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FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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December 31, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Morocco - Fourth Loan to BNDE

Attached for information is a memorandum from the Director of the Europe, Middle East and North Africa Department to the Chairman of the Committee, dated December 24, 1969, transmitting for approval the draft Report and Recommendation of the President on a proposed fourth loan to BNDE.

David Pearce
Secretary
Loan Committee

by C.H. Davies

- 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)

To: Mr. J. Burke Knapp December 24, 1969

From: Michael L. Lejeune

Subject: Morocco - Proposed Fourth Loan to BNDE

1. Attached for your approval are the following documents for the above project, all of which, except the Supplemental letters, are to be distributed to the Executive Directors for consideration at a meeting on January 13, 1970:

(a) Draft President's Report;
(b) Appraisal Report;
(c) Draft Loan and Guarantee Agreements;
(d) Draft Supplemental Letters.

2. The earlier green cover Appraisal Report has been substantially modified to reflect the decision taken at the Special Loan Committee meeting of November 5, 1969 to negotiate a loan for an amount which would cover BNDE's foreign exchange needs until April 1, 1970 (approximately \$12.5 million). Since that meeting, the amount of the loan has, with your agreement, been increased to \$15 million to take account of the most recent forecast of BNDE's lending during the period to be covered by the loan as well as of its continued participation in some loans made for hotel construction by the Credit Immobilier et Hotelier.

3. This memorandum and the papers mentioned above have been cleared by the Departments concerned.

4. I would appreciate your giving any comments you may have to Mr. Bart (Ext. 4807).

Attachments
c.c. Mr. McNamara, Mr. Cope, Loan Committee (without attachments)

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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CONFIDENTIAL

LOAN COMMITTEE

December 30, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Papua and New Guinea - Agricultural Development Project

Attached for information is a memorandum from the Director of the East Asia and Pacific Department to the Chairman of the Committee, dated December 24, 1969, transmitting for approval the draft Report and Recommendation of the President on a proposed credit for an agricultural development project.

David Pearce
Secretary
Loan Committee

by C.H. Davies

- 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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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)

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp DATE: December 24, 1969

FROM: Douglas J. Fontein

SUBJECT: PAPUA AND NEW GUINEA - Agricultural Development Project

1. I attach for your approval a copy of the draft Report and Recommendation of the President on a proposed credit of \$5.0 million to the Administration of the Territory of Papua and New Guinea for an Agricultural Development Project, and copies of the draft Development Credit Agreement. I propose to distribute the credit documents,including the attached draft letter on Undertakings by the Commonwealth of Australia,to the Executive Directors for their consideration at a meeting on January 13, 1970.

2. On October 1, 1969 the Appraisal Report (PA-25) was distributed to the Loan Committee. A credit of \$4.8 million was then proposed to cover the estimated cost of imported items required for the project which was expected to cost a total of \$8.7 million. Since then, the estimated cost of imported items has been revised upwards by about \$200,000. You may recall that you agreed verbally to Mr. Goodman's recommendation that we negotiate on the basis that the proposed credit would amount to \$5.0 million.

3. During negotiations we discussed the terms on which the Administration of the Territory would relend part of the proceeds of the proposed credit to the Papua and New Guinea Development Bank (PNGDB) for on-lending to coconut planters, oil palm smallholders and beef cattle ranchers. We proposed that the Territory Administration pass on the funds for agricultural loans to PNGDB either as an equity contribution or as a loan to be repaid to the Administration as and when PNGDB was repaid by its borrowers. The Territory Administration and PNGDB were unhappy about this proposal since it will run counter to the precedent set for the oil palm development project whereby the Administration relent the proceeds of the IDA credit to PNGDB for a 25-year term with interest at 1¼% per annum. We agreed, with your concurrence, to retain these arrangements for the proposed credit.

4. We had originally proposed that PNGDB charge interest at not less than 6% per annum for its loans to oil palm smallholders and coconut planters, and that beef cattle ranchers be charged at least 7% interest since cattle raising is more remunerative than oil palm and coconut cultivation. PNGDB had raised its interest rates for cattle loans from 6 to 6-3/4% in October 1969 and it was agreed the rate would be raised further to at least 7% not later than July 1, 1970.

5. An economic report entitled "Current Economic Position and Prospects of the Territory of Papua and New Guinea" (EA-8a) dated September 3, 1969 was distributed to the Executive Directors on September 9, 1969. The economic section of the attached draft President's Report provides updated information and has been cleared by the Chief Economist.

6. The draft President's Report and this memorandum have been cleared with representatives of the various departments concerned.

7. I would appreciate your giving your comments to Mr. Kraske (Extension 2780) as soon as convenient.

Attachment

cc: Mr. McNamara
Loan Committee (no attachments)

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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SEP 09 2014

WBG ARCHIVES

December 30, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Thailand - Electricity Generating Authority of Thailand

Attached for information is a memorandum from the Director of the East Asia and Pacific Department to the Chairman of the Committee, dated December 30, 1969, transmitting for approval the draft Report and Recommendation of the President on a proposed loan to the Electricity Generating Authority of Thailand (EGAT).

David Pearce
Secretary
Loan Committee

by C.H. Davies

- 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:

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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)

OFFICE MEMORANDUM

DATE: December 30, 1969

TO: Mr. J. Burke Knapp

FROM: Douglas J. Fontein

SUBJECT: THAILAND - First Electricity Generating Authority of Thailand (EGAT)

1. I attach for your approval a copy of the draft Report and Recommendation of the President on a proposed loan of $46.5 million to the Electricity Generating Authority of Thailand (EGAT) together with a copy of the draft Loan and Guarantee Agreements. It is proposed to distribute these documents to the Executive Directors for their consideration at a meeting on January 13, 1970.

2. On October 3, 1969, the appraisal report (PU-20) was distributed to the Loan Committee under cover of a memorandum from the East Asia and Pacific Department LC/O/69-89 for its consideration. At a Special Loan Committee Meeting on October 10, 1969, it was decided that, during negotiation of the proposed loan, the tax issue should be handled along the lines of the Area Department's memorandum (paragraph 10) subject to the qualification that if the deferred payment arrangement were accepted, the Thais should be required to decide on a permanent solution within one year. During negotiations the Bank was informed that by a decision of the Council of Ministers of November 14, 1969 EGAT would be exempt from the payment of income tax for each of the years 1970 through 1976 with the understanding that EGAT would be liable to pay tax for any year its debt/equity ratio fell below 1:1.2 (which is very unlikely). The deferred income tax owed by EGAT on which EGAT has been paying 6% per annum will be converted into a 15-year debt at 6%. In view of these arrangements it was agreed with your approval that the Government would review EGAT's income tax position and arrive at a permanent solution to this question sufficiently in advance of the end of 1976 to enable EGAT to take the necessary measures to safeguard its financial position after that date. This agreement as well as the decision of the Council of Ministers is set out in a supplemental letter on income tax a copy of which is attached.

3. The appraisal report recommended that agreement should be reached with EGAT that its debt/equity ratio should not exceed 60/40 without the Bank's approval and that there should be a limit on EGAT short- and medium-term debt. During the drafting of the loan agreement attention was focused on the difficulties we could expect in policing a debt covenant with debt defined on a draw down basis on which the 60/40 ratio had been proposed. These difficulties arise because of EGAT's unusually high level of projected borrowing in the next few years. At a meeting with Mr. Cope on November 4 it was decided that, in place of debt/equity covenant, the debt limitation covenant would set an amount for debt to be incurred by EGAT in any fiscal year which could not be exceeded without our approval; the amount agreed during negotiations was $20 million. In addition it was agreed that EGAT would not incur debt maturing within 5-years exceeding the aggregate of $5 million without the prior approval of the Bank. The appraisal report is being revised to incorporate these changes and is not attached.

4. In addition to the Loan and Guarantee Agreements, and the letter on income tax, the documentation will include a letter of representation from the borrower and an external debt letter. These are of a routine nature and are not attached. None of the foregoing letters will be distributed to the Executive Directors. The report "Current Economic Position and Prospects of Thailand" (EAP-1a), dated February 12, 1969, was distributed to the Executive Directors on March 3, 1969. The summary of recent economic developments included in paragraphs 19-25 of the draft President's Report and Recommendation has been forwarded to the Economic Advisor to the President for his informatn.

5. This memorandum and the papers mentioned herein have been cleared with representatives of the Departments concerned.

6. I propose that the theme should be the recent and prospective development of the power market in Thailand and the development of the borrower. The presentation will be made by Mr. Arnold.

7. I would appreciate your giving your comments to Mr. Gibbs (Extension 3572).

Attachments.

cc. Mr. McNamara
Loan Committee (no attachments)

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-~~53~~ 54

December 23, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Yugoslavia - Industrial Projects" held on December 8 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

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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/69-53

December 23, 1969

Minutes of Special Loan Meeting to discuss the proposed "Yugoslavia - Industrial Projects" held on December 8 in Conference Room B

---

1. Present: Messrs. Knapp (Chairman), Cope, Broches, Chadenet, Fuchs, Lejeune, Benjenk, El Darwish, Hartwich, Jaffe, Upper, Dehejia, Hutheesing and Pearce.

2. Issues: The meeting had been called to review the Europe, Middle East and North Africa Department's memorandum to the Loan Committee of December 3, 1969 (LC/O/69-106) entitled "Yugoslavia - Third Industrial Project" (LC/O/69-106) which recommended negotiations for a proposed loan of $18.1 million for the third industrial project. There were two main issues for discussion: (a) the interest rate charged by the Yugoslav Investment Bank (YIB) to the three sub borrowers and (b) the question of lending to the Yugoslav automobile industry.

3. Discussion-Issues (a): The Chairman, drawing attention to paragraph 9(a) of the Area Memorandum, said that the Bank should certainly insist on a minimum relending rate by YIB to ultimate borrowers of 8 per cent (i.e. 7½ per cent interest and ½ per cent service charge), which was also the ceiling on long-term lending rates imposed by the Yugoslav Federal Assembly in 1968. This rate gave YIB a barely adequate spread (only 1 per cent over the cost of the proposed Bank loan) and did not adequately reflect the current rate of inflation in Yugoslavia or the country's scarcity of capital. It was acceptable in this case only because an increase beyond 8 per cent would necessitate changes in legislation, which raised wider policy issues and would delay execution of this project. Since further Bank loans to YIB were in prospect, the Yugoslavs should be asked to take steps to change their regulations so as to permit a higher relending rate to ultimate borrowers. It was asked that the forthcoming economic report on Yugoslavia would show the need for a more rational interest rate structure and for raising the 8% interest ceiling.

4. Discussion-Issues (b): The meeting reviewed Appendix 1 of the appraisal report and noted that $10 million of the proposed Bank loan would help meet the foreign exchange costs of the expansion of Zavodi Crvena Zastava (ZCZ), Yugoslavia's only integrated car and light truck manufacturer, from 96,000 to about 200,000 vehicles per year. While ZCZ apparently enjoyed a nominal 54 per cent tariff protection against imports from convertible currency areas, the Industrial Projects Department explained that the company's sales prices did not make use of the full protection and were only 10 per cent higher than retail prices of similar vehicles in Italy and France and that the effective protection was therefore in the order of 11-16%. It was agreed that

the appraisal report's reference to domestic retail prices in other countries (Appendix 1, page 25) should be omitted. Several additional amendments were also suggested.

5. Apropos paragraph 42(a) of the appraisal report, concerning assurances to be obtained during negotiations, the Chairman suggested that the proposed conditions were unduly onerous for the Yugoslavs. In particular, items (i)(ii)(iv) concerning taxes on car registration, instalment credit policies and customs duties on imported materials could be excluded, since the Government could be expected to ensure that its policies did not adversely affect the viability of ZCZ, except insofar these occurred in the context of general economic difficulties. Conditions (iii) and (v) on the other hand, concerning licensing manufacture of cars and freedom of car pricing under government supervision were important and, following further elaboration by the Industrial Projects Department, the Chairman agreed that (iv) should also be retained. He suggested that these three conditions (iii),(iv) and (v) should be incorporated as a general consultation clause in the loan documents, supported by the agreed minutes of the negotiations. He also proposed that IFC, which proposed to make an $8 million quasi-equity investment in the company, should be consulted about their reliance, or otherwise, on these conditions.

6. Conclusion: The Chairman approved the Area Department's recommendation that the Yugoslavs be invited to send representatives to negotiate a proposed loan on the terms and conditions set forth in paragraph 13 of the Area Memorandum and in accordance with paragraphs 3-5 above.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Lejeune/Hartwich
Upper
Fuchs/El Darwish

cc: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

LOAN COMMITTEE

LM/M/69-~~53~~ 54

December 23, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Yugoslavia - Industrial Projects" held on December 8 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

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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)

December 23, 1969

Minutes of Special Loan Meeting to discuss the proposed "Yugoslavia - Industrial Projects" held on December 8 in Conference Room B

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3. Discussion-Issues (a): The Chairman, drawing attention to paragraph 9(a) of the Area Memorandum, said that the Bank should certainly insist on a minimum relending rate by YIB to ultimate borrowers of 8 per cent (i.e. 7½ per cent interest and ½ per cent service charge), which was also the ceiling on long-term lending rates imposed by the Yugoslav Federal Assembly in 1968. This rate gave YIB a barely adequate spread (only 1 per cent over the cost of the proposed Bank loan) and did not adequately reflect the current rate of inflation in Yugoslavia or the country's scarcity of capital. It was acceptable in this case only because an increase beyond 8 per cent would necessitate changes in legislation, which raised wider policy issues and would delay execution of this project. Since further Bank loans to YIB were in prospect, the Yugoslavs should be asked to take steps to change their regulations so as to permit a higher relending rate to ultimate borrowers. It was asked that the forthcoming economic report on Yugoslavia would show the need for a more rational interest rate structure and for raising the 8% interest ceiling.

