Folder Title: Loan Committee - Minutes - 1974

Folder ID: 30043687

Dates: 1/11/1974 - 12/31/1974

ISAD(G) Reference Code: WB IBRD/IDA 39-01

Series: Minutes of Loan Committee Meetings

Fonds: Records of the Operations (Loan) Committee

Digitized: September 17, 2014

Loan Committee - Minutes
1974

DECLASSIFIED
WBG Archives

The World Bank Group Archives
30043687
A1995-291 Other #: 15 213554B
Loan Committee - Minutes - 1974

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

December 5

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-26

December 31, 1974

Minutes of Loan Committee Meeting to consider "Egypt - Tourah Cement Expansion Project" held on December 11, 1974 in Conference Room E1208

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	Raymond J. Goodman	Gavin Wyatt
Warren C. Baum	Hans Fuchs	Adi J. Davar
Munir P. Benjenk	Richard S. Dosik	Ugo Finzi
Georg K. Gabriel	Sivaram P. Nayar	Sriram M. Aiyer
Piero Sella	Harold E. Wackman	Hans M. Rothenbuhler
	Sherif Omar Hassan	Richard A. Cambridge
	Norman Horsley	

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Benjenk's memorandum of December 4, 1974, for the approval to negotiate a loan of $40 million for the Tourah Cement Expansion Project:

(i) whether the two-stage lending proposed for Bank financing, i.e., a loan to Egypt for a term of 25 years, for onlending to the Tourah Cement Company (TCC) for 15 years, was appropriate;

(ii) whether the pricing covenant in the draft Loan Agreement calling for a "reasonable return" on TCC's investments ought to be quantified more precisely; and

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(iii) whether, for purposes of bid evaluation, the preference margin provided for on local subsupplies included in foreign bids for the equipment package financed by the Bank (and similar preference arrangements for items financed by the Arab Fund) could be properly implemented.

C. Discussion

2. Two-stage Lending. The Committee discussed two-stage lending of Bank funds at different maturities, the related points of counterpart funds generated, and the advantage of having a direct relationship with the beneficiary of the loan on project implementation. It was recognized that the said problems of two-stage lending were inherent in all IDA credits and did not appear to have caused significant difficulties, particularly in respect of project implementation. It was further acknowledged that the Industrial Projects Department had argued strongly against extending the term of the loan to TCC beyond 15 years, on the grounds that a longer term would make funds available to TCC at more favorable conditions than those prevailing in the capital market, and that TCC's financial projections indicate that it would be capable of servicing the loan quite easily over 15 years. The EMENA Region explained, however, that a term of at least 20 years was necessary in order that the servicing on the loan should not add to Egypt's debt service obligations which were already very heavy in the short and medium term. In this context, attention was also drawn to the fact that these difficulties had been recognized in assessing Egypt's creditworthiness when it was recommended that Egypt ought to borrow external funds at as concessional terms as possible. The Arab Fund, which was to participate in the financing of the foreign exchange requirements for this project, expects to make a loan for a term of 20 years (directly to TCC). To achieve parity with this co-lender, without jeopardizing the project considerations in favour of a term of 15 years, the Committee approved a two-stage lending approach in this particular case whereby the proposed loan would be made to the Government for a term of 20 years, the proceeds to be onlent to TCC for 15 years. This should not be considered as abandoning the general Bank policy of avoiding two-stage lending at different maturities.

3. Wording of the Pricing Covenant. The EMENA Region explained that this was the same provision as in the Talkha Fertilizer Project approved by the Executive Directors in June 1974. The Industrial Projects Department stressed that since TCC had no control over pricing, which is a major factor affecting its revenues, this clause was intended to provide a basis for discussion on pricing policy with the Government. It was also pointed out, however, that to establish a link calling for the Government to adjust the price if the return on TCC's investment should fall below a precisely specified level, could raise difficulties in that TCC is one of several public sector cement companies in Egypt; such a link could also reduce the pressure on TCC to operate efficiently and to maintain its production costs at a minimum.

4. Preference for Local Subsupplies. In the case of the equipment proposed for Bank financing, which formed a large single-responsibility bid package, the arrangements for a preference for large and clearly identifiable local subsupplies which might otherwise be put out for separate tender appeared consistent with the exceptional circumstances under which a preference is granted on local components. However, the Vice President, Projects Staff and other members of the Committee expressed their concern that since the bid packages proposed for Arab Fund financing did not appear to fit these criteria, the Bank ought to try to ascertain the reasons

for the Arab Fund adopting the same preference arrangement. Also, the Bank should make sure that it did not appear to take the position of inducing the Arab Fund to adopt such a policy, which could be difficult to apply as far as the packages financed by this lender were concerned and could be subject to misuse unless properly controlled. The EMENA Region and Industrial Projects pointed out that the nature of the packages to be financed by the Arab Fund would make local sub-supplies rather unlikely, and that it had been the Arab Fund which had strongly advocated the adoption of such a preference for the purpose of bid evaluation in order to encourage domestic manufacturers whenever possible.

D. Conclusion

5. Subject to the modifications of the term of the proposed loan to the Government from 25 to 20 years, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the EMENA Region. It was agreed that the Bank would try to learn more about the specific procurement procedures that the Arab Fund proposed to follow.

Cleared by Messrs. Knapp
Baum
Benjenk
Sella

HMRothenbuhler/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-25

December 23, 1974

DECLASSIFIED

AUG 29 2014

WBG ARCHIVES

Minutes of Loan Committee Meeting to consider "Zaire - Gecamines Mining Expansion Project" held on November 27, 1974 in Conference Room E1208

A. Present

Committee:

Warren C. Baum (Chairman)
A. Broches
Hans Adler
K. Georg Gabriel

Others:

Michael H. Wiehen
Hans Fuchs
Raymond J. Goodman
Richard S. Dosik
Hartsell L. Cash
Robert Maubouche
Stephen C. Schott
Louis Moussu-Rizan
Tenley Jones
Marianne Haug
Ihsan Tuncay
Kenji Takeuchi
Richard Cambridge

B. Issues

1. The meeting was called to consider the following issues arising from the consideration of the Appraisal Report, draft President's Report and Loan document submitted to the Loan Committee on November 22nd:

(i) whether security arrangements for the project were satisfactory;

(ii) whether the project would remain financially and economically viable in the event of a further decline in the price of copper;

(iii) whether availability of electric power during project construction was sufficient to assure continued operation of the company at the level necessary to generate the cash flow for financing;

DISTRIBUTION

COMMITTEE

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

OTHERS

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

(iv) whether local cost financing was justified on the basis described in the reports.

C. Discussion

2. Security Arrangements. The General Counsel explained the general policy of the Bank with regard to obtaining security when the Borrower was not a government agency. In the normal case, the Bank might wish to secure the loan by a mortgage. The purpose of obtaining a mortgage was not so much to insure that the bank would be in a preferred position if it had to proceed against the Borrower, as to place the guarantor, to whom the Bank would address itself in case of the Borrower's default and who would be subrogated in the Bank's rights, in a preferred position vis-a-vis other creditors of the Borrower. In the normal case, the assets which can be subjected to a mortgage or pledge are "local currency" assets. The position is entirely different when the Borrower has potential foreign exchange assets as in a mining or other export-oriented project. If the Borrower is foreign-owned, and the shareholders are its principal customers, the Bank takes security in such forms as shareholder guarantees, take-or-pay contracts and the like, which it regards as real security to which it will have recourse in case of the Borrower's default. The value of the host government guarantee in such a case is essentially a guarantee against political risk.

3. The Gecamines case is different from both of the foregoing types: (a) Gecamines exports its production and thus has valuable foreign exchange assets but (b) the shareholder is the Government of Zaire and the company sells to a wide range of customers. Thus it is not possible for the Bank to secure its loan as it would in a foreign-owned enclave project. The only arrangement which would help to assure the repayment of the loan, although it could not be invoked against third parties, is a set-aside of part of the export receipts in a non-Zairian, commercial bank. This system was employed in somewhat similar circumstances in loans to Iran, Israel and Egypt.

4. Establishment of the repayment arrangements would be a condition of effectiveness of the loan. It was contemplated that the marketing company for Gecamines' production would give irrevocable instructions, (i) to its purchasers to make their payments through one or more designated banks; and (ii) to such bank or banks to pay on a monthly basis into a set-aside account in a trustee bank part of these sales receipts in an amount necessary to meet semi-annual amortization, interest and commission charges; and (iii) to maintain in the account at all times funds equal to an agreed amount of debt service. To reinforce the system, it was decided to ask for a form of guarantee from the Banque du Zaire. This guarantee might be obtained in the form of negotiable, promissory notes of the Banque du Zaire deposited with the trustee bank or in another form to be determined. However, this matter had to be explored during negotiations, since there might be legal and practical difficulties in obtaining the notes proposed.

5. It was recognized that the weak link in the proposed arrangements was that the principal organizations involved (Gecamines, the marketing company, and the Banque du Zaire) were effectively under the control of the Zairian Government. Thus, while the sales agent might give irrevocable instructions to its bank(s) for the set-aside, it could be replaced as the sales agent. With regard to promissory notes, although their salability is questionable and the possibility of effective enforcement

not free from doubt, it was thought that for psychological reasons they might contribute valuable additional security. It was also noted that even shareholder guarantees and production contracts used to secure enclave projects have escape clauses, e.g., in the case of force majeure, and do not offer absolute security for repayment. Moreover, the project is concerned with the expansion of a large and successful on-going operation, and not with a wholly-new undertaking. In the long run important security for the Bank loan could be found in the fact that the annual debt service on the total of external loans for this project, $220 million, is never expected to exceed about 5% of the company's annual export receipts. Finally, and regardless of security arrangements, in case of default the Bank could proceed against Gecamines' assets held abroad, including attachment of funds due to Gecamines from its customers.

6. Copper Prices. The Chairman noted that the Appraisal Report states that a 10 to 15% price drop in copper could curtail the company's ability to provide its share of the financing for the project. It was agreed, however, that the price assumptions used in the Appraisal Report were conservative, i.e., $73/lb in 1975 dollar terms increasing through 1980 by only 4 to 5% per year in current dollars, i.e., a decline in real terms. It was noted that a drop of the price averaging below $70/lb in current dollars for more than a year or two would force some producers out and reduce new investments, thus adjusting supply and helping to stabilize the price.

7. The Commodities Division has a somewhat more optimistic view of copper prices through 1980. However, their projections were based on an assumed GNP growth rate of 2.5% in 1975 for the OECD countries. They are revising their projections on the basis of a new projection of a near-zero growth rate and believe that the price of copper in 1974 dollars should be about $71/lb in 1975.

8. The Industrial Projects Department's price projection is therefore below that of the Commodities Division during the period through 1980 and shows a decline in the price of copper in real terms. A further drop of 10% in real terms would be a failry extreme assumption. While it would reduce the company's profits to zero, and make it impossible for the company to pay dividends to the Government, the project would still give a 10% return to the economy.

9. Availability of Electric Power. The Chairman pointed out that the Appraisal Report left some uncertainty as to how adequate power supply could be assured for the project. Regional staff responded that Zambia had recently indicated that it will supply sufficient power to Zaire for most of 1975 and that therefore the hydro reservoirs in Shaba (Zaire) did not need to be drawn down appreciably during that year, thus building up a reserve that could be used in 1976. Moreover, Gecamines had the possibility of redistributing available power supply internally, i.e., from zinc to copper which is a lower power user with a higher benefit. A shift of power from zinc to copper would lower internal cash generation only marginally and would not affect significantly the economic return on the project. Since it is expected that Zambia will be able to make up any power deficit in 1977 and the Inga-Shaba transmission line will be completed by 1978 assuring ample power in the future, a problem may exist only in 1976 and could be handled in that year in the manner indicated above.

10. Local Cost Financing. It was noted that the foreign exchange cost of the project (excluding working capital and interest during construction) is estimated at about $268 million as compared to total external financing of $220 million.

Therefore, while the Bank would for reasons of convenience arising from the packaging of contracts, disburse against some local costs, it would not actually finance local currency requirements.

D. Conclusion

11. The following conclusions were reached:

(i) Security Arrangements. It was agreed that the arrangements were the best that could be proposed under the circumstances and were appropriate in this case. The Chairman suggested that the project should not be referred to as an "enclave-project", and that the security provisions should not be described as special arrangements, but rather as a repayment facility or security set-aside.

(ii) Copper Prices. It was agreed that the price of copper poses a risk, but that it could probably not be considered a "major" risk even under fairly extreme assumptions, due to Gecamines' low debt and low operating costs relative to other major copper producers.

(iii) Electric Power. It was agreed that the problem of availability of power can be solved at reasonable cost to the country and the economy of Zaire.

(iv) Local Cost Financing. It was agreed that this was not a case of local cost financing, and that the presentation should be revised to make this clear.

Cleared by Messrs. Baum
Broches
Adler

SCSchott/RACambridge/WCBaum:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74- 27

December 19, 1974

DECLASSIFIED
AUG 2 9 2014
WBG ARCHIVES

Minutes of Loan Committee Meeting to consider
"Uruguay - Proposed Program Loan"
held on December 12, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Gerald Alter
Warren C. Baum
K. Georg Gabriel
Lester Nurick

Others:

Hollis B. Chenery
Raymond J. Goodman
Gunter K. Wiese
Barend A. de Vries
Richard S. Dosik

Alberto J. Favilla
Sidney E. Chernick
Jose F. Collell
Ricardo R. Bacarreza
Richard A. Cambridge

B. Issues

1. The meeting was called to consider the following issue:

Bank's criteria regarding a Program Loan to Uruguay.

C. Discussion

2. Program Loan Criteria. The Latin America and the Caribbean Region requested a clarification of the Bank's criteria regarding program lending in general; this would be useful in assisting the Region to formulate a proposal for a program loan to Uruguay. The Region added that the primary objective of the proposed program loan would be to assist Uruguay in bridging the external resource gap and by doing so permit an import level which would encourage increased capacity utilization. A secondary objective would be to permit, through the counterpart funds generated, a minimum level of public investment which would be consistent with the rehabilitation

DISTRIBUTION

COMMITTEE

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

OTHERS

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

of the economy and to channel increased credit resources to the private sector. Serious doubts were expressed as to the appropriateness of a program loan to Uruguay in view of its high income level, the lack of a well defined development program, and the fact that the IMF is already providing substantial financial assistance to the country (a stand-by and the oil facility). The Region argued that Uruguay had an export disruption in 1974 due to the ban on meat imports by the EEC, which together with the sharp increase in the price of Uruguay's imports, has aggravated the disequilibrium in the balance of payments; this by itself would justify program lending. Moreover, the new economic team headed by an able Finance Minister, had given the Region expectations that the Government will succeed in its efforts to stabilize and reactivate the economy. At the same time, the Region added that the IMF has indicated that the Bank's presence would be useful in assuring the implementation of proper policies not only at the macro level but, more important, at the sectoral level. The Region made clear, however, that they were not risking a final decision on program lending to Uruguay.

D. Conclusion

3. The Committee concluded that no decision would be made until the Bank's economic mission which is now in Uruguay returns and reports on its findings. Moreover, no other mission should be sent to Uruguay to discuss program lending until the Bank has made a decision regarding such assistance.

Cleared by Messrs. Knapp
Baum
Nurick

RRBacarreza/RACambridge:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-24

December 13, 1974

Minutes of the Loan Committee Meeting to consider "Tunisia - Sixth Development Finance Company Project" held on November 22, 1974, in Conference Room E1208

A. Present

Committee:

W. C. Baum (Chairman)
A. Broches
M. Paijmans

Others:

B. Chadenet
W. A. Wapenhans
R. J. Goodman
D. Gustafson
H. Pollan
W. E. Siebeck
E. Sekse
R. Storch
A. Maffei
E. Benjamin
E. Loeschner
R. Cambridge

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Paijmans' memorandum of November 15, 1974, for approval to negotiate a proposed $15 million loan to BDET for a Sixth Development Finance Company Project:

(i) BDET's management capability;

(ii) conflicts of interest in BDET's dealings with its directors;

(iii) BDET's creditworthiness for the proposed loan and other financial issues (interest rate, debt/equity ratio, provisions against risks, projections, mortgage validation, foreign exchange risk, and auditing practices).

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussion

2. In introducing the discussion, the Chairman noted inconsistencies in tone and discrepancies in substance between the Appraisal and President's Reports. He asked that these be reconciled.

3. BDET's Management Capability. The Chairman asked whether in view of the recent departure of Mr. Belkhodja, the measures proposed in the Appraisal Report to strengthen BDET's management were now adequate. It was agreed that the situation should be discussed with Mr. Bourguiba, Jr. and that BDET should either appoint a stronger Director General than the present incumbent or a suitably qualified Deputy Director General. Also, commitments would be sought that additional staff for project appraisal and supervision would be employed as proposed in the Appraisal Report.

