carrying out an ambitious development program, warranted in view of the urgent need to foster and sustain growth, diversify the economy and improve social conditions in the country.

6. As a consequence of the war with El Salvador in mid-1969 and a devastating hurricane last September, economic and political uncertainties have increased, but it is our judgment that present difficulties will be shortlived, barring further political deterioration and natural disasters. The medium-and long-term prospects for growth remain good, and public commitment to economic and social development is firm.

7. In March the Bank attended an Aid Coordination Meeting convened by the Government in Tegucigalpa. The Bank assisted in the preparations for this meeting, at which general support was expressed for the Government's development program, with the Government publicly committing itself to taking the necessary measures to increase the mobilization of internal resources, particularly on the fiscal side, and continuing to operate within the Central American Common Market. At the conclusion of the meeting, a formal aid coordination mechanism was set up, with which the Bank at the request of the Government, will act as external coordinator of the aid donors and provide periodic assessments of the country's economic performance.

8. The level of foreign borrowing required to finance the Government's development program will be substantial. Considering the resulting increase in the country's external debt service, the budgetary burden and the poverty of the country (GNP per capita is estimated at around US$260), there appear to be justifiable grounds for some of Honduras' needs to be met on concessional terms. This view was endorsed at the Country Program Review. Of our last five operations, three were Bank loans, for US$20.9 million, and two IDA credits, for US$6.6 million. Two-thirds of the lending in the Five-Year Program is ascribed to the Bank and one-third to IDA.

9. Bank/IDA lending strategy remains essentially as outlined in the Country Program Paper. Over the next five years, while continuing to concentrate on transport and power - where there are still large arrears of investment to be made good - we expect to provide financing also for directly productive sectors and education. An FAO mission is going to Honduras this month to identify irrigation projects that might be eligible for Bank/IDA financing.

The Project

10. The project is part of ENEE's five-year (1970-74) expansion program, which calls for a total investment of US$54 million, about half of which is expected to be financed by the Bank Group. This program has been prepared in consultation with the Bank and is justified

by forecast energy demands for industrial, agricultural and domestic use. With the proposed transmission extension, energy sales, which increased by 24 percent per year in 1965-69, are projected to increase by 21 percent per year in 1970-74.

11. The project would include 138kV and 69kV transmission lines totaling 331 kilometers and substations; 34.5/13.8kV subtransmission lines totaling 184 kilometers and substations; a 15MW gas turbine plant; supporting facilities; technical assistance in the form of training directly related to the project; feasibility studies for two future projects on the Humuya River; and a tariff study. The construction period of the project would be about 3-1/2 years, enabling all the new facilities to be brought into operation in late 1973. The total cost of the project is estimated at US$14.8 million, excluding interest during construction. ENEE would finance from its own resources all local costs, or US$3.8 million. A financially strong and reasonably well-managed organization, ENEE should have the capability to carry out the financial, administrative and - with some assistance - technical requirements of this project. This assistance will be provided by four or five experienced expatriates to be contracted under the project to supply needed strengthening of the engineering staff.

12. The US$11 million to be provided by Bank/IDA, i.e. 74 percent of total projects costs, would cover the CIF cost of imported equipment and materials and the foreign currency cost of contractors' erection work, consultants' services and training. Procurement would follow Bank Group international bidding procedures. No retroactive financing is contemplated.

13. In a country where over 80 percent of the population is still without electricity, and per capita consumption is only 119 kwh, the lowest in Central America, the project will extend the interconnected system well beyond the presently served area around Tegucigalpa, San Pedro Sula and Puerto Cortes. Important towns and valleys both in the North and the South of the country will be reached that are now without electricity or being served by small high-cost diesel plants. This extension of the power system is essential to enable full and effective use to be made of the power to be produced by the Bank-financed Rio Lindo hydroelectric scheme now about to be completed, and is part of a longer range program for increasing the use of electricity throughout the country.

Recommendation

14. I agree with the conclusions of the attached Report and recommend that representatives of ENEE and the Government be invited to negotiate a loan and a credit, each of US$5.5 million, on the terms and conditions set forth in paragraphs 7.01 and 7.02 of the Report.