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the appraisal report's reference to domestic retail prices in other countries (Appendix 1, page 25) should be omitted. Several additional amendments were also suggested.

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6. Conclusion: The Chairman approved the Area Department's recommendation that the Yugoslavs be invited to send representatives to negotiate a proposed loan on the terms and conditions set forth in paragraph 13 of the Area Memorandum and in accordance with paragraphs 3-5 above.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Lejeune/Hartwich
Upper
Fuchs/El Darwish

cc: Loan Committee
Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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WBG ARCHIVES

December 19, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Yugoslavia - Telecommunications Project

1. The Committee is requested to consider, without meeting, the attached memorandum of December 19, 1969 from the Europe, Middle East and North Africa Department, entitled "Yugoslavia - Telecommunications Project" (LC/O/69-111).

2. Comments, if any, should be sent to reach Mr. Lamers (ext. 4725) by 1:00 p.m. on Tuesday, December 23.

3. It is planned then, if the Committee approves, to inform representatives of the Federal Socialist Republic of Yugoslavia, the Yugoslav Investment Bank and the Community of Yugoslav Post, Telegraph and Telephone enterprises 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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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

 CONFIDENTIAL

LC/0/69-111

December 19, 1969

LOAN COMMITTEE

Memorandum from Europe, Middle East and North Africa Department

YUGOSLAVIA - Telecommunications Project

1. Attached is a draft report "Yugoslavia - Appraisal of the Telecommunications Project (1970-1973)" concerning a proposed loan of $36 million which would help finance the long distance and international telecommunications systems to be constructed over a four-year period (1970-1973) as part of the Seven-Year Development Program (1969-1975) of the Yugoslav Post, Telegraph and Telephone services.

Background

2. The proposed loan would be the Bank's fifteenth operation in Yugoslavia and would bring the amount of Bank lending to $434.3 million. In the present fiscal year three loans amounting to $97 million are scheduled. A memorandum on the first of these, namely a $21.1 million loan for the Third Industrial Project, was circulated to the Committee on December 3, (LC/0/69-106). The present loan would be the year's second operation, and the appraisal report for the third loan, a highway project ($40 million), is expected to be ready for review by the Committee in January. The Bank Lending Program to Yugoslavia for 1970-1974 (attached) totals $382 million. The program and its emphasis were described in the memorandum on the Third Industrial Project.

The Economy

3. The economy was also dealt with in the memorandum regarding the Third Industrial Project and the Committee is referred to this memorandum for information on the economic situation.

The Project

4. The proposed loan would be the Bank's first operation in the field of telecommunications in Yugoslavia. The present capacity of the Yugoslav telecommunications system is inadequate, as demonstrated by the fact that Yugoslavia has the second lowest density of telephones in Europe. In fact,

the number of requests for new connections on the waiting list is almost 50 percent higher than the present number of installed telephone exchange lines. In order to remedy the existing situation, the Community of Yugoslav Posts, Telegraphs and Telephones (CYPTT) has drawn up a Seven-Year Development Program (1969-1975). This program, which will cost about $470 million, is well designed and is required to meet the expected demand for telecommunications services. The project proposed for Bank financing totals $86 million and would consist of the systems and facilities for the main trunk and international networks, which are a part of the Development Program.

5. As pointed out in the appraisal report, autonomous regional enterprises (PTEs) provide all telecommunications services in Yugoslavia. At present there are 41 such enterprises; their coordination is ensured by mandatory membership in the Community of Yugoslav Posts, Telegraphs and Telephones (CYPTT), an association whose governing body is an assembly composed of representatives of all PTEs. The PTEs have considerable autonomy as far as their day-to-day operations are concerned. However, in respect of the Development Program, each PTE submits its individual expansion program to the assembly of CYPTT and once adopted, is obliged to execute and finance it. It has been also customary for PTEs to entrust certain tasks of common interest - such as designing of trunk networks, procurement of complex equipment, etc. - to the CYPTT. The CYPTT has been empowered by the PTEs to coordinate all activities with respect to the purchases and installation of equipment necessary to implement the Seven-Year Development Program. Since the CYPTT itself does not have the necessary staff to accomplish this task, a number of experts from the different PTEs have been seconded to the CYPTT for this purpose.

6. The institutional structure of the Yugoslav postal and telecommunications sector has certain consequences for the channeling of the Bank loan. It would have been preferable to make the loan directly to the CYPTT, but this entity does not own any assets and would not be in a position to service the loan since it does not have funds beyond contributions from members required for the operation of its secretariat. The Bank loan, at the proposal of CYPTT, therefore would be channeled through the Yugoslav Investment Bank (YIB), an institution which has been the borrower of most Bank loans to Yugoslavia and is thoroughly familiar with the handling of our loans. The YIB would, in turn, conclude subsidiary loan agreements with the 17 PTEs which would benefit from the Bank loan, i.e. those with the main trunk exchanges through which long-distance traffic will be routed. The necessary undertakings with respect to the execution of the project and the usual conditions regarding maintenance, financial performance and tariffs would be incorporated in a project agreement between the Bank and CYPTT. This

agreement would be ratified by the assembly and thus be legally binding on all PTEs (not only those benefiting from the loan) and the CYPTT itself. The CYPTT has been specifically empowered by each of the 17 PTEs participating in the proposed Bank loan to negotiate with the Bank on the matters mentioned above, and to prepare and conclude on behalf of the enterprises all contracts in respect of the procurement of equipment under the loan which is to be financed under the subsidiary loan agreements with each individual enterprise. The loan will be guaranteed by the Yugoslav Federal Government.

7. Total requirements of the telecommunication sector for the period 1969-1975 are estimated at $641 million equivalent, of which $470 million represent the cost of the Seven-Year Development Program, the rest being composed of advance expenditures for future expansion programs, increases in current assets, investment in the joint consumption fund and transfers to the postal service. Internal cash generation after debt service would finance 76% of these requirements while borrowings would be the other major source of 21% (of which 10% from the Postal Savings Bank, 6% from the Bank, and 5% in the form of supplier's credit and local loans). The total cost of the Bank project amounts to $86 million equivalent with a foreign exchange component of $60.6 million. The Bank loan would contribute $36 million, and most of the balance of the foreign exchange expenditures would be covered by suppliers' credits.

8. All contracts would be let pursuant to international competitive bidding in which domestic manufacturers would participate with a 15 percent margin of preference. The Bank loan would be only for imported equipment and components and the foreign exchange portions of local procurement. It should be noted, however, that there is little likelihood that domestic bidders, given the limits of their present production capacities and capabilities, will be successful with the possible exception of suppliers of coaxial cable. It would nevertheless, in view of the Government and the CYPTT, be useful to let them participate in the bidding to test the competitiveness of the Yugoslav telecommunications industry with respect to price and quality.

9. The major issue on which agreement will have to be reached during negotiations concerns the unit rate for metered traffic. At present different rates are applied by the various PTEs, ranging from Din 0.20 to 0.30 per unit ("pulse"). The CYPTT has proposed to the Federal Price Commission a uniform rate of Din 0.40 during business hours and a night tariff of Din 0.10. According to the estimates of the appraisal mission a pulse rate of this magnitude would generate annual revenues in the order of Din 300 million over and above the revenues projected on the basis of a

Din 0.30 pulse rate, which would already be sufficient to cover the PTEs requirements. The CYPTT's own projections indicate that the higher pulse rate will result in additional annual revenues of only Din 50 million which it considers necessary for the building up of reserves. The main reason for the difference lies in the assumptions on the evolution of traffic resulting from a difference in day and night tariff. The CYPTT has agreed not to pursue the tariff increase with the Price Commission until after the negotiations with the Bank. During negotiations it will thus be necessary to compare projections, to agree on realistic estimates and to determine how surpluses should be used.

10. Most of the other matters to be discussed during negotiations relate to the financial field. Although the CYPTT and most of the PTEs are competently and efficiently run, one of the purposes of the loan is to help achieve a more modern system of financial management. To this effect certain changes in the auditing procedures are proposed on which agreement will have to be reached during negotiations. Furthermore, the periodic reports which will have to be submitted to the Bank could also serve as management tools. The project agreement will contain a provision whereby the individual enterprises would be bound to limit their long-term indebtedness to an amount the service of which would be covered at least twice by net revenue before charging depreciation, unless, after being consulted, the Bank agrees otherwise.

Recommendation

11. I recommend that the Bank invite representatives of the Federal Socialist Republic of Yugoslavia, the Yugoslav Investment Bank and the Community of Yugoslav Post, Telegraph and Telephone enterprises to negotiate a loan of $36 million in accordance with the recommendations of paragraph 7.01 of the appraisal report.

Michael L. Lejeune
Director
Europe, Middle East and North Africa
Department

IVa. YUGOSLAVIA - 5 YEAR LENDING PROGRAM

Population: 19.7 m
Per Cap. Inc: $510

($ millions)

		Fiscal Year						Total	Total
		1969	1970	1971	1972	1973	1974	1964-68	1969-73
Agriculture	IBRD					20.0			
Communications	IBRD		36.0						
DFC - Yugoslav Ind. Bank	IBRD			20.0					
DFC Unidentified II	IBRD				25.0				
DFC Unidentified III	IBRD						30.0		
Industrial Modernization II	IBRD	16.0							
Industrial Modernization III	IBRD		21.1						
Power	IBRD					25.0			
Tourism - South Adriatic	IBRD			10.0					
Tourism Unidentified II	IBRD				15.0				
Tourism Unidentified III	IBRD						15.0		
Roads III	IBRD	30.0							
Roads IV	IBRD		40.0						
Roads V	IBRD			30.0					
Roads VI	IBRD						25.0		
Railways	IBRD				30.0				
Water Supply					20.0				
Unallocated II						20.0			
	IBRD	46.0	97.1	80.0	70.0	65.0	70.0	175.5	358.1
	No.	2	3	4	3	3	3	5	15

P & B 12/5/69

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

bhgon -

CONFIDENTIAL

LOAN COMMITTEE

B 1104

DECLASSIFIED

December 17, 1969 SEP 09 2014

WBG ARCHIVES

MEMORANDUM TO THE LOAN COMMITTEE

Chile - Second Vocational Education Project

1. The Committee is requested to consider, without meeting, the attached memorandum of December 17, 1969 from the Western Hemisphere Department, entitled "Chile - Second Vocational Education Project" (LC/0/69-110).

2. Comments, if any, should be sent to reach Mr. Ahmad (ext. 4773) by 10:00 a.m. on Monday, December 22.

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
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/69-110
December 17, 1969

LOAN COMMITTEE

Memorandum from Western Hemisphere Department

CHILE - Proposed Bank Loan to the Republic of Chile for a Second Vocational Project

1. Attached is appraisal report No. PE-12 recommending a Bank loan of US$1.5 million to the Republic of Chile to assist in the financing of a vocational education project. The proposed loan will be the second one for vocational education to Chile. In 1965, the Bank made a loan of US$2.75 million for the expansion of vocational education. This was the first loan made by the Bank anywhere for adult vocational training. A secondary education project with a Bank loan of US$12.5 million was negotiated in June 1969. The Government has since revised this project and a reappraisal mission is in Chile at this time to examine the proposed modifications. It is thus likely that the loan will have to be renegotiated. A second road construction project, calling for a Bank loan of US$10.8 million has been appraised. The sector conditions for this loan are related to a program for improving the efficiency and financial performance of the State Railroads. Possible modifications in these conditions are being discussed within the Bank. Provided agreement is subsequently reached on this issue with the Chilean authorities, the loan would be presented to the Board before the end of FY 1970. This assumes that the report of the economic mission presently in Chile on the prospects for economic performance during the next twelve months would not induce the Bank to postpone some of the aforementioned loans until after discussions with the new government in late 1970. The five-year lending program (financial years 1970-1974) is attached.

Economic Performance and Creditworthiness

2. A report on Chile's current economic situation and prospects (WH 186a) was distributed to the Executive Directors on August 28, 1968. The economic report concluded that although the medium run outlook of the economy was cloudy with uncertainties arising from the forthcoming presidential election (September 1970), the long term prospects appear good. These and other developments are being reviewed by the economic mission.

3. In the Economic Policy Memorandum from the Western Hemisphere Department of August 16, 1968 (EC/O/68-81/1), we recommended, and the Economic Committee concurred in, a set of conditions which were considered basic for the Bank to proceed with any lending during the next two years. These were: maintenance of a flexible exchange rate policy; continued limitations on short and medium-term external debt; and action in the area of fiscal, incomes and monetary policies, which could reasonably be expected to keep the rate of inflation down to not

more than 30 to 40 percent a year (without resorting to administrative controls) and which would insure that at least 60 to 70 percent of public investment would be financed out of public savings.

4. Economic developments in the first ten months of 1969 have been generally satisfactory. Balance of payments performance has been favorable mainly due to rising exports, with copper exports expected to reach US$912 million in 1969 (32 percent in excess of 1968). Foreign exchange earnings from copper are bolstered by high copper prices and by the effects of the new agreement with the copper companies. This agreement provides the government with a direct share in the companies' earnings when copper prices go above 40¢ a lb. (at present the average price is 62.2¢ per lb.), and thus reduces profit remittances. It is likely, therefore, that Chile will end the current year with a net increase in foreign exchange reserves of over US$200 million.

5. Central Government revenues have been rising very rapidly, the real increase in revenues being estimated at 10 percent in 1969. This has been possible because of reforms made in the tax structure and improvements in tax collection. Current savings are financing about 85 percent of total public investment outlays in 1969 compared with 70 percent in 1967-68, while public sector borrowing from the banking system has declined sharply.