4. Conflicts of Interest. Concerning BDET's dealings with directors, the Committee agreed that BDET should amend Article 26 of its Statutes so as to reinstate, in substance, the previous version of Article 26 which had been modified without the approval of the Bank; the Statement of Policies should also be amended accordingly in order to eliminate any inconsistencies. These actions would be conditions for Board presentation and, since amendment of statutes requires a shareholders' meeting, some time may be required.

5. Adequacy of the Appraisal Report. Participants from CPS felt that the information on the financial environment, BDET's current financial situation, and BDET's projected operations and finance were not sufficient to take a decision on the proposed loan. There had, in fact, been no full-fledged appraisal. A supervision mission has visited Tunisia for two weeks in November 1973, followed by two short visits of EMENA Projects' in May and September 1974. CPS recommended that a full field appraisal should now be mounted in order to clarify the many unresolved issues. The Region replied that:

(i) the November 1973 supervision mission had been an in-depth mission but had not been identified as an appraisal mission, since, at the time, there was sufficient information to conclude that lending in early FY1974 would have been premature. The findings of the mission corroborated that conclusion;

(ii) the appraisal had not been completed until after the auditor's report had become available;

(iii) new financial projections had been requested from BDET but had arrived only a few days before the Committee meeting. In the absence of review and discussions with BDET, these had not yet been reflected in the draft Appraisal Report;

(iv) earlier attempts to hold in-depth technical discussions immediately after the annual meeting failed because of lack of response on the Tunisian side.

6. The Region added that in light of the Bank's long standing association with BDET, the information base, though it may not have been complete or up-to-date in all respects, would appear sufficient to decide on a mandate for loan negotiations, especially as the major issues had been fully identified in the Appraisal Report. These issues could only be resolved in pre-negotiations and negotiations and a follow-up appraisal mission was not likely to resolve them or arrive at different conclusions. The Region admitted, however, that it did not have an adequate basis for analyzing what the proper level of interest rates should be, noting that the rate proposed was in fact a return to the one prevailing at the time of the previous loan. The Chairman concluded that technical discussions should be held with BDET before entering into formal negotiations, in order to review the projected operations and financial statements received recently from BDET. He left it to the Region to decide whether a follow-up mission was necessary. He added that formal negotiations could follow such technical discussions provided that the results of the discussions were satisfactory. Any invitation to negotiate should, in addition to stating the conditions, make clear that prior technical discussions were essential. He also asked that the Chairman of the Loan Committee be notified of the outcome of the technical discussions with BDET when they have been completed.

7. Provisions Against Risk. The Appraisal Report's recommendations on provisions were adopted by the Loan Committee. Discussions on this subject during the technical review should lead to a more accurate determination of the level of provisions needed in view of the current and projected financial situation of BDET.

8. Interest Rate. The proposal of the Appraisal Report was approved, i.e. an interest rate increase to at least 9% and cancellation of the subsidy arrangement, both of which would be conditions for Board presentation. The Chairman said that during negotiations the Government should be urged to consider a rate increase to at least 9% for all long-term lending institutions in Tunisia (in particular, STB) so that BDET's competitiveness would not be jeopardized.

9. Foreign Exchange Risk Coverage. The Government has, to date, borne the foreign exchange risk on all loans contracted from abroad, and the domestic financial sector and/or its borrowers consequently were not geared to assuming this risk. Nevertheless, in view of the low prevailing level of interest rates, it was agreed (as proposed in the Appraisal Report) that the Government should be urged to change the existing system so that the exchange risk is passed on to the banking institutions and their customers.

10. Mortgage Validation. The Region supplemented the proposal contained in the Appraisal Report as follows: during negotiations, the Government would (i) as a condition of effectiveness, undertake to provide conditional guarantees for BDET's sub-loans on which no valid mortgages could presently be established, and (ii) agree to a program and a timetable on mortgage validation for existing loans, especially to hotel borrowers; this would be incorporated as a covenant in the legal documents. It was agreed that such guarantee should not be allowed for future loans since this would enable BDET to make loans without bearing the risk. With regard to existing loans, the Bank would want to be assured of the adequacy of any Government guarantee. The Government should also be urged to make every effort to speed up private land registration.

11. Auditing. At present, BDET's management is only giving a verbal account to its Board of Directors of the annual independent audit which is prepared under the Loan Agreement with the Bank. It was agreed that, while the Bank had no way

of enforcing its views on how far the audit report should be disseminated, it should urge BDET's management to make audit reports available to all BDET's Board of Directors; (should there be any prejudice caused to Tunisian companies by having BDET's Board members made aware of confidential data, the audit report could be appropriately edited before being given to Board members). This would be recorded in a covenant to the Loan Agreement. BDET should also agree to continue to have its accounts audited by a firm of international standing for at least the next two years.

D. Conclusion

12. While recognizing that substantial investment opportunities for BDET existed in the Tunisian economy, the Chairman remarked that the proposed loan was a marginal operation because of the manner in which BDET was handling its affiars particularly in the light of the covenants agreed to under previous Bank loans. He added that the Bank should feel free to walk away from this operation if the Tunisian side was not ready to commit itself to remedying the serious and persistent problems besetting BDET and to improve its outlook for the future.

Cleared by: Messrs. Baum
Benjenk
Broches

EBenjamin/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-23

October 17, 1974

Minutes of Loan Committee Meeting to consider "Mauritania - Second Road Maintenance Project" held on October 12, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
I. P. M. Cargill
W. C. Baum
R. Chaufournier

Others:

G. Gabriel
L. Nurick
X. de la Renaudiere
R. Goodman
N. Bennett
J. Brown
R. Meda
C. Vuylsteke
R. Cambridge

B. Issues

1. The meeting was called to consider the request (see Mr. Chaufournier's memorandum of October 7, 1974) by the Kuwait Fund, with which the Bank Group is jointly financing the project, to act as the Bank's agent in administering disbursement for the road betterment component of the project. The Kuwait Fund has proposed that in order to simplify administrative procedures, it should collect the necessary disbursement application documentation from the

DISTRIBUTION

COMMITTEE

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

OTHERS

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

FORM NO. 75
(7–73)

WORLD BANK GROUP

ROUTING SLIP	DATE October 22, 1974

NAME	ROOM NO.
Recipients of Loan Committee	
Minutes	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE

REMARKS

Mauritania Second Road Maintenance Project
Loan Committee Minutes

Please replace page 2 of Minutes dated October 17 with attached page and note changes made in paragraph 2.

FROM	ROOM NO.	EXTENSION
Richard A. Cambridge RAC	F1237	5754

borrower for this component of the project and then, having approved the application, disburse its share to the borrower and cable the Bank that the application was approved. On the basis of this cable, the Bank would disburse its share to the borrower without first reviewing the supporting disbursement evidence which the Bank would receive later purely for its information.

C. Discussion

2. Mr. Knapp noted that the Kuwait Fund is a perfectly responsible organization with a good record. In the case of technical assistance grants by the Kuwait Fund and the Bank Group to the Yemen Arab Republic, the Kuwait Fund has administered disbursements for the project on its own and the Bank's behalf and the Bank has then reimbursed the Kuwait Fund on the basis of satisfactory evidence about disbursement supplied by Yemen. This procedure has worked well. Mr. Knapp said that in his view the Articles of Agreement would not preclude us from entering into an agreement of the kind which had been proposed by the Kuwait Fund and that the issue was one of policy. It was therefore suggested that two alternatives be proposed to the Kuwait Fund:

A. Both the Kuwait Fund and the Bank would receive the same disbursement application together with adequate supporting documentation from the borrower. Within 15 days after receipt of the applications, the Kuwait Fund and the Bank would inform each other if they approved the disbursement. If either the Kuwait Fund or the Bank considered not approving the application they would consult each other as soon as possible as to the appropriate course of action to be followed with respect to each application.

B. The Kuwait Fund could perform a role of fiscal agent for the Bank, much as the Bank does for other agencies in the Nam Ngum Project in Laos, with the Bank retaining final control over its own disbursement approvals. The borrower would submit applications for disbursement to the Kuwait Fund which would examine the documentation and, having approved it, disburse at its own risk its funds to the borrower. At regular intervals, perhaps quarterly, the Kuwait Fund would send all disbursement documentation for the period to the Bank with a bill for the Bank's share. The Bank, after satisfying itself that the disbursement applications were proper, would reimburse the Kuwait Fund for the Bank's share. If the Bank found that it could not approve disbursement applications equal to its share of disbursements, the Kuwait Fund would bear the burden, having already disbursed the money. The Bank could reestablish the agreed upon percentage of financing by each agency by paying more than its share in a following quarter. Mr. Nurick observed that this procedure would work unless the Bank disagreed with the project's final disbursement application in which case the Bank could not reestablish its share in a future disbursement and the Kuwait Fund would assume the risk itself.

D. Conclusion

The Committee approved offering the two alternatives to the Kuwait Fund.

Cleared by: Messrs. Knapp
Cargill
Baum
Chaufournier

JBrown/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED

AUG 2 9 2014

WBG ARCHIVES

LC/M/74-22

October 31, 1974

Minutes of Loan Committee Meeting to consider "Nigeria - Mid-West State Nucleus Estate/Smallholder Oil Palm Project, Western State Nucleus Estate/ Smallholder Oil Palm Project, East-Central State Smallholder Oil Palm Project" held on October 14, 1974 in Conference Room E-1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
R. Chaufournier
L. Nurick

Others:

E. Peter Wright
W. Thalwitz
H. van der Tak
G. F. Darnell
R. J. Goodman
R. S. Dosik
F. Povey
R. Wadsworth
R. Krishna
A. Vaidyanathan
P. E. Taylor-Lewis
R. Cambridge

B. Issues

1. The meeting was called to consider the following issues emerging from Mr. Chaufournier's memorandum dated September 19, 1974 forwarding the draft President's Report and draft loan documents to the Loan Committee for consideration and approval:

(i) Grace Period

(ii) Grant/Credit Scheme

(iii) Loan Amount

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussion

2. Offset Arrangements. The Chairman opened the discussion by inviting a summary of the outcome of the meeting held between Mr. Rotberg and the Nigerian delegation during the Annual Meeting. The Western African Region explained that the main problem raised by the Nigerians was that of the marketability of Bank loans and added that the impression resulting from the discussions is that the liquidity needs of Nigeria will determine the amount of investments to be made. Western Africa Region were optimistic, however, that Nigeria would come up with something more than US$100 million (which they have already financed to the Fund) in view of their more extensive involvement with the Bank. The Chairman concluded the discussion by saying that while a full offset arrangement is not envisaged, it could nevertheless help management's position considerably if agreement could be reached for a firm investment in either a medium- or long-term loan before the projects already negotiated are submitted for Board consideration.

3. Grace Period. Regional Projects had proposed a nine-year grace period for each of the proposed loans as well as for onlending to the concerned State governments. Programs Department have recommended that, on country grounds, the grace period for the proposed loans should be reduced to one of five years while retaining the nine-year period for onlending as suggested. The Chairman stated that while he originally felt uneasy about this issue, he had since modified his views as (a) Nigeria is basically a poor country, and (b) the present large surpluses of oil revenues is not expected to last for more than a period of about 10 years. He added that the main problem posed by the present situation is that of the percentage of Bank participation proposed under the projects noting that the 50-50 formula for financing agricultural projects was negotiated with the Federal Government prior to the recent increase in oil prices. Western Africa Program Department expressed the view that it would be unwise to alter the existing arrangements at this stage and suggested that a better alternative would be to try and trim the Bank's lending program to meet the requirements of whatever resource transfer is envisaged. Western Africa Program Department were also of the view that the implementation of the new revenue sharing formula announced by the Federal Government should provide an ideal opportunity to review the present arrangement.

4. Grant/Credit Scheme. The Chairman raised the question of the grant element provided under the grant/credit scheme, recognizing that the deletion of this element from Bank financing would reduce the amount of Bank participation under the proposed projects. Central Projects Staff were of the view that the grant element ought to be looked at in the context of the prices to be offered to farmers for ffb by the oil companies; the ultimate price to be charged for palm oil; the profitability of the oil companies and the bonus to be paid to farmers. It argued that when all these factors have been taken into account, the impact of the grant element is minor and can be justified in terms of the overall pattern of distribution of the palm oil revenues. Central Projects Staff also explained that under previous government-sponsored farmer rehabilitation schemes, farmers had been allowed to retain between 10-20 trees/acre as a source of income during the gestation period of new planting, a concession which would not be made under the proposed projects for both technical and agronomical reasons. Under the proposed projects, farmers would be required to fell and clear all existing trees before new planting/replanting and Central Projects Staff argued that the grant element is intended to ameliorate any undue hardship farmers would otherwise

experience in this regard. The Chairman maintained that the projections given in the Appraisal Report clearly indicate that the projects are potentially profitable and would result in substantial increases in the incomes of participating farmers. Consequently, he suggested, whilst it may be true to say that farmers would need some assistance during the gestation period of new planting, there would appear to be no reason why any assistance given should not be repaid out of proceeds from future sales. Regional Projects Department explained that whilst the projections made in the Appraisal Report are well founded, it would still be necessary to convince participating farmers of the soundness of such projections and that the grant element is intended to be the necessary incentive in this regard. Central Projects Staff were of the view that the projects ought to be looked at as a whole in order to determine whether the grant element is vital to their profitability. Once this sort of justification could be made, Central Projects Staff were satisfied that the financing of this element could be sustained.

5. Loan Amounts. Legal Department raised the question of local cost financing which would appear to conflict with the provisions of the Director's Guidelines. Western Africa Program Department maintained that this could be justified on the basis of the existing 50-50 financing formula which is now regarded as being only valid during the present transition period until a more satisfactory offset arrangement could be worked out and added that what the Bank stands to lose by upsetting the existing arrangements at this stage, may be far less than what it hopes to gain from the present dialogue for a substantial investment by Nigeria in Bank bonds.

D. Conclusion

6. The Committee agreed that the Nigerian Government should be invited to negotiate the projects as proposed in the Appraisal Reports and amended by the Regional Vice President's memorandum to the Loan Committee of September 19, 1974 and that should the Nigerian authorities resist the proposal to reduce the grace period of the loan to the Federal Government, it would be acceptable to revert to the nine-year grace period as proposed in the Appraisal Report.

Cleared by: Messrs. Knapp
Baum
Nurick

PTaylor-Lewis/RACambridge:mep

OFFICE MEMORANDUM

TO: Files

DATE: October 14, 1974

FROM: Jonathan C. Brown

SUBJECT: Loan Committee Meeting - October 12, 1974
MAURITANIA - Second Road Maintenance Project
Joint Financing Arrangements with the Kuwait Fund

1. The meeting was called to consider the request (see Mr. Chaufournier's memo of October 7, 1974) by the Kuwait Fund, with which the Bank Group is jointly financing the project, to act as the Bank's agent in administering disbursement for the road betterment component of the project. The Kuwait Fund has proposed that in order to simplify administrative procedures, it should collect the necessary disbursement application documentation from the borrower for this component of the project and then, having approved the application, disburse funds to the borrower on behalf of both the Kuwait Fund and the Bank. The Bank would then reimburse the Kuwait Fund for its share on receiving instructions from the Kuwait Fund without first reviewing the supporting disbursement evidence which the Bank would receive later purely for its information.

2. Mr. Knapp noted that the Kuwait Fund is a perfectly responsible organization with a good record. In the case of technical assistance grants by the Kuwait Fund and the Bank Group to the Yemen Arab Republic, the Kuwait Fund has administered disbursements for the project on its own and the Bank's behalf and the Bank has then reimbursed the Kuwait Fund on the basis of satisfactory evidence about disbursement supplied by Yemen. This procedure has worked well. However, Mr. Knapp said, the Bank has an obligation to its member countries under its Articles of Agreement to retain final approval of all funds disbursed from its loans and credits and it would be difficult to delegate it to another institution without retaining some degree of control. It was therefore suggested that two alternatives be proposed to the Kuwait Fund:

A. Both the Kuwait Fund and the Bank would receive the same disbursement application from the borrower, together with adequate supporting documents. Within 15 days after the receipt of the application, the Bank would inform the Kuwait Fund if it approved the disbursement. If the Bank considered not approving the application, it would consult with the Kuwait Fund as soon as possible as to the appropriate course of action to be followed with respect to each application.

