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Special Loan Committee meeting minutes
1969 (May-July)

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Staff Loan Committee - Meeting Minutes - 1969 - (May - July)

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-36

July 31, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Philippines - Upper Pampanga River Irrigation Project" held in Room A 1212 on July 11, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LM/M/69-36

July 31, 1969

Minutes of a Special Loan ~~Committee~~ Meeting to discuss the proposed "Philippines - Upper Pampanga River Irrigation Project" held in Room A 1212 on July 11, 1969 at 11 a.m.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Broches, Cope, Evans, Baum, Guinness, Fontein, Street, Loh, Gibbs and Pearce.

2. Issues: The Chairman had called the meeting to discuss Mr. Fontein's memorandum of July 11, 1969 which reported on the status of negotiations of the proposed loan for this project. The issues for discussion were (a) the amount of the proposed loan, (b) the special fund and (c) the appointment of the Administrator of the National Irrigation Administration (NIA).

3. Discussion - Issue (a): The Area Department, noting that the proposed loan included an amount of $1 million to help finance minimum provisions in the Pantabangan Dam for a future power plant if studies now underway showed that power development was justified, said that, on the basis of studies so far completed, the justification was still uncertain. They had therefore proposed to the Philippine delegation that the loan be reduced by $1 million but that it include an amount estimated at $100,000 to finance the foreign exchange costs of consultants to undertake remaining feasibility studies. The results of these studies would be available before the design of the dam had been completed and, if they showed that power development was justified, the Bank would consider including the costs of the minimum provisions in the dam in a possible future loan for power. The latter would be presented to the Executive Directors for approval before dam construction had reached a stage where construction of the power provisions had started. The Area Department added that the Government was agreeable to these arrangements.

4. Discussion - Issue (a): It was decided that the minimum power provisions should be excluded from the project, thus reducing the amount of the loan from $35 to $34 million.

5. Discussion - Issue (b): The Agricultural Projects Department said that the Area Department's revised proposal that the special fund cover NIA's estimated requirements for three months and that it be replenished monthly for the next three-month period was far removed from the original recommendation that the fund cover NIA's requirements for six months and be replenished quarterly. The fund's purpose was to give the Bank adequate warning if NIA got into financial difficulties and allow time for the Bank to take remedial steps. The Area Department pointed out that, under the original recommendation of quarterly replenishments for the following six-month period, the special fund would maintain a balance representing three months' requirements. The negotiators, while objecting to a three-month balance, were prepared to agree to a two-month balance and this

seemed satisfactory. The Chairman, noting that peso financing for Bank-financed projects in the Philippines had often been a problem, said that Congressional appropriation of ₱200 million for the project did not necessarily guarantee that funds would be made available as and when required. On the whole he supported the Agriculture Projects Department's position.

6. Decision - Issue (b): It was decided that the Bank should press hard for a four-month period to be replenished monthly; if agreement on this could not be obtained, a three-month period to be replenished monthly could be accepted. This issue need not be referred to the Committee again.

7. Discussion - Issue (c): The Agricultural Projects Department said they did not see any reasons for changing the recommendation in the Area Department's memorandum to the Loan Committee (LC/0/69-1) that the Bank should approve in advance appointments of future Administrators of NIA. In their view, the reasons expressed in that memorandum for requiring prior approval were still valid. Apropos the Operational Memorandum on this subject, it was noted that the Bank sought the right of prior approval only in exceptional cases, including agricultural projects and in circumstances where an unsatisfactory political appointment was a real possibility. It was pointed out the the Operational Memorandum made no distinction with regard to the nationality of the person to be appointed. It was suggested that where the Bank relied on the usual management covenant the Bank had rarely, if ever, attempted to take action to remedy an unsatisfactory management situation. The Area Department said that the Bank had obtained the right of prior approval of the General Manager in the last loan to the National Power Corporation (NPC) but that these arrangements had subsequently been strongly criticized by the Secretary of Finance. The Bank had had occasion to urge the retirement of the general manager of the National Waterworks and Sewerage Authority (NWSA) as being unfit to continue in his position for health reasons, and the Government had replaced him. There was no evidence that, without the right of prior approval, the Government would not have acted in the same way. The Chairman suggested that the Bank should be consulted on future appointments and that it should establish criteria which the Borrower should take into account when proposing an appointment. These criteria could be incorporated in the loan agreement.

8. During the discussion, it was noted that the establishment of satisfactory criteria was difficult because the Administrator of NIA did not necessarily need specific qualifications. Moreover, consultation and approval by the Bank did not necessarily ensure that a competent Administrator would be appointed. Consultation did not empower the Bank to reject a proposed appointment; on the other hand, the right of prior approval should be exercised carefully. It was noted that the Bank had often evaded the issue of approval by stating that it had no objection to a particular appointment. However, if the Bank established criteria and, after consultation, its views were ignored, the Bank should have some form of redress. The Chairman suggested that this could be handled by a letter to the Borrower indicating that the Bank attached importance to the appointment of future Administrators and that if its views were ignored, the Bank would consider remedies under the loan agreement.

9. <u>Decision - Issue (c):</u> It was decided that (i) the Bank should obtain agreement that its views would be sought before appointment or designation of a future Administrator, (ii) the criteria which the Borrower should take into consideration when proposing an appointment or designation should be included in the loan agreement, and (iii) a letter should be sent to the Borrower explaining that the Bank would consider remedies under the loan agreement if its views were ignored.

David Pearce
Secretary

Cleared with Messrs. Cope
Street
Guinness
Loh

Distribution: Loan Committee
Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-35

July 28, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the effectiveness of the $4.6 million credit for the "Dahomey - Grand Hinvi Agricultural Development Project" held in Room A 1212 on July 15, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

LM/M/69-35

July 28, 1969

Minutes of a Special Loan ~~Committee~~ Meeting to discuss the effectiveness of the $4.6 million credit for the "Dahomey - Grand Hinvi Agricultural Development Project" held in Room A 1212 on July 15, at 3:30 p.m.

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

2. Issue: The Chairman had called the meeting to discuss the effectiveness of the $4.6 million credit to the Republic of Dahomey for the Grand Hinvi Agricultural Development project. On January 6, 1969, the Government of Dahomey had entrusted Sonader, the institution responsible for implementing the project, with the additional task of carrying out a new regional program outside the project area. Although the Protocole d'Accord between the Government and Sonader had been signed on January 6, 1969, the Association had not been informed of the Government's intentions during negotiation of the credit in December 1968, nor of the existence of the Protocole d'Accord before signing of the credit on March 5. This was despite Section 2.09 of the Project Agreement which provides that "Before Sonader shall undertake or execute, for its own account or for the account of any third party or parties, any new major project or development other than the Project, or make any new major investment not related to the Project, it shall first have satisfied the Association that such action would not prejudice the interests of the Association under this Agreement". Since Sonader's capacity to implement the IDA Project properly was likely to be impaired as a result of this Protocole d'Accord, the issue arose whether, in these circumstances and subject to the fulfillment of all the legal requirements, the IDA credit should be made effective on August 5, 1969. The Area Department added that, following discussions in Washington which had just concluded, the Director General of Sonader, Mr. Amoussou, had undertaken in writing to request the Government to suspend the Protocole d'Accord with Sonader until an IDA mission, which was expected to be in the field in August, could review the situation.

3. Discussion: The Chairman, drawing attention to Section 2.09 of the Project Agreement, asked whether the action of the Government in January 1969 could be considered a violation of said Section and whether the Association would be in a position to withhold declaring the credit effective on the basis of such violation, if the conditions of effectiveness specified in the Agreement had been fulfilled.

4. The Legal Department stated that the question of withholding declaring a Loan or Credit effective, even though the conditions of effectiveness

specified in the Agreement had been fulfilled, on the basis of a violation of a covenant in the Agreement enabling the Bank or IDA to suspend disbursement immediately after effectiveness had been considered before, although it might not have been applied in any previous case. The position taken was that the Bank or IDA could withhold declaring an Agreement effective to avoid the futility of declaring it effective and then suspending disbursement immediately thereafter. The Legal Department said that in this case there was a violation of Section 2.09 of the Project Agreement because the Association had not been informed before signing of the new activity entrusted to Sonader. However, reliance on Section 2.09 of the Project Agreement should not be over-emphasized since Sonader's additional activity would impair its ability to carry out the IDA Project, thus making it improbable that the Borrower would be able to perform its obligations under the Credit Agreement.

5. The Agricultural Projects Department added that, although few specific facts were known at this stage, they were strongly convinced that the Government's action would prove an unbearable burden for Sonader and adversely affect the IDA Project. In their opinion, the IDA Credit should not be made effective until the Government's action had been rescinded.

6. Decision: The Chairman said that, since the Director General of Sonader had personally informed the Association on July 15, confirmed by a letter of same date, that he would request the Government to suspend the Protocole d'Accord and that the Government's response would be communicated to IDA as soon as possible, the effectiveness of the Credit should be held up until IDA had received the Government's reply to Sonader's request. The Chairman added that, in the circumstances, it would not be necessary to inform the Government of IDA's decision officially until shortly before August 5, the date set for the effectiveness. In the absence of an appropriate response from the Government by that time, the position should be reviewed again.

David Pearce
Secretary

Cleared with Messrs. Knapp
Cope
Cheek
Nurick
El-Fishawy
Rowe

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-34

July 15, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Kenya - Third Highway Project", held in Room A 1212 on July 9, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

LM/M/69-34

July 15, 1969

Minutes of Special Loan Meeting to discuss the proposed Kenya - Third Highway Project, held in Room A 1212 on July 9, 1969 at 4:00 p.m.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Baum, Broches, Bruce, El Emary, Evans, Haker, Hardy, Jaycox, Loh, Myhrer, Ritchie, Rowe, Tolley, Williams and Pearce.