6. The government has maintained a flexible exchange rate policy throughout the year by means of bi-weekly adjustments. Inflation, however, has been much more difficult to control, expecially as this is a pre-election year; a price increase of about 35 percent is expected in 1969 as against a 27.9 percent rise in 1968. This has been primarily the result of excessive wage increases, well above the rise in the cost of living. Given the political climate, it seems unlikely that wage policy will be more successful in 1970 and further upward movements in the price level are likely to take place next year at an accelerating pace.

7. Despite the deterioration of Chile's debt structure during 1968 and the first quarter of 1969, the debt service ratio has moderately improved largely as a result of rapidly rising copper exports. (The debt service ratio is estimated at 15.6 percent in 1969 against 16.3 percent in 1968.) The government has imposed controls on foreign borrowing by public agencies, which has halted excessive new additions of short and medium-term debt to the outstanding external debt.

8. Export prospects give grounds for reasonable optimism regarding the balance of payments in the next few years. However, if inflation accelerates as a result of the inability of the government to implement a sound incomes policy, the viability of the balance of payment will depend on the government's readiness to continue implementing a flexible foreign exchange policy.

The Project

9. The proposed project will continue to improve and expand the vocational training facilities provided under the previous loan and will help increase the supply of trained manpower to the industrial and agricultural sectors. There is still an acute shortage of trained agricultural and industrial workers at lower and middle levels, which imposes a severe limitation on the development of the country's economy.

10. The proposed project consists of:

a) Twenty-two units for agricultural training; seven mobile units and a boat for fishery training;

b) Seven new buildings comprising workshops, classrooms, laboratories and related facilities for training of agricultural mechanics, automechanics, sheet metal work, refrigeration, air conditioning and garment manufacturing;

c) Equipment for existing training programs.

11. Besides the fields covered in (a) and (b) above the project also includes a program for apprentice training and labor promotion.

12. The project will be implemented by INACAP (Instituto Nacional de Capacitacion Profesional) which is a training subsidiary of CORFO (Corporacion de Fomento del Produccion), a government owned development organization. INACAP operates on a non-profit basis obtaining its funds mainly through CORFO from the Central Government.

13. It is estimated that between 1970 and 1975 there will be annually 61,000 new entrants to the labor market and 56,000 persons already in employment will need to be retrained. The present training capacity of INACAP is 30,000 trainees a year (25 percent of the annual requirement), which is a modest effort in relation to overall requirement for trained labor. Yet, any rapid extension of the training capacity of INACAP would not be possible because of financial and organizational limitations. The proposed project is therefore designed to increase INACAP's annual training capacity from 30,000 to about 40,000 trainees. In addition to this another 2,500 trainees will be provided by a training center for metallurgy and electrical trades which is being jointly financed by INACAP and the governments of France and Germany.

14. Main Issues

(i) Cost Sharing: The total cost of the project is estimated at $3.0 million. The foreign exchange component is estimated at $1.5 million or 50 percent of the total project costs, which would be financed by the Bank. The remaining cost will be met by CORFO, which will make the funds available to INACAP.

(ii) Supporting Personnel: A separate project unit will be set up within INACAP headed by a senior executive to coordinate and supervise the project. In addition, a full time project architect, acceptable to the Bank, will be appointed to help implement the project.

(iii) Better Use of Existing Facilities: INACAP will make better use of its existing facilities and instruction time by improving supervision of courses. To achieve this INACAP will try to enlist the help of supervisory personnel working in Chilean industrial enterprises.

(iv) Term of the Loan: The appraisal report proposes on project grounds a term of twenty-five years including a grace period of five years. This term is also consistent with overall country economic and creditworthiness considerations.

Recommendation

15. I recommend, and the Departments concerned concur, that the Bank inform the Chilean Government that it is prepared to invite formal negotiations for a loan of US$1.5 million under the conditions set forth in the attached appraisal report.

Gunter Wiese
Deputy Director

Attachment

Attachment

CHILE

BANK LENDING PROGRAM
($ Million)

Sector	FY 1965 and Prior	FY 1966	FY 1967	FY 1968	FY 1969	Total to FY 1969	FY 1970	FY 1971	FY 1972	FY 1973	FY 1974	Total FY 1970-1974
AGRICULTURE	4/27.8 1/	-	-	-	-	4/27.8	-	2/45	1/10	1/15	1/15	5/85
Agricultural Credit (Agrarian Reform and Livestock Development)	-	-	-	-	-	-	-	30	-	15	15	-
Irrigation	-	-	-	-	-	-	-	15	-	-	-	-
Fruit Development	-	-	-	-	-	-	-	-	10	-	-	-
COAL MINING	2/21.8	-	-	-	-	2/21.8	-	-	-	-	-	-
EDUCATION	-	1/2.75	-	-	-	1/2.75	2/8.0	-	-	-	1/3	3/11.0
Secondary Education	-	-	-	-	-	-	6.5 2/	-	-	-	-	-
Vocational Training	-	-	-	-	-	-	1.5	-	-	-	3	-
ELECTRIC POWER	4/65.4	-	1/60	-	-	5/125.4	-	-	1/15	-	-	1/15
ENDESA Expansion	-	-	-	-	-	-	-	-	15	-	-	-
INDUSTRY	1/20	-	-	-	-	1/20	-	-	1/15	-	-	1/15
Industrial Development Bank	-	-	-	-	-	-	-	-	15	-	-	-
TRANSPORTATION	1/19.0	-	-	-	1/11.6	2/30.6	1/10.8	2/25	-	2/25	-	5/60.8
Road Construction	-	-	-	-	-	-	10.8*	-	-	15	-	-
Highway Maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Ports	-	-	-	-	-	-	-	10*	-	10	-	-
Railroad Rehabilitation	-	-	-	-	-	-	-	15	-	-	-	-
TOTAL	12/153.6	1/2.75	1/60	-	1/11.6	15/228.35	3/18.8	4/70	3/40	3/40	2/18	15/186.8
Bank	11/134.6	1/2.75	1/60	-	1/11.6	14/209.35	3/18.8	4/70	3/40	3/40	2/18	15/186.8
IDA	1/19	-	-	-	-	1/19	-	-	-	-	-	-

1/ Includes $445,500 cancelled from Loan No. 49-CH.
2/ The program is subject to review after return of the reappraisal mission currently in Chile.
* Sector conditions for these loans under discussion in the Bank and with Chilean authorities.

Western Hemisphere
December 15, 1969

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

December 17, 1969

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SEP 09 2014
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MEMORANDUM TO THE LOAN COMMITTEE

Honduras - Livestock Development Project

Attached for information is a memorandum from the Director of the Western Hemisphere Department to the Chairman of the Committee, dated December 15, 1969, transmitting for approval the draft Report and Recommendation of the President on a proposed credit for a livestock development project.

David Pearce
Secretary
Loan Committee

by C.H. Davies

- 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)

OFFICE MEMORANDUM

To: Mr. J. Burke Knapp December 15, 1969

From: E. Peter Wright

Subject: HONDURAS - Proposed IDA Credit for Livestock Development.

1. Attached for your approval is a copy of the draft Report and Recommendation of the President on a proposed credit of $2.6 million to the Republic of Honduras for a livestock development project. Also attached are the draft Development Credit Agreement, Project Agreement, Subsidiary Loan Agreement, Supplemental Letters and a draft pro forma of the Project Administration Agreement to be negotiated between Banco Central and each Participating Bank. However, we have not yet received from Honduras final agreement to the Supplemental Letter dealing with the functions of the Project Director, and are awaiting enactment of a decree establishing a Project Commission which is a condition of presentation. Formal concurrence with the Supplemental Letter, the substance of which has been agreed, is anticipated in the near future, and a draft decree to create a Project Commission has been dispatched to us from Honduras. Consequently, I am sending you the attached documents at this time in the expectation that no changes will be necessary. We would hope to be able to distribute the President's Report and the credit documents to the Executive Directors for consideration on January 6.

2. The Loan Committee considered without meeting the draft Appraisal Report (PA-21) and the covering Memorandum from the Western Hemisphere Department dated August 11, 1969 (LC/O/69-77). Only one change of substance has been made in the green cover Appraisal Report, a copy of which is attached for information. This report stated that, after completion of the 16-year lending program, funds not needed to service repayment of the credit would be relent for further agricultural development. In accordance with your instructions this issue was not raised during negotiations, and the appraisal report is being amended accordingly.

3. A report entitled "Current Economic Position and Prospects of Honduras" (WH-193a) dated September 26, 1969, was circulated to the Executive Directors on October 21, and a Country Program Paper was reviewed by the President on October 28, 1969.

Mr. J. Burke Knapp December 12, 1969

4. This memorandum and the documents mentioned herein have been cleared with the relevant Departments.

5. The presentation of the credit to the Executive Directors, to be made by the Western Hemisphere Department, will discuss the proposed livestock project within the context of the overall diversification effort of the Honduras Government, as reflected in its contemplated public investment program.

6. I would appreciate your giving your comments on this paper to Mr. DaCosta (Ext. 3881) as soon as possible.

Attachments

cc: Mr. McNamara
Mr. Cope
Loan Committee (no attachments)

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

December 16, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Paraguay - Second Highway Maintenance Project

Attached for information is a memorandum from the Director of the Western Hemisphere Department to the Chairman of the Committee, dated December 11, 1969, transmitting for approval the draft Report and Recommendation of the President on a proposed loan for a Second Highway Maintenance Project.

David Pearce
Secretary
Loan Committee

by C.H. Davies

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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:

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)

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp DATE: December 11, 1969

FROM: Gerald Alter

SUBJECT: PARAGUAY - Loan for Second Highway Maintenance Project

1. Attached for your approval is a copy of the draft Report and Recommendation of the President on a proposed loan equivalent to US$6 million to the Republic of Paraguay for the Second Highway Maintenance Project, together with a copy of the draft Loan Agreement and a set of draft Supplemental Letters. We plan to distribute these documents (except the Supplemental Letters) to the Executive Directors for their consideration at a meeting on January 6, 1970.

2. On June 9, 1969, the Appraisal Report (PTR-23) was sent to the Loan Committee for consideration without meeting. The Committee agreed to invite negotiations for a Bank loan equivalent to US$6 million for the proposed project. Negotiations were completed on July 25, 1969. In the Western Hemisphere Department Memorandum to the Loan Committee of June 9, 1969 (LC/O/69-67), I recommended, and the Committee accepted, an extension of the term of the loan from 10 years, including 4 year's grace, to 20 years, including a grace period of 4 years, in view of Paraguay's balance of payments prospects and present external debt situation. The appraisal report has been modified to reflect this decision. No other substantial change has been made in the project since the appraisal report was considered by the Committee and therefore it is not attached.

3. In the above-mentioned memorandum to the Loan Committee, I also recommended that the Bank invite negotiations for the proposed Loan only after reaching satisfactory understanding with the Government on an action program for additional tax measures. In my memorandum of July 2, 1969, transmitting the notice to the Executive Directors of invitation to negotiate the above Loan, I informed you that we had reached such an agreement, but in order to assure timely implementation of some of the revenue measures, we had told the Government that before presenting the proposed loan to the Board we would expect that it had decreed the reform of the property tax and had submitted to Congress the reform of the income tax. The Minister of Finance has recently informed the Bank that the Government has in fact taken this action.

4. In addition to the Loan Agreement, the loan documents include Supplemental Letters on Provision of Funds and External Debt.

5. This memorandum and the papers mentioned herein have been cleared within the Bank. If you consider it appropriate, Mr. Favilla, the Loan Officer, would make a brief presentation at the Board Meeting dealing with the Bank's approach and assistance for improvement of Paraguay's transport sector.

6. I would appreciate your giving your comments on these papers to Mr. Favilla (extension 2445) as soon as possible.

Attachments

cc: Mr. McNamara
Loan Committee (no attachments)

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

December 5, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Botswana - Proposed Credit for Engineering and Preliminary Works

Attached for information is a memorandum from the Director of the Eastern Africa Department to the Chairman of the Committee, dated December 3, 1969, transmitting for approval the draft Report and Recommendation of the President on a proposed credit for engineering and preliminary works.

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)

INTERNATIONAL DEVELOPMENT ASSOCIATION

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp DATE: December 3, 1969

FROM: A. G. El Emary

SUBJECT: Republic of Botswana: Proposed Credit for Engineering and Preliminary Works

1. I attach for your approval a copy of the draft Report and Recommendation of the President to the Executive Directors on a proposed credit of \$2.5 million to the Republic of Botswana to finance engineering design and certain preliminary works for the infrastructure required for a mining project. Also attached is a copy of the draft Credit Agreement and the draft Reimbursement Agreement.

2. On November 14 the Board of BCL decided to proceed with the mining project, to authorize necessary interim financing and to approve the Reimbursement Agreement, all subject to the conclusion of a satisfactory tax agreement with Botswana, which was still to be negotiated. We have been informed that the Government of Botswana and BCL have agreed on the Heads of Agreement on tax and we await formal notification that BCL's approval of the Reimbursent Agreement is consequently now unqualified. Provided we receive that notification before the end of business on December 4, I would propose that we distribute the credit documents for consideration by Executive Directors on December 16. The other major issues which will have to be resolved before a Bank loan for the infrastructure could be considered, namely sales arrangements for copper/nickel matte, the main financing for the mining project itself and security arrangements for the Bank loan, are under active discussion.

3. The Appraisal Report (PU-21) and the covering memorandum from the Eastern Africa Department (LC/O/69-83) distributed to the Loan Committee on September 11, 1969 were considered without meeting. Following negotiations which took place September 17-19, no changes of substance are required in the appraisal report, a copy of which will be sent to you separately.