Edgar Gutierrez
Director

Population: 2.4 m
GNP Per Cap: $240

IVa. HONDURAS - 5 YEAR LENDING PROGRAM

		($ millions) Fiscal Year 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
Livestock I	IDA	2.6							
Livestock II	IBRD				5.0				
Irrigation - Choluteca I	IDA			4.0					
Irrigation - Choluteca II	IDA						4.0		
Agriculture Unidentified	IDA					5.0			
Communications	IBRD					5.0			
Education	IDA				5.0				
Power IV - Distribution	IBRD	5.2							
" "	IDA	5.2							
Power V - Humuya Hydro	IBRD			10.0					
Tourism	IBRD					2.0			
Highway VI - Tegucigalpa-Talanga	IBRD			3.5					
" " "	IDA			3.5					
Highway VII - Talanga-Juticalpa	IBRD				5.0				
" " "	IDA				5.0				
Highway VIII - Central Hwy.	IBRD						10.0		
Port - Cortes	IBRD		3.0						
	IBRD	5.2	3.0	13.5	10.0	7.0	10.0	26.9	31.7
	IDA	7.8		7.5	10.0	5.0	4.0	7.5	25.3
	Total	13.0	3.0	21.0	20.0	12.0	14.0	34.4	57.0
	No.	2	1	3	3	3	2	4	9

P & B 3/20/70

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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WBG ARCHIVES

May 8, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Pakistan - Third Sui Northern Gas Pipelines Project

1. The Committee is requested to consider, without meeting, the attached memorandum of May 8, 1970 from the South Asia Department, entitled "Pakistan - Loan for the Third Sui Northern Gas Pipelines Project" (LC/O/70-75).

2. Comments, if any, should be sent to reach Mr. J. Stewart (ext. 2779) by 4:00 p.m. on Wednesday, May 13.

3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
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Mr. M. Shoaib, Vice President
Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

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LC/0/70-75

May 8, 1970

LOAN COMMITTEE

Memorandum from the South Asia Department

Pakistan: Loan for the Third Sui Northern Gas Pipelines Project

Introduction:

1. Attached for consideration of the Committee is a report "Appraisal of the Third Sui Northern Gas Pipelines Project", No. PTR-56 dated May 6, 1970. Sui Northern Gas Pipelines Limited (SNGPL), an established borrower of the Bank with two previous loans (please refer to Para. 3 of this memorandum), has requested a loan of US $19.2 million to finance the foreign currency cost of a project to expand the capacity of its natural gas pipeline system, the total cost of which is estimated to be US $40 million equivalent.

2. The Bank has made thirty loans in Pakistan for a total amount of about US $614 million equivalent net of cancellations. To date IDA has made twenty-nine credits to Pakistan totalling about US $397 million equivalent net of cancellations. Provision for the Sui Gas project is included in the approved Country Program Paper (see the updated Five-Year Lending Program in Attachment 1); the amount proposed for the loan has recently been increased from US $17 million equivalent to US $19.2 million equivalent, to cover the entire foreign currency expenditure on the project.

3. The Bank has made three previous loans for construction of gas pipelines in Pakistan. The first to Sui Gas Transmission Company (SGTC) in 1954 (Loan No. 99-PAK; US $14 million equivalent), the second to SNGPL in 1964 (Loan No. 377-PAK; US $15 million equivalent), and the third to SNGPL in 1969 (Loan No. 597-PAK; US $8 million equivalent). The first two projects were successfully completed and the loans fully disbursed. The third (the second SNGPL project) is well under way and is expected to be completed as scheduled in September, 1971.

Background:

4. The natural gas industry is making a significant contribution to the economic growth of West Pakistan. In 1969 it accounted for approximately 30 percent of the overall commercial energy supply, as against 8.5 percent in the mid-fifties. Natural gas is also used as feedstock for fertilizer production. The main purpose of the previous loan to SNGPL was to enable the company to extend its transmission system to accommodate the needs of the Dawood Hercules Fertilizer Plant, which is presently under construction with the assistance of a Bank loan of US $32 million equivalent (Loan No. 549-PAK). A secondary benefit from the project will be the environmental effect, since processing and use of natural gas is significantly cleaner than in the case of furnace oil and coal. With the projected levels of consumption the present reserves dedicated to SNGPL are sufficient for a period of about 30 years. Further exploratory drilling is being carried out by the Oil and Gas Development Corporation, which is wholly owned by the GOP. It is still too early to estimate the capacity of new reserves discovered; this information should be available in 1972.

