Loan Committee - Minutes - 1966

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Loan Committee - Minutes - 1966

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

December 15, 1966

LC/M/66-14

Minutes of Loan Committee held on Thursday, December 8, 1966 at 3:00 p.m. in the Board Room

A. Present

Mr. S. R. Cope, Deputy Chairman
Mr. G. Alter
Mr. O.H. Calika
Mr. R. W. Cavanaugh
Mr. E. E. Clark
Mr. M. L. Hoffman
Mr. A. M. Kamarck
Mr. H. B. Ripman
Mr. A. Stevenson
Mr. J. M. Malone, Secretary

In Attendance:

Mr. W. J. Armstrong
Mr. W. Brakel
Mr. L. Cancio
Mr. A. J. Davar
Mr P. Geli
Mr. W. M. Keltie
Miss A. L. Maher
Mr. R. S. Nelson
Mr. M. Ross
Mr. R. B. Steckhan
Mr. M. L. Weiner

B. Mexico - Mexico City Drainage Project

1. The Committee considered the memorandum from the Western Hemisphere Department entitled "Mexico - Proposed Bank Loan for Mexico City Drainage Project" dated December 6, 1966 (LC/O/66-75). Mr. Cope informed the Committee that Mr. Woods had decided against "breaking the link" between the terms enjoyed by the country and those enjoyed by the project, as recommended in the memorandum. Mr. Woods felt that the term of the loan should be based on project considerations and should be uniform between the Bank, the country and the project. He had however left open the question of what the precise term of the loan should be, a question which the Committee was asked to consider.

2. The Committee noted that while the Bank frequently took into consideration the financial position of a project entity in arriving at the term of a loan, this case was different in that the project was not being set up under a separate authority but would be administered by the Department of the Federal District

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which derived its revenues from general tax sources. The idea of making a loan to the Federal District for ten years had evolved from discussions with the Mexican Minister of Finance and had not been based strictly on project considerations as such, but more on the debt servicing and taxing capacity of the Federal District and the internal public financial policy of the Federal Government which had hoped to use the project as a vehicle for imposing additional financial discipline on the Department of the Federal District. The arrangement recommended in the memorandum had been designed to strengthen the hand of the Federal Ministry of Finance in forcing the Federal District to increase public savings from property tax revenues and to make such savings available for high priority investment, either within the Federal District or in other areas. The desired increase in revenues could be achieved however without setting up the Trust Fund as described in the memorandum. While not linking these revenues directly to the project might make it marginally more difficult for the Government to obtain the desired results, the necessary measures could still be made a condition of the Bank loan.

3. Considering these fiscal objectives aside for the time being, the Committee noted that the project itself would have a long economic life and that a 20-year term would not only be appropriate for the project as such but would also satisfy the dual objective of accommodating the country's short term debt service problem, which argued for as long a term as possible. The Committee decided therefore that the Bank should be prepared to negotiate a 20-year loan jointly to the Nacional Financiera and the Department of the Federal District substantially on the basis set forth in the appraisal report.

Adjournment

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

Secretary's Department

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FORM No. 60
(2.65)

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LOAN COMMITTEE

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LC/A/66-13

November 3, 1966

NOTICE OF MEETING

A meeting of the Loan Committee will be held on Wednesday, November 9, at 2:30 p.m. in the Board Room.

AGENDA

Bank/IDA Policy on Reimbursement of Past Expenditures

The Committee will consider the attached report entitled "Bank/IDA Policy on Reimbursement of Past Expenditures", dated November 2, 1966, which was prepared by Mr. Baum in consultation with Mr. Knapp and Mr. Aldewereld.

John M. Malone
Secretary
Loan Committee

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

November 2, 1966

BANK/IDA POLICY ON REIMBURSEMENT OF PAST EXPENDITURES

1. Existing Policy and Practices

Operational Memorandum 6.05 on Loan/Credit Disbursement provides in part as follows:

> "In the course of loan negotiations the Bank may be asked to include in the loan an amount for expenditures for goods and services already made. The Bank may agree to include such expenditures for a period of one year before the date of approval of the loan by the Executive Directors. In very exceptional circumstances the Bank may include expenditures made more than one year earlier, but the enterprise has to demonstrate that there is really urgent reason to do so and that it could not be reasonably expected to finance these 'old items' of expenditure out of its own resources."

A study has been made of all of the loans/credits made in calendar 1966 (through October) in the fields of agriculture, education, public utilities, transportation and water supply. Of the 41 loans/credits, 24 included some item of reimbursement. In most cases, the amount of the reimbursement was small and in the aggregate the reimbursements amounted to 13% of the total value of the loans/credits. These figures include the India railway credit, the Japanese expressway loan and the Singapore power loan; if these three are excluded, the proportion drops to 7%.

The reimbursements covered most of the items normally included in a project, from consulting services for preliminary engineering and feasibility studies through detailed engineering to expenditures for civil works and the purchase of equipment. In terms of numbers, most of the reimbursable items were consulting services involved in the preparation of the project, but construction items and equipment were the more important in terms of value.

A study has also been made of the 70 projects which are now in the pipeline (i.e. which have been appraised or are nearing appraisal). In 25 of these projects, or roughly 35%, some item of reimbursement has been proposed; however, the amounts involved are very small, and in total the reimbursable items account for less than 3% of the value of the loans/credits.

2. Issues Involved

Reimbursement for past expenditures is subject to the criticism that it amounts to a "free" transfer of foreign exchange. It should therefore not normally be included in project financing. However, an advance undertaking to consider reimbursement of certain items if and when a project is brought to the stage of loan or credit negotiations may, in selected cases, have certain positive advantages. These are:

a) It may provide useful leverage to persuade the Borrower to undertake the necessary preliminary studies;

b) It may help finance the studies and engineering required before a project can be appraised, without the time-consuming process of a UNDP grant or an engineering loan/credit; and

c) It may make it possible for urgent works to proceed promptly, and by accelerating the timetable of the project bring its benefits at an earlier date and enhance the economic return.

It is concluded, therefore, that some reimbursement of past expenditures should be permitted in justified cases. However, the rules and procedures should be tightened to make it clear that such reimbursement is considered exceptional and the need for it must be established in each case; also, more rigorous time limits should be fixed for reimbursement, and prior approval from the appropriate Department Heads should be obtained before entering into any undertaking with the prospective Borrower to consider items for eventual reimbursement. In any case such undertakings should explicitly reserve the right of the Executive Directors to review the matter when they consider the relevant loan or credit agreement. Specific recommendations along these lines are set forth below.

3. Criteria to be Followed

The decision whether or not to accept an item for reimbursement involves a consideration of all the factors in each case, and no hard-and-fast rules can be laid down. The following are some of the principal points to be taken into account:

a) Urgency - The degree of urgency attached to the procurement of the consulting services, civil works, or equipment for which reimbursement is requested.

b) Alternative Sources of Financing - The extent to which the Borrower might reasonably be expected to provide the necessary funds from its own resources, or from other sources of permanent financing.

c) Amount - At one extreme, the amount should not be de minimis; at the other, it should not be so large as to constitute a substantial part of the cost of the project. No specific limits are suggested, since they depend both on the absolute amount of the item and on its size relative to the total.

d) Time Period - The older the item, the stronger are the objections to reimbursement. Specific time limits are recommended below.

e) Purpose - Reimbursement is in principle more acceptable for consulting services (feasibility studies, management studies, preliminary and/or detailed engineering) required before the project can be appraised and negotiated, than for the initial expenditures on civil engineering works, equipment purchases, or similar items which are the main purpose of the project itself.

f) Extent of Advance Consultation - The absence of advance consultation on the matter between the Bank/IDA and the Borrower prior to negotiations makes reimbursement more objectionable.

4. Recommendations

The following rules and procedures should be followed in the future in handling requests for reimbursement:

a) No undertakings to consider items for reimbursement should be made by missions in the field. All such requests should be referred to the Working Party, which will examine each case on its merits, taking into account the criteria referred to above. The recommendation of the Working Party should be approved by the Department heads concerned (Area and Projects, and Development Services in the case of feasibility studies).

b) The recommendation should take into account the criteria outlined above, and approval should be given only in cases in which it is judged that it would not be possible or appropriate, for reasons beyond the Borrower's control, to proceed at once to loan or credit negotiations.

c) The maximum limit for the reimbursement of engineering services should be 12 months and for civil works and equipment six months, to be exceeded only in most exceptional circumstances; even within these limits any reimbursement must be considered as exceptional and has to be justified on its merits.

d) Reimbursement should be approved only if the procedures followed are acceptable to the Bank (selection of consultants, prequalification of contractors, international competitive bidding, etc.).

e) It should be made clear to the Borrower that the expenditure for which reimbursement is requested is made at its own risk, and that the Bank/IDA's agreement to consider the item for reimbursement in the event that a loan/credit is made implies no commitment on behalf of the Executive Directors. Borrowers should also be informed that the passage of time before the relevant loan or credit agreement can be presented to the Executive Directors, even if the delays are for reasons beyond the Borrower's control, may make it increasingly difficult - if not impossible - to recommend inclusion of the reimbursement in the eventual loan/credit.

W. C. Baum
Projects Department

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INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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LC/A/66-12/1/a

October 24, 1966

MEMORANDUM TO THE LOAN COMMITTEE

Report on Review of Disbursement Policies of the Bank and the Association

Attached is a draft by Mr. Nurick to be considered at this afternoon's meeting of the Loan Committee in conjunction with the Report of the Committee on Disbursement Policies, dated June 21, 1966.

John M. Malone
Secretary
Loan Committee

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October 24, 1966
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EFFECT OF CHANGES IN COST ON AMOUNTS OF LOANS; LOAN POLICY ASPECTS

1. The report on Disbursement Policies of the Bank/IDA points out that in some cases the disbursement technique used in disbursing a loan may itself affect the amount of a loan if there is a saving in the total cost of a project or its foreign exchange component; and the report recommends that it be decided in each case as a matter of loan policy whether it is intended that a saving in the cost of the project or its foreign exchange component should or should not automatically result in a reduction of the amount of the loan. The disbursement technique on the loan can then be adapted to this decision. This memorandum summarizes the main aspects of loan policy involved and suggests certain criteria to be used in making such a determination. This memorandum applies to both Bank loans and IDA credits.