4. In addition to the Credit Agreement and the Reimbursement Agreement, the documentation includes a supplementary letter on external debt which I do not intend to circulate to the Executive Directors.

5. An economic report on the Economy of Botswana was distributed to the Executive Directors on October 31, 1969.

6. This memorandum and the documents mentioned herein have been cleared with representatives of other departments concerned.

7. I propose that the theme of the presentation of this credit by Mr. Dean to the Executive Directors be "The probable impact of mining on the economy of Botswana".

8. I would appreciate your giving your comments on these documents to Mr. Kruithof (ext.3565) at your convenience.

cc: Mr. Robert S. McNamara
Mr. Cope
Loan Committee (no attachments)

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

B-1007

December 2, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Ethiopia - Agricultural Development Project

1. The Committee is requested to consider, without meeting, the attached memorandum of December 2, 1969 from the Eastern Africa Department, entitled "Ethiopia - Settit Humera Agricultural Development Project" (LC/O/69-104).

2. Comments, if any, should be sent to reach Mr. Gassner (Ext. 4023) by 5:00 p.m. on Friday, December 5, 1969.

3. It is planned then, if the Committee approves, to inform the Government that the Bank is prepared to begin negotiations for a proposed loan on the terms and conditions set out in paragraph 15 of 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
Director, Development Services Department
Treasurer

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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/69-104

December 2, 1969

LOAN COMMITTEE

Memorandum from the Eastern Africa Department

Ethiopia - Settit Humera Agricultural Development Project

1. In April 1968, the Imperial Ethiopian Government (IEG) formally requested the assistance of the FAO/IBRD Cooperative Program in preparing an agricultural project in the Settit Humera region in the northwestern lowlands of Ethiopia. After reviewing the draft reports prepared by the FAO/IBRD Cooperative Program, an appraisal mission visited Ethiopia in April 1969.

2. An Appraisal Report entitled "Settit Humera Agricultural Development Project - Ethiopia" (PA-30 dated November 24, 1969) is attached. It concludes that subject to the conditions set forth in paragraphs 8.01 and 8.02, the project is suitable for a Bank loan of US $3.5 million (including about US $0.4 million in capitalized interest) on standard terms, repayable in 15 years after a grace period of three years. However, on country grounds as discussed below (paragraphs 10-12), I recommend that the terms be extended to 25 years including a five-year grace period.

3. About 100,000 hectares of land in the Settit Humera region have been developed through the initiative of private entrepreneurs. In this area sorghum, sesame and cotton are produced under mechanized rain-fed farming. To date Government has provided virtually no infrastructure and has confined its role to the allocation of land to farmers and general administration. There is currently no all-season road link between Humera and Asmara where most of the produce is marketed. During much of the season when cotton and sesame are harvested, the Settit River, which cuts off a large portion of the holdings, can only be crossed by camel or boat. The water for Humera and the farms is largely supplied from the Settit River, and enteric diseases flourish. The proposed project aims at assisting farmers in the area and removing constraints on further development by: (1) cutting transport costs by constructing 120 km of all weather road and bridging the Settit River; (2) constructing a water supply system for the township of Humera; and (3) providing a demonstration farm. Other urgently needed improvements in the agricultural sector (extension, marketing, credit, land registration) and further infrastructural improvements required to assist the development of an additional 320,000 ha. of cultivable land would have to wait until additional studies are completed. The proposed project includes financing for these studies in order to provide for the quickest possible preparation of a second phase agricultural project.

4. The estimated economic rate of return from investment in the road and the bridge is 16%. The water supply system would provide water at 1/20 of present rates and still yield a financial rate of return of 11%.

5. The total cost of the project is estimated at US $4.8 million, including interest during the construction period. The proposed loan of US $3.5 million would finance 74% of the project cost, which is equivalent to the foreign exchange costs of the project, including capitalized interest but excluding about US $0.1 million provided by bilateral sources. The IEG would finance 25% of the cost, with the remaining 1% being provided by United States and United Kingdom assistance.

6. The borrower would be the Imperial Ethiopian Government. The various components of the project would be carried out by the Imperial Highway Authority, the Water Supply Section of the Ministry of the Interior, and the Ministry of Agriculture, with the planning unit of the Ministry of Agriculture providing coordination. The scope and duration of the project at this stage does not warrant the creation of a separate organization for project management.

7. It is recommended that retroactive financing be provided for the Settit Bridge for which construction is scheduled to begin before the end of 1969. The total cost of the bridge is US $160,000 and the construction period is about one year. Delaying construction until loan signing would result in a substantial loss of benefits and would delay further agricultural development.

8. The proposed project is located in the region of the frontier between Ethiopia and Sudan. In view of the controversy as to the exact location of the frontier, it should be emphasized that the project has been designed so as to exclude those areas along the frontier which are claimed by both countries.

9. This is the second agricultural project in Ethiopia to be considered by the Bank Group. The first was the Wolamo Agricultural Development Project for which a US $3.5 million credit was approved by the Board in October 1969. No other projects are under consideration for fiscal year 1970.

Economic Situation

10. Ethiopia is currently facing a difficult financial situation which has been developing for several years but became acute only recently. Revenues in the last three years have been less buoyant than before, largely because external trade was depressed first by a fall in coffee prices and then the closure of the Suez Canal, and also because certain changes in the tax system have not yet proved as successful as expected. At the same time current expenditures continued to increase rapidly to meet the rising cost of education, health and other social services, and increased allocations to defense and internal security. These trends led to an acute cash squeeze

early in 1969. Due to the somewhat conservative legal limits the Government could not borrow from the central bank, despite a strong foreign exchange reserve position. As a result, the Government was forced to make severe cuts in expenditures. Work on a number of development projects, including certain Bank Group projects, was temporarily stopped or slowed down. Progress on Bank Group projects is now proceeding according to schedule.

11. Consequent to the liquidity crisis the Council of Ministers was reorganized and the Finance Minister was changed; and a special committee was set up to investigate the causes of the problem and to suggest remedial measures. Since then some improvement in the Government's liquidity position resulted from the sale of treasury bills and, more recently, from the relaxation of the limits on Government borrowing from the central bank adopted according to the recommendations of an International Monetary Fund mission. Some temporary additional relief is foreseen due to the recent increase in coffee prices. Yet, for the long run the only solution is an improvement in fiscal performance. The Government has been reasonably successful in the past year in restraining the increase in recurrent costs. In addition the Government is presently considering the recommendations of a recent IMF technical assistance mission for some increase in certain tax rates which, if followed, will bring in significant additional revenues.

12. In view of the fiscal situation, and considering the modest balance of payments prospects which are heavily dependent on coffee exports, it is advisable for Ethiopia to obtain as much capital as possible on concessionary terms. This means that the future Bank/IDA blend should be softer than in the past, and that Bank loans should have as long a term as possible.

13. We intend to remain close to the Ethiopian economic situation. An economic mission is scheduled for January/February 1970 during which the full range of Ethiopian economic policy will be thoroughly examined.

14. There are no other major issues involved in the project that would require special consideration by the Loan Committee.

Recommendation

15. I recommend that the Government of Ethiopia be invited to send representatives to negotiate a loan of US $3.5 million for the Settit Humera Agricultural Development Project substantially on the terms and conditions set forth in paragraphs 8.01 and 8.02 of the Appraisal Report and with a term of 25 years including a five-year grace period. I also recommend that the loan provides for a small amount of retroactive financing of a portion of the costs of the construction of the Settit Bridge which is scheduled to start before the end of 1969.

A. G. El Emary
Director

Attachment

ETHIOPIA - FIVE-YEAR LENDING PROGRAM
(PROPOSED)

Population: 24.0 million
Per Capita Income: $60

($ millions)

		Fiscal Years						Total	Total
		70	71	72	73	74	75	1964-68	1969-73
Wolamo Agricultural Development 1/	IDA	3.5							
Settit Humera Agriculture I	IBRD	3.5							
Settit Humera Agriculture II	IDA			5.0					
Land Settlement	IDA				6.0				
Awash Irrigation I (Melka-Sadi Amibera)	IBRD		8.0						
Awash Irrigation I "	IDA		8.0						
Awash Irrigation II (Mekki diversion)	IDA				5.0				
Awash Irrigation III	IDA					15.0			
Livestock I (Dairy)	IDA		5.0						
Livestock II	IDA				6.0				
Coffee Processing	IDA			3.0					
Telecommunications V	IBRD				6.0 3/				
Development Finance Companies III	IBRD		4.0						
Development Finance Companies IV	IBRD					6.0			
Education II	IDA		10.0 2/						
Education III	IDA						15.0		
Power III	IBRD					15.0) 4/			
	IDA					5.0)			
Tourism	IDA			5.0					
Roads V	IDA			5.0					
Roads VI	IBRD						10.0)		
	IDA						5.0)		
Potash Transportation	IBRD			10.0					
Water Supply - Addis Ababa	IBRD		7.0						
TOTALS -	IBRD	3.5	19	10	6	21	10	41.8	66.1
	IDA	3.5	23	18	17	20	20	14.9	61.5
		7.0	42	28	23	41	30	56.7	127.6
	No.	2	5	5	4	3	2	5	18

1/ Approved by the Board in October 1969

2/ May be reduced

3/ Assumes $6 million joint financing

4/ Assumes $10 million joint financing

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LM/M/69-53

December 1, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of Special Loan Meeting to discuss the proposed "Zambia - Commercial Crops Farming Development Project", held at 4:30 p.m. on November 14, 1969, in Mr. Knapp's office.

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:

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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)

LM/M/69-53

December 1, 1969

Minutes of Special Loan Meeting to discuss the proposed "Zambia - Commercial Crops Farming Development Project", held at 4:30 p.m. on November 14, 1969, in Mr. Knapp's office

---

1. Present: Messrs. Knapp (Chairman), Cope, Baum, El Emary, Wapenhans, Dean, van Gent, Whyte, Fulcheri and Pearce.

2. Issue: The meeting considered the Eastern Africa Department's memorandum to the Loan Committee of November 13, 1969 (LC/O/69-97), which recommended negotiation of a proposed $5.4 million loan for a project, to be carried out by the Tobacco Board of Zambia (TBZ), to assist Zambians enter commercial agriculture and further develop the Zambian tobacco industry. The main issue for discussion concerned the proposed financial arrangements for the purchase or lease of farms by project participants.

3. Discussion: The Chairman, noting the favorable estimated annual income for farmers participating in the project, said that it was not clear why they should be allowed time (4-6 years was suggested) before they paid a full economic rent or lease-purchase price. The meeting was told that, because of recent low prices, the Government considered it unlikely that Zambians would be encouraged to participate if they were required to pay the full annuity price from the beginning. Also it might be difficult to insist on a full economic rent or lease-purchase price during the 6 year grace period of the Bank loan, since such payments would exceed the interest on the loan. It was therefore agreed that Messrs. van Gent and Kruithof could, in their forthcoming discussions with the Government, consider sub-economic rents during the 6 year grace period. However, once repayment of the Bank loan had begun, Zambian-assisted tenant farmers should be required to pay full economic rents or full annuity payments for lease purchase. Non-Zambian tenant farmers would pay the full economic rent from the beginning; the Government considered it inappropriate for them to purchase leases, since they were essentially temporary farmers in Zambia.

4. Decision: It was agreed that the Bank should proceed to negotiate the proposed loan on the terms and conditions set forth in the appraisal report, as amended in paragraphs 11 and 12 of the Area memorandu,.

David Pearce
Secretary

Cleared with: Messrs. Knapp
El Emary
Fulcheri
Whyte

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-52

November 26, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss a proposed loan to the Republic of Ecuador - Two Development Finance Companies, held on November 20, 1969.

David Pearce
Secretary

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

LM/M/69-52

November 26, 1969

Minutes of Special Loan Meeting to discuss "Ecuador - Proposed Loan to the Republic of Ecuador - Two Development Finance Companies", held at 10:00 a.m. on November 20, in Conference Room B

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1. Present: Messrs. Knapp (Chairman), Cope, Alter, Diamond, Acevedo-Navas, Cancio, Zinman, and Pearce.

2. Issues: The meeting considered the Western Hemisphere Department's memorandum to the Loan Committee of November 17, 1969 (LC/O/69-101), which recommended negotiations for a proposed $8 million to the Republic of Ecuador. The proceeds of this loan would be re-lent to two development finance companies - Comision de Valores - Corporacion Financiera Nacional (CFN), a Government-owned company and Ecuatoriana de Desarrolo, S.A. (Compania Financiera), a private company known as COFIEC - to help meet part of their foreign exchange requirements for lending operations in 1970 and 1971. The Area Department's memorandum raised two issues for discussion: (a) the treatment of the foreign exchange risk and (b) the related question of an appropriate re-lending rate.

3. Discussion: The Development Finance Companies Department said that the Bank, in lending to development finance companies, was principally concerned that (a) the effective relending rate on DFCs' loans to ultimate borrowers approximately reflected the cost of capital in the country concerned and was also sufficiently high to achieve and maintain a satisfactory level of earnings on the capital of the DFC, and (b) the DFCs concerned should be relieved of the foreign exchange risk by passing it on to their borrowers, contracting with the Government or Central Bank to bear the risk, or negotiating other appropriate means to this end. The latter might include an increase in the interest rate charged by DFCs to ultimate borrowers to cover the cost of a fee for covering the foreign exchange risk (e.g. by the Government and/or Central Bank).