Project:

5. The project consists of the facilities necessary to increase the capacity of SNGPL's pipeline system from 207 MMcf per day to 266 MMcf per day, in order to meet increasing demand and to extend the supply to areas of potential industrial demand in the northern part of West Pakistan and to the largely residential area of Peshawar. This entails:

(a) the looping of 106 miles of existing pipeline with 16 and 18 inch diameter high pressure steel pipe;

(b) an extension of the present system to Peshawar-Takht Bai, Daudkhel, Gujranwala areas and to Rahwalai (about 210 miles);

(c) the expansion of the present telecommunication system to cover the expanded transmission line; and

(d) additional low pressure distribution facilities.

6. Procurement for this project will be on the basis of international competitive bidding except for small civil works contracts and miscellaneous equipment. A Pakistani plant capable of manufacturing one type of pipe required in this project may be in production in time to participate in the international competition. If this should materialize, the local manufacturer would be allowed a preference of 15 percent or the prevailing customs duty, whichever is lower; if he should win a contract, disbursements would be 100 percent of the ex-factory cost of the pipe.

7. SNGPL has a strong, efficient management consisting almost entirely of Pakistani nationals. The expansion of the transmission line will allow industries presently using imported fuel oil and coal to convert to gas, thereby saving foreign exchange. The economic rate of return from the project is calculated to be about 22 percent (Para. 5.07).

8. The Appraisal Report recommends (para. 6.11) that SNGPL be allowed to increase its debt-equity ratio from 60:40, which was a requirement of the two previous loans to 65:35, a ratio which would be considered appropriate. I agree with this recommendation.

9. The loan would be made to SNGPL and guaranteed by the Government of Pakistan. The Trust Deed under which the first loan is secured providing a first mortgage and floating charge on SNGPL's assets will again be amended to provide equal security for this loan.

10. Apart from the proposal to relax the debt-equity ratio referred to in Para. 8 above, the conditions of this loan would be similar to those of Loan No. 597-PAK.

Creditworthiness:

11. When the CPP for Pakistan was reviewed in February, creditworthiness for future Bank lending was one of the principal subjects of discussion.

Apart from the political uncertainties, concern over Pakistan's debt position centered around the implications of increasing debt service obligations built into the present debt structure. It was noted that the amounts and terms of future assistance to Pakistan, including the possibility of debt relief, were being discussed by the Consortium but it was considered to be premature to assess the ultimate outcome of these discussions. In view of these uncertainties it was decided that no further increase in Bank exposure should be permitted beyond the present level, including amounts as yet undisbursed, i.e. around US $ 470 million. The program of Bank lending was reduced accordingly. The proposed loan is part of the revised program. The economic mission, which visited Pakistan recently and whose report is expected by the end of June, does not consider it necessary to reconsider this limit at this time.

Recommendation:

12. I agree with the conclusion of the Appraisal Report (Para. 7.03) that the project is suitable for a loan of US $19.2 million for a period of 21 years, including a three-year grace period, subject to the conditions proposed in the report. I recommend that we invite representatives of SNGPL and the Government of Pakistan to negotiate loan and guarantee agreements.

I. P. M. Cargill
Director

Attachment

IVa. PAKISTAN - WEST - 5 YEAR LENDING PROGRAM

		Fiscal Year 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
SCARP V	IDA			5.0					
SCARP VI	IDA				12.0				
Tubewells - Dipalpur	IDA					15.0			
WP Education - Eng. Colleges	IDA	8.0							
WP Education Unidentified I	IDA				8.0				
WP Education Unidentified II	IDA						5.0		
WP Fertilizer Plant II	IBRD			30.0					
WAPDA Power Distribution	IDA	22.4							
WP Highways III	IDA		10.0						
WP Highways IV	IDA			20.0					
WP Highways V	IDA					20.0			
Port Eng.- Karachi	IDA	1.0							
Port Constr. III - Karachi	IDA		15.0						
Port Constr. IV - Karachi	IDA					20.0			
Sui Northern Gas III	IBRD	19.2							
Sui Northern Gas IV	IBRD			5.0					
Sui Northern Gas V	IBRD					5.0			
Water Supply II - Lahore	IDA		5.0						
	IBRD	19.2		35.0		5.0			168.7
	IDA	31.4	30.0	25.0	20.0	55.0	5.0		106.4
	TOTAL	50.6	30.0	60.0	20.0	60.0	5.0	84.3	275.1
	No.	4	3	4	2	4	1	6	18