2. Issues: The Chairman had called the meeting to discuss paragraph 17 of the Area Department's memorandum (LC/O/69-70 of July 2, 1969), in particular the two recommendations:

(a) that the proposed loan include provision for an agricultural road component of \$3.4 million, but that disbursement in respect of this component be contingent upon demonstration by the government to the satisfaction of the Bank that the sugar scheme as a whole is economically viable;

(b) that the proposed loan (\$23 million) be for a term of thirty years, including ten years of grace.

3. Discussion - Issue (a): The Area Department stated that the sugar scheme was in serious difficulty, mainly due to inadequate mill management and problems of transporting cane from the field to the factories. This second factor was itself one justification for including the agricultural (sugar) road component in the proposed project. Moreover, \$45 million had already been spent (out of a total planned investment of \$53 million), much of which might be wasted if the sugar scheme were not completed.

4. The Agriculture Projects Department agreed that, although a brief factor analysis was necessary, financing of the agricultural road component could probably be economically justified on an incremental basis, even under the most conservative assumptions about the sugar operations. The economic return on the investment, including its sensitivity to varying assumptions, would be recalculated by the Transportation and Agriculture Projects Departments, and the results would be ready within a few days.

5. The meeting noted that, in terms of presenting the sugar aspects of the project to the Executive Directors, it should be frankly stated that sugar production in Kenya was in several respects still inefficient. Accordingly, it would be appropriate to draw attention to this in the appraisal report and to stress the measures being taken to rectify the situation. In this connection, the work of the commission which the government had established to look into the question, and which would be headed by a seconded Bank staff member, would be helpful and also timely, since government action on the study report's recommendations could begin within 3-4 months.

6. The issue for decision was therefore essentially a tactical one of what type of condition (disbursement or a general covenant) would offer most leverage in relation to the sugar scheme, and it was generally felt that a covenant in the loan agreement would be the best solution.

7. Decision - Issue (a): It was decided that, subject to confirmation that the incremental return on the agricultural road component was adequate, it should be included in the project but that action by the government on the recommendations of the sugar commission would be made a general condition of the loan.

8. Issue (b): The Chairman decided, following the meeting, that the terms of the proposed loan should be 25 years, including five years of grace.

David Pearce
Secretary

Cleared with Messrs. Knapp
Baum
El Emary
Evans
Loh
Myhrer

Distribution: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-33

July 9, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of Special Loan Meetings to discuss the proposed "Botswana - Shashi Infrastructure Project," held in Room A 1212 on July 1 and 2, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

LM/M/69-33
July 9, 1969

Minutes of Special Loan Meetings to discuss the proposed "Botswana - Shashi Infrastructure Project", held in Room A 1212 on July 1 at 3:00 p.m. and July 2 at 10:00 am.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Broches, El Emary, Knox, Armstrong, Williams, Scott, Loh, Wyatt, Bailey, Dean and Pearce.

2. Issues: The Chairman had called the meeting to discuss three issues, namely:

(a) Sections 2.01 (a) (iii) and (b) (ii) of the draft reimbursement agreement to be associated with the proposed engineering and preliminary works credit for the project;

(b) The security arrangements for the proposed construction loan;

(c) The letter of intent which the mining company (BCL) wished the Bank to provide for the purposes of raising equity capital for the mining project.

3. Issue (a): The issue in connection with the draft reimbursement agreement concerned the circumstances under which BCL should be released from its guarantee obligation if a loan for the infrastructure were not made by the Bank. The draft agreement submitted to the company and to Botswana for comment provided that the company should be released from its reimbursement obligation when expenditures on the mining project had reached \$75 million. The company argued that it should be released when it had raised the finance required. It was agreed that the Bank's position should be that the company would be released from this obligation if a Bank loan were not made for the infrastructure, when \$25 million had been spent on the investment in the mining project in addition to the costs already incurred by the company (estimated at about \$25 million).

4. Issue (b): Mr. Broches' memorandum to Mr. Knapp on security arrangements was discussed and it was agreed that the company should be invited to send representatives to Washington for discussion with the Bank as to the appropriate security arrangements which would be required from them to support a Bank loan for infrastructure to the government or government agencies. It was agreed that the take-or-pay agreements for supply of power and water would have to be backed by shareholders' guarantees. It was also agreed that in the event of the Bank loan covering elements of the project other than the power and water facilities (i.e. transportation and township), payment of funds by the company to the government adequate to service the loans for these other elements would also have to be backed by shareholders' guarantees. It was recognized that these arrangements might affect the taxation agreement to be made between the company and the government.

5. Issue (c): The company had requested the Bank to provide a letter of intent which it could use in a public prospectus to be issued in connection with raising equity capital in early November 1969. It was agreed that no letter of intent could be given without the approval of the Executive Directors. While there was no reason in principle why such approval could not be sought for a suitably qualified letter of intent, to be issued prior to final Board consideration of the loan request, this extraordinary procedure should not be adopted unless there were compelling reasons for doing so. It was therefore agreed that the company should be asked to provide

information on its construction program and schedule for financial commitments in connection with this program for the mining project. Only if these programs, in the light of the probable time table for the Bank loan, showed a convincing need for the mining company to raise equity capital substantially before the Executive Directors considered the infrastructure loan would the Bank consider further the question of seeking Board approval for a letter of intent.

6. The problem of possible overrun in infrastructure costs was also discussed and it was thought that the best way of dealing with this was to make larger than normal contingency allowances. If, despite this, the loan proved insufficient to cover the cost of infrastructure, but the rates at which power and water are to be sold were capable of increase to cover escalation in investment costs, the problem of raising the additional capital required would at least be lessened.

David Pearce
Secretary

Cleared with Messrs. Knapp
Williams
Scott
Loh
Dean

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-32

July 9, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed provision by the Bank of managers for Bank-financed projects, held in Room A 1212 on June 23, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

LM/M/69-32
July 9, 1969

Minutes of Special Loan Meeting to discuss the proposed provision by the Bank of managers for Bank-financed projects, held in Room A 1212 on June 23 at 4:00 p.m.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Demuth, Adler, Baum, Chadenet, Chaufournier, El Emary, King, Spottswood and Pearce.

2. Issue: The Chairman had called the meeting to review a draft Report and Recommendations of the President to the Executive Directors that the Bank hire and second to borrowers managers for projects financed by the Bank. (The report of a working party established in May 1968 to consider this subject had been discussed at a meeting of the Loan Committee on December 16, 1968 - cf. LC/M/68-32 of December 26, 1968).

3. Discussion: The Chairman, noting that the Executive Directors had only recently approved the Bank's FY 1970 administrative budget, said that it would be inappropriate to present the President's Report and Recommendations to the Board, particularly insofar as they entailed budgetary consequences, until at least after the summer recess. Apropos the potential cost to the Bank of the proposed scheme, however, the meeting noted (a) that the hiring and secondment of managers would be undertaken only in the last resort (i.e. when all other alternatives, such as bilateral or international technical assistance programs, had been exhausted) and (b) that in normal circumstances the Bank would be reimbursed by the borrower for the full cost of seconded managers. Consequently, the net cost to the Bank would be limited to initial recruitment and auxiliary costs, estimated at \$250,000 - \$300,000 for the first phase, and recurrent annual costs in respect of the managers' remuneration and subsistence while not under secondment, estimated at \$120,000 - \$240,000 for any full year after twenty-five managers had been hired.

4. The Programming and Budgeting Department said that, if most of the managers were employed temporarily between secondments in regular Bank work, the recurrent annual costs above would be reduced almost to zero. This assumed, however, that the individuals concerned could be effectively employed in existing or new positions authorized in the Bank's annual personnel budget but which remained vacant at any one time owing to turnover and/or delays in recruitment. The Projects Departments expressed some reservation about the feasibility of this aspect of the scheme (i.e. temporary employment by the Bank of managers between secondments) in relation to absorption and scheduling of work. The Chairman, on the other hand, felt that the draft President's Report underestimated the possibilities in this area.

5. There was considerable discussion concerning "topping-up" arrangements, which the Chairman and Projects Departments viewed with reservations. Messrs. El Emary and Chaufournier, however, said that while the provision of managers by the Bank, in the absence of suitable alternatives, was urgent, particularly in the case of agricultural projects, many borrowers (in East and West Africa) were unable, even unwilling for domestic reasons, to offer the remuneration required to attract qualified expatriate managers, which was often well above the level of remuneration for local managers in similar positions. In these circumstances, the Bank should consider "toppping-up" the expatriate managers' remuneration.

6. The Chairman felt that it would be difficult for the Bank to embark upon such a program, although he would not exclude action on these lines in individual exceptional cases. It was suggested that closer collaboration with OPEX and its successor, OPAS, might provide a workable solution to this problem (an example of cooperation between the Bank, OPEX and FAO in Malaysia was cited) and it was agreed that this would be further explored in the near future.

7. <u>Conclusion</u>: Noting that six months had elapsed since the preparation of the draft President's Report, the Chairman suggested that certain points should be reexamined and up-dated before finalization of the paper, notably:

(a) the possibility of cooperative arrangements with the OPAS scheme;

(b) the precise cost to the Bank of operating a project managers' secondment program on a full reimbursement basis in the light of the Bank's current administrative and budgeting procedures.

In the meantime, if a Bank-seconded project manager was required for any project on a reimbursement basis he could be considered for recruitment on the lines of the authorization given in April 1967 for ten livestock project managers.

David Pearce
Secretary

Cleared with Messrs. Knapp
Adler
Baum
King

Distribution: Loan Committee
Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-31

July 8, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Bolivia - Gas Pipeline Project," held in Room A 1212 on May 12, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

LM/M/69-31
July 8, 1969

Minutes of Special Loan Meeting to discuss the proposed "Bolivia - Gas Pipeline Project," held in Room A 1212 on May 12 at 3:00 p.m.

1. Present: Messrs. Knapp (Chairman), Alter, Chadenet, Carmichael, Nurick, Skillings, Scott and Pearce.

2. Issues: The Chairman had called the meeting to review the draft legal documents, in particular the guarantee agreements, for the proposed "Bolivia - Gas Pipeline Project."

