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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-26

December 27, 1976

Minutes of Loan Committee Meeting to consider "Tunisia-Sidi Salem Multipurpose Project" held on December 2, 1976 in Conference Room E1208

A. Present

Committee:	Others:		
J. Burke Knapp (Chairman)	M. Bart	D. Haynes	C. Polti
Warren C. Baum	D. Knox	G. de Lusignan	F. Laporte
Aron Broches	M. Yudelman	R. Hornstein	E. Elmendorf
G. Gabriel	N. Horsley	G. Le Moigne	R. Cambridge
Martijn J. Paijmans	A. Ray	A. Thys	E. Benjamin
	P. Sella	F. Hotes	A. Maffei
	T. Asser	L. Zamfir	

B. Issues

1. The meeting was called to consider issues emerging from the draft documents submitted to the Loan Committee under cover of Mr. Paijmans' memorandum of November 19, 1976, concerning a proposed $35 million loan to the Republic of Tunisia for the Sidi Salem Multipurpose Project. The meeting also had before it a memorandum of November 30, 1976, from Messrs. Haynes and de Lusignan to Messrs. Knox and Bart reporting on discussions concerning the project in Frankfurt with KfW after distribution of the documents to the Loan Committee. The following issues were discussed:

(i) cooperation with KfW

(ii) project scope

(iii) Medjerda-Cap Bon interconnection canal

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

(iv) Possible lenders' meeting

(v) land reform and cost recovery

C. Discussion

2. Cooperation with KfW. It was noted that KfW's reservations concerning the project had not been substantially resolved, despite lengthy discussions in Washington in October and in Frankfurt in late November. It appeared that KfW's doubts might be related to its experience with the Bou Heurtma project, which has experienced serious delays, partly as a result of its execution through a large number of individual contracts. While the Bou Heurtma project was now moving ahead and sufficient funds were available, it was felt that this experience required not only KfW but also the Bank to pay particularly careful attention to Tunisia's capacity and administrative arrangements for executive of both Bou Heurtma and Sidi Salem. To the extent the Bank could help KfW and Tunisia on Bou Heurtma, it should do so. It was said that in light of the November discussions with KfW, it seemed that KfW expected the Bank to go ahead with its loan and, following receipt of a Bank Appraisal Report, updated after the Bank's negotiations, to submit its proposals on the project to the German Federal Government in February or March, 1977. If KfW's doubts about the project could not be resolved, it appeared that KfW expected to be overruled by the Federal Government.

3. The desirability of ensuring a common KfW-Bank position on the project before negotiating the Bank loan was stressed. However, it was noted that we might be in a vicious circle since KfW might not be willing to express its final views until it had received a revised Bank report prepared in light of our negotiations with the Tunisians. The need to ensure that KfW would procede with the project, before presenting the Bank loan to the Executive Directors, was also stressed. In any case, it was agreed that the Bank should endeavor to associate KfW with its work on the project at all future stages.

4. Project Scope. It was noted that KfW attached importance to making arrangements, in negotiating the KfW and Bank loans, to finance and execute the totality of the first stage of the Northern Tunisia Water Master Plan, but that the Bank was proposing to consider cutting the project to facilitate arrangement of the financing plan. Since funds for the Cap Bon irrigation area and for the citrus rehabilitation area were needed only some years hence, it was asked whether these components could be cut from the project and the commitment of Bank funds to the citrus rehabilitation program deferred. In reply it was pointed out that, while the new Cap Bon irrigation area was not needed to justify the first stage of the Water Master Plan economically, the citrus plantation rehabilitation was required; thus, the EMENA Region strongly preferred to work out a full financing plan now and for the entirety of the project and would only revert to the alternative project if this could not be worked out within a reasonable period of time.

5. Medjerda-Cap Bon interconnection canal. It was noted that considerable work remained to be done before final arrangements could be completed for financing and execution of the Medjerda-Cap Bon interconnection canal. The EMENA Region pointed out that preliminary, as yet insufficient, data had been received from the Tunisians on the Chinese approach to the canal; further information was being requested. It was noted that the Tunisian authorities wished to see the Bank associated technically with the execution of the entirety of the first stage of the Water Master Plan; it was nonetheless agreed that the Bank should ensure that the possibilities for conflict between the Bank and the Peoples' Republic of China are minimized.

6. Possible lenders' meeting. It was noted that for some time KfW had been urging the organization of a meeting of lenders, to ensure adequate coordination, but that, as a result of the number and variety of partners, this might be extremely difficult to arrange. It was agreed that the Bank would encourage the Tunisian Government to organize and chair a lenders' meeting, but that the Bank should not try to organize one itself. However, before any lenders' meeting was held, the Bank should endeavor to ensure that it and KfW would take consistent positions at the meeting.

7. Land reform and cost recovery. It was agreed that the Bank should reach agreement during negotiations on a maximum holding size in the project area and that, before negotiations, Section 4.02 of the draft Loan Agreement would be made more explicit on cost recovery to ensure that as much as possible of project cost is recovered consistent with the ability to pay of the beneficiaries.

C. Conslusions and next steps

8. It was agreed that, before negotiating the proposed loan, the EMENA Region would organize discussions with the Tunisian authorities on the project, in which KfW would be encouraged to participate; to this end the Region was authorized, if it wished, to release the green cover Appraisal Report and, if appropriate, draft legal documents to the Tunisians. The discussions would aim at clarifying issues, collecting further data and facilitating subsequent negotiations. In light of the discussions, a lenders' meeting might be held (see para. 6). A memorandum on the results of these discussions will be prepared and transmitted to the Loan Committee by the EMENA Region for further consideration as to proceeding with the negotiation of the proposed Bank loan.

Cleared by Messrs. Knapp
Baum
Broches
Gabriel
Paijmans

AEElmendorf/RACambridge:be:jmd

Chron.

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(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-25

December 14, 1976

Minutes of Loan Committee Meeting to consider the Jordan-Phosphate Mining/Integrated Transport Project held on November 23, 1976, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren Baum
A. Broches
M. Hattori

Others:

N. Horsley
R. Dosik
M. Paijmans
M. Bart
D. Knox
H. Fuchs
W. Siebeck
H. Cash
J. Guillot-Lageat
A. Maffei
C. Lorenz
A. Hilton
E. Njomo

B. Issues

1. The meeting was called to review the Jordanian proposals for the security arrangements for the above project contained in a letter dated November 9, 1976, to Mr. Benjenk from Dr. Hanna Odeh, President of the National Planning Council.

2. The Region reported that the Bank's earlier proposal for a security arrangement approved by the Loan Committee, which had called for the channelling of the proceeds of $30 million of contracts per annum through an account in an external depository and the maintenance of at least one debt service payment in favor of the Bank at all times in that account, had not been accepted by the Jordanian Government which felt that:

(a) it would erode Jordan's creditworthiness which the country was eager to enhance, particularly with commercial banks:

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COMMITTEE

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

OTHERS

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

(b) it was likely to entail considerable costs particularly since other lenders could and would insist on the same or similar arrangements; and

(c) Central Bank regulations did not permit Jordanian enterprises to maintain accounts outside of Jordan.

3. The new Jordanian proposal which called for the mining company (JPMC) to pledge funds or bonds to the Bank in an external depository in an amount equal to three semi-annual installments for a period of about five years was in the Region's view a step towards meeting the Bank's security needs although the proposed limitation to five years which we presumed from Dr. Odeh's letter, the Jordanians wanted to date from signing, raised doubt as to whether this arrangement was to cover JPMC's repayment obligation or only to provide some performance guarantee. The meeting noted that the arrangements now proposed would provide more security to the Bank especially during a temporary interruption of production than had the earlier proposal approved by the Loan Committee. The new proposal would secure at least three debt service payments, the former one only between one and two. It was also noted that the now proposed arrangements would immobilize a higher amount of JPMC funds and that it lacked the dynamic flow-through character of the earlier proposal.

4. The Region proposed to suggest to the Jordanians to negotiate on the basis of their new proposal, but to make it clear that the proposed arrangements would have to be valid over the life time of the loan although they might be reviewed for instance 5 years after the expiration of the grace period. The Chairman agreed subject to Mr. McNamara's approval (which he subsequently obtained). He added that the Bank may want to later reduce the amount of the security arrangement if a review in due course suggested that the country's creditworthiness had improved.

5. The Chairman further concluded that the security arrangement to be agreed upon would have to be fully disclosed in the Board documents. Should they be included in a separate agreement, this agreement would also have to be submitted to the Board. He also suggested that in order to maintain the external account and service the Bank loan, the Region should insist on JPMC's obtaining a foreign exchange license from the Central Bank which would permit it to retain foreign exchange revenues from its sales and engage in foreign exchange transactions to the extent necessary to service directly the Bank loan, as well as to implement the security arrangement. The Legal Department indicated that careful consideration would have to be given to the banking laws of the country where the external depository would be located that it may be necessary to incorporate fully into the Loan Agreement any agreement reached on the security arrangements between the Bank and the Borrower.

6. Concerning the possible implications of such arrangement on negative pledge clauses contained in agreements previously concluded by Jordan or JPMC, the Legal Department indicated that it would pursue its

research but that a letter of representation supported by such data as was collected might be acceptable. Preliminary investigations, however, have indicated that it may be necessary to obtain waivers from other lenders, without which either JPMC or Jordan might have to provide them with equivalent security.

Cleared by Messrs: Knapp
Baum
Broches

ENjomo/WESiebeck/RACambridge:jmd

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-24

December 2, 1976

Minutes of Loan Committee Meeting to consider "Pakistan-Tenth Railway Project" held on November 11, 1976 in Conference Room E1208

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WBG ARCHIVES

A. Present

Committee	Others
J. Burke Knapp (Chairman)	N. Horsley
A. Broches	V. Rajagopalan
W. C. Baum	B. Shields
M. G. Blobel	M. S. Nanjundiah
M. Hattori	C. M. Southall
	H. Darmawi
	R. A. Cambridge
	Y. Abel

B. Issues

1. The meeting was called to consider the appropriateness of including in the main draft Credit Agreement, as submitted to the Loan Committee under cover of Mr. Blobel's memorandum of November 5, 1976, the Plan of Action as proposed.

C. Discussion

2. The Chairman pointed out that legal documents should, in principle, include only undertakings which were considered important for the success of the project and with which the borrower could be reasonably expected to comply. In this particular case, he thought the Plan of Action addressed issues that were of great importance, both generally in the context of the Bank's concern over domestic resource mobilization and more efficient use of available resources in Pakistan, and specifically to the success of the project.

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COMMITTEE

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

OTHERS

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

3. The Vice President and General Counsel pointed out that the Loan Committee papers had left him with the impression that there was substantial uncertainty as to the ability, political or otherwise, of the Government and Pakistan Railways to carry out the plan of action, and that a covenant of this effect was in reality no more than a "best efforts" clause. He voiced misgivings at the possibility of misleading the Executive Directors as to what was really involved, and the likelihood of default on the part of the Borrower. The Region explained that the specific measures outlined in the Plan of Action had been fully discussed with the Government and the railways and were reasonable. Moreover, Section 3.04 of the draft Credit Agreement provided for an annual review by the Borrower and the Bank of progress made in carrying out the Plan of Action and of the action to be taken for the purpose of attaining the targets included in the Plan of Action. These annual reviews would afford an opportunity to ascertain whether the borrower was acting in accordance with the intent of the Plan of Action. It would be prepared to agree to specific targets being amended if a convincing case was presented.

4. Responding to the Chairman's enquiry, the Acting Regional Vice President explained that the specific undertakings included in the proposed project, e.g. proposals to increase passenger fares and to improve railways operational efficiency, were in accordance with our lending strategy toward Pakistan. He stated that the Region would be prepared to proceed with the proposed loan/credit only if during negotiations agreement was reached on the Plan of Action substantially as presently proposed.

5. The Vice President, Projects Staff, stated that experience from past lending to various railways had pointed to the need for clearly defined and agreed action programs as a complement to the investment programs being financed. Otherwise, there was a risk of wasting considerable sums of money. He thought that the Plan of Action as drafted in the Credit Agreement might have been even more specific than it was in terms of the actions to be taken as distinct from the setting of targets. He endorsed the original proposal to include the Plan of Action in the Credit Agreement.

6. The Acting Regional Vice President mentioned that as an alternative to the inclusion of the Plan of Action itself in the loan/credit agreements, a new, general clause could be inserted in the Description of the Project to the effect that the objective of the Project was, within the limits of the agreed Investment Plan, to expand freight-carrying capacity by 6% p.a. in line with projected demand. In that case, the specific Plan of Action required to achieve that objective could be made the subject of a supplementary letter.

D. Conclusion

7. After further discussion of the draft Credit documents and the annual review mechanism, it was decided that the Plan of Action should be retained in the loan/credit agreements substantially as initially drafted. The Committee also approved the recommendation that negotiators be invited on the terms and conditions proposed by the Region.

Cleared by Messrs: Knapp
Broches
Baum
Blobel
Hattori

YAbel/RACambridge:jmd

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-23

November 3, 1976

Minutes of Loan Committee Meeting to consider "Turkey-South Antalya Tourism Infrastructure Project" held on May 11, 1976, in Conference Room E1208.

A. Present

Committee:

W. C. Baum (Chairman)
W. A. Wapenhans
H. van der Tak
A. Broches

Others:

M. P. Bart
S. M. Tolbert
H. Pollan
A. Gue
A. Davar
A. Odone
A. Vaidyanathan
R. A. Cambridge
I. Christie
A. Maffei
F. de la Balze

B. Issues

1. The meeting was called to consider the issues emerging from the draft documents submitted to the Loan Committee under cover of Mr. Wapenhans' memorandum of May 5, 1976, for approval to negotiate a proposed US$26 million loan for Turkey South Antalya Tourism Infrastructure Project. The following issues were considered.