2. Whether or not to reduce the amount of a loan if the project costs less than was originally estimated depends essentially on the rationale by which the amount of the loan was determined in the first place. The basic issue of loan policy is whether the Bank intends (i) to finance a particular portion of the total cost of a project or the costs of particular goods, (whether that portion or those goods represent foreign exchange costs or local costs) or (ii) whether it intends to supply the borrower with a given amount of foreign exchange regardless of the cost of the project. In the former case the Bank should expect to share in any savings in the portion it intended to finance; in the latter case, it should not. In determining that question, clearly all

the circumstances of the loan should be examined and in view of the wide variety of loans which the Bank makes and the many different reasons why the Bank makes them, it is difficult to lay down precise rules which can fit all cases. It is possible, however, to prescribe some general criteria which can be applied, although with discretion.

3. For this purpose, it would be useful to try to break down into categories the various ways in which the Bank determines the amount of its loans. These categories together with comments about each of them are set out below. The breakdown is based not only on the loan documents themselves but also on the rationale for the loans which, although not reflected in the loan documents, has been used in determining the amount of the loan. It should be emphasized that these categories are broad and that particular loans may well overlap into more than one category and some loans may not fit into any of them.

(i) A loan made for a well defined project designed to cover only part or all of the actual foreign exchange costs, e.g. a loan to construct a dam or power plant in a country where the Bank wants to lend only for foreign exchange expenditures on a specific list of goods.

In this kind of a case, the amount of the loan is related specifically to the actual foreign exchange cost. Consequently, if the foreign exchange cost were reduced, the amount of the loan could be correspondingly reduced without jeopardizing the successful completion of the project. This would appear, therefore, to be a clear case where (unless the circumstances described in paragraph (IV) are present) the general principle of Bank sharing should be followed.

(ii) A loan intended to finance a specific list of equipment or services required for a project, but without regard to whether, as the result of international competitive bidding, the procurement is undertaken in foreign or local currency, e.g. the power loans to Brazil and Mexico.

It would seem that the same considerations which apply to the loan described in paragraph (i) should also be applied in this case.

(iii) A loan which is designed to furnish a given amount of foreign exchange, such amount being based on the notional (estimated) foreign exchange cost of a project:

In this case, in view of the difficulties in continuing to keep this notional cost under review, it would not be practical to provide for a reduction of the loan based upon a reduction in such notional cost. However, if total project costs are reduced, the general principle of Bank sharing should be followed unless the borrower can demonstrate that the notional foreign exchange cost will not be covered if the amount of the loan is reduced.

(iv) A loan which is designed to furnish a pre-determined amount of foreign exchange and where the project has been chosen simply as the vehicle for supplying the given amount of money, e.g. loans to Italy, Japan, Australia and Yugoslavia; the Indian import loan.

These cases are at the opposite extreme from those described in paragraphs (i) and (ii) above, even though the loans may be for specific, well defined projects. Since the purpose of loans of this kind is to furnish a given amount of foreign exchange, the Bank should not share in a reduction in the cost of the project.

4. In between these extremes are other types of loans which are more difficult to classify. These are loans where the rationale for the amount of the loan is a mixture of project considerations and considerations regarding the economy of the country. Here too, it would seem that the Bank should adopt as a general rule the principle that it shall share (or have the right at its option to share) in any saving in the cost of a project, unless the circumstances are such as to indicate that this may defeat the purpose of the loan.

(v) A loan for a specific, well defined project, but (usually in the case of relatively poor countries) where the amount of the Bank contribution is determined not by the foreign exchange component or any other specified requirements of the project but rather by a judgment of what the Bank should lend in the light of the ability of the country to contribute to the cost of the project.

If there is a reduction in the total cost, it would seem that the Bank should share in that reduction; for if the actual cost had been known to the Bank when it made the loan presumably the Bank would have correspondingly reduced the amount of the loan in the first place. Furthermore, in a case like this, it would appear to make no difference whether the reduction in cost is due to a reduction in the foreign exchange cost (actual or notional) or in the local cost. For, no matter where the reduction lies, the amount of the loan can be reduced without jeopardizing the successful execution of the project, (except perhaps where the country is short of foreign exchange and the reduced loan would not even cover the actual foreign exchange cost).

(vi) A loan which is designed to finance an instalment of a continuing program, e.g. a loan which is designed to cover say the expenditures over two years of a railway program lasting five years or an agricultural credit loan which is designed to finance the importation of foreign equipment as part of a general agricultural program.

This kind of a case is one which may be in the middle of the extremes and where the result will depend particularly on the circumstances.

For example, let us take a case where the loan is designed to pay for the cost of say, 10 locomotives or 100 tractors and the amount of the loan is based on their estimated cost. If their actual cost is less than estimated and the loan can then be usefully applied to additional locomotives or tractors, there would be no point in reducing the amount of the loan. On the other hand, it may be that the railroad or agricultural program being financed cannot usefully employ additional locomotives or tractors (or that the Bank is not certain when the loan is made that it can do so); in that case, the Bank should have the right to share in any saving.

5. Many loans do not fit neatly into the above categories and the rationale for determining their amount may be based on a consideration of factors about which it would be dangerous to generalize. For example, the amount of a loan to a private or a government corporation may be based on the working capital needs of the borrower; in such a case, to reduce the amount of a loan because of a reduction in project costs might weaken the financial position of the borrower. Cases of joint financing with other lenders (e.g. the Volta loan in Ghana) often involve special circumstances and should be examined case by case.

6. Once it is decided as a matter of loan policy whether or not to reserve to the Bank the right to reduce the amount of the loan because of a reduction in cost, suitable contractual arrangements for disbursement should then be made. This memorandum does not discuss the various arrangements which could be entered into. However, it should be noted that in a special case where there is doubt when a loan is made whether or not the Bank should share in a saving in cost, the arrangements could be such as to give the Bank the right to share and the Bank could then decide at the proper time whether or not to exercise the right.

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INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/A/66-12/2

October 24, 1966

NOTICE OF MEETING

A meeting of the Loan Committee will be held on Wednesday, October 26, at 2:30 p.m. in the Board Room.

AGENDA

Report on Review of Disbursement Policies of the Bank and the Association

The Committee will continue its discussion, begun on October 12, of the report of the Committee on Disbursement Policies, dated June 21, 1966, beginning with Chapter IX on page 24.

John M. Malone
Secretary
Loan Committee

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LOAN COMMITTEE

Mr Ballantine

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LC/A/66-12/1

October 21, 1966

NOTICE OF MEETING

A meeting of the Loan Committee will be held on Monday, October 24, at 2:30 p.m. in the Board Room.

AGENDA

Report on Review of Disbursement Policies of the Bank and the Association

The Committee will continue its discussion, begun on October 12, of the report of the Committee on Disbursement Policies, dated June 21, 1966.

John M. Malone
Secretary
Loan Committee

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

September 8, 1966

LC/M/66-11

Minutes of Loan Committee Meeting held on Friday, September 2, 1966, at 3:00 p.m. in the Board Room

A. Present

Mr. J. Burke Knapp, Chairman	Mr. S. R. Cope
Mr. S. Aldewereld	Mr. R. J. Goodman
Mr. G. Alter	Mr. A. M. Kamarck
Mr. R. W. Cavanaugh	Mr. J. H. Williams
Mr. E. E. Clark	Mr. J. M. Malone, Secretary

In Attendance:

Mr. P. E. Booz	Mr. F. Povey
Mr. B. Chadenet	Mr. J. D. Roulet
Mr. G. F. Darnell	Mr. W. B. Schick
Mr. X. de la Renaudiere	Mr. S. Takahashi
Mr. G. R. Delaume	Mr. A. R. Whyte

B. Cameroon - Proposed Bank Loan and IDA Credit for a Plantation Project

1. The Committee considered the memorandum of August 30, 1966 from the Africa Department entitled "Cameroon - Proposed Bank Loan and IDA Credit for a Plantation Project" (LC/O/66-54).

2. The Committee noted that the proposed amount of IDA assistance was based primarily on country grounds, but had been adjusted slightly to take account of certain aspects of the project. Taking account of other projects in the present pipeline, the Cameroons would be receiving an IDA blend of about 3:1. Although the IDA funds would be fully disbursed before disbursement of the Bank funds would begin, the Africa Department felt that it would be adviseable to make a firm Bank commitment now in order to encourage the completion of CAMDEV's development program, to permit CAMDEV's management to plan on a long term basis and to ensure the benefits of the investment in new planting by providing funds for the processing facilities required to realize them.

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3. The Committee noted the recommendation in paragraph 48 of the Appraisal Report, that exemption of CAMDEV from import duties be made a condition of any Bank loan or IDA credit for the project. In the past, however, the Bank and IDA had accepted existing import duties, even those of a discriminatory nature, and, although maintaining the import duties and taxes at their existing levels would complicate tendering for the equipment needed for the project because of Common Market preferences and would lessen the financial benefit of the project to CAMDEV, it was felt that the Bank and IDA should not insist on an exemption as a condition of their financial assistance. CAMDEV had recently applied to the Federal Government for such an exemption, for which statutory provisions existed, and it was possible that an exemption would be granted in due course. If the exemption were not granted, the Bank and IDA should require the Government to contribute corresponding additional equity to CAMDEV especially in view of the fact that the Bank and IDA were prepared to finance substantial portions of the local costs of the project.