3. Discussion: The Chairman, drawing attention to the recent death of the President of Bolivia and consequential governmental changes which might affect relations between the Government and the Gulf Oil Co., asked the Legal Department to explain the extent to which the Bank could in the last analysis rely upon the guarantee of the Gulf Oil Co.

4. The Legal Department said that:

(a) YPFB (the Bolivian Government Oil Company) and BOGOC (the wholly owned Bolivian subsidiary of Gulf) were jointly and severally responsible for the obligations of YABOG, the pipeline company established for the project;

(b) if either party failed to fulfill its obligations to YABOG, the Bank could call independently on Gulf, which would guarantee the performance of its Bolivian subsidiary, or on Bolivia which would guarantee the loan.

5. It was further pointed out that the proceeds of the Gas Sales Contract would be paid in dollars into an account with the Morgan Guaranty Trust Company of New York, which would undertake to service the Bank loan before distributing any of the proceeds to the sponsors. In brief, the Bank would look to the Morgan Guaranty account for actual service of the loan to YABOG but to YPFB and BOGOC and ultimately to their guarantors, the Bolivian Government and Gulf Oil, in the event of default.

6. The Area Department said that the draft legal documents were being sent to the Government that day for approval. The Government's response would indicate the new Government's intentions concerning the project. Mr. Glaessner's proposed visit to Bolivia in early June would offer an opportunity for meeting new members of the Government, including the Minister of Mines whose department was responsible for the project, and unless unforeseen problems arose a meeting with the Bolivians before that date was not necessary.

7. Conclusion: The Chairman agreed that the Area and Legal Departments should proceed on the basis of paragraph 6 above.

David Pearce
Secretary

Cleared with Messrs. Knapp
Sassoon
Skillings

Distribution: Loan Committee
Participants

FORM NO. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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LM/M/69-30

July 8, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed Chile Port Improvement Project, held in Room A 1212 on May 8, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Executive Vice President (IFC)
Vice President (IFC)

LM/M/69-30
July 8, 1969

Minutes of Special Loan Meeting to discuss the proposed Chile - Port Improvement Project, held in Room A 1212 on May 8, 1969

1. Present: Messrs. Knapp, Cope, Aldewereld, Alter, Baum, Broches, Carmichael, Chadenet, Elsby, Geolot, Jones, Reitter, Wiese and Pearce.

2. Issue: The Chairman had called the meeting to review various aspects of the proposed "Chile - Port Improvement Project" for which an $8 million loan, representing the project's foreign exchange costs, was recommended.

3. Discussion: The Chairman, noting that the project included improvements to two ports in close proximity to each other (Valparaiso and San Antonio), asked the Area and Transportation Projects Departments to comment on the project's economic and technical rationale. The Projects Department said that, while the current trend in port organization and management was towards integration, the proposed project was justified on two grounds, namely (a) both ports were important vis-a-vis the populous central region of Chile, including the capital, Santiago and (b) the project was limited to renovation and maintenance of existing facilities without substantially adding to physical capacity. If and when the question of expanding the ports arose, the possibility of their integration would require more serious consideration. However, this point would be taken into account in the forthcoming survey of long-term development of Chilean ports included in the project.

4. The meeting discussed the principal issues raised in the Area Department's memorandum, as follows:

Management (paras. 9-13)

(a) There was considerable discussion of paragraphs 12 and 13 of the area memorandum concerning the successive actions to be undertaken by the Chileans as conditions of negotiation, presentation, effectiveness and disbursement of the proposed loan. The meeting was told that the rationale of this step-by-step approach, which took into account both the difficulty of the issues to be negotiated and the realities of the Chilean political situation which would affect the timing of various actions to be undertaken, was to ensure (i) that agreement on the substance of the measures to be undertaken was reached by the date of the loan's presentation to the Executive Directors, and (ii) that these measures were being implemented by the date of the loan's effectiveness. The distinction between (i) the establishment of a National Port Advisory Board (NPAB) as a condition for presentation of the loan, and (ii) the submission of a law to Congress establishing a National Port Authority (NPA) as a condition of its effectiveness, reflected the relative importance of the two bodies in relation to the Bank's broader objectives and also the fact that the setting up of NPAB involved promulgation of a decree while NPA required Congressional approval and enactment of a law.

(b) Apropos the enactment of the law establishing NPA, which it was proposed to make a condition for Board consideration of a road loan currently scheduled for April 1970, the meeting noted that disbursement of the port loan could not be phased in tranches. In these circumstances and because the timing of Congressional approval of the law, which the Bank wished to see enacted within a reasonable period of time, was dependent on developments in the Chilean political situation, the Area Department argued that this approach was justified. Moreover, the Bank and the Government had agreed that future projects in the Chilean transport sector would be linked to improved coordination and operations by the Government in that sector (cf. paragraph 17, area memorandum). Accordingly, the Area Department recommended that before negotiation and presentation of the port loan, a memorandum of understanding concerning the improvement of railway operations and organization, which consultants were now studying under Bank/UNDP auspices, should be agreed and signed by the Government.

(c) The Project's Department, noting that the consultants' report and thus the memorandum of understanding setting specific targets would not be ready for some time, said that the Bank should not insist on satisfactory performance in all parts of the transportation sector before agreeing to lend in one sub-sector. For example, there would be scope for Bank operations in the road sub-sector independent of progress in railways. The Area Department, adding that railways rather than ports was the sub-sector offering maximum leverage with respect to roads, said that they favored a flexible approach to the presentation of the proposed port loan, certainly within the Bank. Noting that a road appraisal mission would visit Chile in August, the Area Department suggested that the Government be advised of the importance attached by the Bank to the enactment of the law establishing the NPA. So far as the memorandum of understanding regarding railways was concerned, the Area Department would report back to the Loan Committee if agreement on a draft could not be reached.

Finances (paragraph 14)

(a) The Chairman approved the Area Department's recommendation that agreement in principle on a schedule and mechanism for the adjustment of port charges to achieve an improvement in the financial rate of return from zero to over 4% by 1973 should be reached with the Government before negotiations. The first adjustment (of 20%) would be a condition for presentation of the loan.

Loan Recipient

(a) The Area and Projects Departments reviewed the two alternatives of making the loan to the Government or the Empresa Portuaria de Chile (EPC). The Area Department, which favored in principle lending to the Government, said that the Chileans had not expressed a strong preference for either. The Chairman, on the other hand, felt that on balance the loan should be made to the EPC, as the operating entity, in accordance with the Operational Memorandum (No. 3.02) on this subject.

5. Decision:

The Chairman approved the recommendations contained in the Area memorandum and appraisal report. It was also agreed that:

(a) in the event that agreement on a memorandum of understanding concerning railway organization and operations could not be achieved by the date of presentation of the port loan, the issue would be reviewed again by the Loan Committee;

(b) the question of the loan recipient would be reconsidered with a view to making the loan to the EPC, alternatively to strengthening the case for lending to the Government.

David Pearce
Secretary

Cleared with Messrs. Knapp
Baum
Carmichael
Reitter

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-29

June 26, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Spain - Livestock Development Project", held in Room A 1212 on June 6, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

LM/M/69-29
June 26, 1969

Minutes of Special Loan Meeting to discuss the proposed "Spain - Livestock Development Project", held in Room A 1212 on June 6 at 9:30 a.m.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Benjenk, Cancio, Chadenet, Horsley, Lejeune, Maubouche, Stoops, Takahashi, van Gigch, Wapenhans and Pearce.

2. Issue: The Chairman had called the meeting to discuss Mr. Lejeune's memorandum of June 5, which reported on the status of negotiations of the proposed $25 million loan for a livestock development project. The issues for discussion were (a) the Bank's position with respect to the liberalization of meat imports and the timetable therefore and (b) the term of the proposed loan.

3. Discussion - Issue (a): The Area Department, noting that the Spaniards had accepted all the Bank's conditions for the Letter of Intent except the timetable for liberalization of meat imports, said that the privatization of meat imports and the removal of quantitative restrictions on these imports within two years, (by December 31, 1971) were drastic changes for Spain, a country where there was considerable resistance to change. The Spaniards had proposed December 31, 1975 as the terminal date. In the circumstances, the Area Department proposed that the two measures should be phased separately, i.e. privatization of imports over a two or three year period and removal of quantitative restrictions within a four year period (by December 31, 1973). During the period of privatisation, importers would operate under a licensing system and pay import duties averaging up to 15%.

4. The Agriculture Projects Department, on the other hand, proposed that the quantitative restrictions should be removed after two years on the grounds that the combination of 15% protection and liberalized imports could be seen to work in that time; they argued that it would be preferable to permit temporarily a higher level of protection (e.g. up to 25%) for the two following years rather than to postpone for that time the abolition of quantitative restrictions.

5. The Chairman, reviewing the alternative proposals, said that the Bank should press for abolition of quantitative restrictions at an early date. A temporarily high level of protection was preferable to the continuation of open-ended quantitative restrictions and, in the circumstances, he inclined to the Projects Department's proposal.

6. Decision - Issue (a): It was decided that the Bank should propose to the Spaniards removal of quantitative restrictions by December 31, 1971 accompanied by a 25% level of protection for the two following years (to December 31, 1973), followed by a 15% level of protection thereafter.

7. Discussion - Issue (b): Apropos the Area Department's recommendation that the Bank agree to Spain's request for a 20-year term for the proposed loan (rather than the 17-year term envisaged in the Appraisal Report), the Chairman said that there was no case, on project or country grounds, for a longer term. The 17-year term was based on the completion of loan repayments by farmers within 15 years plus a 2 year allowance for slippage and Spain would have no difficulty in servicing the proposed Bank loan within this period. Moreover, a comparison between this loan and a recent 20-year loan to Mexico for livestock development was not valid, nor was the argument that Bank insistence on a 17-year term would appear to discriminate against Spain.

8. <u>Decision - Issue (b)</u>: The Chairman decided that on country and project grounds, the term of the proposed loan should remain at 17 years including the grace period, as proposed in the Appraisal Report.

