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Economic Committee Papers - R87-157 - Proposed Loan - Tanganyika

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CONFIDENTIAL

**FOR
EXECUTIVE
DIRECTORS'
MEETING**

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APR 05 2024

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For consideration
on November 2, 1967.

R67-157

October 23, 1967

FROM: The Secretary

PROPOSED LOAN - TANGANYIKA - *Tanzania*

1. Attached is the President's Report and Recommendation (P-569) on a proposed loan to the Tanganyika Electric Supply Company, Limited (TANESCO) to be guaranteed by the United Republic of Tanzania.
2. Attached to the President's Report and Recommendation is a report entitled "Appraisal of the Development Program of the Tanganyika Electric Supply Company Limited"(TO-594a).
3. A report entitled "Prospects for Economic Development in Tanzania" (AF-58b) was distributed to the Executive Directors on September 13, 1967 (R67-148).
4. A draft Loan Agreement, draft Guarantee Agreement and the Statutory Committee Report are being circulated as report R67-157-L.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC

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Report No. P-569

APR 05 2024

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO THE

TANGANYIKA ELECTRIC SUPPLY COMPANY, LIMITED

FOR A POWER PROJECT

WITH THE GUARANTEE OF THE

UNITED REPUBLIC OF TANZANIA

October 20, 1967

15. TANESCO has been a profitable undertaking, maintaining in recent years an average return of 6% to 11% on net fixed assets in operation, and paying dividends of between 5-1/2% and 8% on the equity. It is expected that the average return will be in excess of 10% through 1972 and will be maintained at not less than 10% thereafter. Interest coverage which was 4.4 times in 1966 is expected to fall to 2.0 times in 1972 and to rise thereafter.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

16. The draft Loan Agreement between the Bank and TANESCO, the draft Guarantee Agreement between the United Republic of Tanzania and the Bank and the Report of the Committee provided for in Article 3, Section 4(iii) of the Articles of Agreement are being distributed to the Executive Directors separately. Attention is called to the following provisions of these Agreements.

(a) The Commonwealth Development Corporation (CDC) has a loan outstanding to TANESCO secured by a mortgage and charge on certain of TANESCO's assets. The Loan Agreement, therefore, provides for the Bank's loan to be secured in the same manner (Section 5.04). CDC has agreed in principle to let the Bank share in its mortgage, but until formal arrangements for this have been completed, TANESCO may not, without the agreement of the Bank, withdraw more than \$1,000,000 of the loan (Section 2.02).

(b) The Loan and Guarantee Agreements also contain limitations on commitments for the construction of major electricity generating installations during the period of construction of the project (Section 5.17 of the Loan Agreement and Section 3.06 of the Guarantee Agreement).

PART V - THE ECONOMY

17. A report entitled "Prospects for Economic Development in Tanzania" (No. AF-58b) was distributed to the Executive Directors on September 13, 1967 (R 67-148). In recent years, Tanzania's economic performance has been satisfactory, as evidenced by the overall fiscal position, and the growth of the gross national product, investment and domestic savings. Investment under Tanzania's 1964-69 Development Plan fell behind during the first two years due, in part, to overambitious targets in some sectors. The Plan has since been revised and rephased, and the level of investment has shown a distinct improvement in the past year. Although the staffing situation is now less critical, there is a continuing need for improved project preparation and implementation, particularly in some of the key ministries and agencies responsible for a substantial proportion of the investment program. The uncertainty created by the nationalization measures of February 1967 appears to have decreased significantly as a consequence of subsequent actions taken by the Government, including the prompt initiation of negotiations on compensation for the nationalized enterprises. On a broader front, the signing of the Treaty for East African Co-operation has opened up the possibility of continued joint endeavour to the mutual advantage of the three countries, through the gradual elimination of restrictions which had somewhat inhibited co-operation in the recent past, and the creation of new institutions to serve as a better foundation for future co-operation.

18. The management of Tanzania's public finances has been quite satisfactory. The country has a successful record of mobilizing increasing amounts of domestic resources to finance a steadily growing investment program. However, prospects for exports are rather unfavorable, and hence the continuation of recent economic progress is dependent on the flow of external assistance, warranting continued support by the Bank Group. Although we continue to regard Tanzania as IDA-worthy, there is a sufficient margin of creditworthiness to warrant a moderate amount of Bank lending, in addition to liabilities incurred by Tanzania in respect of loans for the Common Services.

PART VI - COMPLIANCE WITH THE ARTICLES OF AGREEMENT

19. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VII - RECOMMENDATION

20. I recommend that the Executive Directors adopt the following resolution:

RESOLUTION NO.

Approval of Loan to Tanganyika Electric Supply Company, Limited in an amount equivalent to US \$5,200,000 to be guaranteed by the United Republic of Tanzania.

RESOLVED:

THAT the Bank shall grant a loan to Tanganyika Electric Supply Company, Limited, to be guaranteed by the United Republic of Tanzania, in an amount in various currencies equivalent to five million two hundred thousand United States dollars (US \$5,200,000), to mature on and prior to January 1, 1988, to bear interest at the rate of six percent (6%) per annum, and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions set forth in the form of Loan Agreement (Power Project) between the Bank and Tanganyika Electric Supply Company, Limited, and the form of Guarantee Agreement (Power Project) between the United Republic of Tanzania and the Bank, which have been presented to this meeting.

George D. Woods
President

Attachment

October 20, 1967