4. With regard to the need for making the entire commitment now, rather than adopting a two-tranche approach, the Committee noted that, in spite of the fact that IDA funds would be drawn down first, to some extent avoiding the IDA "disbursement problem", the overall disbursement period would still be seven years, which was longer than usual. However, one of the provisions of the Bank's new agricultural policies at the beginning of 1964 had been to accept, when necessary, slowly maturing projects which contributed to long-range agricultural development. The project at hand was a classic case, and, while the proposed disbursement period did not encompass the entire development program, which was ongoing and would not stop with the end of Bank/IDA disbursements, seven years was the minimum period which would encompass both the costs of the new planting and those of the processing facilities which were necessary to obtain the corresponding benefits. It was noted further that a scaling-down of the project, i.e. financing less new planting at one end and less processing facilities at the other, might decrease the amount initially committed, but would not have any significant affect on the overall period of disbursement. However, it might significantly reduce the profits to be realized by CAMDEV.

5. With regard to the definition of the cost of the project and the relative proportions to be financed by the Bank and IDA and other sources of finance, it was noted that the presentation in the Appraisal Report made it difficult to relate the amount of Bank/IDA assistance to the cost of the project, which was not clearly defined. It was agreed that the presentation of project costs and their allocation between various sources of finance should be clarified to enable the reader to see more easily what proportion of the costs was being financed by Bank/IDA assistance. The Committee noted in this connection the recommendation of the Africa Department, which was supported by the Economic Committee, that the Bank group cover at least 75 per cent of the total cost of projects in the Cameroon.

6. A number of presentational changes in the Appraisal Report were recommended, including, among others, the deletion of paragraph 56.

7. The Committee agreed with the recommendation that we finalize our discussions with FED for a coordinated approach to the financing of CAMDEV's development program, and then invite the Cameroon Government and CAMDEV to send representatives to Washington to negotiate a $7 million Bank loan and an $11 million IDA credit for the financing of CAMDEV's development substantially on the conditions set forth in paragraph 81 of the Appraisal Report (but subject to the conclusions stated in paragraph 3 above).

Adjournment

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

Secretary's Department

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/66-10

August 12, 1966

Minutes of Loan Committee Meeting held on Wednesday, July 27, 1966 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. S. Aldewereld
Mr. E. E. Clark
Mr. S. R. Cope
Mr. B. A. de Vries
Mr. A. G. El Emary
Mr. M. L. Hoffman
Mr. F. Povey
Mr. H. B. Ripman
Mr. M. L. Weiner
Mr. M. A. Saeed, Secretary

In Attendence:

Mrs. G. Fleming
Mr. D. Avramovic
Mr. O. H. Calika
Mr. L. Hansen
Mr. V. W. Hogg
Mr. F. Lutolf
Mr. J. M. Malone
Mr. C. W. Pinto
Mr. A. Rivkin
Mr. C. White
Mr. G. C. Wishart

B. Nigeria - The Kainji Project and the Overall Resource Gap 1966/67

1. The Committee considered the Memorandum of July 22, 1966 from the Africa Department entitled "Nigeria - The Kainji Project (Niger Dams Authority) and Nigeria's Overall Resource Gap" 1966/67 (LC/O/66-51).

2. Mr. El Emary summarized the background of the two alternatives suggested in his Memorandum. He emphasized that the proposals outlined for the Kainji Project should be viewed in the light of a minimum resource gap for the economy as a whole of $53 million for the current fiscal year (April 1966-March 1967). This was not a balance of payments but a budgetary gap which required

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additional non-project and/or local currency financing. The gap had emerged due to the shortfall in external financing of the public sector program which was expected at 50% during the Nigerian Six Year Development Plan but was forthcoming at the rate of only 16% in the first three years of the Plan. Given the support expressed by the Consultative Group for the Plan and the Bank's participation in defining the minimum resource gap, the Nigerians now looked to the response to their request for additional financing as a test of the continued effectiveness of the Consultative Group. The Africa Department considered the Kainji Project as the best vehicle open to the Bank of disbursing additional funds during the current fiscal year. The possibility of the United States releasing part of the remaining $12 million of its loan for Kainji for expenditures outside the U.S. as well as the possible contribution of certain European countries towards financing the Niger Dams Authority and thereby helping to fill the resource gap would in all probability depend on the Bank taking the initiative.

3. Mr. Knapp suggested that the first question was of financing Kainji Dam and this should be considered only in the light of the revised cost estimates and the additional foreign exchange component of these costs. The original cost estimate for the Project was $208 million, of which the Bank and other borrowers undertook to finance foreign exchange costs of $141.7 million, some 70% of the total cost. The preliminary revised estimates put the total cost at $236 million with a foreign component of $159 million. The first question should have been how to finance the $17 million of additional foreign exchange cost, and the $12 million left uncovered by the U.S. Loan. Instead, the proposal concentrated on local financing leaving the additional foreign exchange requirement uncovered. He also emphasized that one third of the cost was still a modest contribution to be expected from the Nigerian Government.

4. It was noted that the choice between the alternatives proposed by the Africa Department and the one offered by Mr. Knapp was in part a question of timing. If the Bank financed only part of the foreign exchange cost and no other donor provided local cost financing, the Nigerians would hardly receive any relief for the 1966/67 resource gap. If it was impossible to help finance the project along one of the lines suggested by the Africa Department, the problem of the resource gap would still remain.

5. It was suggested that the Consultative Group had been set up to deal precisely with problems like the resource gap in question, and therefore those members of the Consultative Group who were concerned with the Kainji Project should be asked to look into the matter. It was agreed, however, that the Bank should have a definite position of its own in mind before approaching these countries.

6. A question was raised as to the possibility of the United States releasing any of the remaining $12 million for local currency costs, and whether any of the countries benefitting from the orders for NDA, could be asked to provide additional financial assistance for the project. Mr. El Emary replied that the chances of getting the U.S. to release funds for local currency costs were uncertain. So far as the possibility of other countries providing finance for this portion was concerned, he said that part of the orders had gone to India from which it was obviously difficult to expect a contribution.

7. A question was raised whether the execution of the Nigerian Development Program would suffer in the event of the failure of the Bank to supply additional funds for the project. Mr. El Emary suggested that it certainly would as the balance of the development program was not only fixed but for the most part concerned on-going projects already externally financed. Some of these projects might have to be reduced or delayed, a possibility which the Bank would strongly advise Nigeria not to follow. Mr. Knapp replied that he would have thought the Nigerian overall program was sufficiently large and flexible so that it could be expected to make adjustment for such emergencies.

8. Mr. Knapp said that whereas the Bank might be prepared to finance up to 60% of the additional foreign costs of the Kainji Project, it was hard to believe that the Nigerians could not finance the local costs for this highest priority project. The Bank could not distort its lending approach by pumping more money into this project in order to fill a resource gap in the economy.

9. The Committee agreed that

(a) The Bank should be willing to study the possibility of helping to finance the additional foreign exchange component of the Project when revised cost estimates are available.

(b) The problem of resource gap should be brought up with members of the Consultative Group and the Bank should have definite proposals for them to discuss.

C. Adjournment

10. The meeting adjourned at 4:30 p.m.

FORM No. 60
(2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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JUN 13 2014
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July 14, 1966

LC/M/66-9

Minutes of Loan Committee Meeting held on
Wednesday, June 29, 1966 at 2:30 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. I. P. M. Cargill
Mr. B. A. de Vries
Mr. D. J. Fontein
Mr. P. C. Loh
Mr. F. R. Poore
Mr. H. B. Ripman
Mr. A. Stevenson
Mr. J. H. Williams
Mr. J. M. Malone, Secretary

In Attendance:

Mr. R. Jones
Miss A. L. Maher
Mr. G. S. Mason
Mr. O. J. McDiarmid
Mr. S. N. McIvor
Mr. G. C. Wishart

B. Pakistan - Lending Policy

1. The Committee considered the memorandum of June 24, 1966 from the South Asia Department entitled "Pakistan - Lending Policy" (LC/O/66-46).

2. The Committee was informed that the Bank would be recommending to the Consortium total aid of $550 million this year, of which approximately $300 million would be for projects and $250 million would be in the form of non-project aid. A speedy decision on the latter was most important to the Pakistan Government since in mid-July they were planning to re-introduce, and if possible, expand the program of import liberalization.

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3. It was noted that Pakistan's economic performance had been good, though one unpleasant surprise had been contained in the new budget recently announced in Pakistan. The revised estimate of defense expenditures during the fiscal year 1965-66 had been considerably higher than the amount which the mission had been given and which had been used in the report to the Consortium. The level of defense expenditure had resulted in a resort to deficit financing, and stronger monetary measures would probably be needed in the coming year to offset the impact of this deficit on the price level and the balance of payments. The Bank was satisfied, however, with the increase in domestic resource mobilization for the financing of the development program, the share of which would rise from 47% to 51% in the coming year. These additional savings were made possible by a projected 30% increase in tax revenues combined with a 17% cut in defense expenditures from their estimated level in 1965-66. In the coming year the Government hoped to avoid any further recourse to deficit financing aside from that amount which they expected to be offset by foreign budgetary support assistance.

4. The Government had submitted a list of projects for consideration by the Consortium, requiring total assistance of $400 million but a number of these were not ready for financing. Of the $300 million of projects which the Bank thought could be ready to go forward, roughly half consisted of additional assistance for projects or enterprises already assisted in the past. Thus only about $150 million represented new projects.

5. The Committee noted the Economic Committee's conclusion that Pakistan should continue to be classified as a soft blend country. However in view of Pakistan's recent good performance in exports there was still room in 1966/67 for additional Bank lending. The Part I countries had already been informed that IDA would probably allocate about $60 million for Pakistan this year. On the Bank's side, PICIC should be able to use about $35 million, making a total Bank/IDA contribution of about $95 million. This, when compared with the total figure of $550 million, was roughly similar to the Bank/IDA share in previous years.

6. It was noted that the structure of industry in Pakistan, unlike that in India, made it difficult for the Bank and IDA to provide non-project assistance for industrial imports on the Indian model. Last year we had supported the liberalization program through a $25 million IDA credit for the import of

commercial vehicle components for assembly in Pakistan. We had had problems with some Executive Directors on this credit and if they were not solved satisfactorily some other means would have to be worked out for providing the necessary amount of non-project assistance this year.