David Pearce
Secretary

N.B. Apropos paragraph 6 above, it was subsequently decided by Messrs. McNamara and Knapp that the deadline for the removal of quantitative restrictions should be extended to June 30, 1973 (i.e. an additional 18 months). However, the level of protection would remain at 15% throughout the four-year period.

Cleared with Messrs. Knapp
Benjenk
Horsley
Wapenhans

Distribution: Loan Committee
Participants

Mr. Pearce

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-28

June 26, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "India - Lending for Irrigation", held in Room A 1212 on April 30, 1969.

David Pearce
Secretary
Loan Committee

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Committee:

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

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

LM/M/69-28
June 26, 1969

Minutes of Special Loan Meeting to discuss "India - Lending for Irrigation", held in Room A 1212 on April 30 at 11:00 a.m.

1. Present: Messrs. Knapp (Chairman), Cope, Broches, Cargill, Chadenet, Clyde, Darnell, Dunn, Evans, Wiehen and Pearce.

2. Issues: The Chairman called the meeting to discuss two papers, respectively (a) Mr. Chadenet's memorandum of April 25 to Mr. Cargill entitled "India - International Competitive Bidding on Civil Works Contracts for Irrigation Projects" and (b) Mr. Votaw's memorandum of April 10 to Mr. Wapenhans entitled "Lending for Irrigation - Financing of Projects Already Under Construction."

3. Discussion - Issue (a): The Chairman, drawing attention to the arguments against Bank insistence on international competitive bidding for civil works contracts in irrigation projects (paragraphs 2 and 3 of Mr. Chadenet's memorandum), noted that there were two problems associated with on-going projects designed for labor intensive construction methods, namely (i) by definition, the Bank could exercise no influence in the choice of project design (i.e., whether equipment or manual labor was most appropriate for implementing the project's overall objectives) and (ii) labor intensive projects typically required a longer construction period than capital intensive projects and were therefore often more expensive economically. On the other hand, it was the Bank's intention, endorsed by the Executive Directors, to revert to project financing in India and, in terms of Bank lending and the allocation of India's investment resources, the completion of projects already underway should be given first priority. In these circumstances, the case for waiving the international competitive bidding provision in certain on-going labor intensive projects was persuasive and would probably be accepted by the Executive Directors.

4. The Agriculture Projects Department added that there were two sets of circumstances in which the Bank should still require international competitive bidding. Firstly, the use of equipment, rather than manual labor, was sometimes necessary to ensure early completion of project works, for example, the excavation of main conveyance canals; since Indian contractors did not generally possess the heavy equipment necessary for this kind of work, international competitive bidding was justified and appropriate in these cases. Secondly, in the event of new projects, the Bank itself would be able to appraise the respective advantages and disadvantages of labor and capital-intensive construction designs; if, in the Bank's judgment, the use of equipment was necessary to maximize the project's objectives, international competitive bidding would naturally be justified. In summary, the Agriculture Projects Department's position was that international competitive bidding should be required only where this would be advantageous in terms of costs and/or time saved.

5. Decision - Issue (a): The Chairman agreed that (i) for ongoing labor intensive projects and (ii) for new projects, where, in the Bank's judgment, the use of manual labor was preferable to equipment, the Bank should not insist on international competitive bidding for equipment.

6. Discussion - Issue (b): Introducing discussion of Mr. Votaw's paper, the Chairman distinguished between retroactive financing of expenditures already incurred by the borrower and reimbursement of (expected) expenditures in respect of contracts already awarded but not actually incurred at the date of loan/credit approval. Mr. Cope said that the issue was the proportion of total project costs financed; the question of disbursement percentages was a separate and subsidiary matter. In his view the distinction between disbursing against past or anticipated expenditures, under contracts already awarded, was an artificial one. The Chairman, noting that the Executive Directors believed there was such a distinction said that the Executive Directors' concern was two-fold, (i) retroactive financing reduced Board approval of a project to a formality and (ii) retroactive financing encouraged borrowers to enter into contracts prematurely, in anticipation of a Bank loan.

7. The Agriculture Projects Department said that an immediate problem arose in connection with the proposed Kadana project, which had an estimated total cost of \$36 million, comprising \$28 million in civil works and \$8 million for agricultural development of the project area. Of the civil works part of the project, about \$4 million (about 14%) had already been disbursed, and \$12 million (about 43%) was already under contract. The meeting noted that a \$20 million Bank loan, equal to the amount of contracts still to be awarded, would represent 60% of project works not yet undertaken. The Agriculture Projects Department added that of five projects recently reviewed by the irrigation reconnaissance mission, amounting to a total cost of \$480 million, about \$45 million had already been expended and an additional \$78 million was committed for contracts already awarded. While the works already completed in the above projects amounted to only about 18% of the total, there were substantial variations between projects, as for example in the Kadana case.

8. The Chairman said that the justification for eventual Bank financing of some of these projects was two-fold, (i) the projects concerned were on-going, high priority operations, (ii) Bank financing would ensure their earlier and more efficient completion. However, in the circumstances, it might be fruitful to present a paper to the Board for information concerning the implications of financing such projects in India.

9. Decision - Issue (b): It was decided that (a) in projects where contracts had been satisfactorily placed before signature of a loan, the Bank could finance those expenditures incurred after signature of the loan and (b) the Bank could finance up to about 70% of remaining expenditures in order to reach total financing of 50-60% of project costs.

David Pearce
Secretary

Cleared with Messrs. Knapp
Evans
Dunn

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-27

June 26, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the development of tourism in East Africa, held in Room A 1212 on June 18, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

LM/M/69-27
June 26, 1969

Minutes of Special Loan Meeting to discuss the development of tourism in East Africa, held in Room A 1212 on June 18 at 3:30 p.m.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Baum, Broches, Davis, El Emary, Myhrer, Sadove, Simmons, Tolley and Pearce.

2. Issue: The Chairman had called the meeting to discuss Mr. El Emary's memorandum of June 9, 1969 entitled "Line of Credit for Tourism Infrastructure" which proposed the extension of a line of credit to three East African countries (Kenya, Tanzania, Uganda) to finance a variety of small infrastructure works (access roads, water, sewerage and electricity) associated with a tourism development project sponsored by a private investment group, including the Aga Khan's Industrial Promotional Services (IPS) and IFC.

3. Discussion: The Area Department stated that their proposal for a line of credit for tourism infrastructure in East Africa was based on the following considerations:

(a) the development of tourism was of high economic priority in all three East African countries concerned;

(b) the proposed project, comprising a number of game park lodges and hotels at an estimated total cost of ₤3 million, could not go forward without the necessary supporting infrastructure works which were expected to cost about $1.2 million divided between the three countries;

(c) excepting possibly Tanzania, the country components of the infrastructure cost were too small to warrant Bank loans to each country;

(d) the alternative of waiting until a sufficient number of small infrastructure projects had been formulated into a package suitable for Bank financing would involve an unacceptable delay in implementing the larger tourism project because the investors concerned would not proceed until they were assured that the necessary infrastructure was available;

(e) in the circumstances, a line of credit was an appropriate vehicle for Bank assistance and initial involvement in the tourism sector in East Africa.

4. The Chairman, noting that presentation of the above proposal to the Executive Directors might be difficult and that the administration of small lines of credit to the three countries would be an expensive and comparatively inefficient operation for the Bank, said that, in his view, the proposal could be justified on two grounds only: (a) tourism's priority in the economic development of the three countries concerned and (b) the leverage which lines of credit could give the Bank with respect to tourism infrastructure projects which the Governments concerned would not otherwise undertake.

5. During the discussion which followed, it was generally agreed that:

(a) the development of tourism in East Africa was of high economic priority and should be supported by the Bank Group;

(b) however, (i) the absence of comprehensive and detailed tourism development programs covering a period of years, (ii) the lack of a suitable financial and administrative intermediary to coordinate the infrastructure works and (iii) the comparatively small size of the work to be done in a sector and area with which the Bank was not yet fully familiar, raised doubts about the feasibility of proceeding with the Area Department's proposal in the immediate future.

6. The Chairman said that it was not clear whether the Bank's refusal to go ahead with the proposal now would strengthen or weaken the three countries' position via-a-vis the tourism investors' group. He suggested that the Bank should explore the whole question further with the Governments concerned with a view to Bank participation in tourism and associated infrastructure projects in due course. In this connection, the possibility of adding small infrastructure works (eg. access roads) to upcoming (eg. highway) projects in East Africa should be considered.

7. Decision: It was decided that, while the line of credit proposal was not feasible at this time, further discussions should be held with the Governments concerned on ways in which the Bank Group might assist the development of tourism, including tourism infrastructure, at the appropriate time.

David Pearce
Secretary

Cleared with Messrs. Knapp
Baum
El Emary
Simmons

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-26

June 26, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Costa Rica - Power and Telecommunications Projects", held in Room A 1212 on June 18, 1969.

David Pearce
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Vice President (IFC)

LM/M/69-26
June 26, 1969

Minutes of Special Loan Meeting to discuss "Costa Rica - Power and Telecommunications Projects", held in Room A 1212 on June 18 at 9:30 a.m.

1. Present: Messrs. Knapp (Chairman), Alter, Baum, Broches, Cancio, Eigen, Mirza, Sear, Wright and Pearce.

2. Issues: The Chairman had called the meeting to review the presentation of paragraphs 18-20 of the draft President's Report concerning procurement, local currency financing and reimbursement of past expenditures.

3. Discussion: The Chairman, noting that the country case for local currency financing in Costa Rica was weak and that the amount involved under the proposed power project (up to $1.8 million - resulting from the already agreed 15% margin of preference to domestic suppliers) was not 'de minimis', suggested that the presentation of the case for local procurement and local currency financing should be related directly to the special circumstances governing procurement under the recent Agreement on Fiscal Incentives entered into by members of the Central American Common Market, which included Costa Rica. On this basis, the preference margin accorded to products of Central American origin in all public procurement under the above Agreement would extend to Costa Rican suppliers subject to a limit of 15% and, in these exceptional circumstances, the Bank would be prepared to finance contracts placed with Costa Rican suppliers.