B. The Kuwait Fund could perform a role of fiscal agent for the Bank, much as the Bank does for other agencies in the Nam Ngum Project in Laos, with the Bank retaining final control over its own disbursement approvals. The borrower would submit applications for disbursement to the Kuwait Fund which would examine the documentation and, having approved it, disburse at its own risk its funds to the borrower. At regular intervals, perhaps quarterly, the Kuwait Fund would send all disbursement documentation for the period to the Bank with a bill for the Bank's share. The Bank, Files October 14, 1974

after satisfying itself that the disbursement applications were proper, would reimburse the Kuwait Fund for the Bank's share. If the Bank found that it could not approve disbursement applications equal to its share of disbursements, the Kuwait Fund would bear the burden, having already disbursed the money. The Bank could reestablish the agreed upon percentage of financing by each agency by paying more than its share in a following quarter. Mr. Nurick observed that this procedure would work unless the Bank disagreed with the project's final disbursement application in which case the Bank could not reestablish its share in a future disbursement and the Kuwait Fund would assume the risk itself.

cc: Messrs. Knapp
Baum
Cargill
Chaufournier
de la Renaudière
Gabriel
Nurick
Goodman
Meda
Vuylsteke
Cambridge

JBrown:dlt MAU - Hwy. III

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

September 3

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-21

October 7, 1974

Minutes of Loan Committee Meeting to consider "Ivory Coast - Second Cocoa Project", held on September 12, 1974 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
R. Chaufournier

Others:

R. Goodman
X. de la Renaudiere
L. Y. Pouliquen
G. F. Darnell
F. van Gigch
C. J. C. Bourgin
S. Denning
B. A. den Tuinder
P. Koenig
S. Weed
P. Yeung
R. Cambridge

B. Issues

1. The meeting was convened to discuss the following issues emerging from the draft documents submitted to the Loan Committee under cover of Mr. de la Renaudiere's memorandum of August 30, and his supplementary memorandum of September 6, 1974 to Mr. Goodman for approval to negotiate a proposed US$20 million loan for a Second Cocoa Project in the Ivory Coast:

(i) whether a Bank loan would be justified in the light of the Government's recently announced subsidy program in the cocoa sector;

(ii) whether such a subsidy program would have a significant impact on world cocoa production and prices.

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Introduction

2. After the Appraisal Report had been prepared, the Government informed the Bank last June of the President's decision to introduce what appeared to be an unconstrained subsidy inducing plantings that could push Ivory Coast cocoa production outside the parameters estimated in the Bank's Cocoa Paper (R74-36) and cause a change in market shares enjoyed by the major cocoa producers. The Western Africa Region had received informal assurances from the Government that the subsidy scheme would not be unconstrained, and that the Ivory Coast did not intend to increase production beyond that forecast in the Cocoa Paper and the Appraisal Report.

D. Decision

3. The Western Africa Region said that the subsidy (which is to be paid only on new plantings) should be considered in the light of the high taxation of cocoa farmers, whereby the Government appropriates about 50 percent of the total income from cocoa. While the Government was expected to derive about US$192 million from this project alone, the proposed subsidy would represent only about 2 percent of these revenues. A producer price increase of 0.1 percent would amount to the same transfer of funds to the cocoa sector, without however, providing the same incentive to attract new farmers to the cocoa development program, which will include about one-fifth of all producers. The Government's plan 1/ would mean a transfer of resources from the richer to the poorer cocoa farmers and was, therefore, a step towards better income distribution.

4. The Region proposed to discuss the criteria of subsidy eligibility with the Government at negotiations, our opening position being that the subsidy should be seen as an alternative to farmers' credit. If the Government wished to replace entirely the element of farmers' credit of the project with the subsidy, the amount of the Bank loan would be reduced by US$3.0 million including contingencies. In addition, the Region proposed that farmers would be eligible to collect the Government's subsidy for no more than 3 ha of planted cocoa, and that for reasons of equity between cocoa farmers, loans granted to farmers under the first project would be cancelled.

5. Cocoa Production Limitations. Ivory Coast's basic cocoa quota 2/ amounts to 15.4 percent (equivalent to a production level of 225,800 tons). If demand and output projections, referred to in the Cocoa Paper (see paragraph 2) materialize, Ivory Coast's production is expected to go up to about 290,000 tons by 1980 (15.9 percent of projected world production) and 335,000 tons by 1985 (15.8 percent). Thus, Ivory Coast would only slightly increase its share in the world

---

1/ Since the meeting, the Bank has received confirmation that the Government proposes to give cocoa growers a cash grant of CFAF 60,000 in two yearly installments of CFAF 30,000 in addition to the existing subsidies of seeds, and credits for fertilizers and insecticides equivalent to about CFAF 20,000 per ha over the planting period.

2/ A basic quota is the share (in percentage terms) attributed to a producer country, based on the combined production of those members of the International Cocoa Organization which are subject to quotas, namely, Ghana, Nigeria, Ivory Coast, Brazil, Cameroon and Togo.

market and its average growth rate between 1972 and 1980 (about 3.2 percent) would stay closely in line with the forecast world demand in the same period. In addition, when the proposed project would enter production (between 1980 and 1985), the Ivory Coast's output would rise by only about 2.9 percent. If Ivory Coast's planting of high yielding hybrid cocoa does not exceed 70,000 ha during the period 1975-1981, its production should not exceed the production target of 335,000 tons by 1985 referred to in the Bank's Cocoa Paper (74-36) which was reviewed by the Board and approved by FAO. The Region proposed to seek assurances to that effect by a covenant in the Loan Agreement.

6. Cocoa Prices. With world demand far exceeding cocoa production, the current world market price is about US$1.00/lb, compared to US$0.44/lb in 1972. As supply catches up, the Bank's Commodity and Export Projection Division forecasts a price of approximately US$0.52/lb. in 1980 which would stay about the same through 1985 (all prices in 1974 constant dollars). The recent Board Paper concluded that given the favorable demand prospects for cocoa, the increased production of Bank Group projects in the pipeline (which specifically included the Ivory Coast Second Cocoa Project) would not contribute to excessive world supply of cocoa. The International Cocoa Organization specifically supported the Ivory Coast Second Cocoa Project in a letter dated September 15, 1974, which stated that new cocoa plantings had not yet reached the point where world cocoa production would outpace demand resulting in very low prices as in the mid-sixties.

E. Conclusion

7. The Committee approved the recommendation to invite the Government for negotiations on the terms and conditions proposed by the Region.

Cleared with Mr. Knapp

SDenning/RACambridge:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-20

September 5, 1974

Minutes of Loan Committee Meeting to consider a "Mekong Agricultural Fund" held on August 14 and 16, 1974 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp
G. B. Votaw
J. A. King
P. Sella

Others:

R. J. Goodman
H. Vergin
A. A. Casson
S. Ruffini
R. R. Garside
R. A. Cambridge

B. Issues

1. The meetings were called to consider revisions to the draft design for a Mekong Agricultural Fund (MAF), based on discussion at the Loan Committee meeting of July 8, 1974 (please see LC/M/74-16 of July 24, 1974).

C. Conclusion

2. The meetings accepted a memorandum from Mr. P. Sella to the Senior Vice President, Operations incorporating the above changes as the basis for consultation with other parties, beginning with the Asian Development Bank.

D. Subsequent Action

3. On August 20, 1974, the Loan Committee accepted, without meeting, a final text of which a copy is attached.

DISTRIBUTION

COMMITTEE

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

OTHERS

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

PROPOSED MEKONG AGRICULTURAL FUND (MAF)

In 1970, the Mekong Committee requested the UNDP and the Governments of Japan, the Netherlands, UK and USA to assist in financing the preparation of a program of pioneer agricultural projects designed to obtain information essential to the efficient planning and implementation of agricultural development in the Lower Mekong Basin. In response to the Mekong Committee's request the UNDP contributed in 1971 US$1.0 million toward the financing of the preinvestment studies; a similar amount was contributed by the Mekong Committee from funds made available to the Committee by bilateral grant contributions for this specific purpose. The studies have been carried out by the IBRD in association with the ADB and the FAO, in regular consultation with the Mekong Committee as well as with those national agencies directly responsible for the respective pioneer project.

By letter dated March 24, 1972, the Mekong Committee requested the IBRD to assist the Committee in raising the necessary funds to finance the implementation of the pioneer agricultural projects. The IBRD confirmed that it was prepared to assist the Committee in this task. Early in 1974, several Governments indicated through their Bangkok representatives that they would consider making money available within a joint funding arrangement to construct pioneer agricultural projects. Several other donor Governments have indicated they might do the same on the basis of detailed information about the pioneer projects under preparation. Summary appraisals of six pioneer projects are scheduled to be ready for review by potential donors in the fall of 1974. The following outline describes a joint funding arrangement suitable for the implementation of the Mekong Committee's program of pioneer agricultural projects. Assuming that an arrangement along these lines is acceptable to ADB and the Mekong Committee, IBRD is ready to solicit contributions from interested governments sufficient to finance an appropriate share of the costs of the initial group of six pioneer projects.

Outline of Proposed Mekong Agricultural Fund (MAF)

1. Parties to the Agreement establishing the MAF (the Basic Agreement)

   (a) Khmer Republic, Laos, Thailand and the Republic of Viet Nam (hereinafter referred to collectively as the Recipient Countries).

   (b) The Mekong Committee as the agency of the Recipient Governments established to promote, coordinate, supervise and control the planning and investigation of water resources development in the Lower Mekong Basin (see para. 4 below).

(c) IDA, ADB and interested donor Governments (hereinafter called the Contributors); IDA and ADB would sign the Basic Agreement also as Executing Agencies (para. 2 below).

(d) IBRD, as Fiscal Agent (para. 5 below).

2. Form and Purposes of MAF

(a) The funds made available by the Contributors for the implementation of the Mekong Committee's pioneer projects program would be paid to, and held in trust by, the Fiscal Agent, in the MAF, for use in accordance with the provisions of the Basic Agreement.

(b) The funds held in the MAF would be used, in the first instance, to finance six pioneer projects in the Recipient Countries which have already been appraised and, in due course, further pioneer projects in these countries, as and when they are appraised and approved by the Executing Agencies and Pioneer Project Agreements are entered into by them with the respective Recipient Countries.

(c) Debt service payments in respect of loan contributions would not be channelled through the MAF but paid directly by each Recipient Country to each Contributor in accordance with the arrangements described in para. 6 (d) below.

3. Executing Agencies

IDA and the ADB would act as Executing Agencies in accordance with the Basic Agreement, with the following powers and responsibilities:

(a) Jointly to negotiate with each Recipient Country the financing and execution of each of the initial Pioneer Projects located in that Country, under Pioneer Project Agreements which would specify the amount to be financed out of the funds held in the MAF and describe the specific Pioneer Project, and would include, inter alia, provisions acceptable to both IDA and ADB for:

(i) the procurement of goods and services;

(ii) the disbursement of funds;

(iii) the supervision of the execution of the Pioneer Project by either IDA or ADB acting individually;

(iv) the procedure for monitoring the operation of the Pioneer Project;

(v) the provision by the Recipient Country concerned of the balance of the capital cost of the Pioneer Project;

(b) Jointly to recommend additional Pioneer Projects for financing out of the MAF on the basis of appraisal reports prepared by either IDA or ADB (as agreed between them) and to negotiate additional Pioneer Project Agreements with individual Recipient Countries along the lines set forth under (a) above.

4. Mekong Committee

In view of the Mekong Committee's basin-wide functions in the planning and investigation of water resources development and in sponsoring the preparation of the pioneer projects, the Mekong Committee would be responsible for:

(a) Establishing in consultation with the Executing Agencies appropriate guidelines for monitoring the operation of individual pioneer projects.

(b) Coordinating the results of pioneer project monitoring carried out by each Recipient Country in accordance with such guidelines.

(c) Identifying additional pioneer projects suitable for preparation with a view to subsequent appraisal and implementation.

(d) Preparing in consultation with the Executing Agencies one or more evaluation report presenting the operational results of the program of pioneer agricultural projects.

The Executing Agencies would keep the Mekong Committee informed of their supervision of individual pioneer projects.

5. Fiscal Agent

IBRD would act as the Fiscal Agent for the MAF with the following powers and responsibilities:

(a) To make periodic calls on Contributors for funds to be paid into the MAF as required to meet expenditures on the pioneer projects.

(b) To disburse the funds held in the MAF for goods and services procured in accordance with the provisions of the several Pioneer Project Agreements entered into by the Executing Agencies.

(c) To reimburse the Executing Agencies and itself, out of the MAF, for out-of-pocket expenditures incurred by them in carrying out their respective responsibilities.

(d) To solicit the funds needed to help finance additional Pioneer Projects either from the Contributors or from other countries or institutions that might wish to contribute to the MAF.

(e) To keep accounts and records reflecting the receipts and disbursements of MAF and to have these audited at the end of each fiscal year.

(f) To keep all parties to the Basic Agreement regularly informed of MAF's operations.

(g) To determine in respect of each Recipient Country the share of debt service on all loans whose proceeds have been paid into the MAF, on the basis indicated in para. 6 (d) below, and to direct payment of such share to the respective loan Contributors.

6. Nature and Use of Contributions

(a) The Contributors would be asked to make contributions payable into the MAF in the form of grants, or failing this loans on concessional terms, to the four Recipient Countries (see also para. 8 below).

(b) The use of these contributions should be untied, as to procurement source, at least among IBRD member countries.

(c) Each Contributor would contribute pro rata to the financing of each Pioneer Project and, therefore, contributions would be drawn down by the Fiscal Agent on a pro rata basis; some flexibility for temporary acceleration of drawdowns on individual contributions will, however, have to be provided for administrative convenience.

(d) For each of Pioneer Projects, the Fiscal Agent, on the basis of the interest and amortization schedule stipulated for each loan contribution whose proceeds have been paid into the MAF, would:

(i) determine the aggregate debt service requirements on each due date;

(ii) allocate to each Recipient Country a share of such aggregate debt service requirements according to the aggregate disbursements (regardless of their source) made from the MAF for Pioneer Projects in that Country; and

(iii) direct each Recipient Country to make payment of its share of each installment of the aggregate debt service to the various loan Contributors so that each loan Contributor would receive full payment of its debt service claims on the respective due dates.

(e) The Basic Agreement would specify the percentage of the total capital cost of Pioneer Projects in each of the Recipient Countries which would be financed out of the MAF, taking into account the capacity of the country concerned to make a contribution; this percentage could subsequently be varied by agreement among the Contributors. However, in no case would more than 90% of the total capital cost of a Pioneer Project be financed out of the MAF.

7. Undertakings by Recipient Countries

The Recipient Countries would agree to finance the balance of the capital cost of Pioneer Projects in their respective countries (including cost over-run), to cooperate with IDA, the ADB and Mekong Committee in the execution, operation and monitoring of these Projects, and to pay their shares of the debt service on the loan contributions, as determined by, and in accordance with the directions of, the Fiscal Agent. Each Recipient Country's liability would be limited to its share of such debt service payments.

8. Financing Arrangements

Individual financing agreements between each Contributor (including IDA and the ADB) and the four Recipient Countries for that Contributor's contribution would be required if, and to the extent that, the terms and conditions of such contribution are not already stipulated in the Basic Agreement, as would be preferable whenever possible. Such financing agreements would, in respect of loan contributions, provide for debt service obligations of the Recipient Countries consistent with the arrangements described in para. 6 (d) above.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

JULY 2

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-19

September 5, 1974

Minutes of Loan Committee Meeting to consider
"Zaire - Rail-River II Project"
held on August 9, 1974 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Michael L. Lejeune
John A. King
Tenley M. Jones

Others:

Michael H. Wiehen
Hans Adler
Donald H.F. Bickers
Jan de Weille
Roberto Chadwick
Richard Cambridge

B. Issues

1. The meeting was called to consider the following issues emerging from a decision meeting held on July 8, 1974:

(i) whether the Bank should finance the preliminary engineering for the Kinshasa-Ilebo Railway;

(ii) whether the amount of the proposed credit could be increased to US$26 million, to cover fully the external financing requirements.

C. Discussion

2. Preliminary Engineering. The Eastern Africa Region explained that, while a study financed by the Bank in 1971 had concluded that the Kinshasa-Ilebo rail link was justified, subsequent investigations raised considerable doubts as

DISTRIBUTION

COMMITTEE

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

OTHERS

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

to the economic justification of going forward with construction now rather than 10 to 15 years hence. The Region added that, although the Government may have already decided to implement the project, there were sufficient uncertainties as to its cost to justify going ahead with the preliminary engineering. The Region felt that better cost estimates resulting from the preliminary engineering might support the Government's decision to go ahead with the project and allow Bank Group financing for the construction. However, even if the detailed cost estimates showed that construction was premature, the Bank Group's involvement in selecting and supervising the consultants for the preliminary engineering was likely to contribute substantially towards proper implementation of the project and result in cost savings to the Government. It would be made clear to the Government that providing finance for the preliminary engineering was in no way a commitment to finance the subsequent construction. There was some discussion as to whether it was realistic to expect that the Bank might influence the timing of the project through the financing of the preliminary engineering. In view of the fact that the economic rate of return calculated by Bank staff for the proposed project at 8% was perhaps sub-marginal but not totally unacceptable, the Committee approved the proposal of the Eastern Africa Region.