7. It was noted that the recent emergency had resulted in an interruption in the processing of projects. Furthermore, the general tendency for the Bank and IDA to hold off until the preparation of projects was further advanced had added to the pause. The project pipeline was therefore not as full as would have been desirable.

8. With regard to the proposed financing of 60 percent of project costs it was noted that no rigid cost sharing formula was used for Pakistan, but that the wide gap between the direct foreign exchange needs of projects and the total foreign exchange needs argued in favor of financing a higher share of projects costs where this could also be justified on project grounds. It was noted that raising the percentage of costs to be financed on projects would provide only with some delay resources which could be used to support the import liberalization program, due to the fact that disbursements on projects are normally spread over a number of years. However, action now would ease the problem in future years.

9. The Committee considered that the Bank and IDA should be prepared to commit during the fiscal year 1966-67 $35 million from the Bank and $65 million from IDA, or a total Bank/IDA contribution of $100 million. The Bank share would probably consist of a loan to PICIC, while the IDA share might contain a substantial amount of assistance to support the liberalization program.

Adjournment

10. The meeting adjourned at 3:50 p.m

Form No. 60
(2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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June 9, 1966

LC/M/66-8

Minutes of Loan Committee Meeting held on
Thursday, May 26, 1966 at 3:00 p.m in the Board Room.

A. Present:

Mr. J. Burke Knapp, Chairman	Mr. A. M. Kamarck
Mr. B. Chadenet	Mr. F. R. Poore
Mr. S. R. Cope	Mr. A. Stevenson
Mr. A. G. El Emary	Mr. M. L. Weiner
Mr. R. J. Goodman	Mr. J. M. Malone, Secretary

In Attendance:

Mr. J. H. Adler	Mr. T. M. Jones
Mr. W. C. Baum	Mr. R. A. D. Loven
Mr. G. C. Billington	Mr. F. Lutoff
Mr. M. Cojot	Mr. F. Povey
Mr. J. N. E. De Gryse	Mr. L. B. Rist
	Mr. J. D. Roulet

B. Mali and Senegal - Railway Projects

1. The Committee considered the memoranda of May 24, 1966 from the Africa Department entitled "Mali - Railway Project" (LC/O/66-38) and "Senegal - Railways Project" (LC/O/66-39).

2. The Committee noted that the proposed credits, which had been under consideration for a long time, would be the first IDA credits to be made to each of these countries. Consideration of the project had been delayed in part by the very difficult economic position and unsatisfactory performance of Mali. While the Government had agreed in general to the measures recommended by the Bank, some clarification of its economic policies would have to be obtained during negotiations, including a more specific indication of its policies on the price of groundnuts. Senegal's economic performance on the other hand was satisfactory and Senegal had recently been categorized as a "soft blend" country. After the proposed Railway Projects there was little

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if anything in sight in the way of additional projects for Bank/IDA assistance in the two countries, except for a possible port project in Senegal. In view of the uncertainty surrounding Mali's economic performance, however, it would be of great help if additional projects suitable for IDA assistance could be found to provide as much incentive as possible for the Government to adopt the politically difficult measures which were being recommended.

3. With regard to the projects themselves it was noted that the proposed amendment of the Convention to allow for different freight rates in each country on international traffic would probably be the most difficult question to negotiate. With regard to the arbitration procedure proposed it was noted that, as a result of its rate covenants, the Association itself would be an interested party in the event of any proposed rate increases and therefore might become involved in a conflict of interest if called upon to nominate an arbitrator in case of a dispute. As an alternative solution, it was suggested that in case of dispute over a proposed rate increase, the arbitration procedure provided for in the Convention should apply. However, in order to avoid undue delays, the Committee felt that the Convention should be amended to give either party the right to invoke such arbitration procedure. The arbitrator, to be appointed by the President of the International Railway Federation (UIC), should not require the consent of the Association as a condition of his appointment.

4. The further condition that no material change could be made in the Convention without the prior approval of the Association was felt to be too far reaching and when credit documents were drafted the condition should be qualified to spell out more specifically what IDA's interest was, limiting the condition, say, to "changes adversely affecting the project". Whether or not this condition should be made a covenant or an event of default depended on the borrower's attitude during negotiations, since in some cases it was unconstitutional for the government to make such a covenant. In either case, however, the effect would be the same.

5. A supplementary letter would specify targets for rates of return on net fixed assets up until 1970-71, with the provision that similar or higher rates of return should be achieved thereafter. However, these targets should not be made absolutely inflexible in view of the fact that the railways did not enjoy a monopoly but were open to competition from road transport and hence could not effectively control the level of their profits within the time span of one year. The supplementary letter should therefore stipulate that the railways would take "all reasonable steps" to achieve these target rates by the indicated dates.

6. The Committee considered the proposed reimbursement by IDA of expenditures on project items going back to January 1, 1965, a problem accentuated by the fact that these expenditures had been financed by means of suppliers credits rather than by advances out of the borrower's own funds. It was noted that the delay in the consideration of the projects had been partly due to conditions imposed by the Association unrelated to the projects themselves. Moreover, the latter had been under active consideration for some time preceding the date when the expenditures in question were made. In view of the precarious position of the railways at the time the orders were placed, the act of entering into the suppliers credits in question had been a sound decision and in fact the only way of keeping the railways operating, and it was clear that the credits had been obtained in anticipation of reimbursement from IDA.

7. With regard to the conditions peculiar to the Senegal project, it was noted that an explicit criterion would be negotiated for the allocation of the groundnut traffic to the railways versus road transport on the basis of comparative cost rather than on political grounds as had been the practice in the past. With regard to the coordination of transport in Senegal, all that was sought was a clarification of the Government's policy. When this had been obtained it would be possible to judge whether or not the policy was adequate. Finally, it was noted that the target rates of return for 1970-1971 should be 5% in both cases rather than 5% in Senegal and 5.1% in Mali.

8. In general, it was noted that the reason for specifying such a large number of detailed conditions and issues to be clarified during negotiations was the fact that the railways were in precarious financial condition, thereby making it necessary to obtain firm assurances on practically every point affecting the railways' operations.

9. The Committee agreed with the recommendation that we proceed with negotiations of IDA credits of $9.1 million for the Mali railway project and $9 million for the Senegal railways project, substantially in accordance with the conditions outlined in the respective appraisal reports, except for the above-mentioned modification of the proposed arbitration procedure and the provisions regarding changes in the Convention; and that in view of the complementary nature of the projects part of the negotiations of the two credits be held with both borrowers concurrently.

C. ADJOURNMENT

The meeting adjourned at 4.45 p.m.

FORM NO. 60
(2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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LOAN COMMITTEE

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June 3, 1966

LC/M/66-7

Minutes of Loan Committee Meeting held on
Friday, May 20, 1966 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. A. Broches 1/
Mr. R. W. Cavanaugh
Mr. B. Chadenet
Mr. S. R. Cope
Mr. B. A. de Vries
Mr. A. G. El Emary
Mr. L. Nurick
Mr. A. Stevenson
Mr. G. M. Street
Mr. J. M. Malone, Secretary

In Attendance:

Mr. L. Cancio 1/
Mr. R. A. Chaufournier 1/
Mr. W. Diamond (IFC)
Mr. R. J. Gavin
Mr. A. Gue 1/
Mr. F. H. Howell
Mr. S. S. Husain 1/
Mr. D. W. Jeffries (IFC)
Mr. T. M. Jones
Mr. W. M. Keltie 1/
Mr. F. H. Lamson-Scribner 1/
Mr. D. C. Lecuona 1/
Miss A. L. Maher
Mr. O. Maiss
Mr. M. Piccagli
Mr. D. Richardson
Mr. L. B. Rist
Mr. O. A. Schmidt 1/
Mr. I. A. Sirken 1/
Mr. G. Vacchelli
Mr. M. L. Weiner 1/
Mr. G. K. Wiese
Mr. V. Wouters

B. Brazil - Future Lending Operations

1. The Committee considered the memorandum of May 17, 1966 from the Western Hemisphere Department entitled "Brazil - Future Bank Lending Operations" (LC/O/66-36).

1/ Brazil only

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2. The Committee was informed that the forthcoming popular election in the fall would probably not result in an impressive mandate for the Government, and that there was a possibility of a deterioration in the Government's support which might undermine some of the economic reforms which the Government had undertaken. However, the Bank's minimum conditions for lending would remain unaltered and, while the findings of the economic mission which had just returned from Brazil cast some doubt on the Government's intentions, it was felt that there was still a reasonable chance of achieving these goals. There would be another discussion in the Economic Committee on the findings of the mission as well as further discussions with the Brazilian authorities, particularly on the point of maintaining a flexible exchange rate which the Brazilians seemed extremely reluctant to do.

3. The Committee's attention was drawn to the estimated "international procurement component" of the five projects proposed for Bank lending in paragraph 10 of the memorandum. It was explained that the "international procurement component," as distinguished from the foreign exchange component, referred to all items of procurement which lent themselves to international competitive bidding and thus represented the maximum foreign exchange requirement. Since domestic suppliers enjoyed a 15% preference margin in the evaluation of bids, the actual foreign exchange requirements for the projects were likely to be less.

4. With regard to the projects themselves, the Committee noted that the proposed Bank lending program had purposely been estimated somewhat on the high side in order to provide the Brazilians with the largest possible incentive for achieving the necessary institutional changes. In any case, the program now proposed was still too far in the future to provide the basis for an accurate assessment of project costs or loan amounts.