(a) How much land is needed to ensure a maximum ERR of 12% and how will the necessary land be made available in time to ensure successful completion of the project?

(b) What is the legal basis of the Master Plan? How is the expropriation law applied to tourism development in Turkey?

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COMMITTEE

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

OTHERS

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

(c) How will speculation be effectively controlled in the project area?

(d) Is the condition of disbursement for the funds earmarked for the Kiziltepe site necessary?

C. Discussion

2. Land Availability

The Tourism Projects Department confirmed that development of land presently owned by the Government (excluding parcels in Kiziltepe) will ensure a minimum ERR of 12% on the project investment. It was agreed that tourism development of the remaining available lands was an issue that required immediate attention. The Chairman felt that the expedient acquisition of these lands was the best way of ensuring a successful project. It was agreed that alternate strategies for development of the land might be: (1) Government acquisition of the land through purchase or expropriation; or (2) regulated and controlled private development.

3. Legal Basis of the Master Plan

According to the General Counsel, the Bank needed to clarify the legal basis for enforcing the South Antalya Master Plan regulations before moving ahead with this project. Further, he felt more background was needed on the expropriation law and its specific application to tourism development in Turkey. The Chairman agreed that more information on the project's legal issues was needed before the Bank could take a position. The Tourism Projects Department and the Region felt that the Master Plan provided a solid legal basis for regulating development, but they agreed that broader understanding of the law was needed.

4. Limiting Speculation in Project Area

The Chairman asked whether the proposal in Mr. Bart's memorandum of May 5, 1976 (para. 5) would effectively control speculation in the project area.

5. The Region explained that even if the Government did not succeed in acquiring the remaining parcels of land (35 ha.) potential windfall gains by private landowners would be about US$2.5 million which it considered minor given the overall benefits to be realized by the Government, hotel owners and employees. In addition, a capital gains tax and a sales tax on real estate transactions would capture a large part of the windfall gains. The Chairman and the Region proposed investigating the possibility of capturing an additional part of the benefits through a service charge for hotel connections and through surcharges on public utilities in the project area. The General Counsel said that before initiating negotiations, more detailed information was required on the capital gains tax as well as on the preemptive right of the Land Office.

6. The Chairman stated that while he understood that windfall gains might be minor, the Bank should be concerned about land speculation and about excessive windfall profits occurring to private landowners as a result of a Bank financed project, and stated that we should seek a solution which would avoid any speculation.

7. Condition of Disbursement for Kiziltepe

The General Counsel felt that the presentation of evidence that private landowners and hotel investors have entered into agreements for developing a specific parcel of land will be difficult to administer and the Bank might not be able to differentiate between real and speculative transactions. The Region emphasized that the purpose of the condition was to exert additional pressure on the Turkish Government to acquire, or ensure private development of these lands. In light of this fact, the disbursement condition could provide additional leverage.

D. Conclusions

8. The Chairman agreed to the issue of an invitation to negotiate this loan and to the start of negotiations, but said that the Region should report back to the Loan Committee with further information to support a negotiating position on the land question for review by the Loan Committee before negotiating on this topic. In preparation for that Loan Committee review, the Region should make a more thorough investigation of Turkish expropriation laws, capital gains taxes, preemptive rights, and tourism Master Plans. The Chairman felt that a fact-finding mission should depart for Turkey immediately to collect the additional information.

ITChristie/RACambridge:jmd

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-22

October 28, 1976

Minutes of Loan Committee Meeting to consider "Yugoslavia-Proposed Metohija I Multipurpose Project" held on October 20, 1976 in Conference Room E1208

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WBG ARCHIVES

A. Present

Committee	Others	
Munir P. Benjenk (Chairman)	T. M. Asser	G. Kaji
Aron Broches	R. S. Dosik	A. D. Knox
Herman van der Tak	D. R. Garff	G. Le Moigne
K. Georg Gabriel	T. Haile-Mariam	Ms. C. Morin
	D. W. Haynes	M. J. Paijmans
	N. Horsley	M. A. Raczynski
	F. L. Hotes	M. Yudelman

B. Issues

1. The Chairman, referring to the Loan Committee submission of the proposed project, set out the following issues which he believed warranted consideration by the Loan Committee. The first issue related to the irrigation costs per family of $14,800 which were clearly at the higher end of the range. He particularly wished the Committee to examine whether such costs violated any specific policy ceiling and, secondly, even if they were not contrary to specific Bank policy whether a project, which did address itself to the problem of the target population, was justified at such high costs--particularly when the total number of people which had been identified as direct beneficiaries would appear to be limited. The second issue was the question of cost recovery. It was noted that in view of the high development costs and the poverty levels of the beneficiaries, it would only be possible to recover the full operations and maintenance costs and probably a small contribution to capital costs. Was this appropriate?

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

C. Discussion

2. Mr. van der Tak responding to the Chairman's question on Bank policy on irrigation costs replied that the President had recently expressed serious concern about the high cost per family of an irrigation project in another country and given instructions that such projects should be critically examined to ensure that the Bank's aim to reach the maximum possible number of poor would not be frustrated by support of projects with an excessive cost per family. The Agriculture Department, together with the Regions, was assembling relevant data and preparing more specific policy recommendations.

3. As regards the specific project submitted for Loan Committee consideration, while it was clear that the costs per family were high, this issue could not be evaluated in isolation. The benefits might also be very high and tax arrangements might then spread them more widely. In this particular case, however, the economic rate of return was respectable, but not particularly impressive. The high irrigation costs and the justification for the project had to be examined in the context of the limited development alternatives that exist within this particularly poor region of Yugoslavia as well as the country's ability to afford such costs.

4. It was noted that the Province of Kosovo is the least-developed region in Yugoslavia, having per capita incomes below one-third of the national average. The Metohija region, which comprises roughly one-half the land area and about one-half the population of the Province of Kosovo, had per capita incomes which were less than two-thirds that of Kosovo and the particular target population group which the proposed project would address had per capita incomes which were below one-half the average for Kosovo. The Bank, based on a detailed regional development study of Kosovo carried out in 1973, had confirmed the Government's conclusions that development of agriculture and, in particular the improvement of the private farming sector, was probably the only meaningful and feasible path to development for the region. Lacking natural resources other than land and water, development of productive activities outside agriculture was limited to that of processing industries which would require a stable agricultural production base. Within agriculture, given the lack of reliable rainfall, rainfed agriculture was not promising. The need for irrigation development was clear.

5. Given the particular topographical and soil conditions and, more importantly, the social and political barriers to achieving land consolidation, the irrigation system had necessarily to be designed to fit the microparcellized landholdings. It was noted that while all these factors contributed to the high costs, the cost per hectare of $4,700 although high, was not exceptionally higher than in other Bank projects. It was also noted that the "family" which was normally regarded as consisting of five to six persons was, in the case of Kosovo, much larger, comprising of over eight persons.

6. Mr. Knox reconfirmed, during the course of the discussion, that possibilities of redesigning the project, to either reduce costs or reach a large number of people, had been very carefully examined. The choice really was between having irrigation and not having irrigation.

7. Mr. van der Tak said it remained true that high unit cost per family tended to limit the number of people that could be reached. However, medium income countries could better afford, and would be more able to replicate, high-cost projects that were otherwise desirable. In fact, such countries would find it easier to go further and subsidize the beneficiaries by recovering only part of the cost. This would be quite sensible if, as in this case, the beneficiaries were very poor and better alternatives were not available. The limited cost recovery proposed for the project appeared therefore justified.

8. With regard to the ability of the country to afford this high-cost development and the probability that such developments could be replicated to reach, in subsequent stages, additional numbers of the target population, it was noted that not only was Yugoslavia prepared to meet the financing requirements for the project but was prepared to subsidize the operation of the scheme. The resulting resource transfers from the more-developed regions to the less-developed regions in Yugoslavia was in keeping with the central thrust of Yugoslavia's development policy which has been endorsed by the Bank and the Executive Directors. During 1975 well over $200 million, in the form of concessionary Federal Fund credits and budgetary support were made available to Kosovo.

9. Mr. van der Tak suggested that high unit cost levels gave a useful warning signal that questions of affordability should be considered with special care. It would be desirable however to differentiate bench mark levels by country income level in order to reflect their different resource constraints. At any rate such bench marks should not be used by themselves as an investment criterion because they do not consider alternatives, the magnitude of the benefits produced, and the income level of the beneficiaries.

10. There was of course a further policy question which related to the composition of the Bank's lending program. The Bank's present policy was to allocate half of all agricultural lending to rural development projects defined in terms of the major share of benefits going to the poverty target group. This lending program criterion could be further tightened, for example, by limiting the acceptable cost per family of investment in irrigation. Whether this was desirable in order to reach the Bank's objectives needed further examination.

11. Mr. Yudelman added that this project straddled the Bank's objectives in the rural sector. Bank policy for rural development was to raise the productivity and incomes of large numbers of low income producers. For this purpose given the scarcity of capital, it was necessary that costs per beneficiary be low. The other aspect of Bank policy was to finance strategic elements in the rural sector that would have a pervasive impact on growth e.g., financing large-scale storage, export-oriented estates and agro-industries. Special conditions governed the lending to large scale producers, but this was not an issue here. What was an issue was that this project only reached a few small farmers at high unit costs. However, this was not the only gain from this project, which would also serve the second aspect of policy -- a more general impact on growth through its effects on the agro-combinates.

12. In this context the documents presented could have been more specific in indicating the benefits that would flow through the agro-

combinates in the social sector which were significant beneficiaries under the project. The project production, both from the private and social sector irrigation schemes, would yield produce necessary for fuller utilization of the existing processing capacity and create need for additional processing capacity which, in turn, would generate employment and incomes and, in addition, would reduce or eliminate Kosovo's dependence for certain food products from the rest of Yugoslavia and would expand Kosovo's capabilities to export certain items to other parts of Yugoslavia and, probably, abroad. It was recognized that it was difficult to quantify benefits in terms of employment and income gains in the social sector due to the diverse activities of the combinate. It was felt, however, that some orders of magnitude should be presented to give a fairer picture of the impact of the project.

D. Decision

13. The Chairman summed up the views expressed at the meeting. While the Committee felt that the costs of development were indeed high and that a high unit cost level should indeed serve as a warning signal for critical re-examination of such project, it was the concensus of the Committee that, given the lack of alternatives to irrigation development in Kosovo; given that alternative technical solutions which could reduce costs or reach a greater number of beneficiaries had been explored but not discovered; given the acceptable rate of return; given that the country can afford to replicate such investments to reach additional numbers of the target group, and to recover only a small part of the cost from the very poor beneficiaries, there was, in the specific context of Yugoslavia, a justifiable basis for proceeding with the project.

Cleared by Messrs. Benjenk
Broches
van der Tak
Gabriel

DGarff/GKaji/RACambridge:jmd

LOAN COMMITTEE

LC/M/76-21

October 7, 1976

Minutes of Loan Committee Meeting to consider "Argentina-Fourth Highway Project" held on September 26, 1976 in Conference Room E1208.

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
S. van der Meer

Others:

H. van der Tak
G. K. Wiese
C. R. Willoughby
K. G. Gabriel
R. S. Dosik
J. H. Doyen
S. B. Hayden
F. Cabezas
R. A. Cambridge
K. D. Kikuchi
P. N. Taborga

B. Issues

1. The meeting was called to consider the Decision Memorandum of September 7, 1976, on the proposed $100 million loan for the Fourth Highway Project. The Chairman said that the US$25 million development road component of the project constituted sector lending and asked the committee members' opinion on whether it should be included in the project at this time.

C. Discussions

1. Improvement Roads. The meeting agreed that the major component of the project consisting of improvement roads with proposed Bank financing of US$75 million and with an estimated rate of return of above 15%, would constitute a reasonable highway project by itself.

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COMMITTEE

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

OTHERS

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

2. Development Roads. The reappraisal mission attempted to conform the Fourth Highway Project to the Bank's overall objective in its lending to Argentina, namely, that of promoting agricultural exports. While in the field, the mission learned that the Government had, in addition to the improvement roads, a program for roads to open up vast new agricultural areas in the Chaco and Patagonia regions of the country. Because of the relatively early stages of preparation of the program, it was proposed that the feasibility of each development road link be reviewed by the Bank as it became ready; disbursement on that link would be contingent on the results of that review. The meeting agreed that the development road component could only be justified if the Government is, in fact, committed to undertaking a major agricultural development effort in Patagonia and the Chaco. At negotiations, we would have to try to ascertain the status of the Government's commitment to agricultural development in these regions and also whether the feasibility studies of the related development roads can be expected to proceed on a schedule which would warrant the inclusion of this component in the project.

D. Conclusion

3. The meeting concluded that a flexible approach in preparing this project should be maintained. Both the improvement and the development road components will continue to be prepared. The preparation of the improvement road component should proceed as scheduled while the development road component can be considered as a separate project at a later date if necessary. The decision to include or exclude the development road component will be taken at the time of negotiations based on the status of the related agricultural program and the preparation of the feasibility studies.