D. Conclusion

3. Amount of IDA Financing. The Committee accepted the recommendation that IDA should be prepared to provide the total amount of external financing required (up to US$26 million) if the current efforts to secure cofinancing are not successful. This would require a reallocation of IDA funds allocated to Zaire in FY76 and FY77.

RChadwick/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

McCambridge
F1237

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-18 DECLASSIFIED

July 23, 1974 AUG 2 9 2014

WBG ARCHIVES

Minutes of the Loan Committee Meeting to consider "Romania - Sadova-Corabia Agricultural Credit Project" held on July 12, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
M. P. Benjenk

Others:

R. Goodman
M. Paijmans
M. Yudelman
D. Haynes
E. Köpp
R. Frank
G. Delaume

T. Asser
I. Hume
G. Eugenio
A. Casson
N. Noon
R. Cambridge

B. Issues

1. The meeting was called to consider the following issue for which management concurrence was sought with the decision in paragraph 2(d) of the Decision Memorandum issued June 26 for the proposed Sadova-Corabia Agricultural Credit Project:

> whether the proposed 3 percent per annum onlending rate of interest was appropriate in Romania.

The Committee also took the opportunity of the meeting to review two other issues already resolved in the Decision Meetings for the Giurgui-Razmiresti Irrigation and Sadova-Corabia Agricultural Credit Projects:

> (i) whether "exports foregone" as a result of the project should be considered as local or foreign costs, and what role they should play in determining the amount

DISTRIBUTION

COMMITTEE

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

OTHERS

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

of financing for the project; and

(ii) whether the participation of Romanian suppliers in international procurement presented any problems.

C. Discussion

2. Onlending Interest Rate. The Chairman inquired about the rate of inflation in Romania and its bearing upon determination of the sublending interest rate as indicated in subparagraph (b) of the attachment to the Decision Memorandum. The Region responded that the Romanian economy was unique for its rigid price controls even in comparison with other countries in Eastern Europe. Retail prices had increased only 1.6 percent in the last 10 years. Producer (wholesale) prices were last set in 1963 and remained fixed until the beginning of this year. Under a revision of prices which began this year, relative producer prices are being changed to reflect cost changes including the cost of imported inputs. Some prices will increase but others will be reduced. The net effect of these revisions, however, will be that the index of producer prices will increase 3.3% over the level of 1963 i.e., a 3.3% inflation in 10 years. The Region also noted that the Romanians have traditionally insulated the domestic economy from world economic developments through a system of multiple exchange rates and domestic subsidies. This system was reformed in January 1974 by the adoption of a fixed 20 Lei - US$ exchange rate for traded goods and introduction of variable tariffs to cushion the impact of international inflation. Thus, the Romanian economy can be expected to be effectively insulated from the current serious problems of world inflation. In addition, the Region noted (subparagraph (a) of the Decision Memorandum attachment) that the role of interest rates in a socialist economy such as Romania differed from that in market economies in that interest could much more appropriately be considered as "tax on" than a "price of" capital. The Chairman responded that this was a useful supplementary argument, but that greatest emphasis should be placed on the near-zero rate of inflation in making the case for a 3 percent onlending rate of interest under the Project.

3. "Exports Foregone". The Chairman inquired about the Appraisal Mission's recommendation that foreign exchange cost estimates and the loan amount be based upon its analysis of exports which Romania would forego as a consequence of diverting to the Project goods which would otherwise be exported. The Region responded that, while there seemed to be some precedent for using the concept of "exports foregone", it had been decided to address the issue of local cost financing directly within the more conventional interpretation of Directors Memorandum 2.4 on computing foreign exchange costs. The Chairman agreed that the issue of local cost financing should be addressed directly and that financing of 50 percent of total costs, as recommended by the Region, was appropriate for the proposed Project.

4. International Procurement. The Chairman noted that, in its initial lending to Romania, the Bank had sought to avoid any potentially difficult procurement situations involving Romanian suppliers. The Region confirmed that, although the legal documents for the past loans to Romania allowed for the participation of Romanian suppliers in i.c.b. and the financing of local expenditures if a Romanian enterprise were to win a contract, local suppliers were not expected to bid for procurement under the loans signed recently. The Region also noted that Romania has been a member of GATT since 1971 without any complaints being lodged for unfair bidding practices, and

that the new uniform exchange rate system (para. 2 above) and a system of fixed catalogue prices made such abuses unlikely in the future. The Vice President, Projects Staff suggested that the Bank should get a minute of understanding on the procurement procedures to be followed by Romanian suppliers under the project; he also inquired whether a 15 percent margin of preference would apply to Romanian suppliers. The Region responded that the Romanians had not yet asked for the preference, and the Chairman noted that it should be granted if requested.

D. Conclusion

5. The Committee decided that:

(i) The proposed 3 percent onlending rate of interest was appropriate in Romania, and that the Appraisal Report should emphasize the near-zero rate of inflation in presenting the case for this rate;

(ii) a loan for 50 percent of total project costs, including some local cost financing, is appropriate for the proposed Project; and

(iii) the participation of Romanian suppliers in international procurement for the proposed project should be handled as similar situations are handled in other member countries, except that a written understanding on procurement procedures should be obtained during negotiations.

Cleared by Messrs: Knapp
Baum
Benjenk
Broches
Gabriel

NWNoon/RACambridge:mep

LOAN COMMITTEE

LC/M/74-17
July 25, 1974

Minutes of Loan Committee Meeting to consider
"India - Power Transmission IV Project"
held on July 12, 1974, in Conference Room E1208

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	W. Diamond	E. B. Arnold
W. C. Baum	R. J. Goodman	J. Beach
M. L. Weiner	S. M. L. van der Meer	S. S. Scales
G. R. Delaume	J. Kraske	A. A. Casson
	D. M. Sassoon	D. M. Thomas
	F. H. Howell	R. A. Cambridge

B. Issues

1. There were no specific issues requiring resolution but the opportunity was taken for an exchange of views on the Association's proposed negotiating position as it emerged from the Decision Memorandum of June 26, and the supplementary memorandum from Messrs. Jennings and Howell of July 1.

C. Discussion

2. The Chairman, referring to the two major topics raised in the memorandum of July 1, said that he had no difficulty with the position regarding the reactivation of CEA and confirmed that a meaningful, effective reactivation would continue to be a necessary prerequisite to proceeding with the credit. He asked, however, for clarification of the references to the amendment of the Electricity

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(Supply) Act. The staff said that amendments needed as a result of possible institutional change in the sector depended on how radical that change would be. It was possible that only minor revision would be necessary in this regard. The major concern lay in the revision of the financial provisions of the Act, which contained serious conceptual weaknesses. As a condition of the Third Power Transmission project, an Indian Expert Committee had been convened to consider the matter. The recommendations of this Committee were being examined and the first impressions of the staff were that the amendments proposed were not sufficiently far-reaching. Since amendment of the Act was vital to the further development of the sector, it was decided to put the Government of India on notice that the Association would expect to achieve agreement on the substantive changes required in the Act during negotiations of the proposed Power Transmission IV project, to make such agreement a condition of presentation, and to obtain an understanding that no further power loans would be considered until a satisfactorily revised Act has been promulgated and put into effect.

3. The failure of the Beneficiaries to reach the rate of return targets to which they were obligated under an earlier credit was discussed in the context of making such achievements a condition of presentation of the proposed credit. It was agreed that the States concerned should now be asked for an action program (with particular emphasis on tariff increases) under which they would meet agreed performance criteria within a reasonable time. Such an action program should be agreed during negotiations, and the initial actions needed to obtain necessary increases in the rates should be made conditions of presentation of the credit.

4. The disincentives towards higher tariffs and better financial performance represented by the burden of federal income tax and the prospect of discontinuation of the development rebate were noted. The Chairman felt that this subject was an important feature of the Issues Paper to which the Decision Memorandum had not been fully responsive. It was pointed out, however, that the problem was one for the whole of the industrial sector and not for SEBs alone. It was agreed that the matter could profitably be pursued during negotiations and that the line to be taken should be discussed when the credit was submitted to Loan Committee.

D. Conclusion

5. It was agreed that the prospects of meaningful sectoral reform were sufficiently promising to justify a continuation of the processing of this particular credit.

Cleared by Messrs: Knapp
Baum
Broches
Weiner
Gabriel

DMThomas/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

Mc Cambridge
F-1237

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED
AUG 29 2014
WBG ARCHIVES

LC/M/74-16

July 24, 1974

Minutes of Loan Committee Meeting to consider "Mekong Agricultural Development Fund" held on July 8, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman
W. C. Baum
B. R. Bell
I. P. M. Cargill
L. Nurick

Others:

B. Chadenet
G. B. Votaw
S. S. Kirmani
M. Yudelman
R. J. Goodman
N. A. Gibbs
M. C. Blobel
C. M. Southall
H. Vergin
R. R. Garside
R. Cambridge

B. Issues

1. The meeting was called to consider the preliminary design, set out in Mr. Goodman's memorandum to Mr. Knapp of June 28, 1974, for a Mekong Agricultural Development Fund to finance Mekong Pioneer Agricultural Projects.

C. Discussion

2. The discussion took the form of an exploration of the various issues involved in the establishment of a Fund; these may be grouped under the following main headings:

DISTRIBUTION

COMMITTEE

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

OTHERS

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

(a) Role of the Mekong Committee. The East Asia & Pacific Region explained that the role of the Mekong Committee hitherto had been that of planning and coordinating investigations into water resource development, and this had included identification of some of the pioneer agricultural projects. The Mekong Committee has also been party to the Plan of Operation of the UNDP-financed regional project under which the preparation of the pioneer agricultural projects is taking place, with IBRD serving as the executing agency. The Senior Vice President, Operations, considered that it would be appropriate for the Mekong Committee to continue to play such a planning role but he doubted that the Committee had legal authority to act as the Borrower in a Fund; in any case, the Committee would not be the appropriate body to perform this function. Mr. Knapp said that evaluation of pioneer project experience would be an integral and important part of implementation of the program and asked for views on whether the Committee should be asked to take responsibility for project monitoring. Some speakers considered that monitoring should be clearly distinguished from project supervision and responsibility for it allocated to the Mekong Committee, but others considered that since such a separation would be difficult, the assignment of such a role to the Mekong Committee would complicate the task of supervision. Since the Committee is anxious to have the Secretariat directly involved in the pioneer projects it was agreed that the Committee could be invited to send staff to join supervision missions led by the Bank (or ADB).

(b) Advantages of a multilateral arrangement for the financing of pioneer projects as a regional program as compared with project-by-project bilateral financing. Mr. Goodman recalled that at a meeting held in Copenhagen in 1970, at the time of the Annual Meeting, there had been agreement among potential contributors that the Mekong Pioneer Agricultural Projects should be financed on a multilateral basis as a regional program. He gave it as his view that such an approach would improve the prospects for financing and for the untying of procurement.

(c) Design of multilateral pioneer program financing arrangements. Mr. Knapp and Mr. Goodman envisaged that IDA would be appointed as Administrator of the funds to be made available by contributors for financing the regional program of pioneer projects. Mr. Knapp suggested that IDA might finance a percentage of the costs of each project and invite other contributors to share the balance of the financing. Mr. Goodman proposed that pledges be solicited from contributors to finance batches of projects as these were appraised (the first six would be ready for appraisal in the fourth quarter of this year). These funds would be pooled together with contributions from IDA and ADB, and all projects in the batch financed with the same mixture of grants and loans on varying concessional terms. Thus, each contributor would contribute pro rata to the financing of all projects, but in the case of loans would enter into a separate loan agreement with each riparian country to cover its contribution to the implementation of the pioneer projects located in the respective country. The percentage of total project costs to be financed by external sources could be varied from country to country to take account of the relative economic strength of the recipient country.

The Bank, as Administrator, would call the funds from contributors from time to time and disburse them from an account under its control; it would act as the supervising agent for all projects, except where this task was allotted to the Asian Development Bank. But in the case of a default on a loan, the Bank/IDA would have no liability for any payment due to another lender. Under these multilateral arrangements for the financing of a regional program, IDA might well engage in financing of pioneer projects in countries where the Bank Group was not otherwise operating and IDA funds might flow to Thailand which otherwise would now not be eligible for such funds. This would be justified by the regional nature of the program: knowledge gained from projects in one country would be more available to benefit other countries; and a regional program would only be viable if lenders were prepared to do multilaterally some things which they were not prepared to do unilaterally.

(d) Procurement. All speakers agreed that it would be essential that procurement be untied, and financing not restricted to foreign expenditures, since the proportion of these to total project costs would be low in most cases. Speakers doubted that procurement could be spread among contributors in line with their contributions.

(e) Board Presentation. It was agreed that we should seek general authority from the Board for IDA's contribution to the first batch of projects and not present each one separately; individual credit agreements would then be circulated as they were ready for approval on a no-objection basis. Mr. Knapp said that the first batch should be covered by one appraisal report.

D. Conclusion

3. The Committee requested the East Asia & Pacific Region to re-work the design for the Fund to take into account the views expressed at the meeting.

Cleared by Messrs: Knapp
Baum
Nurick

RGarside/RACambridge:mep

Mr. Dosik
F1237

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-15
July 8, 1974

Minutes of Loan Committee Meeting to consider
"Lebanon-South Bekaa Irrigation Project"
held on June 19, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
L. Nurick
M. Bart

Others:

W. Wapenhans
K. G. Gabriel
R. S. Dosik
D. W. M. Haynes
G. Darnell
A. S. El Darwish
E. Kuiper
G. LeMoigne
E. Gonella
R. Cambridge

B. Issues

1. The meeting was called to consider Mr. Benjenk's memorandum of June 13, 1974, recommending a revised negotiating position concerning:

(i) security of tenure
(ii) exemption from capital recovery charges
(iii) progressive capital recovery charges
(iv) passage of legislation.

C. Discussion

2. Security of Tenure. The Vice President, Projects Staff, indicated that the proposed change from 3 years to 6 years for the extension of the lease contracts at the option of the tenants was a substantial improvement. He noted, however, that the absence of rent controls weakened the position of the lessees at the time of the

DISTRIBUTION

COMMITTEE

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

OTHERS

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

optional renewal. The Region argued that, also in this case, the owners were unlikely to increase rents unreasonably, because the leases have to be satisfactory to ONL, traditional relations prevail in the area, and because of the relative scarcity of labor.

3. Excemption from Capital Charges. The Region proposed to exempt from capital recovery charges 5 ha operating units; the limit previously was 2 ha. This discouraged fragmentation of holdings in too small, uneconomical units, and resulted in a small improvement in redistribution of benefits in favor of small holdings.

4. Progressive Water Charges. The Vice President, Projects Staff, said that the proposal of Mr. Benjenk's memorandum for total water charges (O & M plus capital recovery) of no less than 45% of the net value of production on operating units of more than 100 ha, might discourage efficient farming on large units and thus affect yields. The overall impact of possibly lower yields and of price contingencies larger than envisaged in the appraisal report might result in a reduction in the already marginal economic return of the project; on the other hand, there have been substantial increases in project output prices. These effects had to be checked through a recalculation of the rate of return. The Regional projects staff confirmed this diagnosis.

5. Passage of Legislation. The new proposal that Parliamentary ratification of the laws on Land Betterment Tax and on Public Water System would be a condition of Board presentation was considered to be a wise precaution.

D. Conclusion

6. The Chairman noted that the changes proposed in Mr. Benjenk's memorandum result in significant improvement. Because of the absence of administrative controls on the size of land ownership and the level of rents, risk of inequitable distribution of project benefits still prevailed, but the Bank should be prepared to take this risk which was inevitable in the present Lebanese political and social setting, in view of the importance of introducing the proposed reforms. The Committee approved that the Bank invite negotiators for the proposed $45 million loan on the basis of the documents distributed to the Loan Committee and Mr. Benjenk's memorandum of June 13, 1974. The Lebanese authorities should be warned, however, that agreement by the Bank will depend on the project's economic return being no less than the 9% calculated in the appraisal report, taking into account price changes after appraisal and new yield projections, as a result of farming in smaller lots as a consequence of the revision of water charges.

Cleared by: Messrs. Knapp
Baum
Bart
Nurick

EGonella/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

MAY 9

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-14

May 29, 1974

Minutes of Loan Committee Meeting to consider
"Morocco - Sebou II Development Project"
held on May 14, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
M. Benjenk
G. Gabriel
L. Nurick

Others:

W. Wapenhans
M. Bart
H. van der Tak
M. Yudelman
M. Wiehen
D. Haynes
W. Siebeck
E. Kuiper
T. Jones
C. Collins
M. Carter

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee under cover of Mr. Wapenhans' memorandum of May 8, 1974:

(i) the program for distribution of land to smallholders and landless families in the Rharb-Sebou Irrigation Project Area under the Government's Agrarian Reform Program;

DISTRIBUTION

COMMITTEE

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

OTHERS

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

(ii) cost recovery for irrigation works being constructed under the Rharb-Sebou Irrigation Project.