5. With regard to the proposal that a margin of preference be applied to domestic contractor's overheads and profits on the highway projects,the issue was left for later decision. On one hand, it was felt that this would increase the complications regarding the selection of a proper base for calculating the margin of preference for domestic suppliers in general, including contractors. The Area Department informed the Committee that, on the other hand, the proposal was intended as a way of getting Brazil to abandon its current policy, which amounted to virtual total exclusion of foreign contractors from bidding on public works. In any case Brazilian contractors would probably not need a margin of preference to win the bidding on the highway projects because of their natural cost advantages. It was noted that the winning bid for the civil works on the Jaguara power project had been submitted by a Brazilian firm and was 25% less than the lowest foreign bid.

6. With regard to the proposed informational meeting on Brazil in July, the Area Department was planning discussions with Minister Campos the following week, but felt that little could be accomplished by such a meeting in view of the uncertainties surrounding the elections and their possible effect on the Government's economic performance. (It was subsequently decided, however, at the request of Minister Campos to proceed with plans for the meeting as scheduled).

7. The Committee agreed with the recommendation that the Bank:

a) prepare to be in a position to lend up to $150 million to Brazil for the projects described, or suitable alternatives, starting in January 1967, subject to the conditions spelled out in paragraphs 4, 5 and 9 of the memorandum and subject to political developments; and

b) continue its long-term program of project identification and preparation in the fields of power, industry, transport and agriculture.

C. Turkey - Lending Prospects and Proposed IDA Credit for an Industrial Bank (TSKB)."

1. The Committee also considered the memorandum of May 16, 1966 from the Europe and Middle East Department entitled "Turkey - Lending Prospects and Proposed IDA Credit for an Industrial Bank (TSKB)." (LC/O/66-35). At the meeting, the Europe and Middle East Department also submitted for the Committee's consideration the attached supplementary note to memorandum LC/O/66-35.

2. The Committee noted that Turkey was classified as a blend country although it had not received a Bank loan since the early 1950's. The Committee accepted the special reasons advanced by the Area Department for allocating $15 million of IDA money to the present operation, but in view of the fact that there was a demonstrated need for $25 million of external financing for TSKB during the next two years, the question was raised of whether an additional $10 million might not be provided in the form of a Bank loan. Against this proposition, it was argued that, since the amortization payments on a Bank loan would be geared to the repayments from sub-borrowers, and since the average term of TSKB's loans was less than 8 years, this would place the Bank in an embarrassing position vis-a-vis the Turkish Consortium in the light of the emphasis placed on Turkey's debt burden problem during the Consortium discussions. It was pointed out, on the other hand, that TSKB could allocate to the Bank loan their longer loans, and that in any case many development banks in countries with a relatively weak financial position (e. g. ICICI and PICIC) had been able to accept relatively short amortization periods with the understanding that they could come back to the Bank for new foreign exchange resources as required. Furthermore, a blend of $15 million IDA credit and a $10 million Bank loan would produce a reasonably "soft blend" total even if the amortization period on the Bank loan was rather short.

3. With regard to the possibility of a second private development finance institution, it was not known whether sufficient demand existed to support such an institution, but it was felt that encouragement should be given to indigenous efforts which complemented those of the TSKB rather than competing with them. Furthermore, before considering filling the gap with a new private institution, the Bank and IFC should endeavor to find out why the existing institution was not filling the gap itself, as stated in paragraph 26. This question should be raised with the representatives of the TSKB during negotiations.

4. With regard to the Turkish electric power industry, the Bank had recently been disappointed to learn that the proposal submitted to the Turkish Parliament for a national power authority had not been at all what the Bank had hoped for. Thus, in some respects, we were back where we started with regard to possible technical assistance. However, the Bank should not give up its efforts to secure a proper re-organization of the industry.

5. The Committee agreed that the suggestion of making a $10 million Bank loan in conjunction with the proposed $15 million IDA credit for the TSKB should be considered further, but that in the meantime IDA should be prepared to negotiate the credit as recommended in paragraph 32 of the memorandum. (It was subsequently decided to offer the TSKB a Bank loan of $10 million in addition to the $15 million IDA credit.)

D. Adjournment

The meeting adjourned at 5:20 p.m.

CONFIDENTIAL
LC/O/66-35a
May 20, 1966

LOAN COMMITTEE

Memorandum from Europe and Middle East Department

TURKEY

Supplementary Note to Memorandum LC/O/66-35 of May 16, 1966 - PART I - LENDING PROSPECTS

1. Electric Power - Gokcekaya Dam and Hydroelectric Project

The Turkish Government has just requested the Bank and IDA to consider financing the proposed Gokcekaya Dam and Hydroelectric Project - a 3 unit, 300,000 kw installation to be built on the Sakarya River, approximately 50 km downstream from the Sariyar Dam, 160 km west of Ankara and 210 km east of Istanbul.

2. The total cost of the project as now estimated by EBASCO is $67 million, of which $24 million is the estimated foreign exchange requirement. The foreign exchange costs of the project were to have been financed originally by a $20 million U.S. AID loan. However, only one of two bids by American firms was considered responsive, and it had been considered too high. It was then decided to have international bidding on the entire project to supplement AID's $20 million loan which would remain available for procurement from the United States. In addition, the United States plans to finance associated transmission lines for $12 million. The Turkish Government hopes that between $10 and $15 million of the foreign procurement for Gokcekaya will be from the United States under the AID loan, leaving between $10 to $15 million for other foreign procurement under a Bank loan or an IDA credit.

3. We believe that the bulk of the procurement would be outside the United States under international bidding since the United States probably would not be competitive in either the equipment required for building the concrete arch dam, or in the permanent equipment. We also believe the foreign exchange required could significantly exceed the estimate of $24 million, especially since the EBASCO estimates, as required by the Turkish Government, assume extensive local procurement.

4. Therefore, the amount of financing required by the Bank or IDA, even if provided in conjunction with an AID loan of up to $20 million, could be $25 million or more, in view of the possibility that most of the procurement would be outside the United States.

5. It is still uncertain whether a thermal plant would be preferable economically to the Gokcekaya Dam project, particularly if the second round of bids also greatly exceed the cost estimates. The Government is

extremely reluctant to consider alternative proposals to Gokcekaya, and has given the project a high priority and shows great determination to have the project undertaken as promptly as possible.

6. As set forth in our memorandum to the Loan Committee of May 16, the Bank and IDA have been actively seeking projects suitable for financing in Turkey. The Gokcekaya project is clearly an important part of Turkey's electric power development plans, and appears to merit the high priority which the Government has assigned it. We are active in the electric energy field in Turkey, with our proposed technical assistance on the reorganization of the power industry, the IDA credits for the private Cukurova Electric Power company, and our proposed $25 million for financing the transmission lines in the Keban project in 1967 or 1968.

Conclusions and Recommendations

7. I recommend, therefore, that we express our willingness to consider financing the Gokcekaya project or a substitute. We should stress from the start, first, that we would have to satisfy ourselves on Turkey's broad power planning in light of current conditions, and that the capacity represented by Gokcekaya, if still needed, would not be provided more economically by thermal expansion; second, that there would be full international bidding; and thirdly, that the amount of Bank or IDA financing required could be provided within our overall program of lending for Turkey.

S. R. Cope
Director

FORM No. 60 (2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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LOAN COMMITTEE

May 17, 1966

LC/M/66-6

Minutes of Loan Committee Meeting held on
Thursday, May 12, 1966 at 10:30 a.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman
Mr. G. Alter
Mr. R. W. Cavanaugh
Mr. B. Chadenet
Mr. E. E. Clark
Mr. S. R. Cope
Mr. R. H. Demuth
Mr. A. G. El Emary
Mr. R. J. Goodman
Mr. A. M. Kamarck
Mr. A. Stevenson
Mr. J. M. Malone, Secretary

In Attendence:

Mr. B. R. Bell
Mr. J. Bravo
Mr. R. A. Chaufournier
Mr. U. Finzi
Mr. M. L. Hoffman
Mr. F. H. Howell
Mr. H. Mirza
Mr. D. S. Mitchell
Mr. S. Y. Park
Mr. M. Piccagli
Mr. H. B. Ripman
Mr. L. B. Rist
Mr. O. A. Schmidt
Mr. A. Shibusawa
Mr. M. L. Weiner
Mr. G. K. Wiese

B. Colombia - Future Bank Lending Operations

The committee considered the memorandum of May 4, 1966 from the Western Hemisphere Department entitled "Colombia - Future Bank Lending Operations" (LC/O/66-29).

1. The Committee noted that:

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(a) Since the memorandum had been written, the President-elect had informed the Bank that he wanted to postpone the meeting of the Consultative Group until after his government took office later this year. This postponement would necessitate some modifications of the recommendations in the memorandum regarding the Consultative Group and the joint financing of projects. On the economic side it would provide the Bank with further opportunity to review the progress of the stabilization program, a quarterly review of which was currently in progress in collaboration with the IMF and the U.S. Government. (Preliminary indications were that the government's fiscal performance during the first quarter of 1966 had been reasonably good.) The Bank's economic report would then be updated prior to its presentation to the Consultative Group, but in the meantime the conclusions of the report would be discussed with the President-elect.

(b) The figures given in the memorandum for the total investment program, the total need for external assistance and the total Bank lending program, while probably upper limits, were not grossly overstated. Some slippage might occur, however, which would be taken account of in finalizing the economic report. The main risk was the extent to which particular donors would not finance certain types of projects (e.g. the IDB might be able to do less than anticipated in financing social infrastructure projects). However, this would not affect overall foreign exchange requirements greatly since such projects entailed largely local costs. In the event of such a shortfall the Bank would encourage group members to provide greater amounts of program type assistance, the need for which could be more accurately assessed at the time of the updating of the economic report prior to the group meeting. It was important to build into the overall program some contingency items to provide the needed flexibility and to avoid giving the misleading impression that the program proposed would neatly fill a precisely measurable resource gap.