May 1, 1970

IVa. - PAKISTAN - EAST & WEST - 5 YEAR LENDING PROGRAM

		Fiscal Year 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
Agric. Development Bank IV	IDA		15.0						
Agric. Development Bank V	IDA				30.0				
Agric. Development Bank VI	IDA						30.0		
	EP		7.0		15.0		15.0		
	WP		8.0		15.0		15.0		
Telecommunications II	IDA	15.0							
	EP	3.0							
	WP	12.0							
DFC - PICIC IX	IBRD		40.0						
DFC - PICIC X	IBRD				40.0				
DFC - PICIC XI	IBRD						40.0		
DFC - IDBP I	IDA	20.0							
DFC - IDBP II	IDA			10.0					
DFC - IDBP III	IDA						20.0		
	EP	10.0	20.0	5.0	22.0		30.0		
	WP	10.0	20.0	5.0	18.0		30.0		
East & West -	IBRD		40.0		40.0		40.0		90.0
	IDA	35.0	15.0	10.0	30.0		50.0		136.0
	TOTAL	35.0	55.0	10.0	70.0		90.0	314.7	226.0
	No.	2	2	1	2		3	13	10
	IBRD	22.2	40.0	35.0	40.0	5.0	40.0	162.0	291.7
	IDA	94.7	82.0	83.5	87.5	110.0	90.0	332.3	395.7
	TOTAL	116.9	122.0	118.5	127.5	115.0	130.0	494.3	687.4
	No.	11	10	10	9	7	7	25	49

** Note: The IDA lending program is to be reduced to: 74.0 60.0 70.0 70.0 70.0 70.0

The IBRD lending program is to be reduced to: 30.0 ----------120.0--------

May 1, 1970

Population: 120 m
GNP Per Cap: $90

IVa. PAKISTAN - EAST - 5 YEAR LENDING PROGRAM

($ millions)

		Fiscal Year 1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
Tubewells - ADC	IDA	12.0							
Irrigation - Chandpur	IDA	13.0							
Irrigation - Dacca Southwest	IDA	0.8							
Irrigation - Project Eng.	IDA	2.5							
Irrigation - Dacca Southwest	IDA		30.0						
Irrigation - Karnaphuli	IDA			10.0					
Irrigation - Muhuri	IDA				7.0				
Irrigation - Belkuchi	IDA				5.0				
Irrigation - Chandpur North	IDA				10.0				
Irrigation - Little Feni	IDA					10.0			
Irrigation - Barisal I	IDA					20.0			
Irrigation - Pabna	IDA						18.0		
Irrigation - Comilla	IDA						15.0		
Tea Machinery & Irrigation	IDA		5.0						
Tubewells EPWAPDA I	IDA			8.0					
Tubewells EPWAPDA II	IDA					25.0			
Chandpur North Engineering	IDA			1.0					
Barisal I Engineering	IDA			2.0					
EPWAPDA Consultants II	IDA		2.0						
EPWAPDA Consultants III	IDA				2.0				
EPWAPDA Consultants IV	IDA						2.0		
EP Education Unidentified	IDA			7.0					
EP Small Industries I	IBRD	3.0							
EP Highways II	IDA			12.5					
EP Highways III	IDA				13.5				
EP Railways	IDA			8.0					
	IBRD	3.0							3.0
	IDA	28.3	37.0	48.5	37.5	55.0	35.0		153.3
	TOTAL	31.3	37.0	48.5	37.5	55.0	35.0	95.3	156.3
	No.	5	3	7	5	3	3	6	21

May 1, 1970

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

May 6, 1970

MEMORANDUM TO THE LOAN COMMITTEE

India - Industrial Credit and Investment Corporation of India Limited

1. The Committee is requested to consider, without meeting, the attached memorandum of May 6, 1970 from the South Asia Department, entitled "India - Eighth Loan to the Industrial Credit and Investment Corporation of India Limited (ICICI)" (LC/0/70-73).