4. The Legal Department said that, while the Chairman's draft strengthened the case for local procurement, it did not justify Bank financing of the resultant local currency expenditures, in accordance with the General Counsel's memorandum of November 29, 1968 (SecM68-436) on this subject.

5. The Chairman nevertheless felt that, for purposes of the project's presentation to the Executive Directors, the local currency financing involved could best be justified in terms of the exceptional circumstances under which a 15% preference margin or 50% of import duties, whichever was lower, would be given to suppliers in the Central American Common Market, thus including suppliers in Costa Rica.

6. Conclusion: It was agreed that (a) paragraphs 18 - 19 of the draft President's Report relating to procurement and local currency financing should be redrafted in the light of the Chairman's suggestion above, (b) the paragraph concerning reimbursement should be strengthened along the lines of the Chairman's draft and (c) the section on procurement of telecommunications equipment from original suppliers should be extended along the lines of the draft President's Report; however, details concerning the negotiations of these contracts should be omitted from the President's Report.

David Pearce
Secretary

Cleared with Messrs. Knapp
Baum
Mirza

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Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-25

May 28, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Spain - Livestock Development Project", held in Room A-1212 on May 2, 1969.

David Pearce
Secretary
Loan Committee

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Committee:

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

LM/M/69-25
May 28, 1969

Minutes of Special Loan Meeting to Discuss the Proposed
"Spain - Livestock Development Project"
Held in Room A-1212 on May 2 at 4:00 p.m.

1. Present: Messrs. Knapp, Cope, Baum, Eugenio, Gerring, Horsley, Lejeune, Stoops, van Gigch and Pearce.

2. Issues: The Chairman had called the meeting to discuss (a) Spanish Livestock production and marketing policies, and (b) local currency financing in connection with the proposed "Spain - Livestock Development Project" for which the Area Department memorandum recommended a loan of $25 million.

3. Discussion - Issue (a): The Chairman, introducing the discussion, said that the forthcoming report to the Governors on the stabilization of prices of primary products would, among other things, (i) recommend that diversification policies be pursued in both developed and developing countries and (ii) implicitly criticize agricultural protection. In this context, he was concerned that financing of the proposed project, which involved the establishment of meat import levies to maintain prices of domestic meats at remunerative levels, might appear to be inconsistent with the Bank's position above.

4. The Agriculture Projects Department, outlining Spanish policies related to production, pricing and marketing of livestock, said that certain policy modifications were necessary to improve livestock production and marketing efficiency. In particular, meat imports would be permitted without quantitative restrictions and opened up to the private sector, subject only to periodically adjustable import levies designed to align the prices of domestic and imported carcasses. The prime objective of changes in meat import policies was to achieve an internal veal/beef price ratio that would increase incentives to ranchers to produce beef instead of veal. Higher prices resulting from the imposition of a tariff would tend to reduce consumption of imported frozen beef thereby strengthening demand for domestic production and helping to maintain certain domestic meat prices at remunerative levels. Simultaneously, imports of veal would help to eliminate excessive premiums now paid for domestically produced veal. Thus, by allowing liberal imports subject only to tariff protection, the internal beef/veal price ratio could be brought more into line with ratios existing in other producing countries. However, at the time of devaluation in November 1967 a general wage/price freeze had been imposed and, as part of this policy, prices of imported meat could not be increased before the end of December 1969. It was therefore difficult for the Government to carry out the proposed policy changes immediately. The Government would nevertheless be required to give an assurance during negotiations that these policy changes were accepted and would be implemented, according to a timetable to be agreed with the Bank.

5. The Chairman inquired about the level of tariff protection envisaged for meat imports. The Agriculture Projects Department replied that the project's rate of return was calculated on the basis of an assumed level of protection of 20%. However, this figure could be expected to decrease progressively as the markets for imported and domestically produced meats evolved. The Area Department added that the Bank's objective was to obtain a shift from production controls to price controls (i.e. from import quotas to customs duties) in order to align the prices of domestic and imported meat.

6. The Chairman, who thought that this level of protection was already on the high side, said that the Spanish Government should be required to be specific about its intentions concerning meat import policies after calendar year 1969. The effectiveness of such actions should be made a condition of the proposed loan. The Area Department, noting that Mr. Horsley would shortly visit Spain, suggested that formal negotiations should be postponed until Mr. Horsley had reported on his discussions with the Government.

7. Decision - Issue (a): It was decided that an invitation to negotiate the proposed loan would be issued only when it was clear (i) that the Government would specifically state its intention to undertake the above policy changes commencing January 1970 and (ii) that agreement could be reached on a level of protection, about 15%, and measures to liberalize imports.

8. Discussion - Issue (b): The meeting noted that the proposed loan would finance the project's foreign exchange component, estimated at $15 million including interest during construction and certain local expenditures amounting to about $10 million. The Chairman suggested that in this case the $5 million interest during construction should be excluded from the loan. Moreover, he thought that the justification for local currency financing should be based solely on country grounds.

9. Decision - Issue (b): The Chairman decided that the amount of the proposed loan should remain the same, i.e. $25 million but that its component should be changed to exclude interest during construction. Accordingly, the loan, representing 50% of the project's total cost, would cover the $10 million estimated foreign exchange component and $15 million local currency expenditures.

David Pearce
Secretary

Cleared with Messrs. Knapp
Horsley
Lejeune
Stoops

Distribution: Loan Committee
Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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LM/M/69-24

May 28, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the Proposed "Ethiopia - Fourth Telecommunications Project", held in Room A-1212 on May 2, 1969.

David Pearce
Secretary
Loan Committee

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

LM/M/69-24
May 28, 1969

Minutes of Special Loan Meeting to Discuss the Proposed
"Ethiopia - Fourth Telecommunications Project"
Held on May 2, at 2:30 p.m. in Room A-1212

1. Present: Messrs. Knapp (Chairman), Cope, Broches, El Emary, Knox, Suratgar, Vasudevan and Pearce.

2. Issues: The Chairman had called the meeting to discuss (a) the settlement of the Government's obligations to the Imperial Board of Telecommunications of Ethiopia (IBTE) and (b) Section 4.09 of the Joint Financing Agreement concerning the declaration of payment of dividends by IBTE.

3. Discussion - Issue (a): The Area Department, recalling that 30% of IBTE's total outstanding receivables of E$2.9 million on March 31, 1968 were owed by the Government, said that the Government, which had agreed during negotiations to settle its arrears with IBTE and maintain its bills on a current basis, objected to the inclusion of a stipulation to this effect in the Joint Financing Agreement (Section 5.03). Their objections were based on two grounds, namely (i) since the loan documents would be ratified by the Ethiopian Parliament, they did not wish this issue to be raised publicly at this time and (ii) previous loan agreements with the Bank had not included a similar provision and its addition for the first time in this case was a reflection on their integrity. On the other hand, the Swedes, who were also parties to the Joint Financing Agreement, felt strongly that such a provision was necessary.

4. The Chairman said that the point at issue was whether the Bank should insist on a legal provision concerning the Government's debts or whether an expression of intention by the Government would suffice. Notwithstanding the Ethiopians' sensitivities, which he appreciated, the Chairman felt that a legal agreement was required, despite IBTE's improved collection record. The Legal Department advised that, in this case, the text of the proposed draft supplemental letter, which would require Government but not Parliamentary approval and as such was acceptable to the Ethiopians, could not be enforced legally in the event that the Government failed to meet its obligations to IBTE. However, the Bank could point out to the Ethiopian delegation that the IBTE's failure to collect from its creditors(a particular covenant of the Board under Section 4.01 of the Joint Financing Agreement), including the Government, would be regarded as a default of the Loan Agreement, which in turn was guaranteed by the Government. This compromise would satisfy the Ethiopian Government's objections, on the one hand, and effectively meet the Bank's requirements with respect to the Government's obligations, on the other.

5. Decision - Issue (a): The Chairman decided that, in the circumstances, the Bank and the Government should settle the issue along the lines advised by the Legal Department.

6. Discussion - Issue (b): The Area Department explained that, while IBTE was not expected to pay dividends during the first two years of the 1968-1973 program, the appraisal report's estimates provided for the payment of dividends totalling E$1.6 million during the years 1970-1973. The Ethiopians agreed to these provisions, but objected to their inclusion in the supplemental letter on the grounds that this shifted the issue from the more general provision of Section 4.09 of the Joint Financing Agreement which provided that the Board would submit "evidence acceptable to the Bank demonstrating to the satisfaction of the Bank that there would be sufficient funds available to the Board after payment of the proposed dividends to assure the prompt carrying out of and operation of the project". The Chairman, noting that the latter did not indicate whether the Board was expected merely to consult with the Bank or to obtain its approval, suggested that its wording be amended to read "the Board will ensure that sufficient funds are available...". Under the revised wording, and other provisions of the Loan Agreements, the Board's obligations in this respect would be self-enforcing.

7. Decision - Issue (b): It was decided that the relevant provision of the Joint Financing Agreement should read as follows, "Prior to declaring or paying dividends the Board will ensure that sufficient funds remain available, after payments of such proposed dividends, to assure the prompt carrying out of and operation of the project".

David Pearce
Secretary

Cleared with Messrs. Knapp
El Emary
Suratgar

Distribution: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-23

May 27, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the proposed "Ethiopia - Wolamo Agricultural Project," held in Room A 1212 on May 19, 1969.

David Pearce
Secretary
Loan Committee

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Committee:

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

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

LM/M/69-23
May 27, 1969

Minutes of Special Loan Meeting to discuss the proposed "Ethiopia - Wolamo Agricultural Project," held in Room A 1212 on May 19 at 3:00 p.m.