(c) The qualification set forth in the memorandum with regard to the necessity of power interconnection as a precondition for lending should not be interpreted as an easing of the Bank's position but was merely a recognition of the reality of inter-regional rivalry and suspicion. It was suggested that, should agreement not be reached, the Bank indicate to the Consultative Group the extent to which resources were being wasted as a result of the postponement of interconnection. With regard to the road user charges study, it was noted that the lending should equally be made conditional upon the implementation of the recommendations of the concurrent management study. In general it was agreed that, in the event the government did not fulfill all of the conditions set forth by the Bank for lending in a given sector but nonetheless wished to present projects in that sector for the consideration of the Consultative Group, the Bank would inform the group of the Government's wishes but would feel free to comment on the conditions remaining unfulfilled.

(d) With regard to the proposed Bank lending program, the Bank should emphasize the projects that it was prepared to consider rather than expressing its intentions in terms of a global target figure. In any event there were no other projects which could be readily substituted in 1966/67 if one or more of the projects in the Bank's lending program should slip. While the Government's investment program could not be implemented without further substantial commitments, the Bank's total commitments in Colombia were already high in relation to other countries and would be considerably higher as a result of the proposed lending program for the coming fiscal year, a fact which further emphasized the need of obtaining as much financial assistance for Colombia as possible from other sources.

(e) While a final discussion of joint financing arrangements would be deferred until the Consultative Group met, a considerable amount of preparatory work could be completed prior to that time so that the group members would be in a position to make decisions at the meeting. It was recognized however, that the principles involved would necessitate policy decisions at a fairly high level, not only by the participating governments but by the Bank also. The idea of joint financing was still in an experimental stage in the Bank and should be discussed thoroughly before a final policy decision was made. Such a discussion might take place in conjunction with the review of Consultative Group procedures, which is tentatively scheduled in connection with the next Annual Meeting. In the meantime the Bank would sound out likely participants on the feasibility of the new "package" approach. (There was little chance of securing joint financing for the telecommunications project since the only large order forthcoming might well be placed in the United States, which had until now evinced little interest in joint financing.)

2. The Committee agreed with the recommendation that the Bank:

(a) Convene a meeting of the Consultative Group later this year after the new government takes office and, in the meantime, continue to review the Government's economic performance and hold preliminary discussions with individual group members on the possibilities of joint financing of future projects.

(b) Inform the Government that it was prepared to make new loans for the projects listed, and on the conditions listed, in the memorandum, provided that the President-elect indicates that the new government will continue and improve the policies outlined in the Memorandum of Understanding dated December 17, 1965; and

(c) Continue its long-term program of project identification and preparation.

3. Adjournment: The meeting adjourned at 12:20 p.m.

FORM No. 60
(2-65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

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LC/M/66-5

May 5, 1966

Minutes of Meeting of Loan Committee held on
Tuesday, April 26, 1966, at 3:00 p.m. in the Board Room

A. Present:

Mr. S. R. Cope, Deputy Chairman
Mr. G. Alter
Mr. A. Broches
Mr. A. G. El Emary
Mr. A. M. Kamarck
Mr. A. Stevenson
Mr. B. Chadenet
Mr. R. J. Goodman
Mr. D. Fontein
Mr. M. L. Hoffman
Mr. J. M. Malone, Secretary

In Attendance:

Mr. L. B. Rist
Mr. E. E. Clark
Mr. L. Nurick
Mr. D. L. Gordon 1/
Mr. C. Bruce
Mr. O. H. Calika 1/
Mr. G. Conrad 1/
Mr. J. A. Edelman 1/
Mr. F. S. Elofson 1/
Mr. J. D. Elliott
Mr. C. Finne 1/
Mr. C. Fligler
Mr. R. L. C. Grant 1/
Mr. R. A. Hornstein
Mr. M. Karcher
Mr. D. King
Mr. B. G. Lan 1/
Mr. J. C. Lithgow
Miss A. L. Maher
Mr. F. Povey
Mr. H. N. Scott 1/
Mr. H. E. Tolley 1/
Mr. A. R. Whyte

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B. East Africa - Proposed Loan for the East African Posts and Telecommunications Administration

1. The Committee considered the memorandum of April 22, 1966, from the Africa Department entitled "East Africa - Proposed Loan for the East African Posts and Telecommunications Administration" (LC/O/66-24).

2. The Committee noted that:

(a) Although there were elements within the three countries concerned (Kenya, Tanzania and Uganda) which favored breaking up the East African Common Services Authority (EACSA), a question which was under review by a ten-man commission, there was general agreement that the Posts and Telecommunications should be kept as a common East African Service (although it might possibly be reestablished as a statutory corporation). In any event, if necessary, the Posts and Telecommunications could be broken up into three separate national systems without drastically affecting the Bank's project. The Africa Department expected negotiations but not Board presentation or signing before the commission's report would be available. While, as a general principle, the Bank should encourage the East African countries to integrate the ultimate decision rested upon political considerations.

(b) While there were no project grounds for extended amortization, the three East African governments had heavy external debt obligations falling due in the 70's, making more liberal amortization advisable in order to reduce debt service payments during the critical period. However, it was noted that the case for an extended grace period was not as clear since the peak in debt service occurred sooner than seven years. It was pointed out that the borrower might not want to pay the additional interest resulting from seven years' vs. five years' grace. On the other hand, it was noted that the Bank was considering the possibility of setting up a consultative group for East Africa (which was eligible for "blend" financing) and might then be in the position of pressing the members to liberalize their aid giving terms. In order to set a good example while strengthening its own position vis a vis such a group, the Bank should go as far as possible toward softening the terms of its own lending to East Africa. However, most of the anticipated future operations in the East African countries would be on IDA terms, so that there was no compelling reason for liberalizing the terms of Bank lending in the present case.

(c) The proposed Bank loan would cover only 72% of the foreign exchange component, since it was tailored primarily to the EAPT's capital requirements and since a large part of procurement was tied to existing sources of supply and could not be subjected to international competitive bidding. There was some feeling that the Bank loan should cover the entire foreign exchange component; however, it was pointed out that, in most of the anticipated future operations, Bank/IDA financing would cover a substantial proportion of the local costs of the projects in addition to the foreign costs.

(d) The ADB was not ready to participate in the negotiations but wanted to keep the door open for a possible financial participation within the Bank-financed project and was anxious to be a full partner with the

Bank and IDA in joint projects in Africa. While it was the Bank's stated policy to cooperate as much as possible with regional lending institutions, and while satisfactory working arrangements existed with the older, better established institutions such as the IDB, there would be considerable difficulties in working out similar arrangements with the newer, less experienced institutions such as the African and Asian Development Banks and the Central American Bank for Economic Integration. The Bank had a moral obligation to arrange for as much joint appraisal and supervision of such projects as possible, in order to impart the benefit of its longer experience to the staff of the new institutions. However, this created difficulties, since, if appraisal and supervision were really on a joint basis, they would become inefficient, awkward and unreliable, while the Bank's taking the dominant role, rather than allowing the regional institution to participate on an equal basis, might be unacceptable to the latter for reasons of prestige. The Projects Department suggested two possible alternatives which might avoid the difficulty of overlapping or conflicting responsibilities, particularly in cases when an ongoing investment program was being financed: first, it might be possible for the Bank and its regional partner each to finance a separate time segment of the program instead of financing the same segment jointly; or, second, it might be possible to divide the program physically, limiting the responsibility of each institution to an easily definable part of the program, e.g., power generation vs. transmission and distribution. In general, however, the Bank would still want to appraise and supervise each entity or project as a whole, including all relevant aspects regardless of the sources of financing involved.

3. In conclusion, the committee agreed that:

(a) The Bank should invite the governments of Kenya, Tanzania and Uganda to send representatives to Washington to negotiate a loan of up to the $13 million for the five year investment program of the EAPT. The loan would be substantially on the conditions set forth in the appraisal report, except that the term would be 25 years. In view of the considerable difference of opinion regarding the grace period, Mr. Cope would discuss the matter with Mr. Knapp. The Bank would be willing, in this particular case, to disburse in respect of payments going back to November 1, 1965.

(b) The Bank should attempt to secure participation by the African Development Bank in the proposed loan and should agree with the ADB on a satisfactory working arrangement for cooperation between the two.

(It was subsequently decided, after discussion with Mr. Knapp, that the grace period should be five years as proposed in the appraisal report rather than seven years as recommended by the Africa Department.)

C. Iceland - Proposed Burfell Project

1. The Committee also considered the memorandum of April 22, 1966, from the Europe and Middle East Department entitled "Iceland - Proposed Burfell Project" (LC/O/66-26).

2. The Committee noted that:

(a) The question of Iceland's market eligibility had already been decided. The Chairman reported that the President felt that, while Iceland should pay a market rate for loans which could be considered of a normal size for the country, the interest rate on the Burfell loan should be the Bank's standard interest rate in view of the fact that the amount of external borrowing involved was extremely large for an economy the size of Iceland, and of the fact that the Bank's position had become crystallized during the course of the negotiations between Iceland and Alusuisse which had taken more than three years. As far as Iceland's access to the market was concerned, the underwriters were pessimistic. In fact, it seemed possible that the planned issue of bonds by the Government would not meet expectations. In that case it might be necessary to resort to short or medium-term borrowing by private placement with the New York banks until market conditions improved. Alternatively, the Government might provide the necessary funds for the Burfell project from other sources, including its reserves. In any case, the Guarantee Agreement would contain the usual provision obligating the Government to provide whatever funds were necessary to meet any short-fall.

(b) With regard to the project itself, although the rate of return was marginal, there were few alternatives. Iceland had few natural resources other than fishing and of these the Burfell project was the most promising although it was recognized that the estimated rate of return of 7½% was modest. Iceland had made as good a bargain in its negotiations with Alusuisse as could be expected.

(c) The standard provision in the Guarantee Agreement whereby the Government would agree to provide all funds needed for the completion of the project would be sufficient to cover the risk of an escalation of costs. As far as rate increases were concerned, the situation should be explored during negotiations. As a minimum, all necessary action by the Borrower to put the increases in effect should be taken before the loan was signed.