2. Comments, if any, should be sent to reach Mr. Abd El Aty (ext. 2019) by 4:00 p.m. on Friday, May 8.

3. It is planned then, if the Committee approves, to inform the Government and representatives of ICICI that the Bank is prepared to begin negotiations for the proposed loan on the terms and conditions referred to in the attached memorandum.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
Directors, Area Departments
Director, Projects Department
General Counsel
Director, Economics Department
Director, Development Services Department
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Mr. M. Shoaib, Vice President
Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

CONFIDENTIAL

LC/O/70-73

May 6, 1970

LOAN COMMITTEE

MEMORANDUM FROM SOUTH ASIA DEPARTMENT

INDIA - EIGHTH LOAN TO THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA LIMITED (ICICI)

1. Attached is a report entitled "Appraisal of The Industrial Credit and Investment Corporation of India Limited" (No. DB-66), dated April 24, 1970, recommending that the Bank make a new loan of up to $40 million equivalent to ICICI to help meet its anticipated foreign exchange lending over the next two years.

Background

2. To date the Bank has made seven loans to ICICI totalling US$159.91 million net of cancellations, as follows:

Loan No.	Date	Amount ($ Million)
109-IN	March 14, 1955	9.87
232-IN	July 15, 1959	9.76
269-IN	Oct. 28, 1960	19.31
312-IN	Feb. 28, 1962	19.04
340-IN	June 5, 1963	26.93
414-IN	May 28, 1965	50.00
515-IN	Sept. 19, 1967	25.00

On March 31, 1970 all but $37.6 million of the last two loans had been disbursed, while only $5 million were uncommitted (paragraph 51 of Appraisal Report).

Bank/IDA Lending Program

3. The present lending program to India is attached. In this fiscal year IDA has lent $165 million (Tenth Railways, Kadana Irrigation, Sixth Industrial Imports). The Gujarat Agricultural Credit Project ($35 million) was approved by the Executive Directors on May 5. Negotiations for the Punjab Agricultural Credit Project ($27 million) are now in progress, and will begin next week for the Cauvery Delta Irrigation Project ($26 million). Other IDA projects under advanced preparation are Power Transmission II ($40 million) and Agro-Aviation ($6 million). (In reviewing this year's Country Program Paper for India, we left open the possibility of making the proposed lending to ICICI from IDA rather than the Bank, if circumstances so warranted, but this does not seem to be necessary in view of progress on other projects.)

The Economy

4. An Economic Report entitled, "The Economic Situation and Prospects of India" (Report No. SA-13a) was distributed to the Executive Directors on April 30, 1970. The Report confirms India's need for substantial external assistance.

The Project

5. ICICI began operations in March 1955 and has been, for most of its existence, the only private institution in India operating on a national basis providing long-term finance for private industry in India. Recently, however, 14 major banks were nationalized, eight of which are shareholders of ICICI; as a result, public sector institutions now hold a majority of ICICI's share capital. However, in our view, this will have no effect on the company's operations in the foreseeable future (paragraphs 9 and 64 of Appraisal Report).

6. Since its inception, ICICI has grown steadily and has made a substantial contribution to Indian industry. The annual level of commitments of ICICI grew from an average of $16.5 million equivalent prior to 1964 to a peak of $44 million equivalent in 1965. ICICI's clients now account for important shares of Indian manufacturing capacity in certain sectors; they have also been making a significant contribution to India's industrial exports (paragraphs 30 and 31).

7. The recession which characterized the Indian economy during 1966 - 1968 adversely affected ICICI's business, and ICICI's business in 1966 was only half that of the 1965 peak. However, by 1969 business had recovered and commitments were again at a peak level of $44 million (paragraph 25). Disbursements, reflecting the time lag between commitments and completion of projects, have naturally not yet increased as much as commitments. This is evidenced in the utilization of the Bank's last two loans (Loan No. 414-IN and Loan No. 515-IN). Disbursements from these two loans amounted to only $8.5 million in 1968 and to $11.1 million in 1969, compared with disbursements of $17.9 million from Bank loans to ICICI in 1965. However, following large commitments in 1969, disbursements amounted to $6.5 million in the first quarter of 1970 alone and for April 1970 they were approximately $2 million. While this increase in the rate of disbursements may not be maintained throughout the year, it is indicative of the upswing in ICICI's business parallel with the overall recovery of the Indian economy (paragraphs 25 to 35).