1. Present: Messrs. Cope (Chairman), Baum, Broches, El Emary, Evans, Gassner, Haynes, Suratgar, Wadsworth and Pearce.

2. Issue: The Chairman had called the meeting to discuss (a) interest during construction and (b) retroactive financing, in connection with the proposed "Ethiopia - Wolamo Agricultural Project," for which a $4.5 million loan was proposed.

3. Discussion - Issue (a): The Chairman, drawing attention to paragraphs 3.37-40 of the appraisal report, suggested that for purposes of presentation, the $1,032,000 interest during construction should be segregated from the computation of total project cost. While this item was ultimately part of the project's overall cost, in this particular case it would in practice appear in the accounts of the borrower (the Government) rather than those of the project unit (WADU). The Chairman suggested the following presentation: (i) total project cost in para. 3.37 would be reduced from $6,088,000 (including $1,032,000 interest during construction) to $5,056,000; (ii) $1,032,000 for interest during construction would be shown separately in the "Financing of Project Costs" table at para. 3.40. The $4.5 million Bank loan would be shown as providing $3.5 million (70% of project costs of $5,056,000) plus $1 million covering interest.

4. Decision - Issue (a): It was agreed that the presentation of project costs and financing (paras. 3.37-40 of the appraisal report) should be amended in line with the Chairman's proposal above.

5. Discussion - Issue (b): The Chairman asked whether the proposed reimbursement of the cost of expatriate staff for up to six months in an amount not exceeding $25,000 was necessary to provide the Bank with adequate control over the selection of the experts concerned. The Agriculture Projects Department replied that, in view of the importance of these positions to the project and the shortage of trained Ethiopian agriculturalists, it was necessary to engage two expatriates as Projects Director and Planning Officer respectively. The Ethiopians had already indicated that this would be acceptable, provided that the Bank financed the foreign exchange costs of their salaries. Since it was important that these staff members begin work before signature of the proposed loan, it would improve the Bank's leverage with Ethiopia concerning staff appointments, if the Bank were willing to reimburse salary payments for these two positions from the date of their employment.

6. Decision - Issue (b): The Chairman agreed that the Bank should be willing to reimburse the cost of two expatriate staff (the Project Director and the Planning Officer) for up to six months in an amount not exceeding $25,000 (cf. area memorandum, para. 7).

David Pearce
Secretary

Cleared by: Messrs. Cope
El Emary
Evans
Haynes

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

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LM/M/69-22

May 23, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss the Bank's position on "Tanzania- Second Education Project", held in Room A 1212 on Wednesday, May 21, 1969.

David Pearce
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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General Counsel
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Vice President (IFC)

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LM/M/69-22

May 23, 1969

Minutes of Special Loan Meeting to discuss possible cooperation between IDA and the Norwegian and Danish Development Assistance Agencies in the supervision of schools under the "Tanzania-Second Education Project" held in Room A 1212 at 10:00 a.m. on May 21.

1. Present: Messrs. Cope, Ballantine, Baum, Broches, Burt, El Emary, Hammerschmidt, Richardson, Sella and Pearce.

2. Issues: The Chairman had called the meeting to discuss a response to the request, contained in a letter from the Norwegian Agency for International Development, dated April 30, for close cooperation between IDA and the Norwegian and Danish Development Assistance Agencies in the supervision of schools under the "Tanzania-Second Education Project".

3. Discussion: The Chairman, noting that two of the four schools which the Norwegians and Danes proposed to finance had originally formed part of the "Tanzania-Second Education Project", said that their request for IDA cooperation should be considered sympathetically. The Education Projects Department, agreeing with this approach, said that the extent of IDA cooperation would, in part, depend on whether or not the Norwegian/Danish grant was tied to procurement in these two countries.

4. The following points were noted during the discussion:

(a) it was agreed in principle that the Project Unit now being established in the Tanzanian Ministry of Education should be strengthened to handle the four additional schools to be financed by the Norwegian and Danish grants;

(b) it was not clear that this would require the full-time services of an architect as offered by the Norwegians' letter but it was agreed that, in any event, consultant architects should be the same for all schools, whether within the IDA project or the Norwegian/Danish grant.

(c) the extent of further assistance with respect to contracts, approval of consultants, approval of applications for payment, etc. would depend on whether or not IDA controlled disbursement of the Norwegian/Danish grant, which in turn was related to whether or not the grant was tied; it was agreed, however, that if IDA was to supervise the project works, it should also control disbursement applications and approvals.

5. Decision: It was decided that the Norwegians and Danes should be invited to send representatives to Washington in the near future to discuss the matter more fully, including the agreement to be concluded between Tanzania and Denmark/Norway. The question of a Norwegian and/or Danish expert joining the mission now visiting Tanzania for the next four weeks could be decided later.

David Pearce
Secretary

Cleared by: Messrs. Cope
Ballantine
Burt
El Emary

CC: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-21

May 19, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Colombia- Proposed Loan to Five Development Finance Companies", held in Room A 1212 on April 10, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

LM/M/69-21
May 19, 1969

Minutes of Special Loan Meeting to discuss "Colombia - Proposed Loan to Five Development Finance Companies", held in Room A 1212 on April 10, 1969 at 12 Noon.

1. Present: Messrs. Knapp (Chairman), Cope, Alter, Diamond, Frost, Gabriel, Garcia-Reyneri, Sella, Suratgar and Pearce.

2. Issues: The Chairman had called the meeting to discuss two issues, namely (a) preallocation of proceeds of the proposed $25 million loan, and (b) the terms of the proposed loan.

Discussion: Issue (a)

3. The Area and Development Finance Companies Departments explained that under the first loan of $25 million (451/CO), made in May 1966, projects had been examined and the proceeds of the loan credited to the five development finance companies on a first-come first-served basis. There had thus been no preallocation of the loan among the financieras on the grounds that this put more active and efficient institutions at a disadvantage. Under the second smaller loan of $12.5 million (534/CO), made in May 1968, however, the proceeds had been preallocated among the five financieras, approximately on the basis of their actual utilization of the first loan. For the proposed third loan, the appraisal report recommended preallocation of $15 million of the $25 million loan with the balance of $10 million to be made available on a first-come first-served basis; the area memorandum, on the other hand, favored a return to the first-come first-served principle for the entire loan, unless the Colombians themselves presented a stronger case for preallocating all or part of the loan.

4. In considering the two alternatives, the meeting noted (i) that a "free for all" tended to encourage indiscriminate project selection and submission and (ii) that preallocation took no account of both past and prospective performance of the institutions concerned. Nevertheless, there was some feeling that despite the respective disadvantages of both methods, one or the other should be applied to the entire loan; the compromise suggested in the appraisal report (i.e. $15 million preallocation and $10 million first-come first-served) which was a limited concession to the most efficient of the five financieras, might result, so far as the Bank was concerned, in the worst of both worlds. Mr. Cope suggested that since competition was at best a marginal factor, the simplest solution was to preallocate the entire loan.

Decision - Issue (a):

5. It was decided that, depending on the Colombians' position during negotiations the Bank would recommend (i) preallocation of the entire loan, alternatively (ii) preallocation of part of the loan along the lines suggested in the appraisal report.

Discussion - Issue (b):

6. The Area Department, noting that the Bank's DFC loans to Colombia were made to the Banco de la Republica (the Central Bank) for relending through the Private Investment Fund to the five development finance companies, said that the first loan had a fixed amortization schedule (20 years, including a four year grace period) for repayments from BR to the Bank, while BR relent to the DFCs on a composite amortization schedule reflecting the repayment terms of the DFCs' loans to their clients. Under the second loan, the system of composite amortization was extended to apply to repayments by BR to the Bank as well, with a maximum term for the DFCs' loans to their clients set at 15 years. The Area Department, recommending that the proposed third loan be made on a fixed term of 20 years, including a four year grace period, said that there was a strong country case for lending to Colombia on long terms, with extended grace periods, wherever possible. However, in the case of DFC loans made on a composite amortization schedule, this created a problem since the appropriate terms from a country viewpoint would be excessively long when applied to the DFCs' loans to their clients, which in many cases were for projects involving foreign exchange expenditures of less than $100,000. A return to fixed amortization and breaking the link at either the level of the BR or the DFCs would solve this problem, since the terms granted by the DFCs to their clients would then become independent of the country's repayment obligations to the Bank. Secondly, the Area Department said that application of a fixed term would be consistent with the Bank's approach to agriculture, where lending for agricultural sub-loans was normally on a fixed amortization term set mainly on the basis of country considerations and usually unrelated to the terms of the underlying sub-loans. In this respect, the proposed loan was analogous to the Mexico-Livestock and Agricultural Development Project, where the Bank loan had been fixed at 20 years, thus permitting on average one complete roll-over of funds; there was no reason not to apply the same arrangements for loans to industry as well.

7. The Chairman said that he found difficulty with the argument that the country case for lending to Colombia on long terms should apply also to loans to DFCs. Secondly, he could not accept that financing of medium and long-term agricultural credit in Mexico was comparable to the kind of assistance provided by development finance companies with Bank help in Colombia. In this respect, the question whether or not the Colombian DFCs were permitted to roll over the proceeds of the loan should be disregarded in deciding upon its terms. In response to a question, the Development Finance Companies Department said that the average final maturity of the DFCs' subloans was 8-10 years. Mr. Cope, while sympathetic to the Area Department's position, thought that it was better, in this case, to adhere to the Bank's agreed policy on loans to development finance companies.

8. It was decided that the Bank's normal terms and conditions for loans to development finance companies (i.e. a composite amortization schedule based on the amortization of sub-loans) should apply to the proposed third loan to the five Colombian financerias.

David Pearce
Secretary

Cleared with Messrs. Cope
Gabriel
Mathew

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-20

May 19, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Costa Rica - Proposed Loan for the Instituto Costarricense de Electricidad Project", held in Room A 1212 on April 21, 1969.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

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

LM/M/69-20

May 19, 1969

Minutes of Special Loan Meeting to discuss "Costa Rica - Proposed Loan for the Instituto Costaricense de Electricidad Project", held in Room A 1212 on April 21, at 3:00 p.m.