Cleared by Messrs. van der Tak
Cabezas
van der Meer

KDKikuchi/RACambridge:jmd

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-20

October 5, 1976

Minutes of Loan Committee Meeting to consider "Peru-COFIDE Industrial Credit" held on September 14, 1976 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
G. Alter
A. Broches
G. Gabriel
E. Lerdau

Others

H. van der Tak
D. Gordon
S. van der Meer
A. Rigo
F. Cabezas
R. Nelson
G. Renger
R. Dosik
K. Challa
R. Cambridge
D. von Stauffenberg

B. Issues

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

(i) interpretation of the limit on financing Social Property Enterprises; and

(ii) financial covenants for COFIDE.

C. Discussion and Decisions

2. Limit on Financing Social Property Enterprises. The Committee inquired why the Region proposes agreed minutes of the loan negotiations to the effect that no funds will be pre-allocated to Social Property Enterprises. Regional staff pointed out that this was intended to protect COFIDE from pressure to interpret the proposed upper limit on social property financing (30% of the

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Others in attendance

loan proceeds) as a pre-allocation. The Committee decided that a statement to this effect is not necessary since the loan documents do not mention pre-allocation.

3. Financial Covenants for COFIDE. The General Counsel questioned the reasons for imposing the general financial covenants proposed in Section 4.04 of the Loan Agreement on COFIDE, since through the Fund the Bank loan is already separated financially from COFIDE's other operations. Moreover, it would be difficult to design meaningful financial covenants for an institution whose future role remains undecided. Regional staff explained that the covenants in paragraph 4.04 reflect the project's institution-building objectives which extend beyond the financial requirements of the loan.

4. Referring to the specific problem of assuring appropriate interest rates for COFIDE, the Region proposed an amendment to the draft loan agreement. A new paragraph would be added to Section 4.04(c) providing for periodic reviews of COFIDE's interest rates by the Government, COFIDE and the Bank. The first such review would be held no later than one year after signing and it would examine progress towards positive real levels of interest. A parallel section in the guaranteed agreement would assure the Government's participation. Both COFIDE's local currency lending rates and interest on foreign exchange loans -- including the proceeds of the Bank loan -- would be subject of this review. The Committee decided to eliminate the covenants in Section 4.04(a), (b) and (d) of the draft loan agreement in view of the uncertainty concerning COFIDE's future role. The Committee decided to accept the proposed provisions on interest rates because 4.04(c) as now drafted is still applicable on any likely definition of COFIDE's role. The new section addressing the broader economic implications is desirable in view of the Bank's interest in utilizing lending through DFCs in Peru as a means of dealing with general interest rate policy issues.

5. Other Matters. The Committe questioned the assertion in the draft President's Report that the Fund assures repayment of the Bank loan irrespective of COFIDE's overall financial condition. Regional staff clarified that the Fund offers negative protection in that its assets are only accessible to those creditors channelling their loans through the Fund. Repayment of the Bank loan therefore depends primarily on the quality of the Fund's assets and only if these prove insufficient does the Bank have to rely on COFIDE's payment capacity.

DvonStauffenberg/RACambridge:pat

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/76-19

September 30, 1976

Minutes of Loan Committee Meeting to consider "Burundi-Education" held on September 17, 1976 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren C. Baum
Aron Broches
Georg K. Gabriel
Willi A. Wapenhans

Others:

H. van der Tak
M. H. Wiehen
D. S. Ballantine
J. B. Hendry
G. Pennisi
D. A. Klaus
H. Scheffold
D. Louis

Jean-David Roulet
P. Landell-Mills
J. Schwartz
L. Forget
R. S. Dosik
R. Cambridge
W. Haddad

B. Issues

1. The meeting was called to consider a memorandum by Mr. Ballantine dated September 14, 1976, regarding the proposed Burundi Education project, which argued that for a number of reasons the project would not meet two major objectives of Bank Group Education lending policies, namely:

(i) that there should be at least a minimum basic education for all as fully and as soon as available resources permit and the course of development requires.

(ii) that in the interests of both increased productivity and social equity, educational opportunities should be equalized as fully as possible.

C. Discussion

2. The CPS Education Department developed some of the points made in

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Others in attendance

the September 14 memorandum and stated in particular that Universal Primary Education (UPE) in Burundi could be achieved faster through the application of double shifting and automatic promotion. In addition, the cost of the proposed project, which seemed high in particular with regard to the Government's limited capacity to replicate the project, could be reduced by lowering the construction standards and limiting most of the schools from six to four classes; the project cost could be further reduced by abolishing the proposed construction of staff houses which could be built by the communities instead and the separate workshops facilities, as their expected degree of utilization would be too low to justify their construction. The resulting release of project funds could be used to increase the number of schools, an additional means to achieving UPE within a shorter period.

3. The Eastern Africa Region concurred with the Education Department, CPS, that it would be desirable to provide for a more rapid expansion of educational opportunities in Burundi than was proposed under the project, but believed that the project was a well-conceived effort moving as far in the direction of replicability as could be expected under the existing circumstances. The Region agreed that the introduction of double shifting and automatic promotion might make it possible to use schools more efficiently but the scope of this was not evident at this time and was limited by several features of the Burundi situation. The Region confirmed its agreement that it would request the Government to carry out a study of the desirability and feasibility of introducing these measures. Regarding suggestions in the September 14 memorandum to reduce the cost of the project, the Region confirmed that every effort would be made to keep the design standards of the schools as simple as possible and to make maximum possible use of local materials, taking into account durability and maintenance requirements. This would be closely monitored in the course of project implementation. The Region did not believe on the other hand that a reduction in cost should be achieved by eliminating workshops from the proposed project, since any savings that could be achieved in this respect would be offset by other considerations such as loss of flexibility in school utilization and the fact that this would make it impossible to introduce adult education programs which in Burundi must be conducted during daylight hours. The Region pointed out that workshops were an essential element of several other projects in the Region and confirmed its agreement that the Government would be asked to prepare an adult education program. The Region also objected to the proposal to achieve savings by building 4-room schools in the majority of locations and pointed out that to do so would be tantamount to re-introducing a de facto reduction of the primary course below 6 years, which had recently been adopted by Government with technical advice of UNESCO and other multilateral and bilateral agencies. Finally, the Region pointed out that because of the low population density in the areas where the schools were to be built, it would not be feasible to leave the construction of staff houses to the communities. The Region agreed that the Bank should finance staff houses in special cases only but submitted that Burundi was such a case. With respect to equity, the Region pointed out that great attention had been given to ensure that the project would meet the requirements of Burundi and at the same time conform to the Bank Group's criteria. In particular, the Region confirmed that the location of the schools would be reviewed carefully and that a map giving the first 40 locations would be required before the negotiations.

D. Conclusion

4. The Chairman of the Loan Committee requested the Eastern Africa Region to send him a written statement regarding the arguments presented in

the memorandum by the Education Department (CPS).

E. Postscript

5. The requested memorandum, dated September 22, 1976, was approved by the Chairman of the Loan Committee on September 27, 1976. It was agreed that a supplementary letter would be negotiated reflecting the Government's agreement to carry out studies of automatic promotion and double shifting with technical expertise and under terms of reference both acceptable to the Association.

Cleared by Mr. van der Tak

JSchwartz/RACambridge:jmd

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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LOAN COMMITTEE

LC/M/76-18

September 30, 1976

Minutes of the Loan Committee Meeting to consider "Romania-Ialomita Calmatui Irrigation project" held on August 30, 1976 in Conference Room E1208

A. Present

Committee:	Others	
E. Stern (Chairman)	D. Knox	G. Le Moigne
W. C. Baum	N. Horsley	H. E. Kopp
M. Paijmans	R. Dosik	R. Pepper
P. Sella	D. Haynes	N. Noon
	H. Pollan	R. Cambridge

B. Issue

1. The meeting was called to consider the following issue on which the Loan Committee's views were sought by the Region:

(i) whether or not the Bank should (a) accept the Region's recommendation for disbursement of 100 percent of (foreign or local) expenditures after international competitive bidding up to an aggregate amount equivalent to the (direct and indirect) foreign costs of the project or (b) accept the recommendation of the Central Projects Staff that the Bank should disburse only against the estimated foreign exchange component of each item procured in accordance with Bank Guidelines.

C. Discussion

2. The Central Projects Staff questioned whether the Bank would actually be "financing" only foreign costs when the proposed draft Loan

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Others in attendance

Agreement provided for disbursements of 100 percent of ex-factory costs for goods procured locally following international competitive bidding. They also pointed out that the loan amount was based on the total foreign exchange content of the project, including the indirect foreign exchange content of "reserved" procurement. Yet the Bank did not normally finance direct procurement. The Region noted that Bank practice in Romania and some other countries had separated the question of cost estimation and determination of the loan amount from that of establishing an efficient mechanism for disbursement. The Vice-President, Projects Staff, noted that there appeared to be possible contradiction between the Bank policies governing financing and disbursement, but it was agreed that this question could not be addressed adequately in the context of a single loan proposal.

D. Decision

3. It was decided that:

(i) For this project, negotiations for the proposed loan should be conducted on the basis of the recommendations of the Region; and

(ii) For resolution of the policy issue, the Central Projects Staff, in consultation with the Legal Department, should prepare a more extensive memorandum on the issue.

Cleared by Messrs. Paijmans
Sella

WCBaum/NWNoon/RACambridge:jmd

P.S. At a subsequent informal meeting, which included Messrs. Knapp, Baum, Broches and Knox, the policy issues in 3(ii) above was further explored. This dispenses with the need for a further memorandum on the issue. It was concluded that no changes were required in present Bank policies governing financing and disbursement, or in the form of presentation of these cases to the Executive Directors.

LOAN COMMITTEE

LC/M/76-17

August 31, 1976

Minutes of Loan Committee Meeting to consider "Yugoslavia-Proposed Second Agro-Industries" held on August 3, 1976 in Conference Room E1208

A. Present

Committee	Others	
J. Burke Knapp (Chairman)	M. P. Bart	R. H. Frank
Aaron Broches	A. D. Knox	G. S. Kaji
John A. King	J. W. Paijmans	F. Heidhues
	N. Horsely	M. Schrenk
	D. W. Haynes	Ms. C. M. Morin

B. Issues

1. The meeting was called to consider the role of the interest rate as an allocation mechanism in Yugoslavia and specifically as to the effective role of interest rates on investment decision making at the micro level.

2. In opening the meeting Mr. Knapp commented that he was struck by the radically different view held by the Programs and Projects Divisions on the above question.

C. Discussion

3. Mr. Paijmans explained that under the self-management system allocative decisions were made by discussions and negotiations between the parties involved and interest rates were not accorded any allocative function. While, in practice, the level of interest rates may have some influence on the choice

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of technology at the micro level, such impact was likely to be marginal as there were other major and more decisive factors which entered decision making and which may have a bias towards a more capital-intensive approach. He therefore felt that if there were distortions in the allocative process these would need to be addressed in a much broader context than the pure interest rate issue and to this end we were, as a part of our immediate economic work program which would assess the new plan and planning system, focussing on the question of resource allocation. This, along with the specific study of the role of interest rates in agricultrue, (required under the Agricultural Credit project) would provide as a basis for a policy dialogue which should underly the Bank's approach for lending operations not only in the agricultural sector but also in other sectors. Mr. Paijmans further stated that apart from the questionable merits of addressing ourselves to the interest rate issue in isolation and in the context of a small project we seriously risk, unless we tackle the whole questions of efficient resource allocation as a whole, provoking the Yugoslavs into a position of ideological confrontation with us.

D. Decision

4. Mr. Knapp decided that we would await the findings of the study on the role of the interest rate in agriculture which was expected to be available by about October and would make a decision in the context of the Loan Committee submission of the proposed loan. The question of how the issue would be treated in the Appraisal Report was left to Regional Management.

4. Mr. Broches, referring to paragraph (6) of the Decision Memorandum, expressed the Legal Department's preference for two separate loan agreements. Mr. Knapp decided that there should be two loan agreements, two guarantee agreements and a single appraisal and President's Report, and that this operation would be regarded as two distinct loans. The Yugoslav lending program for FY77 would therefore consist of five projects as opposed to the four indicated in the approved lending program, the amount of which would remain unchanged.

Cleared by Messrs. Broches
King
Horsley

GKaji/RACambridge:jmd

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LOAN COMMITTEE

LC/M/76-16

August 27, 1976

Minutes of Loan Committee Meeting to consider "Brazil - Loans 516-BR and 868-BR, Livestock Development Projects" held on July 20, 1976 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren C. Baum
Adalbert Krieger
Lester Nurick
Masaya Hattori

Others:

U. Aguirre
R. A. Cambridge
R. S. Dosik
G. Luhman
A. Rigo
R. F. Skillings
A. Uhlig
H. Wyss
M. Yudelman

B. Issues

1. The Loan Committee met to consider the Government's decision to refinance, with interest rates negative in real terms, the outstanding balances of subloans made from the proceeds of the Bank's two Livestock loans (516-BR and 868-BR). The Brazilians had recognized that their proposed action was contrary to the spirit of the loan, and had offered to accelerate repayment of the Bank loans (over 5 years), or, alternatively, to have the repayment proceeds applied to disbursements under some other Bank loan to Brazil.

C. Discussion

2. The Region stated that most of the project's investment objectives had been accomplished. However, it considered that the proposed interest rate

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subsidy to the livestock sector was not justified and would result in undue benefits to a generally wealthy group of ranchers. The Chairman expressed the view that the best alternative would be to call for the repayment of both loans immediately. However, his view would be influenced by the Bank's legal position on the matter. The Legal Department informed the meeting that there were no clauses in the Loan Agreements specifically requiring the Borrower to prepay the Bank when the subloans were prepaid.