C. Discussion

2. Land Reform Program: The Europe, Middle East and North Africa Region explained that it proposed to obtain from the Moroccan Government a program in the irrigation sector for future land distribution to smallholders and landless families in the Rharb-Sebou Irrigation Project area. Because of the time it would take to prepare a detailed program, it was being proposed that its submission to the Bank should be a condition of loan effectiveness. The Chairman said that he would much prefer that provision of a satisfactory land distribution program be a condition of Board presentation rather than appear in the Loan Agreement. In response to a question from the Chairman the Region explained that land reform was accepted by the Moroccan Government as a major objective of the Rharb-Sebou Irrigation Project, and that the purpose of the present request for a specific and detailed distribution program was to ensure that this objective was being carried out effectively. On this basis it was agreed that the approach proposed by the Region should be followed.

3. Cost Recovery: Central Projects Staff explained their view that the limited recovery of capital costs proposed for the irrigation works under the Rharb-Sebou Irrigation Project was quite inadequate, particularly since there are large Moroccan owned land holdings benefiting from irrigation development and flood control. Recovery of all capital costs, with full interest, from farmers with more than 5 ha. would be more appropriate. The Chairman said that while these arguments would be forceful for a new project, we could not now ask for a higher rate of capital cost recovery than allowed by existing Moroccan legislation - namely 40 percent - since this basis for cost recovery had been accepted for the Rharb-Sebou Irrigation Project in 1969. The Region explained that the Government had been asked to carry out a review of water charges to provide a basis for discussion of this subject during negotiations for the present Sebou II Development Project. It was agreed that the Bank's position during negotiations would be that the present maximum rate of cost recovery allowed under Moroccan legislation would be the minimum which the Bank would consider reasonable. It was also agreed that the Region would prepare for the Chairman a memorandum showing the combined incidence of water charges and taxation for different holding sizes.

D. Conclusion

4. Subject to the modifications in para. 3, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs: Knapp
Aldewereld
Baum
Benjenk
Broches

MCarter/RACambridge:vk

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-13

June 5, 1974

Minutes of Loan Committee Meeting to consider "Madagascar - Village Livestock and Rural Development Project" held on May 13, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
B. Bell
G. Gabriel
L. Nurick
H. G. van der Tak

Others:

S. Husain
S. Kirmani
M. Wiehen
H. Adler
J. D. Roulet
R. Buhler
B. Q. Lan
M. Walshe

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Bell's memorandum of May 7, 1974, for approval to negotiate a proposed US$9.6 million loan for a Village Livestock and Rural Development Project in Madagascar:

(i) whether the establishment of the Livestock Development Unit (LDU) in the Majunga province should be a condition of Board presentation or a condition of loan effectiveness;

(ii) whether the proposed share of Bank financing was appropriate (80 percent of project costs excluding taxes and duties as compared to a share of about two-thirds proposed in the Decision Memorandum);

DISTRIBUTION

COMMITTEE

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

OTHERS

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

(iii) what the Bank's position should be regarding the recommendations in the Appraisal Report to phase out control of meat prices and to lift export quotas;

(iv) whether the relending terms and consequently the arrangements for recovering project costs are appropriate.

C. Discussion

2. Establishment of LDU. The Eastern Africa Region agreed with the Legal Department's view, conveyed in Mr. Nurick's memorandum of May 10, 1974, that since LDU will carry out about 80 percent of the project, this entity should be established at the earliest date to ensure prompt execution of the project. The consensus was that its establishment should therefore be a condition of Board presentation. The Region added that since preparation of the Appraisal Report, we had been informed by the Government in mid-April of the establishment by decree of LDU and the Loan Agreement has been drafted on that basis. During negotiations, we would review this decree to see whether LDU's constitution and its functions and responsibilities are acceptable to the Bank. The conclusion of agreements between the Government and the entities concerned regarding the execution of the project would be conditions of effectiveness. Responding to the Chairman's enquiry as to the appointment of LDU's General Manager, the Region indicated that this would also be a condition of effectiveness. This was agreed, but the Chairman suggested that it would be helpful to have the General Manager-designate to participate in the negotiations. This suggestion was subsequently conveyed to the Government in the cable inviting them for negotiations.

3. Amount of the Proposed Loan. The Chairman questioned the appropriateness of the proposed loan amount of $9.6 million (which would finance about 80 percent of total project costs, net of taxes and duties) in view of the recommendation in the Decision Memorandum that external financing would cover about two-thirds of total project costs. The fact that our efforts to obtain co-financing have not been successful would justify an increase in the amount of Bank financing originally envisaged, but not necessarily to the extent now proposed. The Region explained that Madagascar is one of the developing countries that have been seriously affected by the recent increases in prices of petroleum products, as well as of foodstuffs (particularly rice) and that this constituted a serious balance of payments constraint. Indeed, Madagascar is one of the countries which could qualify for program lending to alleviate the impact of these recent price increases, but the Region had so far decided against this form of assistance in the absence of an adequately developed Government program. Moreover, some ongoing Bank-financed projects (such as the Morondava Irrigation Scheme) are facing substantial cost overruns that will impose an additional burden on the Government's budget. Although these overruns reflect to some extent the realignment of currencies, it would be difficult to justify supplemental financing on that basis alone. The Region suggested that one possibility for the Bank Group to assist the Government would be to increase the share of our financing in the forthcoming projects whenever this would seem feasible which, in the Region's opinion, was the case of the proposed Livestock project. In view of the foregoing, the Committee agreed with the proposed amount of the loan.

4. Control of Meat Prices and Export Quotas. The Chairman, referring to the Region's memorandum of April 25, 1974, attached to the draft loan documents, asked the Region to elaborate on the position the Bank should take regarding this issue which, all agreed, was a crucial one in assessing the justification of the project. The Region replied that to begin with, we would have to review in detail with the Delegation the current policies and regulations affecting production, marketing (including export) and sale of meat to determine what specific measures would prove appropriate. For instance, since by law external trade is now handled by Government, the mere elimination of export quotas may not by itself result in increases in exports. During the discussions held in Madagascar last March to review the economic report, the Government had expressed its concern about the need to take measures conducive to the increase in production and export of meat, but the specific recommendation in the Appraisal Report to eliminate price controls and export quotas over a 3-year period had not been discussed other than in general terms. Accordingly, while this would be the Bank's starting point in the negotiations, it was felt preferable at this stage not to provide for a specific covenant in the draft Loan Agreement, but to draft it in the light of discussions during negotiations. The Committee agreed with the proposed approach, but stressed that during negotiations we should satisfy ourselves about the adequacy of the Government's proposals with regard to price incentives for production and export.

5. Relending Terms. The Chairman, while noting that only a small portion of the loan (about $560,000) would be relent to OMBY and ODEMO to finance commercially viable activities, questioned the adequacy of the proposed relending rates proposed in para. 4.19 of the Appraisal Report in view of the general level of interest rates in Madagascar. The Region replied that the project area is one of the poorest regions of the country where most of the peasant farmers live close to subsistence levels. Moreover, the project components concerned, i.e., cattle share fattening and pig development program, were experimental and their success would depend on the farmers' adoption of new techniques to which they were not accustomed. The Region felt therefore that this justified a certain element of subsidization and that higher interest rates would have a detrimental effect. The meeting agreed with the proposal, but the Chairman emphasized that this should not be construed as a precedent.

D. Conclusion

6. Subject to the comments noted in para. 4 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Bell
Gabriel
Nurick
van der Tak

BQLan/RACambridge:mep

Form No. 30
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED

AUG 2 9 2014

WBG ARCHIVES

LC/M/74-12

May 22, 1974

Minutes of Loan Committee Meeting to consider
"Ghana - Oil Palm Project"
held on May 7, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
R. Chaufournier

Others:

W. Thalwitz
E. P. Wright
R. Dosik
M. Wiehen
A. Casson

G. Darnell
D. Dutt
H. Nissenbaum
R. Rowe
R. Wadsworth

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Chaufournier's memorandum of May 1, 1974, for approval to negotiate a proposed US$11 million credit for a Ghana Oil Palm Project:

(i) whether the project design should be altered to provide for greater diffusion of benefits to participating farmers;

(ii) whether there should be a covenant prescribing payment of dividends by the proposed Ghana Oil Palm Developments (GOPD) corporation to the Government;

(iii) whether the proposed lending rates to GOPD and relending rate to outgrowers were satisfactory;

DISTRIBUTION

COMMITTEE

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

OTHERS

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

(iv) whether the Bank Group should be involved directly in establishing the base price for outgrowers, ffb; and

(v) whether negotiations should await the establishment of GOPD.

C. Discussion

2. Design of the Project. The Vice President, Projects Staff, inquired whether the benefits from the project could be more widely distributed by increasing the number of participating outgrowers and suggested that this could be achieved by reducing (i) the average size of the outgrowers' farms assisted under the project -- e.g., from 12 acres to 6 acres -- and (ii) the nucleus plantation from the proposed 10,000 acres to e.g., 5,000 acres. The Western Africa Region explained that (a) the proposed project involving 13,000 acres of oil palm plantation (10,000 acres nucleus and 3,000 acres of outgrowers' holdings) is only the first phase of a larger project requiring 25,000 acres of oil palm cultivation; and that the second stage of 12,000 acres probably would all be developed by outgrowers, and (b) that 10,000 acres is around the minimum efficient size of a nucleus estate. The Region also explained that it was proposed to limit assistance under the project to 20 acres per farmer, and that the average figure of 12 acres given in the Appraisal Report was purely illustrative and for farm budget purposes. The Chairman noted that the area was not being newly settled and that it appeared that the project's benefits would be fairly well distributed among the employees of the nucleus estate of the oil mill, who would come from the ranks of landless laborers and outgrowers whose farm size was a matter of fact and could not be changed very easily. Accordingly, he agreed that the design of the project need not be changed at this stage. He further observed that the distribution of benefits from the project should be succinctly explained in the President's Report.

3. Dividends. Responding to the inquiry of the Vice President, Projects Staff, as to whether some provision should not be made for payments on the Government's equity in GOPD, the Region agreed that the corporation's probable financial position indicated ample scope for such payments. In view of this, a covenant would be introduced requiring a dividend policy commensurate with the corporation's need for substantial investment funds for the second phase of the project.

4. Interest Rates. The Chairman expressed concern at the possibility of a negative spread between the proposed rates to GOPD and the participating outgrowers. The Region suggested, and the Chairman agreed, that both the credit to outgrowers and the loan to GOPD for this purpose be set at 10 percent with the corporation's profits serving to cover the administrative costs involved. The West Africa Region stated that while every effort will be made to negotiate the recommended lending rates to GOPD (namely 10, 12 and 15 percent respectively for relending to outgrowers, for agricultural development on the nucleus estate and for the oil mill),it may not be possible to get the Ghanaian Government to agree. The Region further explained that the Government has the problem of "appearances" as it had announced a policy of assisting agricultural investment through subsidized interest rates. Accordingly they sought authority to settle at as realistic a rate as possible. They also explained that considering the present inflation rates, in the immediate future most of the rates would imply varying degrees

of real negative rates and suggested that an alternative in the case of onlending to outgrowers would be to move away from the interest rate concept and ask for a service charge, account of which would be taken in the prices paid to outgrowers by GOPD (practically the outgrower production will be sold to the central oil mill) that will recover the cost of money lent. The Chairman thought that the latter was an interesting idea and directed that every effort should be made to obtain 10 percent interest, or an equivalent as service charge.

5. Base Price. Responding to the Chairman's enquiry as to why the Bank should wish to become directly involved in setting specific base prices for outgrowers ffb, the Region proposed a covenant requiring IDA's concurrence in the formula governing that price. The Committee accepted the proposal.

6. Organization of the GOPD. The Region explained that the Government's uncertainty as to the Bank Group's intentions since the project was appraised in 1972 and the limited time since the indication of our willingness to process the project for negotiations had caused the delay in the formulation of the GOPD. Moreover, the Government would be the only shareholder (at least initially) and employ expatriates to manage the GOPD. Accordingly no adverse consequences were apprehended in negotiating the project with the Government. The Chairman approved of proceeding with negotiations.

D. Conclusion

7. Subject to the modifications noted in paras. 3, 4 and 5 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Aldewereld
Baum
Broches
Chaufournier

HJNissenbaum/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

APRIL 25

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-11
May 13, 1974

Minutes of Loan Committee Meeting to consider "People's Democratic Republic of Yemen (PDRY) - Education Project" held on May 2, 1974, in Conference Room E-1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
W. A. Wapenhans
G. Gabriel
L. Nurick

Others:

D. Ballantine
M. Wiehen
O. Maiss
H. Pollan
A. Davar
J. Stewart
N. Erder
A. De-Capitani
G. El-Rifai
R. Savas
S. Hassan
R. Cambridge

B. Issues

1. The meeting was called at the request of Mr. Baum to consider the following issue emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Wapenhans' memorandum of April 25, 1974, for approval to negotiate a proposed US$5.4 million credit for an Education Project:

- whether the rehabilitation of two secondary and two preparatory schools and the construction of one new preparatory school are to be retained in this project.

C. Discussion

2. Deletion of the Secondary and Preparatory Schools. The Vice President, Projects Staff, expressed his concern about including these schools in the Project, in light of the Government's policy of a quantitative expansion of the education

DISTRIBUTION

COMMITTEE

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

OTHERS

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

system in PDRY. Central Projects Staff, referring to Mr. Wapenhans' memorandum stated that their objection to the inclusion of these schools is based on policy and sector reasons, and not on country grounds. The Staff further on stated that it is already demonstrated in the Appraisal Report that the Government's overall expansion plan is ill-conceived and while recognizing the usefulness of the other project components, these schools would only support further the unrealistic expansion policy which the Government has adopted, and would only result in additional expenditures in this sector, which is undesirable. Central Projects Staff stated that it is against Bank's principles to accept this project in its present composition. Referring to the argument presented in Mr. Wapenhans' memorandum that these schools would help improve the quality of education and maintain the dialogue with the Government, they stated it was not a convincing argument because: firstly, the qualitative improvement could not be maintained in the future since these schools are too expensive to be replicated and secondly, a cost of $1.7 million for these schools is too high a price for the Association to pay just to maintain the dialogue. They also pointed out that the Yellow Cover Appraisal Report did not include these schools.

3. The Chairman pointed out that at the time of the decision memorandum, he had also voiced concern about the education policy in PDRY.

4. The Region explained that the Government had previously requested the Association to finance a much larger project, and that the proposed project represented about half the original proposal. By retaining the schools in question, new experimental curricula would be introduced which should help to demonstrate to the Government the advantages of focussing on qualitative improvement rather than quantitative expansion. Since these schools would increase enrollments by only 240 places or less than 1%, this project would not in any way be supporting the Government's present policy of quantitative expansion of the secondary system. The Region also pointed out that much as they would be prepared to finance a project without these schools, it was doubtful if the Government would accept such a project, since they made it clear to the appraisal mission and to Bank staff who visited PDRY more recently, that they considered these schools as very important elements of the project. Furthermore, the inclusion of these schools would not significantly affect the level of recurrent expenditures on education.

5. The Chairman asked if the Government is trying to introduce curriculum development outside the scope of our project.

6. The Region said that there are presently some attempts being made towards curriculum development, that the project component in question included experimental curricula and that technical assistance in this regard was also included in the project.

7. The Vice President, Projects Staff, said that since we have not succeeded in persuading the Government to consider changing its education policy although this issue was discussed during appraisal and further by Mr. Stewart, who visited PDRY in late February for this purpose, he doubts whether the Association could ever persuade the Government to change its policy.

8. The Region pointed out that the Government is determined to educate as many Yemenis as possible. It is their political will to provide equal education opportunities on as large a scale as possible, rather than ill-planning. Importantly, PDRY

is and will remain an exporter of labor and, therefore, its policy to generate more trained personnel than the country could absorb needs to be seen against opportunities for work abroad.

9. Central Projects Staff said that it will be easier and even better for PDRY to export people who had about seven years of formal education along with other vocational training than those who had only general education. Accepting the argument generally, the Region pointed out that the project component in question was precisely designed to introduce vocational-type training in the system of general education at preparatory and secondary level. Central Projects Staff further stated that another course of action would be, to go ahead with this project without the schools and to inform the Yemeni representatives during negotiations that the Association might be ready to consider financing another project in the near future containing these schools besides other useful items provided that the Government would be prepared to reconsider its present policy of quantitative expansion at the secondary level.

10. In response, the Chairman said that if the present proposed project absorbed less IDA monies, he might not be averse to another smaller education project in a year or two. Mr. Wapenhans warned the Committee that this may well become the central issue in negotiations, at which time the Region may need to come back to the Loan Committee.