8. ICICI has built up a considerable pipeline of new projects in respect of both rupee and foreign currency loans. As of March 31, 1970, ICICI had only $8.3 million available for commitment in foreign currency, of which $5.1 million represented the balance available from the Bank's seventh loan. Against this figure, there were projects ready for commitment of over $9 million. In addition, ICICI had already approved foreign currency loans for $20 million and, if resources were available, it expected to make firm commitments for a large part thereof in the course

of the next few months. Additional projects for about $10 million are also under consideration.

9. ICICI envisages a somewhat lower volume of commitments in 1970 than last year along with a steady and modest growth of operations over the next five years; these forecasts rest on the general expectation that the Indian economy will not experience a recession similar to the one suffered in the mid-sixties. Barring such a development, ICICI forecasts seem reasonable. ICICI's business forecasts also show foreign exchange needs of $46 million through mid-1972. As available balances are likely to be committed very soon, ICICI is seeking to raise fresh foreign exchange resources. With about $5 - 6 million likely to become available from bilateral sources (Germany and the UK), ICICI is requesting the Bank to provide an additional $40 million (paragraphs 50 - 53).

10. The Development Finance Companies Department considers that certain matters need attention to bring about further improvement in ICICI's operational performance. These are:

(a) the need for ICICI to maintain (and if possible increase) its present interest spread which, for recent foreign exchange and rupee loans combined, now stands at less than 2 percent (paragraphs 21, 59);

(b) the need for ICICI to estimate annually the amount of its reserves that should be earmarked against specific loss possibilities in its portfolio, which amounts would not form part of the borrowing base as defined under ICICI's loan agreement with the Bank (paragraphs 36 - 39); and

(c) the desirability of ICICI improving its assessment of its clients' long-range competitive strength both at home and abroad. To that end, ICICI should refine its techniques for the economic appraisal of projects (paragraphs 10 - 13, 35 and 62).

I consider it appropriate that these matters should be discussed during negotiations.

11. On the basis of its record and business prospects, ICICI continues to be a suitable borrower. Accordingly, a loan of up to $40 million would be appropriate at this time to cover ICICI's needs for about two years, namely until mid-1972.

12. The terms of the proposed loan should generally follow those of recent Bank loans to development finance companies except that the free limit should be related to ICICI's total stake in the client enterprises it proposes to finance. Accordingly, the Bank's approval should be required for all projects, using IBRD funds, which would give ICICI, through loans and investments, an exposure in the borrowing enterprise equivalent to $4 million or more (paragraph 67).

Recommendation

13. I recommend that the Loan Committee authorize negotiation of a proposed loan of $40 million to ICICI on the basis of the recommendations contained in paragraphs 66 - 68 of the attached Appraisal Report and that representatives of the Government and ICICI be invited to negotiate in Washington.

I.P.M. Cargill
Director
South Asia Department

Attachments

Population: 511 m
GNP Per Cap: $90

IVa. INDIA - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year						Total	Total
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Agricultural Credit - Tamil Nadu	IDA		25.0						
Agricultural Credit - Gujarat	IDA	35.0							
Agricultural Credit - Punjab	IDA	25.0							
Agric. Credit - Andhra-Pradesh	IDA		25.0						
Irrigation - Kadana	IDA	35.0							
Irrigation - Cauvery Delta	IDA	26.0							
Irrigation - Krishna-Godavari	IDA		10.0						
Irrigation - Pochampad	IDA		10.0						
Irrigation - Godavari Barrage	IDA		10.0						
Irrigation - Tawa	IDA		10.0						
Agricultural Aviation	IDA		6.0						
Grain Storage	IDA		10.0						
Fisheries	IDA			7.5					
Agric. Unident. (6-8 proj.)	IDA			140.0					
Agric. Unident. (6-8 proj.)	IDA				150.0				
Agric. Unident. (6-8 proj.)	IDA					165.0			
Agric. Unident. (6-8 proj.)	IDA						165.0		
Telecommunications IV	IDA		40.0						
lecommunications V	IDA			40.0					
Telecommunications VI	IDA				40.0				
Telecommunications VII	IDA					35.0			
Telecommunications VIII	IDA						35.0		
DFC - ICICI VIII	IBRD	40.0							
DFC - ICICI IX	IBRD				40.0				
DFC - ICICI X	IBRD						40.0		
Education Unidentified I	IDA			20.0					
Education Unidentified II	IDA						20.0		
Fertilizer - Nangal (Public)	IDA		25.0						
Fertilizer Plant Unidentified	IBRD		25.0						
Industry Unidentified II	IBRD				15.0				
Industrial Imports VI	IDA	75.0							
F ly Planning	IDA		10.0						