4. In the case under review, both issues (the foreign exchange risk and the relending rate to ultimate borrowers) were complicated respectively by (a) doubt under existing monetary law in Ecuador whether DFCs were able to pass on the foreign exchange risk to ultimate borrowers and (b) the prevailing maximum interest rate in Ecuador, established in 1948, of 10%. An increase in the maximum interest rate for industrial lending was now under consideration by the Ecuadorian Monetary Council. Apart from a general economic case for an increase (to encourage both foreign and domestic industrial investment), there was a specific reason for doing so, if the Government agreed to cover the exchange risk - namely, to permit an adequate spread (3%) to the DFCs in relation to the cost of the Bank loan (7%). In other words, the maximum interest rate should be high enough to permit paying the fee the Government would charge for taking the exchange risk.

5. The Area Department added that the Bank was interested in securing an increase in the Ecuadorian interest rate independently of the foreign exchange risk issue. The Bank was cooperating with the IMF on this matter and it was hoped that combined Bank/IMF pressure would lead to an increase in the near future.

6. The Chairman agreed with the Area Department's recommendations that (a) the Government absorb the exchange risk of the two companies with respect to (i) their future foreign borrowings, and (ii) their new commitments made with the proceeds of external debt already contracted, and charge a fee for doing so; and (b) the Government would take action to increase the maximum interest rate in Ecuador by at least two percentage points (i.e. to at least 12%). The Chairman also thought the Government should be pressed to revise the monetary law so that the foreign exchange risk could be passed on to Ecuadorian borrowers. He authorized the negotiation of a special provision to cover COFIEC against any devaluation losses related to commitments already made with proceeds of COFIEC's existing external debt (para. 19(b) of the Area Memorandum). If, during negotiations, it became clear that (a) (ii) above, was unacceptable to the Government, the Bank's position on this point could be reconsidered at departmental level in the Bank without prior approval of the Loan Committee. Finally, the Chairman recommended that the loan documents contain a provision to the effect that the means described above for handling the foreign exchange risk would apply until such time as it was legally possible to arrange for the risk to be passed on by the development finance companies to the ultimate borrowers.

7. Decision: The Chairman decided that negotiations of the proposed \$8 million loan to Ecuador, for relending to CFN and COFIEC, should proceed on the basis of paragraph 6 above.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Alter/Zinman
Diamond

cc: Loan Committee
Participants

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-51

November 21, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss a proposed fourth loan to the Banque Nationale pour le Developpement Economique (BNDE), Morocco, held on November 5, 1969.

David Pearce
Secretary

- 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)

LM/M/69-51

November 21, 1969

Minutes of Special Loan Meeting to discuss a proposed fourth loan to the Banque Nationale pour le Developpement Economique (BNDE), Morocco, held on November 5 at 11:30 a.m.

1. Present: Messrs. Knapp (Chairman), Cope, Broches, Diamond, Lejeune, Benjenk, Bart, T. Jones, McCall, Mendoza, Pollan and Pearce.

2. Issues: The meeting considered the Area Department memorandum of November 3, 1969 (LC/O/69-95) which recommended negotiations for a proposed fourth loan to BNDE of $18 million. It had been called to discuss the related issues of Morocco's interest rate structure and BNDE's lending rate.

3. Discussion: The Area Department recalled that the Moroccans, at the 1969 Annual Meeting, had confirmed their readiness that a proposed study, to be undertaken with Bank assistance, be made of the country's interest rate structure. This study, which would also include a review of industrial subsidies and incentives along the lines previously recommended for tourism, would address itself mainly to the question of interest rate policy in relation to resource allocation, mobilization of savings and price stability. It would be undertaken within the context of the country economic review scheduled for March/April, 1970, and would be followed by discussions with the Government in the last quarter of 1970 and early 1971 (i.e. during the greater part of the two year commitment period envisaged for the proposed fourth loan to BNDE).

4. For some years the Bank had been concerned about the effect on its operations of the low interest rate (currently 7%) applied by BNDE. The lending rate, however, need not affect the selection of projects provided that BNDE required appropriate standards of profitability in the projects it financed. The Development Finance Companies Department said that BNDE had agreed orally to the requirement of a minimum of gross return of 10% on a project, and could probably be relied upon to implement the agreement. There was also some concern about the much lower effective interest rate of Credit Immobilier et Hotelier (CIH) resulting from the rebate of 4.25% given by the Government to CIH borrowers which reduced the rate they paid from 8.7% to 4.5%. Accordingly, a similar procedure had also been tentatively agreed with CIH and recorded in a draft Memorandum of Understanding.

5. The Chairman said that the real question was that of the general level of interest rates in Morocco. He felt that the Bank could go ahead with a loan to BNDE provided that the Government was willing to cooperate in the study of interest rates and to discuss with the Bank the study's findings.

6. The Chairman said that in order to retain Bank leverage on the general interest rate issue, BNDE should be kept on a short leash, i.e. the proposed loan should be only so large as to permit commitments up to the time we could reasonably expect agreement on the results of the interest rate study and on its implementation. Having regard to all the facts, he thought the proposed loan should cover the period through March 1971. The Development Finance Companies Department said this would require a loan of $12.5 million, compared with the $18 million loan currently envisaged through December, 1971.

7. The Chairman considered that a forthcoming proposed loan to CIH should also be geared to the same commitment period, for these reasons: (a) CIH was a new client, (b) BNDE should not be treated less favorably than CIH, and (c) CIH was affected no less than BNDE by the general interest rate issue. Accordingly, a loan of about $10 million might be appropriate, subject to the findings of the appraisal mission.

8. Conclusion: It was agreed that negotiations for the proposed fourth loan to BNDE should proceed on the basis of paragraphs 4-5 above and that the loan should be reduced to an amount reflecting BNDE's commitment requirements through March/April 1971 (about $12.5 million).

David Pearce
Secretary

Cleared by: Messrs. Knapp
Cope
Lejeune/Benjenk
Diamond/Pollan

cc: Loan Committee
Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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LM/M/69-50

November 21, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the selection of consultants for the Indonesia - Electricity Distribution Project, held in Conference Room B on November 14, 1969.

David Pearce
Secretary

- 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)

LM/M/69-50

November 21, 1969

Minutes of Special Loan Meeting to discuss the selection of consultants for the Indonesia - Electricity Distribution Project held in Conference Room B on November 14 at 10:30 a.m.

1. Present: Messrs. Knapp (Chairman), Chadenet, Baum, Weiner, Street, Howell, Tolbert, Finne and Pearce.

2. Issue: The meeting had been called to discuss procedures for the selection of consultants for the Indonesia - Electricity Distribution Project, for which the Association had approved a $15 million credit on October 21, 1969. During credit negotiations, the Association and the Indonesians had agreed upon a list of seven consulting firms as qualified for furnishing management consulting and engineering services. Invitations had been issued on October 7 by the Association in Washington and submissions were due to be received for evaluation by November 24. Subsequently, the Indonesians had asked the Director of the Bank Group's Resident Staff in Djakarta to approve the addition of another fourteen companies to the agreed list and invitations had been issued by the Indonesian government on November 1 for submission of tenders by December 19. The November 1 invitations differed from those issued to the original seven bidders in that they requested the submission of financial terms, an apparent error. The main issues for discussion were: (a) a consistent procedure, as between headquarters and the resident staff, for the selection of consultants for the project, and (b) clarification of responsibility, as between Washington and Djakarta with respect to project supervision in general.

3. Discussion: The Public Utilities Projects Department, noting the present unsatisfactory situation, recommended that:

(a) all twenty-one firms now in receipt of invitations to bid should submit their proposals to the Indonesian government authorities which had issued the November 1 invitations;

(b) the reference to financial terms in the November 1 invitations should be omitted;

(c) the seven original bidders should be informed that the deadline for submission had been extended from November 24 to December 19 (i.e. consistent with the deadline for the invitations issued on November 1), and that Djakarta was the venue for submissions of proposals.

4. Decision: It was agreed that a cable should be sent to Djakarta, along the lines of paragraph 3 above, indicating the procedures to be followed for the selection of project consultants. The Chairman would subsequently write to the Chief of Resident Staff in Djakarta to clarify the question of responsibility for matters affecting loan/credit administration and supervision.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Baum
Weiner/Howell
Tolbert

cc: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-49

November 21, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Argentina - Second Road Loan" (Loan No. 619-AR) held in Conference Room B on November 13, 1969.

David Pearce
Secretary

- 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)

LM/M/69-49

November 20, 1969

Minutes of Special Loan Meeting to discuss "Argentina - Second Road Loan" (Loan No. 619-AR) held in Conference Room B on November 13 at 11:30 a.m.

1. Present: Messrs. Knapp (Chairman), Cope, Broches, Baum, Geolot, Wiese, North, Cancio, Dambski, Fajans and Pearce.

2. Issue: The meeting considered Mr. Alter's memorandum to the Chairman of November 12, 1969 which described various objections raised by the Argentines to certain provisions of the Loan Agreement for this $25 million loan, signed on June 24, 1969. The original list of thirty objectionable provisions raised by the Office of the President of the Republic had been reduced to eleven, of which four - two affecting the scope of the road maintenance covenant (Section 5.08 (a) and (b) of the Loan Agreement) and one each affecting the amounts of the bid bond and the contractor's performance guarantee - were substantive. In late October, the Argentines had requested a second postponement of the date for the effectiveness of the loan (originally October 1) from November 1 to December 31; and the Bank had agreed to postpone the deadline to November 14 to permit a Bank lawyer to ascertain in Buenos Aires the nature of the objections.

3. Discussion: The Transportation Projects and Legal Departments agreed with the Area Department's recommendation (paragraph 6 of Mr. Alter's memorandum) that the Bank should not entertain the proposed substantive amendments to the Loan Agreement but should be prepared to discuss with Vialidad (the Government entity which would execute the project) the proposed modifications of a drafting nature, which might be handled in the form of an interpretative memorandum to the Government. The proposed substantive changes were unacceptable, quite apart from the complication of referring them back to the Executive Directors for approval so soon after the loan had been signed. The amount of the bid bond (2%) and contractor's performance guarantee (10% of the contract value) were necessary, in view of experience under the Bank's first road loan (AR-288), to afford Vialidad adequate protection. The road maintenance covenant, while more comprehensive than under the first road loan (covering the entire national road network and not just Bank financed roads), was reasonable in view of the Bank's increasing involvement not only in the road sector but in other transport modes as well. Moreover, it required the borrower to '<u>continue</u> to maintain....', which should satisfy Argentine sensitivity on this point.

4. The Legal Department said that the new Minister of Public Works and Services, who was embarassed by the objections raised by the Presidency,

would probably accept Bank action along the lines of the Area Department's recommendations. More time would be needed to give the Minister an opportunity to argue the points with the Presidency and, for this purpose, a postponement of the effectiveness date would be essential.

5. Decision: It was decided that (a) the proposed substantive changes should be rejected, (b) the date for effectiveness of the loan should be postponed to December 1, and (c) the Chairman would write to the Minister of Public Works and Services to explain the Bank's position in this matter.

David Pearce
Secretary
Loan Committee

Cleared by: Messrs. Knapp
Baum
Wiese
Cancio
Fajans

cc: Loan Committee

Participants

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-48

November 7, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the status of the "Bolivia Gas Pipeline Project" held in Room C 1006 on October 22 at 11:30 ~~p~~a.m.

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)

LM/M/69-48

November 7, 1969

Minutes of Special Loan Meeting to discuss the status of the "Bolivia Gas Pipeline Project" held in Room C 1006 on October 22, at 11:30 p.m.

1. Present: Messrs. Knapp (Chairman), Cope, Alter, Broches, Baum, Knox, Scott, Carmichael, Glaessner, Skillings, Sassoon and Pearce.

2. Issue: The meeting resumed discussion of the status of the Bolivia-Gas Pipeline Project, following the nationalization of the Bolivian Gulf Oil Company (BOGOC). The issue for discussion was whether or not the Bank could or should declare the $23 million loan to YABOG (the project entity owned jointly by BOGOC and YPFB, the Bolivian state oil company) effective at the appropriate time and, related to this, the conditions under which the Bank might proceed with financing of the project.

3. Discussion: The Legal Department advised that, as a result of the nationalization of BOGOC, there were adequate grounds to support a Bank decision that the loan's conditions of effectiveness had not been fulfilled. In fact, there were at least four legal reasons why the Bank could state that it was not legally obliged, in present circumstances, to declare the loan effective. Secondly, even if the loan was declared effective, there were sufficient grounds for an immediate suspension of disbursements.

4. The Chairman then asked what grounds there would be for refusing to proceed with the project and releasing Gulf from its guarantee obligation, if in due course the legal deficiencies with respect to the loan's effectiveness could be remedied, additional funds ($9 million) became available and technical assistance for the project, to replace that hitherto being provided by Gulf, could be arranged. The Legal Department said that the Bolivians could not legally complain if the Bank, in eventually reconstituting the project and the legal arrangements, decided not to try to hold Gulf to its guarantee. Moreover, it was unrealistic for the Bank to consider attempting to hold Gulf to its guarantee and there appeared to be no present hope of Gulf resuming its guarantee obligation on a voluntary basis.

5. The meeting agreed that, subject to an eventual satisfacotory resolution of the general legal issues between Gulf and the Bolivians (in particular, the question of adequate compensation), there were three conditions which would have to be satisfied before the Bank could consider reconstituting the project,namely: (a) availability of additional funds, (b) availability of technical assistance and (c) adequate security. It was noted that a possible solution would be for the Argentines, who had contracted to purchase the gas supplied by the project commencing August, 1970,

to replace BOGOC and Gulf in the original project arrangements. However, it was not clear whether, lacking effective control over the production and transport of gas in Bolivia, they would be willing to offer satisfactory security arrangements.

6. Decision: It was agreed that the Area Department would prepare a position paper on possible alternative arrangements for proceeding with the project. The Legal Department was asked to investigate the effect of a cable recently received from YABOG, signed by its U.S. vice president, requesting cancellation of the loan. In the meantime, the Bank would await the outcome of current policy discussions within the Government, before sending a mission to Bolivia for consultations.