11. The Chairman concluded that the issues were clear, and that the Association should proceed with a project, without these schools. He also asked for a further meeting between himself and Messrs. Benjenk and Nurick on outstanding compensation matters.

D. Conclusion

12. Subject to deletion of these schools, the Committee approved the recommendation to invite negotiators on terms and conditions proposed by the Region in its Appraisal Report.

Cleared by: Messrs. Knapp
Baum
Broches
Wapenhans

GEl-Rifai/RACambridge:mep

MARCH 11.

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-10
May 14, 1974

Minutes of the Loan Committee Meeting to consider "Algeria - Railway Project" held on April 23, 1974, in Conference Room E1208

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	M. Bart	G. H. Homsi
W. C. Baum	R. Dosik	E. V. Jaycox
K. G. Gabriel	D. Elliot	M. S. Nanjundiah
L. Nurick	N. Faltas	R. Springuel
W. A. Wapenhans	L. Forget	G. Wyatt
	D. Havlicek	R. Cambridge

B. Issues

1. The meeting was called to consider the following issues discussed in a memorandum dated April 19, 1974, from EMENA CPD II, on pre-negotiations of a proposed loan of US$41 million to the Société Nationale des Chemins de Fer Algériens (SNCFA):

(i) whether a debt service clause could be usefully applied in a national financing system in which debt was the main source of funds for expansion;

(ii) whether the Bank would accept deferment of the revaluation of SNCFA's assets until the Five Year Plan period beginning in 1978, when the Algerian Government intends to carry out such a revaluation for all state-owned enterprises;

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(iii) whether the Bank could agree to waive its requirement that SNCFA maintain a working cash level equivalent to 12 percent of annual operating expenses;

(iv) whether the Bank would accept that the increase from 9 to 12.5 percent of annual traffic receipts to be contributed to the Renewals Fund of SNCFA be borne by the Government;

(v) whether settlement of arrears would be acceptable to the Bank later than April 1, 1975.

C. Discussion

2. Debt Service Clause. The Europe, Middle East and North Africa Region explained that in the Algerian financing and planning system, debt was the main source of funds for additional investments. The main point of the debt service clause was to limit investment that would be uneconomic. The Region sought to protect SNCFA from the consequences of uneconomic investment by requiring the Government to reimburse SNCFA for the investment and operating deficit, if any, of investments required by the Government and not included in the agreed project; if studies showed that such investments would be uneconomical (as explained in para. 4.02 of the Appraisal Report). The Chairman noted that this clause together with a stipulation in the Guarantee Agreement that the results of studies will be discussed with the Bank was probably enough to have the appropriate degree of influence over investments outside the project. On the need for a debt service clause for strictly financial reasons, the Chairman noted that if the country's financial system was alien to the Bank's norms, the Bank should determine if it was nevertheless coherent and ensure that the Bank's actions did not then establish a precedent for countries with a free enterprise economy. In the Algerian context, the Committee agreed to drop the requirement of a debt service covenant.

3. Revaluation of Assets. The Acting Vice President, EMENA Region, pointed out that the Government was opposed to an ad hoc revaluation of SNCFA's assets, but wanted to revalue the assets of all state-owned enterprises during the Five Year Plan beginning in 1978. In any case, the assets of SNCFA were overvalued. The Committee agreed that the Bank drop its requirement for a revaluation of assets.

4. Working Cash Level. The EMENA Region explained that the retention of 12 percent of annual operating expenses by SNCFA conflicted with the Algerian financing system, in which cash accumulation or surplus funds were transferred to the Treasury. The Chairman noted that the Algerian banking system provided quasi-automatic loans to cover working cash needs of SNCFA and, on this basis, the Committee agreed to drop the working cash requirement.

5. Contributions to the Renewals Fund. Responding to an enquiry, the Acting Vice President, EMENA Region, pointed out that the difference between 9 percent and 12.5 percent to be contributed to SNCFA's Renewals Fund had been computed on the basis of SNCFA's cash flow and was related to its reasonable requirements for renewals. After some discussion, the Committee decided that the Bank seek either (1) to require the Government to make an annual grant to SNCFA equivalent to

3.5 percent of annual traffic receipts, or (ii) that a sum, to be expressed in Dinars, be paid by the Government; such sum to be equal to the difference between 9 percent and 12.5 percent of revenues. It was noted that in the past the 9 percent was rarely actually spent on renewals because Government authorization to do so was required and this was often unobtainable; the 9 percent was actually for the most part retained by government in the form of railway investments in short-term government securities.

6. <u>Settlement of Arrears</u>. The Director, Country Programs Department II, EMENA, explained that substantial arrears in the settlement of inter-company debt had accumulated, in some cases as far back as the period immediately following independence. The problem of arrears in the settlement of debt between state-owned enterprises had become so acute that the Ministry of Finance had set up a Committee to consider the issue and submit recommendations for resolution of the problem. It was unlikely that arrears would be settled by April 1, 1975, and the recommendation of the Region is that the Bank seek to obtain agreement on a program of debt settlement. The Committee agreed to the recommendation.

D. <u>Conclusion</u>

7. The Committee authorized the continuation of negotiations subject to the decisions recorded in this memorandum.

Cleared by: Messrs. Knapp
Baum
Benjenk
Broches

GHHomsi/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

APRIL 15

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-9 DECLASSIFIED
May 8, 1974 AUG 2 9 2014
WBG ARCHIVES

Minutes of Loan Committee Meeting to consider
"Egypt - Talkha II Fertilizer Project"
held on April 19, 1974, in Conference Room E1208.

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
G. Gabriel
W. Wapenhans

Others:

G. Votaw
H. Fuchs
R. Dosik
M. Wiehen
H. Pollan
P. Sella
C. Dewey
S. Aiyer
D. Brown
S. Hassan
N. Petry
N. Noon
R. Cambridge

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee under cover of Mr. Wapenhans' memorandum of April 15, 1974, for approval to negotiate a proposed US$20 million credit to Egypt for the Talkha II Fertilizer Project:

(i) whether the financial covenants in the April 11 draft Credit and Project Agreements were appropriate;

(ii) whether the El Nasr Company could and should assume a portion of the foreign exchange risk of the IDA credit; and

(iii) whether the proposed covenants for ex-factory and retail pricing of fertilizer might conflict with each other.

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussion

2. Financial Covenants. The Committee was asked to consider the question raised in Mr. Broches' memorandum of April 18 to Mr. Knapp of whether the financial covenants were appropriate. The Region and the Industrial Projects Department explained that the covenants being sought were standard for such projects except to the extent that they were designed (a) to protect the Company until it began to earn revenues and (b) to limit the extent to which government action might adversely affect the Company. The El Nasr Company has been receiving a revenue subsidy to keep its trained staff intact and maintain facilities since it ceased producing fertilizer as a result of hostile action in 1969; and the Region and Industrial Projects Department proposed to seek assurance that this support would continue until the Company could once again earn adequate revenues. Similarly, a covenant would be sought from the Government which would ensure the Company maintains a satisfactory current ratio. The Chairman noted these unique aspects of the project, and requested the Region, Industrial Projects Department and Legal Department to review the financial covenants for the project. In a separate but related discussion, the Committee accepted the 8-1/2 percent effective interest rate which was proposed for on-lending the proceeds of the Credit as reflected in the Decision Memorandum of January 18, 1974, which proposed to continue the arrangements worked out for earlier projects.

3. Foreign Exchange Risk. The Chairman questioned the proposed arrangements under which the Government would assume the full foreign exchange risk for IDA funds used by the El Nasr Company. The Region responded that these arrangements were patterned on those for on-lending to a similar public company in the Cotton Ginning Project of June 1973, and that at the time of negotiations for that project, the Government had preferred to assume the exchange risk. Financial projections for the El Nasr Company showed that it would be fully able to bear the commercial exchange risk of the subloan. The Region did note, however, that based upon the Bank of Alexandria Project experience, there might be some country and legal obstacle to El Nasr's assuming any exchange risk. The Chairman asked that, assuming no legal impediments, the Bank's negotiating team should seek to have El Nasr assume the commercial exchange risk of IDA monies lent to El Nasr under the subsidiary loan agreement. Information on the other lenders' treatment of foreign exchange risk is still awaited, and will be discussed during negotiations.

4. Fertilizer Pricing Covenants. The Chairman enquired whether there might be some conflict between the two fertilizer pricing covenants recommended in paragraph 6.11 of the yellow cover Appraisal Report. The Region and the Industrial Projects Department explained that the covenant being sought for the ex-factory price of fertilizer was intended to ensure El Nasr adequate return on investment and debt service coverage, while that being sought for the retail price of urea was aimed at rationalizing Egypt's pricing system for nitrogenous fertilizers at the farm level. These two covenants were not expected to conflict with each other in view of the low cost of production anticipated for the proposed Talkha II plant and the already sizeable mark-up by the Government distribution company, which retails fertilizer to farmers. The Region suggested that one possibility for eliminating the possibility of conflict would be to subordinate the provisions on retail pricing to that concerning ex-factory price, and undertook with the Industrial Projects Department to reconsider these arrangements for further review.

D. Conclusion

5. The Chairman requested the Region to review the arrangements under paragraphs 2 and 4 above and to modify the Credit Agreement to reflect the decision in paragraph 3. These actions were completed and the Region advised Mr. Knapp of its proposed arrangements in a memorandum of April 25.

Cleared by: Messrs. Knapp
Baum
Broches
Gabriel
Wapenhans

NWNoon/RACambridge:mep

Form No. 80
(2-73)

APRIL 10.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-8
May 3, 1974

Minutes of Loan Committee Meeting to consider
"Indonesia - Railway Project"
held on April 17, 1974, in Conference Room E-1208.

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	M. Wiehen	F. Chapman
W. C. Baum	S. van der Meer	M. Nanjundiah
A. Broches	G. Street	A. Churchill
M. Weiner	B. Sandberg	R. Bumgarner
	B. Shields	R. Cambridge
	O. Murthy	

B. Issues

1. The meeting was called to consider the conditions of lending proposed in the draft documents submitted to the Loan Committee, under cover of Mr. Cargill's memorandum of April 10, 1974, for approval to negotiate a proposed US$33 million loan for rehabilitation of the Indonesia Railway. The Chairman asked for clarification on how the Bank would monitor the Railway's progress in implementing the Financial Recovery Plan designed to allow the Railway to break even by 1979/80.

C. Discussion

2. Physical operation improvement targets. The Asia Region explained that it was preparing for negotiations a detailed supplemental letter on the recovery plan, including specific and measurable annual or biannual targets for physical and operational

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

improvements to be made in PJKA's operations and administration. Such targets would include, inter alia improvements in net train loads, car kilometers per car day, diesel locomotive and freight car availability, phased reductions in the use of steam locomotives, appropriate phasing of the staff reduction program, and a phased scrapping program for overage rolling stock. In preparing and executing the annual programs of measures for the recovery plan PJKA will be obligated to take steps to achieve the physical and operational improvement targets as well as the financial targets outlined below.

3. Financial targets. It was explained that the supplemental letter would also include specific financial targets, in the form of ratios of revenues to costs, including depreciation, taxes and interest, if any. Such financial targets would indicate levels of annual or biannual financial performance which PJKA's annual programs of measures should be designed to achieve in the specified year. The specific details of tariff adjustments required to eliminate existing discrepancies in the current tariff structure which would be asked of Government would also be specified in a supplemental letter. The Committee approved this approach.

4. The Vice President, Projects Staff, indicated that the status of the study of uneconomic lines needs to be determined and the draft loan agreement should provide for consultation with the Bank on the phasing of line closures upon completion of the study. He further suggested that the draft loan agreement covenant on abandonment of uneconomic branch lines be strengthened, at least as an initial negotiating position, by requiring that uneconomic lines be abandoned, and that Government subsidy only be considered in those cases where there were important social reasons to continue the line in operation.

5. It was noted that the status of bilateral financing for the project will have to be examined in detail during negotiations. The Government in any event would have the overall obligation to provide all funds required to complete the project and it was therefore agreed it would not be necessary to ask the Government to firmly secure all the necessary bilateral sources of financing as a condition of loan effectiveness. It was noted that Government is likely to request a larger Bank loan for the project and that the case for this will be considered in due course.

D. Conclusion

6. Subject to the modification noted in paragraph 4 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Aldewereld
Baum
Broches
Weiner

JRBumgarner/RACambridge:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-7
May 7, 1974

Minutes of Loan Committee Meeting to consider
"Argentine Railways Loan of April 28, 1971"
held on April 16, 1974, in Conference Room E1208.

A. **Present**

Committee:	Others:	
J. Burke Knapp (Chairman)	G. K. Wiese	J. Bronfman
S. Aldewereld	A. D. Knox	F. Cabezas
W. C. Baum	R. Dosik	L. Berlin
A. Broches	A. Churchill	R. Gonzalez-Cofino
G. Alter	H. van der Heijden	R. Cambridge
	P. Geli	

B. **Issues**

1. The meeting was called to decide the action to be taken by the Bank in response to the request of the Argentine Republic for extension of the Closing Date of April 30, 1974. The issues -- posed in the light of the disappointing performance under the Loan by the Argentine Railways during 1971-73 and the plans of the present Government for improving that performance -- were the following:

(i) whether the Bank should decline to extend the Closing Date and cancel the undisbursed balance of the Loan, (Option A); or

(ii) whether the Bank should extend the Closing Date for the committed portion of the Loan but cancel the uncommitted balance as of April 30, 1974, (Option B); or

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(iii) whether the Bank should extend the Closing Date and continue approving new contracts and disbursing the Loan, as long as the Argentine Railways are in compliance with performance targets which they have already set for themselves, based upon which performance check-points would be negotiated as a condition of extension (Option C).

C. Discussion

2. The Chairman noted that on April 15 he had received the Argentine Ambassador, who had stressed the negative impact which cancellation of the undisbursed balance would have on the relations between Argentina and the Bank. The Chairman had called the Ambassador's attention to the fact that the Loan would expire on April 30, 1974, and therefore the question of whether to extend the Closing Date was similar to deciding whether to make a new loan. Unfortunately it was difficult to reach agreement on the performance objectives that, in effect, would justify a new loan. The Ambassador had urged that, whatever was done, it should be handled in such a way as to minimize the adverse political impact.

3. Procurement. The Chairman then asked why 21 contracts totaling $14.7 million which the Bank had approved had not been signed by the Railways with suppliers. The staff explained that in December 1973 the Bank had informed the Argentines that a decision to extend the Closing Date would depend upon the new Government's plan for the Railways. After this the Government had ordered the Railways not to place any new contracts.

4. Tariffs. There was then a discussion of the question of fare and tariff increases, the Vice President, Latin America and the Caribbean, noting the staff was unable to agree on the extent to which such increases were feasible in the next 2 or 3 years, from the standpoint of intermodal competition. In addition, the incomes policy of the Government, which had the formal support of employers and labor unions, had just been revised on April 1, and it had been agreed that there would be no further increases in either wages or the prices of public services before June 1, 1975. The Chairman expressed concern that the April 1 revisions had had some negative effect on the working ratio; on the other hand, the staff pointed out that for the first time in many years wages and tariffs had been raised simultaneously.

5. The staff also noted that the original Loan had required a 2% real annual increase in cargo tariffs and even larger increases in passenger fares. When the Loan was renegotiated in 1972, it was agreed that there would be a real increase of 15% in August 1972, 5% in November 1972, 3% in January 1973 and 3% in April 1973. The first two increases were adopted but the latter two were not, and real tariffs did not rise to anything like the extent required. After the tariff increases, traffic volume declined, but this was undoubtedly due in part to the low quality of service. In mid-1973 the Bank suggested that a product-by-product review be made of the scope for raising tariffs in the light of intermodal competition. This showed that there was only a small margin for increases on a selective basis. The LAC Railway Division now believed that an increase in real tariffs of about 5% per year was feasible. The Vice President, Projects Staff, observed that experience had shown that, even when the unit price statistics appeared to indicate railroads were competitive, there has been a

diversion of traffic to highway transport, which indicates that the quality of service is an important factor.

6. Uneconomic Lines. The discussion next turned to the Railways' plan to substitute the reduction of service on uneconomic lines in place of the complete closure of such lines, and it was generally agreed that, in fact, almost as much cost reduction could be accomplished by the former as by the latter. The Vice President, Projects Staff, observed that the biggest diseconomies were in passenger service, and it was proposed to completely stop passenger service on the uneconomic lines while reducing the frequency of cargo service. The staff felt that the savings that can be achieved by complete line closure might have been exaggerated in the past, and that reducing redundant employment was of higher priority. It was noted that the Railways planned to reduce employment by 2-3% a year annually in the future.