3. However, the Legal Department wished to study further whether the general covenants of the Loan Agreements and the basis on which the Loan was made provided the Bank with sufficient grounds to premature the loans, and would prepare a note on this subject. The Chairman observed that in the future Loan Agreements for this type of project should contain provisions clearly establishing the Bank's right to be prepaid, if subloans were prepaid and the proceeds were not relent on terms and conditions acceptable to the Bank.

4. In view of the situation, the Chairman considered that a solution combining the two proposals made by the Brazilians would appear to be the best available alternative for the Bank. Consequently, he would favor negotiating new amortization schedules for the outstanding balances under the two livestock loans such that repayment would take place over roughly the same period as an equivalent amount under the two agro-industry loans was expected to be disbursed. He hoped this period would not exceed two years. The approximate matching of repayments with disbursements under the agro-industry loans should help to make the accelerated repayments acceptable to the Brazilians, since that solution was very close to one of their alternative proposals. He considered that the matter should be submitted to the Board for discussion, rather than on a non-objection basis. He agreed, however, with the comment made by members of the Committee that it would not be desirable to link the livestock and the agro-industry operations in the presentation to the Board.

D. Conclusion

5. It was agreed that the staff would submit new notes to the Chairman, reporting on:

(a) the legal position; and

(b) the new amortization schedules that would result if the livestock loans were to repaid roughly pari passu with disbursements under the agro-industries loans.

6. Subsequent to the meeting the above-mentioned notes were submitted to the Chairman. The note on the legal position argued that a good case could be made that the refinancing of sub-loans at negative real interest rates was a violation of the "operating policies and procedures" agreed to in the exchange of letters under the two loans and that therefore the Bank could declare the loans in default. The revised amortization schedules would provide for the repayment of the outstanding balance of Loan 516-BR in three semi-annual installments of about $11.3 million each, ending March 15, 1978

(after the payment of $1.1 million due September 15, 1976), and in the repayment of Loan 868-BR (after cancellation of the approximately $5.5 million undisbursed amount) in four semi-annual installments of about $5.1 million each, ending May 1) 1978. The Chairman agreed that these revised schedules be negotiated with the Brazilians.

Cleared by Messrs. King
Krieger
Sella
Hattori

EESenner/RACambridge:jmd

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LOAN COMMITTEE

LC/M/76-15

July 30, 1976

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Minutes of Loan Committee Meeting to consider "Colombia-Nutrition" held on July 16, 1976 in Conference Room E1208.

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren Baum
L. Nurick
M. Hattori
A. Krieger

Others

P. Glaessner
R. Skillings
A. Favilla
K. Haasjes
R. Dosik

J. Wallis
M. Agarwal
L. Berlin
R. Cambridge

B. Issues

1. The Chairman stated that he had called the meeting after reading the Issues Paper and Decision Memorandum in order to resolve the following questions:

(i) whether the Bank was accepting a time schedule for preparation and appraisal of the project which was undesirable, and doing so because of the desire of the Government of Colombia to initiate the nutrition program during the present Presidential term: and

(ii) whether there were valid reasons for the nutrition program to operate in Departments of the country other than those in which the rural development program would operate.

2. With regard to the Chairman's first question, the LAC Region noted that the Government had accepted the Bank's position that as much as a year

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of additional work might be necessary before the project could be ready for presentation to the Board. Reference was made to the experiment with a coupon distribution system to be carried out in the Cauca region under a recent AID loan, and the Chairman wondered whether the Bank project should not, in view of this, be delayed until the experience from the AID project becomes available. The Agriculture and Rural Development Department responded that the Bank was working closely with AID and that the results of the AID experiment were expected to be available in time to be taken into account in the Bank's final appraisal of its project.

C. Discussion

3. With regard to the second point, the Chairman asked whether locating the nutrition and rural development programs in the same Departments would not produce reciprocal benefits, since the impact of improved nutrition upon the productivity of farm workers would contribute to achievement of the goals of the rural development program. He wondered therefore whether the fact that the two programs were not planned for the same geographic districts reflected merely a political decision of the Government to spread the benefits of public programs widely.

4. The LAC Region explained that there were valid technical reasons for the locational decisions of the Government. In the first place, the rural development program would itself have a favorable impact on nutrition in the Departments where it would operate; this would occur in part because the rural development program would contain certain nutrition elements, and in part because improved incomes in the rural development districts would permit the inhabitants of those districts to consume more and better food. The Government had therefore decided to begin the nutrition program in areas outside the rural development districts where malnutrition was a serious problem. Secondly, a large proportion of the Colombian population suffering from malnutrition resided in cities and the nutrition program would operate in urban as well as rural areas.

5. Furthermore, the proposed project was intended to improve the nutrition of pregnant and lactating women and children under age 4, and therefore the impact on productivity would not be immediate but would result over the long-term as children grew into healthier adults. This was another reason why it was not essential for the nutrition program to operate initially in the rural development districts. Nevertheless, it was the Government's intention to extend the nutrition program to eventually cover the entire country. Moreover, in the short run there would be some synergism between the two programs, as the nutrition program would operate initially close to the rural development districts, and the increased demand for food resulting from the nutrition program would encourage increased output of food and therefore higher productivity in the rural development districts. The Vice President, Projects, pointed out that the recent Board discussion of the Brazil nutrition project had indicated acceptance by the Board of the validity of the Bank's supporting programs to improve the nutrition of mothers and children because of its long-term effect on productivity. While the project would obviously be more effective to the extent that there was a short-run impact on worker productivity, there was no need to be defensive on this point.

6. The Agriculture and Rural Development Department reiterated that it was the Government's intention over time to cover all areas of the country with the nutrition program, and that therefore in time the two programs would coincide. However, there were certain areas such as the North Coast, where, because of such factors as the structure of land tenure, the rural development concept could not presently be applied. Such areas nonetheless had serious problems of malnutrition, and the Government had therefore included such areas in the nutrition program. There were good prospects for success, as the Government was already operating an interesting Program of Applied Nutrition (PINA) which included a delivery system for donated foods and the promotion of vegetable gardens, fish ponds, and crop diversification. The Government had agreed to continue and stress the PINA program, while intending by the end of 1978 to replace donated foods by increased domestic production.

D. Conclusion

7. The Chairman said that the discussion had satisfied his questions, and he instructed the staff to carry on with the preparation and appraisal of the project. He cautioned the staff, however, to avoid committing the Bank to the financing of local costs of the project without further management review, since he felt that a country with Colombia's per capita income should be in a position to finance local costs with domestic resources.

Cleared by Messrs. Knapp
Baum
Krieger
Nurick
Hattori

LHBerlin/RACambridge:jmd

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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LOAN COMMITTEE

LC/M/76-14
July 7, 1976

Minutes of Loan Committee Meeting to consider "Syria First Livestock Development Project" held on June 1, 1976 in Conference Room E1208

A. Present

Committee	Others	
J. Burke Knapp	W. E. Siebeck	A. Gue
H. G. van der Tak	G. Lageat	R. S. Dosik
Aaron Broches	R. H. Frank	R. A. Cambridge
K. G. Gabriel	U. Finzi	

B. Issues

1. The meeting was called to consider the Region's proposal set forth in Mr. Paijmans' memorandum of June 1 to Mr. Knapp that short-term loans for feed purchase under the project should be made available at interest rates of 7.5 or 5.5 percent interest per annum, depending on the income of farmers.

2. The meeting agreed that:

(a) A rate of interest of 7.5 percent would be applied to members of sheep cooperatives with an annual family income of more than $900 equivalent.

(b) A rate of interest of 5.5 percent would be applied to members of cooperatives with an annual family income of less than $900 equivalent (i.e., less than 30 percent of the national average).

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Vice President, Projects Staff	Controller
Regional Vice Presidents	Others in attendance

(c) The Government would carry out a study as proposed in Mr. Paijmans' memorandum; with a view to possible revision of interest rates in the subsector and within two years of review of the application of the income criteria in consultation with the Bank.

3. The meeting further agreed that a full description of the agreement reached with the Syrian delegation on the application of interest rates would be incorporated in Schedule 5 to the Loan Agreement while a side letter would contain all the relevant details of the proposed study and its related monitoring system.

4. Mr. Knapp confirmed his decision to increase the Third Window allocation for this project from $10 million to $12.5 million.

Cleared by Messrs. Knapp
van der Tak
Broches
Gabriel

JGuillot-Lageat/MCarter/RACambridge:jmd

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LOAN COMMITTEE

LC/M/76-13

May 18, 1976

Minutes of Loan Committee Meeting 1/ to consider "Togo/Ivory Coast/Ghana: Cimao Regional Clinker Project" held on May 7, 1976 in Conference Room E1208.

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A. Present

Committee	Others
Warren Baum (Chairman)	K. G. Gabriel
Aaron Broches	R. Dosik
Raymond Goodman	A. Gue
X. de la Renaudiere	R. Hornstein
	J. Chaffey
	G. R. Delaume
	J. C. Duvigneau

B. Issues

1. The meeting was called to consider various aspects of the joint and several guarantee required of the participating governments, identified in a memorandum from Mr. de la Renaudiere to Mr. Baum dated May 6, 1976 under four headings:

(i) cost-overruns;
(ii) power supply;
(iii) joint and several guarantee for loans to CIMAO: and
(iv) guarantee for loans to the governments for quasi-equity.

1/ See also the minutes of the earlier Loan Committee Meeting on the CIMAO Project, LC/M/76-10 dated April 27, 1976.

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Others in attendance

C. Discussion and Conclusion

Cost Overruns

2. Noting that all the financing for the infrastructure component was being provided to Togo directly by various co-lenders, who would reach individual agreement with the government on the financing of any cost overruns for their respective parts of the infrastructure and who did not therefore feel that a joint and several guarantee as proposed by the Bank was required, the Committee agreed that the Bank delegation should be authorized to waive this requirement.

Power Supply

3. Noting the measures which had been included in the project to enable CIMAO to be linked to the existing and planned thermal capacity, additional to the 50 MW contracted to be supplied annually by the Volta River Authority to meet peak loads in Togo (and Benin) from 1978, the Committee agreed with the recommendation that the Bank could be satisfied with an umbrella guarantee covering power supply from Togo alone.

Joint and Several Guarantee of Loans to CIMAO

4. The Committee re-affirmed the position taken by the Bank delegation that there should be a full joint and several guarantee for the financing for the industrial component. The Committee added that it was not opposed to the governments reaching an agreement among themselves on how their respective obligations as joint and several guarantors of the various loans would, in the event of default, be shared among them, but that this should in no way modify the full joint and several guarantee to the Bank.

Guarantee of Loans to the Governments for Quasi-Equity

5. The Committee noted that the recent basic economic mission had concluded that a case could be made for Togo's creditworthiness as a blend country, and that its creditworthiness for additional Bank lending would be well in excess of the $3.5 million of the proposed Bank loan to Togo for its equity in the project. The Committee therefore agreed with the recommendation that the Bank's requirement for joint and several guarantees covering the loans to the governments for their equity contributions should be waived in the event that Ghana withdrew its objection to a joint and several guarantee for the industrial component financing.

Cleared by Messrs. Baum
Broches
Goodman
de la Renaudiere

JChaffey/RACambridge:jmd

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-12

May 17, 1976

Minutes of Loan Committee Meeting to consider "Tunisia-Second Agricultural Credit Project" held on May 5, 1976, in Conference Room E1208

A. Present

Committee:

Warren C. Baum (Chairman)
Aron Broches
W. A. Wapenhans

Others:

H. van der Tak
M. P. Bart
M. Yudelman
G. Wyatt
R. S. Dosik
A. Gue
H. Schulte
R. A. Cambridge
D. Haynes
R. Frank
P. Courbois
A. Rigo
S. Ruggeri
J. Cerych
W. Schelzig
E. Benjamin

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents submitted to the Loan Committee under cover of Mr. Bart's memorandum of April 30, 1976, for approval to negotiate a proposed $10 million loan to BNT for a second agricultural credit project:

(i) project composition;
(ii) terms and conditions of sub-loans;
(iii) institutional arrangements for short term credit;
(iv) BNT audit reports; and
(v) loan amount.

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussion

2. Project Composition. In referring to the proposal that the small/medium farmer credit and the date palm plantations components be dropped from the project if the Government and BNT rejected the 6% rate for this category of sub-borrowers, the Chairman and other Committee members felt that the Region should attempt to negotiate on the basis of a project which would include assistance to small/medium farmers. They noted that a project for large farmers and agro-industries only would not be consistent with Bank objectives and instructed the Region to return to the Loan Committee for further guidance if agreement is not reached during negotiations on including a sufficient small farmers' component in the project.

3. Applicable Credit Policy. The Loan Committee substantially approved the Region's package of proposals, subject to the following adjustments:

(a) Small/Medium Farmers' Definition. While the Committee approved the principle of establishing only two categories of farmer sub-borrowers, it was decided that the small/medium farmers' definition proposed in the loan documents should be reviewed to ensure that the project would address as many small farmers as possible and that the small farmers' credit component would be designed to reach bona fide small farmers. In this context, the Committee endorsed the recommendation outlined in the Loan Committee transmittal memorandum that the proposed pre-project development ceilings for small/medium farmers should be determined on the basis of absolute poverty levels and reduced from an annual per capita income of about $336 to about $200, or whatever level the 1975 consumption survey would indicate as absolute poverty level. New definitions would be worked out during negotiations of maximum farm and herd size for eligibility for the small/medium farm credit component compatible with this absolute poverty criterion. All sub-loans to farmers with a per capita annual income exceeding $200 would bear an 8% interest rate. The Committee decided that, in addition, the Loan Agreement should stipulate that the funds in the small farmer category would be used only for farmers in the rural poverty group as defined by the agreed criteria and that no transfer of funds from one category to another category could be made.