3. The Committee agreed that:

(a) Representatives of the Republic of Iceland and the Landsvirkjun be invited to negotiate a loan of $18 million for a term of 25 years including a 4-1/2-year grace period in accordance with the conclusions and recommendations set forth in the appraisal report; and

(b) In accordance with the decision announced at the Senior Staff Meeting of April 13, 1966:

(i) The proposed loan would be made at the Bank's standard interest rate; and

(ii) Representatives of the Government would be advised that future lending to Iceland would be at the market eligible rate.

Form No. 60
(2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/66-4

February 21, 1966

Minutes of Loan Committee Meeting held on
Monday, February 7, 1966 at 3:00 p.m. in the Board Room

A. Present:

Mr. J. Burke Knapp, Chairman	Mr. M. L. Hoffman
Mr. G. Alter	Mr. A. M. Kamarck
Mr. B. Chadenet	Mr. S. N. McIvor
Mr. S. R. Cope	Mr. L. Nurick
Mr. A. G. El Emary	Mr. F. R. Poore
Mr. R. J. Goodman	Mr. J. M. Malone, Acting Secretary

In Attendance:

Mr. D. Avramovic	Mr. F. Lutolf
Mr. J. A. Edelman	Miss A. Maher
Mr. L. M. Hansen	Mr. O. Maiss
Mr. N. Horsley	Mr. A. Rivkin
Mr. F. J. Lethem	Mr. J. P. Uhrig
Mr. P. Leon	Mr. J. H. Williams
	Mr. G. C. Wishart

B. Nigeria - Nigerian Consultative Group - Prospective Bank Lending to Nigeria

1. The Committee considered a memorandum from the Africa Department entitled "Nigerian Consultative Group - Prospective Bank Lending to Nigeria" (LC/O/66-8) dated February 3, 1966, together with the Economic Committee's "Conclusions and Recommendations on the Economy of Nigeria" (EC/M/66-5), dated February 4, 1965. The Committee was informed that the members of the Consultative Group had adopted a "business as usual" attitude and were generally favorably inclined toward providing assistance to the new Nigerian Government.

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2. The area department emphasized that the proposal put forward to the Consultative Group by Nigeria showed major progress in delimiting planned development expenditure, so that the plan could now be considered a closed one rather than the open-ended type of program which existed when the Bank economic mission visited the country last summer. With respect to financing, the Committee noted that domestic resource mobilization to finance the plan, amounting to about 40% of total plan investment, should be considered reasonably satisfactory in the African context. Although a somewhat higher domestic effort might be possible and although uncertainty existed as to the extent to which investment targets were likely to be fulfilled, there was little doubt that a substantial financial gap (possibly as much as £100 million) would remain to be filled from new external borrowing, i.e. in addition to drawings on existing undisbursed commitments.

3. The Committee felt that, in view of the recent political events in Nigeria and the present uncertainty regarding future political developments, it would be difficult for either the Bank or the Consultative Group members to make firm commitments at this time to fill the estimated two-year financial gap. Furthermore, both the Bank and the members of the Consultative Group would need guidance on the total amount of new commitments required in order to produce disbursements within the plan period sufficient to fill the gap. As far as the Bank was concerned, it would be dangerous, even with all the appropriate qualifications, to become identified with the figure of $280 million in loan commitments for the next two Nigerian fiscal years, as proposed in the area department memorandum. Furthermore, there did not appear to be any solid prospect of enough firm projects to realize this amount. Therefore at the meeting in Paris, the Bank should specify only what it was prepared to consider in the way of commitments during the coming Nigerian fiscal year, April 1, 1966 to March 30, 1967 (perhaps $100 million), but could indicate that it would hope to increase this amount in the following fiscal year. The Committee felt that since the Bank would have to explore the legal requirements which might have to be satisfied by the new government, any statement of the Bank's intentions should be made subject to the satisfaction of such requirements.

4. As far as terms were concerned, it was noted that the Economic Committee had confirmed that the recent improvement in Nigeria's prospects warranted promoting the country from the blend category to Bank only. However, it was also noted that Nigeria had a difficult debt service problem and that its IDA eligibility should be kept under review. In the meantime, subject to reviewing case-by-case the particular project or enterprise considerations, Bank lending to Nigeria should in general be expected to run for periods of 25 years or more including 5 years or more of grace.

5. The Committee agreed that, because of the Bank's own specialized role, it could and often did expect other lenders with whom it

cooperated to go further than it was prepared to go itself in the direction of financing local costs of projects, adopting liberal criteria for the eligibility of projects and providing non-project (or "program") assistance. The Committee was informed that, even if the Bank and the Consultative Group were willing to finance 100% of the cost of conventionally eligible projects, a considerable gap would still remain due to the nature of the plan and the fact that already existing commitments had largely pre-empted most of the conventionally eligible project content of the plan. Thus a need for some program-type aid (budget support) would remain, to which the Bank should draw attention in Paris.

6. In summary, the Committee agreed that:

a. The Bank should inform the Consultative Group that we considered the plan a suitable framework for our own lending decisions and the aid decisions of donor countries.

b. The Bank should encourage members of the Consultative Group to finance a high proportion of currently eligible projects, to consider broadening the definition of eligibility and, especially, to provide program-type aid not tied directly to specific projects.

c. The Bank should inform Nigeria and the Consultative Group that it was prepared to enter into new commitments of approximately $100 million in 1966-67, with a possibility of higher commitments next year, subject to satisfactory performance, to satisfactory appraisal of individual projects, and to the satisfaction of any legal requirements which might now exist.

d. The Bank should be prepared to finance, in addition to the foreign exchange component of projects, a substantial proportion of the local currency costs, taking into account the needs of the individual projects; but the percentage of the total cost to be so financed should not normally exceed 60% in the absence of special justification.

e. Subject to reviewing case-by-case the particular project or enterprise considerations, Bank lending to Nigeria should in general be expected to run for periods of 25 years or more, including 5 years or more of grace. Proposals for capitalizing interest where it would be appropriate to the project could also be considered.

C. <u>Adjournment</u>

The meeting adjourned at 5:15 p.m.

Chron.

FORM No. 60
(2-65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/66-3

February 2, 1966

Minutes of Loan Committee Meeting held on
Friday, January 21, 1966 at 4:00 p.m. in the Board Room

A. Present:

Mr. S. R. Cope, in the Chair
Mr. G. Alter
Mr. A. Broches
Mr. A. Stevenson
Mr. B. Chadenet
Mr. M. L. Hoffman
Mr. F. R. Poore
Mr. J. A. Edelman
Mr. B. B. King
Mr. J. M. Malone, Acting Secretary

In Attendance:

Mr. J. Andreu
Mr. W. C. Baum
Mr. B. Bell
Mr. W. Brakel
Mr. R. A. Chaufournier
Mr. A. Churchill
Mr. C. Fligler
Mr. P. Kuczynski
Miss A. L. Maher
Mr. O. Maiss
Mr. C. S. Monsod
Mr. J. F. Rigby
Mr. H. B. Ripman
Mr. F. A. Steuber
Mr. S. Takahashi
Mr. E. P. Wright

B. Costa Rica - Bank Loan for Agricultural Credit Project and Further Lending Program

1. The Committee considered the memorandum of January 17, 1966 from the Western Hemisphere Department entitled "Costa Rica - Bank Loan for Agricultural Credit Project and Further Lending Program" (LC/O/66-6). The Committee was informed that Costa Rica's economic prospects were generally favorable but that the Bank, which was already the largest single lender to Costa Rica, would be substantially increasing its already relatively high commitments to that country by adopting the recommended program. Costa Rica's fiscal performance had been poor for a number of years, and in fact Costa Rica's loan service payments to the Bank had

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frequently been delayed as a result of this and other administrative difficulties. Working closely with the IMF, the Bank had now obtained general agreement on specific fiscal measures designed to remedy the situation. Tax measures for 1966 had already been defined and additional measures for 1967 were being cleared with the President of Costa Rica. In the meantime, the Minister of Finance had reacted favorably to the proposed tranche approach, which he felt would assist him in obtaining the desired fiscal reforms.

2. With regard to the projects themselves, the Committee noted that the second stage of the road program should not be finally appraised until the first stage was successfully implemented. This meant that the project would probably not be appraised until early 1967, rather than December 1966, as estimated in the memorandum.

3. Mr. Alter suggested that the Bank should consider joint financing arrangements for some of the projects. In view of the Bank's continuing close contact with the major project executing agencies and the interest of other lenders, including the Bank for Central American Economic Integration, the Committee felt that this was desirable in principle but might lead to a dilution of our relationships with the borrowing agencies and possibly also to undue constraints on effectiveness and delays in execution of the projects.

4. The Committee then considered the tranche approach recommended for the agricultural credit project, noting that, aside from the Minister of Finance's favorable reaction to the proposal, the major argument in its favor was predicated on the very high priority of the investments involved, which were expected to be quick - and high-yielding, thereby enhancing the leverage of the second tranche. The Committee noted, however, that the disbursement period was estimated to be 5 years, although most of the funds were expected to be disbursed within the first three years. Moreover, in the discussion which followed, the Projects Department argued that a two tranche loan, with the effectiveness of the second tranche tied to the financial performance of Costa Rica, would weaken our control over the performance of the project and that it would be preferable to split the amount into two separate loans rather than two tranches, while, on the legal and administrative side, a number of complications could be thereby avoided.

5. The General Counsel added that it would be difficult to draft conditions of effectiveness for a second tranche with sufficient precision, and that there might easily be uncertainty or dispute as to the fulfillment of the conditions which might cause delays beyond the control of both the Bank and the borrower, and in the end might either lead to cancellation or in effect to waiving the conditions of effectiveness. The Western Hemisphere Department, however, felt that the conditions of effectiveness for the second tranche could be formulated as measurable, unequivocal criteria. With regard to the waiver of the commitment charge on the second tranche, the General Counsel felt that the Bank was either committed or not, once it had agreed to make a loan, and that if it was not intended that the Bank should be fully committed, it would be better to recognize this by making a separate loan for the second tranche. The commitment in principle to make the second loan could be subjected to conditions framed in somewhat less precise terms than would be required in the case of a two-tranche loan.