1. Present: Messrs. Knapp, Cope, Chadenet, Eigen, Huber, Knothe, Knox, Mirza, Nurick, Sear, Sheehan, Vasudevan, Wright and Pearce (Secretary).

2. Issue: The Chairman had called the meeting to discuss various aspects of the proposed loans to the Instituto Costaricense de Electricidad (ICE), respectively $12 million for a power project and $6.4 million for a telecommunications project.

3. Discussion:

(a) Presentation

The Chairman, noting that ICE's expansion program comprised two related but separable projects (power and telecommunications) as reflected in the split of the proposed $18.4 million loan ($12.0 million and $6.4 million respectively) and separate amortization schedules (25 years and 20 years respectively), said that, for purposes of presentation to the Executive Directors, this operation should be formally considered as two projects and two proposed loans. However, in order to save time and unnecessary work, it was agreed that only one President's Report and one Appraisal Report covering both projects would be prepared, accompanied by two sets of loan documents and two Board resolutions.

(b) Grace Periods

The Chairman approved the Area Department's recommendation (area memorandum, paragraph 6) that the proposed grace periods for both loans be extended from 4 to 4½ years and that the appraisal report be amended accordingly.

(c) Preference for domestic suppliers

Noting that materials and equipment contracts amounting to a maximum of $1.8 million equivalent for the power project might be awarded to local suppliers, the Chairman agreed that (i) for purposes of bid evaluation, local suppliers should be granted a preference margin equivalent to the existing tariff or 15%, whichever was lower (as under the previous loan - CR-346), and (ii) that the Bank would be prepared to finance orders won by local suppliers under these conditions. The Chairman added that the President's Report should contain a justification for the eventual local currency financing involved (cf. area memorandum, paragraph 7).

(d) Reimbursement

The meeting noted that, in order to meet the forecast power demand, ICE had started its expansion program about one year ago, and had asked that the Bank loan should cover expenditures on orders placed after the beginning of 1969. The Public Utilities Projects Department added that, to date, orders worth about $360,000 had been placed and that the Executive Directors had been so advised. The Chairman approved the recommendation that up to $1 million be reimbursed to ICE from the proposed loan in respect of payments made under contracts awarded after January 1, 1969; he noted, however, that the amount of such reimbursement might be closer to $360,000 than $1 million.

(e) Procurement

Apropos the telecommunications part of the project, it was recommended that, since it was more economic for ICE to procure equipment in the amount of $1 million from the original suppliers on a negotiated basis to complete existing exchange units to their planned capacity, the Bank should finance such equipment, provided that the prices payable were comparable with the prices on similar equipment procured after international competitive bidding under loan 346-CR and were consistent with price levels established under international competitive bidding for other similar equipment to be procured under the proposed loan. In response to a question, the Public Utilities Projects Department said that (i) it was ICE's normal practice to call for international competitive bidding, and (ii) it would be possible to compare negotiated prices for extended installations with prices for new installations included in the proposed loan. The Chairman approved the recommendation (area memorandum, paragraph 9) and suggested that, if possible, the appraisal report should contain an estimate of how much more it might cost to expand with non-standardized instead of standardized equipment.

Finally, it was suggested in this connection that it should be normal Bank practice to finance equipment procured on a negotiated basis where there were advantages to be obtained from standardization and provided that the above conditions concerning original international competitive bidding and competitiveness of prices were satisfied. The Chairman agreed.

4. Conclusion:

It was agreed that the Bank should proceed with negotiations for the proposed loans to ICE for power and telecommunications projects on the terms set forth in the appraisal report, as amended under paragraph 3(b) above.

Cleared by Mr. Cope, Mr. Knox, Mr. Mirza and Mr. Wright

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Participants

FORM No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-19

May 16, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Ghana - Water Supply and Sewerage Project", held in Room A 1212 on April 1, 1969 at 10:30 a.m.

David Pearce
Secretary
Loan Committee

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Committee:

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

LM/M/69-19
May 16, 1969

Minutes of Special Loan Meeting to discuss "Ghana - Water Supply and Sewerage Project", held in Room A 1212 on April 1, 1969 at 10:30 a.m.

1. Present: Messrs. Knapp (Chairman), Aldewereld, Baum, W. Bennett, Broches, Chaufournier, Cope, Knox, Lu, Rajagopalan, Ram, Shipman and Pearce.

2. Issue: The Chairman had called the meeting to discuss various aspects of the proposed $3.5 million credit for the "Ghana - Accra/Tema Water Supply and Sewerage Project".

3. Discussion: Mr. Cope, drawing attention to Section 2 of the Appraisal Report (entitled Water Supply and Sewerage Sector in Ghana), raised the general issue of a long-term national strategy for Ghana's water supply and sewerage sector. While the Government and the Ghana Water and Sewerage Corporation (GWSC) were rightly giving priority in the proposed project to the requirements of the Accra-Tema metropolitan area, it was evident that the entire sector needed rationalization. Mr. Cope suggested that a national regulatory authority to coordinate and supervise the plans and operations of the various municipal agencies was needed. He enquired whether the Association could not use the proposed Accra-Tema project to influence developments in this direction.

4. The Area and Projects Departments agreed that in principle the Bank Group should normally be involved at the sector level much earlier, before individual projects were finalized. In this case, however, a full scale survey, probably under WHO and/or UNDP auspices, would possibly delay the Accra-Tema project by as much as two years and, for this reason, both Departments were opposed to making the proposed credit conditional upon a sector survey. Mr. Cope replied that this was not his intention. He was recommending that the Association should use its leverage with the proposed credit to urge the undertaking of a sector survey and, ultimately, the establishment of a national regulatory authority. In reply to a question, the Chairman, who agreed with Mr. Cope's recommendation, said that if WHO and/or UNDP felt unable or unwilling to undertake or finance the survey, he saw no objection in principle to adding its cost to the proposed credit. The meeting agreed that the Area and Projects Departments should investigate this point during the period of negotiations.

5. The Chairman, noting the proposal (cf. Appraisal Report, paragraph 5.13) that GWSC assume a debt of NC/20 million with a 20-year term at 6½% interest to repay part of the original amount of credits contracted by the Government for water supply facilities in the Accra-Tema area, asked why this particular amount (i.e. NC/20 million) was recommended.

The Projects Department replied that NC/20 million, which was about half of the $38 million capital expenditures (financed by suppliers' credits) on water supply facilities used in the project area, was the amount which the Projects Department estimated GWSC, whose debt servicing capacity would improve with the implementation of the proposed project, would be able to repay. This obligation would also help to build up GWSC's financial responsibility. Apropos the proposed water rate increase and the project's estimated financial rate of return (8% by 1978), the Projects Department added that both calculations were based on the net (i.e. reduced) value of assets for operations in the project area. Moreover, the original high cost of these assets had been allowed for in reassessing their current value.

6. The Chairman said that, if the purpose of the NC/20 million debt repayment was, at least partly, to encourage financial discipline in GWSC's operations, he preferred that it be made a specific obligation to repay rather than conditional upon the availability of funds, as proposed in the Appraisal Report.

7. Decision: It was agreed that, during the negotiations, the Bank should investigate, in collaboration with WHO and UNDP, possibilities for undertaking a survey of Ghana's water supply and sewerage sector;

N.B. It was subsequently agreed by Messrs. Cope, Chaufournier and Knox that, since GWSC had only recently begun operations, a request for a new review of Ghana's water supply and sewerage sector would be inopportune at this time. Secondly, the Bank would ask to review the terms of reference of a new USAID study which, if properly coordinated with the studies referred to in para. 2.18 of the appraisal report, would hopefully provide the necessary revision of sector priorities recommended by Mr. Cope. Nevertheless, if GWSC did not prove successful in due course, the Bank would propose to the Ghanaian Government a reexamination of the sector's organization.

David Pearce
Secretary

Cleared by: Messrs. Cope
Baum
Chaufournier
Knox

Distribution: Loan Committee
Participants

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-18

May 15, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Meeting to discuss "Indonesia - Highway Project", held in Room A 1212 on May 1, 1969.

David Pearce
Secretary
Loan Committee

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Committee:

Mr. J. Burke Knapp, Chairman
Mr. S.R. Cope, Deputy Chairman
Mr. S. Aldewereld, Vice President
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Executive Vice President (IFC)
Vice President (IFC)

LM/M/69-18
May 15, 1969

Minutes of Special Loan Meeting to discuss the proposed "Indonesia - Highway Project", held in A 1212 on May 1, 1969 at 11 a.m.

1. **Present:** Messrs. Knapp, Cope, Baum, de Silva, Fontein, Hardy, Jones, Malone, Nurick, Sadove, Street, Thalwitz, and Pearce.

2. Issues: The meeting had been called to discuss various aspects of the proposed "Indonesia Highway Project". The draft appraisal report recommended an IDA credit of $28 million representing the foreign procurement costs of the project, which it was hoped to present to the Executive Directors for consideration by June 30.

Discussion:

3. The Project:

(a) The Transportation Projects Department explained that the proposed project was part of a larger national highway plan, the first stage of which involved the rehabilitation of about 12,500 kilometers of existing priority roads at an estimated cost of Rp. 37.2 billion ($112 million equivalent). The second stage of the plan, involving major improvements and the construction of new links, was presently being prepared by consultants.

(b) The immediate objective of the proposed project was:

(i) rehabilitation of about 3000 kilometers of high priority roads and improvement of routine and periodic maintenance in five provinces;

(ii) improvement of routine and periodic maintenance in an additional fifteen provinces;

(iii) rehabilitation of workshop facilities in the twenty provinces noted above;

(iv) establishment of pilot schemes in three provinces;

(v) introduction of inventory and costing techniques;

(vi) technical assistance to support all these operations.

