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To: THE INSPECTION PANEL
International Development Association
700 18th Street, N.W.
Washington, D.C. 20433

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THE INSPECTION PANEL

REQUEST FOR INSPECTION

This is a Request for Inspection (Request) of IDA loans to the Government of Tanzania which violate IDA's Articles of Agreement. The Request is submitted by a group of affected individuals in Tanzania who include the owner and employees of Tannol Holdings Ltd. The affected individuals are referred to as "Tannol." The violations have been brought to the attention of Management. Management has not cured its violations.

Summary

This Request is directed at the financing by the International Development Association (IDA) of an Emergency Power Project (EPP) in Dar es Salaam, Tanzania. The IDA loans for this project, if made, will constitute a failure of IDA to follow the operational policies in Article V Section 1(c), (d) and (g) of the IDA's Articles of Agreement which is a violation of the Bank's policies and procedures of a serious character.

But for IDA's improper intervention, Tannol would have developed a comparable EPP using private capital. In addition, the location of the EPP

raises serious environmental issues related to the delivery of diesel fuel which have not been address by the Government of Tanzania or reviewed by IDA. The approval of the loans for this project will have a material adverse effect on Tannol who have already and will continue to suffer great financial loss and injury.

Facts

Tanzania has historically met its power needs with hydro-electric generators. Because of severe drought, Tanzania has been suffering from frequent blackouts in various areas. In the fall of 1994, Tannol, recognizing the critical need for emergency power which was not being met, requested Electrical Technologies, Inc. ("ETI"), a U.S. company based in Houston, Texas, which specializes in fast track power projects, to play a lead role in constructing and operating an emergency power plant in Dar es Salaam, Tanzania.

On December 15, 1994, the Tannol/ETI proposal was submitted to the Government of Tanzania. The total project cost is estimated to be \$50 million. The Tannol/ETI project could be up and running within 6 months of contract and would be entirely funded by private investment capital.

Since 1992, a consortium composed of two Canadian companies, Ocelot Energy and Transcanada Pipelines ("OTC"), and TANESCO (the government-owned monopoly power company) have been considering a gas field and pipeline project, known as the Songo Songo Project. Under the terms of the Songo Songo Project, OTC will be given a 50% interest in the gas field which is being developed primarily with IDA money. This project includes an electricity generation plant (gas to electricity) to be built in 1997. Unlike the Tannol/ETI proposal, the OTC/TANESCO power project is to be funded in substantial part by IDA loans. The privately-funded Tannol/ETI plant would make this element of the Songo Songo project unnecessary.

After the Tannol/ETI proposal was made to the Government of Tanzania, OTC, for the first time, proposed to accelerate its generator project. However, it had no specific proposal. What was proposed in outline was a project that would burn more costly (diesel) fuel, sell power at a significantly higher price than the Tannol/ETI plant, and offer considerably less power.

The Government of Tanzania retained Bankers Trust to do an independent review of both proposals. In early January 1995, Bankers Trust issued its report which concluded that the Tannol/ETI proposal had a "much

higher likelihood to meet" the government's "current implementation objectives."

Tannol/ETI was informally advised by the Government of Tanzania that it would be given a government mandate to go forward with the EPP on or about January 21, 1995. With the mandate, Tannol/ETI would be in a position to assemble the privately sourced financing.

It is noteworthy that the OTC proposal was originally based on private financing. The Government of Tanzania has acknowledged since 1992 that private sector financing is available for the power plant and the gas field development. Tannol's financial projections confirm that the Tannol project is financable from private sources.

On the day of the inter-ministerial committee to approve the issuance of a mandate to Tannol, Motoo Konishi, the World Bank's permanent representative in Tanzania, delivered a "private and confidential" note to the Ministry of Water, Energy and Minerals the purport of which was to threaten to cut off World Bank aid to Tanzania unless the Canadian OTC project with IDA funding was selected. See Attachment A. Mr. Konishi later is quoted as saying that the Canadians had pressured him to write the letter. The management of the World Bank has not repudiated Mr. Konishi's letter. To

the contrary, Vice President Jaycox is quoted as saying, "Mr. Konishi Motoo did what he was supposed to do, caution the government on the matter."

See Attachment B.

The Konishi letter was promptly brought to the attention of World Bank Management in Washington, D.C. Tannol's Washington counsel was directed to Lowell Doud in the General Counsel's office who led Tannol to believe that the matter would be thoroughly investigated, and that the Konishi letter would either be justified or countermanded. Tannol's counsel was assured that the World Bank's senior staff for East Africa would meet in Washington with the officers of Tannol/ETI before any further action was taken by the World Bank in connection with the Emergency Power Project. Tannol was particularly concerned because of reports that prior to that meeting, World Bank Vice-President for Africa, Edward Jaycox, was going to Tanzania in February 1995 to discuss the Emergency Power Plant project with Tanzanian government officials. The World Bank through Mr. Doud assured Tannol/ETI that Mr. Jaycox would not be involved in Dar es Salaam with Tanzanian officials regarding the Emergency Power Plant.

Contrary to these express representations, on February 15, 1995, the Tanzanian Ministry of Water and Energy announced that the Canadian proposal has been selected and Mr. Jaycox not only endorsed publicly the

views of Mr. Konishi but also apparently committed, on behalf of the World Bank, to improperly divert to the OTC project \$40 million of credits committed to an IDA-funded hydro-electric power project (Power VI). See Attachment B. Immediately thereafter, before any approval by the Executive Directors, a bid solicitation was issued. See Attachment C.