Cleared by: Messrs. Knapp
Scott
Carmichael
Skillings

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LM/M/69-47

November 7, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the status of the "Bolivia Gas Pipeline Project" held in Room C 1006 on October 20, at 2:30 p.m.

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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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/69-47

November 7, 1969

Minutes of Special Loan Meeting to discuss the status of the "Bolivia Gas Pipeline Project" held in Room C 1006 on October 20, at 2:30 p.m.

1. Present: Messrs. Knapp (Chairman), Cope, Alter, Broches, Baum, Knox, Scott, Carmichael, Skillings, Sassoon and Pearce.

2. Issue: On July 1, the Executive Directors had approved a $23 million loan to Compania Yacibol Bogoc Transportadores (YABOG), a company jointly owned by the Bolivian Gulf Oil Company (BOGOC), a wholly owned subsidiary of Gulf Oil Corporation, and by Yacimientos Petroliferos Fiscales Bolivianos (YFPB), the Bolivian state oil company, to construct and operate a natural gas transmission system to deliver gas from Bolivia to Argentina. On October 17, the Bolivian Government had announced nationalization of the Bolivian Gulf Oil Company (BOGOC). It was also reported that the Bolivian state oil company would take over the exploitation of oil and gas resources and a special commission would be set up to study compensation to be paid to Gulf. The Chairman had called the meeting to discuss two basic issues: (a) whether or not the Bolivian Government was capable in practice of implementing the project in accordance with its original financial and economic objectives, and (b) if it was, what security and other conditions would be required by the Bank for it to proceed with financing of the project in the absence of Bolivia's creditworthiness.

3. Discussion - Issue (a): The Transportation Projects Department stated that, in their judgement, the construction contractors for the pipeline (Williams Brothers) were certainly competent to complete the construction of the project. However, it was very doubtful if the Bolivians, without some kind of technical assistance, were capable of managing a gas field on this scale; on the other hand, they were probably in a better position to operate the gas pipeline, once it had been constructed. While only 3% of the pipeline had been completed, some 30% of the imported materials were on site and, at this early stage of its execution, the project was basically on schedule. In summary, the Projects Department view was that the Bolivians would need substantial technical support to manage the gas field and, to a lesser extent, to operate the pipeline; in the event of a total breach with Gulf Oil, the Argentines, to whom the gas was scheduled to be delivered commencing August 1970, were a possible source of technical assistance.

4. Discussion - Issue (b): The Chairman, noting that the Bank loan had not yet been declared effective but that about $14 million of a $25 million loan to YABOG from the New York State Common Retirement Fund (directly guaranteed by Gulf Oil) had already been disbursed, asked the Legal Department to advise on the situation, with particular respect to Gulf Oil's

several obligations. The Legal Department stated that:

(a) While the Bank legally might be able to hold Gulf Oil to its guarantees of BOGOC's obligations to the Bank with respect to service of the Bank loan and finance of any cost overrun (both of which were absolute and subject to no exceptions), it would be imprudent to try to do so; Gulf Oil would argue that BOGOC's position in the project was entirely changed, following the expropriation of its assets, and that a Bank decision to proceed with the project would be an unreasonable one.

(b) If, on the other hand, Gulf were released from its obligation, additional funds would be required to complete the project ($9 million representing the undisbursed balance of the New York State Common Retirement Fund Loan) and there would be little security for repayment of the Bank loan.

5. The meeting agreed that, in the immediate circumstances, the position and interest of BOGOC and Gulf Oil was crucial. The Chairman remarked that, if the Bolivians and Gulf Oil eventually reached an understanding with respect to compensation for the expropriation of Gulf's assets in Bolivia, Gulf would have a direct interest in promoting the gas pipeline as a source of funds for compensation payments; in such circumstances Gulf might be prepared to come back in with technical or even financial assistance. The New York State Common Retirement Fund would presumably be interested in continuing only if its commitment continued to be guaranteed by Gulf.

6. Conclusion: The Chairman, noting that the Bank would be consulting immediately with representatives of Gulf Oil and also with the Bolivian authorities, said that the Bank's posture could not be determined until more facts and the attitudes of the interested parties were known. It was agreed that the situation should be followed closely and that another meeting might be necessary within the next few days.

Cleared by: Messrs. Knapp
Scott/ Sassoon
Carmichael
Skillings

Distribution: Loan Committee
Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LM/M/69-46

October 31, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the $60 million loan to Servicios Electricos del Gran Buenos Aires (SEGBA), Argentina, held in Room C1006 on October 27 at 5:00 p.m.

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:

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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/69-46

October 31, 1969

Minutes of a Special Loan Meeting to discuss the $60 million loan to Servicios Electricos del Gran Buenos Aires (SEGBA), Argentina, held in Room C1006 on October 27 at 5:00 p.m.

1. Present: Messrs. Knapp (Chairman), Cope, Alter, Broches, Sella, Weiner, Rovani, Sheehan, Skillings, Fajans and Pearce.

2. Issue: The meeting, which had before it Mr. Skillings' memorandum to Mr. Alter of October 23, 1969, had been called to discuss the Argentines' request that Section 3.06 of the Guarantee Agreement and part of Section 5.12 of the Loan Agreement, concerning the sale of SEGBA's shares to private investors, be deleted. The loan documents had been approved by the Executive Directors on October 7 but the Office of the Presidency in Argentina had now indicated that, without these deletions, a decree would not be issued authorizing signature of the Guarantee Agreement.

3. Discussion: The meeting was told that Section 3.06 of the Guarantee Agreement, setting forth the Government's policy of selling to private investors shares of SEGBA that it owned, had been included originally at the request of the Argentines. It repeated similar provisions in the Guarantee Agreements of two previous loans to SEGBA. Subparagraph (i) of Section 5.12 of the Loan Agreement (concerning best efforts to borrow from private sources to finance a reasonable part of the expansion of SEGBA's electricity services) was new, and had been specially requested by the Bank; fortunately, this was not an issue. Subparagraphs (ii) and (iii) of Section 5.12, concerning dividend policy consistent with the encouragement of private investment in SEGBA's services and the placement of newly-issued ordinary shares with private investors, also repeated similar provisions in previous agreements with SEGBA and had been readily agreed with the Argentine negotiators. However, the Office of the Presidency felt that it was politically inopportune at this time for the Government publicly to subscribe to a document which referred to sales of SEGBA shares to private investors. They were prepared to sign side letters on some of these matters without change, since, they said, the eventual privatization of SEGBA was still Government (albeit not publicly stated) policy.

4. There was the further complication that the loan had been approved and amendments to the Agreements would require reference back to the Executive Directors. On the other hand, since the financing plan for SEGBA's 1970-72 expansion program did not include any proceeds of share issues and since SEGBA's present capital structure would permit very substantial additional financing in the form of bonds rather than shares,

the deletion of subparagraph (iii) of Section 5.12 of the Loan Agreement would not affect the implementation of the program partly financed by the recently approved loan. If subparagraph (iii) were deleted, all of subparagraph (ii), not only a part of it, would be largely meaningless.

5. Decision: It was agreed that the references to sales of Government-owned shares to private investors (Section 3.06 of the Guarantee Agreement) and to dividend policy and sales of authorized but unissued shares to private investors (subparagraphs (ii) and (iii) of Section 5.12 of the Loan Agreement) should be deleted; the proposed side letter should be linked to the remainder of Section 5.12 and similar provisions in the two previous loan agreements. Subject to the President's approval, a President's Memorandum would be distributed to the Executive Directors for their approval on a no objection basis.

Cleared by: Mr. Knapp
Mr. Rovani
Mr. Sella
Mr. Skillings/Fajans

Distribution: Loan Committee
Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-45

October 22, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss a proposed Highway Project in Senegal held on September 24 at 3 p.m. in Room C-1006.

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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Directors, other Departments
Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/69-45

October 22, 1969

Minutes of a Special Loan Meeting to discuss a proposed Highway Project in Senegal held on September 24 at 3 p.m. in Room C-1006

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Broches, Chaufournier, Baum, Sadove, Mackay, Young, Paijmans, de Gryse, Jones, Bachman, and Pearce.

2. Issue: The Chairman had called the meeting, which had before it Mr. Chaufournier's memorandum of September 19, to discuss whether negotiations for a proposed highway project in Senegal should be postponed until the Senegalese authorities had taken measures to fulfill their obligations under the 1966 railway credit (96-SE). It was the opinion of the Transportation Projects Department that, as non-compliance with these obligations had resulted inter alia in a failure to meet the financial targets agreed upon under the credit and project agreements, assurances should be obtained first from the Senegalese Government on measures to correct that situation. The Area Department felt that the two issues should be separated, since the Association had sufficient leverage directly on the railway sector.

3. Discussion: The Chairman suggested that this meeting was perhaps premature since, in a week's time, the Senegalese delegation to the Annual Meeting would be available for discussions and was expected to bring some news on the measures that would have to be taken.

4. The Area Department explained that a discussion at this time would help determine the Bank's attitude towards Senegal for discussions during the Annual Meeting. On the specific issue, the Area Department said that no detailed measures could be expected from the Senegalese Government at this stage because the letter, announced by Mr. Knapp in mid-July, which would deal in detail with all the project's problems, had not yet been sent out. Although it should be recognized that a serious failure had occurred and that remedies should be taken, the size of the problem should not be exaggerated. The Area Department preferred to inform the Senegalese Minister for Development that the Association was very concerned, that the size of our future lending program would be judged in relation to the effort which Senegal was making to mobilize its own resources and that it would also be affected by the confidence we could put in Senegal's intentions to respect its existing obligations. However, IDA should not delay a project which had already been appraised unless a "major and unforeseen event had occurred". This was not the case. IDA had other remedies and should be prepared to implement those which were available under the railway credit, such as suspension of disbursements.

5. The Transportation Projects Department considered performance shortcomings under the railway credit as a major failure in project terms. The matter involved the Government which was considered to be in default on a number of its commitments under the credit agreement. The railway project and the proposed highway project were linked. The Chairman asked about the nature of this linkage and the subsequent discussion indicated that a transport coordination study provided for under the highway project was expected to make recommendations regarding the most economic allocation of groundnut traffic between the roads and the railway and to provide a useful tool for decision making in this respect. The Area Department pointed out that the feeder roads to be constructed under the proposed highway project would contribute to better performance in the railway project, since the proposed roads were expected to bring to the railway more traffic. The Projects Department nevertheless felt that we should not undertake new lending in the transportation sector until the serious failures of the existing project were being dealt with by the Government.

6. Apropos the Chairman's question concerning further consequences of non-compliance with the covenants under the railway credit, the Projects Department explained that execution of the railway project was already two years behind schedule and would be further delayed, and that the railway would not achieve its agreed targets.

7. Decision: The Chairman observed that he felt no final decision could be reached at this time. He noted that the spirit in which the Senegalese authorities were approaching the problem was an important factor and that he preferred to see at the Annual Meeting whether the delegation had anything concrete to offer.

N.B. As a result of discussions with the Senegalese authorities at the Annual Meeting, it was subsequently decided to postpone negotiations of the proposed highway credit until the Government had responded with further assurances concerning performance under the existing railway credit.

David Pearce
Secretary

Cleared by: Mr. Knapp
Mr. Paijmans

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-44

October 22, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the income tax status of the Electricity Generating Authority of Thailand (EGAT) held in Room C-1006 on October 10 at 3:00 p.m.

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

LM/M/69-44

October 22, 1969

Minutes of Special Loan Meeting to discuss the income tax status of the Electricity Generating Authority of Thailand (EGAT) held in Room C-1006 on October 10 at 3:00 p.m.

1. Present: Messrs. Knapp (Chairman), Cope, Goodman, Hittmair, Nurick, Sella, Street, Gibbs, Rovani, Arnold, and Pearce.

2. Issue: The memorandum from the East Asia and Pacific Department to the Loan Committee (LC/O/69-89 of October 3) stated that it was desirable that EGAT's corporate income tax liability be waived in the future; alternatively that, if taxes were paid, the proceeds be reinvested by the Government in EGAT as equity. However, if neither of these solutions could be agreed during negotiations of the proposed $46.5 million loan, it was proposed to accept continuation of current arrangements whereby payment of taxes was deferred until 1976, at 6% interest per annum on the amount deferred, pending agreement with the Government on a more permanent solution. The Chairman had called the meeting to review these proposals.

3. Discussion: Mr. Cope said that in general the tax status of public authorities was a question of Government policy which the Bank, in lending to such authorities, should take as given. In his view, therefore, the Bank should not advocate a particular view with respect to a permanent resolution of EGAT's income tax status. The Area Department, while not dissenting from this view, stated that there was a dichotomy of view in Thailand concerning the tax treatment of public enterprises, which created a practical problem in the case of EGAT. The spirit of the statute establishing EGAT was that it should enjoy exemption from income tax; the Council of Ministers, on the other hand, had resolved in 1965 that all state enterprises should pay the equivalent of the corporate income tax.

The Area Department believed that the Thais wished the Bank to raise the issue and help them solve the problem permanently.

4. The Public Utilities Projects Department said that existing arrangements did not raise a particular problem for EGAT at this time. However, the amounts deferred would increase in time to the extent that borrowings of about $13.5 million equivalent additional to those assumed in the appraisal report would be required to cover interest at 6% on deferred taxes during the forecast period. Payment of the tax itself was beyond EGAT's

financial capabilities, unless there were to be a substantial rate increase, and this situation and the need to rationalize it had been discussed informally with the Finance Ministry as well as the proposed Borrower. On the basis of these discussions neither the Area nor Projects Departments anticipated difficulties in agreeing upon one of the permanent solutions recommended.