The Committee decided that the Region should simplify the proposed small/medium farmers' package including the proposals on grant policy and assess its impact by calculating the effective rates of interest taking into account the levels of subsidies and grants as well as the period during which interest is not paid. The Region was requested to submit the results of this review to the Loan Committee at the time agreement is reached on a package of incentives with the Tunisians. Finally, the Chairman said that the negotiated package should preferably apply to all FOSDA lending, as recommended in the Appraisal Report, and that if agreement could be reached only on more limited application to the project area only, this would only be acceptable to the Bank if it were feasible to effectively ensure that the project would reach small farmers as newly defined.

(b) Credit Organization. The Committee expressed the view that institutional arrangements, particularly the relationship between BNT and FOSDA, were crucial for effectively channeling credit to small farmers. While the Committee took note of the Government's intention to consolidate short-term credit institutions and programs and to improve their coordination, it urged the Region to press the Government during negotiations to agreeing to a timetable for these arrangements.

The Region was instructed specifically to discuss ways to strengthen the Caisses Locales de Credit Mutuel (CLCM) and possibly the Societes de Caution Mutuelle (SCM) as possible short-term credit channels. The Region agreed to take this up in the context of the ongoing agricultural credit study.

(c) Submission of Agricultural Credit Policy Study. It was agreed that it would be acceptable, as a condition of negotiations that the Government submit to the Bank an official policy statement, rather than the complete draft study on agricultural credit policies required under the Irrigation Rehabilitation project, containing a summary of proposals the Government intends to incorporate in this study. A new schedule for completion of the study as an appropriate follow-up would be worked out during negotiations.

4. BNT Audit. The Committee agreed that as a condition of negotiation, BNT would be required to submit to the Bank the audit report on its end 1974 accounts. Submission of the audit report on end 1975 accounts would be a condition of effectiveness.

5. Loan Amount. The Committee did not consider recommending an increase in the loan amount at this stage. It felt, however, that if agreement were reached with the Government on project composition and sub-loan terms and conditions outlined in the Loan Committee memorandum and above, the Region could include proposals for an increased loan amount in the package that would be submitted to the Loan Committee for approval during negotiations.

6. General Comments. The Chairman of the Loan Committee pointed to the need to harmonize the coverage of the audit and procurement issues in the Appraisal and President's Reports. He also suggested that the gray cover documents should emphasize institution-building elements of the project as well as difficulties experienced by the Bank in the past in providing effective assistance for agriculture and rural development in Tunisia.

Cleared by Messrs. Baum
Broches
Wapenhans

EBenjamin/RACambridge:pat

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-11
April 29, 1976

Minutes of Loan Committee Meeting to consider "Brazil-Second Minas Gerais Water Supply and Sewerage Project" held on April 21, 1976 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren C. Baum
Aron Broches
Raymond J. Goodman
Gunter K. Wiese

Others:

S. M. van der Meer
R. S. Dosik
A. Gue
R. F. Skillings
A. Zavala
A. A. Raizen
J. H. Jennings
R. A. Cambridge
R. L. Costa
L. de Merode
E. Senner
F. Cabezas

B. Issues

1. The meeting was called to consider the following issues emerging from the Loan Committee's review of the Green Cover documents:

(i) whether the proposed second loan should help finance a group of sub-projects completely separate from those partly financed by the first loan (1009-BR);

(ii) whether the proposed loan was appropriately timed;

(iii) whether the amount of the loan should be reduced from \$78 million, the term shortened from 23 years and the Bank participation reduced from the 40% level proposed;

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COMMITTEE

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

OTHERS

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

(iv) whether the estimate of the foreign exchange component of the proposed investments was overstated;

(v) whether the selection criteria, particularly for sub-projects in smaller cities and towns, provided an adequate screening of the implications of execution of the sub-project on COPASA's overall cash flow position; and

(vi) whether the procurement arrangements adequately encouraged foreign participation in bidding.

C. Discussion

2. Definition of Project. The LAC Region staff explained that the number of sub-projects already approved by the Bank required investments exceeding the funds available through the first loan (1009-BR) and the Brazilian financing which that loan supplemented. Mainly in order to allow for continuity in the planning efforts and sub-project approval of the National Housing Bank (BNH) and the state water company (COPASA), and to allow the first loan to be disbursed more quickly, the Region had recommended that the first loan be disbursed against any eligible sub-project until that loan was fully used. The second loan would then continue disbursements against projects only partly financed by the first loan as well as new sub-projects yet to be approved. However, the Committee felt that attaching the Bank loans to successive "time slices" of disbursements was not desirable and that each loan should be associated with full execution of a separate package of sub-projects. It was noted that this would not involve any retroactive financing since virtually all of those sub-projects which are already approved, but would not fit into the first Project, were not yet in the construction and disbursement stage. If any were, they would be financed fully by Brazilian resources.

3. Timing of Operation. It was noted that, while the number of new sub-projects was developing quickly and the first Bank loan was fully committed, COPASA's experience in executing projects was not as fully tested as one might prefer. The Bank had worked very closely in helping COPASA strengthen its management, and important progress had been made. Also, although only a relatively small amount of the first loan had been disbursed, this was partly due to disbursement processing time required by the financial intermediary, BNH. The Bank supervision missions had been satisfied with actual construction progress in Belo Horizonte and other sites visited so far. The Region staff stressed that waiting to get a more complete measure of COPASA's performance before considering another loan would seriously disrupt the continuity in the close institution building effort which had begun. Nevertheless, in light of the very rapid projected increases in COPASA's investment program and the absence of full experience with COPASA's capacity to implement projects successfully, the Committee agreed that the Project to be subject to Bank financing should be scaled-down, although consideration of the loan could proceed without delay.

4. Loan Amount and Terms. To reflect the decisions regarding the project definition and timing, the Committee decided that the amount of the proposed Bank loan should be reduced from $78 million to $40 million. It was also decided to reduce the proposed term from 23 years (including 3 years of grace) to 20 years (including 3 years of grace), in line with the Bank's current efforts to shorten, where possible, repayment periods. In addition,

the Committee decided that the share of the Bank in the financing plan should be reduced from 40% to 30%, in line with the general effort to reduce the Bank's participation in individual projects financed in Brazil and also to reflect a probable reduction in the estimate of the foreign exchange component (see paragraph 5 below).

5. Foreign Exchange Estimate. It was noted that several aspects of the calculation of the foreign exchange component of the project warranted reexamination, as they seemed somewhat high. It was noted that this reexamination, which should be reflected in the Grey Cover documents, would probably lead to an estimate about 5 percentage points lower than the 40% originally stated.

6. Sub-project Selection Criteria. The Committee noted that the main principle underlying the sub-project selection criteria was that the overall financial viability of COPASA should not be prejudiced by the execution of any one sub-project. Sub-projects which by themselves did not fully satisfy all of the rate of return or other tests to be used, could be executed so long as the overall financial performance of COPASA provided adequately for cross-subsidization. After further discussion subsequent to the Committee's meeting, it was agreed that it would be desirable to modify slightly the criteria proposed in the Green Cover documents, mainly with respect to sub-projects in cities with populations of less than 20,000. Namely, to be eligible for Bank financing such sub-projects would, as a minimum, not only have to be the least-cost solution and have a cost per cubic meter of water distributed or sewage collected of not more than 25% above the comparable average in the state (as previously proposed), but would also have to pass the test that execution of the sub-project would not cause COPASA to fail to comply with the proposed overall cash flow requirements. Hence, the ability of COPASA to maintain an adequate overall cash flow would be one of the critical tests in the selection of any sub-project, large or small.

7. Procurement. It was noted that the Bank should try to ensure, in negotiating and supervising the proposed loan, that procurement packages (particularly for equipment) be designed in size and composition to allow maximum international participation in the bidding. The procurement should, as much as possible, be carried out through international bidding. The entire COPASA program for 1977-1979 would be advertised internationally and individual bid packages advertised in the national press with, for all except the smallest packages, notification to embassies in Brazil. It was noted that the documents proposed to exclude equipment packages smaller than $1,000,000 or civil works packages smaller than $1,500,000 from prior Bank approval of bidding documents. These cut-off figures were considered to be too high and it was agreed they should be reduced to no higher than the $700,000 and $1,200,000 figures agreed under the first loan.

D. Conclusion

8. Subject to the modifications noted in paragraphs 2-7 above, the Committee approved the recommendation to invite negotiators on the terms and conditions proposed by the Region.

Cleared by Messrs. Baum
Broches
Goodman
Wiese

EESenner/RACambridge:jmd

Chron file

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-10

April 27, 1976

Minutes of Loan Committee Meeting to consider the Togo/Ivory Coast/Ghana: CIMAO Regional Clinker Project, held on April 14, 1976 in Conference Room E1208.

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WBG ARCHIVES

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren Baum
Aron Broches
Roger Chaufournier
Raymond Goodman

Others:

X. de la Renaudiere
E. P. Wright
L. de Azcarate
R. Dosik
A. Gue
R. Hornstein
L. H. Cash
J. Chaffey
G. R. Delaume
J. C. Duvigneau
M. Y. Meunier
M. H. Payson
A. Raizen
H. Roet
C. H. Walser
A. R. Diwan
R. A. Cambridge

B. Issues

1. The meeting was called to consider the following issues identified in a memorandum from Mr. de la Renaudiere to Mr. Chaufournier dated April 8, 1976, distributed to the Loan Committee:1/

(i) what position the Bank should take if, for any reason, Ghana were unable to borrow for equity directly from the Caisse Centrale (paras. 2 and 3);

(ii) whether, as a fall back position, the Bank should relax the requirement for a joint and several guarantee covering the financing for the industrial component of the project (paras. 3 and 4);

1/ Para. numbers in brackets below refer to paragraph numbers in this memorandum.

DISTRIBUTION

COMMITTEE

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

OTHERS

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

(iii) what further assurances the Bank should seek to strengthen CIMAO's management (paras. 6 and 7); and

(iv) what position the Bank should take with respect to the Togolese Government's rates for onlending the proceeds of loans from other lenders for infrastructure (para. 9).

C. Discussion and Conclusion

Lending to Governments for Equity

2. The Committee endorsed the recommendation of the Region. In the event that Ghana were not to borrow directly from Caisse Centrale, the Ghanaian authorities would have to borrow elsewhere the amount concerned (about $3.3 million, i.e. one third of the Caisse Centrale's approximately $10 million share of the lending for equity).

Joint and Several Guarantees

3. The Committee rejected a notion, mooted by the Ghanaian authorities, that the position of the Ivorian and Ghanaian partners in CIMAO vis-à-vis the Togolese could be compared with that of a foreign private investor in a Bank-financed enclave project. In the latter case, the Bank was generally prepared to release the foreign investor from his financial or other guarantee obligation upon the occurence of political risks such as nationalization by the host country. The Committee felt that, in the CIMAO project, the relationship between the governmental partners was of a different nature and was clearly defined in a Treaty signed by the respective Heads of State. It was also noted that the financing plan for the project had been put together on the assumption that there would be a joint and several guarantee and any relaxation of the guarantee at this stage might jeopardize the financing plan.

4. The Committee concluded that the Bank should maintain its insistence on a joint and several guarantee covering the financing for the industrial component. With respect to the financing of cost overruns, the Committee accepted the Region's recommendation that the Bank should try to obtain the three governments' joint and several guarantee for all cost overrun financing, including that for the infrastructure component.

5. On a related issue raised by the Ghanaian authorities, the Committee felt that the Bank should not be involved in efforts to elaborate in more detail in an Annex to the Treaty, the relationship between the three governments except with respect to the marketing of CIMAO clinker.

Management of CIMAO

6. The Committee noted the measures being taken by the Bank to help establish sound project management and concluded that the Bank should further insist on covenants with CIMAO giving the Bank the right to be consulted on appointments and re-appointments of all senior staff. The Bank should also reserve the right to insist upon extending the period during which Origny would be responsible for CIMAO's management beyond the first full year of operations as required.

Onlending Rates for Infrastructure

7. The Committee cautioned against the Bank seeming to take a position which would be inconsistent with the Bank's policy of ensuring that governments, not project entities, should get the benefit of concessionary financing. However, the Committee recognized the need to spread the benefits of concessionary financing for infrastructure equitably among the three partners and concluded that the Bank should adopt a neutral position with respect to the onlending policies of the co-financiers concerned.

Project Benefits

8. The Committee discussed aspects of the project benefit calculations (draft President's Report, paras. 41 and 42). The Committee agreed with the general approach not to identify separately the benefits accruing to each country. But the Committee asked that the Region review carefully the presentation of the proposed benefits, including the assumption of a shadow price for labour, the question whether the foreign exchange savings argument was pursued consistently in the analysis of benefits and the effect on the economic rate of return of an expansion of the plant.

Cleared by Messrs. Knapp
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Goodman

JChaffey/RACambridge:jmd

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-09

April 23, 1976

Minutes of Loan Committee Meeting to consider "Indonesia - Seventh Irrigation Project" held on March 29, 1976 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren C. Baum
Lester Nurick
Masaya Hattori
Bernard Bell

Others:

J. T. Caparas
R. S. Dosik
A. Golan
A. Gue
F. L. Hotes
G. R. Kaplan
S. S. Kirmani
A. M. Medani
H. Vergin
M. Yudelman

B. Issues

1. The meeting was called to consider the following issues emerging from the draft documents forwarded to the Loan Committee under cover of a March 18, 1976 memorandum from the Acting RVP, East Asia and Pacific:

(i) the inclusion of local cost financing in the proposed loan;

(ii) the implications of the Government's obligation to undertake tertiary development under the first four Bank-assisted irrigation projects (Crs. 127, 195, 220 and 289-IND).