7. Future Performance Targets. In response to the Chairman's question, the staff clarified that the performance check-points referred to in Option C (above) were based on the Railways' own current targets. Though it was the staff's judgment that the current Government was not disposed to negotiate more ambitious targets with the Bank, the physical targets were, in fact, very ambitious and fully acceptable to the Bank. The reason the accomplishment of the physical targets would not have a profound impact on the financial performance of the Railways could be chiefly explained by resistance to raise real tariffs and to more rapidly reduce the labor force.

8. Discussion of Options. The Chairman then asked the group to indicate its views about Options A, B and C. Option A was ruled out by general consent as too harsh; although legally the Bank was not bound to disburse after the Closing Date even against approved contracts, its relations with suppliers would be damaged if it refused to do so. Option B would require the Bank to disburse only against approved contracts; their total of $47.5 million did not include cost escalations due to inflation subsequent to approval of the contracts by the Bank. Again, consideration of Bank relations with suppliers might suggest disbursement of the full adjusted amounts.

9. The Vice President, Projects Staff, said he favored Option C. The Director of LAC Projects also supported Option C and stressed the importance of the future performance check-points. He felt the new performance targets were good ones and said the Bank in the past had over-estimated the practical feasibility of railways improving their financial ratios through real tariff increases within a short time-frame; the Bank had tended to overlook the constraint of intermodal competition. The Vice President, Projects Staff, felt the Bank could consider different criteria in deciding whether to extend an existing loan rather than to consider a new loan. He noted that the Bank was now dealing with a new Government which agreed with the Bank's diagnosis of the unsatisfactory past performance. The new performance targets were reasonable, and the recent Mission judged that the new Government was committed to their achievement. Although it was doubtful that the targets would in fact be fully reached, under the circumstances the Government should initially be given the benefit of the doubt. The check-points were essential, and he would want it made clear to the Argentines that the Bank would suspend disbursements promptly if the check-points were not met.

10. The Director of LAC Programs II noted that the April 1 actions on wages and tariffs had caused some deterioration in the working ratio. The Vice President, LAC, then suggested that maintenance of real tariffs would have to be one of the check-points,

although, as the Chairman noted, financial performance would remain poor even if there was no erosion in real tariffs. The Director of LAC Programs II observed that further erosion of real tariffs during the next 15 months was inevitable even if one assumed no change in either wages or tariffs while the incomes policy remained in effect until June 1, 1975, because pending rises in non-wage costs due to inflation, projected at about 20% per annum, would not be offset by higher tariffs.

11. The Vice President, Finance, favored Option B, because he felt nothing would be gained by entering into a dialogue with the Government and the Railways as to future performance check-points.

12. The Chairman said that if the borrower refused to negotiate check-points, the Bank would have no alternative but to adopt Option B and refuse to approve new contracts. Assuming check-points were accepted by the Argentines in principle, he wondered how soon the Bank would be able to reach a judgment on performance; he felt six months was the minimum leeway the Bank could propose.

12. The General Counsel opted for Option C.

13. The Director of LAC Programs II said he supported Option C but felt the borrower would probably not reach agreement with the Bank on performance check-points and, therefore, Option B would in fact probably be implemented. Options B and C were preferable to Option A because they would cause less strain on relations between the Government and the Bank. Option B was even "softer" from a relationship point of view, since it would produce minimum "confrontation" but Option C was probably "soft" enough so long as there was hope that the Bank could make at least one sizable new loan to Argentina during the next 12 months. If this were not possible, he would opt for Option B.

14. The Vice President, LAC, said the real problem was the borrower's inflexibility on tariffs which made almost impossible any significant reduction in the working ratio. If the Bank extended the Closing Date on the basis of new performance check-points, this would only lead to a worse relationship problem than Option A. He thought Option B offered an amicable solution, while Option C might well be followed by non-achievement of the performance targets and hence a confrontation.

D. Conclusion

15. The Chairman said he had originally been in favor of Option B but was struck by the views of Projects Staff who, although performance oriented, favored Option C. He wanted time to ponder Option C, with the possibility of a six-month extension of the Closing Date; the borrower could be told that any new contracts placed would be at the borrower's risk, or alternatively that no new contracts should be placed during the six-month extension period. He asked the staff meanwhile to give more thought to the performance check-list that might be proposed to the borrower.

Cleared by: Messrs. Knapp
Aldewereld
Alter
Baum
Broches

LHBerlin/RACambridge:mep

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

rnc
File
Loan Committee Minutes

OFFICE MEMORANDUM

DATE RECEIVED: 4/25/74

TO: Mr. J. Burke Knapp, Senior Vice President, Operations

DATE: April 25, 1974

FROM: W. A. Wapenhans, Acting Vice President, EMENA Region

SUBJECT: EGYPT - Talkha II Fertilizer Project

1. The EMENA Region, Industrial Projects Department, and Legal Department have reviewed the legal arrangements for this project on the basis of the April 19 Special Loan Meeting. Satisfactory arrangements have been worked out concerning the three issues discussed at that meeting.

Financial Covenants

2. Agreement has been reached with the Legal Department with regard to the questions raised in Mr. Broches' memorandum of April 18. The financial covenants in Sections 3.01(c) and (d), 3.02, 3.03, 3.04, 4.02, and 4.03 of the Development Credit Agreement and Sections 4.03, 4.04 and 4.05 of the Project Agreement have been reworked to be consistent with the Appraisal Report.

Exchange Risk

3. Based upon your decision at the Special Loan Meeting, we have amended Section 3.01(b) of the Development Credit Agreement to pass the foreign exchange risk under the subsidiary loan from the Government to the Company. The Legal Department has indicated to us that it was not aware of any specific statutory impediments against the Company bearing the foreign exchange risk. It should be noted, however, that transactions inside Egypt have, by law, to be denominated only in Egyptian pounds; at this time, our lawyers advise that it is unclear whether under Egyptian law, the pound repayment obligation of the Company to the Government may be linked to the foreign exchange value of the pound or not. This question will be pursued further during negotiations. The issue of the Foreign exchange risk was raised in connection with the Bank of Alexandria and Cotton Ginning credits; however, we did not press it with vigor, first because of the legal requirement of denominating the obligation in Egyptian pounds, but more so because we were concerned with a larger question. This question is related to setting appropriately the cost of capital to sub-borrowers in view of a more important impediment, namely, the maximum interest rate allowed under the Egyptian Civil Code, which is 7%. This rate was deemed by us as lower than the effective cost of capital in Egypt. Egyptian law, however, allows an additional charge to be paid by the debtor if it is established that this charge "is in respect of a service actually rendered by the creditor or for a lawful consideration." Thus in the Cotton Ginning Credit it was agreed that the Government would charge the Egyptian Cotton General Organization interest at the rate of 6% plus a Ministry charge of 2-1/2%. In the Bank of Alexandria Credit it was agreed that the Government charge the Bank of Alexandria interest at the rate of 4-1/2% plus a Ministry charge of 2-1/2% and that the Bank of Alexandria would charge its borrowers interest at the rate of 7% plus the Ministry charge of 2-1/2%. The Ministry charge was characterized as a foreign exchange repayment charge, although it was not so specifically stated in the Development Credit Agreements for the above-mentioned projects. It should be noted, however, that the Govern-

ment may argue that the Ministry charge was justified by the Government bearing the foreign exchange risk and that this justification could not be made under the proposed arrangement for the present project. This question is one that will have to be settled during negotiations.

Fertilizer Pricing Covenants

4. Based upon review following the Special Loan Meeting, the Region and Industrial Projects Department have decided to seek a modified ex-factory pricing covenant in Section 4.03 of the Development Credit Agreement, while dealing with the question of retail pricing of nitrogenous fertilizer in the market study called for in Section 4.01 of the Credit Agreement. Agreement will be sought on this latter point in a supplementary letter on the fertilizer marketing study rather than as a covenant in the Credit Agreement. The language of that letter will subordinate the assurance on retail pricing to that to be sought on ex-factory pricing in order to eliminate any possibility of conflict between the covenants.

5. With your concurrence, I plan to inform the Executive Directors of the Association's intention to invite negotiations for the proposed credit.

Distribution

Mr. S. Aldewereld
Mr. W. C. Baum
Mr. A. Broches

Cleared with and cc: Messrs. Votaw, Fuchs, Pollan, Sella

cc: Messrs. Van der Tak, Davar, Dewey, Eccles, Brown, Aiyer, Hassan, Noon, von Buelow

NWNoon/SHassan/ADavar/HPollan/sjw

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-6

March 29, 1974

Minutes of Loan Committee Meeting to consider "Jordan - North East Ghor Irrigation and Rural Development Project" held on March 22, 1974, in Conference Room E-1208.

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	M. P. Bart	F. Ferrandi
S. Aldewereld	R. Dosik	A. Hussain
W. C. Baum	M. Wiehen	F. Mwine
A. Broches	A. S. El Darwish	P. Courbois
W. Wapenhans	D. Haynes	R. Cambridge

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Wapenhans' memorandum of March 18, 1974, for approval to negotiate a proposed US$7.5 million credit for an Irrigation and Rural Development Project in Jordan:

(i) whether the Association should accept the interest rates on relending of the Agricultural Credit Corporation (ACC);

(ii) whether the Association should finance the feasibility study for a dam at Maqarin on the Yarmouk River.

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

C. Discussion

2. Considering the small amount ($0.75 million) of the credit channeled through ACC, the Region explained that they had not a sufficient leverage to help raise present ACC interest rates. Although commercial credit terms are undoubtedly higher than ACC rates, it would be impractical to have project credit funds lent at rates that are out of line with the rates charged by ACC for other agricultural loans, which we accepted in our past credits to ACC under similar circumstances. Furthermore, consideration of a third credit to ACC, probably in FY76 or FY77 will offer a better opportunity to examine the terms of agricultural credit countrywide. The Committee approved this approach.

3. Maqarin Feasibility Study. The Loan Committee expressed the view that the Association should not finance the Maqarin feasibility study before an agreement on water allocation between the riparians of the Jordan River basin had been reached. The Region explained that although this matter was extremely sensitive, the situation has somewhat evolved since this question was raised to the Bank in 1963. A de facto division of water in the basin has now emerged whereby:

(i) Israel is using 320 m^3 per year, flowing mostly from the Hasbani, Banias and Dan Rivers (the latter has its source in Israel);

(ii) Lebanon and Syria are using small quantities from the Hasbani and the Yarmouk, respectively, and have not been able to carry out the planned trans-basin or trans-valley diversions; and

(iii) Jordan has used freely waters from the Yarmouk (except for the needs of the Israeli "triangle") and other southern tributaries.

4. The Committee did not think it necessary that the study be financed by the Bank and pointed out that the study was not essential for the present project but suggested that the Association might undertake a technical role, although informal, in reviewing the terms of reference for the study.

D. Conclusion

5. Subject to the modifications noted in paragraphs 2-4 above, the Committee approved the recommendation to invite negotiators for a loan of $7.5 million on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Broches
van der Tak
Wapenhans

FFerrandi/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED
AUG 2 9 2014
WBG ARCHIVES

LC/M/74-5
July 3, 1974

Minutes of Loan Committee Meeting to consider
"Lebanon-South Bekaa Irrigation Project"
held on March 21, 1974, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
W. Wapenhans

Others:

M. Bart
M. Yudelman
R. S. Dosik
M. H. Wiehen
D. W. M. Haynes
A. S. El Darwish
E. Kuiper
G. LeMoigne
A. Raizen
P. Courbois
A. Hadjadj
R. Cambridge

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Wapenhans' memorandum of March 11, 1974, for approval to negotiate a proposed US$45 million loan for an irrigation project in the South Bekaa Valley in Lebanon:

(i) skewed land ownership

(ii) benefit sharing

(iii) cost recovery

(iv) prospects for passage of legislation.

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussion

2. Skewed LandDistribution. The Vice President, Projects Staff, briefly reviewed the involvement of the Bank in this project and pointed out that CPS had never been very enthusiastic about the Bank financing this project. To start with, the project area was already highly developed and the cost of the proposed engineering works was relatively high, so that the net benefits were marginal. At a Loan Committee meeting in July 1973 (LC/M/73-16) on this project, it was pointed out that the project should go forward only if improvements in the income of small farmers could be assured. Although the Region has gone to consider efforts to gain such assurances since that time, CPS still questioned whether that goal had been reached. The Vice President, Projects Staff, noted that the project area presented extremely skewed land distribution. Some 55 percent of the land is owned by about 7 percent of the owners, one proprietor owning 2,000 ha or nearly 10 percent of the project area. The Vice President expressed concern that most of the project investments would go towards enriching the large land owners rather than the small farmers.

3. The Region replied that despite the skewed land ownership in the area, social relationships and ties existed between landowners, share-croppers, and tenants similar to those the Bank had accepted in Yemen Arab Republic. Although no land distribution will take place, the introduction of a secure tenure represents a significant innovation and improvement compared to the present situation where tenants have only verbal leases for one year or less.

4. Benefit Sharing. The Vice President, Projects Staff, noted that the project would provide better credit facilities for small farmers, and may result in greater security of tenure for them, since a tenant farmer will only receive irrigation water if he has a written three year lease, renewable for another three years. However, no measures were foreseen which would prevent the land owner from increasing the rent in order to siphon off the bulk of the project benefits and leave the tenant almost as poorly off as he was before. Therefore, one could not make any assertion that income distribution would improve.

5. The Region said that private water rights would be extinguished and the project would introduce a system under which all farmers had access to controlled water. Cases had occurred where over-pumping by the larger owners had lowered the aquifer and dried up the wells of the small farmers who did not have the resources to deepen their wells. The Region argued that the owners would not increase their rent unreasonably because the lease had to be satisfactory to ONL before it entered into a contract to provide irrigated water. Furthermore, the relatively scarce labor in the area limited the landowners' alternatives while giving the tenant various options. The Region also pointed out that small farmers would be exempt from the capital recovery element of the water charge which would have to be made up by the large operator so as to obtain a positive level of recovery as required in aggregate. Finally, the provision of credit through a local credit cooperative would mainly benefit small farmers who do not have access to financing on equitable terms, since credit at favorable terms is available to the richer landowners on their credit rating and not their farm operations.

6. The Region recognized, however, that abuse was possible and that a more certain method of protecting the tenants and share-croppers would have been desirable, but was not possible in the present conditions in Lebanon. The Region stressed that the set of measures proposed would have a significant impact on changing institutional relationships, improving rural income, and reducing migration to Beirut. It will also be a first step towards introducing more progressive institutional and structural arrangements in Lebanese agriculture, and would be a beginning in income distribution unless the large landowners deliberately abuse the spirit of this reform.

7. Cost Recovery. The Vice President, Projects Staff, expressed his concern that the recovery of the project capital costs from the large land owners would be in doubt. A proposed Land Betterment Tax could claim up to 40% of the increase in land value, but how much would actually be collected, depended on how and by whom the increase in land was calculated. In any event no more than 10% of the project capital cost would be recovered through this method. The Region replied that the Committee which would determine the value would comprise members of various confessional groups and would probably adopt a severe attitude in evaluating the increase in value. The Region also noted that the Land Betterment Tax would be assessed within a specific period of time based on recent sales.

8. The Vice President, Projects Staff, also pointed out that there was a large degree of uncertainty on the capital recovery payment which the Appraisal report recommended should not exceed 35% of the farmers' net value of production, the calculation of which is open to a very wide range of interpretation. It appeared, therefore, that there was still insufficient assurance that the large land owners would pay their rightful share of the project costs. The Region responded that since the appraisal report had been printed, the Government had agreed, in principle, that the capital recovery charge would be progressive; specific levels to be agreed on during negotiations and related to the size of operational holdings. Only the upper cut-off point of the water charge would be related to the net value of production. This was conceived in case exemption of charge for smaller holdings would lead, through sales, to progressively smaller holdings and ultimately put the burden on them to an excessive share of their net value of production.

9. Finally, the Vice President, Projects Staff, questioned the level of interest related to capital recovery being set at a positive rate without specifying this rate. The Region explained that only "positive" rate of interest had been fixed, since under a system of progressive water charges a desirable reduction in the average size of operational units would lead to a lower level of recovery. It would, however, always have to be positive.

10. Prospects for Passage of Legislation. The Vice President and General Counsel expressed concern about a substantial risk if the proposed Land Betterment Tax and the Water Rights legislation was delayed, that the proposed loan would remain ineffective for a very long time. He referred to the extremely poor record of Lebanon in taking the necessary action related to the Education loan. The Region assured the Committee, however, that the substantial delay which occurred in the effecting of the Education loan was caused only by the difficulty of appointing the Project Unit Manager, while maintaining a delicate balance among confession groups. This would not happen in the present project in as much as the appointment of a full-time General Manager of ONL was a condition of negotiations and had already occurred. Furthermore, the Land

Betterment Tax had already been reviewed and extensively scrutinized by a parliamentary Committee on which various confession and political groups were represented. The chances of rapid passage were, therefore, very good.