5. Decision: It was decided that, during negotiation of the proposed loan, the tax issue should be handled along the lines of the Area Department's memorandum (paragraph 10) subject to the qualification that, if the deferred payment arrangement were accepted, the Thais should be required to decide on a permanent solution within one year.

David Pearce
Secretary

Cleared by: Mr. Knapp
Mr. Gibbs
Mr. Arnold

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LM/M/69-43

October 16, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of Special Loan Meetings to discuss various issues in connection with the proposed Pusri Fertilizer Expansion Project (Indonesia) held in Room A-1212 on September 17 at 9:30 a.m. and in the Board Room on September 26 at 10:30 a.m.

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)

LM/M/69-43

October 16, 1969

Minutes of Special Loan Meetings to discuss various issues in connection with the proposed Pusri Fertilizer Expansion Project (Indonesia) held in Room A-1212 on September 17 at 9:30 a.m. and in the Board Room on September 26 at 10:30 a.m.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Bell, Chadenet, Fuchs, Goodman, Fontein, Nurick, Lipkowitz,1/ Piccagli, Sella, Street,1/ Becker-Boost, Tolbert, Cottrell, Kaupisch, Parmar, Stephenson, Lu and Pearce.

2. Issues: The meetings had been called to discuss three issues raised in Mr. Goodman's memorandum of September 12 to the Chairman on this subject, namely (a) procurement, (b) timing of commitments, and (c) plant size.

3. Discussion - Issue (a): The meetings, noting that up to $50 million ($25 million expected from USAID, $15 million from Japan and $10 million from the Asian Development Bank (ADB) to be financed from Japan's contribution to the ADB's Special Funds) of the $75 million external financing required for the project would be tied to procurement in the United States and Japan, discussed various procurement procedures which, on the one hand, would be acceptable to IDA and, on the other, would result in the lowest project cost, given the constraint of tied funds. Following a review of various alternatives, a so-called "convertible" procedure was discussed under which:

(i) bids would be invited for the proposed fertilizer project on the basis of a firm price for the software (engineering and the management of procurement, construction and startup) and an "indicative" price for the hardware (imported plant and equipment, construction equipment, raw materials and supplies);

(ii) the purchaser would then have the option of converting the "indicative" price for the hardware, as refined after further detailed engineering, to a fixed price with or without penalty and incentive features. Whether or not this option was exercised, plant and equipment would be procured through international competitive bidding but within the constraints imposed by the available sources of finance.

Although there was probably only a handful of suppliers in the world able to bid for the entire project, the above procedure would retain an element of international competitive bidding at the outset for the entire project.

4. The Area Department said that this procedure implied bidding for the gas contracts first (since the bidders for the fertilizer plant would have to be told on what fund availability to base their bid). Since American suppliers were quite competitive for the scrubbing plant and gas compressors and $25 million of the project funds was tied to procurement in the United States, they suggested that contracts for these items, estimated to cost about $11 million, be reserved to American suppliers. This approach would also help solve the additional problem of USAID'S policy of seeking specific commitments for the use of its funds. The Chairman commented that this was a useful approach; he added that the IDA (untied) contribution would then represent a higher proportion of the remaining project (i.e. $25 million of about $62 million).

5. Decision - Issue (a): Subject to further consultations with the United States and Japanese authorities, it was agreed that procurement for the gas conservation and supply project (about $11 million) should be reserved to American suppliers. Consequently, of the remaining $62 million available and required for the urea plant, $35 million would be tied to procurement in Japan and the U.S. and $25 million would be untied (i.e. the IDA contribution).

6. Decision - Issue (b): While in Tokyo, Mr. Bell had learned that not all of the 1969 project funds had been committed and thus the Japanese contribution was less likely to be a problem than previously expected. It was therefore decided that this question should be discussed further with the Japanese delegation to the Annual Meeting.

7. Decision - Issue (c): It was decided that there was no case for increasing the size of the proposed fertilizer plant from the 380,000 tons per annum of urea (660 tons per day of ammonia) recommended by the appraisal mission to the 460,000 tons per annum of urea recommended in the USAID-financed feasibility study.

N.B. In discussions with the Japanese and ADB delegations during the Annual Meeting it became clear (i) that the Japanese still had to make up their mind about the project and that no decision by them could be expected before November at the earliest; and (ii) that the proposed ADB loan would not necessarily be financed entirely from the Japanese contribution to its Special Funds, although most of it was likely to come from that source.

David Pearce
Secretary

1/ In attendance on September 17 only.

Cleared by: Mr. Knapp
Mr. Kaupisch

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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LM/M/69-42

October 3, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Niger-Agricultural Credit Project" held in Room A-1212 on September 11, 1969.

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)

LM/M/69-42

October 3, 1969

Minutes of a Special Loan Meeting to discuss onlending interest rates in the proposed "Niger-Agricultural Credit Project" held in Room A 1212 on September 11, 1969 at 3:30 p.m.

1. Present: Messrs. Knapp, Cope, Cheek, Sella, Wapenhans, Goffin, Hassid, Maillard, Richardson, von Oppenfeld and Pearce.

2. Issue: The Chairman had called the meeting to discuss onlending interest rates in the Niger-Agricultural Credit Project, for which an IDA credit of up to $800,000 was proposed. At the time of the project's appraisal, the Caisse Nationale de Credit Agricole (CNCA) had been charging a fixed commission of 6 per cent per annum on short- and medium-term loans (equivalent to approximately 9 per cent per annum on short-term loans and 8 per cent on medium-term loans) and 9 per cent per annum on marketing loans. During negotiation of the proposed credit, the Niger delegation had announced that in January, CNCA had decided to reduce the interest rate on medium-term loans to 6 per cent. On August 29, 1969, the Government had cabled a compromise proposal of 7 per cent.

3. Discussion: The meeting was told that there were grounds for serious concern about CNCA's financial position and its ability to observe Article 2.04 (c) of the Project Agreement, which provided that CNCA should set interest rates so as to cover financial and administrative costs, build up provisions for bad debts (up to 5 per cent of portfolio) and assure adequate general reserves. The Association regarded 8 per cent as the minimum necessary to meet these requirements and, in addition, this was probably a more favorable rate than farmers could obtain otherwise. Finally, the Project Agreement provided for periodic reviews of CNCA's lending conditions, which made possible, if appropriate, a subsequent revision of interest rates.

4. Decision: The Chairmen concluded that it did not seem reasonable for the Association at this time to accept the Niger Government's compromise proposal.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Goffin
Maillard

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-41

October 3, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of Special Loan Meetings to discuss "Iran - Proposed Loan to the Agricultural Development Fund of Iran (ADFI)" held in Room A-1212 on September 18 at 9:30 a.m., and in Room C-1006 on September 25 at 4:30 p.m.

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
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General Counsel
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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/69-41

October 3, 1969

Minutes of Special Loan Meetings to discuss "Iran - Proposed Loan to the Agricultural Development Fund of Iran (ADFI)" held in Room A-1212 on September 18 at 9:30 a.m., and in Room C-1006 on September 25 at 4:30 p.m.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld,2/ Broches,2/ Cargill, Chadenet,2/ Diamond,2/ Evans,2/ Sella,1/ Votaw,1/ Wapenhans, Cancio,1/ Eschenberg, Goffin, Feldman, Gould 2/ and Pearce.

2. Issues: The meetings had been called to discuss three issues in connection with a proposed $6.5 million loan to the Agricultural Development Fund of Iran (ADFI), namely: (a) the borrower, (b) amortization of the proposed loan and (c) the proposed conditions for ADFI lending to farmers.

3. Discussion - Issue (a): The Chairman, noting that the Bank had been closely associated with the formation and early institutional development of ADFI, which was wholly owned by the Government, asked why it was intended to make the proposed loan to the Government and not to ADFI directly. This procedure was inconsistent with the Bank's normal policy and also with its practice vis-a-vis IMDBI, a private institution, which borrowed directly from the Bank with the foreign exchange risk borne by the Government. The Legal Department stated that, as was the case for loans to IMDBI, a Government guarantee of loan to ADFI would require special enabling legislation, which could involve considerable delay; on this occasion, it was therefore proposed to make the loan to the Government accompanied by a Project Agreement with ADFI.

4. Decision - Issue (a): The Chairman decided that, on this occasion, the proposed loan should be made to the Government, as presently envisaged, but that special legislation should be sought enabling eventual future loans to be made directly to ADFI, the project entity.

5. Discussion - Issue (b): The Chairman noted that, on the basis of a Bank loan for 15 years including 4 years of grace and the estimated composite amortization of sub-loans by farmers to ADFI, as much as 30% of the Bank loan would accrue to ADFI as temporary surplus receipts by the eleventh year. The Agriculture Projects Department explained that this temporary surplus (rollover) would cover the contingency of slippage in making loans to farmers during or beyond the planned two year commitment period.

6. The Chairman said that the question of amortization on loans for agricultural credit projects was a general issue, which he expected the Loan Committee to consider in the fairly near future. There were a number of possible amortization procedures available, including level repayments of the Bank loan by the borrower and making repayments on the Bank loan equal to repayments on sub-loans; Messrs. Cope and Wapenhans were preparing a paper on this subject.

7. Decision - Issue (b): The Chairman decided that, in the absence of a general policy discussion and decision by the Loan Committee before this project was ready for presentation to the Executive Directors, the proposed loan should be negotiated on the basis of the amortization schedule presently planned.

8. Discussion - Issue (c): The issue of the proposed conditions on ADFI's sub-loans to borrowers provoked considerable discussion at the second meeting. The Agriculture Projects Department argued that the detailed covenants proposed in the appraisal report (paragraph 8.02) and incorporated in the draft project agreement (Schedule 2) were necessary to ensure that the proceeds of the Bank loan were directed towards priority sectors and to protect ADFI, a young institution, and its staff, which was relatively inexperienced, from pressure to make unsound investments. The Area Department, on the other hand, felt that, if such detailed and apparently elementary conditions were necessary, this raised doubts about the wisdom of lending to ADFI at all. In reply to an alternative proposal that ADFI be required to sign a general policy statement (including the allocation of funds) satisfactory to the Bank (on the model of Bank loans to industrial development finance companies), the Projects Department said that this was a less satisfactory approach and that ADFI would have difficulty in drawing up such a statement in time for it to serve as a basis for this loan. This would be one of the advisory tasks of the advisor to ADFI to be financed from the proceeds of the proposed loan. Mr. Cope commented that, if the objective was to ensure development of priority sub-sectors, the proposed restraints should apply to ADFI's entire portfolio, not only to investments financed in part from the Bank loan. The Projects Department agreed but said this would be difficult in view of the Bank's incomplete knowledge concerning sectoral priorities and ADFI's total operations, and the fact that the Bank-financed portion of ADFI's lending program would be insufficient to secure the leverage required to encourage ADFI to accept limitations on its total lending program.

9. Apropos Schedule 2 of the draft Project Agreement, the meeting agreed that:

(a) sub-loans financed by the proposed Bank loan should be confined to the six categories specified in para. 1 of the Project Agreement; total ADFI lending during the commitment period against the last three categories (i.e. dairy farming, sheep and poultry, and preparation, packaging and storage) should be subject to ceilings unless otherwise agreed by the Bank.

(b) a general statement of technical appraisal criteria should be incorporated in para. 3 as a substitute for para. 4, (a), (b) and (c); para. 4 (d), (e) should be excluded from the Project Agreement and incorporated in a letter from the Bank to ADFI.

10. Decision - Issue (c): It was agreed that negotiations could proceed on the basis of paras. 9 (a) and (b) above.

N.B. Apropos para. 3 above, the Bank was subsequently advised by the Chairman of ADFI that the Government was empowered to guarantee a Bank loan to ADFI subject to approval by the Council of Ministers. It was therefore agreed to negotiate the loan on this basis and upon the ADFI Chairman's return to Teheran he would provide any legal documentation required to satisfy the Bank's Legal Department that his interpretation was correct.

David Pearce
Secretary

1/ In attendance on September 18 only.
2/ In attendance on September 25 only.

Cleared by: Messrs. Cope
Eschenberg
Goffin
Feldman
Gould

Distribution: Loan Committee
Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LM/M/69-40

August 29, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Dominican Republic - Nickel Mining and Smelting Project" held in Room A 1212 on August 13, 1969.

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)

LM/M/69-40
August 29, 1969

Minutes of a Special Loan Meeting to discuss the proposed "Dominican Republic - Nickel Mining and Smelting Project" held in Room A 1212 on August 13 at 3:30 p.m.

1. Present: Messrs. Knapp (Chairman), Baum, Scott, Wright, Lipkowitz, F.H. Howell, R.S. Nelson, Dolin, Ruffini, Walser and Pearce.

2. Issue: The Chairman had called the meeting to consider the Western Hemisphere Department's memorandum of August 11 (LC/0/69-78), in particular three problems which had arisen in preliminary discussions with the sponsors (Falconbridge Nickel Mines Limited of Canada and Armco Steel Corporation of Ohio), namely (a) the force majeure clause, (b) a provision relating to completion of the project, and (c) the term of the proposed $25 million loan (cf. area memorandum, paragraphs 11 - 13, 14(a) and 14(b).

3. Discussion:

(a) Force majeure clause: The Chairman, drawing attention to paragraph 13 of the area memorandum, pointed out that the inclusion in the Guarantee Agreement with the Dominican Republic of a covenant obligating the Government not to take any action which would permit Falconbridge Canada and Armco to invoke the force majeure clause "unless the Government repaid the Bank loan or made provisions adequate to the Bank to ensure its repayment" would give the Government in advance an opportunity to negotiate with the Bank in the event of a decision to proceed with expropriation. The Chairman decided to defer a decision whether this provision should be in the form of a covenant in the Guarantee Agreement or an event of default in the Loan Agreement pending further consultations with the General Counsel.