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussion

2. Local Cost Financing. The East Asia and Pacific Region staff explained that, as pointed out in para. 4.19 of the draft Appraisal Report, the Government had indicated that, due to its present budgetary limitations, it could only undertake the tertiary development component of the proposed project if the Bank were to finance 50 percent of total tertiary construction costs. These works have a low (30 percent) foreign exchange component but are essential to the operation of the rehabilitated systems. The Committee, after discussion, decided against financing local costs of tertiary construction but agreed to the Region's proposal that the loan be used to finance 80 percent of the total costs of both foreign and local consultants. This would lead to a loan amount of \$31 million, made up of the total foreign exchange costs of project works (\$20.6 million) and 80 percent of the total costs of consulting services, whether local or foreign (\$10.4 million).

3. Tertiary Development Under Previous Credits. The Region pointed out that the assurances that Government "would complete or would cause tertiary works to be completed," which had been given during the negotiations of Credits 220 and 289, had been given on the understanding by the negotiating parties that it was Government policy that execution of tertiary works (beyond the first 50 meters) would be the responsibility of the farmers, as in the past. The Region emphasized that the demonstrated lack of farmers' response and the experience with the implementation of several pilot tertiary schemes had gradually brought the Government and the Bank to realize the complexity of tertiary development which in most cases involves as many as 400 different ownership units, and is beyond the capacity of the farmers themselves to execute. The Region pointed out that as late as in the negotiations of the Fifth Indonesian Irrigation Project (Credit 514) when Government had, for the first time, agreed to construct tertiaries as part of the project, Government had recorded in the Minutes of Negotiation that in including tertiary construction under the project it did not wish to set a precedent for future irrigation projects since in Indonesia construction of tertiaries is customarily the responsibility of the farmers.

4. The Committee agreed that the Government had accepted the covenants regarding tertiary construction under Credits 220 and 289 in the expectation of being able to enlist the cooperation of the farmers and the belief that the work could be executed by the farmers. In the event, the complexity of the required tertiary improvements caused Government to reconsider their policy position regarding tertiary construction through farmer self-help. Given this background the Committee agreed that the Government should not be treated as being in default on its obligations under Credits 220 and 289.

Cleared by Messrs. Knapp
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Bell

GRKaplan/RACambridge;jmd

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(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

April 14, 1976

LC/M/76-08

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WBG ARCHIVES

Minutes of the Loan Committee Meeting to consider "Portugal - Power VI Project" held on March 17, 1976 in Conference Room E1208

A. Present

Committee	Others	
J. Burke Knapp (Chairman)	G. Wyatt	A. Raizen
W. C. Baum	M. Paijmans	J. Jennings
L. Nurick	Y. Rovani	R. Sheehan
W. A. Wapenhans	J. Fish	R. Cambridge
G. Gabriel	A. Gue	G. de Lusignan
	R. Dosik	F. Chaudhri
	I. Mathai	P. Smith
	B. Russell	

B. Issues

1. The meeting was called to consider the issues mentioned in Mr. Kopp's memorandum of March 10, 1976 and discuss the following questions:

a) whether the Bank can be confident that a new Government will hold the same views toward establishment of the new national power company;

b) whether announcement of a scheme to compensate foreign stockholders could be expected before Board presentation;

DISTRIBUTION

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

c) whether the financial covenant should be of the cash generation type and if a first rate increase should be a condition of effectiveness;

d) whether the project should be defined as the 1976-78 development program;

e) whether there is room for increasing the proposed loan amount; and

f) whether the proposed terms of the loan are appropriate.

c. Discussion

2. Establishment of the National Power Company (NPC) - The Chairman asked if the Region expected the new government, scheduled to take office in late June, to hold the same views toward establishing the NPC as the present government. The Region indicated that there was a consensus on the nationalization of the power sector which was not likely to be affected by subsequent changes of government. The Vice President, Projects Staff, commented that the Portuguese were moving in the right direction with the consolidation of the sector, which it was reasonable to assume a new government would find acceptable. In response to a question by the Vice President, Projects Staff, the Region indicated that the Companhia Portuguese Electricidade (CPE) headed by Mr. Goncalves would negotiate for NPC along with the Government. Mr. Goncalves is President of CPE and participated in previous negotiations with the Bank on earlier loans. The Associate General Counsel felt that we would need to know more as to what the charter contains by the time of negotiations. The Chairman noted that the establishment of the NPC, with a charter satisfactory to the Bank, was a condition of Board presentation. He emphasized, however, that subsequent changes in the charter should be subject to the approval of the Bank.

Compensation to Stockholders

3. The Region reported that of the total nationalized stock in the Power Sector approximately $15.5 million was held by Spanish and Belgian interests. The Decree which nationalized this stock states that compensation will be paid but does not provide details. The Chairman mentioned that our principal concern was compensation to the foreign interests. Since the terms are not yet known the Chairman doubled a quick decision and asked if the compensation scheme could be announced in time to meet the condition of Board presentation. The Region indicated that without re-encouragement of the private sector, economic growth will be even more difficult. Therefore, it was felt that the announcement of a compensation scheme would be made in the near future.

Self-financing

4. In response to a question from the Chairman regarding the financing plan it was noted that historically the power companies secured all their financing, as required, on a cash flow basis rather than a project basis. In view of this and the present country difficulties, it is not surprising that a comprehensive financial plan is not available for the three-year development program to which the proposed Bank loan relates.

The Chairman said the Bank should be prepared to show some flexibility in negotiations on the proposed 30% rate of self-financing in view of the present conditions in the country and the uncertainty about both the investment program and the financing plan. The Central Projects Staff, however, suggested other methods which could be used to ensure appropriate cash generation. The discussion then concentrated on the various financial covenants, including a rate of return covenant, which were possible in lieu of the proposed cash generation covenant requiring 30% self-financing. The Chairman, summing up, indicated a preference for a cash generation type of covenant but asked that the final selection of the financial covenant be made by Messrs. Baum and Wapenhans. Except for the rate increase of an average 25% proposed for 1976, specific rate adjustments would not be spelled out but would be determined by the requirements of the financial covenant.

5. The question of whether implementation of the average rate increase of 25% proposed for 1976 should be a condition of Board presentation or of loan effectiveness was discussed. In view of the difficulty for the present Government to implement the rate increase on the eve of the national elections, the Chairman agreed that the rate increase could be a condition of loan effectiveness and not of Board presentation.

Procurement

6. With respect to the specific list of goods to be identified during negotiations, the Committee concluded that, so far as possible, it should consist of items selected from the 1976-78 program which are likely to be imported and for which international competitive bidding would be effective. The balance of the financing for the items in question should also be assured, and for which financing is assured. Although this might be difficult, the Region hoped to be able to identify such items. Furthermore, the Committee concluded that the Bank project should be defined in terms of specific items and not as the whole 1976-78 development program so as not to make execution of such a large program an obligation under the proposed agreement.

Negative Pledge

7. The Chairman indicated that the recent transactions which pledged gold as security for short term borrowings would not affect this loan since they are commitments prior to the granting of the loan. The effect, if any, would rather relate to past lending to Portugal. The Associate General Counsel said we would want to get the facts regarding the pledges and the matter then reviewed.

Loan Amount

8. The Chairman indicated that if appropriate items could be identified for the list of goods, the proposed loan amount could be increased up to $40 million.

Maturity

9. The Chairman indicated that Portugal being a high income country as demonstrated in the recent Bank Atlas, the period of the loan should

not exceed fifteen years. The Region then referred to other countries with equivalent GNP per capita which obtained loans with twenty-year maturities. Concluding, the Chairman requested a note from the Region on the rationale of the new Atlas formula with respect to Portugal.

Conclusion

10. The Committee decided that:

a) The NPC must be established under a charter satisfactory to the Bank before Board presentation as recommended; any subsequent changes in the charter should be subject to the Bank's approval;

b) a scheme, satisfactory to the Bank, for the compensation of foreign stockholders must be announced before Board presentation as also recommended;

c) the financial covenant to be sought would be decided by Messrs. Baum and Wapenhans;

d) implementation of the average tariff increase of 25% proposed for 1976 would be a condition of loan effectiveness;

e) during negotiations a list of specific, and to the maximum extent possible imported, items to be financed out of the Bank loan should be agreed upon and the project defined accordingly;

f) the loan amount may be increased to a maximum of $40 million if the list of goods can identify sufficient items for foreign procurement; and

g) the period of the loan should be 15 years including three years of grace, however, the Chairman would review this in light of the note on GNP per capita being prepared by the Region.

11. Subsequent to the meeting and pursuant to paragraph 4 and 10(c) above, it was agreed that the financial covenant should be a cash generation type which should aim at the achievement of 30% self-financing by 1977. Nevertheless, if this goal is not feasible, we could agree to a range between 20 and 30 percent provided not less than 30% is achieved by 1979.

Cleared by Messrs. Knapp
Baum
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Wapenhans
Gabriel

PSmith/RACambridge;jmd

Form No. 60
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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-07

March 11, 1976

Minutes of Loan Committee Meeting to consider "Morocco-CIMA Cement Project" held on February 4, 1976 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren Baum
Willi Wapenhans
Lester Nurick

Others:

M. Bart
R. Dosik
G. Wyatt
H. Cash
W. Siebeck
H. Pollan
Y. Duvivier
G. Kalmanoff
G. Delaume
C. Duval
M. Haug
J. Guilliot-Lageat
A. Gue
R. Cambridge
M. Carter

B. Issues

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

(i) the Bank's reaction to any request from the Algerian Government that nationalisation of CIMA's assets be included as an event of acceleration of maturity;

(ii) extension of a preference to Algeria for the purposes of bid evaluation;

(iii) pricing of cement in Morocco;

(iv) retroactive financing; and

(v) guarantee arrangements for the proposed Bank loan.

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussions and Conclusions

2. Nationalisation. The EMENA Region explained that it was likely that the present bilateral agreement between Morocco and Algeria would provide Algeria with protection against nationalisation of CIMA's assets by Morocco; however, in the event that the project could proceed as presently conceived - which was quite uncertain in view of the strained relations between Morocco and Algeria, it was likely that Algeria would press for explicit inclusion of nationalisation as an event of acceleration of maturity of the proposed Bank loan, and for release of Algeria and SNMC from any guarantee obligations, should such an event be invoked. It was agreed that, if pressed, the Bank delegation to negotiations could accept inclusion of nationalisation as an explicit event of acceleration of maturity, with consequent loan repayment by Morocco only.

3. Preference for Algeria. The Chairman expressed the view that it might have been reasonable to extend a preference to Algeria for the purpose of bid evaluation, but agreed with the Region's proposal that the preference should only be extended to Morocco, since no procurement in Algeria is envisaged.

4. Pricing of Cement in Morocco. The Region explained that the objectives of the proposed arrangements for pricing of cement in Morocco were (i) to provide an environment of reasonably stable prices to encourage new investment; (ii) to ensure that new investments could earn a reasonable return, subject to efficient operations while avoiding established producers, who have lower fixed costs, gaining windfall profits; and (iii) to provide incentives to efficient operations. It was explained that a limit of five years on the period during this lump sum payments from the Government could be made to individual producers was proposed to ensure that such producers were not indefinitely reliant upon such payments to ensure profitability. It was agreed that the proposed pricing arrangement was a suitable basis for negotiations.

5. Retroactive Financing. The EMENA Region explained, that the Bank had been closely involved in project formulation and in monitoring procurement arrangements. While major contracts had been let last summer, retroactive financing by the Bank could be limited if Board presentation took place as scheduled, since most retroactive financing would be provided by the Arab Fund. Retroactive financing by the Bank would amount to $3.5 million if board presentation only took place by end-July 1976. It was agreed that if a need for retroactive financing in excess of $3.5 million emerged, proposed retroactive financing should be reviewed again, to ensure that is acceptable.

6. Guarantee Arrangements. The Legal Department explained its view that the amendments to the full joint and several guarantee by Morocco and Algeria, proposed by the EMENA Region, were not acceptable, since they included the possibility that Morocco could, under certain circumstances, be released from its guarantee obligations. Such a release would be in conflict with the Articles of Agreement of the Bank, which require that a full guarantee be provided at all times by the Government of the country in which the project is located. It was agreed that the Legal Department and the EMENA Region would review the matter and submit revised proposals for possible limitations to the full joint and several guarantee to the Loan Committee. Subsequently, revised proposals, set out in the attached memorandum, were endorsed by the Chairman.

Cleared by Messrs. Knapp, Baum, Wapenhans and Nurick

MFCarter/RACambridge:jmd

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-06

March 10, 1976

Minutes of Loan Committee Meeting to consider "Somalia - The Drought Rehabilitation Program - Juba-Shebelli Area Emergency Settlement Scheme" held on February 20, 1976 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
W. C. Baum
A. Broches
K. G. Gabriel
S. Please

Others:

M. Yudelman
G. Darnell
D. Pickering
A. Gue
R. Cambridge
M. Singh
J. Hendry
H. E. Tolley
B. Argyle
P. Sihm
M. Del Buono
K. Myint

B. Issues

1. The meeting was called to consider CPS's views that the available information provided an inadequate basis for the proposed IDA credit of US$8 million for a Drought Rehabilitation Project. The main documents before the Committee were that the draft President's Report (P-1751a-SO) and a memorandum from Mr. Tolley to Mr. Please dated February 18, 1976, "SOMALIA - Proposed Drought Rehabilitation Project -- Views of the Central Projects Staff and Eastern Africa Regional Staff."