On February 27, 1995, Tannol's Washington counsel met with Lowell Doud and Deputy General Counsel, Andres Rigo and David Khairallah. They said that they had no information in response to Tannol's questions. They suggested that Tannol submit to them its requests and questions in writing. On March 3, 1995, our counsel sent such a letter to Mr. Doud. See Attachment D. Mr. Doud has not satisfactorily addressed the issues raised in that letter. See Attachment E and F.

On March 27, 1995 representatives of ETI and Tannol's counsel met with Mr. Colaco, Director, Eastern Africa Department, Deputy General Counsel Rigo and Ms. Karen Rasmussen, an analyst in the Africa division. We were told at this meeting that the Konishi letter was unauthorized. We were told that under the Bank's procedures no committee report was required to divert funds from Power VI, but that the Board had not yet voted to approve the decision.

We were also advised that IDA funding for the EPP had no direct linkage to the Songo Songo Project, which has not even been appraised. Thus the Konishi letter was not only unauthorized but apparently false.

Finally, we learned that the Bank's staff did no independent appraisal of Tannol's proposal before approving funding for a competitor, but based its position upon false and incomplete information supplied by consultants originally employed to work with OTC on the Songo Songo Project. It was apparent from the meeting that there has never been a careful study of the merits of the two proposals performed by a competent committee aided by an independent consultant specializing in turbine power generation.

Moreover, our representatives pointed out that the location of the EPP station raised serious environmental, health and safety concerns.

Specifically, they showed that supplying fuel to the OTC plant will require two large tanker trucks an hour travelling from the dock through Dar es Salaam carrying flammable diesel fuel to the site 24 hours a day. Of course, the empty trucks will be going back through the city. Forty-eight trucks a day in both directions will seriously damage the roads, create excessive noise and dust, and loaded with a hazardous substance, enhance the potential for serious accidents. Mr. Colaco and his associates were uninterested in the environmental issue. However, we have seen no

evidence of any Environmental Assessment being performed by the Government of Tanzania or the World Bank or, any evidence that the Government of Tanzania consulted with any NGOs from Dar es Salaam to review this important issue.

Mr. Colaco rejected Tannol's proposal to permit Tannol/ETI to supply the Bank with a proper technical and economic comparison of the competing plans. He suggested any such presentations should be made to the Government of Tanzania. However, Mr. Colaco rejected the request to delay any Board action until such a presentation could be made to the Government of Tanzania.

Mr. Colaco made clear that the Bank's management had no intent to review or interest in reviewing or reevaluating the Bank's conduct in connection with and conclusions about the EPP based upon the information that Tannol has provided to date or is prepared to provide now.

On March 29, 1995, our Washington representative wrote Mr. Colaco a letter summarizing our understanding of the meeting. See Attachment G. Mr. Colaco responded on March 31, 1995. Mr. Colaco did not directly contradict the summary set forth in the March 29th letter. See Attachment H.

For these reasons Tannol was unable to resolve its dispute with the Bank's management.

Violations

A. IDA has failed to follow its operational policies as set forth in its Articles of Agreement by:

1. Agreeing to provide IDA funding for a government-owned power plant when a superior private sector power project could be constructed and operated with financing from private sources. Art. V Section 1(c), IDA Articles of Agreement.

2. The announcement of the IDA financing was made prior to a recommendation of a competent committee, made after a careful study of the merits of the proposal. Art. V Section 1(d), IDA Articles of Agreement.

3. The funding is being improperly diverted from the Power VI hydro-electric project and this diversion of funds appears to be the result of political or other non-economic influences. Art. V Section 1(g), IDA Articles of Agreement.

B. IDA has failed to follow its operating policies contained in OMS NO. 2.36, Environmental Aspects of Bank Work ¶ 9(c) and (h) and OD

4.01 Environmental Assessment ¶¶ 2, 14-22 because: the funding of the OTC project threatens to unduly compromise the public health and safety by selection of an unsound site for the project; and no Environmental Assessment has been performed in or were any consultations with affected individuals or NGOs conducted.

Conclusion

The completion by the Government of Tanzania of a contract with Tannol for the privately-funded construction of the EPP was thwarted by the World Bank's improper intervention in support of the IDA-funded OTC project. The World Bank's actions will not only cause enormous financial injury to Tannol, its owners, employees and suppliers but also will substantially slow the development of a viable private industrial sector in Tanzania.

Tannol respectfully submits that the above actions are contrary to the World Bank's policies. They have seriously and adversely affected Tannol's interests. Tannol requests the Inspection Panel to recommend to the Bank's Executive Directors that an investigation of these matters be carried out in order to resolve the problem.

As advised in your Operating Procedures, this Request for Inspection is brief. Tannol can provide you with more particulars. Please copy all communications to our duly appointed representative, Robert M. Beckman, Beckman & Kirstein, 2300 N Street, N.W., Suite 725, Washington, D.C. 20037, (Phone 202-835-3200; Fax 202-835-3219). The urgency of this matter, coupled with the lack of an in-country representative with the background to deal with the World Bank on this matter, required Tannol to retain counsel in Washington, D.C.

DATE: _____

SIGNATURES: See Page Attached

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Tanzania

Attachments: Yes

We authorize you to make this request public: Yes

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