(Contd.)

IVa. INDIA - 5 YEAR LENDING PROGRAM

(Contd.)		1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
		($ millions) Fiscal Year							
Power Transmission	IDA	38.0							
Power Transmission	IDA		60.0						
Power Unidentified II	IDA				15.0				
Power Unidentified III	IDA					15.0			
Power Unidentified IV	IDA						60.0		
Highways II	IDA		30.0						
Ports - Bombay/Calcutta	IDA		30.0						
Railways X	IDA	55.0							
Transportation Projects Unident.	IDA			65.0					
Transportation Projects Unident.	IDA				60.0				
Transportation Projects Unident.	IDA					50.0			
Water Supply - Bombay	IDA		10.0						
Water Supply Unidentified I	IDA				15.0				
Water Supply Unidentified II	IDA					15.0			
Unallocated	IDA			15.0					
	IBRD	40.0	25.0		55.0		40.0	189.0	160.5
	IDA	289.0	311.0	287.5	280.0	280.0	280.0	591.0	1320.0
P & B 4/10/70	Total	329.0	336.0	287.5	335.0	280.0	320.0	780.0	1480.5
	No.	8	16	12	13	11	10	11	52
* Note: the IDA lending program is to be reduced to --		235.0	235.0	280.0	280.0	280.0	280.0		

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/70-19

May 4, 1970

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Tunisia - Second Water Supply Project" held on April 30, 1970 in Conference Room B.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LM/M/70-19

May 4, 1970

Minutes of Special Loan Meeting to discuss "Tunisia - Second Water Supply Project" held at 10:00 a.m. on April 30, 1970 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Broches, Benjenk, Chadenet, Weiner, Hittmair, Rovani, El-Fishawy, Morse, Siebeck and Pearce (Secretary).

2. Issue: The meeting had been called to consider the Europe, Middle East and North Africa Department's memorandum to the Loan Committee of April 22, 1970 (LC/O/70-66) and the accompanying revised appraisal report (PU-37 dated March 31, 1970). The main issue for discussion was whether potential savings under an earlier Bank loan (581-TUN) to the same borrower for the first water supply project should, if realized, be applied to the proposed second water supply project for which a $10.5 million credit was envisaged (both projects comprised parts of the Tunisian National Water Supply Program 1968-73); in this event, the balance of the proposed credit would be cancelled by a corresponding amount.

3. Discussion: The meeting noted that the only real advantage of substituting potential savings (currently expected to be about $3 million) in Loan 581-TUN for part of the proposed $10.5 million credit for the second water supply project was that this would release an equivalent amount of scarce IDA resources for other purposes. On the other hand, there were several disadvantages in proceeding on this basis, including:

(a) while current prospects for savings in the Bank loan were good, it was quite possible that they would not be realized, and this would not be known for some time;

(b) the original Bank loan agreement (581-TUN) would have to be amended and approval of the amendment sought from the Executive Directors;

(c) Tunisia's creditworthiness for Bank loans was already being stretched, requiring an increase in the concessionary component of Bank/IDA assistance.

4. Decision: The Chairman decided that negotiations for the proposed second water supply project should proceed on the basis of a $10.5 million credit; if savings in Loan 581-TUN in fact materialized, their disposition (cancellation or allocation to future project purposes) could be decided at the appropriate time.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Benjenk
Weiner
El-Fishawy

cc: Loan Committee
Participants