C. Discussion

2. The CPS considered that the low estimated level of expected rainfall in the Juba-Shebelli area -- 400 mm per annum as stated in the working level project report -- was definitely marginal for foodgrain production, especially considering the extreme variability of the rainfall and the resulting prospects

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Vice President, Projects Staff
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Senior Operations Adviser
Controller
Others in attendance

for serious drought one year in four. This made rainfed cultivation hazardous, and when combined with inadequate data on soils, hydrology and the agricultural inexperience of former nomads, provided an inadequate basis for the proposed IDA credit. The CPS questioned the capacity of local labor and management to acquire the necessary agricultural knowledge, skills and planting flexibility to organize and conduct successful cultivation under adverse climatic conditions. Furthermore, the proposed heavy investment in mechanical equipment for bush clearing and cultivation raised questions of effective equipment maintenance and of the ultimate disposition of land clearing equipment once the project area's 15,000 hectares of bush have been cleared. These factors presented a very high degree of risk.

3. The Eastern Africa Region staff replied that: (i) the available information on rainfall data from two studies ("Inter-River Economic Exploration," USAID, Washington, D.C. 1961 and a FAO Study, Rome, dated 1967) indicated that there was higher rainfall in the Juba-Shebelli area than had been indicated in the working level project report. The figures given in the project report were interpolated from data from two towns, whereas the FAO report had several 5-12 year readings which supported the USAID Report's assumption of a 500-600 mm rainfall in the project area, although it was emphasized that many additional readings would be necessary in order to obtain firm data. The staff added that many basic conditions for agricultural progress prevail in the interriverine area such as plentiful and relatively flat land, satisfactory climate for plant growth, and several million hectares within the 500-600 mm average rainfall isohyets; (ii) the Somali performance in getting large numbers of nomads transported and settled in the three settlements and the rapid start in land clearing and farming reflected an unusual ability to organize large groups of people; and (iii) Bank staff had assessed very highly the ongoing Somali performance in operating and effectively maintaining old heavy equipment (which has been used to clear and prepare for irrigation about 7,000 hectares of land within a six-month period).

4. The Eastern Africa Region staff also emphasized that the proposed project would be part of a Drought Rehabilitation Program which has three main components (rehabilitation of the Northern rangelands, irrigated cultivation and rainfed cultivation in the Juba-Shebelli settlement area), all of which are complementary within a balanced and speedy rehabilitation effort. The comprehensive program approach exists in the first instance because IDA was able to mobilize additional sources of external finance far larger than the special $8 million IDA allocation available for this project. Since the Arab Fund and the Kuwait Fund committed $20 million each to the Program, each co-financing partner desired to parallel finance that specific Program component best suited to its particular interest, i.e., the Kuwait Fund was interested in livestock and rangelands development, while the Arab Fund wished to support the Government's priority for irrigated agriculture in the settlements. Thus rainfed agriculture remained for IDA financing and although this component was expected to have a lower rate of return than the other two Program components, nevertheless in the view of the regional staff it would stand on its own as an economically viable project. Furthermore, the comprehensive settlement scheme is urgently needed, in order for the settlers to become self-sufficient in food production and to reduce the present heavy drain on Government finances for relief support.

5. The Chairman recognized the special circumstances which led to IDA consideration of a project which had not been appraised in the normal manner, including in particular the fact that the settlers were already on the land and there seem to be no practical alternative of resettling them elsewhere. He enquired, however, whether the high risks involved could be minimized by reducing the amount of the proposed credit. This alternative was discussed but

rejected in view of the loss of benefits resulting from a reduced project scope and the probable adverse impact on the total Program and on the co-financing partners which a reduction in IDA financing would have.

D. Conclusion

6. It was agreed that there were high risks involved in financing this project, since there had not been enough time to carry out normal preparation studies. However, because of the emergency aspects of the Drought Rehabilitation Program, the Loan Committee decided that IDA should proceed with the project as recommended by the Eastern Africa Region in the draft President's Report and designate this operation as an "emergency" project. It was reaffirmed that the project would be presented to the Executive Directors on the basis of a President's Report without an Appraisal Report.

Cleared by Messrs. Knapp
Baum
Broches
Gabriel
Please

KMyint/PMHansen/RACambridge:jmd

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-05

March 3, 1976

Minutes of the Loan Committee Meeting to consider "Syria-Livestock Development Project" held on February 18, 1976, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Warren Baum
Aaron Broches
Gavin Wyatt
M. Hattori

Others:

M. Yudelman
H. van der Tak
D. Haynes
A. Davar
A. Gue
W. Siebeck
D. ffrench-Mullen
G. Soussan
H. van Wersch
W. Hardison
R. Cambridge
J. Guillot-Lageat
M. Carter

B. Issues

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

(i) do the project's main components - expansion of short term credit for supplementary livestock feed purchases and creation of an emergency stock of barley--constitute a development project, particularly in the absence of other project components involving fixed investments?

(ii) is it appropriate for the Bank to finance feed reserves, and what are the implications for possible Bank financing of food stocks for human consumption?

C. Discussion

2. The EMENA Region presented the view that the project constitutes a

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

OTHERS

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

development activity designed to meet the specific needs of Syria. Before Bank involvement in the proposed project, the main development effort by the Syrian Government in the livestock sector had been concentrated on poultry and dairy, based on capital intensive investments. Little attention had been paid to the sheep sub-sector, which is Syria's main livestock asset, accounting for 65 percent of meat production, and providing incomes for semi-nomadic flockowners, who are among the poorer people in Syria. Sheep production is hampered by major interannual fluctuations in rainfall and hence feed availability. The project was aimed at overcoming the main constraints on increased production from the sheep sub-sector, by (i) providing the means for increasing concentrate feed availability, to supplement natural grazing, and fatten lambs and culled sheep; (ii) providing an emergency stock of feed which could be used to feed sheep and reduce the serious losses to the economy during droughts which occur on the average one year in five, and (iii) providing animal health services. The project contains only limited components for fixed investments since there is only limited need for such investments; the nature of extensive sheep raising by nomads precludes the need for major fixed investments, and the warehouses to store the emergency stock of barley already exists or are under construction. The Chairman asked whether the main project components were not merely provision of financing for recurrent costs. The EMENA Region explained that Bank financing of NFRF constituted an incremental contribution to a working capital fund, which would be used to provide short-term credit; establishment of the emergency reserve constituted an investment in stocks of the main input to sheep production, analogous to the investment in stocks of fertilizer for crop production which the Bank had financed under other projects. The EMENA Region emphasized that the proposed project, if approved, was likely to be followed by similar projects involving establishment of feed reserves to assist livestock development in other arid zone countries.

3. The Vice President, CPS, said he supported the project. The NFRF component constituted the provision of short-term credit; while it was true that in other projects the Bank had only financed short-term credit as one project-component, associated with substantial fixed investments, he accepted that major fixed investments were not an appropriate project component in this case. As emphasized in the Agricultural Credit Policy Paper, lack of short-term credit is often a major constraint on increased production, and support of its expansion was an appropriate use of Bank funds. Similarly, while the Bank had not before financed the establishment of a feed stock, he saw no reason why it should not, provided its economic justification could be clearly demonstrated. He felt that the economic analysis presented in the appraisal report could be considerably sharpened, particularly by presenting separate economic returns for each of the project components, and by a clearer explanation of the reasons for establishing an emergency feed stock rather than importing feed when required. In addition, he did not accept the argument that the foreign exchange cost of the emergency feed reserve be calculated on the basis of the opportunity cost of the barley in Syria's foreign trade. The General Counsel said that, in his view, if the principle of financing the emergency reserve were accepted, there was a good case for local cost financing by the Bank. The CPS staff emphasized that the project was designed to benefit semi-nomadic flockowners, a group which it had been impossible to reach through more traditional projects.

4. The Chairman asked whether the proposed project was the most appropriate vehicle for Bank assistance. Would a technical assistance arrangement

not be more appropriate? The EMENA Region emphasized that the project must be looked at as a package; it was most unlikely that the Government would accept the institution building arrangements included in the project without Bank participation in financing NFRF and the emergency feed reserve.

5. The Chairman said that it was important to place discussion of the project in the context of the current discussions on international financing for the creation of food stocks. What would be the implications for the Bank's position in these discussions if the proposed project was approved? Mr. Yudelman explained that Mr. McNamara had cleared a statement he had made at the World Food Conference in 1975, in which he said it would be possible for the Bank to participate in the financing of global food reserve stocks. Whereas our past practice had been to finance only storage facilities, his statement had made clear that the Bank was prepared to consider financing the initial stock as working capital. In any case, in his view, approval of this project, related to animal feed, need not necessarily affect the Bank's approach to financing stocks of food for human consumption. The Vice President, CPS, said that he had no objections to the Bank financing animal feed stocks or food stocks for human consumption. He pointed out that the Bank had no objection to financing a buffer stock for tin and felt that logically our position should be the same for feed and food stocks.

D. Conclusions

6. It was agreed that staff from EMENA Region and CPS would review together the economic analysis of the project, and the justification for establishing the emergency feed reserve rather than importing feed. CPS would also provide a staff member to carry out an inventory analysis to check the proposed target level of the emergency reserve. The project documents would be amended (i) to reflect the usual definition of the foreign exchange cost of the emergency reserve;(ii) to include in the project cost the full cost of feed financed by NFRF, rather than the credit component only, and (iii) to provide that the Bank loan would be disbursed against incremental disbursements by NFRF, rather than total disbursements. The Chairman said that, before an invitation to negotiations could be issued, he wished to review the project again himself in more detail, and to discuss with Mr. McNamara its implications for future Bank activity in the financing of feed and food reserves.

Cleared by Messrs. Knapp
Baum
Broches
Wyatt

MFCarter/RACambridge;jmd

P.S. It was subsequently decided by the President that the Bank should not finance the emergency feed reserve. (see Mr. Knapp's memorandum to Mr. Wapenhans dated March 1, 1976).

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-04

February 17, 1976

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Minutes of the Loan Committee Meeting to consider Philippines - "Second Livestock Project" held on January 29, 1976 in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
Bernard R. Bell
Warren C. Baum

Others:

G. B. Votaw
G. Alter
D. L. Gordon
H. van der Tak
S. S. Kirmani
H. Vergin
E. K. Hawkins
D. Gill
R. Dosik

A. Gue
M. Gould
R. Powell
F. Cabezas
P. Mistry
M. Joshi
R. Cambridge
A. Ocaya

B. Issues

1. The meeting was called to consider issues discussed in Mr. Bell's memorandum to Mr. Knapp, dated January 22, 1976, which recommended that:

(a) The Bank should finance a part of local cost requirements of this project;

(b) The loan should be made to the Government rather than directly to DBP;

(c) The Bank loan should finance retroactive costs;

(d) A revised agreement between DBP and the Bureau of Animal Industry should be concluded six months after signing; and

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COMMITTEE

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Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS

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Senior Operations Adviser
Controller
Others in attendance

(e) The Bank should not insist on an increase in DBP's lending rates as a condition of the proposed loan. Further discussion of this issue was provided in Mr. Alter's memorandum of January 23, 1976.

C. Discussion

2. Mr. Knapp agreed to Mr. Bell's recommendations with respect to issues (a) - (c) above. With respect to issue (b) above, Mr. Knapp accepted the arrangement in this instance recognizing the validity of some of the arguments for it, but cautioned that it was as a rule a bad policy, should not be taken as a precedent and should be avoided. With respect to issue (d), Mr. Knapp decided that the conclusion of the revision in the interagency agreement between the Development Bank of the Philippines and the Bureau of Animal Industry should be a condition of effectiveness of the proposed loan.

Interest rates:

3. The East Asia and Pacific Region explained that since the submission of the documents to the Loan Committee, the President has issued decrees, supplemented by Central Bank circulars, which inter alia raised the existing ceilings on interest rates in the Philippines. Subsequently, Mr. Votaw, in the context of general discussions on a draft economic report and various operational matters, raised with the Secretary of Finance the need to raise interest rates and, specifically, the Government's plans for increasing DBP's lending rates. The Secretary of Finance had reported that the details of the interest rate increases to be applied by government-owned lending institutions, and supporting taxation measures, had yet to be fully worked out; furthermore, the Government considered it unwise and impolitic to decide on an appropriate increase in DBP's lending rates until other implications of the lifting of the interest rate ceilings were clearer. Mr. Alter stressed his view that the market could bear substantially higher interest rates on long-term loans and that were an important institution like DBP to adopt higher deposit and lending rates on long-term operations it would set the stage for more effective financial intermediation. Higher deposit rates would certainly place DBP in a position to mobilize more private savings on a long-term basis and thus become less dependent on government funding. The Region agreed that higher interest rates were desireable but argued that it would not be appropriate to insist on an increase in DBP's interest rates as a condition of the proposed loan; the Government had demonstrated that it was well aware of the issue and it was clearly in the best position to know how and when to introduce such increases. The meeting also noted that DBP had recently raised its relending rates in connection with the Second Industrial Investment Credit project (approved by the Bank's Executive Directors on December 16, 1976) and that there was a reasonable expectation that DBP would adopt further increases in its rates during the coming year. It was also pointed out that given the projected rate of inflation of 7.6 percent, DBP's interest rates in real terms were not unusually low compared to the levels in many other countries. It was also noted that the project provided substantial benefits to lower income farmers and that the Bank had been less insistent on higher interest rates under agricultural credit projects than in the case of industrial projects. It was suggested that these various aspects should be clarified further in the Loan Documents. The Region planned to keep the matter of interest rates under close review, and the Government had agreed to consult further with the Bank on this question during the next six months. Mr. Alter suggested that the Region should define more precisely the objectives it wishes to pursue in these consultations on interest rates, particularly with respect to the spread between short- and long-term rates; both on the mobili-

zation and lending side.