D. Conclusion

11. The Chairman noted that the project would improve productivity and had some positive social effects. He expressed concern, however, about the risk that no measure seemed possible to ensure that the large land owners of the area do not reap, through sharp increases in rent, the main benefit of the project. The Committee was adjourned for further study.

Cleared with Messrs. Knapp
Broches
van der Tak
Wapenhans

AHadjadj/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-4
March 29, 1974

Minutes of Loan Committee Meeting to consider "Greece - Nestos and Yannitsa Irrigation Project" held on March 8, 1974, in Conference Room E-1208.

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	M. P. Bart	H. Larsen
W. C. Baum	H. van der Tak	M. Wright
A. Broches	R. Dosik	A. Thys
W. Wapenhans	M. Wiehen	A. Hussain
G. Gabriel	G. Wyatt	T. M. C. Asser
	D. Haynes	R. Cambridge
	A. S. El Darwish	

B. Issues

1. The meeting was called to consider the following issue emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Wapenhans' memorandum of March 4, 1974, for approval to negotiate a proposed US$26 million loan for the Nestos and Yannitsa Irrigation Project:

> Whether the low level of recovery of capital costs was satisfactory.

C. Discussion

2. Discussion on this issue centered on whether the kind of subsidization inherent in a low capital cost recovery was justified, and also how to maintain

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

this level of recovery in the face of rising inflation. The Region pointed out that the beneficiaries of these two sub-projects were among the poorest farmers in Greece and that the project would not raise their incomes sufficiently even to reach the national average. Furthermore, in the First Irrigation Project, the competent Government authorities have shown a willingness to compromise by agreeing to the recovery of certain capital costs as far as possible given recent passage of a Greek law which basically authorizes recovery of operations and maintenance (O & M) costs only.

3. Although the Chairman accepted this justification, he felt that the proposed level of capital recovery charge was very low especially if they would be reviewed only once in each five-year period as proposed in the Appraisal Report. He proposed a more frequent review of capital cost recovery in line with revisions of O & M costs to balance inflation.

4. The Loan Committee decided that the recovery of capital costs should escalate at the same ratio as O & M costs and that preferably this would be reviewed on an annual basis. In any event it would be reviewed not less than every three years provided a catch-up provision is included.

D. Conclusion

5. Subject to the modification noted in paragraph 4 above, the Committee approved the recommendation to invite negotiations on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Broches
van der Tak
Wapenhans

MWright/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-3
March 11, 1974

DECLASSIFIED
AUG 2 9 2014
WBG ARCHIVES

Minutes of Loan Committee Meeting to consider "Zambia - Kariba North (Loan No. 701-ZA) - Supplemental Loan" held on February 20, 1974 in Conference Room E1208.

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	S. Husain	C. Chandran
S. Aldewereld	S. Kirmani	D. Koromzay
W. C. Baum	M. Wiehen	D. Jordan
B. Bell	C. Morse	R. Cambridge
L. Nurick	S. Moini	

B. Issues

1. The meeting was called to consider the draft documents submitted to the Loan Committee, under cover of Mr. Bell's memorandum of February 12, 1974, for approval to proceed with the processing of a proposed $42.1 million supplementary loan to meet the cost increases on the Kariba North Power Project.

2. The following issues emerged:

(i) whether the Bank should lend $42.1 million for this project, in view of the amount of recent Bank lending to Zambia and the improvement in Zambia's economic position over the past year;

(ii) whether the undisbursed portion of the Bank's Program Loan (911-ZA) of June 18, 1973 could be cancelled or diverted to the Kariba North Project;

DISTRIBUTION

COMMITTEE	OTHERS
Senior Vice President, Operations (Chairman)	President
Vice President, Finance	Vice President, Development Policy
Vice President and General Counsel	Senior Operations Adviser
Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(iii) whether the proposed President's Report should include a detailed account of the failure of the Mitchell Construction Company, since the matter will likely come under litigation.

C. Discussion

3. Amount of Bank Financing. The Chairman questioned whether the Bank should be making a supplementary loan for this project in the amount proposed. He noted that: (a) the Bank has already made loans to Zambia during FY73 and FY74 amounting to almost $200 million which, on a per capita basis, is far larger than normal; (b) the rise in copper prices during the last six months has improved Zambia's economic position generally, and its foreign exchange reserve position in particular; (c) the Program Loan of $30 million has a large undisbursed balance (about $20 million) and was no longer needed for its original purpose.

4. The East Africa Region explained that the amount of Bank lending in FY74 was high because of the 'lumpy' nature of some projects and cited the $115 million loan for the Kafue Stage II Hydroelectric Project. This level of lending to Zambia is not expected to be maintained, and the lending program in FY75 would amount to only about $35 or $40 million. Even so, the Region questioned whether the amount of lending should be an issue, as a shortage of Bank, as distinguished from IDA, funds was not envisaged. The Region concurred with the Chairman that the rise in copper prices has improved Zambia's economic position, but not to an extent that would obviate the need for the proposed loan or future lending. Expectations for 1974 are that budgetary savings, together with disbursements from foreign loans, should nearly cover the financial needs of the Government while the balance of payments should be in a relatively modest surplus position. The Chairman questioned, however, whether we would be financing an increase in reserves. The Region replied that the foreign reserve position would still not be adequate in view of the volatility of the copper market. Reserves are expected to be about $365 million by end of 1974 - less than four months' imports - while a reserve position equivalent at a minimum to six months' imports should be considered as appropriate for a country totally dependent on copper exports. The Region added that Zambia's economic performance and management has been reasonably good. Zambia's debt service obligations are also low, and its debt service ratio is expected to be only about 10 percent by 1985, assuming foreign loans amounting to $175 million are contracted each year.

5. The Chairman asked why the undisbursed balance of the Program Loan should not be cancelled and then have funds equivalent to the undisbursed portion applied to the Kariba Project. The Region replied that: (a) much of the Program Loan may have been disbursed by April-May; (b) Zambia's foreign reserves are not so excessive as to warrant a cancellation of the Loan; and (c) a year ago the Bank was confident that there would be no significant rise in copper prices, and this suggested that we ought to be less confident in the prediction of continuing high copper prices.

6. The Chairman summarized by stating that the matter will have to be referred to the President before a decision can be taken on the proposed loan for the Kariba Project.

7. Report Presentation. The Committee agreed with the recommendation to the Loan Committee of the Vice President, East Africa Region, that the grey cover President's Report should give a less elaborate discussion of the experience with the Mitchell Construction Company, in view of the impending litigation on the matter. The Chairman also suggested that the portion of the Report dealing with the selection of a new contractor might be shortened. The Committee further suggested that a statement on the economic rate of return might be given, including the assumptions made for such a statement.

D. Postscript/Conclusion

8. The Chairman of the Loan Committee met again with the Region on February 27, 1974, to discuss the amount of Bank financing for the Project. The Chairman stated that it would not be possible for the Bank to make a $42.1 million supplementary loan for the project while maintaining the Program Loan unchanged. The Region noted that the matter now involved a trade-off between the likely effect of the cancellation of the Program Loan versus that of making a much smaller loan for the Kariba Project on the Bank's position vis-a-vis Zambia.

9. The Chairman of the Loan Committee and the Regional Vice President discussed the matter with the President on March 4. In a memorandum of March 5 responding to questions raised by the President, the Regional Vice President pointed out (a) that according to the latest balance of payments forecasts, those used on the latest petroleum report, Zambia's foreign exchange reserves would not exceed four months' imports in either 1974 or 1975; (b) that in January 1971 the President had informed the Board that he intended to propose, as an exception to general policy, a supplemental loan, then estimated at $11 million, to finance the full foreign exchange costs of the project; (c) that the circumstances which had required and justified the June 1973 program loan were completely altered. The Region recommended that the full $42.1 million loan be made and that the Government of Zambia request cancellation of the undisbursed portion of the Program Loan ($20 million) with no alteration of the payment schedule.

10. It was subsequently decided by the President that we should propose to the Zambians a $42.1 million loan for the Kariba North Project provided that they would agree (a) to cancel the undisbursed balance of the Program Loan and (b) to give satisfactory assurances that exemptions would be granted for the movement of essential supplies for the project over the Rhodesian Railways.

Cleared by: Messrs. Knapp
Baum
Bell
Nurick

DJordan/HScott/CMorse/SMoini/RACambridge:mep

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

DECLASSIFIED
AUG 2 9 2014
WBG ARCHIVES

LC/M/74-2

February 19, 1974

Minutes of Loan Committee Meeting to consider "Brazil - Minas Gerais Water and Sewerage Project" held on February 6, 1974 in Conference Room E1208 and a supplementary meeting on February 11, 1974

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)*	A. D. Knox*	D. Greene
S. Aldewereld	Y. Rovani	J. Kalbermatten*
G. Alter*	R. Dosik	K. Kikuchi*
W. C. Baum*	M. Wiehen	A. Raizen*
L. Nurick	J. Carvalho	R. Skillings*
	R. Costa	D. F. Wittusen
	P. Geli	R. Cambridge

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Knox's memorandum of January 31, 1974 for approval to negotiate a proposed $35 million loan for the Minas Gerais Water Supply and Sewerage Project:

(i) whether it was appropriate to include the 15% federal social welfare tax imposed on water bills among the revenues in computing the minimum 8% rate of return to be required of COMAG;

(ii) criteria for selection of sub-projects, in particular the calculation of incremental financial return, and

*Present at both meetings

DISTRIBUTION

COMMITTEE

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

OTHERS

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

their review; and

(iii) extent of Bank financing for the water supply training program.

C. Discussion

2. Inclusion of the social welfare tax.- Various ideas were presented as to the significance of the social welfare tax levied on water consumers. Several speakers felt that, since (a) similar kinds of taxes, although at varying rates, were levied on other public services; and (b) the income derived from the tax would not revert to the water company, it was more like a sales tax and hence should not be included in the computation of the financial rate of return of the water company. The regional representatives explained that the purpose of including the social welfare tax was to include all elements of cost reimbursed by the consumer, no matter to whom the reimbursement accrues, and to ensure that the consumers in the state as a whole paid the full cost of the service they received. If the tax were reduced or eliminated, the Brazilians would be obligated to increase water tariffs to the same extent. On the other hand, the full 8% minimum rate of return in 1978 was not needed to ensure financial viability of the state water company which had substantial federal and state government support under the PLANASA program. It was decided that the social welfare tax should be excluded from the average rate of return computation as such. The Government should be requested to ensure that COMAG actually achieved the rates of return forecast in Annex 13 of the draft appraisal report, namely, 4.5% in 1977, 6% in 1981 and 8% in 1983. However, should the social welfare tax be reduced or eliminated, tariffs should be adjusted upwards correspondingly to achieve a proportionately higher rate of return. If the tax were eliminated the required rate of return would be 6.5% in 1977, 8% in 1981 and 10% in 1983.

3. Criteria for selection and review of sub-projects.- The Vice President, Projects Staff, welcomed the sector program loan approach to implementing the project but felt there were problems with the criteria used in determining the suitability of the sub-projects. In particular, he felt that in determining whether a sub-project earned the minimum zero percent incremental rate of return needed to qualify it for consideration for inclusion in the project, it was improper to consider municipal grants as user contributions. He was concerned that this would create a precedent justifying government subsidies for a wide range of uneconomic projects. This general concern was accepted, and the Regional representatives said that this special procedure was expected to be needed only in smaller communities where the decision of the community to pay part of the project's cost could perhaps more easily be equated to a contribution by the beneficiaries and where the possibility of cross-subsidization was more limited. (In such communities the local contribution could not easily be financed by concealed transfers from the state or federal governments.) The discussion also brought out that the socio-economic benefits of water supply projects, while undoubtedly large, were difficult to measure, with the incremental financial return being used as an imperfect proxy, and that in small communities some of the water may be provided through communal standpipes for which no specific charges could be made. It was decided to accept municipal grants as user contributions under these special circumstances on the understanding that means would be found

to limit its application to small communities. Subsequently, the Regional Vice President decided that the Brazilians should be requested to restrict application of the formula to towns with less than 10,000 inhabitants.

4. Certain other comments in the meeting about the criteria for review of sub-projects were met by decisions to:

(a) require that both sub-projects whose incremental financial rate of return was between 0 and 10% and sub-projects whose per capita operating cost or per capita capital cost was more than 120% of the average per capita costs for Minas Gerais should be reviewed by the Bank; and

(b) reformulate and simplify the schedule of non-quantifiable benefits to be used in evaluating the sub-projects referred to in (a).

5. Financing of training program.- The Chairman questioned the desirability of reimbursing from the Bank loan 100% of BNH's $5 million contribution to the national water supply training program. The BNH contribution covered 25% of the program's cost, the balance being met by the states. Subsequent to the meeting, the Regional Vice President decided that the Bank loan should be used to reduce the states' contributions instead of BNH's.

D. Conclusion

6. Subject to the modifications noted in paras. 2-5 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Alter
Baum
Nurick

KDKikuchi/RFSkillings/DFWittusen/GAlter:mep

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/74-1

January 11, 1974

Minutes of Loan Committee Meetings to consider "Mexico - Rio Sinaloa Irrigation Project" and "Mexico - Panuco Irrigation Project" held on December 6, 1973 and January 7, 1974 in Conference Room E1208.

A. Present

Committee:

J. Burke Knapp (Chairman)
S. Aldewereld 2/
G. Alter
W. C. Baum
A. Broches 2/
L. Nurick 1/

Others:

A. D. Knox 2/
A. Krieger 2/
H. G. van der Tak
R. Dosik
M. Wiehen 2/
F. Cabezas
G. Darnell 1/
J. Douglass

P. Goffin
P. Greening 2/
K. Haasjes 1/
E. Lerdau
P. Scherer
M. Schloss 1/
D. Wittusen

B. Issues

1. The meetings were called to consider the following issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Alter's memoranda of November 30 and December 18, 1973, respectively, for approval to negotiate a $47 million loan for the Rio Sinaloa Irrigation Project and a $73 million loan for the Panuco Irrigation Project:

(i) whether the Bank had an opportunity to comment on bid evaluation before award of contracts; and

1/ First meeting only
2/ Second meeting only

DISTRIBUTION

COMMITTEE

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

OTHERS

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

(ii) whether the presentation of the water charges issue was adequate and the proposed Bank position satisfactory.

C. Discussion

2. Consultation before Contract Award: The Latin America and Caribbean Region explained that the Ministry of Hydraulic Resources had agreed to offer the Bank an opportunity to comment on the bid evaluations of the single major contracts for the Sinaloa Project (Bacurato Dam) and the Panuco Project (Las Animas Dam) and that, in fact, the Bank had already presented comments on the latter. Consistent with the decision made in the case of the Mexico City Water Supply Project, consultation prior to award will not be requested for the other, smaller contracts (ref. LC/M/73-12, Postscript).

3. Water Charges: The Chairman suggested that the presentation on the subject in the Appraisal Reports be amended for purposes of discussion with the Mexicans. The Vice President, Projects Staff, added that it would be useful to discount the revenue and cost streams at the opportunity cost of capital to show explicitly the magnitude of any subsidy and to allow comparisons with other projects. The Region explained that the illustrative estimates in the Appraisal Reports were based on conservative assumptions and that new calculations would be presented to define clearly the variables that influence the size of water charges, their likely range and the resulting impact on the recovery of investment cost and on farm income.

4. The Regional Vice President pointed out that in the absence of precise information of the payment capacity of the various beneficiaries, it would not be realistic to set precise water charges before completing the socio-economic studies that were required by Mexican law. The Loan Committee accepted this conclusion but considered that an agreement should be obtained from the Government to consult with the Bank on the results and recommendations of the studies before the level of water charges was determined.

5. Responding to the Chairman's inquiry as to what would be regarded as recovery of project cost, the Regional Vice President said that from the point of view of assessing the Government's overall expenditures and revenues relating to the project, taxes levided on the incremental production from the project area should be taken into account together with water charges. The Committee noted, on the other hand, that the inclusion of production taxes was not satisfactory or justifiable from the point of view of fixing an equitable level of water charges to be paid by project beneficiaries. It was pointed out, however, that production taxes would reduce the payment capacity of the farmers and hence decrease the water charges that could be collected.

6. It was agreed that in order not to prejudice discussions with the Mexicans on the future level of water charges, the relevant sections of the President's and Appraisal Reports would be revised in light of the above discussion.

7, It was noted, finally, that a policy paper was being prepared by CPS to develop a standardized approach to water charges.

D. <u>Conclusion</u>

8. Subject to the modifications noted in paragraph 4 above, the Committee approved the recommendation to invite negotiators for the two loans on the terms and conditions proposed by the Region.

Cleared by: Messrs. Knapp
Alter
Baum
Broches

PScherer/DFWittusen:mep