(c) The project would thus make an impact in twenty of Indonesia's twenty-six provinces; the remaining six did not have a significant highway system at this time. The five provinces scheduled for rehabilitation works had been selected on the basis of

(i) the need to rehabilitate the maximum length of road; and

(ii) on the desirability of achieving the widest possible impact throughout the country, compatible with present financial and organizational constraints. The amount of rehabilitation required in these provinces was sufficiently large to ensure full utilization of complete equipment teams, which were not divisible without incurring substantial diseconomies.

(d) The transportation Projects Department added that the Project's limited but essential purpose was to help restore and maintain existing priority roads in a minimum acceptable condition. It thus represented the basic maintenance, rehabilitation and technical assistance package required in present circumstances.

4. Amount of Credit:

(a) The meeting noted the difference between the amount of the proposed credit (US $28 million) representing total foreign cash procurement, and the notional foreign component (about US $16 million) representing depreciation of equipment, materials and cost of technical services during the four-year project period. It was agreed that the presentation would be clarified in the revised draft appraisal report.

(b) The amount of the credit had been computed on the basis of:

(i) a revised expectation of the amount of IDA funds available for this project, and

(ii) the minimum economic cost of the maintenance and rehabilitation received, within the constraints noted above. IDA would finance the entire foreign procurement costs of the project and would disburse funds on the basis of 100% of the foreign cost of equipment and materials procured and actual foreign exchange payments made to consultants retained to provide technical support. The Government proposed to provide the local funds required for the project and to finance recurrent expenditures for maintaining the project roads. Agreement on the points would be confirmed during negotiations. In the event that IDA funds in the proposed amount were not available, the balance would be financed by bilateral donors. The Chairman said that, for present planning purposes, the credit should be negotiated on the assumption of the full amount proposed, namely $28 million.

5. Procurement

(a) The meeting noted that, with the exception of hand tools for twenty workshops amounting to about $75,000, all equipment and materials would be procured in accordance with standard Bank/IDA procedures. The Chairman agreed that local procurement of hand tools, for the reason stated in paragraph 4.26 of the draft appraisal report, was justified.

(b) Drawing attention to paragraph 4.29 of the draft appraisal report, the Projects Department said that all project works would be executed departmentally, since the type of operations included and their widely scattered locations made them unsuitable for normal contract procedures. The Chairman suggested that the justification for this approach in the appraisal report should be strengthened, with reference to Indonesia's special circumstances.

6. Apropos paragraph 6.01(vii) of the draft appraisal report, the meeting noted that army highway equipment and engineering services, while not included in the proposed project, would be utilized on other project works of economic importance, in accordance with priorities currently being established by the consultants. It was proposed that a covenant covering this point should be included in the Credit Agreement. The Chairman agreed and suggested that references to the army should be replaced by "government", where appropriate in the Credit documents.

7. Conclusion: The Chairman agreed that, in the special circumstances of this project, negotiations should commence in the immediate future and proceed on the basis of a revised draft appraisal report which would be circulated to the Loan Committee for information and comment.

David Pearce
Secretary

Cleared with Messrs. Knapp
de Silva
Hardy

Distribution: Loan Committee
Participants

Form No. 60
(4-68)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LM/M/69-17
May 12, 1969

MEMORANDUM TO THE LOAN COMMITTEE

Attached for information are the Minutes of a Special Loan Committee Meeting to discuss various aspects of the proposed Agriculture Credit Project in Colombia, held in Room A 1212 on April 18, 1969 at 2:30 p.m.

David Pearce
Secretary
Loan Committee

- DISTRIBUTION -

Committee:

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

Copies for Information:

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

LM/M/69-17
May 12, 1969

Minutes of Special Loan Meeting to discuss "Colombia - Agriculture Credit Project", held in Room A 1212 on April 18, 1969 at 2:30 p.m.

1. Present: Messrs. Knapp, Cope, Alter, Asser, Baum, Berg, Evans, Frost, Gerring, Goffin, Spall and Pearce.

2. Issues: The Chairman had called the meeting to discuss (a) the amount of the proposed loan, (b) procurement of various kinds of goods required for the project, and (c) the borrower.

3. Discussion - Issue (a): The Chairman, drawing attention to the alternative financing plans and loan amounts recommended in the appraisal report and area memorandum (respectively $12.4 million, covering the foreign exchange component, equivalent to 29% of total project costs and $17.3 million, including some local currency financing, equivalent to 41% of project costs), inquired whether in either case, the proposed loan should help finance working capital ($3.2 million or 15% of the loan under alternative I and $5.1 million or 24% of the loan under alternative II). Moreover, it was not clear why working capital ($21.2 million) accounted for such a large proportion (50%) of the project's total cost. The Chairman also asked how the amount of the proposed loan, and its allocation to the various categories of project expenditures, had been computed.

4. The Area and Agriculture Projects Department explained that (i) the proposed credit program was, in effect, a project superimposed upon the present supply and use of credit and upon INCORA's already existing investment plan for agricultural development in Tolima and Valle, where capital was supplied by local sources; accordingly, the $21.2 million working capital included in the project was incremental working capital, i.e., the total required to finance incremental seasonal inputs over the development period; (ii) this large amount of incremental working capital was essential to achieve the project's production objectives and to maximize returns on investments considered as a package. The Chairman replied that, in his view, there was a distinction, so far as Bank financing of short-term seasonal credit was concerned, between the physical input needs of primitive (African) agricultural economies, where there was no local capital, and the relatively sophisticated requirements of Colombian farmers, who could be expected to raise their own short-term credit. However, since incremental working capital on the scale proposed was recognized to be necessary, the Chairman suggested that its justification should be more clearly stated in the appraisal report; for example, to avoid the impression that the Bank was giving general financial support to a national/regional agricultural credit system, the fact that (i) this was an experimental program in a development area and (ii) that the loan would not replace existing working capital, should be emphasized.

5. Apropos the amount of the proposed loan, the Area and Agriculture Projects Departments said that the \$12.4 million alternative would cover foreign exchange costs only. The Area Department, however, noting that there was a strong country case for some Bank financing of local currency expenditures, recommended that the Bank should finance the full foreign exchange cost of credit for on-farm improvements and machinery and contribute equally with INCORA one-half of the incremental working capital required, thus increasing the amount of the loan to about \$17.3 million. While this would eliminate INCORA's original \$2.5 million (55%) participation in the credit required for on-farm improvements and reduce its contribution to working capital credit (from \$7.0 million or 33% to \$5.1 million or 24%), the Area Department said the domestic contribution was already large and that an INCORA contribution of more than 18% of total project costs would run counter to the Bank's broad objectives in Colombia. The Chairman said that he was still concerned about certain aspects of the project's rationale; moreover, in terms of its presentation to the Executive Directors, the varied allocations of the proposed loan to different categories of project expenditures was an additional complication. In the circumstances, he preferred that the Bank's disbursements should be a uniform percentage of all project expenditure categories, if this were feasible.

6. <u>Decision - Issue (a)</u>: The Chairman decided that the Bank should finance 40% of project costs which, it was subsequently calculated, would result in a Bank loan of \$17.0 million. The percentages of Bank financing in each category should be made as uniform as possible.

7. <u>Discussion - Issue (b):</u> The Area and Agriculture Projects Departments stated their respective views with regard to procurement of equipment (implements). The Area Department said that (i) the equipment concerned was available from local manufacturers operating under license from foreign suppliers at competitive prices, (ii) it was administratively extremely difficult for the government to liberalize imports exclusively for the benefit of local dealerships serving the project area, and (iii) the amount involved (\$3.3 million with a foreign exchange cost of \$0.7 million) was relatively small. In view of these considerations, the Area Department favored accepting local procurement of equipment. The Agriculture Projects Department, on the other hand, argued that while there was reasonable competition, local prices were still about 10% above world market prices and in order to ensure international competition, the government should be asked to grant import licenses for equipment to <u>bona fide</u> agents of foreign manufacturers on application and without restriction; in this case, the import duty might have to be increased from 2% to 15% ad valorem to allow local industry the maximum protection acceptable under Bank loan procurement procedures.

8. It was generally agreed that the ideal solution was for the Colombians to abolish import licenses and increase the preference to domestic suppliers to 15%. However, the Area Department said that, in their current balance of payments situation, the Colombians were unlikely to permit liberalization of equipment imports. It was further argued that the Bank had not hitherto insisted upon import liberalization in agricultural credit programs, except where the latter's absence was a serious obstacle to a project's implementation. The Agriculture Projects Department nonetheless felt strongly that liberalization of equipment imports should be discussed during negotiations and only when this possibility had been exhausted should local procurement be accepted. With respect to tractor spares, the Area Department proposed that the Bank should satisfy itself, during negotiations, of the validity of the Government's case that imports of tractor spares could not be liberalized because their classification overlapped with many automobile spares. The Agriculture Projects Department maintained that (i) the current lack of spare parts seriously impeded the efficient use of tractors, (ii) customs arrangements could be designed to differentiate between tractor spares and automobile spares and (iii) it was necessary for import liberalization of spares to extend over a period of 10 years and not just over the disbursement period of the loan.

9. Decision - Issue (b): It was agreed that the question of liberalization of the import of equipment and spares should be put to the Colombians during negotiations and that the Bank should not be prepared to accept present restrictions on imports unless convinced that liberalization was impracticable.

10. Discussion - Issue (c): The Agriculture Projects Department raised the question of the borrower. Following consultation with the Area and Legal Departments, it had been decided that INCORA should be the borrower. The Agriculture Projects Department was not wholly in favor of this and they explained that additional reasons had now emerged to support their contention that the Government should be the borrower, re-lending funds to INCORA on the same terms as those received from the Bank. In view of information received since the appraisal report was circulated, the Legal Department supported this proposal.

11. Decision - Issue (c): It was agreed that the Government should be the borrower and that it would re-lend funds to INCORA on the same terms as the Bank loan to the Government.

David Pearce
Secretary

Cleared by: Messrs. Knapp
Cope
Evans
Frost
Goffin
Spall

Distribution: Loan Committee
Participants