D. Conclusion

4. Subject to the modification concerning conditon of effectiveness noted in paragraph 2 above, the Committee approved the recommendation to invite negotiators on terms and conditions proposed by the Region.

Cleared by Messrs. Knapp
Bell
Baum

AOcaya/MAGould/RACambridge:jmd

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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LOAN COMMITTEE

LC/M/76-03

February 12, 1976

Minutes of the Loan Committee Meeting to consider "Afghanistan - Gas Turbine Power Project" held on January 23, 1976 in Conference Room E-1208

A. Present

Committee

J. Burke Knapp (Chairman)
W. C. Baum
L. Nurick
W. A. Wapenhans
M. Hattori

Others:

G. Wyatt
Y. Rovani
N. Horsley
H. Pollan
J. Fish
P. Sella
V. Antonescu
I. Mathai
E. Moore
A. Gue
R. Dosik
R. Cambridge
R. Sheehan
E. Kopp
H. Iman
W. von Buelow

B. Issues

1. The meeting was called to consider the main issues mentioned in Mr. Paijmans' memorandum of January 8, 1976 and discussed the following questions:

(a) whether the Association can be confident that the joint technical assistance efforts with CIDA will continue to be effective beyond a one-year period and will yield improvements in DABM's performance;

(b) whether the revision of DABM's charter was so important as to justify making it a condition of credit effectiveness instead of a dated undertaking as proposed;

(c) whether the Association should insist on a tariff increase exceeding the proposed 20 percent;

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OTHERS

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Senior Operations Adviser
Controller
Others in attendance

(d) whether the proposed onlending arrangements are adequate;

(e) whether there is room for increasing the proposed credit amount; and

(f) whether the Association should insist that investment for the combined cycle component provided for in the gas turbine contract should be dependent on the Association's approval.

C. Discussion

2. Technical Assistance Program --The Chairman explored whether the Region's confidence as to the continuation of the CIDA technical assistance program beyond the initial one-year period was justified. The Region reported that the project as originally designed placed more emphasis on technical assistance; however, CIDA later agreed to provide a technical assistance program which started in September 1975. The Association, while still preserving important elements of technical assistance, then concentrated more on the financing of a gas turbine project which was proposed by the consultants as representing the only feasible solution to reduce the country's acute electric energy shortage. CIDA originally intended to provide a program with its team directly involved in DABM's management and operations. This, however, was not accepted by the Government so that a trial period of one year was agreed upon. CIDA accepted an advisory role of its team in the expectation that it could still have sufficient impact on DABM. Because of the Government's interest in continuing the program it is also felt that the one-year arrangement would provide more leverage for CIDA compared to a program covering a period of several years right from the beginning. The program would be reviewed after the initial one-year period and would be extended if there were reasonable prospects for positive results. The Loan Committee noted that the proposed legal documents include appropriate provisions to ensure that equivalent services would be made available in case the CIDA program terminates after one year.

3. Charter of DABM -- The Chairman asked whether the revision of DABM's charter was not so important as to justify making it a condition of inviting negotiations or of credit effectivenss. The Region responded that, while revision of the charter was an important part of the technical assistance element of the project, it could only in the longer run be expected to yield substantial improvements in DABM's performance, thus not being material to the execution of the investment project. It may also involve time-consuming bureaucratic steps including the decision of the Cabinet. The Region proposed to seek agreement during negotiations on principles for the charter to be recorded in a supplemental letter. Moreover to makethe revision a condition of credit effectiveness might hold up the award of the main contract, bidding documents for which were being prepared. One suggestion made by the Chairman was that in case the Afghans were unable to revise the charter by the end of the calendar year, the Association should suspend disbursements and that this be explicitly stated in the President's Report. It was concluded that a dated undertaking was sufficient provided the principles of the charter which the Government would agree to during negotiations were found satisfactory to IDA.

4. Financial Covenant -- The Chairman expressed concern about the low rate of return of the project and queried whether the proposed 20 percent increase in tariffs would be sufficient. The Vice President, Projects Staff added that this was the lowest incremental rate of return that he could recall for a Bank project.

The Region noted that this was a high-cost emergency project providing an interim solution to the country's acute electric energy shortage. The present tariff structure, which had not been changed in 20 years, would not be an appropriate basis for providing an indication as to the extent to which consumers were prepared to pay for electric energy and could therefore only marginally be used as a basis for project justification. It was also explained that, if it was assumed that the tariff level would be maintained at 1.2 Afs/kWh until raised to 1.92 Afs/kWh in 1980/81 so as to yield a financial rate of return of 8 percent in that year, the project rate of return would be 7.7 percent. While the Loan Committee agreed to the ultimate financial objective of a minimum 8 percent rate of return, the Committee enquired why intermediate targets could not be proposed and agreed during negotiations. The Region explained that in the absence of any financial statements for the last seven years and until such statements would be prepared with the assistance of consultants, it would be extremely difficult to identify with precision and monitor the various steps in the phased program required to achieve the long-term financial objective of a minimum 8 percent rate of return. Regarding the 20 percent average tariff increase proposed for 1976/77, the Region explained its rationale viz that it would enable DABM to break even in its operations in that year. The Loan Committee felt however that the Association should seek something more than a break-even objective, specifically an average 30 percent tariff increase.

5. Onlending Arrangements -- The Loan Committee noted that there was no justification for the relaxation of the onlending rate.

6. Credit Amount -- As to the credit amount it was felt that on the basis of present estimates the amount was already the upper limit since it covered all foreign expenditures and 90 percent of total project cost. However, if the foreign exchange component turns out to be more than presently estimated, the lending program would not impose an obstacle to increasing the credit amount. The staff was asked to review the cost estimate and to consider the matter further during negotiations.

D. Conclusion

7. The Committee decided that:

(a) the proposed joint technical assistance arrangements are appropriate;

(b) agreement should be reached during negotiations on the principles of the charter which are to be recorded in a supplemental letter; whether establishment of the charter should be a condition of credit effectiveness would be decided depending on the type of charter that the Government agreed to establish;

(c) a minimum financial rate of return of 8 percent was suitable as a long-term financial objective;

(d) the tariffs should be increased by an average of 30 percent instead of 20 percent as a condition of effectiveness;

(e) the onlending arrangements are appropriate and should not be relaxed;

(f) investment for the combined cycle component in the contract should be subject to approval by the Association.

Cleared by: Messrs. Knapp
Baum
Wapenhans
Nurick
Hattori

WvonBuelow/RACambridge:jmd

Form No. 60
(2-73)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-02

February 10, 1976

Minutes of the Loan Committee Meeting to consider "Morocco-Third Education Project" held on January 5, 1976 in Conference Room E1208.

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WBG ARCHIVES

A. Present

Committee:	Others:	
J. Burke Knapp (Chairman)	D. Ballatine	J. Stewart
W. Wapenhans	G. Wyatt	W. Siebeck
H. van der Tak	M. Bart	A. de Capitani
A. Broches	S. El Darwish	J. Guillot-Lageat
G. Gabriel	R. Dosik	R. Prosser
	A. Gue	J. Chevallier
	N. Erder	T. Jones

B. Issues

1. The meeting was called to consider the issues emerging from the draft documents submitted to the Loan Committee, under cover of Mr. Wapenhans' memorandum of December 22, 1975, for approval to negotiate a proposed \$20 million Third Window and \$6 million Bank loan for Morocco-Third Education Project[1]/. These issues were highlighted in a CPS' memorandum dated December 29, 1975 as follows:

(i) arrangements for project implementation in view of the high complexity of the proposed project;

(ii) state of preparation of the proposed project in view of the apparent postponement of key decisions to be taken by the Government late in the project cycle;

(iii) CPS recommended a loan for project preparation only.

1/ It was later decided to allocate \$26 million Third Window funds to finance this project.

DISTRIBUTION

COMMITTEE

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

OTHERS

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

C. Discussion

Arrangements for Project Implementation

2. The Regional Staff explained that since 1973, when the Government finally took required action, implementation of the first and second education projects has proceeded with commendable efficiency. The Project unit had been adequately staffed, both in numbers and level of qualifications. For implementation of the Third Education project, the Project Unit would be further strengthened with local technical staff and with technical assistance personnel. The number of Government agencies involved in the technical implementation of the proposed project would be of about the same magnitude as for the second education project; the Ministries of Tourism and of Health would be added but the Ministry of Labor would be deleted. Given the good implementation performance of the past three years, this should not create problems of coordination within the Moroccan administration. The relationships to be established for project implementation between the Project Unit and the technical services of the Ministries concerned, as detailed in Mr. Bart's memorandum dated December 19, 1975, would not result in the technical services executing tasks beyond their present responsibilities and capabilities. It was agreed that these arrangements would reduce implementation risks of the proposed project to a reasonable level, though it would be necessary during negotiations to examine the detailed implementation procedures for each technical service of the ministries involved and to reach firm agreement on how project implementation would be administered.

State of Preparation of the Proposed Project

3. The Regional Staff explained that the number of project elements had been reduced to take into account the comments made by Central Projects Staff at the decision meeting. In particular, the financing of the whole industrial technical education component, representing about 37% of the original total project cost, had been limited to detailed engineering design, although the Government insisted, and the Bank agreed, that this component was crucial for their education strategy. The Regional Staff further explained that, since appraisal, some critical steps had already been taken by the Government such as the preparation of a detailed "carte scolaire" for the proposed location of the project primary and secondary schools. In view of this, the implementation schedule contained in the appraisal report could be considered rather conservative. In addition, the agreements already reached with the Government on curricula ensured that no delay would occur in the preparation of the architectural designs for the various project institutions, for which financing of construction was recommended. The further assurances to be requested from the Government applied only to specific detailed syllabi and not to broad principles of educational reform. It was true, however, as with education projects generally todate, that actual construction would not start until some 2 years after loan signing.

D. Conclusion

4. The Chairman emphasized his general concern with the state of education projects preparation and insisted on the necessity henceforth for the staff to make all efforts before Board presentation so as to shorten the time period before actual disbursements on these projects would start.

5. However, in light of the discussion, the Chairman declared that he would not rule against proceeding with the present project if the Region's assessment was that its preparation was sufficiently advanced.

Cleared by Messrs. Knapp
Wapenhans
van der Tak
T. Jones for Broches
Gabriel

JChevallier/RACambridge:jmd

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

LOAN COMMITTEE

LC/M/76-01

January 29, 1976

Minutes of the Loan Committee Meeting to consider "Philippines - Third Education Project" held on January 5, 1976, in Conference Room E1208

A. Present

Committee:

J. Burke Knapp (Chairman)
B. Bell
A. Broches
G. Gabriel
H. van der Tak

Others:

D. Ballantine
S.S. Kirmani
G.B. Votaw
H. Vergin
R. S. Dosik
A. Gue
R. Johanson
A. Maffei
A. ter Weele
H. Amin-Arsala

B. Issues

1. The meeting was called to consider the following issues relating to the draft documents submitted to the Loan Committee, December 18, 1975 for approval to negotiate a proposed loan of $25 million to the Republic of the Philippines for a Third Education Project:

(i) should the Bank be financing a project which consists largely of textbooks; and

(ii) whether the loan was being proposed too early in the project cycle?

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COMMITTEE

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

OTHERS

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

A supplemental memorandum by the Region addressing both issues was circulated to members of the Loan Committee on December 31, 1975.

C. Discussion

2. With respect to Issue (i) above, Mr. Knapp said that he had considered the matter further and was satisfied that there was no objection to the Bank's financing a project of the kind proposed.

3. With respect to issue (ii), the Region explained that it did not consider that it was too early in the project cycle to process the proposed loan as the Government was prepared to execute the project rapidly. Indeed some of the textbooks to be produced and distributed under the project have already been developed and are being tested during the current academic year for distribution to schools in the last half of 1976. Regarding the appointment of staff, it was explained that while full staffing of the Textbook Board and Textbook Production Service was necessary for the full implementation of the program and desirable from a long-term institution building view point, short delays in the appointment of some of the staff would not hamper the implementation of the project in its first months. With respect to consultant architects, the structures for which architectural services are provided under the project are relatively simple and sketch plans are currently being prepared by the existing project unit for the Secund Education Project (EDPITAF). Local consultants would be required only to help prepare site plans and final working drawings and supervise construction. Their appointment was not necessary for effective initial use of project funds. Mr. Knapp suggested that we should not disburse for fellowships before the selection criteria, method of selection and programs of study had been agreed.

D. Decision

4. It was agreed that we should proceed with the project, but that the Region should review the loan conditions to determine which should be covenants and which should be simply part of a schedule of implementation to be agreed as part of formal "Minutes of Negotiation" or through some similar device. The negotiating team should ensure that the various instruments were adequate to ensure effective implementation.

5. Subsequent to the meeting it was agreed:

(a) subject to further discussions during negotiations that the appointment of the Secretary General and the Production Chief of the Textbook Board and the manufacturing Chief of the Textbook Production Service be made conditions of effectiveness and that the timing of the appointment of the remaining important staff be set out in a project implementation schedule agreed with the Government, and

(b) that the criteria for selection of fellows and the method of their selection would be agreed during negotiations.

Cleared by Messrs. Knapp
Broches
Gabriel
van der Tak

HAmin-Arsala/MGould/RACambridge:jmd