6. In view of the Projects Department's expressed preference for a two-loan approach, the Western Hemisphere Department decided to withdraw its recommendation of the tranche approach, pending further discussions with the Projects Department. The Committee agreed, however, that the Western Hemisphere Department should be authorized to discuss with the Costa Rican authorities the general lines of a lending program of about $50 million over the next 18 months, as outlined in the memorandum.

C. Adjournment

The meeting adjourned at 5:05 p.m.

Chron.

FORM No. 60
(2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/66-2

January 25, 1966

Minutes of Loan Committee Meeting held on
Monday, January 17, 1966 at 3:00 p.m. in the Board Room

A. Present:

Mr. S. R. Cope, in the Chair
Mr. G. Alter
Mr. R. H. Demuth
Mr. A. G. El Emary
Mr. A. Stevenson
Mr. B. Chadenet
Mr. E. E. Clark
Mr. R. J. Goodman
Mr. F. R. Poore
Mr. B. A. de Vries
Mr. J. M. Malone, Acting Secretary

In Attendance:

Mr. J. H. Adler
Mr. R. A. Chaufournier
Mr. M. Ballesteros
Mr. D. S. Ballantine
Mr. H. F. Havlik
Mr. W. M. Keltie
Mr. A. D. Knox
Mr. O. Maiss
Mr. V. Masoni
Mr. D. S. Mitchell
Mr. S. Y. Park
Mr. C. E. Webb
Mr. E. P. Wright
Mr. O. Yenal

B. Peru - Future Bank Lending Operations

1. The Committee considered the memorandum from the Western Hemisphere Department entitled "Peru - Future Bank Lending Operations" (LC/O/66-2) dated January 7, 1966, which proposed a lending program of about $130 million during 1966 and 1967. The possibility of lending such a substantial amount over a sufficiently long time period gave the Bank the required leverage to ensure that the Peruvian Government would adopt the recent Bank economic mission's recommendations, which they had already accepted in principle.

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These measures were outlined in paragraph 7 of the Economic Committee's "Conclusions and Recommendations on the Economy of Peru" (EC/M/66-1) dated January 6, 1966. The Committee was informed that the Peruvian economy was strong, that export performance had been good, but that a substantial increase in public investment was required to achieve the structural changes needed to strengthen the economy. This in turn made necessary the specific fiscal measures recommended by the mission. The Congress had recently enacted a 7½% expenditure cut for 1966 and there was a reasonable likelihood that the fiscal reforms for 1967 would also be adopted.

2. The Committee was informed that recently negotiations had been resumed between the Peruvian Government and the International Petroleum Corporation, but that, until the issue had been resolved to the satisfaction of the U.S., the USAID was unlikely to resume lending in Peru. In these circumstances it was still premature to consider setting up a consultative group for Peru. The Committee felt, however, that the Bank should continue to maintain the close contact it already has with other lenders, actual and potential, and to consult with them informally on prospective lending operations and on the country's performance. The Committee noted that if AID assistance were not forthcoming Peru's investment program would have to be adjusted and, while such an adjustment might not affect the Bank's lending operations, it might easily affect the project composition of Peru's investment program. In the meantime the Bank should proceed on the assumption that about $110 million would be forthcoming from AID, primarily for the development of the country's social infrastructure.

3. The Committee was informed that, on the basis of the information now available, there appeared to be no "project" grounds either for or against the tranche approach to the financing of the education project, although the divisibility of the project permitted such an approach. It was argued, however, that this project should be used as a firm symbol or instrument of the more general conditionality of the lending program, that the conditionality of further loan commitments for 1967 might not provide leverage at the proper time, and that the conditionality of disbursements should also be considered in this case to obtain leverage at the proper time. On the other hand, the small amount involved in a second tranche could add little weight to the leverage already inherent in the $100 million lending program, which was subject to the same conditions. Moreover, it was still not clear whether the timing of the project would be such as to enable us to use it for additional leverage on Peru's 1967 fiscal policy. The Committee felt, therefore, that any possible benefits to be gained from the proposed tranche approach in this case would probably be more than outweighed by the complications involved. However, this question could be reconsidered as the situation developed and new facts emerged.

4. With regard to the longer term lending program, the Committee noted that, while the Olmos irrigation project was probably within the capacity of the Government to execute and administer, the Bank's experience had indicated that special attention should be given to arrangements on the agricultural side, including land settlement, introduction of new techniques, and water distribution. Moreover, the Government should continue its current studies

of other new projects, the results of which when known might indicate a higher priority alternative to Olmos. Finally it was recognized that very high priority should be given to projects for rehabilitating existing irrigation works. The IDB was now considering a loan for this and thus no action by the Bank was necessary.

5. The Committee agreed substantially with the recommendations in paragraph 17 of the memorandum, i.e. that the Bank should be prepared to consider loans to Peru totaling about $130 million up to the end of 1967 representing approximately 60% of the cost of the projects listed in the memorandum. Loans for the three projects proposed for 1966 would be subject only to satisfactory appraisal reports, although we would expect that the Government's financial program for 1967 would be defined in a satisfactory manner before presentation of the education project to the Board. The longer term lending program of about $100 million would go forward if the Government's economic policies as now indicated progressed along the lines stated in the memorandum of understanding of October 1965. Further consideration of a consultative group would be deferred but the Bank's close contact and consultation with other lenders and with the Peruvian Government should be maintained. Finally, by rejecting the tranche approach in the case of the proposed education project, the Committee did not imply that such an approach could not be reconsidered in other more appropriate cases.

C. Adjournment

6. The meeting adjourned at 4:30 p.m.

Chron

FORM No. 60
(2.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

January 20, 1966

LC/M/66-1

Minutes of Loan Committee Meeting held on
Thursday, January 13, 1966 at 3:00 p.m. in Room 1038

A. Present:

Mr. S. R. Cope, in the Chair	Mr. B. A. de Vries
Mr. G. Alter	Mr. A. G. El Emary
Mr. L. Cancio	Mr. R. G. Goodman
Mr. R. W. Cavanaugh	Mr. M. L. Hoffman
Mr. B. Chadenet	Mr. S. N. McIvor
	Mr. J. M. Malone, Acting Secretary

In Attendance:

Mr. B. Bell	Mr. O. Maiss
Mr. W. Brakel	Mr. M. Piccagli
Mr. R. A. Chaufournier	Mr. S. Takahashi
Mr. E. Lerdau	Mr. J. H. Vignes
Mr. J. C. Lithgow	Mr. E. P. Wright
	Mr. B. Zinman

B. Venezuela - Bank Lending Program

1. The Committee considered the memorandum from the Western Hemisphere Department entitled, "Venezuela - Bank Lending Program" (LC/O/66-1) dated January 6, 1966, which proposed that the Bank should adopt the approach of making adequate fiscal performance a condition of lending, even though Venezuela was very creditworthy. The Committee noted that the Bank's initiative, supported by the IMF, the IDB, the CIAP and the U.S. Government, in urging the Venezuelan Government to adopt revenue measures was aimed at increasing the Bank's small leverage in this field.

2. The Bank had learned that the Venezuelan Government already intended to adopt revenue measures which would be adequate from the Bank's viewpoint.

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In the event that the Government did not live up to its intentions, the Bank should not refrain from lending to Venezuela altogether, but might cut back the program somewhat, retaining projects in which its involvement would produce the greatest benefits in terms of improved performance on the part of borrowers in sectors of the economy where help was needed.

3. Mr. Alter was planning to visit Venezuela at the beginning of February, and would inform the Government that the proposed lending program was conditional on the implementation of the measures recommended. These measures were to be considered by the Venezuelan Congress when it reconvened in March. The Committee agreed that, unlike the case of Colombia, the understanding reached between the Bank and the Venezuelan Government should remain informal at this time, and need not be recorded in an official document, although the Bank might prepare a letter to the Government at a later date in which the understandings on the Bank lending program and the financial conditions related thereto would be reflected.

4. The Committee then turned to the consideration of the projects listed in the memorandum, noting that while the Bank's involvement could produce benefits in terms of more efficient organization and management of the projects, they had not been selected only with this in mind, but formed a part of the Venezuelan Development Program, conformed substantially with the recommendations of the recent Bank economic mission, so far as priorities in the various sectors were concerned, and appeared to be justified from an economic viewpoint. The Committee felt that we should make it clear to the Venezuelans that we were not committing ourselves wholly and exclusively to the financing of this list of projects, but that these were projects in which we were sufficiently interested to warrant further discussion. Also we should inform the Venezuelans of what remained to be done in order to make these projects acceptable and to prepare them for a final appraisal. In the case of the Santo Domingo Hyroelectric Project, the Committee felt that it was premature to discuss Bank assistance for the specific project, in view of the nature of the information available, but that we could refer to further lending for the next phase of CADAFE's expansion, provided that there were substantial improvements in CADAFE's organization and management.

5. The Committee noted the reference in the memorandum to the possibility of joint financing of groups of projects, which was already being considered in Colombia. In the past, the Venezuelan Government had told the Bank it could not agree to joint financing of projects because of certain limitations in its legislation. Mr. Alter said he would discuss this matter during his proposed visit to Venezuela with a view toward making it possible for joint financing on future projects in Venezuela.

6. The Committee agreed with the concluding recommendations of the memorandum, i.e., we should inform the Venezuelan Government that, on the assumption that it would undertake a tax program along the lines outlined to us and that the development program proceeded satisfactorily, we would be prepared to consider a lending program in the amount of about $200 million, using the projects described in the memorandum as the basis

for further discussion. If we were not satisfied with the extent of the measures taken by the Government, we might wish to withhold consideration of some of the projects while concentrating on others which would allow the Bank to have some leverage for improvements in sectors where help was needed.

C. Adjournment

7. The meeting adjourned at 4:30 p.m.