(b) Completion of the project: The Chairman said that he agreed with the approach reflected in the Area Department's recommended negotiating position that, if the project was not completed by December 31, 1973, the sponsors should be required to finance completion unless they demonstrated that the return on the incremental investment needed to do so would be less than a specified percentage. An alternative simpler formula of requiring the sponsors to provide additional funds within a specified formula (e.g. up to 20% of the project's currently estimated total cost), as in the Alcominas project (Loan 526-BR), was considered inappropriate because it applied to a different situation where the limits of possible cost overruns could be estimated at the time the loan was made. However, a basic question arose whether there was any need for a completion provision since, if the project was not completed by the end of 1973, the sponsors could be expected to finance completion provided it was economically justified at that time. The meeting agreed that the Bank would try to negotiate arrangements with the sponsors which would require them to repay the Bank loan in full if they wished subsequently to exercise their option not to complete the project.

(c) Term of Bank loan: The meeting noted that the sponsors had proposed a term of 22 years, including seven years of grace, for the Bank loan compared with the Bank/IFC staff recommendation of 15 years. A question raised was whether a Bank "umbrella" for the full 22 year period of insurance companies' loans was necessary in view of their coverage by a USAID guarantee. The Area Department replied that Dillon Read & Co. Inc. of New York, financial advisors to Falconbridge, had indicated that the insurance companies attached importance to a 22 year term for the proposed Bank loan. It was decided to accept the Area Department's recommendation that, if a Bank loan of 15 years proved unacceptable to the insurance companies, the fallback negotiating position would be a 22 year term with an amortization schedule providing for large equal payments of principal during most of the repayment period and small payments during the final period of the loan. The recommendation for accelerating repayments geared to the payment of dividends above a specified fraction of earnings was also approved.

4. Conclusion: It was agreed that the Bank should proceed to negotiate the proposed loan on the terms and conditions set forth in the appraisal report, as amended in para. 14 of the area memorandum and on the basis of the discussion above.

David Pearce
Secretary

Cleared with: Messrs. Knapp
Scott
Dolin
Wright

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-39

August 13, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the effectiveness of the $4.6 million credit for the "Dahomey - Grand Hinvi Agricultural Development Project" held in Room A 1212 on August 4, 1969.

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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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/69-39

August 13, 1969

Minutes of a Special Loan Meeting to discuss the effectiveness of the $4.6 million credit for the "Dahomey - Grand Hinvi Agricultural Development Project" held in Room A 1212 on August 4, 1969 at 5:00 p.m.

1. Present: Messrs. Knapp (Chairman), Cope, Baum, Evans, Cheek, Gue, El-Fishawy, van Gent, Bazin and Pearce.

2. Issue: The Chairman, recalling that at the July 15, 1969 Special Loan meeting it had been decided to await the Government's reply to Sonader's request to suspend operation of its Mono contract before deciding on a definite course of action (LM/M/69/35), said that since no reply had been received and the date set for effectiveness was August 5, the Association now had to decide whether or not to declare the credit effective.

3. Discussion: Noting that the Association was satisfied that all legal requirements for effectiveness had been fulfilled, the Chairman asked whether IDA would be justified in withholding effectiveness, alternatively in declaring the credit effective but suspending disbursements on the grounds that the IDA agreements had been violated. He added that IDA needed to have strong evidence to support a decision that there had indeed been a violation.

4. The Agriculture Projects Department said that, although the possibility of a violation would have to be investigated by a field mission, their judgment was that Sonader's additional commitments were likely to affect seriously its capacity to carry out the IDA project and its other existing commitments. In their view, IDA's leverage with respect to corrective action would be much stronger if the credit's effectiveness were postponed.

5. The Legal Department, noting that Section 2.09 of the Project Agreement should not be over-emphasized, said that if the Association could clearly demonstrate that there was a valid reason for defaulting the credit, it would be entitled - on the basis of other covenants as well - to declare the credit in default or suspend disbursements, after making it effective. Alternatively, the Association could defer effectiveness until the cause of the default had been removed. However, the declaration of a default or suspension of disbursements constituted a serious sanction and it was doubtful if the necessary data to support such action was available.

6. <u>Decision:</u> The Chairman said that since the Association apparently did not yet have adequate evidence of a violation, it would expose itself to possible accusations of bad faith by withholding effectiveness or suspending disbursements. Moreover, the Association would be in an awkward position if, as was possible, the mission found that the problem was not as serious as expected. The Chairman concluded, therefore, that the Association should declare the credit effective on August 5 and inform the Government of its intention to send a mission later that month to appraise the problem in the field and explore possible solutions. The Government should also be advised that, in the absence of a satisfactory solution, the Association might have to consider suspending disbursements.

David Pearce
Secretary

Cleared with: Messrs. Knapp
Cheek
Sella
Gue

Distribution: Loan Committee
Participants

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-38

August 13, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the award of contracts under the Guinea Boke Loan (No. 557 GUI) held in Room A 1212 on August 5, 1969.

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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Special Adviser to the President
Executive Vice President (IFC)
Vice President (IFC)

LM/M/69-38

August 13, 1969

Minutes of a Special Loan Meeting to discuss the award of contracts under the Guinea Boke Loan (No. 557 GUI) held in Room A 1212 on August 5, at 3:00 p.m.

1. Present: Messrs. Knapp (Chairman), Cope, Baum, Piccagli, Sadove, Cheek, Sella, Carmichael, Delaume, Paijmans, Ayer and Pearce.

2. Issue: The Chairman had called the meeting, which had before it Mr. Carmichael's memorandum to Mr. Sadove of August 4, to discuss the award of contracts under the $64.5 million loan to the Republic of Guinea (No. 557 GUI) for the Boke project. Tractionel, consulting engineers for the Borrower and for Compagnie de Bauxite de Guinee (CBG), had submitted a report recommending that contracts be awarded to Astaldi, a proposal favorably entertained by CBG's principal stockholders, the Government (49%) and Halco (Mining) Inc. (51%). However, the Transportation Projects Department, which contested many of the adjustments made to the original bids by the consultant engineers, felt that, since Astaldi was not the lowest bidder, they could not agree with the consultant's conclusion to award the contract to Astaldi.

3. Discussion: The Chairman enquired about the role of the Bank's representatives at the meeting to finalize the award of contracts held in Brussels during the week ending July 19, in view of Ambassador Keita's reference in his letter of August 1, to the participation of Bank staff. The Area and Transportation Projects Departments explained that their staff had attended simply as observers and that this had been clearly stated at the meeting.

4. The question whether CBG's contract No. 11 (for the foundations of the bauxite processing installation) could be included in the comparison of bids from the two lowest bidders, Astaldi and Impregilo, was subsequently discussed. The Transportation Projects Department, drawing attention to the sequence of bidding procedures, pointed out that, as a result of a two month delay in opening bids for contract No. 11, bidders had been able to take into consideration, when bidding separately on contract No. 11, the tenders previously offered by competitors on all other contracts. The Chairman suggested that the Bank should have intervened when it became clear that there would be a time lag between the opening of bids for the main contracts and bids for contract No. 11. However, the fact that contract No. 11 would not be financed by the Bank loan was cited as the probable reason why the Bank had not been informed about the delay in opening bids for that contract. In any event, the Chairman had no doubt that the inclusion of contract No. 11 in the general bid evaluation was not acceptable.

5. Apropos the arguments concerning labor costs (referred to by both the consultants and the Guinean Ambassador), the Transportation Projects Department explained that the Astaldi tender was thought by the consultants to be based on considerably higher rates for local labor than the Impregilo tender. The consultants had arrived at this conclusion from the fact that the rates bid by Astaldi for the provision of labor were 45% over official labor rates, compared with Impregilo's rates, which were bid at 10% over official rates. Even if the consultants' conclusion was justified, the Projects Department considered that no evaluated debit or credit of the bids could be made on these grounds, since the escalation provisions in the bid conditions made clear that escalation would be based on official labor rates at various times. Consequently, the rates assumed by bidders in calculating their unit prices would have no bearing on how much escalation would be paid. Indeed, if Astaldi had assumed higher labor rates, it would enjoy greater flexibility in the face of fluctuations in the labor market; on the other hand, since Impregilo had been prequalified and had a good performance record, it could not be assumed that they would not perform if they stood to lose on these grounds. The meeting noted that the consultants, by progressively reducing their very large initial adjustment of the rates to an insignificant level, had appeared implicitly to admit their argument's lack of validity.

6. The cost to the Borrower of the project's financing was briefly discussed and it was agreed that this could not be an element in the evaluation of bids.

7. Apropos possible delays in project execution, a point also raised in Ambassador Keita's letter, the Transportation Projects Department, while noting that amounts of the order of $1.5 million were not unrealistic, questioned the loss-of-income calculations for CBG quoted by the Guinean Ambassador. They confirmed that the Impregilo bid met schedule specifications in the tender documents and that there was no reason to believe that Impregilo would be unable to honor its contract or to implement it on time even though negotiations with that company would require about two months.

8. The Legal Department asked whether any political issue was at stake. The Area Department explained that the Guinea Government, for internal reasons, appeared to object strongly to the award of the contract to Impregilo. The Government felt that its objection to Impregilo was supported by the consultants' technical and financial analysis, which they considered to be valid. The meeting noted that, since Impregilo had been prequalified, there was no reason to disqualify the company at this stage.

9. Decision: The Chairman, noting that many of the points raised in the Ambassador's letter of August 1 were based on a misunderstanding of the current situation, said that there was no basis for considering Astaldi the most favorable bidder. Consequently, he felt that the Bank could not approve the award of the contracts to Astaldi.

10. With respect to the procedure, the Chairman said that the Guinea Government should be informed of the Bank's decision by a cabled reply from Mr. McNamara to President Sekou Toure's cable of August 3. The cable would indicate that a detailed explanation of the Bank's analysis would follow and that Bank staff were at the disposal of the Guinea Government to answer questions. The Chairman also decided that a paper should be prepared giving a detailed account of the Transportation Projects Department's analysis of the situation, which should then be brought to the attention of the Guinea Government.

David Pearce
Secretary

Cleared with: Messrs. Baum
Piccagli
Sadove/Carmichael
Cheek/Paijmans
Sella/Delaume

Distribution: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-37

August 6, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss procurement and preferences for suppliers under the proposed "Cameroon-Education Project" held in Room A 1212 on July 15, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

LM/M/69-37

August 6, 1969

Minutes of Special Loan ~~Committee~~ Meeting to discuss procurement and preferences for suppliers under the proposed "Cameroon-Education Project" held in Room A 1212 on July 15 at 3:30 p.m.

1. Present: Messrs. Cope (Chairman), Baum, Kurick, Ballantine, Cheek, Burt, de la Renaudiere, Germanacos, Lethem, Wilkinson and Pearce.

2. Issues: During negotiation of a proposed $10.5 million credit to the Federal Republic of Cameroon for an education project, it had been agreed that local manufacturers, who were expected to submit bids for the supply of furniture for the project, would be allowed a 15 per cent preference compared with foreign suppliers. The meeting had been called to discuss (a) the extension of the 15 per cent preference to suppliers in other member countries of the Union Douaniere et Economique de l'Afrique Centrale (UDEAC), the regional customs and economic union between Cameroon, Chad, Central African Republic, Congo (B) and Gabon, (b) the question whether procurement procedures should reflect the preferences normally given to suppliers in the European Economic Community (EEC) by Associated countries, including Cameroon, and (c) the justification for the 15 per cent preference to Cameroon suppliers in view of the exemption from duties of direct imports for Government projects.

3. Decision - Issue (a): The meeting, noting that in two recent loans to Costa Rica (Instituto Costarricense de Electricidad - power and telecommunications), a 15 per cent margin of preference to Costa Rican suppliers had been extended to suppliers in the Central American Common Market, agreed that in this project the 15 per cent preference to Cameroon suppliers could be extended to suppliers in other UDEAC countries.

4. Decision - Issue (b): With respect to procurement of other goods and services for which there were no Cameroon suppliers and where the 15% preference was therefore not an issue, the Chairman raised the question whether or not procurement procedures should reflect the preferences normally given to suppliers in the European Economic Community (EEC) by Associated countries, including Cameroon. It was agreed that, since neither the EEC nor the Government had requested that these preferences be taken into account and in view of the borrower's exemption from payment of duties on these goods and services, there was no reason for the Association to insist that these preferences be taken into consideration.

5. Discussion - Issue (c): The meeting noted that the 15 per cent preference to local suppliers of furniture for the project would be applied (in lieu of duties) even though Government procurement was exempt from payment of duties, whereas exemption from duties for other goods and services was accepted as grounds for not taking these duties into account in the bid comparison. It was pointed out that there was a logical basis for this distinction. It was likely to be the Government's policy to require the borrower to procure goods which could be produced domestically exclusively from local sources in the absence of an IDA project, by means of administrative and other regulations, and to permit imports only when goods could not be procured locally. Import duties were therefore irrelevant since protection was provided through other means. It was therefore appropriate for the Bank to apply a 15% preference in lieu of the protection applied through other means, which would almost certainly be far above 15 per cent. The same reasoning did not apply to goods which were not produced domestically (cf. para. 4 above) and the waiver of duties could be taken as evidence that the Government did not wish to extend to different countries the preferential treatment provided by the duties.

6. Decision - Issue (c): It was agreed that, although Government procurement was exempt from payment of duties, a 15 per cent preference to local suppliers of furniture was justified on the basis of current Bank policy.

David Pearce
Secretary

Cleared with: Messrs. Cope
Baum
Wilkinson

Distribution: Loan Committee
Participants